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President Philippe Maystadt, European Investment Bank

Opening speech

Europe 2020 Project Bond Conference

Brussels, 11 April 2011

Welcome

Let me firstly wish you all a very warm welcome today to this conference on the Europe 2020 Project Bond Initiative; one of the key measures proposed by the European Commission in its Annual Growth Survey to enhance growth.

It is a great pleasure to see so much interest from such a distinguished cross-section of the infrastructure community; today is an important step in the public consultation on the Initiative, which Commissioner Rehn and myself launched earlier this year.

It is therefore a great pleasure for me to be able to open proceeding today with a few words on the background to this Initiative, at least from the perspective of the Bank; hopefully Commissioner Rehn will join in time to present his views.

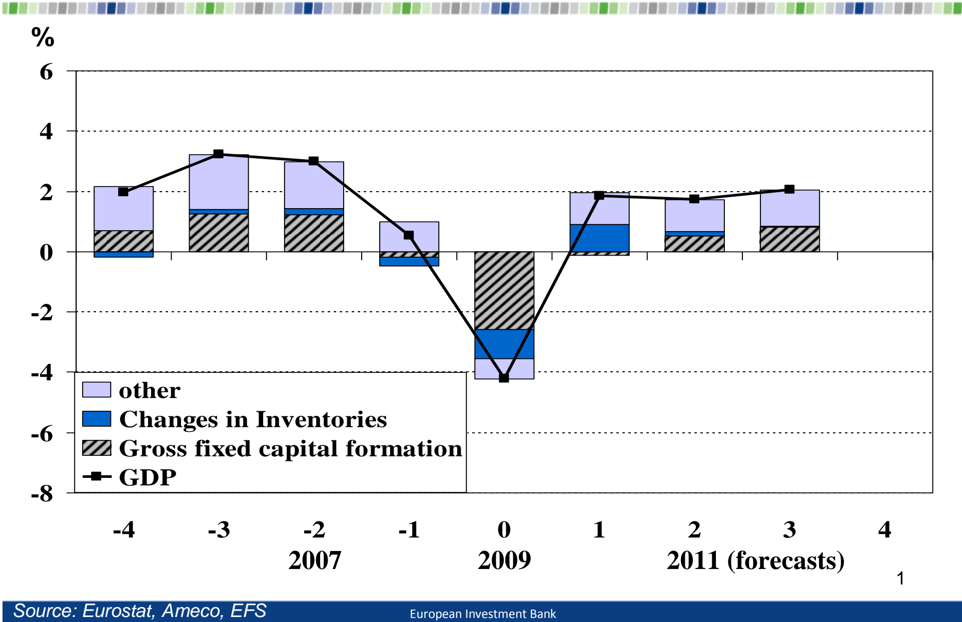
Need for investment

Ladies and gentleman, the starting point for this Initiative is clear: above all else Europe needs sustainable economic growth to raise living standards, secure welfare and jobs. Investment – smart investment in key infrastructure assets, in research, in people – is the key to raising productivity and long-term growth in Europe.

Let me illustrate the importance of investment. As commonly defined i.e. gross fixed capital formation together with changes in inventories - investment is widely acknowledged as a key driver of growth: both in the short term, influencing the length and depth of normal cyclical movements in economic activity, but also – through innovation and productivity gains – in determining the long run growth potential of an economy.

This chart illustrates the impact of contracting investment on the recent economic crisis. This chart plots the change in EU economic growth (scale on left-hand side) over time, with zero equal to the slump in 2009. The change in GDP is broken

down into investment through changes in gross capital formation (dashed grey colour) and inventories (dark blue).



The chart demonstrates how the contraction in investment in 2008 and 2009 explains a large percentage of the slump in GDP. In 2010, partly due to coordinated efforts by EU governments, gross fixed capital formation recovered to only slightly negative levels. All components are expected to contribute positively to GDP growth in 2011.

Increasing investment is therefore crucial to the long-term growth prospects of Europe. This is the core message of the

EU 2020 strategy – to invest in smart ways, in sustainable core infrastructure; in research and innovation to increase productivity; in people. In core infrastructure networks alone, such as the TEN networks in energy and transport; energy generation and broadband, the Commission has estimated a need of 2 trillion euros until 2020.

Let us be honest, Europe has tried this before; the Lisbon strategy failed largely because of a lack of commitment by member states, and a failure to align national policies with EU priority objectives. This time, we have to learn the lesson and take advantage a new model of economic governance for the EU.

Financing investment

This brings me to my second theme: how will this investment be financed?

The process of fiscal consolidation at national and European level has already placed a severe restriction on public budgets – and will continue to do so in the medium term.

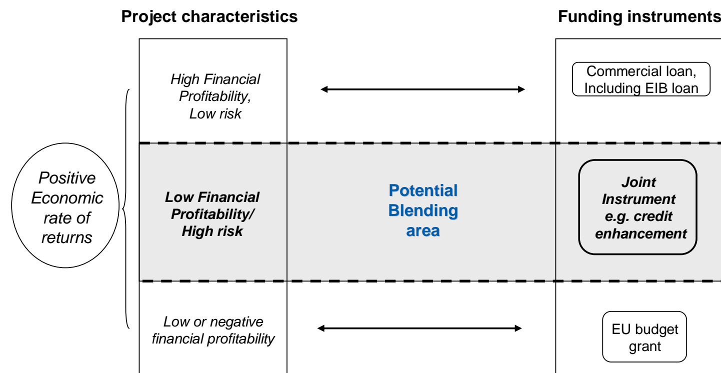
This suggests that the private sector will need to do more. Yet it is clear that, since the crisis unfolded in 2008, a substantial portion of market liquidity has dried up – in particular the participation of institutional investors such as insurance companies and pension funds. At the same time, bank balance sheets are under pressure and will continue to remain so under Basel 3. As a result project companies face greater difficulties to secure long-term financing; either from banks or from capital markets.

