



# Capital flows and Capital Markets Union

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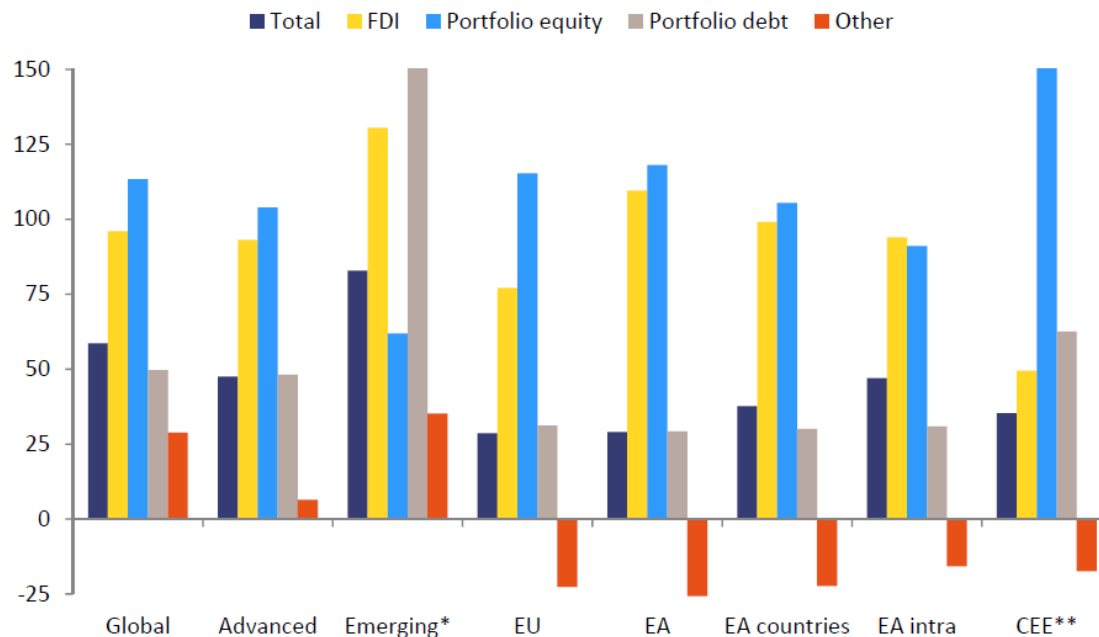
National Bank of Poland

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\*prepared with the help of Rajko Vodovnik and Daniel Kosicki

# Post-crisis international capital flows

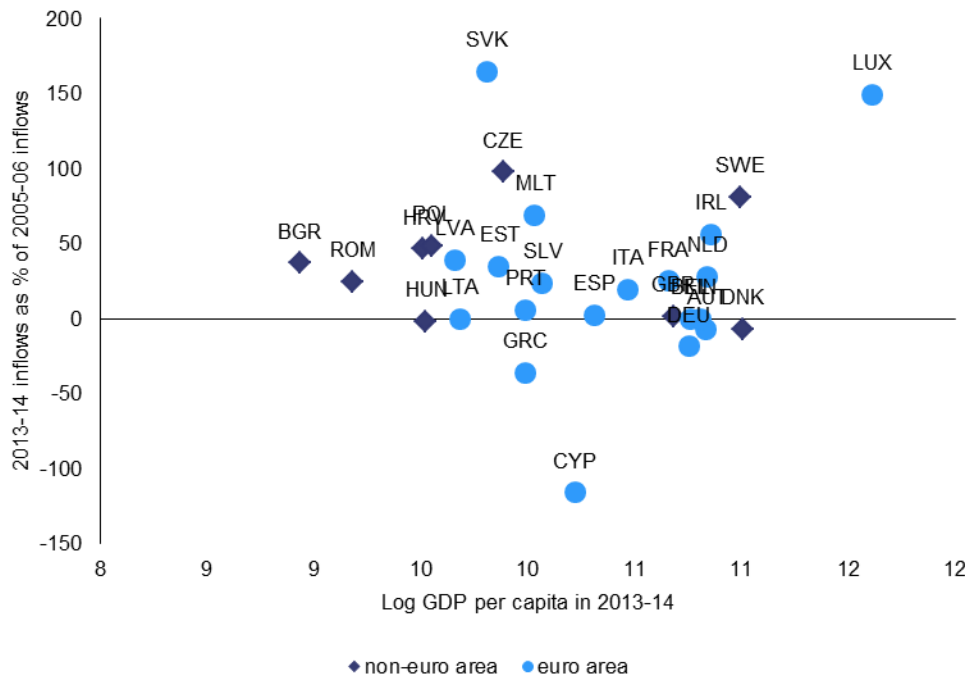
## Capital inflows in 2013-2014 as % of 2005-2006



- In EU, total flows down four times
- Loans (in "Other") negative due to deleveraging
- Equity investment very strong in CEE

Source: McQuade, P., Schmitz, M. (2016) "The great moderation in international capital flows: a global phenomenon?"

