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Speech of European Investment Bank's President, Dr. Werner Hoyer, at Brookings Institute

“The Current Situation and Future Prospects for Europe's Economy”

Ladies and Gentlemen,

I am honoured to be here today to talk about the current situation and future prospects for Europe's economy.

This year we celebrate the 60th anniversary of the Treaty of Rome - which also marks the creation of the EIB, the EU Bank. This is a good time to reflect on Europe's history of these past 60 years, its tremendous achievement in terms of institutional innovation, economic stability and multilateral cooperation that delivers peace, productivity and prosperity. In spite of such achievements - or perhaps because they formed such a solid bedrock -, Europe faces considerable challenges today. Chief among them is a destabilizing sense of uncertainty since the beginning of the global financial and sovereign debt crisis. The Brexit vote confirmed the severity of the disenchantment and showed us that the EU's narrative of multilateralism and openness no longer connected with important parts of the population. Some European citizens may have taken for granted the Union and some of the values it represents. Let us all hope that the presidential elections in France this Sunday will end with a victory of candidates that stand for democracy, free trade and open societies.

As we know, the vicious circle between uncertainty and its harmful effect on economic activity can be persistent.

Our living standards depend on our ability to sustain stable, thriving and innovative economies. In turn, this ability rests on the capacity of both market forces and, when needed, public institutions to foster high quality investments - investments which, in turn, provide us with confidence in our prospects.

Against this background, I will cover three topics in my speech today.

First, I will talk about the macroeconomic outlook in Europe, and the key challenges that we are likely to face in the coming years.

Second, I will share some of my thoughts on the institutional turning point that the European Union is experiencing at the moment, and which has been the theme of the European Commission's White Paper on the Future of the Union recently.

Finally, I will elaborate on the role of investment, and explain how the European Investment Bank can contribute to the success and the prosperity of the citizens of Europe.

Economic outlook and challenges

Let me begin by providing a background on the macroeconomic situation and outlook for the EU.

The good news is that, after many years of stagnation and weak growth, the economic recovery in Europe looks ever healthier, with domestic demand driving growth and labour markets continually improving.

Although the recent pick-up in global growth is still fairly modest by historical standards, we can finally say that the state of the global economy is not a barrier anymore for the recovery in Europe.

The IMF has just forecasted that the global economic growth rate will pick up from 3.1 percent last year to 3.5 percent this year and 3.6 percent next year.

This is certainly good news, but we will need further global coordination and strong multilateral institutions to support sustainable growth. The IMF warns in its recent World Economic Outlook that protectionist policies are a major risk for the global economy. The recent lack of commitment at G20 level to free trade can only add to concerns in this regard.

If the US weakens its commitment to multilateralism and its institutions by seeking out bilateral agreements and enforcing protectionist measures, then this will make the global cake smaller, not larger. If you leave a group of strong friends you don't get stronger - you get a little more

lonely. An agenda where protectionist measures, such as tariffs, are used to promote domestic investment would deal a severe blow to the progress made over recent decades. To us in the EU, which is based on multilateralism and freedom of movement, this is anathema.

Notwithstanding this mixed external picture, GDP growth in Europe is expected to strengthen. Most analysts project a growth rate of between 1.5 and 2 per cent for the next years, mainly fuelled by a robust growth in domestic demand.

Yet, despite the prevailing high-liquidity low-rate environment, investment has remained low and uneven across EU Member States, especially for SMEs, RDI, and infrastructures. But investment is critical to potential growth and competitiveness. Although it has contributed 28% to real GDP growth in the EU since 2013, it remains below the 2008 level.

Many governments and households face fiscal constraints, while many banks remain constrained by legacy assets.

That means corporates need to lead the investment recovery. EIB survey data show that firms continue to focus on rebuilding capital stocks, and that uncertainty and availability of staff are the main barriers to investment.

When it comes to investment into research, development and innovation, Europe is still lagging behind. Although we intend to increase our spending to 3% of GDP, this will merely mean that we keep up with the US, Japan and emerging players like China and Korea.

At the EIB, we stand ready to address this issue. We recognise that innovative activities call for a financing mix that matches the risk and balance sheet profile, notably of young firms that are not rich in fixed assets.

Challenges

Against this background, let me highlight a few of the challenges that I believe we face, both globally and in the EU.

Political uncertainty is omnipresent these days.

