NEW FINANCIAL
Rethinking capital markets

DECODING CAPITAL MARKETS UNION

MEASURING THE POTENTIAL FOR GROWTH ACROSS EUROPE'S FRAGMENTED CAPITAL MARKETS

June 2015

by William Wright and Laurence Bax

> Encouraging the growth of capital markets in less-developed markets in Europe could unlock more than €200bn a year in additional funding for companies and more than €6 trillion in long-term capital for investment

INTRODUCTION

Decoding capital markets union

This report measures the depth of capital markets in different European countries. It shows that the range in development of capital markets within Europe is far wider than the gap between Europe and the US - and that there is a huge opportunity to boost investment across Europe. The report identifies which countries have less developed capital markets than the European average and puts some hard numbers on the potential benefits of capital markets union for individual economies.

In doing so, it raises some important questions about the challenges in developing a coherent approach that works as well for countries with nascent capital markets - such as the more recent member states in the European Union - as it does for those countries with highly developed markets, such as the UK and the Netherlands.

The report addresses the following questions:

- What is the range in depth and development in capital markets in different countries across Europe?
- How does that range vary across different areas of the capital markets and how can it best be measured? What are the main drivers of the differences in depth in capital markets?
- How big is the potential opportunity from harmonising capital markets? What would this mean for the European economy and - more importantly - for member states with less-developed capital markets?

The report analyses the depth of capital markets across 23 different metrics - from the value of pensions assets to the size of the corporate bond market and levels of venture capital investment - in all 28 EU member states. It also includes capital markets in Iceland, Norway, and Switzerland, and the US as a reference.

In each category, we measured the average size or level of activity over the past five years for each country in our sample and calculated it as a percentage of average GDP (we used five year rolling data to iron out the annual volatility in capital markets). We then expressed this percentage relative to the US, and rebased the numbers using the European average as 100.

For example, the average size of European stock markets over five years was 69% of GDP, compared with 126% of GDP in the US. This means European stock markets are 54% as developed as in the US. We rebased this to 100, meaning a country with a score of 50 has stock markets that are half as developed as the European average, while a country with a score of 200 is twice as developed. A more detailed methodology and the full list of sources is available on our website at www.newfinancial.eu.

This report is a work in progress. Comparing capital markets across 32 different countries is difficult, but we believe the report provides a directional guide to the trends in depth in capital markets. We would welcome any feedback and suggestions on our approach.

Acknowledgements:
We would like to thank Dealogic and Preqin for their valuable help with the data set, and the team at New Financial for their diligent research and patience.

NEW FINANCIAL
Rethinking capital markets

New Financial is a think tank and forum that believes Europe needs bigger and better capital markets to help drive its recovery and growth.

We think this presents a huge opportunity for the industry and its customers to embrace change and rethink how capital markets work.

We are a social enterprise that launched in September 2014. We are self-financed and will seek financial support from institutions and individuals this year.

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The full data set

This report only captures a small part of the data set that we have compiled and analysed.

The full data set covering more than 23 different markets and each individual country is available to members of New Financial and on request to non-members.

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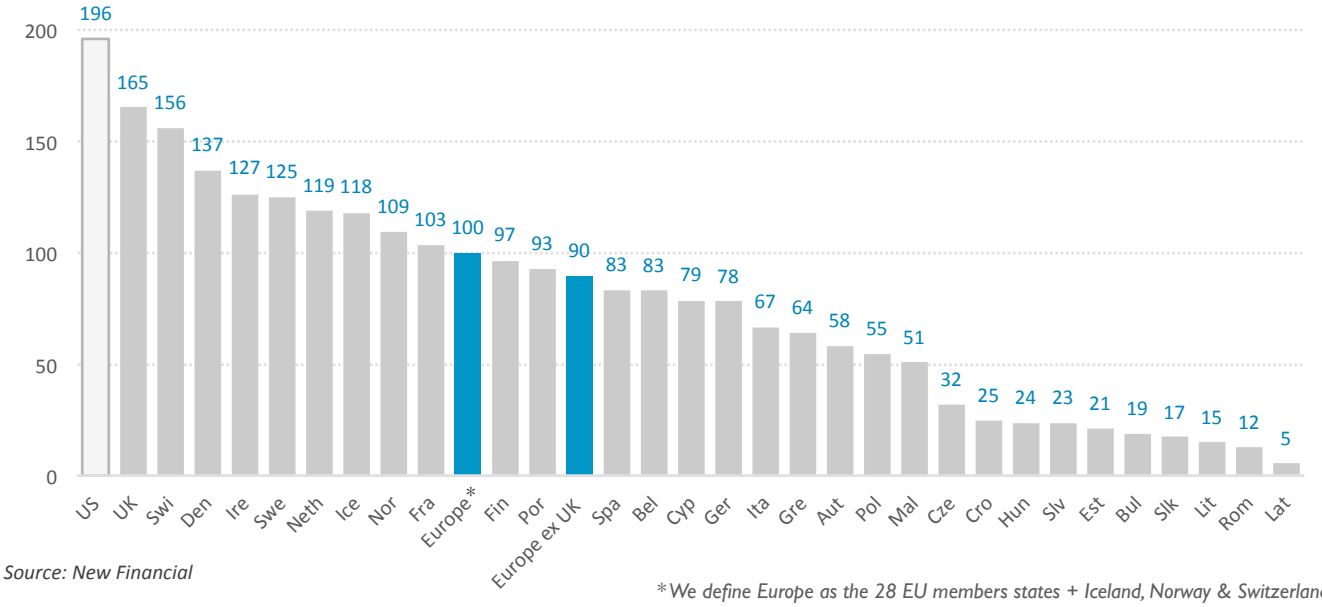
Fig. 1 - Capital markets disunion

Relative depth of capital markets in different countries across 23 metrics over the past five years
Rebased to Europe = 100



Source: New Financial

**We define Europe as the 28 EU members states + Iceland, Norway & Switzerland*

Unlocking capital markets

- There is a far **wider range in the depth of capital markets between different countries in Europe than there is between Europe and the US**. European capital markets are on average just over half as deep as the US, but this disguises a wide spectrum (see Figure 1).

- The UK is nearly twice as developed as the the rest of Europe, and a small number of large economies also have highly developed capital markets, such as Denmark, Sweden and the Netherlands. Several large economies have relatively undeveloped markets, such as Germany, Italy and Spain. Many countries in central Europe have only nascent capital markets.

- By **breaking down barriers to the more efficient flow of capital across borders and harmonising access to capital markets and investment**, capital markets union could have a dramatic impact in narrowing the range in depth between different countries in Europe.

- Capital markets union is not an Anglo-Saxon conspiracy led by the City of London. Of course, larger economies with well-developed markets would benefit from capital markets union, but **the countries that stand to gain most from reform are those with less developed markets**, in particular the smaller and more recent EU member states, and some large economies in southern Europe.

- Capital markets union could help **unlock trillions of euros in long-term capital.** Over the past five years, if all the countries with less developed markets had instead had pools of capital that were the same depth as the European average, there would be more than €6 trillion in extra capital from pensions, insurance and retail funds available to invest in the European economy.

- On the same measure, **European companies could have raised more than €500bn in additional funding** from corporate bonds, equities and venture capital over the past five years if levels of capital markets activity in less developed markets had been running at the European average (or more than double that if you include the potential increase in leveraged loans and securitisation activity).

Fig. 2 - Ranking capital markets in Europe

This table shows the ranking of individual countries across Europe by the overall depth of capital markets measured on 23 different metrics. It also shows their rank in different categories, such as pools of assets, debt capital markets or availability of growth capital. It shows that in most countries the relative depth of capital markets is fairly constant: countries with highly developed capital markets in one area are likely to have developed markets in other areas - and vice versa.

