Investing in Long-Term Europe: Re-Launching Fixed, Network and Social Infrastructure.

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Conference "Investing in Long-Term Europe: Re-Launching Fixed, Network and Social Infrastructure"

Ladies and gentlemen, dear Colleagues,

It is a real pleasure for me to speak in front of you today. The first day of this Conference has been very fruitful in bringing together academics, investors, and policy makers, from Europe and from the member states, around one subject: how to make long term investment in Europe happen in concrete terms, on the ground.

Investment is a series of individual micro economic decisions which are the pulsing blood of an economy. Taken together, and accumulated over time, these decisions produce, and constantly regenerate, the backbone of our economies. I would like today to share some thoughts on this macro-economic side of investment.

As European Commissioner for Economic and Financial Affairs – the macroeconomic context in which investment happens, or does not happen, is one of my main priorities. And I believe European authorities, together with Member states, can have a large influence on this context. Let me tell you how.

Today, the European economy is reaching a very decisive point. We experienced five, six years of zero average growth since the beginning of the crisis. Recovery is underway, but we know it is very fragile and vulnerable to external shock. In 2017, the crisis will already be a decade old. We therefore cannot afford to run the risk of a triple dip which would open the way for secular stagnation with low growth, low inflation and high unemployment and inequalities slowly killing future growth.

My view of economic policy making at the current juncture is that we have to think in terms of risk management and security margins. We therefore cannot count on spontaneous recovery – waiting idle will, at best, bring disappointingly low growth. At the same time, we should not risk reversing one of the main achievements of the past couple of years: the stabilization of the Eurozone and through credible fiscal and financial consolidation in a context of very high public and private debt almost everywhere in Europe.

Our challenge is therefore to kick-start economic growth in Europe again, without reversing financial stabilization. In this context, let me underline two elements, which to me constitute the starting point we have to build on in the near future.

The first element is the comprehensive assessment of the European banking system by the European Central Bank. With the Banking Union now fully functional, and clarity on the situation of the banking system in Europe – the European economy can rely on a sound financial system to grow again.

The second element is the now neutral fiscal stance in Europe and in the Euro area as a whole. The Commission, and the Eurogroup, have taken stock of the fact that the stance had become neutral. It is welcome at this stage, as an appropriate balance between sustainability requirements and current weak cyclical conditions.

These two elements, together with the current economic situation, embody to me the fact that we are entering in 2015 a new economic sequence. In this new sequence growth is possible again investment will be key.

Everybody now knows that Europe is suffering from a large investment gap, an accumulated shortage of investment for many years now. This gap is at the same time the consequence of past low growth, and a possible cause of future low growth. Action is needed to break that vicious circle.

The size of this gap is hard to assess. One thing is for sure: it is large certainly many hundred billion euros, maybe a trillion or more.

Interestingly, this gap is the result of a long multiannual process of underinvestment and yet it became common knowledge in just a couple of months since last spring!

As a member of the French Parliament I had the occasion before the summer to work on the assessment of this gap, and on possible ways to close it. Let me share some of my conclusions, which are, as it happens, very much in line with what the Commission is now putting in place...

Addressing this investment gap is at the same time fighting against lack of aggregate demand in the short run, and preparing higher supply capacities and potential growth in the medium to long term. Working to fill this gap is therefore good policy both short and long term. This is welcome given the high heterogeneity of economic conditions in the Eurozone today: some countries clearly face first demand problems, other structural, supply side challenges, and many, both at the same time.

A successful strategy for investment in Europe should in my view follow some simple principles:

It should target additional projects,

It should be timely, (I will come back on that)

It should be focused – you discussed today the main and well known areas where long term investment for the future makes senses: networks and social infrastructure.

It should rely on private money when possible and public money when necessary and aim at crowding in, not out private funds (I will come back on that too).

The Investment Plan for Europe constitutes a determined and decisive answer to these challenges. There is a triangle for investment with three key pillars:

Mobilising finance – using EU level instruments in a new and smarter way to boost strategic investment through the creation of EFSI that will bring confidence by taking risk out of the equation and help risky project find private financing.

