Investment in Europe - a matter of supply and demand

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Is there an "investment gap" in the euro area?

- The investment ratio in the euro area remains substantially below the pre-crisis average
- This is the case both in the private and the public sector

Total investment as a share of GDP in the euro area. Source: AMECO

Private (left axis) and Public (right axis) investment as a share of GDP in the euro area. Source: AMECO
What factors are hampering investment?

<table>
<thead>
<tr>
<th>Demand</th>
<th>Supply</th>
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<tr>
<td>The accelerator strikes back (past and future)</td>
<td>Bottlenecks to investment</td>
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<td>Deleveraging and overcapacity</td>
<td>Structural rigidities</td>
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<td>Financial fragmentation</td>
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<td>Decline in public investment</td>
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<td>Uncertainty, including policy uncertainty</td>
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Mostly explain the decline in investment since the crisis Was already hampering investment before the crisis and is one of the key areas for policy intervention
The Investment Plan for Europe

**Three pillars**
- mobilise finance,
- make finance reach the real economy: Advisory Hub (EIAH) and Project Portal
- improve the investment environment

**Achievements**
- Approved projects worth €138.3b in 27 Member States.
- Quick absorption under the SME window.
- Impact on employment

**Weaknesses**
- Geographic Coverage
- Additionality Issues
- The EIAH is not yet at sufficient capacity to meet the needs

**Future**
- EFSI-2: extension until 2020 and increased investment targets
- Improving transparency, additionality and coverage
**Overview of investment challenges in the euro area**

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<th>Investment Challenges</th>
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**In 2015, there were no CSRs as it was under Economic Surveillance Programme**

**Note:** All the red cells (with and without 'N') correspond to a CSR in 2016. A red cell with the letter "N" is for a new CSR in 2016 (compared to 2015) on an investment challenge (as identified in the November 2015 SWD)

The star (*) is for a new CSR on a new investment challenge (additional to the list of the SWD)
# The importance of investment in intangibles

<table>
<thead>
<tr>
<th>WHAT ARE INTANGIBLES?</th>
<th>Computerized information, innovative property, economic competences</th>
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<tbody>
<tr>
<td>WHY DO THEY MATTER?</td>
<td>• knowledge-based =&gt; strong long-term effect on productivity</td>
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<td>• More dynamic than tangible investment</td>
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<td>• Tend to be less affected by the cycle</td>
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<td>• However, the EU is lagging well behind the US</td>
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<td>WHAT IS THEIR SIZE?</td>
<td>• Intangibles currently captured in the national accounts are about 1/3 of tangible investments in the EU-15 in 2013.</td>
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<td>• Large part of intangibles are not accounted for in traditional national account figures</td>
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<td>BARRIERS AND LESSONS</td>
<td>• Some structural bottlenecks seem to affect intangibles more than tangibles</td>
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<td>• Scope for market failures larger for intangibles than tangibles</td>
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<td>• Policy package approach would be appropriate</td>
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