



EU challenges, Investment and Investment Finance crisis, and the Role of the EIB

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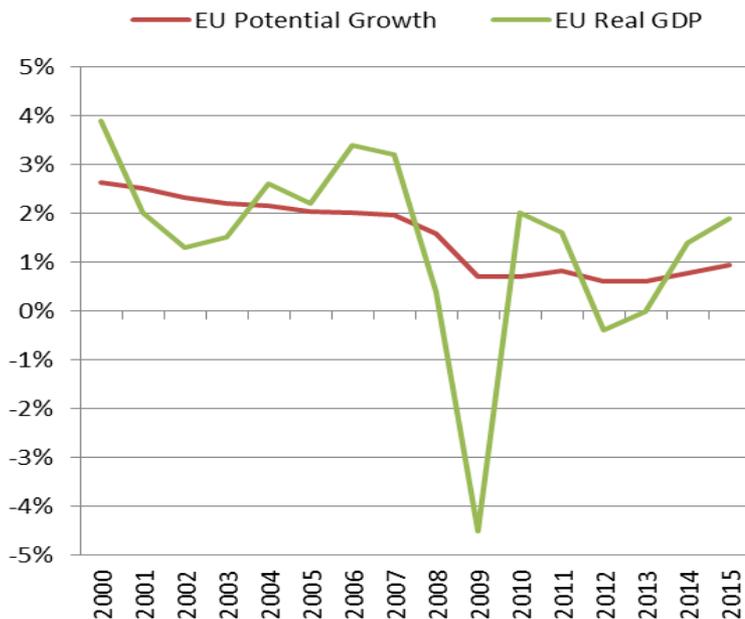
Outline

- **The EU challenges**
 - The Investment and Investment Finance crisis
 - EIB contribution to jobs and growth

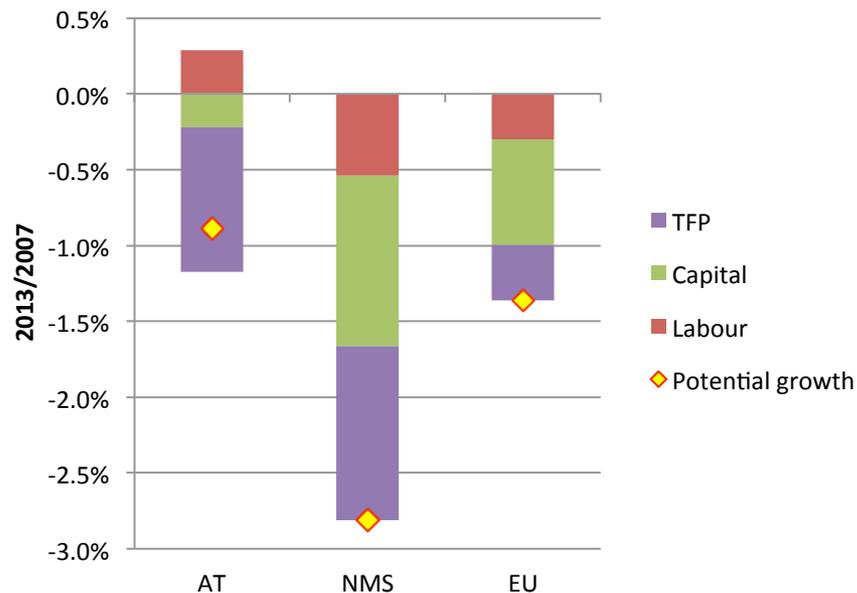
Gradual recovery, but the crisis has led to a significant reduction in EU growth potential



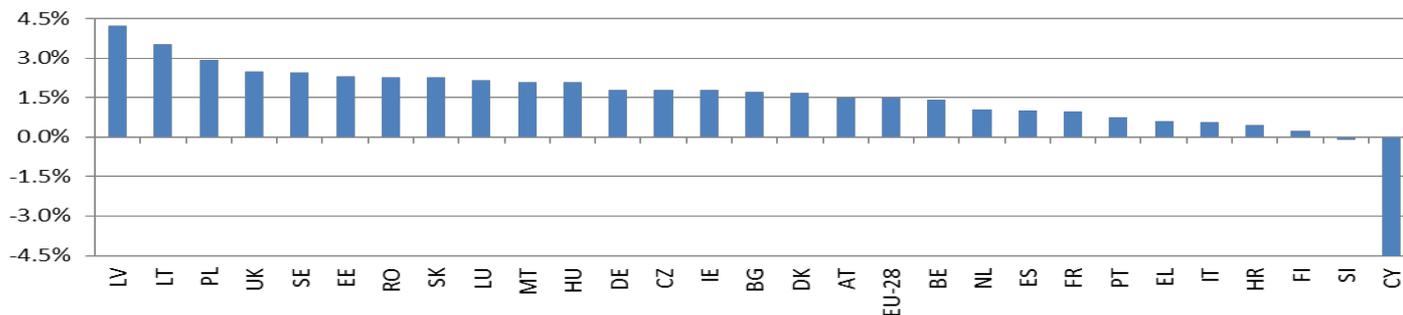
EU real and potential growth



Change in potential growth and its drivers - 2013 vs 2007

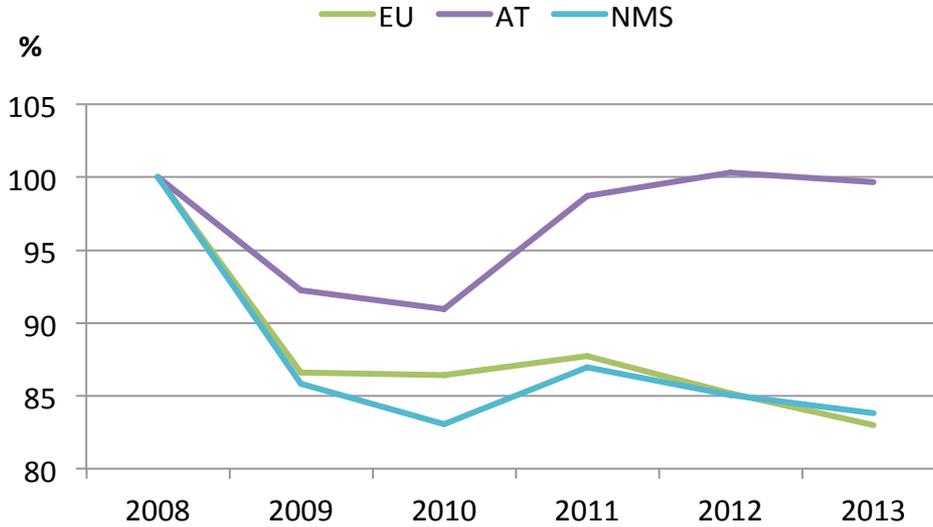


Real GDP growth forecasts - 2014

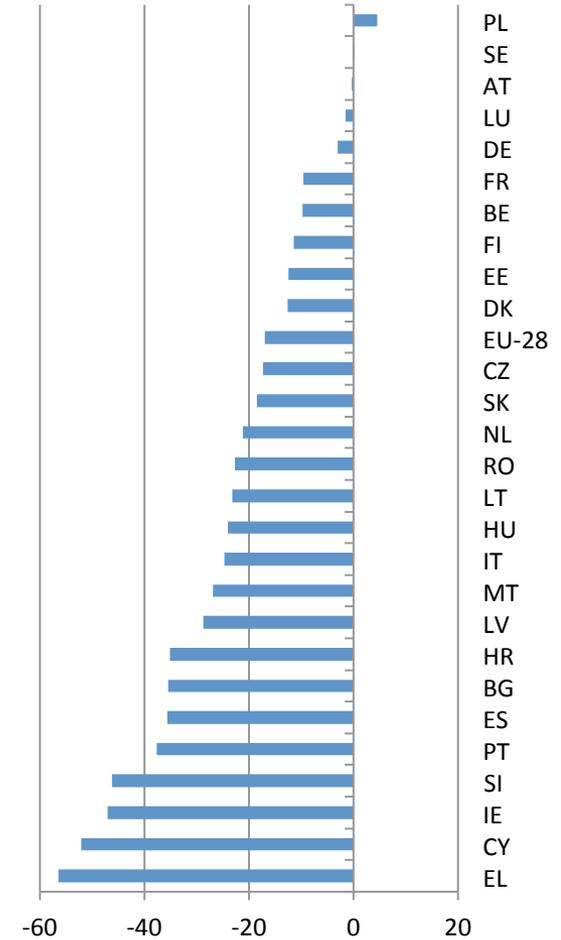




Evolution of EU growth and investments
(2008 = 100)



Change in investment between 2008 and 2013
(in percent)



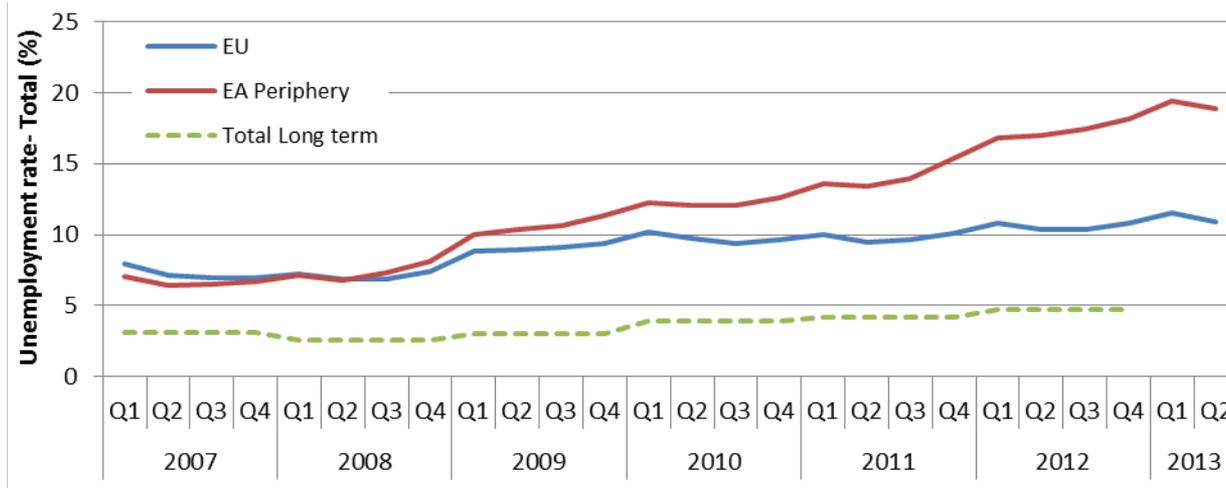
Investment has fallen across the EU but the drop is distributed unevenly across the membership

