

RESILIENCE AND RENEWAL IN EUROPE

EIB Investment Report 2022-2023

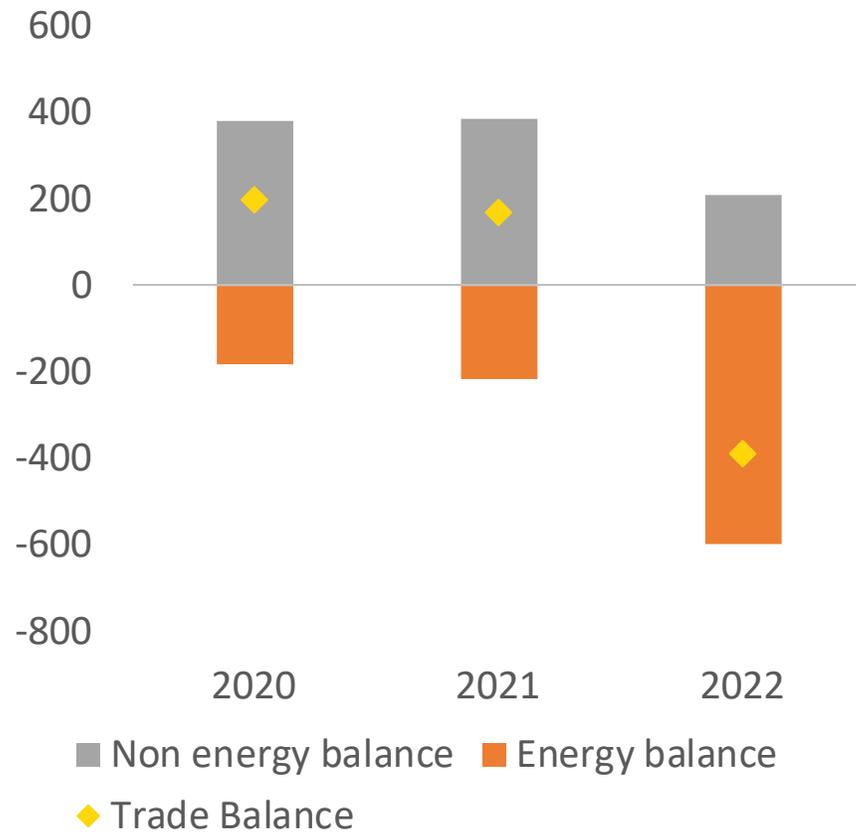
Debora Revoltella

Chief Economist
European Investment Bank

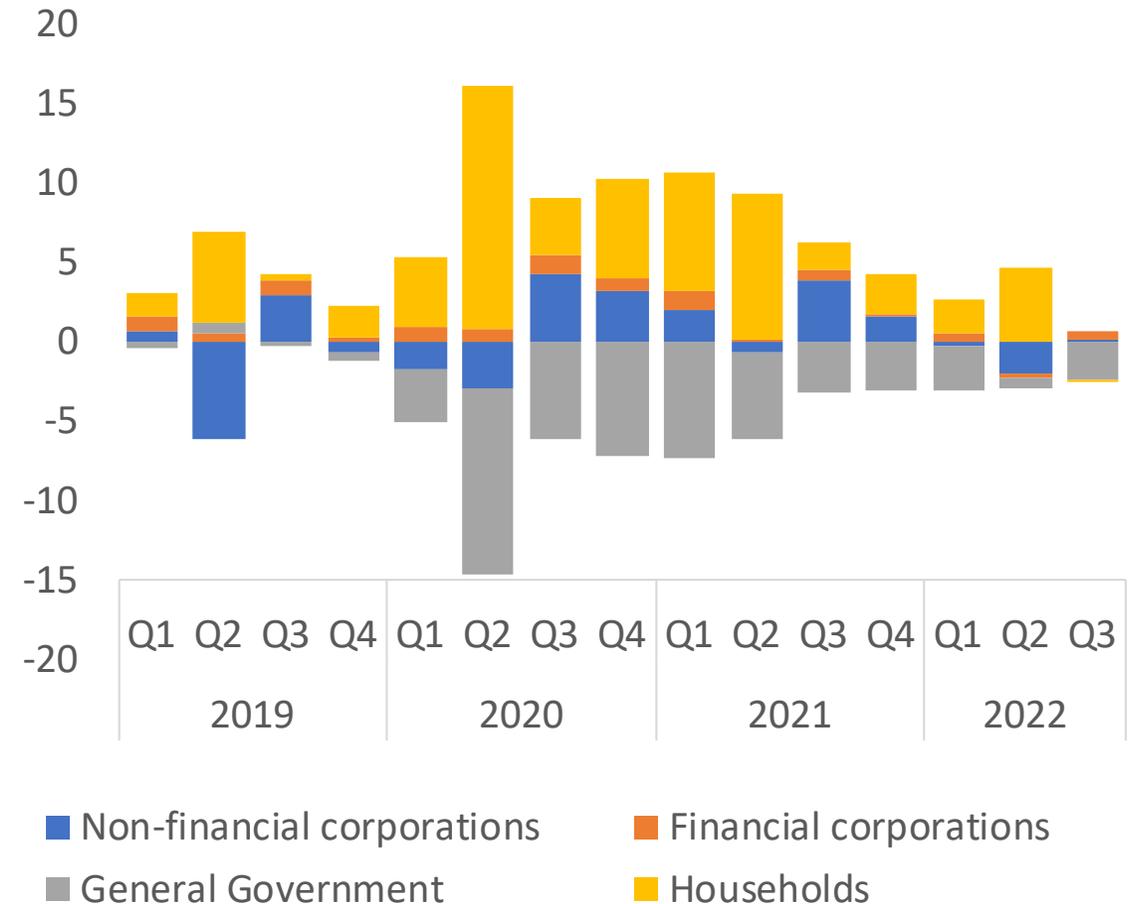
DIW-EIB Conference, 24 April 2023

We are still dealing with the fall-out from unprecedented shocks

Terms of trade shock
(trade balance in EUR billions, per year)

