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EUROSYSTEM

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Intertemporal versus cross-sectional risk sharing

- **Intertemporal risk sharing** to smooth common shocks over time (i.e. economic recession) by allocating private savings in traditional assets (i.e. housing, government bonds, bank accounts).

- **Cross-sectional risk sharing** to smooth asymmetric shocks at a certain point in time (i.e. sectoral and country-specific downturns) by allocating private savings in equity and corporate bond markets, removing cross-border capital flows' barriers across Europe - Capital Market Union (CMU).

Capital Market Union and other economic implications

The CMU can produce additional positive effects:

- Raise the level of investment and contribute to economic growth, because some risk premia are expected to decline
- Stimulate other sources of finance to fund innovation (i.e. crowd funding and private equity) and reduce the cost of raising capital notably for SMEs
- Increase the resilience of monetary policy transmission
- Reduce the financial stability risk by rebalancing the financial system
- Support the restructuring of the banking system offering market solutions to non-performing loans (NPL), although at the same time it might reduce banks' intermediation margins.