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THE EUROPEAN INVESTMENT BANK – A LESS KNOWN FUNDING SOURCE FOR INVESTMENTS

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ABSTRACT

The European Investment Bank (EIB), as an institution of the European Union and as the world's largest multilateral financial institution is one of the most important financial partners of Hungary. Originating from the early times of the European integration it plays an outstanding role in the financing of infrastructure development, SMEs and Mid-Caps, combating unemployment (especially youth unemployment) and promoting renewable energy projects. Beside the EU budget, the EIB's financing contributes significantly to the member states' development and investment goals. Since 1990 and especially since the EU accession, Hungary has received a significant amount of the EIB's financing and enjoyed the technical assistance of the EIB to the EU grants. However, EIB could provide much more financing to Hungary than it has absorbed in the last decade, to help our country accelerate its development. Currently, with the 2014-2020 program period, Hungary receives a significant financial support of the European Structural and Investment Funds (ESIF). However, a decrease of this financial support beyond 2020 cannot be excluded, even if the needs for investments and investment finance will remain unchanged. Hungary will need to find new sources. If the non-refundable financial sources are not available at the same level as under the current Multiannual Finance Framework, they will have to be substituted by refundable sources, preferably with the most advantageous conditions (in pricing, maturity, security structure etc.). From 1990 until now, the EIB has provided financing to Hungary in a volume of EUR 19.3 billion, and as it is the largest multilateral financing institution of the world, it can make further sources available. This paper is about this unique institution, about what it is designed to finance, and what it can finance in reality.
Keywords: European Investment Bank, finance, structure, finance conditions investment

INTRODUCTION

The European Investment Bank in a nutshell

Even if the European Investment Bank (EIB) cannot be regarded as an EU institution like among others the Commission, the Council or the European Parliament, at the examination of the bank's role and activity we must not ignore the facts, that it has the same age as the European integration and it is one of the most important players in deepening the integration.

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In 1958, the Treaty of Rome (EEC Treaty) enacted the establishment of a European Investment Bank to facilitate the economic expansion of the Community by opening up fresh resources. [2]

There were and there are a plenty of financial instruments in the European Community and the European Union for reducing the differences between the development levels of the member states. A significant part of these financial instruments are budgetary sources, among others the structural funds (European Social Fund[3], European Regional Development Fund[4]), the Cohesion Fund[5] and the European Agricultural Fund for Rural Development[6] contributing with non-refundable grants to the development of the member states' economies. Besides the non-refundable grants from the EU budget, there are refundable funds additionally from the EIB having already a significant yearly financing volume.

During the fulfilment of its tasks, the Bank in conjunction with assistance from the ESIF and other Union Financial Instruments facilitates the financing of large development and investment programmes. The additionality of the EIB's financing has not got a negligible volume. The EU budget provided some EUR 133 bn direct, non-refundable grants in 2015. The EIB adds to the budgetary funds yearly approximately EUR 65-80 bn refundable financing. In 2015 the volume of the signed loans stood at EUR 77,5bn (*Figure 1*). (It is worth comparing it with Hungary's GDP, which stood at HUF 33711.8bn or EUR 108.7bn in 2015.)

Nowadays, the EIB is an outstanding financing actor worldwide. In terms of size, it is bigger than the other well-known multilateral financial institutions, eg. the World Bank or the EBRD (*Figure 2*).

The legal basis of the operation of the European Investment Bank is the Statute, which is laid down in a Protocol annexed to the Treaties[7]. The Council has the competence for any modification of the Statute.

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[2] Article 3 Treaty on establishing the European Economic Community (EEC Treaty)

[3] Regulation (EU) No 1304/2013 of the European Parliament and of the Council of 17 December 2013 on the European Social Fund and repealing Council Regulation (EC) No 1081/2006 OJ L 347, 20.12.2013, 470-486. p.

[4] Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006 OJ L 347, 20.12.2013, 289-302. p.

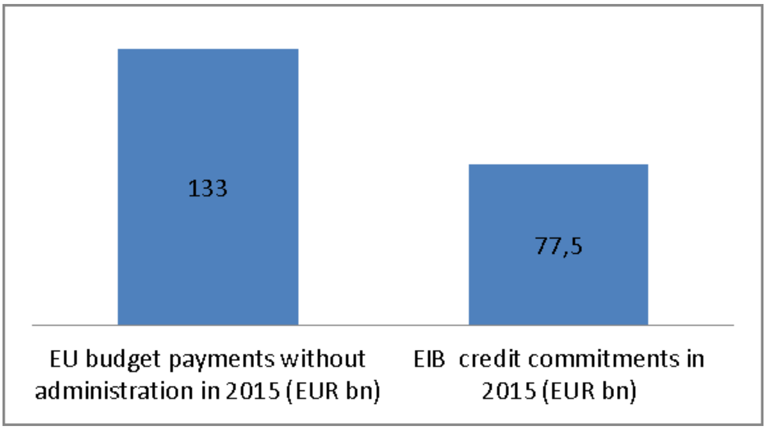
[5] Regulation (EU) No 1300/2013 of the European Parliament and of the Council of 17 December 2013 on the Cohesion Fund and repealing Council Regulation (EC) No 1084/2006 OJ L 347, 20.12.2013, 281-288 p.