Source: European Commission

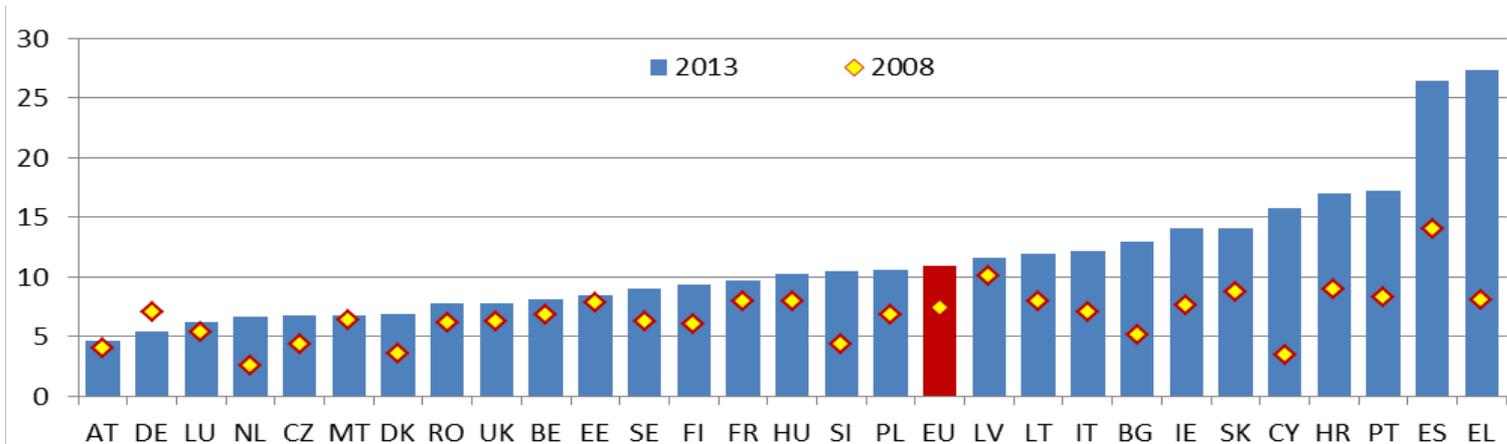
European employment crisis brings to the fore short and long term challenges



Unemployment rate (total) (in percent)



Unemployment rate (in percent)

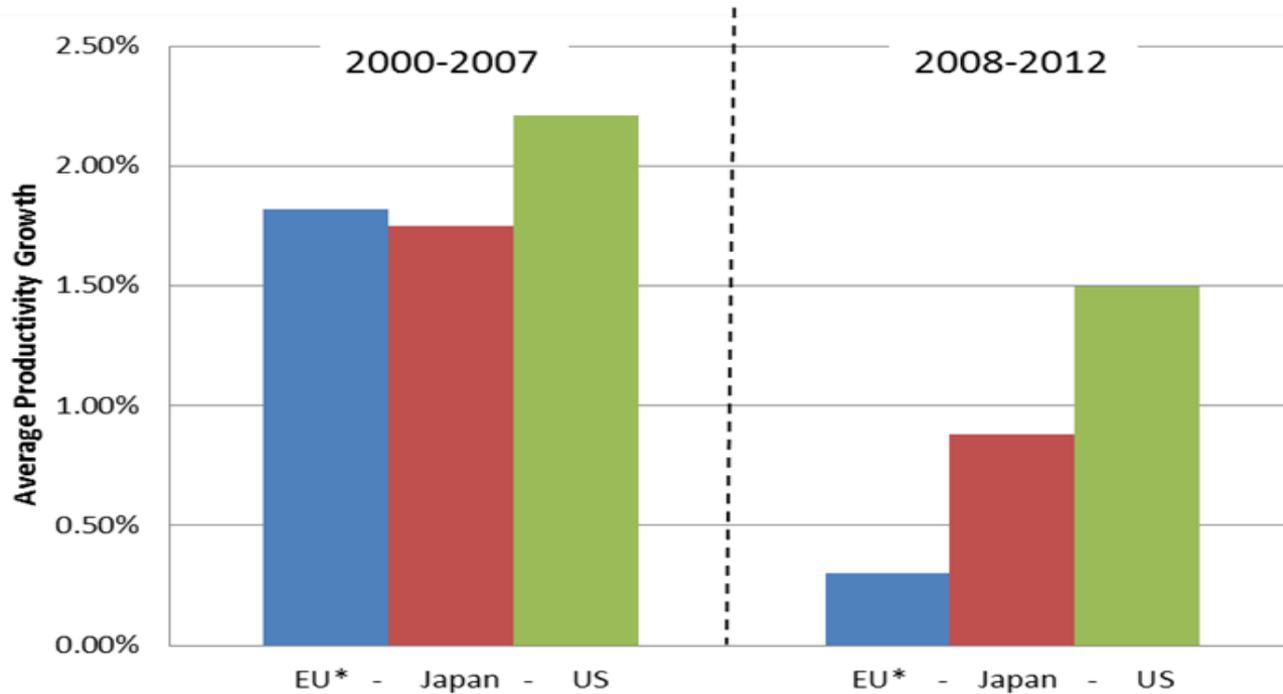


Source: Eurostat



Europe is falling behind in terms of productivity growth

Average productivity growth for the EU, Japan and the United States



* For comparability only EU-OECD member countries considered

Productivity growth in the EU has trailed that in the US already before the crisis. The gap has widened since.



Outline

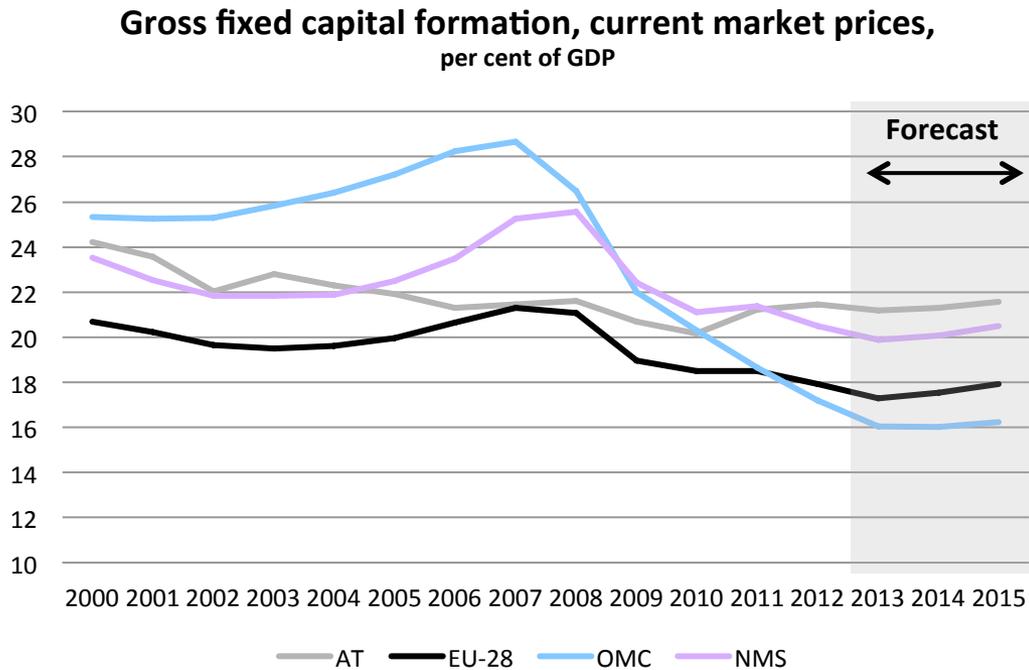
- The EU challenges
- **The Investment and Investment Finance crisis**
- The EIB contribution to jobs and growth



