

Long-term financing of the European economy

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PURPOSE: to launch a debate on how to improve the possibilities of long-term financing of the European Union (Commission Green Paper).

BACKGROUND: to return to a path of growth and creating jobs building on its areas of competitive advantage, **Europe faces large-scale, long-term investment needs.** This relates to investment in energy, transport and communication or housing infrastructure, in industrial and service facilities, climate change-related and eco-innovation technologies or in assets, such as education and research and development.

Trends in climate change and the depletion of natural resources further underline the sustainable growth challenge, as they call for more long-term investment in low-carbon energy, energy and resource efficiency and infrastructure.

To fund these long-term investments, **governments and businesses need access to predictable, long-term financing.** The capacity of the economy to make such long-term financing available depends on the **ability of the financial system** to channel the savings of governments, companies and households effectively and efficiently to the right users and uses. This can be carried out indirectly by various intermediaries (e.g. banks, insurers and pension funds) and directly by access to capital markets.

The financial crisis has affected the ability of the financial sector in Europe to channel savings to long-term investment needs. Above all, it has created a climate of uncertainty and risk aversion, particularly in those Member States under financial pressure and for SMEs.

In this context, the Commission considers that it is urgent to give consideration as to how the availability of long-term financing might be improved. That is the purpose of this Green Paper.

CONTENT: by means of this Green Paper, the Commission is seeking to initiate a broad debate about how to foster the supply of long-term financing and how to improve and diversify the system of financial intermediation for long-term investment in Europe by allowing significantly higher shares of direct capital market financing and greater involvement of institutional investors and alternative financial markets.

The focus is on **long-lived capital goods** (such as economic and social infrastructure, buildings and R&D, education and innovation), not because they are more important for growth than shorter-lived capital goods (such as computers, mobile phones and vehicles). Rather, investment volumes for short-lived capital goods are strongly pro-cyclical. These volumes are currently down because of the weak macroeconomic outlook in Europe.

As part of the measures taken in response to the crisis, the Commission considers that the new regulatory and prudential framework must be calibrated, including in the area of taxation, in such a way as to enable and provide an incentive to the financial sector **to support the real economy without jeopardising financial stability.**

On this basis, action to enhance the long-term financing of the European economy should address a **broad range of interconnected factors:**

1. **the capacity of financial institutions to channel long-term finance:** given the evolving nature of the banking sector, the Green Paper asks the question as to what is the role of the banks, national and multilateral development banks and institutional investors (insurance companies, life assurance,

pension funds, mutual funds and endowments) going forward in the financing of long-term investments;

2. **the efficiency and effectiveness of financial markets to offer long-term financing instruments:** the questions relate to: (i) the improvement of capital market financing of long-term investment; (ii) the contribution of capital markets to filling the equity gap in Europe; (iii) the pros and cons of developing a more harmonised framework for covered bonds; (iv) ways to revive the securitisation market in the EU;
3. **cross-cutting factors enabling long-term saving and financing:** (i) the setting in place of specific vehicles at EU level, more directly linked to general social objectives with a view to mobilising long-term savings; (ii) identification of the types of corporate tax incentives that are beneficial; (iii) deepening tax coordination in the EU; (iv) what kinds of tax incentives could help to promote better long-term shareholder engagement;
4. **the ease of SMEs to access bank and non-bank financing:** the Commission considers that additional measures could be envisaged, such as: (i) the development of venture capital; (ii) the development of dedicated markets and networks for SMEs; (iii) the development of standards for credit scoring assessments of SMEs; (iv) the development of “non-traditional” sources of finance, such as leasing, supply-chain finance or funding via the internet (e.g. crowdfunding).

On the basis of the outcome of this consultation, the Commission will consider the appropriate actions to pursue further. Stakeholders are invited to send their comments by 25 June 2013.