Keynote speech at the 3rd Annual Symposium

Securitisation: Europe's categorical imperative,

26 September 2024

Ladies and Gentlemen,

Thank you for the opportunity to speak to you today on this vital topic—the need to accelerate the Capital Markets Union (CMU) within the European Union.

Thank you also for hosting this event in Athens, a city that symbolises **resilience and recovery** throughout the centuries. While 15 years ago Greece faced a severe crisis, in the past five years **we have made remarkable progress in all aspects of our economy**. We are now moving towards a new phase of growth and **development**.

This is not just my opinion. It is certified by the European Commission, the OECD, and other international organizations, which show, that, between 2019 and 2023, Greece ranked first in the EU in:

- the reduction of the **unemployment** rate,
- the percentage increase in **investment** volume,
- the increase in its global market share of goods **exports**,
- the improvement in **competitiveness** levels,
- the reduction of the **debt**-to-GDP ratio,

The turn-around of our economy has also been **mirrored in the performance of our capital markets.** In recent years, the **Athens Stock Exchange** has been among the world's **best performers**. Significant progress has also been made in terms of increasing **stock market capitalisation**, **the value of transactions**, **new funds raised**, as well as **international investors' participation**.

There have also been **positive developments in the banking system**. The **NPL** ratio has decreased, **deposit inflows** are on the rise and there is a steady improvement of **capital adequacy and quality**. The **disinvestment** of the HFSF from its holdings in the Greek banks has proceeded smoothly and rapidly – a tangible **vote of confidence** in the Greek banking system.

These results are **no coincidence**. They have been made possible thanks to the pursuit of a p**olicy mix,** which combined **sound fiscal policies** with an **ambitious reform agenda**. These reforms have included

- A combination of **tax-cuts** with measures to combat **tax evasion**.
- Measures to improve the efficiency of the **justice system** and raise the performance of the **civil service.**
- Numerous **labour market reforms**, including an overhaul of the **upskilling/reskilling** system.
- Improving **education** at all levels.
- Developing **renewable energy** sources and accelerating the **digital transition**.

Overall, **we work hard to make Greece a place that is attractive to business, and a place where citizens enjoy sustainable and inclusive prosperity**. The country is on a **good trajectory** and, without downplaying challenges and risks, I am optimistic that **we will continue transforming Greece into a positive example.**

Now let me turn to the main focus of my speech: **Why accelerating the CMU is not just beneficial, but necessary—and how securitization is key to making the CMU a reality**.

Today, we find ourselves at a critical juncture. We are facing global challenges – climate change, rapid technological innovation and increased defence needs - that require solutions which no EU country can come up with on its own. We can only address these challenges successfully if we act together, including by **accelerating the integration of Europe's capital markets.**

The Capital Markets Union is **not a technical term**, an initiative of importance only to the financial services industry. Its success **concerns each and every citizen**. It can ensure that **investments** and **savings** can flow freely across EU Member States, unlocking **growth** and opportunity.

## Why We Must Accelerate the Capital Markets Union

First, let me explain why I believe that we need more integrated capital markets. The transition to a sustainable and resilient economy requires **unprecedented levels of investment.** The largest economies race to develop new technologies to maintain their competitive advantage - and Europe cannot afford to fall behind.

As President Draghi has pointed out in his report on the competitiveness of the EU, we may need to invest **an additional €800 billion annually** by 2030. Public funding and bank financing alone won't be enough to cover this. We need **financing from the capital markets to fill the gap.**

Additionally, in **Europe we are still overly dependent on banks**, which are not always equipped to finance the kind of **innovation** that is essential in an era of intense global competition.

Moreover, by reducing our over-reliance on bank financing, the **resilience of Europe's financial system would be enhanced**. This is particularly vital in times of economic shock, when well-functioning capital markets provide essential **buffers for recovery.** This is why the US managed to recover much quicker from the 2008 – 2009 crisis compared to the EU.

Another major hurdle is the **underdevelopment of Europe's pension fund market**. In 2022, **pension assets** in the EU amounted to just **32%** of GDP, compared to **142%** in the United States. This disparity underscores the need to **strengthen our pension systems**; it is **not just a matter of social security**, but also an **essential driver for deeper, more resilient capital markets.**

In my previous role as Minister of Labour and Social Affairs, I had the responsibility of leading a comprehensive **reform of the auxiliary pension system towards a Funded Defined Contributions Scheme**. The new Fund established for that purpose – TEKA – will eventually become the biggest institutional investor in Greece – thus making a significant contribution to the broader financial ecosystem, particularly the Greek stock exchange and capital markets.

