NATIXIS

FLASH ECONOMICS
ECONOMIC RESEARCH

July 25, 2013 – No. 545

For a European infrastructure investment label

For several months, European governments have been making multiple announcements of new investment plans for national infrastructures.

While it is appropriate to salute these initiatives on account of their multiplier effect as well as on account of public investment needs, we nonetheless regret the fact that they are not well enough coordinated with European ambitions. European infrastructure is, however, essential to reinforce the EU's competitiveness and to preserve its cohesion at a time when real savings are fragmenting. Let us not forget that out of thirty European infrastructure projects identified as priority ones since 2004, as of today, only five have been carried out.

We also regret the fact that at a time when public expenditures and public-private partnerships (PPP) are drying up, the growing appetite of markets for infrastructure is not being efficiently satisfied by national projects. It is indeed difficult today to compare the real value, the economic benefit and the risk of an infrastructure project at a time when every government and national agency is applying its own rules to assess and share project risks.

The definition of a European label bringing coherence to assessment, selection and risk sharing could therefore – by offering greater project visibility and stability – contribute very significantly to deepening funding supply, in particular, in project bonds.

ECONOMIC RESEARCH
Authors:
Dimitri ALEXOPOULOS
Sylvain BROYER

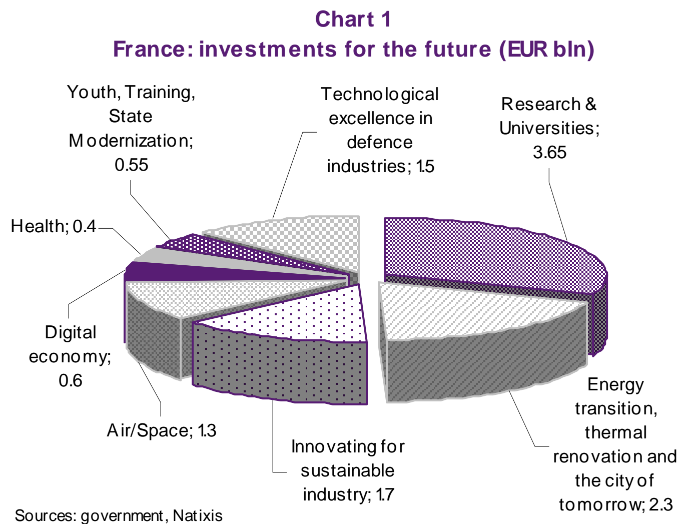
Available on the App Store

New investment plans decided at national level

For several months, European governments have frequently shown their respective intentions to continue national infrastructure investment plans.

After the “large loan” or “investments for the future” begun in 2010 and provided with a global budget of EUR 35 billion, France presented a second public investment program at the start of July. The new program can this time benefit both from public and private co-funding (EU, communities, companies etc.). This 12 billion euro investment within the 2025 time frame will hinge on eight major areas of intervention (**chart 1**). The objective has remained the same as before: furthering infrastructure that is useful to the economic development of France.

Chart 1
France: investments for the future (EUR bln)



Sources: government, Natixis

This is also true of the United Kingdom, which announced at the end of June that it wanted to dedicate GBP 100 billion (EUR 116 billion) in infrastructure projects within the 2020 time frame, including 70 billion in transport and 20 billion in education. Once again, this infrastructure project only has a national scope given that it makes it possible to link London to the north of the country (Manchester and Leeds), i.e. nearly 340 km.

In this connection, a report published on July 17, 2013 by the Pension Insurance Corporation and Llewellyn Consulting recommends creating a national investment bank to regulate and fund domestic infrastructure projects, a bank that would benefit from a political independence comparable to that of the Bank of England.

Finally, in 2013, Ireland and Italy both launched new infrastructure projects of EUR 250 million each.

For Ireland, this plan, which applies equitably to education, housing and transport, continues the initial EUR 2.25 billion plan started in 2012 and funded by PPP.

As far as Italy is concerned, the emphasis has been on research, innovation and the competitiveness of startups. More generally, Italy dedicated EUR 1.1 billion in infrastructure and transport expenditure in 2013, i.e. less than 0.1% of its GDP.

Investment in infrastructure: the best lever...

