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Completing Capital Markets Union and Banking Union in the Digital Age

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1. Introduction: the union that was never finished

Europe has spent a quarter of a century building a financial architecture that it has never fully agreed to complete. Significant progress towards a unified system was made with the introduction of the Euro in 1999, the single banking supervision in 2014 and a single resolution mechanism in 2015. Less progress was made integrating capital markets. The Capital Markets Union initiative was first launched in 2015, relaunched in 2020, and then rebranded as the Savings and Investments Union in 2025. However, it remains a programme rather than an integrated market. The pieces in the European financial architecture that were built are real and they work. The aspects that were left out — a single insolvency logic, deep pools of capital, a common safe asset and a unified post-trade layer, a common deposit guarantee — are precisely the pieces that would have made the financial system behave as a union rather than as a coordinated collection of national systems.

This story of the unified European financial market is not a story of failure. It is a story of an equilibrium. Each missing piece is missing for a reason, and the reason is almost never technical. It is missing because incorporating it would transfer a risk, a supervisory competence, a tax base, or a national champion across a border. The member state on the losing side of that transfer has a veto. The status quo is therefore a structure that a large number of actors are content to maintain.

The question is whether Europe in 2050 has a common financial market, or twenty-seven financial markets with a common rulebook and a shared vocabulary. This will depend on whether the Savings and Investments Union produces binding 28th regime or another set of recommendations, whether the Crisis Management and Deposit Insurance reform is completed, if Europe can decide on a European safe asset, and whether Europe can set standards in a digitalized world.

This paper argues three things.

First, that the standard framing of the choice, integration or fragmentation, completion or collapse, is a false binary that flatters both camps. It allows integrationists to present every incremental measure as progress towards a destination, and it allows sceptics to point out that the collapse never comes. Neither is describing the world Europe is actually in.

Second, that the modal outcome for 2050 is neither of these but a third state, best described as **mediocrity**: an architecture in which every institution formally exists, every directive has been transposed, every strategy has been published, and none of it is binding. Mediocrity is not a transitional state on the way to something else. It is a stable, self-reinforcing, politically comfortable equilibrium with its own constituencies and its own logic of reproduction. It is, on current trajectories, where Europe is going.

Third, that mediocrity is nonetheless *not safe*, and that this is the part of the argument policymakers most consistently misjudge. The comfortable equilibrium is barely survivable given that the EU has no fiscal capacity left, government deficits are persistent and central bank's balance sheets remain large. Without a safe asset the equilibrium could collapse without a shock even in a world where the financial system's technology and geopolitics were roughly stationary. Tokenised market infrastructure, stablecoins, artificial intelligence in intermediation and supervision, and a fracturing international monetary order all mean that standing still is a decision to be shaped by decisions taken elsewhere. Mediocrity does not persist indefinitely; under a sufficiently large shock it decays into fragmentation, and it does so quickly, because it has no resilient common institutions to fall back on.

2. The starting point: five unfinished structures

2.1 The unfinished single market for capital

Europe's fundamental financial asymmetry is not a shortage of savings. It is an abundance of savings that are poorly intermediated. European households hold on the order of €10 trillion in cash and bank deposits, a share of household financial wealth roughly twice that of US households. At the same time European firms, and above all young European firms, remain structurally short of equity (EU Commission 2025). European savings are consistently exported into more liquid markets abroad: the Commission and the Letta report both put the annual net outflow into US capital markets at around €300 billion (Letta 2024). Europeans finance American innovation, buy the resulting equity back through exchange-traded funds domiciled in Dublin and Luxembourg, and then complain about a competitiveness gap.

