



BlackRock.

The Virtuous Cycle: The Global Potential of Capital Markets



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Key takeaways



Governments around the world **are focused on stimulating durable economic growth** in the face of a range of structural changes to the global economy. At the same time, they are seeking to **ensure that prosperity is shared more broadly across their populations**.



We believe that **capital markets are the key connector** that can make addressing these challenges complementary. Their ability to connect people's long-term savings with productive uses of capital will be central to **mobilizing investment to support innovation, growth and job creation**, and at the same time, **help more people share in the benefits of economic prosperity**. This is the virtuous economic cycle.



It's no surprise then, that growing capital markets is a priority for many policymakers. However, **the starting points are different around the world**. In some places, growth means attracting more investors to already mature markets, or making existing market structures more efficient. In others, the conversation is about creating entire markets from scratch.



While there is no single blueprint for what every capital market must look like, we believe growth comes by **giving more people meaningful opportunities to invest their savings** and ensuring that **markets function in a way that protects their interests**. Both regulation and market innovation play a central role in realizing this.



In our view, **to unlock the full potential of capital markets globally**, policymakers and industry around the world should work together to support market growth and technological innovation that can:

- **Give more people the ability to invest**
- **Promote effective and resilient market structures across the capital markets spectrum**
- **Pursue growth-oriented economic policies to complete the virtuous cycle**

BlackRock's view on capital markets

In his [2024 Chairman's Letter](#), Larry Fink outlined the power of capital markets to generate growth and prosperity.



I think the growth- and prosperity-generating power of the capital markets will remain a dominant economic trend through the rest of the 21st Century."

Larry Fink, 2024 Chairman's Letter¹

As a fiduciary asset manager, our mission is to help more people invest better, advance their long-term financial well-being, and retire with dignity. We believe in the power of capital markets to help more people achieve just that.

Capital markets are growing and evolving around the world, to better mobilize the tremendous amount of investment that will be needed in the coming decades. BlackRock has continuously adapted with them, to make investing easier – more affordable and less complicated – for our clients across all geographies and segments of the capital markets.

In this paper, we draw on our global experience to set out our view on how capital markets can fully realize their potential to both drive economic growth and ensure that more people are able to share in their prosperity generating power.



How we define capital markets

Define capital markets

Benefits of capital markets

State of capital markets

Capital market growth drivers

The shared priority





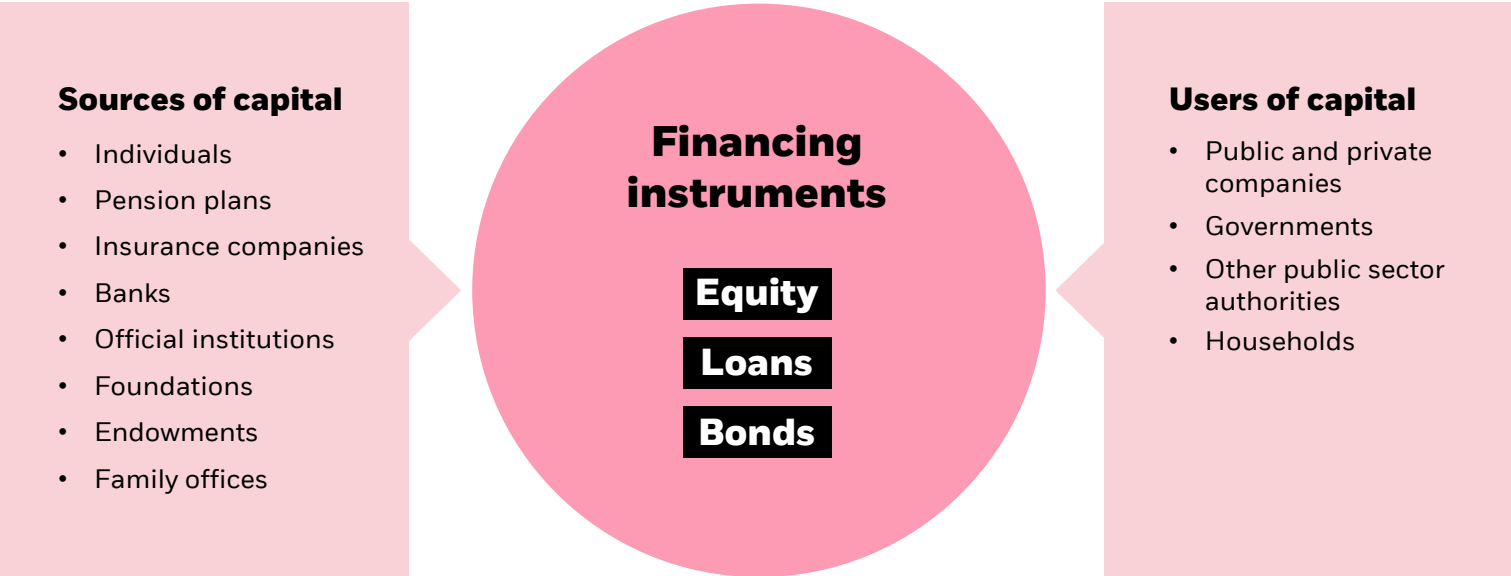
The term ‘capital markets’ is often used as shorthand to refer to the ecosystem around companies whose shares are listed and traded on public exchanges, and the wide range of companies, governments and public authorities that borrow capital by issuing tradeable debt securities (the ‘bond market’). But capital markets are much broader than that.

The financial system exists to deploy savings to where that capital is needed. In doing so, it joins together savers with investment opportunities that help them invest to grow their savings, and provides the opportunity for individuals, companies, and governments to source capital that can help finance their own investment and spending needs.

