



## CAPITAL MARKETS UNION: OPPORTUNITIES AND IMPACT ON THE EUROPEAN FINANCIAL MARKET

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### **Abstract:**

*In developing this study we started from challenges and debates that capital markets union project engages, launched by the European Commission during 2015, both in academia and the specialists, regulators and investors. The article is structured in three parts, as follows: in the first part are highlighted theoretical and conceptual issues on the need for a union of capital markets, the second part presents empirical evidence from literature relating to this issue and in the third an econometric model is described, which aims to demonstrate the potential that Capital Markets Union may involve on increasing financing through the capital market. The contribution of this article to prior knowledge in the field consists of filling conceptual approach on the impact that Capital Markets Union will actively engage on the European financial market. The added value by our scientific approach is to highlight the complementarity between capital and banking market. Between IPO dynamics, as a representative indicator of capital market and a significant set of indicators of financial market as Stoxx Europe 600 index, the size of capital markets, changes in credit standards and key rate of the monetary policy of ECB is manifested correlations terms denoting the potential impact that Capital Markets Union will have on European financial markets.*

**Key words:** *Capital Markets Union, CISS, financial integration, financial market fragmentation, IPO*

### **1. Introduction**

Capital Markets Union is a project developed by the European Commission and designed to ensure the development of stock exchanges and their integration in the European Union. Part of the Investment Plan, developed by the European Commission under the presidency of Jean-Claude Juncker, this union appears to be a need to recover investments in Europe.

As a result of the the consultation period which ended in May 2015, the European Commission (EC) adopted in September a Plan of Action regarding the establishment of Capital Market Union (CMU), including a timeline indicative, to be executed in the next five years. The Action Plan includes new rules on securitization and a legislation under Solvency II, two public consultations on risk capital and covered bonds. Also, the European Commission is looking for feedback regarding rules that affect the economy's ability to finance and develop (Deutsche Bank, 2015).

The CMU project aims to stimulate the diversification of funding sources, with impact on investments and economic growth, representing a fundamental factor for financial stability. It lessens the impact of potential problems in the banking sector on companies and their access to funding. (European Commission, 2015)

The difficult economic situation in Europe, low investments, domination of bank financing compared to that achieved through the capital market, the need for increased access to funding of small and medium enterprises, the need for standardization of securitized assets of high level and finding alternative channels of funding are strong arguments for the project of Capital Markets Union.

Some of the objectives of the union plan is the promotion of sustainable economic growth by: creating deeper and more integrated capital markets in the European Union (EU); removing barriers in case of international investments; increasing competition, increasing access to finance for firms, especially small and medium enterprises (SMEs) (PWC, 2015).

The purpose of this paper is to highlight the opportunity for this European construction and to estimate the potential effects of Capital Market Union (CMU) on the European financial market, based on the evolution of a representative indicators of the capital market, access to bank financing, the size of financial markets, the degree of financial integration, stock market indices. The paper is structured in three parts. The first part contains theoretical aspects regarding the need of Capital Markets Union creation, the second part surprises evidences and statistics from literature and the third part captures empirical quantitative aspects of Capital Markets Union` implications. The paper concludes by presenting findings and future research directions.

## **2. The need of creating Capital Markets Union**

CMU basic idea is not entirely new. This is reflected in the Single Market Programme in 1985 and in the Financial Services Action Plan (FSAP) in 1999, which target similar objectives, such as: lack of funding for innovative firms or start-ups and firms in early stage, fragmentation and the small size of capital markets, corporate financial structure centered too much on bank financing. In this context, the aim of CMU on more integrated and effective European capital markets can be considered an important and necessary step in promoting sustainable economic recovery.

After years of regulatory focused on banking reform, regulators are turning their attention to creating a single market for capital flows, which complement bank financing in the real economy in Europe. Diversification of funding from bank financing

to develop a second motor, respectively, a single market of the stock exchanges, that enhance access to financing for companies, represents a fundamental step for the European economy.

Also, in the European capital market it manifests a number of difficulties and limitations, which can be remedied through the Capital Markets Union: simplification of procedures for conducting public offers; launch of securitized financial products to high standards; facility in the long term investments from specialized investment funds; the establishment of a suitable legal regime for private equity; credit risk assessment at SMEs.

According to MEPs, the project of Capital Markets Union is a component of the Investment Plan initiated by the European Commission, whose purpose is to mobilize 315 billion in three years, based on financial support granted by European guarantees by the European Investment Bank as well as private capital. The objective is that SMEs but also regional and local banks, as lenders, to benefit from this fund. The contribution of SMEs to the gross added value of European companies is 58% and provides jobs for 90 million employees, representing approximately 67% of related jobs in the private sector.

### **The current state of scientific research**

Approach to opportunity and the expected effect of Capital Markets Union are mostly theoretical and consist of estimates of the potential beneficial effects, that this European construction may engages and possible risks, limitations and difficulties that may occur. Capital Markets Union is a fundamental step for the economic progress of Member States and to reduce the differences between Members (Hardouvelis et al, 2006).

