



LIETUVOS BANKAS
EUROSISTEMA

NBU Annual International Roundtable

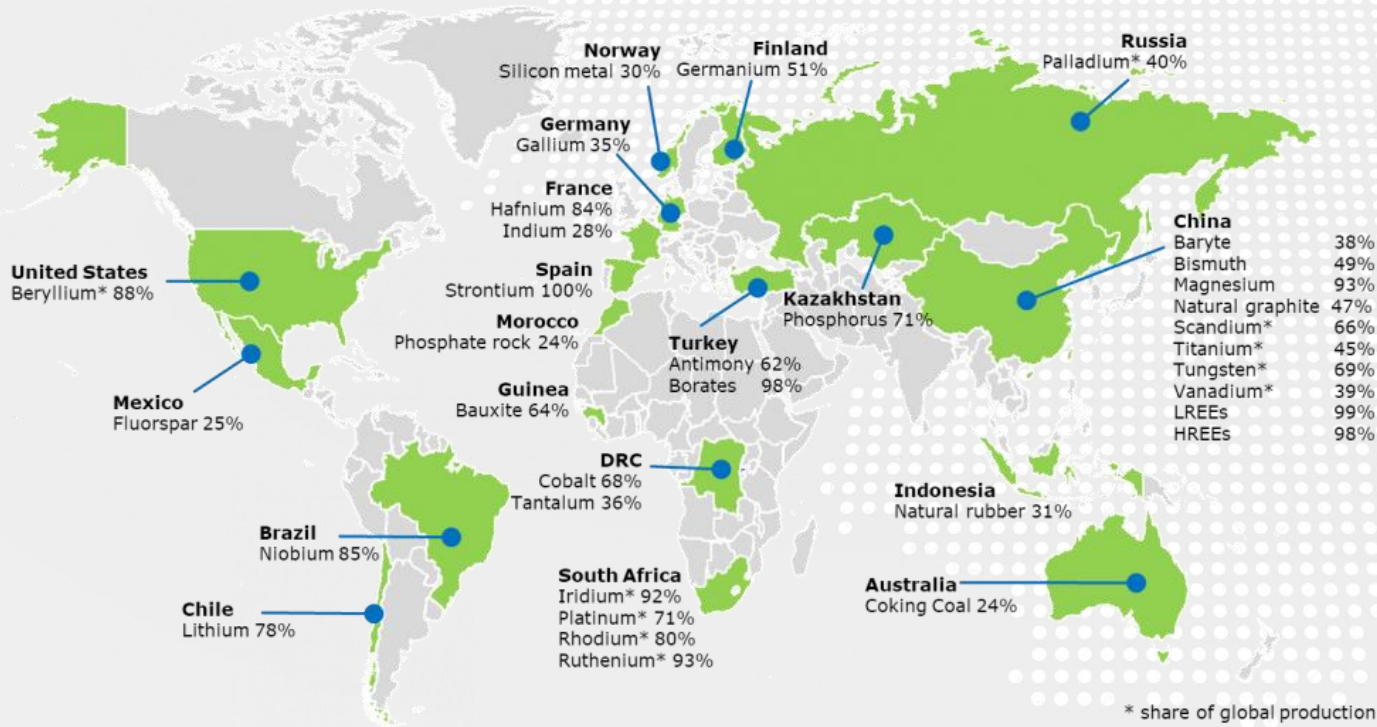
STRATEGIC DEVELOPMENT OF FINANCIAL SECTOR TO DESIGN
ECONOMIC RECOVERY AND GROWTH

Focusing on Development of Financial Sector in Response to Geopolitical Turbulence

Nora Laurinaitytė

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Countries accounting for largest share of EU supply of Critical Raw Materials



