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# Infrastructure and the Financial Crisis in Europe

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# Disclaimer

- The views expressed are private and do not necessarily reflect those of the EIB or EIB policy.
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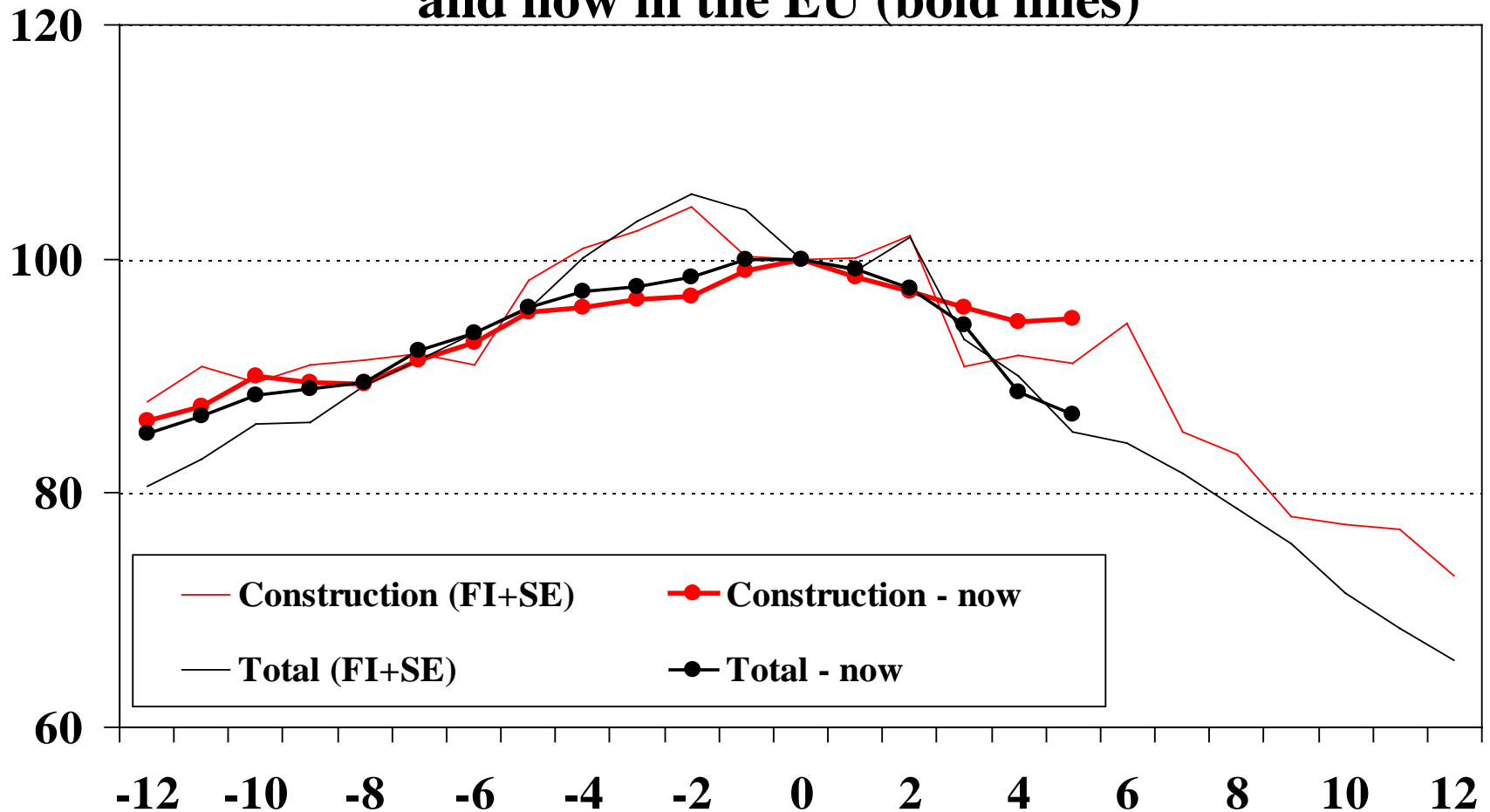
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# Outline

- European infrastructure investment in context
  - National fiscal stimulus packages
  - EU, EIB
  - Crisis impact on project finance/PPPs
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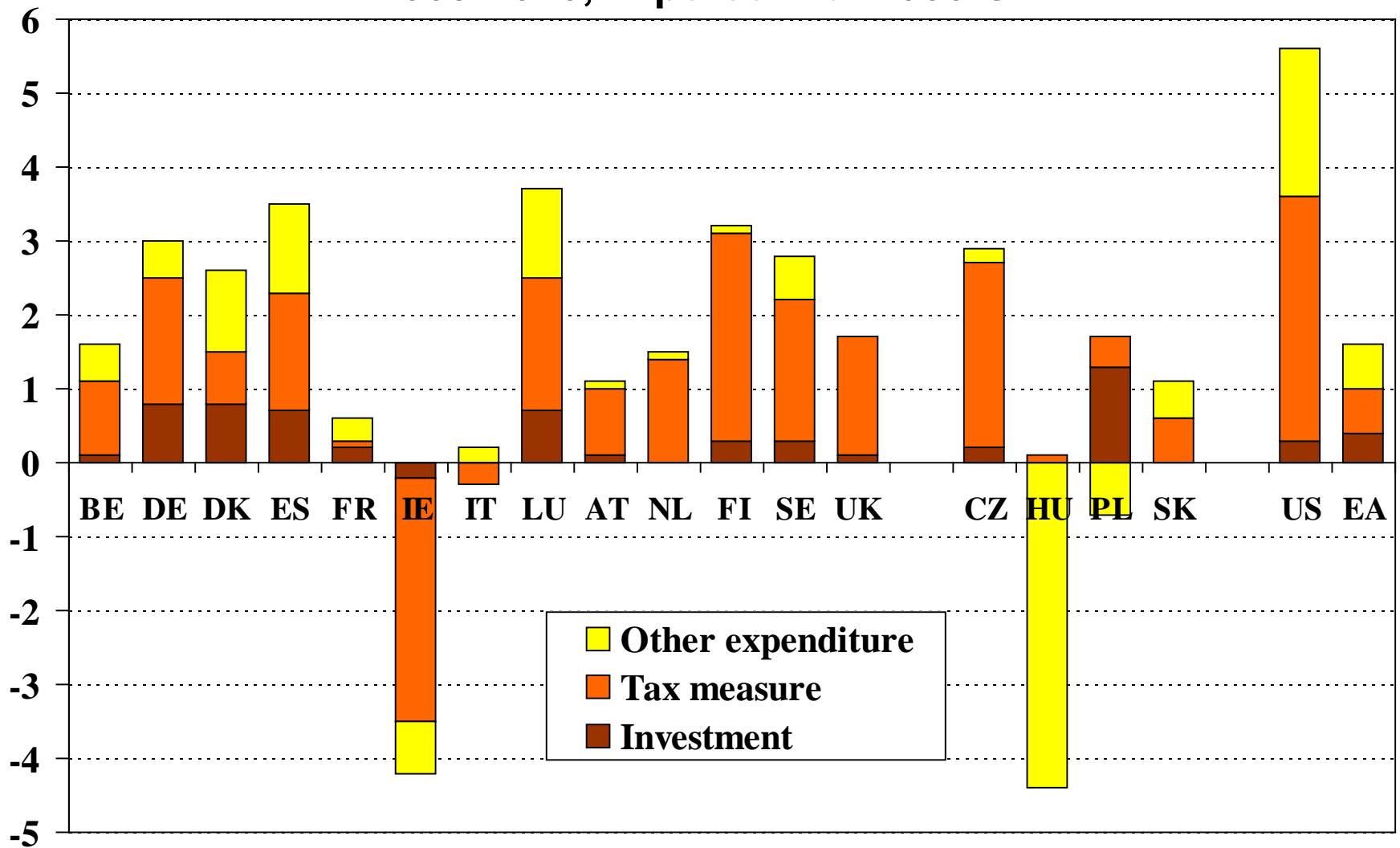
# Investment activity in crises

