



**European
Investment
Bank**

The EIB bank

EIB's views on prospects for private sector development in Romania with a focus on the warehouse infrastructure

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Disclosure: The information included in this presentation has been elaborated by the lecturers and does not represent the official position of the EIB

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Today's take aways

- Part 1 – The EIB: what it does and how it works. A snapshot of the EIB activities in Romania.
- Part 2 - Romania: a macro-economic overview
- Part 3 - Logistics warehouses in Romania: logic for EIB co-financing

The EIB: the EU bank



- ▶ Provides long term finance and expertise for sound and sustainable investment projects
- ▶ Natural financing partner for the EU institutions since 1958
- ▶ Around 90% of lending is within the EU
- ▶ Shareholders: 28 EU Member States

**Investing in
Europe's growth**

The EIB at a glance

- ▶ Largest multilateral lender and borrower in the world
 - ▶ We raise our funds on the international capital markets
 - ▶ We pass on favourable borrowing conditions to clients
- ▶ Some 450 projects each year in over 160 countries
- ▶ Headquartered in Luxembourg with 40 local offices
- ▶ Around 3 000 staff:
 - ▶ Not only finance professionals, but also engineers, sector economists and socio-environmental experts
 - ▶ 60 years of experience in financing projects

60th Anniversary



162
countries

11903
operations

EUR
1 100 billion
disbursed

EUR
3 000 billion
investment
mobilised



1958

TREATY OF ROME

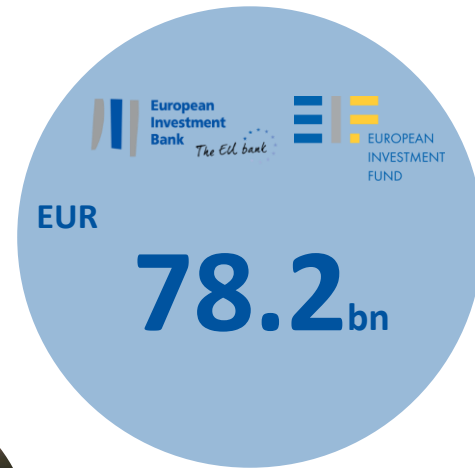


2018

60th ANNIVERSARY

EIB Group results 2017

6^{years} **improve lives.**
together.



Innovation



EUR **13.8**bn

Environment



EUR **16.7**bn

Infrastructure



EUR **18**bn

SMEs



EUR **29.6**bn

EIB Group impact



10,924 MW
of power created
(99.6% from
renewables)



572,324 families
in EIB-financed
affordable social
housing



Improved
healthcare
services for
45.7 million
people



Safer drinking
water for
23 million
people



3.9 million
jobs sustained
in **285,800**
firms



7.44 million
new & upgraded
high speed digital
connections

EIB products

We help catalyse investments: attractive funding for long-term growth

Lending

Vast majority of our financing is done through **loans** but we also offer guarantees, quasi-equity type instruments, etc.

90% of the lending is carried out within the EU.

Blending

We blend EU with EIB funds to **enhance** our **risk-taking capacity**.

Advising

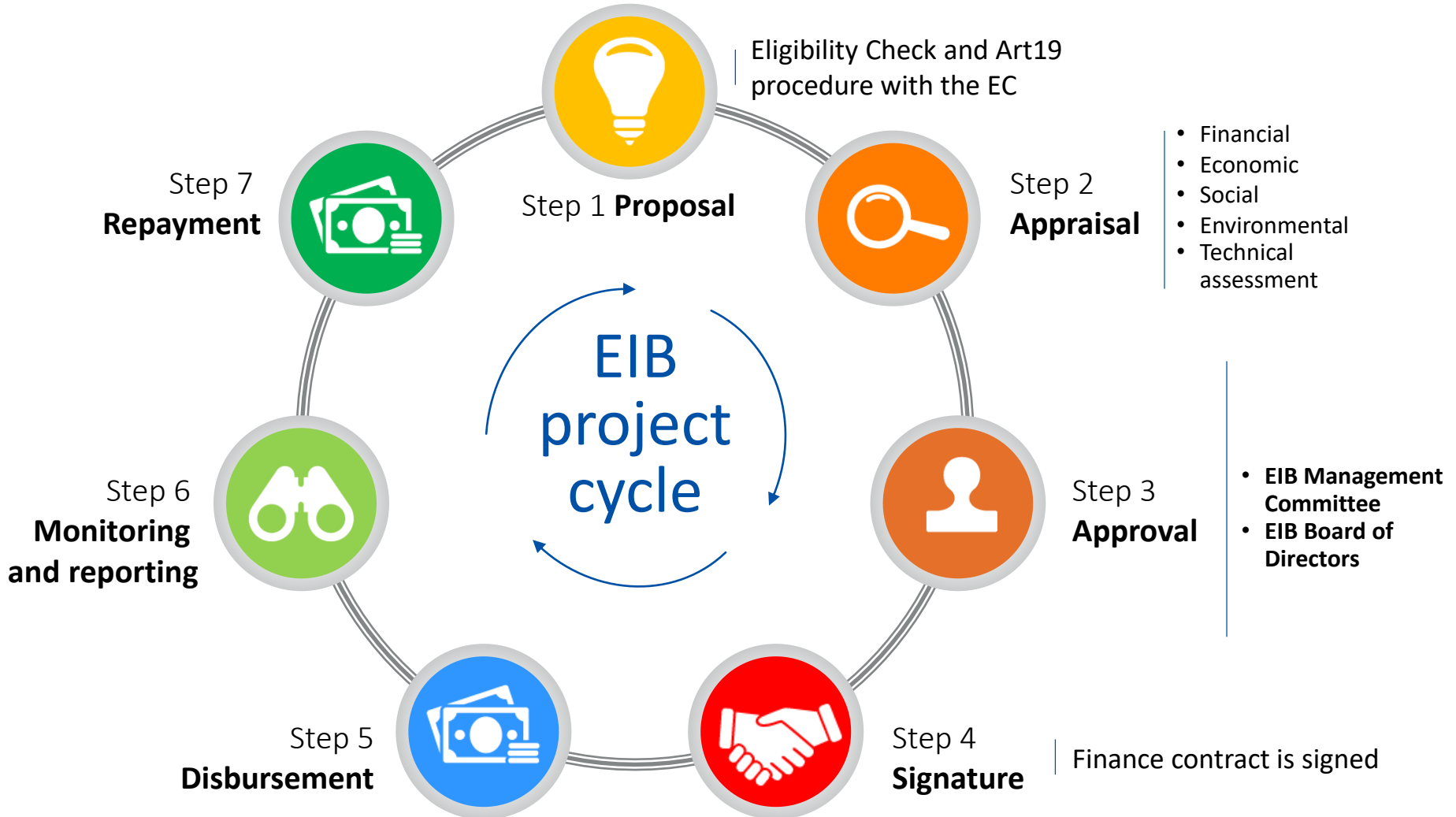
Lack of finance is only one barrier to access to finance. We can advise on **administrative** and **project management matters** to help **catalyse** investments.

Counter-cyclical role

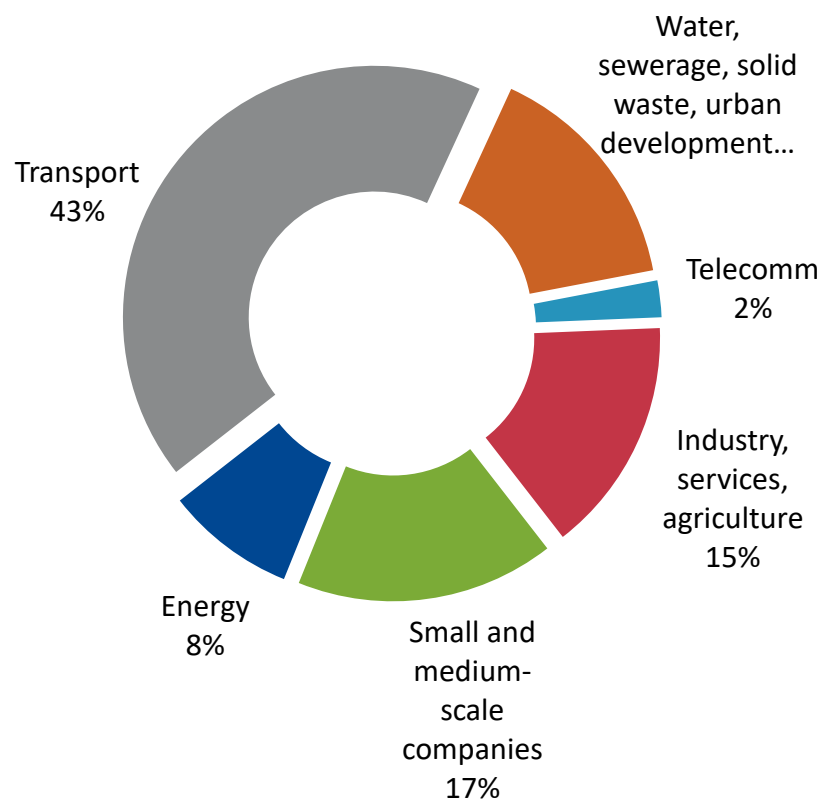
Addressing market needs by acting as a **countercyclical** investor in challenging economic times.