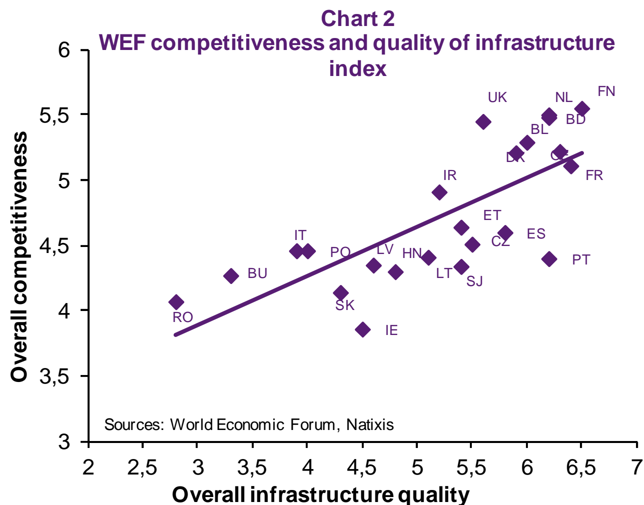
In one sense, these new national initiatives have to be saluted.

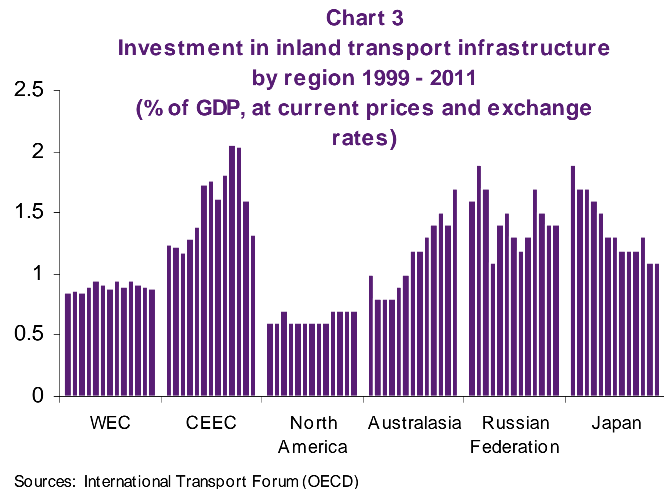
Although the European countries have to maneuver within extremely tight budgetary constraints, they finally seem to want to give growth another chance at the expense of all-out austerity. The latter has in fact proved to be counterproductive in the current environment of zero interest rates and weak external demand.

We have shown elsewhere that public investment has significant multiplier effects on business activity to the extent that it induces a positive demand shock and increases factor productivity:[1]

- GDP elasticities in investing in transport infrastructure are very high (0.18 after five years in the Eurozone);
- because rising GDP is reflected by an increase in tax revenue, *a priori*, investment in infrastructure finances itself;
- the quality of infrastructure is closely related to the competitiveness of the economies (**chart 2**).

Finally, because investment in infrastructure has more impact on business activity in difficult economic times than in normal economic situations, it is, in the current situation, a lever that is capable of increasing GDP and reducing the burden of public debt.





[1] See Flash 2013-227: "How large is the infrastructure multiplier in the euro area?"

... that Western European countries are nonetheless having trouble activating

That said, investment in infrastructure is still too low in Europe.

The OECD forecasts development in transportation infrastructure twice as fast as that of world GDP between now and 2030, and the Commission has estimated that needs in Europe will come to EUR 1.5 trillion over the next eight years.[2] Yet, Western European countries and the United States dedicate an ever lower share of their GDP to transportation infrastructure compared to other world regions, in particular with respect to Eastern Europe or Australasia, which have clearly made a distinct effort (**chart 3**). This is not a question of degree of economic development: in Germany, public investment is even so much lower that it is not enough to maintain the net value of infrastructure.[3]

It seems to us that funding questions contribute to the low level of infrastructure investment in Europe:

