

# The Role of European Promotional Banks in Long Term Investment

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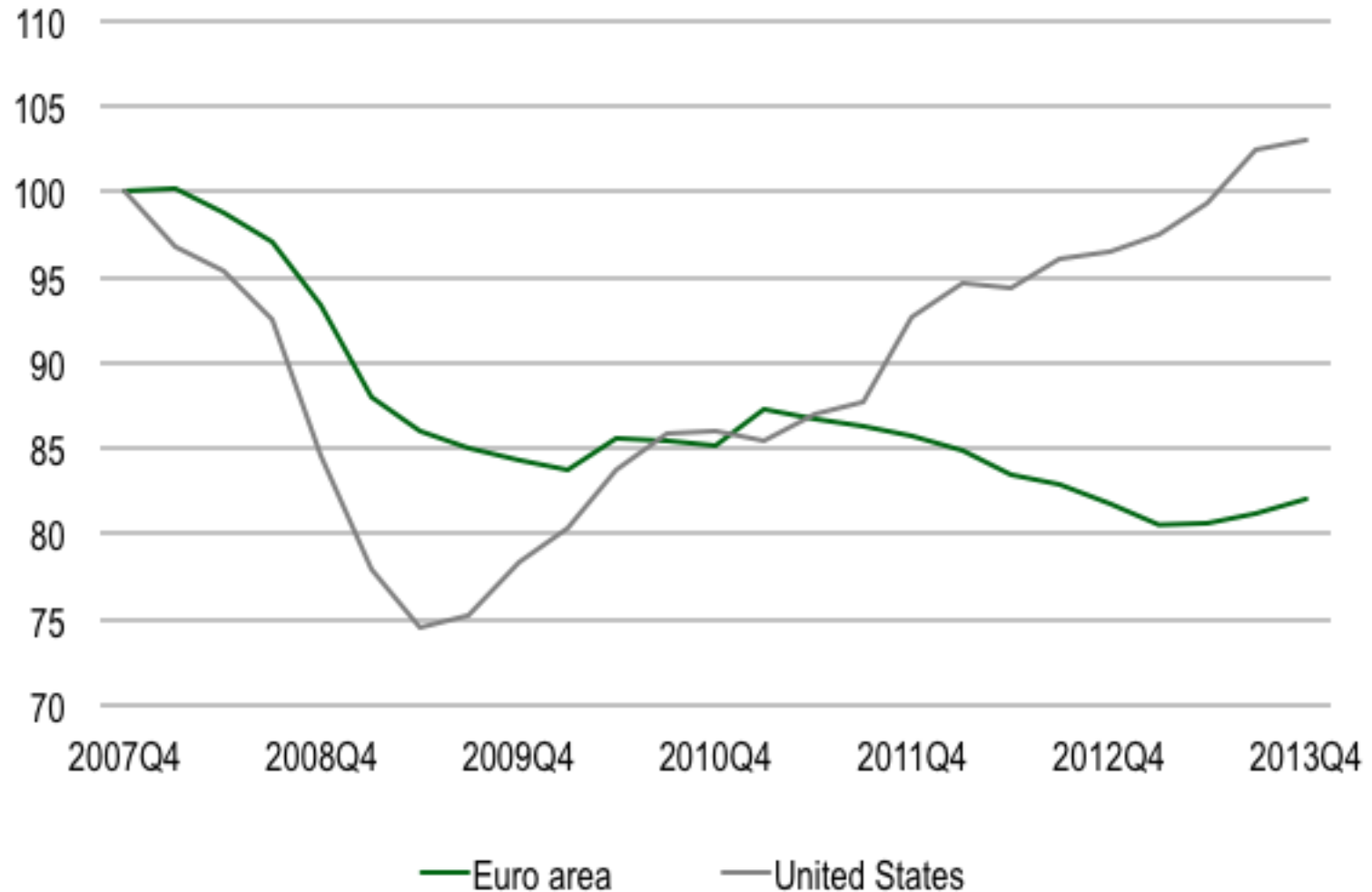
