

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

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Agenda

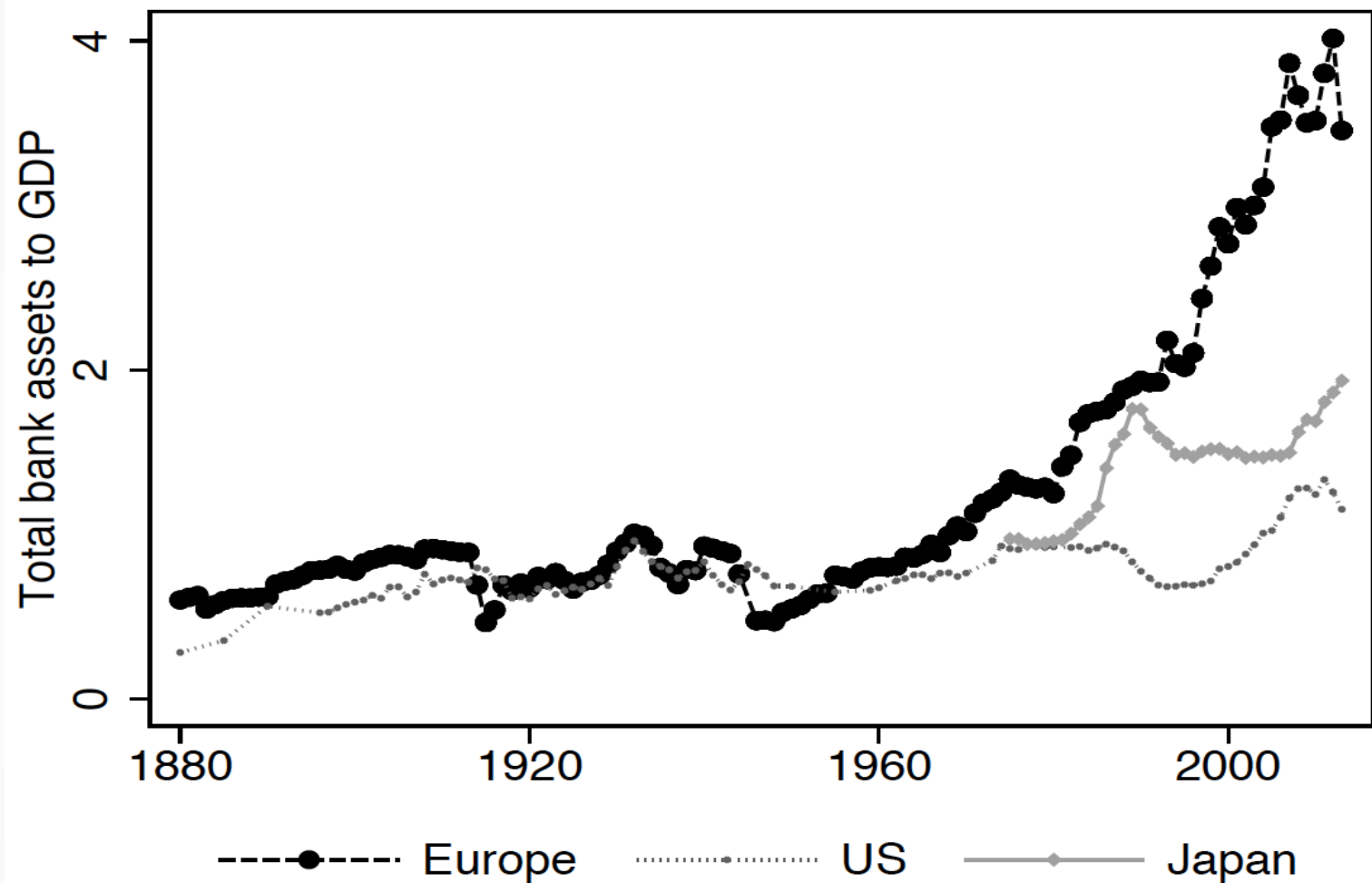
1. Structural trends

- Decline of European banking
- Rise of institutional investors