Investment – structural differences

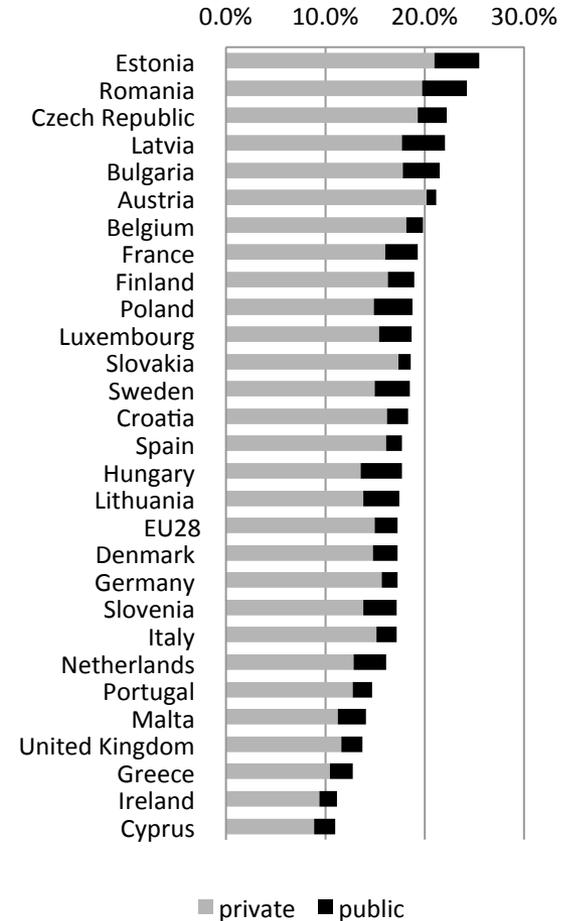
Gross fixed capital formation

Percent of GDP



Gross fixed capital formation

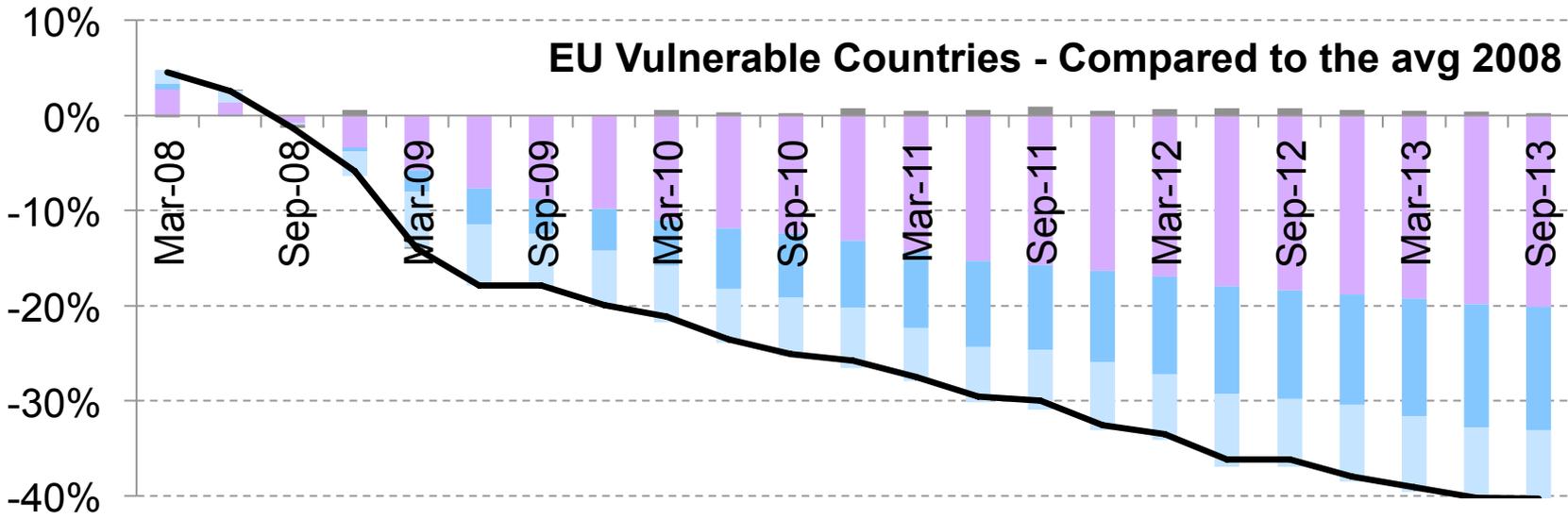
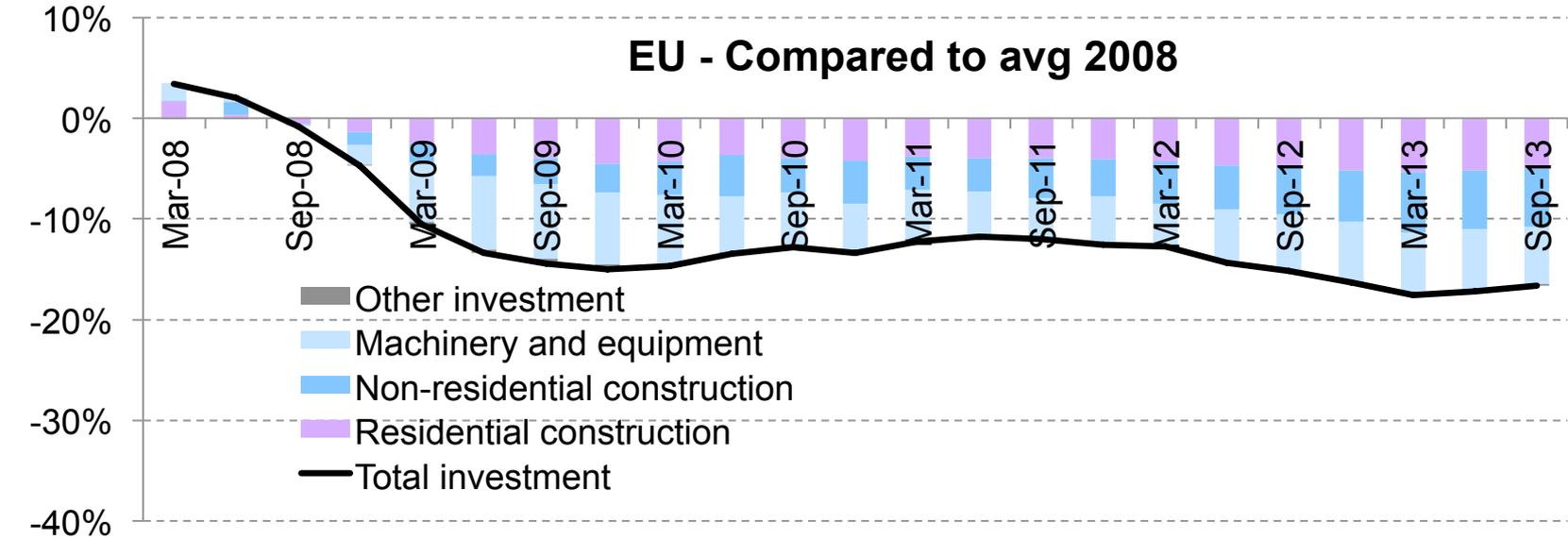
Percent of GDP, 2013



