NEW FINANCIAL
Rethinking capital markets

A REALITY CHECK ON CAPITAL MARKETS UNION

ANALYSIS OF THE PROGRESS SO FAR AND THE NEW CMU ACTION PLAN

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> *This report analyses the development of EU capital markets since the conception of the capital markets union initiative and shows that while steady progress has been made at an overall EU level, growth has been patchy and there is still a lot of work to be done in individual member states*

A reality check on capital markets union

This report analyses the progress in capital markets in the EU27 since the launch of the capital markets union project in 2014. At a time when Europe needs bigger and better capital markets more than ever to help support a post-Covid economic recovery, it makes for a sobering reality check. On the one hand, at an overall EU27 level capital markets are heading slowly but steadily in the right direction: broadly speaking, capital markets are growing both in size and depth relative to GDP. But on the other, when you zoom in on the progress at an individual country level, the picture is much less promising. In many cases the gap between those countries with well-developed and those with less-developed capital markets is widening rather than narrowing.

At its most basic level, capital markets union is about reducing the reliance of EU companies for their funding on bank lending and reducing the dependence of EU savers for their future financial security on bank deposits. These two measures highlight the dichotomy with CMU. Over the past five years, the EU27 economy in aggregate has become less reliant on bank lending as more companies have turned to the corporate bond market - but the reliance on bank lending has increased in 11 of the EU's 27 members, and the vast majority of the shift to corporate bonds is accounted for by just a handful of countries. In more positive news, pools of long-term capital in the form of pensions and insurance assets have grown across the EU, but the proportion of household wealth sitting in cash savings has stayed stubbornly high and remarkably constant over the past five years *(for a full methodology see page 19)*.

A long-term game
We have argued from day one that CMU is a long-term game and will take decades to become a reality. In this report we do not attribute any growth in EU capital markets over the past five years to CMU itself - it's far too early for that - nor do we blame CMU for a lack of progress. Instead, at a time when the EU economy needs all the help it can get, this report highlights the increased urgency of the CMU project in the wake of Brexit and the Covid crisis. We hope the report acts as a wake-up call to member states in underlining the need to step up a gear in building bigger capital markets from the bottom up, and helps support the argument for more radical action at an EU-wide level for top down reforms and for better outcome-based metrics to measure progress.

In the global financial crisis more than a decade ago, capital markets were a big part of the problem. In response to Covid, we think they are a big part of the solution. They have responded well so far in providing additional funding for the economy, and we think they can play a bigger role in future in helping to drive an economic recovery by boosting the competitiveness of EU companies and supporting jobs, investment, future financial security, and the transition to a more sustainable economy for the benefit of European citizens. However, the recent surge in emergency bank lending in response to Covid is likely to have reversed a lot of the progress made so far.

In September the European Commission published a new action plan for CMU for the next five years to a mixed reception. On the one hand, the plan has been criticised for lacking vision and ambition, for avoiding the detail, and for not addressing some of the big politically-sensitive areas such as supervision. On the other, it has been praised for being more practical, achievable and more focused than previous iterations. While the new action plan is unlikely to be a game changer on its own, this report argues that it should be embraced by member states as the best way to lay the foundations for bigger and better capital markets in the longer term.

Acknowledgements
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SUMMARY

Here is a short summary of this report:

1. **A strong backdrop:** at an aggregate level EU capital markets are heading in the right direction. The value of capital markets activity has increased since 2014 in all but four of the 27 different sectors we analysed by an average of almost 40%, and the overall depth of capital markets relative to GDP has grown by 14% in the five years since the launch of CMU. While this growth is welcome and provides a strong backdrop for the CMU project, it is too early to be directly attributed to it.

2. **A mixed picture:** at an individual country and sector level, the picture is less promising. Capital markets have shrunk relative to GDP in a third of the 27 member states over the past five years and the availability of funding for corporates has fallen in real terms in more than half of them. In key sectors like equity markets and corporate bond markets, activity has shrunk relative to GDP at an EU level, and has fallen in more than half of countries.

3. **Mind the gap:** while capital markets in the EU27 are bigger and deeper than they were before CMU, they are still relatively underdeveloped. On average, capital markets across the EU27 are half as large relative to GDP as in the UK, which in turn is roughly half as developed as the US. In more than half of the sectors we analysed, capital markets in the EU27 have grown at a slower pace over the past five years than in the UK and US.

4. **A wide range in depth:** there is a wide range in the depth of capital markets across the EU. The good news is that there are a number of countries in the EU27, such as the Netherlands, Sweden, Denmark and France with well-developed capital markets that can lead the way in terms of the future growth across the EU27. On the other hand, capital markets in large economies such as Germany, Italy and Spain are significantly underdeveloped and they may struggle to play a significant and much needed role in supporting the economy post-Covid.

5. **A lack of convergence:** the range in the depth of capital markets across the EU has widened rather than narrowed since 2014. The small number of countries which already had well-developed capital markets in 2014 have seen the highest growth in capital markets over the past five years, while countries with less-developed capital markets have in most cases struggled to gain momentum in closing the gap with the EU average.

6. **The reliance on banks:** companies in the EU are still heavily reliant on bank lending for their funding. While significant progress has been made at an overall EU27 level over the past five years - the average share of corporate bonds in total borrowing has grown from 19% to 23% - companies have become more reliant on bank lending in 40% of member states. Three quarters of the growth in corporate bond markets has come from just four countries, and in a third of countries the value of corporate bond markets has gone down.

7. **Deeper pools of capital:** deep pools of long-term capital are the foundation of deep capital markets so it is encouraging that the value of pensions and insurance assets has grown in every country in the EU27 since 2014 and increased relative to GDP in all but a handful. While the proportion of household financial wealth sitting in bank deposits is still high (at 32%) the reliance on cash savings has decreased in two thirds of member states and the value of investment in equities, bonds, and funds has grown in real terms in all but three.

8. **A renewed sense of urgency:** Brexit and the Covid crisis have injected a new sense of urgency into the CMU project and underlined the need for more capital markets to help fuel an economic recovery than ever before. The new action plan published last month by the European Commission reflects this urgency and the language used in the action plan is designed to win political support across member states at the highest level.

9. **Striking a balance:** any grand project like CMU involves a trade-off between ambition and achievability, and between impact and timeframe. The new action plan may lack vision and concrete proposals in politically sensitive areas like supervision and it will not be a game changer on its own. But it is more practical and focused than previous versions, and makes useful proposals in areas that can have a longer-term impact such as retail participation and company information that will help lay the foundations for the next phase of CMU.

10. **Pulling the big levers:** building deeper and more integrated capital markets will take decades and long-term success depends on a long-term commitment by members states and the implementation of both bottom up measures and top down EU-wide initiatives. The Commission and member states can and should work together to develop more radical and high impact proposals to accelerate CMU in the next few years.

AT A GLANCE - EU CAPITAL MARKETS SINCE 2014

Fig.1 The change in the size and depth of capital markets in the EU since 2014

This table summarises the change in absolute size and depth relative to GDP in different sectors of the capital markets since 2014 in the EU28 and EU27 (by comparing the three years to 2019 with the three years to 2014). It also looks at whether capital markets in the EU28 have narrowed the gap in depth with the US, and whether markets in the EU27 have narrowed the gap with the UK.

