

'The European Investment Bank helps implement Amsterdam decisions' from EUR-OP News

Caption: In its 40th year of operation, the European Investment Bank (EIB) fulfils its fundamental role in facilitating the transition to the single currency: on the one hand, the EIB contributes, through its lending to the less-developed regions, to the economic convergence of the European Union; on the other, by issuing loans and bonds in euros, it helps establish a large capital market in euros. Furthermore, the EIB authorises lending to encourage employment creation in Europe and to support the EU external development cooperation policies.

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The European Investment Bank helps implement Amsterdam decisions

Sir Brian Unwin, EIB President, on employment creation and an 'easier life with the euro'

The European Investment Bank (EIB) is the EU's financing institution, now in its fortieth year of operation. Its mission is to further the political objectives of the EU by making long-term finance available for economically, technically, environmentally and financially sound investment projects. It is a self-financing institution and the world's largest multilateral, non-sovereign borrower and lender: its shareholders are the Member States whose cooperation is vital to the EIB. In 1996, total lending — of which 90% occurred within the EU — amounted to over ECU 23 bn. To finance this, the EIB raised over ECU 18.5 bn through bond issues on the international capital markets. As an EU institution, a key objective of the EIB is to further the preparations for transition to a single currency. *EUR-OP News* asked Sir Brian Unwin, the EIB President and Chairman of the Board of Directors, how the EIB is preparing for Economic and Monetary Union (EMU) and on the EIB's role in promoting the EU economy.

Firstly, Sir Brian Unwin stressed that the EIB has a crucial role in supporting the Member States for entry to EMU. 'Three quarters of our lending go to the promotion of economic convergence and integration in the less prosperous parts of the EU.' Regional development and integration is the EIB's primary goal: In 1996, the EIB pumped nearly ECU 14 bn into assisted areas, half of which were Objective 1 regions which face the most severe structural problems.

There was a particularly large increase in lending in the Eastern *Länder* of Germany and an exceptionally heavy commitment in Greece, where a large number of infrastructure projects are now moving forward, such as the Sparta Airport in Athens. The EIB calculated that its lending helped to finance more than 10% on average of gross fixed capital formation in Greece, Spain and Portugal, for example. More than ECU 6 bn in 1996 went to the Trans-European transport, energy and telecommunications networks, whose development is another EIB objective.

Secondly, 'the EIB fulfils a central role in establishing a **large capital market in euros**. In technical terms, the introduction of a single currency will actually make life easier for us, because we will be dealing with a smaller number of currencies', Sir Brian Unwin explained. 'At the moment we borrow in something like 23 currencies — including EU currencies together with the US dollar, the Japanese yen, the Hong Kong and New Zealand dollar, the South African rand, and now we are starting with issues on some of the Eastern currencies.' In March 1996 the Bank launched an ECU 500 mio issue that, for the first time, formally and explicitly committed the EIB to convert the ecus into euros on a one-to-one basis. This created a landmark precedent for other borrowers, boosting the trust of the financial markets in the future single currency.

The EIB has subsequently carried this policy forward: On 31 January 1997, the first euro 1 bn seven-year bond was issued, subsequently increased to 1.3 bn, which will be denominated in euros after stage 3 of EMU comes into force on 1 January 1999. In addition, the EIB has launched a series of benchmark 'euro-tributary bonds' in various EU currencies which will also be eligible for redenomination in euro. These issues in euro will strengthen the markets' liquidity from 1999 onwards. 'The overwhelming favourable reaction of the markets to these issues — the euro issue was subscribed more than two times over — has demonstrated their importance in the run-up to the single currency', he assured.

Sir Brian Unwin was keen to emphasize the unique role which the EIB was granted at the Amsterdam Summit, namely the request by the national governments to bring forward an action programme related to **employment creation**. This highlights the crucial role that the Member States expect the EIB to play in encouraging European growth and employment, as the Fifteen did not decide on an extra EU budgetary expenditure for this purpose. The EU Council mentioned several areas where they would like the EIB to step up lending: Trans-European networks, small firms, high technology, health, education, environmental protection and urban renovation. In the meantime, the EIB started to implement the new tasks entrusted to it by the Amsterdam Summit. Planned actions involve an intensification of lending in urban environment, education, health and West-European networks, as well as putting new focus on the stimulation of small businesses and high technologies, including venture capital facilities. 'Amsterdam confirmed a new,

expanded role for the bank in the run up to EMU. The Stability and Growth Pact is an essential accompaniment of the EMU, and at the Amsterdam Summit many governments felt that it should be linked with a new employment package. And since budgetary funds are restrained, the only source to offer such a package was the EIB', Sir Brian Unwin said.

The President of the Bank also stressed a less well-known fact, namely that the EIB lends money to over another 100 countries in the world. 'We do so under specific arrangements, protocols and mandates, in support of EU external **development cooperation** policies. So we are lending in the Gaza Strip, in Africa, the Pacific, the Caribbean, Latin America, Asia, and so on. Small amounts, but an incredible variety of lending. But of all that lending outside the EU, the most important region is Central and Eastern Europe, as a major part of our future strategy is to prepare the way for future **enlargement**. The EIB is going to step up lending there', he stated.

The Bank's mechanism for supporting small and medium-sized ventures is through its global loans arranged with 130 EIB partner banks in the EU, which in turn lend the funds in the form of allocations for investment projects responding to the criteria of the EIB. Sir Brian Unwin stressed, however, that loans for larger projects go directly to the project sponsor. In the case of small businesses, the EIB cannot lend money directly to them. Nevertheless, the Bank provides extensive support for SMEs: During the single year of 1996, nearly 3 bn ECU went to some 12 000 SMEs in the industrial and service sector. In the third countries where the EIB operates, SME projects are likewise supported.