Financial crisis in Finland and Sweden in the 1990s (fine lines)  
and now in the EU (bold lines)



# Fiscal stimulus

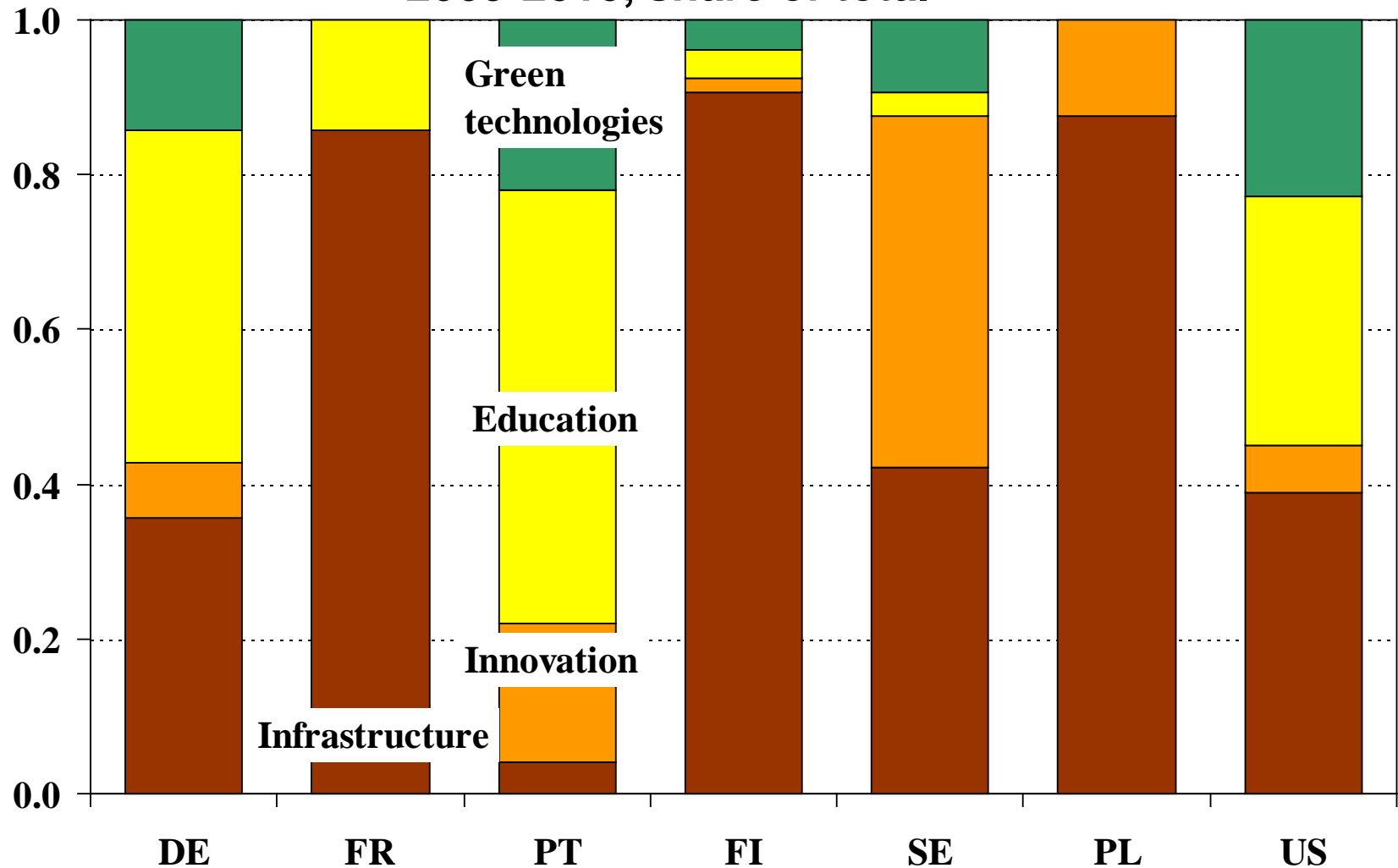
2009-2010, in percent of 2008 GDP



Sources: IMF, OECD

# Fiscal stimulus: Additional investment

2009-2010, share of total



Sources: IMF, OECD

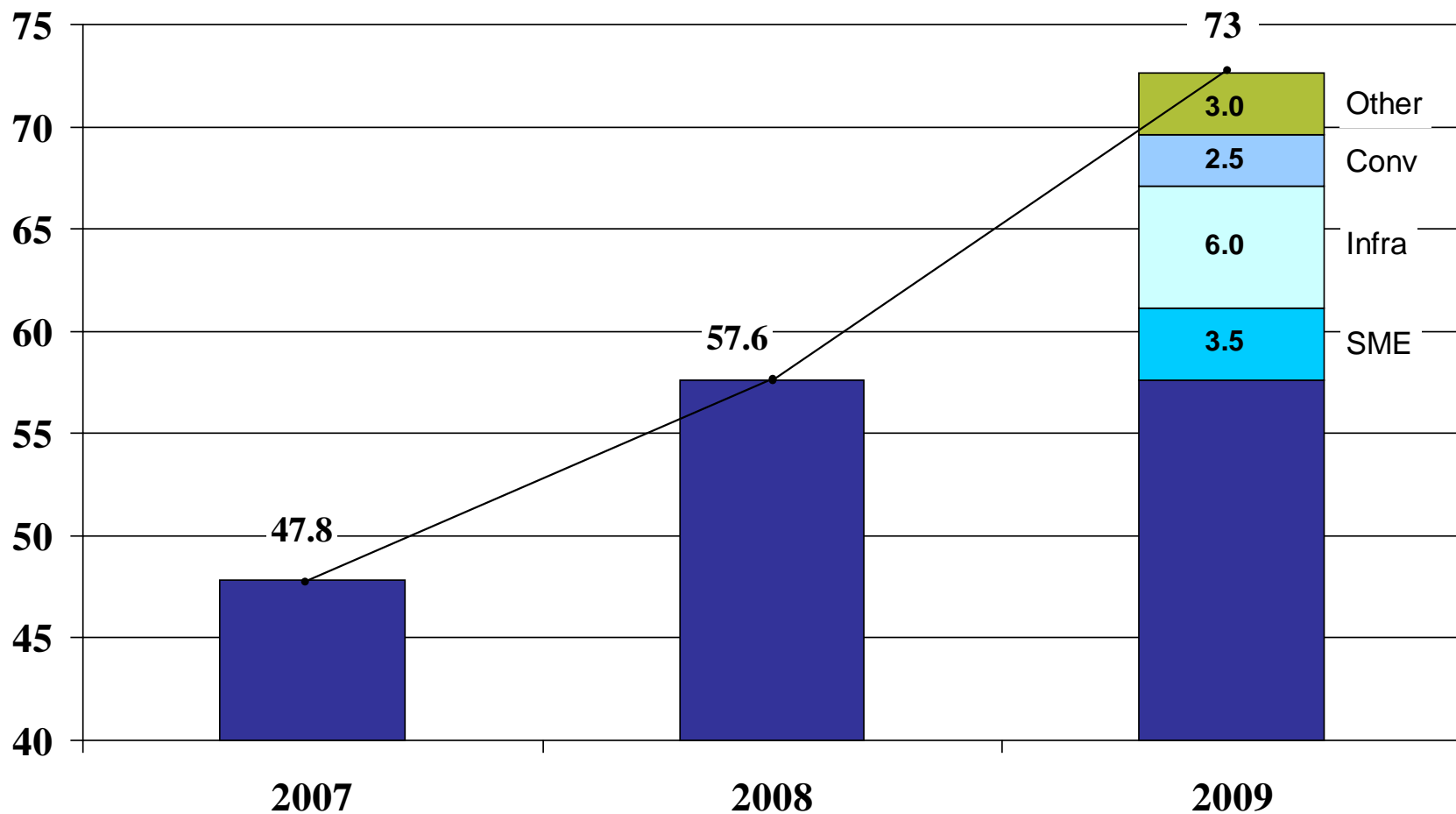
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# Government investment in sum

- Infrastructure investment < 1/3 of government investment in normal times
