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## View From AFME

### Capital markets key to EU recovery after Covid-19

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Following the hard-hitting impact of the Coronavirus lockdown, Europe's economy is facing an unprecedented challenge. The European Commission has forecast the euro area economy will shrink by 7.75% this year. The depth of the recession and the strength of recovery will be uneven across the EU. During this difficult period, the effectiveness of the recovery will be shaped by how well the banking sector, capital markets and authorities can work together to support European businesses.

When EU countries emerge from the Covid-19 crisis, it is expected that they will have to shoulder higher levels of debt as a result of the support provided to entire sectors closing down under the lockdown restrictions. Although European governments and banks have responded rapidly with the liquidity to fund companies, a robust and sustainable post-pandemic recovery cannot solely rely on bank funding. It is important to mobilise the entire range of options and solutions in the single market, including the investment capacity and interest available across Europe and beyond. Therefore, now more than ever, Europe needs to promote market-based finance.

In this respect, equity finance should be especially important in supporting the EU's recovery. Funding via Initial Public Offerings, private equity, venture capital and crowd funding are going to be crucial vehicles to support businesses. Corporates and SMEs, particularly those looking to invest in new technology, to hire staff for rapid expansion or to re-finance existing loans post-pandemic, will require affordable, appropriate funding to facilitate their future growth. Equity finance is well-suited to this as it can be raised from a diversity of investors even amid volatile market conditions. Businesses with high growth potential will be the backbone of the future European economy and supporting them will be key to a resilient post-pandemic recovery.

There is significant room for growing Europe's equity markets. In 2019, European exchanges saw 106 companies go public, while over the same period, the US saw 196 IPOs. Improving and converging key regulatory requirements governing the IPO process could help to reduce the cost and execution risk for companies going public and widen the pool of interested investors across Europe.

Another way to support European businesses during the recession is to foster a well-functioning securitisation market. Bank loans will continue to be the primary funding tool for many businesses and households. Securitisation can provide funding for companies in a tight credit environment by enabling banks to free up their balance sheets and capital needed to lend to SMEs, corporates and households.

Yet, while a robust securitisation market would aid Europe in its post-crisis recovery, over the past year, growth in the market has been stagnant. This can be attributed to an excessively complex and

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restrictive regulatory framework that has deterred many investors. Reviewing this framework should enable more investors to enter the market and allow for greater financing of EU businesses.

Of course, while immediate relief measures are needed to rebuild the economy, we must also ensure the recovery is sustainable. There are growing calls for a “green” recovery – one that accelerates progress in building a sustainable and carbon neutral economy. In this respect, the EU's green recovery must be based on the EU taxonomy - which aims to encourage investors and consumers to identify economic activities that can unambiguously be considered environmentally “green”.

As Europe navigates one of its greatest ever challenges, it cannot afford to neglect how important capital markets will be in aiding its recovery. How banks, authorities and capital markets work together to fund EU businesses will not only determine how quickly it recovers, but how sustainable Europe’s rebuilding will be. Later this year, when the European Commission reviews its priorities for the next phase of the Capital Markets Union – a long-term project intended to unlock funding across Europe - the strengthening of certain critical areas of capital markets must be top of its agenda. With a global recession on the horizon, EU businesses are going to need to consider every available source of debt and equity capital to bounce back stronger.

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