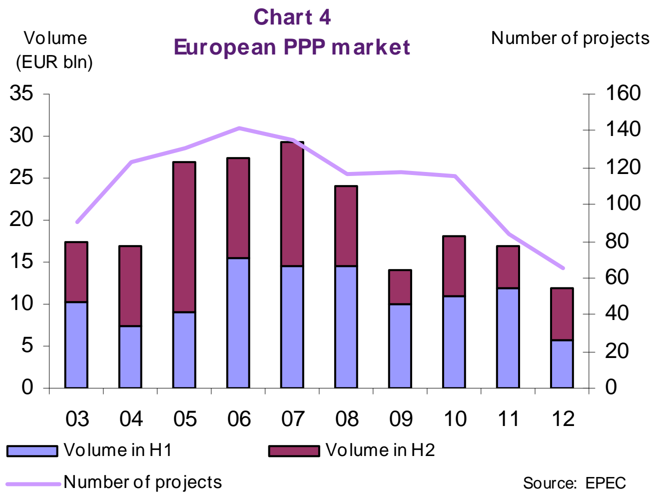
- traditionally, European countries resort to public budgets to make investments, and this is a funding source that tends to dry up in a crisis (**chart 4**);
- between 2003 and 2007, mixed sources of funding such as PPPs experienced a boom in Europe, but these sources also tend to drain away (**chart 5**) because they are unable to free themselves completely from public budgets;
- Europe on the other hand is making only marginal use of disintermediated infrastructure funding sources such as project bonds, while China resorts to them heavily (**chart 6**).

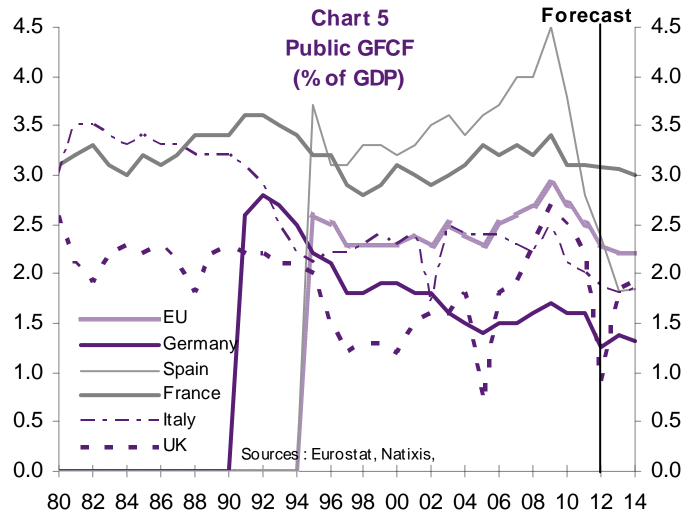
In this respect, we have already reported that public investments carried out at European level in the form of project bonds, EIB, EU or ESM debt would be an effective solution to these problems.[4]

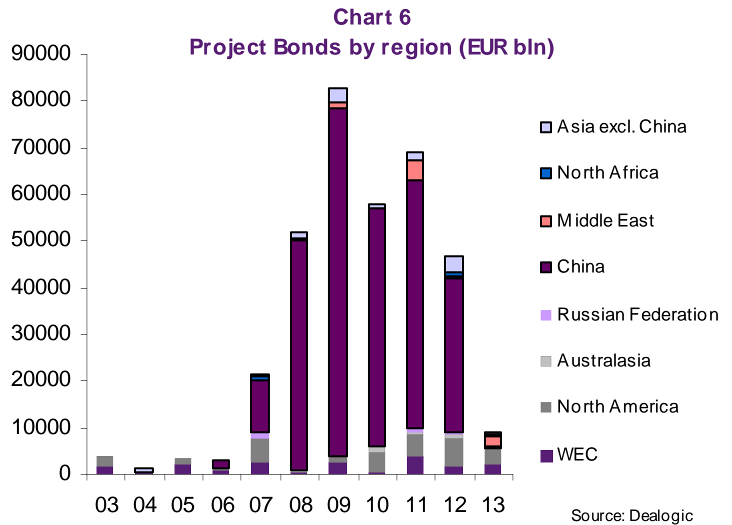
Europe's low level of reliance on project bonds does not stem from insufficient funding supply. Many investors (life insurers for example) are reserving ever greater lines for this type of investment.

