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EUROPE TODAY AND IN THE FUTURE:
A CONVERSATION WITH EUROPEAN INVESTMENT BANK PRESIDENT WERNER HOYER

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Keynote:

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P R O C E E D I N G S

MR. DERVIS: Good afternoon, everybody, on a beautiful Friday afternoon. Thanks for being with us and thanks to our guests, Dr. Werner Hoyer, the head of the European Investment Bank, for coming to Brookings.

Werner Hoyer was born in Wuppertal in Germany. He has a Ph.D. in economics from Cologne University and started as a research analyst at Cologne University and soon became an associate lecturer in international economic relations.

In 1985, he took the position as director of Economics and Information Department of the Carl Duisberg Society in Cologne. In 1987 he became a member of the German Bundestag, where he stayed until December 2011. So that's quite a good period in the Bundestag.

During his service at the German Bundestag, he had several positions; first as whip and security police policy statesman of the FDP, the Free Democratic Party, or the liberal party as sometimes it's translated, parliamentary group; deputy chairman of the German-American Parliamentary Friendship Group, and secretary general of the FDP before becoming minister of state at the Foreign Office.

In 2000, he became the president of the European Liberal Democratic Reform Party in Brussels and also held the position -- well, based in Brussels -- and also held the position as deputy chairman in foreign affairs spokesman of the FDP Parliamentary Group.

From 1994 to 1998 and then again from 1999 until December 2011, he was minister of state, deputy foreign minister, at the German Foreign Office responsible for political and security affairs, European affairs, United Nations, and arms control and Commission of Franco-German Corporations. So, that's quite a lot of portfolios to hold at one point.

We had previous debate here on post-American pre-French, pre-German elections, so of course the French elections on Sunday are on everybody's mind these days. Of course, I extend my sympathy to all those who got hurt in the events in Paris last -- as we should always extend our sympathies to the thousands of people who got hurt as well.

Dr. Werner Hoyer is president of the European Investment Bank since January

2012. It's the largest investment -- public investment bank of the world, and I think his topic is going to be both the Bank, but also much more about the European economy as such, the future of the European economy.

The discussion will be moderated by my colleague and co-director of the Global Program at Brookings, Homi Kharas.

Dr. Hoyer, it's you.

DR. HOYER: Minister Dervis, excellencies, ladies and gentlemen, thank you very much for the invitation back to Brookings. It's a pleasure and honor to be here and to say a few words and develop few thoughts on the economic situation in Europe, the -- maybe the relationship we enjoy between Europe and America, and the role of the European Investment Bank, and that context, the EU bank.

This year, as a matter of fact just a few weeks ago, we celebrated the 60th anniversary of the Treaty of Rome, which also marks the creation of EIB, the EU bank.

As a matter of fact, the Bank was founded in the Treaty of Rome and established one year later in Brussels and moved to Luxembourg ten years later when the final decisions about why the capital of emerging European communities and then later union would be established. At that time, Luxembourg was supposed to be the capital of Europe, the District of Columbia, so to speak of Europe, because it's a very small town.

But the Luxembourgers, under the discrete advisory service of the church and the arch bishop in particular, were of the opinion that the thousands of Vechlers moving into town would bring sort of a Camorra, so they draw the leaf, the role of the capital to Schlossberg on the parliamentary side and Brussels on the executive side, but they traded few things in, like basically everything that has to do with economics and with law.

European Court of Justice is in Luxembourg. The Second Court used to be there as well. It's now integrated the European Court of Auditors in Luxembourg, the EU bank is in Luxembourg, nowadays the ESM is in Luxembourg. The Luxembourgers are bright people. They're fed quite well, so the highly paid jobs are there. The trouble is elsewhere and that is a nice mix.

So the anniversary of 60 years of European integration is a good time to reflect on Europe's history in these past 60 years. It's tremendous achievement in term of institutional innovation, economic stability, and multilateral corporation that delivered -- delivers peace, productivity, and prosperity.

In spite of such achievements or perhaps because they form such a solid bedrock that today Europe faces considerable challenges. Chief among them is a destabilizing sense of uncertainty. Since the beginning of the global financial and silver and debt crisis.

The British vote to leave the European Union confirmed the severity of the disenchantment and showed us that the use narrative of multilateralism and optimist no longer connected with important parts of the population. Some developments sound familiar when I look at the development in this very country.

In Europe some people may have simply taken the European Union and the progress that went along with it for granted and some of the values it represents. Let us all hope that the presidential elections in France next Sunday will end with a victory of candidates that stand for democracy, free trade, and open societies. Better for liberal democracies has not been won yet.

As we know, the vicious circle between uncertainty and its harmful effect on economic activity can be persistent. Our living standards depend on our ability to sustain stable driving and innovative economies.

In turn, this ability rests on the capacity of both market forces and, when needed, public institutions to foster high-quality investments, investments which in turn provide us with confidence in our prospects.

Against this background, I'd like to cover three topics in this speech today. First, I will talk about the macroeconomic outlook in Europe and the key challenges that we are likely to face in the coming years.

Second, I will share some of my thoughts on the institutional turning point that the European Union is experiencing at the moment, which has been the theme of the European Commission's White Paper on the future of the European Union recently.

Finally, I will elaborate on the role of investment and explain how the European Investment Bank as the EU bank can contribute to the success and the prosperity of the citizens of Europe.

Let me begin by providing a background on the macroeconomic situation and outlook for the European Union. The good news is that after many years of stagnation and weak growth, the economic recovery in Europe looks ever healthier with domestic demand driving growth and labor markets are continually improving.

But, of course, although the recent pick up in global growth is so fairly modest by historical standards, we can finally say that the state of the global economy is not a barrier anymore for the recovery in Europe.

The IMF has just forecasted that the global economic growth will pick up from 3.1 percent last year to 3.5 percent this year and 3.6 next year. This is certainly good news, but we will need further global coordination and strong multilateral institutions to support sustainable growth.

