

# SAFEGUARDING MACRO & FINANCIAL STABILITY IN A FRAGILE ENVIRONMENT: POLICY CHALLENGES

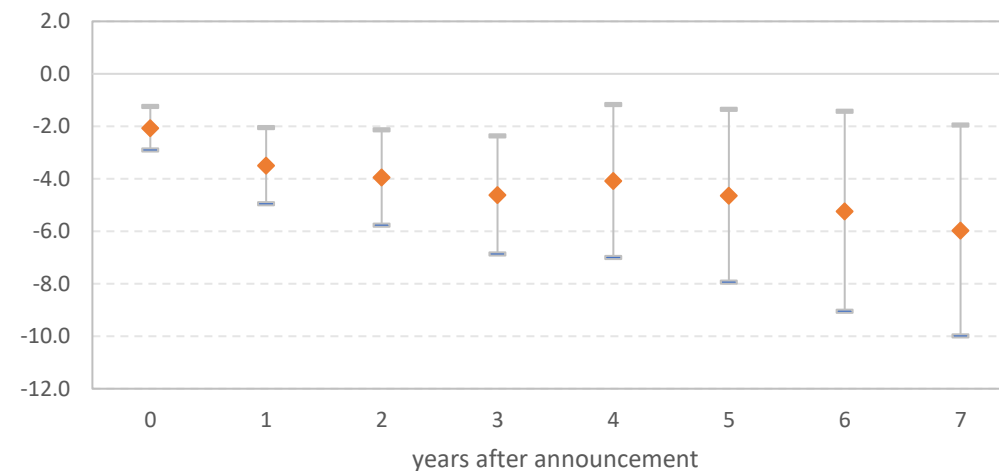
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SUERF - ESM high level workshop 16 November 2023

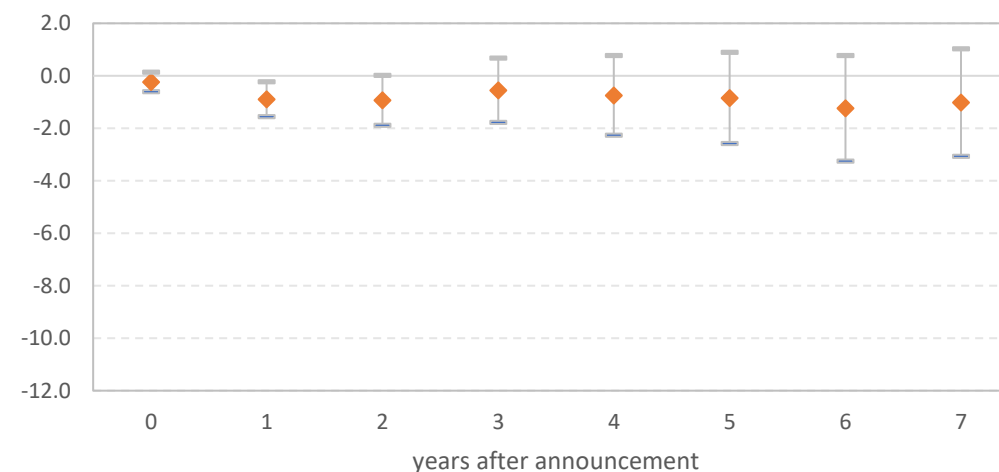
# Short term vs long term

- Concerns for macro and financial stability should also focus on long term structural transformations
- Limited fiscal capacity should be targeted, to preserve focus on long term needs associated to supporting the transformation of our economies with respect to climate change, digitalization, aging and skills gaps, managing the necessary reallocation of resources
  - New needs associated to security and defense and resilience of value chains (with new concepts of open strategic autonomy)
  - Public and private investment needed, at times in which conditions for investment are more challenging