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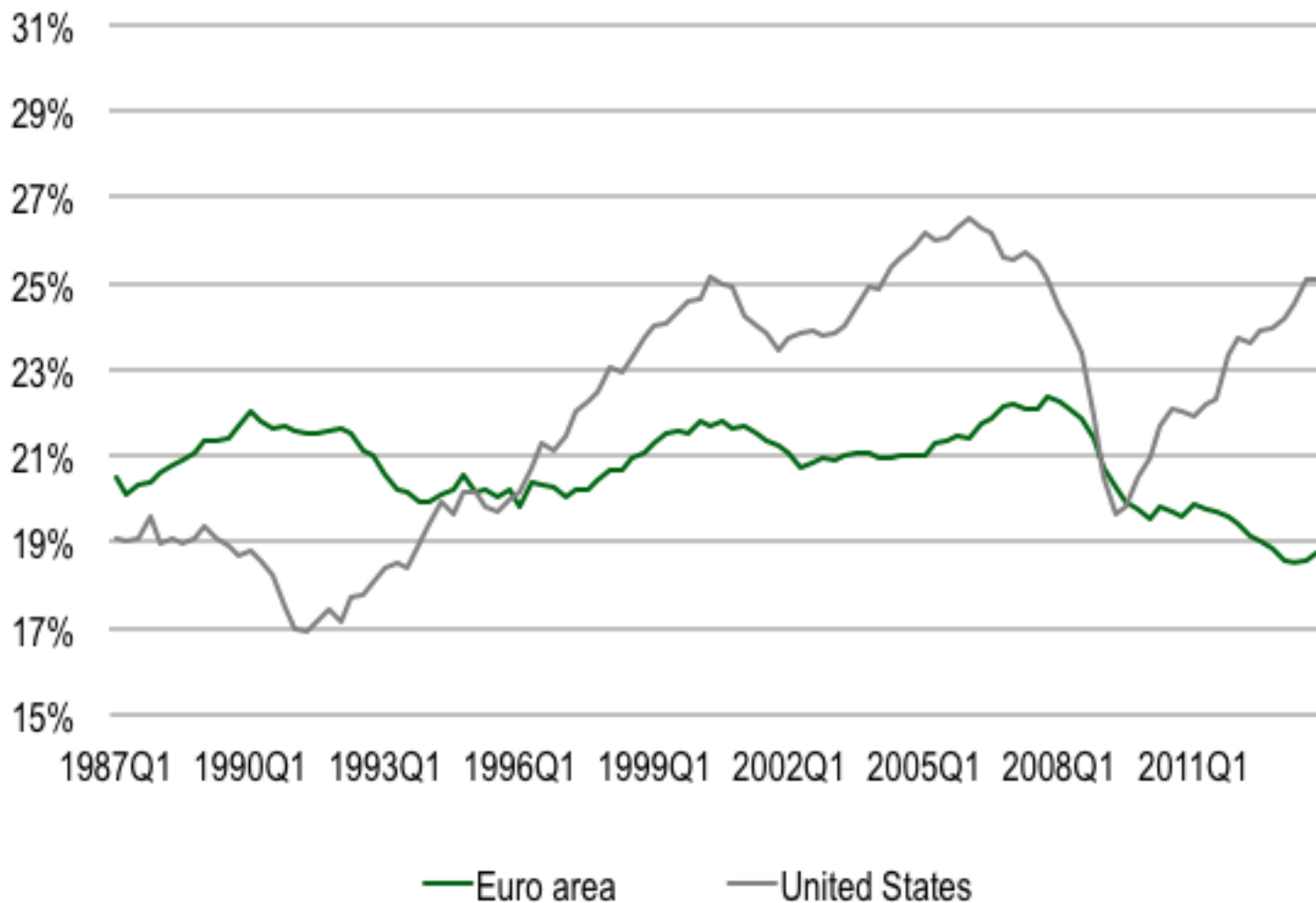
INVESTING IN LONG-TERM EUROPE: RE-LAUNCHING FIXED, NETWORK AND SOCIAL INFRASTRUCTURE