Historically, most people’s and many companies’ main touch point to the financial system was through banks. They deposited their savings to earn interest or took out loans to buy a home or grow their business.

Over time, capital markets have grown to play an important role in the financial system alongside banks. In capital markets, governments, companies and other users of capital can borrow or raise money more directly from savers, who have the opportunity to invest in things like stocks (shares, also referred to as equity), bonds and other securities.

Connecting sources and users of capital



Source: BlackRock. For illustrative purposes only.

This takes place across a range of specialized markets, some ‘public’ like exchanges, and other effectively ‘private’ markets, where capital is invested directly on more bespoke terms.

Capital markets encompass this wide spectrum of different kinds of companies and other users of capital, as well as different segments of public and private markets.

One way that companies can access capital markets is by ‘going public’. That is, selling shares to an initial group of interested investors (the ‘primary market’), and listing them on a public exchange for trading. They also commit to making regular, standardized disclosures about their business that provide the information that investors need to be able to trade their shares freely with other investors (the ‘secondary market’).

When shares trade on an exchange day in, day out, this isn’t usually providing new capital to the company, but it’s still fundamentally important. A vibrant secondary market

helps reduce the cost of capital to companies, because investors have the confidence that they can easily sell their shares to someone else when they choose to.

The bond market works along similar lines. In addition to public companies, many private companies, governments, municipalities and other public authorities also use it to borrow capital, in return for fixed interest and repayment terms.

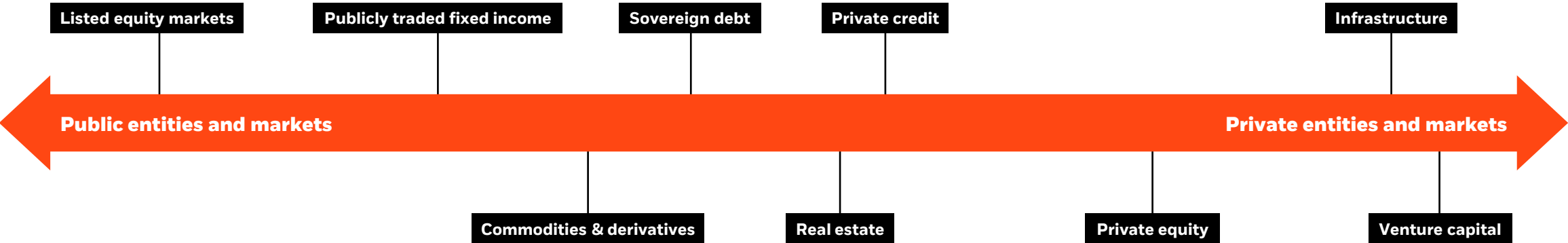
‘Private’ markets – where investors trade assets like private equity, private credit, infrastructure and real estate privately, rather than on public exchanges – have long existed as a way for companies to raise capital for more specific financing needs than public markets can usually provide.

These kinds of financing arrangements are often bespoke contractual agreements. As a result, there are less active secondary markets, and investors often receive the information they need directly from the companies, rather than through standardized, market-wide disclosure.

Most of the world’s companies are not publicly listed, and in recent years, private markets have been growing, offering these companies more opportunities to finance themselves through capital markets.

On the other side of each of these market segments sit savers – very often individuals and households – who are investing their long-term savings to grow them over time. Most individual investors only have access to public markets like stocks and bonds. But many of the professional investors, like pension funds and insurers, that are active in both public and private markets are ultimately generating returns on behalf of their beneficiaries: individual savers and households.

Capital markets are a spectrum



Source: BlackRock. For illustrative purposes only.

The benefits of capital markets

Define capital markets


Benefits of capital markets

State of capital markets

Capital market growth drivers

The shared priority





The world is undergoing several transformative structural shifts at once, including the digital transformation and the rise of artificial intelligence (AI), an energy transition, population aging, and geopolitical fragmentation.

These changes require governments, businesses and households around the world to invest enormous amounts in the coming years, to build the technology and infrastructure needed to navigate fundamental economic changes.

At the same time, governments and societies around the world will need to consider how retirement systems evolve, to continue to provide a level of economic security that allows people to live comfortably as populations age and live for longer.

We believe capital markets are the key connector that can make addressing these challenges complementary. Their ability to connect people's long-term savings with productive uses of capital will be central to mobilizing investment to support innovation, growth and job creation, and at the same time helping more people share in the benefits of economic prosperity.

This is the virtuous economic cycle.

Robust and efficient capital markets directly benefit the people, companies and others that participate in them. They also have wider benefits to our societies and our economies and to the way our governments support them.

The social benefits of capital markets

- Saving for the future requires the ability to generate inflation-beating returns. Capital markets offer savers the opportunity to generate returns that can help them meet their long-term savings and life goals. Many people the world over use bank deposits for a large part of their long-term savings. Due to low interest rates over parts of the last 15 years in much of the developed world, these savers have earned far less on their cash savings than they otherwise would have, had they been even conservatively invested.
- Capital markets have helped millions of people around the world save their money more effectively, in a way that increases their financial well-being over time. But for many, access to this opportunity is not as easy as it should be. Public policy and market innovation that promotes investor participation can help more people share in the potential upside of economic growth.
- As populations age, governments, companies and people around the world will need to re-think the way that longer retirements are funded. We believe strong and accessible capital markets will make the shared effort to address this challenge easier.

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By the mid-century mark, one-in-six people globally will be over the age of 65, up from one-in-11 in 2019. To support them, governments are going to have to prioritize building out robust capital markets.”

Larry Fink, 2024 Chairman's Letter¹

“

Deep capital markets support the overall resilience of the financial system, as risks are shared across a large number of diverse investors.”