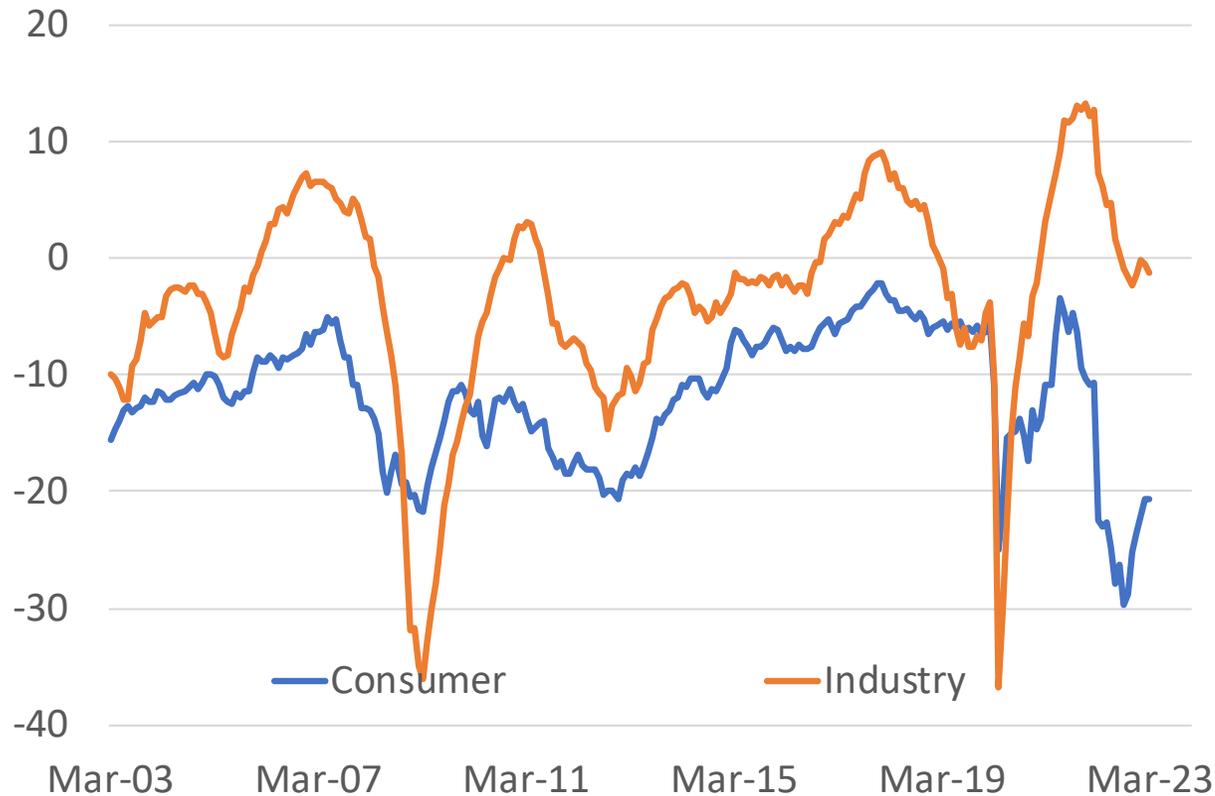


Adjustment to shocks – sectoral redistribution
(net lending by sector, % GDP)



Concerns for recession have receded but fundamental sources of uncertainty remain

EU confidence Indicators (net %)



Sources: Eurostat

Stickiness of inflation

Financial resilience of banks, households and corporates – without support

Governments' role in steering the economy and public debt

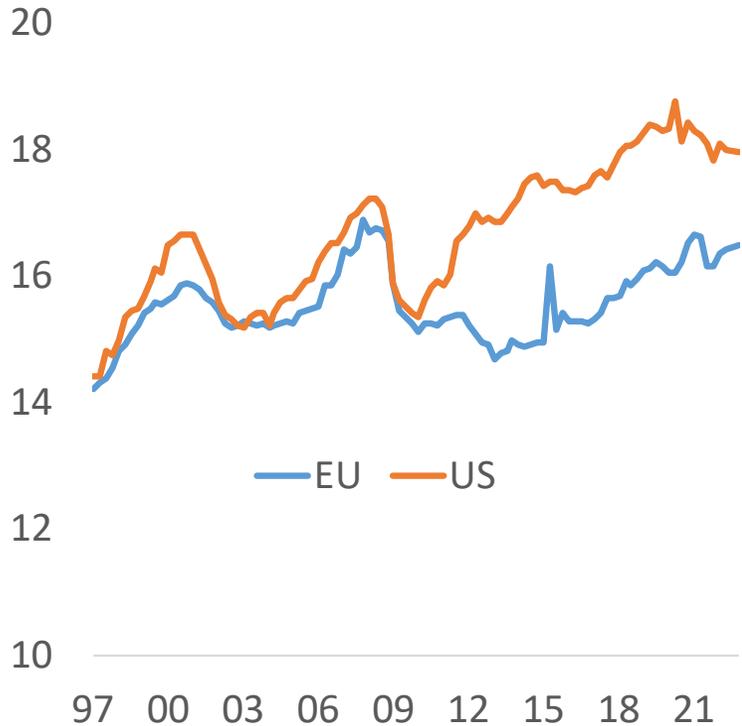
Energy market adjustment speed and volatility of energy costs

