The recovery as a springboard for change

EIB Investment Report 2021/22

Debora Revoltella
Chief Economist EIB
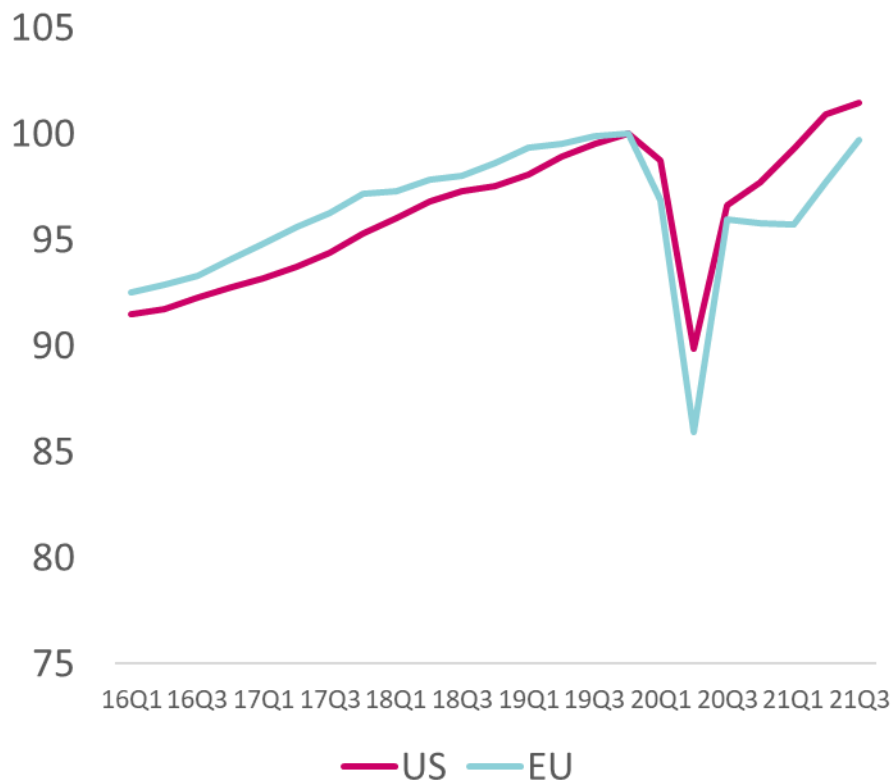
Luxembourg, 12-13 January 2022

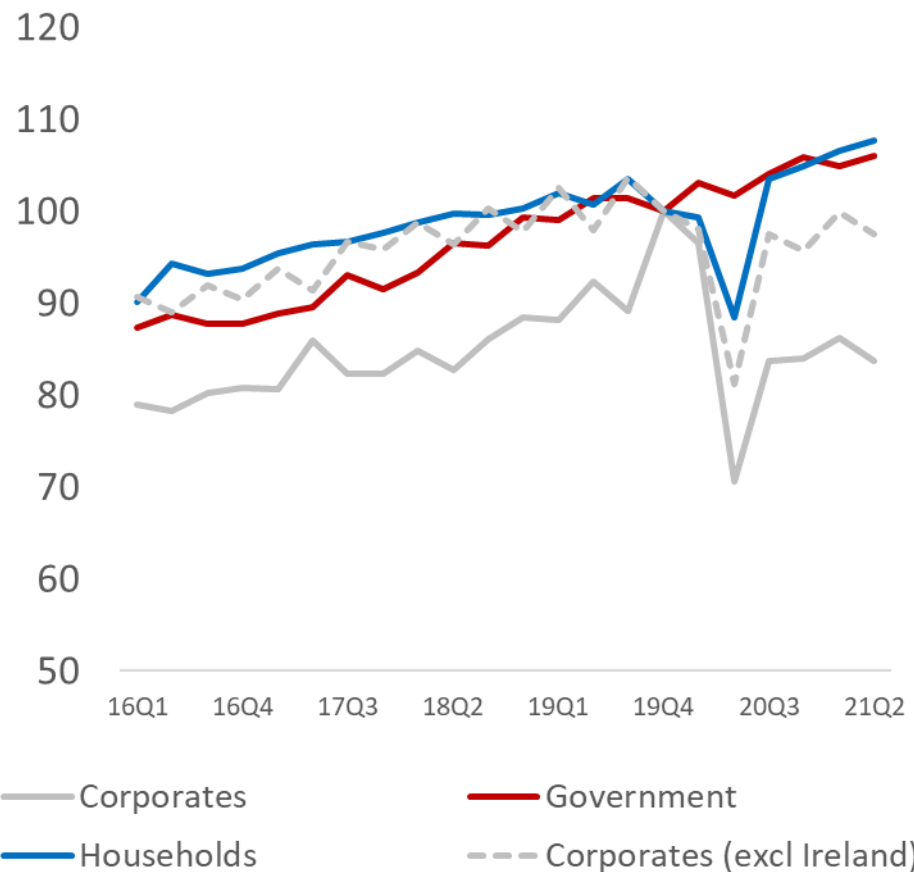# Key messages

- Policy support has been successful in avoiding the worst
  - Real GDP and Investment* are back to pre-pandemic levels in just 2 years, but it is not over

- Today – the challenge is to adapt to the new normal and to reap the benefits of the green and digital transformation

- Policy focus on investment:
  - Protect public investment
  - Maximize the impact of the Recovery and Resilience Facility
  - Create the conditions for private investment

European Investment Bank
The EU bank

* EU excl Ireland

Recovery, in less than 2 years

Real GDP
cumulative, 2019 Q4 = 100

Legend: US, EU

Real investment by sector
Q4 2019 = 100

Legend: Corporates, Government, Households, Corporates (excl Ireland)

Source: Eurostat. Note: Investment for the three institutional sectors is transformed in real terms using the implicit deflator for total GFCF in 2015 euros in chain-linked volumes. Corporates: Non-financial corporations. Government: General Government.