[6] Regulation (EU) No 1305/2013 of the European Parliament and of the Council of 17 December 2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005 OJ L 347, 20.12.2013, 487-548 p.

[7] Protocol (No 5) attached to Treaty on the Functioning of the European Union on the statute of the European Investment Bank

Figure 1

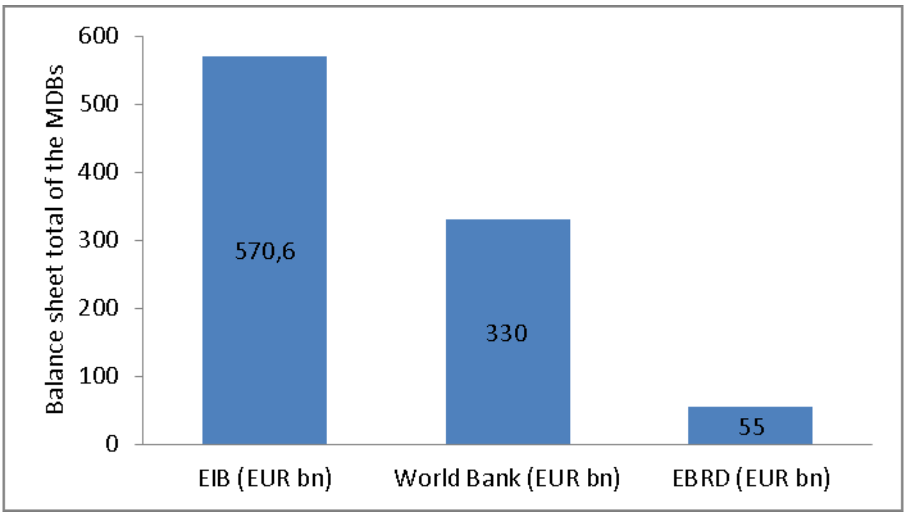
The main non-refundable and refundable EU financial sources: the EU budget and the EIB



Source: *EU budget*, 2015[8], *EIB Financial Report*, 2015[9]

Figure 2

Multilateral development banks



Source: *EIB[10], IBRD[11], EBRD[12] financial reports for 2015*

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[8] EU annual budget life-cycle: figures – payments without administration [online] <URL: http://ec.europa.eu/budget/annual/index_en.cfm?year=2015>
[9] [online] <URL: http://www.eib.org/attachments/general/reports/fr2015en.pdf>
[10] [online] <URL: http://www.eib.org/attachments/general/reports/fr2015en.pdf>

The task of the European Investment Bank is to contribute, by having recourse to the capital market and utilising its own resources, to the balanced and steady development of the internal market in the interest of the Union. For this purpose the Bank, operating on a non-profit-making basis, will grant loans and give guarantees which facilitate the financing of the following projects in all sectors of the economy:

a) projects for developing less-developed regions;
b) projects for modernising or converting undertakings or for developing fresh activities called for by the establishment or functioning of the internal market, where these projects are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States;
c) projects of common interest to several Member States which are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States[13].

According to the provisions of the Treaty on the Functioning of the European Union (TFEU) the members (shareholders) of the Bank are the member states, however their participation rates in the capital are different.

Each of the biggest member states (Germany, France, Italy and the United Kingdom) owns 16% of the shares, and the others have a differently smaller percentage, Hungary has only 0.7%. The share of a member state in the subscribed capital may not be transferred, pledged or attached[14].

The EIB has a unique capital structure, because the subscribed capital will be paid in by Member States only to the extent of 5 % on average of the amounts laid down in the Statute. However, the Board of Directors may require payment of the balance of the subscribed capital, to such extent as may be required for the Bank to meet its obligations.

The Structure of the EIB

The Bank is directed and managed by a Board of Governors, a Board of Directors and a Management Committee[15].

