

Lost in Translation: EFSI in Eastern Europe



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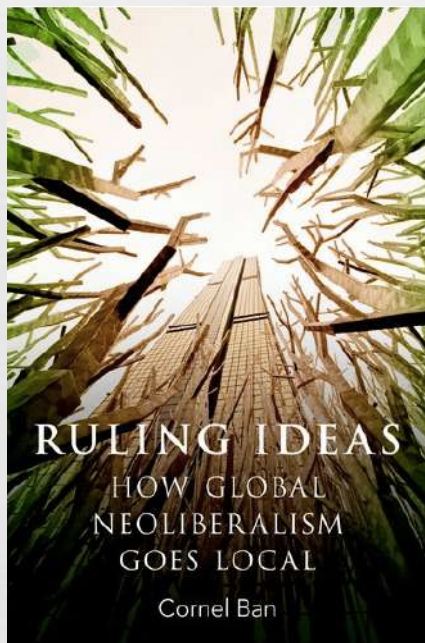
Boston University

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Ancien regime?



The neoliberal Vulgate



Peripheral Europe is a developing country



Original Article

Banking on Bonds: The New Links Between States and Markets[†]

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Abstract

This article examines a neglected structural transformation in European finance: the growing importance of government debt as collateral for Europe's repo markets, where banks borrow cash against collateral. Seduced by the promises of repo market-driven financial integration, the EU institutions and Member States encouraged private finance to generate its own architecture for the European repo market in the early years of the euro, sidelining known problems about systemic fragilities. These fragilities materialized after Lehman Brothers' collapse and were exacerbated by the ECB's collateral policies. The European sovereign debt crisis shows that governments, just like private asset issuers, can

The emerging future



- ❧ Lenders of last resort: Draghi's ECB+ European Stability Mechanism.
- ❧ EFSI: Countercyclical ("Keynesian") fund, as a counterpoint to the "neoliberal" ESM.
- ❧ EFSI: "Hirschmanian" common good/patient financier/investment state pillar (Mertens and Thiemann 2017)
- ❧ EFSI is a unique opportunity to bridge the East-West divide.

Main points



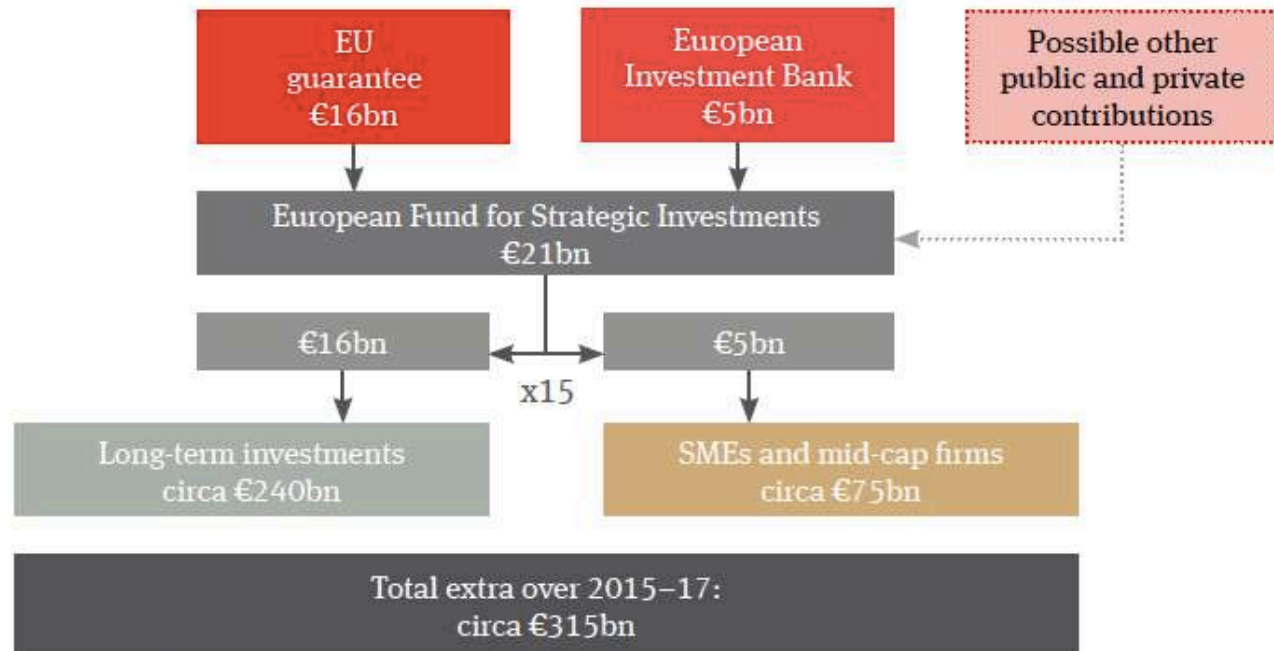
- ❧ EFSI is a new facet of supranational capacity for disciplining with carrots
- ❧ Problematic reliance in domestic demand and capacity.
- ❧ Weak supranational capacity to manage developmental problems.
- ❧ Market-based developmentalism needs rethinking.

