



**European
Investment
Bank**

The EU bank

Investment and Investment Finance in Europe

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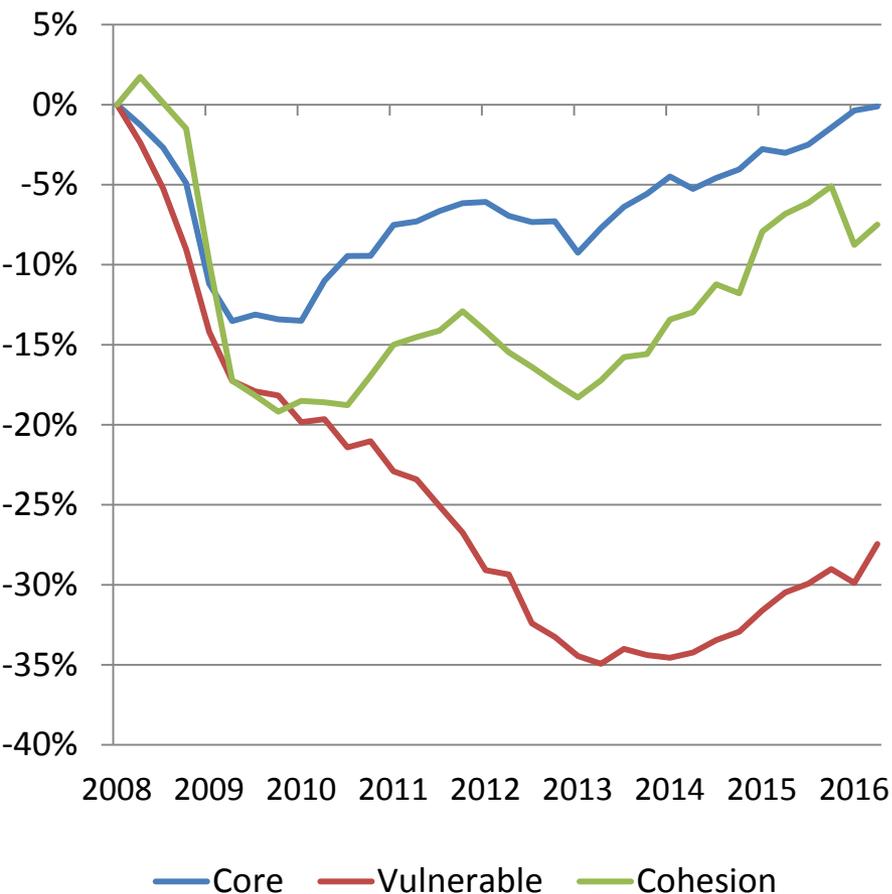
Financing Productivity Growth in Europe

