Spain: Supporting innovation – EIB provides EUR 100m under the InnovFin programme to finance public sector research in Galicia

- **The agreement will benefit almost 170 research groups working in public sector centres in Galicia**
- **Some of the EIB-financed research projects will focus on climate change-related domains**
- **Employment impact: the project will help attract research talent and safeguard almost 900 positions until 2023**

The European Investment Bank (EIB) is set to support public sector research in Galicia by providing EUR 100m to finance research, development and innovation (RDI) projects developed by public sector universities in the region. The agreement signed today by EIB Vice-President Emma Navarro and the Finance Minister of the Xunta de Galicia (Galician Government), Valeriano Martínez, will contribute to the implementation of the Smart Specialisation Strategy put in place by the Xunta de Galicia to drive innovation-based economic growth. It will also make it possible to develop patents and keep research talent in the region, helping to safeguard almost 900 highly qualified RDI jobs.

The EIB is providing these funds under the InnovFin Science programme, a

joint initiative of the EIB Group and the European Commission designed to support research and innovation in Europe, with the support of the EU's Horizon 2020 research and innovation programme. In concrete terms, the financing is being provided using the InnovFin instrument specifically designed for research organisations and universities – RIURO.

The funds will benefit an estimated 170 research groups connected to public sector universities in Galicia over four years until late 2023. These groups will conduct research focused on fields including biotechnology, information technology and health sciences. They will also contribute to climate change adaptation and mitigation in Galicia by studying the region's vulnerabilities with respect to this challenge and strategies to overcome it. The RDI activities will also promote the development of the Blue Economy, which focuses on sustainably unlocking the potential of seas and oceans.

During the signing ceremony in Santiago de Compostela, **EIB Vice-President Emma Navarro, who is responsible for the Bank's operations in Spain**, said: "*Fostering innovation is one of the EU bank's priorities, owing to its key role in generating wealth and employment. We are therefore pleased to be joining forces with the Xunta to support public sector research in Galicia. By signing today's agreement, we are contributing to the development of patents and lines of research in important areas such as biotechnology, health sciences, climate action and protection of the oceans, while helping to retain talent and safeguard highly qualified jobs in the region".*

Mariya Gabriel, European Commissioner for Innovation, Research, Culture, Education and Youth, said*: "We are supporting public sector research in Galicia with EU funding to create jobs for young researchers and help develop the region's smart specialisation strategy. Thanks to this, Galicia should have a competitive advantage in marine research and health sciences."*

The Finance Minister of the Xunta de Galicia, Valeriano Martínez, added: *"With this agreement the Government of Galicia is placing its money on strengthening our region's innovation capacity and climate action policy by cofinancing the RDI activities carried out by the universities of Santiago de Compostela and Vigo over the period 2020-2023. This operation demonstrates the Xunta de Galicia's commitment to supporting research and innovation as key elements of economic growth and quality job creation".*

This is the EIB's second operation with the Xunta designed to finance RDI in public sector universities in Galicia. The first, signed in 2013 and totalling EUR 70m, made it possible to stimulate patent production and job creation at the University of Santiago de Compostela.

Background information

About the InnovFin programme and the EIB Group

The EIB is among the world's largest multilateral providers of climate finance. Its goal is to be a leader in mobilising the finance needed to limit the average global temperature increase to 1.5°C compared to preindustrial levels in order to meet the Paris Agreement objectives. On 14 November 2019,

the EIB Board of Directors approved its new climate objectives and the new energy lending policy. The Bank will gradually increase its financing for climate and environmental objectives up to 50% by 2025, with the goal of ensuring that the EIB Group mobilises at least EUR 1tn in the critical decade between 2021 and 2030 to promote investments helping to meet these objectives. It also announced its intention to align all EIB Group activities with the Paris Agreement. To this end, the EIB will cease financing fossil fuel-based projects from late 2021.