The project of Capital Markets Union offers the potential for rapid increase of sustainable development in the European Union. According to specialists, this project CMU will create greater integration of capital markets in the European Union, also will remove barriers in investing cross border, will increase competition and reduce costs to attract capital and improved access to funding firms, in particular for SMEs (small and medium enterprises).

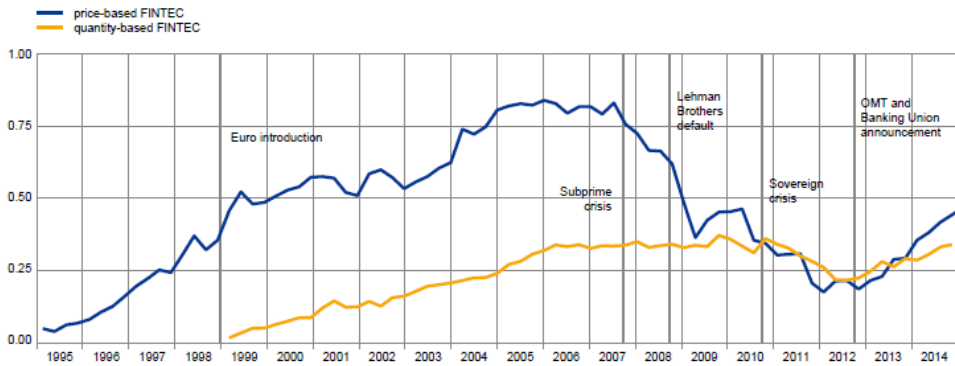
The more the degree of integration of markets increases, the more diversifies funding sources and investment funds. The initiatives to create Capital Markets Union include various risks. Market volatility will increase systemic risk, will reduce the ability of local players in accessing financing and weaken investor protection.

In our opinion, the main premises of the Capital Markets Union`s project are based on the: low level of financial integration and stock market integration, the gap compared to the US stock market and increased fragmentation of financial market.

In the European Union, financial integration is measured by FINTEC index (Financial Integration Composite), which allows an overall assessment of financial integration in the main segments of the euro area, including money market, bond market, stock market and banking market. The indicator of financial integration

FINTEC takes values between zero (which reflects a total lack of integration) and one (Full integration) (Figure 1).

Price- and quantity-based FINTECs



Source: ECB.  
 Notes: The acronym FINTEC stands for FINancial INTEgration Composite. The price-based FINTEC aggregates ten indicators covering the period first quarter 1995 – fourth quarter 2014, and the quantity-based FINTEC aggregates five indicators available from the first quarter of 1999 to the third quarter of 2014. For a detailed description of the FINTEC and its input data, see the Statistical Annex.

Source: European Central Bank Report, 2015

**Figure 1: Price and quantity based FINTECs**

FINTEC financial integration graph, presented by the report of ECB suggests that long-term trends on financial integration are associated with certain events that have a major influence on European financial system. There was an increase period of Euro integration, with a peak level at the beginning of the subprime crisis in 2007, followed by a period of fragmentation of European financial markets. The two measures of the FINTEC index, price-based FINTEC (based on aggregation of 10 indicators during the first quarter 1995 - the 4th quarter, 2014) and quantity-based FINTEC (based on 5 indicators in the first quarter 1999 to first quarter 3rd 2014), highlight the impact of European and international monetary financial events on the level of financial integration).

According to literature (Benôit Coeuré, 2015), the degree of financial integration quantified by FINTEC index has recorded in 2014 similar values to those before the sovereign debt crisis. As shown by the chart of FINTEC index, the launch of European Banking Union project was an essential moment for financial integration in terms of limiting the possible effects of financial fragmentation in a crisis situation. Also, improving financial integration has been generated and unconventional monetary policy measures taken by the ECB, such as quantitative easing and qualitative easing.

In our opinion, the launch of Capital Markets Union project will have a favorable impact on the financial integration, similarly to the launch of European Banking Union project. From the perspective of EU capital markets, it shows the importance and the stocks market integration index, as a subcomponent of financial integration index FINTEC.

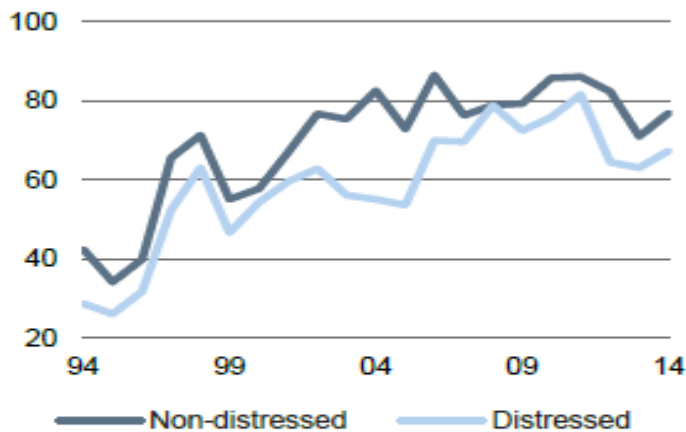
According to ECB and Deutsche Bank, European stocks market integration index indicates a stagnation of the capital markets integration process, which could lead to negative effects, because it knows that stock markets integrated are designed to ensure a continuous capital flow between countries, facilitating the companies's access in obtaining foreign capital and investors portfolio diversification.