Country	Overall Rank	Pools of assets	Market value	Bond mkt depth	AuM	DCM	ECM	M&A	Trading	Growth capital
United Kingdom	1	6	2	2	7	3	3	2	3	3
Luxembourg	2	1	1	1	1	1	2	1	28	2
Ireland	3	2	8	8	2	5	12	3	17	4
Iceland	4	4	9	3		11	6	5	30	1
Netherlands	5	7	3	6	18	2	14	9	5	13
Switzerland	6	5	4		6	4	7	6	12	10
Denmark	7	3	14	10	5	15	4	11	11	11
Finland	8	9	7	9	11	13	19	4	9	6
Norway	9	14	10	12	13	6	9	10	6	8
France	10	10	11	5	4	8	18	12	8	14
Sweden	11	8	15	22	10	7	11	7	10	7
Portugal	12	18	5	4	15	12	10	13	4	23
Belgium	13	12	6	11	12	10	17	14	13	20
Spain	14	16	12	20	14	9	13	8	7	17
Malta	15	11	16	16	3	19	25	19		12
Germany	16	13	22	18	8	14	15	17	2	18
Italy	17	17	17	13	17	16	16	24	1	19
Austria	18	15	13	7	9	20	21	20	15	26
Poland	19	20	21	15	19	22	8	23	18	5
Cyprus	20	22	19	17		28	1	15	27	29
Greece	21	26	18	26	22	17	5	16	14	15
Estonia	22	21	24	19		26	28	18	25	16
Croatia	23	19	20	21		21	29	29	19	21
Czech Republic	24	27	23	14	23	18	23	21	23	22
Lithuania	25	31	29	29		29	22	27	26	9
Hungary	26	25	27	23	16	25	24	26	16	27
Slovenia	27	23	26	27	21	27	26	22	19	31
Bulgaria	28	28	25	28	25	23	27	25	19	25
Slovak Republic	29	24	28	24	20	24	30	30	19	30
Latvia	30	30	31	30		30	30	28	29	28
Romania	31	29	30	31	24	30	20	31	24	24

Rank 1 - 10 | Rank 11 - 20 | Rank 21 - 31 | No data

Key: The overall rank is calculated as the average ranking in each of the nine categories. The nine categories include these metrics:

Pools of capital: pensions assets, insurance assets and mutual funds as % of GDP

Market value: stock market capitalisation, corporate bonds and securitisation as % of GDP

Bond market depth: outstanding corporate bonds as % of all corporate debt, value of all outstanding bonds as % of GDP

AuM: investment assets under management by domicile as % of GDP

DCM: corporate bond and syndicated loan issuance, including investment grade and high-yield bonds, and leveraged loans as % of GDP

ECM: all equity issuance, including IPOs, secondaries and convertibles, as % of GDP

M&A: domestic and cross-border M&A, private equity deals and venture capital, as % of GDP

Trading: equity trading volumes on all platforms as % of domestic market capitalisation

Growth: Average of high-yield bond issuance, venture capital, IPOs and sub-$100m IPOs, as % of GDP

A European patchwork

For all of the progress that has been made over the past few decades in harmonising capital markets across Europe, this map underlines that there is no such thing as a single European capital market. It also shows that in relative terms, economies in southern and eastern Europe with less developed capital markets have potentially the most to gain from capital markets union.

Europe is a patchwork of individual capital markets with widely varying levels of development. Figure 3 shows the relative depth of capital markets in each country based on 23 different metrics over the past five years, with the numbers rebased to the European average of 100.

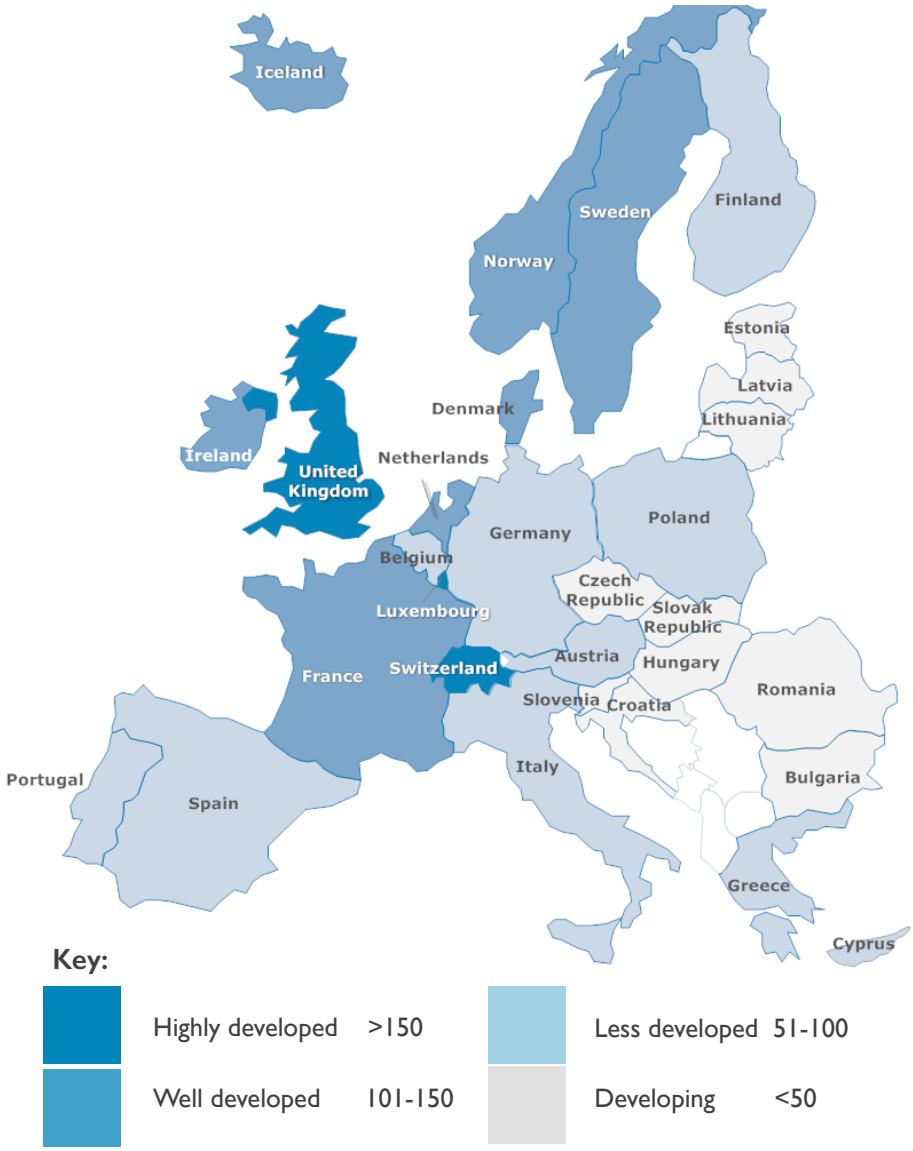
The darker the shading, the more developed the capital markets. A handful of European countries have highly developed capital markets (Luxembourg, Switzerland and the UK), and around one third of the countries in Europe have capital markets that are deeper than the European average.

The most visible trend is that the further south and east we go, the less developed the capital markets in each country.

The Nordic region and northern Europe have the most developed capital markets, while capital markets in the the 'Club Med' countries (Greece, Italy, Portugal, Spain, Cyprus and Malta) are only two thirds as deep as the European average.

Capital markets in countries in central and eastern Europe - which broadly mirrors the 13 countries that have joined the EU since 2000 - are scarcely one quarter the depth as the rest of Europe. These countries are particularly exposed to any decline in lending because their banking systems are dominated by foreign-owned banks.