EPIR: European Public Investment Regime



- ❧ A. Hirschman and I. Hardie
- ❧ Assembly of funds, economic governance mechanisms and rules geared to provide patient developmental funding and countercyclical liquidity.
- ❧ Between a network of development banks and a lender of last resort.
- ❧ DBs/SWFs+organized business+developmental mindset

Funding structure



Of which
EUR 23.7bn
 signed

EIB Group figures

As 04/04/2017

Approved EFSI financing*

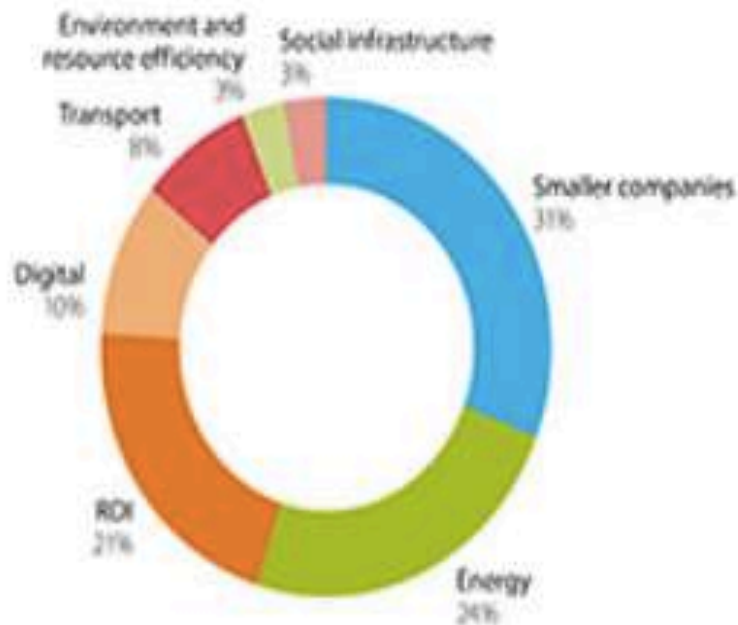
Total investment related to EFSI approvals

