



# EU challenges, Investment and Investment Finance crisis, and the Role of the EIB

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European Investment Bank



## Outline

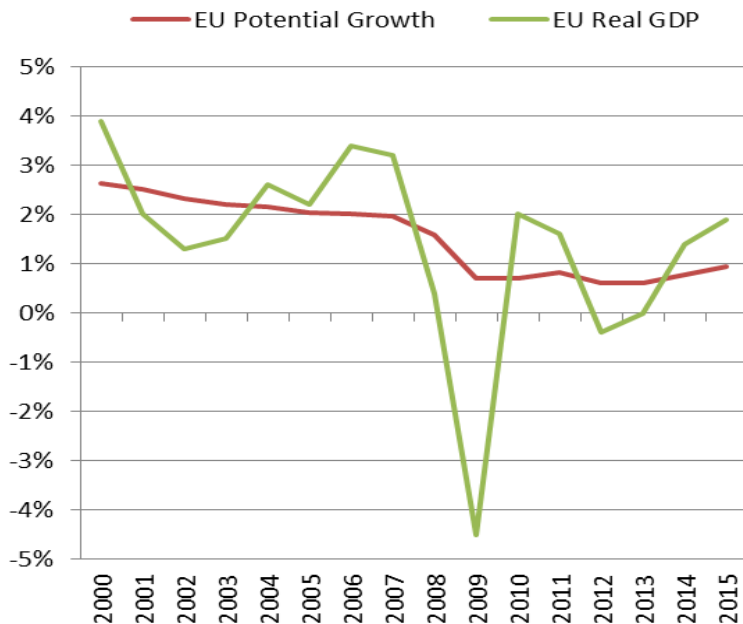
- **The EU challenges**
  - The Investment and Investment Finance crisis
  - EIB contribution to jobs and growth



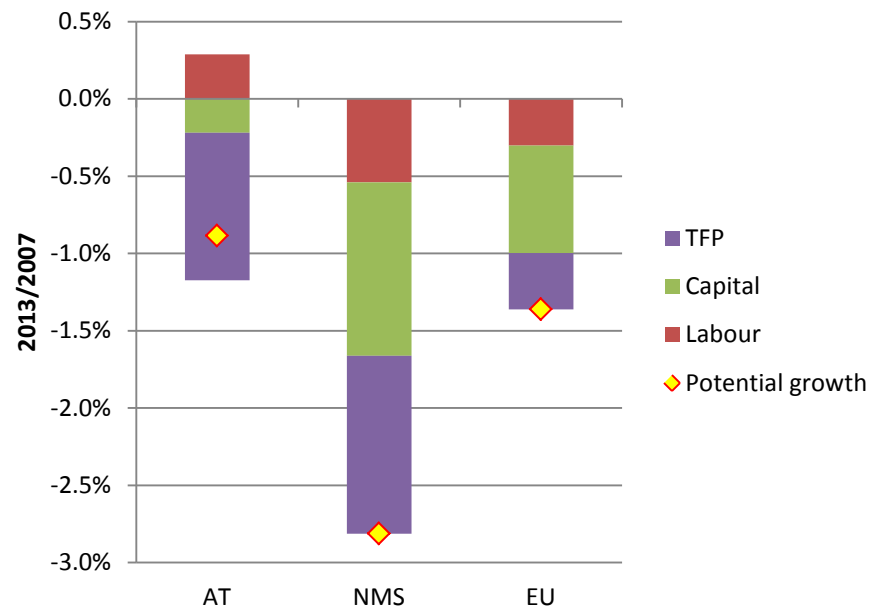
# Gradual recovery, but the crisis has led to a significant reduction in EU growth potential



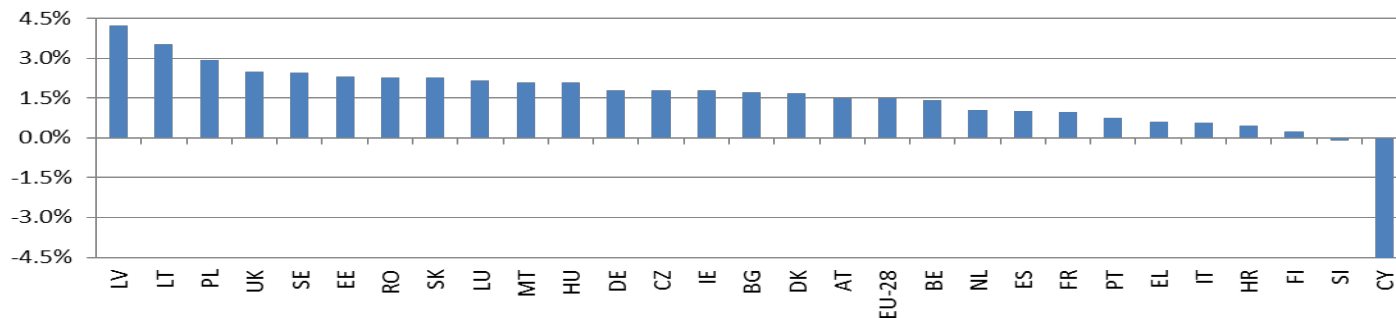
### EU real and potential growth



### Change in potential growth and its drivers - 2013 vs 2007



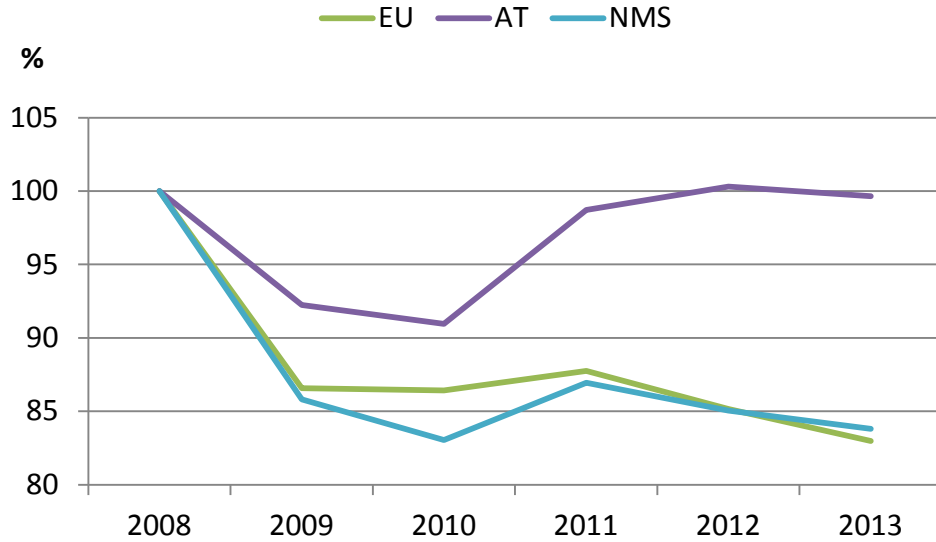
### Real GDP growth forecasts - 2014



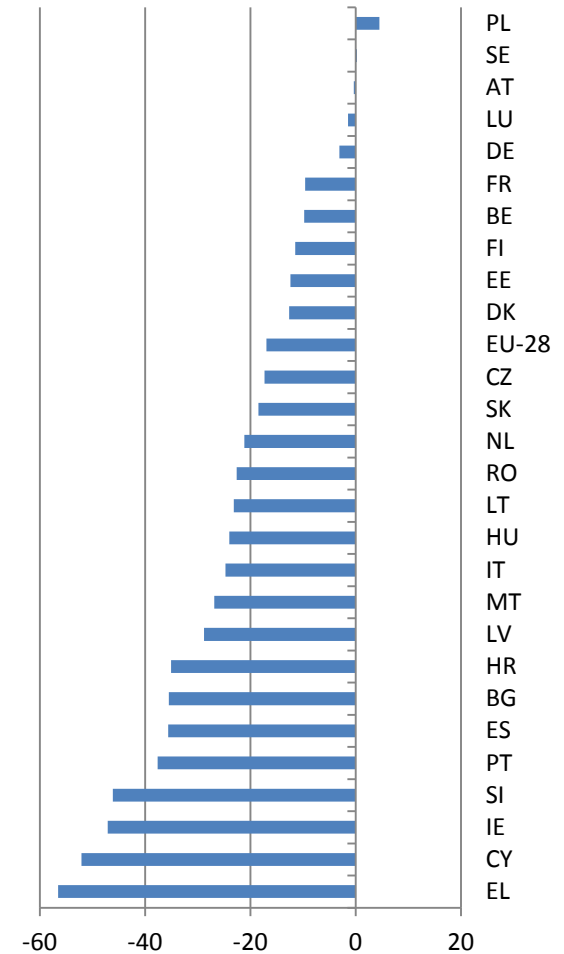
# Europe is still in a deep investment crisis



**Evolution of EU growth and investments**  
(2008 = 100)



**Change in investment between 2008 and 2013**  
(in percent)



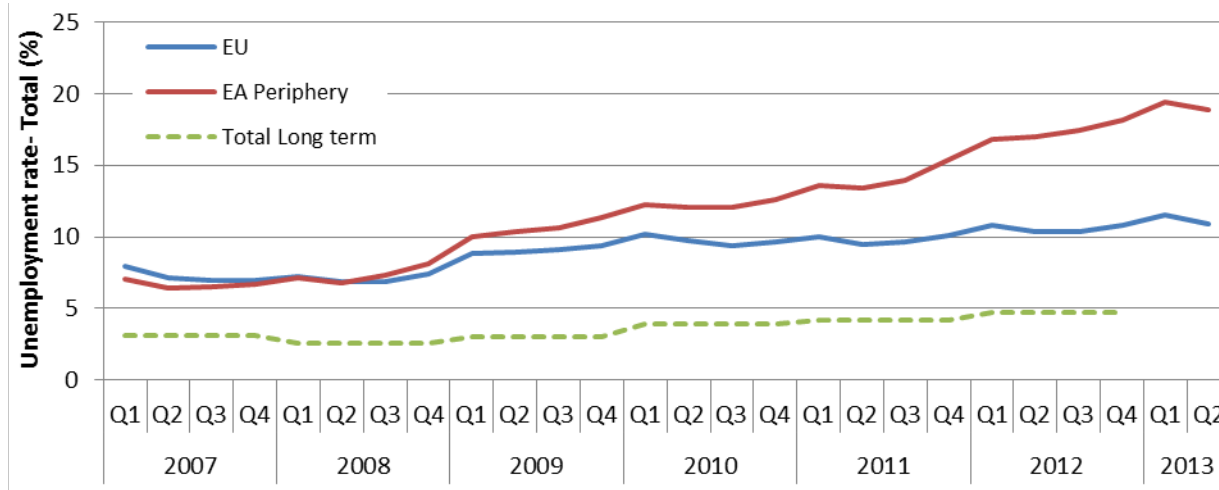
*Investment has fallen across the EU but the drop is distributed unevenly across the membership*