Fig. 3 The relative depth of capital markets by country
Rebased to Europe = 100



European capital markets by region (Europe = 100):

107	Northern Europe (Aut, Bel, Fra, Ger, Lux, Neth, UK, Swi)
103	Nordic region (Den, Fin, Ice, Nor, Swe)
73	Club Med (Cyp, Gre, Ita, Mal, Por, Spa)
27	Central & Eastern Europe (Bul, Cro, Cze, Est, Hun, Lat, Lith, Pol, Rom, Slk, Slv)

A rising tide lifts most boats

The volatility and cyclical nature of capital markets from one year to the next means that it is difficult to measure the change in depth over time.

These charts provide a snapshot of how capital markets across Europe and in individual countries have developed over the past decade.

Overall, the average depth of European capital markets has increased by around one quarter from 90 to 115 (in these charts all of the numbers have been rebased with 100 representing the average depth of European capital markets over the five years to 2014).

Capital markets in two thirds of the countries in Europe have become more developed since 2004.

It is striking that capital markets in countries such as Greece, Ireland, Portugal and Spain seem to have benefited from the greater integration that came from joining the euro, but that capital markets in many member states that joined the EU in 2004 or later have gone backwards. This supports the evidence that these smaller markets could have the most to gain from capital markets union.

Policymakers in Austria, Belgium and Italy might also be concerned that their economies have broadly missed out on the wider growth in capital markets over the past decade.

At the same time, capital markets in Germany are only slowly catching up with the rest of the Europe, and while European markets are getting deeper in absolute terms they are falling behind the US in relative terms. In 2004, European capital markets were on average 58% as deep as in the US. In 2014, they were just 53% as deep.

Fig. 4 - A decade in capital markets

Overall depth of capital markets in Europe by year 2004 to 2014
100 = Europe five year rolling average to 2014

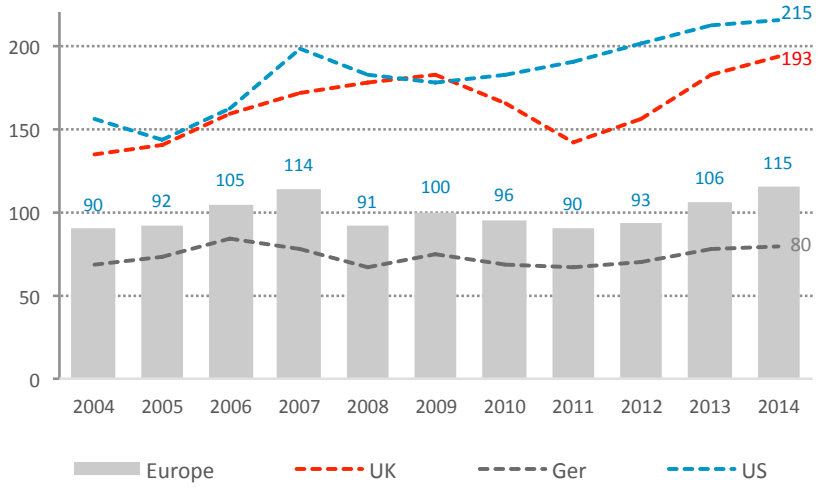
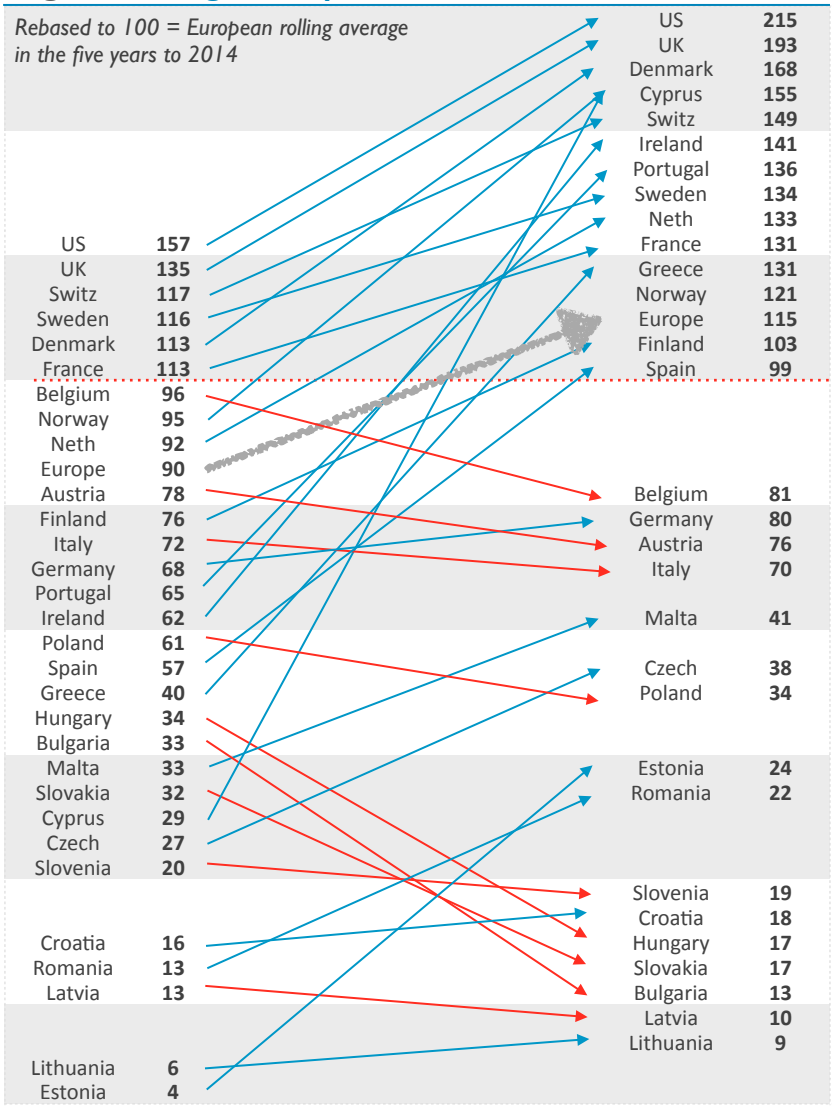


Fig. 5 - Change in depth of markets 2004 to 2014

Rebased to 100 = European rolling average in the five years to 2014



Playing catch up

The wide range in depth in capital markets between different countries highlights how Europe is playing catch-up with the US. Fig. 7 shows the depth of different segments of the capital markets in Europe compared with how big they would be if they were the same percentage of GDP as in the US. It also shows the wide range in development between individual countries (as measured by the interquartile range and shown in red).

For example, the combined market capitalisation of European stock markets over the past five years was 69% of European GDP, compared with 126% for stock markets in the US. This means that European equity markets are 54% as developed relative to GDP as the US.

There are several areas where the lack of depth is particularly concerning. For example, the value of European pensions assets is one third what it would be if the pensions market were as developed as in the US. The high-yield bond markets in one third the size of the US (relative to GDP, while the leveraged loan, securitisation markets in Europe are one fifth as deep as the US. Venture capital is just one eighth as developed in Europe as in the US.