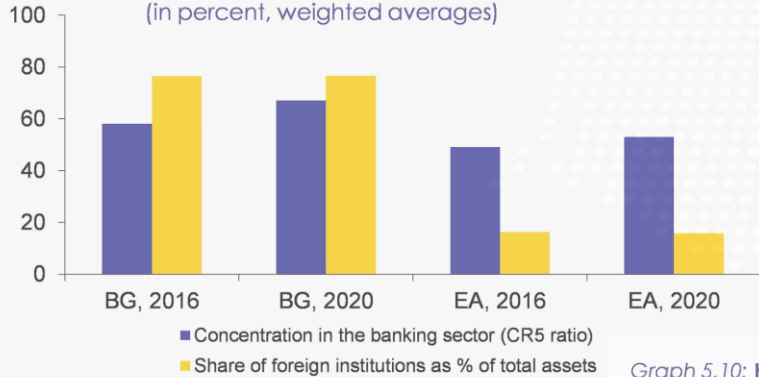
Increased geopolitical tensions exposed the dangers of being heavily dependent on another country/countries for provision of goods, services, and technologies.

Greater independence in the production of essential goods, provision of essential services, and digital sovereignty is now as desirable as ever.

Financial sector is one of key areas where some degree of autonomy must be ensured



Graph 2.11: Bulgaria - Foreign ownership and concentration in the banking sector (in percent, weighted averages)

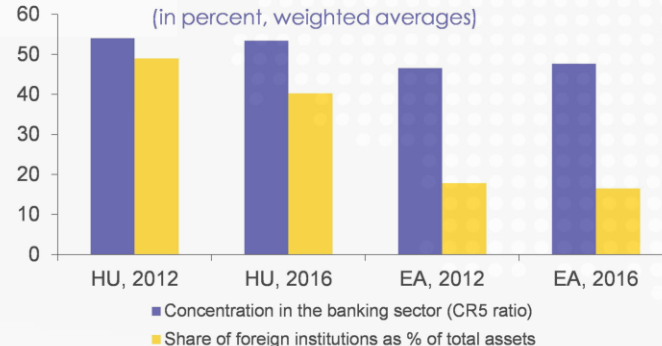


Source: ECB, Structural financial indicators.

Excessive reliance on other countries to ensure provision of critical services and digital technologies (say payments infrastructure or provision of banking services) creates risks in times of market disruption.

Efforts must be taken to ensure such vulnerabilities, if exist, are resolved.

Graph 5.10: Hungary - Foreign ownership and concentration in the banking sector (in percent, weighted averages)



Source: Convergence Report by the European Commission

Source: ECB, Structural financial indicators.

No country should foster an environment where local firms depend on few predominantly foreign-owned banks to provide them with funding.

It is of vital importance to develop competitive and liquid capital markets to offer an attractive alternative to firms



Source: [financialyard.com](https://www.financialyard.com)

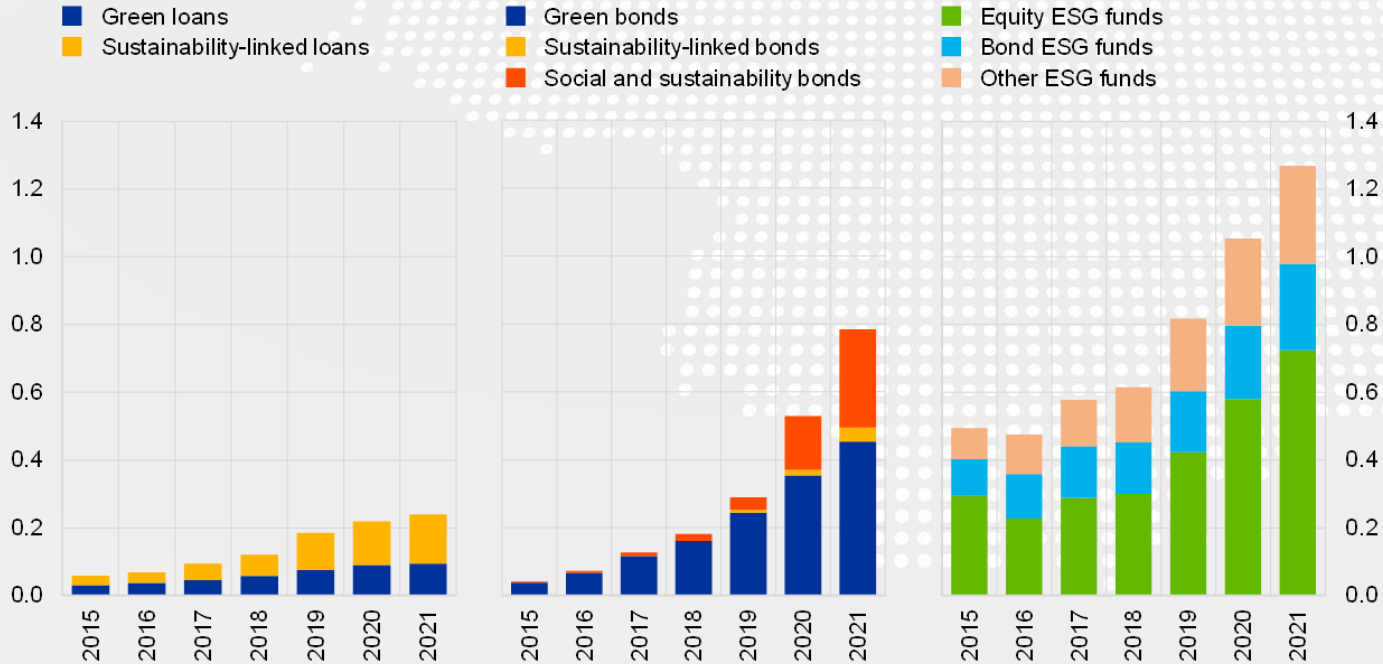
Well-developed capital markets offer an excellent alternative to banks in terms of providing funding to firms.