The IMF warns in its recent World Economic Outlook that protectionist policies are a major risk for the global economy. The recent lack of commitment at G20 level to free trade can only add to concerns in this regard.

If the U.S. weakens its commitment to multilateralism and its institutions seeking bilateral agreements and enforcing protectionist measures, then this will make the global cake smaller, not larger. If you leave a group and club of strong friends, you don't get stronger but little bit more lonely.

An Agenda of Protection measures say the tariffs are used to promote domestic investment would deal a severe blow to the progress made over recent decades. Plus NDU, which is based on multilateralism and freedom of movement, this is anathema.

Notwithstanding this mixed external picture, GDP growth in Europe is expected to strengthen most analysts projected growth rate of between 1.5 and two percent for the next years, finally fueled by A robust growth in domestic demand.

Yet despite the prevailing high liquidity low rate environment, investment has remained low and uneven across EU member states, especially for SMEs, RDI infrastructures. We know investment is critical to potential growth and competitiveness, just contributed 28 percent of real GDP growth in the U.S. and the EU since 2013, but it still remains below the level of 2008.

The recovery after the financial crisis is steady now and it's continuing but much slower than after any economic crisis in the past, though we are not back to pre-crisis levels yet. That is worrying. Many governments and households face fiscal constraints or many banks remain constraints by legacy assets, that means corporates need to lead the investment recovery. EIB survey data show that's firms continue to focus on rebuilding capital stocks, but certainly uncertainty and availability of staff are the main barriers to investment.

By the way, we have made a study of not less than 12,000 individual corporates in the European Union from north to south, from east to west, from small to big, and I think we have a pretty solid picture of the self-assessment of these corporates when it comes to their own investment decisions in the past and in the future. So this is quite an exciting paper and I think it is known here in Washington as well.

When it comes to investment into research, development, and innovation, Europe is still lagging behind. Although we intend to increase our spending to three percent of GDP, this will merely mean that we will then be able to keep up with the U.S., Japan, and emerging players like Korea and China. We have huge regional differences in this respect between the member states of the European Union.

At the EU bank, we stand ready to address this issue. We recognize that innovative activities call for a financing mix that matches the risk and balance sheet profile notably of young firms that are not rich in fixed assets.

Against this background, I'm going to highlight a few of the challenges that I believe we face globally and in the EU. Political uncertainty is omnipresent these days.

We have achieved a certain degree of financial stability, but we have overlooked the cost for the common citizen. This led to a widespread disenchantment and disengagement with our institutions and their processes. Many people feel left behind.

During the economic recovery and fear for the jobs in terms of globalization and digitization, we cannot champion competition and open markets without ensuring equal opportunity and social mobility. I would predict, although it's in no headline whatsoever of any newspaper these days, that the question of youth unemployment will come back as a key political issue in the next month and years and we better address it forcefully now.

We have done that, by the way, four years ago with a very powerful tool when investing very targeted into skills and institutions that provides skills and into SMEs that provide job opportunities, sustainable job opportunities, for young people who are being brought out of unemployment and into the productive system.

As I've already alluded to, populists and protectionists politicians capitalize on the lack of such opportunities and social mobility. They use the disenchantment for a misinformed global backlash against multilateralism and open economies.

I must say when I was sitting in the big plenary of the World Economic Forum Conference in Davos this year and I closed my eyes -- and since my Chinese is extremely limited, I had to put the headphones on -- and I listened to the speaker, I would not have believed neither in substance nor in style of presentation that it was the Chinese leader who was the strongest advocate of liberal world economies who was speaking there, one day, by the way, before we heard America First inauguration speech here in Washington.

That shows the whole thing has developed into a global challenge for us, at least those of us who believe in tolerant, open, enlightened societies in market economies and I think we should take that seriously.

We in the EU take it very seriously. As our history of the past 60 years is founded on the multilateral principal, on the belief in international coordination, and multilateral institutions, and that means in substance in the belief in win-win situations and in the rejection of ideas that every deal that we are able to strike leads to there are some outcome.

Let me now turn to the second theme of this short introduction; namely the historic crossroads, EU, as an institutionalist sending it.

The EIB is the official bank for the world's largest single market

The EU also remains extremely robust and flexible at the same time, just consider the transformation of the last 30 years -- the introduction of the currency, the introduction of the former eastern bloc countries, and the rapid response to the crisis with measures such as the banking union to deepen strengthen the euro area.

When I hear -- I think it has happened today, the executive order signed by the president on some banking regulations issues, I'm wondering sometimes whether we are not believing a little bit too fast that we are out of the danger zone already when it comes to the stability of the markets and the banks. But this is an area that is of concern both in the United States and in Europe.

EU also provides a lot to the daily life of its citizens first of all, and most important of all it has been delivering peace, stability, and freedom. This, of course, is a story that I have problems to explain to my kids, because they are used to it. They have never seen anything else. I have never seen anything else, at least not in my own country, the neighborhood as well.

We got rid of Communist rule in Europe only few decades ago, but the generation of my parents they were still reminded every day of the war situation and the hunger and the Holocaust and all these terrible things of the past. This is something you cannot translate into explanations for young people nowadays.

A colleague of mine, collaborator, who used to work in Berlin after we already had moved professionally to Luxembourg, he was on a trip with his family from Berlin to the Dutch coast for a summer vacation. After couple of hours, his wife all of a sudden said to the, at that time, seven, five, and three-year-old kids, oh, we just passed the Dutch border without realizing it, and the seven year old said, Daddy, what is a border?

This is the reality for people in Europe. This is why it is obvious that things are taken for granted that we now find out cannot be taken for granted anymore. In times of terrorism, certainly not.

Europe also delivers hassle-free movement from national borders for the 1.7 billion people who commute from one country to another every day and for the hundreds of millions that travel for other purposes for every year, and Luxembourg is very specific case.