Scuderie di Palazzo Altieri - Via di Santo Stefano del Cacco, 112 December 2014

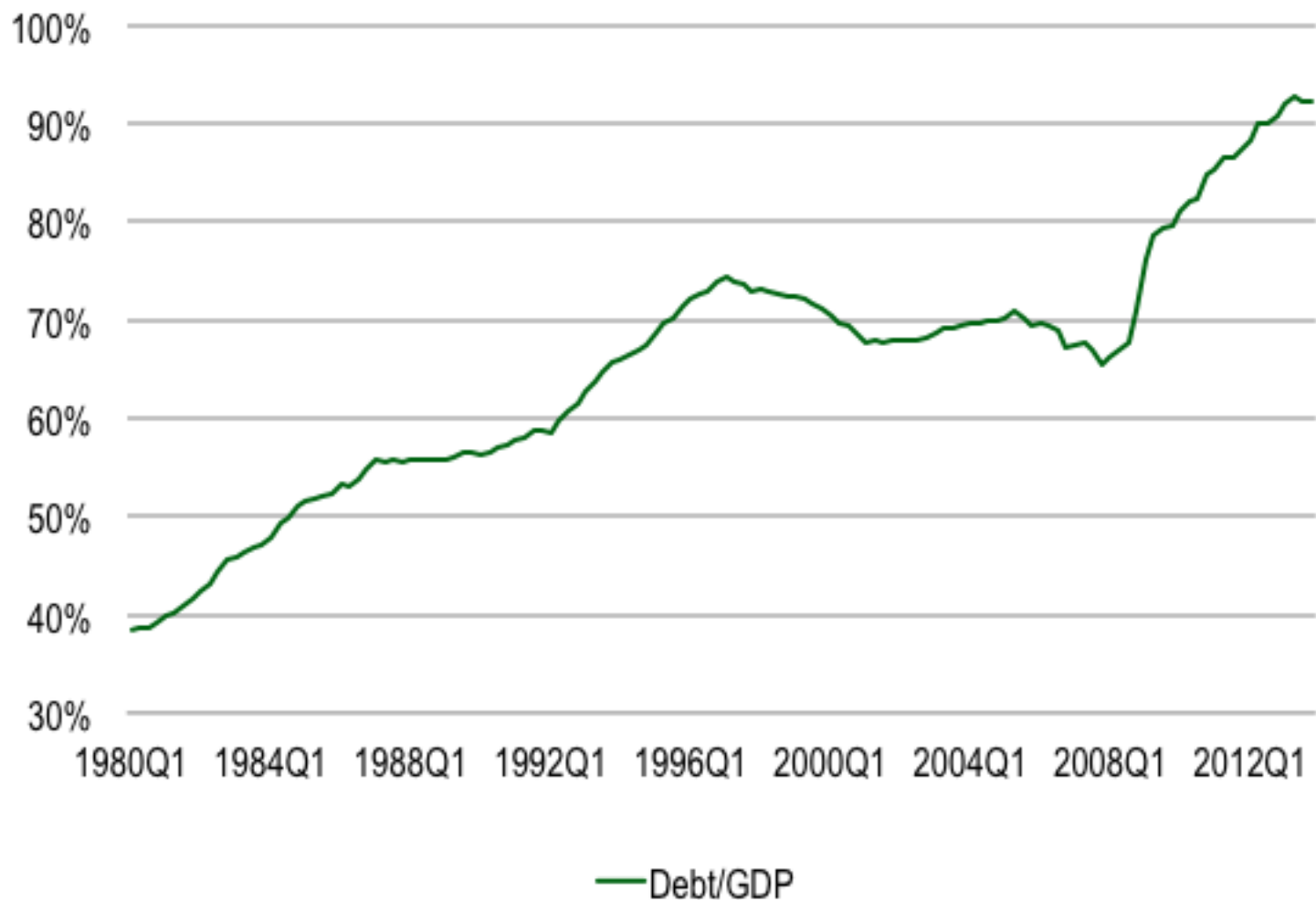
# Euro area private investment per capita down more than 15% from pre-crisis peak (Q4:2007=100)