Pension architecture is the single most powerful institutional channel through which household savings become long-term risk capital. In most of the continent pensions are structured as national pay-as-you go systems. This is in stark contrast to the Nordic and US systems built around funded pension that can provide patient and deep pools of capital to finance innovative companies over long time horizons. Strengthening funded pension through opt-ins mechanisms and strong default solutions can channel savings to productive firms at scale and generate returns for savers. Pension funds and asset managers allocating capital across borders need to consistently price assets across borders, which is a challenge. Twenty-seven insolvency regimes with different creditor hierarchies, different timelines and different recovery rates mean that a pan-European credit portfolio is not one asset class but twenty-seven. Company law, securities law and tax treatment of investment income remain national.

None of these proposed solutions are new, nor are they technically hard. All of it is politically expensive, because insolvency law, company law and pension policy sit close to the core of what member states understand as domestic sovereignty, and because the beneficiaries of reform — future firms that do not yet exist and future savers who do not yet know they are savers — are not organised, whereas the incumbents are.

Technology cuts both ways here. Digital distribution can make a single European retirement or investment product available in twenty-seven markets at near-zero marginal cost, but it cannot

harmonise the insolvency, company and tax law that sits underneath it and the same rails distribute non-European products with exactly the same efficiency, which is why lowering the cost of access without integrating the legal layer accelerates the outflow rather than reversing it.

2.2 Post-trade plumbing and the safe-asset gap

A single market in capital requires a single set of pipes and a single reference asset. Europe has neither.

The euro area clears and settles through roughly thirty central securities depositories (CSDs) and more than a dozen central counterparties. The US has one CSD and a handful of Central Counterparty Party (CCP). The eurozone's TARGET2-Securities delivered a common settlement platform but not a common settlement industry: national CSDs retained their asset-servicing, corporate-actions and tax-withholding functions, which is where the fragmentation actually lives.

The obvious counter-argument is that consolidation trades one problem for another: a single European CSD or a single CCP is a single point of failure, and the operational-resilience literature is not wrong about that. But this is an argument about how to consolidate, not whether. The current configuration achieves neither the efficiency of integration nor the robustness of genuine diversity. Rather, it achieves the cost structure of fragmentation with correlated exposures anyway, since the major venues share the same clearing members, the same custodians and increasingly the same cloud providers.

The euro area has no instrument comparable to the US Treasury market that can function as a safe asset. It has a set of national sovereign bonds whose spreads widen against each other precisely when a safe asset is most needed, which is the operational definition of not being one. NextGenerationEU created something close to a supranational benchmark — on the order of €650 billion of EU bonds outstanding by 2026 — and then attached to it a repayment schedule beginning in 2028 and no commitment to permanence. Markets have priced that ambiguity accordingly: EU bonds trade wide of the credit quality their guarantee structure would imply, and index treatment has never fully converged on sovereign status. An asset that is scheduled to disappear cannot anchor a market.

Proposals on how to build a euro-area safe asset without joint liability have been around for over a decade (Brunnermeier et al. 2017; Leandro and Zettelmeyer 2019; Giudice et al. 2019; Blanchard and Ubide 2025). The problem all proposals face is that any diversified basket redistributes the liquidity premium currently enjoyed by the largest and safest national issuer, and that any common issuance is read, correctly, as further fiscal integration beyond the original mandate.

Technology can solve some of the issues that exist in with post-trade fragmentation. However, this fragmentation is largely coming from fragmented national standards and technology will not solve this problem as long as there are 27 European national standards and national sovereign bonds.

2.3 Banking Union and the missing third pillar

The Banking Union has a single supervisor and a single resolution authority, but no European Deposit Insurance Scheme (EDIS) has been put in place. The Crisis Management and Deposit Insurance package, proposed in 2023 to extend resolution to the medium-sized banks where the framework demonstrably does not work, has been in negotiation for years. The Single

Resolution Fund is fully funded at around €80 billion, but the common backstop that would make it credible against a large failure has never entered into force, because the reform of the ESM Treaty that carries it has not been ratified by all members.