Capital markets are of particular importance when we talk of sustainability. **Green transformation requires enormous resources and prolonged commitment public funds just cannot provide.**

Sustainable capital market financing versus bank lending



Outstanding amount and assets under management (AUM) of euro area sustainable financial instruments (EUR trillion, outstanding amount for bonds and loans, AUM for ESG funds, December 2015 to June 2021)

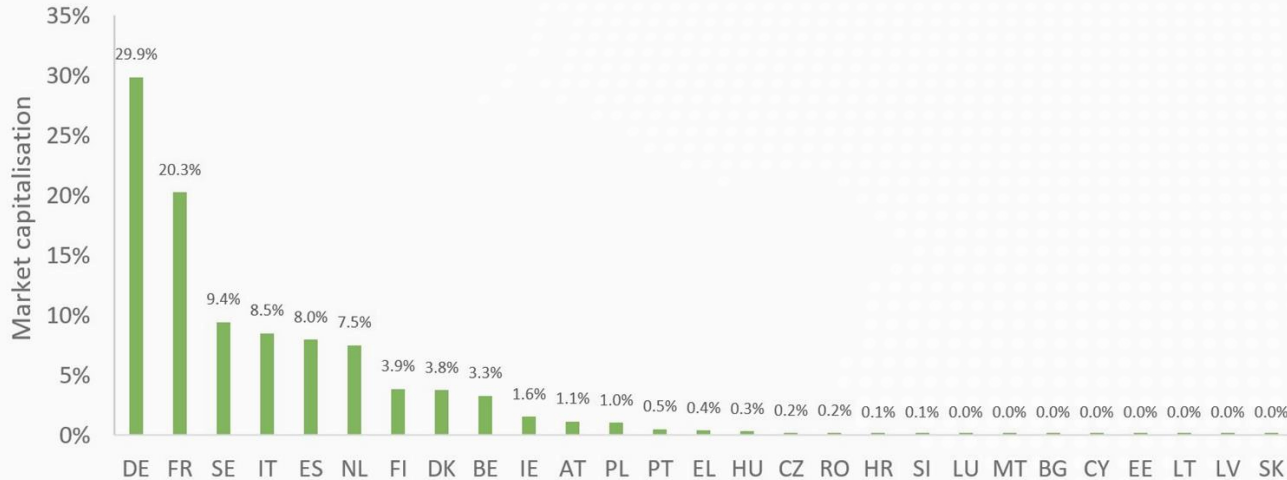


Sources: Bloomberg and ECB calculations

How developed are our capital markets?



Figure 1. Geographical distribution by market capitalisation



Note: This figure is based on December 2019 free-float market capitalisation of companies listed at EU regulated markets and SME Growth Markets, which in total amounted to close to €5,400 billion.

