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## Press release

### Key industry report tracks European capital markets' performance in 2023

- 30 years on from the establishment of Single Market, Europe's capital markets show disappointing lack of development, including on global scale
- 2023 has also seen a decline in the international competitiveness of the EU's capital markets, which are still significantly behind the US and UK
- "Clearly the financing structure of EU economy will need to adapt at pace to support EU's transformative investment needs"

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

This year's report shows a mixed picture, revealing no discernible medium-term advancement on the CMU key performance indicators.

This edition also coincides with the 30th anniversary of the Single Market. Here too, the data points show minimal change in the development of the EU's capital markets on a global scale.

**Adam Farkas, Chief Executive of AFME**, said: *"All the planned measures from the CMU Action Plan of 2020 have now been delivered by the Commission and EU leaders earlier this year committed to finalising negotiations on any open CMU issues before the next EU elections. However, certain goals, such as rebalancing the EU's funding sources toward more market-based financing, channelling individual savings into productive investments, and integrating national capital markets to create a unified EU market have not yet materialised to any meaningful degree."*

*"It is clear that the financing structure of the EU economy will need to adapt, and at pace, if it is to support the EU's significant and transformative investment needs, including the fast-approaching climate goals of 2030, as well as its demographic and competitiveness challenges."*

*"Ahead of the next legislative cycle commencing, a strategic discussion on the best way forward will take place within the Eurogroup to set out recommendations for the next Commission. These recommendations are highly anticipated by the capital markets industry. The growth of an integrated capital market for Europe must continue to be a key priority if the European Union is to achieve its dual goals of sustainable and digital economic transformation."*

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### Among the key findings of the 2023 report on European capital markets' performance:

- Compared to last year's numbers, there are slight improvements in some KPIs, mostly attributable to cyclical factors as 2022 was a particularly turbulent year for markets.
- When considering medium-term trends, **it is clear that the EU has not made significant progress in developing its capital markets**, particularly in terms of global competitiveness.
- While there are some slight improvements in some areas, these are mostly attributable to cyclical factors as 2022 was a particularly turbulent year for markets.
- Access to market-based finance for corporates has deteriorated, the amount of loans transformed into capital markets vehicles like securitisation has significantly declined, intra-EU integration has slightly deteriorated, while the amount of household savings in capital markets instruments has not shown any major progress.
- This calls for a closer look at the strategies being employed at EU level to deepen capital markets and a renewed focus on making real, lasting improvements that will have an impact going forward.
- **EU competitiveness declines**
  - **This year has seen a decline in the international competitiveness of the EU's capital markets.** AFME's global competitiveness indicator shows the EU is still significantly behind the US and UK, particularly regarding access to finance, market liquidity, and digital finance capabilities.
- **30 years since establishment of Single Market, EU's capital markets show no significant development, including on a global scale**
  - On 1 January 1993, the Single Market came into being. This year's report provides a 'snapshot' of some key economic metrics to show how EU markets have developed over the past three decades.
  - When viewed in this context, the data points are disappointing and there has been little change, including in a global context.
  - For example, immediately before the creation of the Single Market, the current configuration of EU27 Member States accounted for 5% of global IPOs. In the first few years of the Single Market this rose to 20%. However, over the past three years, this figure was just 7% and the EU continues to be well below the annual flow of primary offerings observed in the US.
- **Another bad year for EU IPOs**
  - IPO issuance fell 72% in H1 2023 compared to the same period last year. If current market trends persist, 2023 will be on track to have the lowest corporate IPO issuance volume since 2011.
- **Appetite for market financing grows among corporates, but remains below historical levels**
  - In an EU business environment in need of diversification from over reliance on bank financing, there were positive signs of appetite for market financing increasing this year.
  - In 2023, 10.3% of EU non-financial corporate funding was derived from capital markets sources, up from 7.8% in 2022 but substantially below the peak of 14.0% observed in 2021 and below 11.5% for 2016-2019, the years leading up to the pandemic. This was driven by a significant increase in bond issuance.

- **End of cheap money era for SMEs as pre-IPO equity risk capital reverses**
  - Access to capital for SMEs has declined over the past 12 months. Early-stage funding, private equity and crowdfunding have all been affected.
- **European households saw a decline in their savings in the form of capital markets instruments**
  - Savings levels grew substantially during the pandemic as spending was necessarily restricted, and many households put more of this money to work in capital markets. However, this effect is beginning to fade and, as inflation has risen sharply, our household investment indicator has declined to the lowest level since AFME's first CMU report. The amount of savings in the form of capital market instruments stood at 90.4% of the EU's GDP in 2023, falling from 91.4% in 2022. This is most likely due to people withdrawing from their savings to meet rising expenses.
- **EU Securitisation issuance bounces back after a lacklustre 2022**
  - This is predominantly thanks to a single large French RMBS deal (EUR 49.5 bn). If this deal is excluded, however, EU securitisation issuance would show a 15% decline. Over the last 10 years, annual securitisation issuance in the EU and UK has experienced muted growth.
  - Adjusted by GDP, EU securitisation is strikingly low compared to other global economies. For example, in 2023, EU issuance was equal to just 0.3% of EU GDP, while UK issuance was equal to 0.7% of UK GDP, US issuance was at 1.1% of GDP, Australia at 2.6%, Japan at 1.4% and China at 1.5% of GDP.
- **EU remains global leader in ESG bond origination**
  - ESG-labelled bond issuance in the EU represented 12.7% of total EU bond issuance in 2023. Issuers from other regions issued around 1% - 7% of bonds with ESG labelling, for example 7.1% (UK); 6% (Australia); 2.3% (China); 1% (US); 0.9% (Japan).
- **EU fintech sector continued slowing down in 2023**
  - Investment in Fintech saw a sharp decline in 2023 across regions compared to 2022. In the UK investment dropped by approx. 80%, followed by the EU where investment decreased by 78%. The US saw roughly 65% less investment in 2023.
  - Fintech Unicorn valuations decreased across regions. In the EU the cumulative value of Unicorns decreased 20%. In the UK the valuation reduced 15%.

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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](http://www.afme.eu)
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