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Research

EU Monitor
Global financial markets

Strong risk capital markets

Vital for unlocking green & digital innovations

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Vibrant capital markets are needed to finance the economy of the future. Risk capital markets are particularly important in fostering the innovations needed for the green and digital transition. They play a key role in spotting young, promising companies, and providing them with funding to realise their growth potential. This usually involves direct equity funding in the form of venture capital (VC).

EU risk capital markets have grown considerably over the last decade, resulting in annual VC investments of USD 20.8 bn in 2022. However, rising interest rates and heightened geopolitical uncertainties led to a slowdown in VC investment during the past two years.

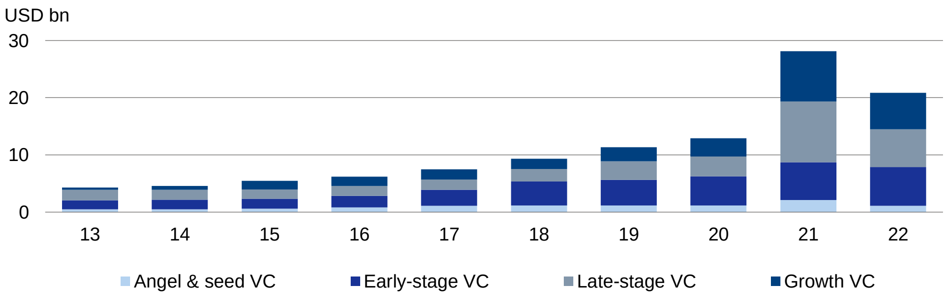
Market size varies substantially between regions, reflecting differences in innovation capacities. EU countries in the North and West have larger pools of risk capital than in the South or East.

The venture capital market in the EU is significantly smaller than in the US, where USD 246 bn of VC has been invested in 2022. As a consequence, it is more difficult for young European firms to scale up compared to their US peers. They often depend on non-European investors for larger funding rounds. This heightens the risk of European startup companies relocating abroad.

Less favourable exit environment in the EU than in the US. US stock exchanges boast a market cap which is almost 3 times as large as that of all European stock markets combined. Hence, many exit routes lie outside the EU. Two out of three IPOs of startups backed by European VC firms happened on non-EU exchanges in 2023.

Outlook – to grow further, VC in the EU not only needs to overcome the current market slump, but also address structural issues: (1) attract more funds for risk capital investments, (2) scale up VC investments, (3) overcome market fragmentation, (4) improve exit options within the EU. Several policy initiatives aim to do so, yet it will take time to see their full impact.

Growing risk capital investments in the EU



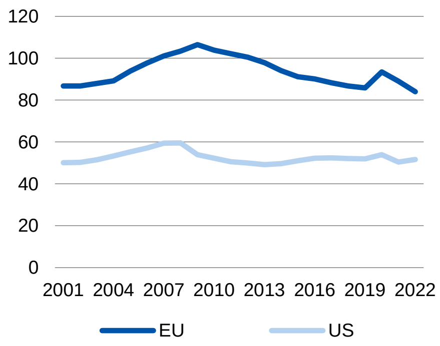
Note: Without Malta and Cyprus

Sources: OECD, Invest Europe, EBAN, Pitchbook, Deutsche Bank Research

1. Capital Markets Union – vital for the green and digital transition

Financial system – more bank-based in the EU than in the US | 1

Credit to the private sector by domestic banks, in % of GDP



Sources: World Bank, Deutsche Bank Research

Vibrant capital markets contribute to financing the economy of the future. Capital markets in Europe are often viewed as underdeveloped and fragmented, with households and businesses heavily relying on bank financing instead (Chart 1). This could prove to be a disadvantage now that the EU has begun to accelerate the transition towards a climate-neutral and digital economy. It requires large investments, estimated at EUR 735 bn annually for the EU as a whole.[1] The lion's share will need to come from private investment. Deep and well-functioning capital markets can facilitate the flow of capital into green and digital activities. Purely bank-based systems face limits because, for example, digital business models involve substantial intangible capital which does not easily serve as collateral. Equity-based financing tends to be better suited for high-risk investment in innovation. As a consequence, economies with more equity financing are often associated with higher growth.[2]

Recap of the EU's Capital Markets Union project. The EU Capital Markets Union (CMU) is widely seen as an enabler of the economic transition and has therefore moved back to the top of the policy agenda (see Chart 2). The vision of creating a genuine single market for capital dates back to 2015 when the Juncker Commission presented the first CMU action plan.[3]