The economic benefits of capital markets

- A large body of academic research⁵ shows that capital markets are strong drivers of economic growth. Well-developed markets help capital to reach the parts of the economy where it can be put to the most efficient use, to support higher economic growth over time.
- Capital markets can also make growth more resilient by diversifying the sources of financing available to capital users. Capital markets complement the banking system and help reduce the risk associated with overreliance on any one source of capital. We've seen this risk impact the bank-dominated economies of Europe and Japan which have, in recent decades, experienced the economic impact of shocks to the banking system, without capital markets that are deep enough to meet the full range of companies' financing needs.⁶
- Deep capital markets support the overall resilience of the financial system, as risks are shared across a large number of diverse investors, rather than concentrated on a smaller number of banks. Market structures that are transparent, liquid and resilient ensure that capital markets can effectively absorb, not amplify, shocks.

Capital markets support effective public policy

- Monetary policy – that is, the actions taken by central banks to keep prices and interest rates stable – has traditionally been passed through to households and many businesses through the banking system (interest rates paid on loans or earned on savings accounts). However, capital markets play an increasingly important role in this process in many parts of the economy.
- Capital markets also support effective fiscal policy. Almost every government around the world is themselves a market participant: relying on markets to manage their cash flows and finance the projects and programs that are necessary to execute their public policy agendas.
- At the same time, governments around the world are facing budget constraints that will limit their ability to fund the investment needed to meet the structural shifts happening in our societies. The modernization of our infrastructure is essential to fostering a growing economy. The levels of investment needed around the world in the coming decades are enormous: BlackRock projects that annual investment in the world's energy systems alone will average \$4 trillion per year over the next three decades.⁷ Private investment – and capital markets – will need to play a central role.

The state of capital markets today

Define capital markets

Benefits of capital markets

State of capital markets

Capital market growth drivers

The shared priority





Governments worldwide recognize the potential of capital markets, and many are actively working to develop or grow their own domestic markets.

Markets ultimately reflect the countries or regions that they serve. This is a function of a range of factors; from the composition of the investor base, to the needs and structure of the underlying economies and financial systems.

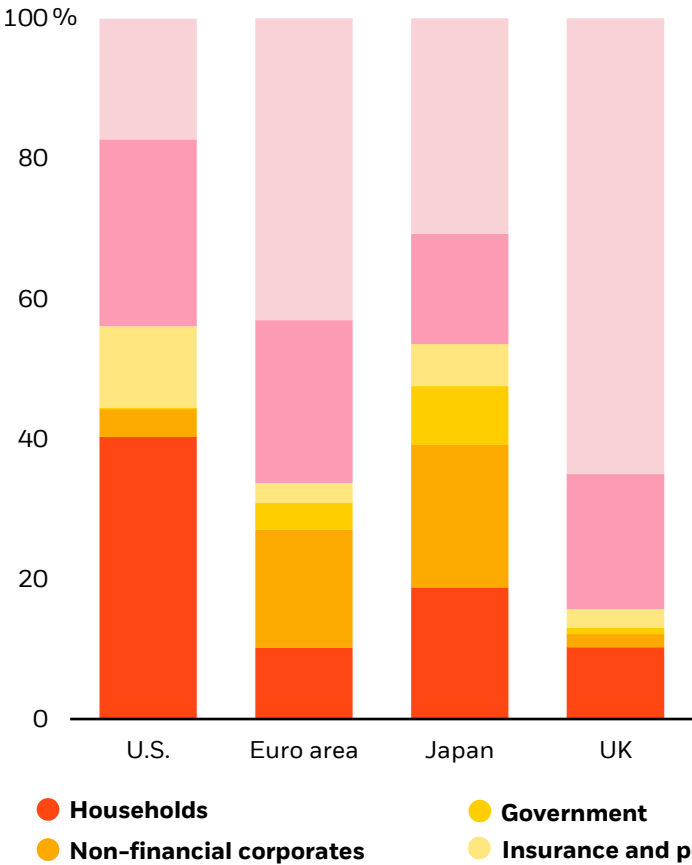
Today, capital markets around the world today look quite different from one another. The ways in which they will grow to most effectively serve these economies is likely to reflect these differences.

Institutional investors and household participation

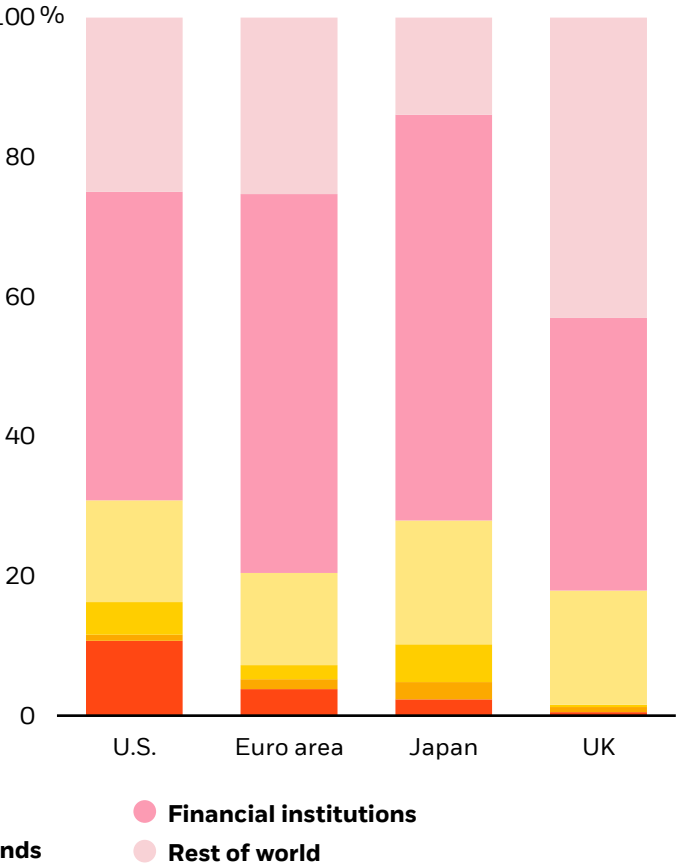
Capital market depth relies not just on many investors, but many different types. Their different risk appetites, investment goals and time horizons bring a natural diversity to capital markets, which underpins market liquidity and resilience.