We have achieved a certain degree of financial stability. But we have overlooked the cost for the common citizen. This led to a widespread disenchantment and disengagement with our institutions and their processes. Many people feel left behind by the economic recovery and fear

for their jobs in times of globalisation and digitization. We cannot champion competition and open markets without ensuring equal opportunity and social mobility.

As I have already alluded to, populist and protectionist politicians capitalise on the lack of such opportunities and the lack of social mobility. They use this disenchantment for a misinformed global backlash against multilateralism and open economies.

In the EU we take this very seriously, as our history of the past 60 years is founded on the multilateral principle, on the belief in international coordination and multilateral institutions.

Let me now turn to the second theme of my speech, namely the historic crossroads the EU as an institution is standing at.

The European Union is an immensely successful and historic achievement. It is home to the World's largest single market, the second biggest currency union and it is the World's largest trade power.

The EU also remains extremely robust and flexible at the same time. Just consider the transformations of the last 20 years: the introduction of the euro, the integration of the Eastern Bloc countries, and then the rapid response to the crisis, with measures such as the Banking Union to deepen and strengthen the euro area.

The EU also provides a lot to the daily life of its citizens. First and most important of all, it has been delivering peace, stability and freedom.

But it also delivers hassle-free movement across national borders for the 1.7 million people who commute from one country to another every day and for the hundreds of millions who travel for other purposes each year.

It allows European citizens to enjoy the many benefits of the single market: cheaper goods, more reliable services, inter-connected and integrated transport and telecommunications systems.

Nevertheless, the aftermath of the financial crisis brought many dormant problems to the surface: the ageing of Europe's population, the growing inequality between various parts of the society, structural problems leading to long-term unemployment and high public debt, to name a few.

These developments led many citizens to raise doubts about the EU's ability to deliver on its promises. In many Member States we can observe signs of indifference, mistrust and growing discontent with mainstream politics.

Exploiting these feelings, there is an emergence of populist and discriminatory rhetoric in the political field.

The process that led to Brexit showed how dangerous it can be when the EU is used as a scapegoat for all kind of troubles - and the European Union is indeed an easy target for finger-pointing.

However, if there is one lesson to be learned, it is that we can never take the citizens' unconditional support for Europe for granted.

I strongly believe that Europeans profoundly agree with the fundamental idea and principles of the Union. They strongly support the EU project, and see it as a cornerstone of stability.

Restoring trust in the institutional framework of the European Union must be our priority.

First, we have to provide alternatives.

In the past we assumed that all Europeans want to take the exact same road, but that is not true. It is important to give the citizens of the European Union a real say in shaping the future of the EU.

I believe the White Paper recently published by the European Commission is a very bold step in this direction. It shows that we have more than one choice.

We also have to clarify what consequences our choices have - not only in the near future, but also in the long run.

Second, we have to find better ways to communicate between the Union and its citizens.

We need to explain better the often complex structures of decision-making in the EU.

We also have to explain our results better. I believe that we failed on many occasions to make our citizens recognise the advantages that the EU has brought them personally.

Crucially, we must want to communicate good things about Europe. We must choose not to play petty games about taking all the credit for what goes well and leaving "Brussels" and the EU – however de-personalised into an entity with malevolent intent, fully independent from the will of the Governments of the countries that form and lead the EU – the blame for anything that goes wrong. This game is short sighted. As Brexit showed, we play it at our own peril.

Third, we have to work harder than ever on delivering on our promises and on the expectations.

The EU has delivered a lot, but it is in the human nature to take results for granted, and highlight the deficiencies.

And, on top of that, there are many areas where we have not delivered enough.

We have to make economic growth in the EU more robust. We have to find ways to increase our potential growth and economic competitiveness. We have to find ways to bring the benefits of economic prosperity to every citizen. We have to find answers to problems like aging, migration and climate change. The European Investment Bank - the EU Bank - is ready to help solve for these problems.

How does the EU Bank contribute?

Let me now turn to the third major part of my speech today: the role of investment in strengthening Europe, and the contribution of the European Investment Bank to the solution for some of the challenges mentioned.

To prevail, the European Union must recast a strong, persuasive and inspiring narrative that connects with our citizens and business community in a tangible manner.

Investment is a cornerstone of this narrative, because investment requires and inspires confidence at the same time.

On the eve of its anniversary, the European Investment Bank is doing just that.

