Long-term financing of the European economy

2013/2175(INI) - 26/02/2014 - Text adopted by Parliament, single reading

The European Parliament adopted by 560 votes to 55 with 19 abstentions a resolution on long-term financing of the European economy in response to the Commission Green Paper on the subject. 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.

Reasoning: Parliament stated that concrete advances needed to be made as a matter of urgency in order to relaunch long-term investment and job creation in the EU. Training and education costs should be treated as long-term investments in this respect. 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.

Emphasising that fiscal consolidation was the priority for public budgets with a view to restoring compliance with the Stability and Growth Pact and the 'two-pack', Parliament supported the initiative aimed at enhancing private investment in long-term financing.

Barriers to growth: the resolution noted that some countries were 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. Furthermore, SMEs in many Member States were having great difficulty accessing capital because commercial banks were only prepared to grant loans subject to unduly tough conditions. Parliament pointed 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 to **assess systemic risks to capital markets** and society at large owing to the overhang of unburnable carbon assets.

Alternative funding mechanisms: Parliament 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**. It 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.

Parliament 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: Parliament 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. Parliament believed that a specific impact assessment of long-term financing should be included in any legislative proposals for relevant financial services regulation. It 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.

Parliament 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.

Lastly, Parliament stressed the need for a reliable tax environment that prevented impediments to long-term investment, and encouraged 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.