**While many efforts have been made to advance the CMU, we have not yet fully realized its potential**. To meet the challenges of our time, we must act immediately and united now.

## The Role of reinforced supervision at EU level

**Effective supervision is a precondition for market integrity and investor confidence**; both the **Single Supervisory Mechanism** for banks in the EU and the **Securities and Exchange Commission (SEC**) in the US, who has overseen capital markets for nearly a century, is a showcase of that.

**A robust supervisory framework is therefore essential to the success of the CMU**. It has been repeatedly highlighted, included in the recent Draghi report, that a stronger **European Securities and Markets Authority (ESMA)** is essential for the integration of the EU's capital markets.

While some steps have already been made in this regard – for example entrusting ESMA with enhanced supervisory powers over certain market players, like credit institutions and central counterparties - there is still a long way to go.

## Why revising securitisation is essential in the EU,

Let's now turn to securitization—a key tool in financing Europe's future.

What is securitisation? **Securitization turns illiquid assets into tradable securities, allowing banks to free up capital and provide more loans**. It enables financial institutions to offer **competitive rates** to borrowers and improves the **efficiency** of the financial system.

For **example**, by packaging and selling small and medium enterprise (SME) loans, banks can raise new funds, allowing further lending to SMEs.

Securitization also plays a key role in **attracting household savings into capital markets**, diversifying investment options for investors.

Moreover, it can **channel capital to high-risk sectors**—like tech startups—where traditional banks may be hesitant to provide financing. This is particularly important for fostering innovation in areas like green energy and digital technologies.

Currently, **Europe lags behind in securitization**. In 2022, securitization in the EU amounted to just **0.3%** of GDP, compared to **4%** in the US.

We must look at how we can **simplify and standardize the securitization processes**, making them more **transparent and investor-friendly**.

The Draghi report makes certain interesting proposals in that respect:

- **Recalibrating the prudential requirements** for securitized assets and aligning them with other asset classes.
- Establishing **a dedicated European securitization platform, supported by public guarantees for first-loss tranches**.

Moreover, we also need to consider whether **ESMA's role in overseeing securitization markets should be enhanced**. Effective supervision can prevent the kind of systemic risks that contributed to the global financial crisis.

Additionally, by **educating and engaging investors in the securitization market,** we can broaden the investor base creating a deeper and more liquid market that facilitates access to capital, especially for SMEs.

## Greece's Experience with Securitization

**Greece's Hercules Asset Protection Scheme offers a prime example of securitization's potential**. The Hercules Asset Protection Scheme was **launched in September 2019,** to address one of Greece's thorniest problems – the banking sector's high percentage of non-performing loans.

[And I would like to take the opportunity to thank Mr George Zavvos – then Deputy Finance Minister - who designed, negotiated with the EU institutions and implemented the scheme]

Through Hercules, **Greek banks were able to clean up their balance sheets without burdening taxpayers**. In just five years, the **NPL ratio** in Greece has dropped from over **40%** in 2019 to **7.2%** today.

This has **allowed Greek banks to resume their crucial role in financing the real economy**, contributing to Greece's economic transformation and its return to investment-grade status. The Hercules scheme therefore shows **how securitization can stabilize financial systems and support economic recovery.**

I **welcome the fact that the revival of the securitisation market is of priority for the new European Commission**. Greece stands ready to contribute, based on our successful experience, in this pivotal project.

At national level, we can **leverage our expertise in securitising assets to finance also other priorities** such as renewable energy projects, energy efficiency initiatives, and other green investments. By pooling and securitizing these assets, we can attract large-scale private investment, facilitating the country's transition to a sustainable economy.

## Conclusion

**The case for accelerating the Capital Markets Union is clear**. To **address the pressing challenges** of climate change, the green transition, innovation, and defense, and to remain competitive globally we need deeper and more integrated capital markets. By **reinforcing ESMA**, **advancing securitization**, and **learning from successful initiatives like Greece's Hercules scheme**, we can **build a CMU that fosters sustainable growth and resilience and prosperity** for citizens across the EU.

I thank you very much for your attention and I wish you all a productive and inspiring symposium. I am sure that it will provide us with much food for thought.