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"The Investment Plan for Europe"

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Your Royal Highness

Excellencies,

Colleagues,

Ladies and gentlemen,

1. Introduction

Allow me to welcome all of you here tonight at EIB headquarters.

This is not the first Bridge Forum in the Bank, but the first Bridge Forum with a full-fledged speech on the EIB and its activities.

This gives me the opportunity to illustrate the mission statement of this Bank and put it into the context of the current challenges. When the EIB was set-up with the Treaties of Rome – starting its activities in 1958 – the main objective was to support the Member States of the European Economic Community in building up their infrastructure and concentrating on the cohesion regions, at that time mainly the Mezzogiorno.

These objectives are still more than valid today. And only these tasks have grown in size over the decades considerably.

This is not only thanks to the fact that EIB has played a crucial role in supporting European countries to overcome their political and economic legacies that dictatorship, lack of freedom, lack of the rule of law and the disregard of fundamental human rights have caused in great parts of the continent, be it in the South-West, in the South-East or, of course, in the East altogether.

But also in those countries having the fortune of enjoying these rights since the establishment of the European integration process, the lack of investments – be they private or due to public budgetary constraints – has become more and more an obstacle for the development of the European Union.

2. The investment crisis in Europe

The fact of the matter is that for decades we have been living off our capital. The result is an enormous investment backlog and need for modernisation.

Since the beginning of the financial and economic crisis a pronounced lack of investment has led to a further reduction in productivity growth – which was in any case already low – in all major sectors of the economy.

To put this into figures, last year at the EIB we looked at exactly how big the gap is between what is really needed and what is actually planned in terms of investment in Europe.

Let me illustrate with just a few figures how dramatically we in Europe are lagging behind:

Total investment in Europe is currently still about 15% lower than in 2007.

Compared with the 2007 peak, the **volume of investment** has fallen by approximately EUR 430 billion in absolute terms and, at 19.3% of GDP, is around 2% below the long-term average.

In the field of **energy and energy efficiency** alone an extra EUR 100 billion or so – per year – would be needed on top of what is already envisaged.

To fill the gaps that still exist in Europe's **transport infrastructure** another EUR 50 billion or so a year would be required. This would include investment in expanding intermodal transport and environmentally sustainable mobility in conurbations.

For the urgently needed expansion of **broadband networks and data centres** the amount required comes to EUR 55 billion a year.

To upgrade Europe’s **water and sanitation systems**, including flood protection, to meet demand, it is estimated that a good EUR 90 billion a year will be needed.

If you add all these numbers together, you arrive at a figure of more than EUR 500 billion – a year – that can be taken as an indication of the extent of the investment gap in Europe.

If we fail to close this investment gap we will be jeopardising our competitiveness for a long time to come.

3. The innovation challenge

To make things worse, this investment gap is complemented by an increasing innovation gap that makes Europe's position in a globalized world even more challenging.

At just 2% of GDP, **expenditure on research** in the EU is not only 1 percentage point below the 3 per cent target laid down in the Lisbon Agenda but also more than 1 percentage point below the levels achieved by our major competitors – the United States, Japan and South Korea – in the markets for technology and innovation.

If the EU wanted to achieve its 3 per cent of GDP target for **research and development** – which by international standards is by no means excessively ambitious – we would have to invest another EUR 130 billion a year.

So it is hardly surprising that the number of **patent applications** per EU citizen is today around 30 per cent lower than in the United States – and it has been like that for years.

And here it is above all the issue of digitalisation that takes centre stage.

I am convinced that Europe's strength in the future will be determined first and foremost by our ability to make up for lost ground in terms of digital technologies and services.

I would even venture to argue that the lack of competitiveness in many parts of Europe has also been caused and then reinforced by the fact that in the past we have invested far too little in this field.

Of course structural weaknesses in Europe play a crucial role in explaining the low growth. But lack of investment in this highly competitive sector is also a significant factor.

