ADDRESSING EUROPE'S INVESTMENT NEEDS

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Enhancing competitiveness and safeguarding fiscal sustainability

After successfully weathering the pandemic and the fallout from Russia's aggression against Ukraine, the EU stands at a critical juncture. The unprecedented policy support enacted at Union and Member States' level helped save jobs and protect businesses and citizens but resulted in legacies in the form of higher public debt and more vulnerable fiscal positions. While public investment held up well and even increased thanks to the strong and coordinated policy response during the crisis, private investment dynamics remain sluggish and hence total investment in the EU has not yet returned to pre-pandemic levels.

At the same time, Europe needs to tackle long-standing and newly emerging challenges to secure economic prosperity for its future. A concerted effort is needed to enhance competitiveness, to accelerate the green and digital twin transition, and to bolster investments in security and defence considering geopolitical tensions. Crucially, these investment needs emerge at times of still elevated inflationary pressures and supply chain vulnerabilities.

Moreover, the European Union needs to continue addressing the challenges emerging from demographic changes in the form of a shrinking workforce and ageing population. Old-age dependency ratios are expected to rise sharply over the next decades, further increasing pressure on public budgets and the functioning of the welfare systems.

The answer to these challenges lies in an effective coordination of well-timed and targeted economic policies. The period of ultra-low interest rates is not expected to reappear any time soon. While the ECB has slightly eased the monetary policy stance in June, financing conditions remain restrictive. It will there be essential to maximise the impact of limited resources to address the pressing challenges effectively. Policymakers need to effectively prioritise public investment projects and pay even more attention to the quality of public expenditure. Restoring sustainable budgetary positions will also allow us to build buffers to deal with future shocks.

Against this background, the reformed economic governance framework will play a key role to address debt and structural challenges and help Member States navigate these difficult trade-offs. The new fiscal rules give more prominence to both fiscal-structural reforms and public investments. National ownership is at the heart of the new framework, as Member Stats will submit their own country-specific plans setting out the fiscal trajectory for the years ahead. The fiscal adjustment path can be extended if underpinned by credible sets of reforms that will ultimately benefit fiscal sustainability, growth, and resilience. As such, the new framework allows more breathing room for Member States to finance important investments while putting public debt on a sustainable path.

Moreover, the RRF will continue to support investments and reforms in the Member States. Projects financed by RRF grants will have no impact on public deficits and debt, providing further room to tackle the significant investment needs emerging from the green and digital transition, as well as investments into defence capacity and critical technologies.

Public investments alone will not be sufficient to address these challenges and foster the structural transformation. Removing barriers to and incentivising private investment will be of equal importance to reclaim EU's competitive edge. In particular, European firms are still lagging peers in other regions when it comes to innovation and the adoption of digital technologies. To close the innovation gap, more investment in R&D and better access to finance is needed, especially for SMEs.

Europe needs to tackle long-standing and newly emerging challenges to secure economic prosperity for.

Europe needs a framework that supports effective resource allocation to restore productivity growth and close the gap notably vis-à-vis the US. Better equity and venture capital financing can play a role. Moreover, progress on the Capital Markets Union will be key to address fragmentation and facilitate greater private investment.

To plug the knowledge gap and promote human capital formation, the EU needs to raise the performance of education and training systems. As demographic changes are affecting Member States at different speed, greater intra-EU labour mobility and legal migration can help address skills shortages and mismatch, together with well-designed initiatives on re- and upskilling. Skills shortages especially for digital and scientific skills appear more severe in the EU than in the US, and the rapid rise of AI technology underlines the importance of these professional profiles, also considering existing gaps when it comes to ICT and digitalisation.

While the multiple challenges that the EU is facing can appear daunting, the recent experience during times of crisis has shown that Europe is strongest when it works together effectively. Continuing with decisive, impactful, and well-coordinated policy response at national and EU level will help Europe tackle the challenges of today and the future.

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Brightening Europe's productivity future: time for unified, brave action

Europe has fallen behind. For more than two decades now, total factor productivity growth trailed that in the United States. The slower productivity growth has been the key contributor to the large income gap that opened up between the two jurisdictions. The differences in productivity growth outcomes since the pandemic have continued to be stark, with the United States GDP per hour worked well above the level implied by its pre-pandemic trend and the euro area GDP per hour worked barely above the same level as it was in 2019.