  - Extra fiscal infrastructure stimulus investment in EU-27 in 2009-10 maybe €20-30 bn + EU, EIB
  - [An aside: Government infrastructure investment especially sensitive to cyclical changes in the fiscal stance (EFS research)]
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# EIB lending (signatures)

Euro billion





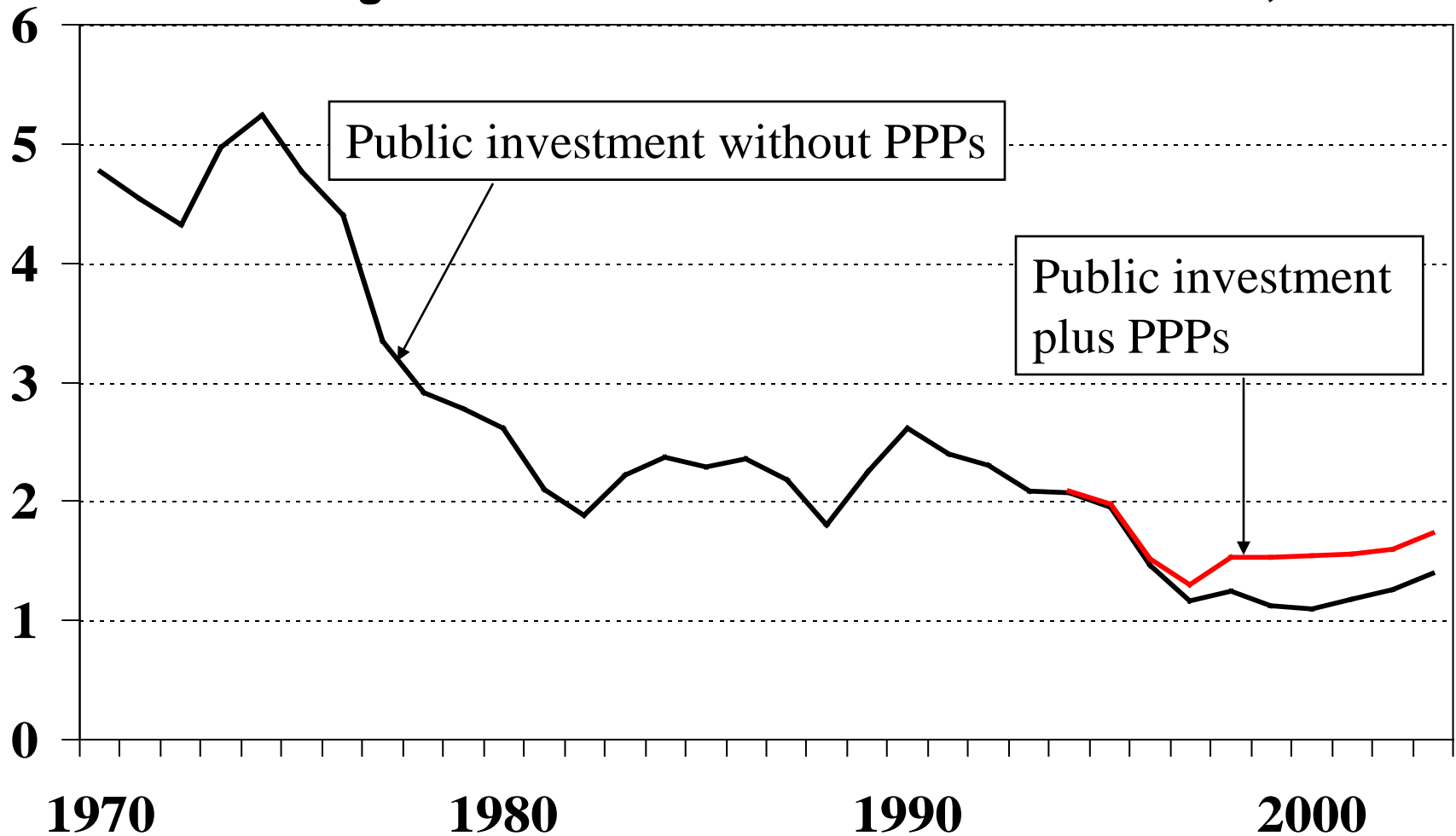
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# EU: European Economic Recovery Plan