To clarify this, data traffic within the EU – communication, the internet, video – has increased fivefold since 2008 alone.

If we fail to make the appropriate digital infrastructure available to accommodate this rapid growth, we shall continue to fall even further behind in terms of global competition.

We must realise that – in addition to the issue of training and human creativity – the data issue will be the key factor in the future to successfully withstanding competition.

In the field of digital infrastructure alone we must invest EUR 30 billion a year more than we are currently investing.

Another major challenge facing Europe is the fact that it does not have the necessary data centre capacity.

We are constantly being reminded of this indirectly when data protection incidents – if I may call them that – occur; ultimately they take place mainly outside Europe and make it impossible for us Europeans to exert any influence because we ourselves are not in a position to make appropriate capacity available.

For this alone, an additional EUR 25 billion a year in investment would be needed.

Incidentally, here it is not only a matter of investment but also of creating the necessary framework to complete the digital internal market.

And we are still light years away from achieving that!

Just think that only 4% of digital services are of a cross-border nature – 4% in an area where, like few others, national borders can easily be overcome, provided that this is accompanied by an appropriate regulatory framework.

4. The Investment Plan for Europe

Ladies and gentlemen,

My aim of enumerating all these figures is not to draw a pessimistic image of the economic future of the continent, but to draw attention to this development and to show you some means of how this development can be turned around leading to a more optimistic scenario.

After all these figures, one fact is evident: this huge investment requirement cannot be met with public funds alone.

When I met with Jean-Claude Juncker in the summer of 2014 he was preparing his program for becoming the new President of the Commission.

When I told him what I have told you today he asked what needed to be done to get out of the vicious circle of low investments, low growth, high public expenditures and what role EIB could play in this respect.

Well, we all know that EIB is not the panacea and EIB activities cannot substitute the fundamental precondition of having the Member States implement reforms for achieving an investment-friendly regulatory framework.

But EIB can support economic development within this framework (and can identify barriers to investment) by mobilizing private capital on a large scale in order to invest into good and viable projects in the real economy.

And what makes EIB's activities so crucial is the fact that we can leverage scarce public resources and, hence, maximize their effect by blending them with private capital and focusing on loans, which means that we, as a Bank, actually would like one day these loans to be paid back.

But it is not only about mobilizing private capital as there is abundant liquidity on the market anyway.

It is about mobilizing private capital in order to invest into projects that require an appetite for taking risks that currently many private investors do not seem to bring along.

And this is the point, at which the public promotional bank of the EU can play a decisive role.

It is all about crowding-in private investors for investments in Europe that – due to market failure – would not take place without the support of the EIB.

Going into risk is nothing new for EIB.

Taking risks is an inherent part of a bank’s activity and we have started to increase our risk-taking capacity already 15 years ago when introducing the bucket of the so-called special activities (*size 250 million at that time)*. This amount has increased in recent years to some EUR 5 bn per annum and with the support of the EFSI will reach some EUR 20bn in ne next years.

And since then we have introduced several new blending instruments for certain sectors.

But, as EIB is not lending taxpayer's money but needs to collect private capital from the financial markets worldwide, the rating of the Bank is of fundamental importance making the ability to increase the risk-taking limited in quantitative terms.

This is the point where Jean-Claude Juncker and myself agreed to enable EIB to take risks on a much larger scale.

If you want, this was the birth of the Investment Plan for Europe, or better known as the Juncker-Plan.

From the start, Jean-Claude Juncker rightly put the lack of investments and the decreasing competitiveness of the EU on the top of his political agenda for the new Commission term.

With the Investment Plan for Europe we now have an instrument in place to address these issues.

The Plan consists of three components:

First and probably the most prominent part, is the so-called EFSI, which despite its name is nothing else than a managed account inside EIB backed by a 16 billion guarantee of the EU budget and 5 billion from EIB in order to increase the risk-taking-capacity of EIB as just described.