What ails European productivity? The diagnosis has long identified several key factors, including unfavourable demographics and structural rigidities limiting business dynamism and required reallocation of resources in the face of large shocks. More recently, the disproportionate impact of geopolitical shocks on Europe compared to other parts of the world has imposed an additional drag on productivity as firms have been forced to re-optimize their energy use and re-consider their dependence on certain sources of energy.

Most notably, however, and long before the shaking of energy markets by the war in Ukraine, a widening gap in innovative, productive investments has emerged between Europe and many of its peers. Business spending on research and development (R&D), relative to the size of the economy, has hardly grown since the turn of the century. Public expenditure has not made up for the shortfall in private investment, leaving overall R&D investment well behind competitors. Further, when R&D investment occurred, it has remained focused on traditional sectors and methods rather than new technologies that offer general applications across industries and push the innovation frontier, including on much-needed technologies to address climate change.

This sluggishness in investment has in large part reflected financial fragmentation and uncertainty, in addition to the lower potential output growth in the region relative to the rest of the world.

The path to closing the gap in innovative, productive investments goes through the completion of the Single Market.

Removing the remaining barriers in the integration of goods and services trade would open these markets to more intense competition and strengthen incentives for adoption of and investment in productivity-enhancing technologies. It would also allow the most innovative and competitive firms to scale up. Enhanced trade integration within Europe would have the added benefit of positioning the region better in a world that remains under increasing risk of geoeconomic fragmentation.

Beyond goods and services, the other crucial aspects of the Single Market are capital and labour.

Making further progress on the Capital Markets Union is imperative to ensure that capital can flow where it has the most innovative, productive use. The challenge in the case of Europe, unlike many emerging market economies, is not a matter of fostering more savings: European pension funds and insurance companies can and do extend funding for long-term investments and most European firms can and do raise capital globally at a reasonable cost. The challenge is misallocation of the available funds, hindered by prohibitive costs of operating in different jurisdictions with their own, complex regulations and tax treatments, accounting and bankruptcy frameworks, and supervisory rules. These costs are a problem particularly for startups, which find it difficult to access venture capital and scale up in Europe. Reducing segmentation across national borders would also improve market liquidity and could encourage investors to fund high-return-high-risk opportunities by reducing the cost of exit from risky investments should they not pan out.

Turning to labour markets, measures to enhance mobility across borders and sectors should be priority. Easing integration of cross-border workers through language training and recognition of qualifications obtained in other countries could improve flow of skilled labour into faster growing areas and industries. This could be complemented with lifelong learning programs and a more general enhancement of education programs to focus on adaptive skills in a rapidly changing world.

The path to closing the gap in productive investments goes through the single market.

Fiscal policy would be an important part of a strategic plan towards the completion of the Single Market. Unleashing the available capacity at the regional level would be necessary, to be a catalyst for private investment in priority areas and move towards reducing segmentation. A common policy for the region as a whole supported with strong rules to ensure credible medium-term sustainable debt paths should be considered. A European safe asset could serve as the needed risk-free benchmark, enable greater risk sharing, and facilitate financial system union.

These are not new priorities. Europe needs to act now, to achieve the transformation it aspires to face the challenges from technological advancements, climate change, geopolitical tensions and aging populations.

MARIA TERESA FÁBREGAS

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Boosting productive investments in the EU: the RRF reforms and investments

The Recovery and Resilience Facility (RRF) is a major instrument to make Europe more resilient and better prepared for the future. The RRF, as the major performance-based EU funding programme, has delivered on its recovery goal: its mere announcement had an immediate effect on markets, narrowing sovereign debt spreads and restoring confidence for the pick-up in economic activity. EU funds started flowing to Member States immediately after the approval of their Recovery and Resilience Plans. With close to EUR 650 bn committed in total (EUR 357 bn in grants and EUR 291 bn in loans), the scale of financial support provided by the RRF between 2021 and 2026 is unprecedented in the EU's history. In June 2024, more than EUR 240 bn have been disbursed to Member States.

The full implementation by Member States of their RRP commitments is set to reinforce Europe's long-term competitiveness, sustainability, strategic autonomy and resilience against future economic shocks. Member States are well on track to deploy RRF funded investments. Almost three million enterprises have already received direct RRF support – either monetary or in-kind. By the end of 2023, direct support to companies accounted for more than EUR 82 bn (or 13% of the total estimated RRF expenditure), while the broader support to companies, such as financial instruments or the digitalisation of public administration, represented at least EUR 164 bn (or 25% of the total estimated RRF expenditure).