2. Capital Markets Union

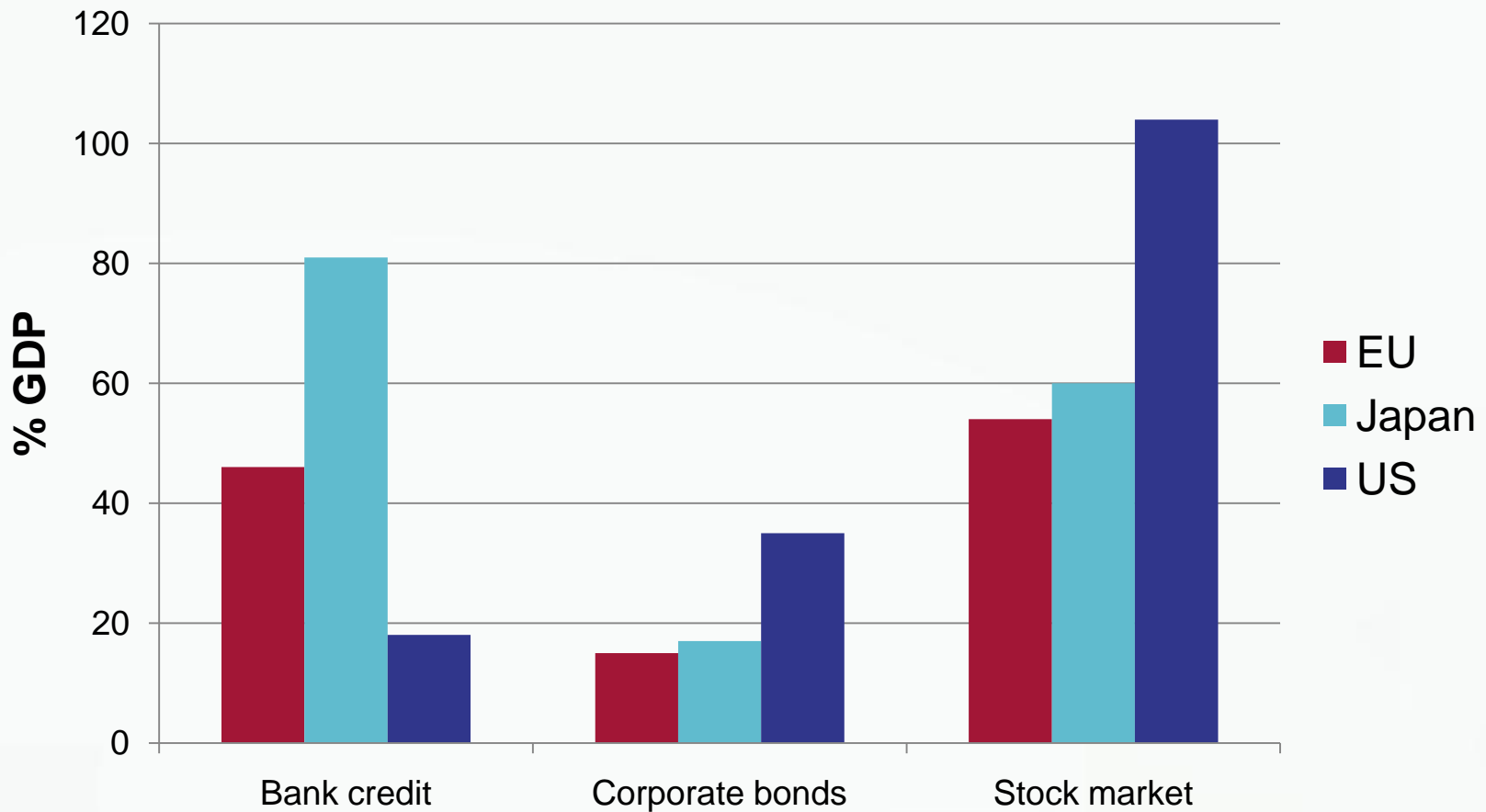
- Emerging segments: corporate bonds
- Need for infrastructure

Is Europe overbanked?



Source: Langfield and Pagano (2015)

Has Europe too little capital markets?



