Europe’s Economic Challenges and a targeted EU Response

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Outline

• Europe’s growth and investment challenge

• How the EIB responds to the EU’s challenges
Recovery on the cards, but the crisis has led to a significant reduction in EU growth potential.

The recession seems over. Some growth is expected to return to Europe but growth potential has been severely affected.

Source: Eurostat

* For comparability only EU-OECD member countries considered
Europe is still in a deep investment crisis

Evolution of EU growth and investments
(2007 = 100)

Change in investment between 2007 and 2013
(in percent)

Investment has fallen across the EU but the drop is distributed unevenly across the membership.
The European employment crisis brings clear short and long term challenges.

Unemployment increased almost everywhere, especially in the EA periphery. The increase in youth and long-term unemployment reduces potential growth.

Source: Eurostat
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 SMEs varying significantly across the membership

Source: Commission – ECB surveys on SME finance
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
Limited fiscal space is hampering public investment

2013 Public investment (2007 = 100) vs. 2013 gross debt / GDP

Limited fiscal space has significantly affected public investments. Infrastructure investments have suffered across the EU especially in old MS in crisis.

Source: Eurostat
Outline

• Europe’s growth and investment challenge

• How the EIB responds to the EU’s challenges
Catering to different needs and circumstances

The EIB adapts to the different conditions, needs and relative financing costs of its Member States depending on where it can add value.
The EU is responding – the crisis as a driver for progress and change inside the EU

Immediate crisis responses

- Macroeconomic adjustment programmes
- Setting up of EFSF/ESM as fiscal backstops
- ECB measures (LTRO, SMP, OMT, etc.)

Structural responses

- Structural reforms in Member States
- Strengthened fiscal coordination (6-pack, 2-pack, fiscal compact, etc.)
- Regulatory standards (Basel III, EBA guidelines)
- Banking Union

- EIB capital increase to support sustainable growth and employment
EIB’s response to these challenges

1. Closing the investment gap
   - Counter-cyclical role: increase lending volumes for sound investments and SMEs/MidCaps

2. Supporting employment
   - Sustain employment-intensive investments and enterprises
   - Targeted support to employment through the Employment for Youth initiative

3. Supporting cohesion
   - EIB traditional emphasis on Member States most in need
   - Support absorption of EU funds through targeted advisory programmes

4. Mitigating financial market fragmentation
   - Continued support to SME & MidCaps for general access to finance and more targeted support
   - Enhance EIF credit enhancement capacity to ensure complementary suite of products to SME/MidCaps

5. Supporting Research, Development & Innovation
   - Increased lending and advising activities to support knowledge economy
   - Support pushing the innovation frontier and innovation convergence
   - Develop new products for innovative MidCaps

6. Investing in strategic infrastructure, European networks, climate action
   - Increase lending to crucial infrastructure
   - Develop new products to take risk off MS balance sheets (PPP, project bonds)
   - Advise on a more efficient use of EU and other funds
The capital increase facilitated additional lending during crisis

1. Closing the investment gap

Counter-cyclical role: increase lending volumes for sound investments and SMEs/MidCaps

Capital Increase

EUR 10bn
Increased lending capacity for the period 2013-2015

EUR 60bn
Additional investments

EUR 180bn

EIB Signatures and Disbursements (in EUR million)
Focus on reaching the market

1. Closing the investment gap

EIB funds reach beneficiaries and projects targeted

- Funds directly reaching the real economy
  
  63% of the Bank’s disbursements (2013: EUR 30bn) were direct investment loans which immediately reached the real economy

- More financing reached SMEs and MidCaps
  
  In 2013, EUR 11.7bn allocated to SMEs and MidCaps under intermediated loans (2012 EUR 9.6bn)

- More funds to the countries most severely hit by the crisis
  
  Disbursement to Cyprus, Greece, Ireland, Portugal, Spain and Italy increased from EUR 18.4bn in 2012 to 20.2bn in 2013

EUR 48.2bn disbursed in EU in 2013
(2012 : EUR 44.7bn)
… helping to sustain and grow employment

2. Supporting employment

- Sustaining employment-intensive investments and enterprises
- Targeted employment support through the Employment for Youth initiative