# Euro area private sector investment now less than 20% of Euro area GDP

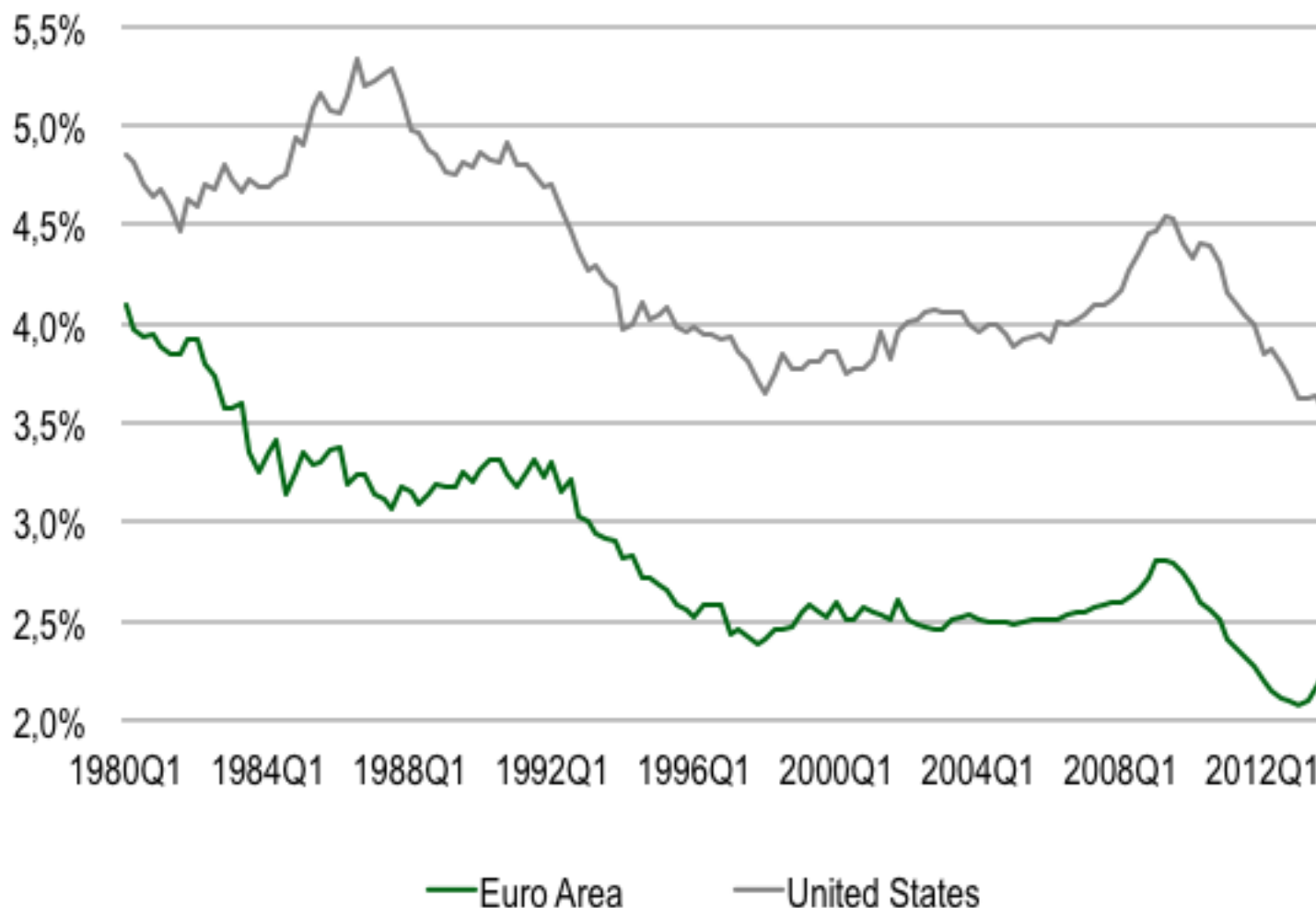


# High public debt (% GDP), a constraint on public sector capex



— Debt/GDP

# Euro area public sector investment halved to 2% of GDP in 35 years (% GDP)



# Empirical evidence

- Literature: Old & New – Aschauer (1989), Gramlich (1994) → (...) → Summers (2013)
- Framework: ECB's New Area Wide Model (2008) (neo-Keynesian model with real + nominal rigidities) & « public capital » as explicit input
- High fiscal multiplier on public investment. Persistent effects  
(Positive effect on long-term growth)
- Strong multiplier compounded by *complementarity* public/private (in the long run, public investment crowds-*in*, and not -*out*, private investment)

