European Commission - Speech - [Check Against Delivery]

Building to last: boosting long-term investment in Europe

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Conference on Investing in Long-Term Europe: Re-Launching Fixed, Network and Social Infrastructure

Buongiorno, signore e signori. And many thanks to Luigi Abete, to Rintano Tamaki and to Franco Bassanini for organising this conference.

Near where I live, outside the cathedral city of Salisbury, there is a long, straight road, cutting straight as an arrow through the English countryside. As I drive along – I almost said speed along it because it is so straight – I sometimes think of the centurions who tramped its length, and the traders who followed them. Roman infrastructure was built to last. An early example of long-term investment in Europe that is still benefiting people nearly twenty centuries later.

My ambition today is more modest than the Romans – how could it not be? - but I want to speak about how we can get investment flowing again in Europe, bringing in its wake the jobs and growth we need.

This conference is one of the last events to take place under the auspices of the Italian Presidency, so on behalf of the Commission, I would like to express my congratulations and thanks to Piercarlo Padoan. Thanks to his efforts – and those of Roberto Gualtieri - we have made progress in a number of areas. We have brought negotiations on European Long Term Investment Funds to a successful conclusion. And earlier this week we put in place another building block of the Banking Union relating to the contributions to the Resolution Fund. So thank you for the efforts that you have put into these sometimes difficult negotiations, and congratulations to Italy for running a successful Presidency.

Let me start by giving you a sense of the new European Commission. We want to be a *political* Commission, and to pursue a clear set of priorities. President Juncker wants the Commission to be big on the big things, and small on the small things, and I couldn't agree more. We are driven by a sense of urgency, which itself stems from the scale of the challenges we face. President Juncker has talked of the EU being in the last chance saloon. As I see it, the EU faces two great challenges: the democratic and the economic. In last May's elections, the proportion of citizens who voted fell in 18 out of 28 of our Member States.

The economic challenge is also pressing: competitiveness has declined in various parts of the Union, 12% of its workers are unemployed, and a truly shocking 40% of Italian young people are unable to find jobs. So delivering on our commitment to jobs and growth is not only vital for individual companies and workers. It is also essential to rebuild trust both here in Italy and in the EU as a whole.

This explains why President Juncker has set a fast pace. The new Commission is only five weeks old, but we have already launched our Investment Plan and are about to agree our Work Programme for 2015. This will show how we are going to focus our efforts and concentrate on our top political priorities for the European Union and the European citizen. Of these, one stands out above all the others: jobs and growth and that brings me to the 315 billion euro Investment Plan.

It is built on three elements.

The first of these is the new European Fund for Strategic Investments. Its job will be to mobilise investment finance without creating new public debt. We know there is no shortage of private funding but that money is not making its way to the rest of the economy. So the purpose of the fund is to take away some of the risk of investing in long-term projects and thereby encourage private investors

Kick-started with 21 billion euros of funding, we believe that it should be possible to leverage in private sector investment on a scale that takes the value of the Fund to 315 billion euros, thanks to the credit protection offered by the Fund via the EIB. That leverage ratio, by the way, is less than the 1:18 ratio that the EIB’s 2013 capital increase achieved and the 1:20 ratio delivered by the Loan Guarantee

Facility for SMEs under the COSME programme.

But for the investment to flow, it will need to be supported by the second leg of the plan: a credible project pipeline, backed by technical assistance, to link investment with mature, growth-generating projects in key areas like energy, telecoms, transport, services and research. Things like rolling out broadband to help support small businesses in rural areas. Improving energy networks in areas that suffer supply shortages or creating transport infrastructure to get people and goods to where they are needed most.

The selection of the projects to be funded cannot become a political football in each Member State for the inclusion of pet projects. The criteria of added value and viability will have to be applied rigorously. This should work in Italy's favour, with your important SME sector and your strong history of manufacturing excellence. The fundamentals are there. The Investment Plan will provide an opportunity to remove barriers to investment and growth in Italy and to spur the recovery that it needs so much.

