

Position of the Committee on Finance

2012/13:FiU40

Review of the Green Paper on long-term financing of the European economy

Summary

The subject of this position is the European Commission's Green Paper on *Long-term financing of the European economy* (COM(2013) 150).

The Committee welcomes the Green Paper and the initiative taken by the Commission to analyse both the need for long-term financing in Europe and the ability of the European economies to channel savings into long-term financing. In reviewing the Green Paper, the Committee has formulated a number of observations which are described in this position.

In the Committee's view it is important that the Commission, in its further work, should remain open when it comes to assessing the banks' ability to offer long-term financing in the future. The Commission should take account of national differences in banking systems and concentrate its initiatives on proposals which have a European added value. As banking is a cross-border activity within the EU, the Commission should be prepared to take necessary initiatives to ensure that the long-term financing needs of the European economies are covered. However, national competences in the field of taxation should be protected.

It is also important that any measures proposed do not have a negative effect on financial stability and consumer protection. The Commission should also pay attention to the risks that the shadow banking sector might gain from possible initiatives, and an increased regulatory burden might have an adverse effect especially on small banks' ability to offer long-term financing.

Finally, the Committee feels that risk exposure from financial instruments should not increase the pressure on the EU budget and that it is also necessary to consider the importance of public finances in long-term financing.

Two specific statements are appended to the position.

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Committee's proposal for a decision by Parliament

Long-term financing of the European economy

It is proposed that Parliament place the Committee's position on file.

Stockholm, 30 May 2013

On behalf of the Committee on Finance

Anna Kinberg Batra

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Report on the subject

Subject and preparatory work

On 25 March 2013 the European Commission adopted a Green Paper on *Long-term financing of the European economy* (COM(2013) 150), which was distributed for consultation, and stakeholders were invited to submit their comments no later than 25 June. Together with the Green Paper, the Commission also published a working paper describing the underlying analysis in greater detail.

Parliament referred the Green Paper to the Committee on Finance. Pursuant to Chapter 10 § 5 of the Parliament Act, the Committee's task is to prepare a position on the Green Paper as a basis for a parliamentary debate.

The Government Offices drew up a memorandum (2012/13:FPM93) and presented it to Parliament. The memorandum summarises the Green Paper and sets out the Government's position. The Government did not distribute the Green Paper to Swedish authorities for consultation, but intends, according to information from the Finance Ministry, to submit its views on the Green Paper to the Commission by the deadline in collaboration with the Financial Supervisory Authority and the National Bank of Sweden.

Main substance of the Green Paper

According to the Green Paper, Europe is faced with the challenge of putting the EU's economy back on the path of smart and sustainable growth, creating new jobs, building on the EU's areas of competitive advantage and thereby enhancing the EU's competitiveness in the global marketplace. Europe faces large-scale and long-term investment needs.

Long-term investment is the formation of long-lived capital, covering tangible assets (such as energy, transport and communication infrastructures, industrial and service facilities, housing and climate change and eco-innovation technologies) and intangible assets (such as education and research and development) that boost innovation and competitiveness.

To fund these long-term investments, authorities and businesses need access to predictable long-term financing. According to the Green Paper, the capacity of the economies to make such long-term financing available depends on the ability of the financial system to channel the savings of governments, corporates and households effectively and efficiently to the right users and uses through open and competitive markets. This can be carried out through various intermediaries (e.g. banks, insurers and pension funds) and by direct access to capital markets.

The Green Paper looks at how this process operates and how it can be improved.

The focus of the Green Paper is on channelling savings into productive investment and productive capital (as opposed to financial capital). It is concerned with long-term investment in the sense of the formation of long-lived tangible and intangible capital.

According to the Green Paper, the formation of productive capital was deeply hit during the financial crisis, and investment levels are still below their pre-crisis levels in many EU countries.

The Green Paper discusses possible action in the following areas:

- The capacity of financial institutions to distribute long-term finance
- The capacity of financial markets to offer more long-term financing instruments
- Greater incentives for more long-term savings and more long-term financing
- Better access to bank financing and other long-term financing for small and medium-sized enterprises.

Government memorandum

In its memorandum 2012/13:FPM93, the Government sets out its preliminary position on the Commission's aim to map out different solutions for long-term financing. Against this background the Government largely welcomes the Commission's Green Paper. However, it considers it important that any measures proposed should not have a negative effect on financial stability and consumer protection or create conditions conducive to an increase in shadow banking. Nor should proposals mean that risk exposure from financial instruments increases the pressure on the EU budget. The Member States' competences in the field of taxation should also be respected. According to the Government, any future proposals will be examined and individual assessments undertaken in respect of each issue.

