

Restarting European Long-Term Investment Finance
Assonime-CEPR Green Paper Discussion Document



RELTIF

Stefano Micossi

London, February 6th 2015

The RELTIF programme is sponsored by **EMITTENTI TITOLI** S.p.A.

The key issues

- Low growth, **low investment**, insufficient spend on infrastructure, weak bank lending to the corporate sector, and funding deficiencies of SMEs are all major causes of concern in Europe
- Is the source of the investment deficit in the structure and performance of the financial system? Or is it rather a problem of **low demand for capital**?
- Even if it is supply rather than demand for finance, then there is a question of whether the problem is a **transitory** one that is slowly being resolved over time as the effects of the financial crisis fade, or a **structural** one that will persist – as a consequence of new regulation and changes in intermediaries business models
- Lack of clear diagnosis of the financial crisis entails a risk of Europe hurtling into a series of unjustified **policy prescriptions** that might not work and might even end up exacerbating rather than alleviating problems

Stylized facts

- The European **corporate sector** has decreased its net borrowing, and in some countries has become a net supplier of funds to the financial system; while **capital markets** share, relative to banks, has increased, with a large rise in corporate bonds
- However, **SMEs**, with limited access to capital markets, remain highly dependent on bank finance, and have seen credit declining markedly; the financial crisis has also left part of the system **overleveraged**, with their debts encumbering banks' balance sheets and banks' ability to provide fresh finance
- The scarcity of finance for SMEs may have been aggravated by **regulation** – toughened Basel III capital requirements penalize lending to the corporate sector
- Low investment and the decline in equity financing may reflect defects of the **governance** of companies and financial institutions – short termism – as well as undesirable changes in the intermediation chain (the role of asset managers)

The project

- **Assonime** and the **CEPR** are jointly organising a programme of research, supported by **Emittenti Titoli**, on corporate financing in Europe to advance our understanding of issues relating to the financing of corporations – especially European corporations – and to provide evidence on the policy issues that are at the forefront of ongoing debates
- The research programme is divided into two stages:
 - ✓ in the first stage, the programme is identifying **policy issues** that are at the forefront of current debates, in particular those that lend themselves to academic analysis and can be informed by economic research
 - ✓ the second stage is then to commission **research** on the issues identified in the first stage and to produce a final policy report (a '**White Paper**') based on the accumulated evidence
- The '**Green Paper**' presented today is the output of the first stage