Source: AMECO, 2014 Winter Forecast

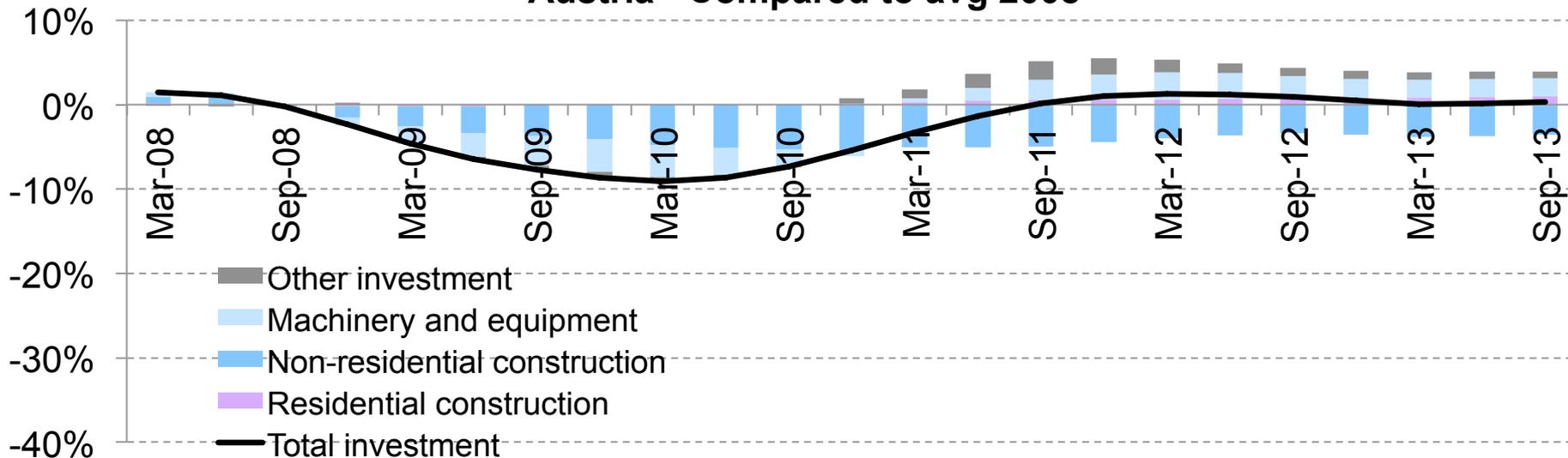


Decline in gross fixed investment in the EU

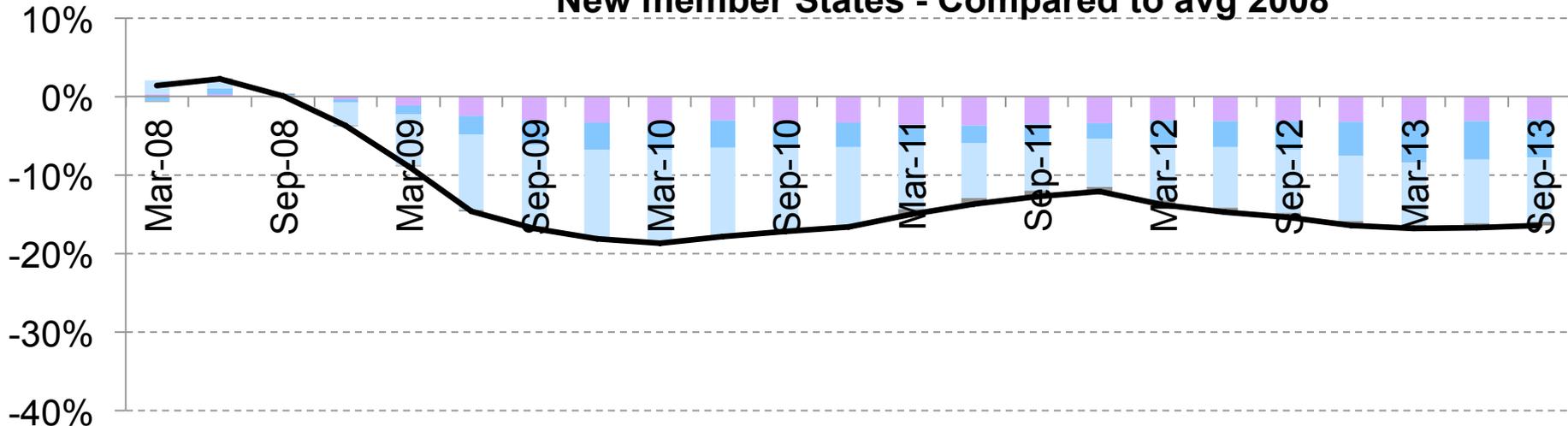




Austria - Compared to avg 2008



New member States - Compared to avg 2008

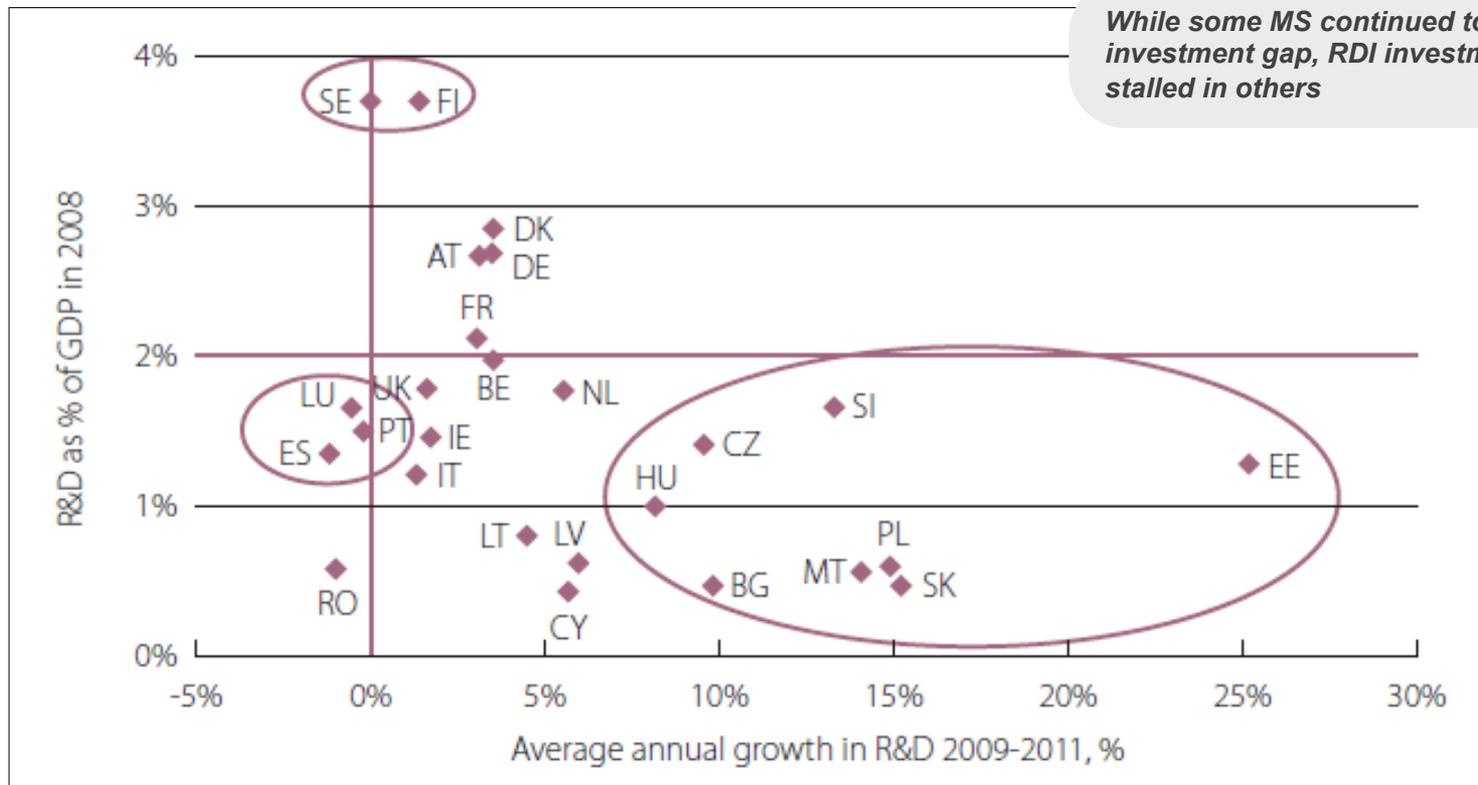


Source: Eurostat



RDI investment gap

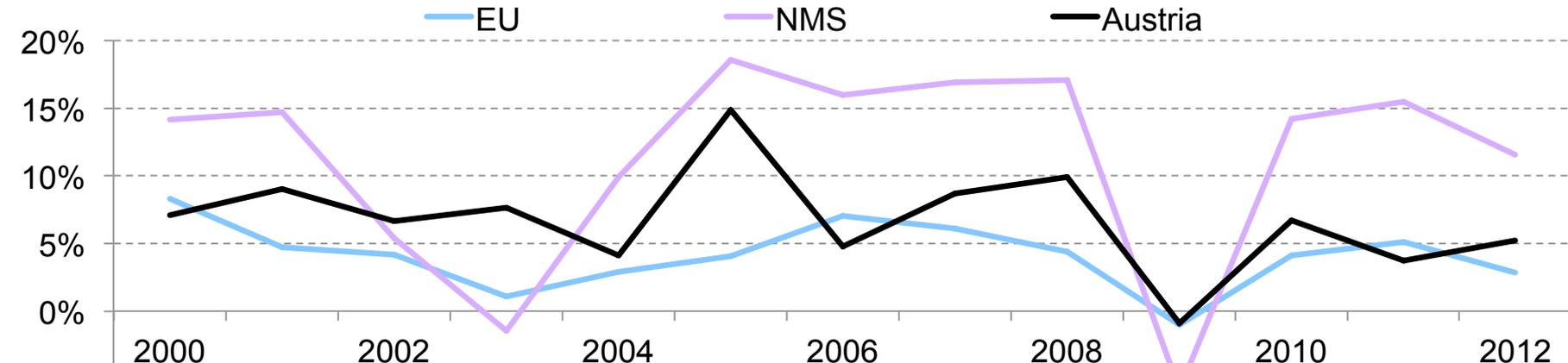
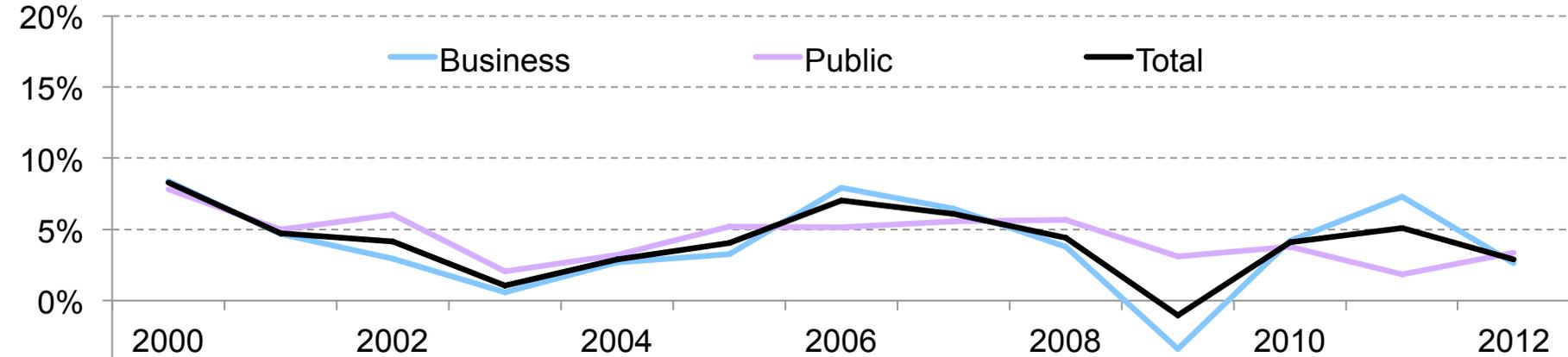
Average annual growth in R&D expenditure in 2009-2011 and R&D intensity in 2008



Source: Eurostat



R&D expenditures held up comparatively well

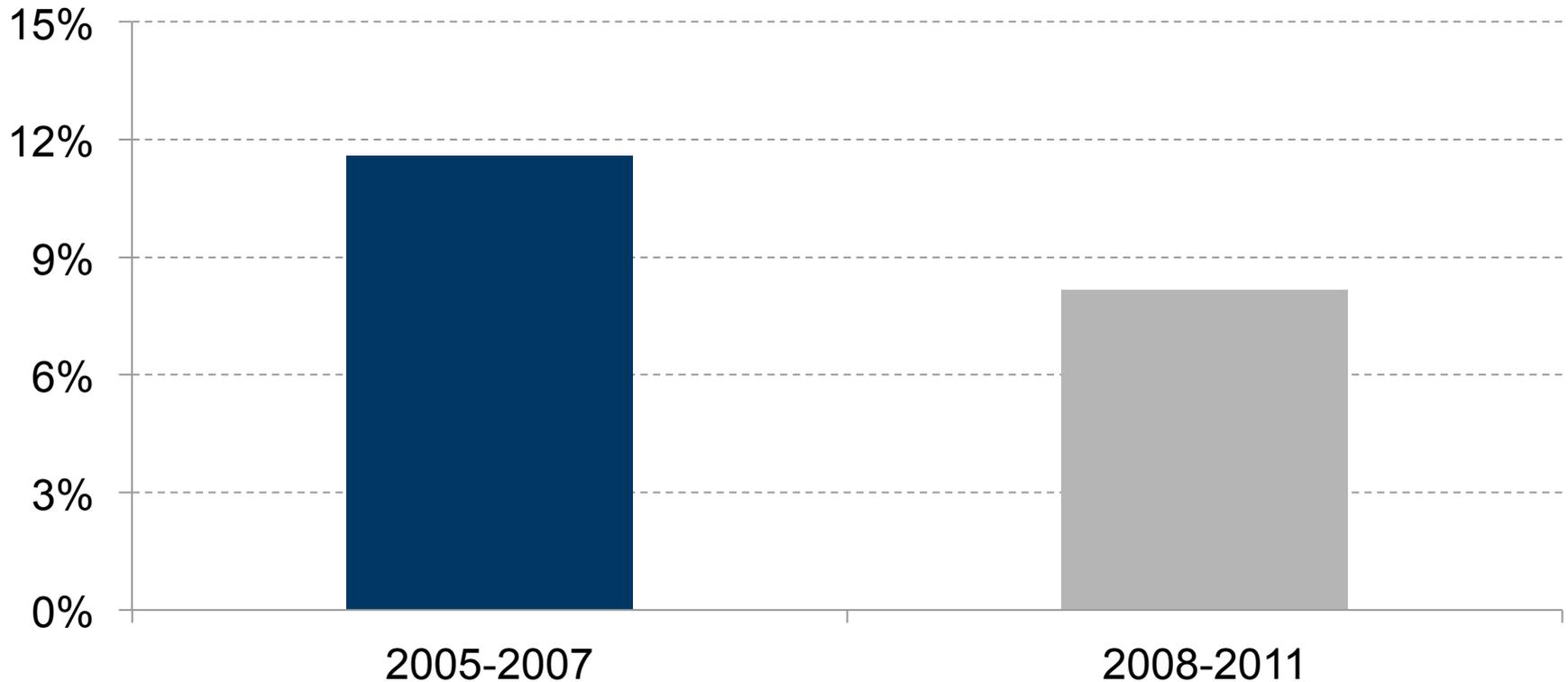


Source: Eurostat



The impact of the crisis on investment performance

Nominal annual returns on investment by non-financial corporations in the EU

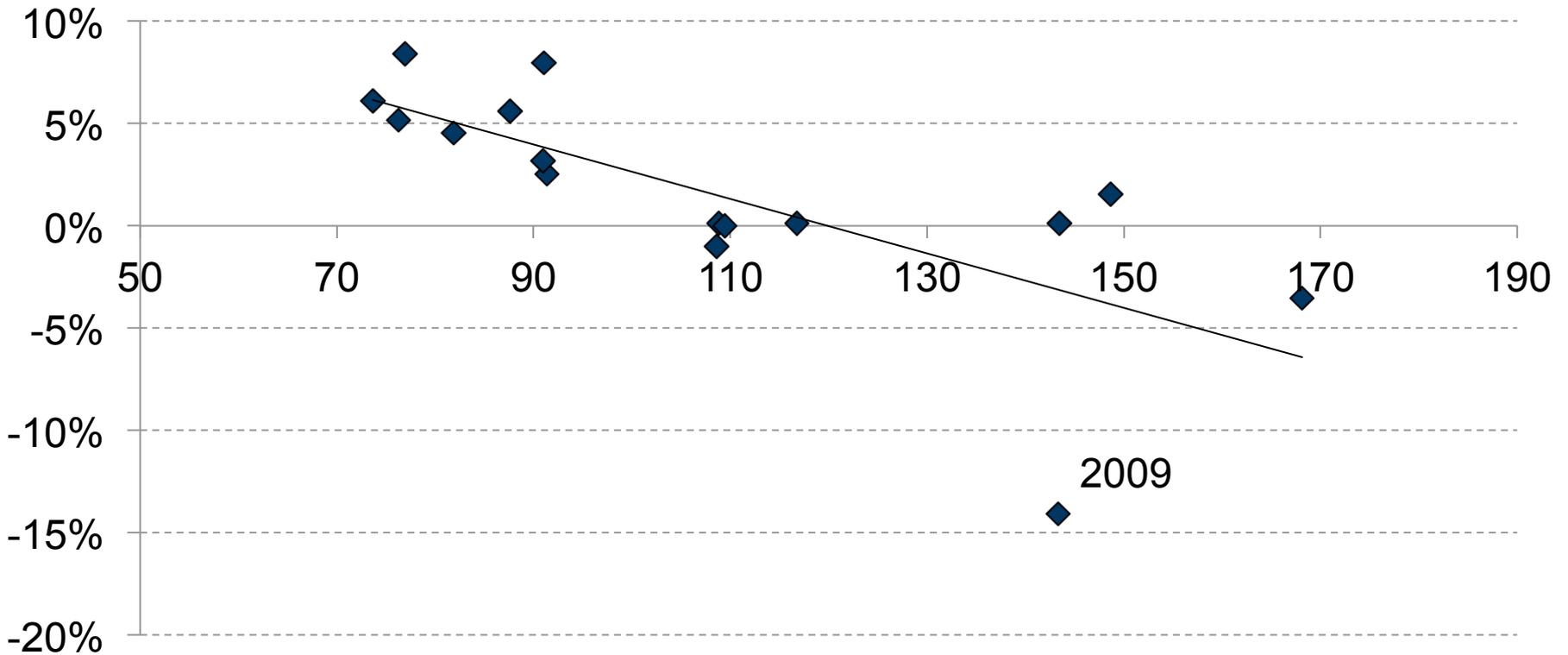


Source: Own calculations based on the Orbis database (Bureau van Dijk)