17 November 2016

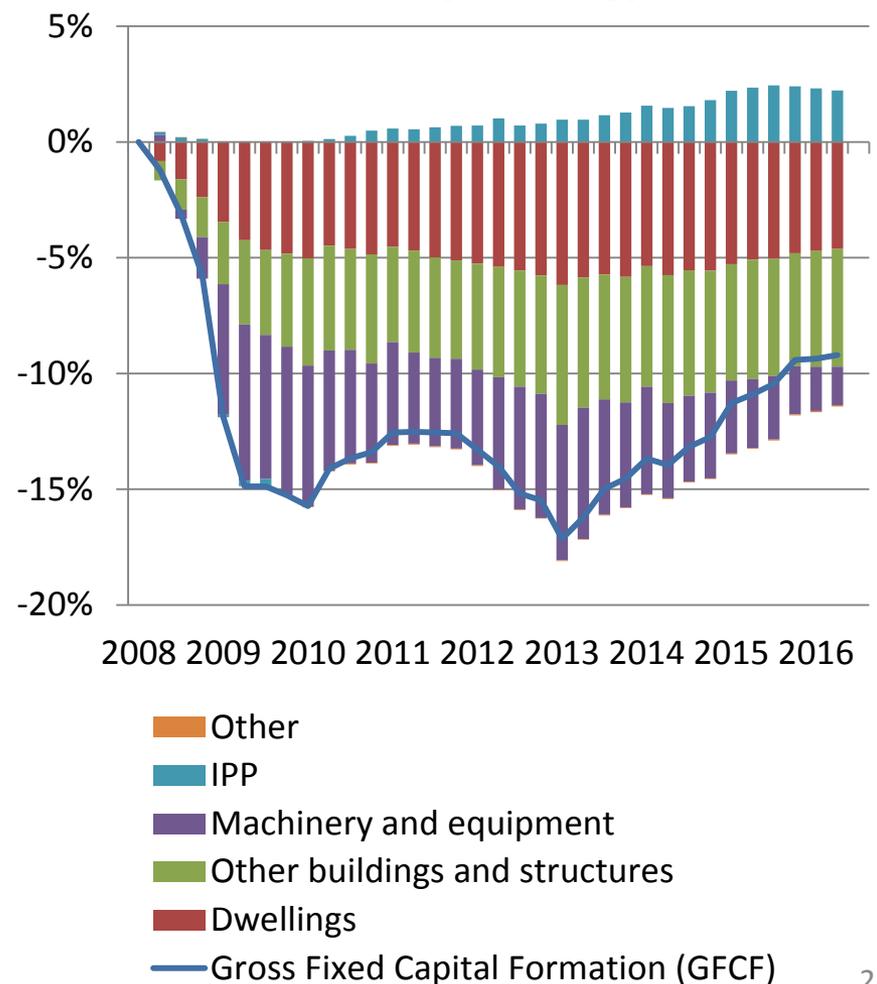
EIB Annual Economic Conference - SUERF

Slow recovery of investment, with strong heterogeneity

EU investment by country group, % change relative to Q1 2008

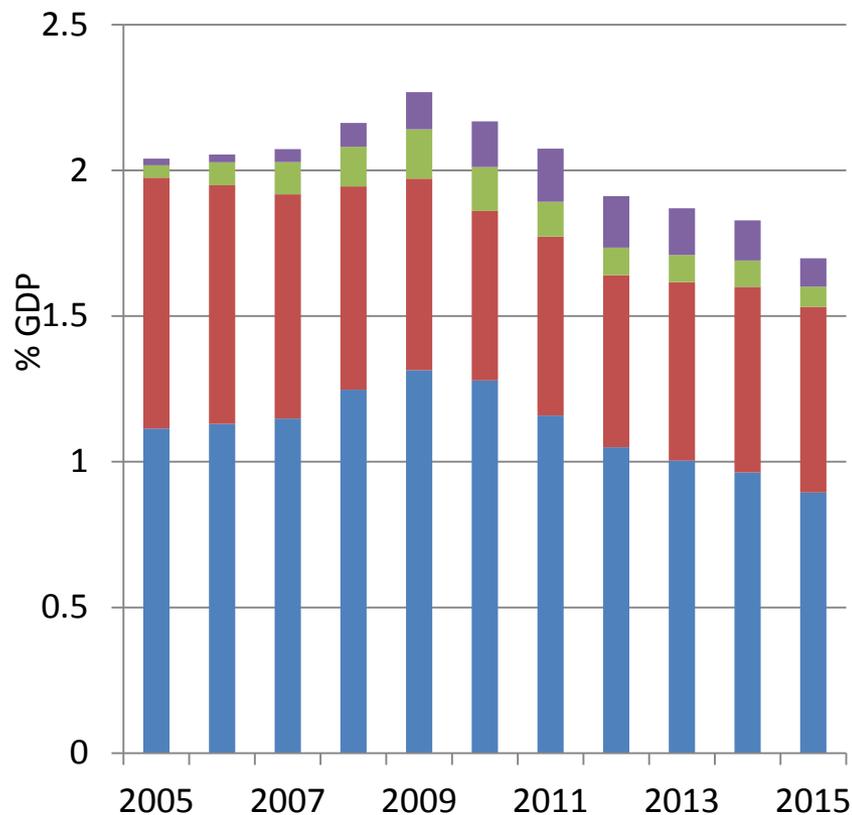


Total rate of change of investment since Q1 2008, contribution by asset type



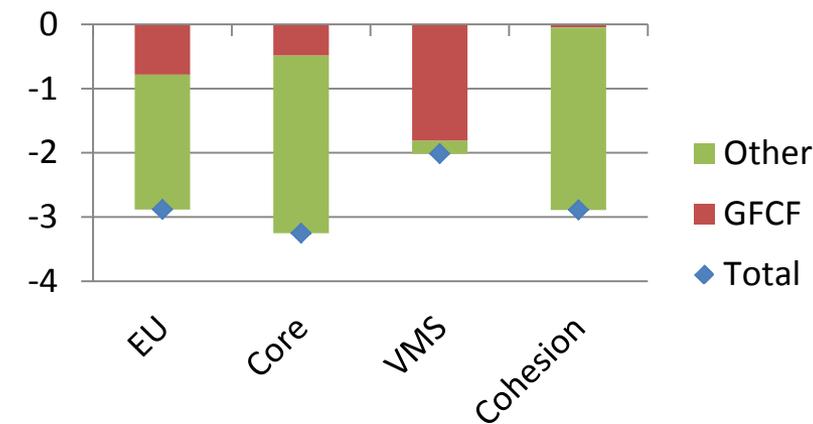