The third leg is to remove red tape, regulatory bottlenecks and other barriers to investment. This could have the greatest long-term benefit for the European economy. It will mean removing barriers to entry to certain sectors and making the single market work better. Our service companies, our professions, our digital sector, our investors, inventors and creators all need the one thing we have promised them for decades: a genuine single market of hundreds of millions of people in which they can offer their talent, their goods, and services, their ideas and their inventions. And beyond our borders we can offer new trading opportunities, for example in the USA once we get TTIP properly explained and fully in place. Jobs and growth will come from the single market and trade, not from politicians. Our job is to provide the right conditions for the economy to get moving again.

So how will I, as Commissioner for financial stability, financial services and capital markets union, support those priorities? First, I will be looking at everything I do through the prism of jobs and growth.

The past few years have seen a great swathe of new rules being introduced to govern the financial sector. These were essential to respond to the financial crisis and to help restore financial stability. And financial stability is the first part of my job title. But right now, we face another threat to financial stability: a lack of growth. There is no growth without financial stability, but there is no financial stability without growth.

Looking ahead, I do not anticipate that we will need anything like the same volume of new rules in future. Some people are urging me to have a bonfire of existing legislation. To them I say that there can be no going back. But I do want to look at the cumulative effects of the legislation we have passed. And I do not think we should be afraid to look at regulation again if we find that we have not always got the balance right.

One of the key tasks I have been given is to help build a capital markets union so that money can flow through the EU to where it can be most productive. I see this as a classic Single Market project – a project for all 28 Member States.

My ambition is to help unlock the capital around Europe that is currently frozen and put it to work in support of Europe's businesses, particularly SMEs.

A couple of figures make the point. We in Europe save lots of money – 2.7 trillion euros worth, one third more than in the US. But mid-sized companies in the US have roughly five times as much funding from capital markets as their counterparts in the EU. EU businesses get about 80% of their financing from banks, and 20% from debt securities. In the US, depending on which set of statistics you are reading, or which statisticians you are talking to, the ratios are broadly speaking the other way round.

At the moment, small business owners here in Italy who want to expand their business are likely to turn to friends and family or the local bank. I want them to have the confidence to explore other options and to have better access to capital markets. This could be achieved through worthwhile private initiatives: the so called ELITE project of the London Stock Exchange/Borsa Italiana group is one such example.

But there are others. Perhaps the Italian small business owner could list his business on an SME growth market, giving access to investors anywhere within the EU? Why should he/she not think of attracting professional investors like venture capitalists or private equity funds?

More than fifty years after the Treaty of Rome, we still don’t have free movement of capital. Shareholders and buyers of corporate debt rarely go beyond their national borders when they invest. Savings are essentially compartmentalised in Member States, and are too concentrated in the banking system. This is holding back the size and depth of capital markets, making it difficult for investors to diversify.

There are a number of obvious reasons for this fragmentation.

There are differing rules, documentation and market practices for products like securitised instruments and private placements.

There is the tax element, with a bias in favour of both corporate debt and mortgage debt.

The national nature of insolvency law.

And investors don't have access to comparable information on smaller businesses to assess the risk of investing across countries.

But there may be other issues that we need to unpick. That is why I will be launching a broad public consultation early in the New Year. I want to approach this challenge from the bottom up. Identifying problems, sector by sector and country by country, and then working out how we could remedy them.

I will listen to everyone who wants to contribute – parliamentarians, Member States, individuals, consumer groups, and of course the financial sector and its customers. Above all, I want to hear opinions from all 28 Member States because this must be a project for all 28. Once we have had this input, we will come forward with an action plan in the middle of next year.

But we can already see some early priorities for action: a good example is the development of European Long Term Investment Funds. These are designed for investors willing to put their money behind projects and companies that need long-term finance. Until now, those projects might not have been able to raise money on the stock markets or get lending from the bank. Now they will have a new option. ELTIFs should make it possible to increase the funding available for infrastructure, other long-term projects, and for SMEs across the EU.

