
Press release

Key industry report tracks European capital markets' performance in 2022 EU equity gap & subdued securitisation market demonstrate lack of progress on CMU

The Association for Financial Markets in Europe (AFME) in collaboration with eleven other European and international organisations has today published the fifth edition of the **"Capital Markets Union – Key Performance Indicators"** report, tracking the progress of Europe's capital markets against nine key performance indicators and analysing the progress over the past five years.

Adam Farkas, Chief Executive of AFME, said: *"As European businesses face new pressures from economic uncertainty, rising inflation and energy price shocks, the Capital Markets Union project remains as vital as ever to help deliver funding to the economy."*

"Our 5th CMU progress report finds that the EU as a whole is falling further behind other jurisdictions in terms of its global attractiveness as a place for businesses to access deep pools of capital and go public. While there have been some considerable policy achievements over the last five years, including the EU maintaining its global leadership on sustainable finance and improving its FinTech regulatory ecosystem, our report shows there are two key obstacles hampering the progress of the CMU. These are the EU's equity gap, which continues to widen compared to global peers, and the subdued securitisation market, which remains a material loss to the EU's financial system."

"As the EU seeks to compete with other global markets, it is important that the regulatory environment helps to promote the attractiveness of EU markets and grow the EU's internal capacity. The upcoming Listing Act, for example, will be a key initiative to promote equity finance and boost the competitiveness of EU markets for listings."

"The deteriorating economic outlook this year has further demonstrated the need to ensure that smaller corporates without easy access to capital markets can rely on funding options tailored to their needs even during a crisis situation. In this context, AFME continues to see value in exploring a European model for hybrid recapitalisation instruments as a means to provide fresh capital to mid-size and SME corporates to help mitigate debt burdens or to invest in growth and innovation in a manner that is tailored to addressing their specific needs."

Among the key findings of the 2022 report:

- **Socio-economic and geopolitical developments have caused a major reversal of capital markets activity in 2022** compared to the record gains of market-based financing levels of the previous two years. Inflationary pressures, exacerbated by the Russian invasion of Ukraine, and combined with monetary tightening and fears of recession following the Covid-19 pandemic, have led to an increase in the cost of capital and created a climate of market uncertainty and volatility more generally.
- **Market-based funding used by corporates dropped to pre-Covid levels** - total new debt and equity issuances decreased by 32% year-over-year during the first half of 2022, with a particularly steep decline (86%) in EU Initial Public Offerings.
- **Europe's equity gap grew wider** with the EU's domestic market capitalisation of listed shares declining from 18% in 2000 to just 10% of the world's total in 2022, causing Europe to further fall behind the US and UK in the global capital market competitiveness ranking.

- **Pre-IPO equity investment in EU SMEs remained strong** with €34.3bn in new equity investment flows in the first half of 2022, or 73% of the amount invested in 2021. However, a growing challenge for investors is the capacity to exit investments as the IPO market remains subdued and public markets see lower valuations.
- **European households saw a decline in their savings in the form of capital markets instruments** due to deterioration in asset values.
- **EU securitisation transactions fell to lowest levels on record** with the proportion of EU loans outstanding transferred via securitisation and loan portfolio sales falling to 1.6%, the lowest value on record and half the value in 2018 (3.2%). US securitisation issuance grew 74.5% during 2020-2021 vs 2017-2019, while EU issuance declined 10.9% over the same period.
- **Remarkable ESG growth over last five years** – with the amount of EU ESG debt issuance increasing from €61bn in 2017 to €360bn in 2021. EU green bond issuance continued to rise in 2022, albeit at a slower pace this year, with volumes up 8% year-on-year in the first half of 2022, compared to the 74% increase in 2021 which was largely due to sovereign issuance.
- **An improved EU FinTech regulatory ecosystem**
While FinTech funding was down across the globe since the peak of last year, the number of EU Fintech unicorns increased from 13 to 18, suggesting an overall improvement in the environment for financial technology. Compared to 2021, three additional countries (Italy, Latvia, and Slovakia) deployed regulatory sandboxes. Now, 13 out of 28 countries (EU 27 + UK) provide this regulatory feature.

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 (EUROCROWD), retail and institutional investors (European Investors), publicly quoted companies (EuropeanIssuers), stock exchanges (FESE), venture capital and private equity (InvestEurope), private credit and direct lending (ACC) and pension funds (PensionsEurope).

– Ends –

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)