Source: European Commission

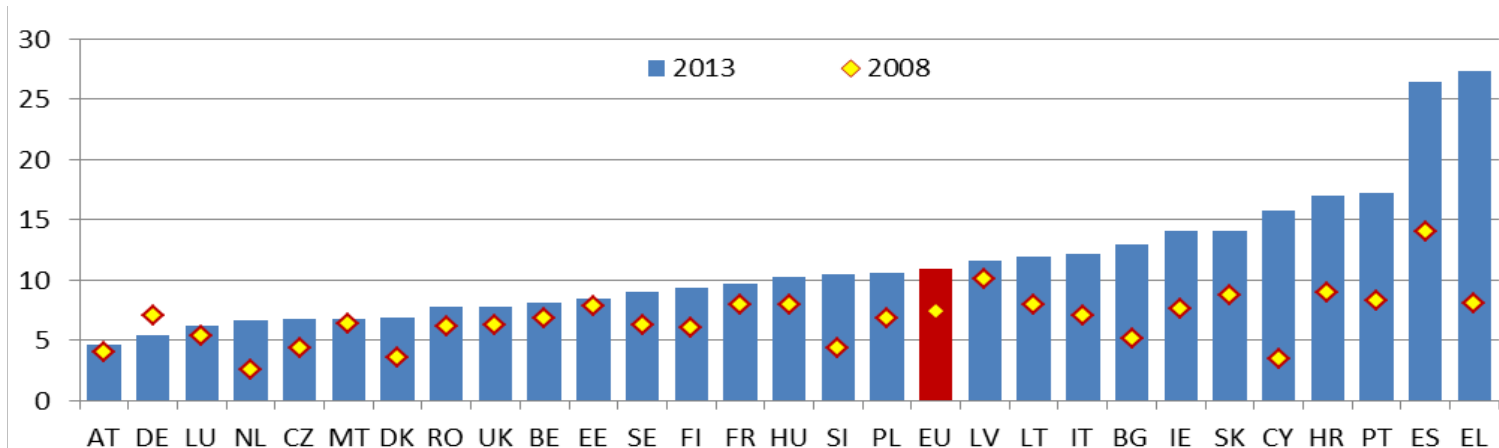
# European employment crisis brings to the fore short and long term challenges



Unemployment rate (total) (in percent)



Unemployment rate (in percent)

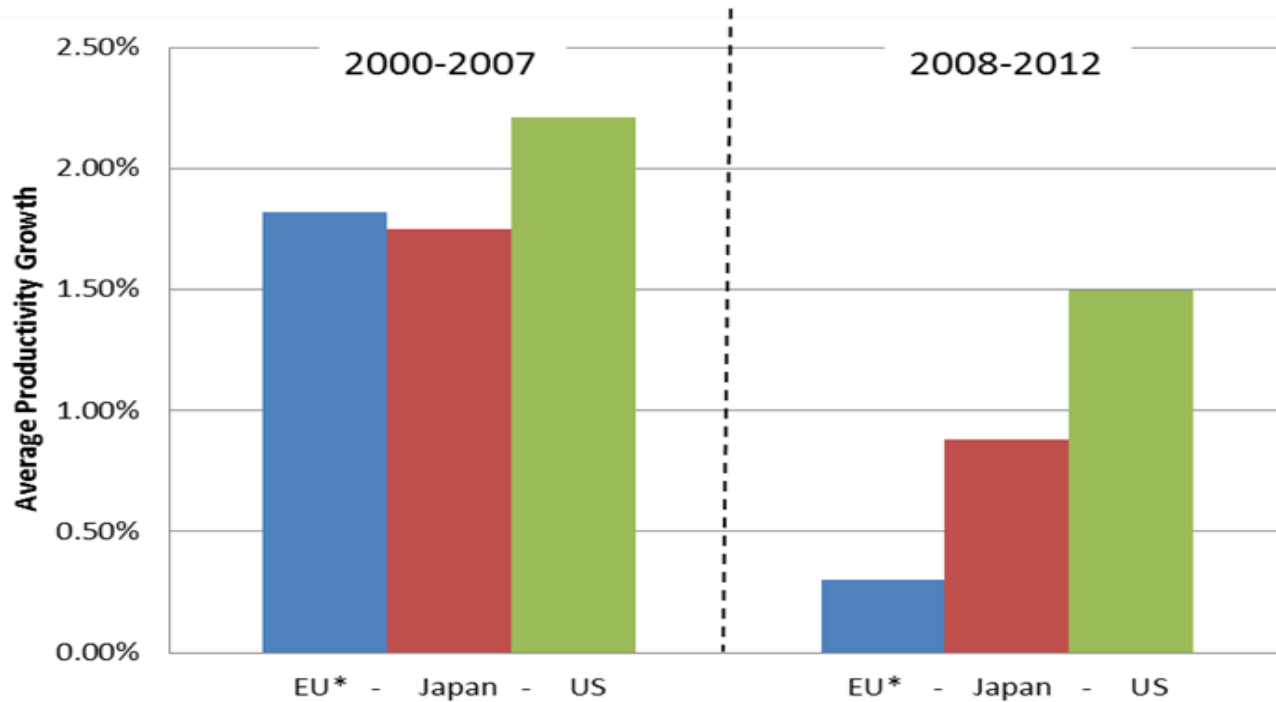


Source: Eurostat

# Europe is falling behind in terms of productivity growth



Average productivity growth for the EU, Japan and the United States



\* For comparability only EU-OECD member countries considered

*Productivity growth in the EU has trailed that in the US already before the crisis. The gap has widened since.*



## Outline

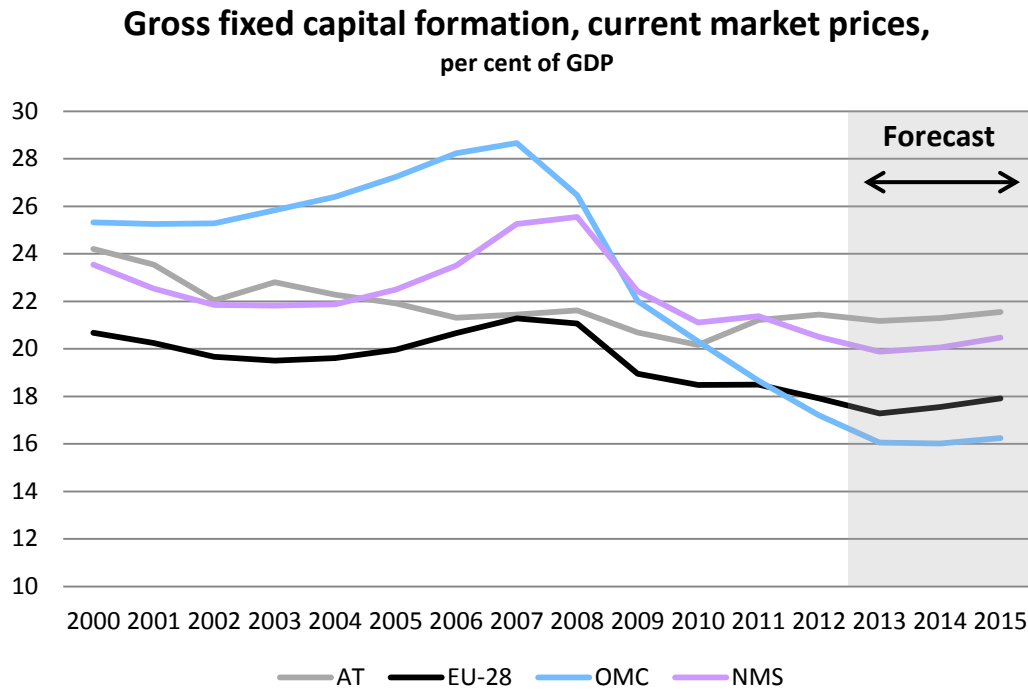
- The EU challenges
- **The Investment and Investment Finance crisis**
- The EIB contribution to jobs and growth

