MINISTRY
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European Commission's Investment Plan for Europe – the Juncker Plan and implications for Hungary

The economic crisis had deeply shaken investor sentiment in Europe. This has led leaders of the European Union to the recognition that reversing this downward trend and re-igniting economic growth would require joint and coordinated efforts at a European level. The Commission's action plan rests on three pillars: pro-growth structural reforms; promoting fiscal prudence to restore financial stability; jumpstarting investment and maintaining the pace of growth thus achieved. The blueprint for the practical realization of these priorities is the **European Investment Plan**, certain findings of which this short paper aims to highlight.

The European Commission announced on 26 November 2014 a large-scale programme for promoting investment, **with a framework amount of EUR 315bn**. The package, nicknamed Juncker Plan after its mastermind, European Council President Jean-Claude Juncker, is based on the following cornerstones: it is an investment package to be implemented in the period 2015-2017, over the course of three years, with a total cost of at least EUR 315bn, financed partly from private and partly from public contributions. At the heart of the programme is **the stimulation of private investment through public sector investment projects.** The **expected multiplier effect is 1:15**, which means that it would mobilize EUR 15 of private capital from EUR 1 of public capital invested. A major vehicle for the realization of this programme is the **European Fund for Strategic Investment (EFSI**), the joint product of the **Commission** and the **European Investment Bank**. The **EIB** and **a guarantee fund financed from the EU budget** have contributed EUR 5bn and EUR 16bnm respectively, to the EFSI.

Another expected outcome of the investment plan, which may be even more important, is to make the Structural and Investment Funds more efficient. One instrument to this end would be **the promotion of innovative financial instruments**, and **an anticipated leverage ratio of 1:3-1:4.** The Juncker Plan focuses mainly on infrastructure (digital and energy in the first place, and transport (in industrial zones) in the second, renewable energy, education, research and development (Horizon 2020), SMEs, mid-cap enterprises. **The key to the success of the programme is the finding the optimal end-point for funds.** Funds can only reach adequate projects provided adequate projects do exist. Relevant authorities have laid down three preconditions for the identification of these projects. They must be

- Economically viable that generate EU added value;
- Economically sustainable, with high social-economic output
- Scheduled to start within the next three years at the latest

In order to better fulfil these requirements, the **Council encourages the creation of a roadmap** and thus **eliminate obstacles to investment** and **remove market-distorting sector-specific regulations.** Aiming to improve business and financing environment, the Commission has launched an action plan to forge a capital market union, which would lead to a common capital market for the 28 EU member states by 2019.

The EFSI supports **state-initiated infrastructural (or other) large projects within the framework of public-private partnerships (PPPs) or of similar cooperation projects** that combine state and private sector financing.

To assist these, the EIB has established its own **European Investment and Advisory Hub (EIAH**) **to provide technical assistance free of charge** for the planning of traditional state-initiated large, for-profit projects with long-term profitability (bankable), partly with the aim to help member states that have had negative experiences concerning PPPs to launch successful PPP-type constructions.

How is the plan getting ahead? According to a report by the Commission, the EFSI was instrumental in 80 percent of investment projects to be completed in 2016. This year, within the framework of the Investment Plan the financing of 57 infrastructure-related and 165 SME projects were approved. The EFSI supports these projects with EUR 7.8bn and EUR 3.4bn, respectively, and the value of follow-on projects exceeds EUR 80bn. The aforementioned amounts are to be channelled to the following sectors: 22 percent to the energy industry, 11 percent to transport infrastructure and 7 percent to mid-cap companies.

OBJECTIVES	INSTRUMENTS		
1. Mobilise finance for investment	*European Fund for Strategic Investment*	→	*315 billion € Long-term investment SMEs and midcap firms*
	Better use of ESI Funds (extensive use of financial instruments)	→	*Additional 20 billion € for SMEs, Research, Transport and Environment*
2. Make finance reach the real economy	*Technical Assistance*	→	*JASPERS FI-Compass*
3. Improve investment environment	*Ex-ante conditionalities*		

As far as Hungary is concerned, 17 member states have been hitherto involved in SME financing schemes, among them Hungary. The EIF and Hungary's K&H Bank signed an agreement in December 2015, according to which **the EIF provides EUR 2.4 million in total to improve the competitiveness of Hungarian SMEs. Some estimates predict that the initial loan of EUR 2.4 million may mobilize some EUR 135 million of which approximately 1500 Hungarian SMEs might benefit.** The low investment rate and the overwhelming weight of EU funding are the Achilles heel of the Hungarian economy: **some two-thirds – 60 percent -- of**

investment volume hinges on EU funds. Only 40 percent of domestic investment is not supported by EU funds; these projects are related to sports, religions or other prestige schemes. The downward trend of private and corporate investment has been weighing heavily on the Hungarian economy for almost one year and a half. This foretells a weaker growth path, lower competitiveness and a growing gap vis-á-vis our regional peers. Therefore, the EFSI may be critical for structural change and addressing imbalances. But **this also requires the satisfactory inclusion of member states with a less highly developed financial market.**