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Joint forces to overcome the financing and investment gap in CEE needed

Investments are essential in order to maintain and to improve the economic growth potential. In addition, for CEE countries, investment needs are even more stringent than for EU developed countries given their low levels of existing capital stock. Amid a benign global environment and in the context of the EU accession process, CEE countries faced strong foreign capital inflows in the years before the crisis inception in 2008 and investments boomed. Post crisis period is more challenging in terms of investing given that foreign capital inflows are scarcer and economic and political uncertainties that companies have to face have amplified, reducing so their appetite for investment.

CEE countries not only have to modernize their underdeveloped infrastructure, but they also have to take care about investments in innovation (R&D activities) and in human capital as a key requirement of the new digital economy. With large funding needs, all available funding sources should be used: loans from domestic banks, loans from borrowing from abroad, EU funds, capital market, public-private partnerships and private equity funds.

Romania, for example, faces at a moment a large gap in terms of capital and economic development relative to the Euro area core countries. Country's funding needs for investments projects are impressive, as they have been accommodated in the recent years only to a small extent. Spending on R&D, education and healthcare is currently still among the lowest in the EU. Romania needs to make quality investments, particularly in infrastructure, for today and tomorrow. Foreign capital inflows have remained reduced over the past years as private sector, especially the banking sector, was in a deleveraging mood following a surge in indebtedness before 2008.

Similar to other CEE countries, Romania's financing is too banking dependent. Other actors and new forms of financial intermediation will have to meet the credit needs of the economy. Having access to diverse funding structures is a main pre-condition for unleashing the growth and closing the gap to core Europe.

Uncertainty related to the course of governmental and fiscal policies can hamper the appetite of companies for investments as is currently shown by the example of Romania.

Fiscal space has been recently used to substantially increase wages in the public sector and pensions, which leaves a limited room for increase of public investments going forward (after they were cut in the last years). The recently introduced bank levy and the very elevated capital requirements for pension funds might restrain further financial intermediation. There might be significant positive implications for fiscal sustainability and long-term growth, if these decisions are reassessed.

Foreign investors role in the CEE development has been and will continue to be tremendous. Just as before, we need to join forces and commit to continue along this successful path and remove all the obstacles for financing and investment together. ●