Investment and Investment Finance in Europe: a policy perspective

Panel Session I

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www.oecd.org/economy/economicoutlook.htm
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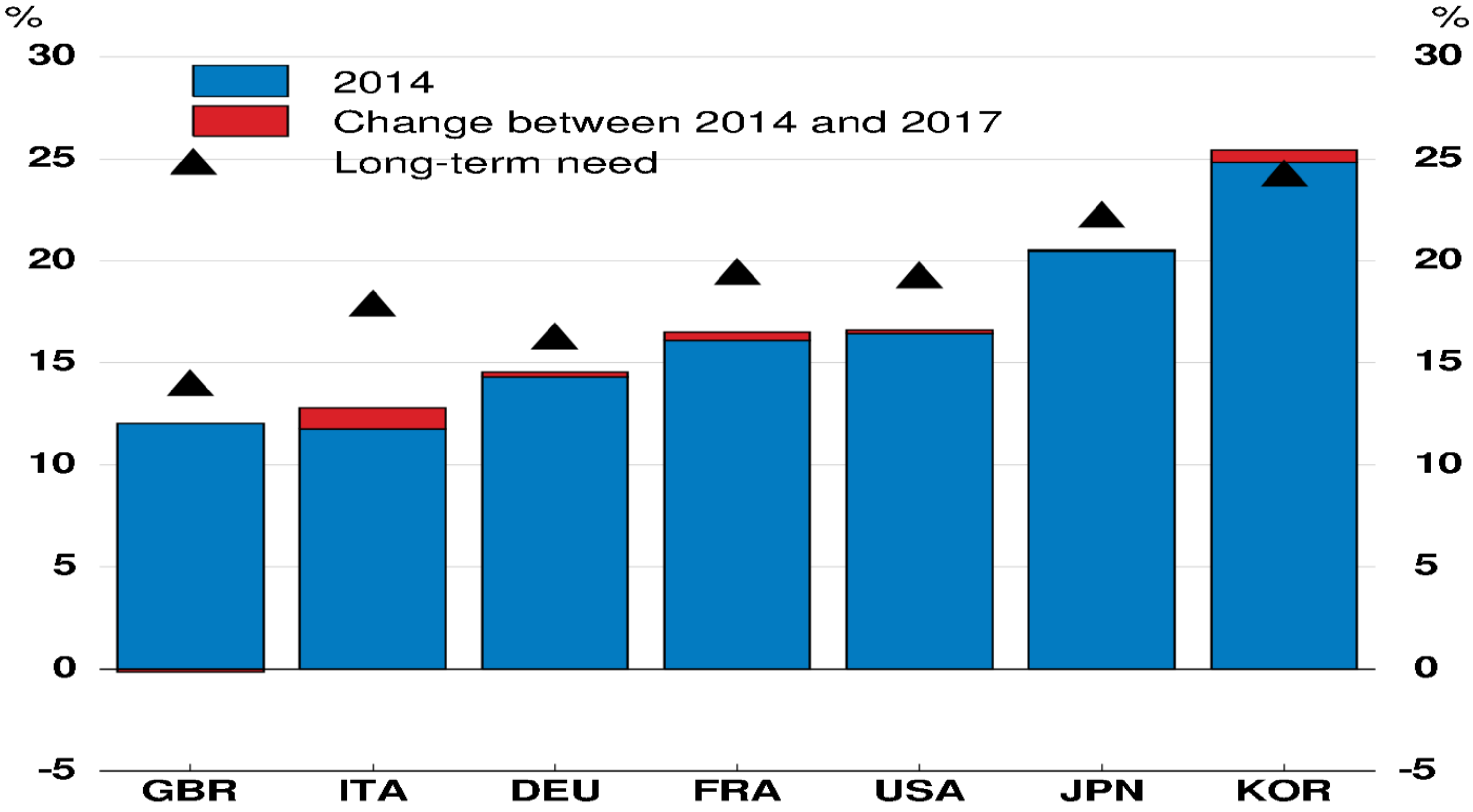
BETTER POLICIES FOR BETTER LIVES