InnovFin financial products: Under Horizon 2020, the EU research and innovation programme for 2014-2020, the European Commission and the EIB Group (EIB and EIF) launched a new generation of financial instruments and advisory services in 2014 to help innovative firms access finance more easily. The "InnovFin – EU Finance for Innovators" initiative offers a range of tailored products to provide financing to support research and innovation (R&I) by small, medium-sized and large companies and the promoters of research infrastructure.

Backed by funds set aside under Horizon 2020 and by the EIB Group, the "InnovFin – EU Finance for Innovators" initiative supports R&I activities, which by their nature are riskier and harder to assess than traditional investments, and therefore often face difficulties in accessing finance. All of this initiative's instruments are driven by existing demand, with no prior allocations between sectors, countries or regions. Firms and other entities located in EU Member States and Horizon 2020 Associated Countries are eligible to become final beneficiaries.

InnovFin – Science is the InnovFin component that aims to support the RDI investments of research institutes, universities and research organisations (both public and private sector), including the financing of buildings and other infrastructure directly linked to RDI activities. This product is offered directly by the EIB in the form of debt or equity-type operations from EUR 25m.

Article – In Parliament this week: Brexit, better pay for women, Holocaust remembrance

Ahead of the UK’s departure from the EU this Friday night, Parliament votes on the withdrawal agreement on Wednesday evening at 18.00 CET. For the agreement to enter into force, it must be approved by a simple majority of MEPs. In a recent resolution, Parliament warned that approval of the agreement depended on the UK government addressing concerns about citizens’ rights.

European Commission President Ursula von der Leyen presents the Commission’s 2020 work programme to MEPs on Thursday morning.

This week marks 75 years since the liberation of the Nazi concentration camp Auschwitz. Parliament holds a ceremony in memory of the millions of Holocaust victims on Wednesday afternoon.

In order to tackle the estimated 51,000 tonnes of electronic waste generated by old phone chargers each year, MEPs are set to call for the development of a common charger to fit all mobile phones, tablets, e-book readers and other portable devices. In addition to reducing electronic waste, the move should lower costs for consumers and improve safety and interoperability.

Although the “equal pay for equal work” principle was introduced in the Treaty of Rome in 1957, women in the EU still earn on average 16% less per hour than men. Parliament is continuing calls for more action to narrow the gap and votes on Thursday on the steps that must be taken to ensure equal pay for all.

MEPs are set to condemn India’s controversial citizenship law, which came into effect earlier this month. It excludes Muslims fleeing religious persecution from seeking Indian nationality while granting the right to refugees of other religions.

In preparation for the EU-Western Balkans summit in Zagreb in May, Parliament President David Sassoli and the speakers of the Croatian and Western Balkans' parliaments debate ongoing enlargement discussions on Tuesday.

Sustainble urban mobility must come first: so how do you get people out of their cars?

As operators and designers of public transport services, local and regional authorities and policy makers have the opportunity to shape and structure urban spaces. The best way to make the most positive impact on people's living conditions, and to influence their daily mobility choices, is to offer the very best options for movement.

During the joint conference, UITP and the **European Committee of the Regions** asked one of the most provocative questions in urban mobility:**How *do* you get people out of their cars?** But what practical solutions have proven to be successful for getting citizens on to public transport? Shared experiences and transferrable ideas were on offer when UITP and the ECoR joined forces to bring together more 160 international participants for **this topical Conference.**

Opened by **UITP Europe Senior Director Thomas Avanzata** and **Chair of the CoR COTER Commission Isabelle Boudineau**, the gathering brought sustainable urban mobility to the agenda.

In Europe, the road transport sector is responsible for over half of all NOx emissions and accounts for 72% of the 27% of the EU's total GHG emissions, which are attributable to transport. This is resulting in irreversible damage to our natural environment, with a detrimental impact on quality of life and the health of citizens in our towns and cities (air pollution, urban congestion, noise emissions, and more.)