EIB project cycle

We support sound and sustainable projects



EUR 13bn EIB lending in Romania since 1992



Support to investment projects:

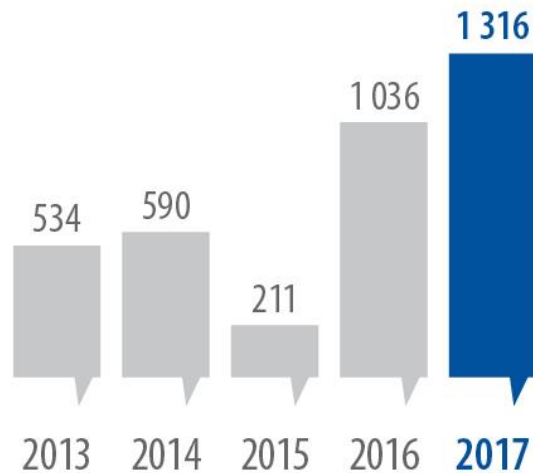
- Addressing regional disparities
- Strengthening competitiveness
- Improving people's living standards

EIB operations in Romania cover all major economic sectors:

- Transport
- SMEs
- Urban, water, waste infrastructure
- Industry and Services
- Energy

Substantial increase of EIB lending in Romania in 2017

European Investment Bank
Signatures in Romania
2013-2017 (in EUR m)



Source: EIB

- EIB signed new loans totalling EUR 1.32bn
 - 27% increase compared to 2016
- EIF committed EUR 551m in 21 operations
- Total result of EIB Group (EIB + EIF) reached EUR 1.87bn, representing 1.04% of Romanian GDP
 - 5th position among EU Member States

Financing of EIB Group in Romania in 2017

Financing under the Investment Plan for Europe

- ▶ **EUR 15m to support the private healthcare provider Regina Maria in the upgrading and expansion of its network of facilities outside Bucharest**
- ▶ **EUR 7.5m to GreenFiber International SA to strengthen its waste collection capacity and processes for recycling PET and electronic equipment – 100% climate action project**
- ▶ **EUR 100m EFSI backed loan to Transgaz – the national gas transmission company of Romania – to finance the construction of a new European gas transmission corridor**

Co-financing of priority infrastructure with EU funds

- ▶ **EUR 1bn loan to co-finance, with European Structural and Investment Funds, priority transport infrastructure projects totalling EUR 6.8bn**
- ▶ **EUR 75m for the completion of the Glina wastewater treatment plant**

Financing of EIB Group in Romania in 2017

Fostering urban development

- ▶ EUR 21m to the Municipality of Oradea to finance improvements of its urban infrastructure
- ▶ EUR 22m for the second phase of the refurbishment programme covering multi-family housing in the Bucharest municipality of Sector 6

Support for SMEs and mid-caps

- ▶ EUR 75m intermediated lending to three EIB partner financing institutions, improving the access of Romanian SMEs and municipalities to EIB financing
- ▶ EIF signed three additional SME Initiative guarantee transactions providing loan guarantees and lowering interest rates charged by banks
 - Benefit for some 300 SMEs and start-ups in need of finance.

Macroeconomic Overview and Investment in Romania

Rozalia Pal

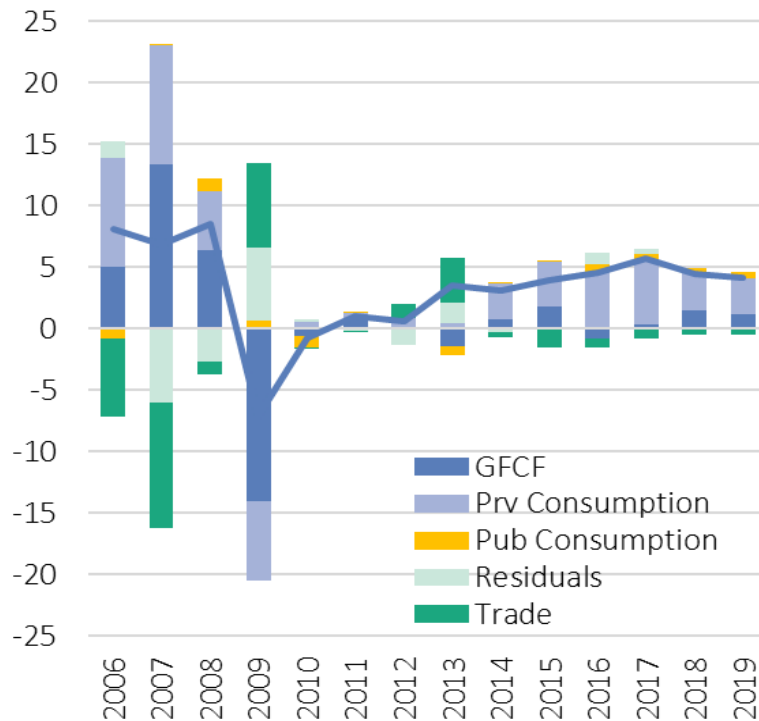
EIB Economics Department

Bucharest
October 03, 2018

GDP growth – a closer look

GDP growth components

Contribution to the annual percentage change

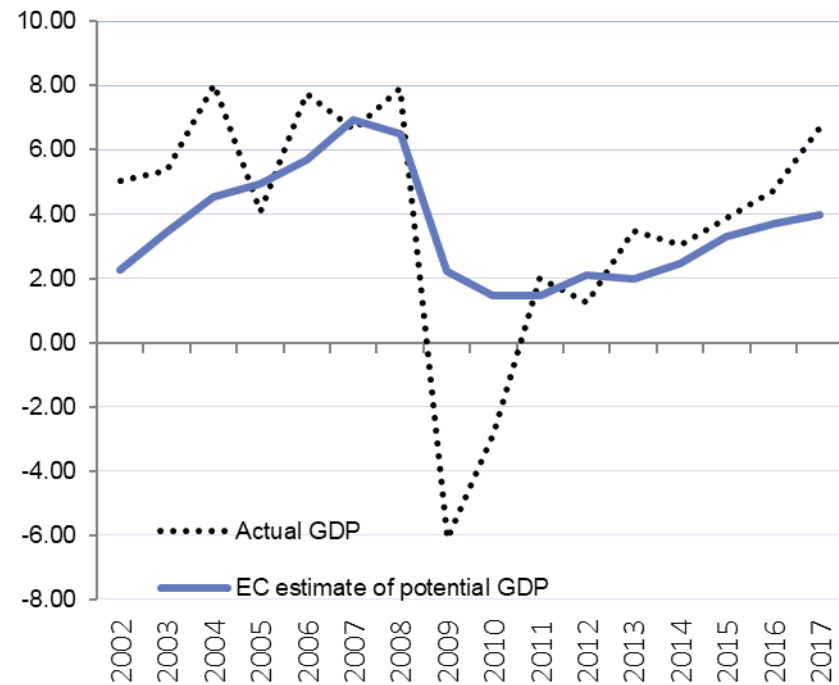


Note: Forecast values for 2018 and 2019.

