
Press release

AFME report tracks European capital markets performance in 2020

28 October 2020

- **Unprecedented levels of capital markets funding supported businesses in the first semester of 2020**
- **Bond issuance has increased, with growth of social bonds consolidating Europe's ESG leadership**
- **However, an undersized equities market means SMEs continue to rely on bank loans, restricting their opportunities to grow**
- **Securitisation volumes continued to fall, limiting bank's capacity to expand their lending**
- **Capital markets union needed more than ever to support long term recovery**

European capital markets provided record amounts of funding to support businesses and economies in 2020, but lack of progress on the Capital Markets Union could hold back Europe's economic recovery, according to a report published today (28th October) by the Association of Financial Markets in Europe in collaboration with 10 other European and international organisations.

The [third edition of the "Capital Markets Union Key Performance Indicators" report](#) tracks how individual member states have progressed on key metrics such as access to finance, levels of bank lending, transition to sustainable finance and a supportive fintech environment.

Adam Farkas, Chief Executive of AFME, said:

"Our report demonstrates that despite the economic shock from the covid-19 pandemic, European capital markets were resilient in 2020 with unprecedented levels of bond market issuance including continuing leadership in sustainable bonds.. However, a dramatic increase in bank loans means that Europe remains highly dependent on bank lending. Equally, while member states have taken steps to foster innovation in their economies, investment in fintech companies is still below that of other major regions such as the US and China. If Europe is to achieve a strong economic recovery and ensure that it is globally competitive, further progress needs to be made in this and other areas to strengthen its capital markets.

"More broadly, these findings highlight the necessity for urgent action to encourage deep and extensive European capital markets capable of meeting the needs of borrowers and savers and thereby, promoting long-term economic growth. This requires policy support for the means to re-equitise businesses and to improve the functioning of securitisation, among other areas of work. We are pleased to see the Commission taking action and urge policymakers to seize the opportunity to work towards a fully-fledged and globally-competitive Capital Markets Union."

Key findings show that in the past 12 months, including the six months since the start of the pandemic, the EU has seen:

- **Unprecedented levels of capital markets funding:** funding from capital markets instruments, predominantly fixed income securities, increased by 44% YoY. This has resulted in an increase in the proportion of market finance for EU businesses from 11% in 2019 to 14.5%.

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- **Securitisation remains subdued:** Covered bond issuance has increased 82% YoY (predominantly of retained covered bonds) driven by the large increase in new lending stemming from the COVID-19 pandemic and the ongoing central bank support for this product. Securitisation volumes have fallen year-on-year since the onset of the STS regime. Loan Portfolio sales have fallen steadily since the peak volume of EUR 182.5bn was recorded in 2018 to EUR 28.7 bn during the first half of 2020 as banks continue to shed NPLs from their balance sheets.
- **Growth of social bonds consolidates Europe's ESG leadership:** Throughout H1 2020, nearly one third (27%) of sustainable bond issuance in Europe was categorised as social, the largest proportion of the sustainable market in any half year to date.
- **SMEs continue to rely on bank loans:** Bank lending to EU27 SMEs totalled EUR 573bn in H1 2020 compared with only EUR14.1 bn in risk capital investment (venture capital, private equity, business angel and equity crowdfunding).
- **Record increase in personal savings:** European households have increased their savings rate to record levels at 16% of their disposable income in 1Q 2020 (vs. 12% in 2019). However, most of those savings have been predominantly invested into low-yield bank deposits.
- **Progress on fintech, but EU still lagging behind:** Seven European countries launched fintech innovation hubs over the last year. However, investment into EU27 fintech companies during the first half of 2020 (EUR 1.5bn) continues below that of other major regions like the US (EUR 7.4bn) and the UK (EUR 2.1bn)
- **European integration remains resilient:** compared to the 2008 financial crisis, in 2020 there have been no signs of significant deterioration of European integration. The COVID-19 crisis has not significantly disrupted the intra-European cross-border funding flows, with companies seeking to raise finance within Europe to navigate the pandemic. Bond issuance marketed within Europe increased to 96% in 2020 vs. 93% in 2019 and 60% in 2007. Integration with the rest of the world slightly deteriorated in H1 2020.

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), private credit and direct lending (ACC) and pension funds (Pensions Europe).

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Notes:

1. 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.
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