

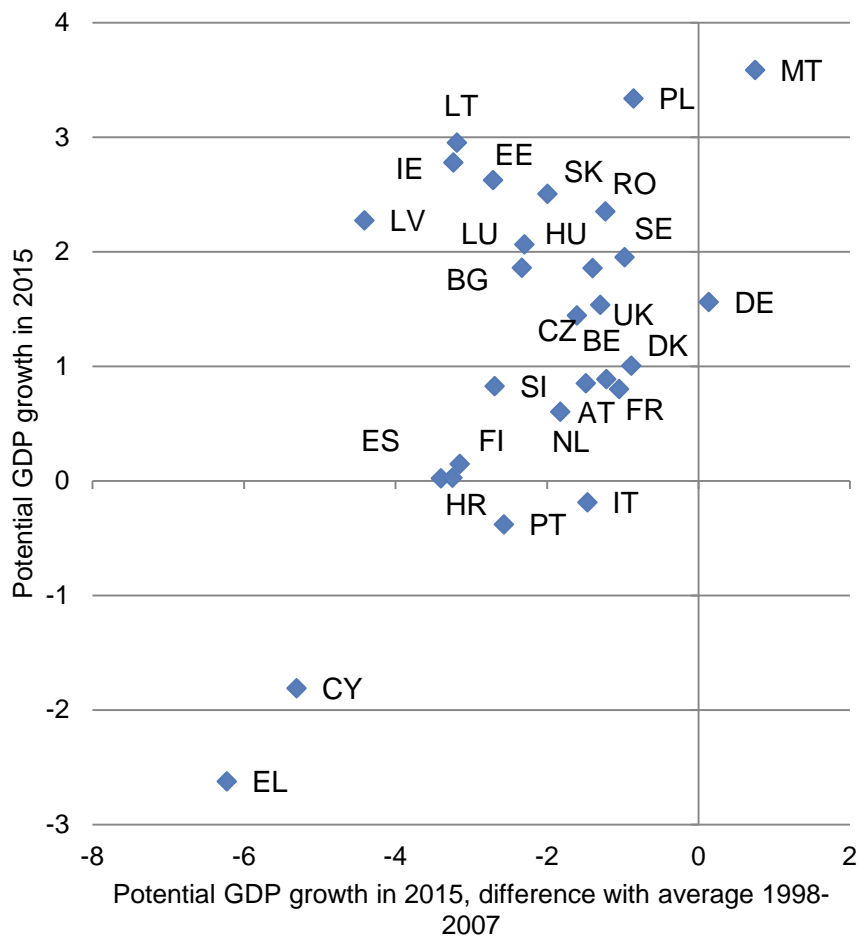
Engine for Growth, Structural Reforms and Monetary Policy

Restoring Investment in a weak Demand Environment

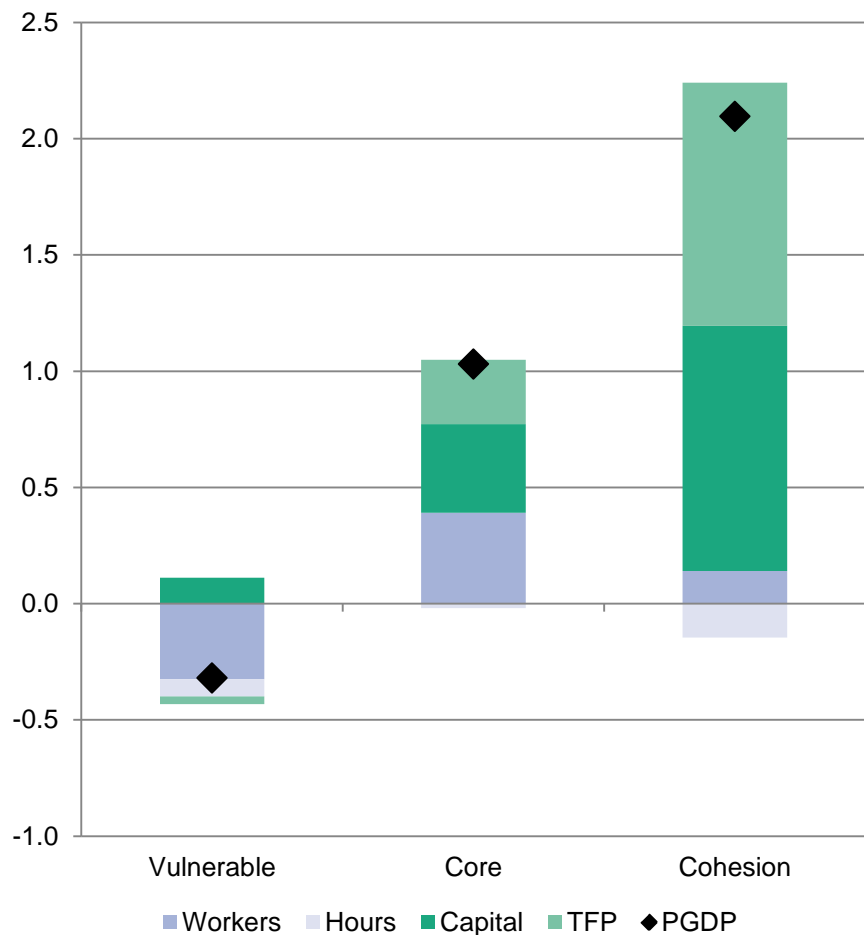
Debora Revoltella
Director Economic Department EIB