The consequence is that capital and liquidity remain trapped inside national perimeters, because host supervisors will not permit the free flow of resources across borders inside a banking group when the fiscal consequences of a failure remain national. Waivers exist on paper and are not granted in practice. The result is that a pan-European banking group carries the compliance cost of a single entity and the capital cost of a federation of subsidiaries, which is a reasonably complete explanation of why cross-border banking consolidation in the euro area has, for a decade, generated more political incident than completed transactions (Heider, König, et al. 2024; Heider et al. 2025; Gebhard and Tröger 2026).

The bank–sovereign loop has been narrowed but not broken. Home bias in sovereign exposures has fallen from its 2012 peak and remains high, and the preferential regulatory treatment of sovereign exposures remains in place, because the two available fixes are locked in a hostage exchange. The creditor states will not accept EDIS before sovereign concentration is addressed; the debtor states will not accept concentration charges before EDIS. Each side is holding something the other wants, and neither will move first. This is not a negotiation that is going slowly. It is a negotiation that has no interior solution, and it has been in that condition since 2015.

The link to Capital Markets Union is more direct than the separate policy tracks suggest (Heider, Krahnen, et al. 2024). Integrated banks produce integrated markets: they arbitrage across borders, they distribute securities into other jurisdictions, they make markets in each other's sovereigns, and they are the transmission channel through which a common safe asset would become common collateral. A Banking Union that stops at supervision produces a capital market that stops at the same border.

Pan-European digital banks and cloud-based core systems are the practical test of whether the supervision is borderless in substance as well as in law: an institution with one balance sheet, one technology stack and no national branch network makes the fiction of nationally compartmentalised capital and liquidity considerably harder to sustain, which is why the treatment of these entrants is a leading indicator of whether the Banking Union is converging or ossifying.

2.4 Digital euro, tokenisation, and AI

Three shifts matter. The digital euro poses, simultaneously, a question about monetary sovereignty in a payments landscape dominated by non-European card schemes and dollar-denominated stablecoins (see Farina et al. 2026; Langenbucher 2026), and a question about the stability of the deposit base that funds European banks. The design parameter that resolves the tension — the holding limit — is being set as a technical calibration when it is in fact the central political choice about how large a role public money plays in European intermediation.

Tokenisation and distributed ledgers offer, in principle, exactly what Europe's post-trade fragmentation has resisted for twenty years: atomic delivery-versus-payment, programmable collateral, settlement compression towards T+0, and a shared record that dissolves the reconciliation layer where national CSD franchises live. They also offer, in practice, a mechanism for creating twenty-seven new silos with incompatible standards, which is what the pilot regime will produce if standard-setting remains national rather than at the European level and the wholesale settlement asset remains unresolved.

Artificial intelligence is entering underwriting, risk management, market-making and supervision at a pace the regulatory architecture is not designed to track. The systemic concern is not model error in the abstract but correlation: a small number of foundation models, trained on overlapping data, deployed by intermediaries using a small number of cloud providers, produce herding in normal times and simultaneous withdrawal in stress. Operational-resilience regulation addresses the third-party dependency; it does not address the behavioural correlation.

The common feature is that all three are standard-setting contests, and standard-setting contests are won by whoever moves first at scale. A fragmented Europe does not lose these contests by being outvoted. It loses them by being absent.

The systemic implication is that common operational-resilience and model-risk standardsare not a compliance addendum to an integrated market but a precondition for one: a market cannot be single if its participants depend on infrastructures whose failure modes are supervised twenty-seven times and understood nowhere.

2.5 Systemic risk, resilience, and strategic autonomy

The first four unfinished structures concern what Europe has not built. The fifth concerns what it has not protected. Non-bank financial intermediation now accounts for roughly half of euro-area financial sector assets (Mattiello et al. 2025), and the macroprudential toolkit remains overwhelmingly bank-focused: the buffers and borrower-based measures that exist for banks have no counterpart for funds, insurers or market infrastructures. What exists instead is an early-warning function — the European Systemic Risk Board can issue warnings and recommendations on a comply-or-explain basis, and ESMA can coordinate national authorities that retain the operative powers. The March 2020 dash for cash, the 2022 commodity margin spiral and the September 2022 liability-driven investment episode were all liquidity events originating outside the banking sector, and in each the effective response came from a central bank balance sheet rather than from the macroprudential framework.