Investment Recovering; Shortfalls Remain
Structural factors inhibit, even as demand improves

Investment shortfalls by country

Non-residential investment, % of potential GDP

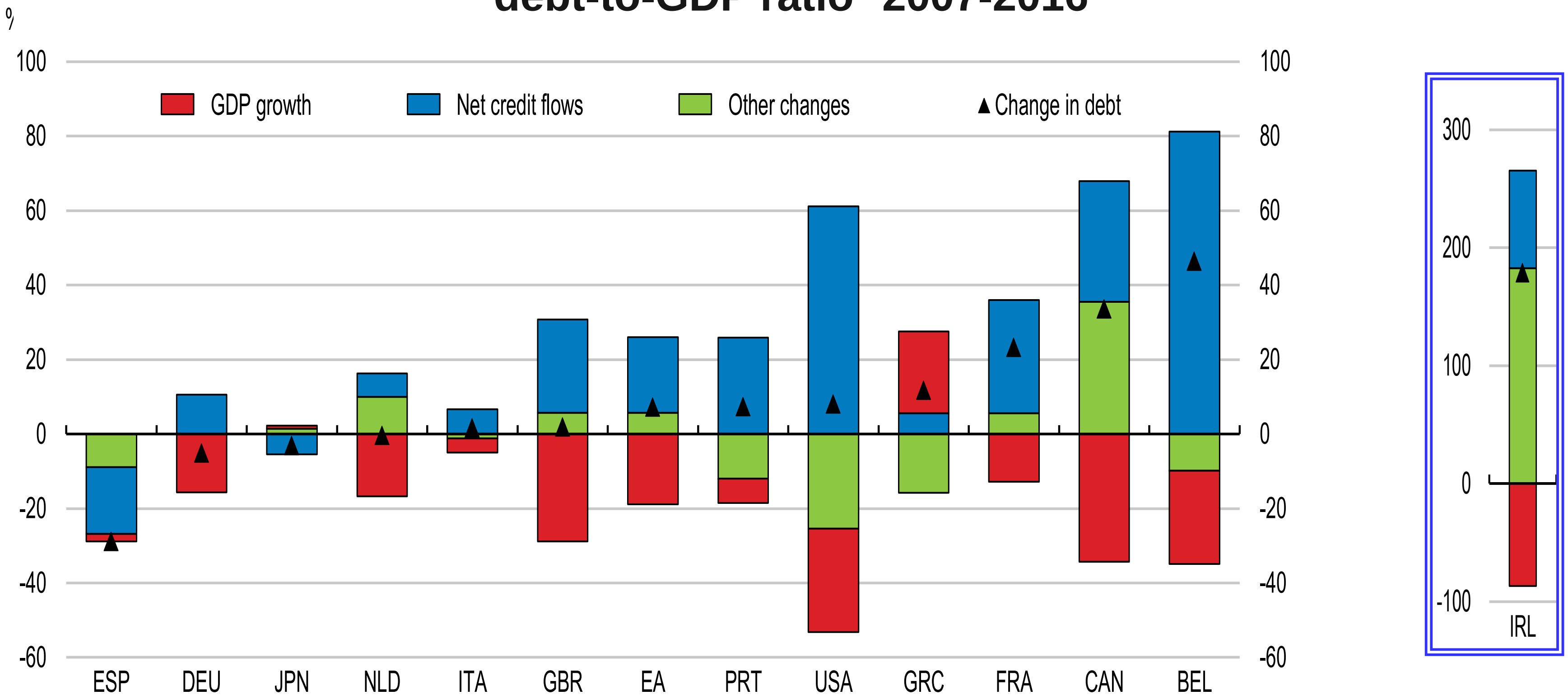


Notes: RHS: Long-term needs are estimated following methodology of Lewis et al. (2014).
Source: OECD Economic Outlook database; and OECD calculations.