Government infrastructure investment impacted by the fiscal stance

EU infrastructure investment, % GDP

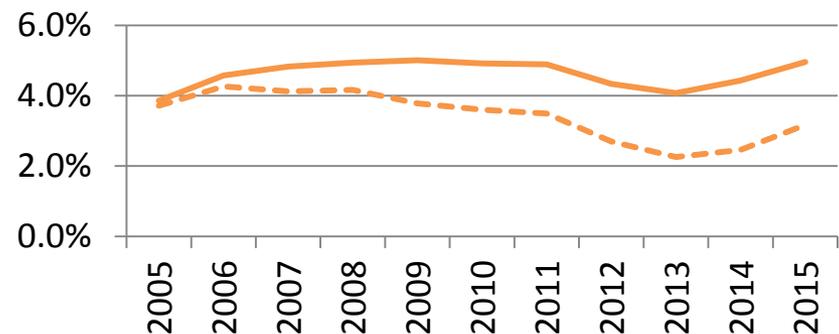


■ Project finance - non PPP ■ PPP
■ Corporate ■ Government

Contribution to change in government expenditure 2009-15, % GDP



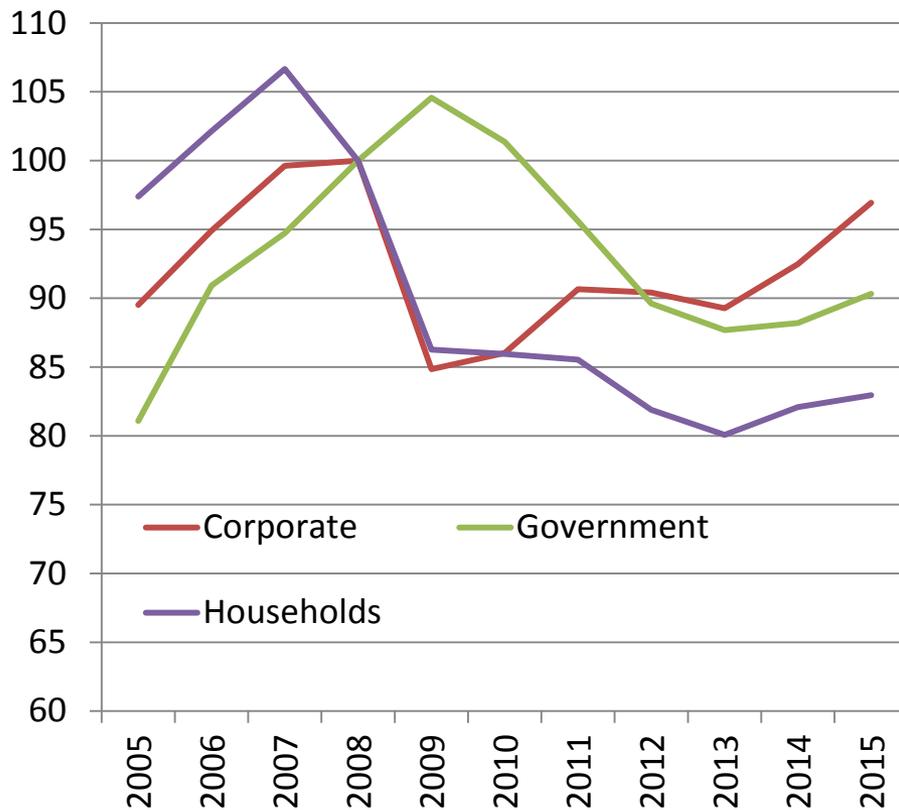
Public investment rate in Cohesion, % GDP