Source: Econ calculations, Eurostat

Potential and Actual GDP

Annual percentage change

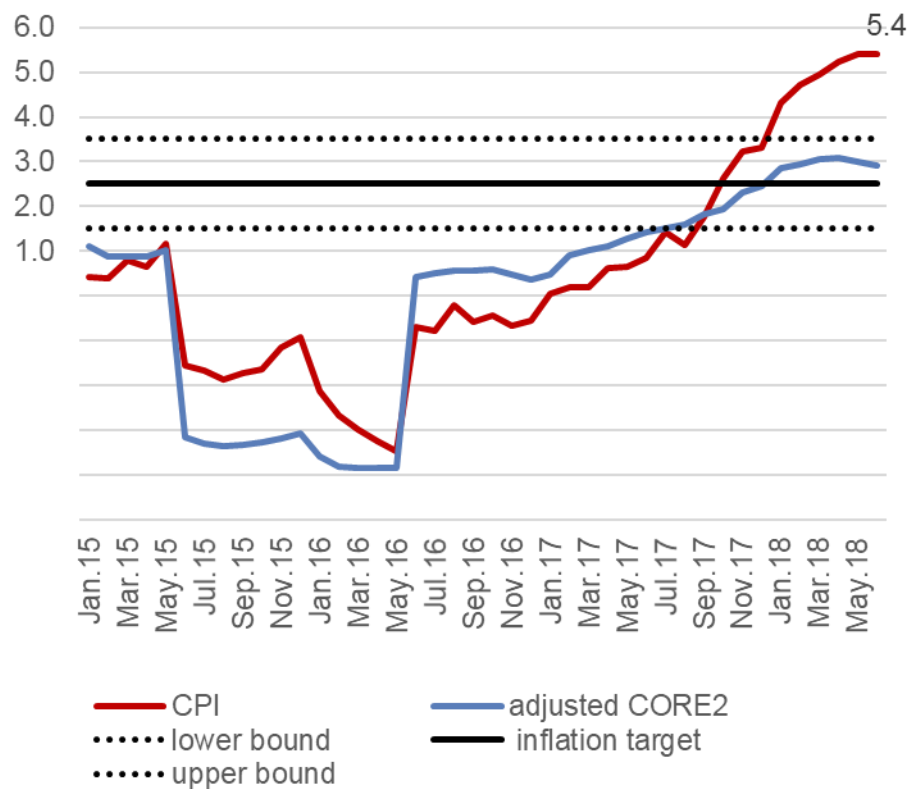


Source: Econ calculations, EC, Eurostat

Some challenges ahead

Inflation rate

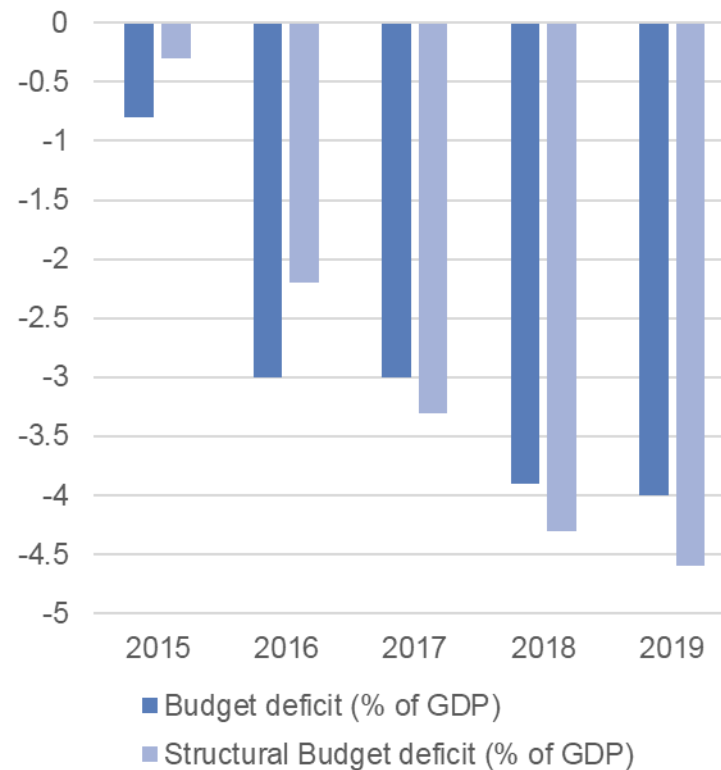
Annual percentage change



Source: Econ calculations, NBR

Budget deficit

Per cent of GDP



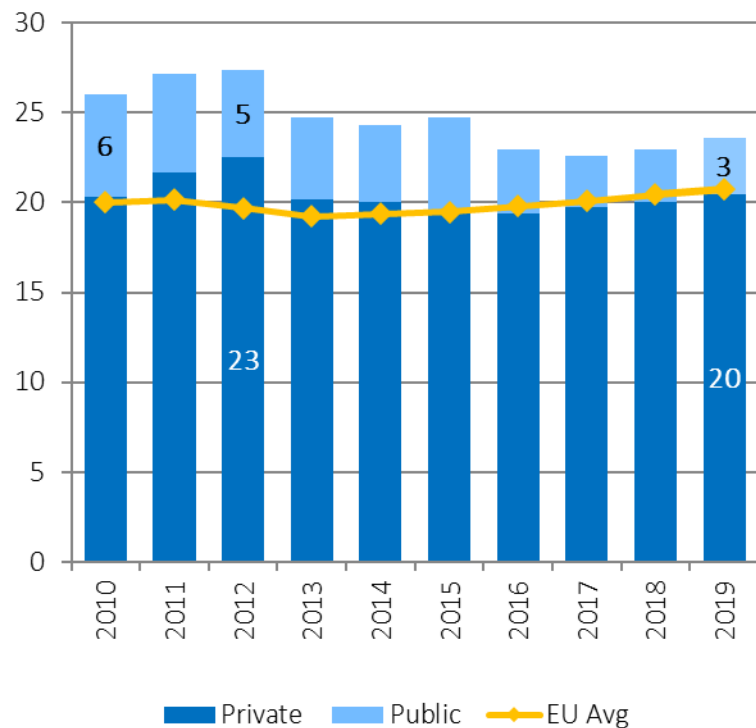
Note: Forecast values for 2018 and 2019.

Source: Econ calculations, EC

Real investment activity – a closer look

Real investment: private vs. public

Per cent of GDP

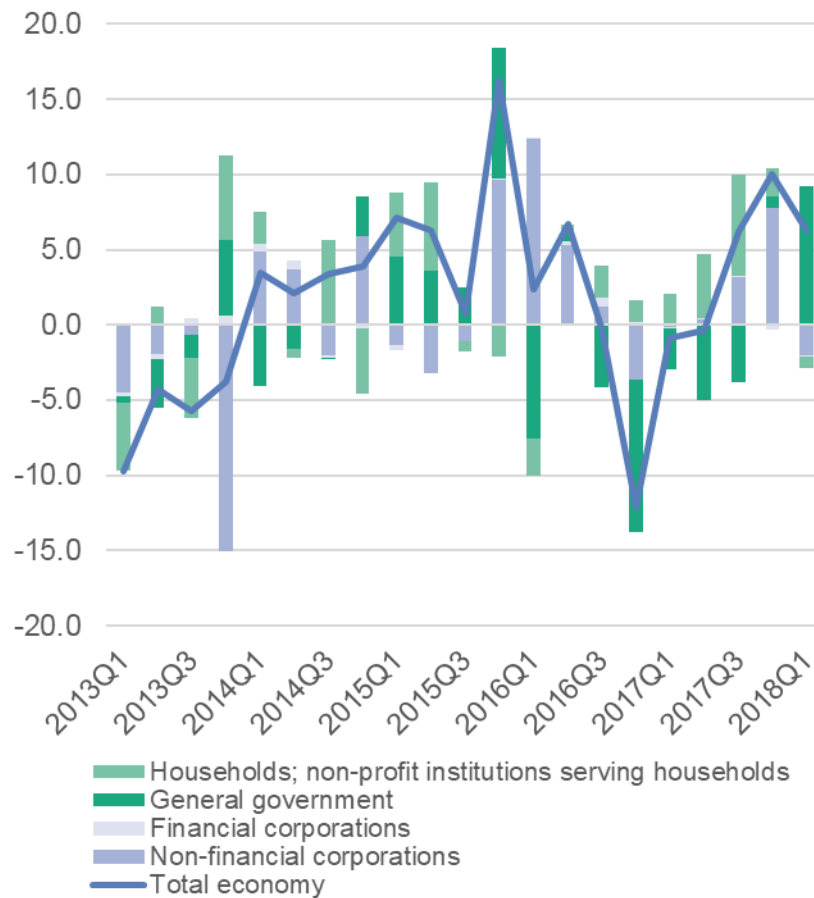


Note: Forecast values for 2017 and 2018.

Source: Econ calculations, Eurostat

Investment growth

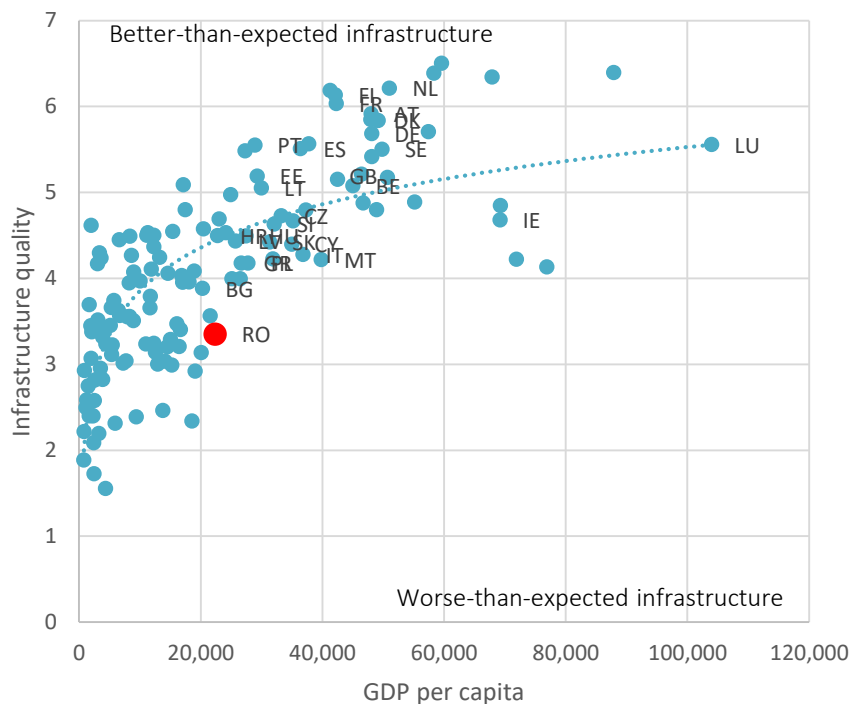
Annual percentage change



Source: Econ calculations, Eurostat

Transport infrastructure remains key bottleneck

Infrastructure quality

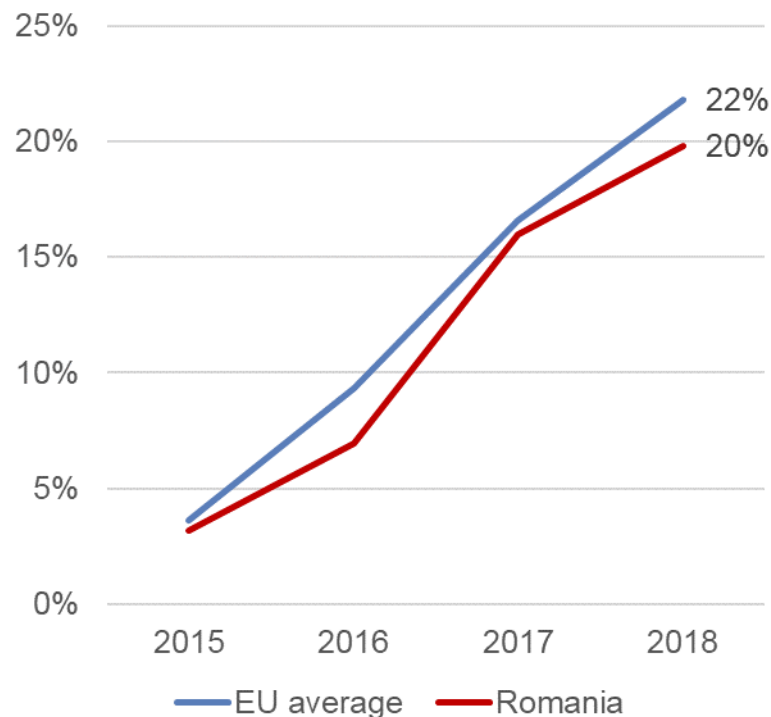


Note: Infrastructure quality scored from 1 to 7 (best) against GDP per capita; blue line plots predicted values.

