

**Interview with Mr Philippe Maystadt
Honorary President
European Investment Bank (EIB)**

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by Stéphane Darimont. Banking Boulevard. Brussels. October 2014

In this interview Mr Maystadt explains the EIB's activities, the diversity of banking functions within that institution and its collaboration with private European banks. He also gives his opinion on the possible direction the European Union (EU) could take to optimise its support for sustainable economic growth and employment.

Stéphane Darimont [S.D.]: Welcome Philippe Maystadt.

Thank you for granting us this interview for Banking Boulevard. As you know, our website targets professionals in the financial sector and, concerning your own career in this sector, you were until recently the head of the European Investment Bank, a role you held for 12 years. We would like also to inform our younger viewers that you served as Belgium's Minister of Finance for more than a decade.

The financing of projects by the banking sector is an activity that contributes to long-term economic development and the EIB plays a decisive role in this area. Could you please explain to our viewers what the EIB's role is in this domain and how it collaborates with private European banks?

Philippe Maystadt [P.M.]: The European Investment Bank is the bank of the European Union. Its shareholders are the 28 EU Member States. Its board of directors comprises 29 representatives: one from each Member State and one representative of the European Commission. The statutes of the EIB are a protocol annexed to the Treaty on the functioning of the EU.

The EIB was created at the moment of the Treaty of Rome, and its mission, according to the Treaty, is to contribute through long-term financing to the objectives of what was called at the time the European Community, and what is today the European Union.

Consequently, the EIB has priorities that are completely aligned with the needs of the European economy and as such, the EIB authorised loans for 71 billion euros in 2013. Of this amount, almost one third – 22 billion to be exact – are loans to commercial banks so that they can in turn loan to small and medium-sized enterprises (SMEs). The EIB can provide more advantageous funding to commercial banks (perhaps less so at present when interest rates are low but more so when rates are higher) that enables them to offer better lending conditions to SMEs.

One of the main objectives of the EIB is the financing of SMEs but another is to finance investments in projects that combat climate change. For example in 2013, of the 71 billion euros distributed in loans, 19 billion went to investments in reducing the consumption of fossil fuels, including investments in improving energy efficiency such

as energy saving in buildings, also investments in sources of renewable energy such as wind farms and photovoltaics. There are also investments in research programmes to develop more energy efficient technologies. So, essentially, the mission of the EIB is to financially support the objectives of the EU.

[\[S.D.\]](#): It is of course impossible to cover all 12 years of your EIB Presidency in the short time we have together, but can you share some highlights of the EIB's collaboration with commercial banks during the decade 2000-2010?

[\[P.M.\]](#): The EIB collaborates closely with commercial banks on at least three levels. Firstly, as I have already mentioned, because the EIB cannot lend directly to the multitude of small businesses in the EU, it makes loans to banks so that they can lend to SMEs. This is an area of permanent collaboration and while I was President the contracts between the EIB and commercial banks were revised to provide greater assurance that EIB loans are being used to improve lending to SMEs.

A second important aspect of the relationship between the EIB and commercial banks is the financing of major projects, because in principle the EIB only finances 50% of the total investment cost. There are exceptions, notably for priority sectors such as renewable energy where the EIB can finance up to 75% of the investment cost. But there is always a need for co-financing. And therefore there is cooperation between the EIB and commercial banks. The EIB finances part of the investment and commercial banks finance the rest. Very often, commercial banks wait for the EIB to take its decision before making a commitment.

Finally the third area where collaboration between the EIB and commercial banks is almost permanent is on the other side of the balance sheet, which is funding. The EIB must borrow before it can lend! The bank borrows on capital markets worldwide, in Europe of course but also in the United States, Japan and other Asian countries. Therefore, the bank needs the support of some commercial banks, either as arrangers of these loans, or more directly as underwriters. So this is also a form of cooperation between the EIB and commercial banks.

[\[S.D.\]](#): Our interviews are watched by many young graduates who want to work in the financial sector. Many of them don't appreciate the range of skills involved in a financial institution, particularly the EIB...