When we publish our statistics on lending and contributions with the GDP or when we publish our publications -- publish our figures for lending in the context of the Juncker Plan and the different member states of the European Union and put this in relation to GDP, for instance, we get completely misleading figures, because then Luxembourg is on top.

The reason is if you take GDP figures per capita, then you leave out the fact that the GDP of Luxembourg is to the largest part produced by non-Luxembourgers. Because in a town of 84,000 people where our Bank is situated, you have 180,000 people who commuting into that country every day from France, Germany, and Belgium, so that shows that hassle-free movement is something very valuable.

I tell you after the terrible incidents in Paris last year when the borders were closed for a couple weeks, our collaborators in the Bank coming from France every morning had to wait 45 minutes to 60 minutes going in and going out every day. So then all of a sudden you realize, don't take for granted what we have achieved here and protect it well.

All this allows European citizens to enjoy the many benefits of a single market, cheaper goods, more reliable services, interconnected and integrated transport and telecommunications systems, although we can get better.

Nevertheless, the aftermath of the financial crisis brought many dormant problems to the surface -- the aging of European societies, the growing inequality between various parts of the society, structural problems leading to long-term unemployment and high public debt to name a few.

These developments led many citizens to raise doubts about the EU's ability to deliver on its promises. And in many member states, we can observe signs of indifference, mistrust, and growing discontent with mainstream politics like here.

Exploiting these feelings, there is an emergence of populists and discriminatory rhetoric in the political field. The process that led to Brexit showed how dangerous it can be when the EU is used as a scapegoat for all kinds of troubles. The European Union is indeed an easy target for finger pointing.

But, ladies and gentlemen, people in the political scene in Europe complain about this media effect a lot. They point at the media, about four fingers are pointing back to them.

When people are celebrating successes in Europe, whatever is being done, it is immediately attributed to the genial decisions of national political leaders. As soon as something goes wrong, it has been the bureaucrats in Brussels.

This is a kind of thinking that is translated into political rhetoric that is extremely dangerous and harmful. It is best captured by a story that Mario Monti told me one of these days when we were sitting on stage of Delphi Economic Forum in Greece, Mario Monti, the former Italian Prime Minister and EU Commissioner said, When I was prime minister of Italy and I went to European Council, I knew that we all, the heads of state and government of the 28, would bring a brick to the meeting. After many meetings of this kind, lots bricks had been coming together. Out of that, we built quite an impressive edifice.

Nowadays we return home from these meetings and telling our -- tell our national audiences that we have been successful with our demands to the detriment of the others producing perfect zero some game and I'm always the winner.

This kind of thinking is, therefore, gaining ground in Europe as well. This is why I believe we must also have a cultural paradigm change in the explanation of political action in Europe so that people go along with that.

Because the art of European integration is very demanding. You have to explain to people that you have sovereignty rights which belong to the member states and their citizens, but which we exert together.

We don't deliver them to an autonomous institution in Brussels far away from the people, but we serve it together. That requires a prudent balancing act between subsidiary and solidarity. This is sometimes overlooked.

People in some parts of Europe, in particularly if these countries are in trouble, demand more solidarity. Those who are expected to bring about this solidarity demand more subsidiarity. The balance between the two is the decisive job that needs to done and sometimes believe we are off balance.

If we both in the north of Europe and in the west of Europe want to live in peace and prosperity and in a successful union, we cannot overlook the fact that some of us in the worst -- in the east and the south still feel left behind. On the other hand, some people in the south and the east should not overlook the fact that the biggest contribution to GDP for the time being comes from the countries in the west and the north with the necessity to bring about then the necessary solidarity to the others.

This is a balancing act which is extremely dangerous and can be exploited by populists any time. Presently we can observe that it is recklessly being done. This is the reason why the French elections this weekend are so important.

Well, of course, I will refrain from making -- displaying my emotional thinking on the French elections, because France is one of the 28 shareholders of the Bank, because we are owned by the member states and not by the European Commission. All 28 have a say in the Bank, and France has the big say with 16 percent of the shares and is the national decision, the sovereign decision of the French to vote, but maybe at least one can express the wish that in view of the future of the European Union, I hope they will elect people who will stay on the European track. Otherwise, it is going to be a dangerous shot into the foot or the knee, both to the French people and the Europeans in general.

But to be less serious, I'm quite optimistic. Because after the terrible year of 2016 which led to a political situation with our most important friend and ally which we cannot understand, until today we cannot understand, and after the terrible historical big mistake of Brexit, we are now in a situation that obviously we are turning the curve, and the Dutch elections was the first big success.

I'm wondering whether we don't give too much attention to those who want fundamentally different course. Because in the media, observation of the upcoming elections in the Netherlands, you have the impression that Minister Welders was just about 10 meters before the 50 percent. He got 14 or 13 percent in that vote.

I tell you when the elections in Germany will come in September, the right-wing extremists will not get more than 10 percent either. It will not change the basic stability situation of neither the Netherlands nor Germany. In France I believe that will happen as well. But let's wait today's -- 48 hours from now, we already know what has happened.

Restoring trust in the institution framework of the European Union must, therefore, be priority. First we have to provide alternatives. In the past, we assumed that all Europeans want to take exact same road, but obviously that's not true. It is important to give the citizens the real say in shaping the future of the EU.

I believe the White Paper recently published by the European Commission is a very bold step in this direction. It shows that we can have more than one choice.

You also have to clarify what consequences our choices have, not only on the near future, but also in the long run and that's the difficulty in all democracies. Do we have the patience to think about the long run and is short term isn't -- not determining our action too much already today and that requires we have to find better ways to communicate between the union and its citizens.

The EU bank is ready to help, solve, some of these problems. How can we? The role of investment in strengthening Europe and the contribution of the EU Bank to the solution of some of the challenges mentioned. To prevail the European Union must recast a strong persuasive and inspiring narrative that connects with our citizens and business community in a tangible manner.

