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**ICMA Annual General Meeting & Conference**

Keynote address:

“The EIB and the Capital Markets Union”

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Ladies and Gentlemen,

I am honoured to be here with such distinguished speakers and guests and I would like to thank ICMA for the invitation to its annual conference organised this year in Luxembourg, where the European Investment Bank is also headquartered.

The EIB is Europe's long-term lending institution, the EU Bank - owned by the 28 European Union member states. Today it is the largest multilateral - lending and borrowing - institution in the world, with: total lending disbursed outstanding of EUR 455bn and borrowings of EUR 470bn. In 2016 alone, the EIB signed loans totalling EUR 76 billion, which included around EUR 8 billion outside the European Union. As well as this last year we raised EUR 66.4 billion on the capital markets.

The European Investment Fund, is the Group's specialized arm in providing riskier instruments to finance small and medium-sized enterprises (SMEs) across Europe. At the end of 2016, over EUR 30.6bn were under management, entrusted to the EIF across almost 100 mandates.

Today, I would like to talk about the importance of resilient and well-functioning capital markets in Europe and will share with you the EIB's role in building capital market integration throughout Europe.

Market integration is a key priority for the European Union and we can see more than ever in these times of elections, political uncertainty and Brexit negotiations that we have to think and develop the instruments necessary to secure economic growth, stability for the European citizens, and inclusive conditions. We have to strengthen our impact and provide tangible value added in the real economy, and to do that we need to harmonize financial conditions across the Union.

In this regard, the European Commission has already established some time ago an action plan to achieve the key components for a Capital Markets Union (CMU) by 2019.

Integrated EU financial markets are necessary to mobilise capital to the real economy. Our ultimate goal is to secure the creation of additional jobs and economic growth in every European member state and every region.

The EIB Group, as the European financial arm of the Member States, active in the financial markets in all forms, fully adheres to the goals of the Capital Markets Union (CMU), working closely with all partners involved in the private and public sectors to enhance our cooperation and ensure more financial integration.

We learned from the crisis that the European economies need to be more resilient to better cope with shocks such as the massive backdrop in bank credit after 2008, which has had a lasting, negative effect on Europe's welfare.

The purpose of the Capital Markets Union is precisely to diversify the availability and access to funding sources by complementing bank financing and ensuring a more efficient and less-costly allocation of capital across borders as well as a more resilient financial system.

### **How is the EIB contributing to the Capital Markets Union?**

As a lender, issuer and advisor, EIB is active on all fronts:

1. **On our asset side**, the EIB delivers financial products that mobilise alternative funding sources for projects, in particular the European Fund for Strategic Investments – EFSI – also one of the main pillars of the so-called “Juncker Plan”.
2. **On our liability side**, EIB has an instrumental role in channelling savings from institutional investors to energy and climate change projects, through the issuance of Green Bonds – our Climate Awareness Bonds.

**We are working closely together with market players including the ICMA and** achieving allocation of capital towards more sustainable uses: renewable energy and energy efficiency.

3. **As an advisor**, the EIB is contributing to remove bottlenecks and enhance project identification and local project implementation capacities to promote more integration, more harmonisation across the Union.

### **1. Starting with our asset side...**

Mobilizing investment, stabilising growth, crowding-in private investors, are the fundamental reasons for the creation of the European Fund for Strategic Investments, which is the first pillar of the Investment Plan for Europe.

EFSI is first of all a clear example of financial innovation, a paradigm shift in the use of EU budget: passing from grants and subsidies to loans and guarantees.

EFSI is basically an account managed by the EIB, financed through the EIB Group's own resources and the EU budget guarantee provided by the European Union.

With EFSA the EIB Group is targeting a total investment in the European economy of EUR 315bn between 2015 and 2018, and I am happy to say that we are very well on track to delivering these investments.