European Investment Bank
The EU bank

Policy support was substantial, preserving jobs….

Pandemic response fiscal measures
2020-June 2021, % of 2019 GDP

- ■ Guarantees (envelope)
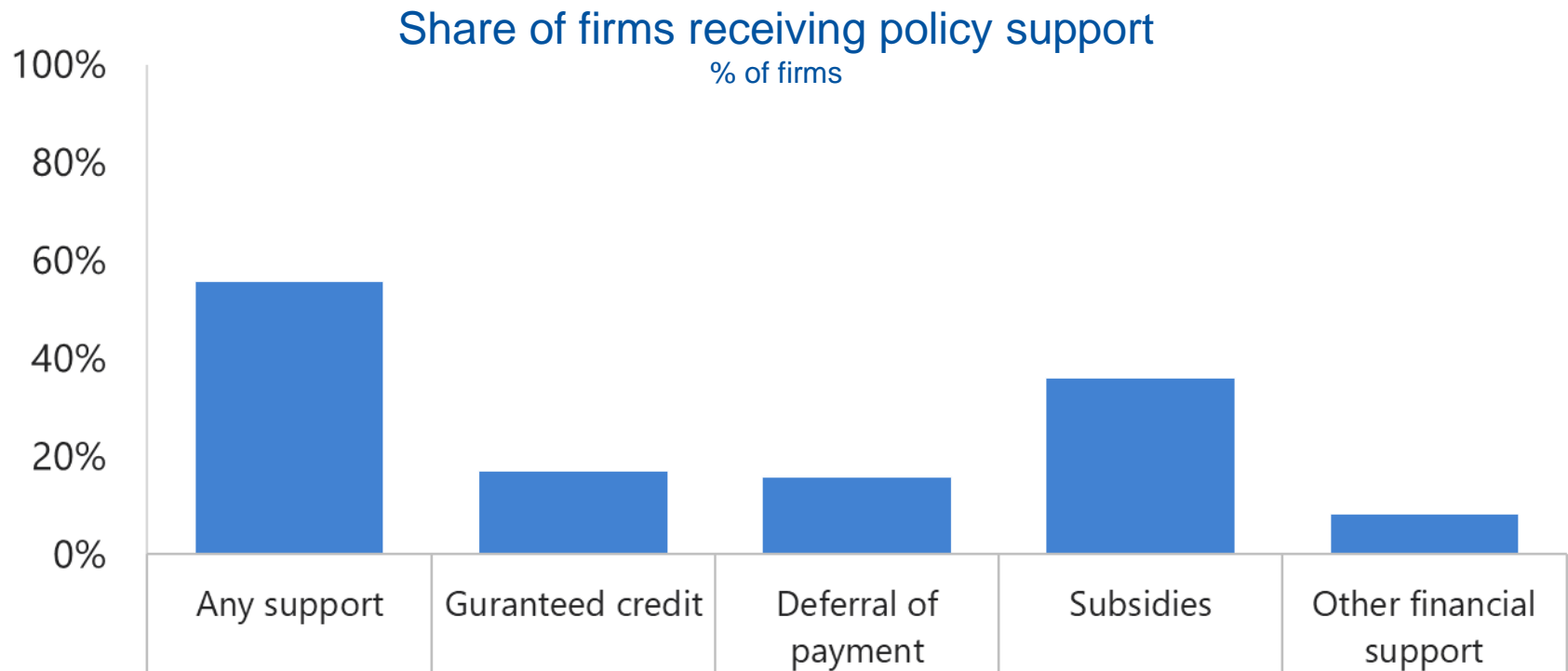- ■ Additional spending and foregone revenue (ex health)
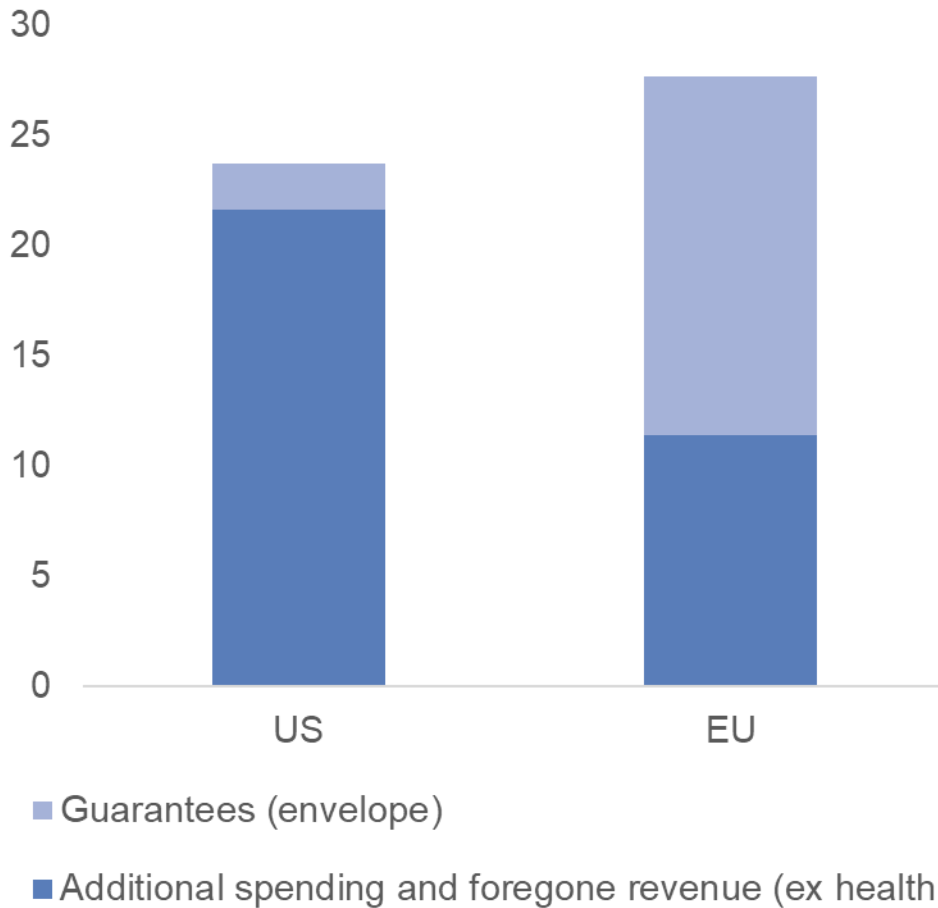
Labor market adjustment
Vacancy rates and unemployment rates, EU vs US