Investment is a cornerstone in this narrative, because investment requires and it inspires confidence at the same time. On the eve of its anniversary, the European Union's Bank is doing that.

I told you already that we have a unique structure with 28 owners, member states of the union. With a paid in capital and reserves of 61 billion euros, a AAA rating, and balance sheet of roughly $600 billion, we are the largest multilateral lender and borrower in the world.

We have to always insist, Minister, that we are not only the biggest multilateral lender, but unfortunately also the biggest multilateral borrower, because we are not state funded.

We need to recapitalize, refinance every day on the capital markets, 60 to 90 billion euros per year. Why should investors give you that money for the projects we are having worldwide? They will do that only if they can expect their return on investment. They do that only if they trust in the quality of the project.

The key to the success of the EU bank allowing it to produce balance sheet of $600 billion out of paid in capital of 23 billion euros is that we guarantee the quality -- the technical and the economic quality of the projects.

This requires -- and the head of operations of the Bank who is sitting here, by far the largest department, doesn't like to hear that, but this is possible only because the second largest department of the Bank, the engineering department, is the biggest asset we have, because that brings about the quality check that we are able to guarantee our investors.

As a public financial institution, we distribute our funding advantage throughout Europe and, in fact, the world in support of high-quality investment projects, typically with a long-term view, looking for productivity and enhancing effects of investments in areas like transport, networks, and R&D.

In 2016 the contribution of the EIB Group activity to investment across Europe rose to 83.8 billion euros, which are supporting and mobilizing well over a quarter of a million -- of a trillion euros, exactly 280 billion euros of total investments in a single year.

When I say EIB Group, then this is important to note that consists of basically two entities -- the bank itself with lending activity at the core and the European Investment Fund, which the largest multilateral fund structure in the European Union, which is good for roughly 10 percent of the business every year and is strongly engaged in startups and in venture capital in different ways.

Recent modeling of the impact of the EIB funding on Europe's economy for the 2013 to 2015 period confirms this. The Bank's engagement in this period, which followed the capital increase, which already mentioned, is expected, according to the Savilla Base Institute that is producing the scientific basis for these calculations is expected to generate 830,000 new jobs and an additional .8 percent by 2017.

But if you go into the longer term, and long-term investment has a long-term affect not a short-term one, take for instance 2013, then you can recalculate our 2015 investment will have brought 1.4 million additional jobs and an increase in GDP by 1.1 percent. This is not insignificant and it shows that you can do it.

In this situation, we had to talk about the investment plan for Europe, because when Mr. Juncker, the now president of European Commission, had just lost his national elections, that can happen even in Luxembourg.

After having been finance minister and prime minister of Luxembourg for -- subjectively fell to a hundred years was only 25, but we thought it would be an eternity. He was getting rather frustrated in the Chamber of Deputy of the Grand Duchy of Luxembourg and was considering a candidacy for the European Commission's presidency.

Of course, he knows the EU bank in Luxembourg inside out for 25 years and he came to us and asked for advice and said, where are the economic difficulties in your Europe? Why do we have the strange situation that the investment machinery does not restart after the crisis?

We provided figures. Our economists were very, very eager to help Mr. Juncker in positioning, basing his candidacy on solid analytical ground.

We identified an investment gap in Europe at that time of 700 billion euros per year. How do you do that? Well, you compare what are the objectives, which the European Council had set particular until 2020 and you compare it with the figures that you find in corporate and public budgets in order to achieve these objectives. Then that leads to terrifying gaps in investment finance, for instance, for research and development, for public infrastructure, for education, what have you, into different categories, but the overall sum was 700 billion euros.

So at the same time, there were three and -- four years ago -- three years ago, only three. We had a completely different situation than at the time when we went for a capital increase, because the immediate reaction of our shareholder was, do you need a capital increase? I said, no.

Liquidity in Europe is abundantly available. Our interest rates are going toward, what, zero percent or even negative interest rates. The big capital institutions are swimming in money, which they don't find a good investment opportunity for.

Why are these funds with pension funds and the big banks, whatever, why are they not channeled into projects which are available if they exist? We made another study for

Mr. Juncker proving that the investment ideas, the project ideas, do exist.

So why doesn't the money come in? Very easily you arrive very, very soon at the risk consideration of the people. The economic perspectives, the confidence of potential investors was not big enough in order to make sure that they were ready to go into these risky businesses. So what do you do, then you think about risk sharing.

You think about a paradigm change in the years of the EU budget. I must say I'm involved in EU budgeting for the last more than 30 years, and I have been dreaming of what Kristalina Georgieva, now the vice president of World Bank, but until recently the Budget Commissioner of the European Union used to call in her campaign when she wanted to be Commissioner, “better spending”.

We moved the use of the budget of the European Union a small part from subsidies and grants to guarantees and loans. This is the only trick of the whole thing. Moving away from grant and subsidy thinking to risk taking and guarantees and loans. That did the trick, and I can tell you the European Fund for Strategic Investment, which is one of three parts of the Juncker Plan and is represented here by Iliyana Tsanova, who is the deputy managing director of the Investment Fund of the European Fund for Strategic Investments is running very, very well.

We had to promise the European Parliament and the other legislators to produce out of a 16 billion injection of budget money and five billion injection of our own reserves, so a capital base of 21 billion euros and additional investment trigger of 350 billion euros within three years.

That is a figure if you promise that to your political leaders that could make -- provide you some sleepless nights, but I can tell you after roughly half of the time, we are far above schedule and we will make it.

It has worked, but what has it done? It has reduced the investment gap from 700 billion to 600 billion per year. In addition to that since we identified this investment gap, we have subscribed to the sustainable development gross of the United Nations and we have subscribed to the necessary decisions on COP21 in Paris on the climate front, so the investment gap is already widening again.

So we must continue on this path and I promise you we will do it, and I think now that the legislative process has won in a way, the legislators who need to entrust us these funds will exactly do that.