"*Emissions from the transport sector continue to rise. The European Union cannot succeed in its Green Deal if regions and cities are not at the forefront of efforts to provide an efficient and clean public-transport service. They are the actors most capable of proposing innovative solutions that make it possible to stop using private cars*", said **Isabelle Boudineau**, Chair of the European Committee of the Regions Commission for Territorial Cohesion Policy and EU Budget (COTER).

The European Green Deal highlights the need for transport to become drastically less polluting in urban areas in particular, and emphasises the importance of a combination of measures aimed at reducing emissions,

mitigating urban congestion and improving public transport options. Therefore the need to move as many people as possible to shared modes is vital, said UITP President **Pere Calvet.**

*"At UITP, we're convinced that a shift from private cars to public transport and active modes, cycling and walking, is the best way to decarbonise people's daily mobility, so UITBP President **Calvet**.*

"*The Green Deal is a game changer, it's an opportunity. Its ambitious objectives in terms of climate neutrality and more generally in terms of sustainability will not be met if public transport and a modal shift to sustainable daily mobility are not given priority. A number one priority. It's the bus that takes kids to school, the tram that takes me to the office and the metro that takes you to the movies which makes a difference* ", said **Thomas Avanzata**, UITP Europe Senior Director.

The Conference began with a discussion on how cars have shaped our cities and why a modal split is needed as well as how Europeans travel and how can mobility choices can be influenced.

In the context of the new European Green Deal, which calls for a 90% reduction in transport emissions by 2050, **Sylvie Landrieve** and **Susan Grant-Muller** of Forum vies mobiles and the University of Leeds presented their examples and implementations for improving mobility in cities: Behavioural change, incentivisation and understanding the different measures required for various locations should always be considered.

The Conference also featured two Urban Mobility Toolbox sessions.

Part one presented a range of best practices and experiences with several aspects of urban mobility, in particular aspects of seamless travel, urban access regulations and offer and demand management. BKK Budapest, RATP, Arriva and the Land Transport Authority, Singapore participated in the discussion on discouraging the use of cars and answering urban mobility needs.

The **second urban mobility toolbox** session focused on the practical experiences in relation to fare policy and multimodality, including pedestrianised areas, as well as access restrictions and zero emission zones. Participating in the discussion were SSB, Stuttgart, Wiener Linien, Vienna, the City of Balbao and Krakow Public Transport Authority.

In the **final part** of the Conference a panel of experts discussed on how to achieve a greener, carbon-free urban transport system in Europe and deliver the urban mobility of tomorrow.

Sir Albert Bore, Birmingham City Councillor and CoR member,**Clara De La Torre**, Deputy-Director General, DG CLIMA, **Anna Deparnay-Grunenberg** MEP, Member of the Committee on Transport and Tourism, **Miguel Gaspar**, Deputy Mayor for Mobility & Safety, City of Lisbon and **Elke Van den Brandt**, Minister of the Government of Brussels Capital Region responsible for Mobility, Public Works and Road Safety, brought their experience and ideas on how to find the right

balance between the urgent need for a long-term paradigm shift and today's short-term mobility need.

Matthew Baldwin , Deputy-Director General of DG MOVE at the European Commission, concluded the Conference by saying: "*To my reading, public transport will become the cornerstone of the new MFF 2021-2027*".

What has been made clear from the joint UITP and European Committee of the Regions Conference is this: There is life without the car. There's also a demand for further EU support in sustainable urban mobility and the modernisation of public transport in Europe's metropolitan areas.

Through examples, incentivisation and investment a modal shift can be made to encourage more people to leave the car at home and use the many mobility options available in our cities.

UITP also held **a joint Conference with the European Committee of the Regions and UNIFE** last September to advocate for urban rail investment.

Information session on the main CoR events and communication activities of 2020

In order to kick-start the year 2020, we would like to take the opportunity to invite you to an **Information session on the main CoR events and communication activities of 2020**. The meeting will take place on **3 February 2020 at 14:30-16:30 in JDE 52, European Committee of the Regions** (Rue Belliard 101, 1040 Brussels).