Government investment

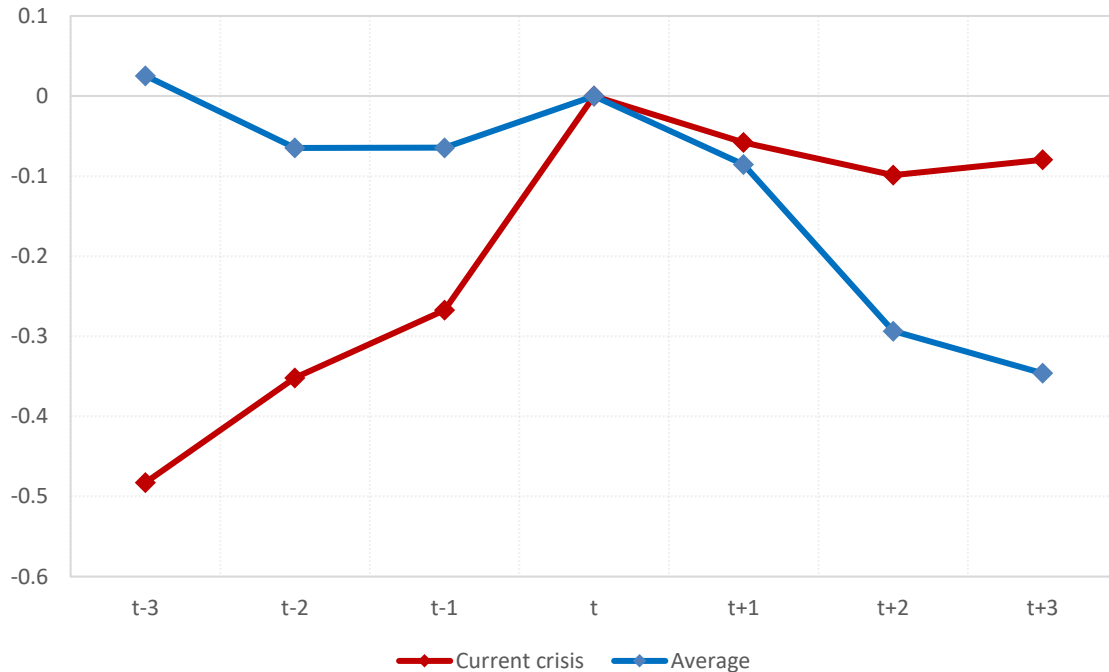


Private investment



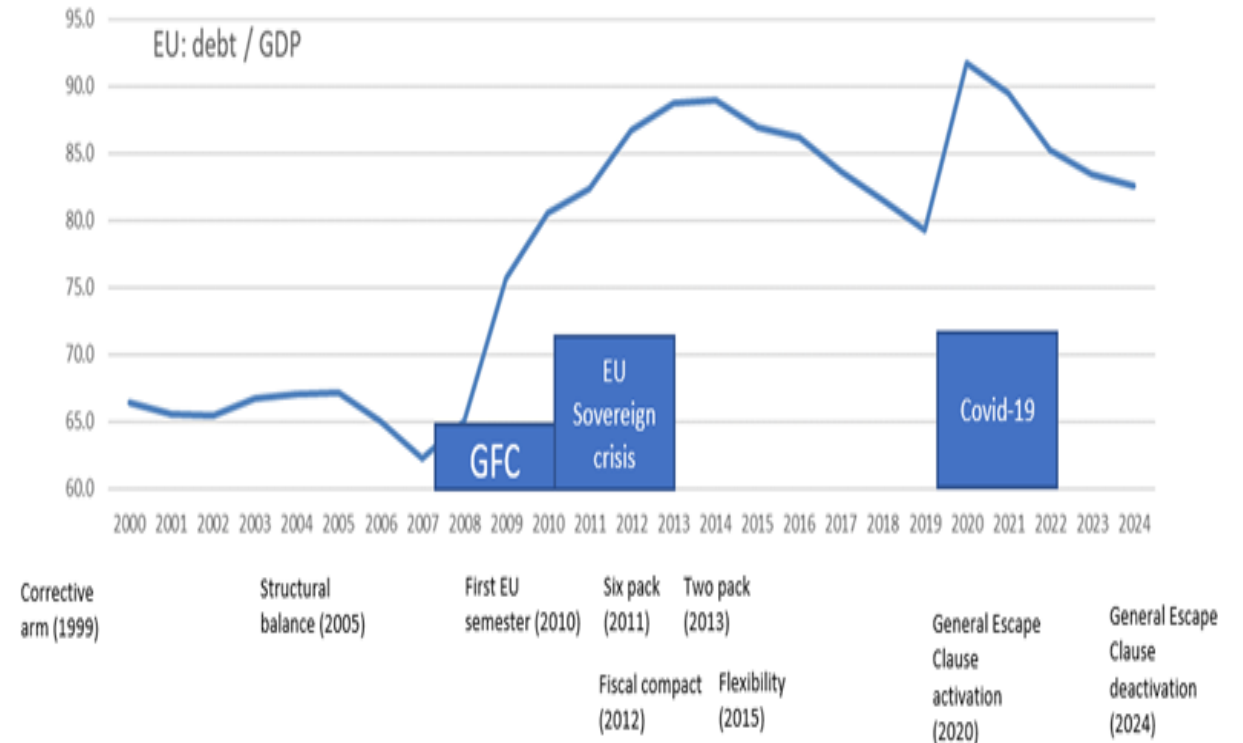
# Public investment – is this time different?

