European Investment Bank

The bank of the European Union Brussels, 15 May 2012

Statement by Dr Werner Hoyer, President, to the Annual Meeting of the Board of Governors

Chairman,
Governors,
Ladies and gentlemen,

Our Board meeting takes place at a time when a decisive push is underway in the European Union to spell out how best to boost growth, create jobs, stimulate innovation and increase competitiveness – in parallel, of course, with the indispensable fiscal consolidation. It is my personal belief that we find ourselves at a crossroads of the European construction. We must act with resolve and determination to preserve the EU's position in the world, to help it punch its real weight on the global stage.

I started my new assignment in Luxembourg four months ago, taking over a solid, well-functioning bank. I have found the EIB to be an effective institution with highly dedicated staff and an impressive degree of expertise and know-how. The "EU Bank" is a key asset for the Member States and its activities have a direct and positive impact on the daily lives of our fellow citizens.

I can assure you that this Bank gives genuine value to the projects that it finances: **financial value added**, with favourable interest rates and the long maturity of its loans, as well as **non-financial value added**, notably through the technical and financial advice provided to promoters for project preparation and implementation. This contributes to a quicker and more efficient use of the Structural Funds.

In the difficult year of 2011, the EIB continued to fulfil its mission of supporting sustainable growth, innovation, competitiveness and jobs. In spite of the extremely challenging operating environment, the targets for all priority objectives were met or exceeded: the Bank managed to provide its highest-ever financial contribution to the real economy – 60 billion euro actually disbursed to our clients.

On the other hand the volume of signed loans decreased by some 11 billion euro year-on-year to 61 billion. This decrease had been planned by our shareholders. It followed a period of extraordinary signature activity in 2009-2010 when the EIB, at your request, successfully contributed to the European Economic Recovery Plan. I note that this exceptional contribution to the Recovery Plan was made without recourse to our shareholders or any injection of public funding into the Bank, contrary to what happened for many large European banks.

You have received the full details of our operations in the Annual Activity Report; allow me therefore to mention just a few headline signature figures.

Some 13 billion euro went to small and medium enterprises. In all, and with the help of the European Investment Fund, the part of the EIB Group specializing in risk capital, we reached more than 120,000 small and medium-sized companies; I consider that to be a major contribution to Europe's recovery efforts.

Some 18 billion euro was invested into projects aimed at reducing carbon emissions and supporting the EU's global role in fighting climate change.

The so-called "knowledge triangle" of research & development, innovation and education - the areas absolutely essential for creating a modern economy and key elements of any growth strategy - received around 10 billion euro.

Investments outside the EU exceeded 7 billion euro, half of it dedicated to enlargement countries. Loans worth almost 1 billion euro were signed in Southern Mediterranean countries in transition after the Arab Spring, while signatures in the EU's Eastern neighbors reached a record 800 million euro.

To put our operations into a wider perspective and give you an idea of the actual size of our contribution to the economy, at the end of last year our outstanding loans amounted to some 395 billion euro. This is more than the loan portfolio of all the other multilateral financial institutions (World Bank included) combined.

Obviously, what gets lent must be funded. As you very well know, the EIB does not finance projects with taxpayers' money but with funds obtained on the capital markets. The EIB is the world's largest supranational bond issuer. It raised 76 billion euro last year, almost half of it (46%) with non-European investors, which shows the continued trust and confidence in the EIB and in Europe. This trust and confidence is based on the Bank's prudent policies, strong liquidity and excellent portfolio quality.

But it is also based on the firm support of your governments, our shareholders, and on the preferred creditor status that we enjoy. This status underpins our business model. It is a fundamental element taken into consideration by rating agencies in their decision to grant the EIB the best possible rating, and one of the reasons why we are able to fund ourselves at favourable rates and pass that benefit on to the real economy.

Governors, ladies and gentlemen,

Calls are growing in Europe for a comprehensive growth initiative – a "growth compact" – and a job-creation strategy to complement the "fiscal compact" adopted earlier this year.

Both go, of course, hand in hand since solid public finances are key to regaining market confidence.

The widespread downgradings of public and private entities and the continued deleveraging in the banking sector have severely slowed down investment activity. This, in turn, has once again highlighted the importance of public lenders such as the EIB.

I can hear many voices calling on us to expand the level of our operations at this difficult time for nearly every member of the EU, as if the EIB could be a universal solution to the crisis. To this, my answer is twofold:

First, our Bank is not and cannot be an alternative to budget discipline, necessary structural reforms and measures needed to improve the functioning of the internal market. Sustainable growth will not be possible without further reforms in these fields.

Secondly, with the EIB's current level of capitalization, we have no choice but to gradually reduce lending volumes to protect the financial strength of the Bank, its risk-bearing capacity, its top credit rating and, consequently, its ability to borrow and lend on favourable terms.

Given these constraints, the questions we need to ask are:

- How to maximize the EIB's potential so it can assist Europe's fight for economic recovery in the best possible manner, and
- What concrete contribution can the "EU Bank" make to a continent-wide growth strategy.

First of all, we need to continue to concentrate our action on projects and sectors that make a significant contribution to growth, innovation, competitiveness and employment. The European SME sector is one of them. Between 2002 and 2010, 85% of total employment growth in the EU was attributable to SMEs. Further focus should also be put on middle sized companies, notably the fast-growing innovative ones to facilitate their internationalisation and their capacity to reach a critical size.

It is also important to support long-term and sustainable infrastructure and to substantially increase investment in research, development and innovation – the main drivers of productivity, competitiveness, long-term economic growth and employment in advanced economies. Investment in this sector is critical for Europe if it does not want to be side-lined by new players in the global game. This is a top priority.

I also want to stress that we are, and will remain, the Bank of the EU 27. We are concerned with the prosperity of the entire EU, not just the regions which, at any given time, need increased assistance. We consider it very important to operate in all markets, to finance projects contributing to the Europe 2020 strategy for smart, sustainable and inclusive growth and to a further integration of the EU. By doing this, we will also maintain a balanced, diversified and high quality loan portfolio.

- Secondly, we should reinforce our cooperation with national public long-term investor institutions and other interested parties to catalyse their own capacity to support the growth agenda. We also have to come up with innovative ways to extend the impact of the EU budgetary funds by combining them with EIB resources.

This approach has been successfully developed, for instance, in the context of the Risk Sharing Finance Facility for research and development. We are now working with the Commission to extend this type of initiative to other sectors. For example, we are all aware that the huge amount needed for investing in energy, transport and broadband infrastructure can only be generated by attracting capital from private investors. This is also the objective of the "project bond initiative" that will possibly be tested soon. We are also extending risk sharing instruments to SMEs, and the EIF is working closely with the Commission to blend EIB resources and EU funds for the benefit of European entrepreneurs.

Let me express my gratitude and thanks to Vice-President Rehn and his colleagues for the excellent cooperation between the Commission and the EIB Group. A lot has been already achieved but I am sure that we can do much more by combining the Commission's resources with the EIB expertise to identify and finance bankable projects. We hope to see this preferred relationship reflected in the next Multi-annual Financial Framework.

Despite these useful joint instruments, we cannot escape the fact that the overall lending capacity of the EIB remains constrained by its capital base. A strengthening of our balance-sheet is necessary if we want to substantially step up our activities across the entire EU, be competitive by offering attractive interest rates in all Member States, and contribute even more significantly to the European economic recovery with a powerful combination of lending, blending and advising.

We are ready to deliver. It is now up to you, our shareholders, to decide how you want to make best use of the EIB, the Bank of the EU, your Bank.

Thank you for your attention.