# Investment – structural differences



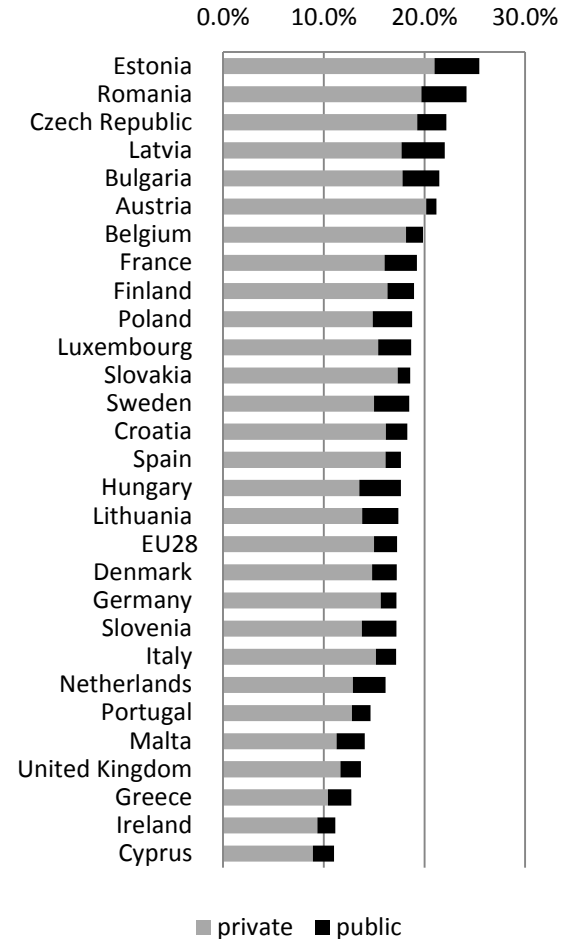
## Gross fixed capital formation

Percent of GDP



## Gross fixed capital formation

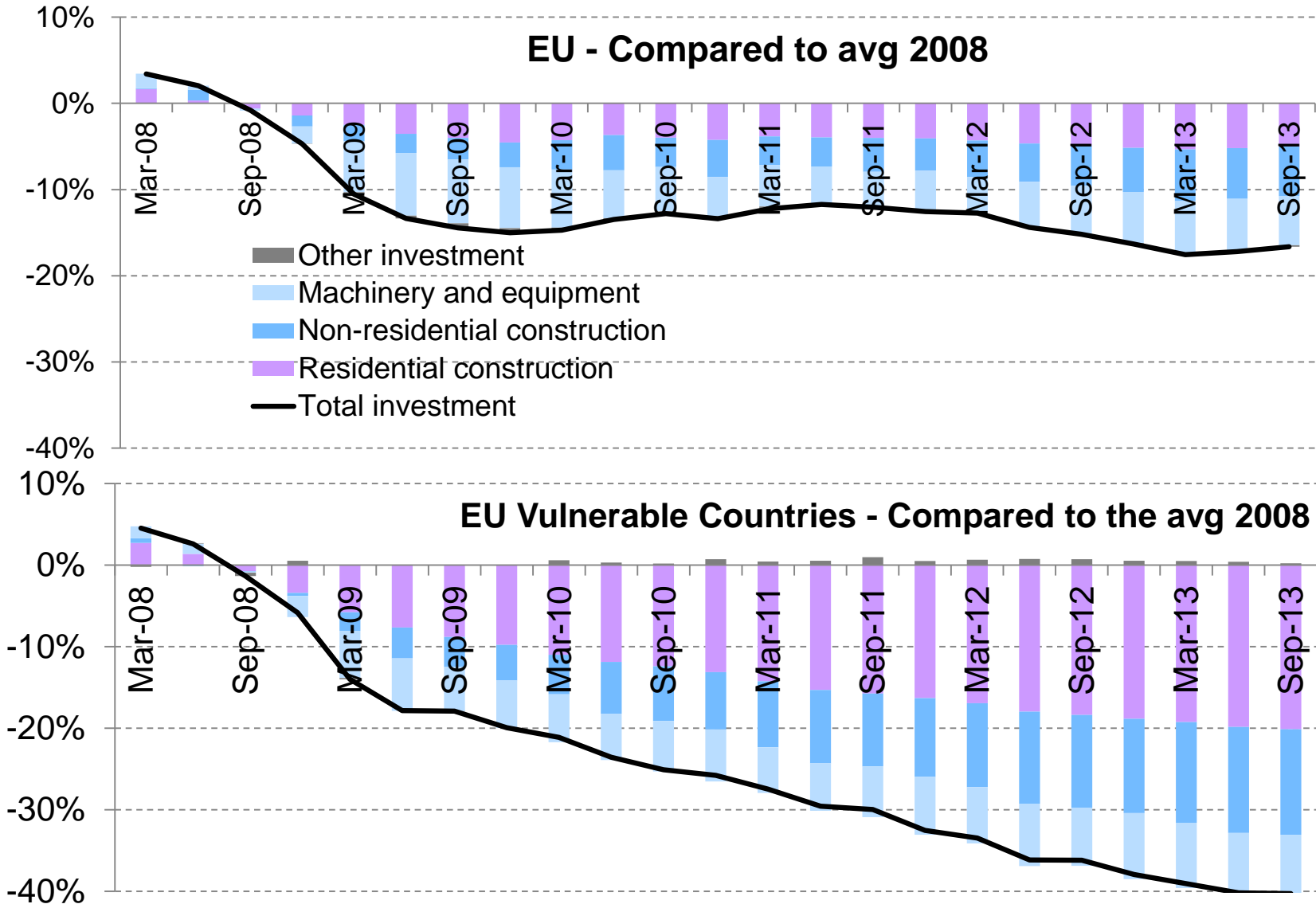
Percent of GDP, 2013



Source: AMECO, 2014 Winter Forecast



# Decline in gross fixed investment in the EU

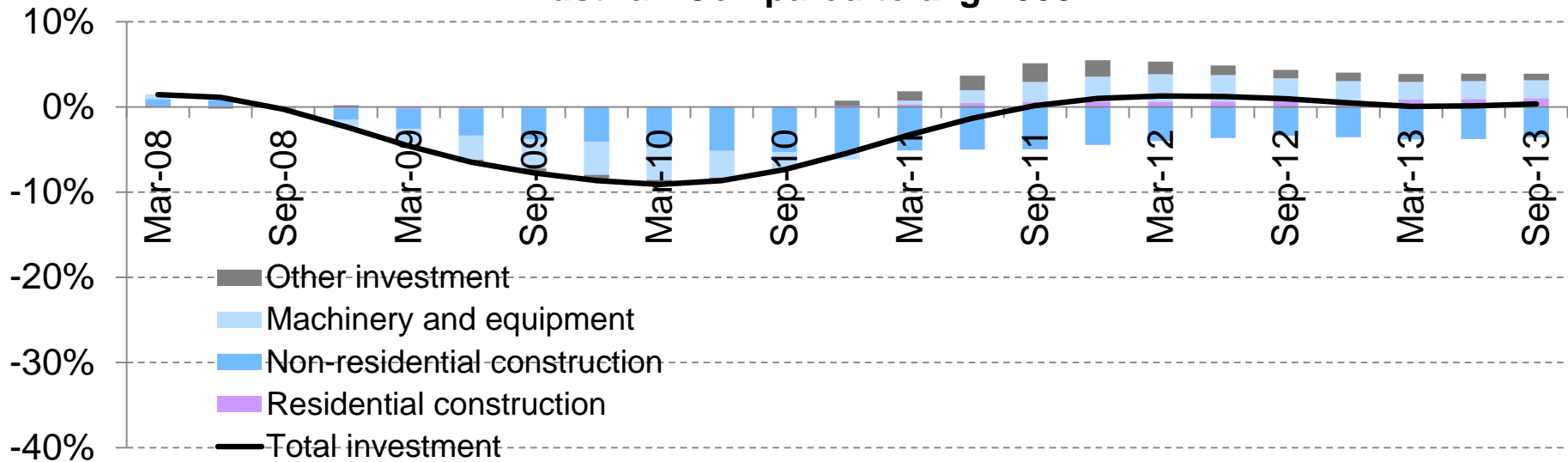




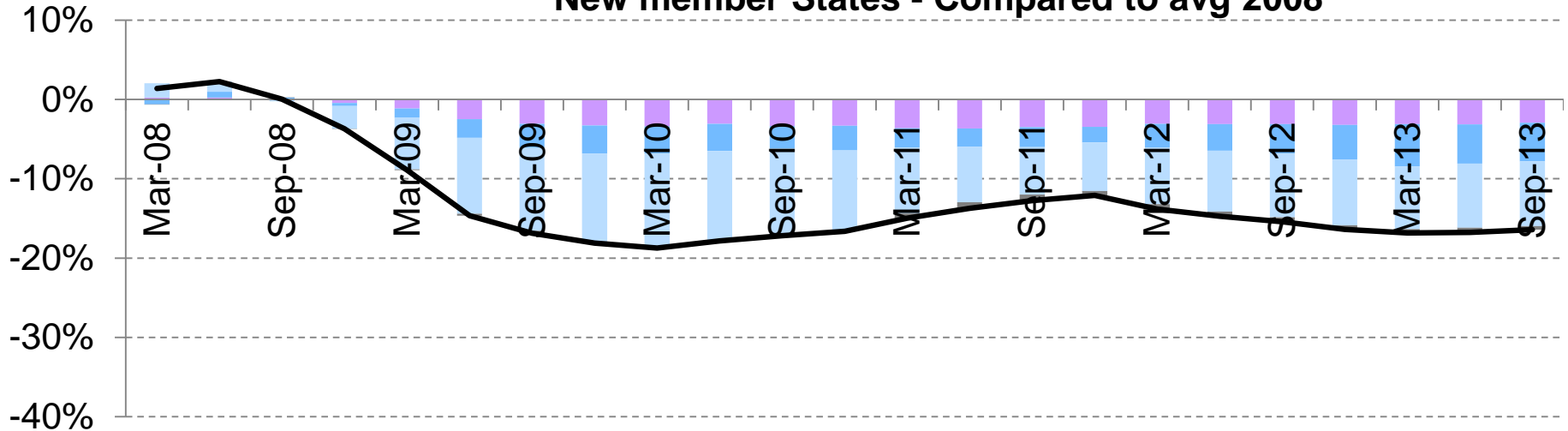
# A different story in Austria and in the NMS



