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Long-term finance for Infrastructure and Growth Companies in Europe

Launch of the City UK Report
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I am very pleased to have you all here at the launch of City UK's report on long-term finance for infrastructure and growth.

Linking finance and the need of growth has been a challenge for quite a while. Growth will not come without investment and for years both private and public investment have been in decline in Europe. So long-term finance is certainly a topical issue.

With the Juncker investment plan and its accompanying guarantee fund, along with the discussion on a capital markets union, we are already envisaging the first glimmers of growth and jobs and keeping our fingers crossed that the two initiatives will build a stronger European economy, in terms of growth, competitiveness and sustainable jobs.

We hope that the Juncker investment plan will move quickly from idea to reality, as we have witnessed strong commitment both from the European Parliament as well from the Council side on a swift completion of discussions.

The CMU is also slowly starting to take more shape in our minds but will be a long-run endeavour, a gradual process, with different milestones. It will not be like the European banking union for instance, a project with a clear, centralised, end goal. This is why we will need to be patient and learn to appreciate our achievements along the way.

Mr Celic will discuss the report in greater detail shortly, but allow me to just pick up a few issues from it nonetheless. As you will shortly see, the report provides clear and targeted recommendations, addressed to the relevant players who can build a good strategy for long-term finance (the Commission, member state governments, central banks, financial regulators and supervisory authorities, as well as the financial industry). The message here is clear, delivering long-term finance and ultimately constructing a resilient capital markets union will require a coordinated effort from all important players.

The report is also pivotal in really flagging how important the financial sector is for delivering benefits to the real economy. It highlights how the benefits of energy security, transport networks, world-class digital connectivity can be better delivered with the help of the financial sector.

There has never been a boring year in the history of European integration without problems or opportunities to respond to, but today faces Europe faces unprecedented challenges.

There is a lack of confidence. Building trust is crucial to getting private investment.

We have an investment gap of 750bn annually, and not only in programme countries (Germany as well).

The investment gap has not been filled due to lack of trust, high degree of risk, budgetary situation etc.

Many factors have contributed.

There are also still too many examples of national leaders opposed to structural reforms.

We face a rigidity of labour market and a competitiveness gap, due to a deterioration of productive resources for years. But also to the fact that no equity or funding has been available for innovation and SMEs.

Single market remains fragmented in many areas.

Both national action and European solutions are needed- on this we all agree.

It is a good a moment to say that shortage of investment is a waste of potential. We have lost years in terms of growth.

So here we are with a short term growth problem and with a long-term growth problem.

We need to ensure that growth is possible under financial stability, which we have been building through years of reforms,

The Juncker plan is a long term mechanism with two major objectives: to reduce the investment gap and to provide an investment impulse. It is supposed to channel liquidity intro productive investment.

Let us hope that with this very complex machinery in terms of management and architecture we will not create today too many burdensome rules of which we will become slaves tomorrow.

Whether an investment climate will be created, will also depend on whether the Commission will act promptly to eliminate existing financial regulatory barriers, whether producing a capital market union will relatively quickly address imperfections in capital market.

There is also the need of looking carefully at recent additions to the financial regulatory framework, we need to see if there are barriers there, including at level two.

There are those who say that Solvency II rules, if entering into effect, might not allow pension funds to enter long-term investment.

We can only hope that a transparent pipeline of investment projects will contain investable projects, whether they will have high multiplier effects and take the EU competitiveness forward.

But it is rather likely that crowding in private investment through the proposed risk sharing facilities will not happen overnight.

Where are we in terms of legislation?

We all want to have the new framework up and running as of July. A lot will depend on our capacity to cooperate, and there are many levels where cooperation will be fundamental (European institutions, member states, national promotional banks, private sector, EFSI structures).

For the mechanism to be successful, we will need a lot of transparency.

There are risks of course.

The capital base is very small.

High leverage will be fundamental, but it will be known in 3 years.

Focus on high leverage can push projects to where high leverage is not a challenge and not where investment is most needed.

Projects might be financed which would have been financed in any case, also without the Juncker sharing/guarantee. Of course if projects will be of high risk, leverage might be lower. And indeed, the new facility is supposed to finance high risk projects.

It is not about increasing EIB capital, there is liquidity, it is risk issue that matters.

The EIB must be prudent not to lose triple A, this will entail spreading risk across member states, ie projects.

How will it work? There is a chance that a Juncker guarantee will become a simple trajectory towards investment.

Its mechanism is pretty simple.

Investment project promoter approaches EIB, asks for Juncker guarantee.

Investment committee looks if project falls within rules, EIB governing body decides and off we go.

Before I conclude, let me say a few words on the CMU:

First of all, CMU still has at its heart some rather politically complex problems. They include differences in taxation, insolvency law, securities law, company law, pension

provisions and consumer protection. It is clear that we continue to face many issues which cannot be solved simply with legislation coming from Brussels.

Second of all, CMU also runs the risk of being politically branded as an industry-led deregulatory agenda, which remains removed from citizens. This stigma needs to be overcome.

CMU also has a big elephant in the room, namely the potential of having centralised supervision. This remains a politically toxic issue, particularly for the UK, and stubbornness (EP) about putting such a supervisor in place may risk derailing the whole CMU endeavour.

As mentioned before, CMU also lacks an identifiable end goal. In the case of the banking union, the aim was clear, set up a single supervisor, a single resolution authority and a single deposit guarantee scheme. This in turn makes measuring progress on CMU more difficult. We will probably have the building blocks for CMU in place only by 2019. We will have to ensure that we communicate clearly and effectively on achievements along the way, seeing as CMU development will be an incremental process which will take time.

Finally, we need to think of the full CMU spectrum and the actors involved in its development. In the Green paper of the Commission, a strong emphasis is placed on investors. We must remember however that there are three sides to the CMU: the supply side (ie the provider of funds, households, non-financial corporations, governments); the intermediation side (banks, insurance companies and pension funds, investment funds, money market funds, other financial institutions) and the users of funds (households, start-ups, SMEs, mid-caps, large corporations, governments). The value lies in the supply and use of capital and not only in the intermediation. An effective CMU will have to look at retail services in general and benefit end-consumers. So the emphasis placed by the Commission on intermediation should not detract attention from the other two pillars.

Customers should be able to access a range of products, encompassing digital distribution and decision support and enjoy a genuinely even standard of investor protection across products. The flow of information to investors will have to be optimised. Ultimately, a CMU should be about people having trust in the market and benefit from adequate guidance in their investment decisions.

We need to convince consumers to generate more savings and also to make Europe attractive to external money. There, both education and confidence building will matter.

We will need lower costs of intermediation and better outcomes for consumers.

We must ensure that CMU will indeed develop into a machinery that harnesses financial markets and services to produce growth through long-term investment.

CMU concept responds to the need to get money where growth is. It is important to get the right framework in place.

It is not an anti-banking undertaking. Quite the contrary, there is a strong role for banks in intermediating.

We need also a careful assessment of the current regulatory framework, need to see what level two measures can bring, especially MIFID II.