- ❑ Boost demand and confidence
    - Monetary and fiscal policies
  - ❑ Direct short-term action to reinforce long-term competitiveness
    - Action in the priority areas of the Lisbon Strategy
    - Infrastructure and energy:
      - TENs
      - Energy efficiency
- + Commission Communication on PPPs (Oct 2009)
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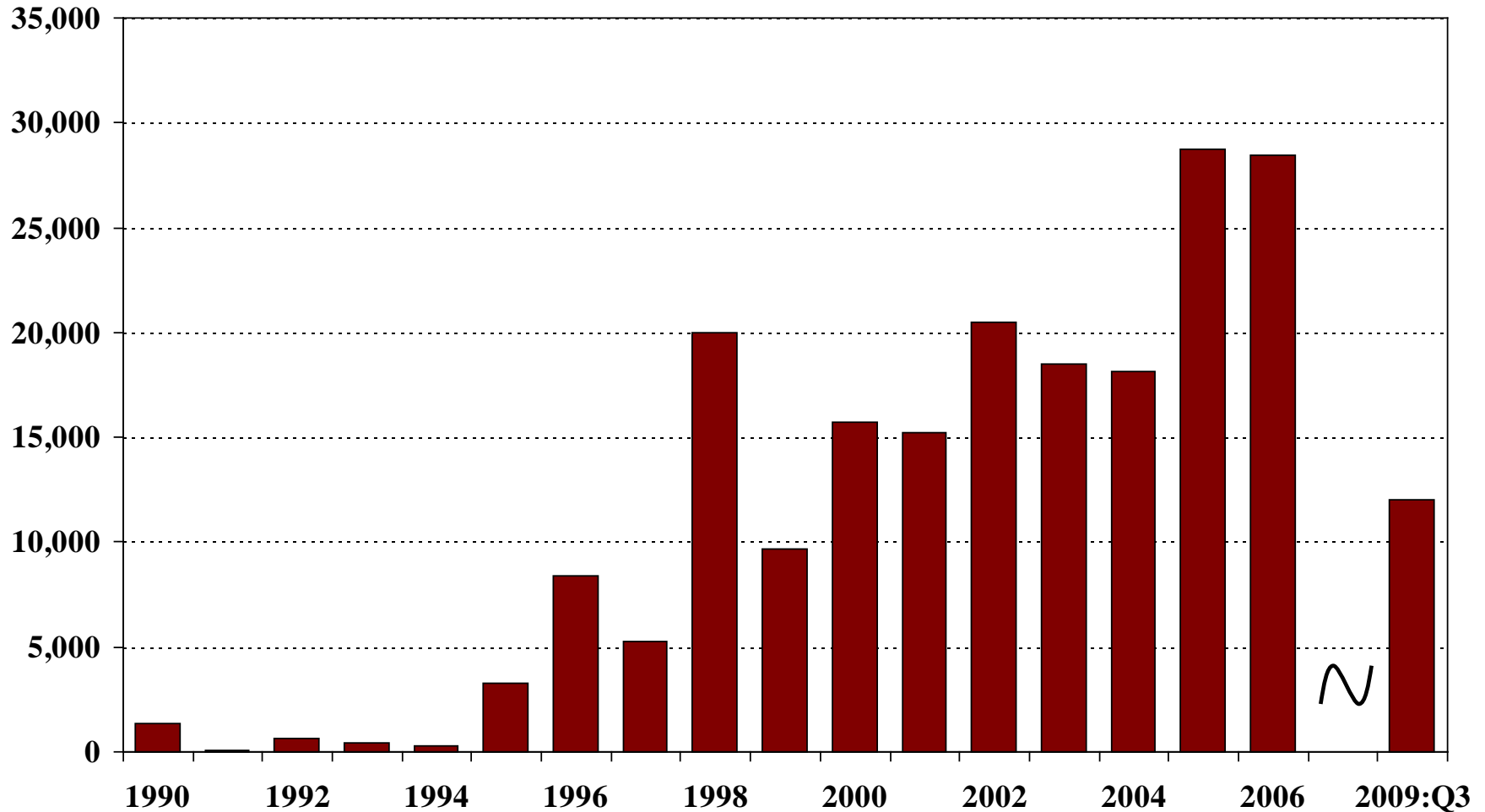
# PPPs in perspective

