Driving growth: how EU capital markets can support a post-Covid recovery

NEW FINANCIAL
Rethinking capital markets

Capital markets have a vital role to play in supporting the EU economy through this crisis and in driving a recovery: in helping companies raise money to finance their business and invest in growth and jobs, and helping them manage their risks. Here are 10 key data points from this report.

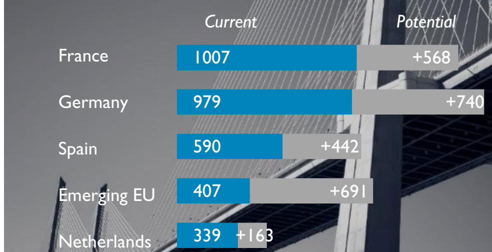
>>> DRIVING GROWTH

4,000 — >>> additional companies in the EU27 a year could use capital markets for funding

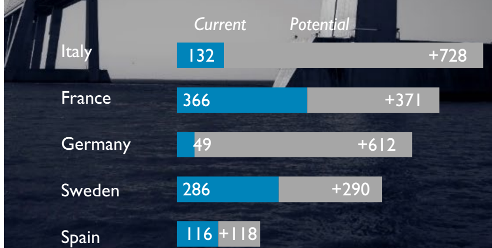
More than 4,000 additional companies a year could access capital markets to raise money in the equity, venture capital, corporate bond or leveraged loan market, according to our analysis.

This is an 80% increase on current numbers and would significantly reduce the reliance of companies in the EU on banks that will struggle under the weight of the Covid crisis.

i) Potential growth in the number of EU27 companies that could access capital markets



ii) Potential growth in the number of EU27 companies listed on SME / growth markets



>>> A SHOT IN THE ARM

€470 bn — Additional amount of funding from capital markets each year for EU27 companies

Companies in the EU27 could realistically raise an additional €470bn in funding a year from the capital markets. That represents a 75% increase on current levels of activity and a shot in the arm of more than 3.5% of GDP a year.

>>> LONG-TERM GROWTH

€11 trillion — The potential increase in pools of long-tern capital in the EU27

Pools of long-term capital in the form of pensions and insurance assets in the EU27 could double. This capital could be put to more productive use in the economy, and would translate into an increase in long-term assets per household from around €58,000 today to €113,000.

>>> THE POWER OF EQUITY

7,000 — The potential number of additional listed companies in the EU27

The number of companies in the EU27 listed on stock markets could more than double from current levels of around 6,800, adding €8 trillion in market capitalisation. EU27 companies could raise an additional €75bn a year on equity markets.

>>> HIGH POTENTIAL

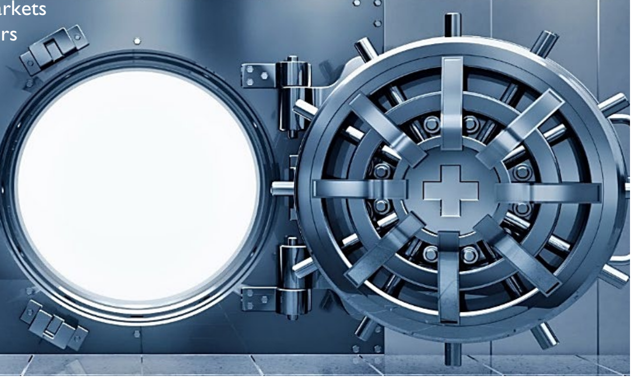
2,500 — The number of high potential firms in the EU27 missing out on venture capital funding

We estimate that 2,500 more high potential companies in the EU27 could access an additional €4.3bn a year in venture capital funding to invest in their future growth.

>>> BREXIT MEANS BREXIT

Brexit means that the EU is losing its biggest and deepest capital market. The UK accounts for just under a third of all capital markets activity in the EU across 25 sectors of activity. This makes the case for the capital markets union project to develop deeper and more integrated capital markets across the EU27 more urgent than before.

32% — UK share of all EU capital markets activity



>>> COVID & BANK LENDING

€252 bn — Value of net new bank lending to companies in the EU27 from March to June this year

Banks across Europe have underlined their critical role in supporting the wider economy with an unprecedented increase in net new bank lending of €252bn in the first four months of the crisis. This is more than three times higher than the value of bank lending in the previous 12 months.

>>> COVID & CAPITAL MARKETS

€291 bn — Money raised in the capital markets by companies in the EU27 from March to June

Banks will not be able to fuel a recovery on their own. Companies in the EU27 raised €291bn in the equity, corporate bond and leverage loan markets in the first four months of the crisis. This underlines the role capital markets can play as a 'spare tyre' for the economy.

>>> DEPTH OF CAPITAL MARKETS

51% — The depth of capital markets in the EU27 relative to the UK

Capital markets in the EU27 are relatively under-developed. On average across 24 sectors of activity, capital markets in the EU27 are just half as large relative to GDP as in the UK. While capital markets in the EU27 have grown rapidly since the financial crisis, there is still significant scope for growth.

>>> RELYING BANK SAVINGS

32% — The percentage of household financial assets that are held in bank deposits

Just under a third of all household financial assets in the EU27 (excluding property) are sitting in the bank earning limited or negative returns. This reliance on bank savings is holding back the European economy: a shift in savings from bank deposits to investments would unlock huge amounts of capital that could be put to work.