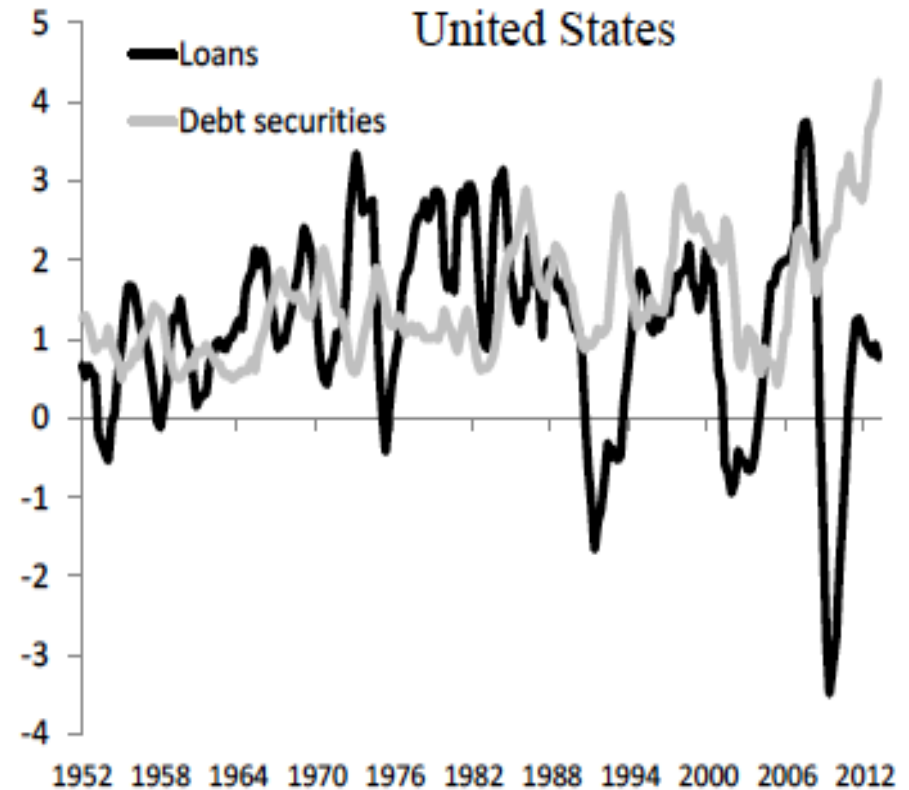
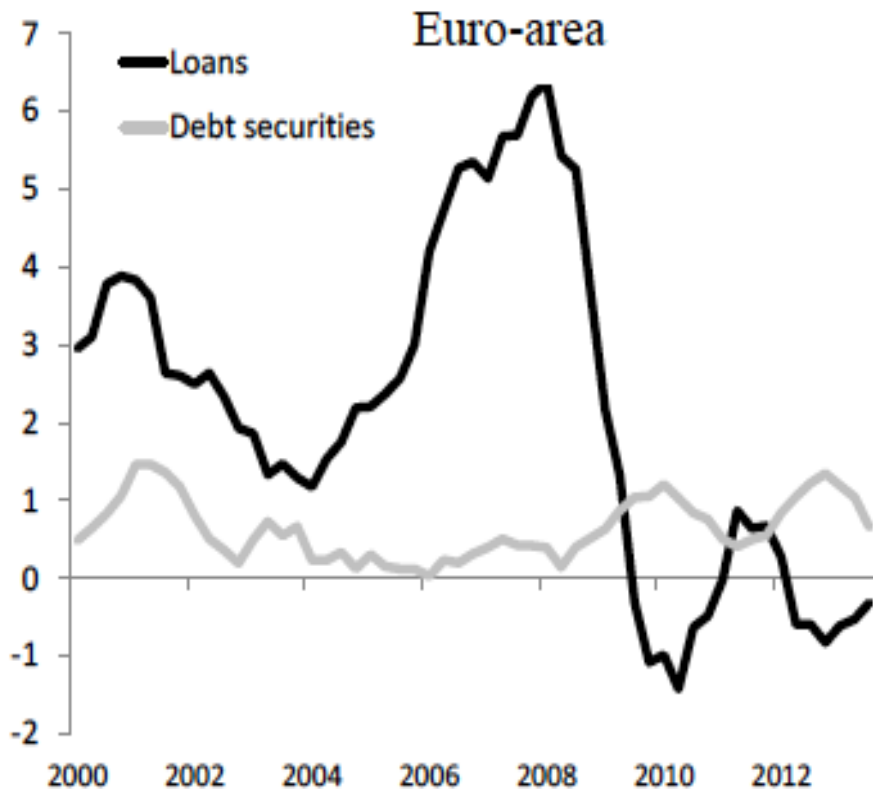
Source: De Haan, Oosterloo, Schoenmaker (2015)

