



Conférence / Conference

1:30 – 3:00 pm

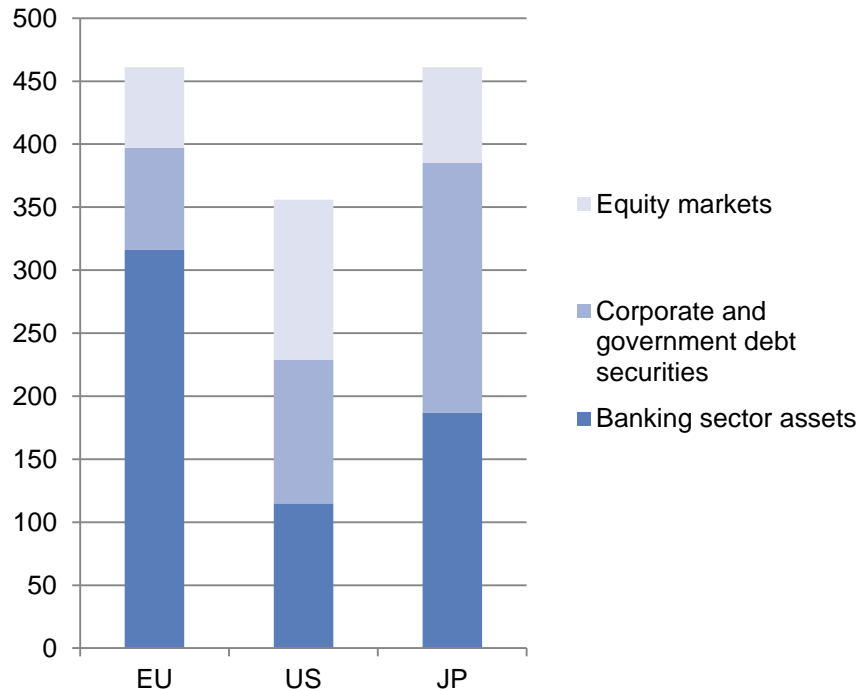
Session 2 : Quels systèmes financiers pour amortir les chocs ?
What financial systems for cushioning shocks?

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Wider range of financing options should make productivity growth more resilient to financial distress*

Simplified structure of the financial sector

% GDP, average, 2010-2014



Source: Valiante (2016)

Over-reliance on banks?

- **Diversification argument** – when something goes wrong there is little scope for resort to other forms of external finance. Equity markets can work as a “spare tire” during crisis and mitigate impact of shocks, in countries with *strong shareholder protection laws* (Levine, Lin and Xie, 2016).
- **Banks as amplifiers of business cycle shocks** due to high leverage. Banks expand lending when asset prices increase further exacerbating asset prices. The opposite happens during contractions. Lending can thus be too high during booms and come to a standstill during downturns.
- **Banks are important counterparts for households and SMEs, less so for young and innovative enterprises** that rely mostly on intangible capital. A recent OECD study finds that high productivity growth companies favor equity as a source of external finance.

*see the 2016 EIB report on Investment and Investment Finance in Europe