European Investment Bank
The EU bank
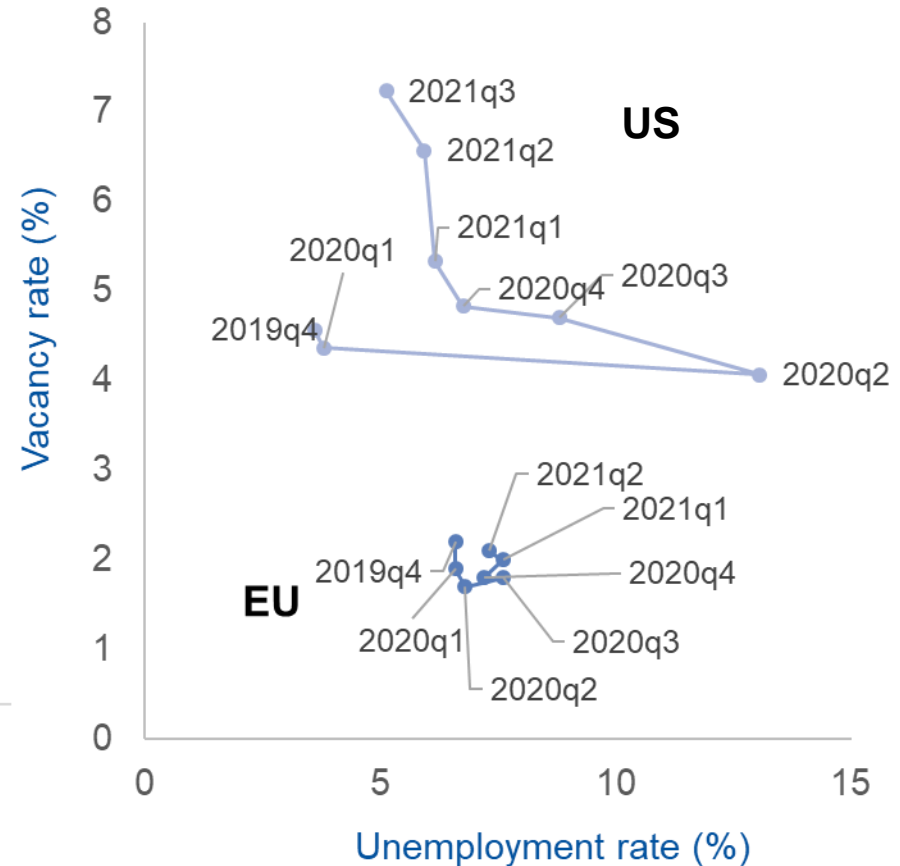
…. it was widespread at firm level….

Share of firms receiving policy support
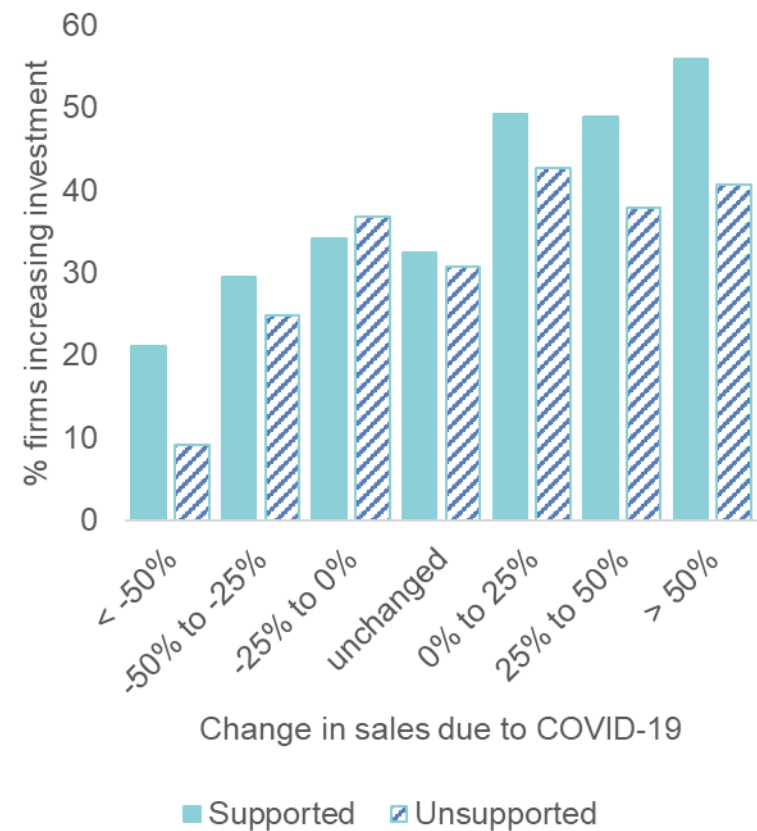### % of firms