Macro effects

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

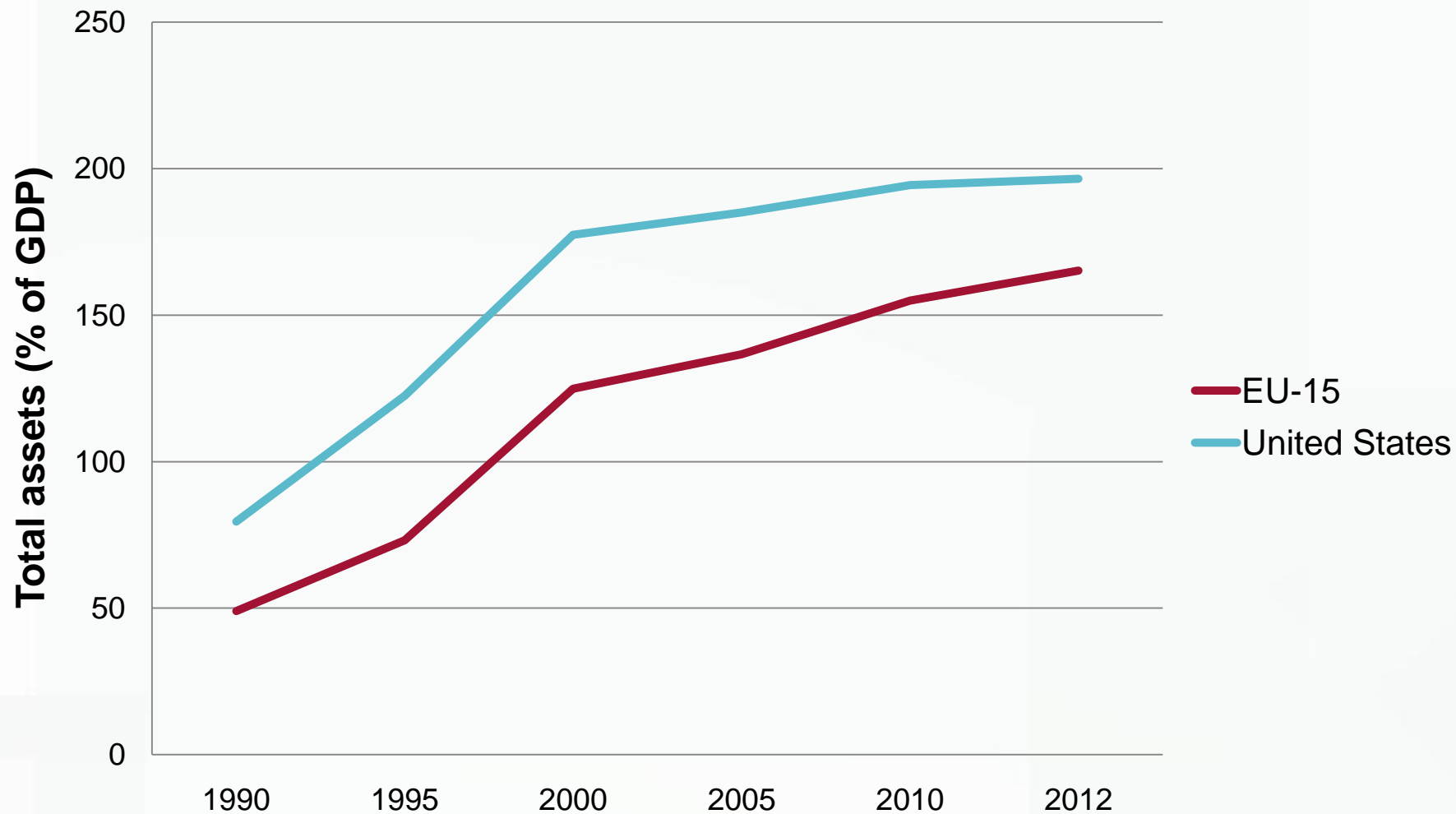
- **After corporate default crisis (Giesecke *et al*, JFE 2014)**
 - Corporate bonds less volatile (credit channel)
 - Increase in bank lending (substitute channel)