[\[P.M.\]](#): Yes, the skills are very diverse.

First there are lending transactions, which involve three departments.

There is the Transactions Department where you mainly find credit specialists who negotiate loan conditions with the project promoter. There is the Project Department, which studies the viability of a project from a technical point of view. And that's why the EIB employs approximately 100 engineers, which is very unusual for a bank. They really study the technical aspects of a project to see if it will work, if it is viable. This is something commercial banks appreciate, and it explains why they often wait for the EIB to give its green light before investing, reassured by the fact that "the technical study has been endorsed by the EIB".

The third department is Risk Management where specialists try to evaluate a project's level of risk, and therefore pricing, that is the price the borrower must pay to cover the risk.

Of course, there are many other functions in the bank; there are very specialised people (financiers) who manage Treasury, liquidity and financial market investments.

There are also control functions such as internal auditing.

There is a unit specialising in post project evaluation. A certain number of projects are evaluated after completion to verify if the investment complied with the required conditions and, above all, if the project had the anticipated economic impact.

There is a unit specialised in the fight against corruption and money laundering, or any form of fraud that could occur in our transactions. To lead this unit the bank has hired an expert from the Belgian judiciary police.

There are also compliance officers who must verify if all our transactions respect current legislation and rules. So you see, the EIB's operations are extremely diversified. Of course there are many people who have been trained as economists, but there are also lawyers and engineers.

[\[S.D.\]: We've almost reached the end of our interview and we would appreciate your opinion on the direction the European Union could take to optimise its support for the development of sustainable economic growth and employment.](#)

[\[P.M\]:](#) It is clear that the European Union, and particularly the Eurozone, is in difficulty today; we should not hide this. We have not yet come out of recession and there is even talk of deflation. Therefore, I think there is an urgent need for a set of measures that will enable Europe to get out of recession and focus on sustainable growth.

It seems to me that under the current circumstances, we need what I would describe as a package with four major components. You may be aware that there is currently a debate on whether to follow a policy of supply or demand. For me, this debate doesn't make a lot of sense. The President of the European Central Bank, Mario Draghi, reminded us recently that both policies are necessary to fight unemployment: supply policies to improve the competitiveness of companies and demand policies to stimulate consumption and investment.

In light of this, I believe the first component of the package I am talking about should consist of structural reforms to improve the competitiveness of companies. In that regard, I believe that France and Italy, two major economies of the Eurozone, can no longer simply announce reforms, they must implement them effectively. This has not happened yet, and for me it is very important to have effective implementation of the necessary reforms in certain countries.

The second component is introducing measures to stimulate demand, where this is possible, and I'm thinking in particular of Germany, which has a larger margin for manoeuvre. In the case of Germany this could take the form of tax cuts, for example,

by indexing income tax rates. This can and should re-boost investments because, as German civil servants privately acknowledge, Germany still invests too little. If you take Germany's public and private investments today as a proportion of GDP, they amount to less than in France, Sweden or even in Greece. So Germany should invest more. For example, you may have recently read about German bridges collapsing and problems with the country's railway network. It's clear that increased spending would not be a luxury for Germany and it would help to boost the economy.

The third component of the package is the 300 billion euro European investment program announced by President Juncker. Of course, funding needs to be found. But I do believe, and this is now being worked on, that it is possible to find financial instruments, for example, by public funding in the form of a guarantee, to mobilise private sector investment. The money is there. If you look at the reserves of pension funds or other institutional investors, this money is not being used at the moment to finance major projects for the benefit of Europe.

Finally, the fourth component is of course the European Central Bank which should continue with its, I would say unconventional policy, to support the economy.

Therefore, it seems to me that if an agreement can be reached on this package, then yes, the conditions will be created for re-launching the European economy.

[\[S.D.\]](#): Thank you very much Philippe Maystadt.

[\[P.M.\]](#): Thank you for giving me the opportunity to talk about the EIB and the European economy.