# Cross-border capital flows in the EU versus GDP per capita

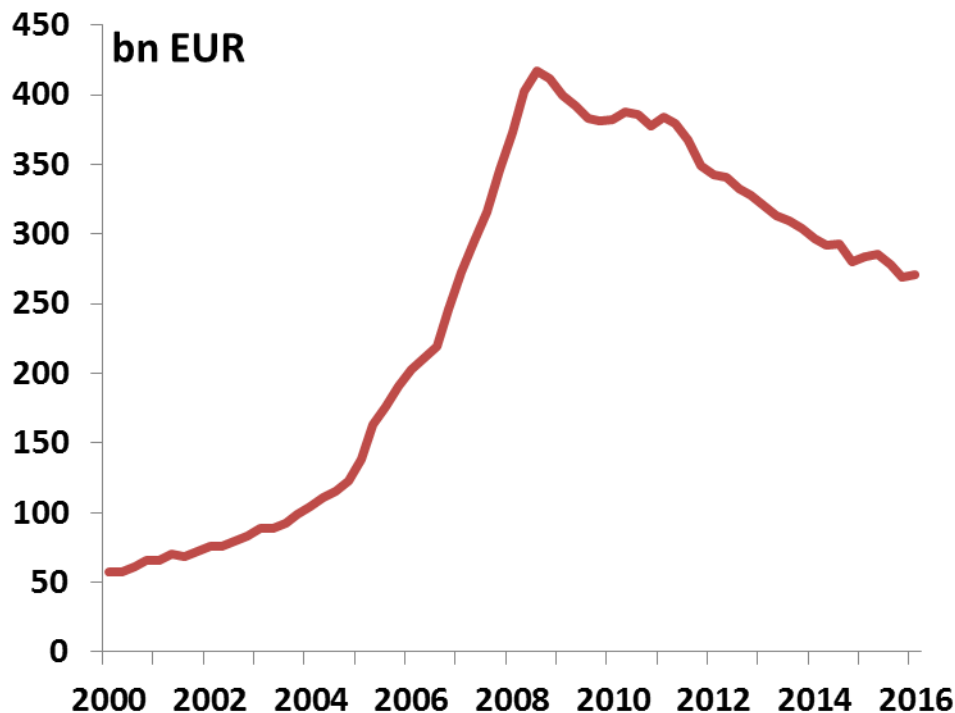


- In 22 MS the flows are less than half of the pre-crisis level
- No correlation with income
- CEE countries in the upper half, except for HU and LT

Source: McQuade, P., Schmitz, M. (2016) "The great moderation in international capital flows: a global phenomenon?"