Corporate bonds are more stable than loans



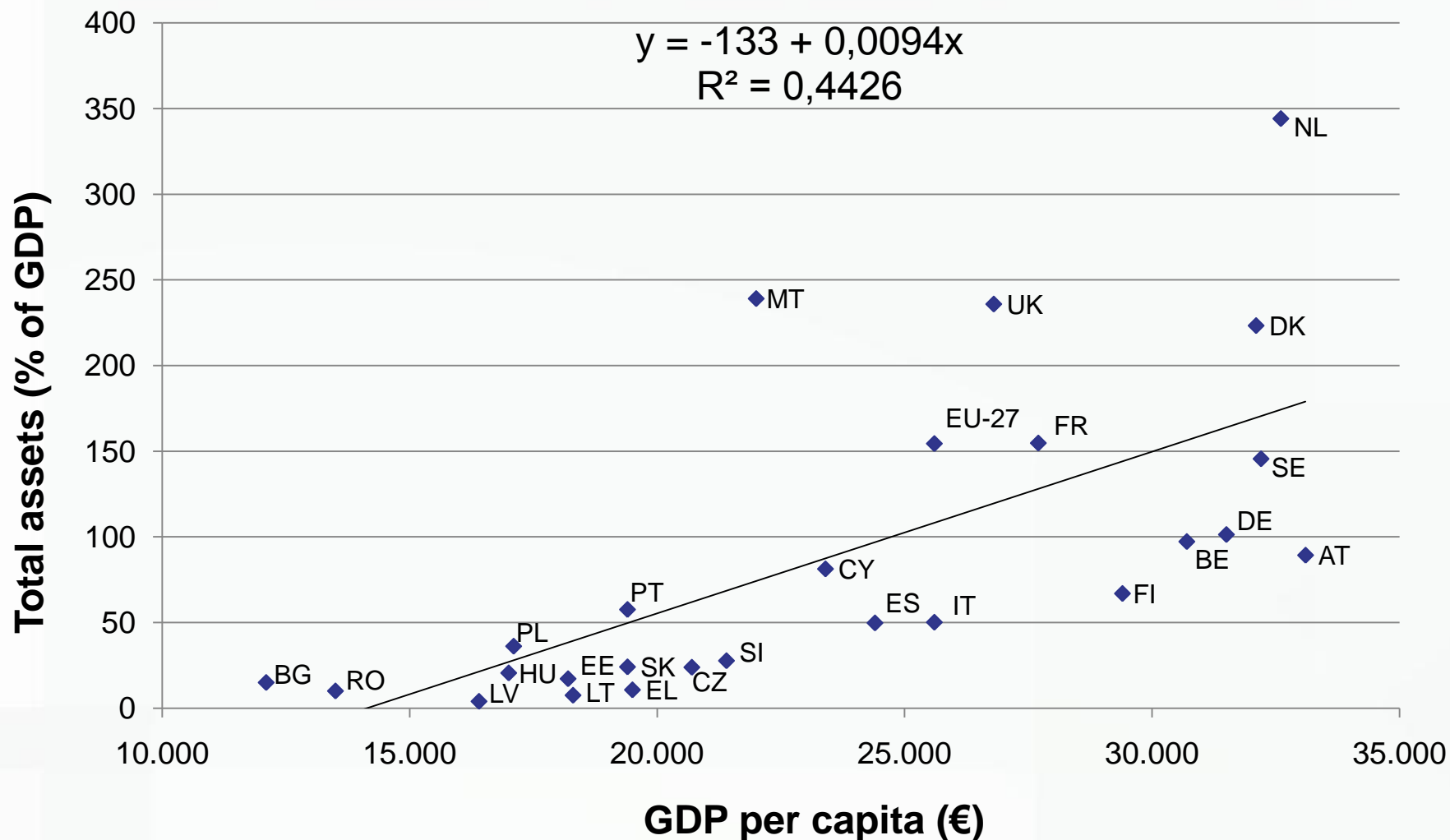
Source: Langfield and Pagano (2015)

Rise of institutional investment



Source: De Haan, Oosterloo, Schoenmaker (2015)

But no institutional investment yet in NMS



Source: De Haan, Oosterloo, Schoenmaker (2015)