As of April 4<sup>th</sup> 2017, we have approved almost EUR 34bn of financing, which would mobilise a total investment of around EUR 183bn. This represents 58% of the target investments of the Plan, both for larger size projects and SME businesses.

Last year some 400,000 European SMEs received 33 billion euros of support from the EIB Group. That is more than a third of our total activity. Crucial to this action is the partnership of the EIB Group with commercial banks, which intermediate our loans to SMEs and also the National Promotional Banks with which we work very closely to address market gaps.

Of course the EIB Group has been supporting higher risk projects for a long time. However, EFSI provides the EIB Group with additional capacity to increase substantially the scale of these operations, both in number, amount and complexity. We are developing new products that will fit with the specific investors' and sponsors' preferences – for example, subordinated debt, equity or venture capital.

**Based on the current investment needs in Europe but also due to our progress and demand from European companies, the European Commission has proposed EFSI 2.0:** an extension of the duration of EFSI until end 2020, including an increase in the EU guarantee, from EUR 16 to 26 billion and in EIB capital from EUR 5 to 7.5 billion. This additional increase should mobilise in total EUR 500bn of private and public investment over the period until 2020.



## **New Instruments – Credit Enhancements**

The delivery of new products by the EIB Group is certainly not limited to these recent initiatives. As an example, let me mention the Project Bond Initiative, which the Bank launched as a pilot at the end of 2012. The objective was to test and, hopefully, demonstrate the effectiveness of credit enhancements in improving projects' risk profiles. It was developed in consideration of the important gap between the low investment grade ratings of privately financed infrastructure projects and the higher ratings targeted by institutional investors.

The concept is rather simple: by raising the credit quality of project bonds issued by promoters, one could expect to crowd-in private financing for infrastructure projects. Indeed, this initiative has been very well received by the market - tackling the need on one side for safer – higher credit assets, and on the other side the huge investment gap we have for infrastructure investments.

The pilot phase included 10 projects, across seven European countries, worth EUR 922 million (Belgium; France; Germany; Ireland; Italy; Spain; UK) covering all three target sectors (TEN-Transport; TEN-Energy; ICT). The pilot phase involved a total EC budgetary contribution of EUR 230m supporting EUR 860m of credit enhancement for project bonds financing EUR 7bn of infrastructure investment.

Following the successful conclusion of the pilot in 2016, the Bank added credit enhancement products for senior project debt to our standard product offering, including for the EFSI supported business plan.

## **2. Turning to our liability side...**

EIB has also continuously adapted its product offering as an issuer, mainly to expand our product toolbox and address market gaps.

**A good example is the launch of Green Bonds and subsequent development of the market.**

Ten years ago, in response to the EU's climate policy, the EIB pioneered the Green Bond market, with the issuance of its first so-called Climate Awareness Bond (CAB). Green Bonds support the climate action mission by providing investors with a clear link connecting bonds and investments with environmental benefits -climate mitigation projects in energy efficiency and renewable energy.

With more than EUR 16 billion issued in the Green format across 11 currencies, the EIB is one of the largest issuers of green bonds and provides the market with liquid benchmark lines.

We are providing best-practice examples from our portfolio, to ensure the integrity, sustainability and development of the Green Bond market.

A High Level Expert Group was launched in October 2016, as part of the Capital Markets Union to deliver an EU sustainable finance agenda. Both EIB and ICMA are Observers in this group, to promote sustainability in capital markets and support the European Union's climate and environment objectives.

## **Green Bonds – EIB's Public Offering of Securities Experience**

From a distributional point of view on the European markets, our first CAB issue 10 years ago not only marked the beginning of the Green Bond market, but it also constituted a real-life experience of the potentials and limitations of the integration of capital markets in Europe.

Indeed, we structured this particular issue on the basis of the prospectus directive with the aim to reach the broadest possible European investor base. The operation allowed through the **European Public Offering of Securities** – to all Eurozone retail investors to participate in the deal through the passporting of the Prospectus.