It is the lack of transparency and stability in defining projects at national scale that is a brake on investor enthusiasm. Today, while every national agency applies its own project assessment (*value for money*) and risk sharing rules, it is not easy to compare the real value and the risk taken in an infrastructure project. The definition of a European label bringing European coherence into assessment, selection and risk sharing could therefore – by offering greater project visibility and stability – contribute very significantly to deepening private funding supply.

[2] European Commission – October 2011 – "A growth package for integrated European Infrastructures".
[3] See Flash 2012-732: "Small-scale macroeconomics of the infrastructure market".
[4] See Flash 2013-280 "Can additional public investments be financed by public debt in the euro zone?"







Moreover, there are a great many European projects that are still unfinished

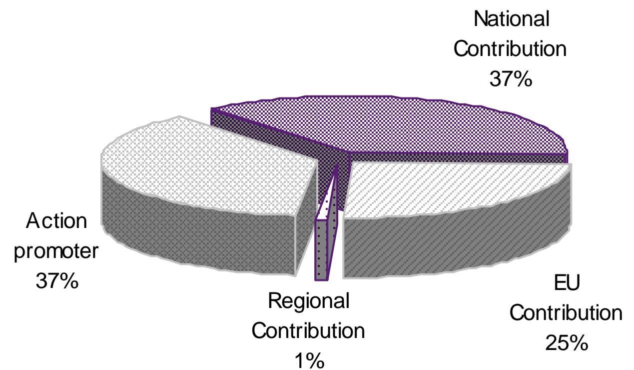
If it is appropriate to salute these new national infrastructure investment plans with respect to growth, it can be feared that they may go against the published objectives of the Trans-European Transport Network, which aim to further competitiveness, job creation and cohesion at EU scale to the extent that they are not coordinated with other European projects.

Out of the thirty European projects identified as priority ones since 2004, only five have been carried out. In parallel, 47 non-priority projects concerning at least France, the United Kingdom, the Netherlands and Italy should be completed in 2014 for a total cost of EUR 684 million, 25% funded by the EU (**chart 7**).

In order to combat the fragmentation in progress in the EU's real savings, it would, nonetheless, be useful to further European programs defined on the basis of a trans-border logic rather than nation programs.

Finally, given the lower degree of transparency that national projects offer them in the absence of a European label, it is obvious that European projects, the economic utility of which leaves no doubt, satisfy private investor appetite more easily.

Chart 7
TEN-T project funding since 2011



Source: TENT-T EA

Conclusion: for a European infrastructure investment label

For several months, European governments have been making multiple announcements of new investment plans for national infrastructures.

While it is appropriate to salute these initiatives on account of their multiplier effect as well as on account of public investment needs, we nonetheless regret the fact that they are not well enough coordinated with European ambitions. European infrastructure is, however, essential to reinforce the EU's competitiveness and to preserve its cohesion at a time when real savings are fragmenting. Let's not forget that out of thirty European infrastructure projects identified as priority ones since 2004, as of today, only five have been carried out.

We also regret the fact that at a time when public expenditures and public-private partnerships (PPP) are drying up, the growing appetite of markets for infrastructure is not being efficiently satisfied by national projects. It is indeed difficult today to compare the real value, the economic benefit and the risk of an infrastructure project while each government and national agency applies its own rules to assess and share project risks.

The definition of a European label bringing European coherence into assessment, selection and risk sharing could therefore – by offering greater project visibility and stability – contribute very significantly to deepening funding supply, in particular in project bonds.

Appendix: classification used

Western European countries (WEC)

Austria
Belgium
Denmark
Finland
France
Germany
Greece
Iceland
Ireland
Italy
Luxembourg
Netherlands
Norway
Portugal
Spain
Sweden
Switzerland
Turkey
UK

Central and Eastern European Countries (CEEC)

Albania
Bulgaria
Croatia
Czech Republic
Estonia
FYROM
Hungary
Latvia
Lithuania
Montenegro
Poland
Romania
Serbia
Slovakia
Slovenia

