European Commission

The removal of obstacles to investment as part of the investment plan for Europe

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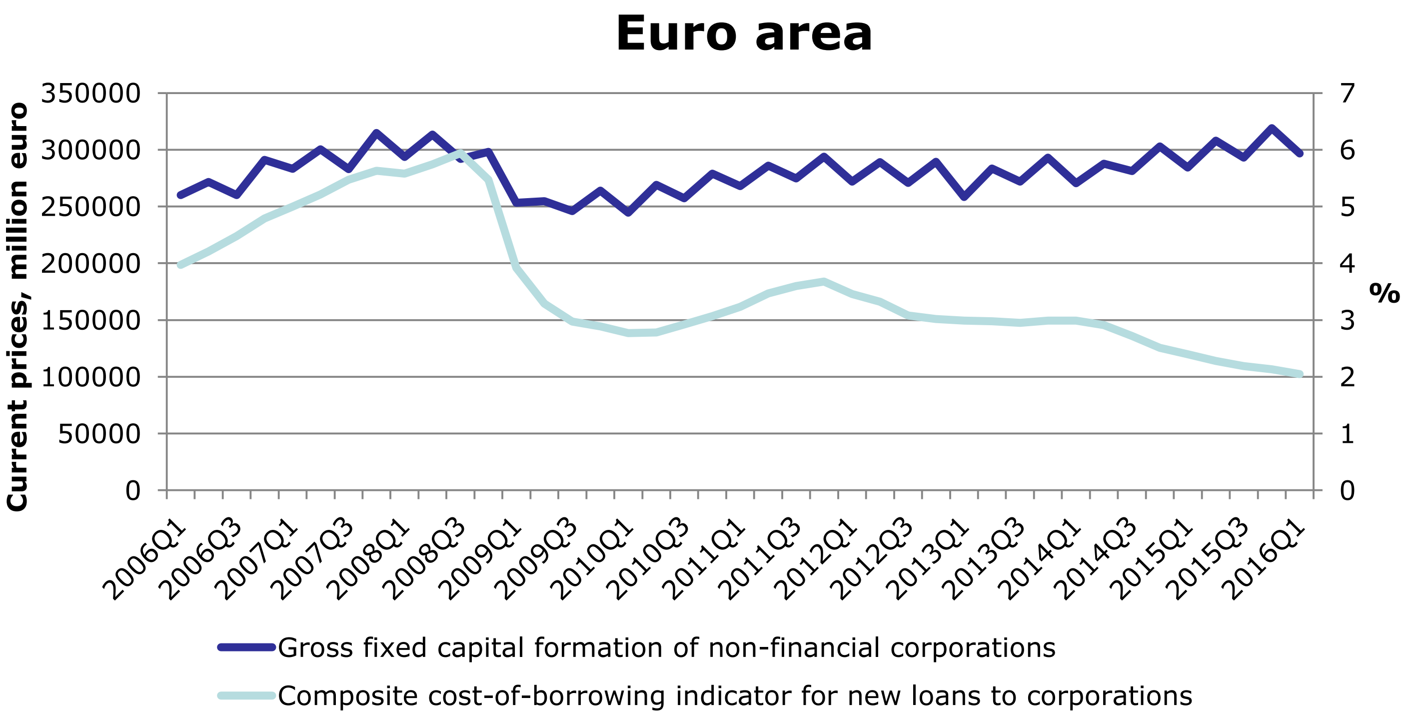
After the crisis, a new paradigm? Low interest rate environment but investment not taking off...



Reasons partly due to uncertainty - Investors need reassurances

Future growth prospects and uncertainty: "investors tend to prefer a liquid asset than a new factory".

Investment is a "medium-term" variable (unlike spending/consumption). But the decision to stop investments can be a sudden one.

An investment decision is a complex one depending on several factors and it might take months / years to materialise for larger projects.

An example of barriers delaying investments: Gotthard Base Tunnel

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Perceived barriers to investment can be of different natures

- **Horizontal** or **sector specific**
- Barriers preventing **public** investment or **private** investment
- Administrative barriers at **national** or **European level**

Etc...

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Most important part of the plan to modernise EU economy

Efforts on the investment barriers need to continue (3rd pillar)

Member States level

- Country Specific Recommendations on investment barriers being discussed in different Council formations (e.g. insolvency frameworks, permits in network industries, taxation…)

EU level

- Financial barriers dealt in the context of Capital Markets Union
- Transparent public procurement markets
- Simplification of the state aid procedures
- Increased ex-ante certainty on public accounting for specific sectors
- Enhanced regulatory certainty in energy and digital

Example 1: Lowering of capital charges under Solvency II

Amendment of Solvency II as part of CMU. Reduction in the capital requirements by a third for insurers wanting to invest in infrastructure projects.

Analysis shows that capital charges for some asset classes don't take into account the long term nature of many investments. Work needs to continue.