Evolution of the EU Capital Markets Union | 2

2015	●	**1st CMU action plan** 12 out of 13 legislative proposals adopted; no progress on harmonized taxation, insolvency rules
2020	●	**2nd CMU action plan:** 16 actions to facilitate access to capital markets and cross-border investment, enhance market infrastructure
May 2021	○	ECB President Lagarde calls for a green CMU for Europe
Nov 2021	●	Proposal for a CMU legislative package (1): - creation of a European Single Access Point - introduction of a consolidated tape - review of the European Long-Term Investment Funds (ELTIF) regulation
Dec 2022	●	Proposal for a CMU legislative package (2): - harmonisation of insolvency rules - new listing rules to reduce administrative burden, promote listing of SMEs
Mar 2023	○	5 Presidents of the EU institutions call for the completion of the CMU to speed up the green and digital transition
Apr 2023	○	Commitment of European Parliament, Council and Commission to finalise the CMU legislative work before EP elections in June 2024
Jun 2023	●	Proposal for a more efficient withholding tax procedure
Nov 2023	○	ECB President Lagarde proposes shifting to a "top-down" approach

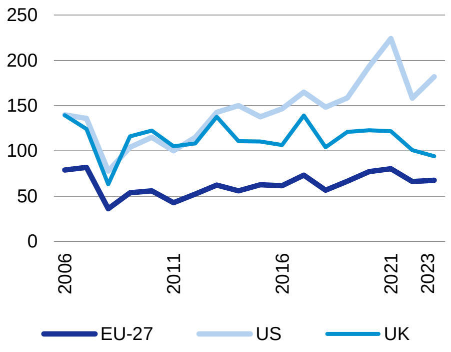
● Legislative action ○ Policy advocacy

Sources: European Commission, EU Council, ECB, Deutsche Bank Research

1 European Commission (2023). Strategic foresight report 2023. July 6.
2 Bruegel (2021). Europe should not neglect its capital markets union. June 7.
3 For an overview, see Kaya, Orçun (2015). Capital Markets Union. An ambitious goal, but few quick wins. Deutsche Bank Research. EU Monitor. November 2.

Market capitalisation: EU lagging behind the US 3

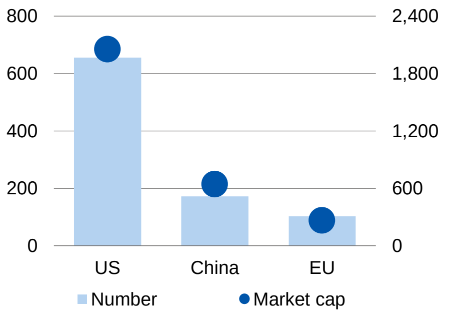
% of GDP, listed domestic companies



Sources: World Federation of Exchanges, IMF, Deutsche Bank Research

Most unicorns are in the US 4

LHS: Number of unicorns
RHS: Total unicorn market capitalisation in USD bn



As of July 31, 2023
Sources: CB Insights, Deutsche Bank Research

Since then, the building of the CMU has been a stepwise process without matching its ambitions yet. Although some progress has been achieved[4] and some of the weaknesses have been tackled with a second CMU action plan[5], this has not led to tangible growth of EU capital markets. While securitisation remains subdued, EU stock markets clearly trail those in the US (Chart 3). Against this background, ECB President Lagarde recently proposed shifting "from a bottom-up approach to a top-down one", including the creation of a common supervisory body, a single rulebook and a consolidated market infrastructure.[6]

Risk capital markets – vital for the financing of innovative startup companies. Risk capital markets play a key role in spotting young, promising companies, and providing them with funding to realise their growth potential. This usually involves direct equity funding in the form of venture capital (VC), which is generally considered a subset of private equity. VC investors tend to have higher risk-return preferences and directly invest capital in startups where they see long-term growth potential. Returns from these investments often materialise only in the medium to longer term.

With USD 20.8 bn of venture capital newly invested in 2022, the EU is lagging far behind the US (USD 246 bn) in this area, making it more difficult for young European firms to scale up compared to their US peers. This shows up, for example, in the comparatively low number of European unicorns, i.e. non-listed startup companies with a market valuation above USD 1 bn (Chart 4). "Deep-tech" startups in particular, which build on novel scientific or engineering breakthrough technologies (e.g. AI, quantum computing, green hydrogen), rely on a developed risk capital market with larger and experienced VC funds for their expansion.[7] These startups typically need more capital and time to scale up as they often involve an extensive R&D phase and overall require more capital and time for the product development (Chart 5).

While advancing the CMU project as a whole is certainly key for the further development of the EU economy, risk capital markets will be particularly important in fostering the innovations needed for the green and digital transition. Against this backdrop, this paper takes a closer look at the current state and recent developments in EU risk capital markets and compares them to the US VC market.

Moreover, it points out remaining weaknesses and highlights policy initiatives that seek to resolve those shortcomings and to further improve the financing environment for European startups.

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[4] See https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/capital-markets-union/legislative-measures-taken-so-far-build-cmu_en.

[5] European Commission (2020). A Capital Markets Union for people and businesses-new action plan. September 24. So far, the EU co-legislators have agreed on an updated ELTIF regulation, the establishment of a consolidated tape and a central platform for data on listed firms (European Single Access Point, ESAP).

[6] Lagarde, Christine (2023). A Kantian shift for the capital markets union. Speech at the European Banking Congress. November 17.