Mind the gap

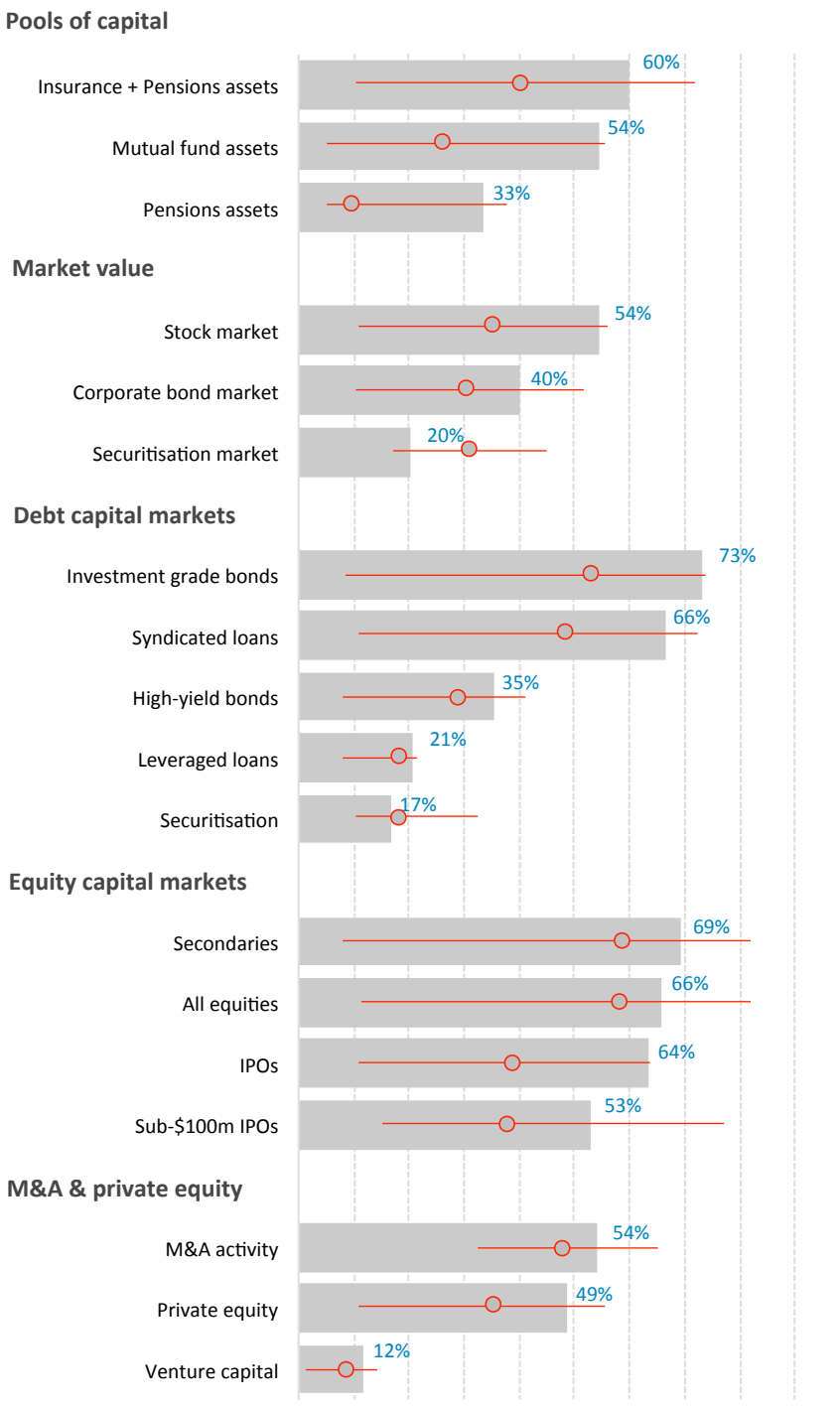
These averages hide a wide range. For example, the median depth of national stock markets in Europe is just 35% of the size of the US market, and the interquartile range is from 12% to 56%. In other words, most countries are significantly less developed than the European average, and the headline numbers are flattered by a small number of large developed markets such as the UK and the Netherlands.

Narrowing this wide range could be one of the main benefits of capital markets union.

Fig. 6 - Out of their depth?

The size of European capital markets relative to how big they would be if they were the same percentage of GDP as in the US %

(The red lines show the median and the interquartile range in depth across 31 different countries*)



** Note: the interquartile range shows the range in depth in capital markets in each segment from the 8th most developed country in Europe to the 24th most developed. The wider the range, the greater the distortion in capital markets between different countries.*

Cutting the cord

Capital markets union is not an academic question: Europe needs bigger and better capital markets to help offset its over-reliance on funding from banks that have been paralysed since the financial crisis and that are going to shrink further in the future.

On average, European companies relied on banks for three quarters of their overall debt funding in 2014. This is the inverse of the US economy, where bank lending accounts for just one quarter of corporate borrowing (see Fig. 7).

This average disguises a wide range, with companies in some economies - such as Greece and Spain, or smaller economies in central and eastern Europe - relying on banks for more than 90% of their funding. At the other end of the scale, in the UK banks provide just half of corporate debt.

This reliance on banks is a problem when the banks turn off the taps. The red numbers in Fig. 7 show the change in gross new lending by banks to companies since 2008. Across the eurozone, new lending has fallen by 44%, and in some countries it has collapsed by 60% or more.

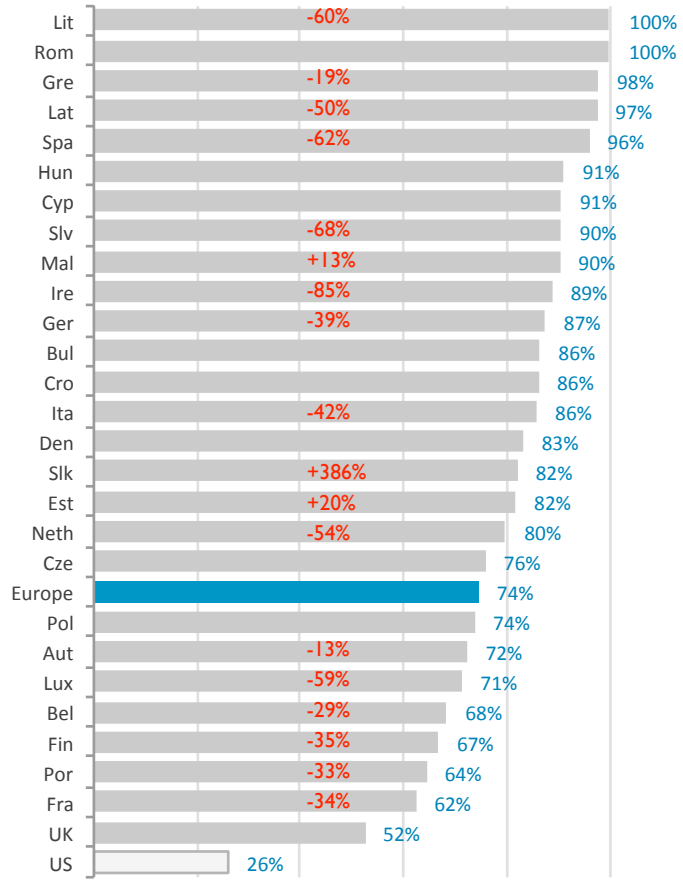
Leading by example

Countries that relied less on bank lending in the run-up to the crisis (in other words, those which had deeper corporate bond markets) have been hit less hard by the crisis in terms of the availability of overall debt financing.

Fig. 8 shows that the overall stock of debt finance, measured by the value of outstanding bank lending plus corporate bonds, fell by less than the European average - or even increased - in countries with deeper bond markets.