The most immediate cause of the investment decline has been uncertainty



Annual rate of change of business fixed investment against an index of economic policy uncertainty (1997-2012)

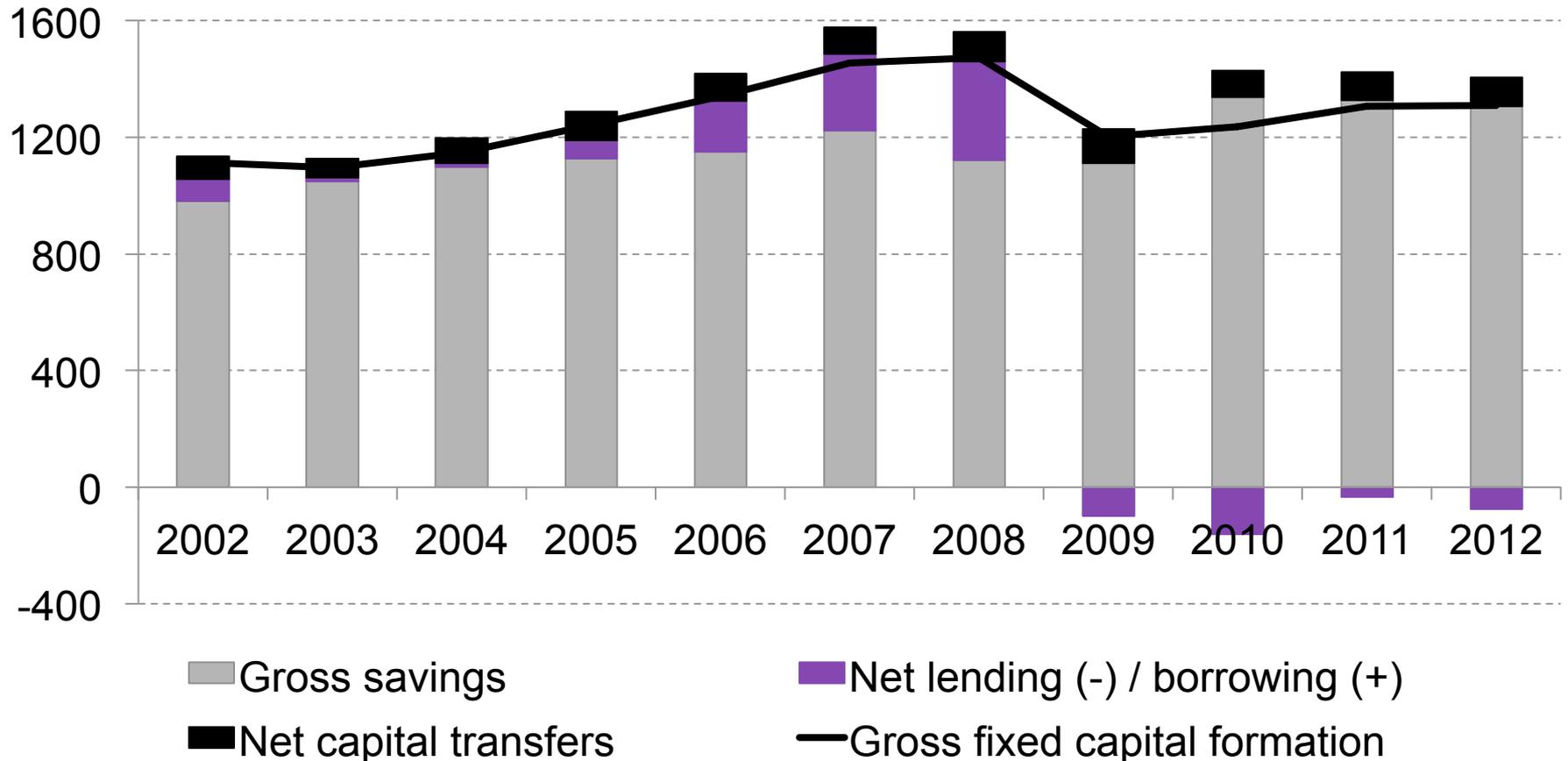


Source: Baker, Bloom, and Davis at www.PolicyUncertainty.com and Eurostat



Finance is not a problem across the board, but it is a serious constraint for some firms

Investment and savings by non-financial corporations in the EU (in EUR bn)

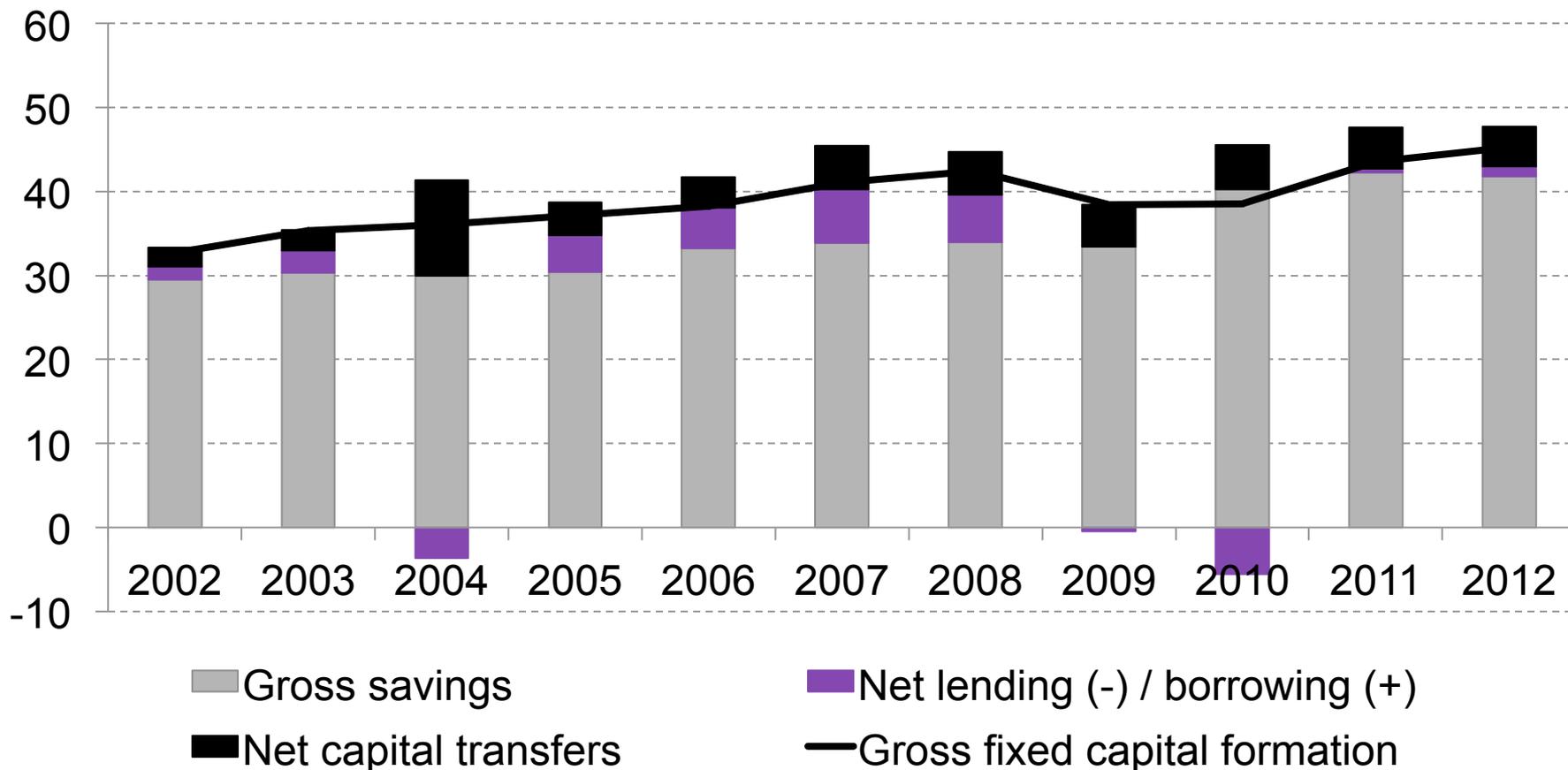


Source: Eurostat

On aggregate, Austrian firms are becoming net borrowers again



Investment and savings by non-financial corporations in Austria (in EUR bn)

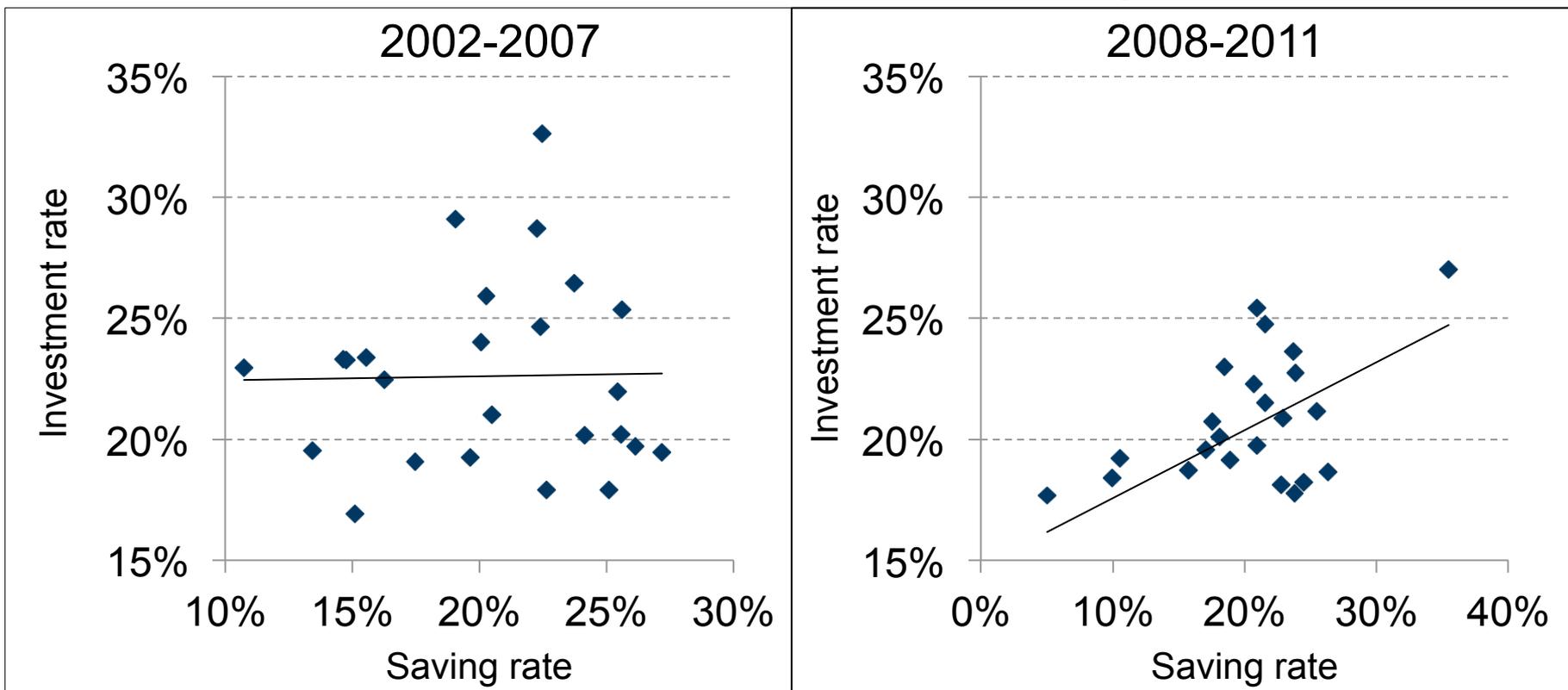


Source: Eurostat



Financial fragmentation - the crisis has led to a collapse in intra-EU capital flows