	EU28			EU27		
Sector	Increase in value?	Increase in depth?	Narrowed gap vs US?	Increase in value?	Increase in depth?	Narrowed gap vs UK?
Pools of capital						
- Pensions assets	🟢 32%	🟢	🟢	🟢 35%	🟢	🟢
- Insurance assets	🟢 19%	🟢	🟢 *	🟢 20%	🟢	🟢
- Household financial assets	🟢 20%	🟢	🔴	🟢 20%	🟢	🔴 *
- Pensions + insurance	🟢 23%	🟢	🟢	🟢 24%	🟢	🔴
Market / asset values						
- Stockmarket	🟢 25%	🟢	🔴	🟢 33%	🟢	🟢
- Corporate bond market	🟢 15%	🔴	🔴	🟢 28%	🟢	🟢
- Bank lending to companies	🟢 1%	🔴	🔴 *	🟢 1%	🔴	🔴 *
Asset management						
- Assets under management	🟢 40%	🟢	🟢	🟢 38%	🟢	🔴
- Investment funds (by domicile)	🟢 58%	🟢	🟢	🟢 59%	🟢	🟢 *
Debt markets						
- Corporate bond issues	🟢 22%	🟢	🟢	🟢 23%	🟢	🔴
- High-yield bond issues	🔴 -3%	🔴	🟢	🔴 -1%	🔴	🟢
Equity markets						
- All equity issues	🔴 -11%	🔴	🟢	🔴 -11%	🔴	🔴
- IPOs	🟢 1%	🔴	🟢 *	🟢 30%	🟢	🟢
- Small IPOs (<$100m)	🟢 60%	🟢	🟢	🟢 91%	🟢	🟢
- Equity trading	🟢 25%	🟢	🟢	🟢 27%	🔴	🔴
Merger & acquisitions						
- All M&A activity	🟢 46%	🟢	🟢	🟢 37%	🟢	🔴
- Domestic M&A	🟢 51%	🟢	🟢	🟢 46%	🟢	🔴
Private equity & venture capital						
- Private equity funds raised	🟢 116%	🟢	🟢	🟢 132%	🟢	🟢
- Private equity activity	🟢 90%	🟢	🟢	🟢 96%	🟢	🟢
- Venture capital activity	🟢 153%	🟢	🟢	🟢 133%	🟢	🔴

*Note: sectors marked with a * are more developed relative to GDP than in the US or UK and the traffic lights denote whether they have increased or decreased their lead. Sources: New Financial analysis of data from Dealogic, EFAMA, Eurostat, AFME, ECB, BIS, Insurance Europe, EIOPA, US Treasury, WFE, local exchanges, Invest Europe, NVCA, AIC, Preqin, Willis Towers Watson, Fidessa*

Heading in the right direction?

A first step in analysing the progress of EU capital markets since the European Commission announced the CMU initiative in 2014 is to look at what has changed since then in terms of size and depth relative to GDP. Over the past five years the value of capital markets activity has grown significantly at an EU level and most sectors have increased in depth. While this is encouraging and provides a valuable context for assessing the progress and future of CMU, the CMU project on its own has not driven this growth and progress is mixed across countries and sectors. Fig.1 on the previous page shows the change in the absolute value of activity and depth in different sectors of the capital markets in the EU28 and EU27 in the three years to 2019 compared with the three years to 2014.

1. **Across the board:** over the past five years the value of activity in all but four of the 27 sectors of the capital markets that we analysed has increased in nominal terms in both the EU28 and EU27. The average growth across all 27 sectors is just under 40% compared to 2014 (when CMU was launched). However, key sectors such as equity issuance and high-yield bonds have shrunk and activity in equity markets, corporate bond markets, and trading has declined in roughly 40% of the member states since 2014.
2. **Growing risk appetite:** it is encouraging that the areas of capital markets that can have the biggest impact on growth have increased considerably in size. IPO activity has grown by nearly a third (+30%) over the last five years in the EU27 while the value of smaller IPOs (which raise less than $100m) has nearly doubled (+91%). Venture capital activity has more than doubled (+133%) while private equity deals have nearly doubled (+96%). The combined value of stock markets in the EU27 has grown by a third since 2014. The less positive news is that in more than a third of countries equity activity has shrunk in value and in roughly half of them equity markets are less developed relative to GDP than they were in 2014.
3. **A strong foundation:** steady but less spectacular growth has been achieved across the EU in building deeper pools of capital - the starting point for deeper capital markets. The value of pensions assets in the EU27 has increased by 35% over the five-year period, which translates into an additional €1 trillion in long-term capital, and the combined value of pensions and insurance assets has increased by a quarter (+€2.7tn). One big positive is that the value of pensions and insurance assets increased in all 27 member states - the only sector to post an increase in every country. In a sign of the growing demand for investing in the EU27, the value of direct retail investment increased by 14%, the value of investment funds domiciled in the EU27 rose by nearly 60%, and the combined value of assets under management has grown by nearly 40%.
4. **Closing the gap:** it is encouraging to see that most sectors of capital markets in the EU27 have increased in depth (that is, the value of activity relative to GDP), but some key sectors such as equity trading, total equity issuance, bond markets, and high-yield bonds have shrunk relative to GDP. And in more than half of the sectors we analysed, capital markets in the EU27 have been growing at a smaller pace over the past five years than in the UK. However, it is encouraging to see that in some key sectors such as pensions assets, insurance assets, stock market value, IPOs and small IPOs, corporate bond markets, and high-yield bonds the gap between capital markets in the EU27 and the UK has narrowed.
5. **Playing catch up:** while the growth in capital markets across the board over the past five years is welcome news and provides a strong backdrop for CMU, it is important to put that growth in context. First, the inherently long timeframe of the CMU project means that little if any of the increase in activity since it was launched can be directly attributed to CMU itself. Second, while the overall depth of capital markets has increased significantly over the past five years, much of that growth has been the natural process of recovery from the financial crisis and subsequent euro crisis. Capital markets across the EU27 are still significantly smaller relative to GDP than they were before the financial crisis more than a decade ago (see Fig.5 on page 8).

   Third, the progress is very mixed at an individual country level: there is a wide range of depth across member states; much of the growth at an EU-level in key sectors has been driven by a handful of countries; and there is limited evidence of any convergence in the depth of capital markets across the EU – in fact, in many cases, the gap between countries with well-developed and less- developed capital markets has widened. We explore this mixed picture at the country level in the coming pages.

Fig.2 The depth of capital markets across EU countries

This table is a ranking of the overall depth of capital markets relative to GDP in each country across 24 sectors of the capital markets in the three years to the end of 2019. It is divided into four groups, from most developed (top quartile) to least developed (bottom quartile). We have also included a selection of sector rankings across five broad groups (pools of capital; equity markets; bond markets; asset management; and private equity & venture capital). *Note: the numbers in brackets show the ranking of each country by depth in 2014*

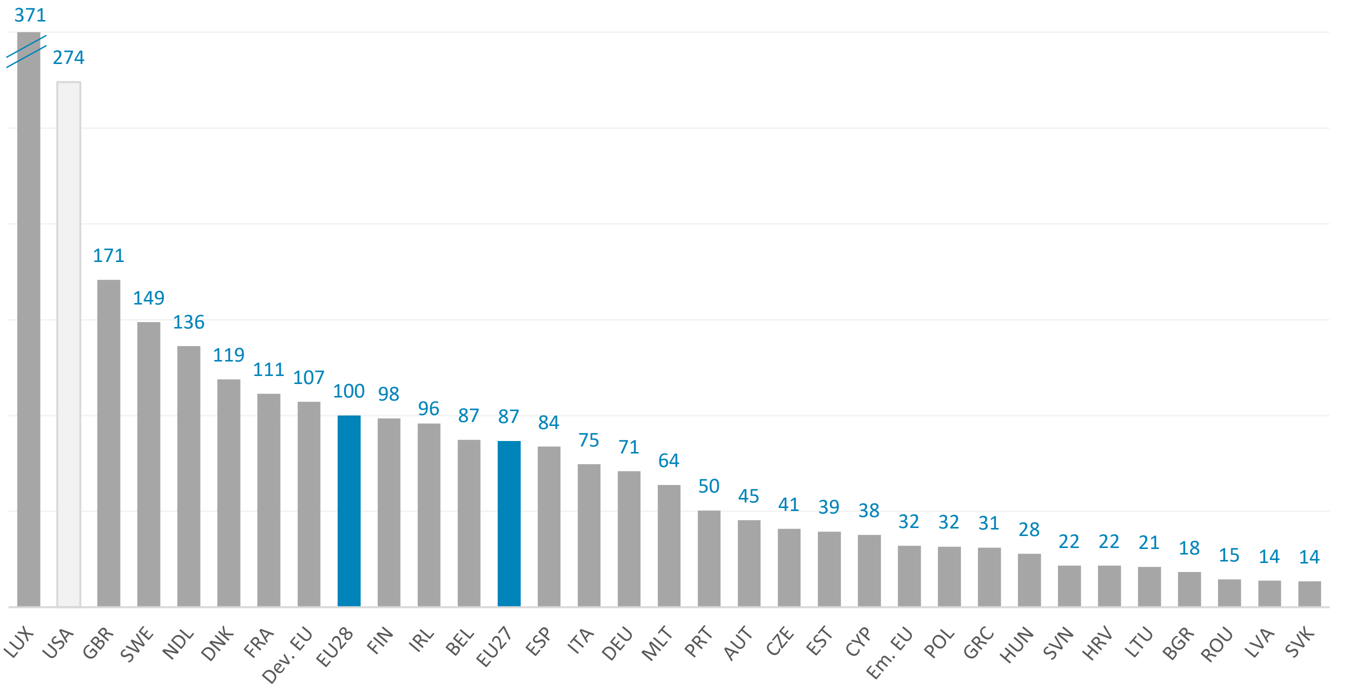
● Top quartile ● Second quartile ● Third quartile ○ Bottom quartile

