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Closing Remarks
Growth and Employment: the Role
of Long-term Investors
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Distinguished guests,

Ladies and gentlemen,

It is a great honour for me to deliver the closing remarks to this annual conference - all the more so that it is being hosted by the European Investment Bank for the first time.

You have discussed here how we can finally put the financial crisis behind us and bring about sustainable growth; the central role of long-term investment in this desired transition; and the unprecedented challenges it brings for us, long-term public lenders.

Allow me to add my views on these issues, which are intrinsic to the activity of all LTIC members, and let me do so from a European perspective.

We all know that growth and demand are driven by both consumption and investment. If consumption is the major component of demand, investment plays a crucial role in determining the long-run productive capacity of the economy.

Investment is needed in people, in knowledge and in physical assets. Investment is also needed for the construction of Europe, for its development, for its unity and its cohesion.

At the same time, we know that investment tends to be the most volatile component of aggregate demand, and, sadly, this crisis has certainly not been any exception.

Before the current recession, investment grew by 5-6% per year. Exporters and home buyers drove this boom, which ended abruptly in 2009. Since then, **the lack of investment has been a main source of demand weakness in the European Union**.

Gross fixed capital formation contracted massively early in the crisis and has remained feeble, nearly 15% lower than five years ago. This decline owes to a number of factors - uncertainty about the economic outlook, low capacity utilization, poor business profitability, tight credit conditions as well as deleveraging.

A collapse of investment activity of this magnitude has inevitable repercussions for economic expansion in the longer term. If productive capital stocks do not grow – indeed, if they are not even maintained - our growth potential will inevitably shrink.

A revival of investment activity is therefore needed. One precondition for such a revival is access to reasonably priced funding for long-term projects.

And this is exactly where long-term finance providers such as the EIB, the other LTIC members come in.

Our main concern is long-term investment underpinning sustainable growth. Of course, there is currently a compelling case for loans with a significant short-term multiplier effect giving an immediate boost to production and employment. But long-term economic, financial and environmental soundness and viability of investment must remain a pre-requisite for our support.

Ladies and Gentlemen, we talk about the need for a structural change to our economies. But we all know that a switch to a more resource-efficient and smarter economy - which is absolutely vital for Europe if it wants to remain competitive on the global scale - will not happen overnight.

This switch will not come about without large volumes of long-term investment and structural reforms that unleash the potential of that investment.

The “long view” must prevail. It must balance out short-termism, which has been at the root of the current financial crisis.

There is systematic evidence that the **near future,** the drive for immediate profit maximization, plays a disproportionate role in financial decision-making to the detriment of the **more distant future**.

This “quarterly capitalism,” as it is sometimes called, has been omnipresent in households, on the financial markets, in banks, businesses, even in governments.

This short-termism - and the under-investment in projects with long payoff periods that comes with it - has highlighted the importance of those lenders who have not lost their sight from the long term.

The continued availability of credit from public policy banks has been an important component of Europe’s response to the crisis, and I say: let’s keep it up.

Our institutions are crucial for funding large infrastructure, research and development or green energy investments, projects which would otherwise be cancelled or at least postponed. And without long-term investment we will never achieve the desired structural change.

Allow me to speak with my EIB “hat” on for a moment. Being the “EU Bank” and having the well-being of half a billion people as our objective gives us the advantage – the obligation, in fact! – of being able to pursue complex investment strategies.

Let me give you one such example.

We have co-financed the expansion of the Rotterdam Port, one of the EU’s gateways to the world. At the same time, we have contributed to the widening of the Panama Canal, because the EU is a point of departure or arrival of a lot of goods passing through it.

This “global thinking” allows us to look beyond the immediate effect of one individual project and maximize the impact of our financing.

Investment in the so-called “knowledge economy” is also at the core of EIB’s action.

In advanced economies like ours, growth is crucially dependent on **intangible** capital. Therefore, our growth strategy requires an acceleration of investment in research, development and innovation (RDI).

Lending to RDI must remain one of our central priorities for the future, and I am glad this has been stressed here a number of times.

Research and development, and the innovation associated with it, are the main drivers of productivity growth. Investment in this sector is therefore critical for Europe if it does not want to be sidelined by new players in the global game.

Since RDI spending by businesses tends to be strongly cyclical, public support is particularly important in times of economic downturns.

Now, if safeguarding funding for RDI in a recession is especially important for developed countries at the frontier of technology, another challenge of truly global dimensions concerns energy and climate policy. This will play an essential role in achieving sustainable growth and green innovation.

Given the finite nature of fossil fuels, an investment into “green growth” means also an investment into competitiveness and jobs.

According to estimates by the United Nations Environment Programme, some 20 million people could be employed in the renewables sector by 2030, up from 2.3 million in 2006.[1] So you can see that this sector is becoming quite a large provider of employment worldwide, partly also thanks to a shift of jobs from high-carbon industries.

The countercyclical timing of some of the investments needed for decarbonisation has provided a welcome stimulus for countries in a downturn. Indeed, a number of national recovery programmes arising from the crisis, as well as the European Economic Recovery Plan, targeted explicitly green investment.

Finally, let me say a few words on the regulatory environment, which is crucial for our banks to be able to supply debt finance to the real economy. The main point is that the regulatory framework must be conducive to mobilizing and allocating savings for long-term investment.

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[1] Wind, Solar, Biomass/Biofuel, Hydropower, Geothermal

In fact, a case could be made in favor of regulation that encourages long-term investments and recognizes the specific characteristics of financial partners that mobilize and allocate funds for that purpose.

Ladies and gentlemen,

In times of crises as well as in “good times,” there will always be investment that financial markets alone will fail to fund, even though it would boost growth potential, employment and well-being for future generations. This is why public lenders will remain a cornerstone of any development strategy in Europe.

Long-Term Investors are able to finance projects of public interest. In times of growing budget restrictions, this has become immensely important.

The need for greater cooperation among the members of the Long Term Investors Club – to mobilize resources that no single institution can mobilize on own – is growing.

That makes this forum, where we can share our long-term view, learn from experiences and discuss joint business, so relevant.

Thank you for your attention.