[7] Dealroom.co, Lake Star and Walden Catalyst (2023). The European Deep Tech Report. 2023 Edition. January.

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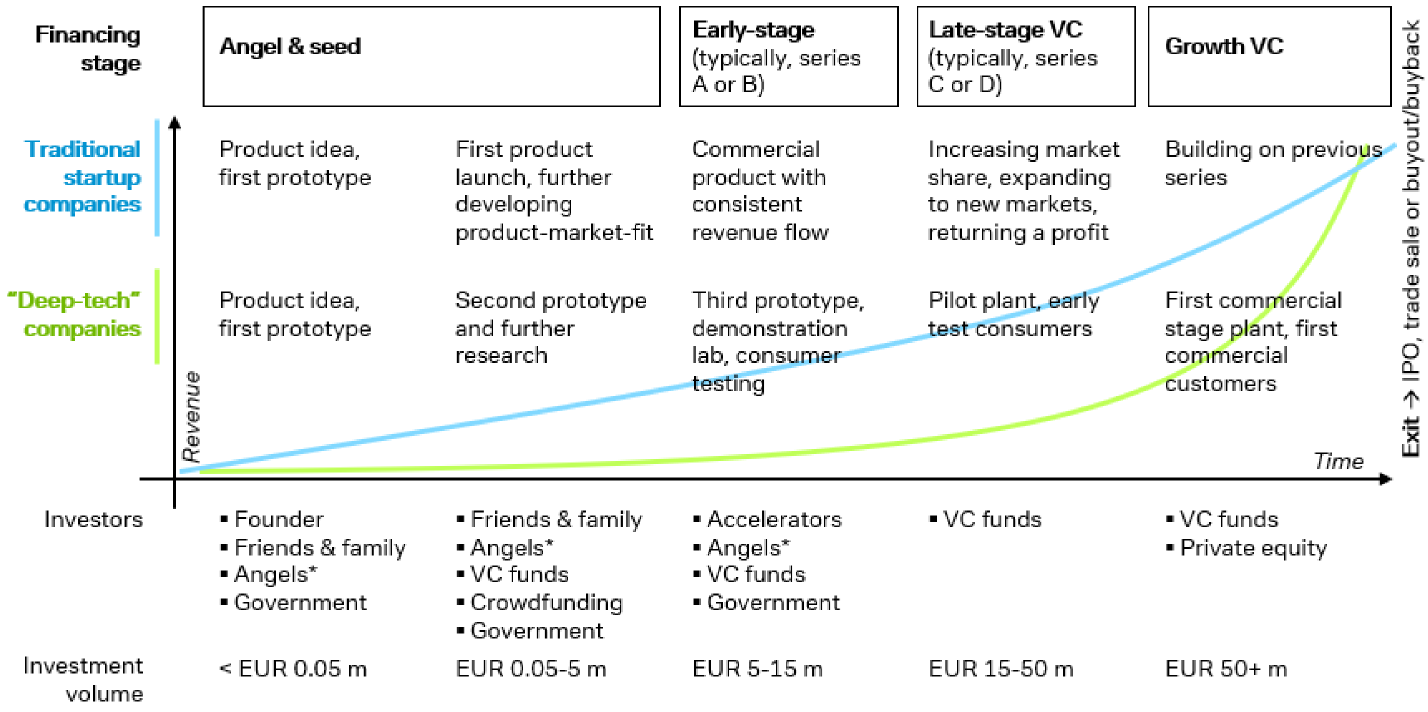
Stylised startup growth path 5

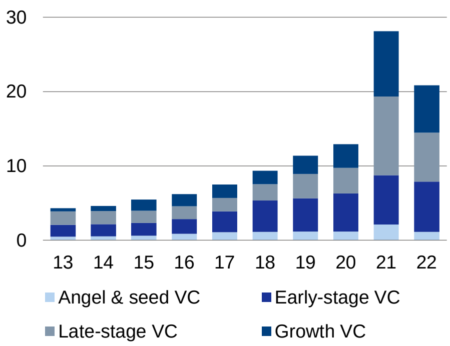


*Angel investors are often wealthy private individuals or angel networks which provide initial capital for startups.