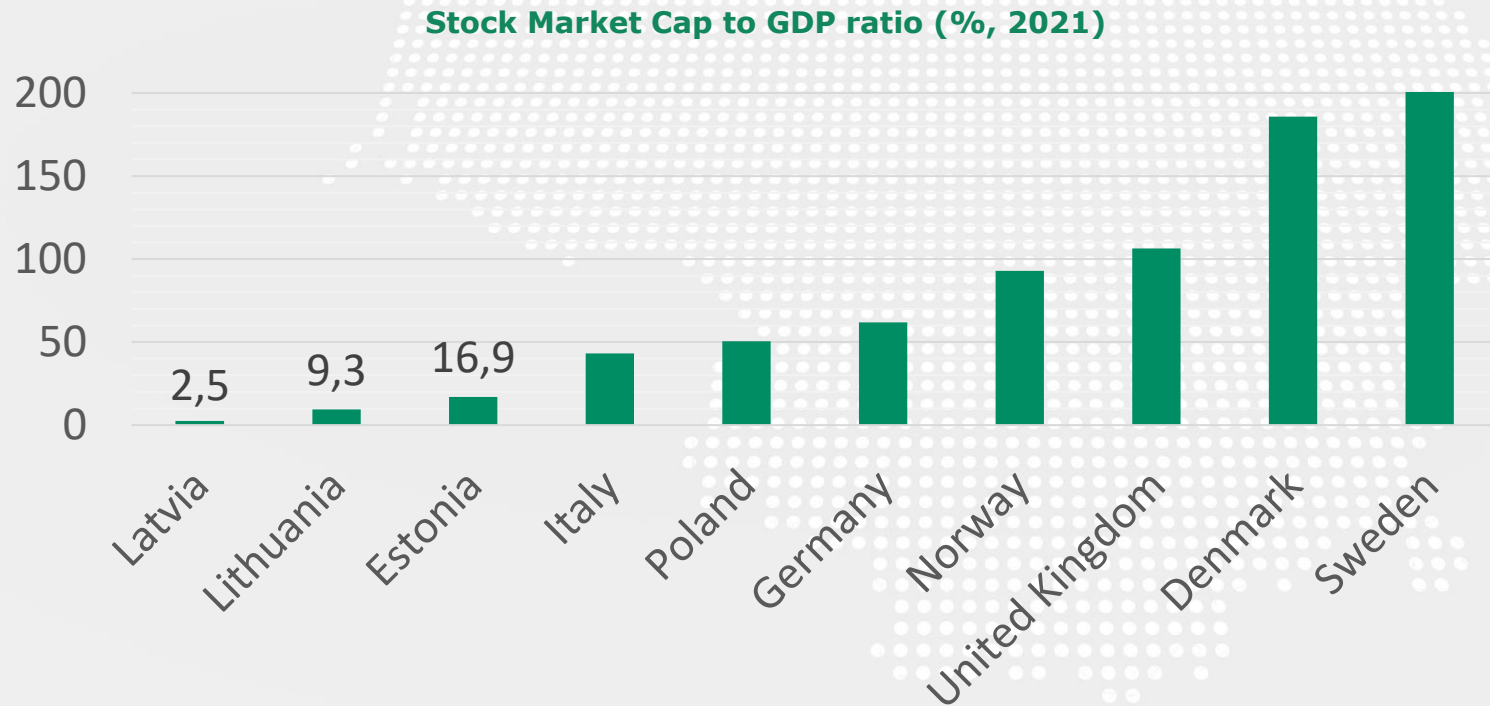
Source: CEPS (2020).

In the EU, there are still 27 national capital markets, which do not function as one.

In most countries capital markets are small and unable to provide a meaningful alternative to acquire sources of finance for capital expenditure and business combinations.

Such markets are often classified as 'frontier markets' and are only of marginal interest to international institutional investors.

How developed is our stock market?



What can we do to develop capital markets?

