

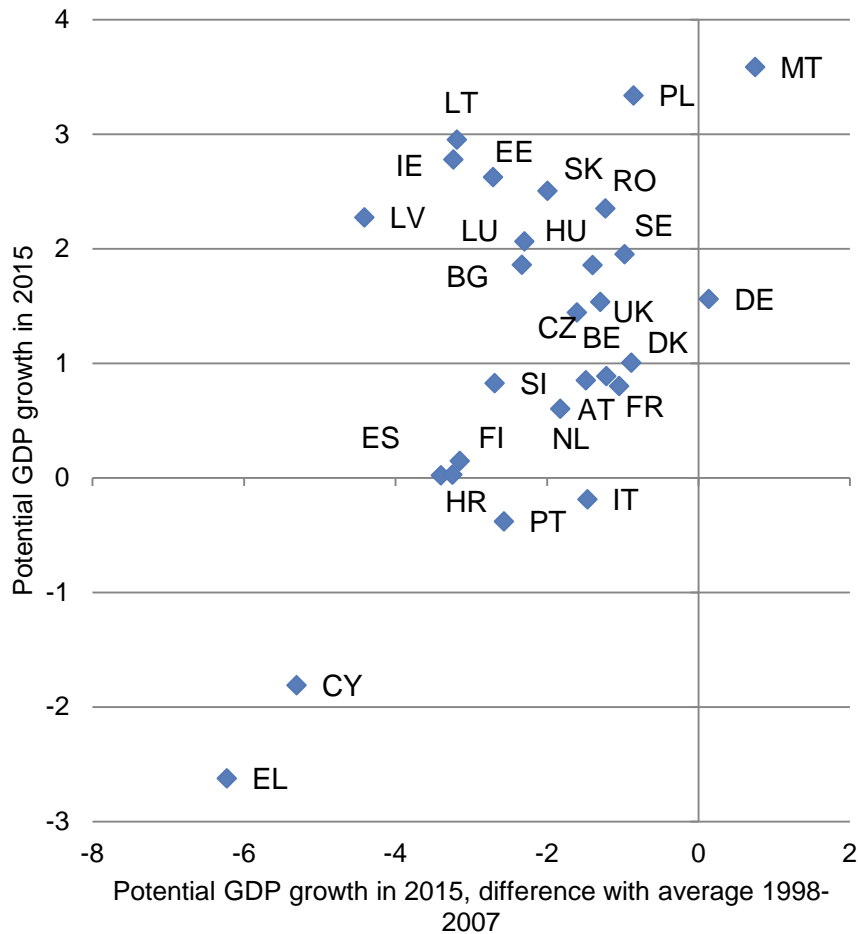
# Engine for Growth, Structural Reforms and Monetary Policy

