
Press release

Deeper capital markets in CEE countries could unlock €200 billion in capital

New report by AFME and New Financial explores growth opportunities for high potential EU economies

15 November 2016

A new joint report published today by the Association for Financial Markets in Europe (AFME) and New Financial highlights the huge opportunity to develop capital markets in Central and Eastern Europe.

The report focuses on 11 high potential economies in Central and Eastern Europe (CEE) which could harness the capital markets to accelerate GDP and productivity growth throughout the region. The report finds that deeper capital markets in these 11 countries could unlock more than €200 billion in long-term capital, as well as more than €40 billion a year in additional funding for companies.

The figures come from a new joint report, "**The Benefits of Capital Markets to High Potential EU Economies**"; which measures the size, depth and growth potential of capital markets in the EU11 countries, examines their financial systems and reform programmes; and considers the outlook for long-term growth.

Paul McGhee, Director of Strategy at AFME, said: "Our report highlights the economic prize from continuing to deepen capital markets across Europe and suggests that the CEE countries could be the biggest beneficiaries of Capital Markets Union. CMU is a vital long-term reform which can bring fresh impetus to the European economy."

William Wright, Managing Director at New Financial, said: "This report confirms that there is a huge opportunity for countries in Central and Eastern Europe to develop deeper capital markets to diversify sources of funding and help build pools of long-term capital, which in turn could help kick-start the sort of growth that they enjoyed before the financial crisis. It also underlines that smaller economies with less developed capital markets stand to gain most of all from the Capital Markets Union initiative. The EU, national governments and market participants all have important roles to play in helping to develop capital markets in future."

Following a sustained period of catch-up growth in the previous decade, economic growth in the 11 economies has halved since the financial crisis, with the slowdown in GDP and productivity growth coinciding with a falling investment rate.

The banking system in the EU11 has deleveraged since 2008, particularly in the Baltic and Balkan economies, which has contributed to lower investment rates in the EU11. Today companies in the EU11 rely heavily on retained profits to fund investment: capital markets could provide a vital source of additional funding.

Between them, the EU11 countries account for 20% of the EU's population, 8% of its GDP, but only 2.5% of capital markets activity. On average, capital markets in the EU11 states are one third as developed as in the EU as a whole when measured across 23 different sectors of activity relative to GDP.

Furthermore, companies in the EU11 are more heavily reliant on bank lending than in the rest of the EU with bank lending representing 85% of corporate debt compared with the EU average of 75%.

The report reviews the steps that national governments, local market participants and the EU institutions are already taking to encourage the development of capital markets, and suggests some policy proposals to support further growth. These include:

- Promoting the growth of national pension systems to provide a larger domestic investment pool;
- Easing investment regimes for institutional investors to allow investment in a wider range of assets;
- Encouraging diversification of financing sources for growth companies and promoting alternative financing for SMEs;
- Developing local financial market infrastructure - potentially through regional collaboration;
- Encouraging entrepreneurship and improving the framework for business restructuring;
- Supporting local issuers in accessing capital markets through financial literacy programmes;
- Encouraging state-owned enterprises to issue bonds or carry out IPOs;
- Providing institutional support for developing the necessary capital markets reforms tailored to the local business environment.

The guide is available on the websites of **AFME** and New Financial.

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About AFME:

AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu. Follow us on Twitter @news_from_afme

About New Financial:

New Financial is a think tank and forum that believes Europe needs bigger and better capital markets to help drive its recovery, growth and prosperity. We think this presents a huge opportunity for the industry and its customers to embrace change and rethink how capital markets work. We are a social enterprise that launched in September 2014, and we are funded by institutional membership from different sectors of the capital markets industry. Follow us on Twitter @NewFinancialLLP