As you know, the new mandate 2020-2025 of the European Committee of the Regions will be installed in less than one month. At the meeting, we will **present and discuss our main events and communication activities** in the upcoming months, focusing on the **European Committee of the Regions´ main events of 2020, communication campaigns and press and social media actions**.

Prior registration is mandatory, **please register by 12:00 pm on 29 January at the latest**, via this link.

Link to web streaming.

We are looking forward to meeting you all soon!

Yves Mersch: Asset price inflation and monetary policy

Keynote speech by Yves Mersch, Member of the Executive Board of the ECB and Vice-Chair of the Supervisory Board of the ECB, at the celebration of INVESTAS' 60th anniversary

Luxembourg, 27 January 2020

Introduction

The outlook for euro area economic activity and inflation at present warrants the highly accommodative monetary policy implemented by the ECB through our package of policy measures. Nonetheless, the Governing Council remains attentive to the potential side effects of those measures. Monitoring and analysing those side effects is part and parcel of the Governing Council's ongoing monetary policy assessment and our recently announced strategy review.

Indeed, the prolonged period of substantial accommodation and the unconventional nature of our measures call for vigilance on the efficacy of the policy measures and might affect the strategic calibration and the appropriateness of the monetary policy stance. This vigilance is particularly warranted in the light of some signs that monetary policy is encouraging increased risk-taking and contributing to elevated asset price inflation and

income inequality.

To my mind, this raises two concerns for the long-run efficacy of our measures, which I wish to discuss today.

The first is the contribution of stretched asset prices to vulnerabilities in the financial system, which may in turn trigger future crises. The second is the part they may play in creating a disparity between public perceptions of inflation and official measures. That disparity can undermine public support for our unconventional measures and eventually erode trust in the ECB.

Risk-taking and asset prices

There is substantial evidence that monetary accommodation incentivises financial firms to increase risk-taking behaviour. With looser policy, banks lend more to riskier firms,[1] a tendency that is even more pronounced among banks with a high share of retail deposits in periods of negative rates.[2] Lower interest rates also lead to higher leverage for investment banks.[3]

Greater risk-taking extends beyond the traditional banking system. When non-bank financial institutions (for example pension funds and insurance companies) target a certain nominal rate of return, an environment of lower overall returns means they have to “search for yield” – in other words, acquire riskier assets to maintain nominal returns.[4] We are already seeing some signs of increased risk-taking by non-banks such as pension and mutual funds.[5]

This increased risk-taking channel is in part an intended aim of monetary policy. Greater lending by financial institutions supports consumption and investment, generating activity and inflationary pressures within the economy. The question is whether the increased risk-taking is *excessive* or not. At the moment, banking supervision is committed to de-risking of the banking system after the global financial crisis. And these unusual times call for heightened vigilance regarding the financial stability consequences of our monetary policy actions.

We have recently seen a marked increase in certain asset prices, which in some cases are at historically very elevated levels. For example, US equities are trading at unprecedented price-to-earnings ratios. Residential real estate prices in the euro area are also at historical highs relative to rents, notably in large cities.[6] Residential property prices in the seven largest German cities have doubled since 2010, compared with a nationwide change of around 60%.[7] In September 2019, the European Systemic Risk Board issued warnings to five countries including Luxembourg that medium-term vulnerabilities had been identified in residential real estate markets. It also issued stronger recommendations for remedial action to a further six countries.

To an extent, those elevated asset prices are a function of the long-running downward trend in interest rates experienced by advanced economies over the past three decades.[8] That trend can be explained by a range of potential

factors, including an ageing population, income distribution,[9] rising saving in emerging markets[10] and a general rise in risk aversion.[11]

But concerns remain that the increase in asset and housing prices is excessive and results from the exceptionally long period of extremely accommodative monetary policy. As several economists have noted, monetary policy is a key determinant of the financial system's ability to create money.[12] In their view, money creation, credit creation and asset price determination are tightly interdependent.

