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1 The Capital Markets Union project: great promise, difficult delivery

Capital Markets Union (CMU) is a key element of the European Commission's growth strategy. It aims to create a single market for capital across the EU, allowing companies to raise funds more easily and investors to diversify their portfolios. The project is seen as a crucial step towards achieving the EU's economic and social goals.

CMU is a key element of the European Commission's growth strategy. It aims to create a single market for capital across the EU, allowing companies to raise funds more easily and investors to diversify their portfolios. The project is seen as a crucial step towards achieving the EU's economic and social goals. (E A.).

The economic case for capital markets union

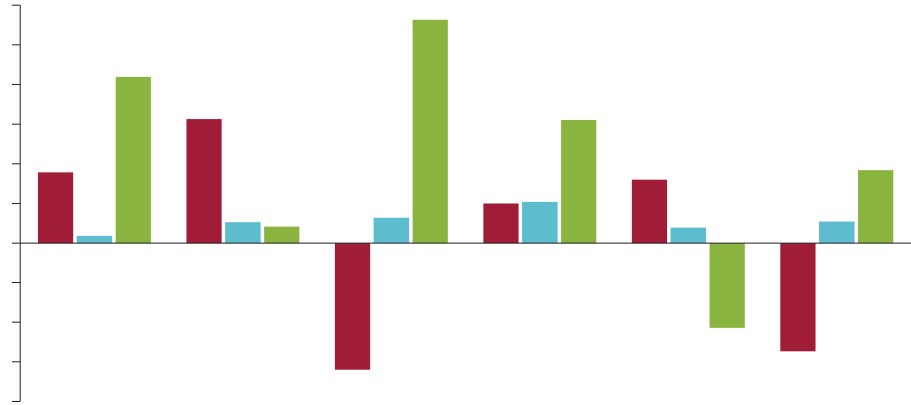
The economic case for CMU is based on the benefits of a more integrated financial market. It is expected to increase the availability of capital for businesses, reduce the cost of financing, and improve the overall efficiency of the financial system. This is particularly important for the EU, which has a high level of bank-oriented finance and a relatively underdeveloped capital market.

As stated in the Commission's 2013 report (2013), "the EU economy is still heavily dependent on bank financing... (2012) ... the EU and in particular the euro area need to develop a genuine cross-border equity and corporate bond market, in part to be able to absorb shocks... this would reduce the heavy reliance of the EU economy on bank funding and improve economic stability thanks to better financial risk sharing".

Patel et al (2014) and L. ... (2016) ... 71 ... -G ... -6.9 (()1 ()3)15.1 (

credit to non-financial corporations, which is the sum of bank credit, non-bank credit, and direct investment in equity (Figure 2). Direct investment in equity is the largest channel of financing, followed by bank credit and non-bank credit. Direct investment in equity is the largest channel of financing, followed by bank credit and non-bank credit. E (Figure A2) shows the composition of the credit to non-financial corporations by type of instrument (Eq. 27) (Figure A2).

Figure 2: Size of different financial intermediation channels to the non-financial corporate sector as share of GDP, 2016 and 2006



Source: Eurostat and Federal Reserve. Note: Given the volatility of flows we use three-year averages.

Private pension funds are a significant source of financing for non-financial corporations (Figure 3). Private pension funds are a significant source of financing for non-financial corporations (Figure 3). (Auerbach et al., 2012; De Nederlandsche Bank, 2017).

Figure 3 shows the financial portfolio of households in the EU and US (% of total financial assets) (Figure 3).

Figure 3: Financial portfolio of households in the EU and US (% of total financial assets), 2016

Source: OECD National Accounts at a Glance.

Note: The chart shows the equity home bias in the Eurozone. The Y-axis represents the percentage of equity holdings in the Eurozone relative to the rest of the world. The X-axis represents the year from 2000 to 2017. The line shows a steady increase from approximately 50% in 2000 to about 75% in 2017. The shaded area represents the confidence interval, which is wider in the early 2000s and narrows towards the end of the period.

