# Talking point

## European exchange landscape: too fragmented

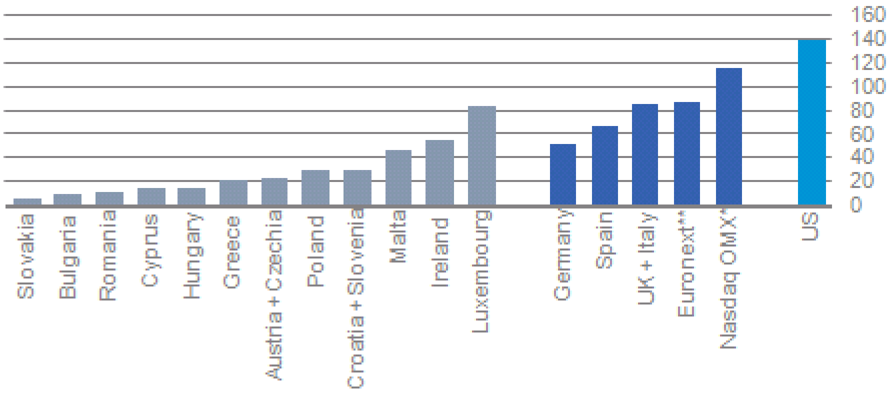
May 2, 2016

**In September 2015, the European Commission set out its action plan to establish a Capital Markets Union in order to push for stronger and more integrated capital markets in the EU to better complement bank finance. Creating deeper and more liquid stock markets is crucial in this respect, and also a precondition for European financial centres to regain their position in a global context. Indeed, the total number of stock exchanges operating independently in the EU is astonishingly high, especially in eastern and south-eastern European countries. In addition, market capitalisation is highly concentrated in only a handful of exchanges, and in smaller markets also tends to be lower relative to economic size.**

From a pan-European perspective, there are currently 17 independent major national stock exchanges operating in the 28 EU member states. These accounted for a total market capitalisation of listed companies of EUR 10.6 tr in December 2015. This is close to the pre-crisis peak reached in October 2007, and more than a doubling since the troughs during the financial crisis. However, despite the large number of exchanges, total market cap is highly concentrated. The five largest institutions combined make up a staggering 95% of total EU stock market cap, with their share even up slightly over the last few years, from 91% in 2007. By contrast, the remaining 12 exchanges jointly account for only EUR 0.5 tr, or 5% of the total. Of course, the largest stock markets are found in the largest economies, but market concentration is higher than pure economic size would suggest: the countries covered by the top five exchanges accounted for only 87% of total EU GDP both in 2007 and 2015. Geographically, these are 14 countries based in central, northern and western Europe, as well as the Baltics. All other EU member states, which are mainly located in eastern and south-eastern Europe, have their own independent national stock exchanges, except for the combinations of the Austrian and Czech exchanges, as well as the Croatian and Slovenian ones.

**Total market capitalisation of listed companies**

% of GDP, 2015




* Comprises the main stock exchanges of: Denmark, Finland, Sweden, Latvia, Lithuania and Estonia
** Comprises the main stock exchanges of: Portugal, France, Belgium and the Netherlands

Sources: WFE, FESE, Eurostat, ECB, Deutsche Bank Research

A similar divide emerges with regard to stock market size. Market cap tends to be much higher for the five leading exchanges, not just in absolute terms, but also relative to GDP. At 52%, Germany has the lowest market cap-to-GDP figure of these regions, and the Nordic countries (i.e. Nasdaq OMX) the highest, at 115%. By contrast, in the mostly lower-income eastern and south-eastern EU member states, market cap ratios are far more modest, ranging only between 5% in Slovakia and 30% in Croatia/Slovenia. The weighted average ratio for the largest exchanges is therefore almost three times as high as that of the remaining 12 exchanges, even including the high-income countries Luxembourg and Ireland.

The number of stock exchanges in Europe is particularly striking when compared to the US. Although the two economic areas' level of advancement and size are broadly comparable, the US stock market is considerably different. In 2015, there were only two major US stock exchanges, which accounted for EUR 23 tr of total market cap. Hence, US markets are not only much more concentrated, but also more than twice as large as their European counterparts. Consequently, the US stock market is also far larger in relative terms, with a market cap of 140% of GDP. Finally, it also recovered much quicker after a drop of more than 50%, similar to that in Europe, during the financial crisis: in the US, market cap reached the pre-crisis peak in May 2013, whereas this took until April 2015 in the EU.

Hence, all in all, there is a lot of potential for a European Capital Markets Union. Creating a more favourable environment for more consolidated, integrated and therefore more liquid stock markets may offer advantages for both (corporate) issuers and market makers. The former would likely benefit from reduced bid-ask spreads and greater investor demand and might thus be able to somewhat reduce their heavy reliance on bank financing. The latter would also gain from a more unified legal and regulatory framework. In addition, Europe's financial centres would become more competitive and regain a stronger position in an international context, in turn becoming more attractive for overseas investors. Likewise, incentivising households to invest a larger share of their savings in the stock market – e.g. similar to the 401(k) plans in the US – could help them make up at least partly for the much lower returns from traditional savings instruments such as bank deposits and insurance policies in the current zero-interest-rate environment. Promoting European stock markets by drawing some lessons from its much deeper, less fragmented counterpart on the other side of the Atlantic should prove a worthwhile exercise for EU policymakers.

Please see also:
EU Monitor Capital Markets Union: An ambitious goal, but few quick wins

Authors:
Jan Schildbach (+49) 69 910-31717
Martin Waibel

...more information on **banking and financial markets**
Talking Point - Archive