UK government investment as a share of GDP, %



# PPP Markets: value of signed projects

Europe only, €billion



Source: Blanc-Brude et al. (2007), EPEC

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# PPP Markets

- **Credit crisis and financing conditions**
    - ST: rush to liquidity, safety
      - Fewer, safer, more ST, more local deals—at much higher cost
      - Private debt and equity investment down, public and IFI up
    - Drop 2009 in European PF €25 bn[?], less so in PPP (cf. 2008)
    - BUT: private infrastructure investment has not dried out altogether, even refinancings done. “Traditional” PPP countries; roads held up best.
    - LT: balance sheet repair, refocusing, regulation
  - **Solutions**
    - Governments assume more risk and more liabilities (guarantees, co-lending, availability-base, forfeiting)
      - Large critical projects sustained, mid-market deal flow hit
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# Conclusions

- Boost from government infrastructure investment  $\approx$  drop in private infrastructure investment (PF, PPP) at aggregate European level
  - Key issues:
    - ST “incidence” of stimulus (countries, sectors); shifts in PPP market segments; project quality
    - LT structural changes (stimulus ends/reverses, when will private finance return and on what terms); fiscal affordability
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# Back-up Slides

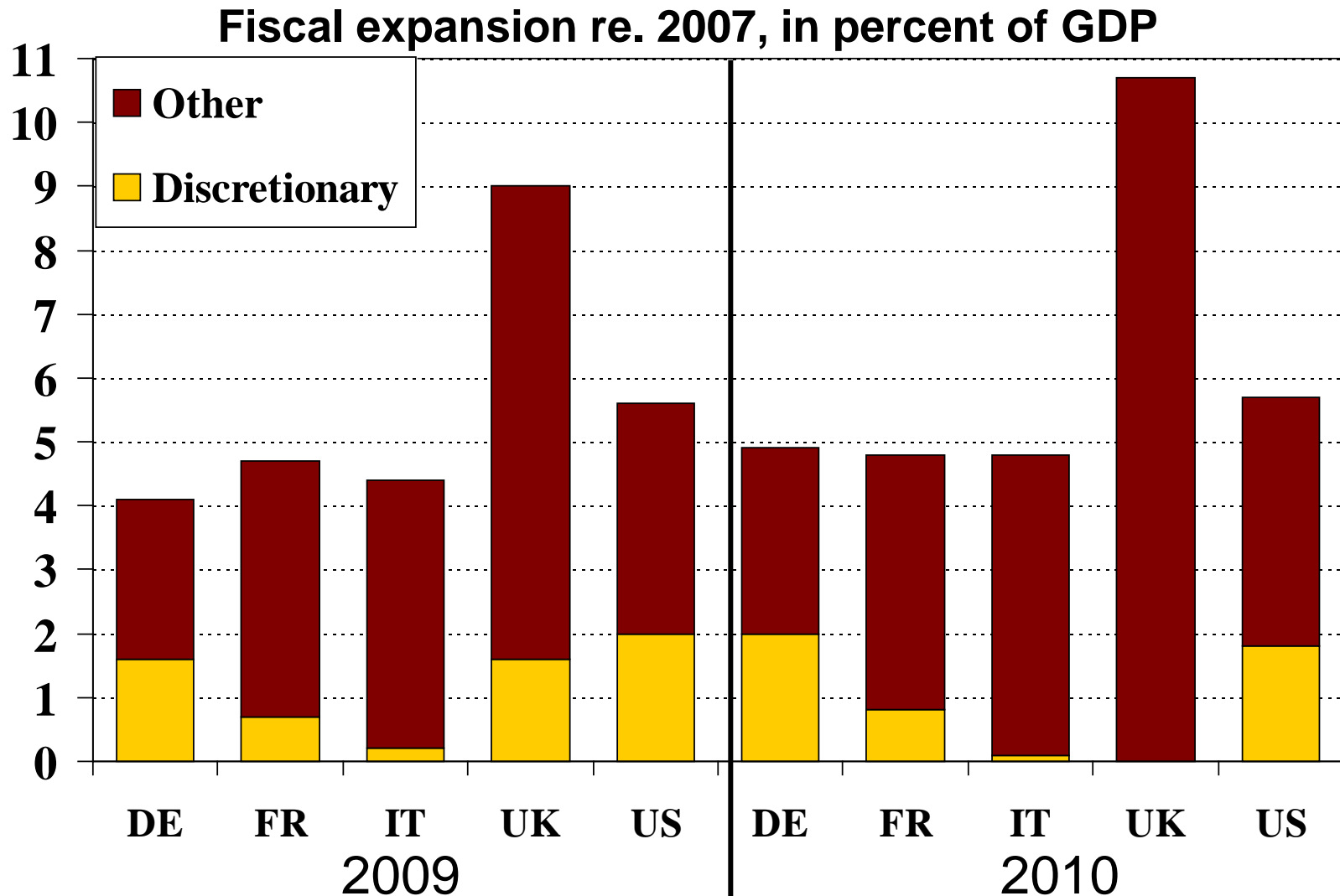
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# Fiscal stimulus