The Recovery and Resilience Plans (RRPs) go beyond direct financial support, spearheading significant reforms to cultivate a business-enabling environment across Member States. One of the core distinguishing features of the RRF is that reforms and investments go hand in hand and reinforce each other. These reforms address long-standing structural challenges that facilitate the delivery not only of investments supported by the RRF but other EU and national funds. One focus of the RRPs is on simplifying regulations and cutting red tape for businesses, and SMEs in particular. In the RRPs, Member States tackle challenges across the whole business life cycle, from the opening to the closing of a business. Reforms in various Member States aim to simplify and shorten the process of obtaining licenses for renewable energy facilities, advancing the green transition in this way. Measures across RRPs are tackling barriers to entry to stimulate competition, research and economic growth. Several reforms included in the RRPs focus on digitalisation to improve businesses and public administration's services. The RRF also drives substantial reforms to improve the efficiency of the judicial system, through court digitalisation for example, and to modernise public procurement. The RRF has an important impact on other drivers to increase competitiveness of EU businesses, such as public governance, digitalisation, skills, research and innovation.

The RRF also supports certain cross-border and multi-country projects. In particular, Important Projects of Common European Interest (IPCEIs) in the fields of strategic investments, such as hydrogen technology, microelectronics and cloud infrastructure receive RRF funding.

The RRPs chart the course towards a stronger and deeper Single Market and economic integration. Beyond their direct impact in a specific Member State, investments in the RRPs generate positive spillover effects that reverberate throughout the Single Market, bolstering intra-EU trade.

Europe's competitiveness hinges on the quality of its human capital. The RRF drives initiatives aimed at enhancing businesses' access to skilled labour and equipping individuals with the right skills for an evolving economy. The RRF fosters improved labour market access through the creation and simplification of hiring incentives for businesses, aligning skills supply with the demands of the labour market.

The RRF is reinforcing Europe's competitiveness, sustainability, strategic autonomy and resilience.

The RRF is complementary to other EU, such as cohesion, and national funds which promote public and private productive investment. In addition, public funding in key common challenges are expected to help crowd-in private investment. For instance, initiatives such as STEP, an innovative platform that intends to reinforce and leverage existing EU funding programmes to support the development and manufacturing and related value chains of critical digital tech, bio tech and clean tech, can help boost productive investments in the EU. Other initiatives will be developed by the Commission as announced by President von der Leyen in the Political Guidelines for the next European Commission on 18 July 2024.

LÁSZLÓ BALOGH

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Do current EU policy tools address critical investment needs in Europe?

Europe faces critical challenges: climate change, green and digital transition, affordable energy security, technological gap, ageing society, global economic fragmentation, and geopolitical tensions requiring bigger defence capacities. Meanwhile, the EU confronts substantial competitiveness issues compared to global players: lower productivity, sluggish growth, lagging high-tech investments and low R&D activities. In a trading system where all adhered to the rules, China and the US are now implementing highly subsidised industrial policies to bolster their economies. This diverts investments from the EU. The EU's share in global manufacturing dropped from 27% in 2000 to around 15% in 2022, due to loss of competitiveness, mainly in high-tech sectors. The EU must address these equally important challenges by setting up a comprehensive pro-business economic strategy combined with important additional funding.

Achieving zero emission by 2050 requires annual investments of cca. 2% of GDP from EU countries in the next decades. Europe's decarbonisation efforts increase dependence on rare minerals for batteries and solar panels. While EU-based battery factories may reduce dependency and safeguard the EU industrial base, however, this is not conceivable without China. This requires targeted strategy and fiscal support to the European industry. Strengthening EU's defence capacities also requires new investments for decades in a yearly value of 2% of GDP as an average.

Defence industry goes hand in hand with IT, AI and other high-tech industries development. More funding is indispensable for high and deep tech industry development in the EU. Europe invests less in digital and advanced technologies compared to the US and China. Roughly half of the world's investment in AI currently happens in the US. Disparity in frontier technologies investments hinders Europe to be leader in new technology sectors.

The EU must address these challenges by setting up a comprehensive economic strategy.