	Rank 2019	Rank 2014	Country	Overall depth	Pools of capital	Equity markets	Bond markets	Asset management	Private equity & VC
Top quartile	1	(=)	Luxembourg	Top	Top	Top	Top	Top	Top
	2	(=)	UK	Top	Top	Top	Top	Top	Top
	3	(5) ↑	Sweden	Top	Top	Top	Top	Top	Top
	4	(=)	Netherlands	Top	Top	Top	Top	Top	Top
	5	(7) ↑	Denmark	Top	Top	Top	Second	Top	Top
	6	(=)	France	Top	Second	Top	Top	Top	Top
	7	(9) ↑	Finland	Top	Top	Top	Top	Second	Second
Second quartile	8	(3) ↓	Ireland	Second	Second	Second	Top	Top	Second
	9	(11) ↑	Belgium	Second	Top	Second	Second	Second	Second
	10	(=)	Spain	Second	Second	Second	Second	Third	Second
	11	(13) ↑	Italy	Second	Second	Second	Second	Second	Third
	12	(14) ↑	Germany	Second	Second	Second	Second	Second	Second
	13	(17) ↑	Malta	Second	Second	Second	Third	Third	Second
	14	(8) ↓	Portugal	Second	Second	Third	Second	Third	Third
Third quartile	15	(16) ↑	Austria	Third	Third	Second	Third	Second	Third
	16	(18) ↑	Czech Rep	Third	Third	Third	Second	Bottom	Bottom
	17	(23) ↑	Estonia	Third	Bottom	Third	Third	Second	Top
	18	(15) ↓	Cyprus	Third	Third	Third	Bottom	Third	Third
	19	(=)	Poland	Third	Third	Third	Third	Third	Third
	20	(12) ↓	Greece	Third	Bottom	Bottom	Third	Bottom	Bottom
	21	(20) ↓	Hungary	Third	Third	Bottom	Bottom	Bottom	Second
Bottom quartile	22	(25) ↑	Slovenia	Bottom	Bottom	Third	Bottom	Bottom	Bottom
	23	(21) ↓	Croatia	Bottom	Third	Bottom	Third	Bottom	Bottom
	24	(26) ↑	Lithuania	Bottom	Third	Bottom	Bottom	Second	Third
	25	(24) ↓	Bulgaria	Bottom	Bottom	Bottom	Third	Bottom	Bottom
	26	(27) ↑	Romania	Bottom	Bottom	Third	Bottom	Bottom	Bottom
	27	(28) ↑	Latvia	Bottom	Bottom	Bottom	Bottom	Third	Third
	28	(22) ↓	Slovakia	Bottom	Bottom	Bottom	Bottom	Third	Bottom

Source: New Financial

Fig.3 The range in depth of capital markets in the EU

This chart shows the average depth of capital markets relative to GDP across 24 different sectors of activity over the three years to 2019
Rebased to EU average = 100 in 2019



Source: New Financial

A wide range

The range in the depth of capital markets across the EU is far greater than the difference in depth between the EU and the US, or between the EU27 and the UK. Fig.3 shows the wide range in the depth of capital markets across 24 sectors of activity in each country over the three years to 2019, rebased to the EU average of 100.

Capital markets in the US (on 274) are nearly two thirds larger relative to GDP than in the UK (on 171), which in turn is roughly twice as deep as the rest of the EU (87). Luxembourg has the deepest capital markets in the EU (371), mainly because of its role as a regional hub for investment funds and as the domicile for lots of companies using the corporate bond markets, but in terms of size its capital markets are very small (2% of EU activity and just 0.4% of EU GDP). The UK has by far the largest capital markets in the EU and also the deepest of any large economy.

There are three clear groups of countries in terms of the depth of their capital markets. The first group is made up of wealthier countries in the north west of the EU such as Sweden, the Netherlands, Denmark and France. These countries have capital markets that are significantly more developed than the EU average (mainly because of their large pools of pensions assets, stock markets and corporate bond markets). Post-Brexit, these countries will be at the vanguard of the CMU project.

The second group in the middle have relatively developed capital markets but less developed than the EU average and there is a big disparity between the depth of their capital markets and the size of their economy. Three out of the four biggest economies in the euro area - Germany, Italy and Spain - have capital markets that are significantly less developed than the EU average. And finally, there is a long tail of smaller economies with much less developed capital markets, mainly and the most recent member states to join the EU from the Baltic region and Central and Eastern Europe. While small, they have grown rapidly from a standing start in the past 25 years.

A long recovery

While the overall depth of capital markets in the EU has increased significantly over the past five years, much of that growth has been the natural process of recovery from the financial crisis and subsequent euro crisis. In both the EU and EU27, capital markets are 14% 'deeper' today than in 2014.

Fig. 4 shows the evolution of the depth of capital markets relative to GDP across 24 sectors in the EU and EU27 since before the global financial crisis. We have used a three year rolling average to iron the inherent annual volatility in capital markets activity. Despite recent growth in overall depth, capital markets in the EU are still significantly smaller relative to GDP than they were before the financial crisis.

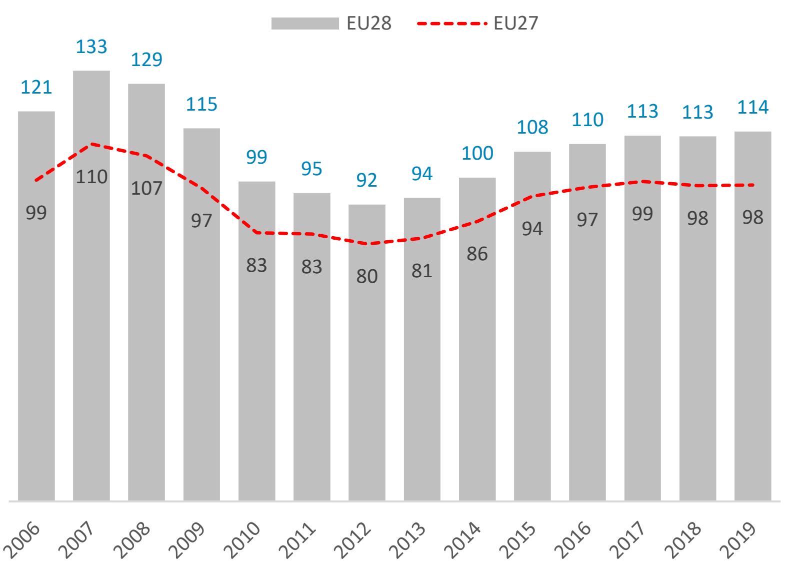
More specifically, capital markets in the EU27 today are roughly as deep as they were in the three years to 2006, but around 10% smaller relative to GDP than in 2007. After reaching their lowest point in 2012, activity increased by more than a fifth by 2016 - but since then growth has stalled and the depth of capital markets has flatlined the EU27.

As with most EU projects, a key measure of progress is convergence. So far at least, CMU has failed to trigger any significant convergence and some countries have performed much better than others. Fig.5 shows the average depth of capital markets relative to GDP for each of the four quartiles into which we divided EU countries over the past 10 years. The gap between member states with the most developed capital markets (top quartile) and member states with less developed capital markets is still big and it hasn't narrowed over the past 10 years. Since 2014 the gap has become slightly more pronounced between countries with the deepest capital markets and countries in the three other quartiles.

The relative depth of capital markets in the countries in the top quartile has grown since 2014 while in all other quartiles it has decreased. Capital markets in countries in the top quartile are more than as deep as the next tier and 10 times as deep as the bottom quartile.

