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Long-term financing of the European economy

European Parliament resolution of 26 February 2014 on long-term financing of the European economy (2013/2175(INI))

The European Parliament,

– having regard to the Commission Green Paper entitled ‘Long-Term Financing of the European Economy’ (COM(2013)0150),

– having regard to the Commission proposal for a regulation of the European Parliament and of the Council on European Long-term Investment Funds (COM(2013)0462),

– having regard to the OECD High-Level Principles of Long-Term Investment Financing by Institutional Investors,

– having regard to the Commission communication entitled ‘Europe 2020: A strategy for smart, sustainable and inclusive growth’ (COM(2010)2020),

– having regard to the Commission communication entitled ‘“Think Small First”: A “Small Business Act for Europe”’ (COM(2008)0394), which recognises the central role of SMEs in the EU economy and aims to strengthen it and to promote their growth and job-creating potential by alleviating a number of problems thought to hamper their development,

– having regard to the Commission communication entitled ‘An action plan to improve access to finance for SMEs’ (COM(2011)0870),

– having regard to the Commission ‘proposal for a regulation of the European Parliament and of the Council establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (2014-2020)’ (COM(2011)0834),

– having regard to the Commission communication of 23 February 2011 entitled ‘Review of the “Small Business Act” for Europe’ (COM(2011)0078) and to Parliament’s resolution of 12 May 2011 thereon[1],

– having regard to Regulation (EU) No 345/2013 of the European Parliament and of the Council of 17 April 2013 on European venture capital funds[2],

– having regard to Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010[3],

– having regard to the Transatlantic Trade and Investment Partnership negotiations,

– having regard to Rule 48 of its Rules of Procedure,

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1 OJ C 377 E, 7.12.2012, p. 102.
2 OJ L 115, 25.4.2013, p. 1.
3 OJ L 174, 1.7.2011, p. 1.

– having regard to the report of the Committee on Economic and Monetary Affairs and to the opinions of the Committee on Employment and Social Affairs and the Committee on Regional Development (A7-0065/2014),

A. whereas, according to the Commission, commercial banks are a primary source of finance in the EU, providing over 75 % of financial intermediation;

B. whereas the global financial crisis and the sovereign debt crisis in the EU have significantly hampered the financial intermediation process and the ability of Europe's financial sector to channel savings to long-term investment needs, given the weak macroeconomic environment;

C. whereas public investment has a key role to play in driving long-term investment; whereas, as shown by the Commission's recent studies[1], fiscal consolidation policies, in particular when coordinated at EU level, have had a very severe impact on long-term investment, owing to spillover effects and the existence of a positive fiscal multiplier;

D. whereas the EU's international competitors, such as the US or Japan, have maintained high levels of public investment, while EU policies have led to very low levels of such investment;

E. whereas there is a persistent lack of confidence and a high level of risk aversion on the part of both private and institutional investors;

F. whereas the low-interest environment, low growth projections, at least for the foreseeable future, and economic uncertainty have significantly decreased the supply of long-term financing and the risk appetite for long-term projects;

G. whereas limited public finances in the Member States have hampered public-sector capacity to invest in infrastructure;

H. whereas Parliament has more than once requested a legislative act on company restructuring (as already requested in January 2013) so as to allow long-term planning by businesses;

I. whereas increasing overall unemployment, and youth unemployment in particular, remains a major threat to economic and social convergence at EU level;

Reasoning

1. Welcomes the Commission's initiative of starting a broad debate on ways to foster the supply of long-term financing and to improve and diversify the system of financial intermediation for long-term investment in the EU; stresses, however, that concrete advances need to be made as a matter of urgency in order to relaunch long-term investment and job creation in the EU; stresses that the definition of long-term financing should be balanced and include the existence of stable liabilities in order to handle long-term assets without any risk of excessive liquidity;

2. Stresses that long-term investments must be in line with the needs of the real economy so as to provide the necessary basis for the continuous and sustainable economic growth and

[1] http://ec.europa.eu/economy_finance/publications/economic_paper/2013/pdf/ecp506_en.pdf

social well-being needed in order to achieve a competitive, sustainable, socially inclusive and innovative EU;