A look overall over of financial integration in Europe for distressed countries and non distressed countries from euro area (Figure 2), reveals the existence of a high level of integration for both countries (distreseed and non-distressed) in the last two decades. Common factors explain about 75% of the variation in stocks market from non-distressed countries between 2000 and 2008.

**Euro area equity market integration**

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Index in %, 100% implies perfect integration



Non-distressed countries: Austria, Belgium, Estonia, Finland, France, Germany, Luxembourg, Malta, the Netherlands and Slovakia  
 Distressed countries: Cyprus, Greece, Ireland, Italy, Portugal, Slovenia and Spain

Sources: ECB, Deutsche Bank Research

Source: Deutsche Bank Research, 2015

**Figure 2: Stock market integration index**

Based on an index that expresses the degree of perfect integration of 100%, the stock market shows higher levels of integration in non-distressed countries, the index value reaching over 80% in 2006-2007. In contrast, in the case of distressed countries the higher level of integration manifested by 2008.

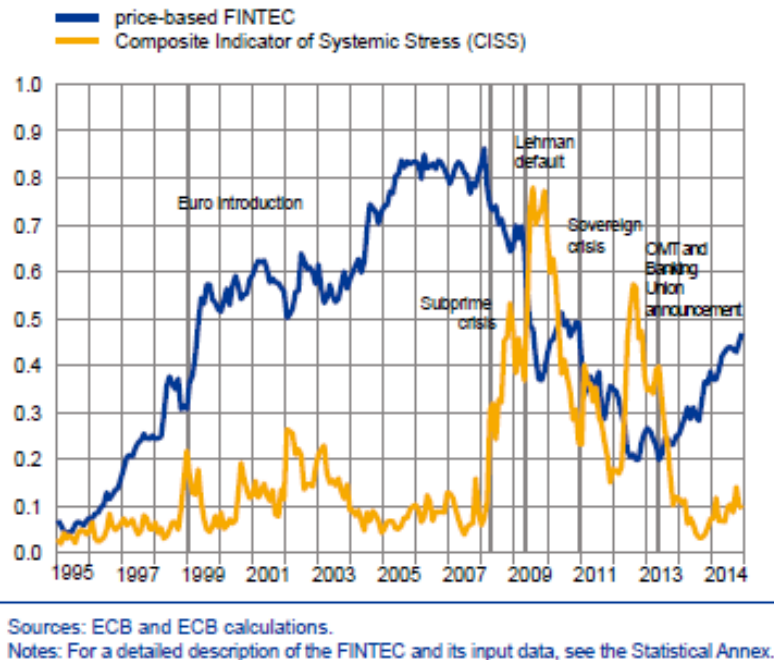
Both countries (distreseed and non-distressed) have not escaped from the negative effects of the global financial crisis, markets following a path of slow

integration of its onset. The effects persist until around 2014, when exchanges become more synchronized due to restore the confidence and the level of integration.

In this context, the project of Capital Markets Union aims to focus on measures that diminish information asymmetry and transaction costs by introducing a single set of rules for capital markets. By harmonizing the rules and regulations governing trade, strengthening stock market could gain substantial capital flows (Latham and Braun, 2010).

Also, the FINTEC financial integration index can be analyzed and correlated with the CISS index (Composite Indicator of Systemic Stress). This indicator measures the current state of instability, called "stress" in the financial system, in order to condense this situation of financial instability in one statistical indicator (Hollo et al, 2012). The figure below (Figure 3) illustrates the developments of these indicators.

### Price-based FINTEC and financial stress



Source: European Central Bank Report, 2015

**Figure 3: Price-based FINTEC and financial stress**

CISS includes individual indicators of financial stress, which reflects the instability conditions of aggregate markets and financial sectors, being considered the core of any financial system. While the financial integration has improved steadily during this period, the financial stress recorded an approximately constant trajectory. Decreased of financial integration occurred in periods in which financial stress was