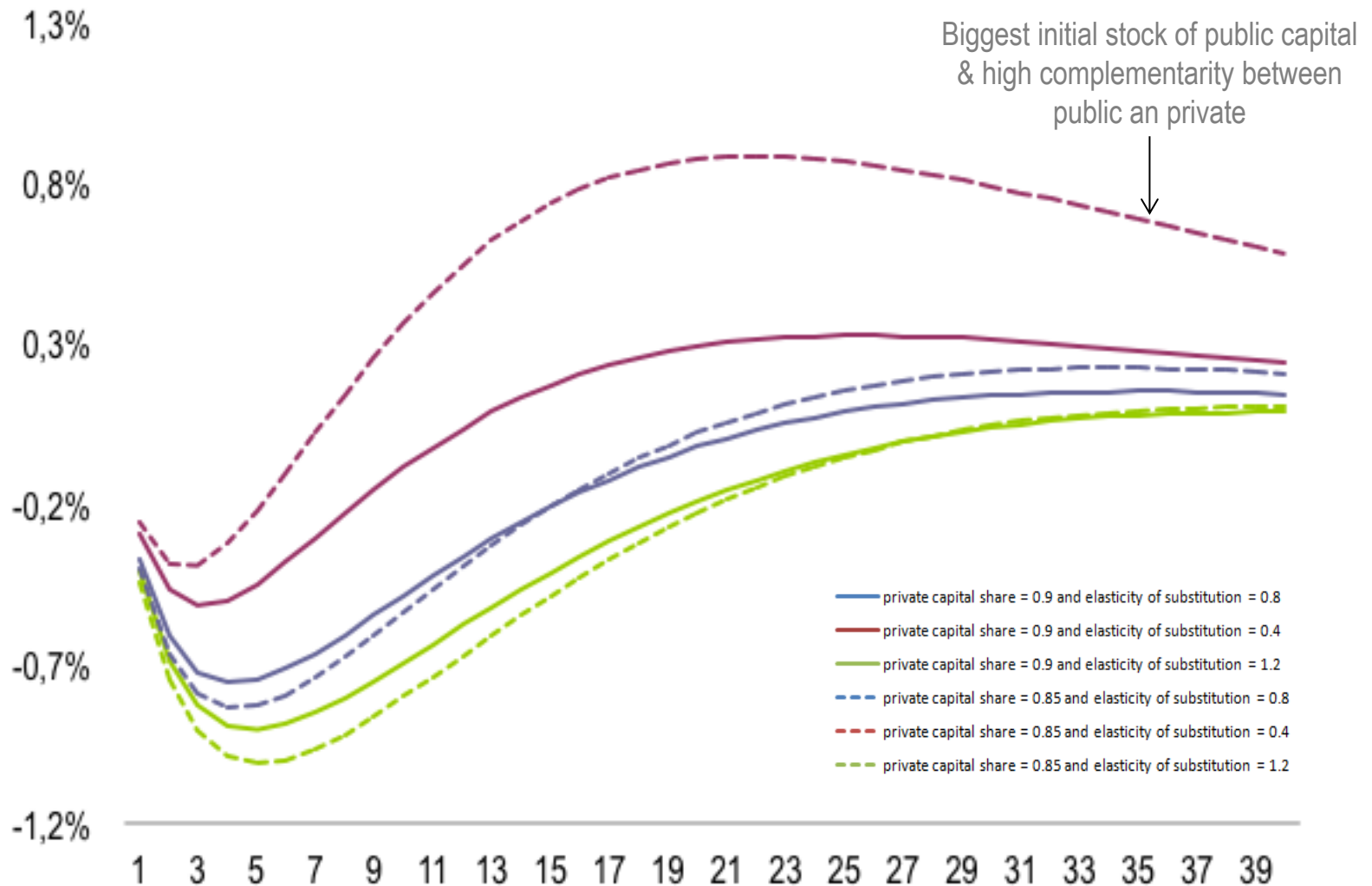
# Fiscal multipliers by specific instrument for the Euro area

	Immediate	One year later	Two years later	Five years later
Government investment	1.42	1.53	1.57	1.46
Government consumption	1.38	1.4	1.41	1.38
Targeted social transfers	0.92	1	1.03	0.89
Taxes on consumption	0.55	0.8	0.87	0.71
Social contributions of employees	0.37	0.45	0.46	0.25