Agriculture also requires investments. Food security and local food supply in Europe has become a strategic issue. High quality, controlled and healthy food production needs further investments to keep up with the global competition, to implement state-of-the-arts know-how, to strengthen environmental sustainability and not let the countryside to transform to unpopulated areas. Human capital and demographic concerns must also be addressed: EU faces shortage in critical professions partly due to ageing and declining education. Investing in high quality education for future's skills is indispensable. Share of active population declines while pension payments are increasing, leading to serious sustainability issues. Safeguarding long-term sustainability and competitiveness also requires demographic turning point and to boost birth rates across Europe.

Regional disparities: since joining the EU in 2004, regions have narrowed their GDP per capita gap, rising from 50% to nearly 80% of the EU average. Yet, over a quarter of EU citizens still live in regions where GDP per capita remains below 75% of the EU average, a higher proportion than in the US. Further convergence is needed with targeted investments.

Current EU investment tools are not adequate to tackle this situation: RRF struggles with too slow and extremely bureaucratic implementation. RRF was designed to be a quick support mechanism after Covid-19 for EU economies to recover rapidly. However, so far hardly 40% of available funds are disbursed to recipients. Cohesion funds' budget is shrinking, R&D support favours major players and not the EU as a whole. CEE countries are hardly benefitting from it, and CAP conflicts with other EU policies. Defence specific funds are non-existent, enlargement budget is insufficient. EU infrastructure developments in energy grids or climate friendly railway network in all directions are lacking. Present EU funding facilities and regulatory framework do not effectively mobilize EU private capital as private investors' participation is bureaucratic and burdensome. Occasionally EU regulations are not predictable and transparent for business. Europe must enhance renewed, more flexible and enlarged funding mechanisms, ensuring fairness and coherence in distribution, and incentivising private investments. Increased EU funding is needed through larger EU budget with higher MS contributions instead of relying on regressive own resources or further debt creating EU bond issuance.

Disbursements must be more transparent and merit based, particularly in R&D. The EU must focus on a functioning Single Market. Mobilising the EU private savings stocks may ensure the needed funds for vital EU investments. EIB could better contribute to policy goals while safeguarding its financial sustainability. Most EU Members are largely indebted with fiscal deficits, so MS must ensure a sustainable and balanced fiscal environment creating the necessary business confidence for investors to engage them with the European economic strategy. The Economic Governance Reform is key step in this direction.

BJÖRN STORIM

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Tackling the structural problems in European long-term investment

The road that brings the savings of a private individual to the financing and delivery of a long-term investment project is long and full of obstacles.

Europe's rates of long-term capital investment are too low, and structural problems along the road are a major cause.

Many of these problems are well-documented. They include a lack of scale through the lack of a fully completed single market, inadequate financing structures, regulatory and fiscal biases towards the short term, and changing regulatory frameworks for long term infrastructure projects.

We have long called for an ambitious approach to building an EU capital markets union as a way of improving a critical stretch of this road.

When the EU capital markets are compared to the US, the focus too often shifts to large public sector interventions, e.g. the Inflation Reduction Act (IRA) vs Next Generation EU. But it is the business-as-usual capabilities that support productive investments, which allow personal savings to be channelled into longer term investments.

The EU has made progress in designing financial products, through legislation, that allow for savings to be invested in assets, whether UCITS or ELTIFs, which support longer finance projects. But further steps are needed, including the development of the securitisation market.

And many of the underlying reasons why the EU continues to lag behind the US in mobilising private savings for investment in capital market assets remain.

One key reason is the disparity in member states' pension policies. There is no EU-wide framework encouraging workers to invest their retirement funds in pan-European stock markets. This helps push about €300 billion in European savings abroad each year – mainly to the U.S., as the Letta report pointed out. And as Letta suggested, this could be rectified with a pan-European savings product, maybe an EU 401k.

The second 'business-as-usual' approach to broader productive investments is transparency. The EU has led the way in pursuing a Green Deal and ensuring Next Generation funds are at least in parts distributed in alignment with sustainability objectives. But investors still lack a clear, transparent and - critically - standardised approach to access and understand where and how to invest and support these goals. The advent of the European Single Access Point will at least provide standardised access to corporate information, but critically EU capital market infrastructure that is essential to allow access to pan-EU investments is still fragmented and difficult to access.