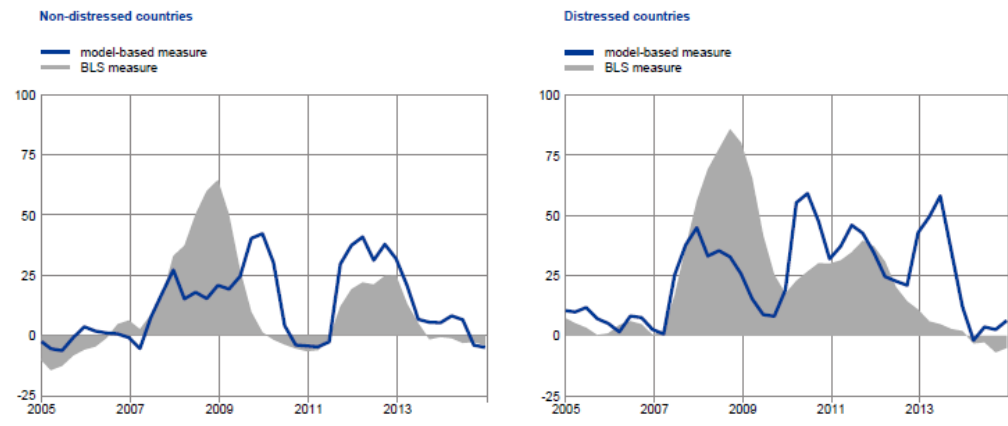
reduced, which means that financial integration may evolve under the influence of several factors, more comprehensive than the state of financial stability.

When the level of financial integration has diminished we can say that it has created conditions for financial fragmentation manifestation. This financial fragmentation is the result of several exogenous factors as credit demand and supply and changes in the lending criteria and standards, reflected by Bank Lending Survey index (BLS).

We believe that taking into account of credit conditions is an important element analysis of European financial market, which is mainly banked, and the access to bank financing provides us important signals about the possibilities of financing the economy (Figure 4).

### Tightening of credit standards

(net percentage changes)



Sources: ECB (BLS) and ECB calculations.

Source: European Central Bank Report, 2015

**Figure 4: Tightening of credit standards**

The figure above shows that fluctuations in BLS (Bank Lending Survey) for both countries (distressed and non-distressed) indicate a tightening of credit conditions since the earlier crisis in 2008 and, subsequently, in 2012.

From the correlation of the two trends, namely the fragmentation of financial markets, on the one hand and developments in terms of tightening of credit standards, on the other hand, resulting the need for mechanisms to enhance the role of capital markets in financing the economy. In this context, the CMU project can be considered one of EU responses to the financial crisis by creating a single set of rules in financial services regulation, aiming harmonizing regulations for Member States.

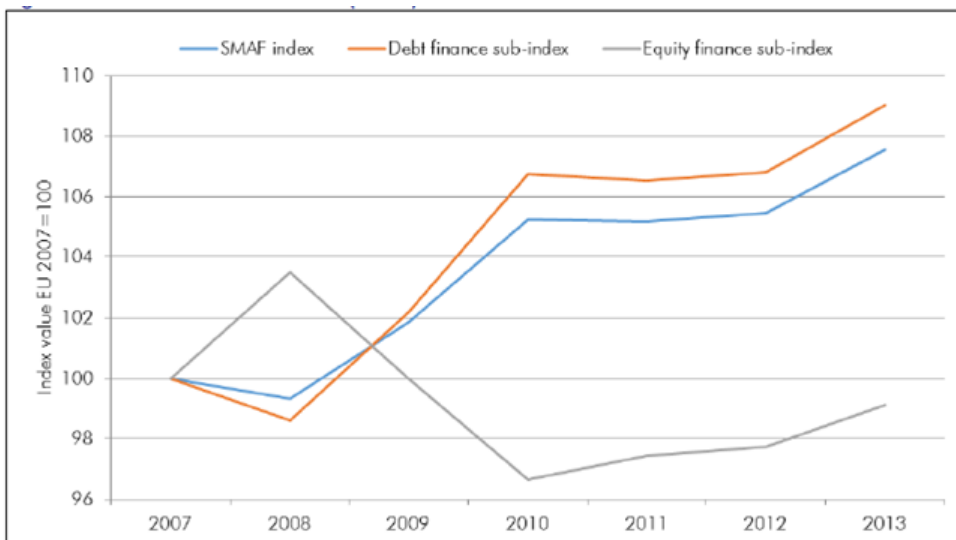
European Commission assessments on financing mechanisms shows that investment in the EU is mainly based on bank financing. There are also significant differences regarding funding between Member States and different rules and market practices for products such as securitized instruments and private placements.

Moreover, shareholders and buyers of corporate debt invest mainly in their own Member States, and many SMEs still have limited access to financing.

*Premises provided by deficiencies in financing SMEs*

Given that one of the CMU project' objectives of the project is increasing access to financing of SMEs, the European Commission has identified a number of limitations. First, SMEs are dependent on bank financing and their performances are not attractive to investors. Also, SMEs are more vulnerable when bank financing becomes more expensive or less pronounced.