Credit is Flowing to Firms

rise in debt-GDP in most countries offset by growth

Decomposition of changes in non-financial corporations debt-to-GDP ratio[1] 2007-2016



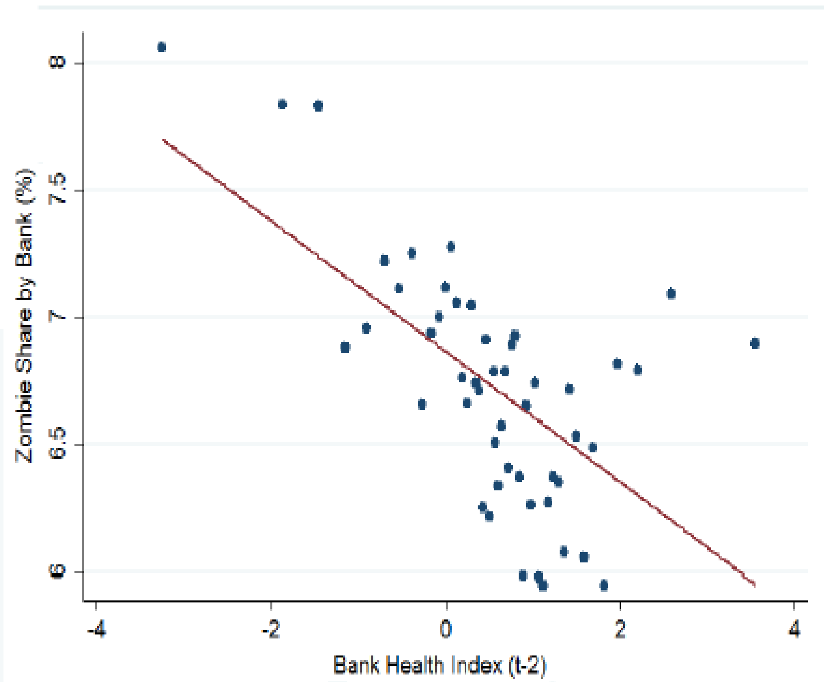
1. The change in debt-to-GDP ratio is decomposed according the formula: d(debt[t]) = -g(t)/(1+g[t])*debt[t-1] + net credit flows[t] = other changes[t], where g[t] is percentage nominal GDP growth (divided by 100), and the first term indicates the contribution of nominal GDP growth to debt dynamics. Other changes reflect changes due to write-offs, reclassification and revaluation.

Source: OECD, National Accounts database; and OECD calculations.