Source: World Economic Forum and IMF

Total EU payments

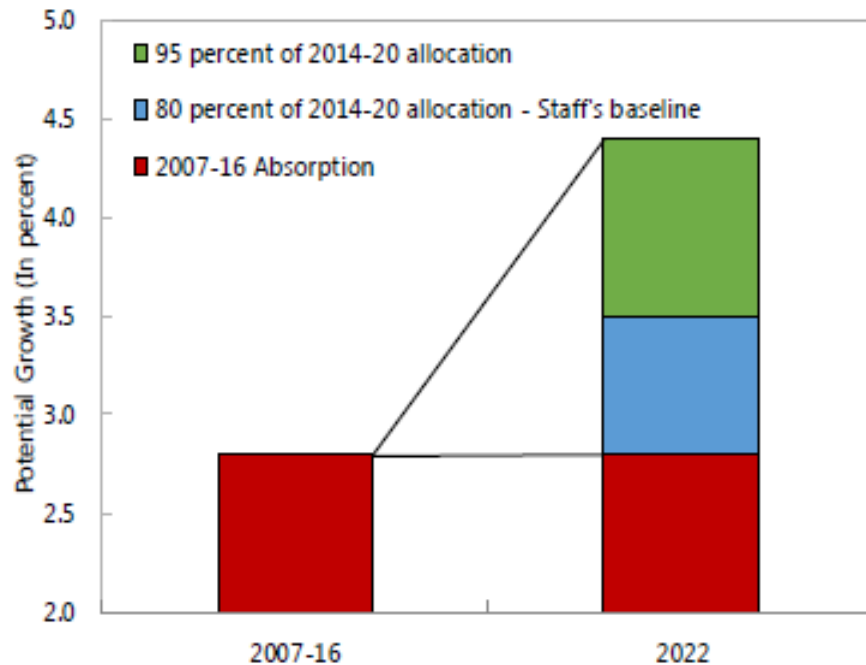
Per cent of total allocated funds, cumulative



Source: European Commission: Open Data Portal for the ESIF

Better EU funds absorption could benefit public investment recovery

Funds absorption and potential growth

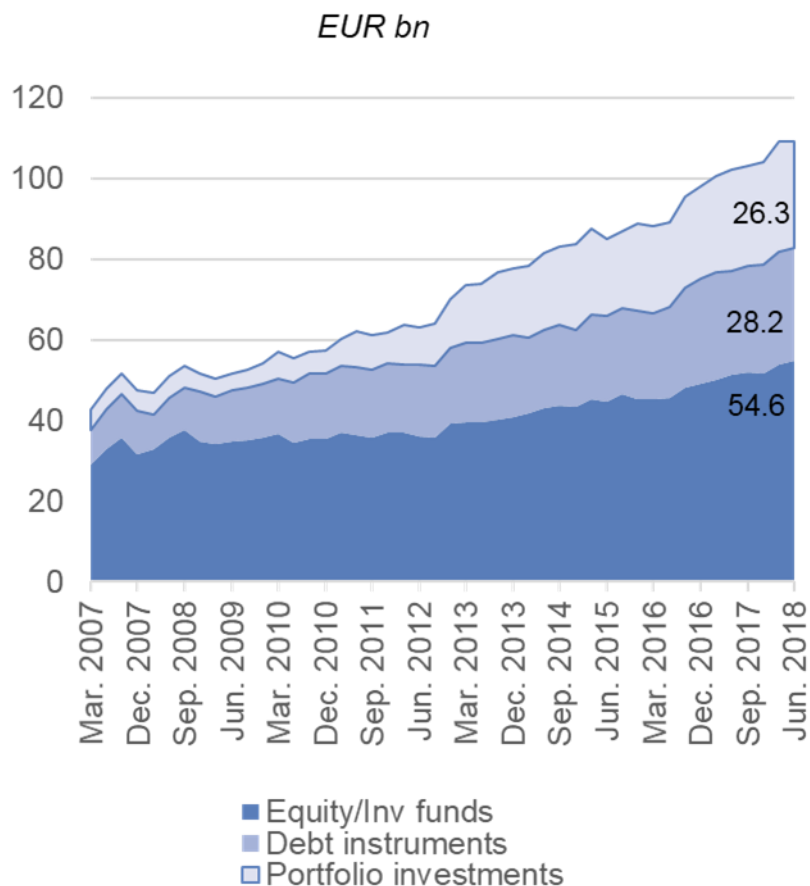


- ▶ Raising EU funds absorption rate to 95% for the current program period could add one percentage point to potential growth
- ▶ EU-funded investment can raise quality
- ▶ Additional public investment in infrastructure could help to crowd in private investment

Source: IMF staff calculations

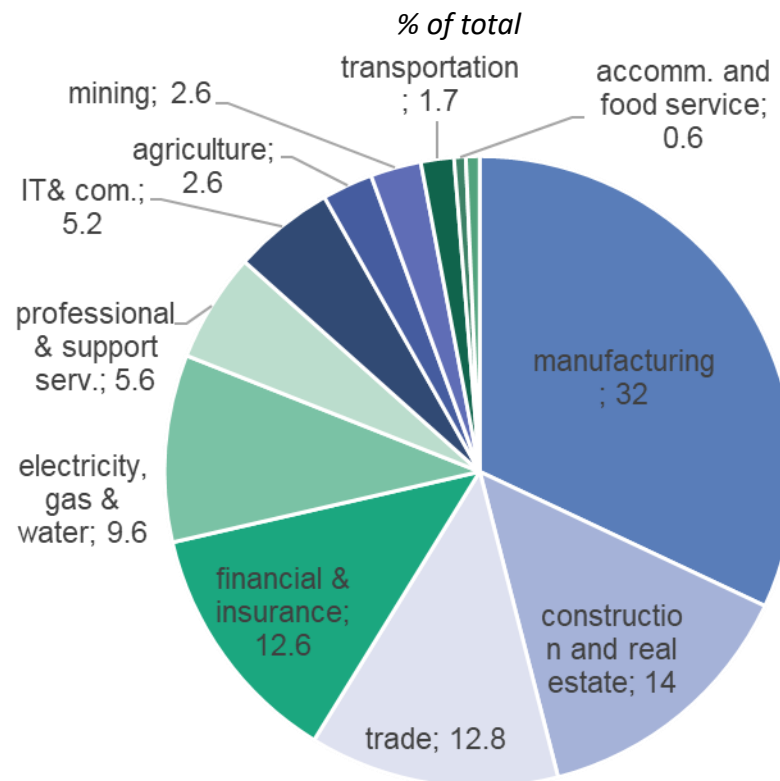
Continuously increasing FDI stock in Romania