Institutional investors like pension funds, insurance companies, sovereign wealth funds or family offices are important parts of capital markets. Their size and sophistication often means that they deploy capital across a number of market segments, from listed equity and bonds, through to private markets like infrastructure, private equity and private debt.

Equity market investor base by sector (2023)



Bond market investor base by sector (2023)



Source: BlackRock, U.S. Federal Reserve Board, European Central Bank, Bank of Japan, UK Office for National Statistics, with data from Haver Analytics, February 2025.⁸

Private pensions have long been identified as a driver of capital market development.⁵ A strong domestic institutional savings base (pension funds, insurers) is a key feature of markets in the US, UK, certain European markets (such as the Netherlands and the Nordics), Australia, and parts of Latin America.

Households and individual investors bring a diversity to a market's investor base as they have a wide range of savings preferences, time horizons and risk tolerances. But more importantly, the more households that invest their long-term savings, the stronger the link between economic growth and the financial wellbeing of everyday people.

The US has a long track record of investment by households, with 58% owning investments in shares, either directly or indirectly.⁶ This has made capital markets a powerful force in creating household wealth and lifting more people into the middle class in recent generations.

In contrast, investment by individuals is less widespread in Europe. A recent [BlackRock People & Money survey](#) found that only 34% of European adults invested. This number has increased only in the last few years, in particular due to the growth of innovative digital investment solutions that make investing more accessible to more people than it has been in the past. Still, continuing to grow the relatively low levels of investment by individuals in much of the European Union (EU) is a top priority for the European Commission and EU Member States in their efforts to grow capital markets.⁷

Global integration

Few, if any, capital markets rely solely on domestic sources of capital. The openness of markets to international investors and their attractiveness to foreign capital is a particularly important feature for capital markets that are at an earlier stage of development and may not yet have a robust local supply of capital. But international investors also play a prominent role in many highly developed markets, in supplementing the depth and liquidity provided by locally based investors and providing additional diversification of the investor base.

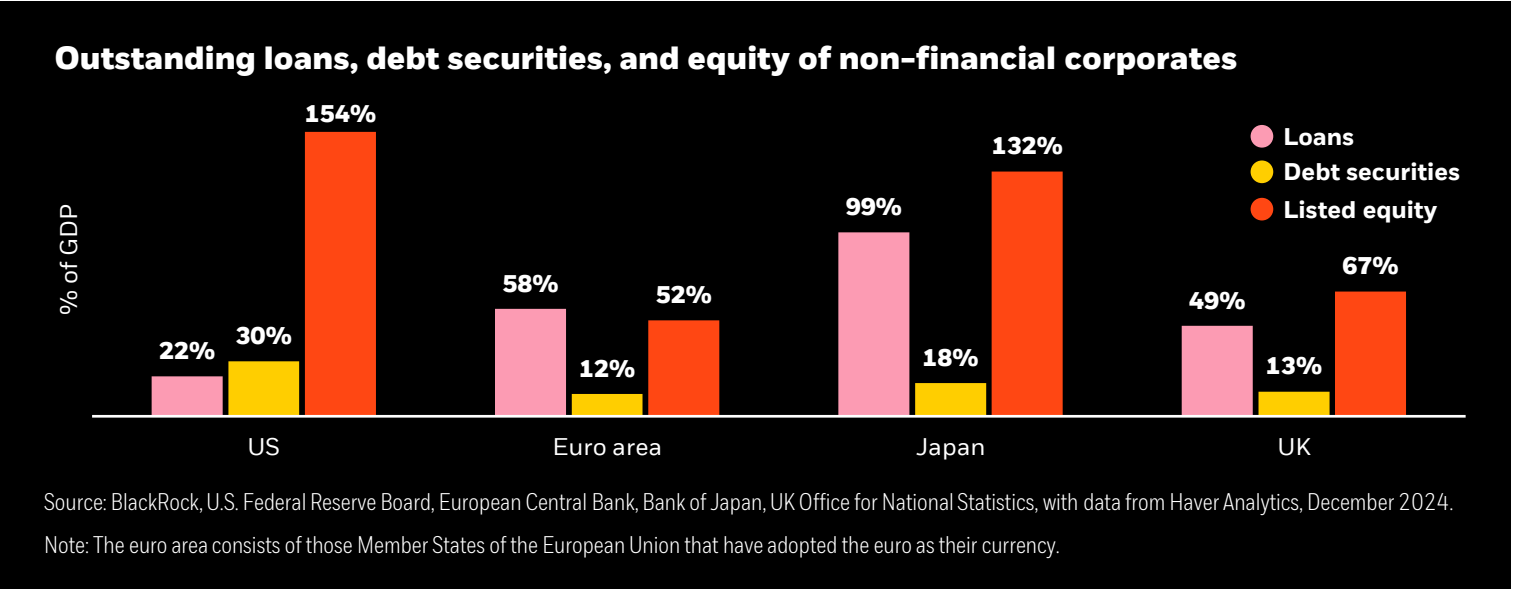
Attracting more global capital has been a driver of recent market growth in Asia. In Japan and South Korea, governments and stock exchanges have in recent years sought to make their market more attractive to international investors through corporate governance reforms that prioritize shareholder value.