…. it allowed business continuity and business transformation

Firms with large declines in sales were more likely to receive financial support…
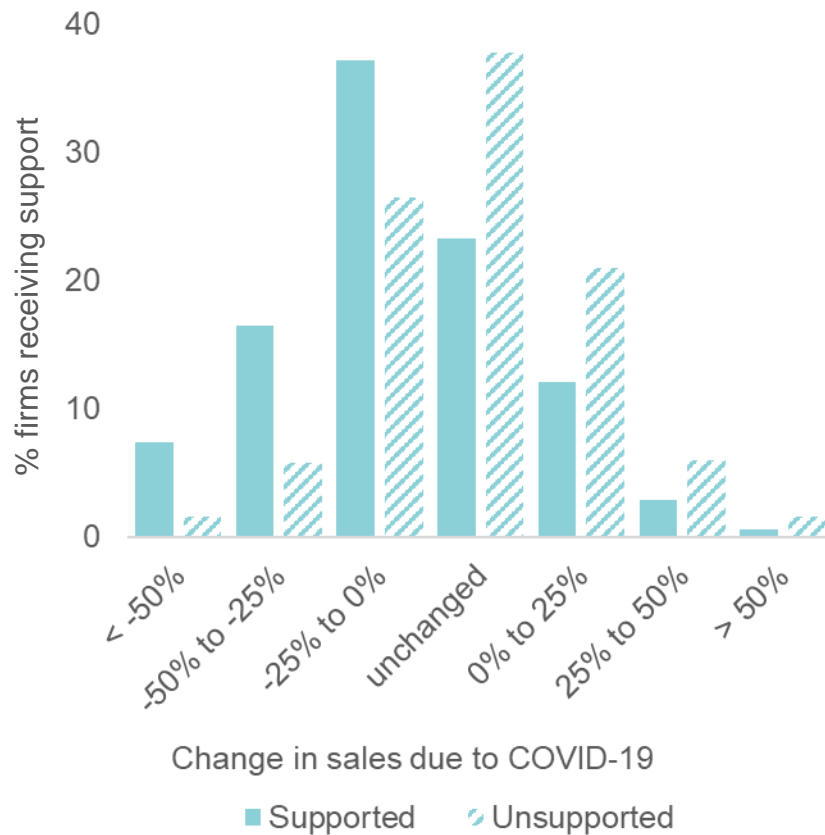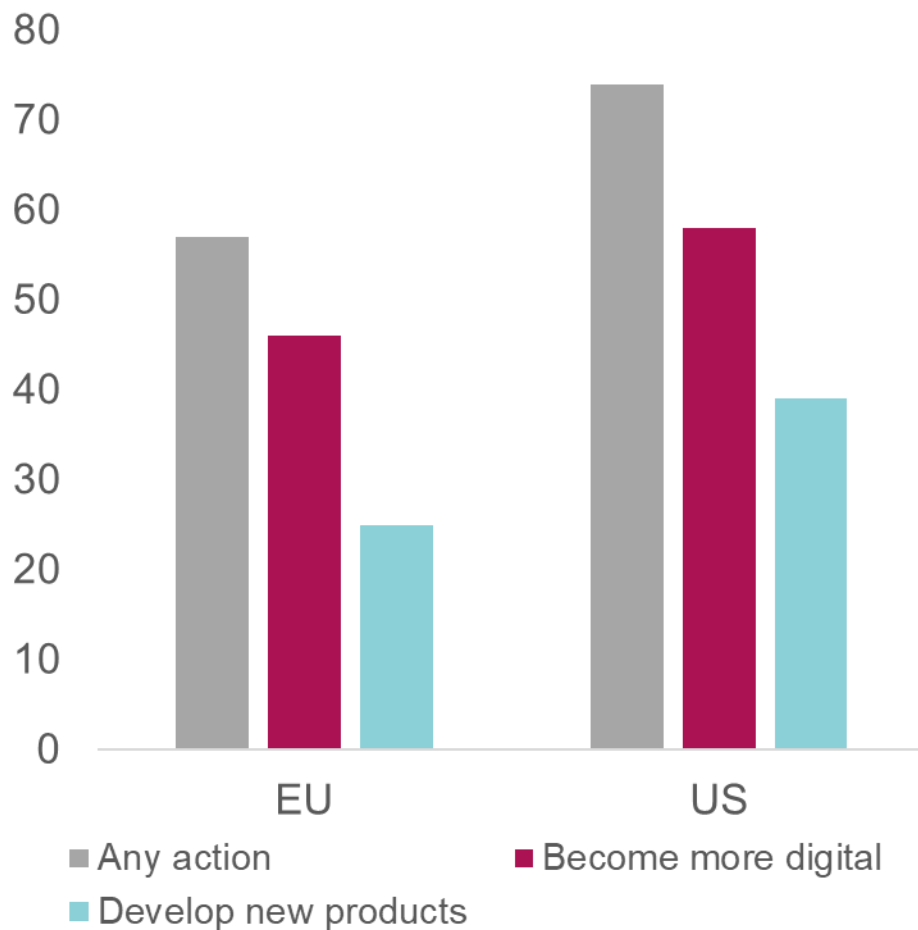
… allowing them to keep investment plans, independent of the sale loss
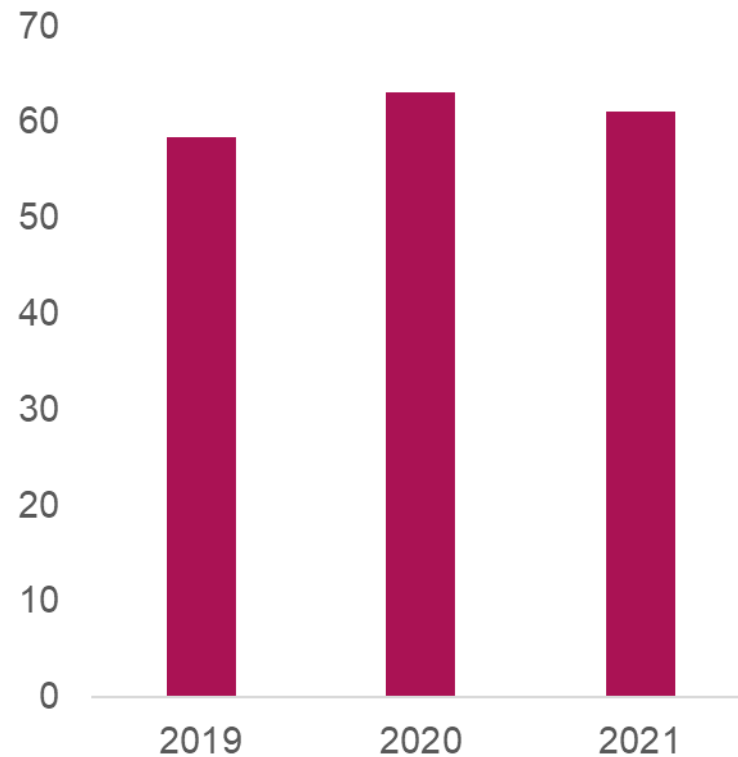