Figure 4: Equity home bias

Sources: Darvas and Schoenmaker (2017), Bruegel based on IMF CPIS and ECB. Note: Equity home bias relative to the rest of the world is presented as a percentage of total equity holdings.



A. $\frac{1}{2} \frac{dE}{dt} = \frac{1}{2} \frac{d}{dt} \left(\frac{1}{2} m v^2 \right) = \frac{1}{2} m v \frac{dv}{dt} = \frac{1}{2} m v a$
 where $a = \frac{dv}{dt}$ is the acceleration. The force on the electron is $F = eE$, so
 $\frac{1}{2} m v a = eE v$. This gives $\frac{1}{2} m a = eE$, or $a = \frac{2eE}{m}$.
 The acceleration is constant, so $v = at = \frac{2eEt}{m}$. The distance traveled is
 $x = \frac{1}{2} at^2 = \frac{1}{2} \left(\frac{2eEt}{m} \right) t = \frac{eEt^2}{m}$. The time to travel a distance x is
 $t = \sqrt{\frac{mx}{eE}}$. The energy gained is $\Delta E = eEx = eE \left(\frac{eEt^2}{m} \right) = \frac{2e^2 E^2 x}{m}$.
 The rate of energy gain is $\frac{dE}{dx} = \frac{2e^2 E^2}{m}$. The stopping power is
 $\frac{dE}{dx} = \frac{2e^2 E^2}{m} = \frac{2(1.6 \times 10^{-19})^2 (10^6)^2}{9.1 \times 10^{-31}} = 3.5 \times 10^{10} \text{ eV/m}$.
 The range of the electron is $R = \frac{E_0}{\frac{dE}{dx}} = \frac{10^6 \text{ eV}}{3.5 \times 10^{10} \text{ eV/m}} = 2.9 \times 10^{-5} \text{ m} = 29 \mu\text{m}$.



3 The long road to a real CMU

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A... -E... (PEPP) ...
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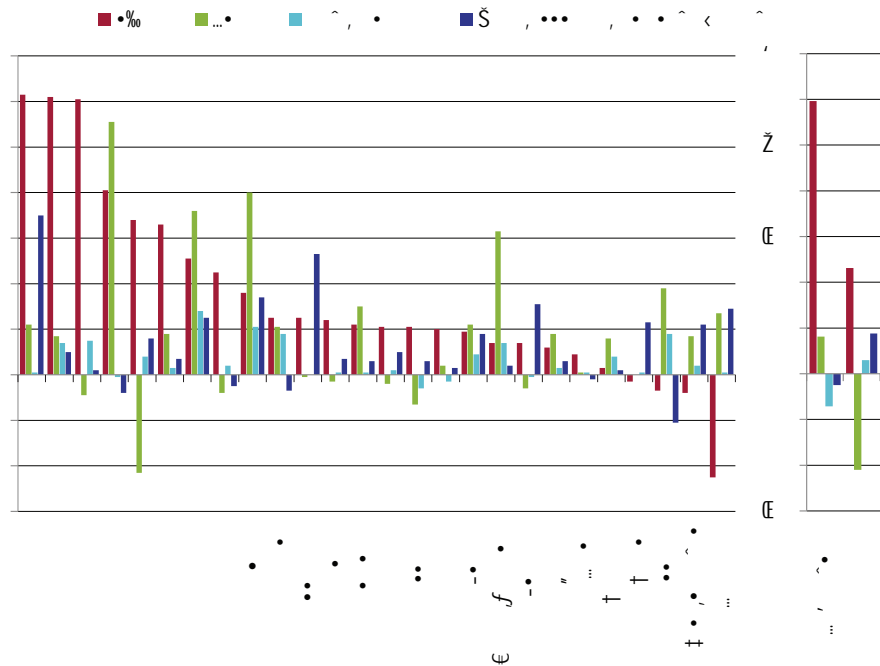
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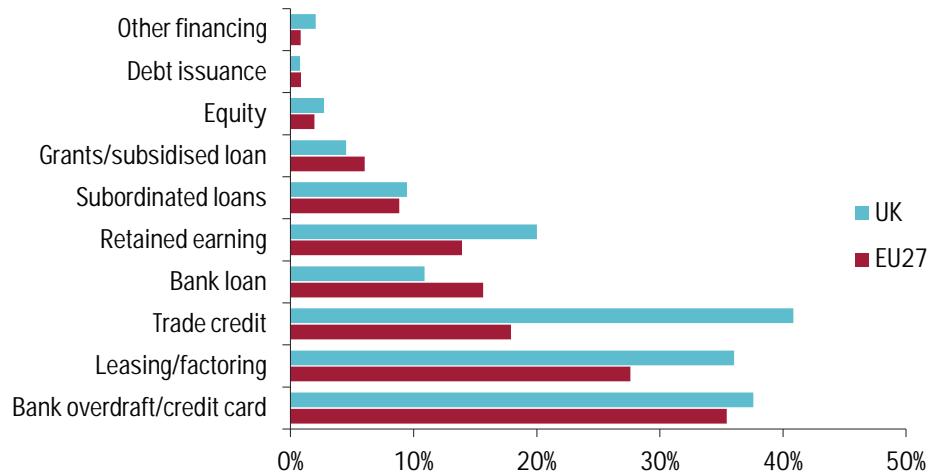
Annex