3. Notes the specificity of the circumstances faced by the local and regional levels and calls for efficient cooperation between the EU institutions, the Member States and local and regional authorities so as to facilitate transnational projects and the establishment of a long-term investment culture across the EU;

4. Stresses that long-term investments must be in line with the objectives of the Europe 2020 growth strategy, the 2012 industrial policy update, the Innovation Union initiative and the Connecting Europe Facility;

5. Stresses that training and education costs should be treated as long-term investments;

6. Notes that the economy's capacity to provide financing for long-term investment depends on public and private demand, both of which are very low in the EU, its investment culture and its ability to generate financing capacity and attract and retain domestic and foreign direct investment capital;

7. Emphasises that long-term investments play a crucial role in stabilising financial markets through counter-cyclical investment, thereby promoting sustainable economic growth;

8. Notes that banks in the EU provide over 75 % of long-term financing, which creates significant dependence on this funding source, while in the US less than 20 % of all long-term financing is provided by banks, and a large majority through well-developed capital markets;

9. Notes that the EU financial system will become more resilient with a broader range of non-bank finance sources and instruments that serve savers and the long-term financing needs of companies;

10. Notes that in order to achieve EU objectives in the fields of climate and energy, asset allocation needs to be pushed towards long-term green investment;

11. Emphasises that fiscal consolidation is the priority for public budgets with a view to ensuring and restoring compliance with the Stability and Growth Pact and the 'two-pack'; supports, therefore, the initiative aimed at enhancing private investment in long-term financing;

Barriers to smart, sustainable and inclusive growth

12. Notes that public financing is limited owing to slow economic growth, poor public budget management and the granting of state aid to save financial institutions;

13. Notes that some countries are facing serious obstacles to, or even being denied, access to capital markets because they have contracted excessive levels of debt in recent years, while capital markets were the main cause of the recent crisis; notes, further, that SMEs in many Member States are having great difficulty accessing capital because commercial banks are only prepared to grant loans subject to unduly tough conditions;

14. Notes that some investors in the banking and insurance sectors need to adapt their business models to evolving and tightened regulatory requirements; points out that these

requirements are supposed to strengthen the financing of the real economy and should contribute to the overarching EU objectives aimed at a sustainable, inclusive and smart economy;

15. Notes that investors may also be deterred from investing in certain sectors, given the risk of regulatory changes which can materially alter the economics of a project;

16. Calls on the Commission, in cooperation with the European Systemic Risk Board, to assess systemic risks to capital markets and society at large owing to the overhang of unburnable carbon assets; asks the Commission to report on that assessment as a follow-up to its Green Paper;

17. Notes that current bankruptcy codes in the EU are fragmented and may, in some cases, deter cross-border investment and restrict investors' ability to recover their capital in the event that a project fails; warns that a race to the bottom as regards investor protection must be avoided; recognises that bankruptcy provisions fall within the competence of the Member States;

Alternative funding mechanisms

18. Notes that commercial banks are likely to remain a main source of finance and that it is key for the Member States to establish new sources to complement established mechanisms and fill the funding gap, while providing for an appropriate regulatory and supervisory framework geared to the needs of the real economy; considers it regrettable that over the last 20 years public offerings have been declining in the EU, hampering growth, job creation, innovation and stability; notes that listed SMEs account for a significant proportion of all jobs created in the EU and considers regrettable the negative consequences of such companies being limited in terms of capital while they are growing;

19. Proposes that consideration be given to the creation of an investment section in the EU budget;

20. Welcomes the Commission's legislative proposal in relation to long-term investment funds; notes that their envisaged characteristics will mean that they serve mainly institutional investors; points out that the EU regime for alternative investment funds, venture capital and social investment funds also provides suitable investment vehicle models;

21. Emphasises the strengthened role of new, innovative financial instruments in all fields of activity and in all the funding covered by the European Structural and Investment Funds; stresses that the role of financial instruments in cohesion policy is growing, given the poor availability of lending for investment in the real economy; calls on the Commission to guarantee the legal clarity and transparency of the new off-the-shelf financial instruments and to establish firmer links with the lending options of the European Investment Bank (EIB);