Source: EIBIS 2021

Many firms reacted to the pandemic, starting their "digitalisation journey", but to a lesser extent than in the US

Firms' short term reaction to Covid-19
Share of firms %

Legend:
- Any action (grey)
- Become more digital (maroon)
- Develop new products (light blue)

EU firms using advanced digital technologies - Share of firms %

Source: EIBIS 2021.

European Investment Bank
The EU bank

The pandemic put on hold climate investment, but EU climate policy leadership is likely to pay off for the future

EU investment in climate change mitigation was stable at **1.5%** of GDP

- Strong policy direction: an asset for Europe

- Awareness increasing

- EU leading in climate innovation

Firms' investment to deal with climate change

Source: EIBIS 2021

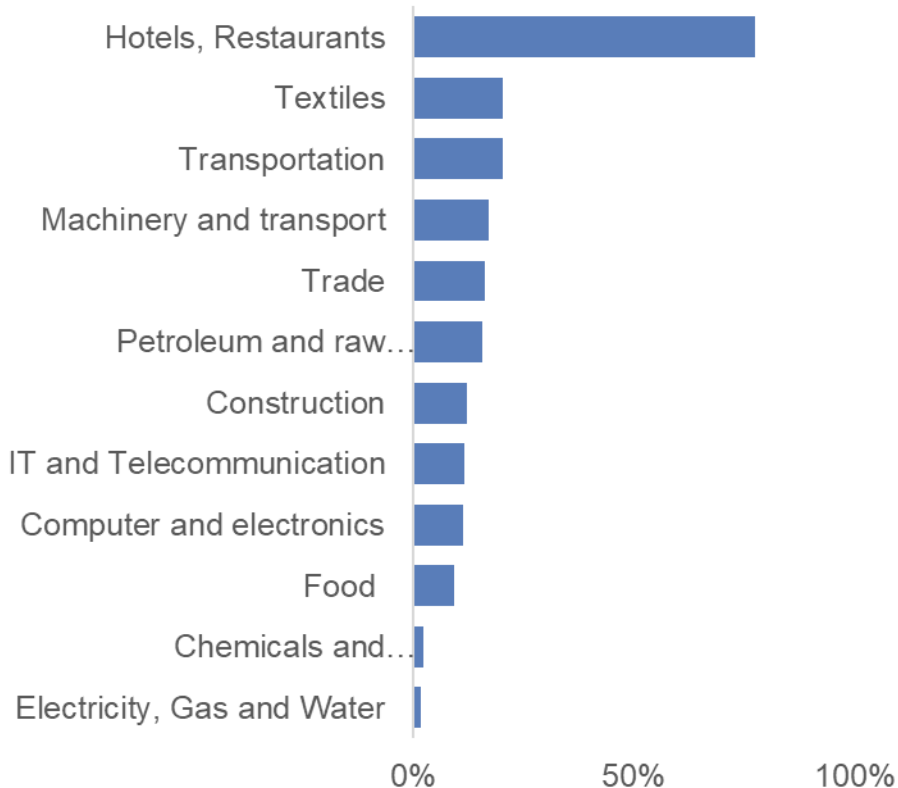European Investment Bank
The EU bank
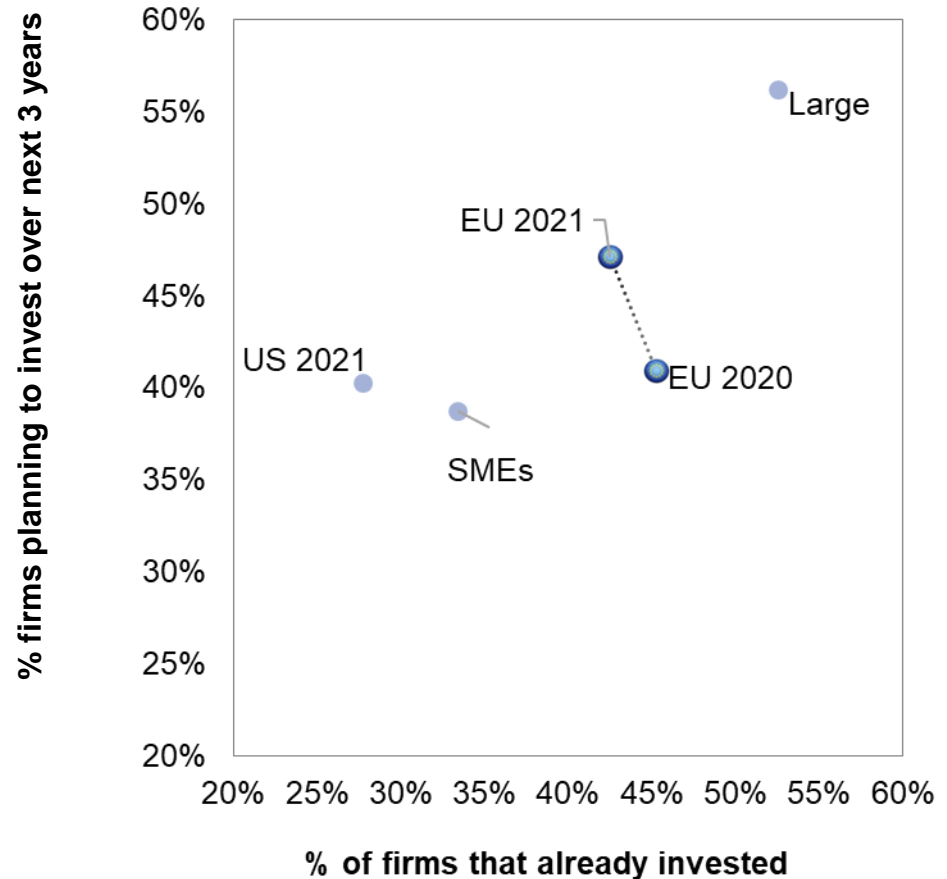
The risk of an asymmetric recovery remains
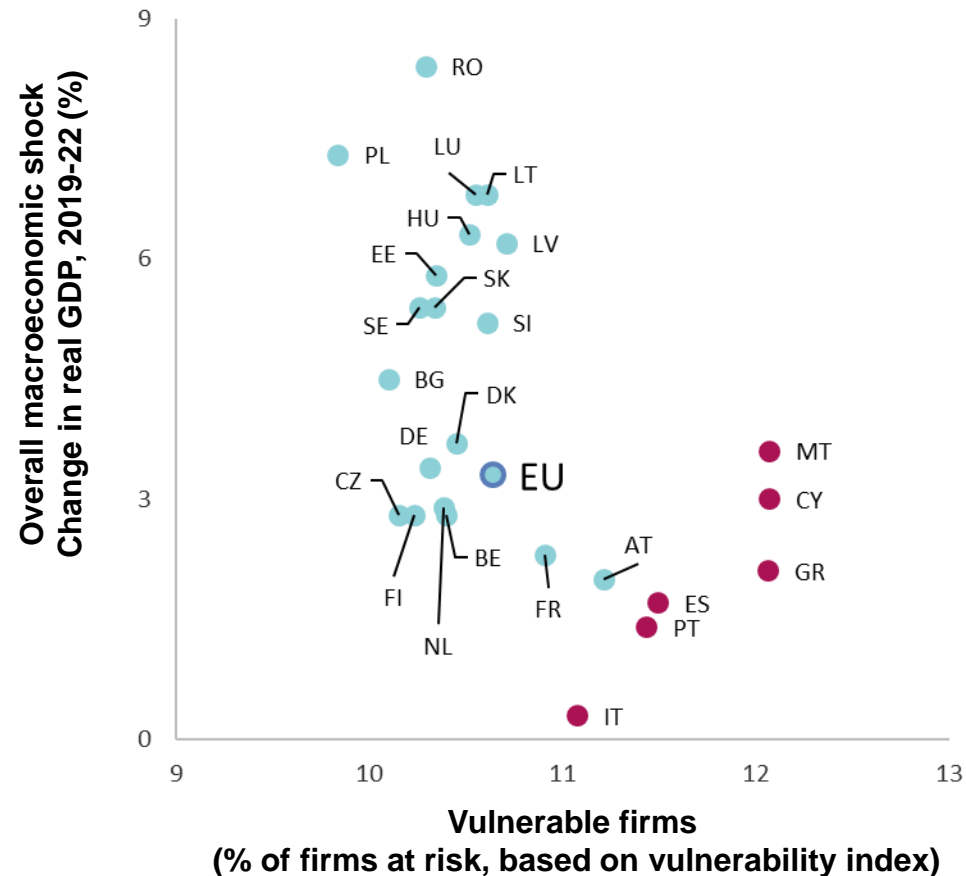
Impact across sectors
(share of firms with more than 25% sales losses)