- **Strong focus of 2013 approvals on Growth and Employment**
  - 95% scored **Good or Excellent** to the Pillar 1 of the 3PA (Quality and Contribution to sustainable Growth and Employment)
  - Same level maintained for 2014 (target > 90%)

- **Expected job creation and jobs supported from 2013 approvals**
  - 1.1 million person-years of employment expected to be generated during project implementation in direct operations
  - 140,000 SMEs & MidCaps and 3.5 million jobs expected to be reached by EIB funding

- **Jobs and Skills – Investing for Youth (2H2013)**
  - EUR 4.5bn allocated to SMEs in areas with high youth employment
  - EUR 216m new loans signed targeting SMEs employing young people of offering training
  - EUR 1.9bn new loans signed for projects focused on educational infrastructure, student loans and vocational training
  - Further product development based on third party grant contributions

Youth unemployment higher than EU average (Q2 2013)
Supporting cohesion priority regions

3. Supporting cohesion

EIB traditional support to cohesion priority regions

Distribution of the EIB’s exposure (end 2013) across different income levels

EIB engagement

- In low income countries, the EIB has consistently supported a greater share of investments than on average in the EU

Countries with lowest PPS GDP per capita*

*Per capita income below EU average
...contributing to macro regional strategies and blending loans with EU funds

3. Supporting cohesion

- EIB Co-financing of structural funds
- Macro-regional strategies

- Participate in the development and implementation of macro regional strategies
  Joint IFI Action Plan/Vienna Initiative, Baltic Sea, Danube, Adriatic-Ionian Sea

- Contribute to the planning phase of new operational programs

- Advise on a more efficient use of EU and other funds (e.g. decentralised financial instruments)

- Blend EIB loans with EU grants – Structural Programme Loans (SPLs)

SPLs support national or regional Operational Programmes (OPs) co-financed with EU Funds (ERDF, ESF, Cohesion Fund, EAFRD); also via Technical Assistance including JASPERS

In the 2007-2013 period the EIB signed 29 national and regional SPL operations amounting to EUR 19bn which have contributed to a programme/project cost of EUR 195bn

In the 2014-2020 programming period even higher demand is envisaged and deepened cooperation with regard to Cohesion Policy
EIB group Advisory Services

Advisory as complement to lending and blending

3. Supporting cohesion

1. Advisory related to projects
   → Upstream advice (studies, strategies)
   → Project preparation
   → Project implementation support
   → Capacity building

2. Advisory related to Financial Instruments
   → Development of innovative financial instruments and advice on their use

3. Institutional and other Advisory Mandates
   → Policy and public sector support (e.g. EPEC for PPPs); major and complex projects, special initiatives

EIB Group Advisory Services

Financial Instruments Design and Implementation

Upstream and Capacity Building

Project Preparation and Implementation

JASPERS
Ensuring access to finance for SMEs

4. Mitigating financial market fragmentation

2013 signatures: EUR 18.5bn (+53% yoy)

2014: high target sustained EUR 17.5-18.5bn

20 million SMEs in the EU employ approx. 86.8 million people and generate close to 60% gross added value; SMEs rely mainly on bank finance and ~45% report access to finance as a very pressing problem

SME access to finance identified as National/EU priority & operational focus of EIB
Flexibility and complementarity of EIB group products

4. Mitigating financial market fragmentation

Focus on SME access to finance and improved financing conditions

**Maintain high volumes of intermediated lending**
- Extended range of financial intermediaries (commercial banks, leasing companies, national & regional development banks)
- For beneficiaries across different segments (micro-enterprises, SMEs, MidCaps)
- With widened eligibility criteria (e.g. working capital) to match current SME finance gaps
- Ensuring transfer of financial benefits & transparency of EIB involvement

**Build on EIB(EIF) complementarities to ensure an even broader suite of products for SMEs & MidCaps**
- Risk sharing and capital relief for banks
- Support the re-emergence of European SME securitisation market
  - Combining EIB long-term liquidity with EIF credit enhancement
  - EIB Group Risk Enhancement Mandate to the EIF
EIB Group SME & MidCap product development
2008 → 2014

- **EIB Group SME ABS Initiative**
  - EIF guarantees for tranches of ABS
  - EIB investments in SME ABS

- **Microfinance**
  - EPMF – microfinance through microfinance providers
  - L4SME to micro-entreprises