Fig.4 The changing depth of EU capital markets

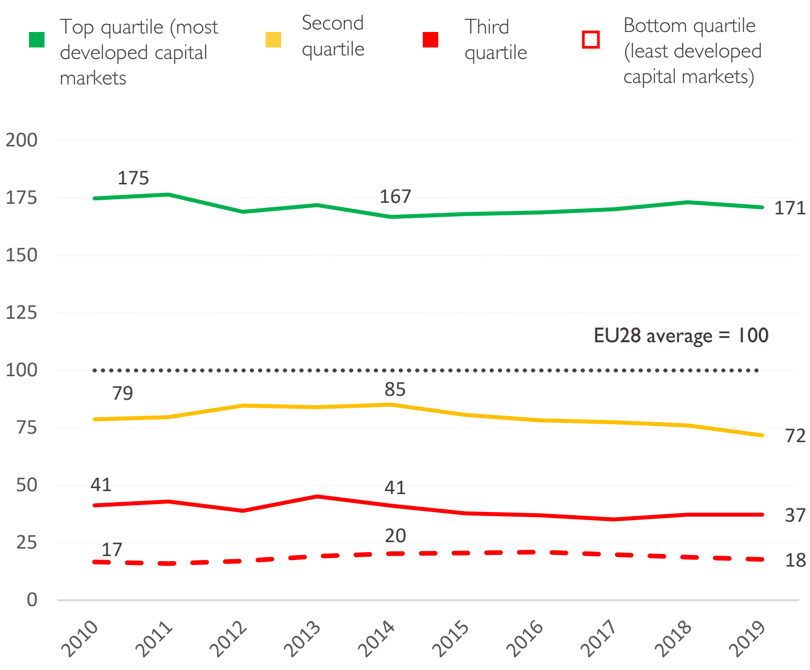
Average depth of EU capital markets relative to GDP 2006-2019
Three year rolling average, rebased to EU = 100 in 2014



Source: New Financial

Fig.5 The divergence in EU capital markets

Average depth of capital markets relative to GDP within each quartile 2006-2019, rebased to EU28=100 in each year



Source: New Financial

A mixed picture

The different levels of progress in capital markets across the EU over the last five years is stark when we look at each country separately and measure the change in the overall depth of capital markets over time.

To measure the change in the overall depth of capital markets in each country over the past five years we used the three years to 2014 as a benchmark and calculated the average depth relative to GDP of 24 sectors of activity and rebased each country to the EU average of 100 (the red circles in Fig. 6). The blue numbers in Fig.6 show the depth of capital markets in the three years to 2019 on the same basis and measure whether capital markets in a particular country have increased in depth or decreased.

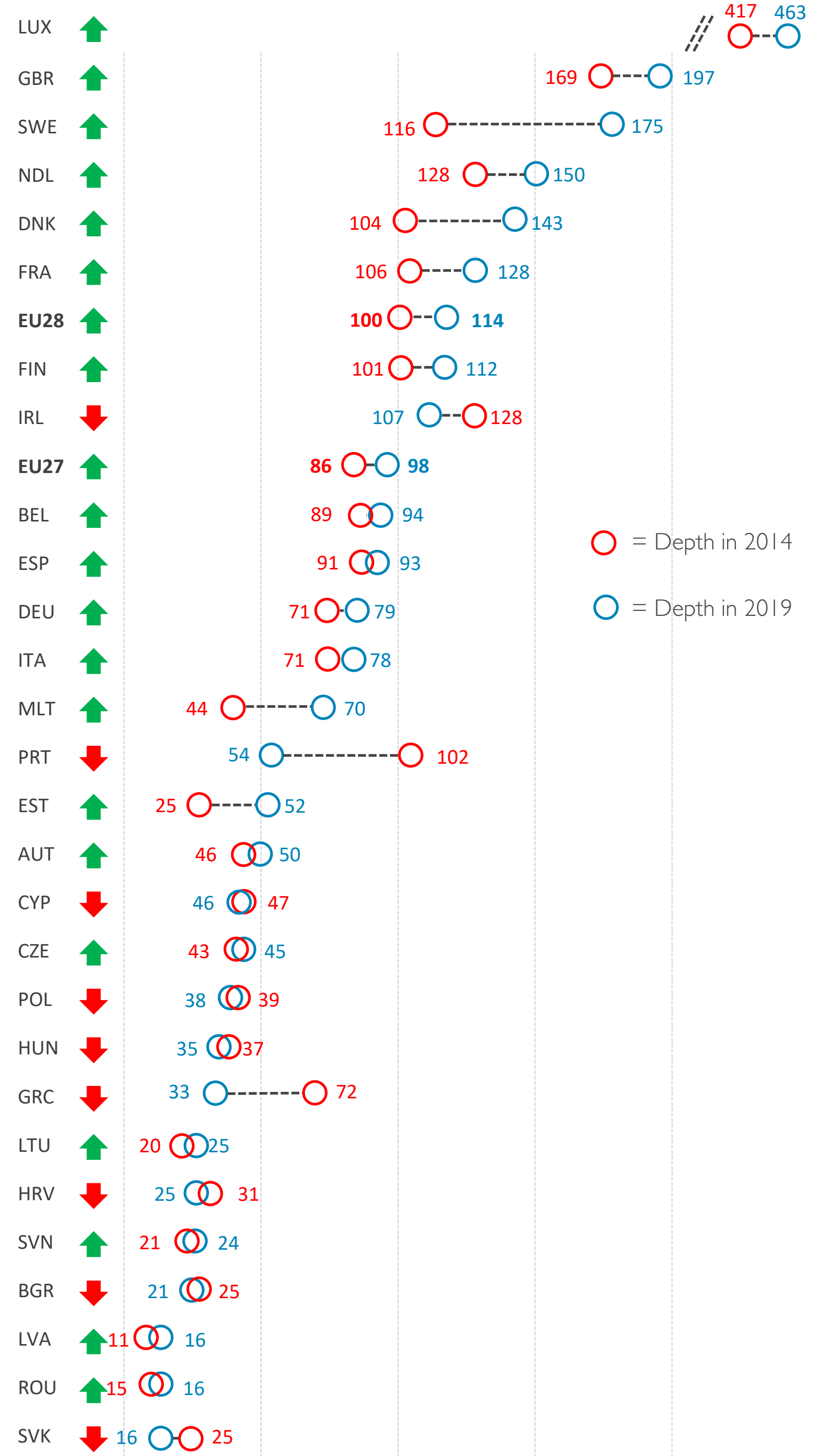
The overall depth of capital markets in the EU has increased by 14% since 2014 (from 100 to 114) but capital markets in a third of the countries (nine) in the EU27 are today less developed than they were in 2014. Overall, capital markets in the EU27 have increased in depth by 13% since 2014 (from 86 to 98) and are now almost as deep as capital markets across the EU28 were in 2014.

This chart underlines that with a few exceptions, countries with well-developed capital markets in 2014 have become deeper over the past five years, while countries with less-developed markets in 2014 have shown only marginal growth, flatlined, or gone backwards. Eight of the 10 most developed countries in 2014 have increased in depth since (the exceptions being Ireland and Portugal). But half of the 10 least developed markets in 2014 have since gone backwards.

It is encouraging to see that capital markets in some of the biggest economies in the EU such as Germany and Italy that are less developed than the EU average are today deeper than they were in 2014. However, growth has increased at a lower rate than the EU average. In the next few pages we take a closer look at individual countries and the change in the absolute size and depth of different sectors.

Fig.6 The change in depth of capital markets across the EU

The change in overall depth of capital markets across the EU since 2014, rebased to the EU average = 100 in 2014 *(note: three year rolling average)*



Source: New Financial

Kicking the habit?

Brexit and the Covid crisis has shown how reliant the EU27 economy continues to be on a creaking banking system at a time when it needs all the help it can get to support a recovery. There are some encouraging signs that companies in the EU have begun to reduce their reliance on bank lending since the financial crisis, but the EU economy is still heavily reliant on bank lending and the progress at the country level is very mixed. And it is worth noting that the surge in bank lending this year in response to the Covid crisis is likely to have reversed much of the progress made over the past five years. Fig.9 on the next page shows the changes at an EU and country level since 2014 in the balance between bank lending and corporate bonds, between the gross flow of new bank lending and capital markets financing, and the dynamics behind that shift.