North America

Canada
Mexico
US

Australasia

Australia
New Zealand

Avertissement/Disclaimer

Ce document et toutes les pièces jointes sont strictement confidentiels et établis à l'attention exclusive de ses destinataires. Ils ne sauraient être transmis à quiconque sans l'accord préalable écrit de Natixis. Si vous recevez ce document et/ou toute pièce jointe par erreur, merci de le(s) détruire et de le signaler immédiatement à l'expéditeur.
Ce document a été préparé par nos économistes. Il ne constitue pas un rapport de recherche indépendant et n'a pas été élaboré conformément aux dispositions légales arrêtées pour promouvoir l'indépendance de la recherche en investissement. En conséquence, sa diffusion n'est soumise à aucune interdiction prohibant l'exécution de transactions avant sa publication.
La distribution, possession ou la remise de ce document dans ou à partir de certaines juridictions peut être limitée ou interdite par la loi. Il est demandé aux personnes recevant ce document de s'informer sur l'existence de telles limitations ou interdictions et de s'y conformer. Ni Natixis, ni ses affiliés, directeurs, administrateurs, employés, agents ou conseils, ni toute autre personne accepte d'être responsable à l'encontre de toute personne du fait de la distribution, possession ou remise de ce document dans ou à partir de toute juridiction.
Ce document et toutes les pièces jointes sont communiqués à chaque destinataire à titre d'information uniquement et ne constituent pas une recommandation personnalisée d'investissement. Ils sont destinés à être diffusés indifféremment à chaque destinataire et les produits ou services visés ne prennent en compte aucun objectif d'investissement, situation financière ou besoin spécifique à un destinataire en particulier. Ce document et toutes les pièces jointes ne constituent pas une offre, ni une sollicitation d'achat, de vente ou de souscription. Ce document ne peut en aucune circonstance être considéré comme une confirmation officielle d'une transaction adressée à une personne ou une entité et aucune garantie ne peut être donnée sur le fait que cette transaction sera conclue sur la base des termes et conditions qui figurent dans ce document ou sur la base d'autres conditions. Ce document et toutes les pièces jointes sont fondés sur des informations publiques et ne peuvent en aucune circonstance être utilisés ou considérés comme un engagement de Natixis, tout engagement devant notamment être soumis à une procédure d'approbation de Natixis conformément aux règles internes qui lui sont applicables.
Natixis n'a ni vérifié ni conduit une analyse indépendante des informations figurant dans ce document. Par conséquent, Natixis ne fait aucune déclaration ou garantie ni ne prend aucun engagement envers les lecteurs de ce document, de quelque manière que ce soit (expresse ou implicite) au titre de la pertinence, de l'exactitude ou de l'exhaustivité des informations qui y figurent ou de la pertinence des hypothèses auxquelles elle fait référence. En effet, les informations figurant dans ce document ne tiennent pas compte des règles comptables ou fiscales particulières qui s'appliqueraient aux contreparties, clients ou clients potentiels de Natixis. Natixis ne saurait donc être tenu responsable des éventuelles différences de valorisation entre ses propres données et celles de tiers, ces différences pouvant notamment résulter de considérations sur l'application de règles comptables, fiscales ou relatives à des modèles de valorisation. De plus, les avis, opinions et toute autre information figurant dans ce document sont indicatifs et peuvent être modifiés ou retirés par Natixis à tout moment sans préavis.