### Austria - Compared to avg 2008



### New member States - Compared to avg 2008

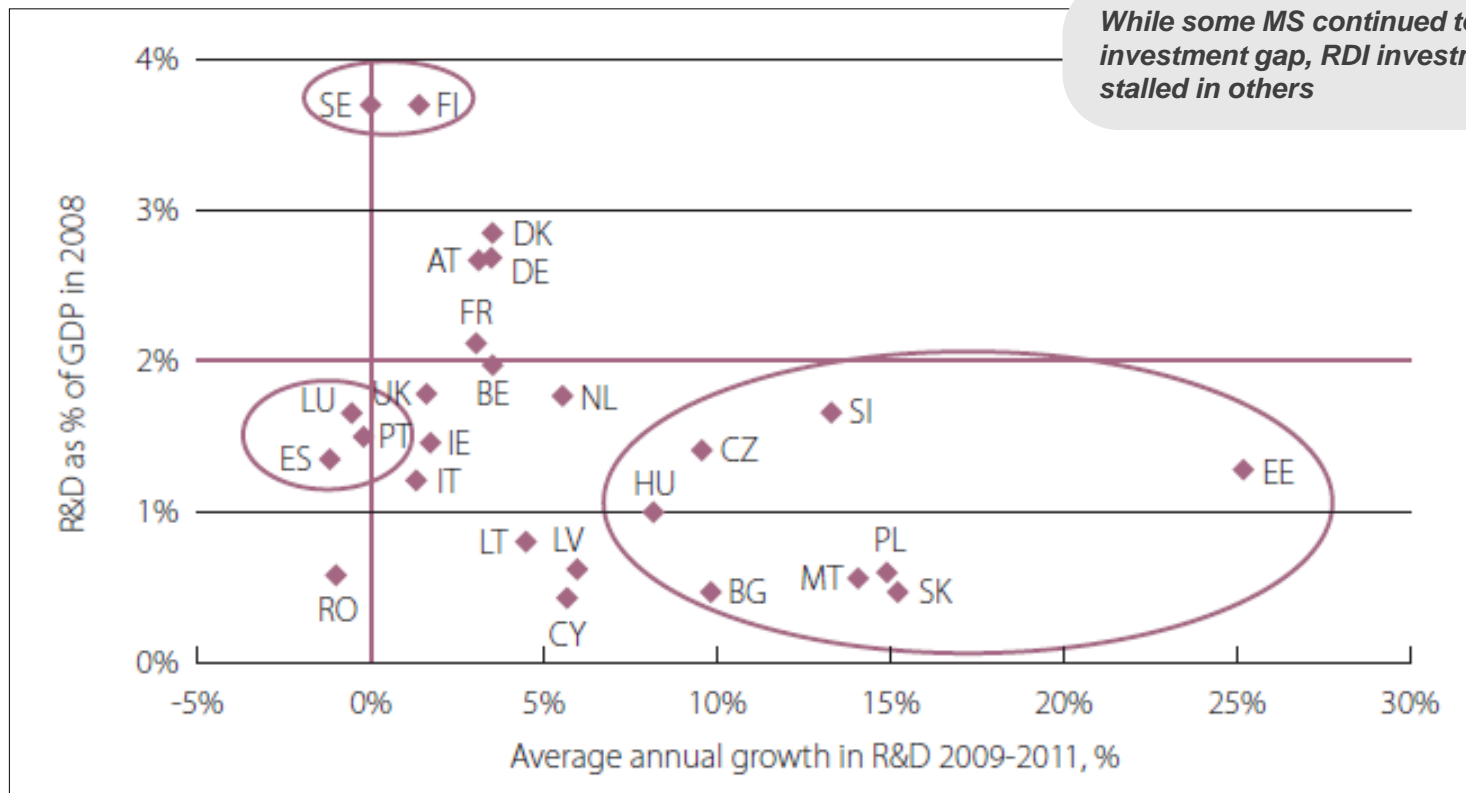


Source: Eurostat



# RDI investment gap

Average annual growth in R&D expenditure in 2009-2011 and R&D intensity in 2008

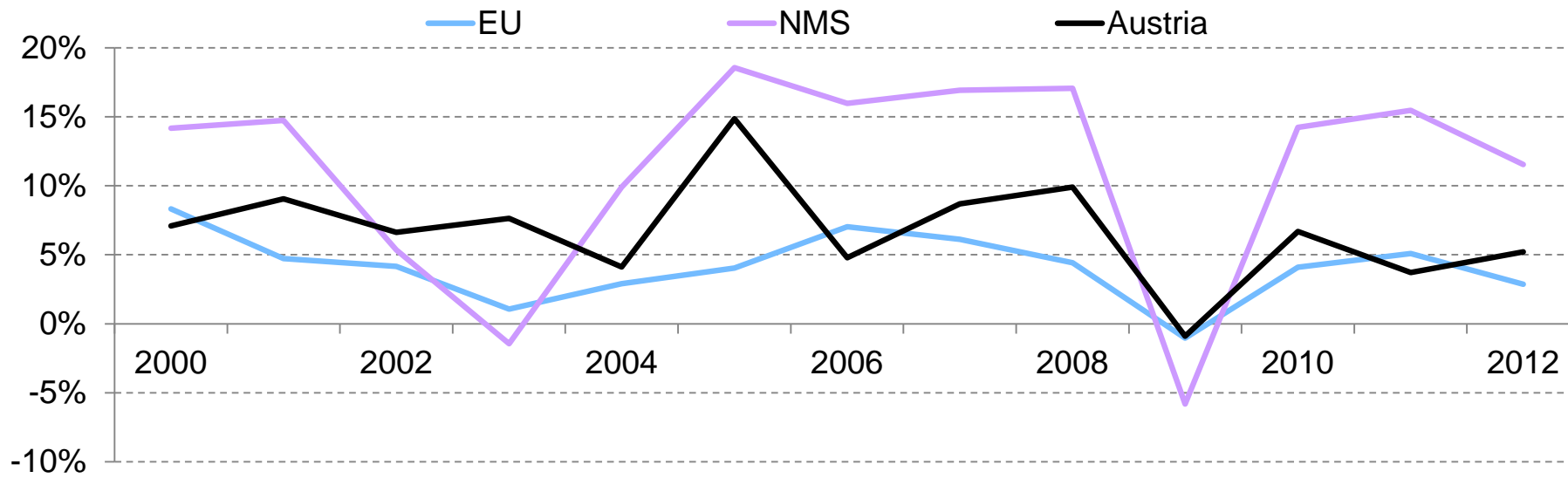
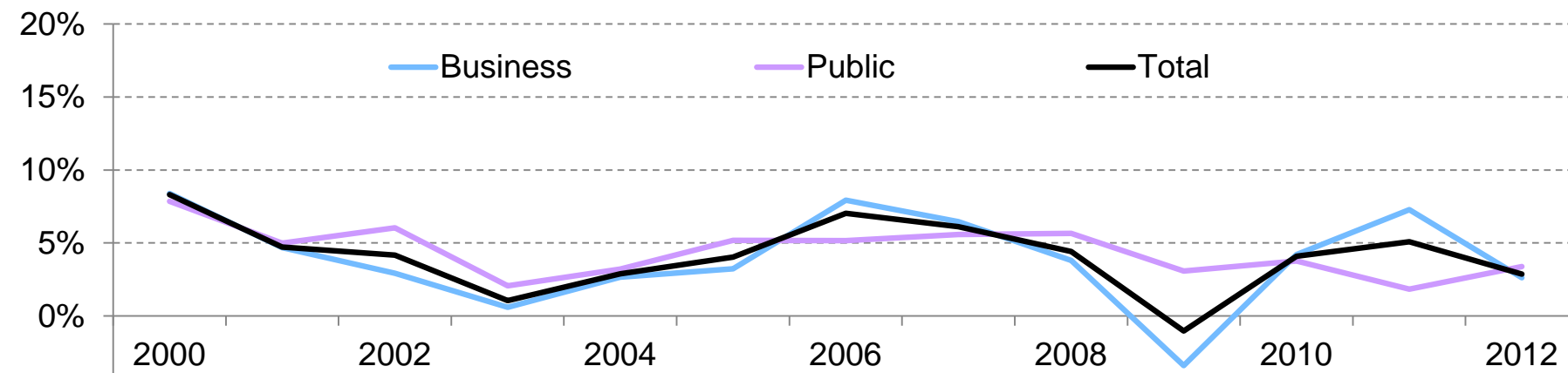


*While some MS continued to close their RDI investment gap, RDI investment growth has stalled in others*

Source: Eurostat



# R&D expenditures held up comparatively well

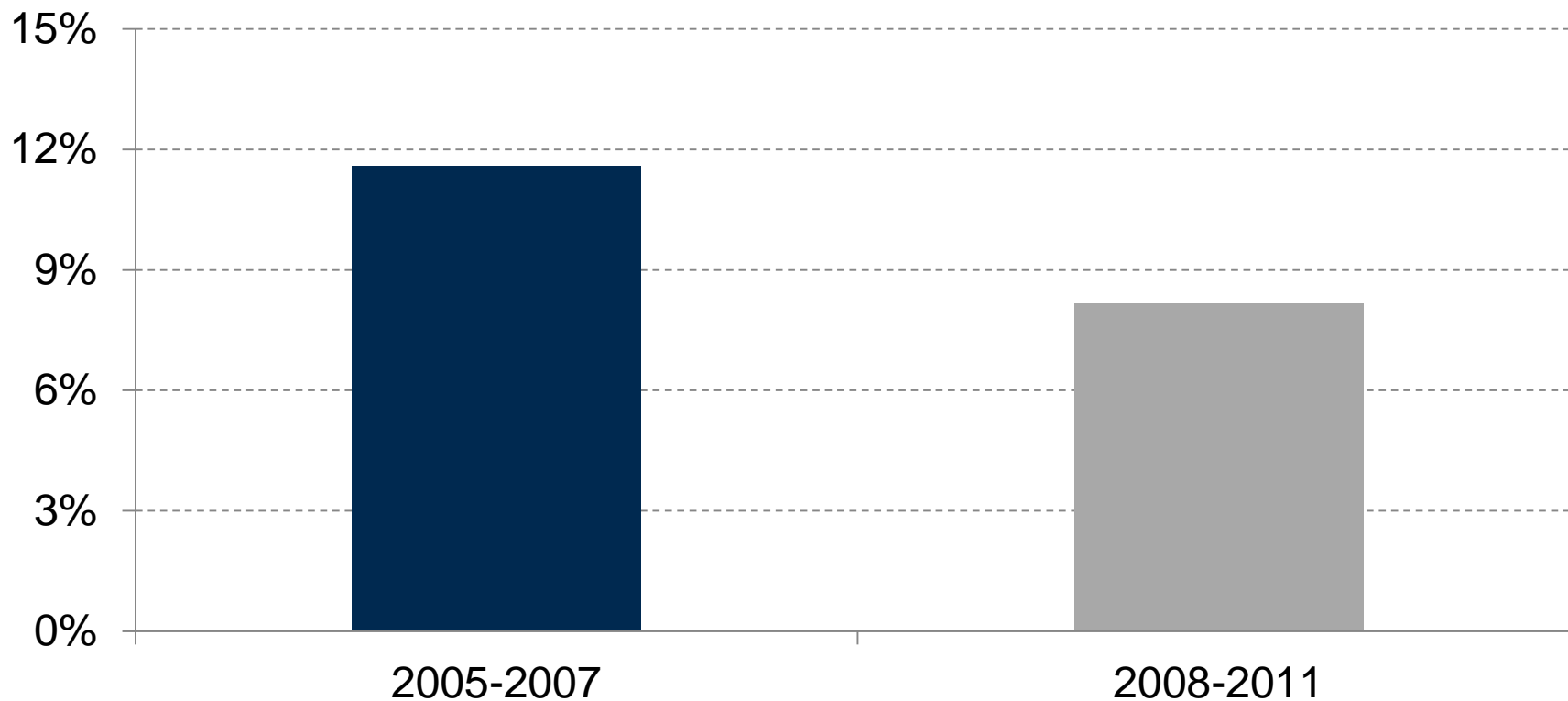


Source: Eurostat



## The impact of the crisis on investment performance

*Nominal annual returns on investment by non-financial corporations in the EU*

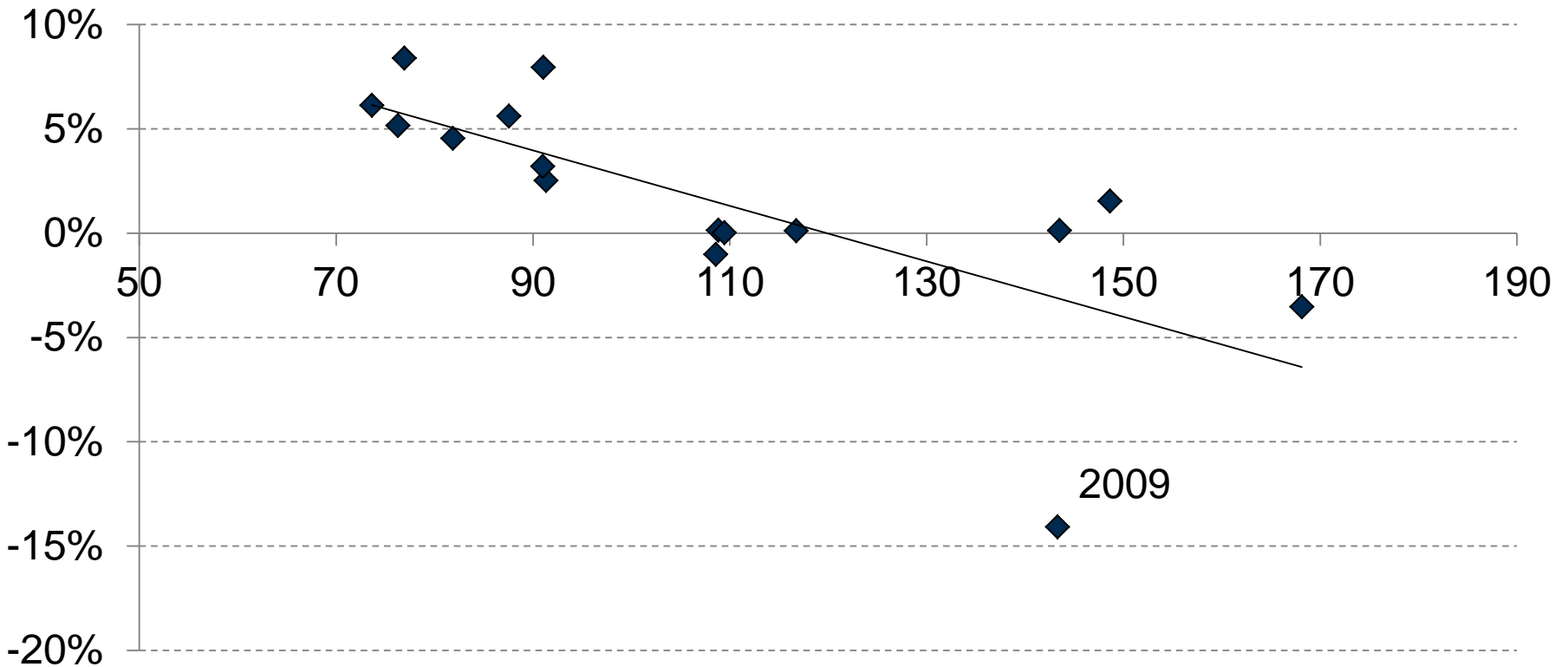


*Source: Own calculations based on the Orbis database (Bureau van Dijk)*

# The most immediate cause of the investment decline has been uncertainty



*Annual rate of change of business fixed investment against an index of economic policy uncertainty (1997-2012)*