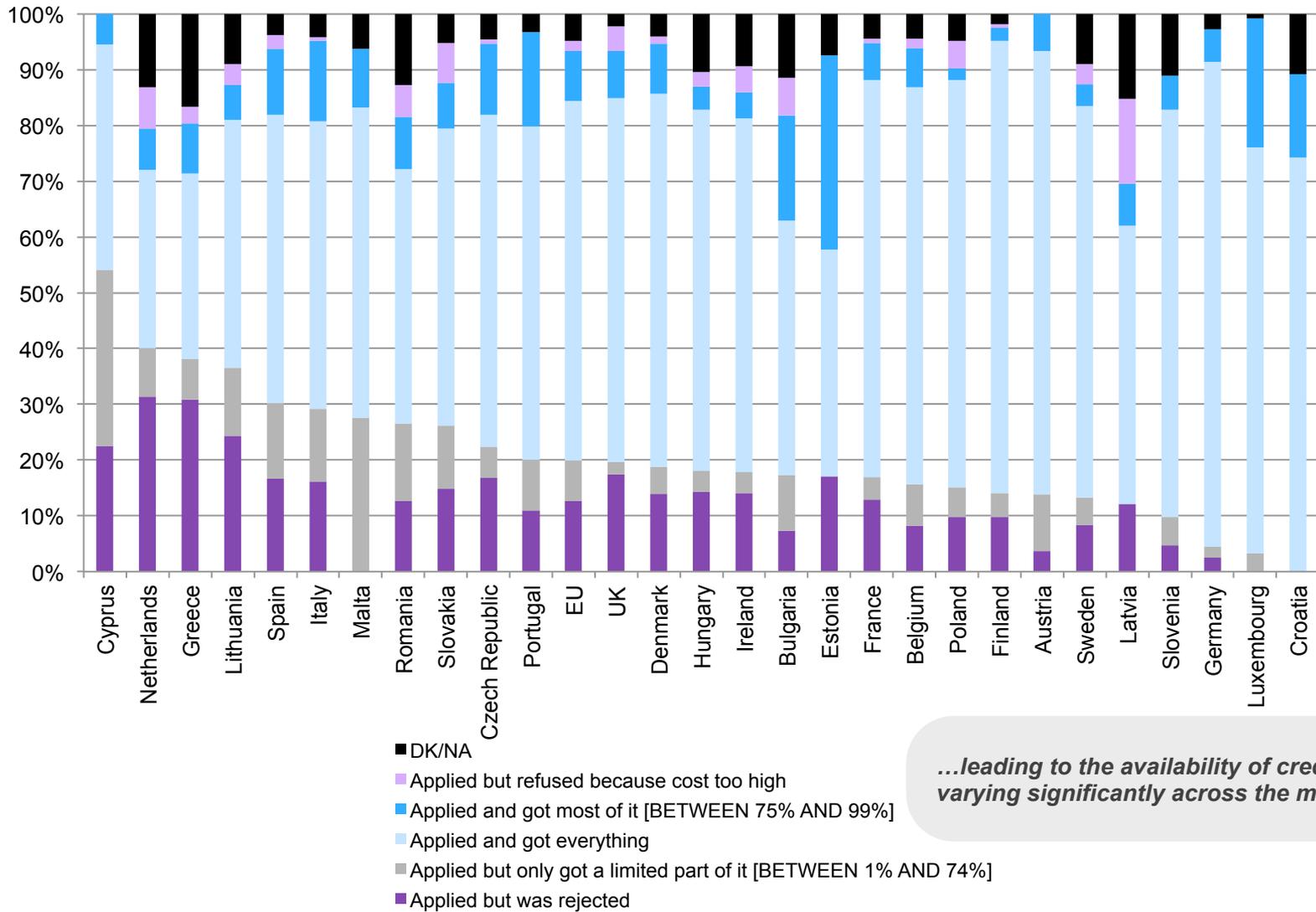
Correlation between national investment and saving rates



Before the crisis, financial markets of the EU were fully integrated, as measured by the independence of investment rates from saving rates. The crisis has reversed this development and made national borders within the EU obstacles again.

Source: Wagenvoort and Torfs (2013) in *Investment and Investment Finance in Europe*, EIB Publication.

Diverging access to finance conditions for SMEs



...leading to the availability of credit to SME varying significantly across the membership

Source: Commission – ECB surveys on SME finance



- ❖ Resolving uncertainty needs commitment and rapid progress on the EU institutional reform, including the Banking Union
- ❖ Public policy should seek to enhance bank lending and alternative finance sources where there is evidence of financing gaps
- ❖ Last but not least, with some countries suffering from persistently low investment returns, structural reforms that encourage a shift of resources to more productive activities need to be continued



Outline

- The EU Challenges
- The Investment and Investment finance crisis
- **The EIB contribution to jobs and growth**

- **Providing finance and expertise for sound and sustainable investment projects – EUR 512.5 bn loan book in 2013**
- **Natural financing partner for the EU institutions**
- **Shareholders: 28 EU Member States**
- **Largest multilateral lender and borrower in the world**
 - Raise our funds on the international capital markets
 - Pass on favourable borrowing conditions to clients
- **AAA-rated and strong capital base**
- **More than 400 projects each year in over 160 countries**
- **Key products:**