- - - Public investment (without ESIF payments)
— Public investment

Corporate investment the driver of the (slow) recovery

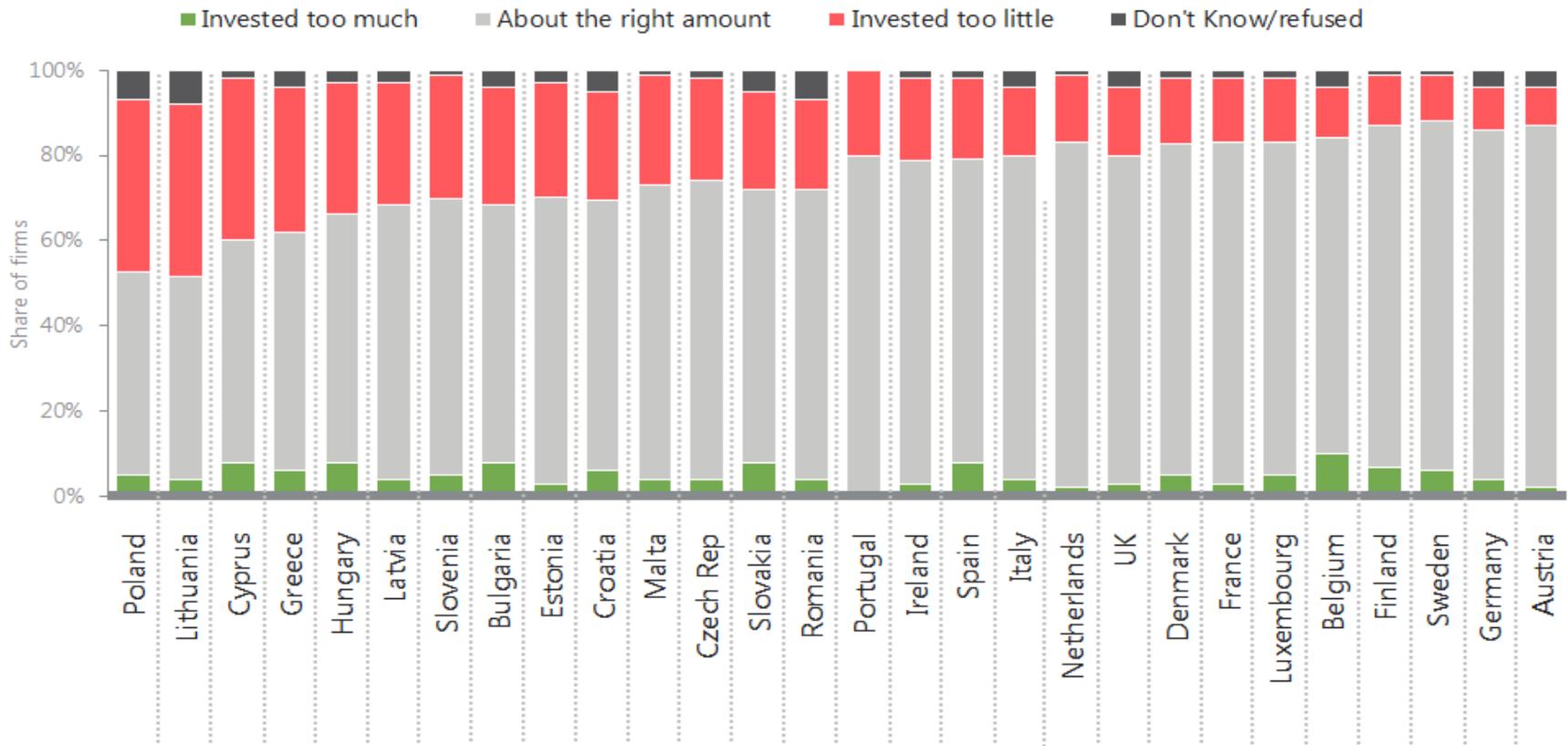
Real GFCF by institutional sector , 2008=100



- EIB survey – 12,000 firms in Europe, summer 2016
- Intra-country heterogeneity: 71% of small firms invested in the last year, 88% of the large ones
- Country heterogeneity: overall business outlook prevails

Corporate sector reports Investment Gaps...