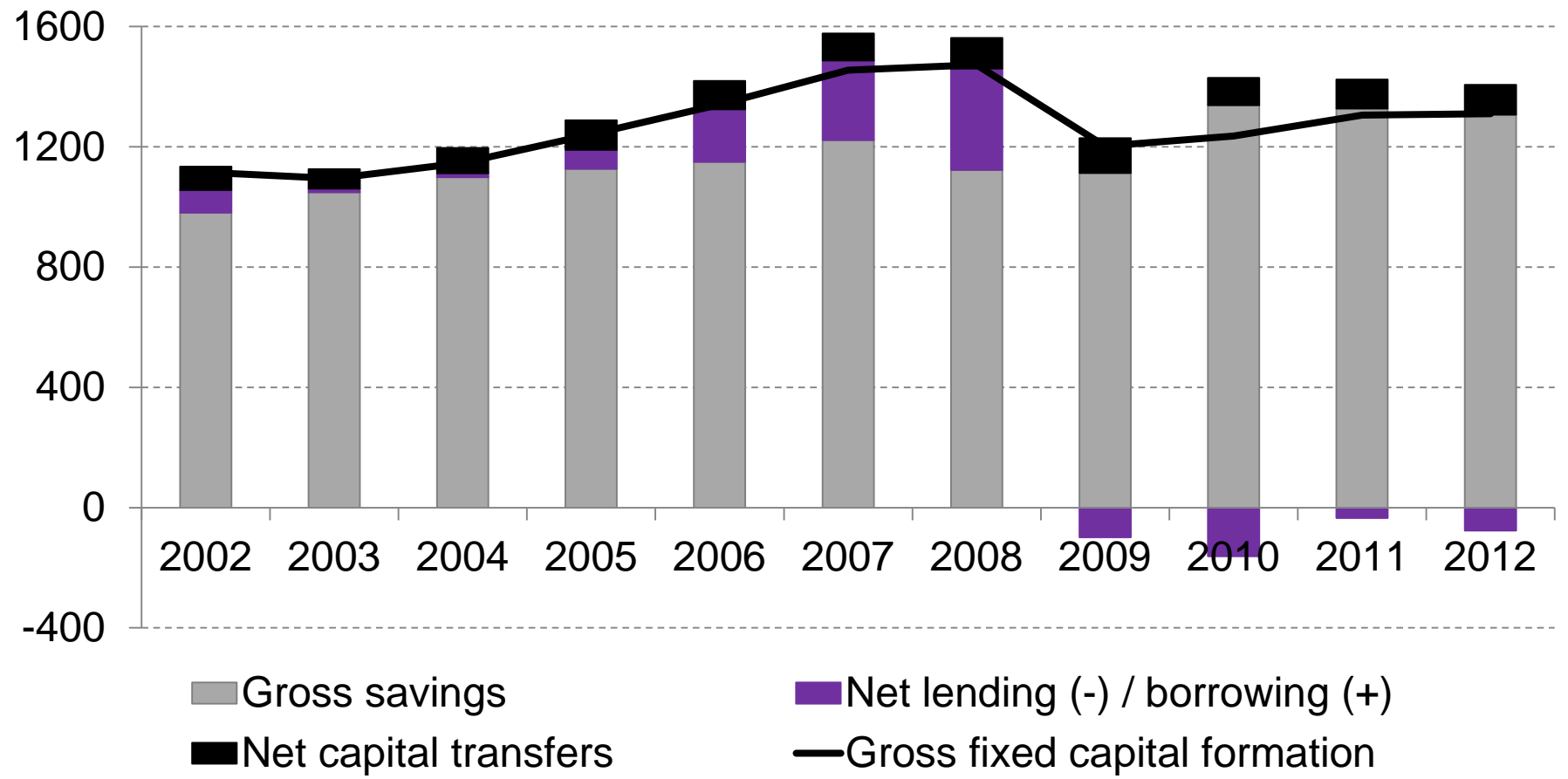


Source: Baker, Bloom, and Davis at [www.PolicyUncertainty.com](http://www.PolicyUncertainty.com) and Eurostat