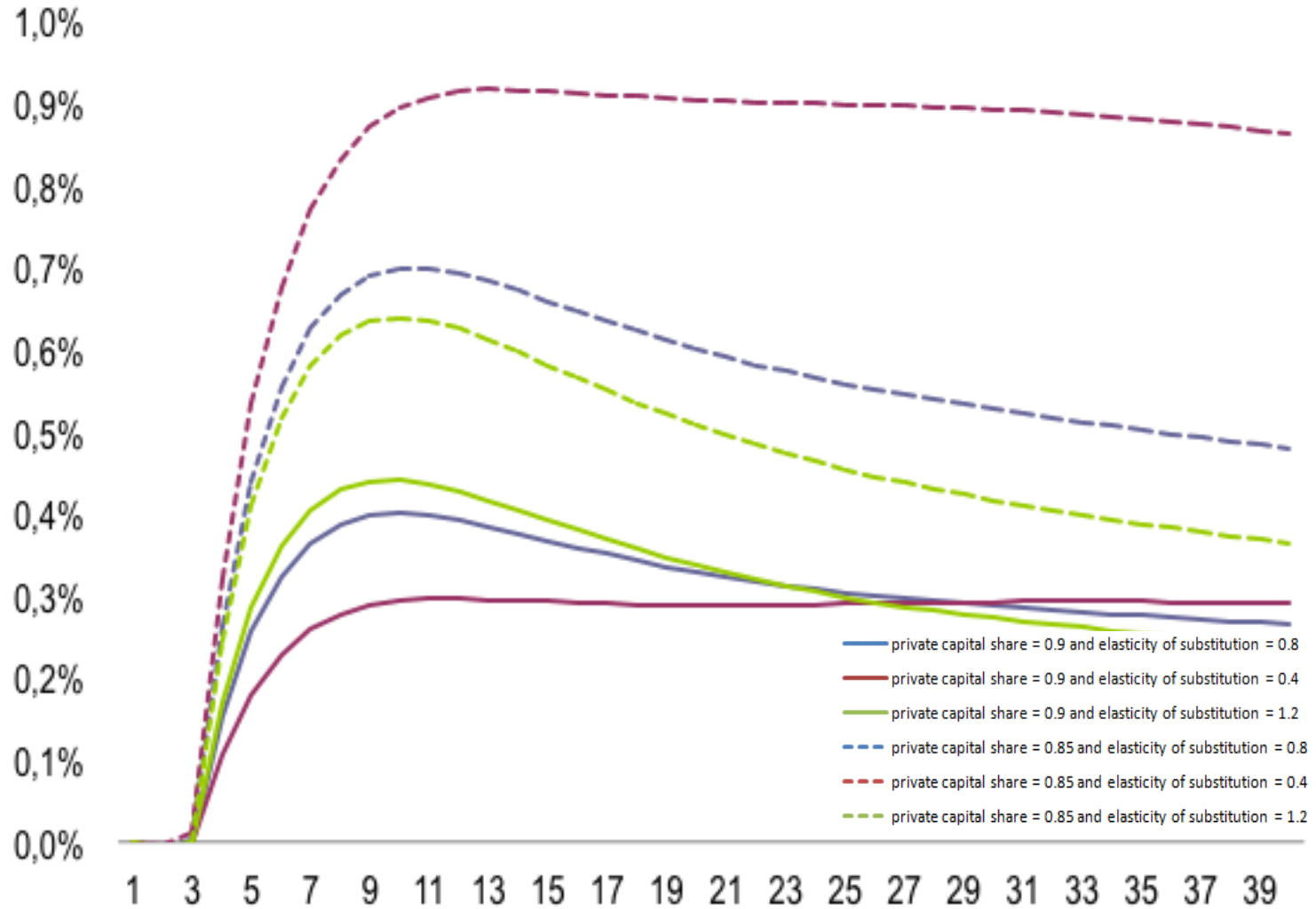
Source: Authors' calculations.

Note: The numbers shown in the table represent cumulative, net present value multipliers, ie, the sum of output variations up to the indicated year, divided by the sum of fiscal variations up to the indicated year, both discounted at the risk-free short-term interest rate.