From bank to institutional intermediation

		1970	1980	1990	2000	2010	Δ 1970–2000
France	<i>Bank</i>	95	94	81	71	71	-24
	<i>Institutional</i>	5	6	19	29	29	24
Germany	<i>Bank</i>	89	88	83	76	72	-17
	<i>Institutional</i>	11	12	17	24	28	17
Italy	<i>Bank</i>	94	95	90	72	81	-13
	<i>Institutional</i>	6	5	10	28	19	13
United Kingdom	<i>Bank</i>	67	71	63	60	73	6
	<i>Institutional</i>	33	29	37	40	27	-6
EU4	<i>Bank</i>	86	87	79	70	74	-12
	<i>Institutional</i>	14	13	21	30	26	12
Canada	<i>Bank</i>	66	74	64	55	56	-10
	<i>Institutional</i>	34	26	36	45	44	10
Japan	<i>Bank</i>	82	78	70	60	51	-31
	<i>Institutional</i>	18	22	30	40	49	31
United States	<i>Bank</i>	65	65	51	43	33	-32
	<i>Institutional</i>	35	35	49	57	67	32
G7	<i>Bank</i>	80	81	72	62	62	-17
	<i>Institutional</i>	20	19	28	38	38	17

Source: De Haan, Oosterloo, Schoenmaker (2015)

