



**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

from: President of the European Investment Bank
to: President of the Council (ECOFIN)
Subject: Second implementation report on the EIB Group response to recent
developments in the economic situation in the European Union

Delegations will find attached a letter from the President of the European Investment Bank to the President of the Council (Ecofin) regarding the second implementation report on the EIB Group response to recent developments in the economic situation in the European Union and the report itself.

Encl.:

Dear Minister,

In view of the next ECOFIN meeting of 9 June, I am pleased to send you attached the Second Implementation Report on the EIB Group response to recent developments in the economic situation in the European Union.

This confirms that we are genuinely delivering: measures taken to optimise existing resources and streamline the loan approval process are resulting in an acceleration of the rate at which funds are being made available to EIB's clients.

What is equally clear however is that economic conditions in Europe continue to deteriorate against a backdrop of government budgetary constraints, the continued fragility of capital markets and restrictions on commercial bank lending. In view of the additional demand seen by the Bank for its lending programme, it is now envisaged that EIB would lend some EUR 70bn for the EU and Pre-Accession countries coming from a "normal" level of EUR 45bn.

At the same time, we have seen a rise in loan approvals for both low investment and sub-investment grade operations in 2009. This trend is expected to continue during the rest of the year through the use of new risk taking instruments, including guarantees to banks to help them lend to SMEs and for PPPs. I intend to discuss with the EIB Governors the possibility for the Bank to increase its risk profile within well defined parameters intended to ensure that it maintains its top credit ratings.

Yours sincerely,
Philippe Maystadt

Cc: Commissioner Joaquín Almunia

**EIB GROUP RESPONSE TO RECENT DEVELOPMENTS IN
THE ECONOMIC SITUATION IN THE EUROPEAN UNION**

SECOND IMPLEMENTATION REPORT

Executive Summary

- In response to the request of the Council (ECOFIN), EIB has committed to deliver more, better and faster: raising its volume of lending by approximately 30% in 2009 and 2010;
- Previous report suggested a significant rise in activity in the final quarter of 2008, and the first months of 2009. Results to end April 2009 confirm this trend – and it is currently expected that EIB meets, or even exceeds, its targets for 2009 as a whole.
- From October 2008 to end April 2009, signatures totalled 41.8bn – an increase by 61% over the equivalent period in the previous year.
- Solid results are being delivered across priority areas. Compared to the equivalent period in 2008, signatures from January to end April 2009 have increased by:
 - 104% for small and medium-sized enterprises (SMEs);
 - 141% for energy;
 - 11% for transport infrastructure;
 - 30% for convergence lending.

- Likewise, compared to the equivalent period in 2008, disbursements have increased by 36%.
- The pipeline of operations for the coming months benefiting each of the key priorities is sizeable and the current outlook for the year would allow the Bank to meet the 2009 targets.
- These results have required an exceptional mobilisation of EIB human and financial resources, including significant fund raising, reallocation of existing resources, acceleration of recruitments and use of external consultants.

1. **Background**

The Council (ECOFIN) of 2 December 2008 welcomed the additional financial support by the EIB to the European Economic Recovery Plan (¹).

In line with the orientations provided by the Council, the Board of Directors of the EIB agreed a Corporate Operational Plan (²) which envisaged a 30% increase in the Bank's lending activity in 2009 and 2010 – equivalent to an extra EUR 15bn per year.

Particular emphasis was placed on additional support to SMEs, the development of a comprehensive package on energy and climate change, including a clean transport facility focusing on the automotive sector, and an enhanced action in the EU Member States and regions expected to be particularly hard hit by recent economic slowdown.

A first implementation report was submitted to the Council (ECOFIN) on 10 March 2009 (³).

¹ EIB Group response to recent developments in the economic situation in the European Union – Council document no. 16601/08 of 1 December 2008.

² EIB Corporate Operational Plan 2009-2011.

³ EIB Group response to recent developments in the economic situation in the European Union – First Implementation Report – Council document no. 7299/09 of 6 March 2009.

2. Overall results to 30 April 2009

2.1 Lending activity

The EIB accelerated signatures and disbursements already towards the end of 2008, with a view to countering the impact of the crisis on real economy.

From October 2008 to end April 2009, signatures totalled **EUR 41.8bn** compared to EUR 26bn in the same period to April 2008, indicating **an increase of 61%**.

From October 2008 to end April 2009, disbursements totalled **EUR 33bn** compared to EUR 24.3bn in the same period to April 2008, indicating **an increase of 36%**.

2.2 Funding activity

The increased lending activity over 2009-2010 is based on a substantial increase of the Bank's funding programme. Borrowings to end April 2009 reached **EUR 50.4bn**.

The current difficulties on the capital markets, however, make it difficult to forecast the conditions under which the borrowing programme of the EIB will develop in the short to medium term.