1. **A long way to go:** over the past five years, the EU27 economy has become less reliant on bank lending but there is still a long way to go. The average share of corporate bonds as a percentage of total corporate borrowing in the EU27 has grown from 19% to 23%, but this roughly half the level of the UK (45%). The share of capital markets in the flow of total annual new funding (the combined value of equity and corporate bond issuance and venture capital deals) has remained relatively flat at 12%, compared with 28% in the UK. In 11 out of the 27 countries the share of corporate bonds is now lower than it was in the three years to 2014 while the share of capital markets financing has fallen in more than half. The good news is that the share capital markets financing in big economies with relatively underdeveloped capital markets such as Germany, Italy and Spain has increased significantly over the past five years.
2. **The change in capital markets:** the combined value of corporate bond markets in the EU27 has increased by more than a quarter since 2014 (which translates into €330bn in additional funding) while the flow of new capital markets financing has grown by more than 10% (roughly €52bn a year in additional funding). In more than two thirds of countries corporate bond markets have grown in value since 2014 with strong growth of around 45% in big economies like Germany, the Netherlands and Sweden, while the flow of capital markets financing has grown in more than half (15). However, corporate bond markets have shrunk in seven of the EU members and capital markets financing in 12: the majority of these countries are smaller economies with relatively under-developed capital markets. For reference, the corporate bond market in the US grew by 48% over the same period.
3. **The change in bank lending:** in the wake of the financial crisis banks across Europe have struggled to provide funding to businesses and overall levels of bank lending had fallen sharply, but this trend has reversed in the past few years. Over the past five years the value of gross flow of new bank lending to companies has grown by 8% in the EU27, adding €216bn to corporate funding a year, and the value of outstanding bank lending increased by 1%. But the picture is very mixed at a country level: the flow of bank lending is today lower in more than half of countries (16) in the EU27 and outstanding bank lending has fallen in nearly half (13) compared to the three years to 2014. The decline has been most pronounced in some of the most recent member states from central and eastern Europe with smaller economies and in countries with legacy issues from the global financial crisis.
4. **The change in total corporate funding:** at an EU27 level the value of outstanding corporate borrowing has increased by 6% since 2014 (€400bn) and the flow of new funding from banks and capital markets by 8%. However, in more than a third of the countries total corporate debt has shrunk and in more than half the total flow of new funding has decreased both in nominal and real terms. Of the 13 countries where the share of capital markets financing has gone up, only five have also seen an increase in the total flow of funding. This shows that in many cases the growth in capital markets is not making up for any shortfall in bank lending and not expanding the total supply of available funding. A successful shift from bank-led to market-led funding would involve not just a shift in the balance between bank lending and bonds, but an increase in the overall value of funding.
5. **The contribution to growth:** while the jump in the value of corporate bond markets in the EU27 and in the flow of capital markets financing over the past five years is encouraging it is important to note that the headline numbers are deceptive. Most of the growth comes from Germany and from countries with well-developed capital markets such as France, the Netherlands and Sweden. In other words, the shift from bank lending to market-led financing is happening, but it is happening slowly and very unevenly across the EU27. Without significant action to boost capital markets for smaller companies in the EU, smaller economies with fewer large companies are likely to remain reliant on bank lending for a long time.

Fig.7 The slow shift to market finance

This table shows the change in the structure of corporate borrowing and funding in each country since 2014 by comparing the three years to 2019 with the three years to 2014. The left hand side shows the balance between the stock of bank lending to nonfinancial corporations and corporate bond markets. On the right hand side is the balance between gross flow of bank lending to nonfinancial corporations and capital markets financing (the sum of IPO, secondary, convertibles, high yield and investment grade bonds issuance and venture capital deals; *excludes direct lending eg. insurance company lending to non-financial corporations, direct investment in unlisted equity, and private debt)*

Country	Share of corporate bonds in 2019	Share of corporate bonds in 2014	Increase in the share of bonds?	Real increase in the combined value of corp. bonds & bank lending?	Share of capital markets in 2019	Share of capital markets in 2014	Increase in the share of capital markets?	Real increase in the combined value of capital markets & bank lending
EU28	26%	24%	🟢	-3% 🔴	14%	14%	🟢	2% 🟢
EU27	23%	19%	🟢	-1% 🔴	12%	12%	🟢	1% 🟢
Austria	18%	19%	🔴	0% 🟢	4%	5%	🔴	-8% 🔴
Belgium	30%	24%	🟢	25% 🟢	6%	5%	🟢	-15% 🔴
Bulgaria	9%	6%	🟢	-6% 🔴	3%	3%	🔴	-24% 🔴
Croatia	15%	16%	🔴	-17% 🔴	1%	5%	🔴	-6% 🔴
Cyprus	0%	2%	🔴	-41% 🔴	8%	13%	🔴	-40% 🔴
Czech Rep	23%	24%	🔴	19% 🟢	66%	36%	🟢	15% 🟢
Denmark	12%	14%	🔴	2% 🟢	8%	10%	🔴	2% 🟢
Estonia	14%	17%	🔴	4% 🟢	8%	5%	🟢	-14% 🔴
Finland	26%	33%	🔴	7% 🟢	23%	16%	🟢	-27% 🔴
France	35%	35%	🟢	14% 🟢	21%	29%	🔴	31% 🟢
Germany	15%	12%	🟢	11% 🟢	13%	11%	🟢	20% 🟢
Greece	1%	0%	🟢	-28% 🔴	27%	40%	🔴	-48% 🔴
Hungary	7%	8%	🔴	-4% 🔴	4%	5%	🔴	-7% 🔴
Ireland	20%	8%	🟢	-28% 🔴	36%	38%	🔴	23% 🟢
Italy	17%	13%	🟢	-19% 🔴	10%	9%	🟢	-12% 🔴
Latvia	4%	2%	🟢	-21% 🔴	4%	0%	🟢	182% 🟢
Lithuania	8%	0%	🟢	14% 🟢	7%	4%	🟢	67% 🟢
Luxembourg	24%	31%	🔴	25% 🟢	8%	30%	🔴	205% 🟢
Malta	13%	5%	🟢	-3% 🔴	22%	0%	🟢	-48% 🔴
Netherlands	26%	19%	🟢	-6% 🔴	19%	19%	🔴	17% 🟢
Poland	21%	22%	🔴	22% 🟢	3%	8%	🔴	-29% 🔴
Portugal	28%	25%	🟢	-30% 🔴	10%	16%	🔴	-40% 🔴
Romania	0%	0%	🔴	-13% 🔴	13%	8%	🟢	14% 🟢
Slovakia	16%	11%	🟢	21% 🟢	1%	8%	🔴	-31% 🔴
Slovenia	9%	6%	🟢	-39% 🔴	5%	1%	🟢	-40% 🔴
Spain	18%	11%	🟢	-25% 🔴	8%	8%	🟢	-22% 🔴
Sweden	33%	27%	🟢	10% 🟢	11%	6%	🟢	-11% 🔴
UK	45%	49%	🔴	-14% 🔴	28%	31%	🔴	15% 🟢

Source: New Financial, ECB, Dealogic

In the right direction

The starting point for deep and effective capital markets is deep pools of long-term capital. One challenge for the EU is that households in the EU27 are almost as dependent on bank savings as companies are on bank lending. One of the main aims of CMU it address this imbalance and increase the participation of retail investors and households in capital markets.

Fig.8 shows the proportion of household financial assets held in cash deposits in the three years to 2019 compared to the three years to 2014 at an EU and country level, and the change in the value of household investment in equities, bonds and funds in real terms (outside of pensions and insurance assets). While the proportion of household wealth sitting in cash savings has remained high and relatively constant over the past five years, there are some encouraging signs that things are slowly moving into the right direction.

The share of cash deposits in the EU27 has decreased marginally from 33% to 32%. This is nearly three times the level in the US and much higher than in the UK. The rest of households financial wealth is either held in pensions and insurance products (33%) or is invested directly in stocks, unlisted equity, bonds and funds (35%) which is a significantly lower level than the level in the US (53%).

The more positive news is that the share of cash deposits has decreased in two thirds of member states (18) over the last five years. And in almost all member states the value of total financial assets and the combined value of investments in pensions, insurance, stocks, unlisted equity, bonds and funds has grown in real terms.