Two further exposures are European by construction and supervised nationally or not at all. A small number of cloud providers, and now of foundation-model providers, underpin a growing share of European intermediation; DORA created direct oversight of critical third-party ICT providers, which is a genuine advance, but it is oversight of conduct rather than of ownership or location, and the designated providers are with few exceptions not European. Alongside this sits an inventory of dependencies that financial statecraft has turned into vulnerabilities: dollar clearing, non-European card schemes and index providers, and increasingly dollar-denominated stablecoins as a settlement asset. Dependence of this kind costs nothing while relations are good, which is why it accumulates, and its price is set by the provider's politics rather than the user's needs.

This is not a separate agenda that follows the completion of Capital Markets Union; it is a condition of it. A more market-based Europe shifts intermediation towards precisely the part of the system that Europe monitors least well and can resolve not at all. Deepening capital markets while leaving the perimeter where it is builds a larger system on a smaller safety net.

3. Three Europes in 2050

What follows is not a forecast but three internally consistent states of the world in 2050, each described first as it would be experienced and then as an institutional configuration, and each defined by whether the decisions of the next ten years were taken, deferred, or overtaken.

3.1 Scenario I — Convergence: the union completed

Lisbon, March 2050. A machine-tools firm outside Porto is raising growth capital. Its prospectus is filed once, in one language of record, under one securities regime, and is passported without further national annexes. Its shares trade on a single consolidated order book; the pre- and post-trade tape is a utility, priced at cost, and the firm's treasurer watches European liquidity in one window. The pension fund in Tallinn that takes twelve per cent of the issue is the default auto-enrolment vehicle for Estonian employees and holds a portfolio built without reference to national borders. Settlement is same-day and atomic against wholesale central bank money. If the firm fails, its creditors know in advance which court applies, in what order they rank, and roughly how long it takes.

In the convergence scenario, the necessary decisions were taken. A twenty-eighth regime for company, securities and insolvency law was created, initially optional, and became the default for any firm with cross-border ambitions, which over two decades meant most firms that grew. Supervision of pan-European market activity — CCPs, CSDs, the largest trading venues, cross-border asset managers — was centralised at European level, not by abolishing national authorities but by moving the entities whose activity is genuinely pan-European under a single supervisor with its own budget and its own enforcement powers.

A euro-area safe asset exists. It was built without joint and several liability but with permanent EU issuance or securitization, reaching a stock large enough to sustain a full benchmark curve and a deep repo market. It did not replace national sovereign debt; it sits alongside it, and it did what a safe asset is supposed to do, which is to provide a collateral base that does not fragment under stress and a denominator against which euro-area credit is priced.

The Banking Union was completed with EDIS as a reinsurance layer over reformed national schemes rather than full mutualisation, and it arrived simultaneously with concentration charges on sovereign exposures. With a common backstop credible and deposit protection genuinely European, host supervisors permitted capital and liquidity to flow inside banking groups. Cross-border consolidation followed, not as a policy objective but as an economic consequence.

On technology, Europe set standards rather than importing them. The digital euro was issued and its features made it a genuine public alternative in retail payments. The wholesale settlement asset for tokenised markets was central bank money on a shared infrastructure. Common operational-resilience and model-risk standards for AI in finance were treated as market infrastructure rather than as compliance.

By 2050 the household savings rate is not much different, but the composition of household financial wealth did. The share in funded pension and investment products has roughly converged on the Nordic pattern.

This scenario is not utopian. It requires no treaty change that is not already conceivable, no fiscal union, and no mutualisation of legacy debt. It requires roughly eight to ten specific decisions, most of which are already drafted, taken in a period of perhaps fifteen years. Its improbability is entirely political.