Fig. 7 - Kicking the lending habit

The value of outstanding bank lending by country as a % of total corporate debt in 2014 (and change in gross new bank lending since 2008 %)



Source: New Financial, ECB, BIS

Fig. 8 - Banking on bonds

Correlation between depth of corporate bond markets before financial crisis and increase in total stock of debt funding between 2008 to 2014 %

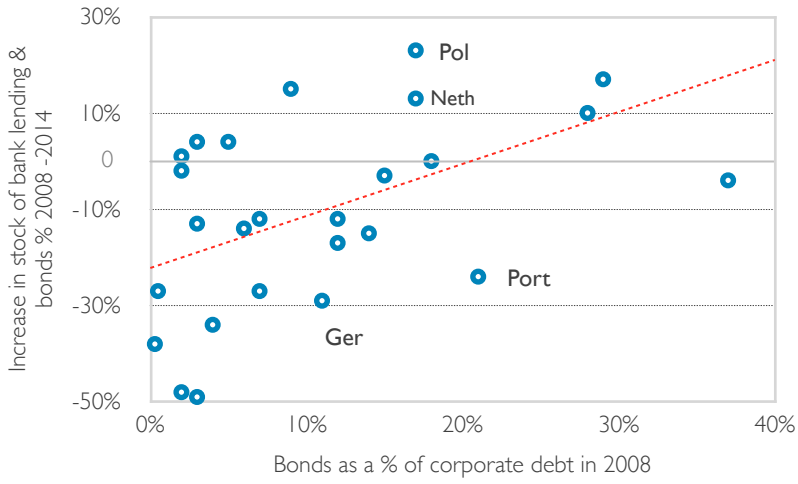
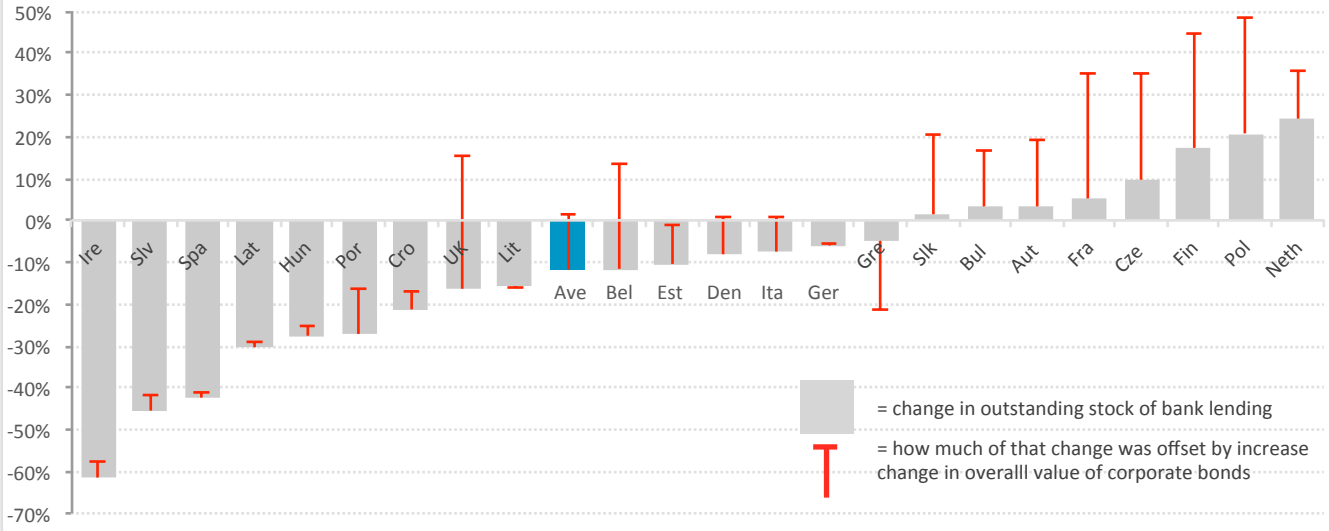


Fig. 9 - Bridging the gap

Change in value of outstanding stock of bank lending and impact of change in overalll value of corporate bonds 2008 to 2014 €bn



Source: New Financial, ECB, BIS

**This chart covers the European Union only*

Making up lost ground

There are few better examples of how misleading averages can be in European capital markets than the extent to which corporate bond markets have stepped in to fill in the gap in funding caused by the decline in bank lending in Europe.

The bad news is that across the EU, the value of outstanding bank lending (a measure of the total amount of lending being put to work in the economy) fell by €665bn or 11% between 2008 and the end of 2014. The good news - apparently - is that this decline was more than offset by an increase in the value of outstanding corporate bonds of more than €725bn over the same period.

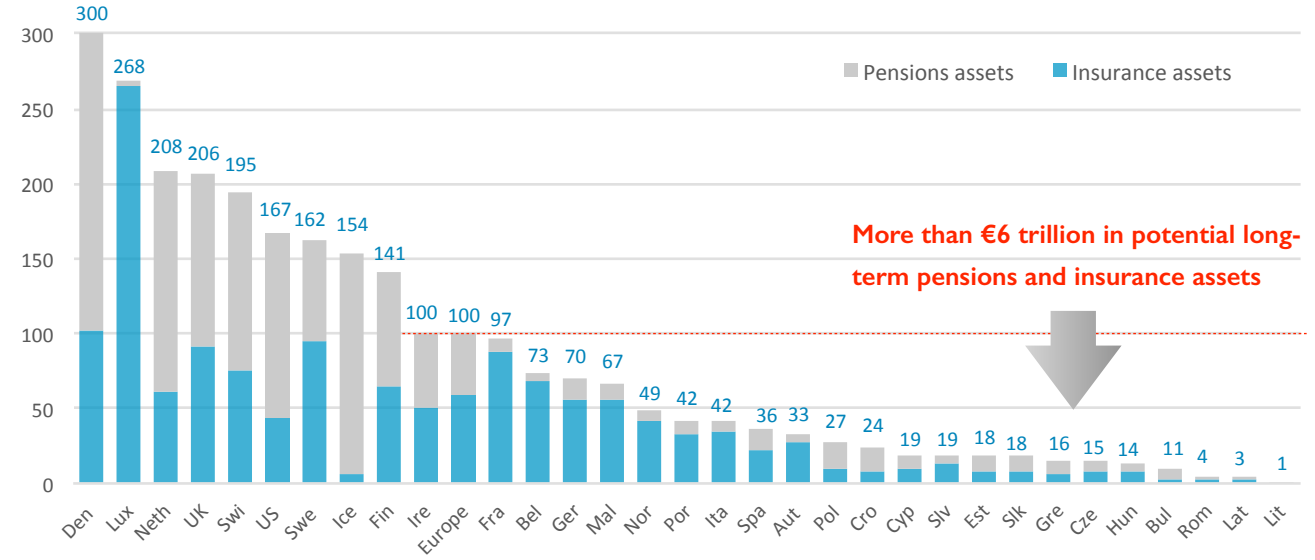
However, the EU-wide average disguises a more complex picture. Fig. 9 shows how much of the fall in bank lending has been offset by growth in the corporate bond market in different countries. On the left hand side of the chart, bank lending has collapsed in countries like Ireland and Spain (by 60% and 40% respectively) - but the corporate bond markets have not come to the rescue. This has left a significant funding gap for companies.

On the right hand side, countries such as France and the Netherlands have enjoyed an increase in overall bank lending since the crisis with the added benefit of an increase in corporate bonds as well. This means the total stock of corporate debt has actually increased since the crisis.

The EU-wide averages are also flattered by a handful of countries. France and the UK account for two thirds of the increase in the corporate bond markets since 2008. If you exclude them, the overall picture is much less positive for the rest of the EU: bank lending fell by nearly 15% and less than half of that gap was filled by corporate bonds, which leaves a significant funding gap. And the really bad news? This funding gap is likely to get worse over the next few years as the sharp fall in gross new lending (which has fallen by 40% from its peak in the eurozone) feeds through into the economy.

Fig. 10 - Building a nest egg

Range in depth of pensions assets + insurance assets as % of GDP over the past five years by country relative to European average
Rebased to Europe = 100



Source: New Financial

Raising the bar

Europe doesn't have a savings problem - it saves a higher proportion of GDP than the US - but it does have an investment problem in converting these savings into longer term pools of capital.