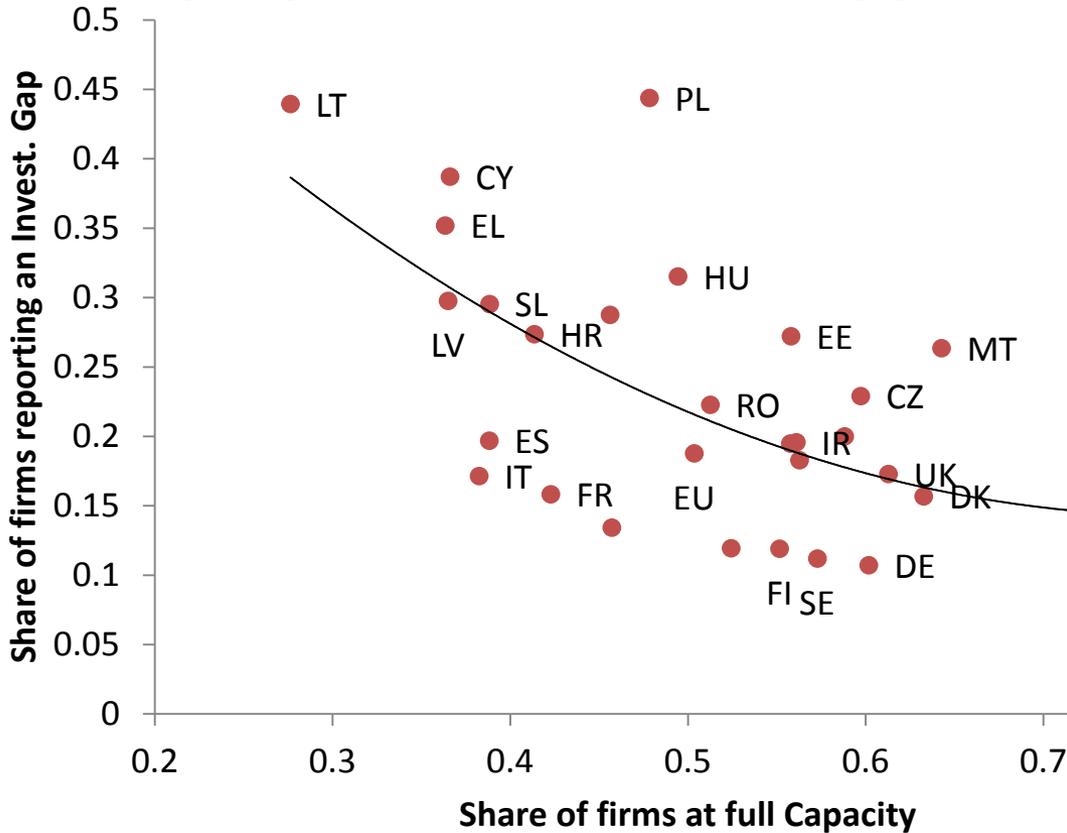
Perceived investment gap by country



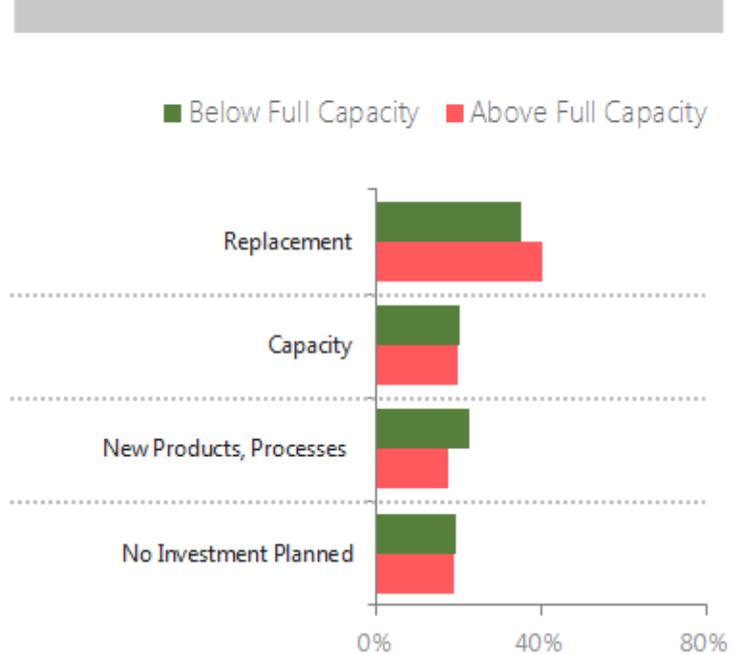
Base: All firms (excluding 'Company didn't exist three years ago' responses)
 Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount to ensure the success of your business going forward?