3.2 Scenario II — Fragmentation: the renationalised market

Frankfurt, March 2050. A supervisor is reviewing a liquidity waiver application from a group with subsidiaries in five member states. She will refuse it, as her predecessors have refused everyone since the events of the mid-2030s, because the national deposit guarantee scheme that would pay out is her ministry's contingent liability and nobody else's. Three of the five

subsidiaries now fund themselves entirely locally. The group's internal capital market has been dismantled into national compartments that its own treasury describes, without irony, as separate banks. Retail savings in two of the five jurisdictions flow predominantly into dollar-denominated tokenised money-market products issued offshore, which the authorities have discussed restricting for a decade.

In the fragmentation scenario, the decisions were not merely postponed; a shock arrived while they were still pending, and the response was renationalisation. The shock's form is not essential to the argument. It could be a sovereign stress event, a large bank failure in a jurisdiction without fiscal space, a cyber or third-party incident that disabled a shared infrastructure, or a geopolitical rupture that turned cross-border exposures into strategic vulnerabilities. In the absence of credible common backstops, every national authority's rational response was to ring-fence, and the aggregate of rational ring-fencing is disintegration.

By 2050 Banking Union exists formally and has been hollowed out. The single supervisor still authorises and still inspects, but the operative decisions about capital and liquidity mobility are taken nationally. Resolution has reverted, through repeated use of national exceptions and precautionary recapitalisation, to a national fiscal exercise with European paperwork. Capital flows have reorganised around national and regional poles.

The critical feature of this scenario is that renationalisation does not return Europe to before the adoption of the euro. It returns Europe to something worse. A European household that cannot buy a deep, liquid, well-regulated European product does not buy a national one but a global one instead. In a fragmented Europe, the alternative to European capital markets is not national capital markets but American capital markets and dollar-denominated digital money. Fragmentation is therefore not a retreat to sovereignty, it is the exchange of pooled European sovereignty for no sovereignty at all, and this is the point that its political constituency most consistently refuses to see.

3.3 Scenario III — Mediocrity: the comfortable equilibrium

Brussels, March 2050. The Commission publishes the Savings and Investments Union Action Plan, eighth edition. It contains forty-one actions, of which thirty-three are recommendations to member states, five are requests for technical advice to the European Supervisory Authorities, two are legislative proposals that will be in trilogue for the rest of the decade, and one is a review of the previous action plan. A consolidated tape exists and has a subscriber base concentrated among academics and the Commission's own analysts, because the pre-trade content the industry needed was removed in the final compromise. The digital euro circulates with a holding limit that makes it, in practice, a payments curiosity. EDIS exists as a liquidity-only facility with fully compartmentalised national funds and a mandatory repayment clause; it has never been drawn. Twenty-seven insolvency regimes remain, harmonised in respect of the definition of insolvency and nothing else. Nobody is in crisis. The savings still leave.

The third scenario is neither of the first two, and the reason it deserves separate treatment rather than being described as a midpoint is that it has a distinct internal logic. It is not a weighted average of convergence and fragmentation. It is a stable configuration in which **e**very institution exists and none binds. There is a European supervisor, and it supervises through national competent authorities that retain discretion in application. There is a resolution framework but the medium-sized banks that fail are handled outside it. There is a deposit insurance scheme which it is a compartmentalised liquidity line. There is a safe asset, and it is

a residual programme in run-off. Formal completeness and functional emptiness coexist, and the formal completeness is what removes the pressure to fix the functional emptiness.

The distinction between a directive that changes behaviour and a recommendation that does not is invisible in the political metric, which counts initiatives. Mediocrity's cost is a growth differential: a percentage point of investment that is not financed, a cohort of firms that scale elsewhere or not at all, a household sector that under-earns on its savings for forty years. No individual, firm or government can identify the loss, date it, or attribute it to a specific decision not taken. Because there is no crisis, no headline, no accountability event, the counterfactual is invisible.

