

## **EQUITY, CORPORATE DEBT, AND EUROPE'S CAPITAL MARKETS**

Maria Demertzis was joined by Beata Javorcik (EBRD), Rolf Strauch (ESM), Robert Holzmann (Bank of Austria) and Sophie Vermeille (Droit & Croissance) to discuss trends in corporate, sovereign, banking sector debt. Countries and firms are piling on huge amounts of debt to weather the economic effects of the COVID-19 pandemic. Should we be worried?

Beata Javorcik expressed concern about the effects of too much debt on investments. High debt levels are associated with lower investments and thus hamper growth. She believes that Europe needs to shift towards more equity support. She however warned against the treat of zombie firms—especially as these may run counter to Europe's green ambitions.

Rolf Strauch called for a three-pronged response to avoid the nefarious consequences of too much debt: (i) a strong fiscal policy response, (ii) a focus on equity and capital market access, and (iii) completing the EU banking union.

Sophie Vermeille from Droit & Croissance focused on the legal framework for insolvency. She called for (i) better laws for SME asset liquidations, (ii) ensuring that market participants have the right incentives to allow fast restructurings, and (iii) promoting high quality courts.

Echoing Rolf Strauch, Governor Holzmann from the Bank of Austria emphasized the need to foster growth in equity markets. European capital markets, he argued, need to move beyond safe assets. Stronger equity markets would not only increase firm efficiency, it would allow Europeans to have more 'skin in the game'.

Discussing the possibility of creating a European 'bad bank', both Rolf Strauch and Sophie Vermeille advocated caution: a centralised solution may not be optimal and attention should be paid to who is at the bad bank' table.

Finally, reflecting on the next policy steps, the panellists agreed: there is no panacea. To support a healthy recovery, policy-makers need to run many policies in parallel. These include getting the banking union fixed and devising good rules for selecting which firms get help.

Julia Anderson