...mostly related to the quality of capital stock rather than quantity

Capacity utilization and investment gap



Future investment priorities

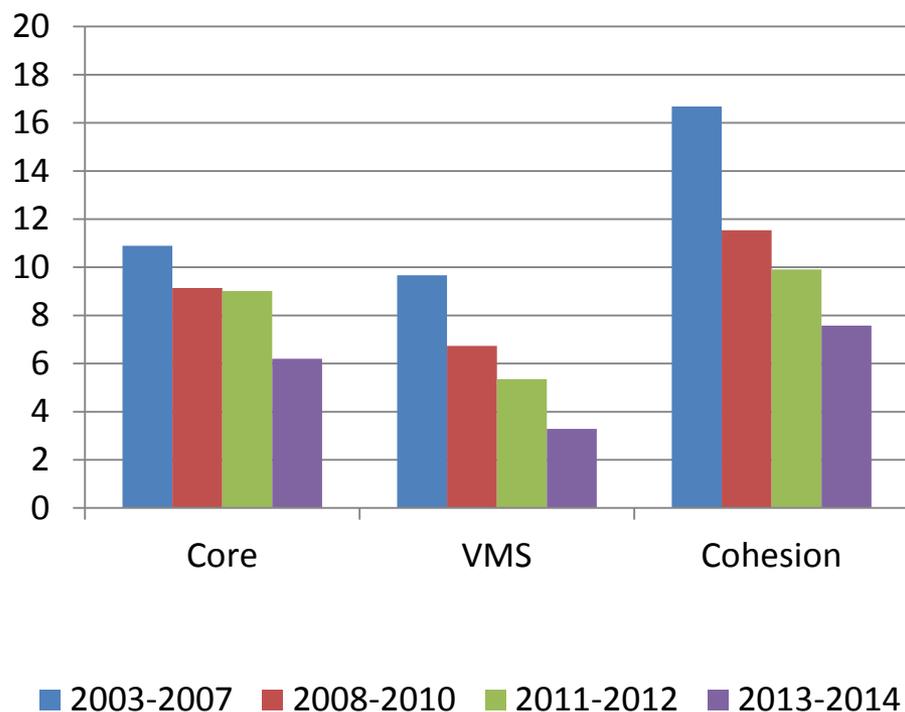


Base: All firms (excluding those who have no investment planned/don't know/refused responses)

