

Long-term financing of the European economy

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The Committee on Economic and Monetary Affairs adopted the own-initiative report by Wolf Klinz (ALDE, DE) on long-term financing of the European economy in response to the Commission Green Paper on the subject. It noted that banks in the EU provided over 75 % of long-term financing, which created 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. Members stressed that there was a persistent lack of confidence and a **high level of risk aversion on the part of both private and institutional investors**, and the low-interest environment, low growth projections, and economic uncertainty had significantly decreased the supply of long-term financing and the risk appetite for long-term projects.

Barriers to growth: the report points to limited public financing and the need for investors in the banking and insurance sectors to adapt their business models to evolving and tightened regulatory requirements. It called 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.

Alternative funding mechanisms: Members stressed the need for Member States to establish **new sources** to complement established mechanisms and fill the funding gap, and proposed that consideration be given to the **creation of an investment section in the EU budget**. They emphasised the strengthened role of new, **innovative financial instruments** in all the funding covered by the European Structural and Investment Funds, and the need for legal clarity and transparency of the new off-the-shelf financial instruments.

The report also called for:

- 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;
- a harmonised approach to the long-term valuation of **projects of general interest supported with public resources** at the EU and national levels;
- appropriate networks for cooperation and the exchange of information, and **national or regional long-term public investors** which can learn from the best practice of already established institutions;
- 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**;
- improved 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;
- strengthening both the banking system, including cooperative and public savings banks, and banks' ability to access long-term refinancing to cover their long-term investments;

- further assessment of the **role of venture capital and private equity firms** in financing the EU economy.

Regulatory environment: Members emphasised 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. Such an environment would feature initiatives aimed at pooling financial resources, a sound taxation system, appropriate accounting principles, effective corporate governance and efficient prudential regulation - all embedded in a functioning single market. Members believed that a specific impact assessment of long-term financing should be included in any legislative proposals for relevant financial services regulation.

They encouraged the Commission to follow closely the G20's work on proposals to create a multilateral investment framework that set minimum standards and modified certain long-term investment regulations and fair value accounting rules. The Commission was also asked to assess the impact of Member States' tax incentives on long-term finance and the energy transition.

Lastly, the committee asked for SMEs to be given priority access to European long-term investment funds (ELTIFs), since they constituted the backbone of growth and job creation in the EU.