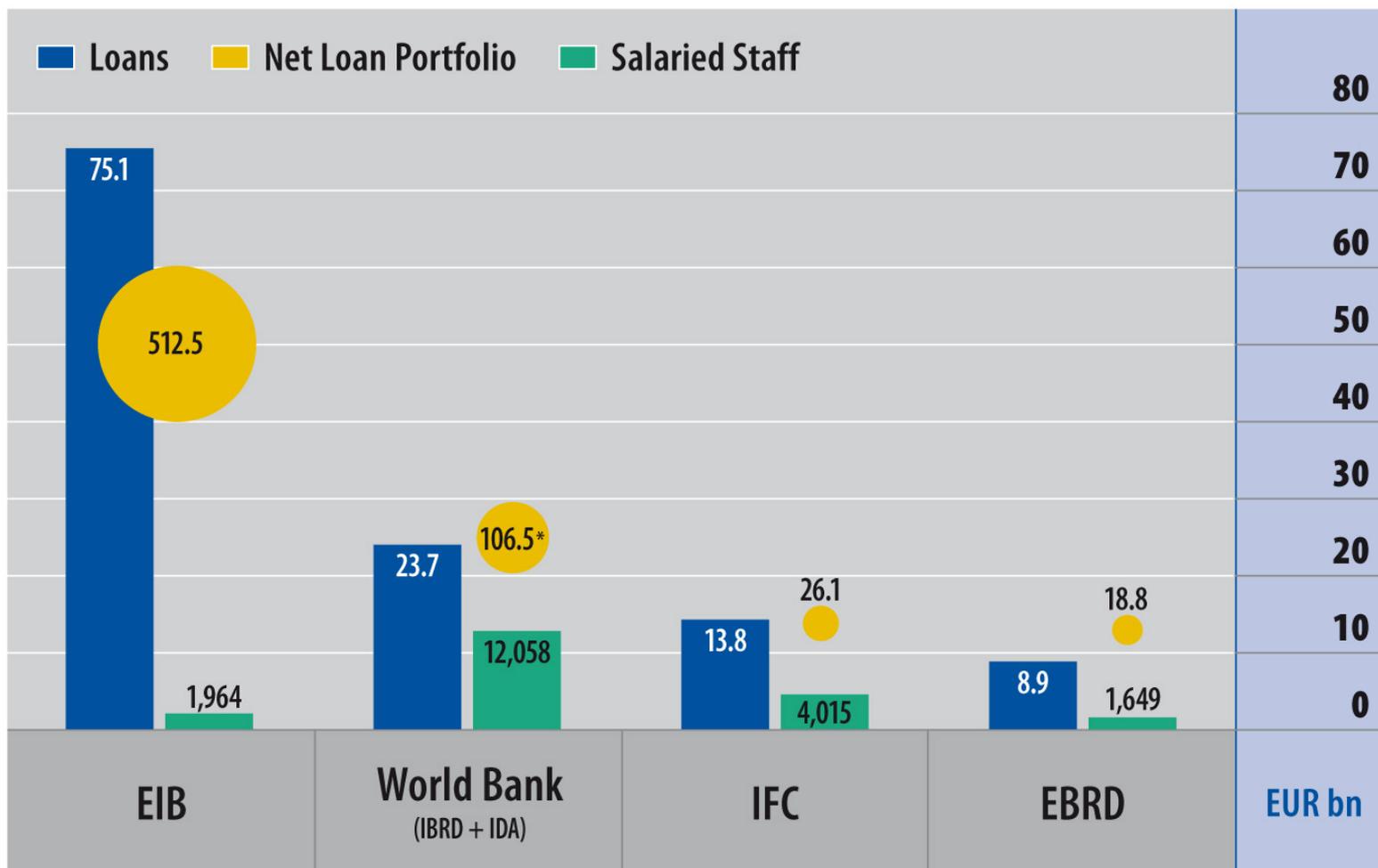
Loans

Guarantees

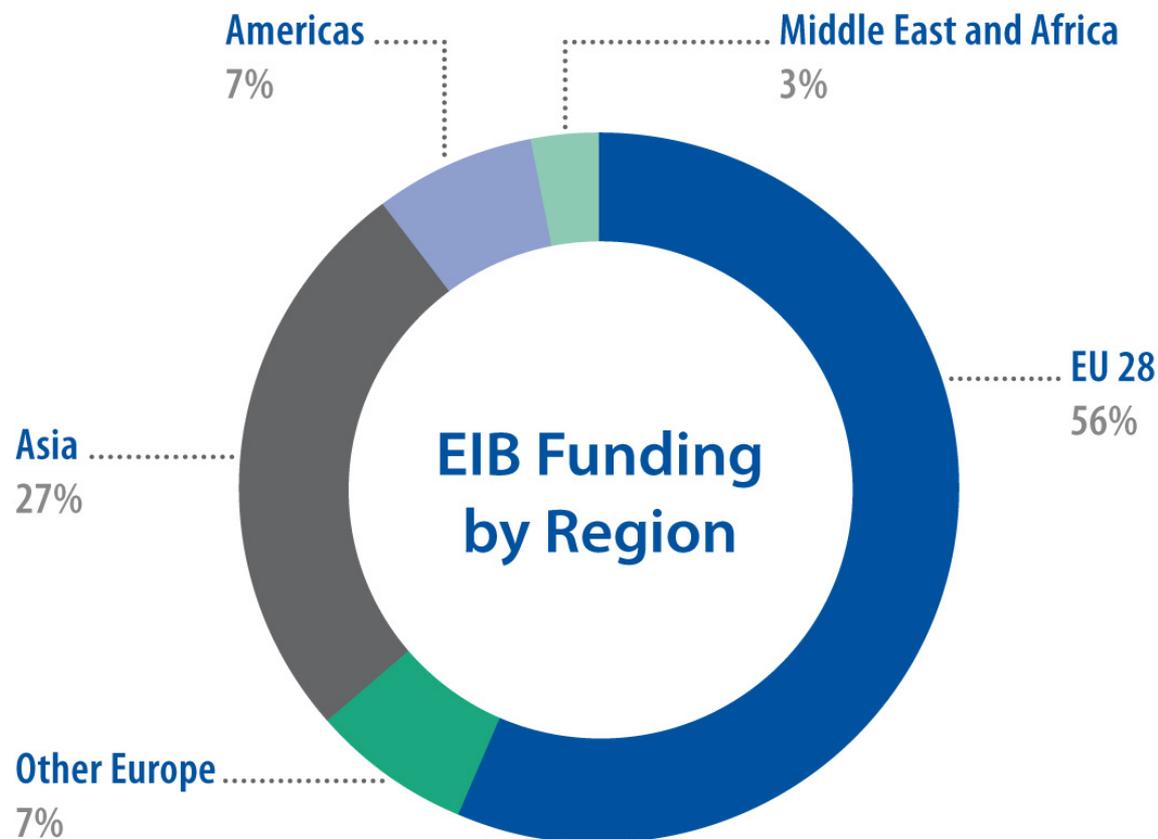
Equity

Risk-
sharing
facility

Advisory
services

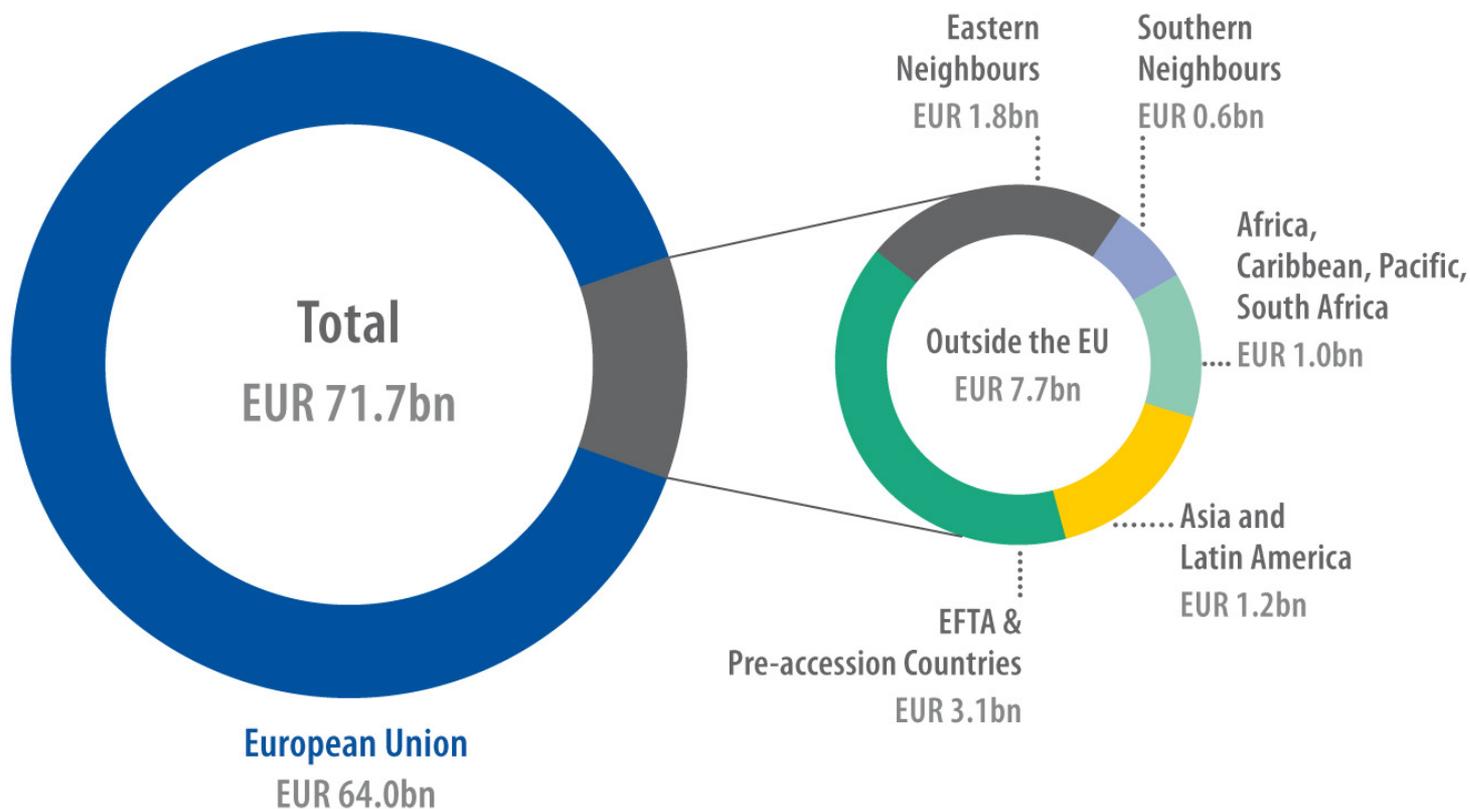


Notes: EIB accounts as at 31 December 2013. World Bank and IFC accounts as at 30 June 2013. EBRD accounts as at 31 December 2012. Loan portfolios are normally net disbursed loans. The IFC Portfolio (only) also includes equity investments. *IBRD only



EUR 72bn: distribution of EIB bond issues by region

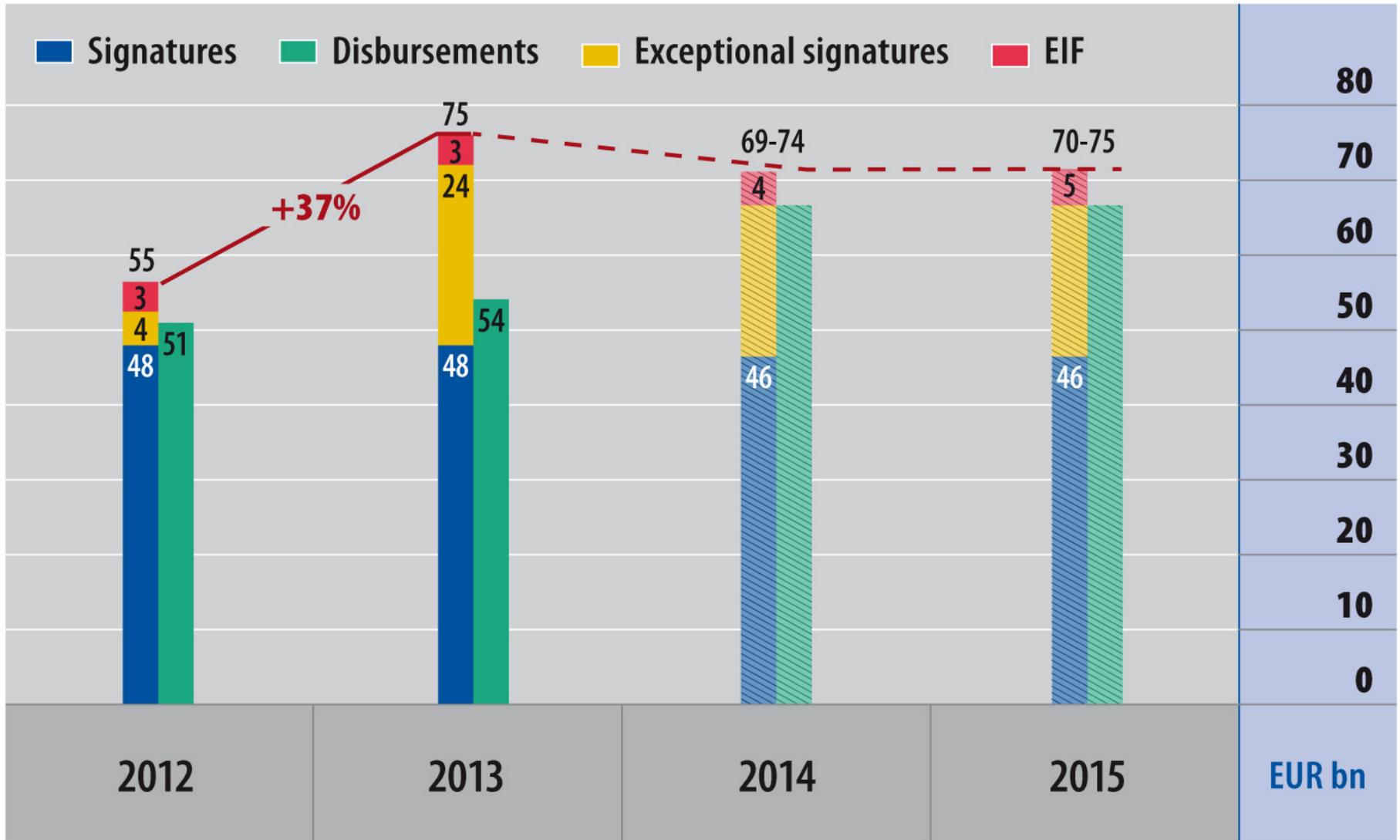
Lending (signatures) in 2013: EUR 71.7bn

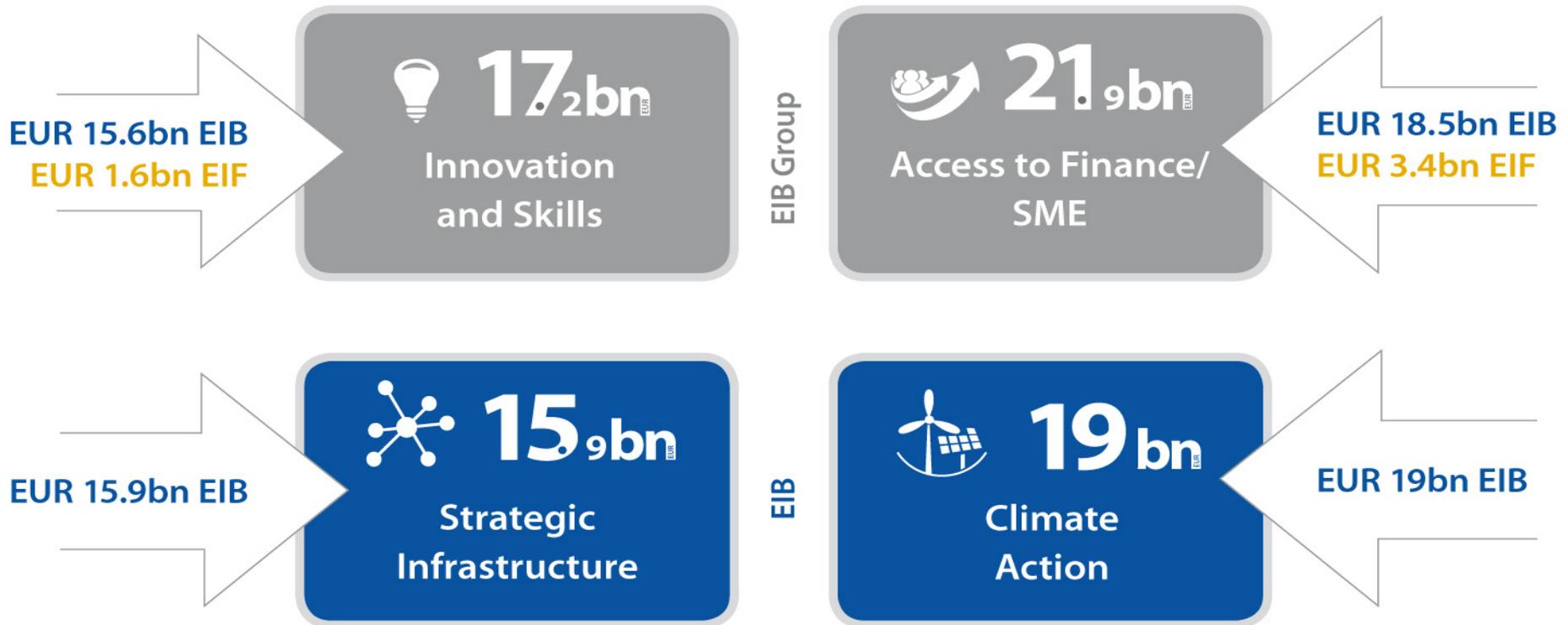


Pre-accession Countries include:

Candidate Countries: Iceland, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey.
 Potential Candidate Countries: Albania, Bosnia and Herzegovina, Kosovo*.