This chart shows the relative size of institutional assets in different European countries over the past five years, and the breakdown between pensions funds and insurance companies (using data from the OECD, Towers Watson and Insurance Europe).

At one extreme, Denmark has combined pensions and insurance assets of nearly 300% of GDP, compared with an average of 98% of GDP across Europe. At the other end of the scale, a large number of smaller countries have pools of assets that are just one tenth as deep as in Denmark and less than one third of the European average.

Imagine that we raised the bar in all the countries with less developed pools of capital to the European average. Such a move could unlock more than €6 trillion in long-term capital across Europe that could be put to work more productively in the European economy. That's an increase of 45% in the total pool of institutional assets in Europe today.

The defining factor in most countries that have the deepest pools of capital is that they have bigger funded pensions systems. On average, the value of pensions assets in Europe is about 40% of GDP, but in Denmark, the Netherlands, the UK and Switzerland, it is well over 100%. This will not change overnight: it took the UK more than 30 years to build its pensions assets from 20% of GDP to 100% of GDP, so the sooner different countries start work, the better.

These estimates don't include the potential growth of retail investment funds. The data set is not as consistent but we estimate that retail investors own around one third of all mutual funds in Europe. Raising the bar in less developed markets to the European average would translate into more than $1tn in additional capital for potential investment.

A long-term game

If deep capital markets start with deep pools of long-term capital, then lots of countries in Europe are starting with one hand tied behind their back.

Fig. 11 shows a striking relationship between the depth of long-term pools of capital (that is, pensions and insurance assets) in individual countries as a percentage of GDP, and the overall depth of capital markets.

A one percentage point increase in institutional assets relative to GDP translates into an increase of just under one point in the overall depth of capital markets.

This sends a clear message that bigger pools of long-term capital could provide a huge boost to capital markets in Europe. Part of the challenge for capital markets union is that pensions policy is beyond the remit of the European Commission and is intimately tied up with culture, social policy and taxation in individual countries. However, the Commission could work with members states to encourage the creation of deeper pool of long-term capital and the help the wider shift from savings to investments.

Making the case

Highlighting the concrete impact that building deeper pools of long-term capital could have on the economies of individual countries that don't already have them could help make a better case for capital markets.

Fig. 12 shows the potential increase in institutional assets if less developed markets increased the depth of assets to the European average. In Greece, for example, the increase in the pool of assets would be more than €200bn, or nearly 90% of GDP. In big economies like Italy and Germany it would make more than €1tn available for investment.

Fig. 11 - The power of long-term capital

Relationship between the depth of institutional assets as % of GDP and the overall relative depth of capital markets

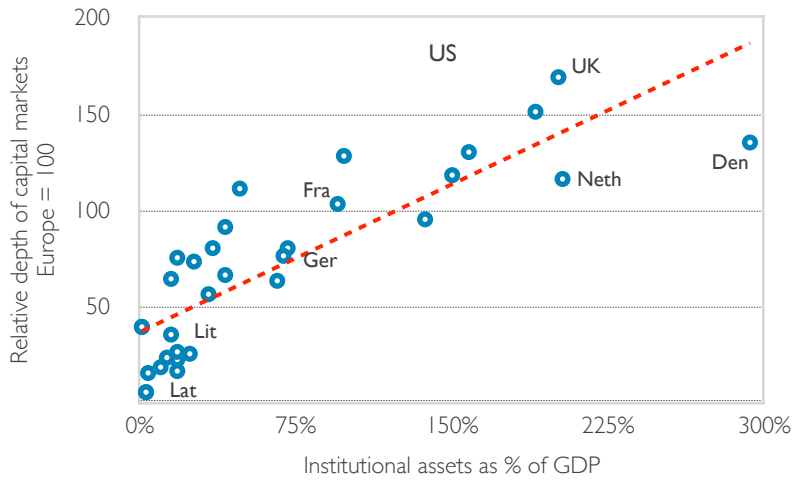
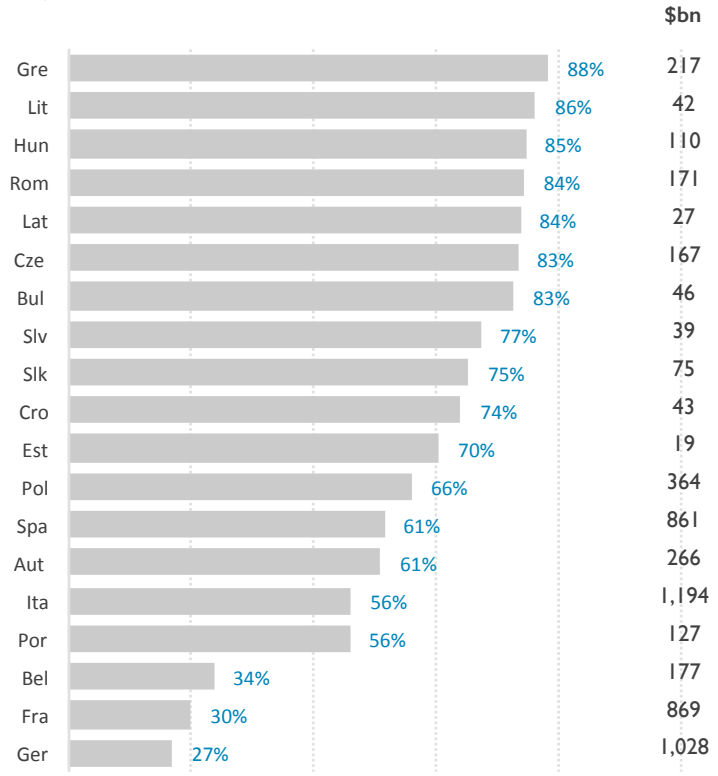


Fig. 12 - Investing for the long term

Potential increase in pensions & insurance assets as a percentage of GDP %* (and in $bn)



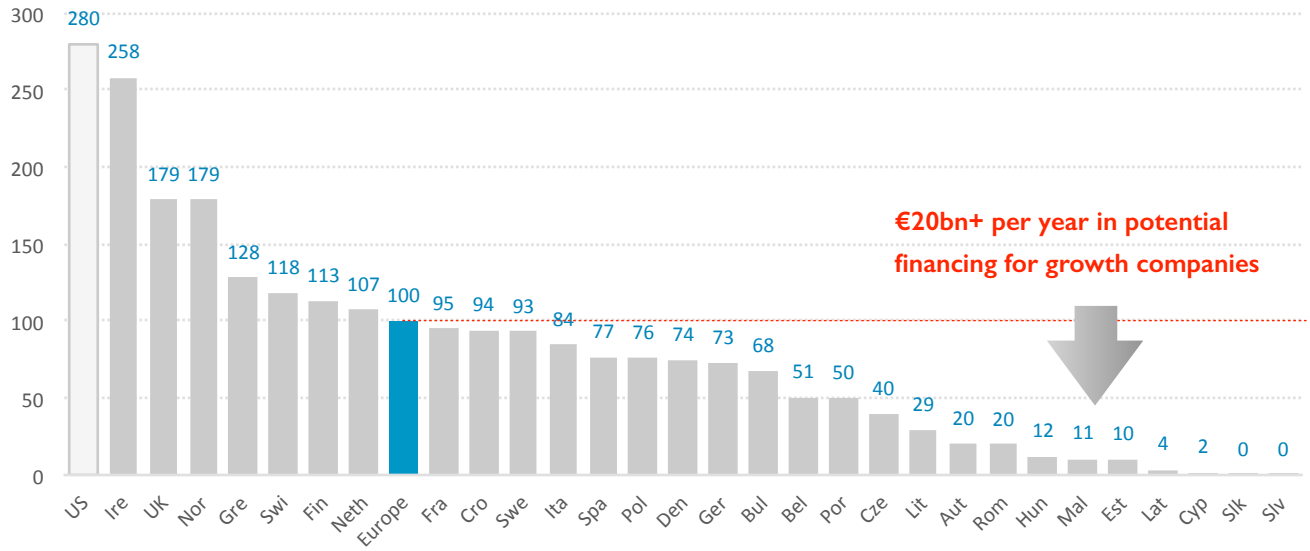
* assumes all countries increase assets to European average (pensions assets = 40% of GDP, insurance assets = 58% of GDP)

Source: New Financial

Fig. 13 - The engine room for growth?