Role for Banking Union

Discipline NPLs & Zombies; help improve dynamism

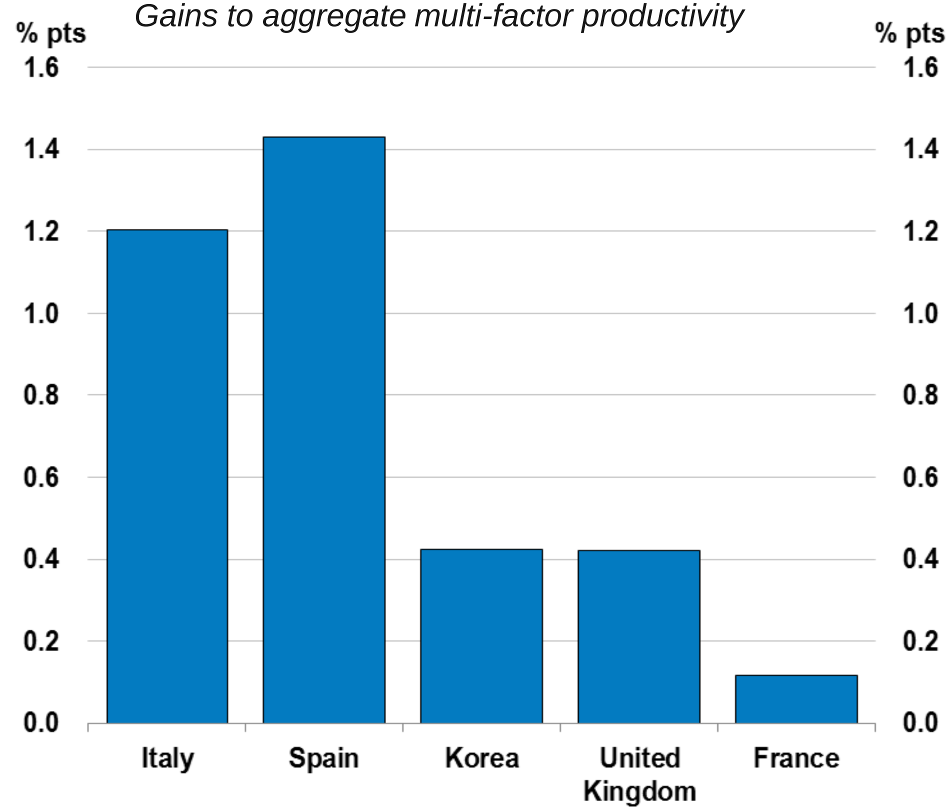
Average zombie firm share for each category of bank health



Note: the average zombie firm share for each bin of bank health, purged of country-industry-fixed effects. The relationship is statistically significant at the 1% level and is based on over 1.5 million firm-bank observations for 11 European countries over the period 2001-2014.
Source: Andrews, D. and F. Petroulakis (2017), "Breaking the Shackles: Zombie Firms, Weak Banks and Depressed Restructuring in Europe", *OECD Economics Department Working Papers.*