## Finance is not a problem across the board, but it is a serious constraint for some firms

*Investment and savings by non-financial corporations in the EU (in EUR bn)*



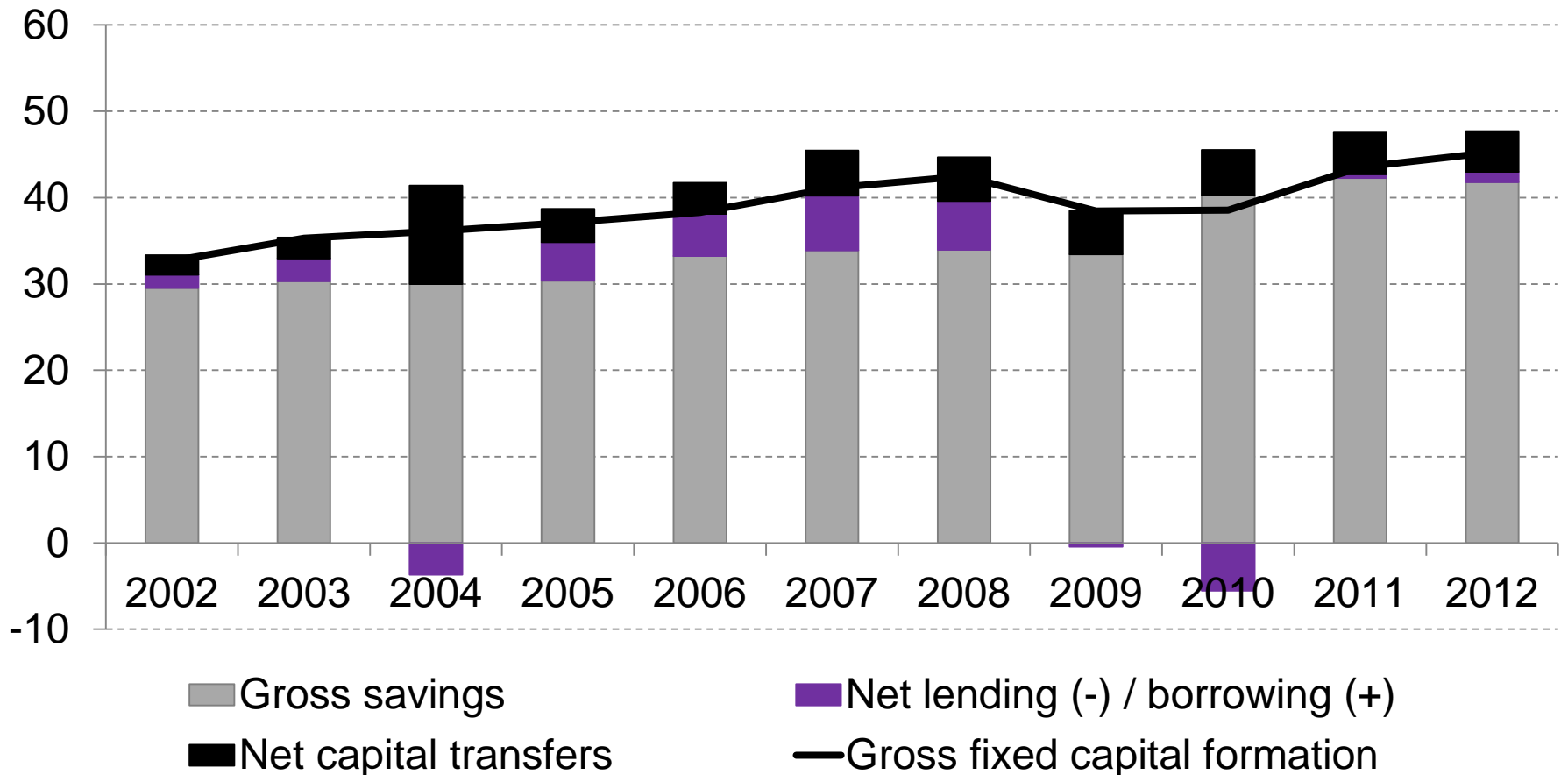
Source: Eurostat



# On aggregate, Austrian firms are becoming net borrowers again



### Investment and savings by non-financial corporations in Austria (in EUR bn)

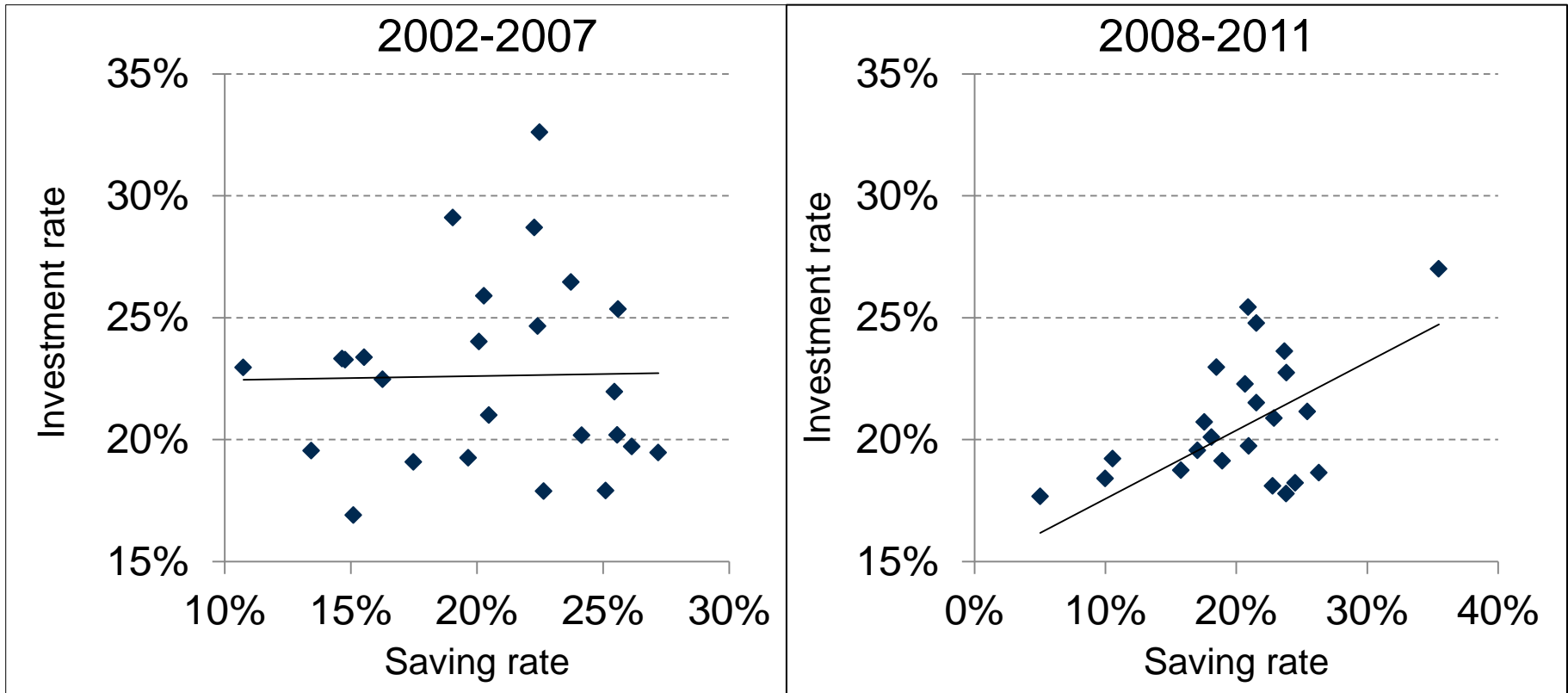


Source: Eurostat



# Financial fragmentation - the crisis has led to a collapse in intra-EU capital flows

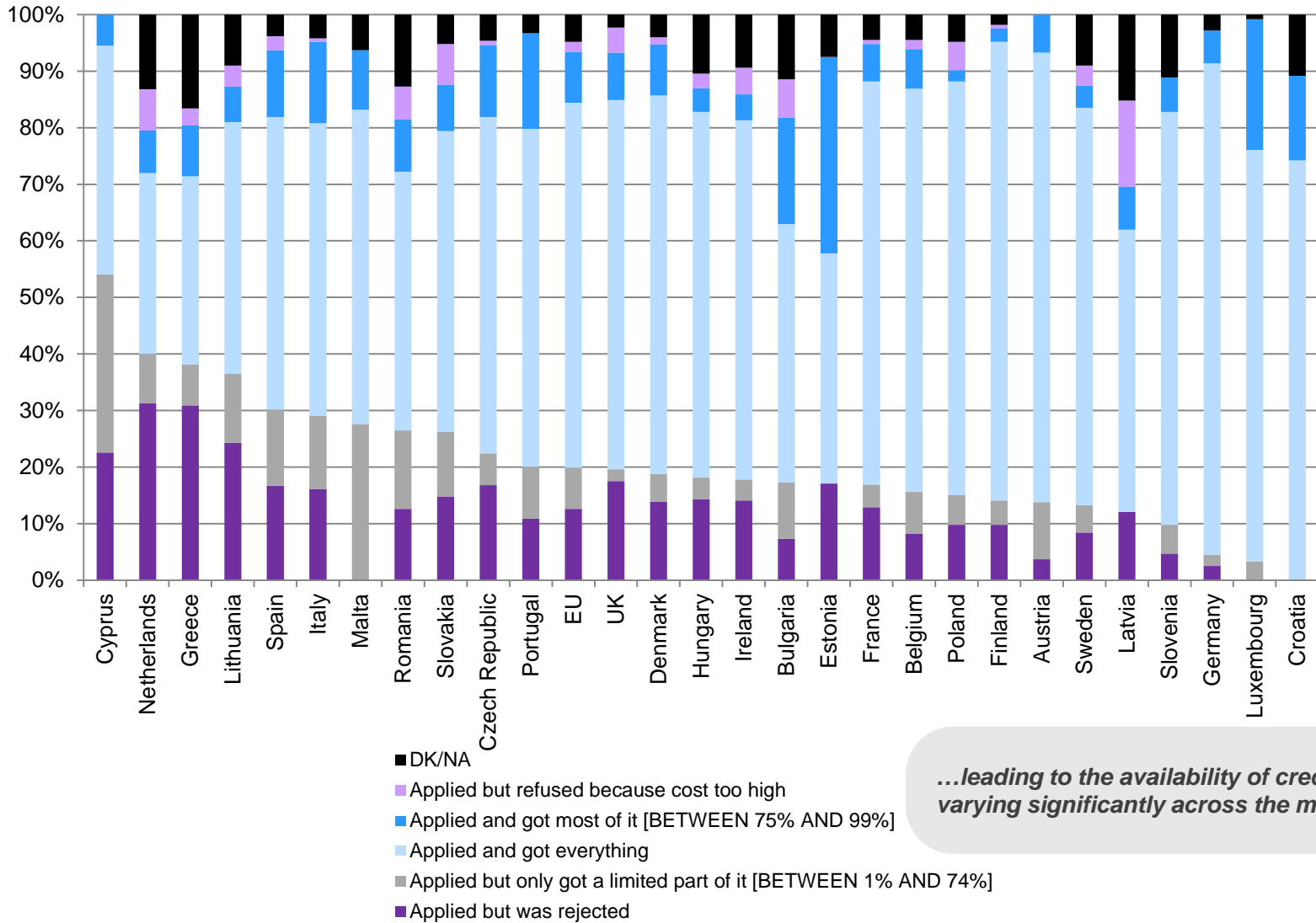
Correlation between national investment and saving rates



*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.*

Source: Wagenvoort and Torfs (2013) in *Investment and Investment Finance in Europe*, EIB Publication.

# Diverging access to finance conditions for SMEs



*...leading to the availability of credit to SME varying significantly across the membership*

Source: Commission – ECB surveys on SME finance



- ❖ Resolving uncertainty needs commitment and rapid progress on the EU institutional reform, including the Banking Union
- ❖ Public policy should seek to enhance bank lending and alternative finance sources where there is evidence of financing gaps
- ❖ Last but not least, with some countries suffering from persistently low investment returns, structural reforms that encourage a shift of resources to more productive activities need to be continued



## Outline

- The EU Challenges
- The Investment and Investment finance crisis
- **The EIB contribution to jobs and growth**

- **Providing finance and expertise for sound and sustainable investment projects – EUR 512.5 bn loan book in 2013**
- **Natural financing partner for the EU institutions**
- **Shareholders: 28 EU Member States**
- **Largest multilateral lender and borrower in the world**
  - Raise our funds on the international capital markets
  - Pass on favourable borrowing conditions to clients
- **AAA-rated and strong capital base**
- **More than 400 projects each year in over 160 countries**
- **Key products:**