Relative depth of growth capital in different European countries over the past five years
(Growth capital = high yield bonds, venture capital, IPOs)

Rebased to Europe = 100



Source: New Financial, Dealogic, Preqin

Closing the growth financing gap

The challenge at the heart of capital markets union is how to unlock a wider range of additional sources of funding for companies to help drive employment and economic growth.

Fig. 13 shows the extent of the challenge and the size of the potential opportunity in Europe in the capital markets most closely associated with growth finance for companies: the high-yield bond market, IPOs, and venture capital funding.

Over the past five years, the average depth of these markets in Europe is roughly one third the level of the US once we adjust for GDP. A handful of European markets - such as Ireland, the UK and Norway - have highly developed markets for growth finance. But a significant minority of countries (mainly in southern and eastern Europe) have nascent markets for growth finance which are less than half as developed as the European average.

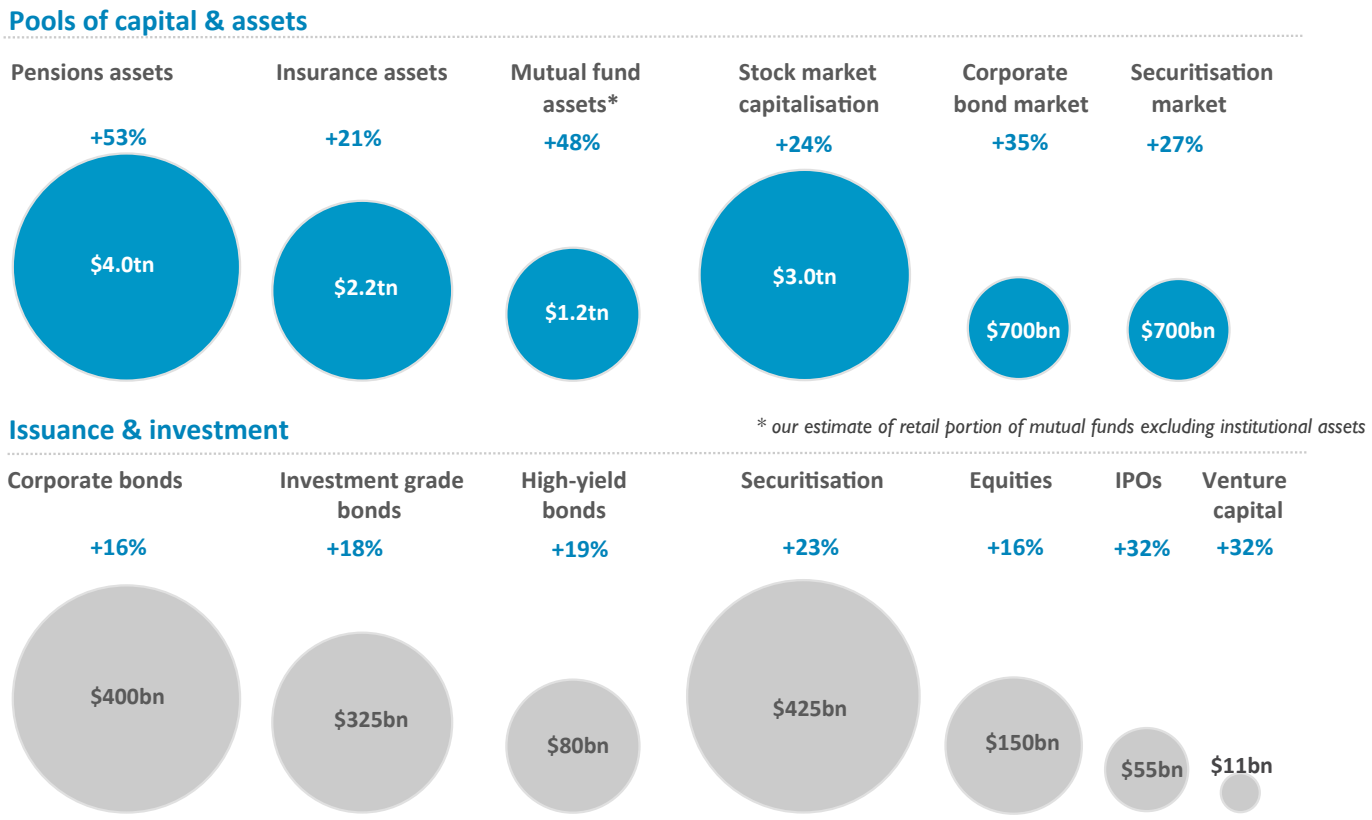
In an ideal world, if the high-yield bond, IPO and venture capital markets across Europe had been as deep as in the US relative to GDP over the past five years there could have been nearly €200bn a year in additional funding for growth companies.

In the real world, boosting the availability of growth finance in less developed markets (that is, those countries below the dotted red line in Fig. 13) to the current European average could unlock more than €20bn per year in extra funding from high-yield bonds, IPOs and venture capital.

That would increase the overall value of growth funding across Europe each year by about one fifth - but it would be an increase of more than 70% for the 20 countries in Europe that have less developed capital markets for financing growth.

Fig. 14 - A question of scale

This chart shows how much bigger capital markets in Europe would have been over the past five years if capital markets in countries with less developed markets had been as deep relative to GDP as the European average:



Source: New Financial

The multi-trillion dollar question

A few billion dollars here, a few billion there and pretty soon you are talking serious money. With capital markets union, the numbers could be in the hundreds of billions or even trillions.

While it is useful to compare the depth of capital markets in Europe with the US, it is unrealistic and not always desirable for Europe to emulate a US model. That doesn't mean that there is not significant scope for capital markets in Europe to become more developed and for them to have a big impact on investment, jobs and growth.

Fig. 14 shows what would happen if capital markets in those countries with less developed markets had instead been as deep as the European average over the past five years.

This could have a huge impact on investment: it would unlock roughly $4 trillion dollars in pensions assets (an increase of more than 50%), and a further $3tn in insurance assets and mutual funds to provide much-needed long-term capital to invest in the European economy. The European stock market, corporate bond market and securitisation market would each have increased by between one quarter and one third.

Each year, European companies could have issued an extra $80bn in corporate bonds and $30bn in equity. All of this extra activity would add up to more than $125bn a year in capital markets financing (or more than double that if you include the potential increase in leveraged loans and securitisation activity).

Small change

A big challenge for capital markets in Europe is that so much of what they do can seem intangible. The numbers at a European level look huge but can be of limited relevance to a small country with nascent capital markets.

One way of making the case for capital markets union more tangible is to bring it down to a more accessible level: what would an increase in capital markets activity look like for individual countries and what impact could that have on their economy?

We have already seen what would happen with pools of capital. If Greece, for example, had a pool of institutional pensions and insurance assets that was as deep as the European average, that would translate into more than $200bn in additional capital that could be invested in the Greek economy (see page 11). That's nearly 90% of Greek GDP.