Sources: WEF, Invest Europe, Pitchbook/NVCA, Deutsche Bank Research

Growing risk capital investments in the EU 6

USD bn

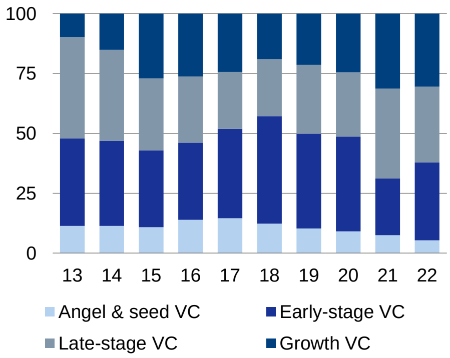


Note: Without Malta and Cyprus

Sources: OECD, Invest Europe, EBAN, Pitchbook, Deutsche Bank Research

Late-stage and growth VC have gained some weight 7

% of total risk capital investments in the EU



Note: Without Malta and Cyprus

Sources: OECD, Invest Europe, EBAN, Pitchbook, Deutsche Bank Research

2. EU risk capital market: Growing, but currently facing headwinds

Long-term growth, short-term setback. Starting from a low base, the EU risk capital market has seen considerable growth over the last decade. Annual VC investments have increased from USD 4.3 bn in 2013 to USD 20.8 bn in 2022 (Chart 6). Several factors may have contributed to this: first, next to private investments, EU and national support programmes have improved startup companies' access to equity finance. Secondly, the growth and, in particular, the outright boom in 2021 were in line with global developments and driven by low interest rates and supportive fiscal policies. Back then, soaring stock markets allowed VC funds to exit from their investments and raise capital. Moreover, an increasing number of unicorns and the strong growth of large tech companies may have motivated some investors to become active in this market segment.[8] However, rising interest rates and heightened geopolitical uncertainties due to the Russian war against Ukraine led to a slowdown in VC investment in 2022. The downward trend continued in 2023, with VC investments in Europe dropping 45% yoy.[9] Once the recovery in stock markets is supported by a more favourable economic outlook and investor trust in robust and stable valuations returns, a window for IPOs may reopen which should eventually also improve the sentiment in risk capital markets. Interest rate cuts by central banks, expected from spring onwards, may create a fresh impetus, even though rates will probably not return to their previous lows.

With respect to financing stages, late-stage and growth funding have gained weight over the years, accounting for 62% of VC investments in 2022 (Chart 7). This means that EU risk capital markets are increasingly supporting relatively mature startup companies in expanding their business. However, both growth

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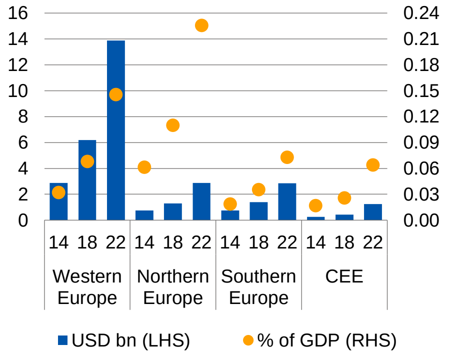
8 Bruegel (2022). Venture capital: a new breath of life for European entrepreneurship? Blog post, February 10. Also Vice (2021). The great competition to give away money. October 27.

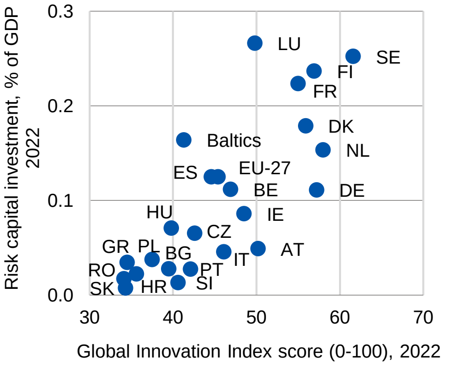
9 Pitchbook (2024). 2023 Annual European Venture. January 17.

EU risk capital markets by region: Similar developments, different levels 8



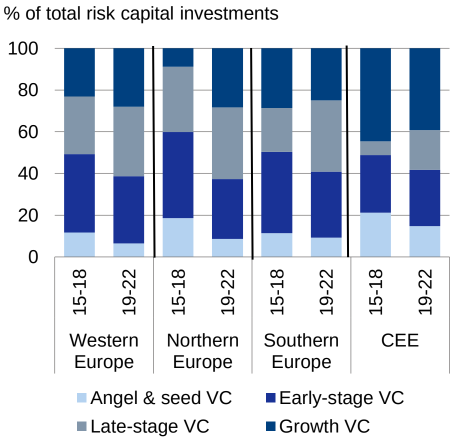
Sources: OECD, Invest Europe, EBAN, Pitchbook, IMF, Deutsche Bank Research

More innovative countries tend to have deeper risk capital markets 9



Sources: WIPO, OECD, Invest Europe, EBAN, Pitchbook, IMF, Deutsche Bank Research

Surge in late-stage VC in all regions 10



Sources: OECD, Invest Europe, EBAN, Pitchbook, Deutsche Bank Research

and late-stage funding have not been immune to the slowdown in the current economic environment, as volumes declined over the last two years, indicating that it has become more difficult for more mature startups to secure funding. New startups that are trying to obtain initial funding have been affected as well by a contraction of angel and seed VC investments. By contrast, early-stage investments continued to be relatively stable for startups that have already received initial financing and are working on the commercialisation of their product or service. Despite the setback, the general trend of increasing flows of funds towards rather mature firms has also resulted in a growing number of large VC deals over the past decade. Transactions with a value over EUR 10 m accounted for 15% of all VC deals in Europe in 2023, compared to only 4% in 2013.[10]

Among the economic sectors, the IT industry stands out as it received about 40% of the venture capital invested in Europe during 2020-23. However, it has been one of the sectors most affected by the current market slowdown. Meanwhile, VC investments in “biotech, pharma and healthcare” – another important target industry – remained relatively resilient.[11] Similarly, a number of emerging technologies saw an increase in their share of funding. These include, for example, climate tech (e.g. electromobility, carbon capture and storage) and enabling technologies (e.g. AI, quantum computing, semiconductors).[12]

Regional differences within Europe – larger pools of risk capital in the North than in the South and East. The size of risk capital markets varies considerably between EU countries (Chart 8). This mainly reflects differences in innovation capacities (Chart 9), as countries with leading research institutions and favourable framework conditions are more likely to bring forth a startup environment and thus attract VC investments.