Elevated asset prices relative to fundamentals increase the risk of a future correction in housing or equity markets. Such a correction would affect banks directly by reducing the value of collateral backing loans and indirectly by affecting confidence, leading to weaker overall economic activity. There is, therefore, no clean separation between the pursuit of monetary stability and that of financial stability in the medium term.

The limits of macroprudential policy

The risks to asset prices from loose monetary policy have brought macroprudential policies into sharper focus. These policies are exercised at the national level by the relevant competent authority where central banks are supposed to play a leading role. The idea here is that macroprudential policies can offset the build-up of risk, leading to an overall optimal policy mix. Certainly, macroprudential policies can be effective in restraining increases in residential property prices, but they are no panacea.

Lending by foreign-based banks dilutes the effectiveness of capital-based measures.[13] Moreover, our current tools are bank-based and therefore exercise little control over the growing role of the non-bank financial sector in lending to households. For example, in the Netherlands around a third of mortgage lending to households is now provided by pension funds, insurers and mortgage funds.[14]

Given these factors, it is worth considering whether the current suite of macroprudential tools remains appropriate. Capital measures, while effective at increasing bank resilience, are much less successful at leaning against excessive housing price inflation, in part due to the factors I just mentioned. Loan-to-value (LTV) and loan-to-income (LTI) constraints may be more effective since they act directly on borrowers and are more difficult to circumvent. Indeed, these measures have proven effective in reducing housing price inflation.[15]

LTV limits increase the resilience of the household sector, reducing the risk of households finding themselves with negative equity if housing prices fall. LTI limits reduce the likelihood that some households will be forced to reduce non-housing expenditure if interest rates increase. This in turn helps mitigate the potential contagion from falling house prices to a more general economic downturn.

Yet LTV and LTI limits are themselves not without difficulties.

The sharp increases in house prices and rents witnessed in recent years have made it expensive to obtain housing. Insufficient housebuilding, owing to capacity constraints in the construction sector and regulatory restrictions, has exacerbated the shortage of housing. And the burden is felt most acutely by the poorest in society, who spend a larger share of their income on housing costs than richer households.

While LTV and LTI limits are relatively effective in slowing housing booms, they work by crowding out marginal borrowers, who are precisely those most affected by the housing shortage. LTV limits crowd out those without a large enough deposit, usually young and/or poor households, while LTI limits exclude low-income households.

This distributional impact of LTV and LTI limits can render their use politically controversial, and may lead to inaction bias, limiting the effective use of policy measures to counter housing price inflation. Dealing with distributional issues lies beyond the remit of central banks and prudential authorities, but we must remain mindful of such consequences arising from our actions.

Furthermore, there remains a need to clarify the range of available macroprudential tools and to calibrate the balance between rules and discretion. Greater clarity is required on governance arrangements, both nationally and internationally, as well as on the potential interaction with other policy areas. These are areas I have discussed on previous occasions.[16]

A role for monetary policy in supporting financial stability

So there are good reasons to believe that macroprudential policy in the euro area is currently constrained in its effectiveness. Jeremy Stein has argued that when macroprudential policy creates leakages to foreign banks or the shadow banking sector, monetary policy should be used for financial stability purposes because “it gets in all the cracks”.[17] That would mean using monetary policy at the European level to mitigate the build-up of risks in the financial sector.

Using monetary policy for these purposes – often termed “leaning against the wind” – brings benefits in terms of reducing the likelihood and severity of financial crises, but comes at the price of below-target inflation during booms.[18] That is a trade-off that needs to be balanced carefully, taking into account the risks on both sides.[19]

At the ECB, such considerations are incorporated into our monetary policy strategy via our two-pillar approach, which explicitly includes a role for monetary developments in our policy assessment. Strong bank credit growth will be reflected in faster-growing monetary aggregates, which would warrant monetary policy tightening in response.