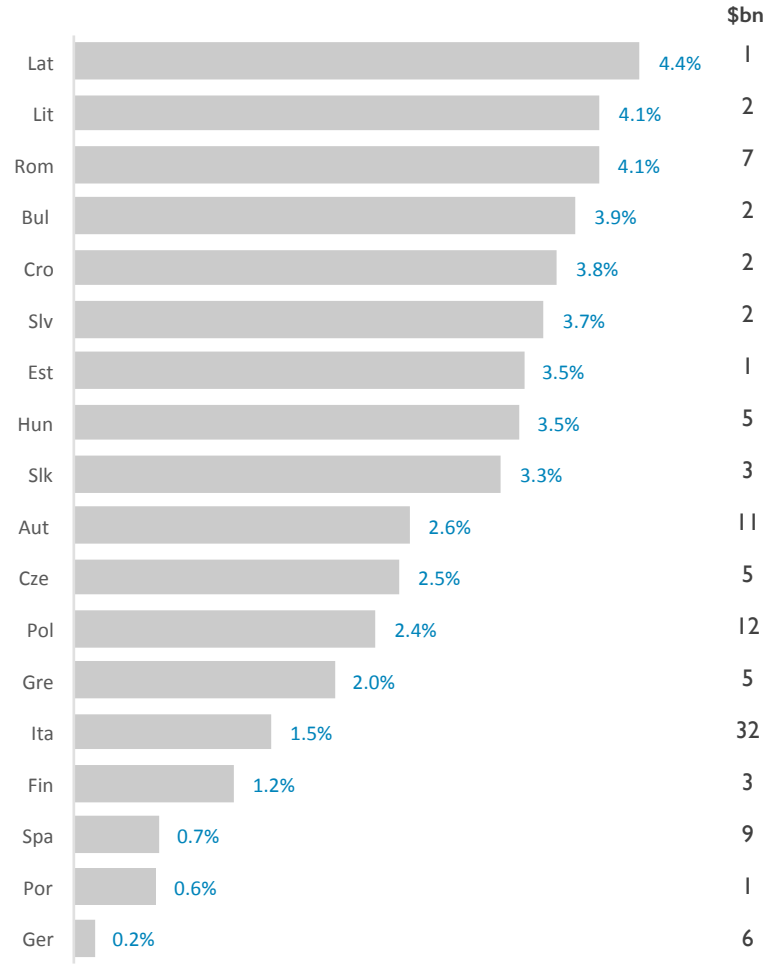
The same applies to capital markets activity each year (see Fig. 15). Companies in Romania, for example, could have raised an additional $7bn per year over the past five years if the corporate bond, equity and venture capital markets had been as deep as the European average. That's equivalent to a shot in the arm for the Romanian economy of more than 4% of GDP a year - each year, for five years.

Any increase in capital markets does not just mean additional potential capital for companies. It also provides an alternative source of finance other than banks, and helps free up bank balance sheets so they can focus on their core business.

The question then becomes: can individual countries in Europe afford not to develop bigger and better capital markets?

Fig.15 - A shot in the arm...

Potential increase in average annual capital markets activity as a percentage of GDP over the past five years %* (and in $bn on right hand side)



Source: New Financial, Dealogic

* assumes that corporate bonds, leveraged loans, equity capital markets and venture capital increased to European average relative to GDP

>>> It is important to note that the opportunity for growth in European capital markets is not restricted to those economies with markets that are less developed than the European average. Countries with more developed capital markets such as the UK or the Netherlands would also benefit from reforms that could help unlock hundreds of billions of dollars a year in additional capital. However, our calculations measure only the potential gain for smaller markets rising to the European average.

Fig. 16 - A rough guide to potential growth

This table shows which countries have the most to gain in which sectors from the increased harmonisation of capital markets across Europe. For each country, it shows which sectors are less developed and how much these markets would grow if we raised the bar in each case to the European average. The darker the colour, the bigger the opportunity (white cells show that the sector is already deeper than average).

Country	Pension & insurance assets	Retail mutual funds	Stock market value	Corporate bonds vs lending	Corporate bond issuance	High-yield bond issuance	Equity issuance	Venture capital
Austria				-				
Belgium				-	-			
Bulgaria								
Croatia						-		
Cyprus							-	
Czech Republic				-				
Denmark	-		-				-	-
Estonia								-
Finland	-		-	-		-		-
France		-	-	-	-			
Germany								
Greece						-	-	
Hungary								
Ireland	-	-			-	-		
Italy								
Latvia								
Lithuania								
Luxembourg	-	-	-	-	-	-	-	-
Malta								
Netherlands	-		-			-		-
Poland				-			-	
Portugal				-			-	
Romania								
Slovak Republic								
Slovenia								
Spain			-				-	
Sweden	-		-				-	-
United Kingdom	-		-	-	-	-	-	-
Iceland	-			-		-		
Norway				-	-	-	-	
Switzerland	-	-	-	-	-		-	-

Increase of more than 101% | Increase of 51% to 100% | Increase of 0% to 50% | - n/a

Everything to play for

If capital markets union can help level the playing field and narrow the wide range of depth in capital markets across Europe, this chart suggests that it will be those countries with less developed markets that have the most to gain.

In many countries, capital markets activity would more than double if their markets were as developed as the European average - providing not only valuable additional investment but an alternative to relying on a struggling banking system for funding.

And even in those countries that already have highly developed capital markets (and lots of blank space in the chart above) the removal of barriers across Europe to the more efficient flow of capital would provide a valuable additional boost.

The keys to success for capital markets union

There are lots of reasons for the wide range in depth and development in capital markets. Given the differences in language, culture and history - not to mention tax and legal systems between different countries in Europe - it is remarkable how much progress has already been made towards the creation of a single European capital market.

Here are 10 suggestions for discussion on how capital markets union can help accelerate that process:

1. Capital markets union is not a free market neo-liberal conspiracy led by the City of London. In order to secure broad political support, it will be important to focus on the tangible potential benefits of deeper capital markets for individual economies, particularly those smaller countries with less developed markets that have most to gain.

2. While capital markets union is a huge opportunity for the capital markets industry - bigger pools of capital and more activity could lead to a significant increase in business - the industry must demonstrate that it is focused on the benefits to its customers and to the wider economy, not purely on its own agenda.

3. The starting point for deeper capital markets is deeper pools of capital. While a single European pensions or saving policy is beyond the remit of the European Commission, it should focus on helping individual countries to develop bigger pools of long-term assets and on encouraging the wider shift from savings to investment.

4. The wide range of depth in capital markets shows that there are significant distortions across Europe. Reforms should focus on identifying and removing (or mitigating) practical barriers - and being careful not to accidentally build new ones.

5. Capital markets union is not necessarily about deregulation. It should seek to review, improve and if necessary remove existing regulation - with a particular emphasis on the cumulative impact of reforms - before setting about new regulation.

6. In the same vein, policymakers and industry bodies should focus on removing unnecessary levels of complexity from capital markets. This would help reduce costs and make the industry more accessible (and more trustworthy) to issuers and investors.

7. There is a wide range in the quality and consistency of available data across different sectors of the capital markets and between countries. A centralised initiative to improve the measurement of capital markets activity would be an important part of measuring the progress of capital markets union.

8. There will never be a truly single capital market across 28 members states (and counting). Reforms should focus on minimum threshold standards that are good enough rather than setting the bar too high in the pursuit of perfect harmonisation.

9. Capital markets are not going to change overnight. While it is right to focus on some tangible quick wins, it will be important to manage expectations around how quickly the benefits may be seen. Laying firms foundations for the next 20 years will be more valuable than trying to build something too quickly.

10. Even in the long term there is a limit to what capital markets union can achieve on its own, particularly if it runs into other policies and reforms at a national or regional level that are heading - intentionally or otherwise - in the opposite direction.

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