In addition to do that, we have to see that we are living in an environment which contributes to instability and to concerns. Terrorist attacks are maybe only just one expression of this destabilizing environment.

Just isolate one dimension, which is new for European thinkers, this is migration. I remember a time when I was still sitting in a Cabinet of a member state and there was already a huge challenge for places which are only known for one reason, that is migration, Lampedusa or Lesbos or other islands in the Mediterranean where people in the north were of the opinion these are Italian or Greek problems, but not European problems.

Well, this has changed. One-and-a-half years ago, the challenge had arrived in Copenhagen and Stockholm and in Berlin and The Hague everywhere. So since then, there is a sense of urgency for migration.

I must say I'm sometimes disappointed that it took the migration challenge in order to let the Europeans wake up on the development challenge. When we talk here during the IMF/World Bank meeting now about development, it is to large extent triggered by the migration challenge and not by the value that needs to be attached to development anyway, but let's take it as an opportunity to make progress on development as well.

There we have a big role to play. We are of course a part of the family of Multilateral Development Banks, and I believe that the instruments that we have developed within the European Union are necessary now also in order to make progress on the development front, because we are maybe too much still stuck in grant and subsidy thinking, in donors' thinking when it comes to development.

We need -- after we had the paradigm change of the use of the budget from grants and subsidies to loans and guarantees; we need a paradigm change and the attitude toward development as well. We must get away from the exclusive concentration on global social policy and lead ourselves to more thinking in terms of development of economic strategies for growth and the jobs and inclusion.

This is why I made several proposals to the European Council in the last two years and they have been taken up. One of them is the Economic Resilience Initiative for the southern neighborhood in the Western Balkans, which is on the ground already and will raise our overall exposure in this region to almost 15 billion euros within a few years.

We also will participate and hopefully be a critical part of the investment plan of the European Union that the Commission is providing, preparing, and which will be decided in the course of this year, and that will concentrate mainly on Africa.

At the same time, the negotiations for the future budget of the European Union are well underway, and I'm pretty sure that the European Union will devote more funds for the External Lending Mandate of the European Investment Bank. Because although the concentration on Africa and the immediate neighborhood is completely right, but if we want to achieve, for instance, the big challenge -- big targets on migration, on climate, and sustainable development goals, we also have to look at the situation in Latin America and Asia and, therefore, the wider view is necessary.

So in all these cases, I believe the EU bank can play a significant role. We will play that if we are mandated together with our colleagues and friends and the other Multilateral Development Institutions and National Institutions and, and this is important, the private sector.

Because in the development field, the reaching of the sustainable development goals and the climate goals without inducing the private sector to participate more, maybe with intelligence, risk sharing structures, it's completely without perspective.

We need to be aware that we can shoulder these activities only together, public and the private sector. And, therefore, a bank that defines itself as a crowding in institution that multiplies an annual lending volume of 83 billion euros, 84 billion euros into an induced investment activity of 280 billion euros can probably play an interesting role in this context.

I thank you very much for your patience and I wish us a good discussion.

(Applause.)

DR. HOYER: Sorry for being so long.

(Indistinct chatter.)

MR. KHARAS: If you weren't being really interesting, I would have signaled to you to cut it short. Thank you so much for a really fascinating talk. I detected a bit of optimism in your speech, are you cautiously optimistic?

DR. HOYER: Yes. This is a basic feature for me because I'm a structural optimist. But to be honest, I believe that we have probably the worst behind us, but it takes nerves and perseverance to get through such a situation.

We saw in Paris yesterday how quickly an external shock can produce results which are completely out of proportion, but this -- this one killing in Paris can have an impact on the most important election of this year in Europe. This is a terrible thought.

MR. KHARAS: When you start to talk about these kinds of events, I think it reminds us that economics is not necessarily the only thing that people care about and you talked a bit about the disenchantment of people.

So before we get to talking little bit more about the state of the European economy, I wonder if you want to say something a little bit about how do you see this issue that even though the economy in Europe and in the United States and elsewhere in the world is doing little bit better, we still seem to have a very large number of very disenchanted unhappy people, people who think that things are not going the right way, and who are moving to the extremes, whether it's the extremes to the left or the extremes to the right.

Are we missing something by focusing so much on the economy?

DR. HOYER: Well, I think if it's the economy (inaudible) is always true, but on the other hand, I admit that if people don't feel to be a part of a success story, then they don't believe in the success story itself and, therefore, we have to give it some more attention. But sometimes -- I gave one example during my presentation, the political communicators themselves must take that responsibility.

If we blame the neighbor or the European Union for each and everything, then we should not be surprised if the people are doing exactly the same. Therefore, I think the political class in Europe must wake up. I see them waking up on this, because we are too easily cutting the branch on which we are sitting so very well and so comfortably.

If we forego the fruits of international division of labor, of corporation of multilateralism, some basics are being forgotten and this is something that is really very disturbing.

MR. KHARAS: So let's turn now, the thrust of the measures to try to revitalize the European economy have been to some extent boosting infrastructure, boosting spending. A couple of years ago, Larry Summers talked about investments and infrastructure as being a free lunch for public authorities.

I mean, there was this sense that if you spent more on investment, what you would get back in terms of improvement in the economy would more than compensate for the outlays work.

So now with a couple of years of this under your belt, what do you think? Do you think you've been serving up a free lunch or...

DR. HOYER: I've never believed in the free lunch and Larry, my view, simply was wrong there. Although, I admire him so much. I have nothing against a fully paid lunch if it's the right one and one that is having medium and long-term effects, and this thinking is sometimes missing in Europe.

We are extremely happy if we can bring about a short-term infrastructure success. But when we talk about sustainability for instance in the educational system, we are too short-sighted.

We have -- if I travel through Europe and sometimes visit simple school buildings, I'm wondering what to expect from our children, which one day will compete with the young people from Singapore and from other Asian countries who are growing up under much better conditions than we in the rich European Union, that cannot be.