Bank funding and market finance

In the US, capital market financing is a much larger source of funding for many companies than bank finance. However, this is not the case in much of the world today. Bank finance plays a far more central role in Japan and China (indeed, in much of Asia), and in the EU, UK, and in economies across Latin America.

The banking system and capital markets are each powerful drivers of economic growth. Growing capital markets and maintaining a strong banking system are entirely mutually reinforcing aims.

Bank balance sheet finance remains an effective way to fund a variety of a range of borrowers of different types. Banks, in turn, rely on specific segments of capital markets to raise funding which supports their lending. For example, banks



are important issuers of bonds of a range of different maturities, the proceeds of which add to their deposit base as capital that supports all types of bank lending.

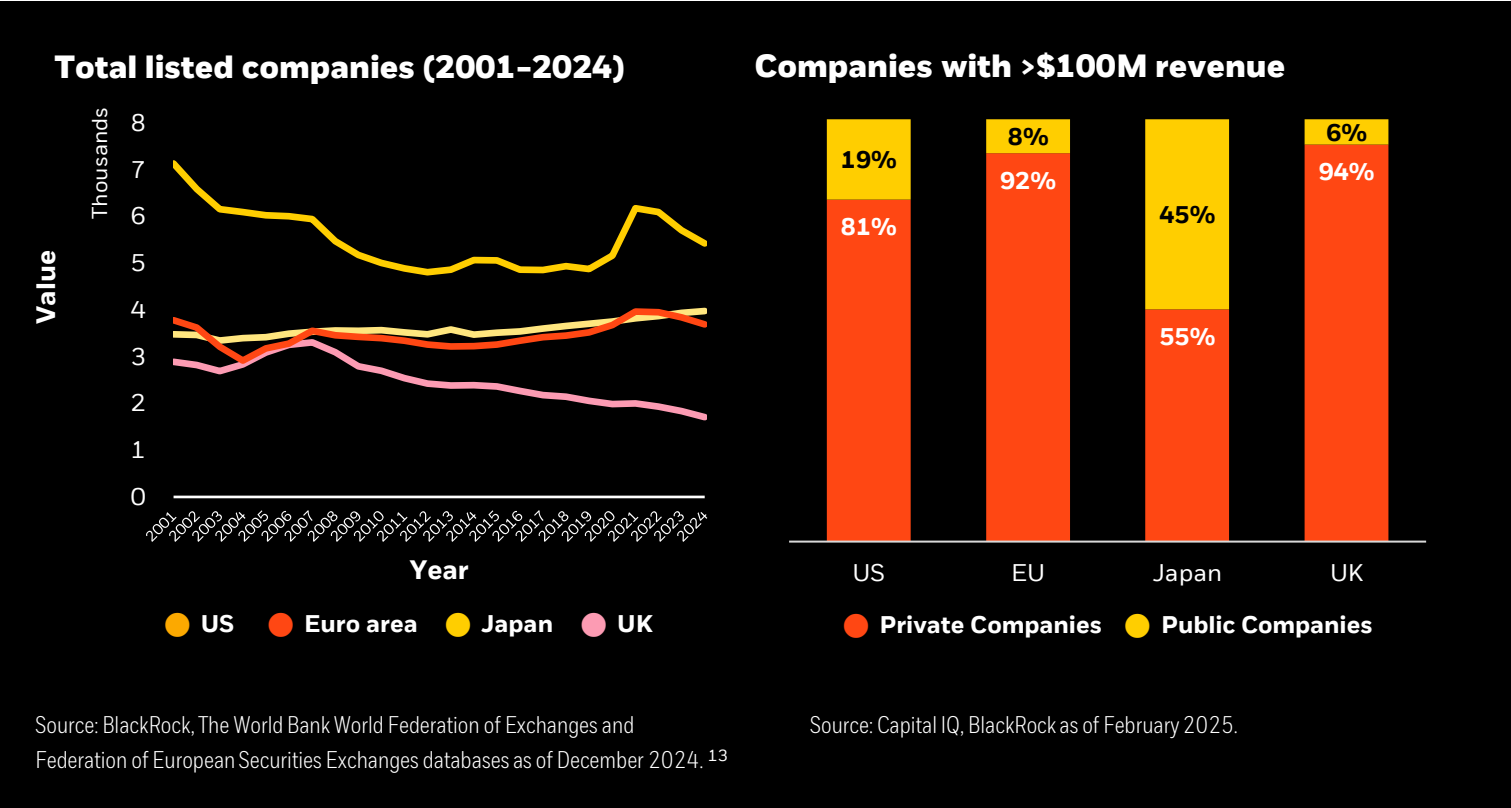
Capital markets also enable banks to share risk effectively with other market participants. For example, securitization, the process by which banks package loans and sell them to investors, is one of the vital links that supports this risk transfer and provides new capital to support further bank lending to households and to companies.

Public and private markets

In many places, the conversation around markets providing new funding opportunities for companies has centered on promoting new Initial Public Offerings (IPOs) – the process by which private companies list their shares for trading on a public exchange. While IPOs are indeed a valuable way for some companies to raise new capital, many can do so in a variety of other ways that might be equally, or even more, cost-efficient and better suit their needs and objectives.

Listing on a public exchange has played an important role in helping many companies grow. However, this route is not universal, and today the vast majority of the world’s companies are private. In fact, while the total value of the world’s public equity markets has grown steadily in recent decades, the absolute number of publicly listed companies has shrunk notably.

This is one illustration of structural changes taking place in both equity and debt markets. Market forces, technology, and regulation consistently shift financial activity to where it can be done most efficiently, and we see private markets



playing a more central role in meeting the financing needs of a range of companies in the future.