Legal framework

- Modernizing national laws (for example on the type of stocks that can be issued by companies)
- Modernizing supervision requirements

Tax environment

- Investment and savings account
- Clarity on income from financial instruments taxation

New instruments

- Introducing new classes of shares, covered bonds, etc.
- Increasing state owned organizations listing capabilities

Market infrastructure

- Improving environment for SME growth

Intermediaries

- Increasing competition among intermediaries
- User-oriented financial services for retailers

Financial Education

- Coordinated SME and residents' financial knowledge growth measures (including information, teaching, consulting and etc.)

Data is key



“When you two have finished arguing your opinions, I actually have data!”

Capital markets will not be a viable alternative to bank funding as long as possibilities to access comparable firm data remain limited or the data itself is lacking.

Clear rules for data collection, management, and protection is of prime importance and forms the foundation of digital sovereignty.

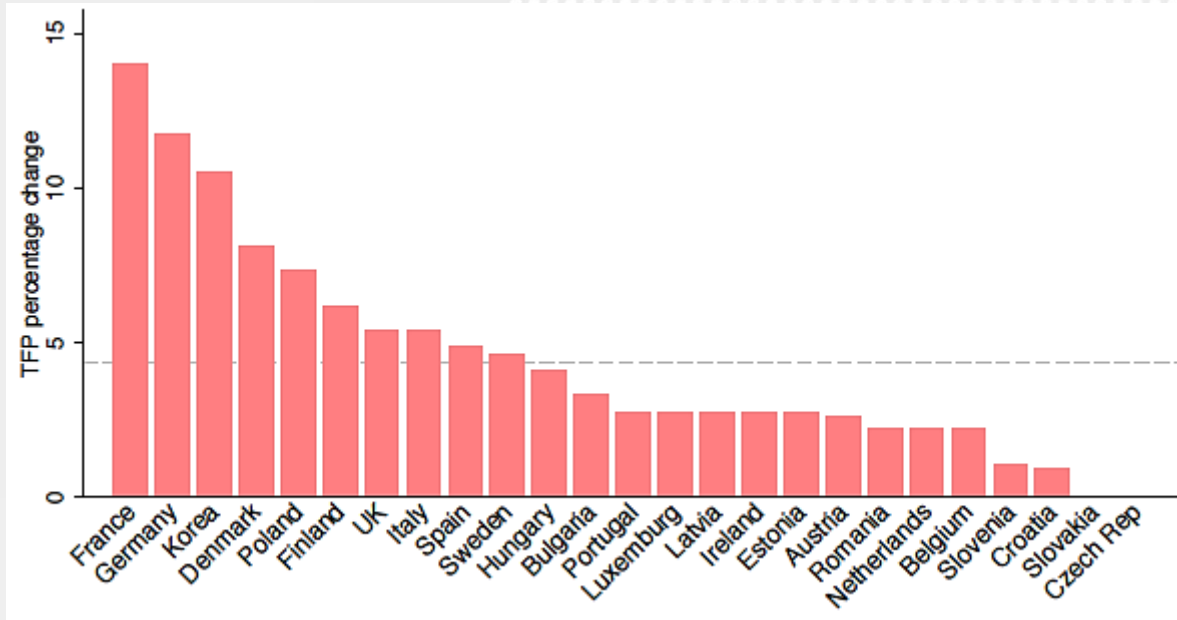
Through the DAMAMA programme, Lietuvos bankas is reforming its data governance framework, reporting data collection, data storage and analytics. In each of these fields, we seek to centralize and standardize processes, deploy modern data technologies, enhance data integration and access, thus opening up wider possibilities for data-based decision making.

By streamlining reporting procedures and consolidating the applied technologies, Lietuvos bankas will aim to reduce the administrative burden for financial market participants and other data providers.

We need to work with like-minded strategic partners



Firm productivity gains from lifting data restrictions, by country



Openness spurs competition, which in turn increases innovation, boosting value for the economy in general.

It is therefore important to identify like-minded strategic partners and work with them to achieve an open and stable international economic ecosystem.

Source: Ferracane, M F, J Kren and E van der Marel (2018) "Do Data Policy Restrictions Impact the Productivity Performance of Firms and Industries?", ECIPE DTE Working Paper Series No. 1, Brussels.



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Thank you