This requires the courage to say, okay, we know the effect is only going to be there in five, 10, or 20 years, but this will be sustainable. On the other side of the balance sheet of many European institutions and national institutions and banks, you have wonderful projects, which have never brought about their returns that have been calculated or hoped for at the beginning.

I can tell you stories about roads in remote areas of the European Union and you compare the figures that the traffic calculators put it to the -- into the platforms for these projects, that was complete nonsense from the beginning.

So this is -- now in the context of the investment plan for Europe and we can tell endless stories about that, we made a study with the Commission on investment projects availability in Europe and we got huge amounts, trillions of euros of projects which could be realized and we took them apart and a total of 50 percent of -- it was along the line.

Everything I always wanted to have financed as an investment, but for very good reasons nobody was ready to finance it. Therefore, we said continue to forget them. But let's -- let's see it from the globalization point of view. Europe must become more competitive, that means it must become more productive, and productivity growth is the name of the game. Therefore, we have to not neglect the remote area, certainly not. There is a lot that can be done there. But you certainly don't neglect the parts of your regions or economies or sectors, which contribute the most to the productivity and competitiveness of your member states.

This is the case, we are the weakest when it comes to public infrastructure in the most densely populated and sometimes the most contributing to economic growth and GDP of the member state of the union. That is very short-sighted. Then we have to see that we have a couple of issues where we might lose the battle if we don't wake up.

The digital revolution has not reached the mindsets of all economists, industrialists, and politicians in Europe yet. So some people among our partner countries let's say in North America or Asian or in India are far ahead of us and we must catch up with that.

We must live up to the challenge that -- I think it was 18 months ago here in Washington when John Kerry had organized the connectivity conference, or was it last year, and we were defining the access to the worldwide web as a human right, but that has consequences if you do that.

Then you must make sure that in the side valleys of the Danube in -- or the Inn in Austria, not all the SMEs are leaving the valleys and going to the center in order to establish their companies where they have access to the web. You have to make sure that the web is accessible everywhere, then it becomes a public good and requires public initiative.

Well, of course, the big corporates, for instance, in my country who provide communication services are perfect when it comes to serving the big cities, but not when it comes to the remote areas, so these are areas where Europe must catch up.

The electro mobility is another case. I have two examples. If you drive a Tesla, congratulations, but then you are basically, until today, driving more or less Mercedes Benz technology, because Mercedes Benz sold that part to Tesla, what was it, eight years ago, because they didn't see the market.

Or United Parcel Service and DHL are producing their delivery cars in Germany now themselves. Because when they went to the big automobile manufacturers in Europe and said we want to have these round delivery cars on electrical motors, the car manufacturers were not interested, that was not a business perspective for them. So we have some mistakes to catch up with.

MR. KHARAS: So I hear you saying you got to be quite selective in your project selection and quite strategic in how you go about it. Could you tell us a little bit more about how exactly that works?

Do -- who produces this pipeline of projects for you and who ultimately decides on which projects? I mean, is it your -- is it your customers, is it your shareholders, is originated by your own officers?

DR. HOYER: We are very -- to large extent a demonstrative institution and I believe in the creativity of the corporates and SMEs, not to forget in Europe, to come up with good ideas, and we are ready to test.

Sometimes we have a couple good ideas ourselves and we go to companies and we don't get more and more. For instance, a country like Greece, we have changed our way of operating by being much more proactive and not waiting until the customer comes with an idea to us for some financing. We do a little bit different there.

At the end of the day, we have project proposals on the table. We have a strong advisory component in the European Union. We are developing this further in context of the Juncker Plan in order to help people to develop good ideas and projects.

At the end of the day after very thorough due diligence and we have the best engineering department of any bank of the world, I believe that can be said until today. We take a decision, we, upon advice of our services, decide that, under Management Committee of the Bank, these are the president, vice presidents, we then present the -- our proposals to the Board of Directors who is the only responsible source of decisions in this context. One of my bosses there, is sitting there, is the director representing Cypress and the Board of Director. So this is the decision-making process, bottom up.

But at the end of the day, we follow guidelines that we decide in a political process. After consultation process with stakeholders and say, for instance, we are particularly interested in contributing to the goals of the European Union, those who are based on the treaties -- the treaty on European Union stipulates that we should contribute first of all to development of a common market. The European Union has been successful there, but still only 50 percent of the GDP of the European Union is produced and distributed along the lines of the internal market.

The rest is national legislation, regional, whatever, so there is room for improvement there. Then we have to contribute to leveling our regional differences. That was the founding story of the Bank, because in the mid-50s when people were thinking about economic -- European economic community, they realize that five-and-a-half member states -- upcoming member states that was Benelux, Germany, and France and North Italy had benefited very much from the Marshall Plan while the South of Italy has not.

The idea was first to establish something like a special fund for the (inaudible) journal that was rejected both in Paris and Bonn at that time in favor of a European Investment Bank. That was the funding story.

So these are the treaty-established objectives, but then, of course, the European Council gives us objectives. One of the objectives is to contribute to the growth of increase in other activities in the European Unions, so this is why innovation is such an important issue. This is why energy efficiency and renewable energies is so important for us.

Nobody in 1958 -- 1957 would have thought about SME financing, because everybody was of the opinion the local savings bank can do the job or the big corporate banks. Nowadays we find out that even in the strongest economies, we have problems to finance the

SMEs well enough. It is not only a case in the countries which have difficulties. It's sometimes the strongest countries who have problems with SME financing, so 30 percent of our financing goes into this direction as well. So we have political priorities, which basically are set by the European Council.

MR. KHARAS: So one of the -- if you rely on demand bottom-up approach, I think naturally the places that have more capacity to develop pipelines and projects, et cetera, actually do produce more of those projects. One of criticisms that are being levied about the rollout of the Juncker Plan is that actually the more advanced countries got a big chunk of the money compared to other countries.