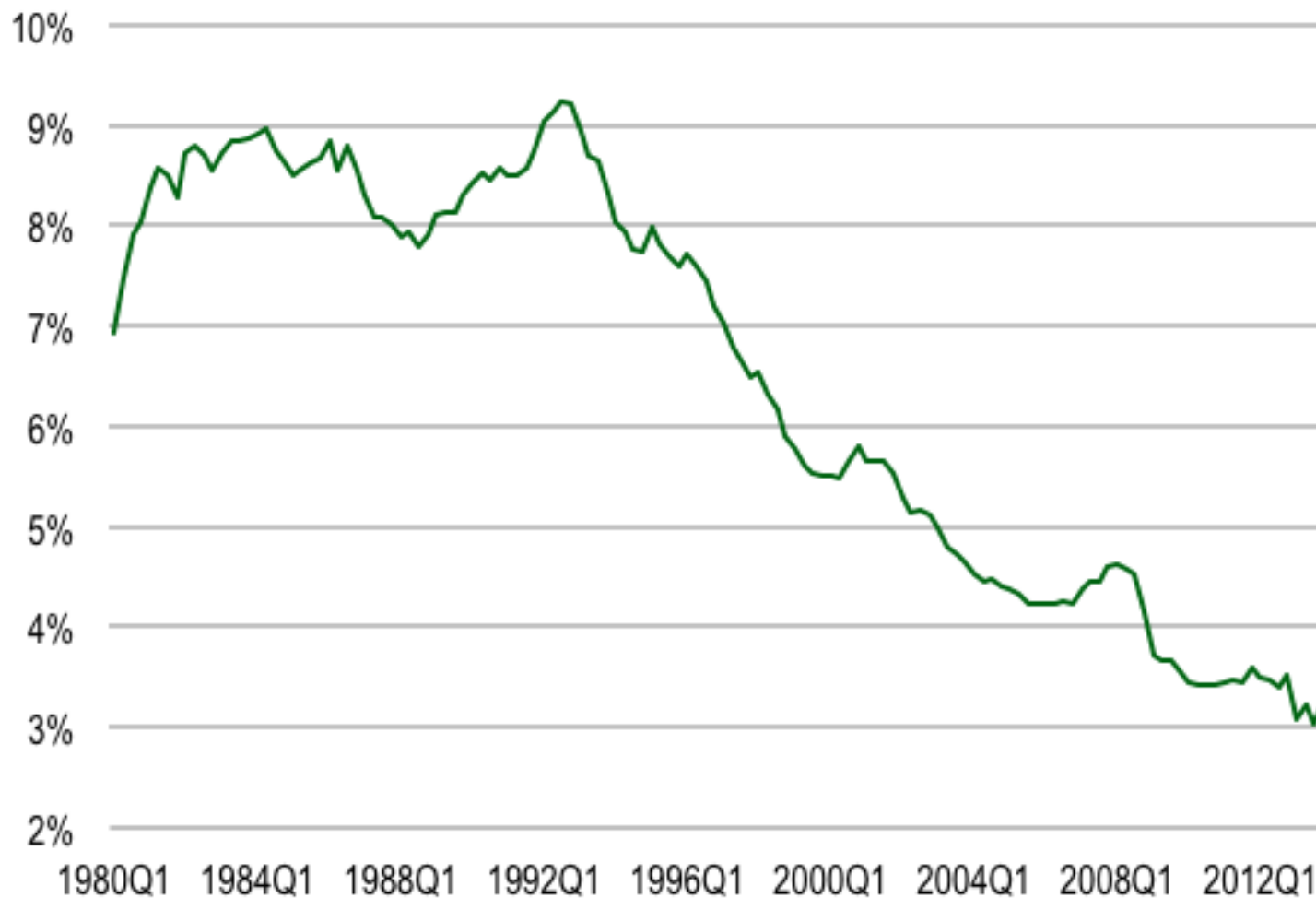
# Complementarity between private and public investment limits crowding-out in the short term (impact on private investment)



# An increase in public investment always yields higher capital stock levels



# Euro area sovereign financing costs at historical lows (interest rate, %)



Source: Eurostat, Paredes et al. (2009). Apparent debt cost, defined as the ratio between interest payments and the outstanding stock of public debt.

# National Investment Banks differ in size

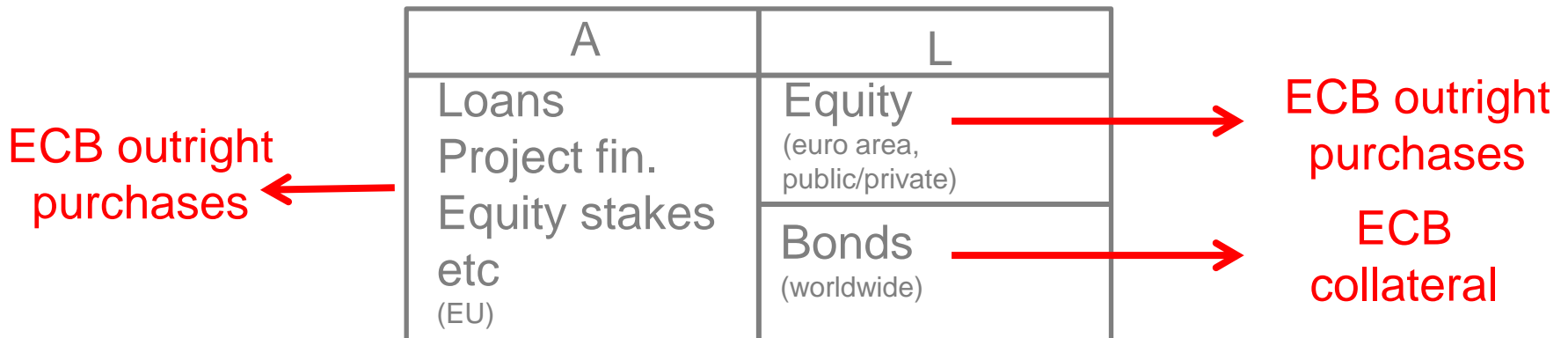
EUR bn (2012)	KfW	CDC	BPI France Financement	Cassa Depositi e Prestiti	ICO
Balance sheet total (Total Assets, 2012)	497,5	393,7	29,9	305,4	115,2
Total loans	118,5	155,6	15,6	100,5	88,8
Country	Germany	France		Italy	Spain
Long-term credit rating	AAA/Aaa/AAA	AA/AA1/AA+		BBB/Baa2/BBB+	3BB/Baa2/BBB+
Memo					
Nominal GDP (2012)	€ 2 666	€ 2 032		€ 1 567	€ 1 029
MFI Loans to NFC	€ 909	€ 876		€ 875	€ 729
Balance sheet/GDP	19%	21%		19%	11%
Total loans/GDP	4%	8%		6%	9%
Total loans/MFI Loans to NFC	13%	20%		11%	12%