Committee's considerations

Committee's opinions

A good exercise

The Green Paper raises relevant questions. What are the characteristics of long-term financing? How should long-term financing be provided? The financial crisis makes it necessary to look at how the European economy must cover its long-term financing needs. How has stricter regulation of the banking system at European level in recent years affected the banks' ability to channel savings into long-term financing?

Against this background, the Committee on Finance joins the Government in welcoming the Green Paper and the mapping exercise which the Commission has started. It is useful to shift attention from individual proposals and regulations to studies and analyses of the efficiency of the financial sector as a whole. Following the discussions of recent years, when many different proposals have been discussed individually, it is pleasing that an attempt is being made to analyse the overall effect of different measures.

In this position, the Committee refers to a number of general observations and discussion points based on its examination of the Green Paper. It will refrain from answering the 30 specific questions forming part of the consultation procedure, but will be interested to hear the Commission's conclusions based on all the replies submitted by the bodies consulted.

Importance of transparent conditions

First of all, the Committee would like to take up one of the Green Paper's starting premises.

Banks have traditionally been the most important financial intermediaries in Europe, but since the financial crisis their role in facilitating long-term financing has declined. Even after the banks' balance sheets have been consolidated, the Green Paper expects their capacity to remain limited, owing to tighter regulation leading to increased capital costs for banks and businesses.

The Committee does not rule out that this will be the case and therefore considers it appropriate that the Commission should investigate the possibilities of supporting the development of ways of channelling savings into long-term finance other than through the banks. The Committee would also draw attention to the fact there are both good examples and research which show that the relationships are much more complicated than the Green Paper suggests. Banking is based on trust, and trust in banks can be created through balanced regulation and effective supervision. It is no coincidence that banks in countries with higher capital requirements can lend more cheaply than banks in countries with lower requirements. Lower borrowing costs allow banks to offer advantageous long-term financing. A well-regulated and well-capitalised banking sector therefore, in the Committee's opinion, has a good basis for providing the European economy with long-term financing, also in the future. Accordingly, the Committee recommends that the Commission, in its further work, should follow developments

closely and without prejudice and, taking as a guide the discussion ensuing from its mapping exercise and the Green Paper, should look at how banks can provide the economy with long-term financing. Its observations can then lead to proposals on re-regulation/de-regulation and increased regulation of the banks.

Importance of taking account of national differences

There are major differences between the national systems of channelling long-term financing in the EU. In particular, the banking sectors are different. Sweden has a relatively large banking sector which is dominated by four large Swedish banks. Swedish savings are also different from savings in many EU countries, as savings accounts are less common in Sweden. This has led to banks opting to finance large parts of their activity through the lending markets and in foreign currencies. There are also differences between Member States in terms of how hard banking has been hit by the financial crisis and thus in their capacity to facilitate long-term financing in the coming years.

It is natural for the Commission to generalise and try to identify common characteristics and common problems and solutions in the EU. Nevertheless, there are good reasons to remember the national differences which exist and which can be important for the conclusions drawn by the Commission and the measures which can be implemented.

The Swedish Parliament and Government have previously stated that it is natural, even if Community legislation is valuable, that there be sufficient room for national variations in terms of regulation, and that there may be good reasons to opt for minimum rules rather than full harmonisation in certain cases (see, for example, position 2011/12:FiU29).

Any initiatives should produce European added value

The purpose of the Green Paper is to initiate a broad debate about how to foster the supply of long-term financing and how to improve and diversify the system of financial intermediation for long-term investment in Europe. The responses to the questions posed in the Green Paper will contribute to further assessment by the Commission of the barriers to long-term financing, with a view to identifying possible policy actions to overcome them. Future initiatives may take several forms: in some areas new or adapted regulation may be needed, while in others the role of the EU level could be in encouraging stronger coordination and the promotion of best practices, or in the form of specific follow-up with individual Member States in the context of the European semester.

The Committee sees it as important for the Commission, when the time comes to propose measures, to take full account of the subsidiarity principle and focus its action on measures which provide European added value, and thus on questions of a cross-border nature. Coordination and development of best practices should also be preferred to new European legislation.

However, in the areas where the EU has already adopted legislation or the Commission sees a further need for legislation, it is important that the Commission should examine the need for improved legislation and take the necessary initiative. Banking and other ways of channelling long-term financing are cross-border in nature (both within the EU and internationally) and will presumably become more so in future. In order to achieve a

properly functioning market, it is therefore important to have both EU and international regulation and for both to be coordinated.