So I wonder if you can say a little bit about how you help the others to develop those and then reflect a bit. You mentioned the sustainable development goals and the needs there, and I'm thinking many of those countries also have quite weak pipelines and national capabilities, et cetera.

So what are some of the things you've been doing that might be lessons that could apply elsewhere?

DR. HOYER: A, the figures about uneven regional distribution of the benefits of Juncker Plan are complete nonsense. They're getting constantly repeated by the Court of Auditors and by others, but the objectively complete nonsense.

If you break it down by GDP or if you don't want to do that because of the Luxembourg case, which I described, you do it by population. Then the strongest effect of investments in the 28 with the help of the Juncker Plan was in Estonia, in Slovenia, Slovakia, in Bulgaria, in Cypress, in Greece, and then you come to two big countries that, Italy and Spain, and you come to then in the middle of the field of the 28 so to speak to the United Kingdom not to be forgotten.

So there is no reality behind the allegation that it goes to the detriment of the smaller and weaker nations and comes to the benefit of the stronger nations only.

At the end of the story, at the bottom, you'll find the Netherlands, Germany, Luxembourg and Sweden. I think Denmark is one of these weak ones as well. Everybody there finds this is okay. Germany does not need this much support from the Juncker Plan as does Spain. The lending in Spain per capita is three times higher than in Germany, and nobody in Berlin will complain about that. This is what we must continue.

Then you have the issue of is it all additional. This is very tricky, because you cannot nail down the additionality question necessarily with each individual project. You have to look at the portfolio.

Because this very Bank has done special activities for higher risk projects, which we finance out of our own pockets over of last decades at four to five billion euros a year, but that was reaching the potential limits. It couldn't go beyond that.

With the Juncker Plan, we are now in the position to finance 20 to 25 billion of these investments per year. So this is a quantum leap in the production of additionality or additional investments.

The other question is the capabilities of member states to develop good projects. There we have the second leg of the Juncker Plan and that is not to be underestimated. It's the advisory capacity provided by the European Union and the EU bank together in what we call the European advisory hub, which is an extremely useful instrument and it's being demanded strongly, enabling countries which have problems to arrive at bigger or more complex investment projects themselves, that works well.

However, we have a third pillar of the Juncker Plan, which nobody talks about but my view the most important. Where are the regulatory bureaucratic legislative obstacles to investment in the European Union and we have with plenty of them. The Juncker Plan stipulates that a special activity to be developed under the leadership of the first vice president of the Commission Mr. Timmermans brilliant man to systematically identify and remove investment obstacles.

I think we give too much attention to what we are doing in the field of investment -- actual investment production and we observe too little what is happening in the field of advisory services and in the field of regulatory cleanup, which in the European Union is urgently necessary.

MR. KHARAS: Last question from me and then we'll open to the floor, but the talk in this town right now is all about moving from billions to trillions. Here you are one institution. You tell us that with 21 billion euro, you can do 300 billion euro of investment projects. That's a very big leap from billions to trillions.

So are you saying that you actually have lessons that can be more broadly applied in the world and that this is issue is not as difficult as it may seem and that is --

DR. HOYER: Yes and no. Of course we can learn from what we do inside the European Union, but you cannot use that simply as a template for development policies.

The idea in both cases, however, is no chance to reach the objectives without more mobilization of private resources. They're available, but they expect certain degree of certainty and return. Therefore, the development of financial instruments is key there.

The multiplier in development projects simply cannot be as high as it can be in research development projects within the European Union that goes without saying but the multiplier is definitely going to be bigger than one. So, therefore, you should open up your hearts and minds for responsible intelligent financial instruments and risk sharing schemes.

I sense sometimes a disturbing reluctance might have something to do with bad products that have been placed into the markets before the financial crisis and things like that, that could be one of the reasons.

But general, it is a question of attitude. I was recently at a ministerial meeting on development, and everybody was talking about the need to get the private sector more interested. But then one minister said, well, there are too many economists in the field of development. This is a sociological and philanthropical issue, and we should stop talking about sustainability and economic viability all the time. That doesn't serve the interest of the developing countries.

At the same time -- then I ask him, at the same time you expect the private sector to come in more forcefully, which is simply not going to work. So we have to provide some trust building, confidence-building, measures in order to give creditability back to financial instruments. Probably the financial crisis has done more damage there than elsewhere.

MR. KHARAS: Let's take a few, this lady, take round of maybe three or four.

MS. BOURBON: My name is Contessa Bourbon from the New York Times. I'd like to ask what are particular policies being discussed to tighten border security in Europe?

Now what would be its impact on the Schengen deal and how -- what are the implications on investments and labor with the changes in border?

MR. KHARAS: Gentleman -- yeah.

MR. DOLLYLEASE: Question for Dr. Hoyer. I thank you very much for your presentation. My name is Trevor Dollylease from Standards and Poor.

So it's very good that you mentioned that Europe is still yet to recover. Clearly it's dispersed; some countries are recovering faster than others. So the importance of SV to their recovery is something we noted.

Questions for you. Certainly we've seen the program has had some success, particularly with the SME aspect, but the innovation and infrastructure window is perhaps a bit slow to take off.

So as you're poised to actually expand your program from 300 million -- billion to 500 billion, we see a number of challenges. It would be interesting to see how you plan to address that.

First I should note, I actually think it's a very good thing for the EIB. You have the ability to move into more riskier positions, leverage yourself of course supported by you, so you certainly encourage what you're doing.

But the challenges we see certainly one of them is very topical in Europe. Maybe it won't be as well understood here, but is additionality and whether you're really adding additionality to your investments.

I think a very important thing because part of the reason why Europe has not recovered fully, it has maybe unfortunately in the UK and some aspects France and Germany, but two of those three countries already, as you say, are facing or have faced pretty interesting decisions when it comes to EU, but investment by the private sector.

It really needs more investment by the private sector who have yet to really invest and I know that's one of your goals.

So what are your thoughts as you're poised to expand SV to 500 billion, you going to encourage that?

