

Press Release

ASSET BACKED SECURITIES: A Better Solution for Europe.

The economic and financial crisis hit hard Eurozone firms: since the crisis banks have cut over €600 bn of loans to non-financial firms and one firm out of five claims access to credit as its main problem. Re-establish a stable and diversified credit supply able to guarantee a tangible economic recovery, transitioning from a bank-centred to a more market-based credit supply. Design a strong European financial system, more resilient to future shocks and less vulnerable to banks. These are the objectives of the Policy Brief "Asset Backed Securities: a better solution for Europe", just published by Action Institute.

Access to credit is vital for companies, which **credit crunch** is thus far stifling. SMEs create 80% of new jobs and finance their activities through bank lending (80-90%). Banks, however, are not lending: they cut more than 600 billion euro of loans to businesses in the Eurozone as a result of the crisis, 12% of the initial stock. Moreover, the credit crunch is worst in the periphery, where one company out of five claims lack of credit is their main problem.

Even after the ECB stress test, banks in the euro area remain weak and focused on rebuilding capital. Despite further ECB actions pushing bond yields down, **credit is still not reaching the real economy**, which is financed through bank loans. In addition, investors are sceptical about ECB QE: 51% believe sovereign bond QE will only benefit financial markets, while 25% believe it will not work at all.

How to connect ECB actions, markets and **real economy**? Alone, lowering yields on government bonds will not fix the credit crunch. **Asset Backed Securities (ABS)**, together with other instruments (mini-bonds, crowdfunding), can provide this missing link for stimulus to reach out to small firms. The market for asset-backed securities is now supported by the ECB purchasing program (ABSPP), but remains **segmented and lacking standardization**, with many regulatory hurdles hindering its potential growth. The ECB has so far brought €788mn of ABS, a tiny fraction of the 1.4tr market.

In this paper, we analyse the economics of ABS and discuss the potential policy measures, which could unlock the development of "simple, transparent and real" asset backed securities. We believe that ABS could help **plug the Eurozone's credit gap**, which chokes the bank-centred periphery economies, where loans represent up to 95% of credit. The creation of a "simple, transparent and real" ABS instrument, as advocated by Mario Draghi, would also make sovereign QE more effective through the **portfolio rebalancing channel**, providing investors with a new asset class to buy, as a substitute for sovereigns and covered bonds. Finally, transitioning from a bank-centred to a more market-based credit supply would make the **Europe's financial system more resilient to future shocks and less vulnerable to banks**, which are still three times larger than GDP, generating **substantial benefits for SMEs**.

FOR FURTHER INFORMATION:

[Download the policy brief](#)

ABOUT ACTION INSTITUTE

Action Institute (www.actioninstitute.org) was founded in 2012 as a civic answer to the urgent economic and social crisis, which affected our country. Action Institute is an "Action Tank", an independent, non-partisan and non-profit organization that wants to catalyse the best brains of the country in a civic engagement for the benefit of institutions and society.

Action Institute is a group of professionals who have excelled in their field and who are working in their personal capacity and pro bono to formulate policy proposals that will boost the competitiveness of the Italian system.

MEDIA CONTACT

Action Institute

segreteria@actioninstitute.org