The *Board of Governors* is composed of the ministers designated by the Member States. The Board of Governors lays down general directives for the credit policy of the Bank, in accordance with the Union's objectives and ensures that these directives are implemented. Furthermore, the Board of Governors has competence among others for the followings:

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11 [online] <URL: http://siteresources.worldbank.org/EXTABOUTUS/Resources/29707-1280852909811/IBRD_Mar_16.pdf>

12 [online] <URL: http://www.ebrd.com/news/publications/financial-report/financial-report-2015.html>

13 Treaty on the Functioning of the European Union (TFEU) Art. 309.

14 Details on the capital structure can be found here: [online] <URL: http://www.eib.org/about/structure/shareholders/index.htm>

15 The current members of the respective bodies can be found under [online] <URL: http://www.eib.org/about/structure/index.htm>

- the decision on the increase of the subscribed capital;
- the determination of the principles applicable to the financing operations undertaken within the framework of the Bank's task;
- approval of the annual report of the Board of Directors, the annual balance sheet and profit and loss account [16].

The *Board of Directors* takes decisions on financial operations, in particular on the form and conditions of loans, guarantees, and other operations. The Board of Directors determines the particular terms and conditions for such operations and supervises their execution.

The Board of Directors is responsible for the proper run of the Bank and ensures that the Bank is managed in accordance with the provisions of the Treaties and of this Statute and with the general directives endorsed by the Board of Governors.

At the end of the financial year the Board of Directors discusses and submits the annual reports for approval to the Board of Governors.

The Board of Directors consists of twenty-nine directors and nineteen alternate directors. The directors are appointed by the Board of Governors for five years. Each Member State and the Commission nominate one director. The alternate directors are also appointed by the Board of Governors for five years; however the four biggest member states have the right to nominate two alternates each, and the smaller member states have a joint nomination right[17].

The *Management Committee* consists of a President and eight Vice-Presidents appointed for a period of six years by the Board of Governors on a proposal of the Board of Directors.

The Management Committee is responsible for the daily business of the Bank, under the authority of the President and the supervision of the Board of Directors. It prepares the decisions of the Board of Directors, in particular decisions on the raising of loans and the granting of finance; it shall ensure that these decisions are implemented[18].

The *Audit Committee* is the supervisory body of the Bank. It consists of six members, appointed on the grounds of their competence by the Board of Governors, verifies that the activities of the Bank conform to best banking practice and is responsible for the auditing of its accounts. The Audit Committee annually ascertains that the operations of the Bank have been conducted and its books kept in a proper manner. It verifies that the Bank's operations have been carried out in compliance with the formalities and procedures laid down by this Statute and the Rules of Procedure.

The Audit Committee confirms that the financial statements, as well as any other financial information contained in the annual accounts drawn up by the Board of Directors, give a true and fair view of the financial position of the Bank in

[16] Statute, Art. 7.
[17] Statute, Art. 9.
[18] Statute, Art. 11.

respect of its assets and liabilities, and of the results of its operations and its cash flows for the financial year under review[19].

The Bank enjoys the most extensive legal capacity accorded to legal persons under their laws in each of the Member States. It may, in particular, acquire or dispose of movable or immovable property and may be a party to legal proceedings[20].

The activity of the EIB

The Bank provides finance, in particular in the form of loans and guarantees to its members or to private or public undertakings for investments to be carried out in the territories of Member States. General precondition of the EIB financing is that funds are not available from other sources on reasonable terms.

The Bank provides financing

- for the member states,
- for enterprises, public and private undertakings or bodies directly (above EUR 25-50 million financing volume[21])
- for enterprises, public and private undertakings or bodies indirectly via financial intermediaries (under EUR 25-50 million financing volume)[22].

The financing provided by the EIB must be always additional and should not exceed 50% of investment costs. However, in exceptional cases (e.g. infrastructural renewable energy and energy efficiency projects, projects following natural disasters, projects related to migration) the EIB may finance a higher share of the investment costs.

Beside the operations in the Member States, by decision of the Board of Governors, the Bank may grant financing for investment to be carried out, in whole or in part, outside the territories of Member States. Most of these operations are secured by guarantee provided by the EU budget (in line with the consent of the Council, the European Parliament and the Commission – External Lending Mandate[23]).

When granting a loan to an undertaking or to a body other than a Member State, the Bank shall make the loan conditional either on a guarantee from the Member State in whose territory the investment will be carried out or on other adequate guarantees, or on the financial strength of the debtor.

The Bank may guarantee loans contracted by public or private undertakings or other bodies for the purpose of carrying out projects provided for in Article 309 of the Treaty on the Functioning of the European Union.