Les informations sur les prix ou marges sont indicatives et sont susceptibles d'évolution à tout moment et sans préavis, notamment en fonction des conditions de marché. Les performances passées et les simulations de performances passées ne sont pas un indicateur fiable et ne préjugent donc pas des performances futures. Les informations contenues dans ce document peuvent inclure des résultats d'analyses issues d'un modèle quantitatif qui représentent des évènements futurs potentiels, qui pourront ou non se réaliser, et elles ne constituent pas une analyse complète de tous les faits substantiels qui déterminent un produit. Natixis se réserve le droit de modifier ou de retirer ces informations à tout moment sans préavis. Plus généralement, Natixis, ses sociétés mères, ses filiales, ses actionnaires de référence ainsi que leurs directeurs, administrateurs, associés, agents, représentants, salariés ou conseils respectifs rejettent toute responsabilité à l'égard des lecteurs de ce document ou de leurs conseils concernant les caractéristiques de ces informations. Les opinions, avis ou prévisions figurant dans ce document reflètent, sauf indication contraire, celles de son ou ses auteur(s) et ne reflètent pas les opinions de toute autre personne ou de Natixis.
Les informations figurant dans ce document n'ont pas vocation à faire l'objet d'une mise à jour après la date apposée en première page. Par ailleurs, la remise de ce document n'entraîne en aucune manière une obligation implicite de quiconque de mise à jour des informations qui y figurent.
Natixis ne saurait être tenu pour responsable des pertes financières ou d'une quelconque décision prise sur le fondement des informations figurant dans la présentation et n'assume aucune prestation de conseil, notamment en matière de services d'investissement. En tout état de cause, il vous appartient de recueillir les avis internes et externes que vous estimez nécessaires ou souhaitables, y compris de la part de juristes, fiscalistes, comptables, conseillers financiers, ou tous autres spécialistes, pour vérifier notamment l'adéquation de la transaction qui vous est présentée avec vos objectifs et vos contraintes et pour procéder à une évaluation indépendante de la transaction afin d'en apprécier les mérites et les facteurs de risques.
Natixis est agréée par l'Autorité de contrôle prudentiel (ACP) en France en qualité de Banque – prestataire de services d'investissements et soumise à sa supervision. Natixis est réglementée par l'AMF (Autorité des Marchés Financiers) pour l'exercice des services d'investissements pour lesquels elle est agréée.
Natixis est agréée par l'ACP et réglementée par les « Financial Conduct Authority » et « Prudential Regulation Authority » pour ses activités au Royaume Uni. Les détails concernant la régulation qu'exercent la Financial Conduct Authority et la Prudential Regulation Authority peuvent être obtenus sur simple demande à la Succursale de Londres.
Natixis est agréée par l'ACP et régulée par la BaFin (Bundesanstalt für Finanzdienstleistungsaufsicht) pour l'exercice en libre établissement de ses activités en Allemagne. Le transfert / distribution de ce document en Allemagne est fait(e) sous la responsabilité de NATIXIS Zweigniederlassung Deutschland.
Natixis est agréée par l'ACP et régulée par la Banque d'Espagne (Bank of Spain) et la CNMV pour l'exercice en libre établissement de ses activités en Espagne.
Natixis est agréée par l'ACP et régulée par la Banque d'Italie et la CONSOB (Commissione Nazionale per le Società e la Borsa) pour l'exercice en libre établissement de ses activités en Italie.
Natixis, Négociateur pour compte de tiers et pour compte propre agréé à l'étranger, ne destine la diffusion aux Etats-Unis de cette publication qu'aux « major U.S. institutional investors », définis comme tels selon les règles de la SEC. Ce document ne peut être distribué à aucune autre personne aux Etats-Unis. Chaque « major U.S. institutional investors » qui reçoit ce document, s'engage, par cet acte, à ne pas en distribuer l'original ni une copie à quiconque. Natixis Securities Americas LLC, Négociateur pour compte de tiers et pour compte propre agréé aux Etats-Unis et membre de la FINRA, est une filiale de Natixis. Natixis Securities Americas LLC n'est impliquée d'aucune manière dans l'élaboration de cette publication et en conséquence ne reconnaît aucune responsabilité quant à son contenu. Cette publication a été élaborée et vérifiée par les analystes de Natixis, qui ne sont pas associés de Natixis Securities Americas LLC et n'ont pas fait l'objet d'un enregistrement professionnel en tant qu'analyste auprès de la FINRA et ne sont donc pas soumis aux règles édictées par la FINRA.

