Press release

Capital Markets Union is making progress but political momentum vital to tackle remaining obstacles

Trade bodies representing key capital markets participants publish Key Performance Indicators to track the progress of CMU

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AFME, in collaboration with 9 international organisations and trade associations representing global and European capital markets stakeholders, has today published a new report tracking the progress to date of the European Commission's flagship Capital Markets Union (CMU) project through seven Key Performance Indicators (KPIs).

The report was authored by AFME with the support of the Climate Bonds Initiative (CBI), as well as European trade associations representing: business angels (BAE, EBAN), fund and asset management (EFAMA), crowdfunding (ECN), retail and institutional investors (European Investors), stock exchanges (FESE), venture capital and private equity (Invest Europe), and pension funds (Pensions Europe).

The report entitled, '**Capital Markets Union Key Performance Indicators: Measuring progress and planning for success**, is the first publication in what will be an annual series which will regularly review developments in the CMU project and identify what further work needs to be done. The report is also the first country-by-country comparison of individual EU Member State progress against the CMU's objectives.

Simon Lewis, Chief Executive of AFME, said: *"Three years on from the launch of the Capital Markets Union Action Plan, and with the end of the Juncker Commission approaching, this report provides a timely opportunity to review the progress that has been made to date on achieving the CMU's vital aims. Our findings show that the CMU will be a long-term project; it is not about hitting targets in the short-term but about ensuring that this important project is fit for purpose. With a myriad of challenges currently facing Europe's capital markets, we must not lose sight of the importance of an effective CMU for the future of Europe."*

The seven KPIs assess progress in the following CMU policy priority areas:

1. Market Finance indicator**:** how easy it is for companies to enter & raise capital on public markets;
2. Household market investment indicator: to what extent retail investment is being fostered;
3. Loan transfer indicator: to what extent banking capacity is supporting the wider economy;
4. Sustainable Finance indicator: to what extent long-term investments in infrastructure and sustainable investment are being made;
5. Pre-IPO Risk Capital indicator**:** how well start-ups and non-listed companies are able to access finance for innovation;
6. Cross-border finance indicator: to what extent cross-border investment is being facilitated;
7. Market depth indicator: measuring the depth of EU capital markets.

Among the report's key findings:

- **Europe continues to over rely on bank lending**

European companies continue to over rely on bank lending, with 86% of their new funding in 2017 coming from banks and only 14% from capital markets.

- **The availability of pools of capital in Europe has shown encouraging improvements in most EU countries in recent years**

The amount of household savings invested in capital markets instruments (i.e. equity shares, investment fund shares, bonds, insurance and pensions) has increased from 108% of GDP in 2012 to 118.2% of GDP in 2017. However, Europe still lags behind US on investing savings in capital markets. The average EU household accumulates savings at around twice the rate as the US, but the stock of household savings held in capital markets instruments represent 1.18 times the annual income (as measured by GDP), compared with 2.9 times the annual GDP in the United States.

- **Europe is a global leader in sustainable finance**

Over 2% of Europe's bonds (government, municipal, agency, corporate, securitisations, and covered bonds) issued in 2017 were labelled sustainable, up from 0% just five years ago and compared with less than 1% in the US in 2017.

- **There is more risk capital available for European SMEs to finance their growth**

The annual amount of pre-IPO risk capital investments into SMEs by venture capital and private equity funds, business angels and through equity crowdfunding has increased in Europe from €10.6bn in 2013 to €22.7bn in 2017. However, risk capital investments remain low relative to GDP and there is still a significant gap compared with the US (€132.4bn in 2017, or 0.8% of GDP vs 0.15% of GDP in the EU).

- **European capital markets are showing an encouraging trend towards greater integration**

since the aftermath of the financial crisis after the repatriation of some market activities and funding to home countries. Our indicators show growing intra-EU activity between EU Member States in private equity, M&A transactions, debt issuance, and cross-border holdings of portfolio assets. However, intra-EU integration remains below pre-crisis levels suggesting there is more progress is needed towards a fully integrated capital market.

- **Fewer loans are being converted into capital markets instruments**

Recent years have shown a decline in the transformation of loans into tradeable securities like covered bonds, securitisation, or loan portfolio transactions. Issuance of securitised products in Europe remains subdued, although 2018 year-to-date placed issuance volumes are encouraging.

- **Market depth in Central and Eastern European (CEE) has improved slightly**

Central and Eastern European (CEE) capital markets are converging with those of the rest of Europe, but at a slow pace.

EU 28 Country performance

A comparison of the 28 EU Member States and their individual performance against each indicator was conducted. Among the key findings:

- **The UK and Ireland** lead the EU countries in terms of providing new funding for non-financial corporations (NFCs) with over 25% of total new funding raised from markets. Meanwhile, **Slovenia, Slovakia, Malta, Cyprus, and Bulgaria** had no NFC bond or equity issuance in 2017.

- **Denmark** has improved the most among all EU countries in the last five years in terms of the accumulation of household savings in capital markets instruments, due to greater pension coverage and higher savings rates.

- **Germany, Luxembourg and Austria** meanwhile have comparably higher savings rates than the rest of the EU, but households invest savings in conservative non-capital markets instruments such as cash and bank deposits.

- **Spain, Italy, Ireland, Greece, and Portugal** (high-NPL countries) are in the top seven EU nations in the loan transfer index in 2017, suggesting an encouraging trend towards using market instruments to dispose distressed assets.

- **The Netherlands, France and Sweden** are the leading EU nations in sustainable finance with over 3% of bonds issued in 2017 classified as sustainable. Lithuania had the highest indicator value in 2017 of almost 10%, but this reflects a single bond.

- **Estonia, Denmark and the UK** lead by availability of risk capital for SMEs. Estonia has a prominent amount of business angel investment, while Denmark and the UK have more diversified sources of risk capital from private equity and venture capital.

- **Luxembourg, the UK, and Belgium** rank as the most interconnected capital markets with the rest of the EU. Luxembourg's lead is due to its fund and bond issues held within the EU, and a prominent share of their total private equity activity invested in companies in other EU countries.

- **The UK and Luxembourg** are the most globally interconnected European capital markets. The UK has a particularly prominent role in intermediating global flows of FX and derivatives trading, cross-border holdings of equity shares, and facilitating public equity raising by non-EU companies.

- **The Czech Republic** is the deepest capital market in CEE. In 2017, the Czech Republic was the second-most active primary market for equity and bonds in CEE after Poland; it had the highest recovery rate for business insolvency; and was among the top 3 CEE countries with the largest accumulation of savings in market instruments (as % GDP).

- Page 42 of the report shows a table ranking all 28 Member States in order of progress against each indicator.

The full report can be downloaded from the AFME website

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About AFME:
AFME (Association for Financial Markets in Europe) advocates for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting

society. AFME is the voice of all Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues. AFME aims to act as a bridge between market participants and policy makers across Europe, drawing on its strong and long-standing relationships, its technical knowledge and fact-based work. 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.
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