Figure A.1: Size of different financial intermediation channels to the non-financial corporate sector, % of GDP, 2016



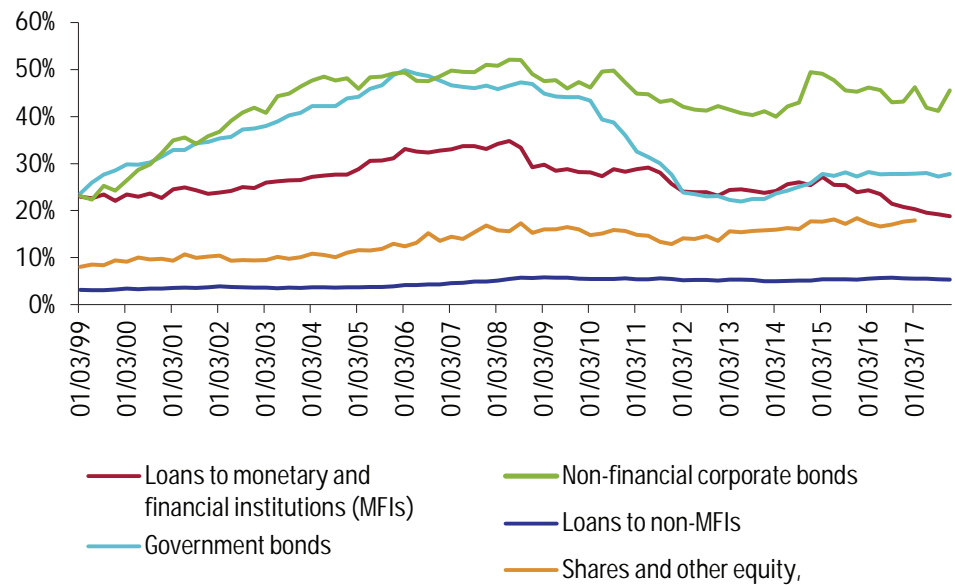
Source: Eurostat financial flows [nasa_10_f_tr]. Note: Loans exclude intra-NFC loans.

Figure A.2: Sources of SME financing in the past six months (% of EU28 SMEs)



Source: Bruegel based on European Commission, ECB SAFE survey, wave 17 (November 2017).

Figure A.3: Cross-border holdings of assets of euro-area Monetary and Financial Institutions (MFIs) as % of total assets



Source: Bruegel based on ECB.