Asymmetries and divergence across the EU

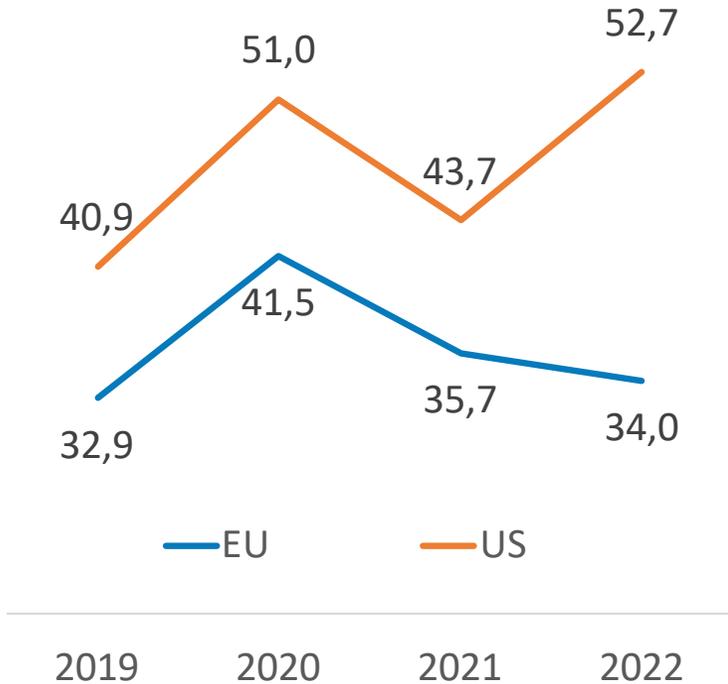
Real interest rates and productivity growth

Important investment gaps, particularly dangerous in the context of the digital and green transition

Productive investment (% of GDP)

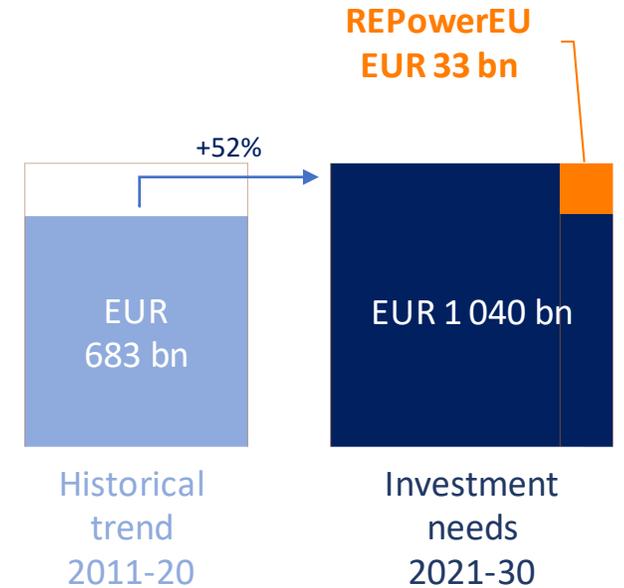


Share of firms investing in innovation (%)



Annual investment needed to reduce EU GHG emissions by 55% by 2030

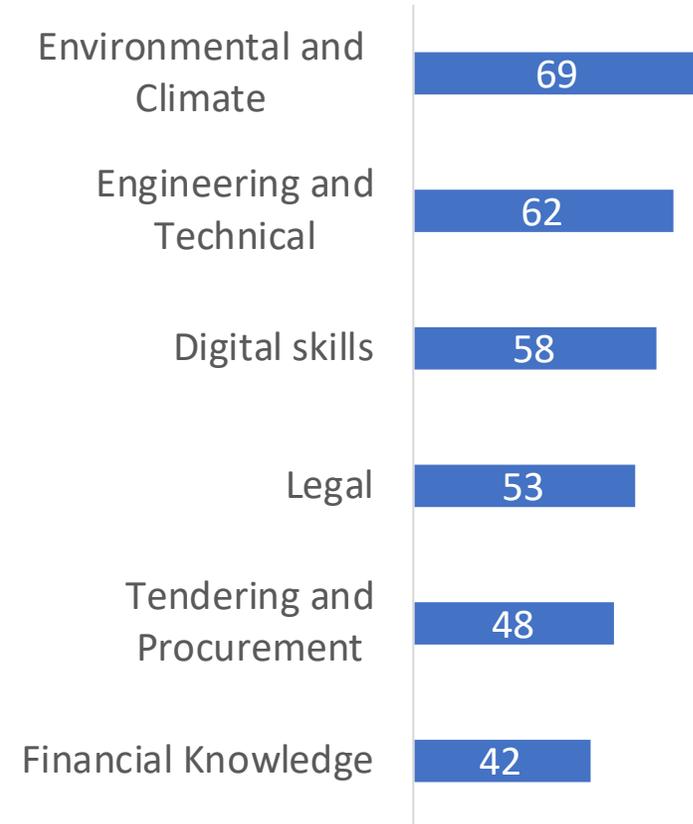
(Fit for 55, Mix scenario estimated in 2020)