Signatures and disbursements





EIB
EUR 18.5bn

EIF
EUR 3.4bn



Over
EUR 50bn
mobilized

700
APPROXIMATELY

direct financial
intermediaries



230 000

SMEs and Midcaps as beneficiaries

2.8m

employees in beneficiary
OVER SMEs and Midcaps

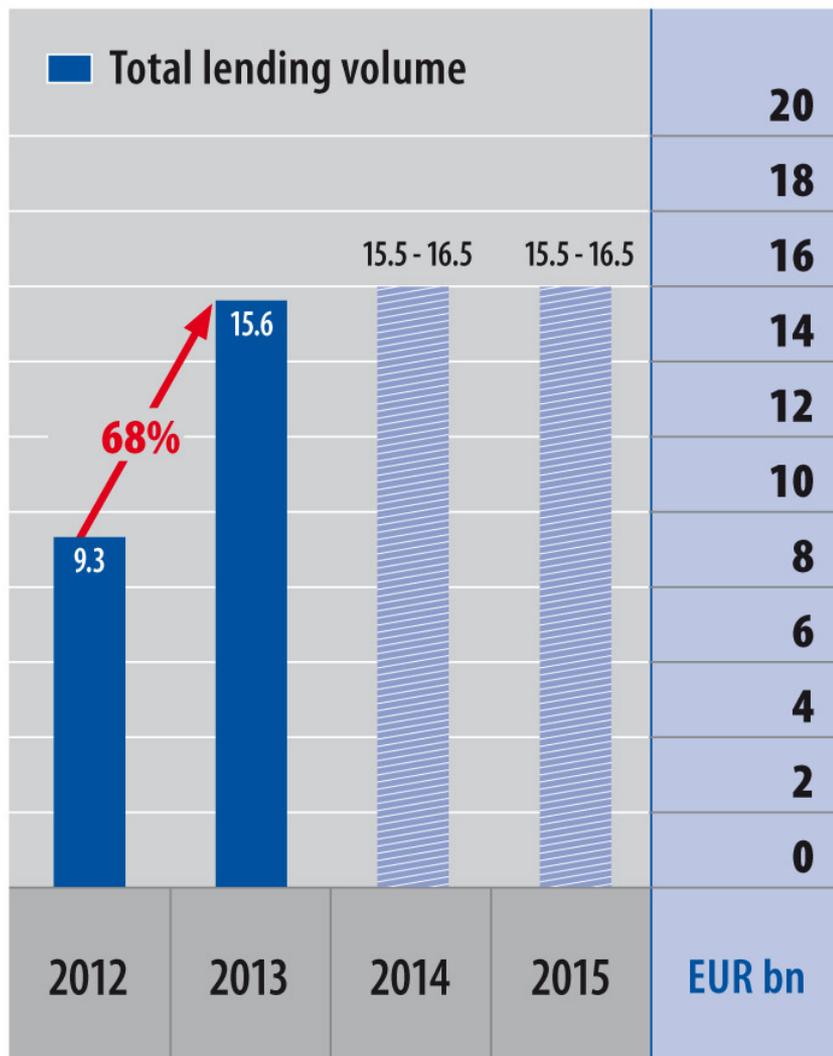
Jobs for Youth
4.6bn^{EUR}

Improve access to finance
for SMEs in EU regions
with ↗ 25% youth
unemployment

Skills for Jobs
4.5bn^{EUR}

Improve employability
through education,
vocational training and
student finance

9.1bn^{EUR}



139 bn since 2000

68% volume increase

Innovative financial instruments

- **2013 Total in EU & Pre-accession – 10bn** (focus on RE & EE)

EIB finances:

- **Sustainability** through RE sources to reduce emissions and dependence on finite energy resources
- **Competitiveness** to create a genuine European single energy market to boost efficiency and control consumer prices
- **Technology** to support energy-related research, development and innovation
- **Supply security** through diversification, particularly with indigenous sources to cut the risks from dependence on external supplies.

Building Europe's infrastructure



2013 in EU & Pre-accession:
€11.6bn for transport projects (incl. TEN-T -
favouring rail over roads)
€4.2bn for urban renewal
New tool – Project Bond (2 projects in 2013)

1 Close the investment gap

2 Tackle unemployment

3 Restore convergence

4 Mitigate financial market fragmentation

5 Support innovation

6 Invest in infrastructure & climate action

The EIB in Austria



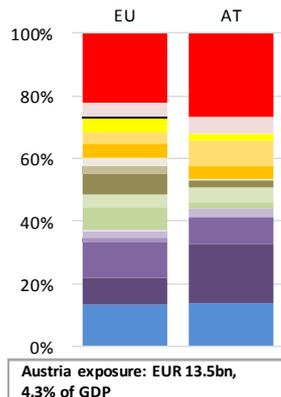
In one of the most advanced economies in Europe, the EIB can particularly add value by:

- financing select projects that strengthen Austria's ability to innovate by reallocating resources towards high-tech sectors and supporting innovative SMEs;
- financing TEN-T priority projects. Owing to its central location, Austria is part of six of these projects;
- supporting the re-orientation of the Austrian health sector;
- cooperating in national priority areas such as energy efficiency and
- increasing support to viable projects of Austrian companies and banks in Central and Eastern Europe.

EIB exposure in Austria is EUR 11.9bn or 3.9% of GDP (EU average exposure is 3.6% of GDP). The EIB signed of EUR 2.45bn in 2013, a 133% increase over 2012, predominantly in the SME/midcap, transport, energy, health and education sectors.

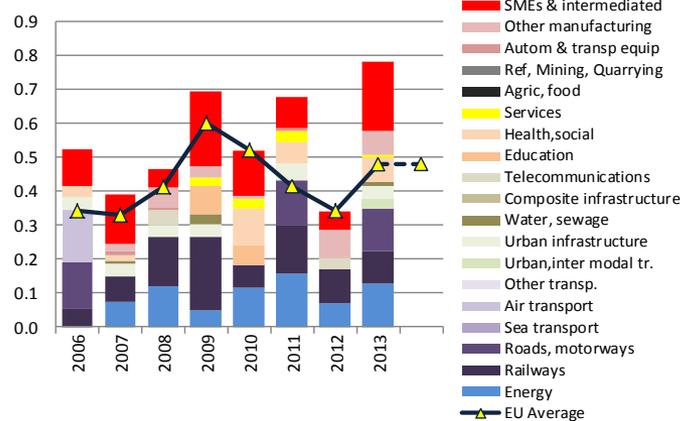
EIB's activity by sector - Austria

Exposure, Dec-2013
% of total exposure



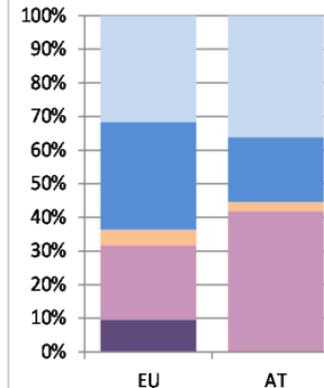
Source: EIB

Signature flow
% of GDP



EIB's activity by contract counterpart

Exposure, Dec-2013
% of total exposure



Source: EIB

The EIB in CESEE (NMS and other Balkans)



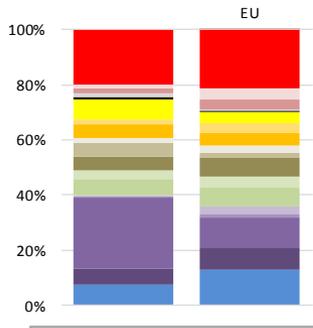
In a challenging and varied economic environment, the EIB can particularly add value in CESEE by:

- Co-financing with EU funds priority projects and regional/municipal development
- Facilitating access to finance for SMEs and corporates
- Contributing to ongoing reform and modernisation of the energy network infrastructure, the switch towards renewable energy resources and fostering energy efficiency
- Promoting productivity and competitiveness through R&D initiatives and ICT infrastructure
- Advisory services (particularly in transport/ water/wastewater/waste/)

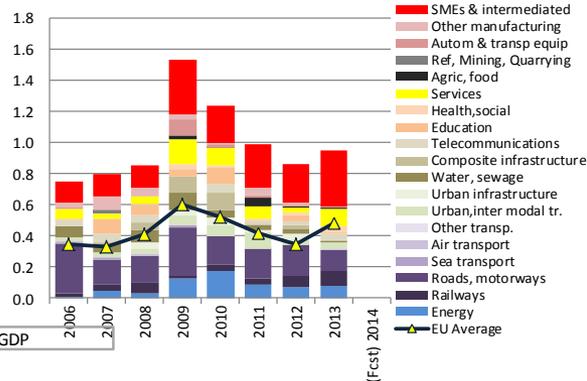
EIB exposure in CESEE is EUR 87.4bn or 7.8% of GDP (EU average exposure is 3.6% of GDP).

EIB's activity by sector

Exposure (Dec 2013), % of total

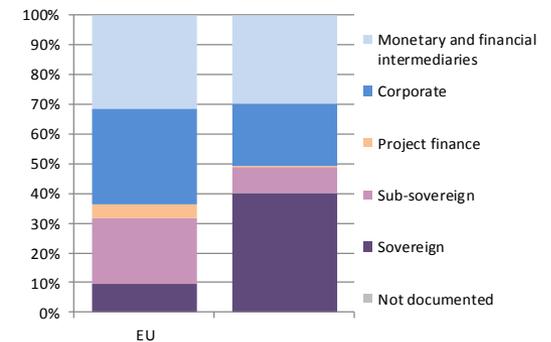


Signature flow, % of GDP



EIB's activity by contract counterpart (borrower) for operations

Exposure (Dec 2013), % of total



Thank you.