OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

The Austrian ASFINAG as a model for more infrastructure investment in the EU

Konferenz Verkehrsökonomik und –politik

Berlin 23./24 Mai 2019

Franz Nauschnigg, OeNB till May 2019

The views expressed are those of the author.

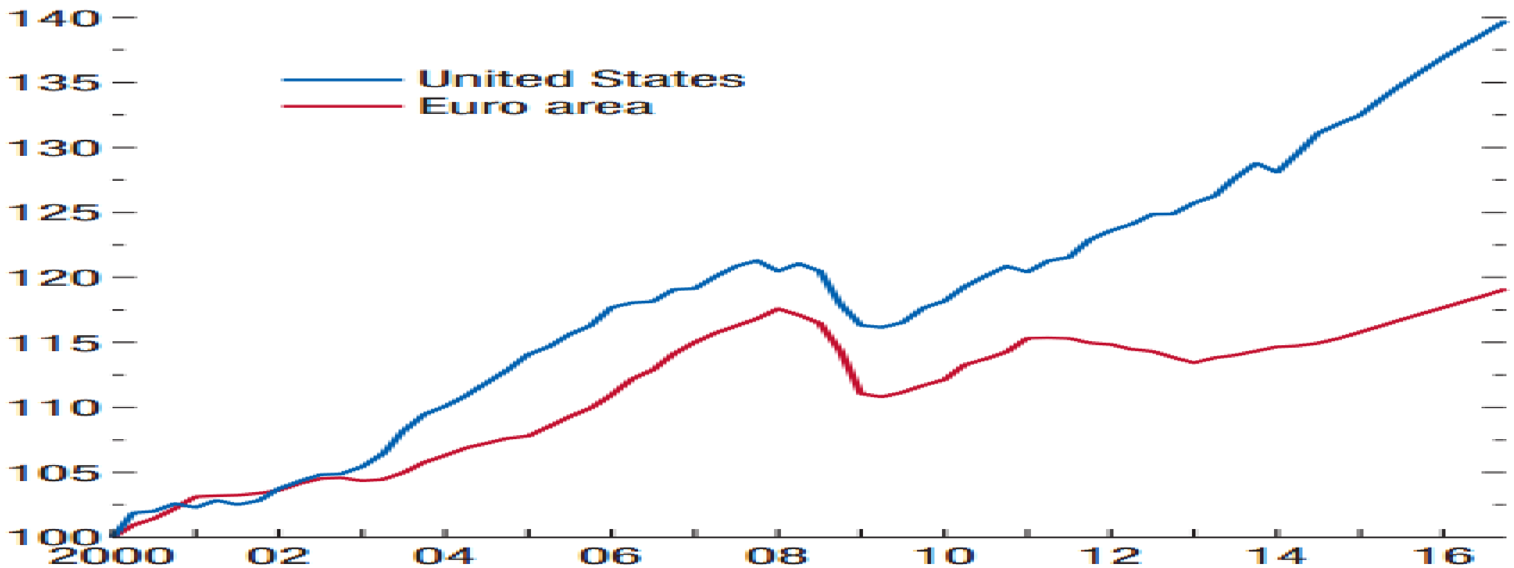
Great Recession - US recovery better than EU

- **Great recession and financial crisis worst global crisis since the Great Depression in the 1930s**
- **Decisive economic policy action has been taken to address the global crisis, contrary to what happened in the Great Depression**

- **But pro-cyclical Austerity caused double dip recession in Euro area after 2011**
- **In the EU and especially in the euro area fiscal policy has been mostly pro-cyclical,**
- **especially public investment suffered from austerity policies in the crisis, making the recessions more severe.**
- **As the EIB stated in the investment survey in 2018 – 10 years of underinvestment left a backlog in terms of capital stock**

Growth US - Euro area

Real GDP growth in the US and the euro area (base = 2000)