Mediocrity has genuine beneficiaries. National supervisors retain their competences and staff. National champions retain protection from cross-border acquisition. National CSDs and exchanges retain their franchises. Domestic banks retain a captive deposit base and a home-biased sovereign portfolio that is profitable in normal times. Finance ministries retain the option value of not having pre-committed to a mutual obligation.

The following table summarises the three states along the dimensions from which they differ most sharply.

	Convergence	**Mediocrity**	**Fragmentation**
Market depth	Single order book, single tape, deep equity and securitisation markets	Common rulebook over national pools; tape exists, thinly used	Regional and national pools; issuance migrates offshore
Safe asset	Permanent EU issuance at benchmark scale; common collateral	Residual EU programme in run-off; national sovereigns as before	No common asset; spreads reprice under every shock
Banking Union	EDIS as reinsurance plus phased concentration charges; free intra-group capital and liquidity	EDIS as compartmentalised liquidity line; waivers on paper, refused in practice	Explicit ring-fencing; supervision renationalised in substance
Legal integration	28th regime becomes the default for cross-border firms	27 regimes with harmonised definitions	27 regimes plus divergent national add-ons
Technology	Europe sets standards; digital euro as genuine payments alternative; central bank money settles tokenised markets	Standards imported; digital euro constrained into irrelevance; DLT pilots become new silos	Dollar stablecoins and offshore tokenised products absorb retail savings
Household savings	Composition converges on funded, market-based pattern; outflow largely stops	Composition broadly unchanged; €300bn/year continues to leave	Outflow accelerates; capital-control debates return
Stability under stress	Common backstops absorb shocks	Untested; no load-bearing common institution	Shock amplification through simultaneous national ring-fencing
Political cost of getting there	High and immediate	Zero	Zero, until it isn't

4. Why mediocrity is the default

Four mechanisms make the third scenario the modal outcome rather than merely one of three.

The asymmetry of organisation. Every element of completion imposes concentrated, identifiable, present costs on organised incumbents, and delivers diffuse, uncertain, future

benefits to unorganised beneficiaries. A national CSD knows precisely what post-trade consolidation costs it. The firms that would exist in 2050 because capital was cheaper do not lobby. This is the oldest result in political economy and it applies here with unusual force, because the time horizon over which benefits accrue exceeds not only the electoral cycle but the career of every official negotiating.

The veto structure. Direct taxation, and most of what touches insolvency and company law in practice, requires unanimity. Even where qualified majority applies, the norm of consensus in the Council means that a determined minority achieves through delay what it could not achieve through a vote. Twenty-seven vetoes over an agenda of perhaps ten major files produce, mechanically, an outcome in which the intersection of what everyone can accept is close to the status quo. Enhanced cooperation is the standard proposed exit, but in market infrastructure it carries a specific problem: a capital market with fifteen members and twelve outside is not obviously deeper than one with twenty-seven and no integration, because the fragmentation simply moves to a different border.

The stalemate structure of the specific bargains. The EDIS–sovereign exposure exchange described in Section 2.3 is not a negotiation with a bargaining range. Each side's concession is verifiable and immediate; each side's gain is contingent and future. Standard contracting logic says such an exchange requires simultaneity and a credible commitment device, and the EU has no institution capable of enforcing a fifteen-year phase-in against a future Council that changes its mind. This is why the file has not moved in eleven years and why it will not move on its current framing.

The absence of a forcing event. Every significant step in European financial integration followed a crisis: the Banking Union followed the financial crisis, NextGenerationEU followed the Covid pandemic. Mediocrity's itself does not generate a crisis. In the absence of one, it generates a slow, diffuse underperformance that never crosses the threshold at which European politics becomes capable of large decisions.

5. Why mediocrity is not safe

The case for tolerating the comfortable equilibrium is that it has, so far, been survivable. Europe has been incomplete for twenty-five years, has absorbed a sovereign debt crisis, a pandemic and an energy shock, and is still here. That is a real argument and it deserves a real answer.

The answer is that the equilibrium's survivability rested on conditions that are ending.