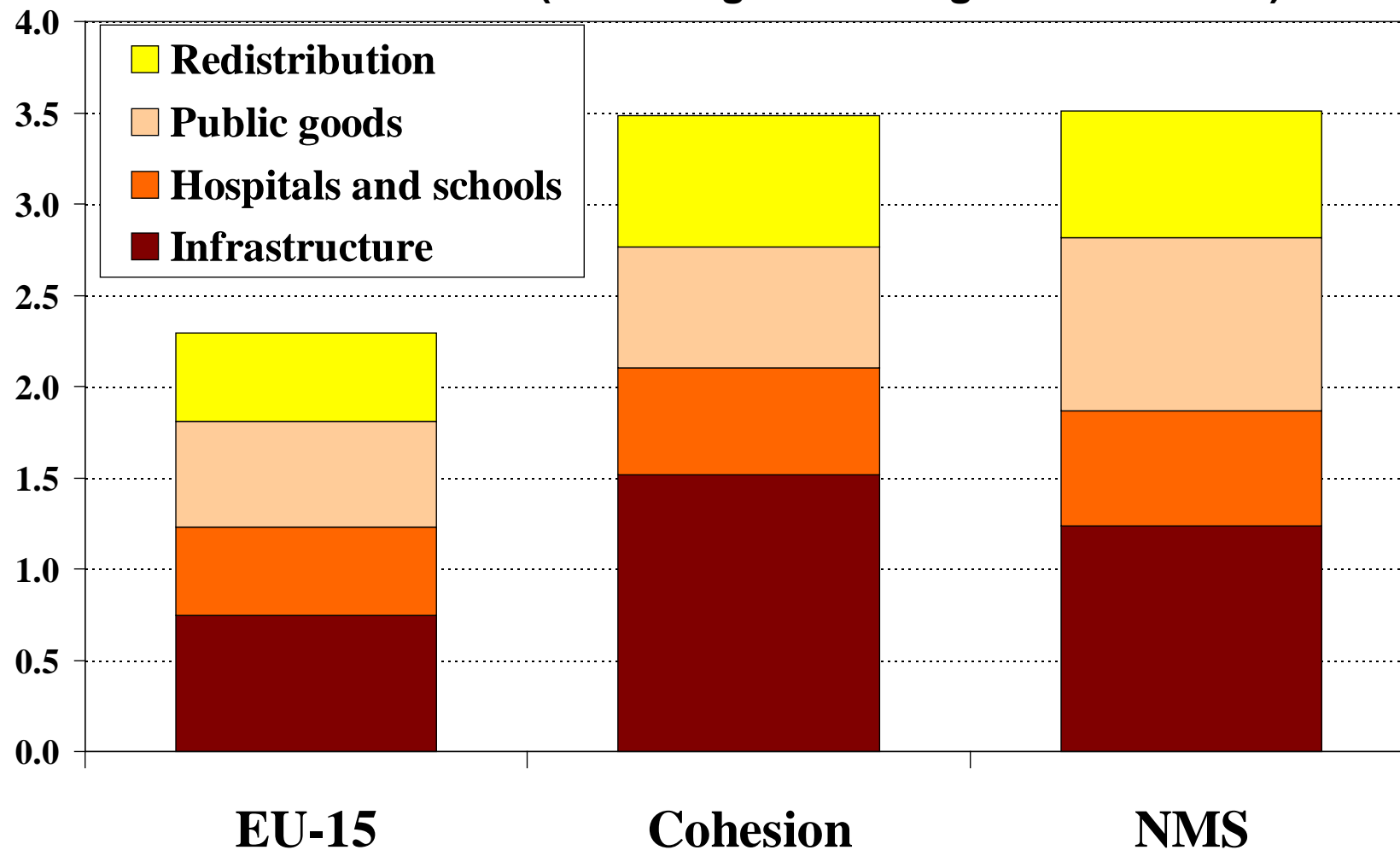


Source: IMF



# Composition of government investment

Percent of GDP (GDP-weighted average for 2000-2005)



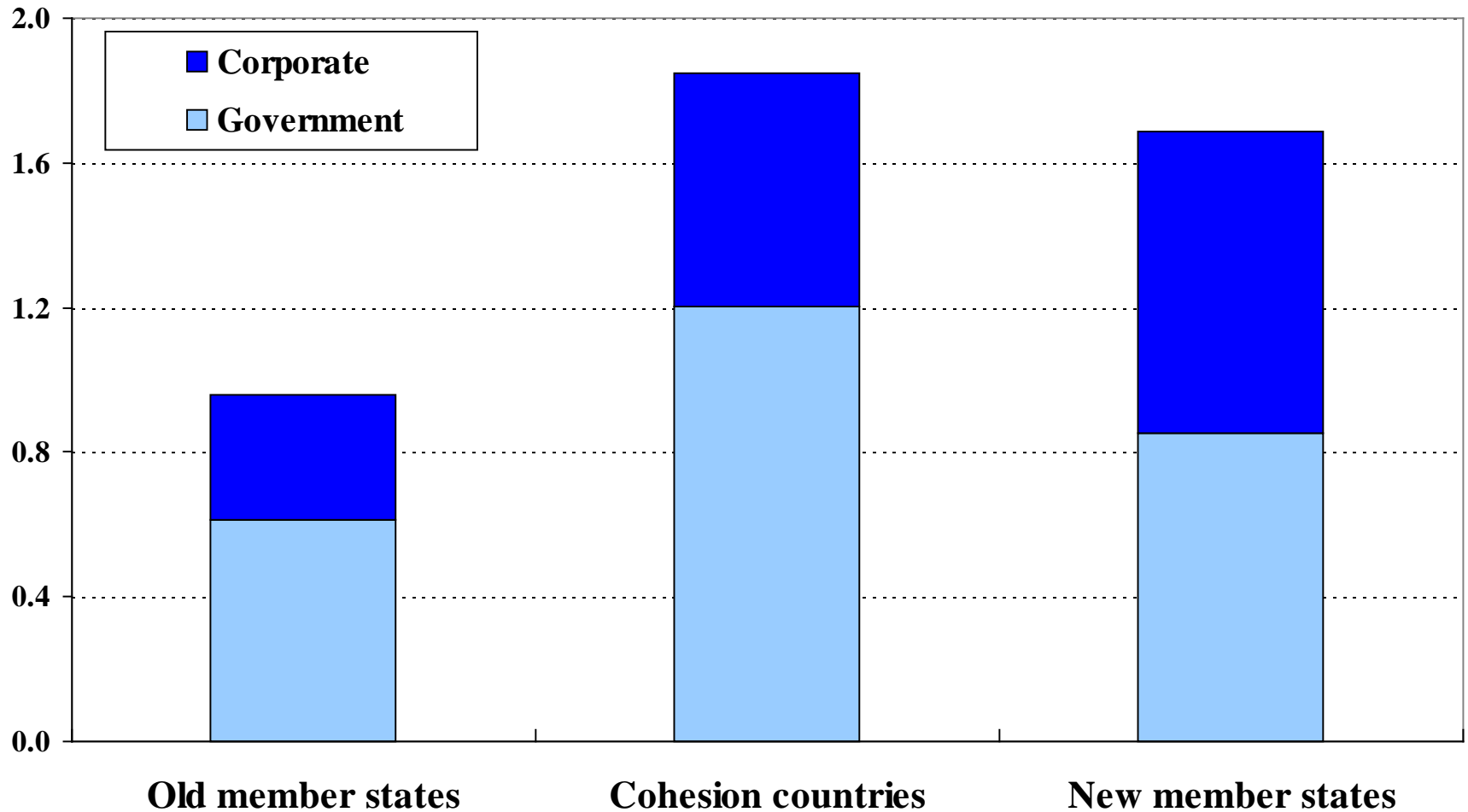
Source: Perée and Vålilä (2007)