# Cross-border bank exposure to CESEE

## Bank claims of reporting banks on all sectors

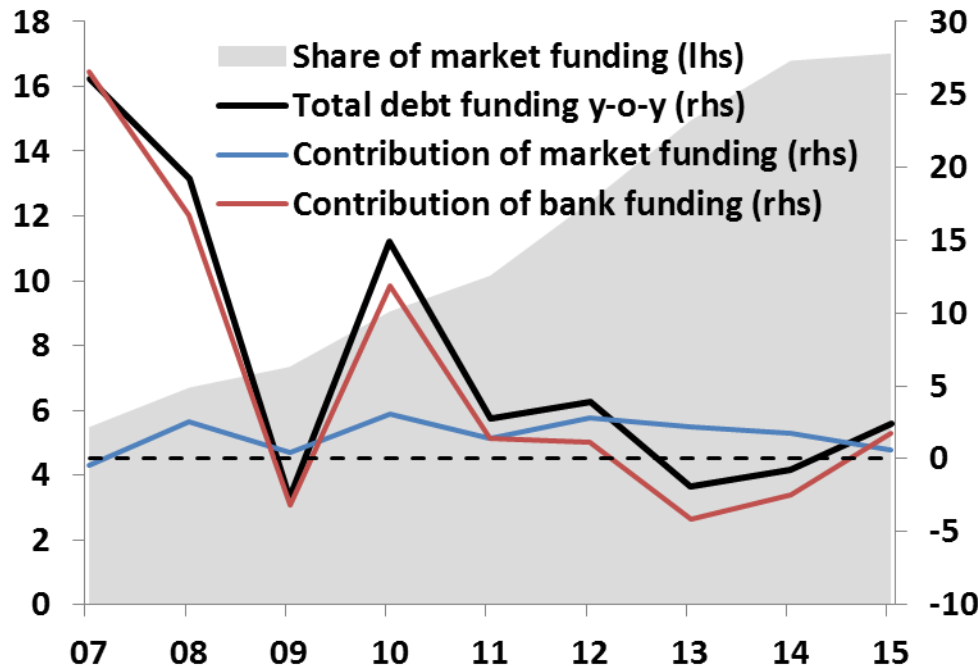


- Rapid increase until 2008, steady decline since
- Few exceptions to the general decline (BG, CZ, PL, AL, SK)

Source: BIS, locational statistics

# The growth of market debt financing

## NFC debt funding structure - CEE



Source: ECB

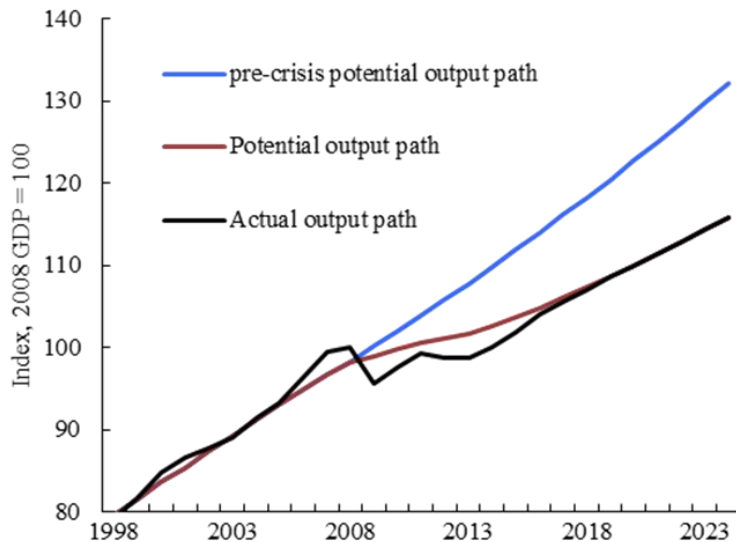
- Overall corporate lending growth remains subdued and negative in several countries (HU, SI, CR, LV, BG, RO)
- Slow increase of market funding in total debt finance
- Steady contribution of market funding compared to bank credit that declined in the crisis

# The Capital Markets Union

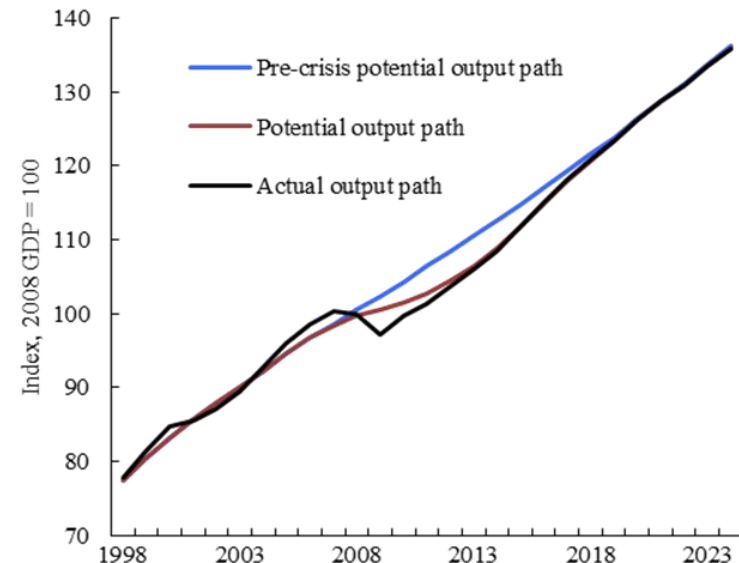
## Key part of EU investment agenda

- CMU is "regulatory reform" leg of the Investment Plan for Europe; complements EU Public finance component (EFSI)
- Regulatory facilitation + public finance maximises impact

## Actual and potential GDP in the EU-28 vs US



Commission estimates (spring 2015)



Commission estimates (spring 2015)

# The purpose of the CMU

## Overarching objective:

- Regulatory reform programme to diversify the funding of EU economy, reduce over-dependence on bank loans.