Using pensions and private savings, we can bridge the gap to a more effective capital market system.

A driving principle for any initiative to drive greater capital market participation in the EU should focus on making EU market infrastructures more interoperable and standardise how they interact and communicate with market participants, thus allowing EU investors simple and effective access to all European securities.

The final key ingredient to encouraging and supporting greater EU investments in capital markets, to bridge the gap to the United States, is a more unified approach to taxation. This is often a red line from a member states' perspective but sometimes misunderstood as approaching the level rather than the process of taxation. To date, every member state has a different approach to capital market taxation, and this creates problems for cross-border investors. Double taxation on securities income, and inadequate relief procedures, often result in lost revenue on the part of investors, stuck in a reclaim process that can take months, sometimes years, to conclude.

The FASTER proposal was a first step in the direction of harmonising the withholding taxation process but the negotiation outcome between member states did not match the ambition of the original proposal. To truly become a unified EU capital market and support pan-EU investments, in the same way that the European single market in goods has a common pan-EU framework for value added tax, the single market in savings and investments should have a common pan-EU framework for the taxation of income on securities.

In summary, as we look ahead to the next legislative phase and agenda, we have the instruments but not always the right incentives to support and encourage capital market investments into productive finance. Using pensions and private savings, supported by standardised infrastructure and harmonised taxation processes, we can bridge the gap to a more effective capital market system.

Delivering bigger, more efficient and more liquid European capital markets will eliminate some of the major obstacles on the road to greater investment in European infrastructure and real capital formation.

BERNARD ATTALI

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Putting the long term at the heart of our decisions

While the necessity for an extensive, long-term vision has never been more paramount than it is today, the emphasis on today's immediate needs overshadows such future-oriented planning. Our long-term perspective is undermined by the tyranny of urgency. Long-term investments essential for the transition to carbon neutrality, for the restoration of competitiveness, and for Europe's strategic autonomy remain insufficient, while significant efforts in these fields are already underway across the Atlantic.

In addition, we have seen significant geopolitical changes, including the emergence of war at Europe's doorstep, a rise in economic and commercial tensions, and increased fragmentation of international trade. This has led to a surge in investment needs in the defence and energy sectors and a reconsideration of strategic autonomy and supply security.

All these multiplying challenges confront us with a colossal investment wall. The European Commission considers that "in total, supplementary investments exceeding 620 billion euros annually will be essential to fulfil the objectives of the Green Deal and RepowerEU, and investments of 92 billion euros by 2030 to accomplish the aims of the Net Zero Industrial Act", further adding 125 billion euros for the digital transition. This projected investment gap for the dual transition of approximately €800 billion annually does not yet consider the substantial supplementary investment requirements related to fortifying our defence systems and the escalating pressure on general social protection expenditures due to demographic changes.

Yet our resources are finite. Reaching this amount seems an impossible task unless we completely rethink our financing model that has been in place for forty years. In a recent report, I have addressed this question with a group of experts, offering a complementary point of view to Enrico Letta and Christian Noyer: we have repositioned the actors at the heart of our approach. A genuine transformation of our society requires the integration of the long-term into the behaviour of each of us: citizens, financial intermediaries, public authorities.

First of all, from the perspective of citizens and consumers, financial education and understanding of the stakes of the transition are essential to ensure the political acceptability of the changes induced by the transition. But this is not enough: measures of equity must also be taken to offset the redistributive effects that are certain to accompany this transition.

A genuine transformation of our society requires the integration of the long-term into the behaviour of each of us.

Secondly, Europe saves, and it indeed saves a lot. In 2023, the European savings surplus over domestic investment amounted to about €370 billion, or 2.6% of GDP. This surplus represents a significant resource, yet it is currently largely underused to finance the long-term and is primarily invested in the US when invested in shares or bonds. This emphasizes the significant gap between the structure of savings and the financing needs of the economy. European savings is ultimately used, to put it bluntly, to finance billion euros of American buybacks of European gems... These savings must be redirected in a more effective manner, with a focus on long-term investments. This can be achieved by providing the right incentives (standardisation, simplification, and improvement of the quality of available financial and extra-financial information, appropriate regulatory framework, financial and tax incentives if necessary), while ensuring the necessary protection in return for increased risk taking. The creation of a European label for savings products invested in Europe, as recommended in C. Noyer's report this year, would allow the EU to move towards common principles by taking advantage of the existing characteristics of savings products.