Maintain national competence for taxation

Corporate taxation, taxation of savings and different forms of tax relief can clearly be important policy instruments in improving the scope for channelling savings into long-term financing. It is therefore not unreasonable that the Green Paper takes up the importance of tax legislation.

The Committee will be interested in the responses to questions 16-19 in the Green Paper and notes that the Commission takes up the risks of arbitrage and the possible need for deeper tax coordination in the EU. However, on this point the Committee, like the Government, would emphasise the importance of respecting the Member States' competence in the field of taxation. In this respect the Committee first of all feels that the Commission should initiate analyses and discussions and certainly discuss best practices, but it should not initiate proposals which extend the EU's powers in the field of taxation.

Proposed measures should not have a negative impact on financial stability and consumer protection

The Committee would like to emphasise the Government's position set out in its memorandum that any measures should not have a negative impact on financial stability or consumer protection.

Paying attention to the risk that proposed measures may favour the shadow banking sector

Through the Green Paper, the Commission would like to start a discussion on new methods of increasing access to long-term financing in Europe. According to the Green Paper, there may be a need for other players to complement the banks as regards the channelling of long-term capital. This may, for example, involve direct capital market financing and increased scope for institutional investors for long-term investment.

The Committee regards it as excellent that the Commission refers to the scope for reducing obstacles to long-term financing channels other than the traditional banking system. However, like the Government, the Committee feels that any measures should not favour the shadow banking sector in an unjustified manner, thus allowing it to grow.

The Committee would like to draw attention to its position (2011/12:FiU48) on the Commission's Green Paper on shadow banking (COM(2012) 102), in which it welcomed the Green Paper's presentation of how the Commission saw shadow banking and of the existing and planned EU legislation. The Committee's position was positive, and it agreed on the need to map out the possibilities and risks of shadow banking. It is important to give careful consideration to which further regulatory measures may be needed and how these should be shaped. It is therefore essential also to obtain a better understanding and better statistics concerning shadow banking activities. It is important to obtain a better understanding of what shadow banking entails and to produce better statistics covering its activities.

The Committee noted that shadow banking embraces important functions and can therefore make a positive contribution to the financial system, but at the same time it also harbours risks.

As regards the ongoing regulation of shadow banking, the Committee noted in its opinion that supervision in the sector needs to be strengthened. However, regulation and other measures should not take place entirely at national level or entirely at EU level. The aim should rather be to work towards as broad a measure of international cooperation as possible.

In the Committee's opinion, it is clear that the Commission's further activities concerning shadow banking and the long-term financing of the European economy are closely intertwined.

Taking account of the regulatory burden on small banks

An important factor in this connection is the importance of the overall regulatory burden especially from the point of view of small banks' capacity to provide the local economy with long-term financing. In the Committee's view, the Green Paper should have paid a little more attention to this matter. Small banks in Sweden find it hard to cope with the administration of comprehensive regulations and supervision — which in some cases might be concerned only with problems relating to the activities of large banks — is limited. The substantial regulatory burden risks impeding the capacity of smaller banks to facilitate long-term loans.

This problem without doubt also applies to small banks in other EU Member States, and the Committee would like the Commission to take account of this aspect in its further work.

Risk exposure from financial instruments should not increase the pressure on the EU budget

The Government notes in its memorandum that the Commission should not table proposals which mean that risk exposure from financial instruments increases the pressure on the EU budget. The Committee agrees. One reason for this is that if securities are redeemed, the costs of payments will risk displacing costs of the Commission's normal activities. This may happen in an unexpected manner, which may be detrimental to activities.

Against the background of the discussion which took place on the issuing of stability bonds (eurobonds), the Committee can see that the need for supranational securities may appear different in the case of countries which share a currency (see the Committee's positions on the Green Paper on the feasibility of introducing stability bonds [2011/12:FiU19] and the European Commission's Communication on a blueprint for a deep and genuine economic and monetary union [2012/13:FiU29]).

Importance of public finances for long-term investment

Ultimately, it is taxation which finances many of the long-term investments in the public interest which the Green Paper refers to as financing priorities. How lending takes place and financing is channelled into different investment objects in the public sector varies

between countries and between different sectors in the same country. In Sweden's case, State investments are mainly financed through the general borrowing system and the State's internal bank in the National Debt Office. The municipalities are themselves responsible for their borrowing, but join forces in various ways, e.g. through *Kommuninvest*, in order to improve financing efficiency. The municipalities also mainly finance their investments via the general budget. Municipalities may also co-finance State investment projects.

