

Assessing the impact of the Capital Requirements Regulation (CRR) on the access to finance for business and long-term investments

June 2015

LE Europe has been appointed by the European Commission to assess the impact of the Capital Requirements Regulation (CRR) on the access to finance for business and long-term investments, including infrastructure projects.

On the impact of the CRR on infrastructure financing particularly, Graham Bishop¹, a consultant on EU financial matters, will advise on the importance of the CRR articles to infrastructure financing. Infrata, advisors on infrastructure financing, will test with market participants whether the CRR actually has had an impact on bank financing of infrastructure.

This note provides the background and objectives of the study, and an overview of how the eventual recommendations of the study will be taken forward by the European Commission.²

Background

Economic growth and job creation require investment in assets, such as infrastructure, energy, education and research and development (R&D) that expand the productive capacity of a modern economy. The attainment of such an objective can only be achieved through the adequate availability of stable, long-term financing for such assets on a multi-annual basis.

With regard to the EU banking capital framework, Regulation 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR) provides a single rulebook establishing a single set of harmonised prudential rules which banks throughout Europe must respect.

The CRR requires increased regulatory capital for banks in the EU, the main objective of which is to ensure the resilience of banks and financial stability.

However, increased regulatory capital requirements for banks may affect banks' capability to provide financing in the EU, which is the focus of the present study.

¹ <http://www.grahambishop.com/>

² This note is based on a detailed specification for the assessment, which can be found at https://infoeuropa.eu/ocid.pt/files/database/000064001-000065000/000064118_2.pdf

Objectives of the study

The objective of the study is to assess the impact of the Capital Requirements Regulation (CRR) on financing of business and long-term investments, including infrastructure project; specific objectives are to analyse:

- i. The possible impact of increased bank capital requirements on bank lending in the EU, including the period in which banks were in the process of adjusting to the new requirements. In particular, the study will assess whether reinforced capital ratios have played a role in the observed process of banks' reduction in bank assets that has taken place in many EU economies over the last few years
- ii. Whether the abovementioned impacts can be more durable and continue to impact banks supply of financing after banks have fully adjusted to the new capital requirements
- iii. The impact of the strengthened capital requirements on infrastructure financing

LE Europe's team will draw on the input of academic and policy advisers to meet the objectives of the study, including: William White, Chairman of the Economic Development and Review Committee at the OECD; Thorsten Beck, Professor of Banking and Finance at Cass Business School; Katja Neugebauer, Research Officer at the LSE Systemic Risk Centre; and Franziska Bremus, Research Associate at DIW Berlin.

Recommendations

The eventual recommendations of the study will inform the European Commission reports to the European Parliament and the Council on:

- The appropriateness of the CRR requirements in light of the need to ensure adequate levels of funding for all forms of long-term financing for the economy, including critical infrastructure projects³
- The impact of CRR on the encouragement of long-term investments in growth-promoting infrastructure⁴

Timeline

The study will run for 9 months from June 2015 to February 2016.

Point of contact

Please contact Shaan Devnani (sdevnani@le-europe.eu / +44 203 701 7709) who will be overseeing the study with further enquiries.

³ Article 505, CRR

⁴ Article 516, CRR