What is new with the Investment Plan for Europe is the fact that now we can take more risks on a much larger scale.

Furthermore, the provision of an EU budgetary guarantee for this purpose represents a fundamental paradigm shift in the use of EU public funds – away from grants and subsidies in favour of loans and guarantees.

With view to the urgent investment needs I am convinced of this dynamic gaining more momentum in the time to come.

The EIB Group will – in addition to its normal business – increase significantly its lending activity at the high-risk end and mobilize additional EUR 315 billion of private capital over the next three years in modernising Europe's economy and supporting growth and employment.

The figure of EUR 315 billion might sound huge, might sound artificial in its anticipated accuracy and it might sound like alchemy.

But at the end, the figure is the result of pure mathematics multiplying the EUR 21 billion from the EU budget and from EIB with the factor of 15.

A factor, by the way, which we believe is very realistic.

When we implemented the increase of EUR 10 billion paid-in capital to EIB the Heads of State and Government decided back in 2012, we promised to mobilize EUR 180 billion of private investments within three years – hence, calculating with a factor of 18.

We delivered these EUR 180 billions of investments end of March this year, achieving the result nine months earlier than expected.

This makes us be optimistic that we will also deliver on the Investment Plan for Europe, though, of course, the increase and the structure of the new projects will be challenging.

But, though, the governance structure of EFSI is just about to get into place, by year-end we will have approved higher risk projects of approximately EUR 9 billion generating around EUR 44 billion of investments.

This is only possible due to our decision not to wait for the governance structure to get into place, but to start with the roll-out of the Juncker Plan in substance as quick as possible by the so-called warehousing of projects – not disrespecting the legislative process, but accelerating all our efforts for getting the job and growth engine started.

Of these projects, around half support renewable energy, energy efficiency and other investment that contribute to low-carbon growth. The others include R&D and industrial innovation, digital and social infrastructure, transport, as well as access to finance for smaller businesses.

In parallel, the European Investment Fund is delivering impressive results in favour of smaller businesses as part of the Investment Plan for Europe.

The EIF has already signed more than 50 operations, with total financing under EFSI of around EUR 1.2 billion, which is expected to trigger more than EUR 17 billion of investments.

Some 65 000 SMEs and Midcaps are expected to benefit throughout the whole European Union.

Furthermore, we need to be aware that EFSI, as integral part of EIB, will account for only roughly one third of EIB's activities.

We must not neglect delivering on the other two thirds as we need to mobilize around EUR 200 billion of private investments on a yearly basis.

Second, we are enhancing our advisory activities within the framework of the so-called European Advisory Hub.

When I arrived here in this bank beginning of 2012, I was overwhelmed by the wealth of expertise this Bank has to offer when it comes to also the technical assessment of a project.

Every investment must not be only economically and technically viable, but it must meet standards when it comes to environmental, social and legal implications.

Many private and public investors rely on the technical expertise of EIB not only taking EIB involvement as a proof of a sound project, but also relying on the technical advice EIB has to offer.

And we are enhancing our advising activities, for example by widening the scope of some instruments like JASPERS to all

Member States, but also by offering our support with the new Advisory Hub.

The third strand of the Investment Plan for Europe is all about removing barriers of investment. In this part, the ball lies more in the field of the Member States. But EIB can contribute by identifying these barriers we come across in our day-to-day business with clients or within our Advising capacity.

5. The four pillars of EIB activities

Ladies and gentleman,

With the Investment Plan for Europe we enhance EIB activities in its four main domains:

I have mentioned strategic infrastructure and innovation at the beginning as two main pillars of EIB's activity.

The remaining pillars are the support for Small and Medium-sized Enterprises – nowadays speaking in terms of volume the largest pillar, which only shows the necessity of EIB being present in those markets most severely hit by the debt crisis.

Next week I will travel to Nikosia and Athens.

In Cyprus, our exposure amounts to 14.2% of the Cypriot GDP!

