on the capital stock, which in turn holds back Europe's growth potential, productivity, employment levels and job creation.

Why is investment not taking off?

The main reason for persistently weak investment is **low investor confidence.** This uncertainty is rooted in low expectations about the demand for goods and services, the fragmentation of financial markets and a lack of sufficient risk-bearing capacity that is required to catalyse investments. Due to the uncertainty of economic and political developments and the still high levels of indebtedness in parts of the EU economy and their impact on credit risk, access to finance has been difficult, in the Member States most affected by the crisis, especially for riskier long-term finance projects, mid-cap companies and SMEs. Limited fiscal room for manoeuvre, coupled with a constraint of bank finance reduce the system's capacity for risk-bearing. In this context, the best use of public money is to strengthen the risk-bearing capacity in order to re-launch private investment.

Why not simply increase the size of the EU budget?

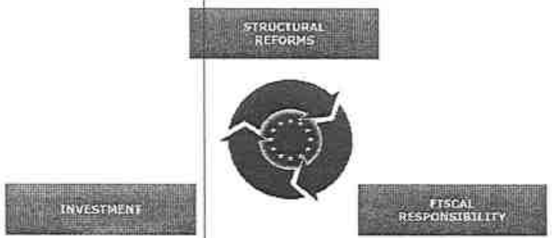
Providing more money through the EU budget is not a silver bullet. It also ignores the political reality of the relatively small size of the EU budget (€ 180 billion per year, around 1% of EU GNI) which is the result of very complex negotiations between the EU institutions. The EU budget, within its existing margins, has a role to play as a **catalyst for private investment**, but this has to be complemented by other sources of finance and regulatory changes that help create the right investment climate.

"Producing money" or creating new debt will not fix the problem. In fact, there is ample liquidity in financial institutions and corporates at present (in contrast to 2011) but the problem is that all this liquidity is not put to productive use. This is what the Investment Plan aims to correct and this requires action on several fronts at the same time.

What is the solution?

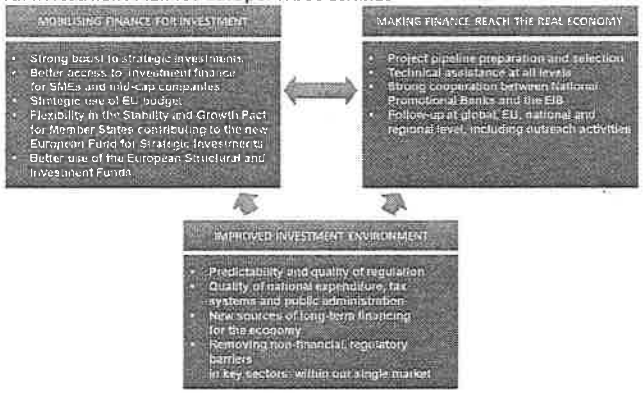
Adequate levels of resources are available and need to be mobilised across the EU in support of investment. There is no single, simple answer, no growth button that can be pushed, and no one-size-fits-all solution. The Commission is setting out an approach based on three pillars: **structural reforms** to put Europe on a new growth path; **fiscal responsibility** to restore the soundness of public finances and cement financial stability; and **investment** to kick-start growth and sustain it over time.

Economic policy priorities: Three pillars



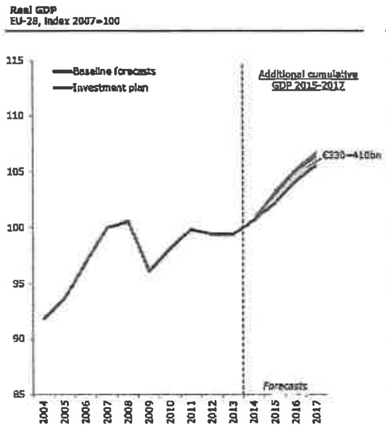
The Investment Plan for Europe is based on three strands, which are mutually reinforcing. First, mobilising sources of investment finance to deliver at least € 315 billion of additional investment over the next three years, and making better use of public money to attract private investors. Second, making sure this extra finance contributes to growth in ways that are adapted to each sector and geography. And third, measures to improve the investment environment in Europe and thereby trigger knock-on effects.

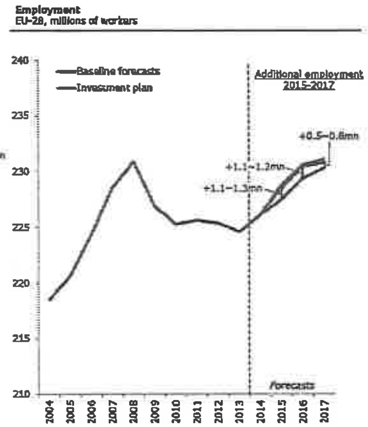
An Investment Plan for Europe: Three Strands



The Investment Plan for Europe has **three objectives**: to provide additional fuel to the EU's recovery and reverse the drop in investment; to take a decisive step towards meeting the long-term needs of our economy by boosting competitiveness in strategic areas; and to strengthen the European dimension of our knowledge, human capital and physical infrastructure, and the interconnections that are vital to our Single Market.

