Investment and Investment Finance in Europe

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Financing Productivity Growth in Europe
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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

Source: EIB, based on National Accounts, Eurostat
Government infrastructure investment impacted by the fiscal stance

EU infrastructure investment, % GDP

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

Public investment rate in Cohesion, % GDP

Source: EIB, based on National Accounts, Eurostat and AMECO
Corporate investment the driver of the (slow) recovery

- 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

Source: EIB, based on National Accounts, Eurostat. Data in the text preliminary results of the EIB Investment survey for 28 EU member states, data weighted by numbers of firms
Corporate sector reports Investment Gaps…

Perceived investment gap by country

- Invested too much
- About the right amount
- Invested too little
- Don't Know/refused

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?

Source: Preliminary results of the EIB Investment survey for 28 EU member states, data weighted by numbers of firms
...mostly related to the quality of capital stock rather than quantity

Source: Preliminary results of the EIB Investment survey for 28 EU member states, data weighted by numbers of firms
Investment returns are low and barriers persist.

Nominal internal rates of return on assets:


Long term barriers by investment performance:

- Uncertainty about the future
- Availability of external finance
- Adequate transport infrastructure
- Business regulations
- Labour market regulations
- Access to digital infrastructure
- Energy costs
- Availability of staff with right skills
- Demand for products or services

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 your country, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

Source: EIB calculation of nominal rates of return, based on firm level data from ORBIS. Barriers to investment as from preliminary results of the EIB Investment survey for 28 EU member states, data weighted by numbers of firms.
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

Source: EIB, based on Eurstat and INTAN-Invest database
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