To facilitate SMEs' access to finance, the Commission is considering measures that can be taken to increase the visibility of SMEs and investors' access to information on their lending. In this respect, the SMAF index (SME Access to Finance Index) provides an indication of the change in time, of the SMEs financing access conditions for the EU and its Member States (Figure 5). The index comprises two main elements (sub-indices): access to debt finance and access to equity finance.



Source: European Commission, 2014

**Figure 5: SMS Access to Finance (SMAF) Index and its sub-indices for the EU**

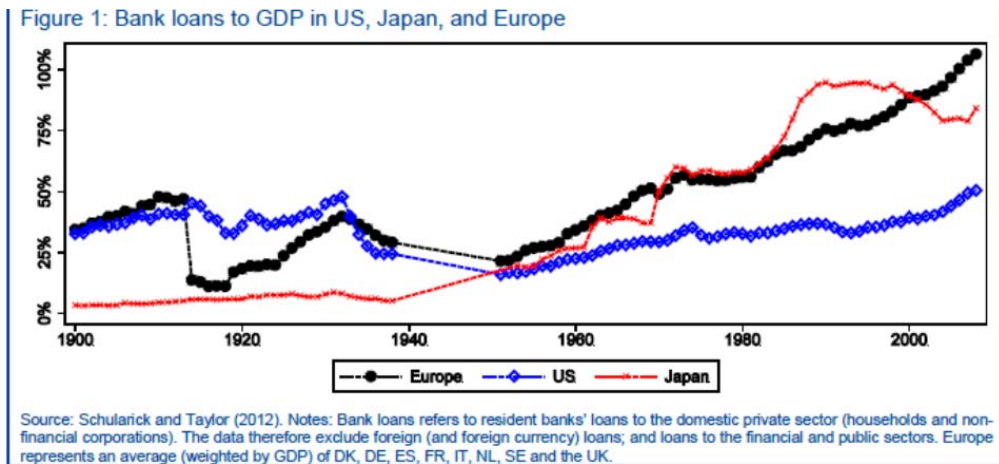
The aggregated SMAF index for the EU has recorded an improvement since 2008. It may be explained by an increase in the debt finance sub-index, as a result of the fall in interest rates for loans and overdrafts since 2009 for many EU countries.

Another premise from which the European Commission started launching the project of CMU is the gap towards the American market. In support arguments in favor of the union of capital markets, the European Commission and a number of financial institutions rely gap that presents the European market compared to the US market, through a various indicators.



Compared to the US economy, it is noted that Europe has traditionally relied on bank financing, with total assets in the banking sector above those in the US. In the US, the SMEs attract five times more funds from the capital market compared to European SMEs. Public and private equity markets in the US is twice compared to that of European Union countries. And other indicators confirm this gap: the volume of US private placement is up to three times higher than the European one; the volume of non-financial corporate debt securities is three times greater; the volume of corporate high yield securities is 2.5 times higher in the US compared to Europe (Mayer Brown, 2015).

Making a synthesis of these gaps, Reports of the Advisory Scientific Committee/No 14/2014 (ESRB), draws attention to the fact that Europe is extrabanked detrimental to the development of the capital market specific tools (Figure 6). Accelerating financing through bank loans in Europe compared to the US has led to increasing gap between these, after 1990s, by which time the trends were similar. As a result of this trend, bank loans in the region hold the most significant share in GDP, after 2000s, with a rate of over 100%, compared to a maximum of 50% in US and 80% in Japan.



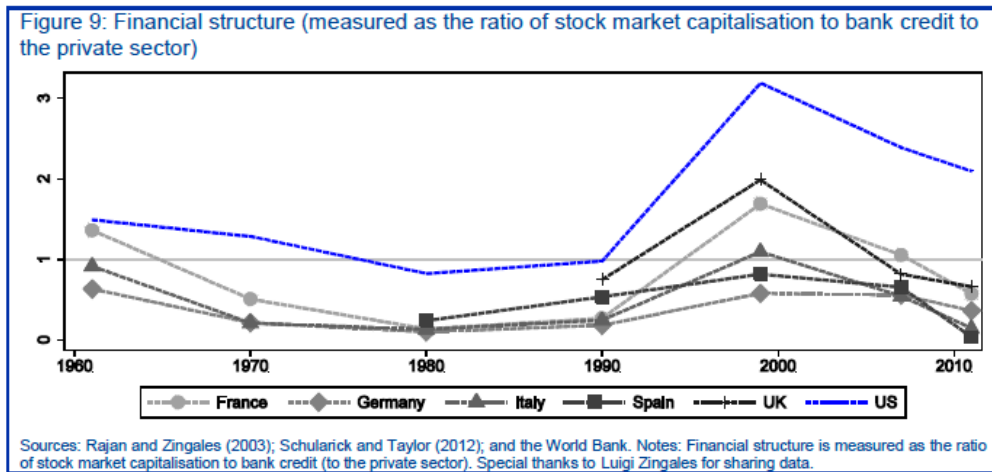
Source: Reports of the Advisory Scientific Committee/No 14/2014 (ESRB)

**Figure 6: Bank loans to GDP in US, Japan and Europe**

However, developments in the international context, the regulations in the capital market and the cost of funds raised have generated a certain orientation to financing through capital market instruments.