According to European Commission estimations, **the Investment Plan has the potential to add €330 to €410 billion to the EU's GDP and create 1 to 1.3 million new jobs in the coming three years.**





European Investment Bank

Factsheet 1

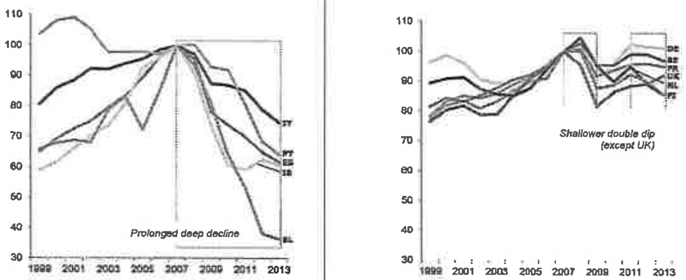
WHY DOES THE EU NEED AN INVESTMENT PLAN?

Since the global economic and financial crisis, the EU has been suffering from low levels of investment. Collective and coordinated efforts at European level are needed to reverse this downward trend and put Europe firmly on the path of economic recovery.

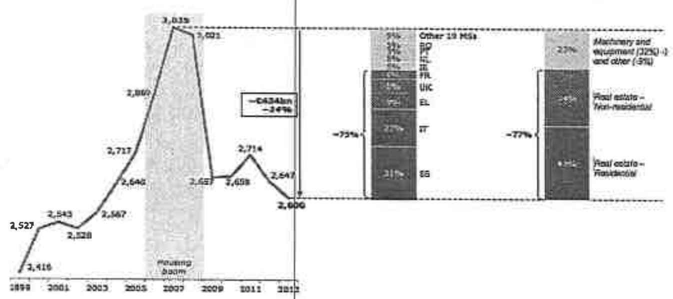
What is the current investment situation?

The European Commission's most recent economic forecasts showed that weak investment has led to a fragile recovery from the economic crisis in the EU and even more so in the euro area. While Gross Domestic Product (GDP) and private consumption in the EU were in the second quarter of 2014 roughly at the same level as in 2007, **total investment was about 15% below 2007 figures**. In certain Member States, the decline in investment has been even more dramatic.

Real gross fixed capital formation by Member State
Index 2007=100

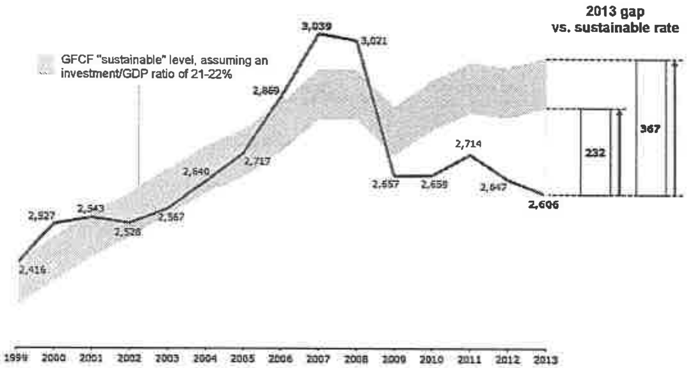


Compared to the 2007 peak, **investments have dropped by around € 430 billion.** Five Member States (France, the United Kingdom, Greece, Italy and Spain) account for around 75% of the drop, owing to the size of their economy or the sheer magnitude of the investment drop, or both.



In 2013, investment accounted for 19.3% of GDP, roughly 2 percentage points below the longer-term average (excluding boom-bust years). This means that **current investment levels in the EU are € 230 to € 370 billion below the historical norm.**

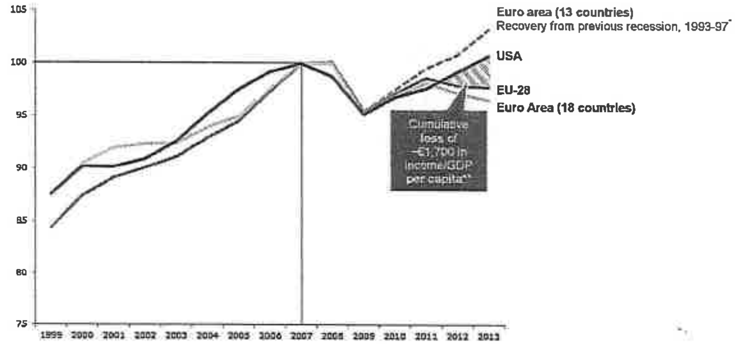
Real gross fixed capital formation – Observed trend vs. "sustainable" level
EU-28, in 2013 prices, € bn



Why is lack of investment a problem?