Productivity gains from reducing zombie capital

Gains to aggregate multi-factor productivity

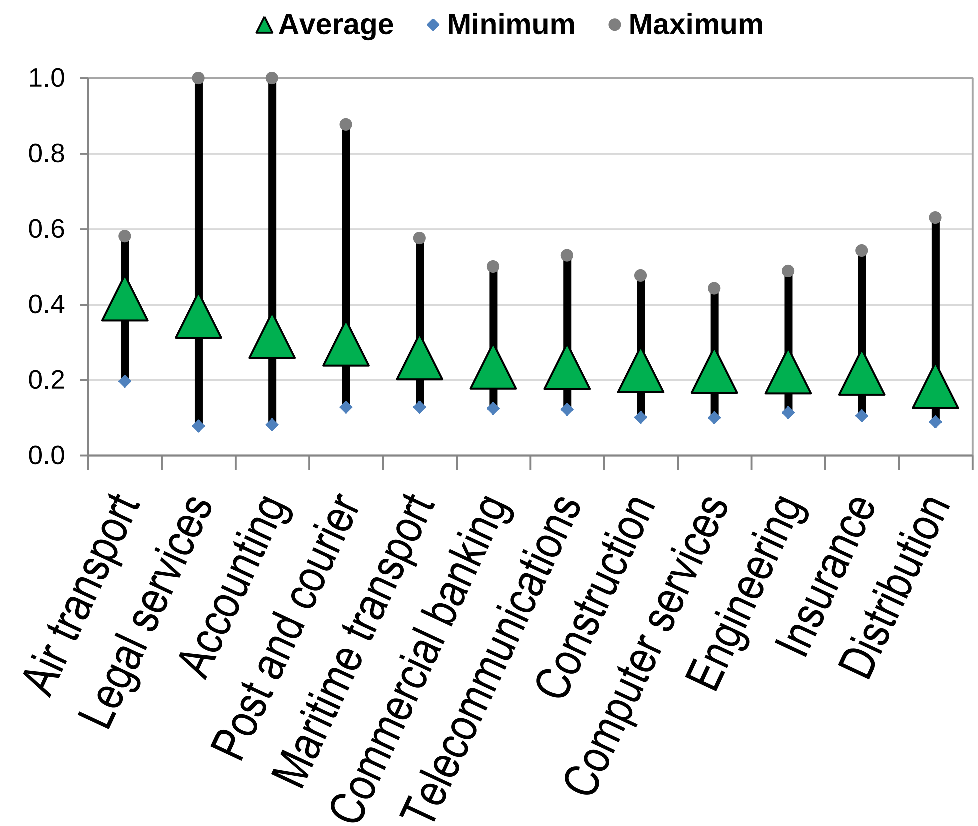


Note: Firms aged 10 years or more and with profits not covering interest payments over three consecutive years. The sample excludes firms that are larger than 100 times the 99th percentile of the size distribution in terms of capital stock or number of employees.
Source: Adalet McGowan, Andrews and Millot (2017), "The Walking Dead? Zombie Firms and Productivity Performance in OECD Countries", OECD Economics Department working paper; and OECD calculations.

Services harmonization would promote competitiveness, esp smaller firms

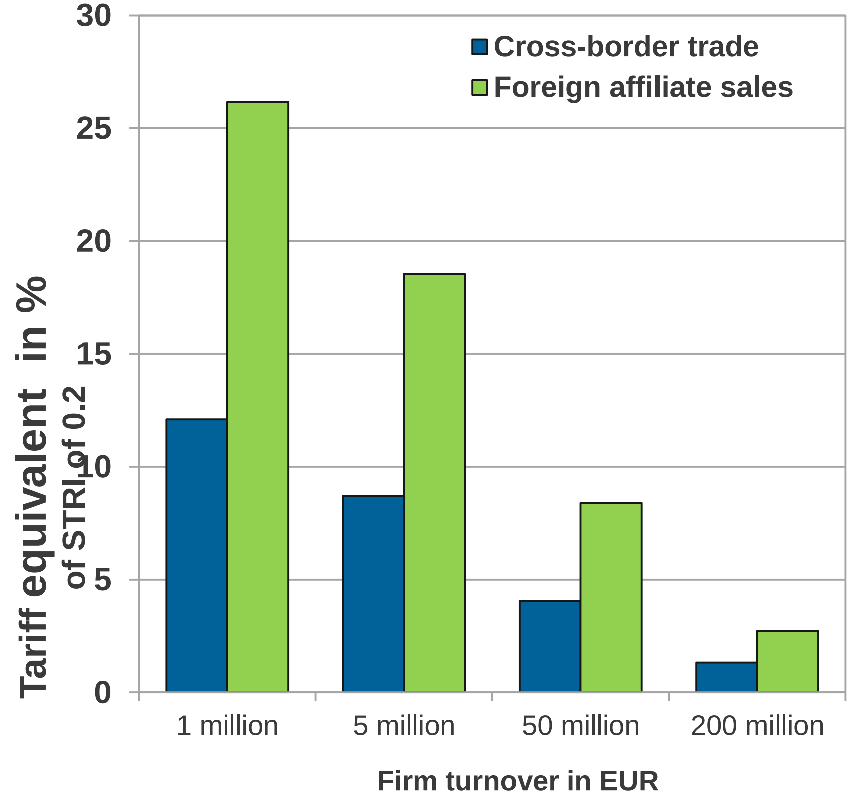
Services trade restrictiveness indices

2016, covering 44 countries



Note: Covers the 35 OECD members plus Brazil, China, Colombia, Costa Rica, India, Indonesia, Lithuania, Russia and South Africa.
Source: OECD STRI database.