Vulnerabilities across countries
(Economic shock and share of firms at risk, by country)

Source: (1) EIBIS 2021 share of firms reporting losses (indicative data). (2) Vulnerable firms estimates based on ORBIS_EIBIS match database, with simulations up to mid 2021. Red dots are countries in Southern Europe

Resilience to withdrawal of firms support likely to vary across countries

Share of firms recording losses and receiving support, by country

% firms recording losses vs % firms receiving support
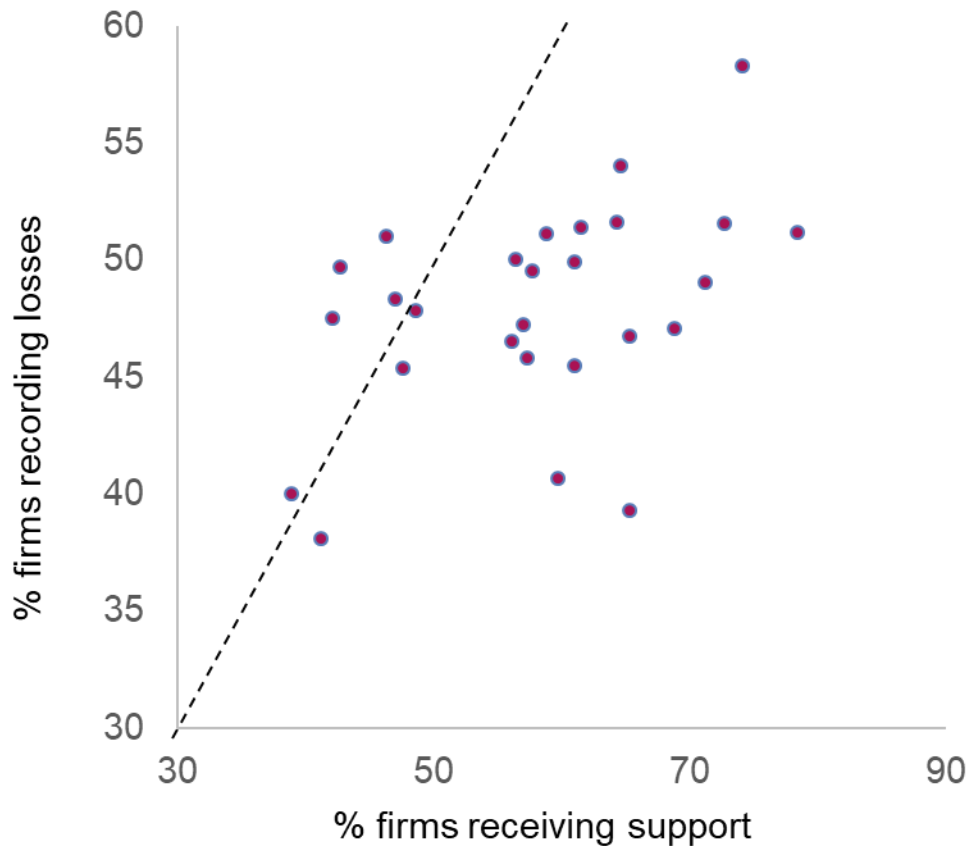
Share of firms receiving support, EU average and min-max across EU countries