European banking system has great size, compared to other sources of financial intermediation, such as stocks and bonds market. For this purpose, a good tool for measuring the trend is the ratio of market capitalization and bank credit (private sector). Comparative analysis for 5 European countries shows subunit values and an

orientation, after 2000, by financing through the capital market, more pronounced in the US than Europe (Figure 7).



Source: Reports of the Advisory Scientific Committee/No 14/2014 (ESRB)

**Figure 7: Financial structure (measured as the ratio of stock market capitalisation to bank credit to the private sector)**

The example of US is considered by the European authorities, because although financing through bank lending declined in the crisis, however the companies had access to financing through the capital market, which functioned as a second engine for a number of companies, that had no access to bank lending (Bloomberg, 2015).

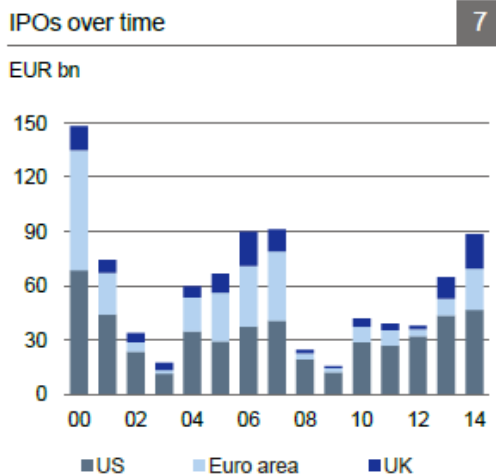
In order to illustrate the depth of stock markets, a widely used proxy is the IPO (Initial public offering), indicating companies listed on the stock exchange, which enables them to increase access to financing, attracting funds for development. Thus, funds raised provide to investors and shareholders opportunities to get their returns for their investments. Also, IPO facilitates a future acquisitions, debt reduction and contribute to enhancement of the corporate image.

In our approach, the idea which we support is that the limits which financial market fragmentation presents and the difficult access to bank financing for companies may be substituted by launching IPOs.

Regarding the stock markets, the European market differs in size from that of the United States, but the liquidity and IPO trends are similar. However, unlike the stock market of the United States, the European stock market integration lost momentum in recent years and investments in the euro area fell significantly.

From our point of view, relevant to market dynamics, to the investors and companies's interest are launches of IPOs. A comparative look overview on the current status of the IPO in Europe, US and UK illustrates the IPO's role to stimulate capital markets. Accessibility of capital markets is thus shown by the number and value

of IPOs. IPO trends in the US, euro zone and UK for the period 2000-2014 are captured in the figure below (Figure 8).



Sources: Dealogic, Deutsche Bank Research

Source: Deutsche Bank Research, 2015

**Figure 8: IPOs comparative developments**

IPO's trend on this markets is relatively similar, indicating the sensitivity of titles launches according to investor and companies' s reluctance or enthusiasm, in the context of the macroeconomic developments. However, it can be seen that the IPO market in Europe has not recovered from the period crisis compared to relaunch IPO in the US and UK. These are reasons enough for European authorities's mobilization to promote and implement the Capital Markets Union project.

For the CMU project meet its main goal, the increase by 10% the EU capital markets' share of debt financing, from currently 25% to 35%, a series of measures are needed such as: increasing the share of European capital market capitalization to GDP from 75 % to 100 % and doubling the volume of securities issues resulting from the IPOs launch and the private placement, by encouraging non-bank investors actively participating in the financial market (Silvi Wompa, 2015).

To this end, the general framework for action to implement the CMU project must include the following: development of liquid and efficient capital markets by issuing higher quality tools, a better use of economies in the long term by investing and promoting of a open and integrated capital market. The successful implementation of the CMU project will lead to a significant increase in non-bank institutional investors' positions, as well as insurance companies, pension funds and investment funds, which will have to face increased competition from non-bank institutions.

*Limits and critics in developing CMU*

The idea to develop larger and more efficient capital markets in Europe caught momentum by creating an Action Plan regarding the creation of a single capital market. However, market participants and policymakers highlights some weaknesses of CMU. They consist in an inability to address the differences in the decision-making process at national level by Member States, so far and inability to meet the expectations of participants, given the long term nature of the project.

The authors Véron and Wolff (2015) argue that the European capital markets are small compared with similar economies of scale. For example, unlike the US stock market, shares and corporate bonds on the European markets are less than half of the size of the US. So, European capital markets not only face problems related to size, accessibility to traditional corporate bonds and equities. Also, they have difficulties in development and financial stability due to fragmentation of capital markets and curtail investments.