The value of investments in equities, bonds and funds has increased in real terms by more than 10% in the EU27 and has grown in all but three member states. This means that while it doesn't look like households are pulling their money out of deposits, they have increased their participation and investments in capital markets and the value of these investments is growing in real terms.

Fig.8 The reliance of households on bank deposits

The change in the proportion of cash deposits in total household financial assets and in the value of household investments in real terms since 2014

Country	Share of cash deposits in 2019	Share of cash deposits in 2014	Decrease in the share of cash deposits?	Real increase in the value of households' investment?	
EU28	30%	31%	🟢	11%	🟢
EU27	32%	33%	🟢	12%	🟢
Austria	41%	41%	🟢	17%	🟢
Belgium	31%	30%	🔴	7%	🟢
Bulgaria	37%	38%	🟢	24%	🟢
Croatia	50%	56%	🟢	22%	🟢
Cyprus	61%	64%	🟢	1%	🟢
Czech Rep	48%	53%	🟢	78%	🟢
Denmark	16%	18%	🟢	30%	🟢
Estonia	26%	28%	🟢	45%	🟢
Finland	31%	33%	🟢	23%	🟢
France	28%	29%	🟢	17%	🟢
Germany	40%	39%	🔴	18%	🟢
Greece	61%	69%	🟢	22%	🟢
Hungary	27%	30%	🟢	43%	🟢
Ireland	38%	38%	🟢	-6%	🔴
Italy	32%	31%	🔴	-10%	🔴
Latvia	38%	50%	🟢	64%	🟢
Lithuania	37%	37%	🟢	31%	🟢
Luxembourg	45%	45%	🔴	18%	🟢
Malta	48%	48%	🟢	39%	🟢
Netherlands	17%	20%	🟢	5%	🟢
Poland	50%	46%	🔴	47%	🟢
Portugal	44%	42%	🔴	4%	🟢
Romania	42%	36%	🔴	-7%	🔴
Slovakia	60%	60%	🔴	29%	🟢
Slovenia	48%	48%	🔴	19%	🟢
Spain	38%	43%	🟢	18%	🟢
Sweden	14%	15%	🟢	31%	🟢
UK	25%	25%	🟢	10%	🟢

Source: New Financial, Eurostat

THE CHANGE IN CAPITAL MARKETS BY COUNTRY

A work in progress

Over the past five years, at an overall EU level the size and depth of capital markets has grown significantly and most sectors have increased in both value and depth. However, capital markets in a third of the countries (nine) in the EU27 are today less developed than they were in 2014, and in most of the member states where the overall depth of capital markets has increased the improvement has been marginal. At an individual country and sector level the progress over the past five years has been patchy. Fig.9 on the next two pages shows the change in the value and depth of capital markets across different groups of sectors at a country level and at an EU level in the three years to 2019 compared to the three years to 2014.

1. **Deeper long-term pools of capital:** perhaps the most encouraging news for capital markets union is the growth in pools of long-term capital (that is, pensions assets, insurance assets and household retail investments) over the past five years. The value of pools of capital increased in every member state (the only sector to show such consistent growth) and grew across the EU by 23%: this translates into an increase in long-term capital of around €3.5 trillion. The depth of pools of capital increased relative to GDP in all but six members states, and in four of those the decline in depth was minimal.
2. **The decline of equity markets:** equity markets in the EU27 have been among the worst performing sectors over the past five years. While the activity in equity markets is slightly higher today (+3%) than five years ago, the overall depth of equity markets has shrunk relative to GDP. In more than a third of countries across the EU27 the value of equity markets has shrunk over the past five years and in more than half the depth has declined. The good news is that in two of the biggest economies of the EU27 with relatively underdeveloped capital markets - Italy and Germany - equity markets are deeper compared to the three years to 2014.
3. **The change in the value and depth of corporate bond markets:** while the value and depth of corporate bond markets has increased in the EU27, the growth has been uneven and it has been mainly driven by countries with already highly-developed capital markets. In 16 out of 27 member states, the depth of bond markets has shrunk, offsetting rapid growth in in markets like Sweden, the Netherlands, and - to a lesser extent - Italy and Germany. In more than half of the least developed capital markets in the EU (eight out of 14 countries), the value of corporate bond activity has decreased, compared with a decrease in just three out of 14 for the more developed markets.
4. **The growth in asset management:** at an EU27 aggregate level the value of assets under management and investment funds has grown by an average of nearly 50% and depth has increased by roughly a third since 2014. The value of assets under management and investment funds has increased in all but four member states, suggesting a growing appetite for investing the larger of pools of capital that have been created over the past five years. However, in a third of member states across the EU27 depth has shrunk.
5. **The growth in private equity and venture capital activity:** it is encouraging that the areas of capital markets that can have a big impact on growth have increased considerably in size and depth not only at an EU level but also in the majority of member states in the EU27. The size and depth of private equity fundraising, private equity and venture capital investments in the EU27 has nearly doubled over the past five years. The value and depth of private equity and venture capital activity shrunk in just four out of 27 member states compared to 2014. Activity in the EU27 grew slightly faster over this period (120%) than in the US (117%), though the EU27 is starting from a much lower base.
6. **The decline of trading activity:** the worst performing sector of the capital markets over the past five years at an EU27 level has been trading in equities, FX and derivatives. Overall the average value of trading activity increased by 7% across the EU27 but the depth of trading dropped by nearly 15%. The value of trading fell in nearly half of member states and the depth decreased in three quarters of markets. While trading may seem the most remote sector of the capital markets to many individuals, it is an important function for the efficiency of markets. For reference, the value of trading in the UK and US increased by two thirds and the depth of trading increased in both markets.

THE CHANGE IN CAPITAL MARKETS BY COUNTRY

Fig.9i The change in the value of activity and in the depth of capital markets by country

This table summarises the change in value & depth relative to GDP in groups of sectors for countries in the top two quartiles since 2014

Pools of capital: *pensions assets, insurance assets, household retail investments;* ***Equity markets:*** *stock market value, IPOs, secondary issues, convertibles;* ***Asset management:*** *AuM by location, investment funds by domicile;* ***PE&VC:*** *private equity deals, venture capital deals, private equity fundraising;* ***Trading:*** *Equities, FX, Derivatives*

2019 rank	Country	Change in overall depth	Pools of capital		Equity markets		Corporate bond markets		Asset management		PE&VC		Trading	
			Change in value	Change in depth	Change in value	Change in depth	Change in value	Change in depth	Change in value	Change in depth	Change in value	Change in depth	Change in value	Change in depth
1	Luxembourg	11%	43%	14%	-59%	-67%	6%	-16%	42%	13%	251%	180%	36%	20%
2	UK	16%	20%	8%	9%	-3%	1%	-10%	45%	30%	134%	109%	62%	41%
3	Sweden	51%	31%	20%	11%	2%	64%	50%	84%	68%	95%	78%	8%	-6%
4	Netherlands	17%	20%	2%	12%	-5%	81%	54%	548%	451%	153%	115%	3%	-28%
5	Denmark	38%	19%	3%	-5%	-18%	79%	55%	17%	1%	114%	85%	-4%	-33%
6	France	21%	29%	16%	8%	-3%	2%	-8%	26%	14%	126%	104%	13%	-10%
7	Finland	11%	21%	6%	100%	75%	0%	-13%	24%	9%	56%	36%	-4%	-30%
8	Ireland	-16%	27%	-28%	22%	-30%	44%	-18%	71%	-2%	99%	13%	9%	-22%
9	Belgium	6%	35%	18%	-19%	-29%	24%	9%	25%	32%	295%	245%	77%	50%
10	Spain	2%	19%	2%	-28%	-38%	9%	-6%	74%	49%	139%	105%	14%	5%
11	Italy	10%	22%	12%	17%	8%	24%	15%	31%	21%	89%	74%	-10%	-27%
12	Germany	11%	25%	6%	33%	13%	29%	9%	45%	23%	109%	78%	17%	-7%
13	Malta	58%	93%	22%	504%	282%	157%	63%	-14%	-46%	542%	306%	-1%	-34%
14	Portugal	-48%	46%	22%	-61%	-67%	-42%	-51%	-9%	-24%	-17%	-30%	-35%	-46%
15	Austria	7%	16%	-2%	263%	206%	-30%	-41%	20%	19%	90%	61%	33%	3%
	EU28	14%	22%	5%	-3%	-16%	13%	-2%	49%	30%	120%	90%	51%	24%
	EU27	13%	23%	6%	3%	-12%	19%	2%	49%	29%	120%	89%	7%	-14%

