Draft EFBWW position paper

Investments, growth and jobs via a strengthened EIB

The unfolding of the euro crisis has revealed the urgent need to supplement austerity policies with measures to promote growth. Particularly the experiences of Greece, Portugal, and more recently Spain, have shown that austerity in the context of inadequate demand only deepens economic contractions, which in turn makes necessary further austerity measures due to the concomitant decreases in tax revenues, the vicious circle of austerity. As this austerity/recession feedback loop – and the related enormous social costs such as soaring youth unemployment rates – have become apparent to European decision-makers, the focus has shifted towards looking at ways to promote growth, not only in connection to the present crisis, but also as part of the emergent EU fiscal policy framework.

In their resolution to prevent future crises, policy makers in Europe should consider strengthening the role of the European Investment Bank as an instigator of a European investment policy. Thus, the EIB should not only be given more capital to invest in Member States, but it should clearly be assigned the role of an executor of EU fiscal policy related to investments. Rules governing the banks investment criteria should be changed so that investments are made based on macroeconomic criteria. The bank could thus bring much needed fiscal stimulus to areas experiencing economic downturns, and provide the necessary capital to solve chronic competitiveness problems caused by inadequate investments. In this way, the actions of the EIB would complement the austerity policies and structural reforms required of Member States in the current policy framework. Also, the bank could in this way actively contain the development of destructive internal imbalances within the EU, such as the euro area current account imbalances, caused by diverging levels of competitiveness, which have been one of the major causes of the present crises.

To perform the assigned macroeconomic functions, it is clear that the scale of EIB investment would need to be much greater than it is today. This is necessitating not only a major boost of the bank's own capital but also a wide-scale use of financial instruments to leverage private capital. An important new instrument that the Commission has proposed to give to the bank's disposal is EU project bonds, which are to be used to leverage private capital to fund large-scale European infrastructure projects. Given the current lack of public funding for insfrastructure projects, it is of great importance that these bonds are taken into use as quickly and as extensively as possible.

As an economic policy actor, the EIB should make investments that, firstly, create jobs and growth in the short term, and secondly, strengthen long term competitiveness in the European economy. Infrastructure investments clearly fulfill these criteria. Another area of focus should be the greening of the economy. Within the latter policy area, the EIB should assume the role of extensively funding energy efficiency renovations of buildings. As the Commission has emphasized[1], these represent one of the greatest opportunities for cost-effective cutting of CO2 emissions in ways that simultaneously boost growth and

[1] EU Energy efficiency plan 2011.

employment. In its latest consultation paper[2] the Commission estimates, conservatively, that 60 billion euro worth of investments per year could be made cost-effectively in energy renovations in the EU, and that this could lead to the creation or retention of as much as 850.000 jobs per year.

In order for the EIB to assume the role of financing energy efficiency renovations, the successful German KfW-model should be taken as an example and modified for use at EU-level. Thereby the EIB would offer low rate loans and grants for private and public building owners via commercial banks. Special conditions should be offered for public bodies responsible for social housing and for private low-income building owners in order to address energy poverty. As in the case of infrastructure investments, EIB's own capital, even if raised substantially, would not be sufficient to mobilize the necessary amount of funding for the energy renovations. Therefore, the EIB should be granted the right to issue separate bonds for funding green economy related project such as energy renovations of buildings. Alternatively, the EU project bonds could be designed in such a way that they could be used to fund both these and infrastructure investments.

In the German case of the KfW programmes of energy-efficient construction and refurbishment, the Jülich Research Centre has calculated that for every euro that went into the promotion of energy-efficient construction and refurbishment in 2010, public authorities collected four to five euros in revenue.[3] And for every one euro of public funding invested in energy renovations via the KfW bank, 12 euros of private investments have been made by building owners[4]. Were the EIB to raise funding chiefly from bond issuance, the ratio could be higher still.

With the strengthened role of the EIB in the EU fiscal policy framework on investments, Member States in difficulty could rely on the bank's fiscal stimulus measures. In the case of investments into infrastructure and energy renovations of buildings, this would amount to a boost in employment in the construction value chain, increasing the economy's potential output, as well as increasing the purchase power of citizens by lowering their spending on energy.

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[2] Consultation Paper "Financial Support for energy efficiency in buildings" Directorate-General for Energy, February 2012.

[3] "Impact on Public budgets of KfW Promotional Programmes in the Field of "Energy-Efficient Building and Rehabilitation", STE Researcg Report, Forschungszentrum Jülich, 2011

[4] Andreas Schüring, German Federal Ministry of Transport, Building and Urban Development, presentation at the conference Promoting Green Employment, 28. -29. September 2010 – La Hulpe Brussels.