Source: IMF WEO October 2015, Figure1.1.1. IMF staff calculations

Germany and EU - lack of Infrastructure investment

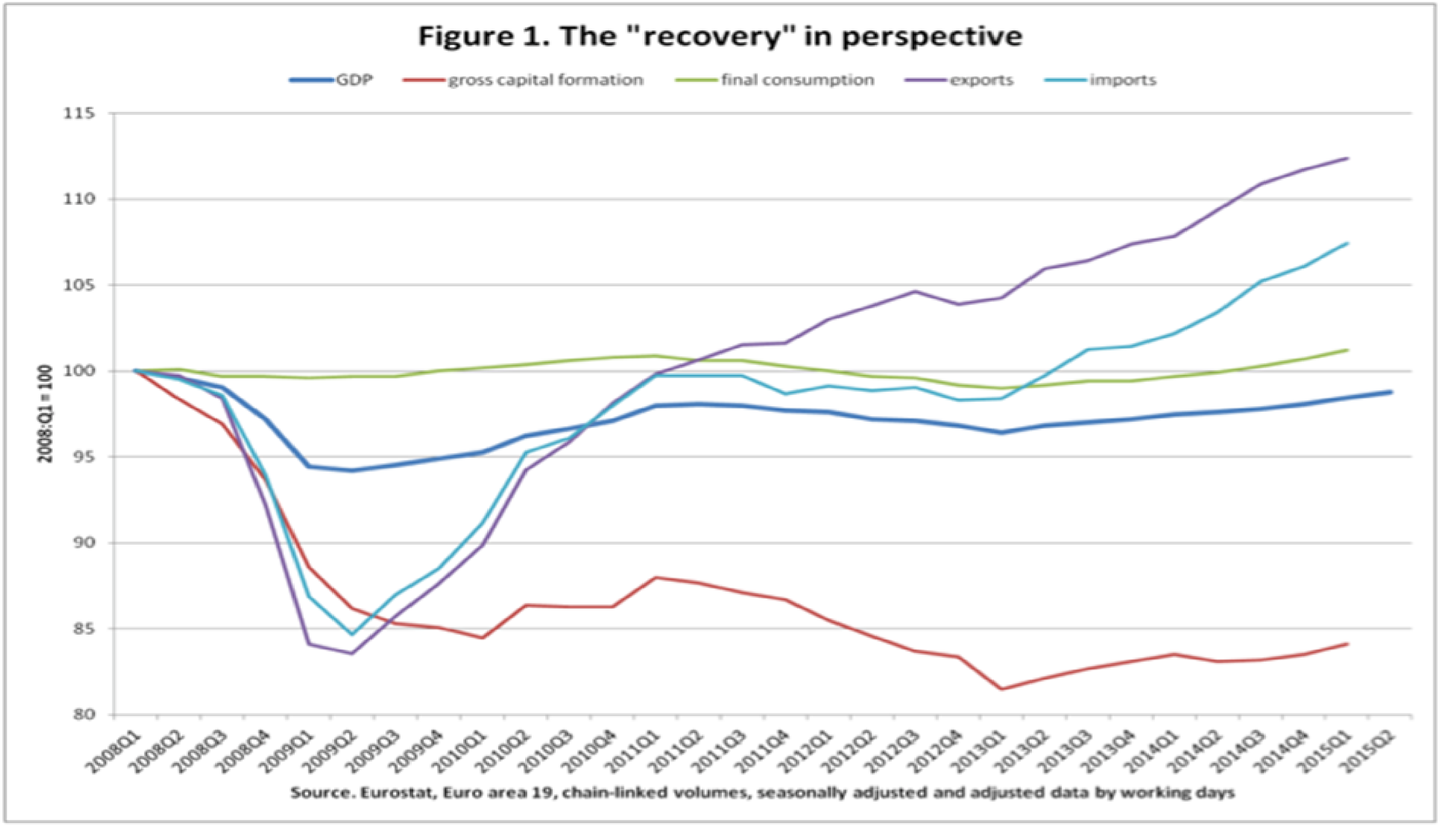
- Ability of the private sector to finance long term infrastructure investment is reduced by EU regulation – Basel 3 for banks, Solvency 2 for insurers.

- Public sector investments in the EU are hampered by high debt and the restrictions of the Stability and Growth pact.

- In Germany debt brake restrained public investment –
- Austria more infrastructure investment - Austro-Keynesianism,
- EU Junker investment plan over 500 bn euro needs additional spending.