In Greece, we were active in the country when the crisis hit its peak and no other bank was ready to give loans in the country. And from 2012 to 2013 we even managed to triple our activity. Our overall exposure amounts to around EUR 17 billion, which is just below 10% of the Greek GDP.

These figures show that our lending to SME is crucial for the economies of these Member States.

But it is not only in these countries, in which SMEs have difficulties getting access to finance.

If you a small and innovative company with a natural risk profile in the Netherlands, for example, you will have great difficulties in finding a Bank willing to give you a loan. These are the gaps, the market failures, we identify and then try to fill by enhancing our lending activities.

Last, but definitely not least, we are very active when it comes to Climate policies.

25% of our lending activities are dedicated to investments supporting Climate Action.

On our road to Paris, I have just recently announced in Lima during the IMF/World Bank Autumn meeting that we will increase our lending supporting Climate Action in the developing countries – that is where the effect of climate projects is the highest – from 25% to 35% until 2020.

6. EIB’s contribution to the challenges related to the refugees

Ladies and gentlemen,

On top of these pillars, of course, the EIB – as EU Bank – contributes to other policy goals of the European Union.

Day in, day out we see pictures of refugees, some of whom risk their lives in dramatic circumstances in order to make their way to Europe.

Every day we also see pictures of scenes showing how people in Europe are reacting to this challenge.

A challenge that many perceive as a threat but which also – without having to lay oneself open directly to the charge of naivety – can be seen as a great opportunity.

At the moment many questions arise. Questions to which there are at present no answers as yet, but which urgently need to be answered.

Here I don’t want to go too deeply into migration policy issues.

However, the incoherence shown once again by Europeans in their response to this challenge is quite remarkable.

Even though this has by now already been said so often that it has become common knowledge, the fact remains that we must first of all eliminate or at least mitigate the causes of migration under these conditions.

Wherever possible, people must get back hope and a reliable perspective that their living conditions will improve.

We must ensure that people – in their own interest – have no incentive to leave their homes and feel enable to pursue their way to prosperity and freedom in their home countries.

In doing so, we must also reconsider some of the fundamental pillars on which existing development policy is based.

But we must also realise that, because of the universally acknowledged sovereignty of states, our ability to influence events is and will remain limited.

For that reason too we must also strengthen the transit states, especially Turkey and the western Balkan countries.

For example, with the Western Balkans Conference and the European Youth Employment Initiative we have two instruments that can be effectively combined in the Balkan States.

The situation there is currently driving young people who have no prospect of finding work either north to Sweden, Germany, Austria and Luxembourg for instance. Or it is driving them “south” into the arms of Islamic State. Here, only determined action against the lack of prospects will help.

And, thirdly, we must overcome the challenges within the EU.

The first thing is the countries of arrival. There we must create an infrastructure that is fit for human beings and can cope with the humanitarian as well as the administrative tasks.

But the same also applies to the destination countries. Moreover, we are only just beginning to realise what the job of successfully integrating the people who are able to stay in those countries actually implies for us.

Ladies and gentlemen,

The scale of the movements of refugees exceeds anything that could have conceivably been imagined only a few months ago.

Perhaps, though, the situation is similar to that of globalisation: you cannot decide whether you are in favour of it or against it, but you can actively and confidently embrace the challenges and turn them into an opportunity.

And besides, the migration issue shows that national solutions are no longer sufficient but that a European approach is needed!

We, as the EU bank, confirmed at the beginning of September that we are prepared, in accordance with our remit, to further increase the support we have previously provided.

We are able to make resources available on extremely favourable terms to build accommodation, schools or hospitals. And we are the instrument that will enable scarce public funds to be used to the fullest possible effect.

7. Conclusio

I will conclude by saying that I remain a structural optimist as I am sure we will achieve these goals but we need more European thinking and more Union in decisions – we need more European Union !

Thank you very much for your attention!