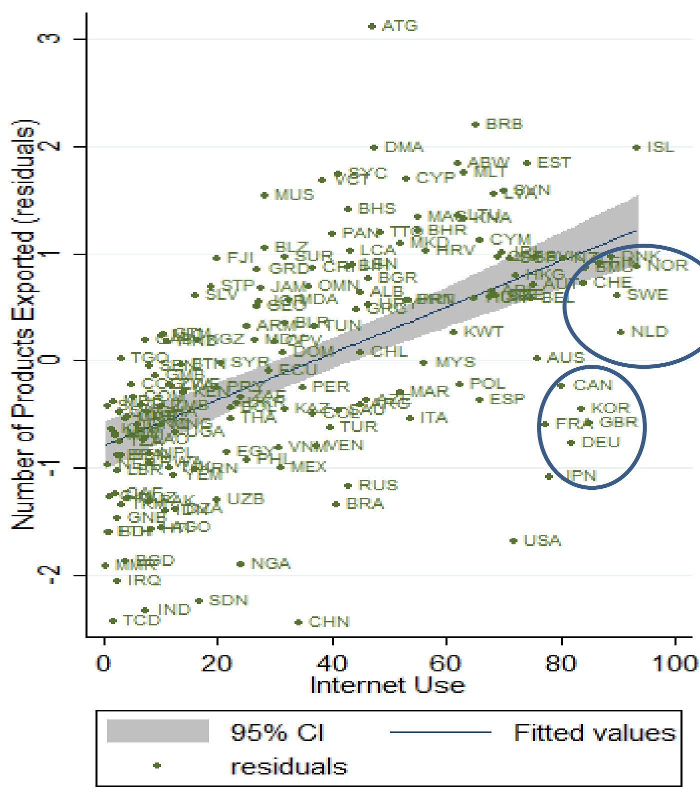
The burden of restrictions falls disproportionately on smaller firms



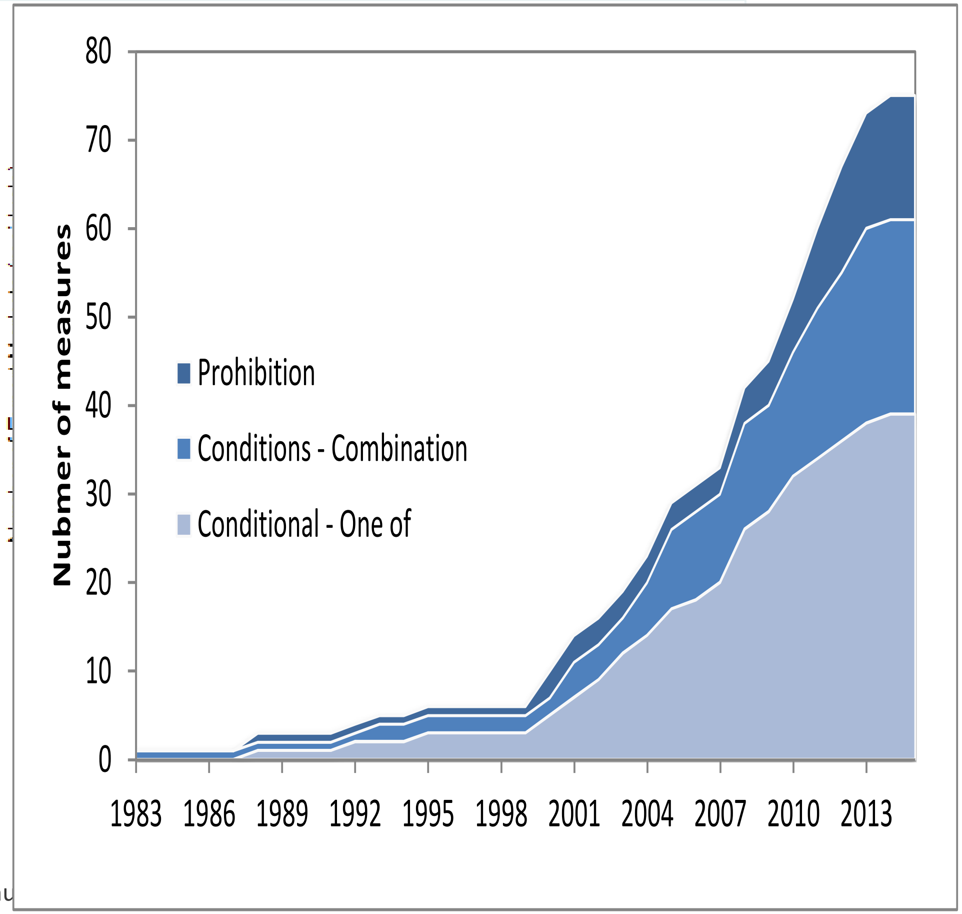
Note: average effect across sectors and countries based on microdata from Belgium, Finland, Germany, Italy, Japan, the United Kingdom and the United States. The numbers indicate the ad valorem tariff equivalent of an STRI score of 0.2 on top of what is incurred by firms with turnovers of EUR 500m and above. Source: Rouzet, Benz and Spinelli (2017), "Trading Firms and Trading Costs in Services", OECD Trade Policy paper.