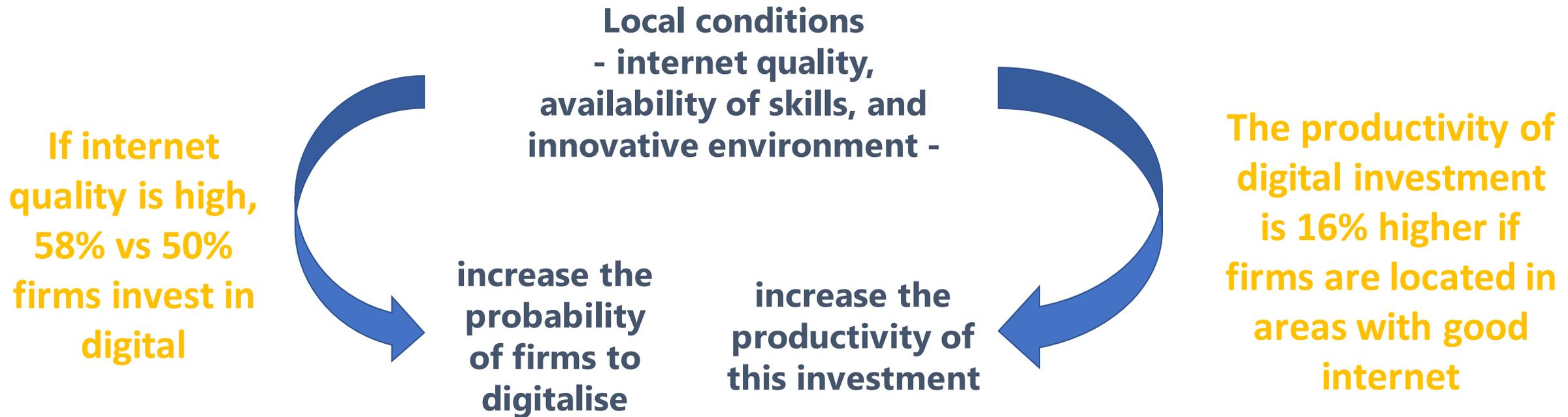
Public investment has an important role to play

- Public investment is vulnerable during fiscal consolidations
- Protecting public investment requires:
 - Prioritisation in national budgets
 - Coordinated effort to reduce investment barriers
 - Enhanced implementation capacity, including digitalisation of public sector
 - In many poorer EU countries: Efficient deployment of Recovery and Resilience Facility

Skill gaps delay public investment
(% of EU municipalities that consider access to experts a problem)



Public investment stimulates private investment by increasing its returns

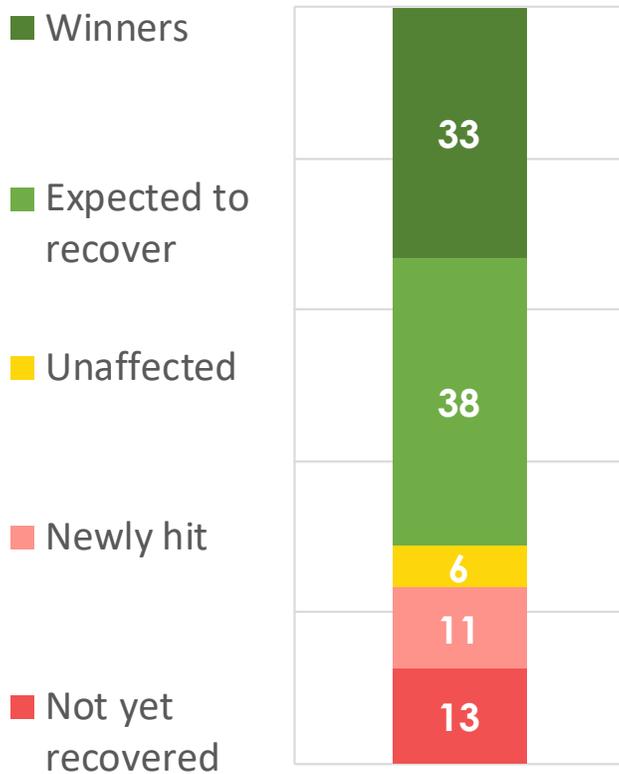


Public investment has a catalytic effect on private investment in digitalisation, and at the local level, particularly for skills

Private investment: Firms emerged from the pandemic relatively well, but the economic outlook has been turning fast