22. Calls on the Commission to propose an enhanced European framework for less liquid investment funds in order to channel private households' short-term liquidity into long-term investments and provide an additional retirement solution;

23. Encourages stakeholders in the EU-EIB Project Bond Initiative to develop it further in order to increase the financing of large European infrastructure projects in the transport, energy

and information technology sectors; calls on the Member States to develop national project bond initiatives underpinned by guarantee schemes; recalls that public guarantees should only be granted under strict conditions aimed at ensuring the adequate provision of public goods;

24. Believes that public-private partnerships (PPPs) can be an effective and cost-efficient means of facilitating collaboration between the public and private sectors for certain investments, especially in infrastructure projects; notes that there is a strong need for a high level of expertise to allow the proper selection, evaluation, design and long-term planning of, and the establishment of funding arrangements for, such projects;

25. Believes that long-term public investors (national, regional or multilateral development banks and public financial institutions) are strong tools for stimulating private investment so as to allow SMEs access to funding and to catalyse long-term financing for undertakings of broader public interest and of strategic importance, namely those which would add value to public policy objectives related to economic growth, social cohesion and environmental protection; underlines the importance of accountability, transparency and democratic ownership of desirable long-term investment aims and facilitation mechanisms;

26. Calls on the Commission, in a follow-up paper, to explore and develop a harmonised approach to the long-term valuation of projects of general interest supported with public resources at the EU and national levels;

27. Calls on the Member States to create appropriate networks for cooperation and the exchange of information, and to set up national or regional long-term public investors which can learn from the best practice of already established institutions; emphasises, in this connection, that such national or regional development banks, which are often structured along cooperative lines, have continued to offer reliable funding to regional and local economies during the current crisis; calls on the Commission and the Member States to strengthen their support for financial institutions of this type;

28. Calls on the Commission to explore ways to support Member States requiring financial and technical assistance to set up their long-term national and regional public investors, and to study the possibility of an EU guarantee mechanism for long-term national public investors;

29. Calls on the Commission and the Member States to explore the potential for aggregation and pooling techniques as a means of improving the prospects of smaller-scale social and other infrastructure projects when it comes to attracting the necessary investment;

30. Notes the rapid growth of crowd funding and believes it may bring new opportunities; stresses, however, that investor protection and transparency must be preserved;

31. Believes that institutional investors – insurance companies, pension funds, family businesses, mutual funds and endowments – are suitable and reliable providers of long-term financing, given the longer time horizons of their business models; stresses that appropriate supervisory and prudential requirements related to these institutional investors need to be refined and calibrated so as to promote long-term investment for a smart, sustainable and inclusive real economy;

32. Stresses the need to improve access to capital markets through new sources of funding such as initial public offerings, crowd funding, peer-to-peer lending and (covered) bonds or

through new market segments; calls on the EU to take stock of, and build on, successful national initiatives in order to identify and remove obstacles to initial public offerings; supports the introduction of the SME growth markets classification under the Markets in Financial Instruments Directive; calls on the Commission to support their development through the review of the Prospectus Directive; also calls on the Commission to consider a cross-directorate approach with a view to exploring how public markets for SMEs can be enhanced and how the Financial Services Action Plan Directives can diversify the pool of investors;

33. Encourages regulatory efforts that guarantee high-quality securitisation of assets while preventing structures of high complexity, excessive re-securitisation and more than three tranches; notes that there is scope for more standardisation and transparency with regard to the underlying risks; calls on the Commission and the European Central Bank to follow closely, and participate actively in, the work of the International Organisation of Securities Commissions–Financial Stability Board (FSB) working group on securitisation; notes that a consistent approach is lacking, and therefore calls for the development of an overall regulatory framework and a definition of 'high-quality securitisation'; considers that high-quality securitisation can play a useful role in financial intermediation of both long- and short-term assets and be beneficial for small and medium-sized borrowers;