Finally, fiscal policy may be an important driver of economic growth but cannot be the only driver, as the constraints on public finances remain challenging. Indeed, the updated EU budget regulations offer increased autonomy to member states, are more suitably adjusted to the context of high debt and allow enhanced flexibility for strategic investments. Yet, the budgetary room for manoeuvre remains insufficient to amplify investment funding to the required scale. The catalytic effect of public investment must play on other sources of funding available in Europe, such as those provided by long-term public investors and private financiers. In this regard, the contribution of national promotional banks and institutions (NPBI) play an integral role in this process, bridging the gap between public policy objectives and financing by private savings by anchoring agents' expectations and market practices. Through their public interest missions and their mandate to support public policies, NPBIs may identify projects with high externalities but still unsteady economic models and remove the obstacles that hinder their deployment.

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Investing in tomorrow

The green transition isn't just a "nice to have" idea; it's a strategic imperative for a continent dependent on imported raw materials and already experiencing the devastating effects of climate change. It is a strategy for sustainable growth that will make Europe more competitive, more prosperous, more autonomous and more resilient.

And it's a strategy that others are adopting too. China and the US are investing heavily in the same technologies and industries as we are, racing to become world leaders in the economy of tomorrow and to secure the same benefits that we seek. This is no bad thing. Global action is exactly what the world needs to limit and adapt to climate change. But if Europe wants to secure a leading place in the economy of tomorrow, it needs to invest more, today.

And yet investment in Europe consistently lags. Part of the reason is demographic. Our population is ageing and set to shrink, making it harder for companies to find workers with the skills they need to expand. It also puts pressure on our public finances, which means we can't compete with subsidies and generous incentives. But another reason is that our capital markets are fragmented and inefficient, particularly when it comes to financing new technologies and future champions.

A new report from economists at the European Investment Bank sheds light on the extent on the problem.

Data analysed in the report show that US start-ups raise twice as much money as those in the European Union, and that the gap gets larger as firms grow, reaching five times as much for companies that need to scale-up.

Innovative European firms that reach the age of ten, raise half as much capital as their peers in Silicon Valley and need to go through more funding rounds to raise the same level of investment.

As a result, many promising European tech leaders are forced to either list abroad or sell to foreign acquirers. According to the data, half the European scale-ups that underwent an initial public offering (IPO), listed abroad, mostly in the US. What's more, 60% of Europe's high-tech companies looking to scale-up are acquired by foreign buyers.

This is a serious weakness, which deprives Europe of the rights to its own inventions and the benefits of its own success stories.

Pioneering new financing instruments to serve as building blocks for a European capital markets union is one of the EIB Group's strategic priorities.

The reasons for these failings are a complex mix of regulatory, cultural, and behavioural factors. But the lack of a single European market for capital, to complement the single market that we have for goods, is clearly one of them. Large funds with the capacity to finance big investments are easier to raise and more efficient to operate in a large continent-sized market with lots of opportunities than in a small national market with fewer potential successes.

Pioneering new financing instruments to serve as building blocks for a European capital markets union is one of the EIB Group's strategic priorities.

Last year, we launched the European Tech Champions Initiative (ETCI), a first-of-its-kind fund of funds dedicated to investing in large-scale venture capital funds to support companies in their late growth stage. The ETCI has quickly become a success and has closed deals worth around €2 billion that are expected to mobilise up to five times that amount in investment.

Because of its success, we plan to extend it to attract private capital to support the continued growth of EU scale-ups in other thematic areas as well.

The European Investment Bank Group will also soon introduce new financing programmes to support investment in cutting-edge technologies and infrastructures, like AI, life sciences, microchips, and quantum computing. The Strategic Tech-EU programme, which will cover the entire value chain, including critical raw materials, thus aims to reinforce Europe's strategic autonomy, home-grown innovation and productivity growth.

As part of our Strategic Roadmap, we will also replicate the model of standardised financial instruments, like InvestEU, to crowd in private investment in sectors like energy efficiency for small- and medium-sized enterprises and building retrofitting. These initiatives will advance the EU's capital markets union as well as improve our competitiveness and cut emissions.