Example 1: Lower capital charges under Solvency II for Infrastructure

Infrastructure recognised as a distinct "asset class"

For qualifying infrastructure ***projects****:*

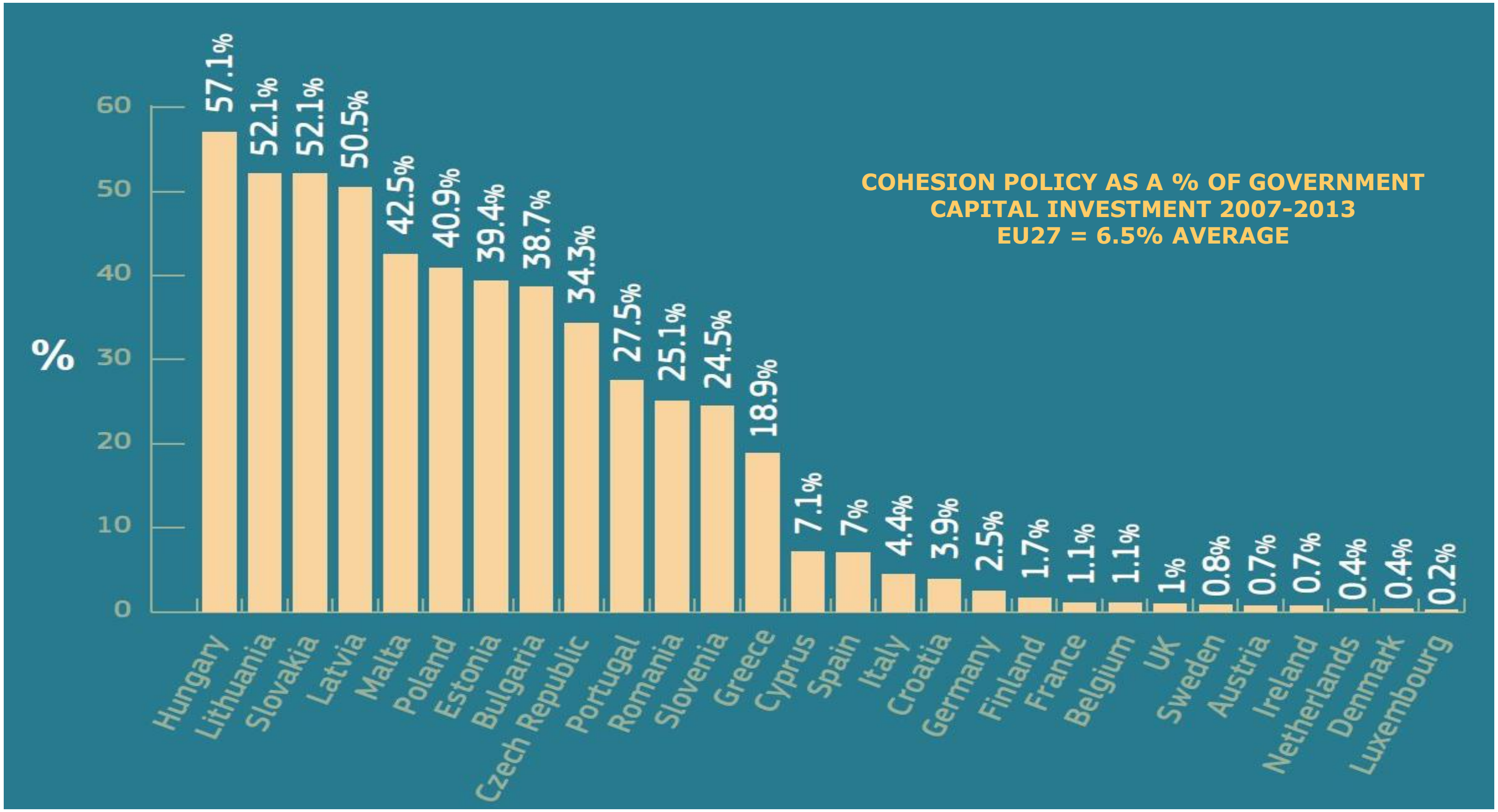
- **Risk charges for equity reduced by 39% (from 49% to 30% for type 2)**
- **Risk charges for debt reduced by 30%-40% (depending on the rating)**
- **Unrated debt treated at par with BBB rated debt, if they meet prudent criteria**

Similar incentives under consideration for qualifying infrastructure ***corporates****.*

Example 2: Simplification of structural funds

The use of EU funds for investment (a significant portion of public investment in cohesion MS) has been simplified and will be further simplified (e.g. Changes in the Common provision regulation in the context of the MFF review – this autumn).

ESI FUNDS: A CONSIDERABLE PART OF PUBLIC INVESTMENT IN MEMBER STATES



National barriers are dealt in the context of the European Semester

The review of investment challenges in the context of the EU Semester shows that the most frequent barriers in MS include:

- inefficiencies in public administration,
- an unfavourable business environment, and
- sector-specific administrative and regulatory burdens.

However, barriers vary across MS and may also include a high level of taxation and overly complex taxation systems, product and labour markets distortions, weaknesses in research and innovation frameworks, and barriers to accessing finance, particularly for SMEs.

Example of thematic discussion at ECOFIN committees: Insolvency frameworks

Future avenues

- Incentives for sustainable finance
- Further amendments to Solvency II are considered for insurers' investments in infrastructure corporates.
- Changes to the venture capital regulatory framework
- Further clarification on public accounting for specific sectors like energy efficiency
- Explore 29th MS regime for cross-border projects

Conclusions

- Effects of the removal of these obstacles take time but first signs of recovery of investment in Europe.
- Need to have a comprehensive approach (sectorial, national, European…)
- Lifting one single barrier might not be a game-changer but the sum of several microeconomic policy initiatives can be. There is a need to go deeper in the different levels of administration and the specificities of the sectors.