

Merkel calls for reforms, trade deals, investment at EIB conference

German Chancellor Angela Merkel has expressed support for a new investment program to restart growth in Europe, but said it must be accompanied by more structural reforms and free trade accords with the US and Canada

March 2, 2015
Deutsche Welle

At a [conference hosted by the European Investment Bank](#) on Monday in Berlin, German Chancellor Angela Merkel cautiously supported an investment plan for Europe designed by EU Commission President Jean-Claude Juncker.

At the end of last year, Juncker proposed a new investment program worth a total of 315 billion euros (\$353 billion), called the "European Fund for Strategic Investment" (EFSI) and aimed at improving Europe's infrastructure.

Merkel expressed support for the investment plan, but called for further reforms to make it easier for private firms to do business in Europe.

Alongside infrastructure investments, she said, Europe should seal free trade agreements, even though in Germany, many people tend to ["see the risks more than the opportunities"](#) of the proposed TTIP and CETA trade deals between Europe, the US and Canada. She said Germany would strongly support the

European Commission in pushing through the deals.

Merkel also said that Berlin was prepared to add more infrastructure spending to Germany's national budget, beyond the 10 billion euros spread over three years promised by German finance minister Wolfgang Schäuble last November.

"As soon as there's budgetary leeway, we'll continue to increase that amount," she said.

Special bonds equipped with loss absorbers

In November 2014, Juncker unveiled a proposal to set up EFSI using 21 billion

euros (\$24 billion) in public financial guarantees from European Union member states to generate 315 billion euros in private investment.

Under the plan, the [European Investment Bank \(EIB\), a publicly owned development bank](#), will sell special bonds to private institutional investors, and so raise the funding. What's special about the bonds is that if there are any defaults, the first 21 billion euros worth of losses will be borne by member states of the European Union.

This loss-absorption feature reduces the financial risk attached to the bonds, and should make private investors willing to put up money at a lower interest rate than they otherwise would.

Juncker called for a three-prong strategy of public budget consolidation, structural reforms, and investment-led growth. He warned that the [315 billion euros in proposed investment](#) under EFSI wasn't a cure-all, but it could create an estimated 1.3 million additional jobs.

Power play

Merkel underlined that EFSI should be managed by the EIB. The development bank has been receiving project proposals from EU member nations, and will decide which projects to fund and which not.

"The EIB has a lot of experience. It knows where investments will be worthwhile, and where additional private capital can be brought in," she said.

EIB President Werner Hoyer, a former German politician, said that the EIB had already received some two thousand project proposals that would add up to more than a trillion euros worth of investment projects - but he warned that most of them had no chance of ever getting funded.

Hoyer also said that he was worried about the volume of paperwork generated by the project proposals.

"It's terrible," he said. The goal was to make the investment program simple, clear, transparent, and quickly implementable. But "what's appeared in the program's texts so far is exactly the opposite," he complained. "There are various little power games being played."