THE CHANGE IN CAPITAL MARKETS BY COUNTRY

Fig.9ii The change in the value of activity and in the depth of capital markets by country

This table summarises the change in value & depth relative to GDP in groups of sectors for countries in the bottom two quartiles since 2014

Pools of capital: *pensions assets, insurance assets, household retail investments;* ***Equity markets:*** *stock market value, IPOs, secondary issues, convertibles;* ***Asset management:*** *AuM by location, investment funds by domicile;* ***PE&VC:*** *private equity deals, venture capital deals, private equity fundraising;* ***Trading:*** *Equities, FX, Derivatives*

2019 rank	Country	Change in overall depth	Pools of capital		Equity markets		Corporate bond markets		Asset management		PE&VC		Trading	
			Change in value	Change in depth	Change in value	Change in depth	Change in value	Change in depth	Change in value	Change in depth	Change in value	Change in depth	Change in value	Change in depth
16	Czech Rep.	6%	42%	9%	1448%	1090%	80%	38%	71%	31%	484%	349%	51%	13%
17	Estonia	107%	60%	18%	795%	559%	-25%	-45%	8%	-21%	598%	414%	-62%	-75%
18	Cyprus	-2%	50%	34%	-15%	-25%	-99%	-99%	16%	3%	347%	298%	-88%	-91%
19	Poland	-4%	21%	-1%	-32%	-44%	-45%	-55%	16%	-5%	191%	137%	15%	-5%
20	Greece	-54%	36%	35%	-74%	-75%	93%	91%	5%	4%	97%	95%	-52%	-50%
21	Hungary	-7%	29%	-4%	915%	655%	-34%	-51%	24%	-8%	599%	420%	17%	-27%
22	Slovenia	11%	21%	-3%	35%	8%	-48%	-59%	-17%	-33%	-5%	-24%	-24%	-34%
23	Croatia	-20%	45%	23%	-15%	-28%	-54%	-61%	216%	32%	-10%	-24%	-24%	-34%
24	Lithuania	24%	72%	34%	373%	267%	3041%	2338%	8%	-16%	433%	313%	-71%	-76%
25	Bulgaria	-15%	61%	23%	928%	685%	8%	-17%	181%	115%	76%	34%	60%	-5%
26	Romania	7%	93%	36%	-13%	-39%	-28%	-49%	94%	36%	199%	111%	2%	-27%
27	Latvia	53%	68%	31%	5%	-18%	89%	47%	2%	-21%	38%	8%	99%	85%
28	Slovakia	-38%	1%	-17%	12%	-7%	-2%	-19%	36%	12%	-7%	-23%	-12%	-29%
	EU28	14%	22%	5%	-3%	-16%	13%	-2%	49%	30%	120%	90%	51%	24%
	EU27	13%	23%	6%	3%	-12%	19%	2%	49%	29%	120%	89%	7%	-14%

A mixed bag

Five years have passed since the European Commission defined capital markets union as one of its top priorities and published its first action plan establishing the foundations for CMU. The plan was complemented with additional measures as part of the mid-term review in 2017 and by the end of last year all actions were officially completed and 11 out of the 13 legislative proposals had been agreed. In September the Commission published a new action plan for the next five years which received both critical and more positive feedback. Here is a summary of the different views on the new action plan.

More of the same?

Here is a summary of the criticisms of the new action plan:

1. **A lack of ambition:** the original CMU action plan and the additional measures proposed in the Commission's mid-term review have been criticised as lacking ambition, being too incremental and not being radical enough - and this has been a common criticism of the latest action plan. The new plan includes 16 actions that on our count translate into 26 different initiatives, but more than half of these initiatives are initial assessments, reviews or analysis. While it focuses on important issues such as improving access to capital markets for companies, boosting retail investment, and integrating national capital markets there is little in the plan that suggests it will accelerate the development of capital markets in the EU with anything like the urgency that the European economy needs. It lacks concrete proposals in those areas where reforms would have the biggest impact and move the dial - such as on the fragmentation of supervision and market infrastructure.

2. **Missing elements:** while the new action plan has many refreshing aspects such as the renewed focus on pensions and the proposals for an EU single access point for company information and a consolidated tape for equity, it doesn't address some other key issues at all. For example, the new action doesn't include any proposals to address the fragmentation of corporate governance, auditing and financial reporting frameworks, the differential between debt and equity funding, and the dysfunctionalities in market infrastructure.

3. **An inward looking capital markets union?:** the concept of strategic autonomy which in recent years has emerged as a central theme in EU policy, has also been included in the new CMU action plan. This underlines concerns that the EU is becoming more inward looking especially as a result of Brexit. Although the EU should not ignore the new global reality of deglobalisation, more protectionism and rising security and geopolitical risks, it should be pragmatic and strike the right balance between remaining open and protecting its interests. Otherwise, there is a danger that in its understandable desire to build more local capacity in capital markets and reduce its reliance on a third country financial centre like the UK, it creates more barriers to external investment and capital flows that might undermine the international role of the euro and reduce growth.

4. **Pulling the wrong levers:** the new CMU action plan focuses mainly on 'top down' measures at an EU level rather than 'bottom up' measures at the member state level that will help build local capacity and drive growth in capital markets across the EU. While these bottom up measures are by definition beyond the remit of the EU or the European Commission, the new action plan could have included more ideas in this area, a clear roadmap of how to bring member states onside and how to nudge them into taking measures to build bigger and deeper local and regional capital markets that will be a vital step towards concrete progress.

5. **Too ambiguous:** the new action plan avoids detail, clear timelines and priorities, and most proposals are not granular enough especially in big politically sensitive areas such as supervision, securitisation, and insolvency. There is no clear long-term vision of the EU's ultimate objectives in the areas the new action plan aims to address, and no clear roadmap of how to get there. In addition, the new action plan does not seem fully aligned with other EU initiatives like digital union and sustainable finance. With this approach there is a danger of repeating the mistakes of the past five years and many of the initiatives to become bogged down in political wrangling between institutions and by member states seeking to protect their national rules and structures.

Always look on the bright side of life

While some of the criticism of the new action plan is merited, we think there are many reasons to be optimistic about the future of the capital markets union. Here is a summary of the more positive view on the new action plan:

1. **Keeping capital markets at the top of the political agenda:** the biggest impact of CMU is that it has propelled capital markets up the political agenda across Europe and the new action plan builds on this political progress. Brexit and the Covid crisis have injected a new sense of urgency into CMU and the need for more capital markets in the EU27 more than ever before to fuel a recovery has a central role in the new action plan. The language used reflects this urgency and is designed to win political support at the highest level: there is no point coming up with a radical plan that falls apart on first contact with member states.

2. **Striking the right balance:** any grand project like capital markets union involves a trade-off between ambition and achievability, and between impact and timeframe. The new CMU action plan is more practical and focused than previous versions: a big problem for CMU over the past five years was the lack of focus in the original CMU action plan, which looked more like a laundry list of initiatives than a focused plan with granular measures. Above all, most of the new plan is achievable, which will help embed CMU into the architecture of the EU over the next five years. This will make it easier to monitor and make progress in each area and will allow for closer following up and a step-by-step approach building on the proposals over the next couple of years especially in politically sensitive areas such as the future architecture of supervision.

3. **Building for the future:** action plans are essentially a political declaration of future intent so in that sense it is only natural for the new action plan not to go into that much detail and to reiterate that the capital markets union initiative is inherently a long-term project. Building deeper and more integrated capital markets will take decades and its progress depends on developments in other EU policy initiatives such as the banking union, digital union, and sustainable finance. More importantly its long-term success depends on a long-term commitment by members states: in that sense, a less ambitious but achievable plan focused on key building blocks over the next five years makes more sense than a more radical but politically unfeasible approach.