Government investment over GDP following crisis – current shocks vs 26 OECD countries downturns since 1970



Note: Difference between government investment (% GDP) in the year of a major crisis and the preceding/subsequent 3 years. The red line is EU in 2020, and the blue line is the average during major economic downturns in 26 OECD countries since 1970

EU Gross public debt and changes in the fiscal framework

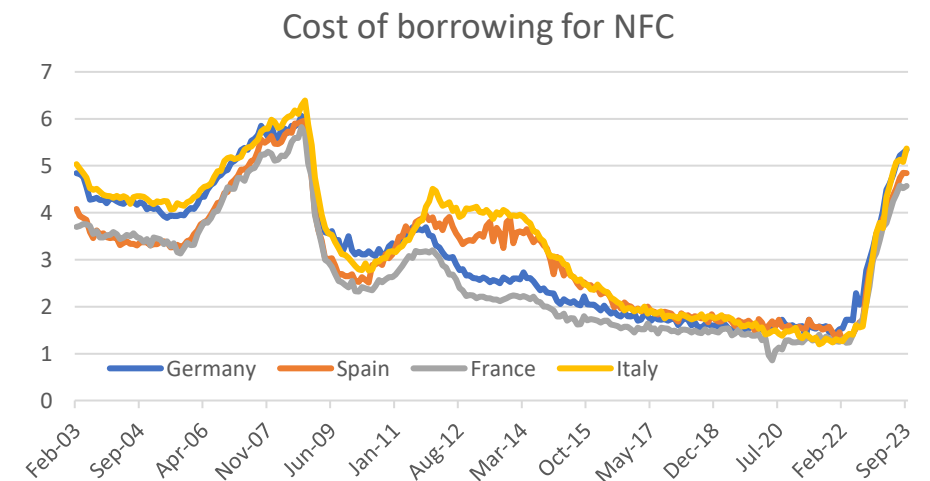
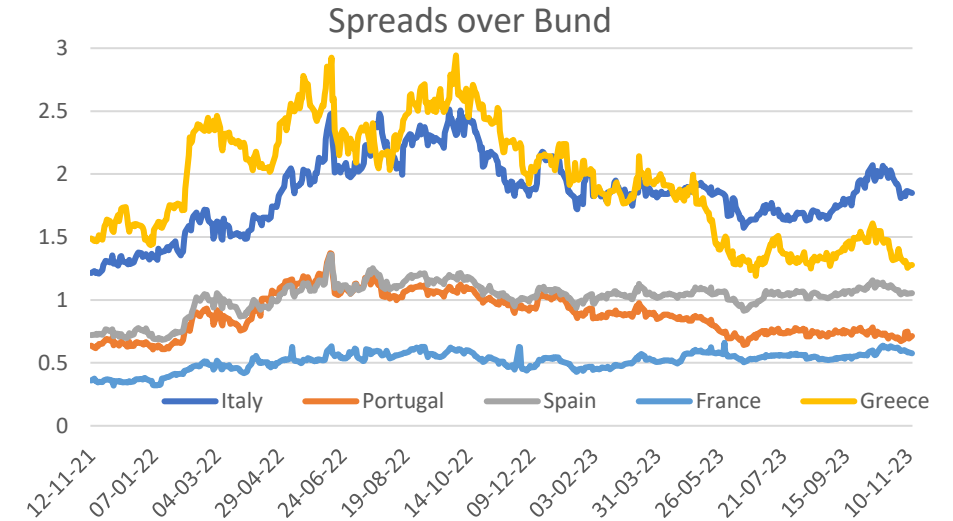
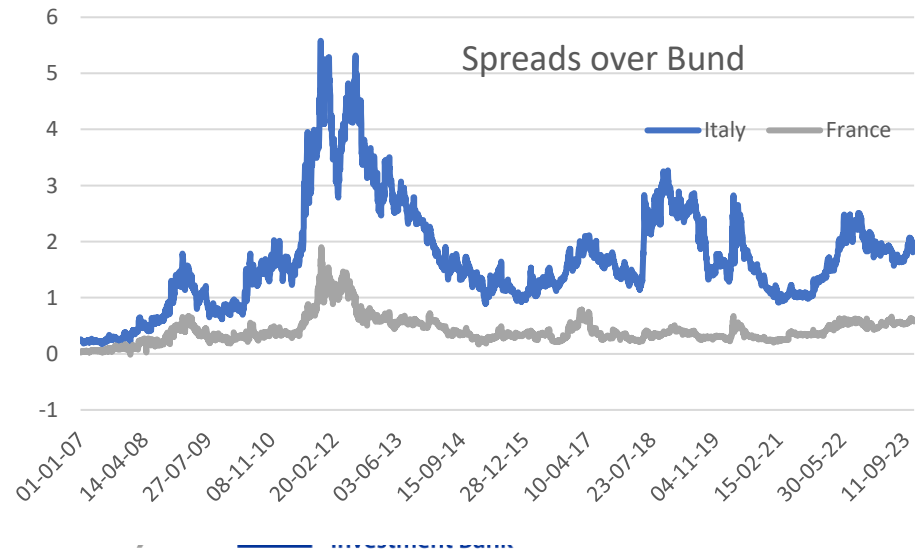


Source: AMECO. Note: the blue boxes highlights the recession/crisis periods. Below the X axis are reported the changes progressively introduced in the EU fiscal framework.

# Spread dynamics signal market broad confidence on the institutional framework

Spreads on sovereign bonds have widened less than expected, considering the slowdown in the economy and the increase in policy interest rates

Corporate cost of borrowing has not diverged as happened at the start of the sovereign crisis



# The importance of EU public goods

This time is different:

- EIB
- SURE
- RRF:
  - Cross-border spillovers
  - Implementation more difficult in certain areas (easier in R&D, more challenging for infrastructure and green)
- A reflection on EU vs national firepower
  - Potential needs associated to climate, defense, Ukraine

## Comparing resources coming from RRF grants and the projected improvements in structural primary surplus

Share of expenditures that are financed through RRF grants

	2022	2023	2024	2025	2026
EU	0.41	0.44	0.31	0.25	0.17
NW	0.22	0.14	0.12	0.06	0.00
SE	1.08	1.14	0.54	0.51	0.49
CEESE	0.10	0.66	0.86	0.82	0.45