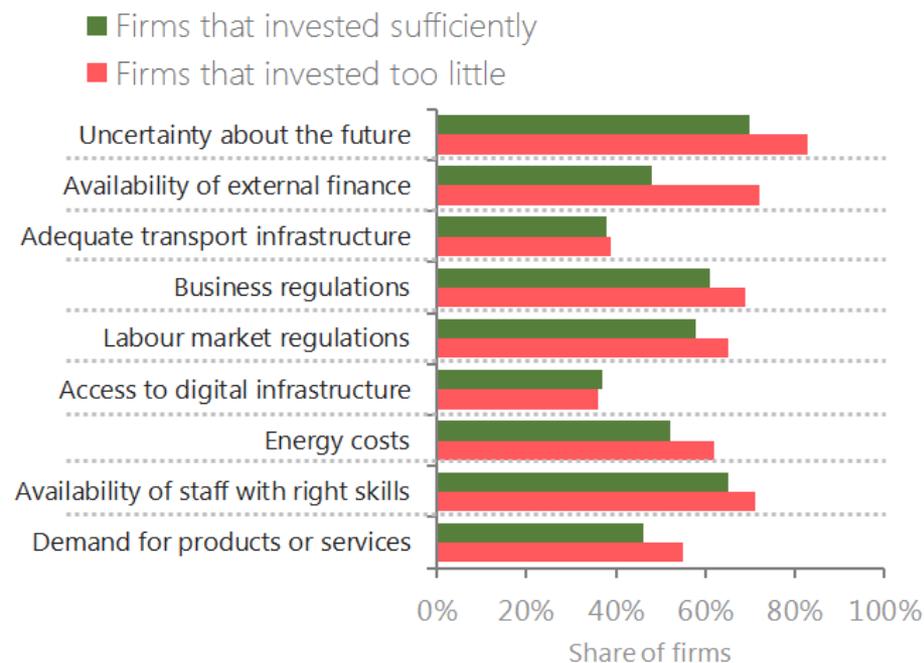
Q. Looking ahead to the next 3 years, which of the following is your investment priority (a) replacing existing buildings, machinery, equipment, IT (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

Investment returns are low and barriers persist

Nominal internal rates of return on assets



Long term barriers by investment performance

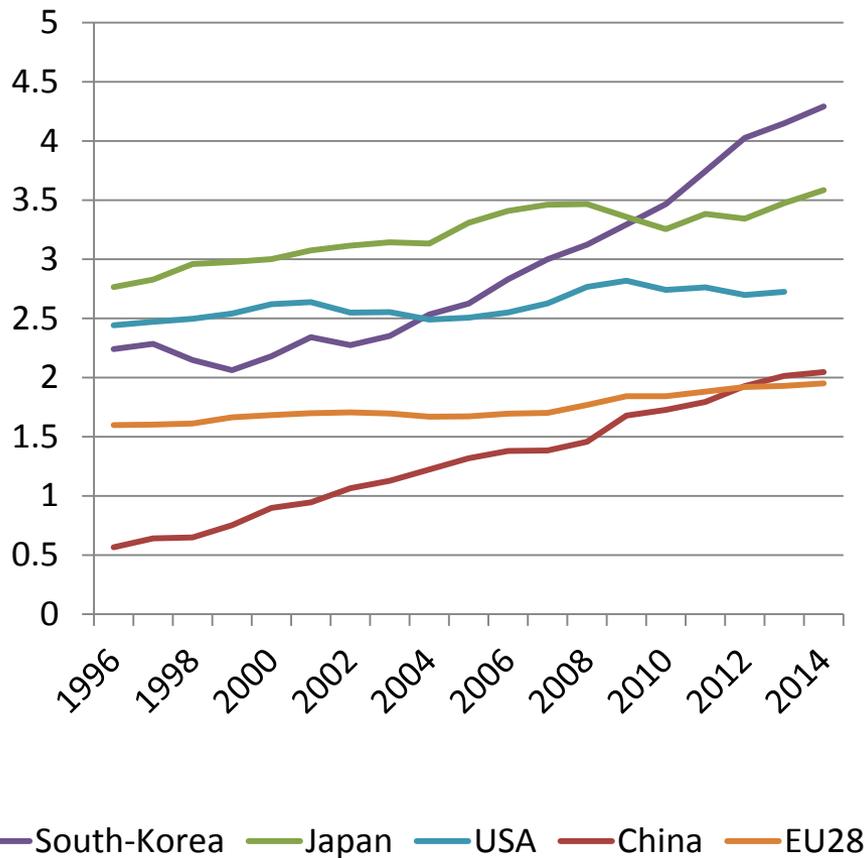


Base: EU average of all firms (data shown for firms who said each was a major or minor obstacle)

