
Press release

AFME report tracks European capital markets performance in 2021

21 October 2021

- **Record levels of capital markets funding supported EU businesses in the first half of 2021, reflecting significant recapitalisation needs in response to the pandemic and favourable conditions for raising capital;**
- **Capital markets funding to European SMEs grew at a record rate, with the increase predominantly driven by venture capital and private equity growth funds;**
- **In spite of these record growth rates, absolute levels of market-based financing remain below those of other major jurisdictions. Additionally, securitisation issuance levels continued to decline;**
- **The increases observed may be influenced by the extraordinary conditions of the past year, public support programmes and other factors;**
- **ESG issuance in Europe continues to expand in Europe, up 69% compared to 2020;**
- **Inefficient withholding tax collection procedures continue to be a barrier to cross-border integration in EU securities markets.**

European capital markets activity has surged in the past year as businesses emerging from the pandemic have sought to raise capital according to a report published today by the Association for Financial Markets in Europe (AFME) in collaboration with 10 other European and international organisations.

The fourth edition of the “**Capital Markets Union Key Performance Indicators**” report tracks how individual Member States have progressed against 8 key performance indicators on metrics such as access to market finance, levels of bank lending, transition to sustainable finance and a supportive fintech environment.

Adam Farkas, Chief Executive of AFME, said: *“This year, Europe’s capital markets have remained resilient and continued to support businesses, with our report showing a surge in funding raised through the markets. However, there is no room for complacency: a structural and pandemic-induced “equity gap” remains and equity-type finance still needs to be expanded in Europe. It also remains to be seen to what extent these record market-based financing levels will persist, or whether they are a temporary result of the extraordinary support measures of the past year.*

“Our report also shows there is still much work to do on enhancing the provision of risk capital to meet the major long-term investment needs of the green and digital transitions, improving the functioning of securitisation and tackling long-standing frictions in EU capital markets, such as inefficient withholding tax procedures. In this respect, the Capital Markets Union project remains vital for the single market and must be implemented fully.”

Key findings:

- **European primary capital markets continued to expand during H1 2021** for the third consecutive year, with the proportion of markets-based funding for EU corporates rising to 16.8%;
- **Many European SMEs have benefited from funding availability from private markets.** Europe is the fastest-growing major region by private capital investment with investment in European SMEs growing by 2.4 times year-on-year in the first half of 2021.

Association for Financial Markets in Europe

London Office: 39th Floor, 25 Canada Square, London E14 5LQ, United Kingdom T: +44 (0)20 3828 2700

Brussels Office: Rue de la Loi 82, 1040 Brussels, Belgium T: +32 (0)2 788 3971

Frankfurt Office: Neue Mainzer Straße 75, 60311 Frankfurt am Main, Germany T: +49 (0)69 153 258 963

www.afme.eu

- **European households have increased the amount of capital markets savings** over the last 2 years, although this is predominantly driven by valuation gains of existing products. Countries that entered the COVID-19 crisis with low capital markets savings have increased the most their bank deposit holdings, which suggests that investment vehicles and household incentives could be enhanced in some Member States;
- **The depth of the EU securitisation market has declined over the last 3 years.** Unlike in the US, the proportion of EU securitised products and loan disposals relative to total loans outstanding has consistently declined over the last 3 years. This remains an area of concern as securitisation facilitates risk transfer and enables the banking sector to transform loans into tradeable securities, thereby allowing banks to continue lending to corporates;
- **The EU continued to improve the local FinTech ecosystem** with the launch of new regulatory sandboxes in Austria, Spain, Hungary, and Greece over the last year. The EU has also benefitted from a record increase in funding which has also resulted in a rapid surge in the number and valuation of FinTech unicorns (i.e. growth companies valued above \$1bn);
- **EU ESG debt markets have expanded rapidly during H1 2021**, with total issuance of ESG-labelled bonds reaching EUR 201.4 bn, representing 19.6% of total EU bond issuance during the first half of 2021;
- As a special feature of this edition, we have included an analysis of the current variations between Member States in their procedures for **withholding tax relief**, which have a significant negative impact on cross-border investment, cost of capital and GDP. In 10 of the 27 EU Member States there is a lack of a relief-at-source mechanism which frequently results in long delays in tax reclaim reducing investor returns.

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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AFME Contacts

Rebecca Hansford
Head of Media Relations
Rebecca.hansford@afme.eu
+44 (0)20 3828 2693

Notes:

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 [@AFME_EU](https://twitter.com/AFME_EU)