From Banking Union to Capital Markets Union: Trends and Emerging Segments

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1. **Structural trends**
   - Decline of European banking
   - Rise of institutional investors

2. **Capital Markets Union**
   - Emerging segments: corporate bonds
   - Need for infrastructure
Is Europe overbanked?

Source: Langfield and Pagano (2015)
Has Europe too little capital markets?

Source: De Haan, Oosterloo, Schoenmaker (2015)
Macro effects

- **After banking crisis (Langfield and Pagano, EP 2015)**
  - Drop in bank lending – deleveraging (credit channel)
  - Drop in asset values (collateral channel)

- **After corporate default crisis (Giesecke et al, JFE 2014)**
  - Corporate bonds less volatile (credit channel)
  - Increase in bank lending (substitute channel)
Corporate bonds are more stable than loans

Source: Langfield and Pagano (2015)
Rise of institutional investment

![Graph showing the rise of institutional investment in the EU-15 and United States from 1990 to 2012. The x-axis represents years (1990, 1995, 2000, 2005, 2010, 2012), and the y-axis represents total assets (% of GDP). The graph shows an upward trend for both regions, with the EU-15 starting lower and the United States starting higher. The source is De Haan, Oosterloo, Schoenmaker (2015).]
But no institutional investment yet in NMS

Source: De Haan, Oosterloo, Schoenmaker (2015)

\[ y = -133 + 0.0094x \]

\[ R^2 = 0.4426 \]

Source: De Haan, Oosterloo, Schoenmaker (2015)
From bank to institutional intermediation

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Source: De Haan, Oosterloo, Schoenmaker (2015)
Pension savings

- Rise of pension savings will lead to broadening and deepening of European capital markets
  1. Institutional investors have large portfolios of marketable assets
  2. Including bonds to match LT liabilities

- Some major trends are supporting this:
  1. Shift from government to corporate bonds
  2. Move to formal pension funds or schemes
1. From government to corporate bonds

**Bond portfolio of euro area insurers and pension funds**

- **59%** Government bonds
- **33%** Financials bonds
- **8%** Corporate bonds

Source: Statistical Data Warehouse, ECB
2. Move to formal pension schemes

Source: Statistical Data Warehouse, ECB; Eurostat
Broad policy agenda (e.g. Véron and Wolff, 2015)

- Simple and effective regulatory framework
- EU-level implementation and enforcement (role ESMA)
- Various areas: prospectus, listing, accounting, credit information, insolvency, etc
- In sum: substantive legislative implementation for the LT

Emerging market segments

- Equity
- Debt: in particular corporate bonds
Conclusions

- **Move from banking lending to capital markets**
  - Better for macro stability

- **Demand side: Corporate bonds (and equity)**
  - Institutional investors preference for bonds (and equity)

- **Supply side: Broader trend in retail (precautionary) savings**
  - From deposits to insurance and pension claims
Thank you!

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