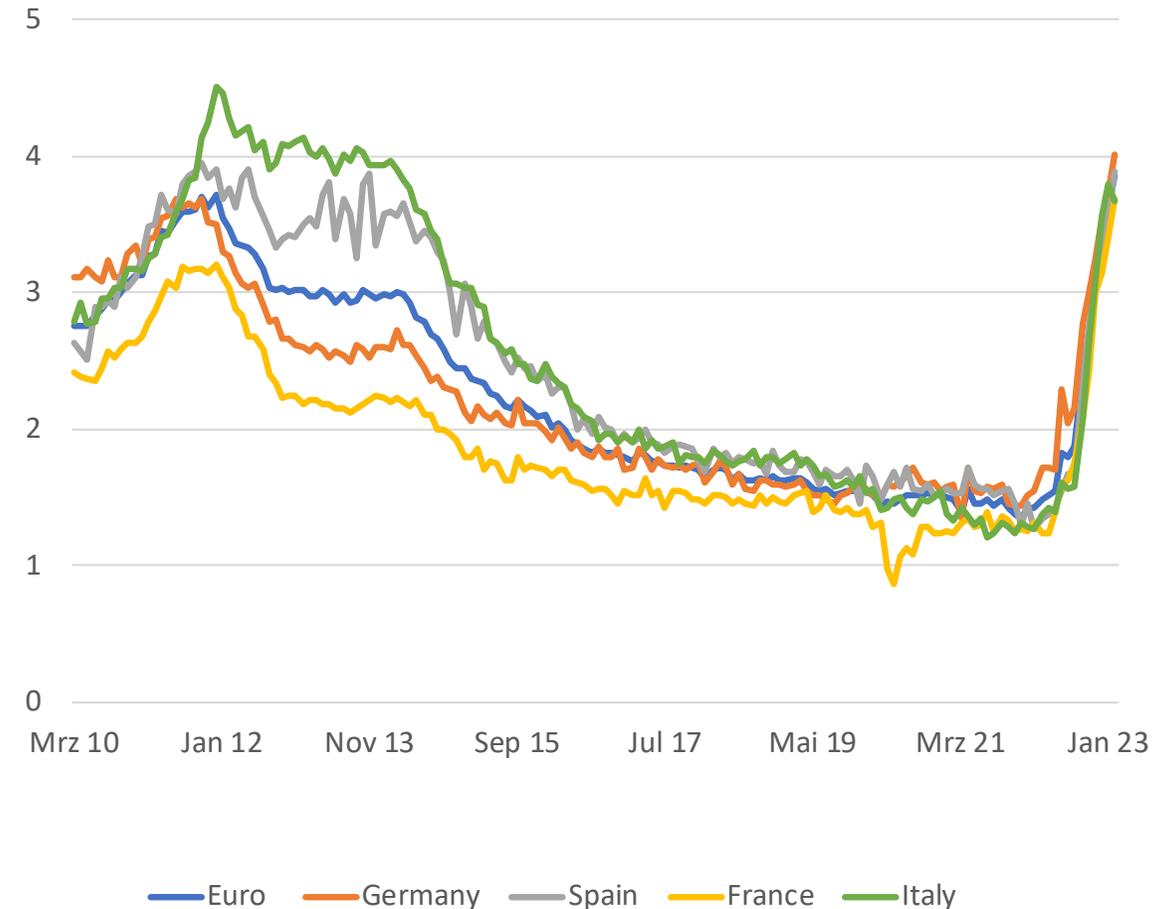
Firms have recovered from the pandemic

Share of firms by post-pandemic recovery status (%)



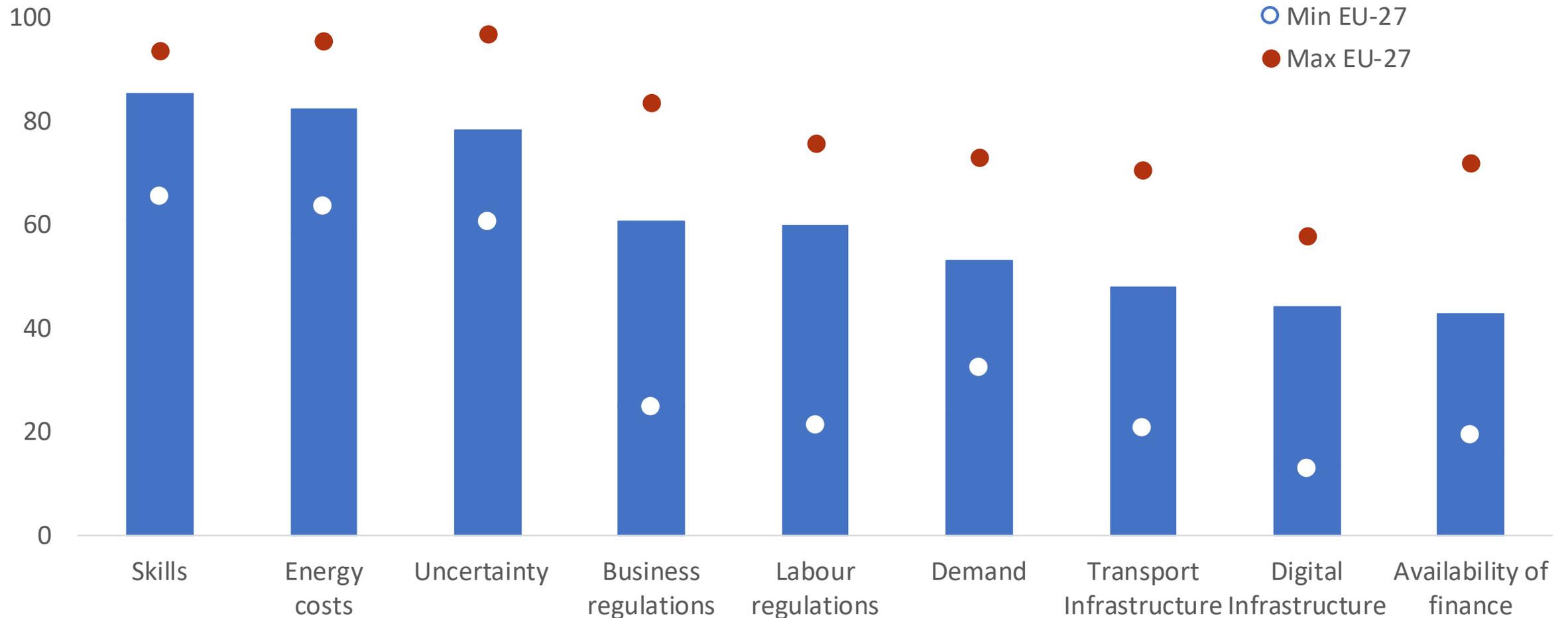
Cost of corporate bank borrowing

(% per annum)



