Dimitar Radev: Addressing underlying issues of cross-border investment in the EU

Publication by Mr Dimitar Radev, Governor of the Bulgarian National Bank, in "Views The EUROFI Magazine". The magazine were disseminated during The Eurofi High Level Seminar 2017 before ECOFIN, Malta, 5-7 April 2017.

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We are witnessing a downward shift in cross-border investment in the EU, while the EU current account moved to positive territory in recent years. The savings-investment mismatches, therefore, are at the heart of the conundrum we face in developing the cross-border investment in the EU.

Several initiatives to address this issue have been launched, including the Investment Plan for Europe, and the European Long-term Investment Fund. A large-scale new initiative is the establishment of the Capital Markets Union intended to further enhance the mobilization of capital and its channeling to companies and infrastructure projects offering new opportunities for savers and investors across the EU. A few other initiatives are under consideration, including the creation of a European Savings Investment Fund.

However, the results of all initiatives have been mixed so far, and cross-border investment is stagnating. Before moving forward we need to better understand the underlying factors behind recent developments.

The current initiatives look technically sound, but the lack of sufficient progress in their implementation reveals a number of remaining underlying issues. These include: (i) the unfinished agenda with regard to banking and financial integration; (ii) slow progress in real convergence; and (iii) limited availability of adequate infrastructure and innovation projects.

Priority actions should, therefore, focus on addressing the underlying issues, and efforts at further expanding the already established toolkit come next. This would require bold steps at both the EU and national levels to regain confidence in the future of EU integration.

At the EU level, there are institutional issues to be addressed concerning the future of the integration process. The five scenarios recently proposed by Commission President Jean-Claude Juncker shed light on the possible patterns of integration between the EU members. However, there remains a potential conflict between the prospects of “multiple-speed” developments and advancing real convergence between the euro area and the rest of the EU. The EU needs to move promptly on this issue, in order to address uncertainties.

The national authorities, at their end, should promote financial stability and fiscal solvency, and address structural weaknesses and bottlenecks. The experience of Bulgaria may be indicative of what can be done by an EU member state that is not yet member of the euro area. From the central bank perspective this involves: (i) a sound banking sector; (ii) fiscal consolidation; and (iii) structural reforms.

Good progress has been made in Bulgaria with regard to the first two areas. A comprehensive asset quality review in 2016 helped restore confidence in the banking sector. Bank lending is recovering, the overall profit is near historical highs and a process of market-based consolidation in the sector is underway, including a recent deal with a strategic investor from the euro area. Furthermore, the public finances of Bulgaria remain sound and the successful fiscal consolidation is illustrated by the budget surplus last year and the third lowest government debt to GDP ratio in the EU. As for the structural reform agenda, much more remains to be done in order to resolve remaining issues and help attract increased capital flows from the EU.

We at the central bank have already planned the next steps, which will build on recent progress. Among other things, we plan to further strengthen our banking supervision, develop the crisis management framework for the banking sector, and reduce the level of nonperforming loans.

To conclude, decisive actions are required at both the EU and national levels to address the current saving-investment mismatches within the EU. While expending the available toolkit is important, priority should be given to resolving the remaining underlying issues with regard to banking and financial integration, real convergence, and quality of project management.