Source: Bloomberg, Annual Reports, Authors' calculations. ICO: Instituto de Crédito Oficial. MFI: Monetary and Financial Institutions. NFC: Non-Financial Corporations. Note 1: Except MFI Loans to NFC, for which the aggregate field is the Euro area. Note that in the case of CDP, total loans include loans to banks.

- **Open arms to private funding**
  - Leverage is central
  - Capital is open to NPIs
- **A complement to the single market?**
  - Cross-border investment opportunities (externalities)
  - Needs to complete it in: Energy, Transports, Telecom
  - But also « infrastructure of the 21st c. » (Digital, HK)
- **Operating principles**
  - Minimize public funds /maximise private funds
  - But...need public funds to add conditionality (good economic reforms as prerequisite for funding)
  - Criterion: economically and financially viable

# Intertwining EIB and ECB: a good idea?

- Defining the links Strategic Fund, ECB, ESM...
- Use of State Guarantees: a good thing?



# ANNEX

# Annex:

## Articles of the Treaty (TFEU) Relevant to the EIB

### **Article 308 (ex Article 266 TEC)**

The European Investment Bank shall have legal personality.

The members of the European Investment Bank shall be the Member States.

The Statute of the European Investment Bank is laid down in a Protocol annexed to the Treaties. The Council acting unanimously in accordance with a special legislative procedure, at the request of the European Investment Bank and after consulting the European Parliament and the Commission, or on a proposal from the Commission and after consulting the European Parliament and the European Investment Bank, may amend the Statute of the Bank.

### **Article 309 (ex Article 267 TEC)**

The task of the European Investment Bank shall be to contribute, by having recourse to the capital market and utilising its own resources, to the balanced and steady development of the internal market in the interest of the Union. For this purpose the Bank shall, operating on a non-profit-making basis, grant loans and give guarantees which facilitate the financing of the following projects in all sectors of the economy:

- (a) projects for developing less-developed regions;
- (b) projects for modernising or converting undertakings or for developing fresh activities called for by the establishment or functioning of the internal market, where these projects are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States;
- (c) projects of common interest to several Member States which are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States.

In carrying out its task, the Bank shall facilitate the financing of investment programmes in conjunction with assistance from the Structural Funds and other Union Financial Instruments.

# The Euro area "to do" list - a subjective assessment of where the ESIB could (also) help

	ESIB / Fede Fund	ECB / Monetary Policy	ESM	European Policies	National Policies	Market Initiatives
Address financial market fragmentation	**	***		*		*
Create a benchmark euro area yield curve	***		**	**		**
Reduce information asymmetry and the cost of due diligence for investment	***			***	**	**
Encourage the passporting, cross-border acquirability of assets	**			***	**	***
Reduction of barriers for cross-border investment (tax, regulation, legislation)				***	***	*
Effective take-off of bond market for infrastructure projects	***	**	**	**	**	**
Support SME financing	**	***		**	**	
Foster good, benchmark securitisation	*	***		**	**	**
Offset the effect of bank/insurance regulations and accounting standards on the availability of financing	*	***	*			*
Offload banks balance sheets to preserve their role in financing	*	***	**			
Encourage long-term investment by insurance companies	***			***	*	
Foster the development of pan-european retail savings products	**			***		***

