



Importance of Capital Markets in Supporting Development and Integration

Financial integration in the Euro-Mediterranean region: Workshop organised by the IEMED with the support of the OECD

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First, I would like to welcome you all to our premises here in Barcelona. As you may know, the CNMV is the Spanish securities markets regulator and, as such, our objective is to ensure the transparency of Spanish securities markets, the correct price formation and, ultimately, the protection of investors.

The CNMV headquarters are located in Madrid, but this office, the Barcelona office, has always been a reference point for our supervisory activities since its opening 28 years ago. Around 15% of our work starts with Barcelona as an entry point, just to illustrate the relevance of this market, and I am pleased that today's workshop, aimed at reinforcing the importance of capital markets in the Mediterranean region, takes place precisely here.

The importance of capital markets

Today I would like to contribute to the discussion vindicating the role of capital markets and stressing its relevance for financial integration and economic development.

Capital markets allow to channel savings into productive investments, improving job creation and wealth generation for companies and citizens and, moreover, to boost economic growth.

This is nothing new, as we can all agree on the importance of capital markets to support economic growth, but, unfortunately, this point requires a constant reminder.

We are living in an era of de-globalization, of increasing protectionism in some jurisdictions and of a high risk of market fragmentation. That is the reality that we are facing these days, a reality with the potential of jeopardizing the high level of global financial integration that we have achieved over the last decades. With this, I am referring to the Mediterranean region, but to the world as a whole.

At the same time, it can be argued that cooperation and financial integration is more relevant than ever. Companies and investors need access to capital markets to face challenges of a global scope, such as digital transformation or climate change, which is why, if we want them to be able to grow in a sustainable way and contribute to the economic development of the region, we need a well-functioning capital market.

And this goes both ways.

There is a virtuous circle between markets and economic growth, as they feed off each other. Capital markets help drive economic growth, but dynamic capital markets equally benefit from having solid economic fundamentals. However, despite all the efforts, challenges exist, as can be seen with several indicators (low levels of liquidity in some markets, the need to enhance capital flows and cross-border investment).

I would like to delve into these challenges from two different perspectives: companies and investors.

Companies: the role of SMEs

First, we have companies, usually, big corporations and enterprises that benefit the most from capital markets: they already have the expertise, the resources and the capacity to be listed and can easily comply with the transparency, reporting and corporate governance requirements.

On the other hand, small and medium-sized companies tend to face additional challenges in accessing the markets in comparison to larger corporations: regulatory requirements could be particularly burdensome for some, the cost of an IPO process, lack of visibility among investors or the ongoing compliance costs. Family businesses might also be afraid of losing control of the company.

In that context, smaller companies tend to rely exclusively of banking lending, which limits their capacity to grow and close the productivity gap. However, in many Mediterranean countries, such as Spain, SMEs are the key driver of economic activity and employment. In Spain, more than 90% of all businesses in Spain are small or medium-sized and they contribute more than 50% to the total added value of the Spanish economy.

Capital markets should provide these businesses with access to funding that would be unavailable through traditional bank lending.

It is true that private equity and venture capital funds play a relevant role, providing financing to innovative startups and growing companies in specific sectors such as high-tech. However, only profound capital markets can offer long-term funding opportunities for SMEs during the growth phase, facilitating expansion plans.

Bearing this in mind, we should facilitate SME to reap the benefits of capital markets.

It is therefore crucial to create the appropriate conditions for SMEs to access these markets. For instance, enhancing their visibility among investors, ensuring that there is proper research and analysis, simplifying the regulatory framework for SMEs,

facilitating their listing on smaller exchanges or favouring the establishment of new vehicles specialised on this type of investments.

There are different initiatives that can be introduced to facilitate SME funding.

Investors: allow citizens to ripe the benefits of capital markets

In addition to companies, the other perspective to promote capital markets is promoting investment.

There is a clear need to encourage investors to participate in capital markets, but we must do so by putting them at the heart of capital markets, developing markets that inspire trust and assurance.

This would allow families to increase their wealth by investing in various instruments that match their risk appetite and investment horizon, diversifying their risks while seeking solid returns.

Additionally, capital markets can provide investors with liquidity for times of need, allowing them to buy and sell financial products with relative ease, in comparison to what happens when savings are invested in real estate. However, data shows that investment is usually allocated to less productive areas such as real estate.

How can we solve this problem?

Lack of financial knowledge among families is usually mentioned as one of the main drivers behind this trend.

It is true that there is a poor understanding of basic concepts such as inflation, interest rate or credit risk. And, although the financial literacy has increased, further efforts are needed to deepen the public's understanding of the importance of savings over the long term.

We all have the responsibility to enhance financial literacy. It will help families understand and effectively manage personal finances and to improve their financial well-being. Raising awareness about available products, such as savings accounts and individual pension plans, could encourage their use.

That being said, it is still not enough and other incentives should be considered. Measures such as tax incentives together with the establishment of simple and clear products would certainly help.

At a European level, we are advocating for simple and more transparent products, easy to understand, with clear labels, plain products that simplify the investment process. Access to proper financial advisement would also be highly beneficial.

It is all about allowing families to enjoy the benefits of capital markets.

I will end by saying that capital markets are the most efficient system to allocate funds, ensuring transparency and a good price discovery process.

And this transparency fosters trust, mitigates risks, and encourages participation, creating a cycle of investment and growth.

For this to happen, we should ensure that markets are functioning well and are open, in addition to foreign investment. Efficient markets can attract foreign investors, who can also bring expertise and new technologies, especially in countries with high potential for growth or strategic geographical locations.

At the CNMV, we have been active in implementing initiatives to foster growth and development of Spain's capital markets. I would like to highlight the OECD review of the Spanish capital markets, recommendations of which will be published in the coming weeks, that we have promoted together with the Spanish government.

The OECD study has assessed Spanish capital market and includes specific recommendations that will guide authorities in the development of these markets. I am sure it will be of much help.

As Mediterranean countries, we share history and economic potential, and we can all benefit enormously from greater and more liquid markets.

Last month I had the pleasure of chairing the Mediterranean Partnership of Securities Regulators meeting here in Barcelona. The MPS is a partnership established in 2009 with securities regulators of countries from both shores of the mediterranean sea, resulting in the Barcelona Process and the Union for the Mediterranean.

Well, the topic that attracted more attention during the meeting was precisely sharing experiences on how to promote security markets.

What is clear to me is that we need spaces such as this workshop to have the opportunity to work together and collect efforts to advance into a more dynamic, resilient, and integrated economic hub. And I am sure that we will find the ways to continue promoting wealth and economic growth.

Thank you for your attention.