Many economies’ most important funding needs can be strongly supported by the growth of private markets. For example, in regions like Europe or Latin America, where there are a large number of smaller or unlisted companies (many

of whom will have traditionally relied largely on bank financing), private equity or debt funding may offer the most attractive sources of capital market funding. Equally, the considerable infrastructure financing needs around the world in the coming decades are going to be supported through the private markets.

The growth drivers of capital markets

The different starting points of capital markets today will define the debate about how to grow them to meet their potential.

While there is no universal blueprint, we’ve identified three pillars that help to grow successful capital markets by giving more people access to simple ways of investing and ensuring that markets function in a way that protects their interest.

1. Efficient ways to pool capital

The ability to pool capital with other investors has been transformative in giving a wider range of people the possibility to invest their long-term savings, and in the process growing capital markets around the world.

Investment funds, such as mutual funds or Exchange Traded Funds (ETFs), have made investing easier and more affordable. They have helped investors move from owning individual shares with risk concentrated in the success of a single company, to giving them access to broader and increasingly globally diversified investment opportunities. At the same time, pooling capital efficiently creates important economies of scale for those raising capital.

Fostering innovation in financial products that give investors the opportunity to reach a wide potential investment universe should be a shared priority for industry and regulators around the world. Product innovation has historically lowered barriers to entry for investors, increased the ease of trading, and widened the available pool of investors for users of capital.

Mature markets continue to evolve	Developing markets are modernizing	New markets are emerging rapidly
<p>US Capital Markets</p> <p>Even the most established capital markets have room to grow. US markets are the deepest in the world, but market structures continue to evolve to reflect the changing way in which investors participate (reflecting the growth of self-directed investors in recent years) and increase efficiency and resilience (e.g., the move to T+1 settlement⁹). The growing economic importance of private markets (including infrastructure) underlines the importance of ensuring investors have access to investment opportunities in this space.</p>	<p>Indian Market Structure</p> <p>As Indian markets grow, market structures will need to evolve to strengthen international access, help usher in a new wave of investors and reduce operational complexity. For example, functional transformations, such as a closing auction, which was recently proposed by the market regulator, will improve market efficiency and support continued growth.</p>	<p>Growth in the Middle East</p> <p>Middle Eastern capital markets have been evolving rapidly, driven by strategic efforts to diversify oil-rich economies in places like Saudi Arabia and the United Arab Emirates, attract foreign investment, grow local listings, and develop a capital markets ecosystem on the ground. National development strategies underpin innovation.</p>
<p>Advancing European markets</p> <p>EU policymakers are actively seeking ways to promote the growth of capital markets to support the economic competitiveness of the region. The importance of the EU’s <i>Capital Market Union</i>¹⁰ initiative features prominently in the Draghi¹¹ and Letta¹² Reports on EU Competitiveness and the Single Market and is a major political priority for the new European Commission.</p>	<p>Latin America</p> <p>Market reforms and innovation in the region are leading to modernization of Latin American capital markets. Many countries have implemented regulatory changes to modernize financial markets, enhance investor protections, and improve transparency to attract more capital. Private markets play an important role in economies throughout the region.</p>	<p>Emergence of Digital Assets</p> <p>New markets are not just a geographical concept, the development of new products and asset classes – for example, the growth of digital assets – require deliberate thinking about how best to structure the markets that develop around them.</p>

Source: BlackRock. For illustrative purposes only.

As the shape of economies and financial markets change, and the pace of technological change increases, new investment opportunities are not always easy for many investors to access.

For example, in many parts of the world, non-professional investors still face barriers in accessing investment opportunities in private markets. This limits their ability to directly benefit from the growth in infrastructure investment, or to invest in the wide universe of unlisted companies.

In Europe, this is beginning to change. Policymakers and regulators in the EU and the UK have recently created fund structures – the EU European Long-Term Investment Fund (ELTIF) and UK Long-Term Asset Fund (LTAF) – that allow individual investors diversified access to long-term investments in private markets.

2. Structural innovation to access investments

Capital markets have also evolved through innovation in financial structuring. Financial structures allow investors to take different levels of risk on the same investment. This has enabled markets to source capital from investors with a variety of risk appetites and direct it towards a particular investment.

This can be as simple as the capital structure of companies, which generally source capital with different risk levels for the investor (e.g. bonds that deliver a fixed income of interest payments, versus shares whose value may rise or fall). Or it can be specific financing instruments such as securitization, or other forms of structured finance that can help companies meet more complex financing needs.

Case study

Indexation, and its role in democratizing access to diversified investment portfolios

Indexation: The development of financial indexes, like the S&P 500 or Euro Stoxx 50, has been a critical structural innovation that has provided an organizing framework to define markets, and easily measure their performance. Indexes have become indispensable parts of investment process, used for myriad purposes, including tracking the performance of markets or sectors; benchmarking the performance of companies, countries and even investment managers; as key inputs to stock price discovery in global markets; and as building blocks for portfolios.

Index investing: Index investing – through funds that seek to track the performance of a published financial index – has in turn profoundly changed the way investors seek returns, manage risk, and build portfolios. It has been transformational in providing low-cost access to diversified investments for all investors, from institutions to individuals. Technology has extended the range of investments that can be indexed, providing choices beyond the traditional indexes based on company size, to more dynamic indexes, such as those tracking specific investment styles. The adoption of index investing has been boosted by a focus on fees by both regulators and investors. While the value for money that a fund offers consumers depends on more than price, lower fees generally allow investors to keep more of their returns.

Case study

Funds that provide access to private market investment

In recent years, European policymakers in the EU and UK have created and enhanced fund structures designed to help channel savings to ‘long-term’ assets such as infrastructure and private equity. These structures offer a wider range of investors access to these investment opportunities than would normally be able to access them.