34. Notes that securitisation was one of the factors contributing to the crisis, since long-term responsibility for risk was spread along the securitisation chain; calls on the Commission, therefore, to continue to strengthen both the banking system, including cooperative and public savings banks, and banks' ability to access long-term refinancing to cover their long-term investments;

35. Welcomes the credit enhancement operations of the European Investment Fund (EIF) and the Competitiveness and Innovation Framework Programme intended to generate additional financing for SMEs;

36. Calls on the Commission to reduce unnecessary administrative and regulatory burden, and especially to take into account the specificities of SMEs and entrepreneurs; welcomes the adoption of the Small Business Act for Europe and of the Competitiveness of Enterprises and SMEs (COSME) and Horizon 2020 programmes; notes that the fragmentation of financial markets has made the financing of the SME sector more difficult and burdensome;

37. Recommends that the EIB set up a special branch for SME funding, with tailor-made loan conditions;

38. Notes the Commission's call for the use of private equity or venture capital, as regulated by the Alternative Investment Fund Managers (AIFM) Directive and the Regulation on European venture capital funds, as an alternative source of finance, in particular vis-à-vis companies in the start-up and growth phases; notes that there is currently a strong tax bias favouring debt financing; believes that venture capital and private equity firms can provide valuable non-financial support, including consultancy services, financial advice, advice on marketing strategy, and training; calls on the Commission further to assess the role of such firms in financing the EU economy; calls on the Commission to work on eliminating all bias against equity in the various national economies, the European economy and the global economy;

Regulatory environment

39. Emphasises that an investor-friendly business climate with a strong drive for technological progress is a prerequisite for making the EU an attractive destination for foreign direct investment; stresses the need to encourage the free movement of capital both within the EU and between the EU and third countries, so that the EU can access global pools of capital; notes in particular, in this connection, the importance of ensuring that the AIFM Directive is implemented in such a way as to encourage foreign investment in the EU;

40. Considers it important for investors to have a choice between many attractive investment products so that they can diversify their investment;

41. Stresses the need to eliminate excessive short-termism in investor behaviour and move towards a responsible investment culture conducive to long-term investment in the EU;

42. Stresses the need to foster a shared understanding that financial stability and growth are not mutually exclusive, but rather interdependent, and form an important basis on which to build and enhance investor confidence on a long-term basis;

43. Underlines the importance of financial education and investor understanding in establishing a culture of long-term investment in the EU, and highlights the role that EU regulation can play in this regard;

44. Stresses that a consistent regulatory framework and legal certainty are indispensable for a functioning single market for financial services; believes that the current and future reform of the regulatory system should be carefully assessed, and its consequences closely followed; calls on the Commission and the Member States to speed up the promotion of the Banking Union in order to reduce the fragmentation of financial markets; calls on the Commission to complete the single market for services in order to unlock its full potential;

45. Calls for the implementation of incentives to enhance long-term shareholding, such as additional voting rights in management boards, additional shares and higher dividends;

46. Calls on the Commission to assess carefully the cumulative impact of already concluded and ongoing financial regulation of long-term investment;

47. Welcomes developments in the ongoing negotiations on the Transatlantic Trade and Investment Partnership; notes the importance of these negotiations in strengthening policies and measures to increase US-EU investment in support of job creation, sustainable economic growth and international competitiveness;

48. Believes that a specific impact assessment of long-term financing should be included in any legislative proposals for relevant financial services regulation;

49. Supports the Commission's call for the European Insurance and Occupational Pensions Authority to examine the potential calibration of certain capital requirement provisions under the Solvency II regime with a view to avoiding possible obstacles to long-term financing; calls on the Commission to consult fully on the proposed calibrations and further to amend the current legislation;

50. Reiterates its call for the proposal for a regulation on prudential requirements for credit institutions and investment firms to assign an appropriate risk weight to exposures that are fully and completely secured by mortgages on critical infrastructure projects in the fields of

transport, energy and communication; considers that further legislation should take into account the requirements of long-term investors, evaluate the risk attached to financial assets by including the nature and duration of liabilities, and recognise the positive effect of stable liabilities;

