Investment in the EU

Strengths, weaknesses and barriers

Atanas KOLEV, European Investment Bank
Outline

• Investment in the European economy

• Investment weaknesses

• Barriers to investment
EIB Investment survey of non-financial corporations

• Unique survey addressing 12,500 firms in Europe (with 5+ employees), covering manufacturing, services, construction and infrastructure sector

• Representativeness at high scientific standards for:
  • the EU 28 (as a whole)
  • each Member country (separately)
  • 4 industry grouping (within each Member country – for most countries), and
  • 4 size classes (within each Member country – for most countries)

• Focus on investment and investment finance and linked to balance sheet data of the firms
  • Complements national surveys by offering full comparability among countries

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Investment is back in most countries and sectors

**Investment is back**
Real gross fixed capital formation, % GDP

**The corporate sector is the main driver**
Real GFCF, % annual change, contribution of institutional sectors

Source: Eurostat (1) and (2) and ECON (3)

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Corporates in most countries increased investment

Firms expecting to increase/decrease investment in current financial year (net balance, %)

Share of firms investing (in %)

Source: EIBIS 2018

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Headwinds are strengthening and low long-term growth is a concern

**Headwinds are strengthening**
Firms considering each factor supportive, minus firms considering it negative

**Low long-term growth**
Potential output growth EU

Source: EIBIS 2017 and EIBIS 2018 (1), Eurostat (2)

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Outline

- Investment in the European economy
- Investment weaknesses
- Barriers to investment
Infrastructure investment remains low

Investment in infrastructure % GDP

Public sector expenditure composition
Difference between 2017 and 1995-2016 average in % of GDP

Source: Eurostat (1) and (2) and ECON (3)

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Europe lags in investment in equipment and in intangibles

**Investment gap EU vs US**
Investment in Equipment and in IPP, % GDP

**European firms invest less in intangibles**
% total firms investment

Source: Eurostat and OECD (1) and EIBIS (2)

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Digitalisation is the next challenge and EU delays come at a cost

**EU lagging in adoption, particularly in the service sector**
% firms adopting digital technologies, partially or fully

**Cost of delayed adoption**
% firms stating that sales would have been lower, had they not invested in digitalisation

Source: EIBIS Digital and Skills Survey 2018

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With “winner takes it all”, the cost of delay for Europe might be long lasting.

**Expected impact of market entry by productivity and implementation profile**

Source: EIBIS Digital and Skills Survey 2018

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Investment in climate change mitigation does not match ambitious targets

**Climate change mitigation investment**

EUR bn (left axis), %GDP (right axis)

<table>
<thead>
<tr>
<th>Year</th>
<th>Renewables &amp; Grids</th>
<th>Energy efficiency</th>
<th>Transport</th>
<th>R&amp;D</th>
<th>Forestry etc</th>
<th>Mitigation/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>120</td>
<td>40</td>
<td>30</td>
<td>20</td>
<td>10</td>
<td>1.2</td>
</tr>
<tr>
<td>2013</td>
<td>100</td>
<td>50</td>
<td>25</td>
<td>15</td>
<td>15</td>
<td>1.1</td>
</tr>
<tr>
<td>2014</td>
<td>80</td>
<td>60</td>
<td>20</td>
<td>10</td>
<td>20</td>
<td>1.0</td>
</tr>
<tr>
<td>2015</td>
<td>60</td>
<td>70</td>
<td>15</td>
<td>5</td>
<td>25</td>
<td>0.9</td>
</tr>
<tr>
<td>2016</td>
<td>40</td>
<td>80</td>
<td>10</td>
<td>2</td>
<td>30</td>
<td>0.8</td>
</tr>
<tr>
<td>2017</td>
<td>20</td>
<td>90</td>
<td>5</td>
<td>1</td>
<td>40</td>
<td>0.7</td>
</tr>
</tbody>
</table>

**European targets for 2020, 2030 and 2050 compared to 1990 levels**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2020</th>
<th>2030</th>
<th>2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in energy efficiency</td>
<td>20%</td>
<td>32.5%</td>
<td>TBD</td>
</tr>
<tr>
<td>Share of Renewables</td>
<td>20%</td>
<td>32%</td>
<td>TBD</td>
</tr>
<tr>
<td>GHG emissions reduction</td>
<td>20%</td>
<td>40%</td>
<td>80-95%</td>
</tr>
</tbody>
</table>

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• Barriers to investment
Inadequate supply of skills and uncertainty top investment barriers

### Barriers to investment

% firms stating it is an obstacle to investment

- **Demand for products or services**
- **Availability of skilled staff**
- **Energy costs**
- **Access to digital infrastructure**
- **Labour market regulations**
- **Business regulations**
- **Adequate transport...**
- **Availability of finance**
- **Uncertainty about the future**

**Source:** EIBIS 2018

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Inadequate supply of skills and uncertainty top investment barriers

**Barriers to investment**
% firms stating it is an obstacle to investment

**Finance not a major obstacle for most**
% firms stating finance is a major obstacle to investment

Source: EIBIS 2016-2018

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The EU financial sector is ill-suited to support innovation

**Difference between innovating and non-innovating firms**

(% deviation from non-innovators)

<table>
<thead>
<tr>
<th>Productivity</th>
<th>Exporting</th>
<th>FDI</th>
<th>Growth of Sales</th>
<th>Liquidity</th>
<th>Leverage</th>
<th>EBITDA Margin</th>
<th>ROIC</th>
<th>Financially Constrained</th>
<th>Dissatisfaction with Collateral Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>More productive/competitive</td>
<td>Held back by financing constrains</td>
<td>In better financial health</td>
<td></td>
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<td></td>
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</tbody>
</table>

Source: EIBIS 2018

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Institutional framework is key

In the EU:

66% of firms consider business regulation an impediment to investment

43% of municipalities with poor infrastructure say technical capacity is a major obstacle

63% of firms consider labor market regulation an impediment to investment

In regions with high quality institutions:

firms are 3x more likely to innovate

9x more likely to introduce a patent

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Thank you!

www.eib.org/investment-report