However, we fully experienced the challenges to **obtain prospectus approval from the different EU national regulators on the basis of a single passport**, evidencing differences in the way the EU Prospectus Directive and the passporting process had been implemented in Europe.

These challenges persisted for a very long time as we can see signals from the market even today. That's why I welcome the modernisation of the Prospectus Directive which is one of the key action plans in the European Commission's Mid-Term Review on the CMU.

## **ICMA – Green Bond Principles**

Standardization, harmonisation of rules and shared know-how is crucial for the scale we need. When it comes to combatting issues like climate change, we realise that our efforts will not suffice to meet the enormous investment and financing challenges without the private sector.

This is one of many areas where the International Capital Markets Association (ICMA) also plays a crucial role. ICMA acts as Secretary to the “Green Bond Principles”, an initiative that has been developed by key global investment banks joined by issuers and investors. The Green Bond Principles are providing the market world-wide with recommendations and guidelines, promoting the transparency and accountability of the green bonds market, focusing on four key aspects: a) Use of Proceeds, b) Process for Project Evaluation and Selection, c) Management of Proceeds and d) Reporting.

As initiators of this market, we at the EIB are also constantly providing the necessary resources and expertise to support the Green Bond Principles' Steering and Executive Committees.

I am happy to say that the EIB as the EU bank, and its peers, the multilateral development banks, have played a catalytic role in promoting the Green Bond market.

The MDBs provided the bulk of issuance and a significant part of the standard setting, in the eight years it took to raise the first \$100 billion in Green Bonds. But then once the market was established, it took only a little more than a year to raise the second \$100 billion.

Now, with Asian and sovereign issuers also entering the market, we expect this sustained growth to continue. It is precisely this structural shift in the Green Bond market, its size and the number of issuers and investors involved, which we view as another evidence of our success in removing barriers and mobilizing private capital for long-term, sustainable projects.

### 3. **Finally, our role as advisors**

Diversifying funding sources from bank-based towards more capital markets, requires support and expertise – and here the EIB Group is acting as advisor, structurer and investor.

The EIB is also managing the second pillar of the Investment Plan for Europe: **the European Investment Advisory Hub**.

The European Advisory Hub offers a single access point for a 360 degree offer of advisory and technical assistance services, to support and prepare project identification and improving project implementation capacities at local level.

Moreover, the EIB is building on its European expertise and cross-border project financing to actively advise the European Commission and European Member states on identifying barriers to investment.

This analysis is part of the **third pillar of the Investment Plan for Europe:–structural reforms –** which need however to be implemented by each Member State, in a timely, coordinated, harmonised manner.



**A concrete example is the EIB Group's Annual Investment Survey**, which was published on 10 April this year. Our Economics department has questioned some 12 500 firms of all sizes across the EU to identify barriers to investment. The answers were mainly around: access to finance, the cost of funding, as well as the collateral requirements – these are the main constraints for investment which we must strive to remove.

I see here a very close parallel and common interest with the advisory work that ICMA is advancing with its working group on infrastructure finance. From our experience we see that the fundamental bottleneck to infrastructure funding is not so much a shortage of finance, but **rather the supply of bankable projects**.

It is therefore an extremely valuable contribution to have ICMA's "*Guide to infrastructure financing activities*", to provide standard setting, practical indications for public sector authorities, first time sponsors and project companies interested in raising debt for infrastructure projects.

To conclude on a positive note: the ambition of the Capital Markets Union is comprehensive and its implementation will take several years. - We have a concrete action plan for a steady transition process, we have a clear target to ensure a sustainable financing mix for the European economy and we at the EIB Group are ready to play our role as “market makers” working hand in hand with all players.

**Capital markets integration can only succeed if both public and private market players, including you, adapt to the scale of the challenges we are facing.** We need to work hand in hand to mobilise the capital to new, innovative investments, to strengthen the ‘real economy’.

THANK YOU!