FDI stock and portfolio investment



Source: Econ calculations, NBR

FDI stock by main economic activities



Note: As of Dec 2016, Total economy 70.1 bn

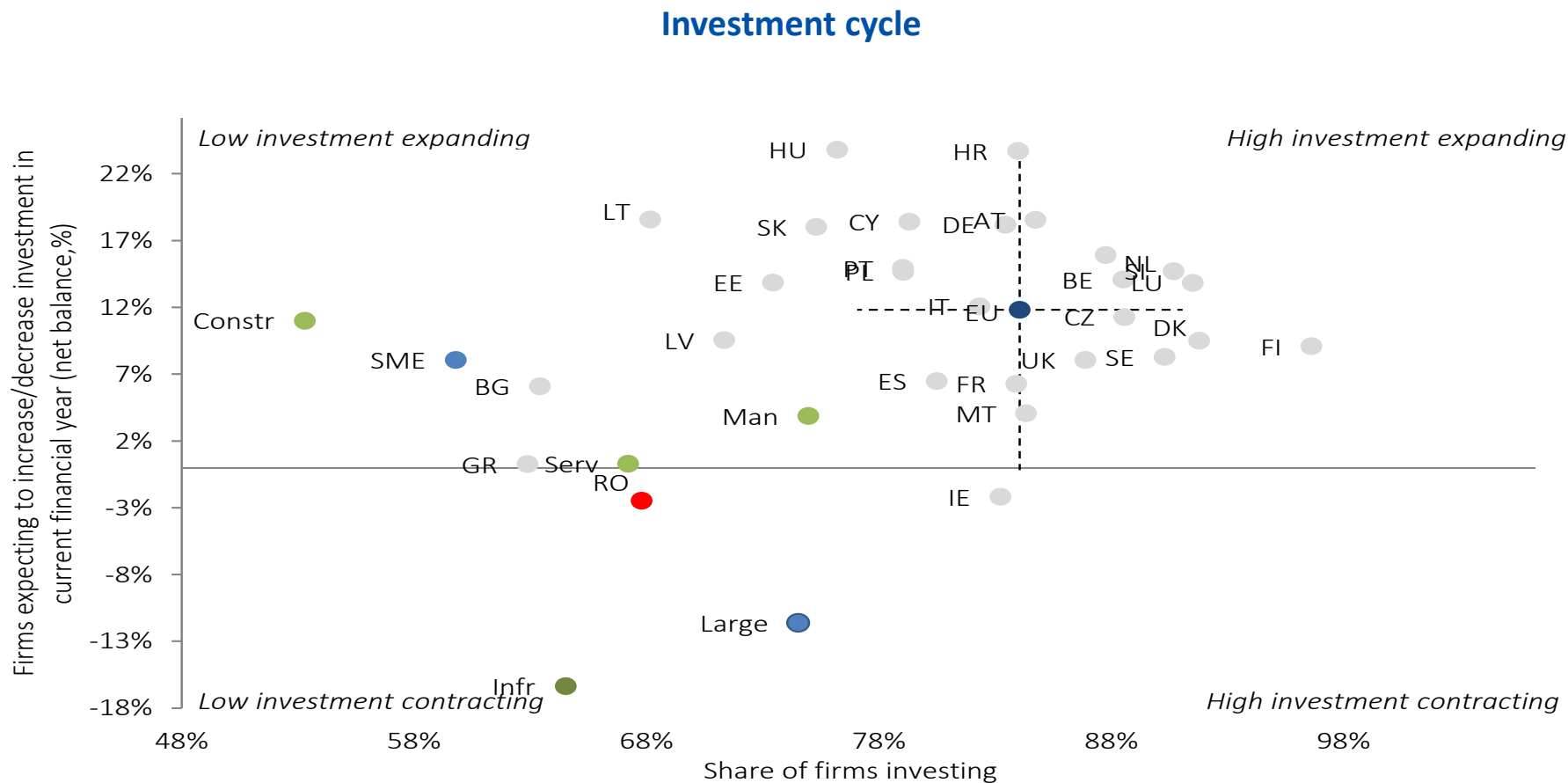
Source: Econ calculations, NBR

What can 12,000 firms tell us about investment trends in Europe?

EIB investment survey:

- ▶ 12,500 firms surveyed across EU28 (of which 600 in UK)
- ▶ NFCs 5+ employees in manufacturing, services, construction & infrastructure sector
- ▶ Information on:
 - ▶ Firm characteristics and performance
 - ▶ Investment needs and constraints
 - ▶ Past investment activities and future focus
 - ▶ Investment finance
- ▶ Representative of the economy (firms weighted by value-added)
- ▶ Data collected from April-July 2017

Cautious private investment, Construction first to increase



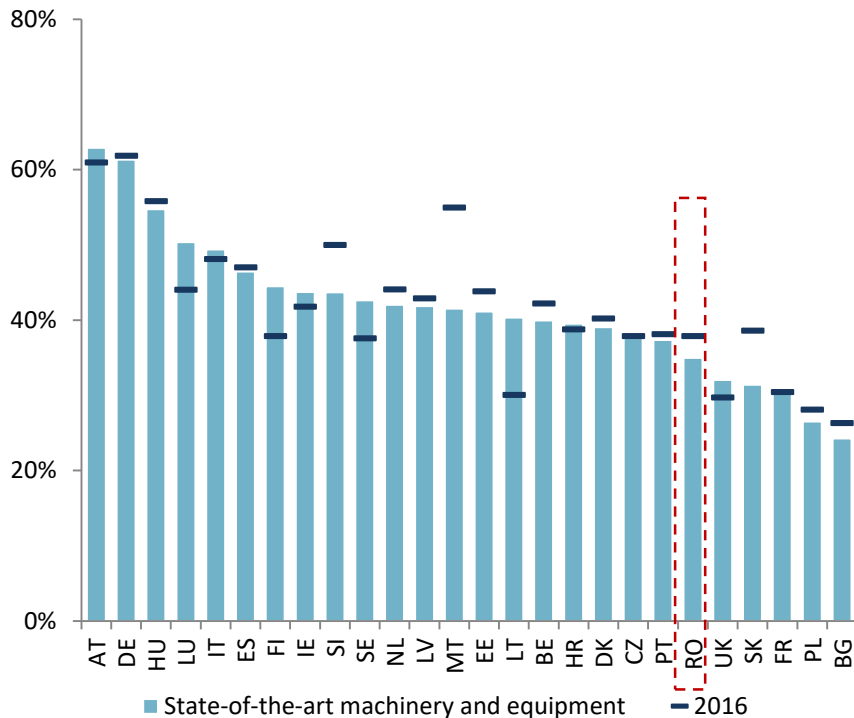
Note: Plots the share of firms with investment expanding/contracting relative to the share of firms investing, by sector or Member State; cross centred on EU average.

Source: Econ EIBIS

Quality of assets needs serious upgrade

State-of-the-art machinery and equipment

average share

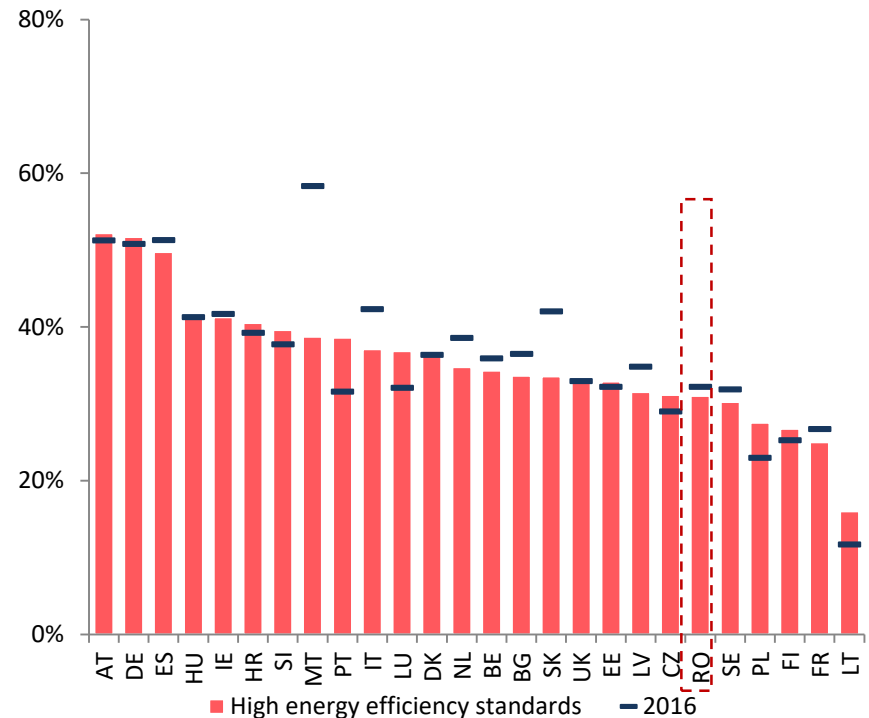


Note: Average of responses in per cent: Q. What proportion, if any, of your machinery and equipment, including ICT, would you say is state-of-the-art?

Source: Econ EIBIS

Share of high energy efficiency buildings

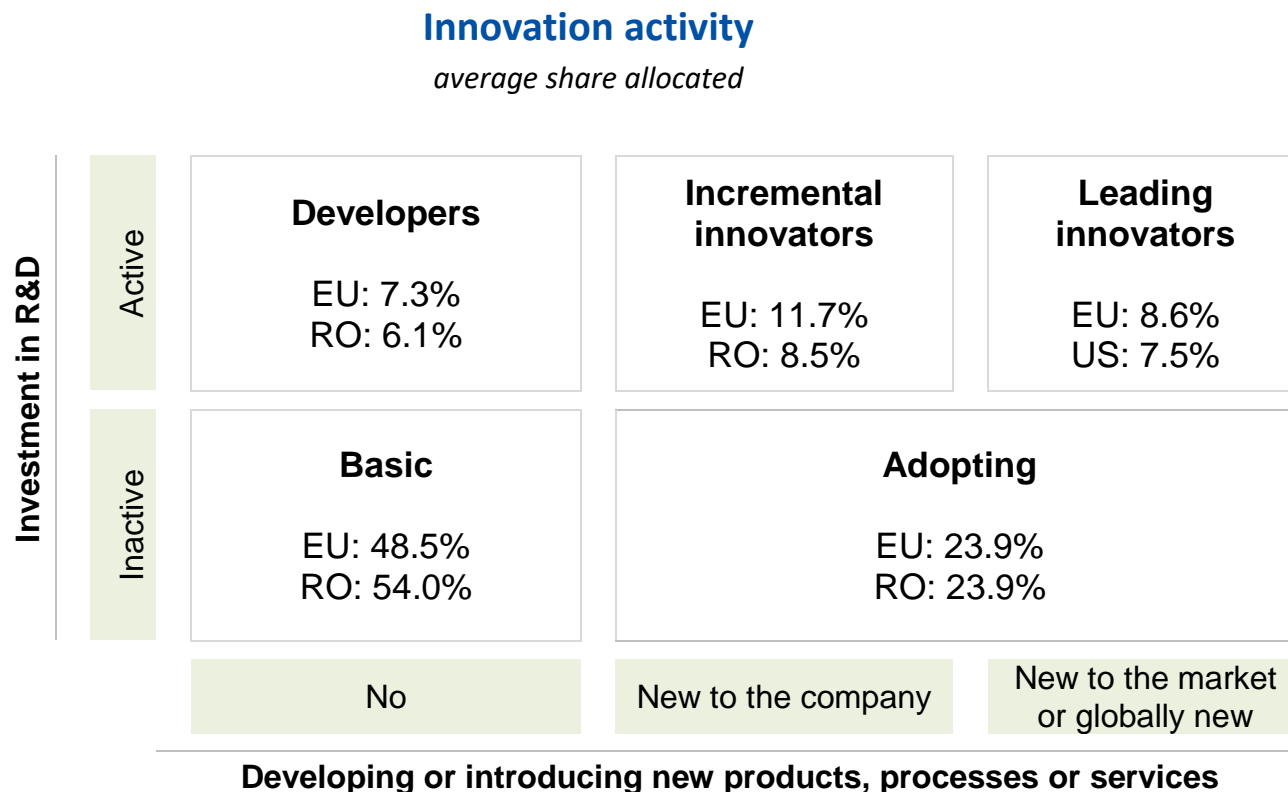
average share



Note: Average of responses in per cent: Q. What proportion, if any, of your commercial building stock satisfies high or highest energy efficiency standards?