[19] Statute, Art. 12.
[20] Statute, Art. 26.
[21] The exact volume depends on the specific operation.
[22] Statute, Art. 16, 19.
[23] Decision No 466/2014/EU of the European Parliament and of the Council of 16 April 2014 granting an EU guarantee to the European Investment Bank against losses under financing operations supporting investment projects outside the Union OJ L 135, 8.5.2014, 1-20. p.

The aggregate amount outstanding at any time of loans and guarantees granted by the Bank shall not exceed 250% of its subscribed capital, reserves, non-allocated provisions and profit and loss account surplus.[24].

Additionally to the traditional financing operations, the EIB can provide much more services. Its activity is often described by three words: lending, blending and advising. Lending means the traditional financing operations. Blending is for the refundable financing from the EIB blended with other sources like EU non-refundable funds, guarantees, structured finance etc.[25] Providing finance is only one step towards a successful project. They also need to be properly managed. As there is a significant need in project administration matters, EIB provides advise on administrative and project management matters to help investments.

For its own financing, the Bank borrows on the capital markets the funds necessary for the performance of its tasks.

The fundamental task and aim of the Bank as an AAA-rated debtor is to on-lend its relatively cheaply borrowed funds from the capital markets at an appropriate pricing (taken into account its not-for-profit operation and the operational costs) to the eligible counterparts.

Interest rates on loans to be granted by the Bank and commission and other charges shall be adjusted to conditions prevailing on the capital market and shall be calculated in such a way that the income there shall cover its expenses and risks and to build up a reserve fund. The Bank shall not grant any reduction in interest rates. Where a reduction in the interest rate appears desirable in view of the nature of the investment to be financed, the Member State concerned or some other agency may grant aid towards the payment of interest to the extent that this is compatible with the Treaty on the Functioning of the European Union[26].

General finance conditions of the EIB

Having regard to its nature as special financial institution providing specific financing services, the aim of its operation determines its financing conditions. These conditions are the following:

- Projects eligible for EIB financing can be geographically both inside and outside the EU. However each project must comply with the requirements set in Article 309 of the TFEU (as mentioned above). The financing operations outside the EU are generally based on a Mandate concerned. Such Mandates are not simple appropriations for operation in certain countries, but a guarantee of the EU budget is linked to them. An example is the general External Lending Mandate and the connecting EU-Guarantee[27], and the operations among others in the

[24] Statute, Art. 16. According to the current financial and performance figures of the Bank this limit stands above EUR 700bn at the end of the 2015 financial year.

[25] More details on what can be blended: [online] <URL: http://www.eib.org/products/blending/index.htm>

[26] Statute, Art. 17.

[27] Decision No 466/2014/EU of the European Parliament and of the Council of 16 April 2014 granting an EU guarantee to the European Investment Bank against

framework of the FEMIP[28], or the Eastern Partners Facility[29]. However, it is not excluded to provide financing outside the EU purely on own risk, especially when the risk profile of the operation, the counterpart and the country of the project allows it.

- Certain activities are excluded from EIB financing: ammunition and weapons, military/police equipment or infrastructure, projects which result in limiting people's individual rights and freedom, or violation of human rights, projects unacceptable in environmental and social terms, ethically or morally controversial projects, activities prohibited by national legislation[30].
- Essential requirement as usual is the creditworthiness of the counterpart, the financial viability of the project and the acceptability of the risks.
- Another essential requirement is that the EIB must not provide financing to any projects alone, it must be additional and the minimum project cost must exceed EUR 25 million. In certain cases EIB can provide direct loans to midcap companies with up to 3000 employees where the loan volume is smaller and stands between EUR 7.5m and EUR 25m.
- A general rule for the EIB's share in the financing is that it should normally not exceed 50% of the project costs, except for special cases like: TEN projects in the rail, maritime and inland waterway sector, or projects following natural disasters, etc.
- Where the EIB co-finances with other EU grants, the total Community (EU and EIB) finance cannot exceed 70% of the total project cost. However in the Cohesion countries and other Convergence regions within the EU the total financing level may reach 90% (in very well founded cases 100%).

The loans and other financing operations provided by the EIB are typically long term loans and they finance investment projects.

The main types of the EIB financing:

- Direct investment loans for individual projects having more than EUR 25m project cost. The borrowers can be both private- and public-sector entities, the later can be governmental or local municipal promoters.
- Intermediated loans for smaller projects through local financial intermediaries. In the framework of this special construction the EIB finances local financial institutions, which subsequently on-lend for the SMEs, Mid-Caps, local municipalities or other public entities.

In this construction the EIB has contractual relationship with the financial intermediaries, but not with the final beneficiaries. However, the intermediary must

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losses under financing operations supporting investment projects outside the Union OJ L 135, 8.5.2014, 1-20. p.