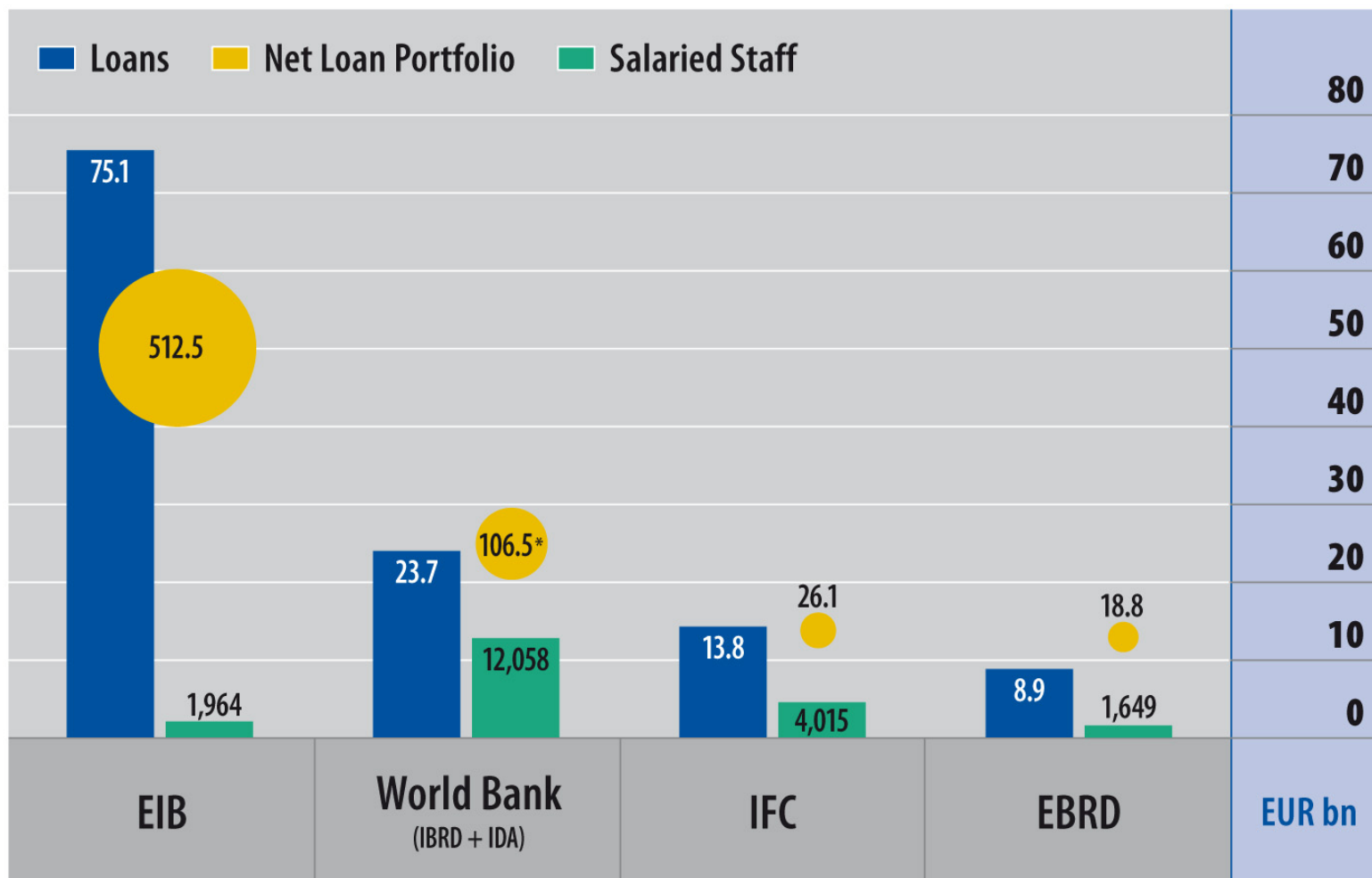
Loans

Guarantees

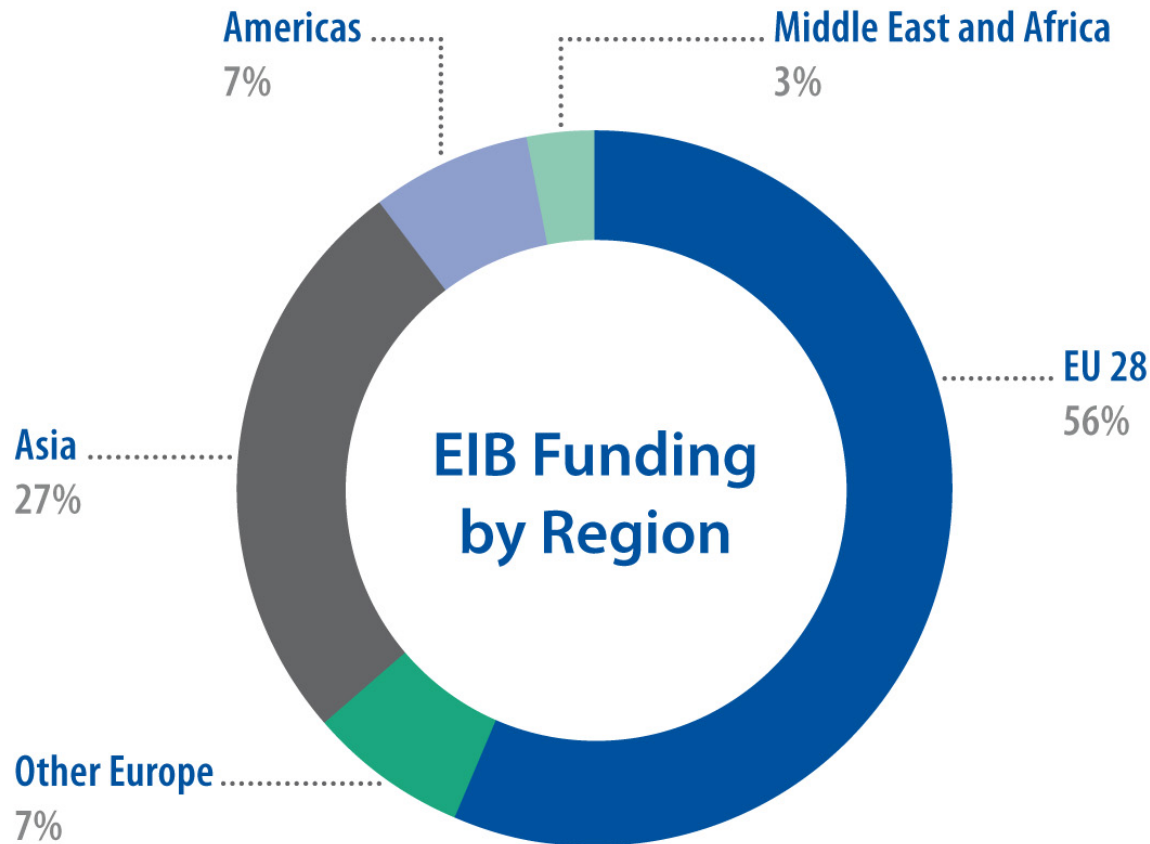
Equity

Risk-  
sharing  
facility

Advisory  
services

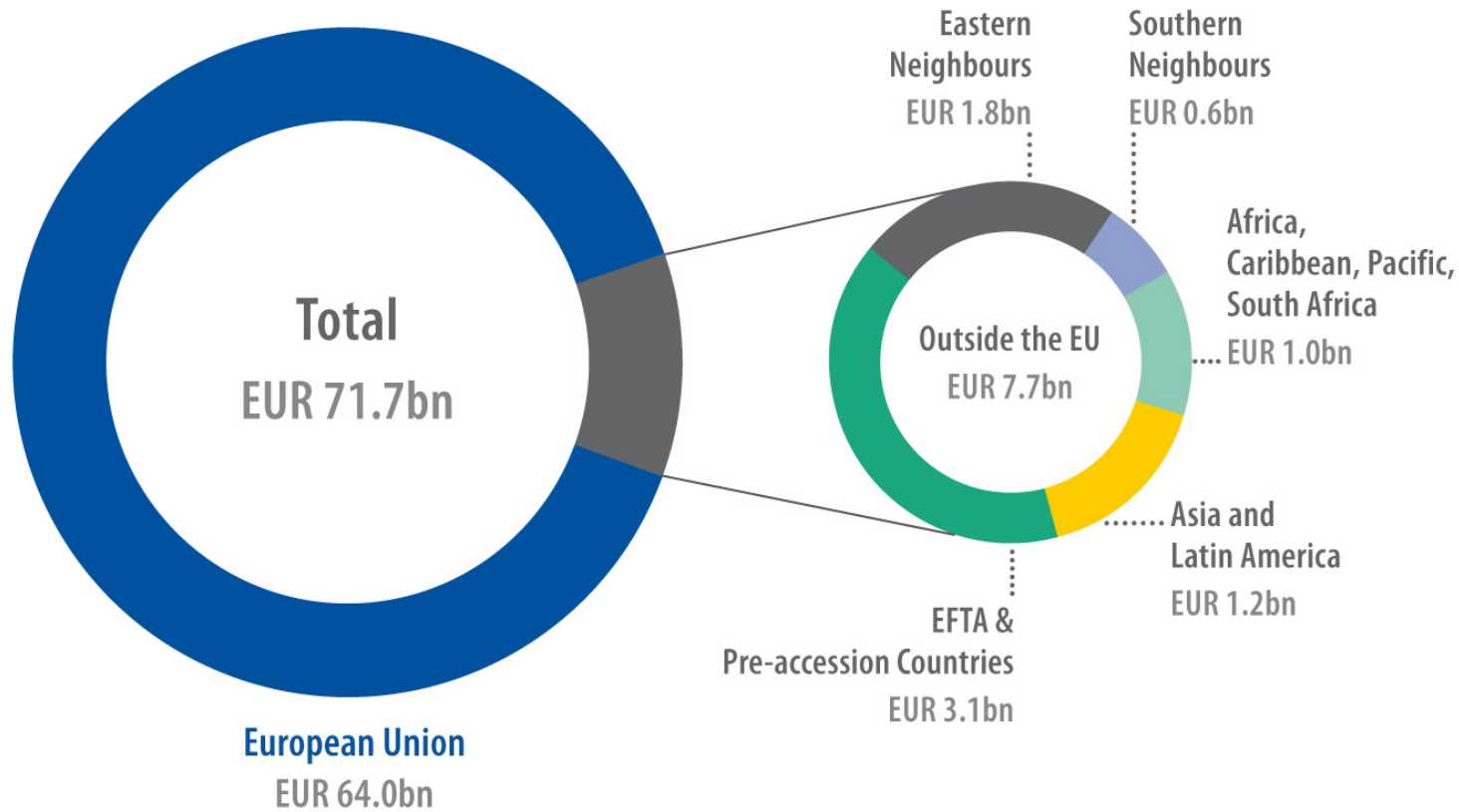


Notes: EIB accounts as at 31 December 2013. World Bank and IFC accounts as at 30 June 2013. EBRD accounts as at 31 December 2012. Loan portfolios are normally net disbursed loans. The IFC Portfolio (only) also includes equity investments. \*IBRD only



EUR 72bn: distribution of EIB bond issues by region

# Lending (signatures) in 2013: EUR 71.7bn

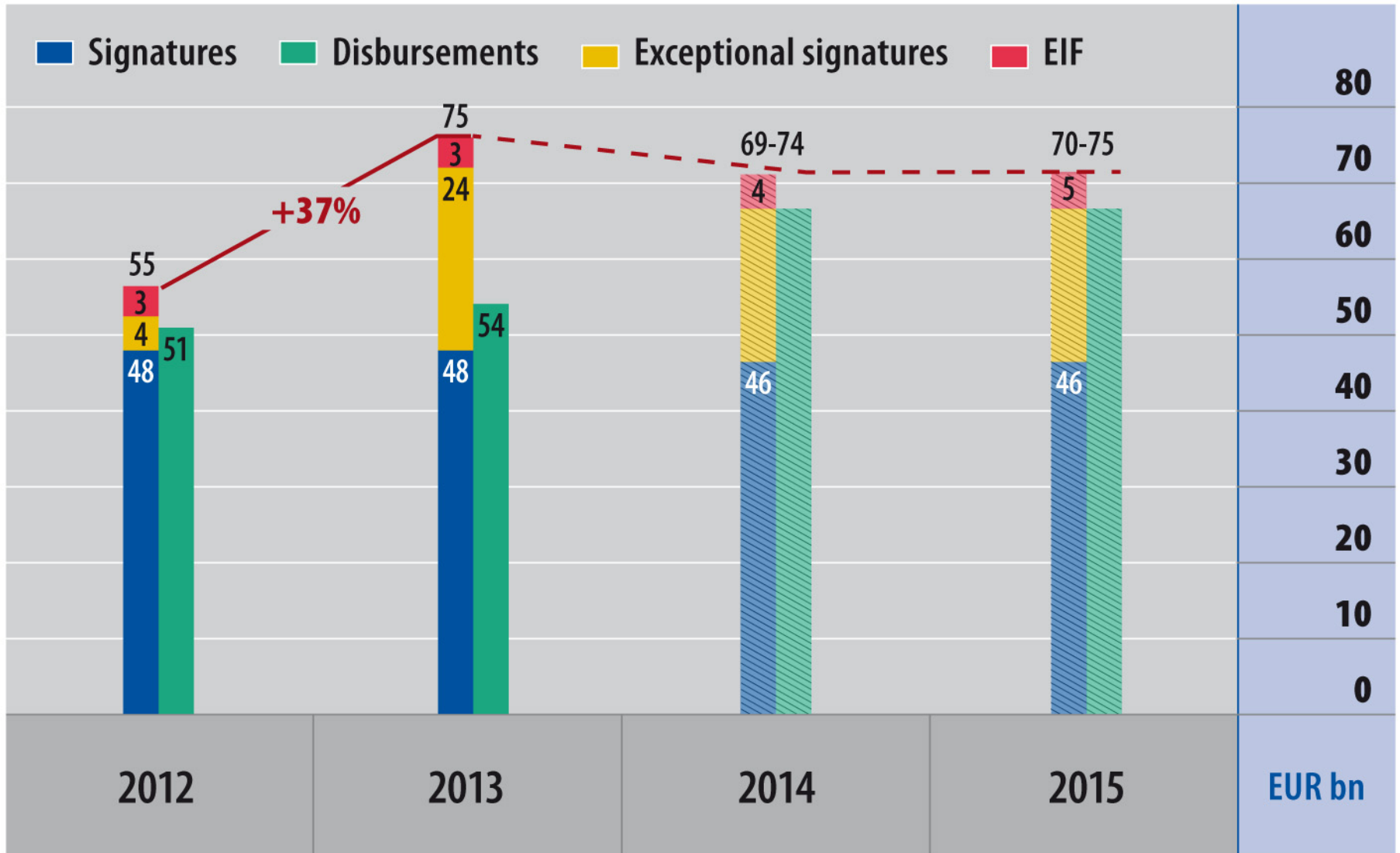


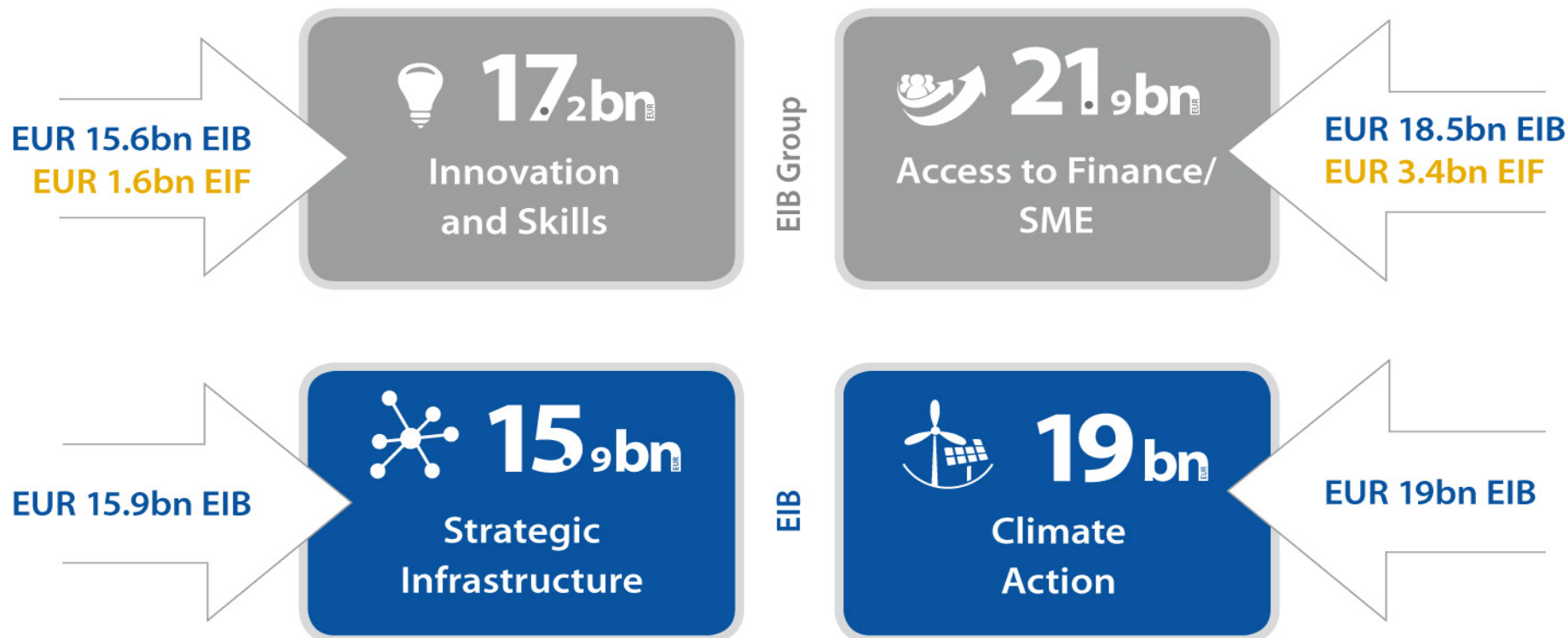
Pre-accession Countries include:

Candidate Countries: Iceland, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey.