Source: Econ EIBIS

Higher focus on innovation and R&D activity to improve productivity and growth



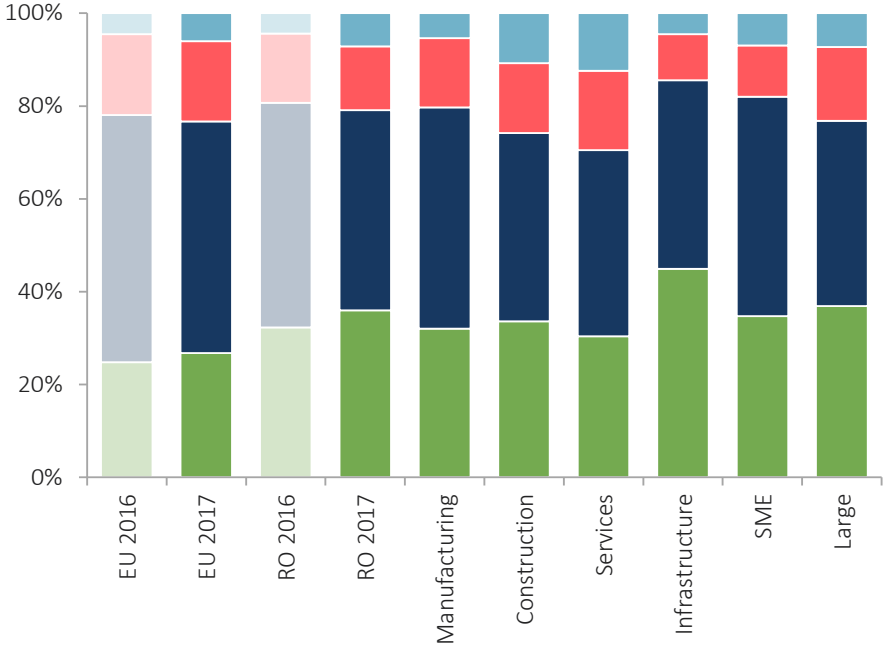
Note: Average of responses in per cent: Q. What proportion of total investment was for developing or introducing new products, processes, services? Q. Were the products, processes or services new to the company, new to the country, new to the global market?

Source: Econ EIBIS

Replacement is the current priority in Romania, just as in EU. Higher Investments in new products expected.

Purpose of previous year's investment

share of total investment



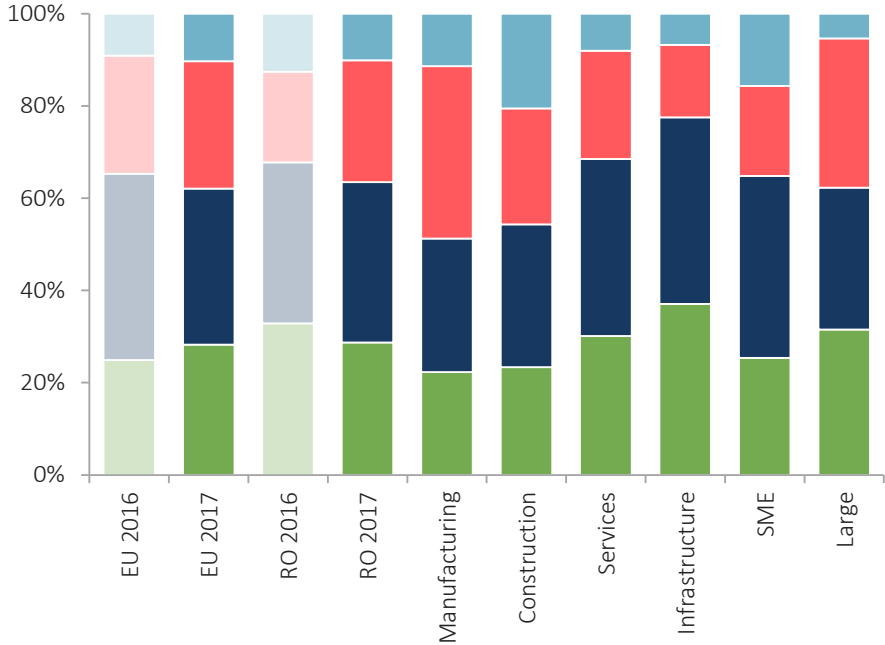
■ Capacity expansion ■ Replacement ■ New products/services ■ Other

Note: Average response, in per cent. Q. What proportion of total investment was for (a) replacing capacity (including existing buildings, machinery, equipment, IT) (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

Source: Econ EIBIS

Future investment priorities

share of total investment



■ Capacity expansion ■ Replacement ■ New products ■ No investment planned

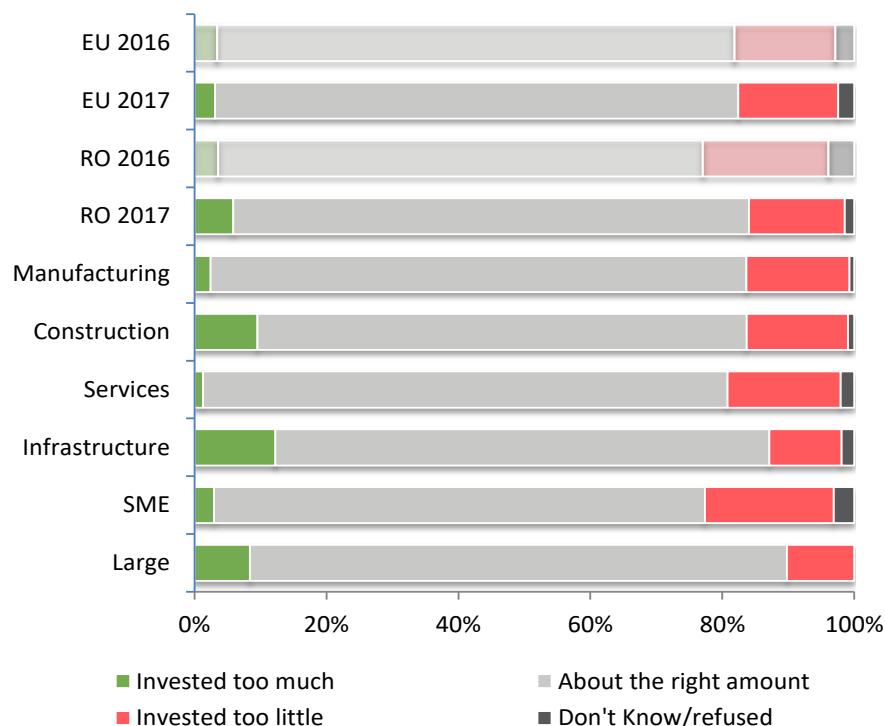
Note: Share of firms by main purpose of investment, in per cent. Q. Looking ahead to the next 3 years, which is your investment priority (a) replacing existing buildings, machinery, equipment, IT; (b) expanding capacity for existing products/services; (c) developing or introducing new products, processes, services?

Source: Econ EIBIS

Perceived investment gap twice as large for SMEs compared to large firms

Perceived investment gap

share of firms



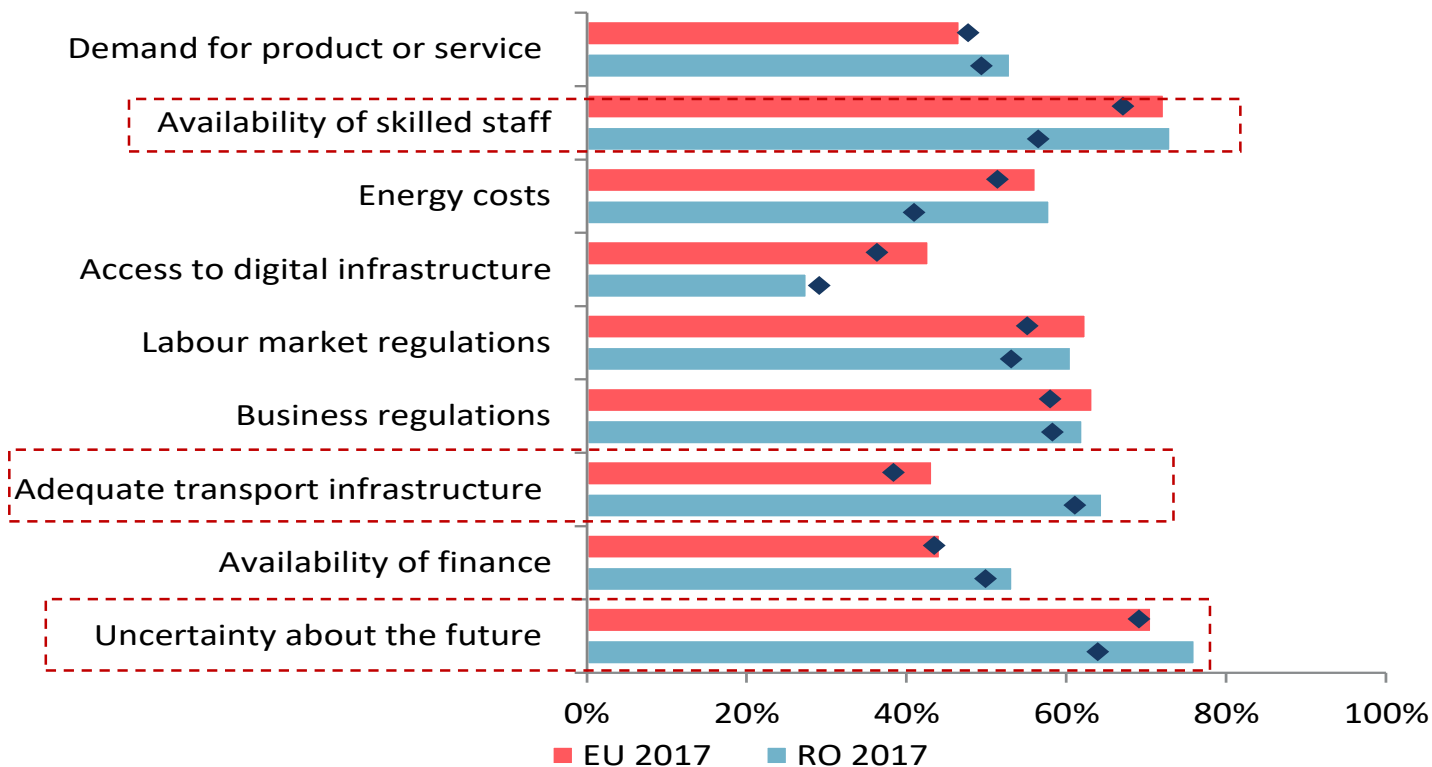
Note: Share of responses in per cent: Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount?