Change in structural primary balance

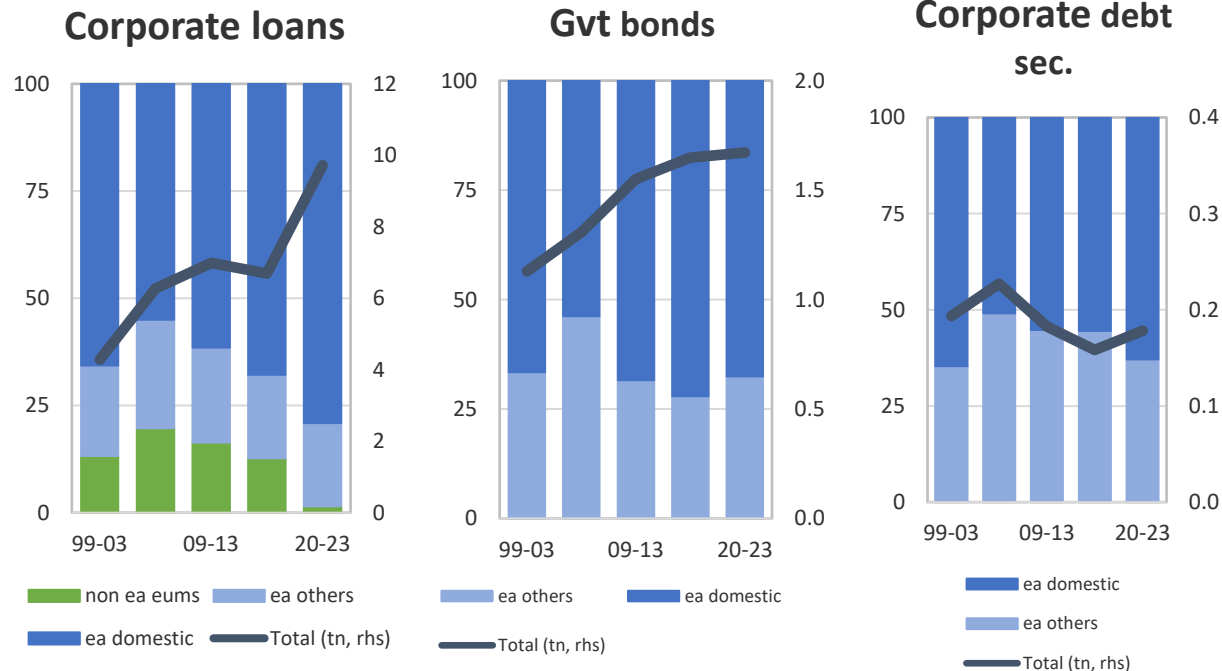
	2023	2024	2025	2026
EU	0.0	1.0	0.5	0.4
NW	-0.8	1.1	0.6	0.3
SE	1.7	0.9	0.3	0.5
CEESE	0.6	0.8	0.1	0.1

Source: Authors' calculations based on Member States' Stability and Convergence Programs. Note: introduced in the EU fiscal framework.

# Banking and Capital Market Union – market fragmentation

## Assets held by euro area banks

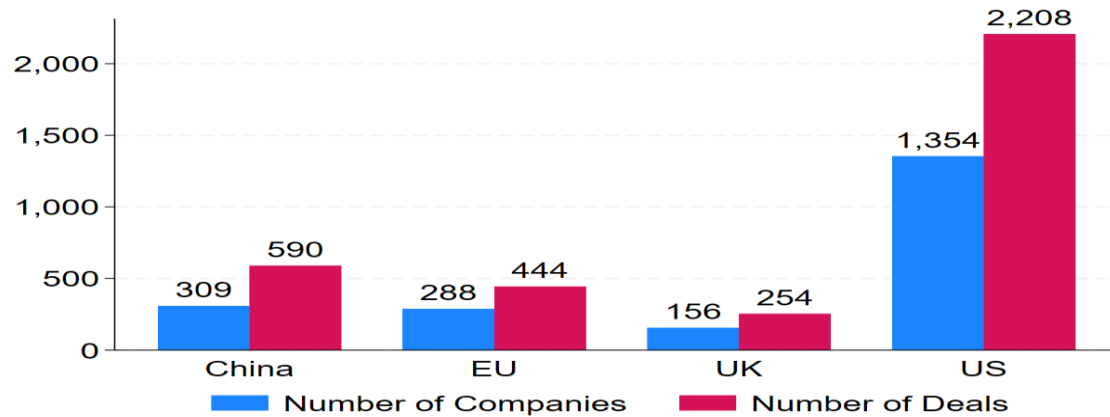
(% lhs, total euro trn rhs)