Potential Candidate Countries: Albania, Bosnia and Herzegovina, Kosovo\*.

# Signatures and disbursements





EIB  
EUR 18.5bn

EIF  
EUR 3.4bn



Over  
EUR 50bn  
mobilized

700  
APPROXIMATELY

direct financial  
intermediaries



230 000

SMEs and Midcaps as beneficiaries

2.8m  
OVER employees in beneficiary  
SMEs and Midcaps

## Jobs for Youth

**4.6bn**  
EUR

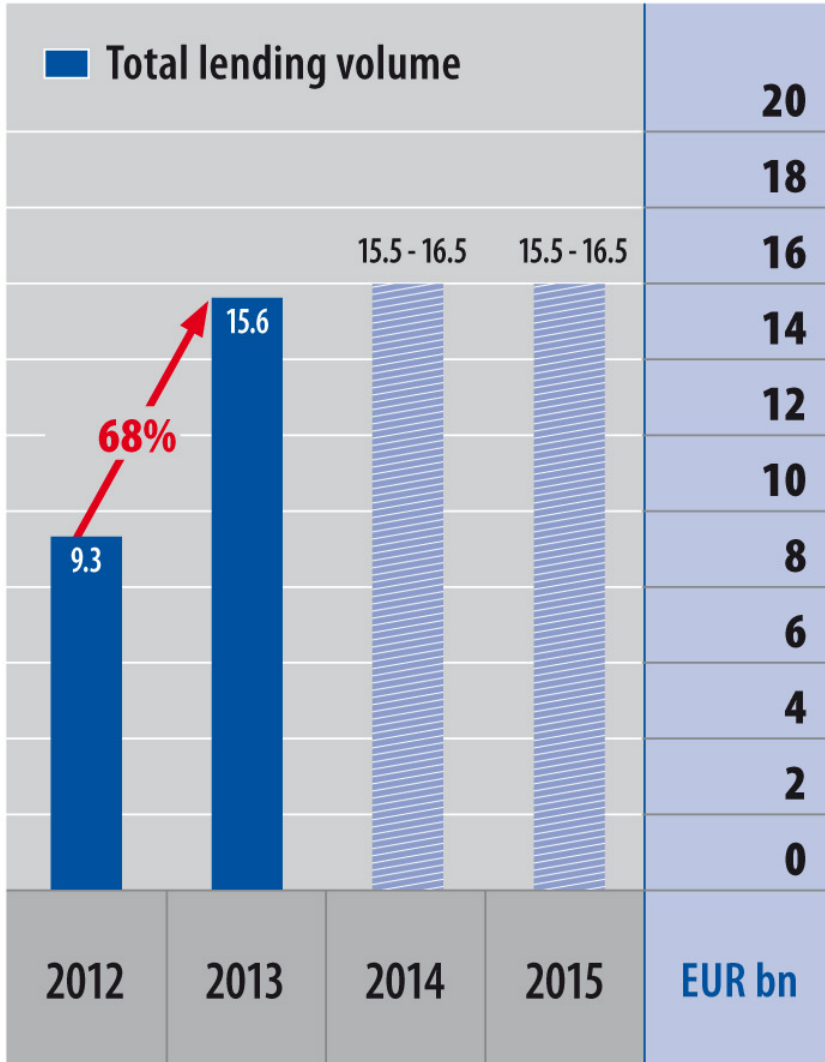
Improve access to finance  
for SMEs in EU regions  
with ↗ 25% youth  
unemployment

## Skills for Jobs

**4.5bn**  
EUR

Improve employability  
through education,  
vocational training and  
student finance

**9.1bn**  
EUR



**139** bn since 2000

**68%** volume increase


**Innovative financial instruments**

- **2013 Total in EU & Pre-accession – 10bn** (focus on RE & EE)

EIB finances:

- **Sustainability** through RE sources to reduce emissions and dependence on finite energy resources
- **Competitiveness** to create a genuine European single energy market to boost efficiency and control consumer prices
- **Technology** to support energy-related research, development and innovation
- **Supply security** through diversification, particularly with indigenous sources to cut the risks from dependence on external supplies.

## Building Europe's infrastructure



2013 in EU & Pre-accession:  
€11.6bn for transport projects (incl. TEN-T -  
favouring rail over roads)  
€4.2bn for urban renewal  
New tool – Project Bond (2 projects in 2013)

**1** Close the  
investment gap

**2** Tackle  
unemployment

**3** Restore  
convergence

**4** Mitigate  
financial market  
fragmentation

**5** Support  
innovation

**6** Invest in  
infrastructure &  
climate action



# The EIB in Austria

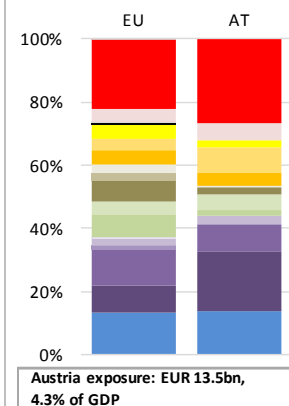
In one of the most advanced economies in Europe, the EIB can particularly add value by:

- financing select projects that strengthen Austria's ability to innovate by reallocating resources towards high-tech sectors and supporting innovative SMEs;
- financing TEN-T priority projects. Owing to its central location, Austria is part of six of these projects;
- supporting the re-orientation of the Austrian health sector;
- cooperating in national priority areas such as energy efficiency and
- increasing support to viable projects of Austrian companies and banks in Central and Eastern Europe.

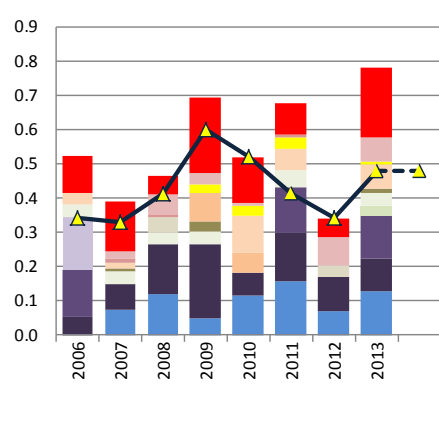
**EIB exposure in Austria is EUR 11.9bn or 3.9% of GDP (EU average exposure is 3.6% of GDP). The EIB signed of EUR 2.45bn in 2013, a 133% increase over 2012, predominantly in the SME/midcap, transport, energy, health and education sectors.**

### EIB's activity by sector - Austria

Exposure, Dec-2013  
% of total exposure



Signature flow  
% of GDP

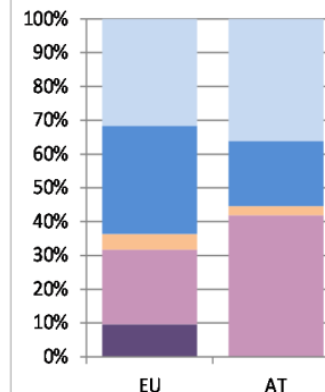


- SMEs & intermediated
- Other manufacturing
- Autom & transp equip
- Ref, Mining, Quarrying
- Agric, food
- Services
- Health, social
- Education
- Telecommunications
- Composite infrastructure
- Water, sewage
- Urban infrastructure
- Urban, inter modal tr.
- Other transp.
- Air transport
- Sea transport
- Roads, motorways
- Railways
- Energy
- EU Average

Source: EIB

### EIB's activity by contract counterpart

Exposure, Dec-2013  
% of total exposure



Source: EIB



# The EIB in CESEE (NMS and other Balkans)

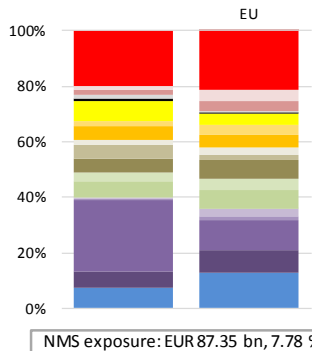
**In a challenging and varied economic environment, the EIB can particularly add value in CESEE by:**

- Co-financing with EU funds priority projects and regional/municipal development
- Facilitating access to finance for SMEs and corporates
- Contributing to ongoing reform and modernisation of the energy network infrastructure, the switch towards renewable energy resources and fostering energy efficiency
- Promoting productivity and competitiveness through R&D initiatives and ICT infrastructure
- Advisory services (particularly in transport/ water/wastewater/waste/)

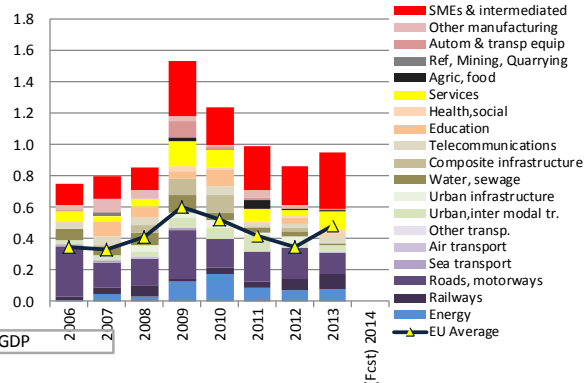
**EIB exposure in CESEE is EUR 87.4bn or 7.8% of GDP (EU average exposure is 3.6% of GDP).**

**EIB's activity by sector**

Exposure (Dec 2013), % of total

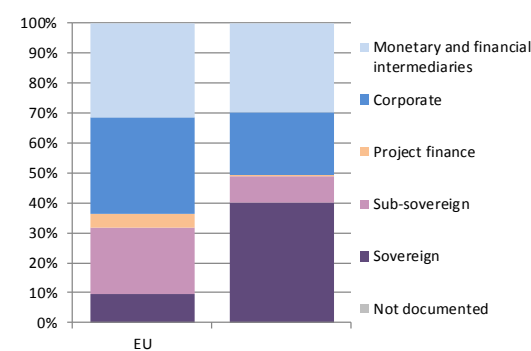


**Signature flow, % of GDP**



**EIB's activity by contract counterpart (borrower) for operations**

Exposure(Dec 2013), % of total



Thank you.