Source: Econ EIBIS

Business environment, availability of skilled staff and transport infrastructure need improvements

Long-term barriers to investment

share of responses



Note: Share of responses in per cent: Q. Thinking about your investment activities, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

Source: Econ EIBIS

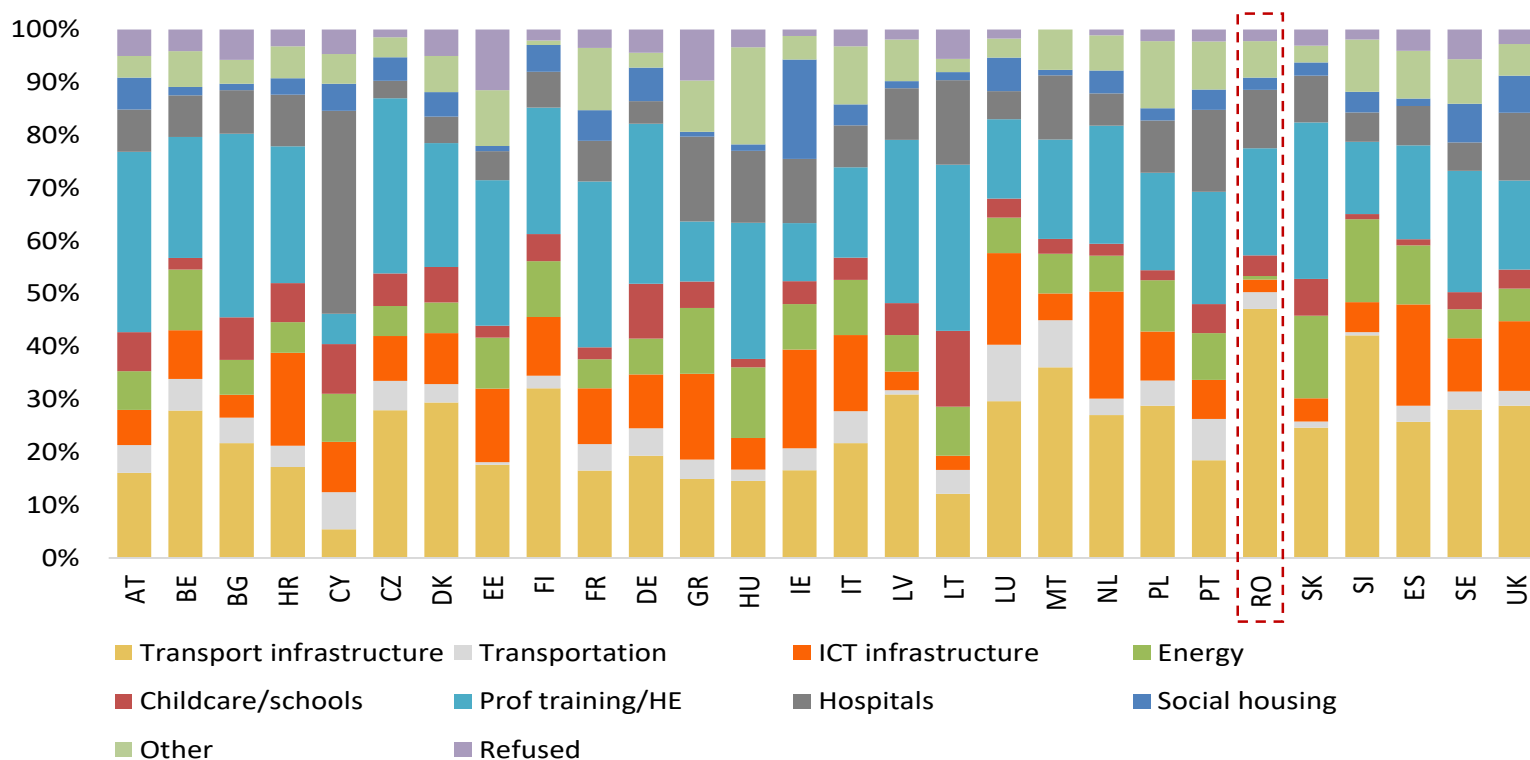
Note: Share of responses in per cent: Q. Thinking about your investment activities, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

Source: Econ EIBIS

What can public investment do to support firms?

Perceived public investment priorities

proportion of responses



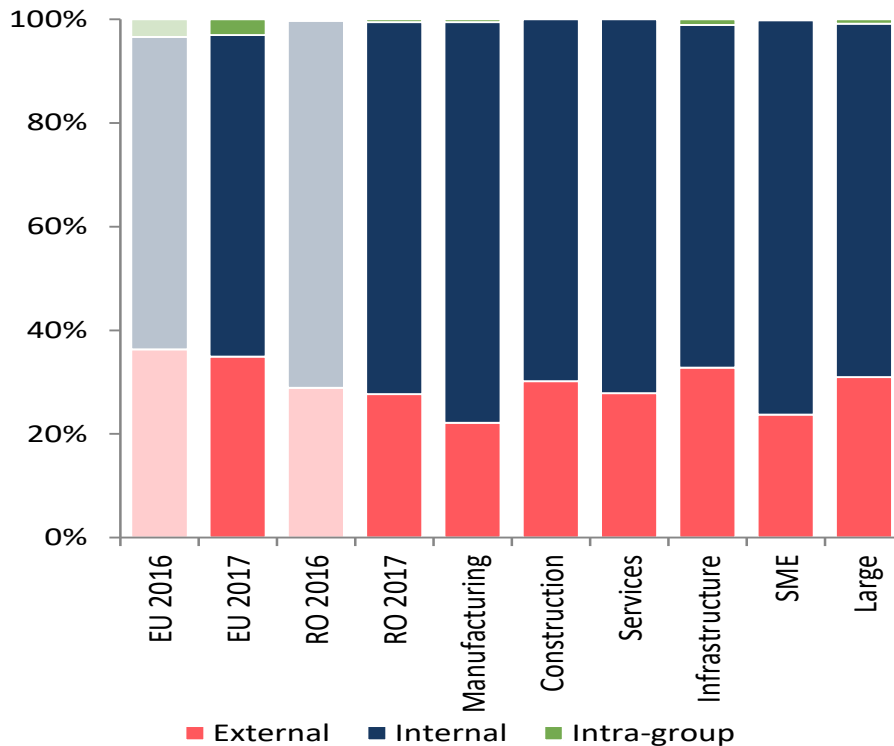
Note: Proportion of responses in per cent: Q. From your business' perspective, if you had to prioritise one area of public investment for the next 3 years, which one would it be?

Source: Econ EIBIS

72% of Romanian companies rely on internal sources, above the EU average (62%)

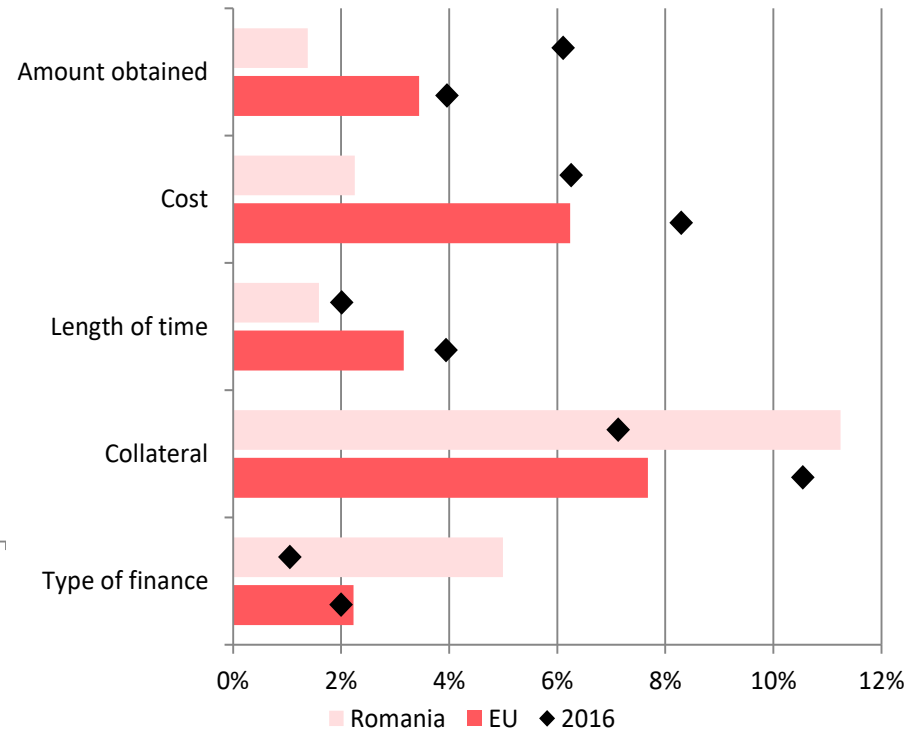
Source of investment finance

average proportion



Dissatisfaction with external finance

share of responses



Note: Average of responses in per cent Q. What proportion of your investment was financed by each of the following?