The Nordic countries (Sweden, Finland, Denmark) have the most developed risk capital markets, with VC investments equivalent to 0.23% of the region’s GDP in 2022, well above the EU average of 0.13%. Sweden accounted for USD 1 bn, making it the region’s largest hub, which has also displayed the strongest growth dynamics over the last five years.

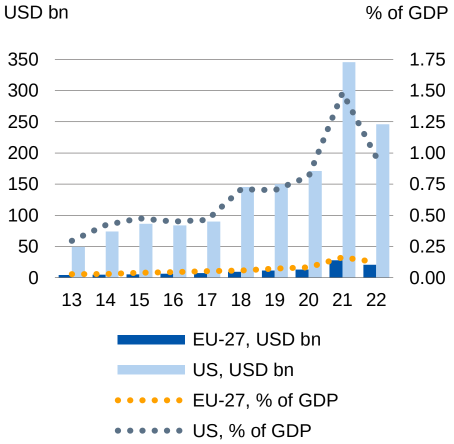
In Western Europe[13], France has witnessed quite strong growth over the past five years and with USD 6.2 bn in VC investments, it overtook Germany as the largest market in 2022 (USD 4.5 bn). The Netherlands are also among the most dynamic markets in the region (USD 1.6 bn). As Europe’s economic heavyweight, the Western European countries overall are pretty much in line with the EU average, with VC investments equivalent to 0.15% of GDP.

By contrast, markets in Southern[14] and Central and Eastern Europe are only about half as large, with VC investments amounting to 0.07% and 0.06% of GDP, respectively. In Southern Europe, Spain is the largest market with VC investments of USD 1.7 bn in 2022, equivalent to 0.13% of GDP, which makes it rather comparable to risk capital markets in Western Europe. At only 0.05% of GDP, Italy is lagging substantially behind. Central and Eastern Europe accounts for the smallest share, with total VC investments of USD 1.2 bn in 2022. Nevertheless, it has seen relatively strong momentum over the past five years, notably in the Czech Republic or the Baltic countries.

With respect to investment stages, risk capital markets appear broadly similar across EU regions (Chart 10). In all of them the share of late-stage VC has increased in recent years. By contrast, the share of growth capital has

[10] Ibid.
[11] Ibid.
[12] Dealroom.co et al. (2023) and Atomico et al. (2023). State of European Tech 2023. November 28.
[13] Austria, Belgium, France, Germany, Ireland, Luxembourg, Netherlands.
[14] Greece, Italy, Portugal, Spain; without Malta and Cyprus.

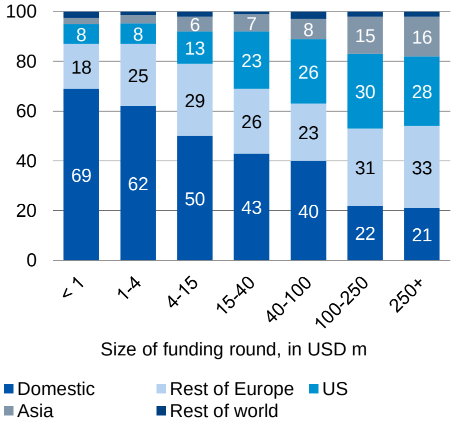
Risk capital investments – in the EU much lower than in the US 11



Sources: OECD, Pitchbook/NVCA, Invest Europe, EBAN, Deutsche Bank Research

Half of funding in large investment rounds is coming from outside Europe 12

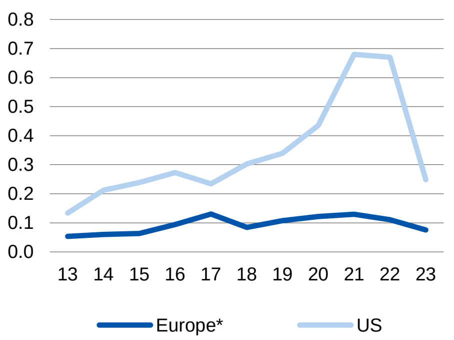
VC investment in European deep-tech startups by source of funds (2020-22), in %



Sources: Dealroom.co, Deutsche Bank Research

Fundraising gap between Europe and the US – up and down 13

Capital raised by VC funds, in % of GDP



*EU, UK, Norway and Switzerland

Sources: Pitchbook/NVCA, IMF, OECD, Deutsche Bank Research

expanded only in Western and Northern Europe. It already had (and still has) a comparatively high share in Central and Eastern Europe which could be due to the fact that large investments have a greater weight in this relatively small market.[15]