In the short term, weak investment slows economic recovery. The EU's recovery appears to have stalled, compared both to other major economies and the previous recession in Europe (between 1993 and 1997).

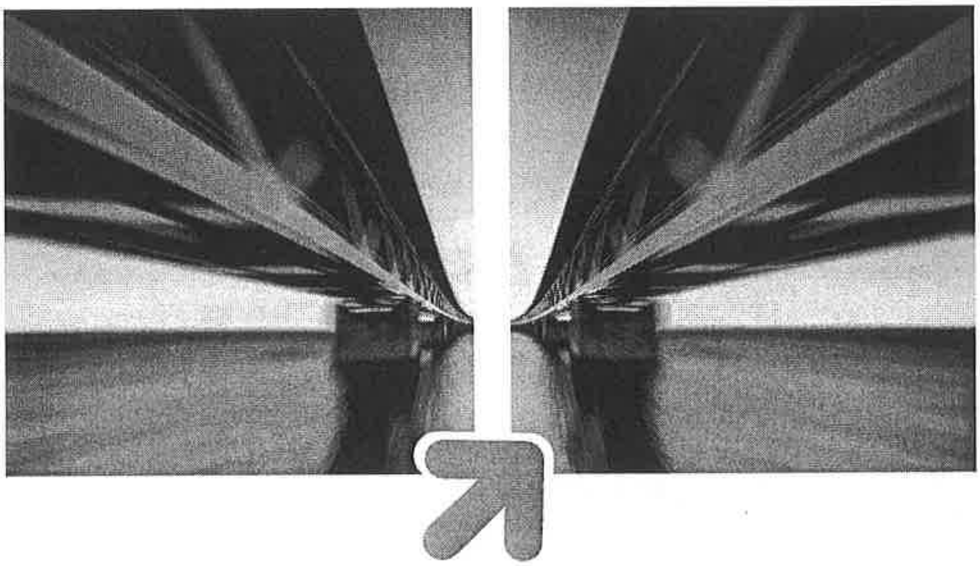
Real GDP per capita – European Union vs. USA
Index 2007=100



The drop in investment accounts for the largest proportion of the fall in GDP between 2007 and 2013. To keep up with the pace of investment in the U.S., the EU should have invested an additional € 540 billion in 2012-2013. In the longer term, the lack of investment hurts growth and competitiveness. Weak investment in the euro area has a considerable impact

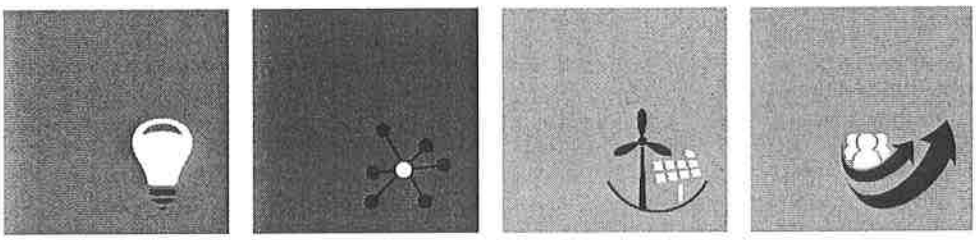
European Investment Bank The EU bank

EUROPEAN INVESTMENT FUND



Investment Plan for Europe

The Investment Plan for Europe aims to drive investment in strategic projects across the EU. The Plan will unlock investment of at least EUR 315bn over the next three years.



"Additional" investment is the key to close the investment gap.

Tackling the investment gap

The global economic and financial crisis has hampered essential investment in infrastructure, innovation and the private sector. Currently, investment in Europe is 15% below pre-crisis levels. Europe must remedy this investment gap to recover from the crisis and strengthen its global competitiveness.

Europe's investment gap points to a market failure, a reduced capacity of investors to take risks.

Liquidity is available but many projects are unable to secure adequate funding. Investor confidence is low due to economic volatility, along with regulatory and other uncertainties. As a result, whilst the conditions for investment exist, the money is not finding its way to economically viable projects.

The European Commission has proposed addressing these issues in three ways:

Implement regulatory and structural reforms to remove bottlenecks and ensure an investment-friendly environment

Create the European Fund for Strategic Investments (EFSI) in partnership with the European Investment Bank, to address the market failure in risk-taking which is holding back investment

Offer a single point of entry for technical assistance and advisory services on project preparation and implementation, use of financial instruments and capacity building

The European Fund for Strategic Investments

The European Fund for Strategic Investments (EFSI) aims to unlock investment by:

Addressing market gaps

By taking on some of the risk, we can help increase promoters' appetite to invest. The EIB will provide loans and other financial products that will be partly covered by an EU Budget guarantee.

