

Understanding the Juncker Plan

Pedro de Lima (EIB) discussed the state of play regarding the European Fund for Strategic Investment at this year's FIW conference in international economics in Vienna.

A lecture note by Julia Grübler

This year's [FIW conference in international economics](#), hosted by the Austrian Institute of Economic Research (WIFO) and jointly organised with the Vienna Institute for International Economic Studies (wiiw), was concluded with a panel discussion on the so-called 'Juncker plan'. Pedro de Lima, head of division for economic studies at the European Investment Bank (EIB) described the concept of the investment plan for Europe, how the [European Fund for Strategic Investment](#) (EFSI) will be implemented, as well as its potential and limits.

From the idea...

The original concept behind the Juncker plan sounds simple but the way of its implementation is nonetheless hard to grasp: The overall target is to stimulate the European economy, by "unlocking" investment of 315 bn Euros (which amounts to less than 1% of the EU's GNI) within three years with a mere 21 bn Euros at hand. An immediate question that arises is why an investment plan – in times of practically zero interest rates – is needed at all. The answer given is that strong risk aversion and uncertainty about future prospects in the EU is keeping investments low. De Lima argued that the main contribution of the EIB and the Juncker plan more generally would be to give an impetus to restore confidence in investing in Europe. In addition, Europe is not a homogeneous entity and there are countries and regions, where access to finance for worthwhile projects is lacking despite the currently low interest rate level.

... and the magic of multipliers...

The EIB provides 16 bn Euros of guarantees targeting projects in infrastructure, while an additional 5 bn Euros should address small and medium sized enterprises (SMEs). This sums to 21 bn Euros, which – in de Lima's words – "by the magic of multipliers" transforms to investment of 315 bn Euros. The multiplier effect arises from the fact that the EIB never finances 100% of its projects, but rather sets its limit at 50%, while for the other 50% (and beyond) private investment would be attracted. The estimates of the multiplier – he claimed – are based on solid experience values. Furthermore, the EIB provides technical assistance.

... to structural change.

De Lima also pointed out, that in the specific case of the 'Juncker plan', the EIB is allowed to take more risk than usual (while not restraining due diligence of financability). Yet, the EFSI should not be seen principally as a countercyclical instrument to help Europe out of the crisis. Many projects do not aim at generating short term growth but rather at initiating structural changes that go well beyond countercyclical policy. In this respect, he remarked that EU firms were less dynamic than their US counterparts, which he partly attributed to the lack of initiative by the financial sector.

But where?

With respect to types of investment he underscored that investment in infrastructure projects is essential. At the same time he admitted that these were often abused, presenting his home country – Portugal – as an example where a country which previously lacked highways is "completely paved" nowadays. On the question of regional distribution of funds, especially in

the light of growing tensions between net-payers and net-receivers within the EU, he pointed out that investment in the periphery was not to the sole benefit of the periphery. He gave the example of rail links built in Poland, while linked employment effects were realised in Germany.

Recommended Reading:

BMWWF (2015), Investing in Europe's Future. Restarting the Growth Engine, Vienna. - <http://www.bmwwf.gv.at/Wirtschaftspolitik/Documents/InvestingInEurope.pdf>

The [FIW project](#) ('Forschungsschwerpunkt Internationale Wirtschaft' – Research Centre International Economics) is a project of WIFO, wiiw and WSR on behalf of the BMWWF designed to build a centre of excellence in research on International Economics, funded by the Austrian Ministry of Science, Research and Economy (BMWWF).