This document (including any attachments thereto) is confidential and intended solely for the use of the addressee(s). It should not be transmitted to any person(s) other than the original addressee(s) without the prior written consent of Natixis. If you receive this document in error, please delete or destroy it and notify the sender immediately.
This document has been prepared by our economists. It does not constitute an independent investment research and has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. Accordingly there are no prohibitions on dealing ahead of its dissemination.
The distribution, possession or delivery of this document in, to or from certain jurisdictions may be restricted or prohibited by law. Recipients of this document are therefore required to ensure that they are aware of, and comply with, such restrictions or prohibitions. Neither Natixis, nor any of its affiliates, directors, employees, agents or advisers nor any other person accept any liability to anyone in relation to the distribution, possession or delivery of this document in, to or from any jurisdiction.
This document (including any attachments thereto) are communicated to each recipient for information purposes only and do not constitute a personalised recommendation. It is intended for general distribution and the products or services described therein do not take into account any specific investment objective, financial situation or particular need of any recipient. It should not be construed as an offer or solicitation with respect to the purchase, sale or subscription of any interest or security or as an undertaking by Natixis to complete a transaction subject to the terms and conditions described in this document or any other terms and conditions. Any undertaking or commitment shall be subject to Natixis prior approval and formal written confirmation in accordance with its current internal procedures. This document and any attachments thereto are based on public information.
Natixis has neither verified nor independently analysed the information contained in this document. Accordingly, no representation, warranty or undertaking, express or implied, is made to the recipients of this document as to or in relation to the accuracy or completeness or otherwise of this document or as to the reasonableness of any assumption contained in this document. The information contained in this document does not take into account specific tax rules or accounting methods applicable to counterparties, clients or potential clients of Natixis. Therefore, Natixis shall not be liable for differences, if any, between its own valuations and those valuations provided by third parties; as such differences may arise as a result of the application and implementation of alternative accounting methods, tax rules or valuation models. In addition, any view, opinion or other information provided herein is indicative only and subject to change or withdrawal by Natixis at any time without notice.
Prices and margins are indicative only and are subject to changes at any time without notice depending on inter alia market conditions. Past performances and simulations of past performances are not a reliable indicator and therefore do not predict future results. The information contained in this document may include the results of analysis derived from a quantitative model, which represent potential future events, that may or may not be realised, and is not a complete analysis of every material fact representing any product. The information may be amended or withdrawn by Natixis at any time without notice. More generally, no responsibility is accepted by Natixis, nor any of its holding companies, subsidiaries, associated undertakings or controlling persons, nor any of their respective directors, officers, partners, employees, agents, representatives or advisors as to or in relation to the characteristics of this information. The opinions, views and forecasts expressed in this document (including any attachments thereto) reflect the personal views of the author(s) and do not reflect the views of any other person or Natixis unless otherwise mentioned.
It should not be assumed that the information contained in this document will have been updated subsequent to date stated on the first page of this document. In addition, the delivery of this document does not imply in any way an obligation on anyone to update such information at any time.
Natixis shall not be liable for any financial loss or any decision taken on the basis of the information contained in this document and Natixis does not hold itself out as providing any advice, particularly in relation to investment services. In any event, you should request for any internal and/or external advice that you consider necessary or desirable to obtain, including from any financial, legal, tax or accounting advisor, or any other specialist advice, in order to verify in particular that the investment(s) described in this document meets your investment objectives and constraints and to obtain an independent valuation of such investment(s), its risks factors and rewards.
Natixis is authorised in France by the *Autorité de contrôle prudentiel* (ACP) as a Bank –Investment Services providers and subject to its supervision. Natixis is regulated by the AMF in respect of its investment services activities.
Natixis is authorised by the Autorité de Contrôle Prudentiel and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request.
Natixis is authorised by the ACP and regulated by the BaFin (Bundesanstalt für Finanzdienstleistungsaufsicht) for the conduct of its business in Germany. The transfer / distribution of this document in Germany is done by / under the responsibility of NATIXIS Zweigniederlassung Deutschland.
Natixis is authorised by the ACP and regulated by Bank of Spain and the CNMV for the conduct of its business in Spain.
Natixis is authorised by the ACP and regulated by Bank of Italy and the CONSOB (Commissione Nazionale per le Società e la Borsa) for the conduct of its business in Italy.
Natixis, a foreign bank and broker-dealer, makes this research report available solely for distribution in the United States to major U.S. institutional investors as defined in Rule 15a-6 under the U.S. Securities Act of 1934. This document shall not be distributed to any other persons in the United States. All major U.S. institutional investors receiving this document shall not distribute the original nor a copy thereof to any other person in the United States. Natixis Securities Americas LLC a U.S. registered broker-dealer and member of FINRA is a subsidiary of Natixis. Natixis Securities Americas LLC did not participate in the preparation of this research report and as such assumes no responsibility for its content. This research report has been prepared and reviewed by research analysts employed by Natixis, who are not associated persons of Natixis Securities Americas LLC and are not registered or qualified as research analysts with FINRA , and are not subject to the rules of the FINRA.