4. **Heading into the right direction:** it is encouraging to see a renewed focus in the next action plan on areas that could have a bigger longer-term impact on building deeper capital markets and that may serve as a starting point for more radical reforms in the future. For example, the Commission will seek to develop pension dashboards to monitor pension adequacy across member states, best practices for setting-up national tracking systems and national auto-enrolment systems. It will also aim to push forward with identifying best practices and harmonising areas of insolvency as well as introducing an EU-wide system for withholding tax. Another positive long-term measure is the proposal to introduce an EU single access point with company information for investors and a consolidated tape for equity. Finally, the Commission has put more emphasis on individual investors and where the capital in capital markets comes from by establishing an EU-wide financial competence framework, a framework for financial education, an EU wide certificate and label for financial advisors, as well as reviewing rules in the area of inducements and disclosure.

5. **No silver bullet:** unlike other EU initiatives such as the Banking Union there is no single measure or a set of measures that would automatically build bigger, deeper and well-integrated capital markets. It requires a collective effort by members states and European institutions on all fronts including areas that are not directly connected to capital markets. You cannot magic deeper capital markets out of thin air: social and cultural norms, pensions systems, and the wider business, legal and regulatory environment are perhaps not directly related to capital market unions, but addressing these factors in parallel will be a vital component of the success or otherwise of CMU as a whole. It is encouraging that the new action plan includes many assessments and analytical work on these areas and looks at developing best practices in pensions, insolvency and financial education.

About New Financial

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

We think this presents a huge opportunity for the industry and its customers to embrace change and rethink how capital markets work. We work with market participants and policymakers to help make a more positive and constructive case for capital markets around four main themes: unlocking capital markets; rebuilding trust; driving diversity; and the impact of Brexit.

We are a social enterprise funded by institutional membership from different sectors of the capital markets industry. For more information on our work, please contact us:

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Our research on capital markets:
Here is a selection of some of our recent reports on capital markets:

Driving growth: How EU Capital Markets can support a post-Covid recovery

The value of capital markets to the UK economy

The Covid crisis: how banking & finance can be part of the solution

A reality check on equivalence

The Crisis of Capitalism

A new sense of urgency: the future of capital markets union

What do EU capital markets look like on the other side of Brexit?

APPENDIX 1 – METHODOLOGY

Our sample:

We analysed the changes in the size and depth of capital markets since 2014 in the following sectors of activity in all 28 EU member states:

> Pools of capital: pensions assets, insurance assets, household retail investments (excluding pensions, insurance, cash deposits & unlisted equity)
> Equity markets: stock market, initial public offerings, secondary equity issues, convertible bonds
> Bond markets: corporate bond market value, bond market value, investment grade bond issuance, high-yield bond issuance, bank lending relative to corporate bonds
> Loans & securitisation: value of outstanding securitisation, securitisation issuance, leveraged loan issuance
> Assets under management: assets under management by location, investment funds by domicile
> Corporate activity: M&A by target nationality, M&A by acquiror nationality, domestic M&A
> Private equity & venture capital: private equity activity, venture capital activity, private equity fundraising
> Trading: equities, FX, derivatives

Measuring depth:
In each sector and country we measured the value of activity as a percentage of GDP on a three year rolling basis from 2004 to 2019 to iron out the annual volatility in capital markets. To enable a comparison in depth between different sectors we rebased these percentages in each sector to the EU average, with 100 representing the average depth across the EU in the three years to the end of 2014 (we use 2014 as our baseline because that is the first year that we published our analysis and it enables us to track growth). For example, the value of EU stock markets in the three years to 2014 was 67% of combined EU GDP. We rebased this 67% to 100, meaning that in any given period a country with a score of 50 has a stock market that is half as deep relative to GDP as the EU average in the three years to 2014, and one with a score of 200 is twice as deep.

While this methodology has the advantage of simplicity, in a handful of countries with a particularly large sector relative to GDP (for example, investment funds by domicile in Luxembourg) it can distort the overall ranking. To reduce these distortions, we capped each metric at two standard deviations from the mean for every country. This reduces the distortion of a few outsize sectors more fairly than not including the metric at all.

Measuring change at the EU and country level:
To measure the change in the value and depth of capital markets activity:
For each country we grouped different sectors together and calculated the average change in value and depth across sectors in the three years to 2019 compared with the three years to 2014.

To measure the shift to market finance:
i) For each country we compared the value of outstanding corporate bonds with the value of outstanding bank lending to non-financial corporations in the three years to 2014 and three years to 2019.
ii) For each country we compared the annual flow of capital markets financing (the sum of IPO issuance, secondary issuance, convertibles, high-yield bond issuance, investment grade bonds issuance, and venture capital investment) with the gross flow of new bank lending to non-financial corporations (new business / loans) in the three years to 2014 and three years to 2019. Note that this slightly undercounts capital markets financing because we do not include direct lending or private placements, or direct investment in unlisted equity.

To measure the shift from savings to investments:
We compared the value of household cash deposits with the value of households insurance, pensions and standardised guarantees, and the value of households' investment in equity, bonds, investment funds and 'other' in the three years to 2014 and three years to 2019.

APPENDIX II – SUMMARY OF THE NEW ACTION PLAN

Fig.10 A summary of the new action plan

This table summarises the new action plan on Capital Markets Union that was published by the European Commission in September 2020

Action	Initiatives	Type	Deadline
i) Measures to support a green, inclusive and resilient economic recovery by making financing more accessible to companies			
1) Making companies more visible to cross-border investors	Setting up a European single access point with company information for investors	Legislative/regulation	Q3 2021
2) Supporting access to public markets	Simplifying listing rules for SMEs	Other	Q4 2021
	Looking into creating an SME IPO fund	Other	-
	Supporting the development of local public markets	Other	-
3) Supporting vehicles for long-term investment	Review of ELTIF	Legislative/regulation	Q3 2021
4) Encouraging more long-term and equity financing from institutional investors	Review of Solvency II	Legislative/regulation	Q3 2021
	Review of CRR/CRD	Legislative/regulation	Q1 2021
5) Directing SMEs to alternative providers of funding	Assessment on setting up a referral scheme for alternative to bank lending funding for SMEs	Other	Q4 2021
6) Helping banks to lend more to the real economy	Review of the securitisation framework	Legislative/regulation	Q4 2021
ii) Make the EU an even safer place for individuals to save and invest long-term			
7) Empowering citizens through financial literacy	Assessment for an EU financial competence framework	Other	Q2 2021
	Assessment for a legislation on financial education	Other	Q1 2022
8) Building retail investors' trust in capital markets	Assessment of rules in area of inducements and disclosure	Other	Q1 2022
	Amendment of MiFID II to reduce admin burden for retail investors and introduce new category of qualified investors	Legislation/regulation	Q4 2021 Q1 2022
	Certificate for financial advisors	Legislation/regulation	Q1 2023 Q4 2021
	Assessment for a pan-EU label for financial advisors	Other	Q1 2022

APPENDIX II – SUMMARY OF THE NEW ACTION PLAN

Fig.10 (Cont.)

This table summarises the new action plan on Capital Markets Union that was published by the European Commission in September 2020

Action	Initiatives	Type	Deadline
ii) Make the EU an even safer place for individuals to save and invest long-term (continued)			
9) Supporting people in their retirement	Identify data and methodology for pension dashboards regarding member states' pension adequacy	Other	Q4 2021
	Develop best practices for set-up of national tracking systems on pensions	Other	Q4 2021
	Develop best practices for autoenrollment schemes	Other	Q3 2020
iii) Integrating national capital markets into a genuine single market			
10) Alleviating the tax associated burden in cross-border investment	Introducing an EU-wide system for withholding tax relief at source	Legislative/regulation	Q4 2022
11) Making the outcome of cross-border investment more predictable as regards insolvency proceedings	Legislative / non-legislative initiative for minimum harmonisation or increased convergence in areas of insolvency	Legislative/regulation	Q2 2022
	Assessment of making legal amendments to reporting frameworks	Other	Q1 2021 Q4 2022
12) Facilitating shareholder engagement	Assessment of harmonizing shareholder definition, rules in voting rights and corporate actions	Other	Q3 2023 Q4 2021
13) Developing cross-border settlement services	Review rules in CSD	Legislation/regulation	Q4 2021
14) Developing a consolidated tape	Establishment of a consolidated tape	Legislation/regulation	Q4 2021
15) Investment protection and facilitation	Strengthen investment protection and facilitation framework	Legislation/regulation	Q2 2021
16) Strengthening supervision	Assessment for stronger supervisory coordination or direct supervision by ESAs	Other	Q4 2021