- **EIB intermediated lending for SMEs & MidCaps**

- **EIB lending to Holding Funds**
  - Leverage for EU Structural Funds
  - Support for Holding Funds using Structural Funds

- **Other EIB Group Products**
  - Growth Capital
  - Risk Capital Resources
  - Equity for SMEs
  - Funds of Funds
  - CIP/GIF

- **SME Trade Finance Facility**
  - Guarantees of performance of banks providing trade finance

- **EIB Group SME ABS Initiative**
  - EIF guarantees for tranches of ABS

- **MidCap Initiative**
  - MidCaps to Innovative SMEs

- **RSI - Innovative SMEs**
  - Guarantees for loans to innovative SMEs

- **SME Trade Finance Facility**
  - Guarantees of performance of banks providing trade finance

- **Other EIB Group Products**
  - Growth Capital
  - Risk Capital Resources
  - Equity for SMEs
  - Funds of Funds
  - CIP/GIF

- **CIP/COSME**
  - Guarantees for SME loans (EU Funds)

- **EIF guarantees**
  - Guarantees for SME loans (EIF own funds)

14 February 2014
Continue to develop tailored solutions to policy priorities & specific market gaps

- Together with EU/EC, Member States, development banks and core relationship banks
  - Youth employment & education
  - RDI investment
  - SME access to trade finance

Strengthened engagement with national & regional authorities

- Orient the EIB Business Plan around national priorities
- Guarantee schemes in Portugal and Greece
- SME Trade Finance Facilities in Greece and Cyprus
- Cyprus Entrepreneurship Scheme
- Blending and advising
- Ex-ante assessments

Increase engagement towards policy priorities and in countries most hit by the crisis
5. Supporting Research, Development & Innovation

Knowledge economy
- EUR 15.6bn in 2013 (+70%)
- 2014 COP target at high sustained level EUR 15.5-16.5bn
- Operational priority in 19 MS

RSFF successfully implemented
- EUR 12.9bn signed over 2007-2013 period
- 30% above the initial target
- Catalytic effect on other financers’ lending to riskier RDI projects

Dedicated new initiatives under RSFF II
- Growth Finance Initiative (GFI)
- MidCap Initiative (MCI)
- Support to RSI capacity of EIF through mandate/capital increase
- RDI Advisory Services

* ‘Innovation leading economies’ defined here as:
  - Classified as ‘innovation leader’ or ‘innovation follower’ in the European Innovation Union Scoreboard 2013, and
  - Having a level of R&D investment as % GDP no more than 1 standard deviation from the EU average.
6. Investing in infrastructure, European networks, climate action

Increased lending to crucial infrastructure according to EU and national priorities

Operational priorities
- Connecting Europe Facility
- Renewable Energy / Energy Efficiency in 21 MS
- Competitive and Secure Energy in 17 MS
- Streamlined programme loans for education and transport infrastructure

Instruments
- Project Bonds (target 2014 : 300m)
- LGTT 2
- Support to PPPs (EPEC)
- Potentially further loan and/or guarantee instruments facilitated by risk-sharing between the EU and EIB

* Source: Global Competitiveness Report
External Operational challenges

- Continued uncertain economic environment & investment activity
- Lack of borrowing capacity at sovereign / sub-sovereign
- Lack of large investment projects eligible for direct EIB loans
- Pricing attractiveness of the EIB challenged in some countries
- Elections could delay or slow down investments in several countries
Snapshot of expected results

- 8.6 TWh of additional electricity produced
- Over 20 GW of renewable energy capacity generated
- Over 38 TWh/year more efficient and/or less carbon intensive use

- 92 m in operating cost savings in public transport
- 66 m hours of time savings in road and rail
- 5 m passengers p.a. in airport terminal capacity

- 1.1m person-years of employment generated during implementation
- 3.5m jobs sustained in SMEs and MidCaps

- 414 000 private sector jobs sustained in knowledge economy & 45 700 research positions maintained
- 6 200 patent applications filed
- 1.1 million high speed broadband lines activated

- 1.2 million with improved access to sanitation
- 106 000 tons of CO2 sequestered/ avoided

- 100,000 with access to social housing
- 2.6 m with safer drinking water

- Better healthcare for 8.6 m people
- Better treatment for over 3 m patients

- 265 000 new graduates enrolled
- More than 29 000 graduates per year
Thank you!