Dr. Werner Hoyer
President
European Investment bank

Speech for the Euro50 group/CIGI Breakfast Meeting on "Strengthening the Eurozone",

Washington DC, 15 October 2017

(to be checked against delivery)

Ladies and Gentlemen,

We are here to discuss "Strengthening the Eurozone".

Looking around the room, I think it is clear that we will hear this morning some deep insights into the process of building and strengthening the institutional and regulatory architecture of Europe and the Euro Area.

I will touch on these issues too.

Let me take this opportunity to stress the obvious, namely that supporting investment matters terribly.

It is part of the overall common economic policy response of the EU.

We have done a great deal to make the Eurozone more resilient to economic shocks, and we can do much more, but ultimately we need the Eurozone economy to be strong - structurally.

This is the key to financial system stability and long-term debt sustainability.

If we are in a stronger position today it is in no small measure thanks to the support we have given, as a Union, to investment in the real economy.

The state of public and private investment in the EU

The impact of the crisis on investment was severe, and we are still far from being back to normal. In the EU and in the Eurozone, the share of public investment to GDP, for example, has declined steadily in recent years, reaching the lowest level on record in 2016.

Rather than acting as a counterbalance to an economic shock, capital spending by the public sector fell disproportionately due to overstretched budgets.

Governments dealt with resulting fiscal constraints by cutting growth-friendly investment, preferring to protect current spending such as social transfers.

Our research at the EIB suggests that investment in infrastructure has now stopped declining, but it has stabilised at 20% below pre-crisis levels.
This is bad for Europe’s long-term growth potential, and it is also bad for the process of economic convergence in the EU and the Eurozone.

The decline in infrastructure investment is greatest in the countries that score worse in terms of infrastructure quality.

In other words, convergence has weakened.

The picture is rosier with regard to corporate investment, which has recovered to pre-crisis levels.

Our own EIB Investment Survey of European firms shows that their outlook for investment remains positive.

As the economic outlook improves, most firms consider that their past investment was inadequate and they are trying to catch up.

As they do that, they focus on technology and product development to enhance competitiveness.

The state of investment finance

This investment growth is helped by financing conditions that have markedly improved for most firms.

But there are important exceptions: conditions have not improved for small firms, for young and innovative firms that tend to invest a lot in intangibles and can't offer much collateral, and for firms in certain countries where financial systems are still showing strain.

We urgently need a financial system that channels savings efficiently to the best productive investment opportunities within the European single market.

Banking Union and ongoing fragmentation

Much has been achieved with the Banking Union project to ensure that banks are robust and able to withstand future financial crises.

But we still have problems.

The countries in Central and Eastern Europe need to attract a large share of European investment given their lower level of economic development.

But these flows have not really recovered from the effects of the sovereign debt crisis.

In fact, these regions have joined the rest of Europe as net exporters of savings.

Foreign direct investment no longer increases as it used to.

For the long-term convergence and prosperity of the Euro area and Europe as a whole this is a real concern.

It suggests that many of the improvements we see in the financial markets may be due to the current extraordinary monetary stimulus, rather than reflect a durable strengthening of cross-border investment.

The gradual withdrawal of the stimulus provided by the ECB may reveal new challenges and it will need to be done with great care.

Market financing and CMU

We must continue to make progress with the Capital Markets Union, and support the development of market sources of finance as a complement to sound bank lending.

Less reliance on bank lending would improve economic resilience and help make recovery from shocks faster.

But diversification won't happen overnight.

Our survey data suggests that EU firms themselves are not yet looking to change their finance mix.

Bank financing still accounts for some two thirds of firms' external financing, and we have a lot of work to do to reshape capital markets so that a richer mix of funding sources becomes a viable option for more firms.

Proposals for EU fiscal capacity

So while much has been achieved in strengthening the Euro area, we still have a way to go. There is talk of developing some kind of common fiscal capacity to help absorb shocks to the Eurozone economy.

These are welcome discussions, but the idea of setting up new collective risk-sharing measures remains very controversial, especially without complementary EU-level oversight.

I don't want to go too much into the pros and cons of the different proposals, but just make one or two comments.