Recent revisions to the EU ELTIF introduce greater investment flexibility and a more investor-friendly redemption process, creating fund structures that are able to provide a wider segment of savers access to previously out-of-reach investments in private markets.

In the past, risks associated with some new financing structures have been poorly understood and managed – for example in types of investments backed by pools of mortgages in the lead up to the 2008-09 global financial crisis. New financing structures, especially complex ones, need to be clear and transparent enough to allow investors to understand and manage risk. But it would be a mistake, on this basis, to dismiss the potential of structural innovation to help grow markets.

For example, reviving the European securitization market is rightly seen as a policy priority to grow Europe's capital markets¹³, to more efficiently allocate risk, and free up bank capital to support new lending.

And blended finance initiatives that share risk between public and private capital are becoming a more common tool in how governments around the world finance infrastructure projects. Moving forward, blended finance can play an important role in mobilizing capital to meet strategic investment aims, whether in infrastructure or other areas where governments are looking to attract investment.

3. Transparent, resilient and reliable market structures

Capital markets activity takes place in a variety of specialized market structures. These can be organized trading venues like stock exchanges, or less structured 'over-the-counter' (OTC) markets where participants trade directly with one another. It can be the clearing and settlement system which supports the transfer of securities from one investor to another after they have been bought and sold. It can be the market for derivatives (financial contracts based on other investments) and collateral system (which uses investments as security to borrow against), which help market participants manage risk.

Case study

Blended finance

Blended finance refers to a way of structuring investments that draws on both public (or philanthropic) money and additional private capital. This is especially useful for funding investments that governments or charities may not be able to pay for on their own, but that at the same time, may not present an attractive risk / return profile to attract sufficient private investment on its own.

For example, blended finance has been used effectively to attract investment for infrastructure investments, for projects related to the energy transition, like renewable energy, or in emerging markets where the risks might make it hard to get funding on a large scale.

New and larger blended finance projects are increasingly coming available, with an expanding range of structures designed to meet the specific requirements – in terms of risks, returns, and impact – of a wider range of investors.

Often, each of these market structures is subject to specific legal and regulatory requirements that seek to bring certainty, provide investor protection and transparency, and set conduct requirements that underpin market stability and resilience. For example, in public markets around the world, market abuse and insider trading rules ensure market integrity and protect investors from others in the market acting on information that the whole market does not have access to. Or in derivatives markets, reforms following the global financial crisis require most market participants to clear their positions with central counterparties (CCPs) to lower the risk of counterparty defaults.

Many of these regulatory frameworks continue to evolve along with markets as they grow and change. As they do, it's important that they advance the aims of transparency and resilience, while minimizing cost and reducing inefficiency.

- **Transparency:** Markets that provide regular and reliable information about investments and pricing lay the foundation for building investor trust and confidence, which in turn drives the efficiency of markets, increases healthy competition and lowers costs for investors. Different levels and types of transparency are appropriate for different markets. For example, public stock markets require far more price transparency and public disclosure from traded companies than market participants need in OTC or private markets where they transact directly with one another.

- **Resilience:** Market resilience underpins capital markets' ability to absorb, rather than amplify, shocks. Capital markets have changed considerably since the global financial crisis, often spurred by significant regulatory reforms such as the expansion of central clearing requirements for securities and derivatives, or the Basel III reforms¹⁴ which increased the amount of capital banks need to hold against the risk they take in a range of market-facing business. These reforms have made the financial system overall safer and more resilient. But they have also changed many market segments in recent years, especially collateral markets and secondary trading of many types of bonds, and arguably made parts of the market more prone to liquidity stress. Market structures and regulatory frameworks need to continue to evolve and adapt to reflect innovation and structural changes, in order to continue to promote liquid and resilient markets.



Technology has historically played a central role in improving market structures

Today, digitalization and AI are emerging as powerful transformative forces that can improve market efficiency, reduce fragmentation and operational complexity and remove structural siloes that can exist across traditional market infrastructure. For example, AI's ability to perform large-scale data analysis augments a variety of investment and trading activities, including data and content synthesis, pattern detection and monitoring, forecasting and prediction, and process automation. The digitalization of markets and the tokenization of traditional financial assets could significantly improve the speed and certainty of capital market transactions and settlement processes, creating more efficiency, increased transparency and lower operating and investment costs.

Conclusion: The shared priority of growing capital markets globally



Capital markets are the key connector to addressing some of the biggest economic challenges of our time, from mobilizing investment to catalyze economic growth, to helping more people share in the benefits of economic prosperity.

We believe in the enormous potential that capital markets hold and are optimistic about their potential in all parts of the world.

To unlock this potential, BlackRock supports public policies that contribute to the growth of robust and efficient capital markets that can more effectively play their role as engines of economic growth and broad prosperity.

Policymakers and regulators, as well as the financial services industry, have an important role to play in realizing this goal, which we believe comes down to three key priorities:

1. Give more people the ability to invest

Expanding the group of people who have the ability to invest is central to realizing the full power of capital markets: it means more capital is available to those who seek it, and also means more people share in the potential economic upside of the return generated by that capital being put to use.

Central to this are regulatory frameworks and market-led innovation that make it easy for individuals to access efficient and attractive ways to deploy their capital to meet their own investment objectives. Investment funds have been, and will continue to be, a cornerstone of enabling wide-ranging investor participation in capital markets. One of the keys to their continued success is their ability to evolve, in both form and function, to meet the needs of investors and capital users.

Governments have a central role to play in enabling, and even encouraging, investor participation in markets; from specific incentives to save and invest for the long-term, to regulatory frameworks that give meaningful access to a diverse range of investment options.