## Restoring Investment in a weak Demand Environment

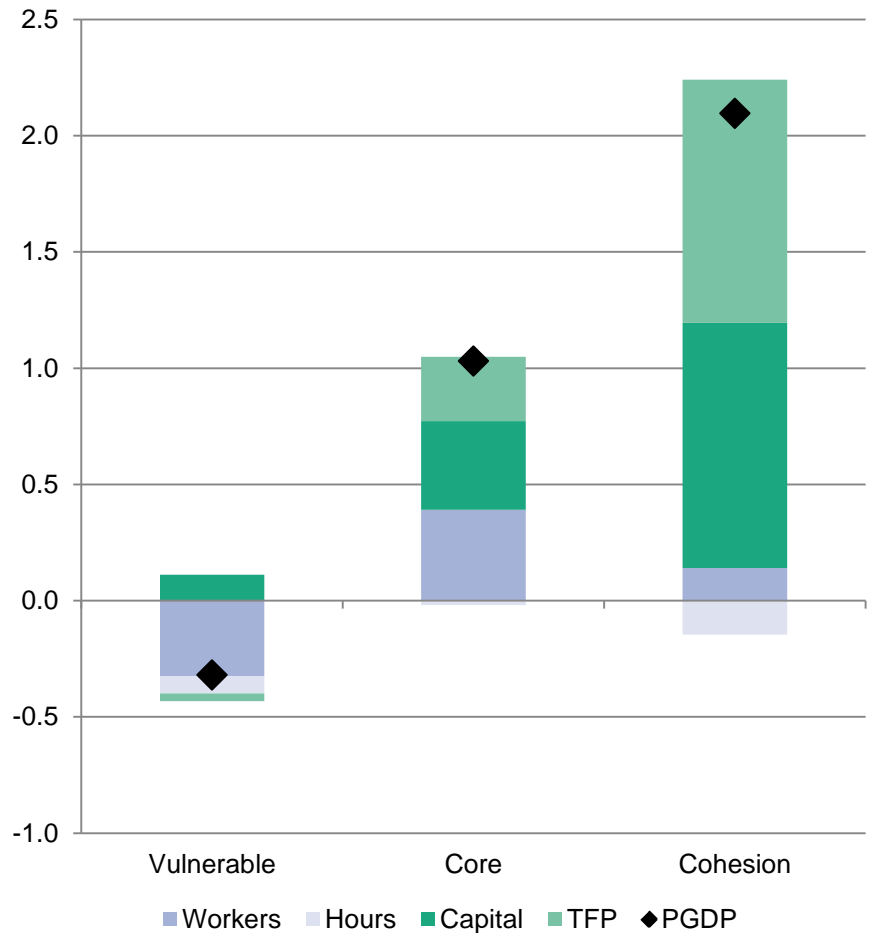
Debora Revoltella  
Director Economic Department EIB