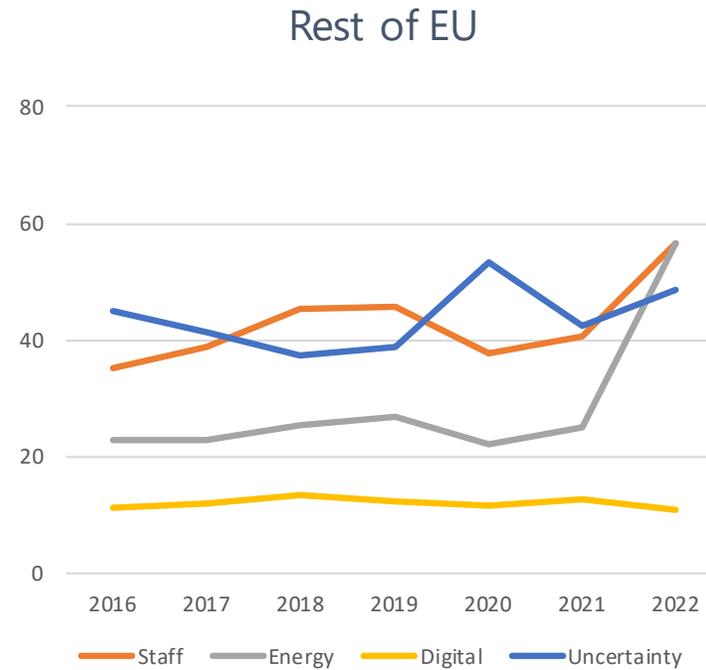
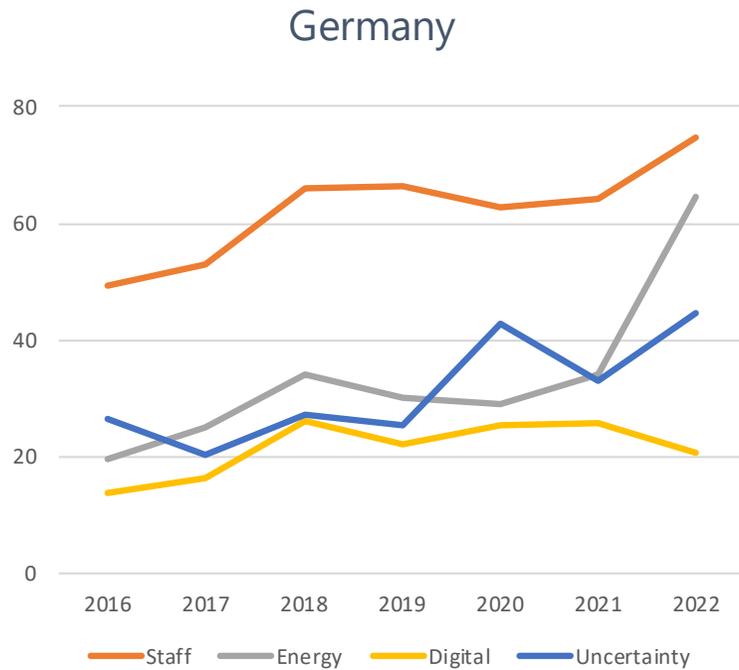
Long term barriers to investment – across the EU

Reported barriers to investment (% of firms and min-max country)



Skills, energy costs, and uncertainty are constraining firms

Reported major barriers to investment (% of firms)

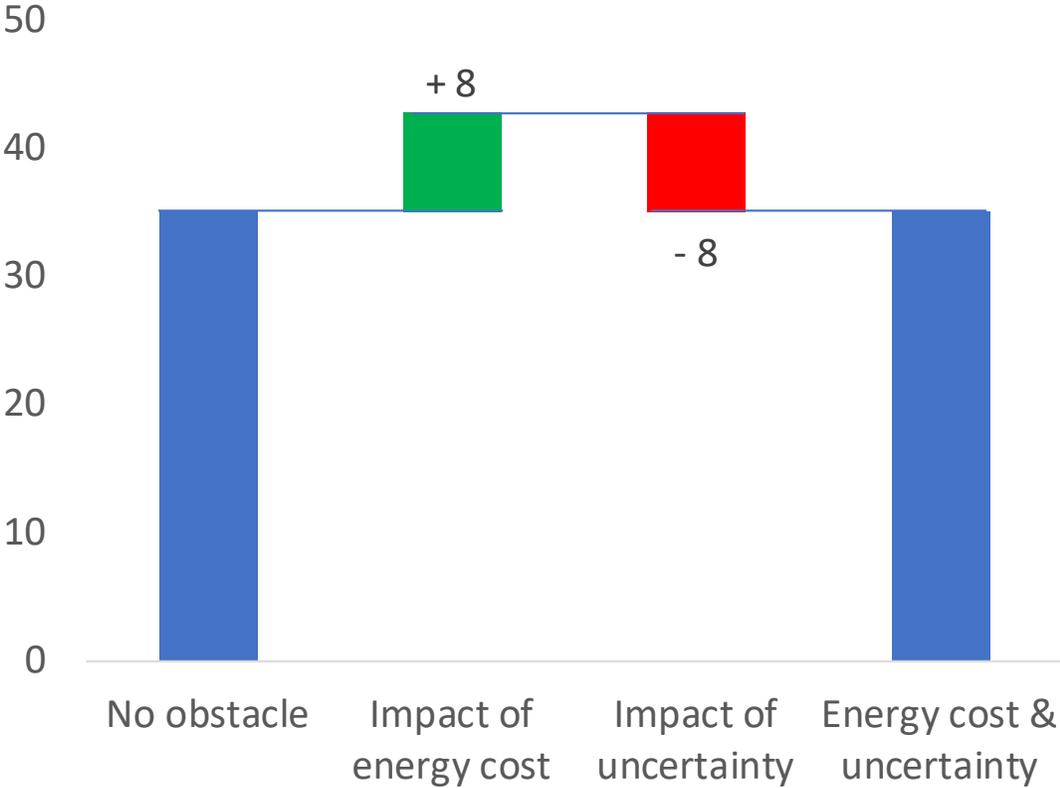


- Too few skilled staff, energy costs, and digital infrastructure matter more in DE than in rest of EU
- Lack of skilled staff a structural issue, has grown in importance
- 1.2% of GDP: estimated loss of corporate investment due to uncertainty