[28] Facility for Euro-Mediterranean Investment and Partnership

[29] For the States of the Eastern Partnership: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine

[30] More details on the excluded activities: [online] <URL: http://www.eib.org/attachments/documents/excluded_activities_2013_en.pdf>

transfer a financial advantage reflecting the impact of our funding and inform the end-client of this.

- Guarantees with the aim to make the secured projects more attractive without direct financing to other investors. They provide different types of guarantees to the projects of the public and private sector.
- Additionally to the traditional types of financing, such as loans and guarantees, the EIB provides equity financing as well mainly through equity funds.

Interest rates can be fixed, revisable or convertible (that allows a change of interest rate formula during the lifetime of a loan at predetermined periods). As the EIB can finance itself at a very advantageous pricing level due to its AAA rating, this advantage in pricing is passed over to the borrower counterparts. As usual, EIB can apply different fees as well, like fees for project-appraisal, legal services, commitment, disbursement, non-utilisation, etc. The main currencies used for lending are EUR, GBP, USD, however it is possible to borrow in JPY, SEK, DKK, CHF, PLN, CZK and HUF as well as in other currencies[31].

The EIB provides a signific ant value through its technical assistance services for the realisation of viable projects.

In the framework of the JASPERS[32] programme the Bank provides technical support to prepare major infrastructure schemes financed by the Structural and Cohesion Funds. The total investment cost of the more than 550 projects supported is more than EUR 60bn.

In the JESSICA[33] programme supporting integrated, sustainable urban-renewal projects with equity investments, loans and guarantees from the Structural Funds the EIB provides advisory and technical assistance support.

The ELENA (European Local ENergy Assistance) programme helps the implementation of large energy efficiency and renewables projects by covering up to 90% of the technical support cost needed to prepare, implement and finance the investment programme. It is run by the EIB and funded through the European Commission's Intelligent Energy-Europe programme.

The smaller sister: the European Investment Fund

Beside the traditional financing tools and channels, the EIB and the European Investment Fund (EIF) support with further special products the realisation of eligible projects.

The more than 20 year old EIF was originally created[34] to provide infrastructure development (TEN-T) financing and guarantee instruments for SME finance. For today the infrastructure development financing has been passed over to the EIB, but in the field of SME-finance the EIF showed significant growth during the last

31 [online] <URL: http://www.eib.org/products/lending/loans/index.htm>

32 Joint Assistance to Support Projects in European Regions

33 Joint European Support for Sustainable Investment in City Areas

34 The European Investment Fund was established in 1994 based on the Statute (Article 28 (former 30.)) of the EIB

years. Actually the EIF contributes to the development of the SME-sector with three main investment products:

- investment in venture capital and growth funds, mezzanine funds that support SMEs,
- financing financial intermediaries (banks, mutual guarantee funds, leasing companies and special purpose vehicles) providing funding for beneficiary SMEs
- microfinance: funding (equity and loans), guarantees and technical assistance to a broad range of micro-credit providers[35].

EIF has a unique tripartite ownership structure combining public and private investors: the EIB 61.2%, the European Union through the European Commission (EC), 26.5%, and 25 public and private financial institutions from the EU Member States and Turkey 12.3%[36].

Beside the financing services, the tasks of the fund-manager are performed by the European Investment Fund in the JEREME programme[37], which is a joint initiative of the European Commission and the EIF to improve access to finance for SMEs via Structural Funds interventions.

The Investment plan for Europe and the European Fund for Strategic Investments

In November 2014 the European Commission decided to launch the Investment Plan for Europe (IPE or Juncker Plan), to tackle the investment gap[38] that was hampering economic growth and competitiveness in the European Union. The plan intends to unlock investment of EUR 315billion.

The IPE has three components:

- mobilising finance through the European Fund for Strategic Investments (EFSI),
- supporting the investment in real economy through the European Investment Advisory Hub (EIAH),
- creating an investment friendly environment and to abolish barriers and to improve the business environment and financing conditions, it will include progress towards a Digital Single Market, Energy Union[39] and Capital Markets Union[40].