EUR 33.9bn

EUR 183.5bn

* EIB approved EUR 25.1bn
 EF approved EUR 8.8bn

EFSI investment by sector**



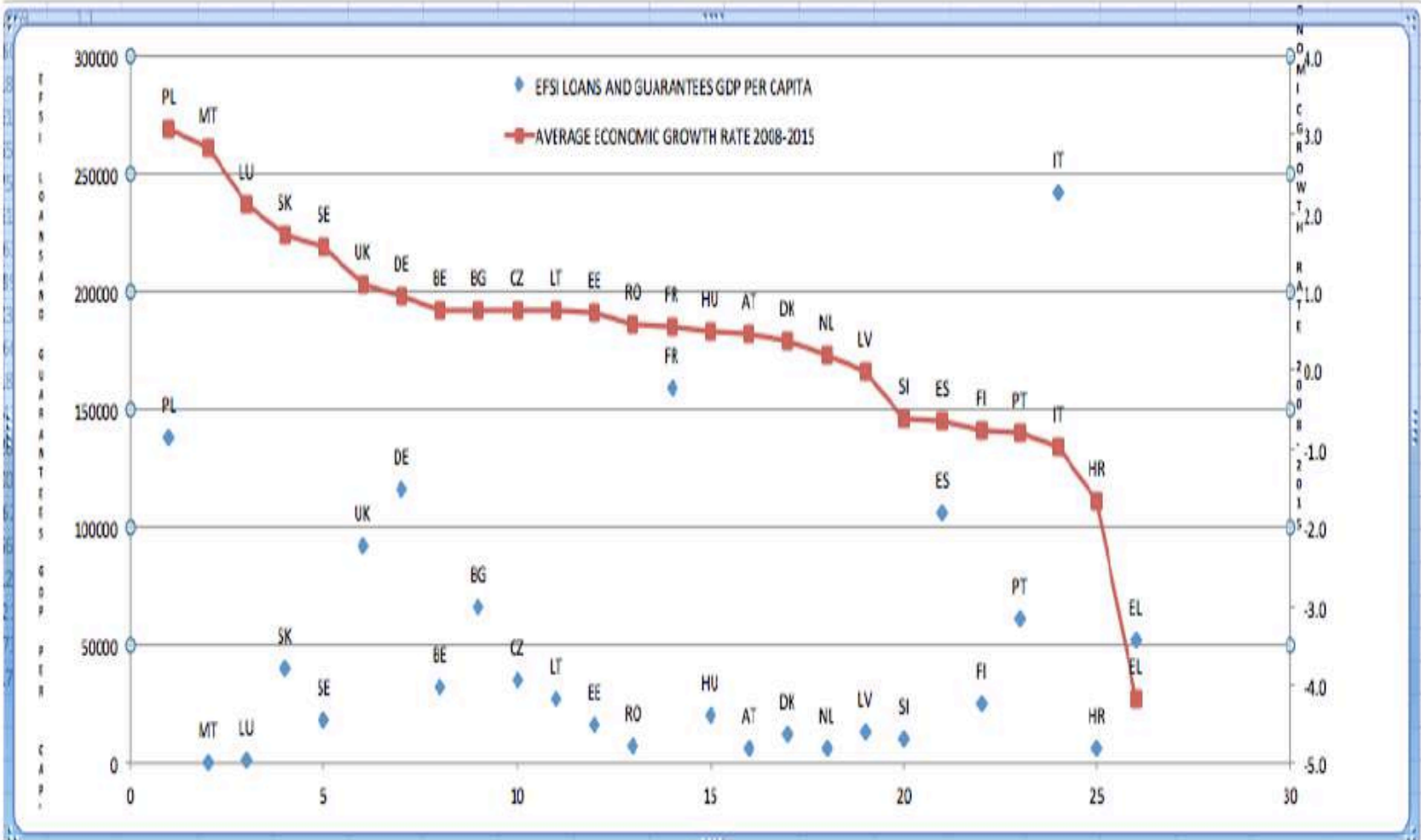
EFSI investment relative to GDP**

Darkier colours signify higher investment



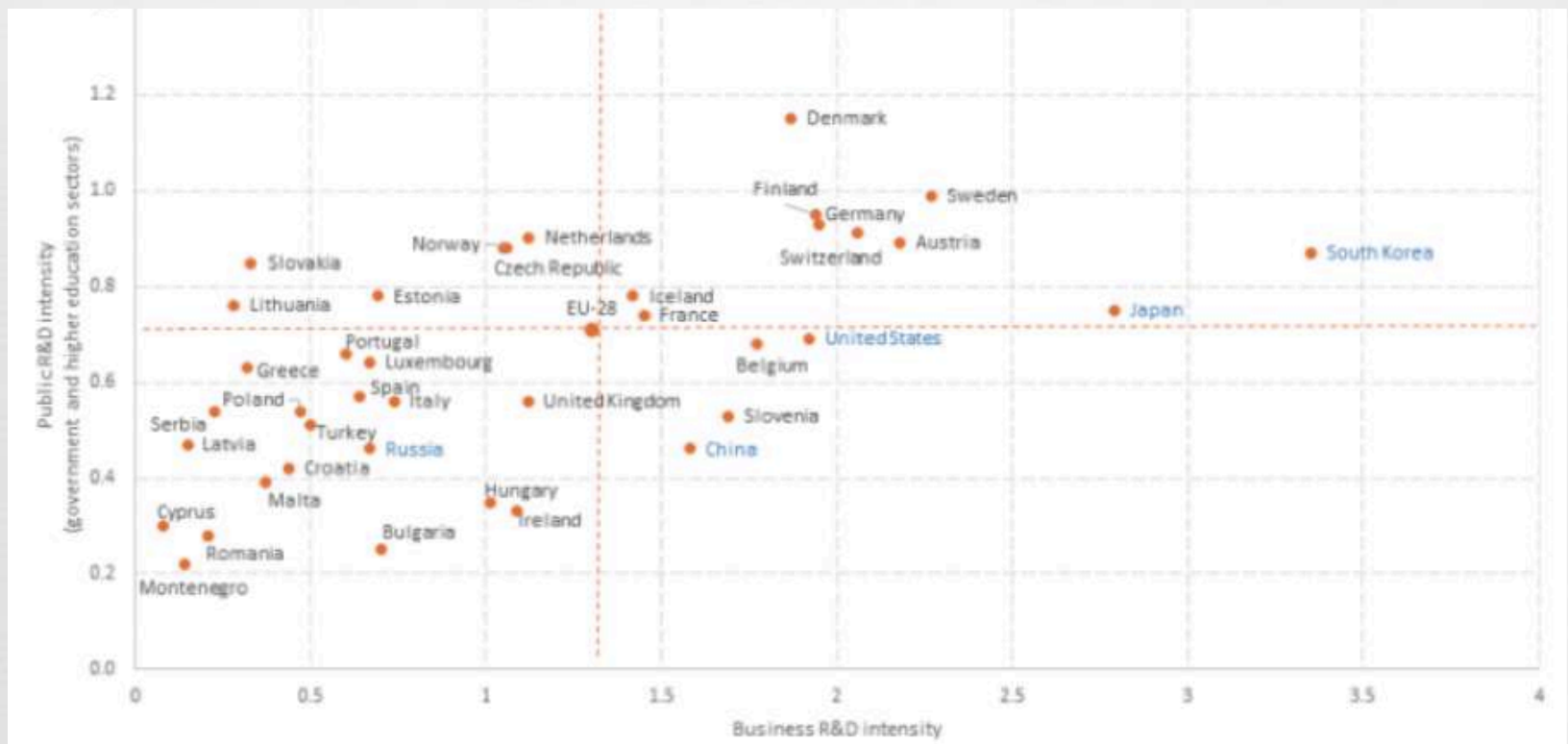
**based on approved operations

Figure 2: EFSI loans and guarantees (adjusted by per capita GDP)



Source: Eurostat, EFSI and author's calculations

A dismal landscape



East Europe's deadweights



- ❧ Neoliberal distrust of the banker state: PL, HR, BG, SE v. Baltics, RO
- ❧ Negative spillovers from dependent financial sectors: weak EU funds intermediation history.
- ❧ Weak bureaucratic capacity to convert Eximbank/savings bank structures into national development banks.

ABILITY: Weak EPIR capacity building



- ❧ Assumes private sector capacity to request and intermediate EFSI funds (banks, employer organizations, firms).
- ❧ The EFSI has detailed guidelines on how to avoid geographical and sectoral concentration, but nothing stands in the way of structurally well-positioned (and lower risk) applicants from wealthier Member States to lodge successful applications.
- ❧ KfW-centered LTIC does more than EIB/EFSI/EC

IDEAS: Weak EPIR developmental mindset



- ❧ PIRs requires neo-structuralist economics (Thereborn 2016)
- ❧ The intellectual hegemony of rule-based level playing field in state aid frameworks.
- ❧ The informality of developmental finance in large member states: Is *Modelldeutschland* possible without KfW?
- ❧ Emulating hypocrisy?