Uncertainty depresses climate investment, less so for energy efficiency

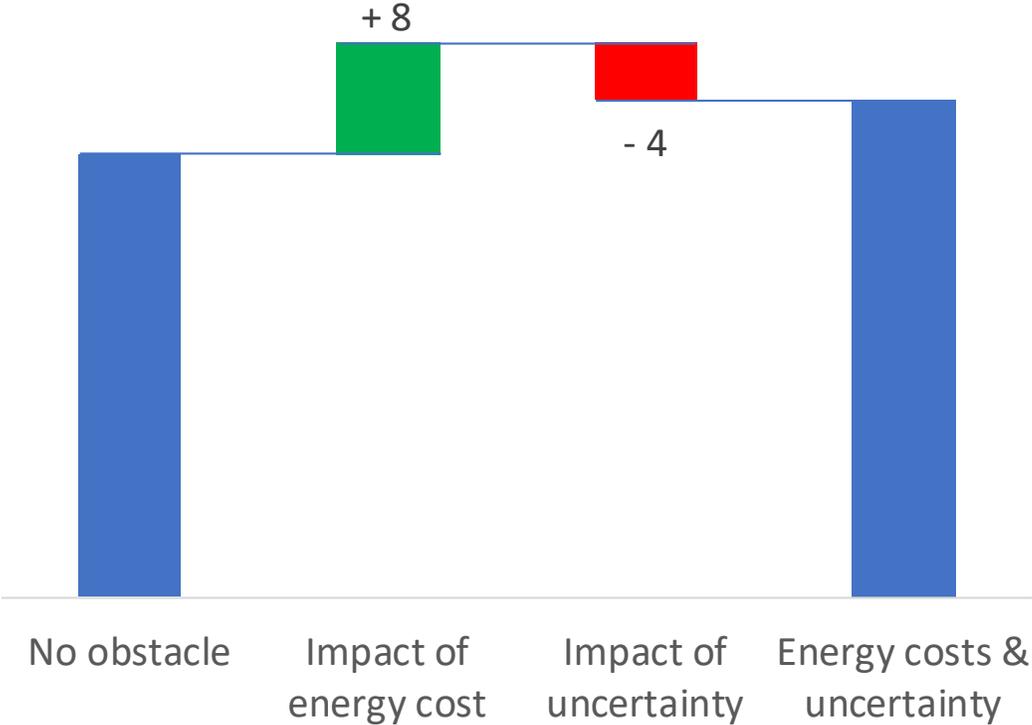
Probability of investing in climate action

(marginal changes due to the investment obstacles that firms mention, in percentage points.)



Probability of investing in energy efficiency

(marginal changes due to the investment obstacles that firms mention, in percentage points)

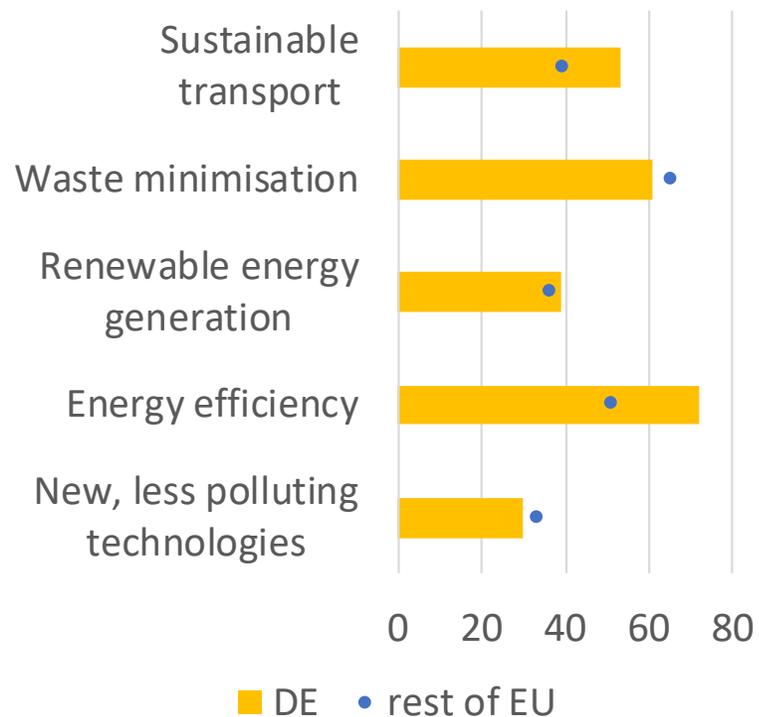


Source: EIB Investment Report 2022-2023

Firms in Germany tend to invest more in mitigation and adaptation than their EU peers