Technology makes the status quo non-stationary. In a world of stable financial technology, not deciding is a genuine option: the system in 2050 looks like the system in 2026 and one has merely foregone improvement. That is not the world. Payments, settlement and intermediation are being rebuilt, and the standards that govern the rebuild are being set now, by whoever is deploying at scale. If Europe's wholesale settlement asset for tokenised markets is not central bank money on a shared European infrastructure, it will be a dollar stablecoin on someone else's. If the digital euro is calibrated into irrelevance, the alternative is not the current payments landscape; it is a payments landscape in which non-European issuers of digital money hold the transaction data and set the rules. Not deciding is no longer neutral. It is a decision to accept standards set elsewhere.

Mediocrity has no shock absorbers. The comfortable equilibrium is comfortable precisely because it has avoided pre-committing to common instruments. That is the same thing as saying it has no resilient common institutions to deploy when a shock arrives. The Single Resolution Fund without a credible backstop, deposit insurance without mutualisation, a supervisor

without control over capital mobility, a market without a common safe asset — each of these is adequate in calm conditions and each fails in exactly the state of the world for which it was created. Mediocrity is therefore not a third stable state alongside the others. It is a state that is stable in normal times and transitions to fragmentation under stress. The correct way to think about the three scenarios is not as three destinations of comparable durability but as one destination (convergence), one absorbing state (fragmentation), and one waiting room (mediocrity) whose exit, absent deliberate action, leads to the absorbing state.

The risk frontier has moved outside the perimeter. Non-bank financial intermediation now accounts for roughly half of euro-area financial sector assets, and the macroprudential toolkit remains overwhelmingly bank-focused. Cyber and third-party concentration risk — a small number of cloud and model providers underpinning a large share of the system — is a genuinely European exposure that no national authority can supervise. A more market-based Europe, which is what CMU is *for*, mechanically shifts risk into precisely the part of the system Europe monitors least well. Deepening capital markets without extending the macroprudential and resolution perimeter to non-banks is not a neutral omission; it is the construction of a larger system with a smaller safety net.

Geopolitics has raised the price of dependence. The argument that European financial integration is a source of shared vulnerability rather than strength has a respectable version: correlated exposures transmit shocks, and a fragmented system has firebreaks. But this holds only where the alternative to European integration is genuine national self-sufficiency. In finance it is not. The alternative to a European capital market is dependence on American capital markets, American clearing, American index providers, American dollar liquidity and, increasingly, American and Chinese digital money. In a world where financial infrastructure is a recognised instrument of statecraft, that is not a firebreak. It is the exposure.

6. What would have to be decided

If the argument above is right, the practical question is narrow: which decisions, taken in the next ten years, keep convergence reachable? The list is shorter than the literature implies, because most of what is proposed is either consequential on these decisions or does not bind.

1. Make EU issuance permanent, and fund it. A safe asset does not require debt mutualisation, and the insistence on framing it that way has cost Europe a decade. It requires a permanent issuer, a genuine own-resource base to service the debt, and a stock large enough to sustain a full curve and a deep repo market. This is the single highest-return decision available, because a common safe asset is the input to everything else: collateral, benchmark pricing, the international role of the euro, and the weakening of the bank–sovereign loop.

2. Settle the EDIS–sovereign exposure exchange as a single package with a long phase-in. Not sequentially, because sequencing is what has blocked it. EDIS as reinsurance over reformed national schemes, with concentration charges on sovereign exposures above a threshold, with a long phase-in, with the legal instrument structured so that reversal requires the same majority as adoption. The phase-in is the commitment device that makes the exchange feasible, because it means no incumbent government bears the cost within its own term.

3. Conclude CMDI, and give the resolution authority the powers the framework assumes. The medium-sized bank problem is not exotic; it is the majority of European bank failures. A resolution regime that works only for the largest institutions and hands everything else to twenty-seven national liquidation regimes is not a resolution regime.