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[35] The Governance of the European Investment Fund, [online] <URL: www.eif.org/news_centre/publications/eif_governance_en.pdf> More details on EIF's history: [online] <URL: www.eif.org/who_we_are/20years/index.htm>

[36] The detailed structure of the EIF's shareholders can be found under: [online] <URL: http://www.eif.org/news_centre/publications/register_shareholders.pdf>

[37] Joint European Resources for Micro to Medium Enterprises

[38] More details on the investment gap and needs: Investment and Investment Finance in Europe, European Investment Bank, Economics Department, Luxembourg, 2015, [online] <URL: http://www.eib.org/attachments/efs/investment_and_ investment_finance_in_europe_2015_en.pdf>

[39] European Commission - Fact Sheet on The Investment Plan for Europe and Energy: making the Energy Union a reality, Brussels, 14 June 2016

The EIB was entrusted with the financial implementation of the IPE. The main financial component of the IPE is the EFSI, which composed of EUR 16bn guarantee from the European Commission and EUR 5bn capital contribution from the EIB. It is expected to raise some EUR 60bn additional financing by the EIB and its subsidiary, the European Investment Fund (EIF) and to crowd-in private investors to reach the targeted EUR 315bn additional investment within 3 years. Importantly, EFSI is not a separate legal entity, it is a contractual arrangement, a strategic partnership between European Commission and EIB. All EFSI operations are EIB operations and have to fully comply with the Bank's general standards[41].

The financing under EFSI is open for private companies of all sizes (including SMEs and Mid-Caps), public sector entities and national promotional banks. The projects to be financed have to

a) be economically viable;
b) be consistent with Union policies;
c) provide additionality;
d) maximise the mobilisation of private sector capital where possible; and
e) be technically viable.

The additionality is an essential requirement of the EFSI financing, which means the support by the EFSI of operations which address market failures or sub-optimal investment situations and which could not have been carried out without EFSI support, or not to the same extent. Projects supported by the EFSI shall typically have a higher risk profile than projects financed by the EIB under its normal investment policies before the application of the EFSI. Private sector investments are also required for EFSI financing[42].

The EIAH has been built upon existing EIB and Commission advisory services in order to provide advisory support for the identification, preparation and development of investment projects and to act as a single technical advisory hub for project financing within the Union. The EIAH supports projects which may be eligible for financing by the EIB (either under EFSI or without it), but the Hub's assistance is not limited to EIB-financed projects. The Hub is the single point of entry to a wide range of advisory and technical assistance programmes and initiatives like ELENA, JASPERS or InnovFin for public and private beneficiaries[43].

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[40] Communication from the Commission to the European Parliament, the Council, the European Economic and social Committee and the Committee of the Regions Action Plan on Building a Capital Markets Union COM/2015/0468 final

[41] Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 OJ L 169, 1.7.2015, 1-38. p.

[42] Article 5 and 6 of Regulation (EU) 2015/1017

[43] Article 14 of Regulation (EU) 2015/1017

The EIB and Hungary

As the geopolitical situation determined Hungary's connections with EU and EIB, there were no veritable connections before the political Regime Change in Hungary. The Regime Change resulted in significant changes in the EU-Hungary connections as well and the EIB became a financing partner of paramount importance for the Hungarian investments from 1990.

Although the financial connections were not really significant in the first half of the 90's, they became much more intensive after 1997, and the EU accession resulted a real uplift in this field.

For Hungary, until now the EIB has signed

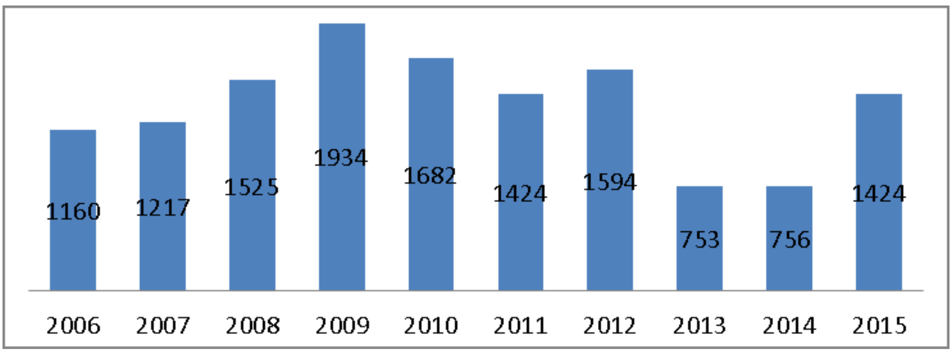
- EUR 19.3 bn since it has begun its activity, and
- EUR 3.1 bn within the last 3 years since 2013[44].

The current exposure stands at EUR 10.7bn towards Hungary, which is 9.9% of the Hungarian GDP[45]. (The EU average is 3.5%). Among the EU member states, this is one of the highest rates!

In the last 10 years, between 2006 and 2015 some EUR 13,5bn arrived from the EIB to Hungary (including the state-coordinated projects and the direct or intermediated financing of enterprises). *Figure 3* demonstrates the yearly financing volumes in Hungary in the last seven years.