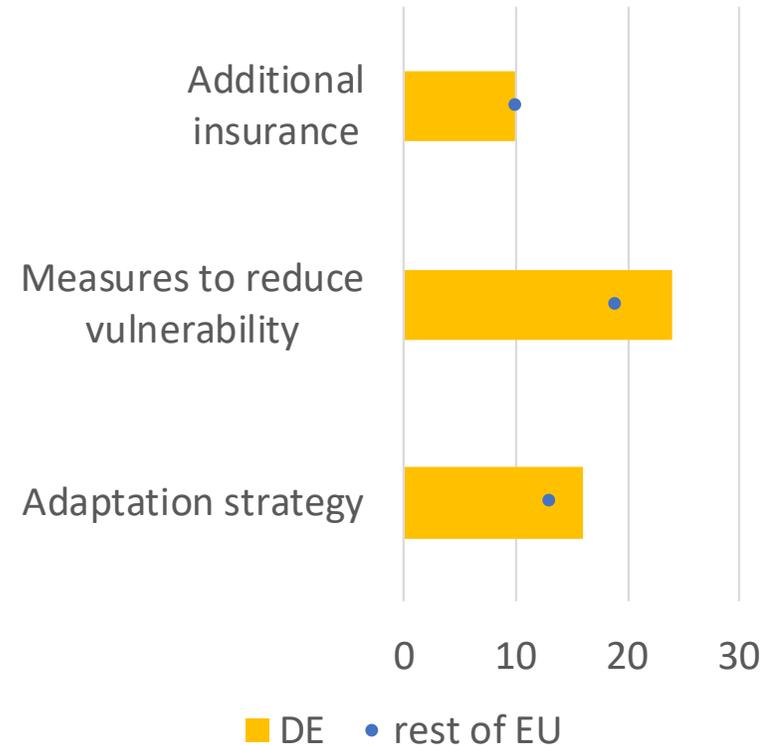
Firms' investment in mitigation

(share of firms in Germany)



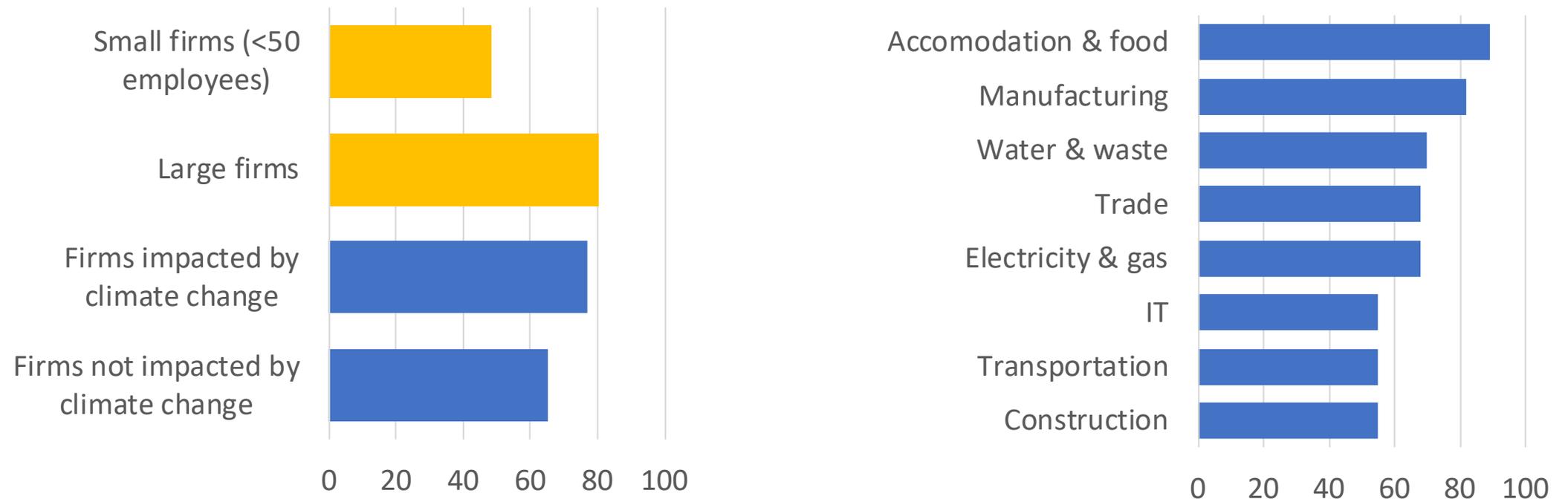
Firms' investment in adaptation

(share of firms in Germany)



Firms invest more in energy efficiency when large, and when having felt the impact of climate change

Likelihood that a firm in Germany invests in energy efficiency (%)



Source: EIB Investment Survey, 2022. Effects of size, climate impact, and sector are partial effects obtained from a logit model estimated on the responses of firms in Germany. The effects of size and climate impact are statistically significant at the 1% level. Investment probabilities of firms in accommodation & food and manufacturing are significantly higher than those of firms in construction, transportation, and IT.

From the short to the long term – how to deliver on investment?

- Policy priority on investment for the digital and green transition, targeting the whole digital and green value chain
- Sharp focus on skills as necessary enabler
- For all investment – but particularly for digital and green – remove barriers to investment and red-tape for the public and private sector
 - Implementation capacity for public investment and planning
 - For the private sector, simplicity and predictability is key to reduce uncertainty. Instruments exist!
- Need to fully exploit the upside potential of the single market, even more important as size of the market matters for global competitiveness

RESILIENCE AND RENEWAL IN EUROPE

EIB Investment Report 2022-2023

Debora Revoltella

Chief Economist
European Investment Bank

DIW-EIB Conference, 24 April 2023