Lastly --

MR. KHARAS: I think that's -- get somebody else.

SPEAKER: Yes, quick question. Has the EU's negative interest rate policy been a success and are there any long-term structural consequences that we should worry about?

MR. KHARAS: Thank you, gentleman there.

SPEAKER: Thank you very much for your comments. I commend you on your emphasis on the sustainable development goal. Thank you.

So as the seven year old is probably not familiar with borders, probably wasn't also familiar with Deutsche Marks or guilders. So one thing I didn't hear you talk about was the euro itself.

I'm just wondering what you see as the main issues and risks and what's become done to address them. Thank you.

MR. KHARAS: One last question right here.

MR. GAGLIANO: Lou Gagliano (ph). There's an atelier test going on called "The UK Being Independent of the Union". If that is successful by whatever metrics of measure over the next five years, what implication does that have to the sustainability of the union itself?

MR. KHARAS: Let's start with that and my guest is finished with that, as we are running out of time. Take any or none of the these questions.

DR. HOYER: I will now shy away from any, although I might have to be brief. The Shangaan issue is extremely critical one. People are underestimating the positive effects of free movement, and we are realizing the problem only as soon as you don't have it anymore. This is for me as a liberal politician a general rule, freedom is not appreciated very much unless it's taken away from you.

Therefore, I believe that present-day people are very, very quick in restoring borders and controls and things like that. If that is in place then for a while, it's getting difficult. Give you an example.

I was in New York last week and I moved on Sunday morning out of Munich to

New York and I almost missed the plane, because on that weekend they have reintroduced identity checks at airports in Europe. It took me one hour to get through passport control in leaving the country. I've never had something like this before, so that was given up immediately.

On the other hand, there is one issue that is very relevant here. Because in the context of migration, everybody became aware that the borderless travel within the European Union requires protection of the external borders, which obviously has not been dealt with sufficiently.

That's easier said than done. If you have 10,000 kilometers of external borders because you have many thousands of islands in the Mediterranean and long shores, but still we have a problem there.

Partly you ask about investment, has something to do with investment decisions, because when the migration wave came, we were not prepared to sufficiently register, ensure house, provide education for, and so forth, and this -- I made a presentation at the eco-friendly finance minister's council in September 2015.

I told them, Ministers, be aware that this issue is going to land on your tables. It is not a question just of the health ministries and the education ministries, and the housing people, it will require investments, and that is still something that we have to look at more closely.

Otherwise, we are not particularly involved in internal border regimes, things like that. This is, thank God, not our business yet. I hope it will stay that way.

On the question from the gentleman from S&P, yes, I think we need constantly to address the additionality issue, because that is a credibility issue for us. If people can say this or that could have been done anyway, then we have a weak point.

On the other hand, when it comes to the portfolio itself, nobody can say that, because nobody will be able to finance the difference, the 20 billion per year, that we can provide in financing. This investment simply would not take place, or to the largest extent would not take place.

But still we have -- I believe we have to be more ambitious. I say that not only here, but also internally. We are still in a rather old-fashioned, but as a writing agency, you should normally applaud that very cautious approach on risk taking and the Juncker Plan gives us the opportunity to overcome that, because we can shift the risk to somebody else.

Therefore, we should be more courageous in this respect. This also, one of the determining factors, were the high concentration on the delivery of the FC targets has led to an imbalance between FC projects and InnovFin projects. I believe that we need to re-concentrate on InnovFin, because all and all the effect of these projects on the overall productivity and competitiveness development of the European Union is superior. Therefore, I go along with you that we should not forget that.

Zero interest rate policy and the development of the euro, had Mario Draghi a couple of years ago not said, we will do whatever it takes, I think the European economy would have drifted downwards rapidly.

Though I believe that this was a very courageous and right decision to take at the time, but what was the logic of it. The logic was to buy time for the politicians to clean up the mess in their countries, to arrive at the necessary structure reforms which lead to a more coherent -- or cohesive development between the members of the European Union, and this job has not been sufficiently done, at least not everywhere. Therefore, I believe that a lot of time has been wasted.

The present zero interest rate situation cannot be maintained forever, that's for sure. Even without the external effect of Ms. Yellen's recent decisions and the pressure from the Trump administration, Europe would not be able to sustain zero interest rate forever.

Therefore, I believe it is now a question of very, very intelligent fine tuning to cautiously move out of that corner again. It might look like following the American example, but I would even cut it from that.

We have to do it in accordance with the investment and growth cycle in Europe and that is a little bit retarded in comparison to the cycle in the United States. Therefore, I think justified that a cautious backing away from QE in Europe will come a little bit later than in the United States, but it will come, no doubt about that.

It has to done in an intelligent way, because you run the risk otherwise to shock the economy or produce shock effect, which might be very detrimental on the euro.

Producing a currency union, shaping currency union, and maintaining it over longer periods of time in view of diverging developments of the basics of economies in the currency union is a very, very ambitious endeavor. We are experiencing that now.

But on the other hand, what we overlook is the fact that the currency union has served us extremely well over the last practically 15 years and has made the euro the second most important currency in the world.

The question will be, will we be able to make sure that those in the European Union and the euro area, which have bigger problems in going along, will they be able to catch up? This requires exactly what I've described as the balancing act between subsidiary and solidarity.

I believe we can afford that, but we must do it. Because otherwise, the disenchantment of both those countries who are not coping with the speed of the economic development of the majority of the union will disappear, and the joy of the people in the countries that have the biggest share in the growth activity in the European Union and will be presented the bill for that in terms of the solidarity bill. So it requires political leadership, which sometimes would be a little bit more visible.

MR. KHARAS: President Hoyer, thank you for sharing your thoughts with us.

(Applause.)

DR. HOYER: Thank you very much.

MR. KHARAS: Thank you for what you've done for Europe.

DR. HOYER: Great pleasure and thank you very much for the hospitality and your leadership.

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