Role for Digital Single Market
trade & investment potential inhibited by regulations

More ‘connected’ countries sell more products to more destinations



But cross-border data transfer restrictions (and local storage requirements) are rising

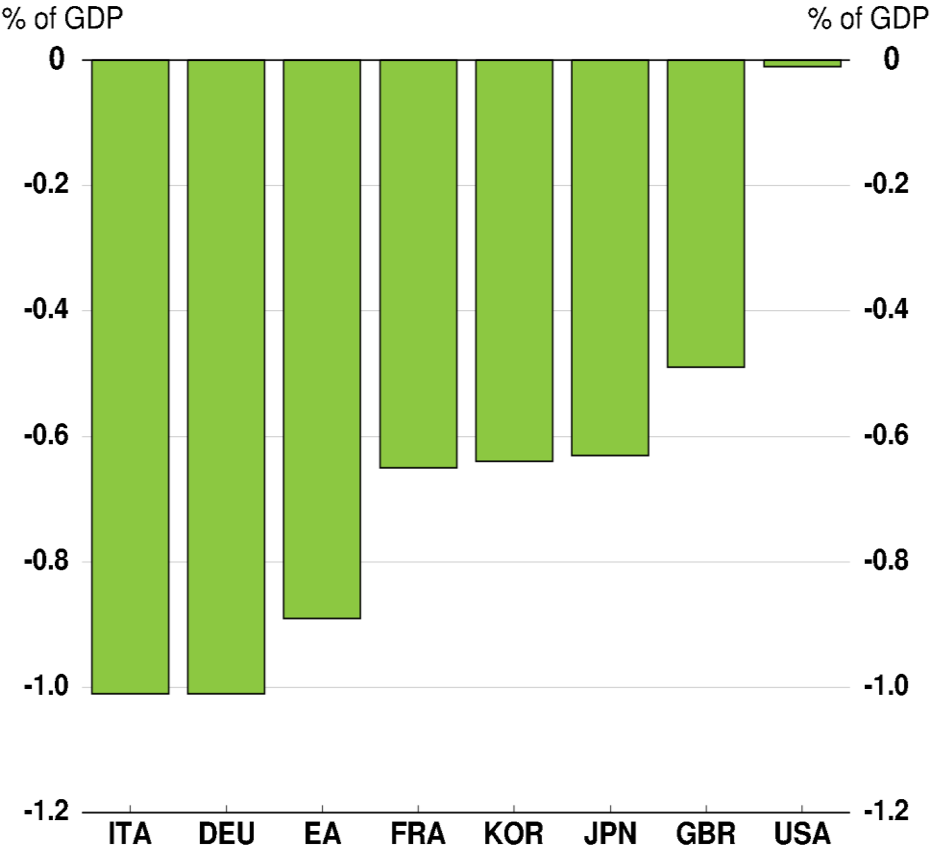


Note: Figures show correlation between internet use per 100 inhabitants, nu
through other variables, such as internet use and income, or number of products and size of markets, the residuals from a regression of the trade outcomes with respect to per capita GDP and size of markets with country specific fixed effects and time dummies are taken.