With public finances constrained, Europe needs to ensure that every drop of public funding makes a splash. The European Investment Bank Group has an unparalleled capacity to mobilise public and private investment. With just €22 billion in paid-in capital, the EIB Group has mobilised €5 trillion in investment, turning plans into reality, with projects improving people's lives and strengthening our economy.

Modern capital markets began in Europe with the issuance of the first public bonds and corporate shares back in the 17th century. Their emergence at the time was a powerful competitive advantage. Our fragmented and shallow capital markets today, however, are a competitive disadvantage. Europe needs a capital markets union to finance its investment needs.

JEAN-JACQUES BONNAUD
Treasurer – EUROFI

Changing the monetary and economic paradigm in Europe to stimulate productive investment

Investment is the lifeblood of competitiveness and productivity. After the global financial crisis, net investment in the United States and Europe fell significantly, but the decline was particularly pronounced in Europe.

Lasting negative real interest rates and demand-stimulating policies (high public deficits geared to redistribution policies) pursued in Europe over the past fifteen years contributed to reducing productivity in Europe, increased the already excessive indebtedness of certain EU countries, encouraged the development of liquid savings (in the absence of remuneration for long-term savings), the transfer of European savings to the United States and the postponement of structural reforms.

With interest rates set to remain at zero for an indefinite period, investors have been discouraged from investing in risky projects, turning instead to high-yielding speculative assets.

Low or negative interest rates induce a fatalistic state of minds that decreases — and not increases — the propensity to invest. In what John Maynard Keynes called the 'liquidity trap', investors play safe by placing their savings in very short-term instruments rather than deploying them over longer term, as low interest rates generate inadequate returns for higher risks.

Furthermore, a number of major shortcomings characterise the EU and also help to explain why it lags behind the United States in terms of productive investment The European Commission has been unable to ensure effective economic surveillance in Europe and fiscal discipline in indebted countries. The EU's competition policy, focused on preventing market dominance and state aid, has inadvertently stifled the development of European champions capable of competing globally. The EU's lack of a cohesive industrial policy has left it vulnerable to the protectionist measures of other major economies, such as the US and China. The community resources available (NGEI...) are difficult to spend and slow to produce effects in the countries that benefit most from them.

Consequently, a change of monetary paradigm is critical. it is necessary to refrain from fixing administratively ("or directing" the market) long-term interest rates and to accept to let the market remunerate medium – and long-term savings – according to supply and demand – the only way to remunerate long-term savings, without which there can be no productive investment or productivity gains.

Europe needs to systematically promote productive supply, that is, invest in research, innovation, and new technologies, rather than seeking grants or allowances to stimulate household consumption and internal demand.

Moreover, the economic paradigm towards supply-side policies aimed at stimulating productivity (rather than demand needs to change radically in Europe particularly in the EU's over-indebted countries (Italy, France, Spain...) must be encouraged and implemented in all parts of Europe.

Europe needs to systematically promote productive supply, that is, invest in research, innovation, and new technologies, rather than seeking grants or allowances to stimulate household consumption and internal demand. This urgently requires, in highly indebted countries, a reorganization of their public finances to achieve primary surpluses and thus prioritize public investments over expenditures to meet the current needs of households.

This reorientation of national economic policies towards supply - which means channeling long-term savings into productive investment - is essential to also enhance the economic attractiveness of economies and the returns on the assets developed there.

Only the US can afford budget deficits because it issues the world's currency and benefits from the largest, most liquid, and deepest markets.

Every effort must also be made to ensure that venture capital, private equity and equity financing develop in EU countries and that companies, whatever their size and location in the Union, find the sources of financing they need in Europe. All regulatory measures taken in Europe should be geared towards this objective. The European legal and regulatory system must agree not to discourage risk capital players, and even to encourage them.

In addition, the EU needs to design and implement a genuine industrial industry to boost its industry and to accelerate the single market while re-establishing a community preference. EU competition policy should be revamped to help companies scale up and better compete in global markets.

Lastly, we need develop European projects financed by European companies. The multiplication of Important Projects of Common European Interest (IPCEIs) and collaborative projects between Member States is undeniably a way forward, given that they align their objectives, they identify qualifying and profitable projects and that they find adequate funding. This would facilitate and foster the emergence of competitive European companies, champions and SMEs, as they would benefit from economies of scale in the single market.

By addressing these core areas, Europe can create a more dynamic and resilient economic environment, capable of sustaining long-term growth and innovation.