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Europe's challenges

- Europe s growth and employment creation still unsatisfactory. ECB effort must be accompanied by complementary action by member countries and at the EU level.
- The EU Growth Strategy rests on three pillars: Growth friendly fiscal consolidation, structural reforms, investment. Let me concentrate on the latter
- Investment is insufficient. The current account surplus is a clear symptom of the lack of investment in the euro zone.
- Investment is low in spite of very low interest rates, therefore, the search for profits (and risk taking) is apparently insufficient to revert this trend.

The case for capital deepening

- Investment expenditure collapsed in Europe in the aftermath of the global financial crisis. While Gross Domestic Product (GDP) and private consumption in the EU were in the second quarter of 2014 roughly at the same level as in 2007, total investment was about 15% below 2007 figures. Five Member States (France, the United Kingdom, Greece, Italy and Spain) account for around 75% of the drop.

- There are huge infrastructure investment needs in the EU: 2 trillion euros until 2020 on transport, energy, tlc, water, waste and other utilities.

- Since the 1970s, public investment has been declining in Europe, while the development of new financing instruments and PPPs has been increasing. So, mobilising private capital and capital markets is key, particularly in today's environment.

- In addition, as we know, compared with the US, European SMEs receive five times less funding from capital markets. If our venture capital markets were as deep as in the US, more than EUR 90 billion of funds would have been available to finance companies between 2009 and 2014.

- If EU securitisations could be revived – safely – to pre-crisis average issuance levels, banks would be able to provide an additional amount of credit to the private sector of more than EUR 100 billion.

- Promoting young firms is also a strategic goal, because they are the true engines of future job creation. According to OECD research, for instance, about half of all new jobs are created by young firms, and these firms have always been net job creators throughout the business cycle (with high-growth firms playing the most important role), even during the financial crisis. The financing and development of such young, high-growth firms is therefore, a central challenge for the EU.

- Finally, the larger are the more productive firms, the greater the extent to which their good performance gets reflected in overall economic growth. Unfortunately, the most productive and dynamic firms do not always attract the necessary capital and labour to grow to optimal scale.

- In some economies like Italy, the most advanced firms have productivity levels close to the global technological frontier, but they are under-sized relative to their peers in other countries.

- Italy has a problem of firms' size and access to appropriate financing sources that the Government is addressing with the Finance for Growth programme and with a deep reform of the banking sector.

- On the other hand, the so called *Made in Italy* (Italy's comparative advantage) is changing its identity: in recent years, an increasing number of Italian companies in mechanics, nanotechnology, healthcare and aerospace acquired a global role, becoming a crucial part of the international value chain.

Finance for Growth

- Italy needs a healthy and efficient financial system to allow firms of all sizes to fully express their economic potential. We cannot rely anymore uniquely on the banking sector to address all financing needs of all firms.

- The EU business environment funding is dominated by the banking system, and it is largely organised along national lines. While banking will certainly continue to play a key role, a better equity culture, a better culture of corporate governance and deeper and more accessible capital markets would benefit investment, growth and jobs.

- The Government has introduced the so-called "Finance for Growth" programme addressing the constraints on credit to businesses via the diversification of financing sources.

- Insurance companies and credit funds can now lend directly to firms while EU-based investors no longer pay a withholding tax.

- The Central Guarantee Fund's Programmes was extended to include mini-bonds, which are issued by SMEs meeting certain criteria. Therefore the system is now better at fuelling long-term risk capital financing also to SMEs.

- The Finance for Growth Programme also provides incentives for SMEs to expand their operations, favouring stock-market listing (cutting red tape, offering shares with multiple votes and increasing votes), but also enhancing capitalisation through the ACE (Allowance for Corporate Equity) instrument.

- But Finance for Growth is also Finance for Innovation. Today we are in an extraordinary **innovation hub**, and I am confident that Italy can be a key player in today's global "race to innovation". We support innovation through a tax credit strategy on R&D, through the patent box, but also through the introduction of the so called "Innovative SMEs". "Innovative SMEs" are, for us, the building blocks of the new Italian economy.

Capital Markets Union: national programs and EU-wide initiatives

- September 30th, the Commission unveiled on its Action Plan for the Capital Markets Union. A first set of measures aims at strengthening the link between savings and growth, improving access to finance for companies, particularly

SMEs, and mobilising private capital to support needed infrastructure investment.

- On 30 November 2015, the Commission has proposed, as part of its CMU action plan, an overhaul of the Prospectus Directive. We strongly share the main objectives of the Prospectus Directive revamp:

  - Making it easier and cheaper for smaller companies to access capital markets;
  - Introducing simplifications and flexibility for all types of issuers, especially for secondary and frequent issuers which are already known to capital markets;
  - Improving prospectuses for investors by introducing a retail investor-friendly "key information".

- In our view, the Capital Markets Union should be designed and thought of as a EU-wide structural reform. It represents a transformation of the relationship between finance and growth in the EU's business environment and an intrinsic part of the EU growth strategy.

- The Capital Markets Union is a welcome initiative, and it is consistent with Italy's flagship initiative, "Finance for Growth". Italy supported vigorously the Capital Markets Union during its Presidency of the Council of EU and we are deeply aware of the close relationship between national programs and EU-wide initiatives.

Connecting the dots: Banking Union, Capital Market Union, Junker Plan

- In Europe, the completion of the Banking Union, the establishment of the Capital Markets Union and the Junker Plan are all progressing in parallel, for the time being, despite the intimate interconnections among their measures and the common ultimate goal of revamping EU public and private investment via the integration and modernisation of the financing sources.

- The Banking Union aims at restoring financial stability in the Eurozone and in the EU.

- The Capital Markets Union (CMU), aims at tackling investment shortages by increasing and diversifying the funding sources for Europe's businesses and long-term projects.

- The Junker Plan mobilises investments of at least €315 billion in three years, supporting investment in the real economy and fostering an investment conducive business environment.

- Through all these tools, we need to build a **real union of financing and investment**, and to reach out to our companies, explaining them that we are providing real opportunities for their international growth and for employment.

- Connecting the dots between the Banking Union, the Capital Markets Union and the Junker Plan, means clarifying the view on risk taking and risk sharing. It implies the identification of risks to be mitigated, the definition of ways to foster beneficial risk taking and it encourages needed risk sharing.