# Composition of government investment

<b><i>Functions (ESA 95 COFOG)</i></b>	<b><i>Aggregation</i></b>
Economic Affairs	<b>Infrastructure</b>
Health Education	<b>Hospitals and Schools</b>
Defence General Public Services Environment Order and Safety	<b>Public Goods</b>
Housing Recreation Social Protection	<b>Redistribution</b>

# Transport infrastructure investment

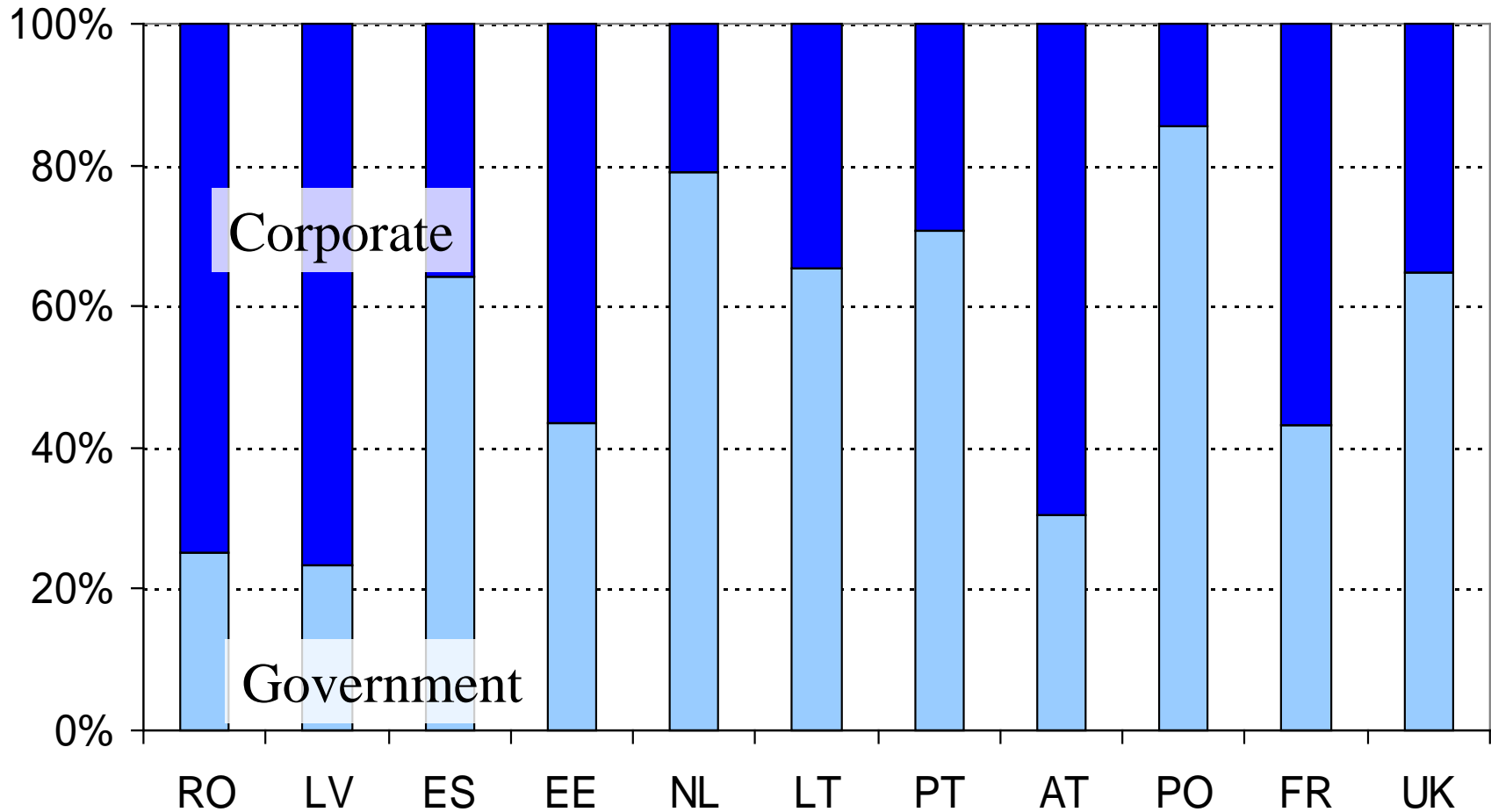
GDP-weighted averages 2000-05, percent of GDP



Sources: Eurostat - own classification.