3. EU-US comparison – the gap has widened further

VC investments – funding rounds tend to be smaller in Europe than in the US. Even though the risk capital market in the EU grew over the last decade, it remains much smaller than in the US. Whereas in the former case, VC investments amounted to 0.13% of GDP in 2022, they reached 1% of GDP in the latter (Chart 11). Similarly, the deal size is typically larger in the US (e.g. median USD 5 m for early-stage and USD 13 m for growth VC) than in Europe (USD 2 m resp. USD 7 m).[16] The difference cannot only be attributed to smaller VC funds in Europe, but these also tend to be more risk-averse and less experienced in certain domains like deep-tech than their US peers.[17] This results in a so-called “scale-up gap” where startups on this side of the pond potentially have more difficulties than their US counterparts in raising sufficient funds to expand their business. European scaleups, i.e. startup companies in the growth stage, often depend on non-European investors if they require a large capital increase. Deep-tech firms may be particularly affected given that about half of their funding in rounds above USD 100 m comes from outside Europe (Chart 12). This heightens the risk of European scaleup companies relocating abroad or listing on non-EU exchanges (e.g. the German electromobility startup Lilium decided to list on a US stock exchange, as did coronavirus vaccine pioneer BioNTech and Swedish Spotify; the Estonian fintech Wise went public on the London Stock Exchange). Moreover, foreign investments may prove to be a less stable source of funding in hard times. In the recent market slowdown, US VC investors have reduced their investment in Europe[18], making fundraising, especially in large rounds, even more challenging for EU startups. In addition, the smaller funding rounds in Europe may weigh on valuations, which in turn could discourage new investors from getting involved.[19]

VC funds and fundraising – fewer and smaller funds in Europe. The number of funds, too, reflects the difference in market size, with Europe counting around 1,900 active VC funds in 2022, versus more than 6,300 in the US.[20] Moreover, at EUR 60 m, the average fund in the EU is about half the size of its US counterpart.[21] In particular, in the US, there are seven times as many large VC funds (with EUR 500+ m assets under management, AuM) as in Europe. That means on this side of the Atlantic, there is a relative scarcity of funds with the capacity to finance high-volume scaleup rounds.[22]

Regarding fundraising, the gap between the US and Europe had widened during the past decade. However, amid the recent market slowdown, conditions deteriorated in both markets and the VC amounts raised fell more sharply in the US than in Europe last year (Chart 13). Market sentiment dipped accordingly. In the latest survey by the European Investment Fund (EIF), a remarkable 70% of

[15] Invest Europe (2023a). 2022 Central & Eastern Europe private equity statistics. June 21.
[16] Pitchbook (2024) and Pitchbook/NVCA (2024). Q4 2023 Venture Monitor. January 10.
[17] BCG (2022). Can Europe create its own deep-tech giants? August 2. Also Quas, Anita, et al. (2022). Tackling the scale-up gap. JRC Science for Policy Report. December 17. And WEF (2020). Bridging the gap in European scale-up funding: The green imperative in an unprecedented time. June 9.
[18] Atomico et al. (2023).
[19] BCG (2022).
[20] Invest Europe (2023b). Investing in Europe: Private equity activity 2022. May 3. Also Pitchbook/NVCA (2023). Q1 2023 Venture Monitor. April 12.
[21] EUR-Lex (2021). European venture capital funds. November 9.
[22] EIF (2023a). Scale-up financing gap. September 12.

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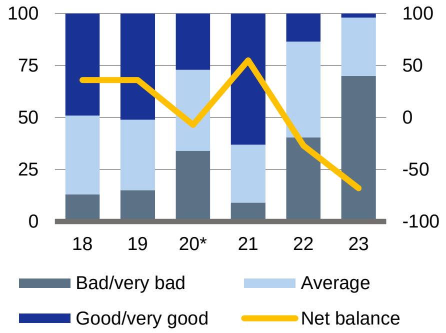
VC fundraising has become difficult in the EU 14

Perception of current fundraising environment
LHS: Share of respondents, in %
RHS: Net balance