- IMF research shows that increases in Public capital are positively correlated with growth
- Globally China leader in infrastructure investment – domestic and Belt and road internationally

Investment weak point in the euro area economy



ASFINAG model for infrastructure investments

- In Austria since 1970s active role of state in economy – ownership of companies, housing e.g. City of Vienna owns one third of flats, industrial policy
- In Austria since 1970s always active countercyclical fiscal policy – Austro-Keynesianism, mostly infrastructure investments
- Only from 2000 – 2007 and since 2018 Neoliberal policies – cuts in public investment in rail sector.
- In 1980 as advisor to state secretary in Economic Ministry we developed it further instead of budget financing state guaranties for export financing, but also industrial policy e.g. closing coal mines and creating jobs by FDI in the region and automotive clusters.
- As the economic adviser of the Finance Minister in late 1990 I was involved in developing Austrian ASFINAG model for infrastructure investment to enable growth friendly fiscal consolidation

ASFINAG model for infrastructure investments

- ASFINAG model implemented in 1997 makes use of the flexibility of the Stability and Growth pact
- ASFINAG finances and operates the whole Austrian highway system and has improved it significantly.
- ASFINAG is state owned and has a state guarantee for its debt, which allows cheap financing,
- ASFINAG is a private company is classified as private sector company by Eurostat
- as it can cover its costs through user fees – Vignette for cars, road pricing lorries and some toll roads for expensive alpine crossings.
- In the crisis we used ASFINAG countercyclically – more than doubled investment after 2008.

ASFINAG model for infrastructure investments

- ASFINAG bonds were included in Asset Purchasing Program APP of the Euro system – we created an agency list – BuBa was not happy
- OeNB bought ASFINAG bonds - direct central financing of infrastructure
- Could never use full potential because of regulatory uncertainty – Eurostat, Commission, Germany warned against using it too much threatened reclassification into public sector

- I presented ASFINAG model in German Government (Fratscher) expert group -– proposal Fratscher Kommision – support Schäuble, Gabriel – Länder not amused
- Germany now implements, with some delay, ASFINAG model for Autobahnen.

ASFINAG model for infrastructure investments in the EU

- ASFINAG model could be used to increase infrastructure investments in the EU significantly.

- ASFINAG model cannot only be used for roads, but also for other infrastructure networks, e.g. energy, telecom, broadband networks, or housing, where the costs can be covered by user fees.
- National decision which sector has priority

- Infrastructure investments have high multipliers for growth and employment because of the significant slack in the economies of most EU countries.
- EU, Euro area should like China and earlier Austria use infrastructure investment countercyclically

Euro Area Infrastructure Investment System (IIS)

- Create **Euro Area Infrastructure Investment System (IIS)** consisting of **National Infrastructure Investment Agencies (NIIA)** and **Euro Area Infrastructure Investment Agency (€IIA)**
- NIIA could consist of several sectoral investment companies like ASFINAG, national decision.
- NIIA would be government owned with public guarantees for their debt, but belong to the private sector as they must cover their costs through user fees.
- At Euro area level a **Euro Area Infrastructure Investment Agency (€IIA)** would have coordination and counter cyclical financing functions.
- **€IIA** Capital of 20 bn Euro – contribution of participating countries according to ECB capital key
- **€IIA** also borrowing capacity of up to 100 bn Euro

Euro Area Infrastructure Investment Agency counter cyclical function

- As long as Inflation is under the Euro system's inflation target the Governing Council of the ECB can decide to give up to 5 % of euro area GDP in funding for infrastructure investment to the **Euro Area Infrastructure Investment Agency (€IIA)**
- the funds would be provided at the normal lending rate, maturity up to 10 years
- The €IIA provides bonds as collateral
- The €IIA distributes these funds to the NIIAs to invest in infrastructure
- To avoid transfers between countries, NIIAs use their infrastructure as collateral and in addition countries provide secure collateral, e.g. future profits of National Central Banks.
- No transfer Union as every country has to pay back funds.
- Additional infrastructure spending helps to achieve inflation target of Euro system, supporting monetary policy, growth and EU infrastructure