# Transport infrastructure investment by sector

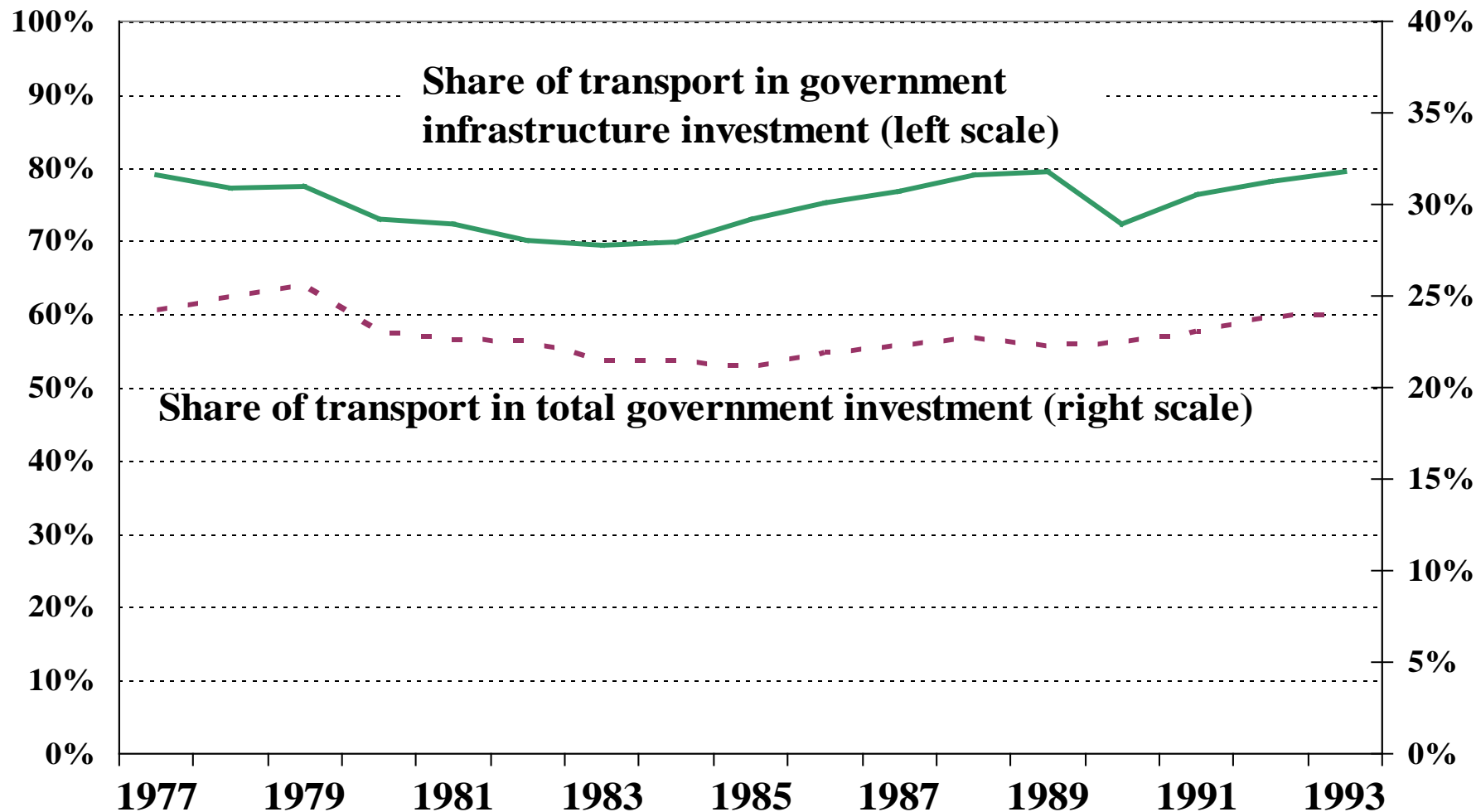
GDP-weighted averages 2000-05, percent of GDP



Sources: Eurostat, own calculations.

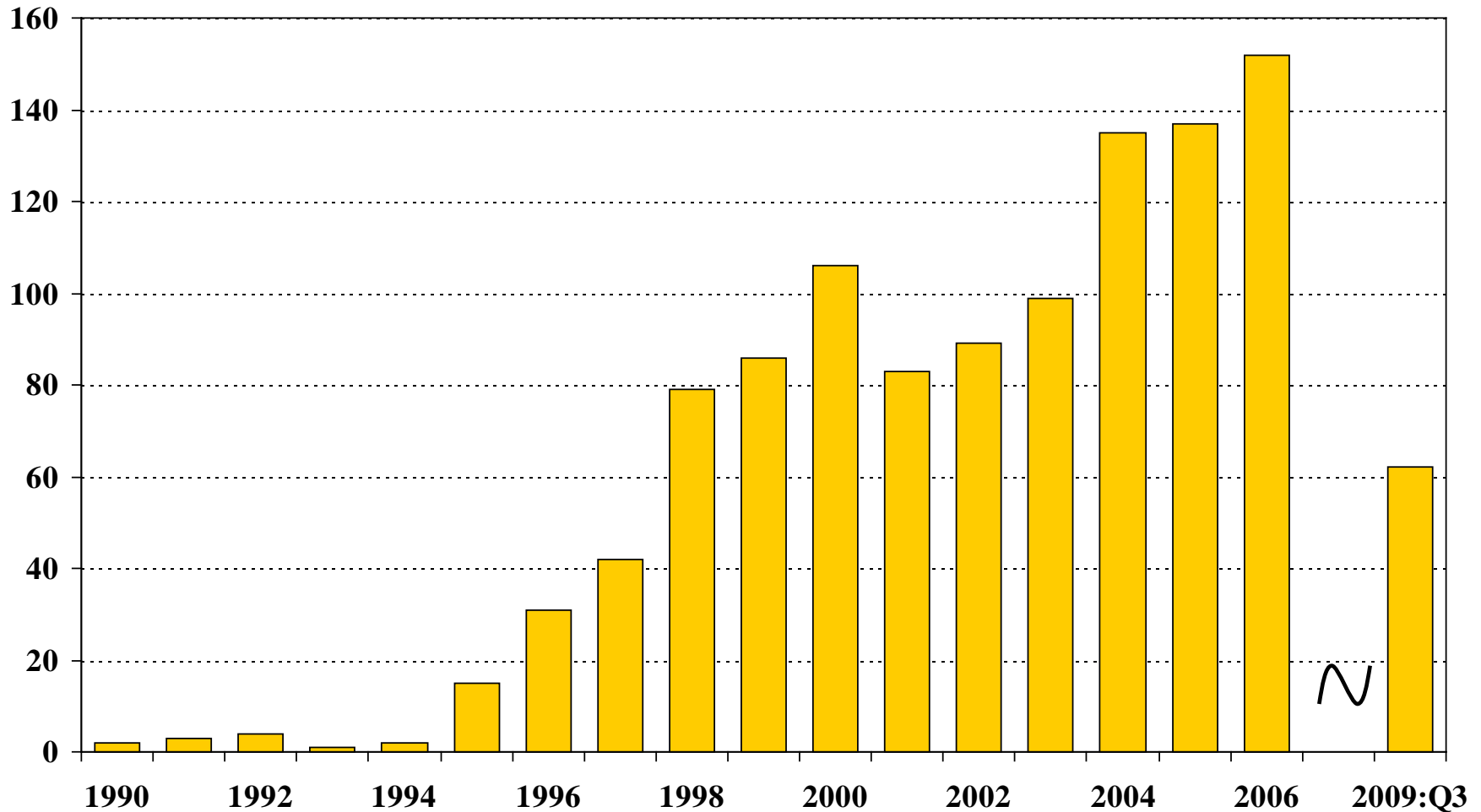
# Government transport infrastructure investment

DE, FR, IT and UK aggregate, percent of total



# PPP Markets: number of signed projects

## Europe only



Source: Blanc-Brude et al. (2007), EPEC

# Unlisted infrastructure funds

Number of deals