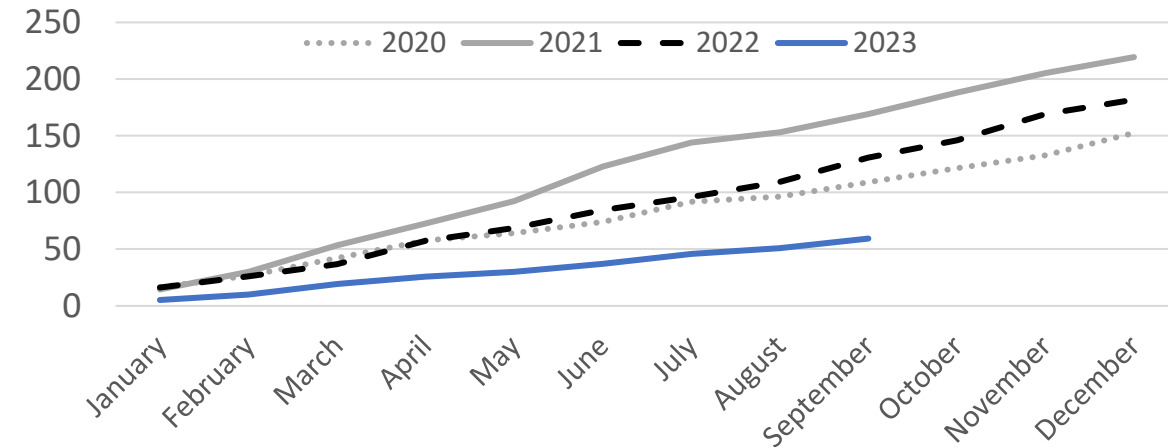
Limited role of long term investors for long term finance

# Innovation finance more challenged at times of tightening – Scale up Finance an area to develop

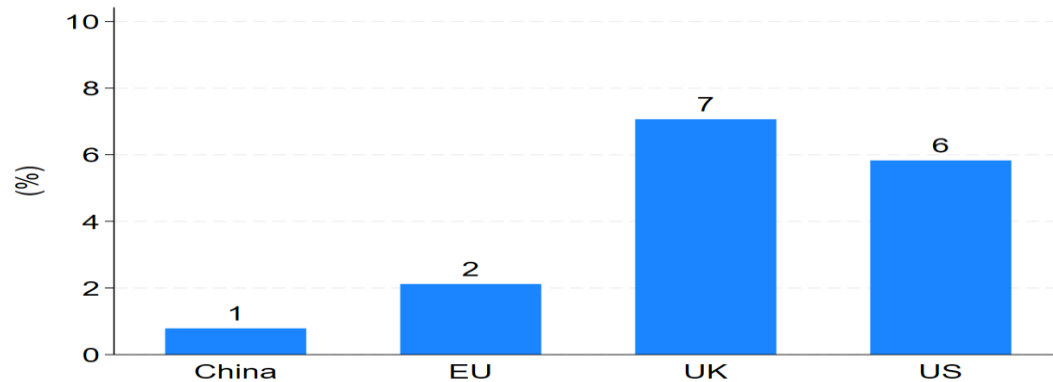
## EU has significantly fewer scale-ups



## VC invest. in companies in the EU - (cum USD bln)



## Less capital invested in scale-ups (% GDP)



## VC funds specializing in EU/Europe - (USD mln)