Monetary Policy Window for Fiscal Policy
Governments are set to ease

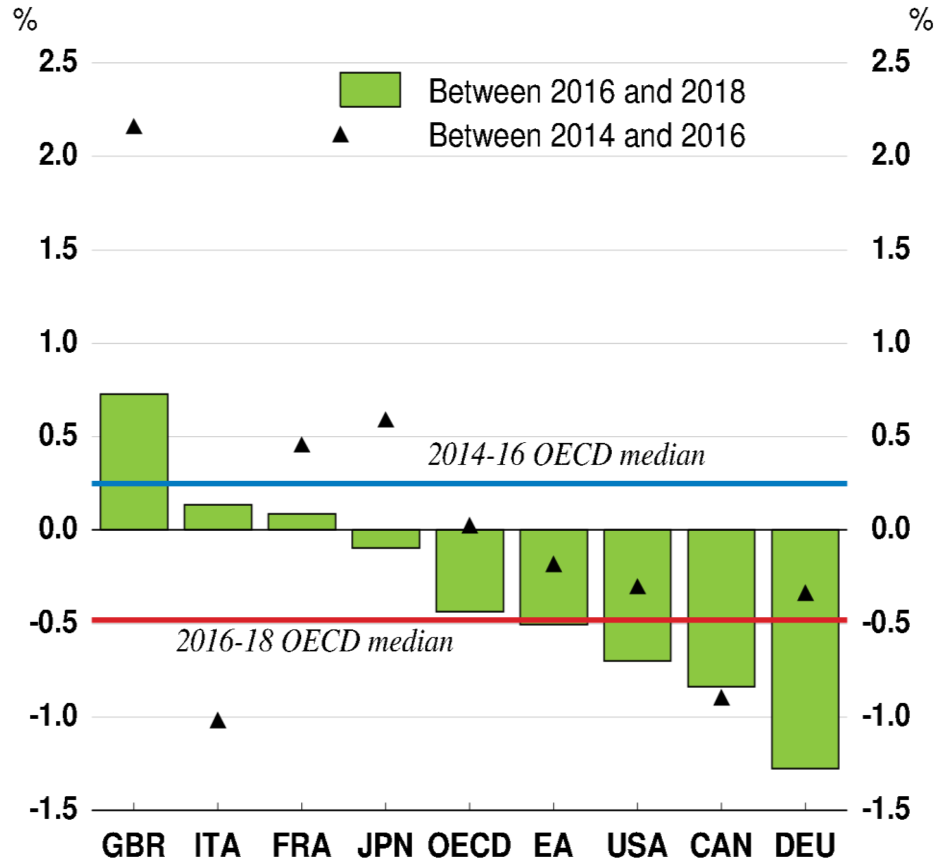
Government gross interest payments have declined

Average annual difference between 2011-14 and 2017-18



Fiscal stance is expected to ease

Change in underlying primary balance, % of potential GDP



Note: LHS based on general government gross interest payments. Data for 2017-2018 are OECD projections.
Source: OECD Economic Outlook database; and OECD calculations.

Use space for Fiscal-Structural initiatives
to maximise impact on growth and inclusiveness

Impact of spending reform	Growth	Income of the poor	Countries with most room for gains
Improving education			CHL, GRC, MEX, PRT, TUR
Increasing public investment and R&D			DEU, GBR, ITA, MEX, TUR, USA
Increasing government effectiveness			FRA, GRC, HUN, ITA, SVN
Increasing family benefits			CHE, ESP, GRC, PRT, USA
Decreasing public subsidies			BEL, CHE

positive impact   uncertain or no impact

Source: Based on Fournier and Johansson (2016), "The Effect of the Size and the Mix of Public Spending on Growth and Inequality", OECD Economics Department Working Papers, No. 1344, OECD Publishing, Paris.