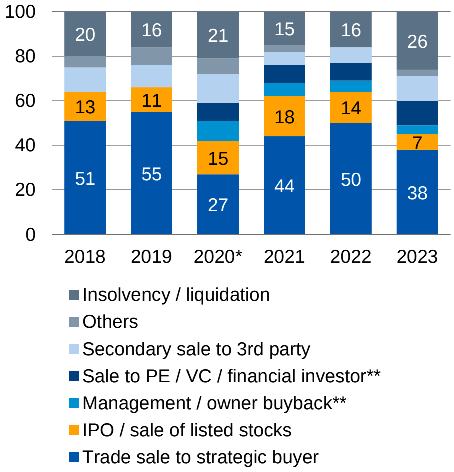


*October 2020 survey wave

Sources: EIF VC Survey 2023, Deutsche Bank Research

Trade sales are the most important exit option for European VC investors 15

Exit routes in %

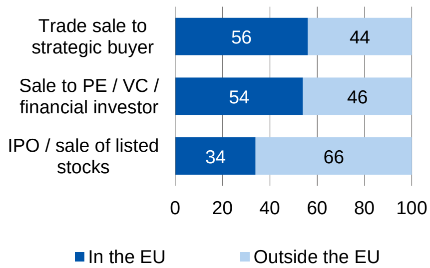


*October 2020 survey wave
**Categories introduced in 2020

Sources: EIF VC Survey 2023, Deutsche Bank Research

Exits often involve buyers or trade venues outside the EU 16

Headquarter of buyer / place of listing, 2023, in %



Note: May include portfolio companies located outside the EU prior to exit.

Sources: EIF VC Survey 2023, Deutsche Bank Research

European VC funds deemed the current fundraising environment to be difficult (Chart 14). At least for 2024, about 40% of the surveyed funds expect this to improve.[23]

Where does venture capital typically come from? Private companies contributed the largest share (31%) to the capital raised by European VC funds in 2022 – latest date available, followed by family offices and private individuals (17%) and government agencies (14%). In comparison, traditional financial institutions such as banks, pension funds and insurance companies only played a minor role.[24] They seem to have become more reluctant to invest in VC in the current market environment, while governments' willingness to invest appears largely stable.[25]

Exit options – outside the EU for many startups. VC investors typically "cash out", i.e. in the best case realise their gains by selling the equity stake they hold in a startup company. The most frequently chosen exit route by European VC investors are so-called trade sales to strategic buyers, mostly companies that are interested in the startup's technology or services (Chart 15). Initial public offerings (IPOs) are another important way out but used less often, especially in the current market environment. The challenging backdrop last year also led to an increase in insolvencies and liquidations of startup companies.

Current headwinds have dampened exit activities, which fell sharply in H2 2022 and have remained low since then. In Europe, VC-backed firms achieved an exit value of USD 13 bn in 2023, down 70% yoy, to a level last seen in 2013. In the US, exits slumped in 2022 and declined further to USD 62 bn last year (-22% yoy).[26] In both markets, this was driven by a drop in startup valuations and few IPOs.

The exit environment is generally considered less favourable in the EU than in the US. US stock exchanges, for example, combine a market capitalisation which is about 2.8 times as large as that of all European stock markets, including the UK. As a result, many exit routes lie outside the EU. Two out of three IPOs of startups backed by European VC firms took place on non-EU exchanges in 2023. Moreover, almost half of the buyers in trade sales were headquartered outside the EU (Chart 16). Admittedly, this seems to be a bit different in the tech sector, where European buyers accounted for 77% of the announced deal value in trade sales in 2022. In this sector, EU sovereignty considerations (i.e. perceived risk of technology leakage) raised concerns at some investors that a future sale to buyers outside the EU could potentially be restricted. Overall, VC-backed tech companies in Europe tend to exit at a slower pace than their US peers, indicating a more risk-averse and less developed exit environment.[27]

4. Outlook – EU risk capital markets may continue to grow, but have to overcome structural issues

Risk capital markets in Europe have evolved considerably over the last decade: investment volumes have increased almost fivefold, and the ecosystem has become more mature and resilient. However, to grow further and potentially even narrow the gap to the US, VC in the EU not only needs to overcome the

23 EIF (2023b). EIF VC Survey 2023: Market sentiment, scale-up financing and human capital. In: Working Paper 2023/93.
24 Invest Europe (2023b).
25 EIF (2022). EIF VC Survey 2022: Market sentiment and impact of the current geopolitical & macroeconomic environment. In: Working Paper 2022/82.
26 Pitchbook (2024) and Pitchbook/NVCA (2024).
27 Atomico et al. (2022). State of European Tech 2022. December 12. And BCG (2022).

current market slump, but also address several structural issues. A number of policy initiatives are aiming to do so, yet it will take time to see their full impact.

Challenge #1: Attracting more funds for risk capital investments. EU risk capital markets are clearly lagging behind the US in terms of fundraising. Overall, European pension funds' and insurance companies' investments into VC funds are rather marginal compared to their total assets under management, and they are less active in this sector than their US counterparts.[28] Reasons seem to be a lack of experience with this type of investment, reluctance due to the risks involved, and to some extent also regulatory obstacles.[29] Certain models of public risk capital investments (acting as fund of funds) could generate a positive signalling effect that may help to attract additional private investments.[30] For example, the European Scale-up Action for Risk capital (ESCALAR) scheme provides equity and quasi-equity capital to VC funds on non-equal terms (capped returns, covered risk). The aim is to incentivise additional private investment with the prospect of higher returns for other investors in an upside scenario. Moreover, the updated regulation on European Long-Term Investment Funds (ELTIF) could unlock further private equity investments as it offers more flexible investment rules that allow for co-investment and fund-of-funds strategies, as well as lower hurdles for retail investors.