Access to liquidity of the European Central Bank (ECB) will be established via the *Banque Centrale du Luxembourg*, as a temporary natural complement to the increased funding and lending activities. If needed to preserve its liquidity ratio, the EIB will have access to the Euro-system open market operations and standing facility and will comply with all the normal requirements of an eligible counterpart for ECB, including minimum reserves, statistical obligations and Eurosystem access to financial information for this purpose.

3. Focus on results in priority areas

3.1 Support for SMEs

3.1.1 Loans to banks for SMEs

Contracts for 28 SME operations have been signed over the period January to April 2009, totalling **EUR 2.8bn**, against EUR 1.4bn over the same period to April 2008. At the same time, an estimated EUR 10.9bn-strong pipeline has been built for the remainder of 2009.

In order to achieve this ambitious target, EIB has developed a three-fold strategy, focussing on (a) improving its financial products for SMEs; (b) intensifying its partnership with the banking sector; (c) reinforcing cooperation with the European Investment Fund (EIF).

EIB's SMEs products are deployed through more than 100 partner banks throughout the EU and have an incremental impact on the availability of finance for SMEs, as banking partners are required to match the availability of EIB funding with own resource lending. To improve further, the Bank's objectives for 2009 include, *inter alia*, to widen the coverage of countries and to increase the number of partner institutions receiving loans for SMEs.

3.1.2 Mezzanine Facility for Growth

On top of the additional lending by EIB, EUR 1bn is to be provided by the European Investment Fund (EIF) to develop mezzanine financing products specifically targeting SMEs.

The mandate to implement the "Mezzanine Facility for Growth" was conferred by the Bank to the European Investment Fund (EIF) in March 2009.

EIF will invest on behalf of EIB, ensuring total investment of at least EUR 2bn in SMEs over the planned investment period of 3 years. A first investment is expected to be concluded soon. The facility will target SME development, especially technology companies, through specialised funds.

3.2 Energy, Climate Change and Infrastructure

The “Energy, Climate Change and Infrastructure” package provides additional support to investment specifically in the fields of (i) energy efficiency and the use of renewable energy sources, in particular at the level of cities and municipalities; (ii) R&D in new energy technologies, including the development of carbon capture and storage; (iii) TENs and related infrastructure and (iv) a clean transport facility for the automotive and other transport industry.

16 operations in the **energy** sector for a total amount of **EUR 2.8bn** have been concluded to end April 2009 (including Pre-Accession Countries), **a 141% increase** over the equivalent period in 2008. With regard to renewable energy, 3 contracts have so far been signed for an amount of EUR 356M. An estimated pipeline of EUR 12.6bn exists for the remainder of the year.

In the case of **TEN-T transport infrastructure**, contracts for 14 operations have been signed, totalling **EUR 2.3bn** (including Pre-Accession Countries). This represents **an 11% increase** on the equivalent period of 2008. The TEN-T pipeline amounts to an estimated amount of EUR 13.2bn.

As to the **European Clean Transport Facility (ECTF)**, a facility predominantly focused on research and development activities with the aim to reduce CO₂ or other pollutant emissions in line with the new EU norms for the automotive industry, 3 operations have been signed to date for an amount of **EUR 1.2bn**. Automotive lending under the ECTF for an amount of EUR 2.9bn had been approved by the Board of Directors by May 2009 ⁽⁴⁾. Further, a substantial pipeline of automotive lending operations of some EUR 7bn has been built up and will be submitted for approval before July 2009, most qualifying under ECTF.

The ECOFIN-launched working group of EIB and the Commission, in consultation with EU long term investors, is continuing intense work to develop an energy, climate change and infrastructure fund (the '**2020 Fund – Marguerite**'), aiming at complementing the existing lending capacity with a direct equity instrument of European dimension without recourse to Member States' budgets. Four core partners (*Caisse de dépôts et consignations, Cassa Depositi e Prestiti, KfW* and EIB) are finalising the feasibility study of the project, the proposed terms of reference and its governance arrangements.

These core partners are committed to the initiative and will continue the preparation of the 2020 Fund – Marguerite in view to report to the July ECOFIN. Core investors are inviting other European public and private investors to join the initiative with an agreed target of a first close at the end of the year.

⁴ In addition to automotive lending for an amount of EUR 1.4bn under other eligibilities.

3.3 Convergence lending

As the financial turmoil is having a disproportionate impact on disadvantaged regions in some Member States, the EIB has committed to enhance its convergence lending by a further EUR 2.5bn p.a. with a particular focus on the priority sectors identified above.

Contracts for 32 operations have been signed over the period January to April 2009, totalling **EUR 4.7bn**, against EUR 3.6bn over the same period to April 2008, indicating ***an increase of 30%***. At the same time, an estimated EUR 28.1bn-strong pipeline has been built for the remainder of 2009.

4. Concluding remarks

The pipeline of operations for the coming months benefiting each of the key priorities is sizeable and the current outlook for the year would allow the EIB to meet its 2009 targets.

This requires an exceptional mobilisation of EIB human and financial resources, including reallocation of existing resources, acceleration of recruitments and use of external consultants.