# Low potential growth is one of the key EU challenges

Potential GDP Growth in the EU

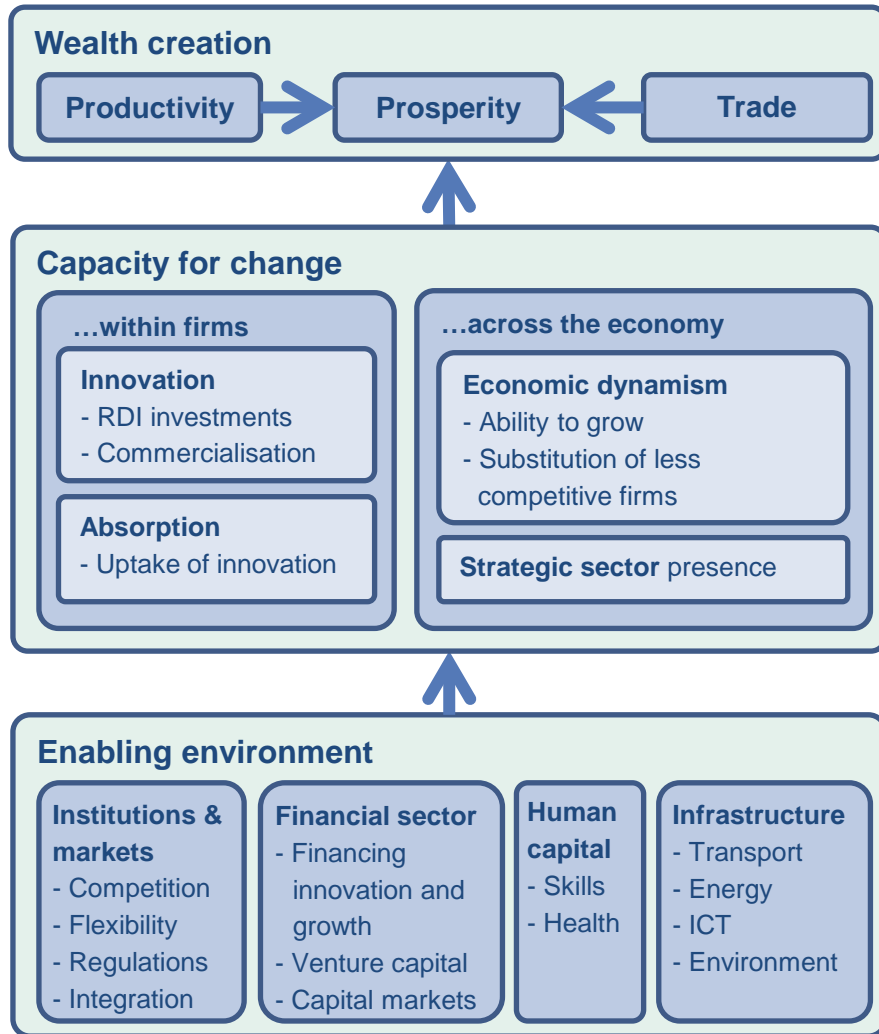


Contribution to Potential growth GDP, avg 2010-2015



Source: EC and Ameco database

# The EU's competitiveness gap is the result of wide-ranging shortfalls



## Annual shortfalls – examples

Estimates (EUR bn)

### Innovation and modernisation

- R&D investment: 130
- Industrial modernisation: 90

### Finance for growth

- Net bank lending\* 55
- Venture capital financing\*\* 20

### Human capital development

- Educational facilities 10
- Educational operational spending 90

### Infrastructure investments

- Broadband and data centres: 55
- Energy: 100
- Transport: 50
- Environmental rehabilitation 90

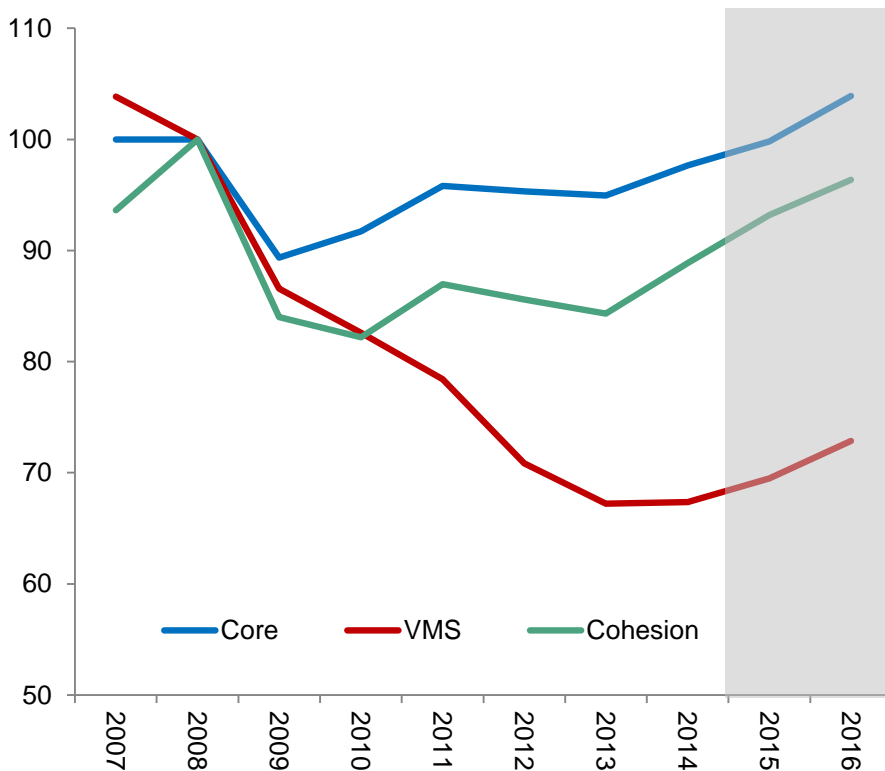
\* Compared to pre-crisis flows

\*\* Compared to US VC financing flows

Source: EIB (2105) "Restoring EU Competitiveness" available at <http://www.eib.org/infocentre/publications/all/restoring-eu-competitiveness.htm>

# Depressed Investment, Below Depreciation

Real fixed investment



## Constraints to investment:

- structural impediments
- lack of confidence
- need of reallocating resources
- low risk bearing capacity in the system
- in some cases impaired access to finance (SMEs)

Source: EIB Investment and Investment Finance 2015

Source: INTAN-Invest, Ameco, Eurostat and OECD.

