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

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European Investment Bank
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

Source: Eurostat
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

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
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Investment – structural differences

Gross fixed capital formation

Percent of GDP

Gross fixed capital formation, current market prices, per cent of GDP

Source: AMECO, 2014 Winter Forecast
Decline in gross fixed investment in the EU

EU - Compared to avg 2008

EU Vulnerable Countries - Compared to the avg 2008
A different story in Austria and in the NMS

Austria - Compared to avg 2008

- Other investment
- Machinery and equipment
- Non-residential construction
- Residential construction
- Total investment

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

While some MS continued to close their RDI investment gap, RDI investment growth has stalled in others.

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.

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.

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
Main policy implications

- 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
The European Investment Bank at a glance

- 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:
### 2012/2013 - Total lending and staffing

<table>
<thead>
<tr>
<th></th>
<th>Loans</th>
<th>Net Loan Portfolio</th>
<th>Salaried Staff</th>
<th>EUR bn</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EIB</strong></td>
<td>1,964</td>
<td>12,058</td>
<td>4,015</td>
<td>0</td>
</tr>
<tr>
<td><strong>World Bank</strong> (IBRD + IDA)</td>
<td>23.7</td>
<td>106.5</td>
<td>26.1</td>
<td>10</td>
</tr>
<tr>
<td><strong>IFC</strong></td>
<td>13.8</td>
<td>18.8</td>
<td>8.9</td>
<td>20</td>
</tr>
<tr>
<td><strong>EBRD</strong></td>
<td>8.9</td>
<td>1,649</td>
<td>18.8</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>75.1</td>
<td>512.5</td>
<td>80</td>
<td>60</td>
</tr>
</tbody>
</table>

**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
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*.
Loans for SMEs & Midcaps

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 SMEs and Midcaps
‘Investing for Youth’ – EUR 9.1 billion, July-Dec 2013

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
## Investing in INNOVATION

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Lending Volume</th>
<th>EUR bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>9.3</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>15.6</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>18</td>
<td></td>
</tr>
</tbody>
</table>

- **68% increase**
- **139 bn since 2000**
- **Innovative financial instruments**
Investing in Energy

- **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.
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)
Responding to the EU challenges

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
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.
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

<table>
<thead>
<tr>
<th>Sector</th>
<th>Exposure (Dec 2013), % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>100%</td>
</tr>
<tr>
<td>NMS</td>
<td>87.35 bn, 7.78 % GDP</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Counterpart</th>
<th>Exposure (Dec 2013), % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monetary and financial</td>
<td>EU</td>
</tr>
<tr>
<td>intermediaries</td>
<td>EU</td>
</tr>
<tr>
<td>Corporate</td>
<td>EU</td>
</tr>
<tr>
<td>Project finance</td>
<td>EU</td>
</tr>
<tr>
<td>Sub-sovereign</td>
<td>EU</td>
</tr>
<tr>
<td>Sovereign</td>
<td>EU</td>
</tr>
<tr>
<td>Not documented</td>
<td>EU</td>
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</tbody>
</table>
Thank you.