

Opening Remarks to the second day of

the 7th LTIC Conference



HOW TO TAKE ON THE LONG-TERM CHALLENGE

Milan 23 October 2015 -10:30-10:40

President Werner Hoyer

Ladies and Gentlemen, Dear colleagues,

It is a great pleasure being here today to address this conference. Before I start, I would like to thank Cassa Depositi e Prestiti for having organised the 7th LTIC conference and for inviting me to deliver the opening remarks at the start of the second day.

As President of the EU Bank, the European Investment Bank, I want to discuss the EU investment agenda, a subject very close to my heart: we are proud to play a central role in this agenda, promoting sound, forward-looking investment both within the EU and beyond the EU, including in most of the countries represented here today.

One of the things I wish to talk about today is the Investment Plan for Europe and the European Fund for Strategic Investments (EFSI), that Commission President Juncker has proposed at the end of last year and which was formally approved before the summer and is becoming operational now.

Europe now seems to be on a path of recovery and, hopefully, it seems we are slowly putting the crisis behind us. In the same time, there is also a growing recognition that we are facing a secular decline in competitiveness and in potential output. There is a growing recognition that we have to act now to change this trend.

On the one hand, this means structural reforms. On the other, it means timely investment to address structural short-comings, raise productivity and restore our competitive edge.

Estimates of Europe's potential GDP growth rate now lag significantly below estimates for the US or Japan. Since the 1990s, Europe has not kept pace with other leading economies. Our ability to compete has declined. Productivity growth in the EU has trailed that in the US since the middle of the 1990s and the crisis hit productivity harder in the EU than in other regions.

A study on the European 'competitiveness' that we performed at the EIB last year revealed just how much catching up we have to do in terms of investment to address structural shortcomings. Let me

mention some of the key areas we identified as priority: Research and Development, communication networks, SMEs, energy, and transport infrastructure. In addition we have observed that providing finance in the adequate format is also crucial.

At the current time, for the great majority of countries, there is no shortage of liquidity in the financial system. The main problem at the moment is rather a lack of risk-taking capacity. This is certainly true for most governments. A lack of fiscal space is undermining public investment and the ability of governments to take strategic risks to catalyse the necessary private investment. This has prevented many sound projects from going ahead.

The situation is similar for most banks and financial institutions. Market pressure and regulatory concerns are limiting their ability to absorb the risks involved in investing for the longer term.

Action to address these financial bottlenecks needs to be accompanied by reforms to improve the environment for investment by the private sector. Furthermore, important bottlenecks also exist in terms of prioritisation and planning, in capacity for implementation and in the technical preparation and structuring of a pipeline of sound projects.

The Investment Plan for Europe that Commission President Juncker proposed last November represents a well-targeted response to this challenge. Focused on EU Member States, and working alongside the other EU policy priorities of structural reforms and fiscal responsibility, the Investment Plan has three strands of action to address the needs we have identified.

- 1) The first strand is action at national and EU levels to improve the institutional and market environment for investment, including through regulatory reform and the removal of regulatory barriers in key sectors within the European single market.
- 2) Secondly, a new European advisory hub will help public authorities and project promoters in Member States to identify, prioritise, prepare and implement strategic projects. It will help to accelerate investment and bring together specialist advisory services currently successfully delivered by the EIB and the European Commission, to achieve synergies. These services include the JASPERS programme (managed by the EIB) and which has made a substantial difference in increasing the absorption of EU funds in countries like Romania and Bulgaria.
- 3) The third strand of the Investment Plan for Europe is the new European Fund for Strategic Investments, or EFSI. This is expected to mobilise EUR 315 billion of investment in strategic

infrastructure and companies over three years, helping to address key market gaps and structural weaknesses to build a more competitive, sustainable and prosperous EU economy.

The EFSI will be managed by the EIB. It will be funded by EUR 16 billion in guarantees from the EU budget and EUR 5 billion from the EIB's own funds. These additional resources will allow the EIB Group to expand the tool box of financial instruments, allowing participation in higher-risk projects, attracting substantial external co-financing.

The EFSI will target sectors of key structural importance for the competitiveness and long-term growth potential of the EU, where the EIB Group has proven expertise and capacity. These include strategic digital, transport and energy sector investments, as I mentioned before. Investments in education and training, research and innovation remain priority. Financial support to small, medium-sized and mid-cap companies, including working capital risk-financing, will help them to modernise, grow and boost employment.

All projects will have to pass a rigid test and be commercially sound, economically and technically viable, and to have a clear added value. We will thus ensure the additionality of our intervention. Our aim is to crowd-in private investors and mobilise additional capital while providing the quality stamp on long-term strategic projects.

In this way, the EFSI can be seen as a way using EU funds better: instead of giving out grants and subsidies, it will provide guarantees and loans to leverage private investment and multiply the impact that can be achieved.

On the financing side, the real challenge is to blend in an adequate way limited budgetary resources and EIB loans to catalyse funding of other long-term investors (public and private). This brings me to the LTIC.

When the club was founded seven years ago by CdP, CDC, KfW and EIB, only a few people shared the view that the long-term financing of the economy was a serious issue. Most could not see any significant policy importance in this topic and many more thought this was at best of narrow financial interest.

Seven years later, it would be difficult to find someone who dismisses the policy importance of the long-term financing of the economy. In the European Union, supporting a revival of long-term investment for infrastructure and SMEs is now a major tenet of the policy agenda and the G20, assisted by the OECD, recognises this as a cornerstone of economic policy priorities. This is a real achievement: What many dismissed as marginal seven years ago is now central to the public policy

discussions as we saw at the World Bank/IMF meeting two weeks ago. From the very first day of the LTIC, Franco Bassanini as Chairman of Cassa Depositi e Prestiti, has been a key actor, and often THE key one in pushing the case of long-term investment and financing to policy makers.

Franco, we owe you a great debt for all your efforts. We are lucky that for the rest of your term as chairman of the LTIC you are willing to continue to militate for our common cause.

While the financing of long-term investment has risen to prominence, it is fair to say that there has been a lot of talk but that actions and results have been more modest. Now is the time for action: operational cooperation with members of the Long-Term Investment Club has become essential and I look forward to further increasing cooperation with your institutions in the future.

Franco Bassanini has tirelessly defended the view that long-term investment is of major importance. I concur with that view and think that there could not be a better tribute to Franco's role in the LTIC in the last seven years than to deepen the cooperation among our institutions. In this, I look forward to the further development of the cooperation of EIB with Cassa Depositi e Prestiti under the chairmanship of Mr Claudio Costamagna.