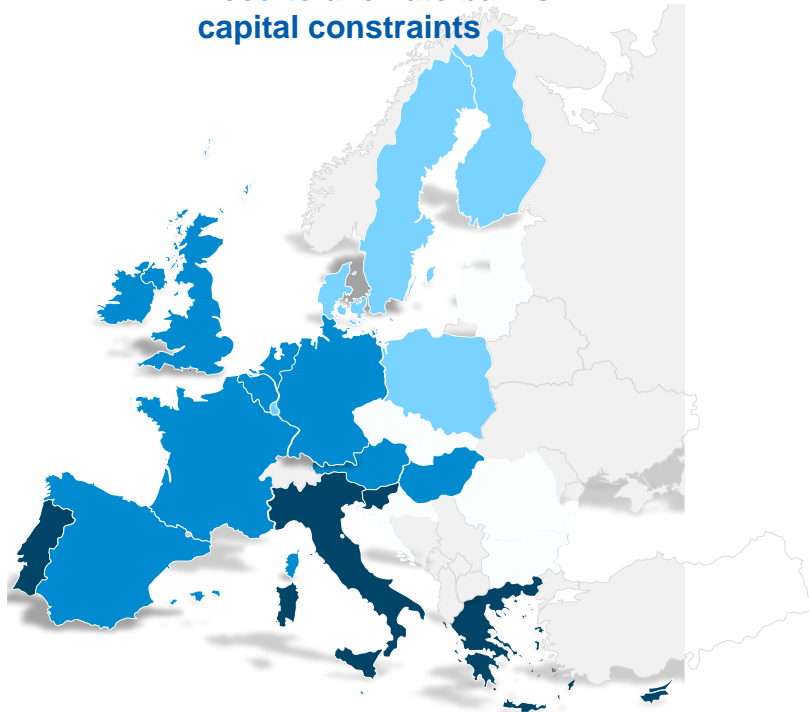
Nb: Index average 2008=100

**Core:** AT, BE, DK, DE, FI, FR, LUX, ND, SW, UK; **VMS:** CY, GR, ES, IE, IT, SLO, PT;

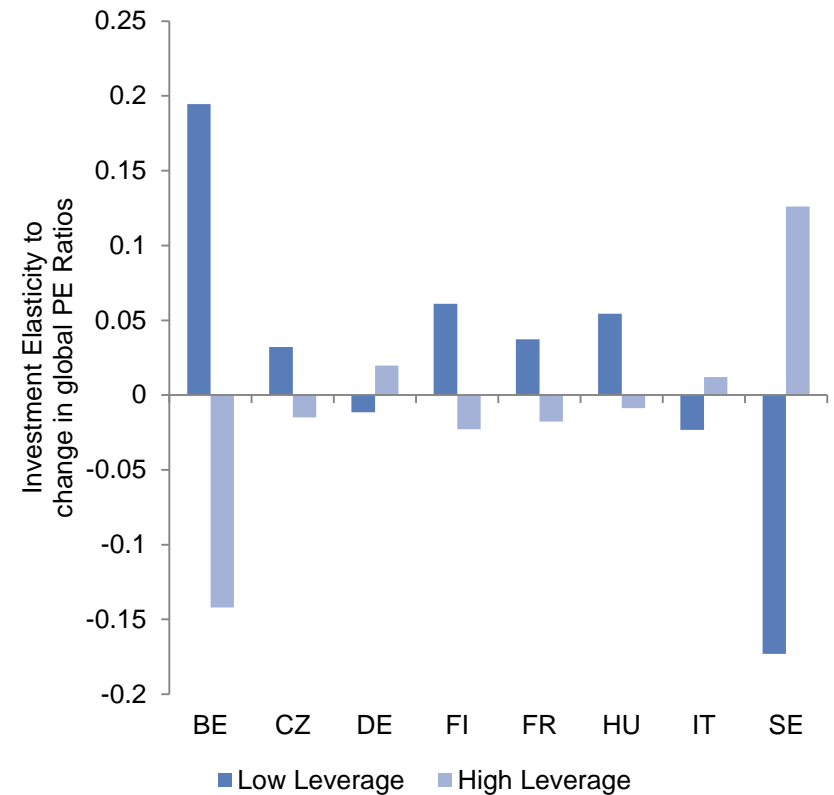
**Cohesion:** BG, CR, ES, HR, HU, LIT, LA, MA, PL, RO, SK