## To be achieved by:

- Removing barriers to cross-border raising of capital and investments.
- Increasing market-based finance from various sources and building a stronger equity culture to complement bank lending;
- Stimulating long-term finance for investments in infrastructure and SMEs;

# Facilitate cross-border investment

Topic	Action	Next steps:
<b>Insolvency frameworks</b>	<p>Proposal on business restructuring and second chance</p> <p>Benchmarking of loan enforcement (including insolvency) regimes</p>	<ul style="list-style-type: none"> <li>• <i>Autumn 2016</i></li> <li>• <i>ongoing</i></li> </ul>
<b>Post-trading</b>	<p>Remove barriers to post-trading environment</p>	<ul style="list-style-type: none"> <li>• <i>Public consultation(2017)</i></li> <li>• <i>Legislative proposal on determining the law applicable to security ownership</i></li> </ul>
<b>Barriers to free movement of capital</b>	<p>Best practice and code of conduct for relief at source from withholding tax procedures</p>	<ul style="list-style-type: none"> <li>• <i>Communication on capital barriers</i></li> <li>• <i>Expert group work</i></li> </ul>



# Facilitate cross-border investment

Topic	Action	Next steps:
<b>Technical assistance</b>	Regulation on financial resources Work with MS to identify priority areas	<ul style="list-style-type: none"> <li>• <i>Finalise SRSP Regulation</i></li> <li>• <i>Ongoing work with Member States</i></li> </ul>
<b>Supervision</b>	Foster supervisory convergence Identify targeted areas in which EU dimension of supervision needs to be strengthened. Assess how supervisory framework should evolve	<ul style="list-style-type: none"> <li>• <i>Ongoing implementation of ESMA work programme on convergence</i></li> <li>• <i>White Paper on ESA governance and financing under preparation</i></li> </ul>
<b>Financial stability</b>	Review of the macro-prudential framework	<ul style="list-style-type: none"> <li>• <i>Ongoing consultation</i></li> <li>• <i>Legislative proposal in 2017</i></li> </ul>

# Benefits to retail investors

Topic	Action	Next steps:
<b>Personal pensions</b>	Possible proposal on simple, efficient and competitive personal pensions	<ul style="list-style-type: none"> <li>• <i>Ongoing consultation</i></li> <li>• <i>Study on tax aspects to be launched in September</i></li> <li>• <i>Possible proposal in 2017</i></li> </ul>
<b>Retail financial services</b> (banking, payments, insurance)	Action plan to open up EU market	<ul style="list-style-type: none"> <li>• <i>Under consideration</i></li> </ul>
<b>FinTech</b>	Promote the development of FinTech. Work with ESAs, ECB and MS to develop a policy approach	
<b>Investment funds</b>	Remove barriers to cross-border distribution of funds	<ul style="list-style-type: none"> <li>• <i>Ongoing consultation</i></li> <li>• <i>Identify best way forward to remove barriers identified</i></li> </ul>

# Increasing SME finance

Topic	Action	Next steps
<b>Venture capital</b>	Proposal to review of EuVECA/EuSEF Regulations Attracting private capital: Fund-of-funds	<ul style="list-style-type: none"> <li>• <i>Finalise negotiations by end 2016</i></li> <li>• <i>Call for expressions of interest in 2016</i></li> </ul>
<b>Prospectus</b>	Proposal to modernise prospectus	<ul style="list-style-type: none"> <li>• <i>Finalise negotiations by end 2016</i></li> </ul>
<b>Support equity financing</b>	Address debt-equity bias in national corporate tax systems	<ul style="list-style-type: none"> <li>• <i>Proposal on CCCTB by end 2016</i></li> </ul>
<b>Securitisation</b>	STS securitisation package	<ul style="list-style-type: none"> <li>• <i>Finalise negotiations by end 2016</i></li> </ul>
<b>Covered bonds</b>	Support development of covered bond markets	<ul style="list-style-type: none"> <li>• <i>Ongoing study</i></li> <li>• <i>Mid-term review to indicate legislative changes needed</i></li> </ul>

# Investing for the long term

Topic	Action	Next steps
<b>Infrastructure investments</b>	Adjust Solvency II calibrations for investment in infrastructure including infrastructure corporates and ELTIFs	<ul style="list-style-type: none"> <li>• <i>Assessment of infrastructure corporates ongoing</i></li> </ul>
	Proposal to reduce bank capital requirements for investment in infrastructure	<ul style="list-style-type: none"> <li>• <i>Under consideration in the context of revision of CRR/CRD</i></li> </ul>
<b>Sustainable investment</b>	Develop an EU strategy on sustainable finance	<ul style="list-style-type: none"> <li>• <i>Expert group to be established by the Commission</i></li> <li>• <i>Ongoing work to increase the availability of green funds through EFSI</i></li> </ul>