Making finance reach the real economy – through a stronger, more transparent pipeline of projects, supported by technical assistance.
Improving the investment environment – by removing non-financial regulatory barriers in our single market
The backbone of our Investment Plan is to make smarter use of the money we have. As I said before: more debt cannot be the solution.
Together with €5bn from the EIB's own resources this will constitute a €21bn "European Fund for Strategic Investments".
So, with the backing from the Fund, the EIB will be able to provide financing for projects that have a high return for the EU economy but would have been too risky for private investors to consider. The European Investment Fund will provide equity directly to SMEs which will find it easier to obtain market funding. This way, we are confident that we can progressively mobilise up to €315bn of financing additional financing for strategic growth-promoting projects.
But financing is only one, even if important, part of the story. In fact, we often hear that the issue is not a lack of financing but a lack of projects.
Let's not forget that financing is not the only issue though. Many existing funds private or public, are not used- or not used in Europe, because the pipeline for good projects is not that full.
It's important to promote an environment more conducive to profitable projects. This imply action at the micro level (complete the single market) and at the macro level (avoid long period of very slow growth).
We intend to create a real one-stop investment hub at the EIB for all stakeholders of the investment financing process: public authorities that wish to make use of innovative financial instruments, potential investors, potential investees. This way, we will make relevant information and know-how more visible and accessible for those that need to have it.
There is an obvious need for further structural reform, including on the Union level. Further integration of the Single Market needs to take place, especially in transport, energy and knowledge industries; and the Commission will continue to work on this.
Now in any such ambitious endeavour, the devil lies in the details. And I know there has been some scepticism out there.
The first priority now is to get the legal framework ready as quickly as possible. We will work with the Member states in the Council, to provide investors as quickly as possible with clarity about the tools. Our goal should be January 2015. I am confident we will succeed.
Criticisms have been voiced that public money was not sufficient in the overall framework. Let me give you my personal appreciation: we at the European level have done our job in designing an ambitious and fully functional financing tool.
Obviously Member states can decide to chip-in with national contributions, to send a strong signal. I do think that it would certainly enhance our firepower, in particular in

areas where private financing may not suffice, even when strongly enhanced through guarantees.
This is specifically the case I think in the case of a very important field of investment for the future: human capital, research, education and training.

The Commission's role can be to help Member states coordinate by providing clarity on the treatment of national contributions (in the stability and growth pact, in the governance) – we are working on it.
The Investment Plan for Europe should not be considered as a static construct. It is a flexible tool which we will pragmatically adapt if needed in the course of the coming months and years. Our only metric for success will be the number of good investment project emerging in the Member states.
So we will monitor very closely the possible shortcomings of the plan in its first months and address them in a timely way if necessary. The constant and constructive feedback of investors and the Member states will be key in this regard.
Before I conclude let me share what I view as the main risks to success are:
We also have to be conscious that the issue of the timing is key, both for macroeconomic and for political reasons: we need results in 2015 – we cannot afford to wait until 2017 to see the first signs of success on the ground! Expectations are high – beware of a possible political kickback if no concrete signs can be seen soon.
We have also to be very cautious and avoid two dangers in terms of governance and selection of the projects:
Risk aversion which would lead to invest in the places and projects which would have taken place anyway; the Investment Plan for Europe is a new tool for a new purpose: taking more risk to invest in the future of our economies, at a point where, obviously, this does not seem to be an obvious call. We should make no mistake: no risk means no returns.
Last we European policymakers should refrain from the temptation of "juste retour", where each Member state expects to quickly get back what it paid in. Not only is it contrary to the European spirit, but it would be very short sighted at the current juncture as it would ignore how interdependent our economies have become.
The economy of the continent faces the risk of a long period of disappointingly low growth if we fail to succeed in closing the investment gap.
We collectively made huge progress in the last months in recognizing the risks, and putting in place a clear and flexible framework to take on this challenge.
Policymakers, market participants, and entrepreneurs everywhere on the continent should now work together to make the best use of the tools. Constant discussion between stakeholders will be key in the times to come. Let's get to work, let's make it work.
Thank you.