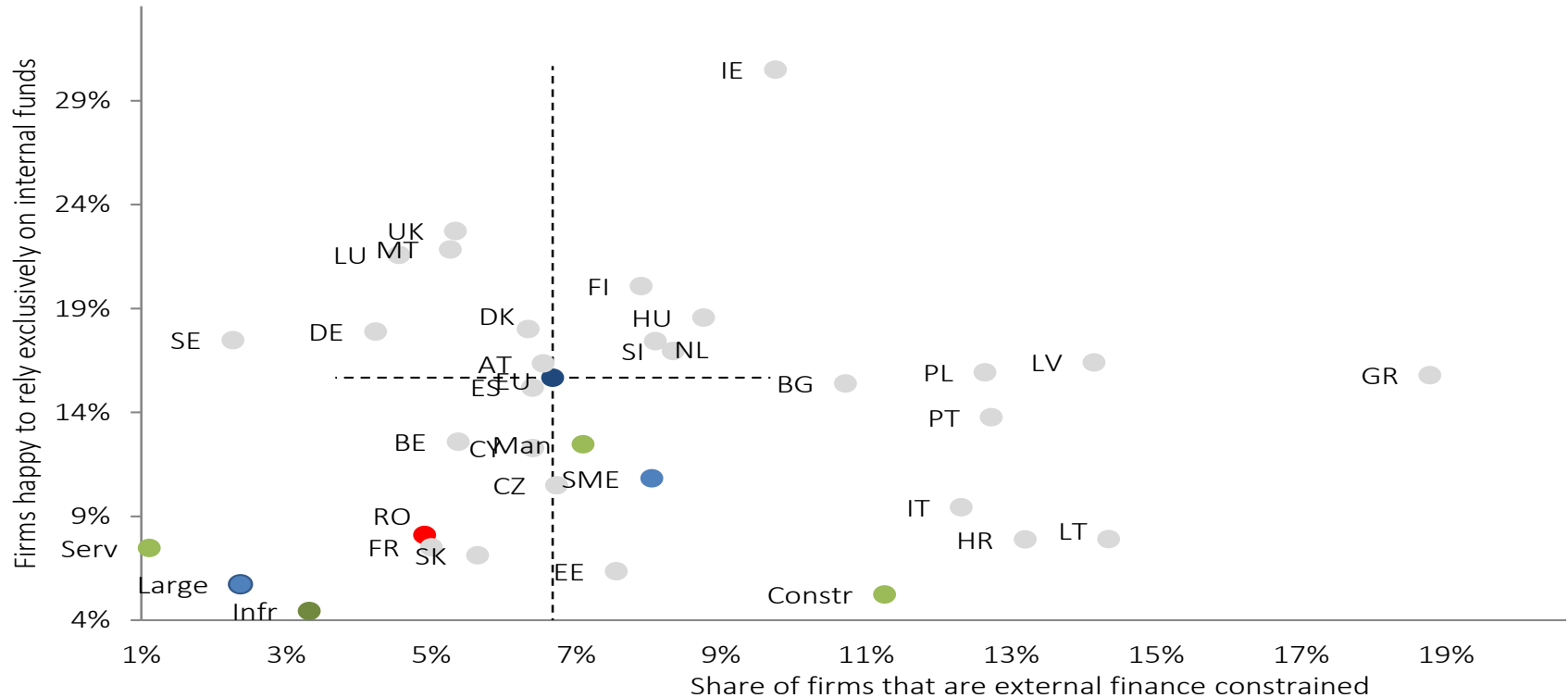
Note: Average share of responses, in per cent Q. How satisfied or dissatisfied are you with?

Source: Econ EIBIS

Source: Econ EIBIS

Less happy to rely exclusively on internal finance but on average less likely to be finance constrained

Finance cross



Note: Proportion of firms reliant on internal finance over share financially constrained firms, by sector or Member State.

Source: Econ EIBIS

Conclusion

- ▶ Investment grew in 2017 on account of a **pickup in private investment**, mainly in the construction sector;
- ▶ **Continuously increasing FDI stock**. FDI flows increased by almost 50 % in 2016; equity and reinvested earnings increased further in 2017;
- ▶ **Public Investment to strengthen starting 2018** on the back of a pick-up in the implementation of projects financed by EU funds;
- ▶ **Potential GDP improved significantly** and to remain above the EU average;
- ▶ **Better business environment, labour force and transport infrastructure are crucial to make the current growth of the economy sustainable**;
- ▶ **Infrastructure improvement expected through EU funded projects** (EUR 6.3 bn available for the 2014-2020 period).

EIB – quod investments in logistics infrastructure?

Patrick VANHOUDT

EIB – Project Department

Bucharest
October 03, 2018

EIB – does the EIB finance real estate investments? What would be the logic?

- ▶ EIB: real estate investments are generally not eligible
 - ▶ speculative investments
 - ▶ “economic rent” (no land bank financing)
- ▶ Exceptionally commercial real estate, notably logistics warehouses, social housing, etc may be considered only if in case of:
 - ▶ Market failures
 - ▶ Strict mitigating conditions avoiding speculative investments and financing of economic rent
 - ▶ No infringement of social standards (resettlement issues, labour standards, etc.)
 - ▶ No evidence of “excluded activities” being supported (tobacco, arms and weapons, ...)

Market failures: 1) convergence

- ▶ Romania joined the EU on 1st of January 2007
- ▶ EIB contacted by WDP in 2009
- ▶ At that time:
 - ▶ Highest based agricultural economy; wide-spread poverty
 - ▶ Largely obsolete industrial base
 - ▶ Romania's wholesale and retail infrastructure least developed in the EU27
 - ▶ Service sector's supply chain capacity unsuited to foster sustained economic catchup growth
 - ▶ EU membership and increase of e-platforms (B2B, B2C) Induced freight transport / transit in view of
 - ▶ Port activities in Constanta
 - ▶ Excellent link to Danube hinterland
 - ▶ Demand from
 - ▶ Third Party Logistics (3PL) companies
 - ▶ prefer not to have real estate assets on their books
 - ▶ prefer storage of their goods in modern and safe facilities outside of the port area
 - ▶ tenants wishing to upgrade and consolidate their industrial/logistics space to A-class
 - ▶ automotive sector (on-site presence required of suppliers)
 - ▶ Excess demand for warehouse spaces had induced inflationary pressures, reducing Romania's competitive attractiveness, possibly reducing further FDI

Market failures: 2) access to finance

- ▶ Romania joined the EU on 1st of January 2007
- ▶ EIB contacted by WDP in 2009
- ▶ At that time:
 - ▶ The crisis significantly squeezed market liquidity and availability of funding
 - ▶ Long-term corporate borrowing opportunities restricted, particularly in the real estate sector, and for SMEs
 - ▶ EIB's contribution high in terms of availability of funds, financial value added and longer maturity.

Externalities:

- ▶ Signalling effects
 - ▶ EIB conditions require
 - ▶ Sound governance principles
 - ▶ Sound environmental standards
 - ▶ Environmental Impact Assessment, Zoning Permit, Valid Building Permit, etc prior to drawing EIB funds
 - -> Rolling-out of advanced environmental standards
 - -> Avoidance of reputational risk for EIB and thus, for all other financiers
 - ▶ All Warehouses BREEAM (Building Research Establishment Environmental Assessment Method Definition) or equivalent certified
 - ▶ Goal: outperformance of the local energy legislation requirements, assisting in the implementation of the EU Directive 2002/91/EC on the Energy Efficiency of Buildings
 - -> Trend setting for A-class warehouses
 - -> Ascertain attractiveness for top-market tenants to become long-term partners, securing long-term occupancy
 - ▶ Non-speculative assets, nor economic rent
 - ▶ Long-term ownership of the assets by the promoter
 - ▶ Pre-let (signed) of at least 70% of GLA prior to drawing EIB funds
 - ▶ Land costs are not eligible towards EIB
- ▶ Catalytic effect
 - ▶ EIB participation wishes to crowd-in other investors
 - ▶ Maximum 50% co-financing by the EIB
 - ▶ Detailed EIB due diligence aimed at avoidance of reputational and economic risk
 - ▶ Investment strategy
 - ▶ Economic, technical, and environmental soundness of investments ; Externalities
- ▶ Wider economic returns
 - ▶ Job creation + increased purchasing power + stimulus for educational institutions to adapt curricula to market needs + increased environmental standards + sound governance principles = wider economic returns for society over and above the financial returns to the promoter

Conclusion:

- ▶ Romania: “bumpy economic road”
- ▶ Decision to increase non-speculative capacity of Class-A warehouses was a sensible thing to do in the context of:
 - ▶ Addressing market failures
 - ▶ Assisting in achieving catch-up growth
 - ▶ Setting advanced environmental standards and trends for class-A warehouses