The proposal for an EU Economy and Finance Minister to administer an EU budget, or budget line, is interesting, but raises so many political and also legal (constitutional) questions that we must not concentrate exclusively on this point.

Instead, let's have a look at the financial architecture of the EU and the Eurozone.

The evolution of the ESM into a "European Monetary Fund" is an idea that the EU Bank looks at with special interest.

The EIB provides very important investment financing to programme countries.

A future EIB-EMF relationship might be rather like that between IMF and the World Bank.

There is great potential for complementarity and mutual reinforcement between the two institutions.

We should give this scenario serious thought as we consider how the roles of the different EU bodies fit together.

All the proposed fiscal capacity initiatives largely fail to address structural investment deficits and it is, of course, not their immediate aim. But there is a clear need for more to be done here.

And this is where possible additional investment schemes come into play.

This would be a preferable approach because the process of assessing the quality of projects is a long one and it is better to have a continuous and plentiful pipeline of projects that are eligible for protection as and when it is needed.

The EIB Group is the natural partner for fostering investments in Europe.

As a Treaty-based EU body, the EIB operates within the EU framework, delivering on EU policy objectives.

Furthermore, the EIB Group has deep knowledge of investment needs and financing conditions in all EU Member States, including of counterparties and local capacities, and already cooperates closely with Member State national promotional institutions.

Also, the EIB Group has the critical capacities in terms of project evaluation, impact assessment, selection, implementation and monitoring to support the efficient use of resources across the EU.

Finally, we have considerable experience of raising debt on capital markets and thereby leveraging scarce public resources.

Impact of EIB, including EFSI

Ladies and gentlemen,

This brings me back to the point I made earlier: strengthening Europe and the Eurozone is not just about dealing with the unexpected, but also about reform and investment for the long-term.

We need to do more to invest in innovation and the competitiveness of our economies; in education and skills; and in transport, energy and digital networks that are fit for sustainable growth in the 21st century.

We need to invest in the process of convergence and inclusive growth that is the foundation of European cohesion.

I am proud of what the EIB – the EU bank – has already been able to do in this regard. We provided over 80 billion euros of financing in 2016 – that's around 0.6% of EU GDP. That supported investments amounting to 1.8% of GDP.

The way we have implemented the European Fund for Strategic Investment demonstrates that the EU budget can be used more effectively to have a greater impact on the real economy by crowding-in financing.

EFSI is a clear success so far.

After almost 2 years, we are three quarters of the way to our first 315 billion euros target for investment supported.

All 28 Member States have benefitted already.

This success has not been easy to achieve. We have had to develop further our business delivery model.

The fundamental reason why EFSI has worked is its flexibility to adapt to evolving market needs, combining a sound market-driven approach to investment with the robust backing of the EU budget.

The EFSI set-up was carefully balanced to provide confidence to market players – a key pre-condition for crowding-in private investors.

In fact, EFSI has been complementary to our established lending activity, allowing us to target areas of higher-risk, higher impact financing to expand our impact overall.

And that impact is not small.

EIB-supported investments will make a huge difference to jobs and growth in Europe over years to come, both through a short-term boost to activity and through a lasting impact on the productivity and competitiveness of the European economy.

Using the European Commission’s RHOMOLO macroeconomic model, we estimate that EIB Group supported investments in the EU in 2015 and 2016 – that is some 272bn euros of investment that includes EFSI financing – will create something in the order of 2.25 million extra jobs after 5 years, with a 2.3% increase in GDP. That's the short-term boost.

Over the long-term, it's the impact on productivity and competitiveness that is important.

After twenty years we estimate a level change in the EU economy of around 1.27 million extra jobs and GDP that is 1.5% higher than it would have been in a baseline scenario.

Those are just estimates, but I think they help us to understand the centrality of EU-level investment support – by the EU bank – to our efforts to strengthen the Eurozone and the EU, both in the short-term and over a much longer horizon.

As we discuss how to strengthen the Eurozone, let us not become so focussed on the immediate challenges that we lose sight of the long term goal of a sustainable, peaceful and prosperous Europe for all its citizens.

Thank you very much!