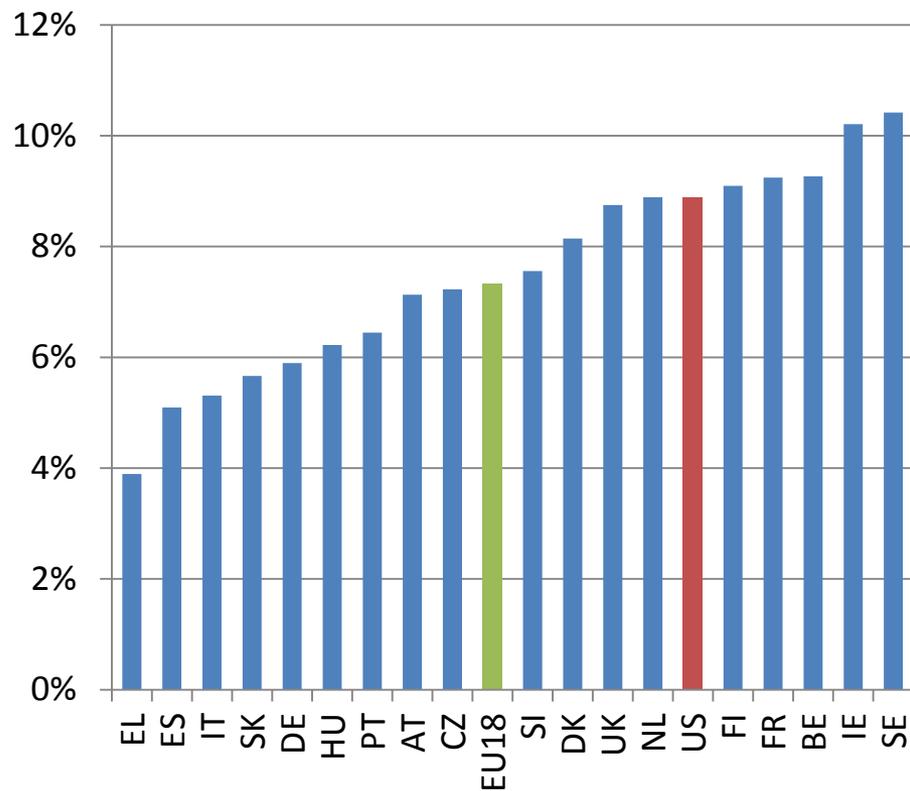
Q. Thinking about your investment activities in #country#, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

Intangible investment positively contributing, but with a gap vs peers

R&D as % of GDP, EU and major economies



Investment in intangibles (INTAN definition) as % of GDP, 2010-2013





Financial conditions improved

- Structural measures and extra-ordinary monetary policy behind “normalization” in financial market conditions
 - Bank financing improving but structural issues remain
 - Corporate improved financial stance and banks (IT, PT, SP) are now more focused on financial ratios
 - ECB impacting government bonds and corporate bonds
 - Intra-EU capital flows substantially reduced
- Firm holding of cash continues, as well as deleveraging
- Those firms financing with equity, retained earnings and trade credit have been investing and growing more (pre and post crisis)
- During the crisis, relevant forgone opportunities:
 - Firms in sectors with more growth opportunities foregoing more
 - Financial frictions affecting efficient allocation of resources and growth

Policy messages

- Very different causes and very different policy answers
- Financial sector:
 - Further efforts to restructure the banking sector and create a full banking union
 - Focus on diversification of financial sources
 - New options for more equity financing – i.e. level playing field equity vs debt
- Public Sector:
 - Potential growth and TFP – Structural reforms to boost returns on investment
 - A case for stronger and better defined “industrial policies”?
 - Quality of spending
 - Institutional capacity
 - National, regional, municipal coordination
 - Catalytic instruments



Policy messages

- Public support to investment:
 - Focus on productive investment (with impact on TFP)
 - Quality infrastructure, supporting market integration
 - Innovation
 - Access to Finance
 - Climate
 - Cross-European instruments to facilitate efficient re-allocation of excessive domestic savings, even intra-EU
 - Equity, other than debt: level playing field for private equity, lower barriers for firms to listing and issuing in capital markets
 - Advisory and technical assistance