51. Encourages the Commission to seek enhanced international cooperation and convergence in the area of long-term investment by pursuing a global dialogue at the level of both the G20 and the FSB;

52. Believes that investments in long-term assets require a thorough knowledge and assessment of the long-term risks attached to them; stresses, therefore, that investors need to establish strong expertise and good risk management in order to safeguard long-term commitments;

53. Believes that sound accounting principles consistent with long-term objectives applicable to institutional investors, such as the transition to a climate-friendly economy, can enhance the transparency and consistency of financial information and should systematically reflect the economic approach employed by long-term investors; stresses, however, that the implementation of these accounting principles must not have the effect of creating incentives for pro-cyclical strategies; urges the International Accounting Standards Board to take into consideration the risk of pro-cyclicality when reviewing the mark-to-market and mark-to-model practices and to recognise the central importance of prudence in the revision of its Conceptual Framework; believes that the disclosure of clear, standardised non-financial information pertaining to large companies can increase transparency and foster a more investor-friendly climate;

54. Encourages the Commission to follow closely the G20's work on proposals to create a multilateral investment framework that sets minimum standards and modifies certain long-term investment regulations and fair value accounting rules in order to address short-term fluctuations and volatility, thereby fostering cross-border investment;

55. Believes that there is a strong need for a reliable tax environment which prevents impediments to long-term investment; notes that certain tax incentives and concessions can be key in fostering investment; encourages the sharing of best practices and stresses that the internal market requires transparency and better coordination of national tax policies in order to facilitate cross-border investment and avoid both double taxation and double non-taxation; encourages the Member States and the Commission to assess the possibility of granting tax-advantageous yields on sustainable infrastructure projects or other tax incentives and concessions to promote long-term investment;

56. Calls on the Member States, in collaboration with local and regional authorities, to revisit their budget planning tools and to develop and publish their own national infrastructure plans in order to provide investors and other stakeholders with detailed information and allow more certainty and forward planning in respect of future projects; calls on the Commission to enable the Member States to develop a means of standardising infrastructure project data and making it available via a central data warehouse;

57. Believes that a stable, sector-specific regulatory framework is essential for concession-holders operating major items of transport infrastructure without public funding, as this will enable them, through the application of appropriate charging rules, to obtain the financing they need, recover their costs in the long term and secure a sufficient return on their investment;

58. Calls on the Commission to assess the impact of Member States' tax incentives on long-term finance and the energy transition and to identify best practices in differentiating between lower capital costs for green investments and higher capital costs for investments in projects incompatible with the transition to sustainable energy provision;

59. Asks for SMEs to be given priority access to European long-term investment funds (ELTIFs), since they constitute the backbone of growth and job creation in the EU; considers that this access should be accompanied by a simplification of the application procedures; highlights the importance of ensuring easier access to financing throughout a company's lifecycle in order to create and maintain sustainable quality jobs;

60. Asks the Commission and the Member States to encourage pension funds to take socially responsible investment decisions consistent with EU and international human rights, social and environmental standards, including the relevant OECD and UN guidelines and principles; recalls that the Commission's plans to review the Directive on the activities and supervision of institutions for occupational retirement provision (the IORP Directive) must not discourage sustainable long-term financing;

61. Underlines the need for better financial regulation and supervision to protect workers, taxpayers and the real economy against future market failures;

62. Calls on the Commission to strengthen its communication and relationship with the EIB in relation to the design of tailored loans and guarantee schemes; encourages the EIB to work closely with the Member States and regions on their implementation of new innovative financial instruments through the European Structural and Investment Funds and to continue supporting their investment strategy targeting the social economy sector; additionally, invites the EIB also to consider the option of greater flexibility when defining the size of, and rules for, such tailored loans and other related schemes, so as to make them as compatible as possible with the financial instruments offered through the European Structural and Investment Funds, especially when it comes to appropriate financing for young entrepreneurs and social enterprises;

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63. Instructs its President to forward this resolution to the Council, the Commission and the governments and parliaments of the Member States.