Virus: long-term investment must be maintained

The current public health crisis has come at a time when persistently low interest rates, large amounts of available liquidity, nationalist retrenchment and the challenges posed by climate change require major efforts to transform our ecosystems.

The first steps to be taken are those urgently needed to address immediate needs: as a result, all efforts must be made to ensure that funding continues to flow within the economy. However, this should not distract attention from the ongoing need to invest for the long term. If our economy were a car, then it has broken down and we need to repair and probably overhaul it to prevent the same problem happening again, as well as refuelling it, which is the role of finance. However, it will all be for nothing if we stop building roads for it to drive on!

In Europe, 75% of business funding takes place through the banking system. As a result, we need to protect European banks against any inability to provide the necessary liquidity. To achieve that, all participants in the system need to join forces, starting with long-term investors and particularly national promotional banks and institutions.

As countercyclical entities, they must now play an active role. In Europe, their scale (€1,700 billion of total assets for the 30 members of the European Long-Term Investors Association) and cautious management mean that they have the means to act. They are closely involved in realising the Juncker Plan, and make a vital contribution to stimulating investment. They are also key players in an economic crisis, as they showed in 2008. Accordingly, it is crucial that they receive the active support of the whole finance industry and particularly the European Central Bank.

We have started to see strong political statements being made, which are welcome. But more is needed.

Firstly, keeping the economy running must be the priority, through both debt and equity financing. This requires a relaxation of prudential requirements which, in the current situation, could cause a blockage in the financial system like the one we saw in 2008. Next, incentives should be adopted, for example by providing funding so that debt repayments can be deferred in favour of investments that are riskier, either because they involve long-term projects or because, while being in the public interest, they do not necessarily generate immediate financial returns, examples being social infrastructure such as hospitals, social housing and schools. Finally, restrictions on public-sector financing should be relaxed, making it more broadly possible to combine European subsidies with public investment.

Today more than ever, it is crucial that long-term investors have the resources to invest for tomorrow.

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