They should be particularly attractive to investors such as insurance companies and pension funds that need stable, steady income streams or long-term capital growth. But perhaps they could trigger a whole culture change and become the go-to instrument for long-term, stable debt encouraging long-term investment in other categories of investor too. Once again, my congratulations and thanks to both Roberto Gualtieri and the European Parliament, as well of course to the Italian Presidency.

Another area of work that is developing fast is that of high-quality securitisation. Simple, transparent and sound securitisation instruments, where issuers retain part of the risk and investors know what they are investing in, could help improve financing conditions. Securitisation markets have fallen sharply since their pre-crisis peak, with issuance of simple ABS products in 2013 reaching less than half of the 2007 level. If these markets were revived – safely - with high quality securitisations to take us only halfway back to the pre – crisis peak, this could be equivalent to between €30 and €70bn of additional funding and free up bank balance sheets for lending. Although I don't want to oversell its benefits as some sort of silver bullet, it could help form a bridge between banks and capital markets, allow banks to trim their balance sheets and free up capital for lending. And it could help offer investors good products with reasonable yields. But if securitised instruments are going to be trusted, we have to specify clear criteria and levels of transparency, and frame the new system in a way that is sound and understandable for investors.

The Commission has recently adopted specific rules that apply to the insurance and the banking sectors to help promote high quality securitisation. These are the first steps towards a wider EU framework that I want to develop, building on work already underway in the EU such as in the European Central Bank and Bank of England as well as globally.

And we are exploring a number of other avenues to getting the Capital Markets Union going, from looking at how we treat covered bonds in our legislation to examining how our private placement markets compare against their international peers.

If we could increase annual issuance via private placement markets in Europe by just half, that would be equivalent to about $5-10bn of additional financing opportunities a year.

I will bring forward a review of the Prospectus Directive with a view to lifting unnecessary administrative burdens on companies that want to raise capital across the EU.

And longer term, I want to think of ways to give greater access to SME credit information to encourage investment from a wider pool of investors.

Creating the Capital Markets Union will be a multi-disciplinary, cross-sectoral project; one that will need support of everyone from institutional investors to small businesses and from legislators to banks. I believe it will be an essential building block in getting Europe back to work. So I hope I can rely on your support.

I also want to take a serious look at retail issues. In recent years, on the back of the financial crisis, the Commission focused on the wholesale, systemic side. Now it I think it is a good time to turn the telescope around and look at financial services from the perspective of the consumer and retail investor. I will be meeting a group of consumer representatives today and will listen to what, concretely, they expect from a well-regulated financial sector. We must work untiringly to create a single market for small companies and individual consumers.

The Capital Markets Union is one example of how the financial sector can act as part of the economic mainstream; supporting companies and encouraging growth. Financial services must be the oil in the economic machine. And financial services firms should adhere to same high standards we expect of ourselves. This is not the same as mere compliance with rules. The culture of how a business behaves is what is most important, not a box-ticking mentality. If, together, we can achieve that; can build a new culture of compliance with the spirit as well as the letter of the law, then I will be the champion of that well-regulated financial services industry and will defend the contribution it makes to growth and jobs.

Ladies and gentlemen, the scale of the economic damage that Europe suffered in the crisis is daunting. So we must now focus on delivering real change. As well as being taught about Roman roads and baths at school, English people of my age also learned that Rome was not built in a day. Constructing the right framework for long term investment will not be done in a day either. But I am confident that in the years ahead we can put down some strong foundations. And by we, I mean Member States and businesses as well as the EU.

Strong, lasting growth is the key to getting people back to work and improving living standards. These outcomes are what the public will judge us on, whether we are policy makers, lenders or investors. We need to create the right business environment in which growth can take hold. Get money back to work to support the companies and households that need it. And fund much-needed infrastructure that will make it easier to do business across the EU.

So that perhaps, generations from now, people here in Rome and across Europe will look back and think: after some difficult times, they refocused on the priorities, they made the right policy choices to restore economic growth and jobs; they got it right.

Thank you.

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