House prices and trust in monetary policy

The risks arising from strong housing price inflation extend beyond financial stability.

At present, owner-occupied housing costs are not included in the Harmonised Index of Consumer Prices (HICP) that is used to formulate our inflation aim of below, but close to, 2% over the medium term. There are a number of technical explanations for this exclusion, but it is clear that households view the cost of housing as an important part of their lifetime expenditure. Rents represent around 6.5% of the basket used for measuring inflation. For many, rents alone or mortgage payments easily exceed a third of their take-home pay.

So there may be a significant gap between what households perceive to be the increase in their cost of living and what is measured by the HICP. Research shows that perceptions play an important role in determining economic behaviour.[20]

Incorporating owner-occupied housing in the reference rate of inflation for monetary policy would provide a clearer signal for monetary policy to lean against housing price booms. Indeed, the United States, Japan, Sweden and Norway already integrate owner-occupied housing into their reference inflation indices. If it were to be included in the HICP, it could raise measured inflation rates in the euro area by around 0.2 to 0.5 percentage points in some periods.[21] Taking that into consideration, core inflation would lift from its current 1.3% to its long-run trend, or even higher, thereby having a bearing on the monetary policy stance.

The gap between perceptions and official measures of inflation can complicate the communication of policy decisions. If households believe that inflation is rampant then they will see little justification for unconventional measures, in particular negative interest rates.

Trust in the ECB fell markedly following the onset of the crisis. According to the Eurobarometer poll, net trust averaged around 25 percentage points in the years before the crisis, but fell to a low of -23 in spring 2014.[22] This fall was in line with that experienced by other EU institutions such as the Commission and the Parliament. But while net trust in the ECB has recovered somewhat, and now stands at -2 percentage points, trust in those other institutions has recovered more rapidly. Whereas levels of net trust in the ECB and the Commission were historically similar, net trust in the Commission now stands 10 percentage points higher.

Even more noteworthy is the now quite marked divergence between support for the euro and trust in the ECB. Prior to the crisis, net support for the euro and net trust in the ECB generally moved in line with one another, with the currency enjoying a level of support around 20 percentage points higher. Support for the single currency weathered the crisis fairly well, and now stands at its highest ever level. But the gap between the two measures now stands at 60 percentage points, and has persisted ever since the introduction

of unconventional measures, although other country-specific factors might also have played a role.

This reduced trust can influence expectations and blunt the effectiveness of policy.[23] Indeed, the low-for-long policy seems to have had little impact on the aggregate saving rate, although the increase in consumption since the beginning of 2019 has lagged behind real income growth. The so-called reversal rate may kick in at different points across sectors, with households more sensitive to the imposition – or even the fear of the imposition – of negative rates and more likely than market participants to behave in a fashion that counteracts the intended aim of the policy. The difference in savings cultures across European countries also plays a role.

A prolonged loss of trust in the ECB risks undermining the broad public support that is necessary for central bank independence. This is of particular concern when the range of non-conventional measures brings monetary policy closer to the realm of fiscal policy and the institutional effects of these policies are becoming more pronounced. It is vital, then, that our policy assessment incorporates insights from behavioural economics and political economy, rather than relying solely on linear models of the aggregate economy.

Conclusion

Let me conclude.

Asset prices are currently at very elevated levels. In part this is a consequence of long-running fundamental trends in interest rates. Yet there is substantial empirical evidence that monetary policy encourages risk-taking in the financial system, and the risks of an asset price correction are increasing.

Dealing with such risks solely through macroprudential policy is challenging. The effectiveness of macroprudential policies is curtailed by the presence of foreign banks and non-bank financial firms lending to households. Moreover, borrower-based measures can exacerbate the impact on inequality arising from housing shortages and housing price appreciation.

In such a situation, it is preferable for monetary policy to incorporate financial stability concerns into its policy deliberations. This is something that has long been recognised in our two-pillar strategy, which we would be well advised to maintain if not enhance.