Other countries have opted for different models, and the Committee would be interested to hear about international experience with public-private sector cooperation projects and will continue to monitor the experience acquired with project bonds. The Committee has also on several occasions discussed proposals to reintroduce a special investment budget or apply a 'golden rule' as in the United Kingdom (i.e. quote the proportion of investment costs in the State budget) — based on the idea that long-term investments should not be too easily neglected when short-term spending decisions are pressing.

Regardless of all the different methods which are available for financing long-term investments in the public sector, when all is said and done long-term sustainability in the public finances is vital, so that financing will function. Long-term investments are aimed at generating increased growth and improved welfare, but investment costs must have a reasonable chance of being supportable by future generations. To this end it is important to give priority to justified investments and to generating sufficient income from taxation.

In the Committee's opinion, the current economic crisis necessitates consideration and analysis also in this field. It is important to consider how public finances and long-term investments were handled during the boom period before the crisis. A good State budgetary process should promote the long-term sustainability of public finances and the possibility of financing long-term investments.

Any future proposals can be examined as they are tabled

It remains open as to how the process will continue and which initiatives the Commission will ultimately present on the basis of the mapping exercise it has started. The Swedish Parliament will be interested in receiving any proposals in this field and will be able to examine and assess them as they are tabled, partly in the context of a subsidiarity assessment and partly in a dialogue with the Government in the form of deliberations within the Committee on Finance and consultation within the EU Affairs Committee.

Specific statements

1. Specific statement (SD)

Sven-Olof Sällström (SD) states the following:

Sweden Democrats are in principle not against the Green Paper *Long-term financing of the European economy* (COM(2013) 150). However, I am somewhat disturbed by the rashness and lack of the natural scepticism towards the Green Paper in the position. The objective — to ensure long-term financing — is certainly a good one, but the Commission's actual motives should be set out more clearly. Several of the proposals are of such a nature that they would be likely to involve further transfers of economic policy authority from the national to the federal level.

The Commission refers to the importance of tangible assets (energy, transport and communication infrastructures, industrial and service facilities, housing and climate change and eco-innovation technologies) and intangible assets (education and research and development). Sweden Democrats would make the point that such matters should ultimately come under national competence and responsibility.

Sweden Democrats would also emphasise the importance of ensuring that banking should remain under national supervision. We therefore strongly oppose the proposal for a banking union. Re-regulation, de-regulation or increased regulation of banking at EU level would be very regrettable as far as Sweden is concerned. This perhaps applies particularly to the smaller banks, e.g. savings banks, which may suffer as a result of regulation which was actually aimed at the larger traditional banks. The small banks' limited capacity to deal with administration may be detrimental to their position on the market. We welcome the fact that the Committee in this connection emphasises the importance of leaving 'room for national variations', but this should have been stated even more clearly.

It would also be unfortunate if further aspects of economic policy were incorporated into the European semester. In the long run this is a way for the Commission to exercise surveillance over the Member States.

Sweden Democrats are also sceptical about the issues concerning the need for deeper tax coordination in the EU and strongly oppose the Commission even discussing proposals which concern taxation. Taxation is and must remain a national issue.

Sweden Democrats are also totally against the issuing of 'eurobonds'. It should be pointed out once again in this connection that it is unfortunate that the Government has not been able to negotiate a formal exemption for Sweden as regards abolishing the Swedish krona in favour of the euro. As long as this situation remains, Sweden Democrats must bear in mind that Sweden is legally bound to join in with the third stage of EMU and that changes which are basically euro-specific will thus also directly affect Sweden.

The questions addressed in the Green Paper are fundamentally questions which should come exclusively under national competence, and, given the Commission's lack of

respect for national sovereignty, Sweden Democrats are sceptical about the further follow-up to the Green Paper.

2. Specific statement (V)

Ulla Andersson (V) states the following:

I agree with the Committee's assessments expressed in its opinion, but would also make the point that I expressed a reservation in connection with the Committee's position on shadow banking (2011/12:FiU48).

In that position the Committee, in my view, took a much too positive view of shadow banking when it stated that shadow banking can perform an important function. One of the points made in my reservation was that the Left Party considers that shadow banking harbours major risks. The purpose of creating separate companies — shadow banks — has in many cases been to take risks and assets away from banks' balance sheets and move them to shadow banks, as the latter operate under reduced supervision and regulation. Risks in the accounts are thus moved out and placed in a separate company. This was one of the fundamental causes of the financial crisis, which shadow banking also helped to aggravate. It is therefore very important to carry out further analysis and tighten up the regulation of shadow banking. However, the Left Party considers that EU regulation of the sector should not prevent the individual Member States from adopting more stringent national rules.

ANNEX

List of documents considered

Commission's Green Paper on Long-term financing of the European economy (COM(2013)150).