% firms receiving support

Source: (1) EIBIS 2021. the line represents the 45o degree line. (2) EBIS 2021. The red bars represent the min-max across EU countries

European Investment Bank
The EU bank
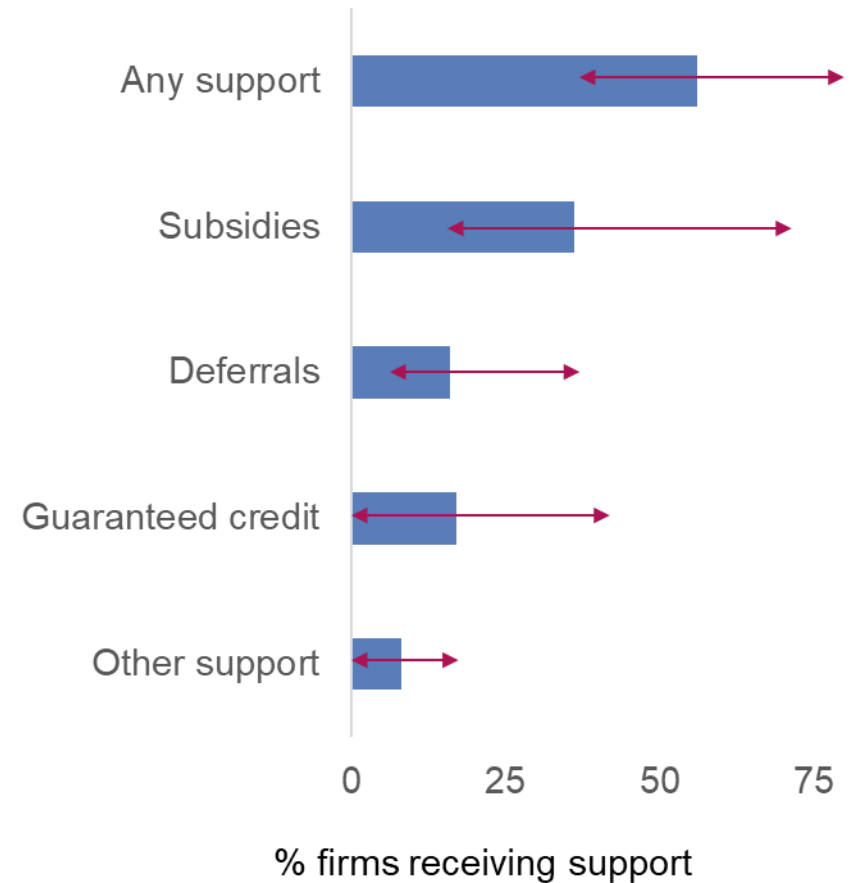
The divide across territories, firms and people might have increased

- The crisis has been tougher with the least educated and poses challenges for the young

    - Covid-19 induced school closure could reduce students' lifetime income by about 3.5% on average

- In cohesion regions, many structural gaps (infrastructure, digitalization, skills) made it hard to adapt

- SMEs and firms that were non-digital before the pandemic, were much less likely to transform – increasing the digital divide

- The share of firms investing in training dropped by 10 pp to 52% and more strongly for SMEs.

    - The share of firms investing in training remains lowest in non-transforming firms and less developed regions adding to transformation challenges
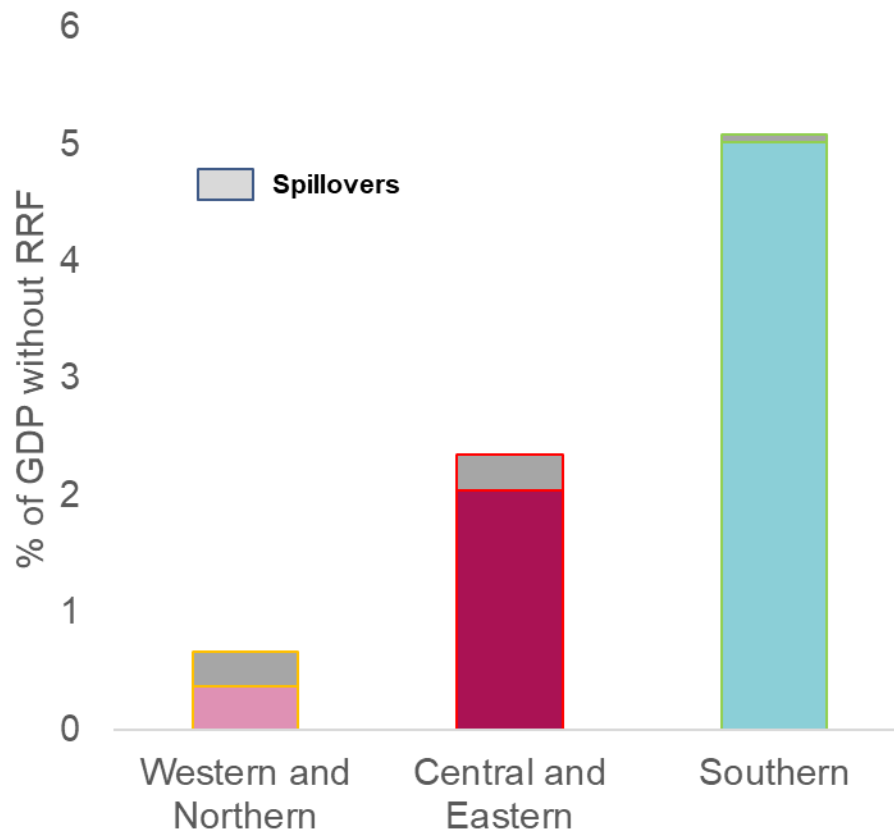
The new normal requires fast adaptation, with investment to reap the benefit of the green and digital transition