Figure 3

EIB financing volume in Hungary
(volume of the signed loans in EUR million)



Source: *EIB*[46]

[44] [online] <URL: http://www.eib.org/projects/loans/regions/european-union/hu.htm>

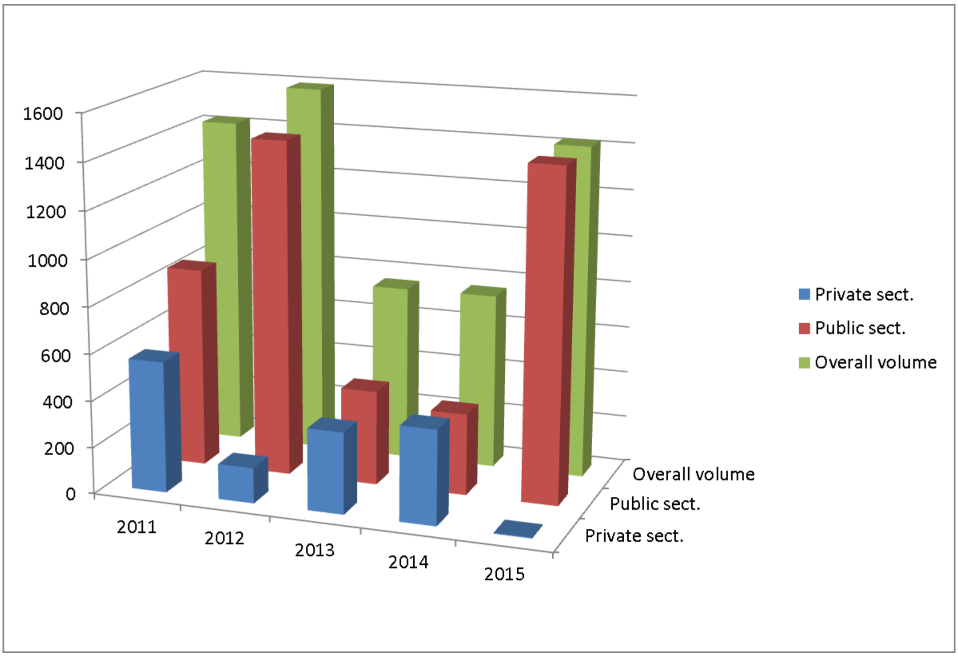
[45] [online] <URL: http://www.eib.org/infocentre/press/releases/all/2016/2016-004-eib-group-lends-record-eur-84-5-billion-in-2015-and-mobilises-over-eur-50-billion-investment-under-investment-plan-for-europe.htm>

[46] EIB Statistical report 2015, 24. p., [online] <URL: http://www.eib.org/attachments/general/reports/st2015en.pdf>

As it can be seen from the chart, EIB provides on average yearly more than EUR 1bn financing to Hungary. And it can do even more. The overall yearly financing volume depends on different factors. The main driver is the needs in public sector, mainly the EU Funds co-financing and infrastructure financing loans (*Figure 4*). In 2015 alone, the signed volume of the EU structural and cohesion funds Co-financing loans amounted EUR 1bn, (and there is an additional stock of EUR 1,5 already approved and to be signed in the future). Such waves in needs are the main reasons for the significant differences of yearly signature volumes. Additionally, EIB's private sector activity in Hungary is traditionally weaker, it finances SMEs and Mid-Caps and cannot counterbalance the different needs on the public side.

Figure 4

Financing volumes from EIB to the public and private sector of Hungary in EUR million



Source: Based on *EIB*[47]

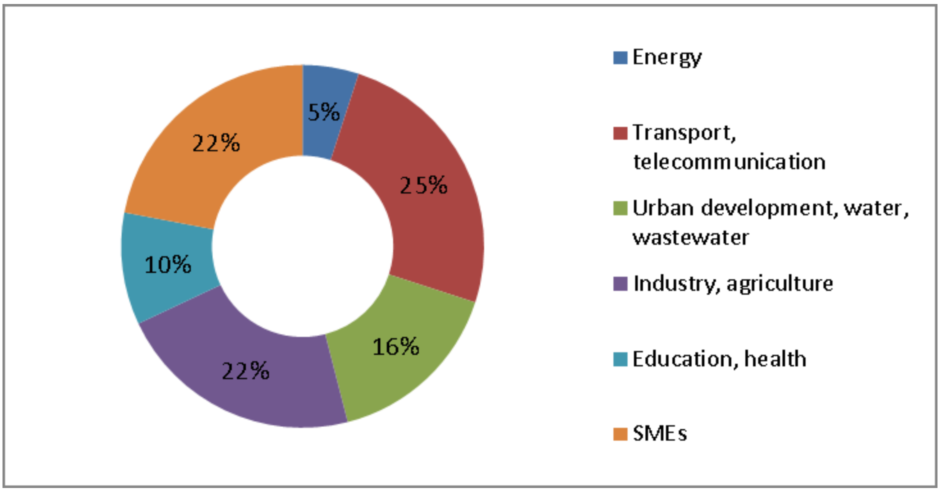
The financing sources allocated to Hungary between 2011 and 2015 can also be broken down between the various sectors of the economy as follows (*Figure 5*).