Mobilising private capital

As there is abundant liquidity in the market, sound projects and risk-absorbing financial products will be able to attract more funding, especially from private investors.

EFSI will be integrated into the European Investment Bank Group and projects supported by EFSI will be subject to the normal EIB project cycle and governance.

Key Sectors

With EFSI support, the EIB Group will provide funding for economically viable projects where it adds value, including projects with a higher risk profile than ordinary EIB activities. It will focus on sectors of key importance where it has proven expertise and the capacity to deliver a positive impact on the European economy, including:

- **Strategic infrastructure**, including digital, transport and energy
- Education and training, research, development and **innovation**
- Expansion of **renewable energy** and resource efficiency
- Support for **smaller businesses** and midcap companies*
- Environmental, urban development and social projects

*both delivered via the EIB and EIF

Instruments

- Loans
- Guarantees
- Credit enhancement products to stimulate capital market financing
- Equity-type products, including those taking technology, demand or regulatory risk

Who can apply?

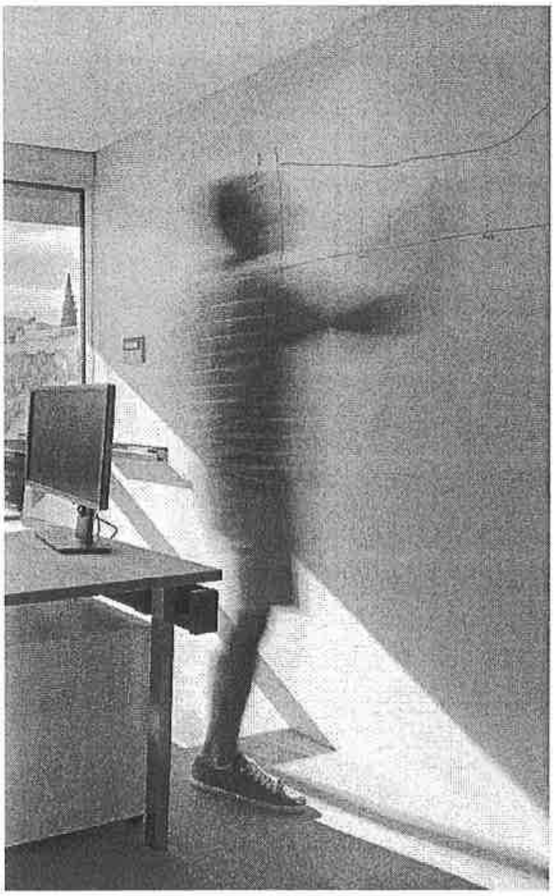
- **Companies of all sizes**, including small and medium-sized enterprises (with up to 250 employees) and midcaps (with up to 3 000 employees)
- **Utilities**
- **Public sector** entities
- **National promotional banks** or other banks to deliver intermediated lending
- **Bespoke investment** platforms

To benefit from EFSI support, projects need to be:

- Commercially sound, economically and technically viable
- Contributing to EU objectives and to sustainable growth and employment
- Mature enough to be bankable
- Priced in a manner commensurate with the risk taken

Functioning

All EFSI operations will be implemented within existing EIB Group (EIB and EIF) structures and will be subject to standard due diligence and approval by the EIB's governing bodies. This will allow the Bank to start operations rapidly and will enable projects to benefit from EIB expertise and experience.



When will it start to deliver?

EFSI will be launched as soon as the legislative process for adoption of the EU Regulation which establishes it is complete. This is currently expected by mid-2015. In the meantime, the EIB will use existing capital to start pre-financing operations.

A strategic partnership between the EIB and the European Commission

The European Fund for Strategic Investments is a strategic partnership between the European Commission and the EIB, deployed by the Group (EIB and EIF), to address market failure by helping reduce the risk inherent in projects to encourage further investment.

The EIB will contribute EUR 5bn to the new initiative, alongside a EUR 16bn guarantee from the EU budget. This will allow EFSI to unlock additional investment of at least EUR 315bn over the next three years.

Expected Impact

According to European Commission estimates, taken as a whole the proposed measures could add EUR 330 – 410bn to the EU's GDP over the next three years and create up to 1.3 million new jobs.

European Investment Advisory Hub

The European Investment Advisory Hub (EIAH) will be set up as a joint initiative of the European Commission and the EIB to help strengthen and accelerate investment. It will provide better coordinated guidance on the preparation of projects and on how these can best gain access to finance. Offering a single point of entry to all existing sources for investment advice, the EIAH will bring together specialist advice currently delivered under a range of initiatives.

Services include:

- Project preparation and implementation
- Use of financial instruments
- Capacity building
- Support for PPP design
- Financial structuring in the innovation space

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