Regarding the limits of this project of Capital Markets Union, the European Commission is faced with possible disputes between national financial authorities of other member countries. However, at the level of European Union there are pillars that can support the project of CMU, such as: Banking Union, known as Single Supervisory Mechanism (SSM), Single Resolution Board (SRB) and Frontex. SSM was formed in order to prevent a breakup of the euro area in mid-2012 and SRB and Frontex coexist with national institutions that own autonomy. However, the organizations create European institutional construction limits (Deutsche Bank Research, 2015).

One of the CMU's objectives CMU consists of markets standards harmonization, on the assumption that the harmonization of unregulated goods and services markets is enough to remove cross-border barriers, while in the regulated goods and services markets the authorization, supervision involves multiple analyzes (Dvořák and Podpiera, 2006). In order to create a single market pooling these functions at European level is a necessary condition. Thus, the national authorities must find ways to facilitate the access of third countries and to align with EU standards (Langfield and Pagano, 2015).

### **3. Empirical analysis of CMU implications on the European financial market**

#### ***3.1. Research methodology and data used***

To assess the possible impact that the CMU project will actively engage on the European financial market, we proceeded to test through a multiple regression, correlations between IPO, considered representative for the evolution of the capital market and reference indices, with a crucial impact on European economy development, such as: key rate of the monetary policy of the European Central Bank, Stoxx Europe 600 index (the stock market reacts to the monetary policy of the central bank) and some indicators of financial integration, such as: the size of capital market and changes in credit standards.

Motivation election for credit standards indicator as a dependent variable in explaining the CMU project's impact on financial market consists of the fundamental role its occupy in describing financial integration. Starting from the influence of exogenous factors that affect loan demand, correlated with lack of integration generated of credit supply side, we consider fundamental credit constraints analysis reported in the analysis of bank lending, due to tightening of credit standards.

Data for IPO developments were taken from WATCH IPO EUROPE reports, provided by the website of the consulting and audit company, PricewaterhouseCoopers, for some of the most representative stock exchanges such as: London Stock Exchange, BME (Spanish Exchange) Euronext , NASDAQ OMX, Deutsche Börse , SIX Swiss Exchange, Borsa Italiana, Oslo Axess & Oslo Bors, Warsaw (WSE). Stock markets for which no data were found for the reference period were removed from the sample, which is why the final sample consists of nine stock exchanges data and reference period is 2007 to 2015 (50 observations). Data for developments of key rate of the monetary policy, financial integration indicators (size of capital markets and changes in credit standards) were collected on the website of the European Central Bank and on specialized websites, such the Stoxx Europe 600 index. In order to capture the complementary relationship between the stock market and banking market we opted for the indicator " changes in credit standards", that we selected from financial integration index components, whose evolution we collected from Statistical Data Warehouse of ECB database.

In developing the analysis we used data sets with annual frequency and because of restrictions on data series available only for a period of nine years, causing a insufficient number of observations for a time series model, we opted for a panel data model using Eviews 8 software.

The available information for key rate monetary policy, changes in credit standards and Stoxx Europe 600 market index varies over time but remains constant for all stock exchanges in a given year, while the value of the IPO and the variable size of the capital market varies depending on both the year and the stock market. In order to obtain valid results IPO developments were caught using their yield per year.

For developing the analysis we estimated a panel data model by pooled ordinary least squares method (OLS). The equation of a panel data model can be written as follows:

$$y_{it} = \alpha + X'_{it}\beta + \mu_i + \nu_{it}, \quad i=1, \dots, N; t=1, \dots, T$$

where  $i$ =the cross-section dimension (e.g. European stock markets),  $t$ =time (the time-series dimension),  $\alpha$ ,  $\beta$ =coefficients of the equation,  $X_{it}$  = the observation it on the explanatory variables,  $\mu_{it}$ = the unobservable individual-specific effect and  $\nu_{it}$  = the remainder disturbance;

**3.2. The analysis of empirical results**

The current state of the debate on Capital Markets Union is relatively abstract and has not a very clear empirical evaluation. In this regard, we intend to analyze, using a multiple linear regression, Capital Markets Union`implications on the European financial market.

After processing data series, by using Eviews 8 software, we get the following formula described in the table below (Table 1):

$$\text{CHANGES\_CREDIT} = 0.645888 - 0.004510 * \text{IPO\_VALUE} + 43.31540 * \text{KEY\_ECB} + 1.224876 * \text{SXXP} - 26.17868 * \text{SIZE\_CAPITAL\_MARKET}$$

**Table 1: Estimation of regression model**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.645888	0.376156	1.717076	0.0943
IPO_VALUE	-0.004510	0.001149	-3.923274	0.0004
KEY_ECB	43.31540	4.565484	9.487581	0.0000
SXXP	1.224876	0.126992	9.645334	0.0000
SIZE_CAPITAL_MARKET	-26.17868	10.82331	-2.418732	0.0206
R-squared	0.798943			
Adjusted R-squared	0.733735			
F-statistic	12.25227			
Prob(F-statistic)	0.000000			
Durbin-Watson stat	2.087713			

Source: own estimation, using Eviews 8

The coefficients of the variables used indicate a negative relationship between endogenous variable (changes in credit standards) and IPO developments, respectively, the size of the capital market and a positive relationship between the dependent variable (changes\_credit) and exogenous variables as: key rate of the monetary policy of the European Central Bank, Stoxx Europe 600 index (SXXP).