The EIB is the EU Bank. We are the only bank owned by all Member States, representing and promoting their interests. With paid-in capital and reserves of 61 billion euros, a triple-A rating and a balance sheet of around 570 billion euros, we are the largest multilateral lender and borrower in the world.

As a public financial institution, we distribute our funding advantage throughout Europe - and, in fact, the world - in support of high-quality investment projects, typically with a long-term view, looking for productivity-enhancing effects of investments in areas like transport networks and R&D.

In 2016, the contribution of EIB Group activity to investment across Europe rose to 83.8 billion euros, which are supporting and mobilising 280 billion euros of total investment in a single year. Over recent years, the effect on overall investment has grown tremendously. This results from a smarter deployment of resources - combining EIB Group-financing with private capital, EU funds and grants, as well as advisory support from the EIB's experts to maximise the economic effect.

And our investment makes a difference.

Recent modelling of the impact of EIB funding on Europe's economy for the 2013-2015 period confirms this.

The Bank's engagement in this period, which follows a capital increase in the summer of 2012, is expected to generate 830,000 new jobs and an additional 0.8% on Europe's GDP by 2017.

As a long-term investor, the measurable effects will continue to accumulate and by 2030 we calculate our 2015 investment will have brought 1.4 million additional European jobs and an increase in GDP by 1.1%.

The Investment Plan for Europe is another crucial element in this response and the EIB plays the central role in implementing it.

Reflecting the perceived investment needs in Europe but also reflecting its confidence in the EIB's capacity based on progress to date, the European Commission has proposed to expand the Plan to deliver investment of 500 billion euros by 2020.

Ladies and Gentlemen,

I already mentioned the EIB's approach to identify and fill investment gaps by crowding-in private sector investment. But where are these gaps, and how do we identify and address them?

Take innovation. In terms of relative spending, Europe has its work cut out.

The EIB has always aimed to be the "innovation bank". It promotes innovation in order to ensure that Europe remains at the forefront of the next industrial and digital revolution. This needs to be complemented by investment in infrastructure.

Infrastructures are not only essential to our quality of life, they are also a prerequisite for innovation.

Fiscal consolidation - required in many Member States to ensure fiscal stability - has seen Member States slash infrastructure spending, especially in crisis-hit euro area countries.

The perversion in this is, of course, that this undermines long-term competitiveness in already struggling economies.

With the support of EFSI, the EU budget guarantee of the Investment Plan for Europe, we now provide financing for smaller, new, higher risk projects, complementing many other facilities and initiatives run by the EIB and the EIF, namely in support of much-needed investment in innovation and infrastructure.

This is a public bridge over a critical financing gap as the market is notoriously risk averse when it comes to funding *de novo* infrastructures or the transfer of new concepts into the markets, even though there is strong need and demand.

But let us also consider European corporate investment: sure, it leads the recovery. Yet, by historical standards it remains timid and low.

In order to identify market failures in this area and optimise its products and initiatives, the EIB has surveyed corporate investment activities and financing needs in Europe.

It found that, though private sector investment is picking up gradually, a considerable share of European companies claims to have invested too little in recent years.

The EIB Group gave 33 billion euros of support to small businesses alone to help their growth, collaborating with our partner banks, which intermediate our loans to so-called SMEs.

That is more than a third of our total activity.

Our research also shows that firms with diversified financing are more resilient and agile. The financing mix is particularly important for small and innovative firms.

And then there are young people. I talked about disenchantment and disengagement earlier. This affects young people in particular. Since its launch in 2013, the EIB's "Skills and Jobs - Investing for Youth" programme has provided more than 37 billion euros to projects that support jobs and skills improvement for young people.

These are concrete results that show the impact of our work on Europe's future.

Every part of financing by the EU Bank is complementary to others, as the EU Bank is a crowding-in bank.

While the EIB naturally stands ready to deploy its means to promote sustainable and inclusive growth, important aspects remain outside the EIB's immediate field of influence.

First are regulatory barriers to investment.

Second, the EU economy remains a bank-based financial system. The health of the banking system and its ability to absorb and complement diverse financing needs is critical.

Completing the European Banking Union and Capital Markets Union is urgent because it will help stability, regulatory certainty, and a true common market.

So, to summarise: Yes, Europe faces fundamental challenges and more bold action will be needed to fully overcome them.

What gives me confidence is my belief in our common values and our institutions' ability to deliver on these - such that populist alternatives, appealing as they might seem after a long crisis, will lose their lustre.

Thank you very much.