2. Promote effective and resilient market structures across the capital markets spectrum

Markets work best when they function in the interests of both the providers of capital (savers) and the users of capital. Regulatory frameworks play an important role in this. As these frameworks develop or evolve, whether to spur the creation of new capital markets or to reflect the evolution of how existing markets operate, they should promote transparency and resilience and minimize operational friction and cost.

Supporting beneficial technological innovation such as digitalization and the use of AI will play a critical role in improving market efficiency. We believe a constructive ongoing dialogue between industry and regulators will be important, to ensure that regulation and market practice evolve with technology.

In our view, efforts to scale capital markets need to work in sync with the ways in which economies are changing, and where capital is needed. Private markets play an increasingly important economic role in making debt and equity funding available to a wide range of companies and investment projects. Similarly, efforts to grow capital markets globally should not stop at stock and bond markets. We believe they should also promote the growth of markets like infrastructure, private credit and private equity as a complement to robust public markets.

We believe there will be tremendous opportunity to deploy capital through these channels in the future. As these markets grow, a suitably wide range of investors should be able to gain access to these opportunities. Pooled funding vehicles and structural innovations like blended finance will play a key role.

3. Pursue growth-oriented economic policies to complete the virtuous cycle

The growth of capital markets relies not just on increasing the pool of capital available to potential users, but on growing the investment opportunities available to current and future investors.

Many developed economies today have high levels of savings but a shortage of domestic investment opportunities. As a result, even with robust market structures in place, these economies can see their excess capital being invested elsewhere in the world.

To realize the full potential of the virtuous economic cycle, policy efforts to promote the growth of capital markets must work in tandem with broader economic policies in those regions to promote innovation, business growth, new capital investment by companies, and a healthy pipeline of new infrastructure projects.

While the path to achieving these objectives will differ in different countries and regions, we are optimistic about the opportunity for policymakers and industry to work together to increase the vibrancy of capital markets and expand access to their wealth and prosperity generating power for all.

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2. Classic literature demonstrating the link between capital market depth and economic growth includes [King and Levine \(1993\)](#), QJE and [Rajan and Zingales \(1998\)](#), AER, showing that capital markets have played a pivotal role in allocating funding to risky and innovative projects, thereby supporting industry development and economic growth. More recent literature in Journal of International Money and Finance ([Didier et al. 2021](#)) which found that firms using capital market finance also saw growth accelerate, growth was faster among firms facing tighter financing constraints, and capital market involvement is linked with faster growth in countries with more developed capital markets relative to banks.

3. [Energy Pragmatism: An Evolving Approach for the Mid-21st Century](#) (BlackRock, 2024)

References continued

4. The left-hand chart shows the share of total equity holdings broken down by investor segment. Equity holdings are defined as corporate equities directly held and those in closed-end funds and ETFs. The right-hand chart shows the share of total debt securities holdings broken down by investor sector. Debt securities cover sovereign, corporate and foreign bond holdings. For both equity and debt securities holdings, 'Rest of world' relates to foreign holdings of domestic equity and debt securities respectively.
5. The World Bank has cited pension funds as a key source of the long-term capital needed to grow both bond and equity markets ([Vittas 1996](#)). [Nigemann and Rocholl \(2010\)](#) show that pension funding reforms in a range of countries between 1976 and 2007 have a direct impact on the growth of capital markets. [Babalos and Stavroyiannis \(2020\)](#) show pension fund investment in equities are a driver of stock market growth across OECD countries.
6. Federal Reserve Survey of Consumer Finances (2023)
7. The priorities of the European Commission in financial services, as outlined in the "[Mission Letter](#)" to the incoming Commissioner for Financial Services in December 2024, highlight the need "to unlock the substantial amount of private investment needed... and to create better opportunities for citizens to improve their own financial security." One of the three priority areas for focus in the March 2024 Eurogroup (bringing together the Ministers of Finance of Eurozone countries) [Report on priorities](#) for growing European capital markets highlights the need to "create better opportunities for EU citizens to accumulate wealth and improve financial security, by increasing direct and indirect retail participation through access to profitable investment opportunities."
8. "US" includes total listed companies on the American Stock Exchange, NASDAQ (US), and New York Stock Exchange (NYSE); "Euro area" includes total listed domestic companies on the Athens Stock Exchange, BME, Borsa Italiana, Deutsche Börse, Euronext, Luxembourg Stock Exchange, Malta Stock Exchange, Nasdaq Nordic & Baltics and Vienna Stock Exchange; "Japan" includes total listed companies on the Japan Exchange Group (Tokyo & Osaka); "UK" includes total listed companies on the London Stock Exchange (LSE) (WFE data was supplemented with data directly from the London Stock Exchange).
9. In 2023, the US Securities and Exchange Commission (SEC) [adopted rules](#) to move US securities markets to a shorter standard settlement cycle, moving from two business days after the trade date ("T+2") to one business day after the trade date ("T+1").
10. The "Capital Markets Union" (CMU) initiative has been a multi-year strategic policy effort by the European Commission and EU Member States to develop deeper, more liquid and more transparent capital markets across the EU, reduce fragmentation between European markets and promote great retail / household investment participation.
11. "[The Future of European Competitiveness](#)" Report, Mario Draghi (September 2024)
12. "[Much More than a Market](#)" Report, Enrico Letta (April 2024)
13. Further development of the EU's securitization market is highlighted in both the "Mission Letter" to the incoming Commissioner for Financial Services, and the Eurogroup Report on priorities for growing European capital markets. It is also specifically referenced in both the Draghi and Letta Reports. (see notes 7, 11 & 12)
14. Basel III is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision, in response to the financial crisis of 2007-09. The measures aim to strengthen the capital framework, supervision and risk management of banks.

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