List of project already financed on EIB homepage: [online] <URL: http://www.eib.org/projects/loans/regions/european-union/hu.htm?start=2006&end=2015&sector=>

[47] EIB Statistical report 2015, 24. p., [online] <URL: http://www.eib.org/attachments/general/reports/st2015en.pdf>

Figure 5

EIB loans by sectors between 2011-2015 in Hungary



Source: *EIB*[48]

Some examples of the projects financed by EIB in Hungary

In the first half of 2016 two loans were signed in Hungary.

- in March EUR 140million for the road network modernisation (first tranche of EUR 500m),
- in June EUR 48 million for the development of nurseries, elementary schools, gymnasiums and swimming pools.

In 2015 the EIB signed EUR 1.4 bn, which resulted in a year having one of the highest levels of activity. This year the most important signatures were the EU-fund co-financing loans totalling EUR 1bn for the programming period 2014-2020. This involves two loans: EUR 500m to co-finance priority projects receiving support from EU Cohesion Funds, European Regional Development Funds and the Connecting Europe Facility; and EUR 500m to co-finance priority projects receiving support from the European Regional Development Funds and the European Social Fund. Both loans are first tranches of already approved EIB loans totalling EUR 2.5bn and they will support projects with total costs of EUR 24bn. These loans make possible for Hungary to absorb the available EU financial support from the ESIF funds.

Budapest Municipality has received a significant support for the development in 2015 in form of an EUR 200m to finance priority investment schemes in the areas of public transport and road networks, including the reconstruction of underground and suburban railway lines, tram and trolleybus infrastructure, road

[48] EIB Statistical report 2015, 24. p., [online] <URL: http://www.eib.org/attachments/general/reports/st2015en.pdf>

and bridge rehabilitation and rolling stock-related investments designed to improve the quality of public transport services, and an EUR 100m to support improvements in the fields of Budapest's urban renewal and regeneration, energy efficiency enhancement and environmental protection.

In volume smaller but not less important loan has also been provided in 2015 to the Hungarian Academy of Sciences to finance its basic scientific research and the operation of its Library and Digital Information Centre (HUF 34.5m or EUR 115m).

In earlier years, EIB was one of the most important financing partners for the road and railroad projects (e.g.: construction of certain sections of the M3, M6 and M43 motorways, reconstruction of the Budapest-Székesfehérvár, Budapest-Esztergom and Sopron-Szentgotthárd railway lines, locomotive purchase of MÁV), municipal transport projects (M2 Metro line rolling stock, M4 Metro line construction, Budapest Tramway line 1 and 3 reconstruction) and other infrastructural development projects (construction and/or rehabilitation of water, wastewater, and telecommunication networks, Hungarian-Slovakian and Hungarian-Croatian gas interconnection). Besides these projects, the Bank regularly provides financing for the Hungarian Student Loan Centre (Diákhitel Központ) and co-finances projects financed by EU funds. EIB has provided important financial support even with smaller amounts for the liquidation of consequences of natural disasters (floods).

Beside the financial services the technical/advisory support of the EIB is even important for Hungary. This support helps the high level utilisation of the EU grants that are essential for the Hungarian economy.

CONCLUSION

Compared to the GDP, Hungary can utilise a significant volume of loans provided by EIB. Within this significant volume, the share of the public sector financing loans represents a much larger share than the loans channelled to the private sector. On one hand it means that Hungary has chosen the most advantageous (in terms of pricing, tenor, and security structure) financing for its biggest public investments. However, the funding level of the private sector is lagging behind, and the reason for it is not the lack of the available financial sources, but the modest level of the demand and cheap liquidity made available by the funding programme of the Hungarian National Bank.

Even in this financial environment, the EIB can be attractive for Hungarian private sector entities, through its increased risk taking capacity made possible by EFSI or other specific products not mentioned in this paper. However, in every case the most important issue is the ability to set up a technically and financially viable project.

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