The regression coefficient for the variable that shows the trend of initial public offering on the stock market is negative and signifies an indirect correlation between the two variables. At a decrease of 1% from IPO, the impact on changes in credit standards is -0.00451%. This can have an explanation in economic reality, meaning that a tightening of standards may be offset by diversification of funding sources and thus increase IPO. Also, financing through IPO increases when there are restrictions in terms of access to bank financing, which demonstrates the complementary action of two mechanisms of financing the economy through capital and banking market.

Key rate of the monetary policy of the European Central Bank positively influence changes in credit standards, suggesting that an increase in market interest

rates cause a relaxation of credit conditions, to maintain the supply of credit to the market demand.

The variation in European total market index SXXP indicates a modification, in the same way, with the access to banking funding. Increased confidence in the stock market, emphasized by the Stoxx Europe 600 index correlates to easing access to lending criteria.

Instead, the size of capital market coefficient indicates an inverse relationship between this and the changes in credit standards. In economic terms, this link gives us a correlation between the stock market and banking market, which means a reduction in credit access by imposing new restrictions, given that financing through IPO records an upward trend.

The potential implications of the Capital Markets Union on the European financial market are proving to be beneficial, because on the one hand, the expansion of stock exchanges stimulate investment and economic development and, on the other hand, tight credit conditions cause increased attention on customer creditworthiness and its orientation on risk diversification. We thus obtain a performance improvement of banking sector by reducing the amount of bad loans, following the tightening of lending conditions.

The link between the stock market and banking market is underlined by specialists. Important to note is the complementary relationship between the two markets, confirmed also in the quantitative study. In literature, banks and capital markets have been regarded for years as competing sources of financing. In this respect, regulators have tried to find a balance between the two funding mechanisms, these two intermediates being complementary to each other (Bossone, 2010).

To test the significance of the regression model parameters were used a series of tests to assess its significance and validity in order to obtain pertinent conclusions.

According to Table 1, all the independent variables are statistically significant, because the associated probabilities fit in the confidence interval, at a significance threshold of 5% and standard errors do not record very high values.

Report of determination, approximately 79.89%, indicates a relevant percentage (which exceeds the threshold of 0.7) and we can say that the model is valid and we can draw relevant conclusions based on the estimated model. Having considered the value of this indicator, we can say that the independent variables used as IPO, key rate of the monetary policy of the European Central Bank, Stoxx Europe 600 index, size of capital market explains in a proportion of 79.89 % the changes in credit standards for 2007-2015.

Consequently, with the help of these tests, we bring the necessary arguments to assess the correlation between IPO developments, representative for the capital market and the key rate of the monetary policy of the European Central Bank, the SXXP index, financial integration indicators, the size of the capital market and changes in credit standards due to the impact of Capital Markets Union on the European financial market development.

### **3. Findings and future research directions**

The need and advantages of Capital Markets Union is to increase access to finance, especially, in the capital market compared to the bank, launching the IPO, increasing integration of markets and improve the services offered to issuers.

The integration of capital markets is essential to improving European economy. This project of Capital Markets Union enables a more efficient financial industries. Thus, eliminating cross-border barriers cause an increase in competition among intermediaries, encouraging a high level of investments.

The project provides opportunities for both stakeholders in the process of intermediation. Capital markets development causes an increase in competition and therefore a reduction in intermediation margins. This reduces the cost of funding for borrowers and depositors` performance increase.

CMU` implications on the economy, also, appear in the econometric model developed. Its results confirm the economic reality, namely that loosening or tightening the conditions for access to banking funding is in correlation with the IPO, in reverse. In other words, financing through IPO increases when there are restrictions on lending. On the other hand, a rise in key rate of monetary policy of the European Central Bank and the market stocks index lead to a relaxation of credit conditions, due to changes in the same way of the banking income from interest, respectively, the recovery of investor confidence in the stock market and the need to maintain the supply of credit in the economy.

In conclusion, Capital Markets Union provides both stakeholders support in obtaining financing, promoting diversification of financing sources and profitable opportunities for investors to speculate and develop. It is estimated that investment stimulation, employment and economic growth, consequence of the launch of CMU, helps maintain financial stability, in particular, through the mitigation of the impact of the negative effects that banking sector may has on the enterprises.

In the future, in order to extend the present study, we aim to capture more financial integration indicators and their trends as the CMU project implementation. The study also can be applied only to the capital market` conditions from Romania to capture the benefits of CMU on the emerging economies that are not integrated yet.

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