This pressure means we have to find ways to achieve more with less. In particular, at European level, we need to ensure that a limited EU budget is used to maximum effect. As the EU bank, we also consider the EIB to be a 'second leg' to finance EU policies, alongside the EU budget. This is why the Bank has been discussing with the Commission ways to work more closely together to deliver Europe's 2020 goals. To be successful, of course, such instruments need to unlock investment and catalyse existing and new investors. Frankly, we can do very little without ''buy in'' from many of the financial institutions present in this room today.

The Project Bond Initiative is one result of those discussions. Pierluigi Gilibert will present the Initiative in detail to you later this morning. However, let me say a few words to put this initiative into a more general context of the range of joint instruments developed by the Bank and the Commission over recent years.

Whereas grants are well understood policy instruments, what is the rationale for using public funds as risk capital? What determines the value to taxpayers in choosing one instrument or another? My next chart – although very simple – captures the essence of this tradeoff. It matches project risk and return profiles with funding sources.

Why and when EIB/EU joint instruments?



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Assume for a moment that we have a set of European projects with a strong economic case: the benefits to society outweigh the costs. Yet within this set, financial returns vary.

At one extreme – at the bottom of the chart, we have projects with limited revenues streams and/or significant risks such that the financial rate of return is very low or even negative. This is the world of grants – and will remain so.

At the other extreme – at the top of the chart, we have a set of projects with robust financial returns. This is the 'bread and butter' of financial markets – there is little rationale for using public grants.

In between, of course, - in the middle of the chart - are a range of projects with significant revenue streams, with quantifiable and limited risk profiles – but which fail to make an investment grade rating. This is exactly the set of projects for which a tailored instrument, using risk capital provided by the public sector, can provide high value for money. In the limit, the presence of such an instrument can help bring a project to financial close that otherwise could not; or at least not without significant delay. In this sense, relative small amounts of public money can help underpin and accelerate relatively large volumes of investment – the so-called "leverage effect''.

This has indeed been the philosophy behind designing the Risk Sharing Finance Facility (RSFF) in the field of research and development and the Loan Guarantee for TEN-T projects (LGTT) designed to reduce investor exposure to traffic risk in the early years of project operation. Both instruments, in my view, have been successful. In the case of RSFF, for example, at the end of 2010, loans worth almost EUR 6.3bn were signed, with EUR 3.5bn disbursed. For LGTT, there is pipeline

of 16 operations; with signatures of guarantees for EUR 140m, supporting capital investment of around 2.1bn.

Indeed, as many of you will be aware, since the 1990s, the Bank has sought to broaden the geographic and sector spreads of its PPP lending. As a result, the Bank is now Europe's foremost funder of PPP projects, with a portfolio of 120 projects and investments of around EUR 25m.

But lending volumes is only part of the story. In the last years, the Bank, together with the Commission, has developed a series of complementary instruments designed to boost infrastructure investment: from programme development, such as the European Centre of Expertise on PPPs (EPEC) or project-level technical assistance in JASPERS, through to tailored financial support, through equity, notably through the Marguerite Fund, as well as LGTT.

The Project Bond Initiative seeks very much to draw upon this collective experience. As Pierluigi Gilibert will explain in detail later this morning, the Initiative is designed as a credit

enhancement mechanism to ensure that project companies can issue senior bonds with a high enough rating to be attractive for institutional investors. We believe it can potentially play a useful role in securing renewed interest from institutional investors in sound infrastructure assets.

Conclusions

Let me conclude with three points

Firstly, the investment needs in infrastructure in Europe over the next decade are tremendous – delivering this investment is key to ensuring economic growth and competitiveness in the region, as well as meeting long-term climate goals.

Secondly, public budgets – both at national and EU level – will remain constrained over the medium term; hence it is paramount to involve the private sector. Yet, due to the financial crisis, important sources of liquidity have dried up; and securing attractive long-term finance for project companies remains difficult.

Thirdly, the Project Bond Initiative, building on the experience to date in developing joint instruments, can play a useful and significant role in stimulating investment in key European infrastructure projects.

It only remains for me to wish you well for your technical discussions today. I'm afraid I have to return to Luxembourg – but I look forward to hearing the results of your discussions today. The list of institutions represented today is an impressive cross section of the key players required to deliver the investment needed to underpin European growth. I encourage your constructive participation today to ensure that this Initiative is well designed, meets market needs and provides excellent value to the European Union.

Let me perhaps also add a few words on today's programme

In order to allow a general understanding of the overall framework, Gerassimos Thomas from the directorate general

for economic and financial affairs and Pier-Luigi Gilibert from the EIB will present the initiative and provide an overview of the financing and investment volumes at stake.

I would like to invite you to actively participate in today's debates which will be carried out in three panels focusing on the following subjects:

Roundtable 1 which is chaired by Tom Barrett from the EIB will discuss the advantages and disadvantages of the initiative compared to current financing models. The objective is to identify how Europe 2020 Project Bonds would fit into the market.

Roundtable 2 will be chaired by the Anna Krzyzanowska; head of unit at DG INFSO and will address the issue from the demand side stressing on how a project deal would have to be structured to attract sufficient interest from the market.

Roundtable 3, which is chaired by Professor Carlo Secchi who is the European coordinator for TEN-T priority projects nr 3

and nr 19, will study the expected impact of the initiative on the capital markets funding of projects.

The conference will be closed by Director-General Philippe Lowe.

Thank you for your attention.