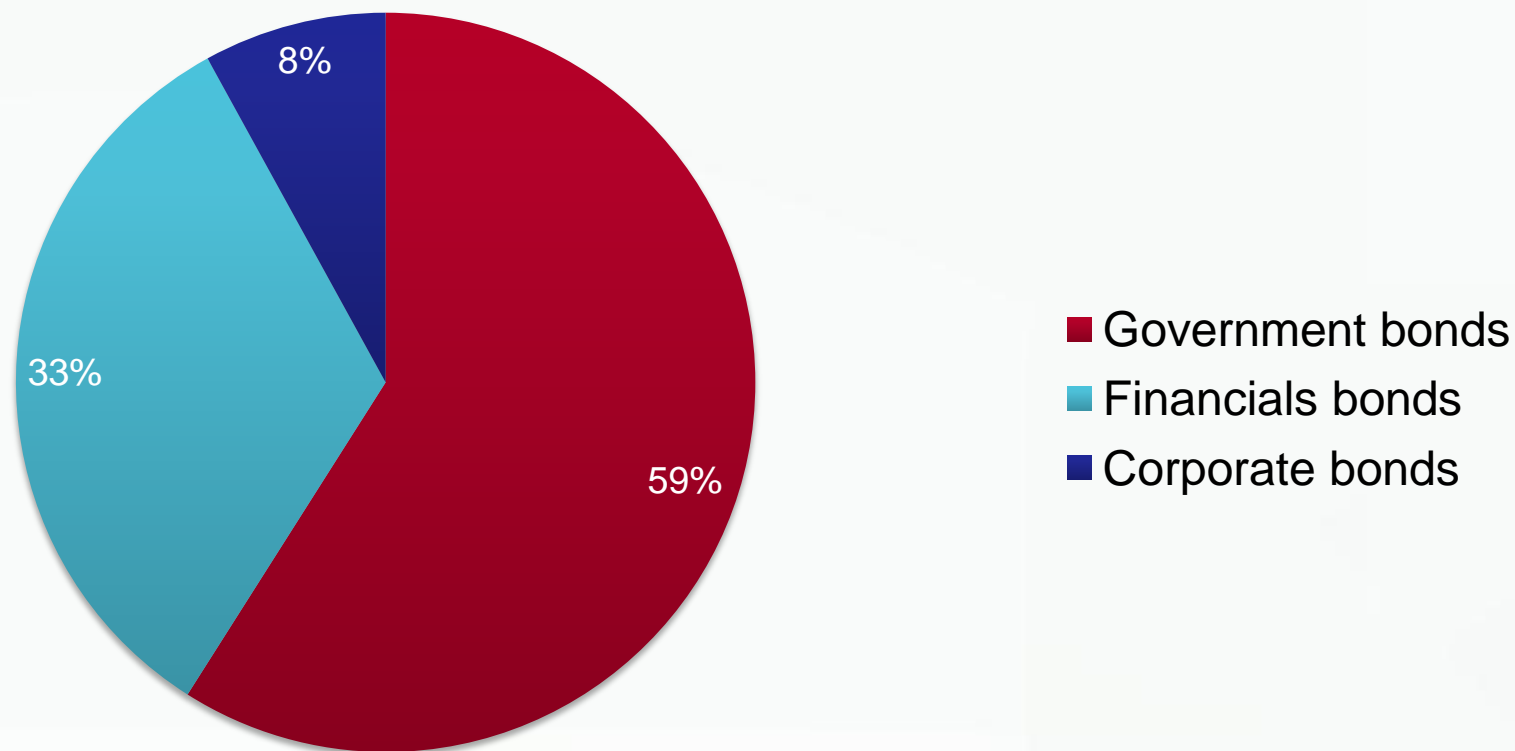
Pension savings

- **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

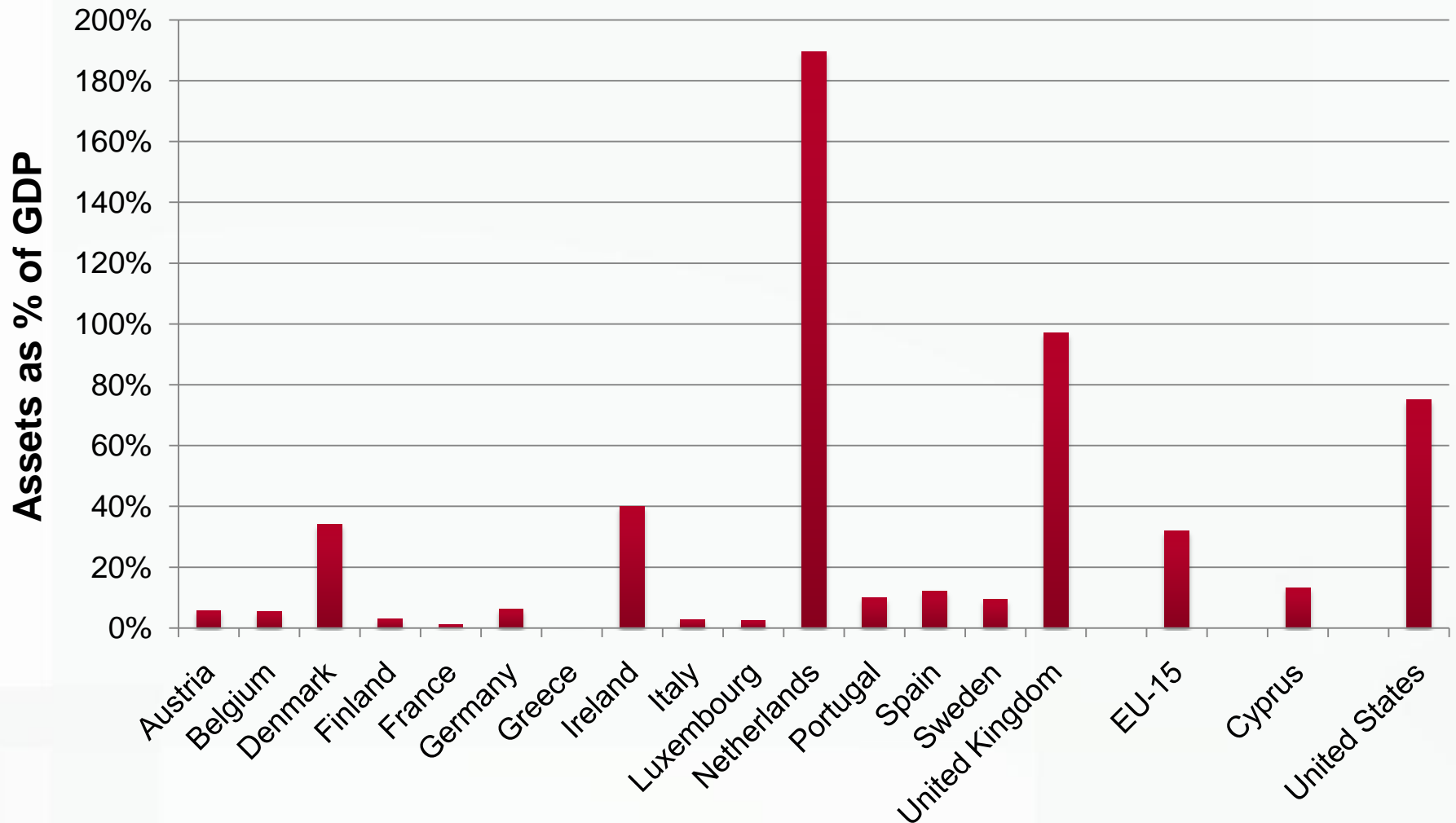
1. From government to corporate bonds

Bond portfolio of euro area insurers and pension funds



Source: Statistical Data Warehouse, ECB

2. Move to formal pension schemes



Source: Statistical Data Warehouse, ECB; Eurostat

Capital Markets Union

- **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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