



JOÃO NUNO MENDES

State Secretary,
Ministry of Finance, Portugal

Capital Markets Union: supporting recovery and the green and digital transitions

The motto of the Portuguese Presidency - "This is the time to deliver: a fair, green and digital recovery" - encapsulates the unique challenges at this juncture in time: i) the absolute priority to relaunch the economy and the recovery; ii) the sense of urgency, at EU-level, of the implementation of the Recovery and Resilience Facility (and the approval of national recovery and resilience plans) and iii) the unique opportunity to ensure a green and digital transition.

The response to the COVID-19 pandemic saw an unprecedented scale of public support to businesses and employment, a combination of liquidity measures and working capital support that has helped European businesses weather the crisis.

Financial stability and resilience must be monitored closely. The phasing out of public loan guarantee schemes and moratoria on loan obligations must be timed carefully, mitigating the short-term risks for the economy and the banking sector.

Financial institutions played a crucial role, and although the European financial sector has entered the crisis better prepared, the risk of contagion from the real economy to the financial system, namely through non-performing loans, must be acknowledged and addressed.

Financing the recovery is a pivotal challenge going forward and a "true Capital Markets Union is key to an efficient and robust European financial architecture" [I]. Moreover, the CMU is also key for a stronger international role of the euro.

Capital markets have an increasing role to play in accelerating the recovery and the green and digital transformation, complementing bank financing, and mobilizing additional capital for investment and recapitalisation of EU corporates.

The Portuguese Presidency welcomes the European Commission's new Capital Markets Union (CMU) Action Plan and the Council Conclusions adopted in December, which we consider to be very comprehensive. In this regard, the awaited KPI on CMU will be important to measure progress in implementation.

We have been supportive of advancing actions that improve market access conditions for smaller firms, supporting them in recovering from the aftermath of the Covid-19 crisis and diversifying their funding sources.

In this regard, we would highlight the importance of strengthening the role of securitisation in providing additional financing to the real economy.

We also look forward to the Commission's proposal on the Single Access Point which, in our view, has great potential in improving accessibility of relevant information on European companies.

The progress in the implementation of the CMU must also be seen in conjunction with the work in other areas, such as the implementation of the Next Generation EU Recovery Fund, the Banking Union, the Digital Finance Strategy and Sustainable Finance.

For example, the Portuguese Presidency is committed to making progress on the Regulation of Markets in Crypto-assets (MiCA) and the comprehensive framework on digital operational resilience for EU financial entities (DORA), which also contribute to the CMU. The implementation of the Capital Requirements Regulation/Directives review, allowing to phase-in the reforms in such a way that the critical role of banks in supporting the recovery is not hampered and, also, encouraging more long term and equity financing to SMEs. The Commission's proposal on the EU Green Bond Standard should contribute to promote the development of the market and consolidate the role of the EU in green financing. We see great opportunity to expand the existing capital markets products toolkit to better suit the recapitalisation needs of European corporates which have seen their equity base eroded due to the COVID-crisis. We have mentioned the role of securitization, but we also see with great promise the progress in the development of hybrid solutions in some EU countries and see the potential to share knowledge and best practices in this regard.

[I] Euro Summit meeting (II December 2020) – Statement