Challenge #2: Scaling up VC investments. Another weakness of EU risk capital markets are the comparatively smaller financing rounds, which make it difficult for scaleup companies to raise sufficient funds in large rounds. While organic growth of the VC ecosystem could potentially solve this issue over time, several EU countries have joined forces to accelerate the process. In February 2023, France, Germany, Spain, Italy, Belgium, and the EIB launched the European Tech Champion Initiative (ETCI), backed with EUR 3.75 bn so far. This is supposed to be a fund of funds that will invest in large VC funds with the aim of boosting equity investment in European high-tech scaleup companies (funding rounds above EUR 50 m) and preventing their takeover by non-European investors.[31] There are similar initiatives at national level, for example the German government's "*Zukunftsfonds*". It will invest a total of EUR 10 bn in VC funds and startup companies by 2030, with a focus on facilitating larger financing rounds. In France, in the second phase of the "Tibi" initiative, a group of private institutional investors has committed to invest EUR 7 bn in emerging technology companies from 2023 to 2026. Combined with other national and EU programmes (see Chart 17), this forms a complex innovation funding landscape that is rather difficult to navigate for startup companies.

Challenge #3: Overcoming market fragmentation. Cross-border VC investments within Europe have increased in recent years. However, as shown above, early-stage investments are still predominantly domestic. As a result, startups face uneven starting conditions given the very different maturity levels of risk capital markets across EU countries. Hence, the development of regional markets remains key.[32] Moreover, to some extent, joint EU initiatives could help to overcome fragmentation, albeit the EIT and EIC have been criticised in the past for not having delivered enough support to Eastern European startups.[33]

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[28] Atomico et al. (2023), WEF (2020) and European Commission (2021). Study on equity investments in Europe: mind the gap. Independent expert report. February.
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[33] Politico (2021).

Innovation promotion landscape – key EU institutions 17

Initiative	Description	Investment stage
European Institute of Innovation & Technology (EIT)	Independent EU body that promotes innovation by bringing together business, education and research, establishing proof of concept for new technologies, and preparing startups for first rounds of funding. The EIT is funded under Horizon Europe.	Seed
European Innovation Council (EIC)	Established under Horizon Europe in March 2021 with the objective to identify, develop and scale up EU breakthrough technologies. At its heart is the **EIC Accelerator,** which has been allocated EUR 10 bn for the period 2021-27 to support startups and SMEs with grants and equity investments (up to EUR 15 m).	↓
European Investment Fund (EIF)	The EIF provides equity for venture capital and growth funds. It is part of the EIB group and one of the implementing partners of InvestEU Equity (EUR 10 bn by 2027).	Growth

Sources: Bruegel, WEF, Politico, Deutsche Bank Research

Challenge #4: Improving exit options within the EU. The relatively weak exit environment is another drawback of the EU risk capital market that may discourage VC investors from putting capital into startup companies in the first place. In this context, the EU is working to improve startups' access to stock markets. The "Listing Act" proposed by the European Commission in December 2022 includes simplified prospectus rules that would reduce the administrative burden for IPOs. Multiple-vote share structures would be allowed across the EU to make IPOs more attractive to founders who want to retain control over their firm. Even though this comes with safeguards for minority investors and is limited to SME growth markets, it has drawn criticism from a shareholder rights' perspective.[34] Similarly, the German "Future Financing Act" proposal (Zukunftsfinanzierungsgesetz) aims to reintroduce multiple-vote share structures, lower the hurdles for IPOs (e.g. by reducing the minimal capital requirement to EUR 1 m from EUR 1.25 m), and establish more favourable tax rules for employee share ownership. While these measures could make IPOs in Europe somewhat more attractive, they are not a big leap and will probably not have a meaningful impact on the fundamental issue of lower liquidity pools on European stock exchanges compared to their US counterparts.

Optimism that risk capital markets will spur Europe's green and digital transition. As the EU accelerates the transition towards a climate-neutral and digital economy, it will require a full-fledged CMU, and risk capital markets in particular, to fund innovative startups that will drive these structural changes. The preconditions are in place – Europe can indeed count on a vibrant startup scene and a growing pool of experienced founders.[35] The access to venture capital for these young, innovative firms has improved over the last decade, but some gaps remain with respect to VC fundraising, scaleup financing and the exit environment. Nevertheless, there are several reasons for optimism that Europe's risk capital markets will continue to mature over the coming years:

(1) Targeted public innovation funding programmes as well as likely progress in the overall CMU project could provide tailwinds.

(2) A more broad-based ecosystem with an increasing number of successful European startup growth stories may attract further investors. The limited involvement to date of insurance companies and pension funds reflects substantial potential for additional VC fundraising.

[34] Bruegel (2023). The Listing Act: no more than a minor boost to EU equity markets. June 26.
[35] Atomico et al. (2023).

(3) There are some expectations that the exit environment will improve in 2024,[36] giving new impetus to risk capital markets and bringing them back on a long-term growth path.

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