4. Move supervision of pan-European activity to European level. Institutions, such as CCPs, CSDs, consolidated tape providers, the largest venues and cross-border asset managers, conducte activity whose failure is European, and they should be supervised by an authority with its own budget, its own staff, and direct enforcement powers rather than the ability to issue guidance to national authorities.

5. Create the twenty-eighth regime and make it real. An optional European corporate, securities and insolvency framework that a firm can elect into, with a European court competent to interpret it. The optionality is what makes it politically survivable; the quality is what makes it the default within a decade for anyone raising cross-border capital.

6. Issue digital euro to make it a public payments alternative. With features including both online and offline functions, privacy protections and availability to all European residents, the digital euro can become a trustworthy public money option.

7. Decide on the wholesale settlement asset for tokenised markets, now. Whether tokenised securities settle against central bank money on shared European infrastructure or against private stablecoins on non-European infrastructure determines the architecture of the next thirty years, and it is being determined by default while the retail digital euro absorbs the political attention.

8. Extend the macroprudential and resolution perimeter to non-banks. System-wide stress testing that covers banks and non-banks jointly, liquidity tools for open-ended funds with binding rather than advisory force, and a resolution concept for critical non-bank infrastructure. This should be sequenced *with* market deepening, not after it.

9. Treat operational resilience and AI model risk as market infrastructure. Common standards for third-party concentration, model governance and system-wide correlation, set at European level and enforced, are a precondition for an integrated market rather than an addendum to it.

10. Strengthen funded pension reforms. It is the least discussed item on this list and plausibly the most consequential. Auto-enrolment into funded, low-cost, portable European retirement products with preferential tax treatment is the mechanism by which household savings actually become long-term risk capital. Every other measure on this list improves the plumbing; this one changes the flow.

Items 1 to 5 are the ones that determine whether convergence remains reachable. Items 6 to 9 determine whether the resulting market is one Europe controls. Item 10 determines whether anything actually changes in household behaviour, which is ultimately the only test that matters.

7. Conclusion

The Europe 2050 question for financial architecture is usually posed as a choice between completion and fragmentation. It is not. Both of those outcomes require something to happen. The outcome that requires nothing to happen is the third one, and it is therefore the one that will happen unless it is actively displaced.

Mediocrity is not a compromise between two positions. It is a specific institutional configuration with its own beneficiaries, its own reproduction mechanism, and its own characteristic form of failure — which is not a crisis but a persistent, unattributable, compounding underperformance, terminating in fragmentation whenever a large enough shock

arrives to test institutions that were never built to bear load. Its central political property is that no one ever has to choose it. It is what remains when the choice is deferred, and deferral is always available, and always cheap, and always defensible in the moment.

The convergence scenario is reachable. It requires no treaty revolution, no fiscal union, and no mutualisation of legacy debt. It requires roughly ten decisions, most of which have been drafted, several of which have been sitting in trilogue for years, taken within about fifteen years by governments that will bear the political cost immediately and see the benefit after they have left office. That is a hard ask, but it is a *specific* hard ask, and specificity is worth something: it means the question is not what Europe should aspire to but which of ten known files it is prepared to conclude.

What Europe should not do is what it has done for a decade, which is to treat the absence of catastrophe as evidence that the architecture is adequate. Nothing about the comfortable equilibrium is comfortable in 2050. It is comfortable now, for the people currently making the decisions, and that is precisely the problem the next ten years have to solve.

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About Europe 2050

CEPR has launched "Europe 2050: Geometries of peace, power, and prosperity", a new initiative that explores what Europe should aspire to become by 2050.
By adopting a long-term perspective, this new initiative, led by Oliver Blanchard, Pascal Lamy, Enrico Letta, and CEPR President Beatrice Weder di Mauro, seeks to move beyond short-term crises and to assess current policy choices against a clearer strategic vision for Europe's future. It will generate longer commissioned policy papers addressing the initiative's core themes, and shorter pieces published on a rolling basis through an open call. Together, these contributions aim to frame a forward-looking debate on Europe's long-term economic, political, and strategic future.

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