A policy focus on investment is crucial

Fully exploit the potential embedded in the Recovery and Resilience Facility and protect public investment from fiscal consolidation

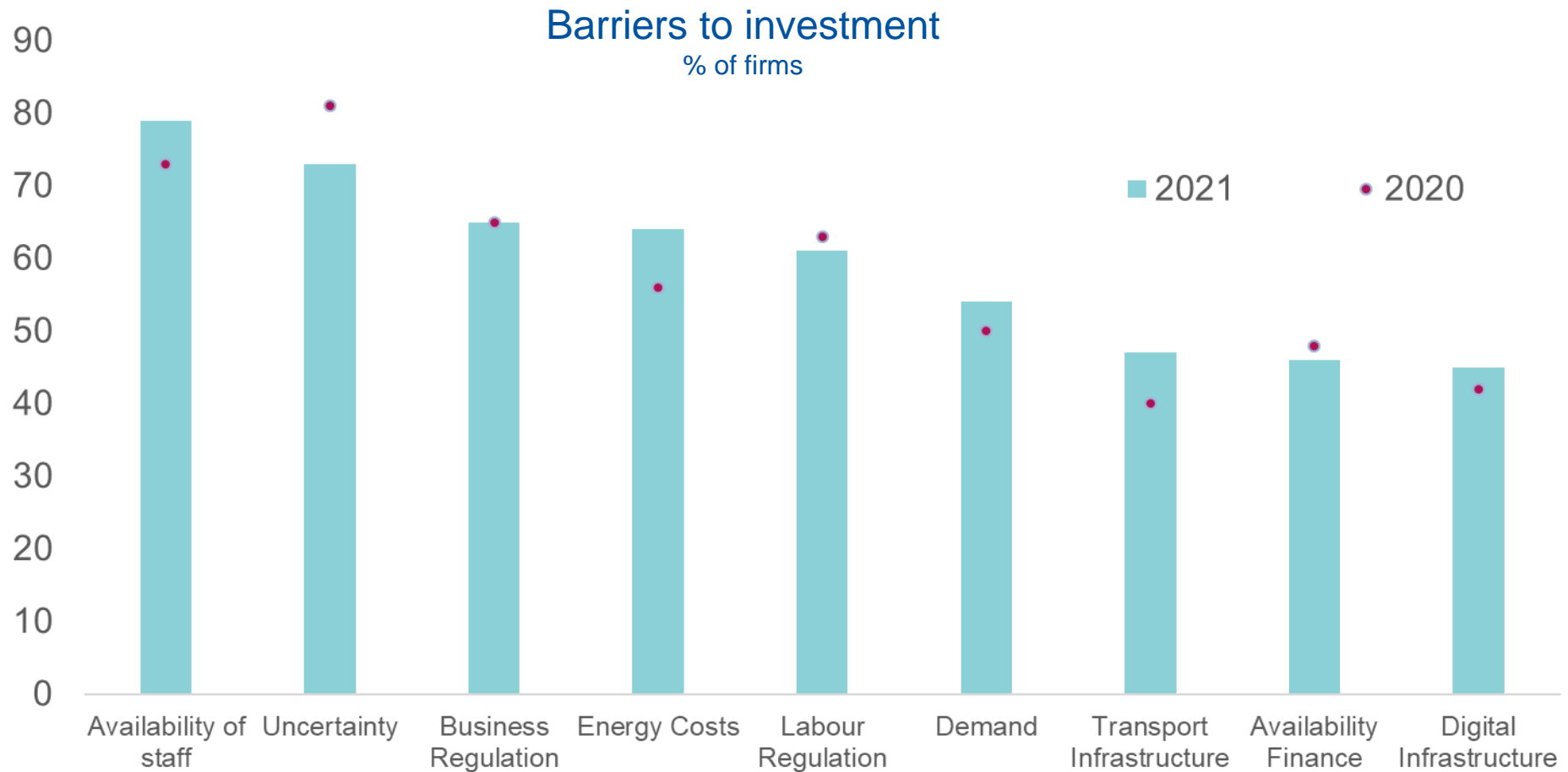## Estimated impact of the RRF by 2030 (% GDP)

As it stands, the Growth and Stability Pact would require a primary surplus of

3% of GDP vs. **1%**

on average during 2015-2019, in the most indebted countries

European Investment Bank
The EU bank

Source: EIB Investment Report , based on Rohmolo, JRC-EIB. The bars indicate the estimate impact of the RRF in terms of wider GDP.

Unlock private investment by addressing barriers: lack of skills, risk sharing, policy clarity and infrastructure

Barriers to investment
% of firms

Legend: ■ 2021   • 2020

Categories: Availability of staff, Uncertainty, Business Regulation, Energy Costs, Labour Regulation, Demand, Transport Infrastructure, Availability Finance, Digital Infrastructure

Sources: EIBIS

European Investment Bank — The EU bank

Conclusions

- So far so good but vulnerabilities and asymmetries remain

- Accelerating investment is crucial, to adapt to the new normal and reap the benefits of the green and digital transformation

- Going forward, policy focus should <u>target investment</u>:
  - Protect public investment
  - Maximize impact of the Recovery and Resilience Facility
  - Prioritize policies with the potential to unleash more private investment: skills, risk sharing, policy clarity and infrastructure

- Deal with asymmetries and inequality by incentivizing transformation