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Let's preserve Long-Term Investment!

In times of such incertitude, the role of National Promotional Banks and Institutions (NPBIs) and more globally of Public finance seems more obvious than ever.

Sustainable development, demographic changes and now health crisis are, in a way, the best incentives we could have for investment, especially for public long-term investment. This environment reinforces the diagnosis and considerably amplify the investment needs in social infrastructure, digital technology, health, innovation or sustainable transport. Since 2008, when constraints were put in place, the context have dramatically changed. We are now experiencing low interest rates, availability of liquidity, national downturns and the gigantic threat of global warming.

There is an imperative need to continue investing for the long-term. Our economic vehicle does not need a repair but a profound transformation for preventing any further breakdown. Our economies need strong public financial actors. They are enablers for investment as they trigger high leverage effect. Priority must be given to the functioning of the economy by favoring both debt and capital financing. This requires an easing of prudential measures which, in the current situation, risk leading to the financial embolism that we experienced in 2008. Then, it is necessary to take incentive measures, for example by financing the deferral of repayment of debt in favor of riskier investments, either because they are long term, or because they contribute to the general interest without necessarily having immediate financial returns, like social infrastructure (hospitals, affordable housing, educational establishments...).

In Europe, banking system is the main source for financing the economy, therefore the role of public finance is key for earmarking funds in the direction of the general interest needs. We need to think again, in this new environment, the meaning and the enforcement of prudential rules for the different actors and the different assets. This will be the price for having a tailor-made financing system. As counter-cyclical actors, NPBIs have to play an active role. If the EU wish so, they are prepared and ready. In Europe, their size (a total consolidated balance sheet of €1,700 bn for the 30 member institutions of the European Association of Long-Term Investors) and their prudent management give them the means to act.

Very responsive in the deployment of the Juncker Plan, they make a crucial contribution to relaunching investment. In this context, it is essential that they benefit from the active support of European actors and European tools. The Council of the EU agreement in July 2020 send contradictory signals with more solidarity between States and less means for European instruments managed by the European Commission. Among expected clarifications, restrictive measures on public funding should be alleviated by generalizing and simplifying the possibility of mixing European subsidies and investment with public capital.

More than ever, it is crucial today to give long-term investors the means to invest for tomorrow! ●