# Financial frictions – banks and corporate leverage

Need to alleviate banks' capital constraints



Investment Responsiveness to Global Growth Opportunities



Moderate
Medium
Strong
No data

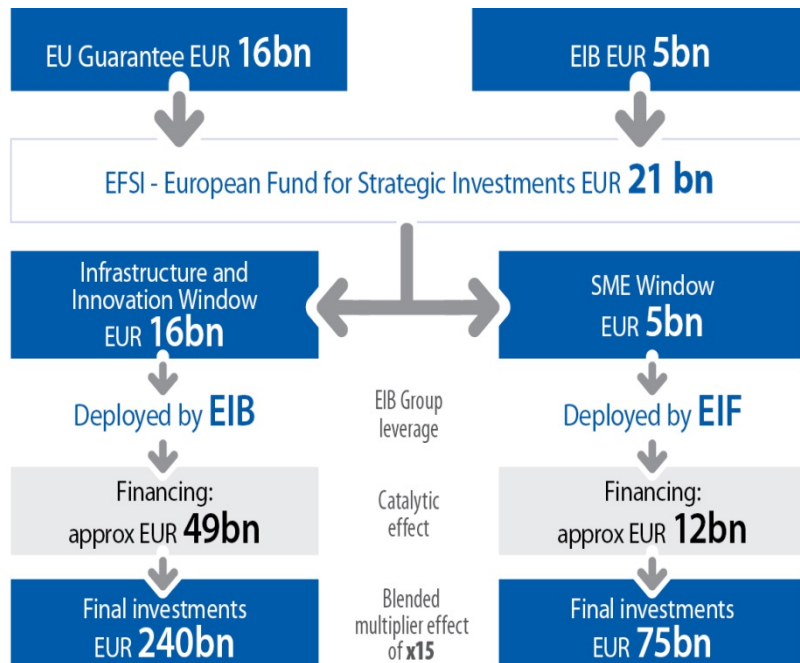
**Need to alleviate constraints**  
**- Banks:** Capital adequacy ratio under the ECB asset quality review adverse scenario

Source: EIB research – Brutscher 2015

# The Investment Plan tackles all those - a concerted action to create an environment conducive to investment

- **Generate an environment conducive to investment**
  - **Structural reforms** to generate an investment friendly environment
  - European market **integration** (institutionally and physically), creating competitiveness enhancing investment opportunities
- **Public support, via the EFSI and EIB activity, can help to kick-start**
  - **Public stimulus targeting** competitiveness-enhancing investments with positive spill-overs like **research, development, innovation, skills and infrastructure**
  - Targeting commercially **sound**, economically and technically **viable projects and trying to avoid market distortion** (new focus on smaller projects, not only targeting market leaders)
  - **Turning grants into catalytic financial instruments**. As public stimulus will cover for some of the risk taking, abundant market liquidity will be attracted in an easier way
  - Advisory and coordination of project **preparation**

## European Fund for Strategic Investments (EFSI)



## Does it matter?

- The investment plan is just **one of various elements** to support investment
- It concentrates on investments in **merit goods**
- EUR 105 bn is
  - 0.8% of GDP
  - **11.8%** of investment in target areas (sum of R&D, technology adoption, education infrastructure, transport, energy, environment, broadband and data centres)
- Quality of projects, more risk taking and additionality

# Why are we interested in CompNET?

- **Reallocation of resources is key to enhance potential growth**
  - Moving the frontier and from low to high productive firms
  - Structural reforms and completion of the EU internal market, to enhance flexibility (within sectors and countries and at the EU level)
  - Financial frictions exist and financial markets can be unprepared to deal with reallocation of resources
  - Public support important but should be well designed, to avoid distorting incentives
- **EIB economic department particularly interested in the link between reallocation of resources and financial frictions – in the post crisis environment**
  - Is a bank based system able to support a reallocation of resources? Debt vs Equity
  - Is the post crisis legacy of the EU financial sector a constraint to reallocation of resources?
  - Do policy interventions (ECB, EIB, EU) distort incentives for reallocation of resources?