

10TH EIB FORUM

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Investing in the New Member States

Ladies and Gentlemen,

I am very pleased to welcome you to the tenth annual EIB Forum. Two years ago, we held our annual Forum in Vienna. The topic then was the "Countdown to enlargement". Meanwhile enlargement has taken place, and I am delighted that we are able to hold this tenth EIB Forum in one of the European Union's new Member States.

Over the past few years, we have got used to referring to the *transition* process and *transition* countries. But the bald technical term "transition" scarcely conveys what has really gone on in the Central and Eastern European countries during the last fifteen years: namely, a profound and far-reaching political, social and economic change. I have the greatest respect for what the new EU Member States have achieved in an historically relatively short period of time.

Today and tomorrow, we shall tackle an issue that is most important for the European Investment Bank, as its main task is to support the overall harmonious development of the Union and, in particular, to reduce economic disparities between the different regions. We shall discuss how the new Member States will make up ground economically; we will look at their national development plans and how these are linked to the Union's policy on cohesion; we will examine the strategies for achieving balanced regional development within the new EU countries; and we will also discuss financing issues such as smaller and medium-sized enterprises' access to finance. The theme throughout will be how the limited financial resources can be used efficiently to help bring about sustained economic growth and improve living standards.

Up to now, the European Investment Bank has been the single most important source of external funding for the new Member States – the Bank's lending since 1990 amounts to EUR 27 billion. Now, the EU Structural Funds are set to become a highly significant source of external finance. They are, however, not intended to replace private capital, but to provide additional resources to co-finance investment projects – the Structural Funds and national budgets on the one hand, and private capital on the other. The need for infrastructure investment in the new EU countries is enormous and cannot be financed without raising private capital.

The *European Growth Initiative* decided on by the European Council last year is also relying on the use of private capital to finance infrastructure projects and R&D investment. The EIB supports the Growth Initiative, and is ready to fund the building of infrastructure with long-term loans of EUR 50 billion in the period up to 2010. Much of the planned investment in transport will take place in the new Member States and will be used to extend the *trans-European transport networks*. This investment is urgently needed, because better transport links are essential for ensuring that the new Member States are able to participate fully in the European internal market.

Consequently, the Bank has so far focused on financing investment in transport infrastructure. Indeed, 46% of the EIB's total lending in the region has targeted all modes of transport, from roads, railways, and ports to airports. Much has been achieved but even more remains to be done. In particular, investment in cross-border links needs to be accelerated and coordinated at EU level. Coordination is especially important because, too often in the past, infrastructure investments have been delayed by lengthy administrative procedures and the complexity of co-ordinating projects with cross-border dimensions.

But the need to improve cross-border links should not distract us from the necessity to have national transport systems that promote integration within the new member countries. Often, transport investment tends to favour capital cities and prosperous industrial regions. In contrast, less developed and remote regions are frequently left out. As adequate infrastructure is a requirement to attract private investment, there is a risk that disparities among regions could become larger over time. Here we need to be attentive.

Now that the new member countries have access to the Structural Funds, their interest in *private-public partnerships* (PPPs) for infrastructure investment has been re-awakened. Through grants from the Structural Funds, many PPPs could be turned into profitable operations. PPPs make it possible to overcome budget shortages and move ahead with investment. But their key value is that they focus minds on the viability of projects and enable infrastructure to be built and operated more efficiently, with the State capitalising on the productivity of the private sector. Ultimately, PPPs are about a new division of labour between the State and the private sector, aimed at creating a more efficient public sector. When budgets run out, the public sector has to become more efficient, anywhere in Europe. The EIB has experience of PPPs throughout Europe and has to date lent some EUR 14 billion for around 160 PPPs. And we would like to bring that experience and knowledge to the new Member States.

So far, *foreign direct investment* has provided major support for the new member countries in modernising their economies and making them more competitive, because such investment not only means injecting capital, but also the transfer of technical expertise and knowledge of external markets. The EIB therefore has been - and will continue to be - keen to finance foreign direct investment.

At present, pay differentials are probably the strongest attraction for foreign investment. In the long term, though, increasingly important aspects for investors are likely to be the training of the workforce, professional skills and scientific excellence. Our aim must be for more research centres and high-technology businesses to become established. This is likely to be of great importance for the new Member States, as it could counteract the "brain drain" that is currently weakening their economies and societies. Signs are now emerging that the first wave of foreign direct investment could be followed by a second wave that focuses not on building factories but on setting up call centres, accountancy and IT services, and so on. We can only welcome this. But to remain attractive to investors in the long term, these countries will clearly need to make even greater efforts in the education sector. Since investment in human resources is essential for lasting economic success, it could be one of Central and Eastern Europe's contributions to the Union's Lisbon Strategy.

The enlarged EU is faced with major challenges: we must enhance innovation and competitiveness so as to counter new and very competitive rivals from other parts of the world. We must achieve higher economic growth to combat social tensions and social exclusion in our societies. However, the resources for this are limited. National budgets are stretched almost everywhere, and will become more so as our population ages further. We therefore have no choice but to improve the efficiency of our economies, including the public sectors, and use the financial resources that are available in the best possible and in a forward-looking way.

The European Union's future political weight and influence in the international arena will depend on the way in which it rises to these challenges.

I thank you very much for your kind attention and trust that you will find the next two days of discussion a fruitful experience.