Low potential growth is one of the key EU challenges

Potential GDP Growth in the EU

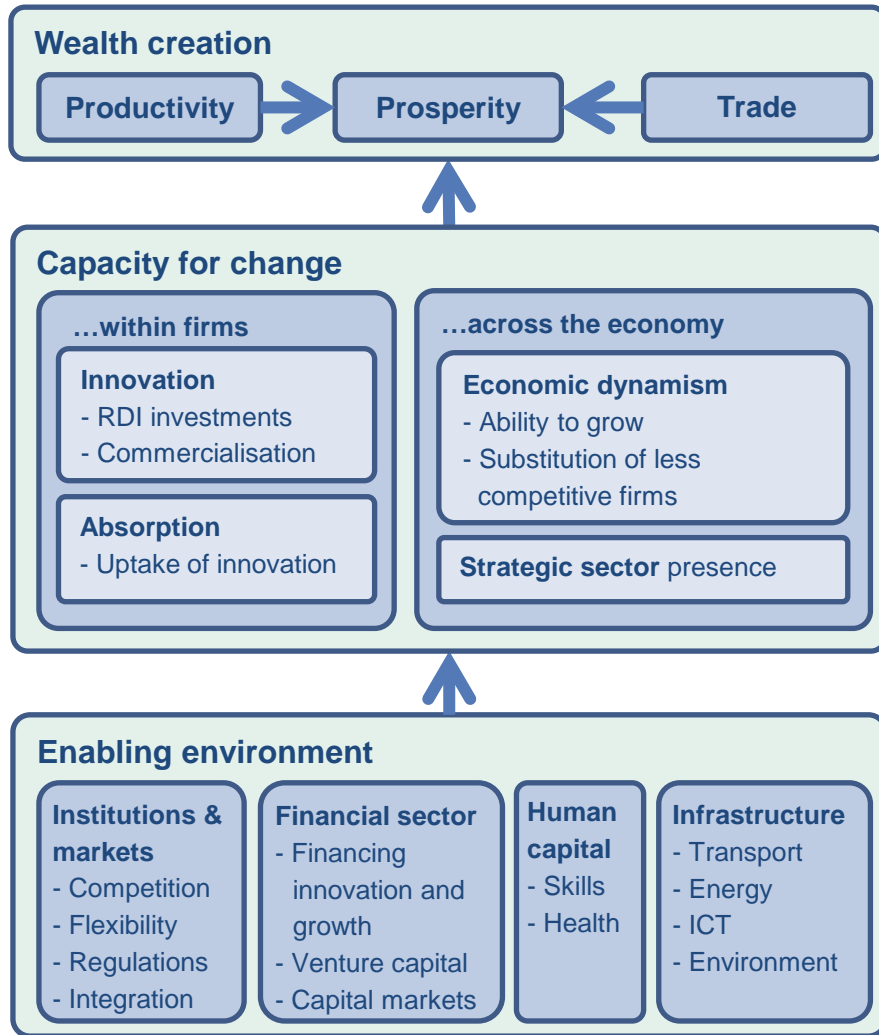


Contribution to Potential growth GDP, avg 2010-2015



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

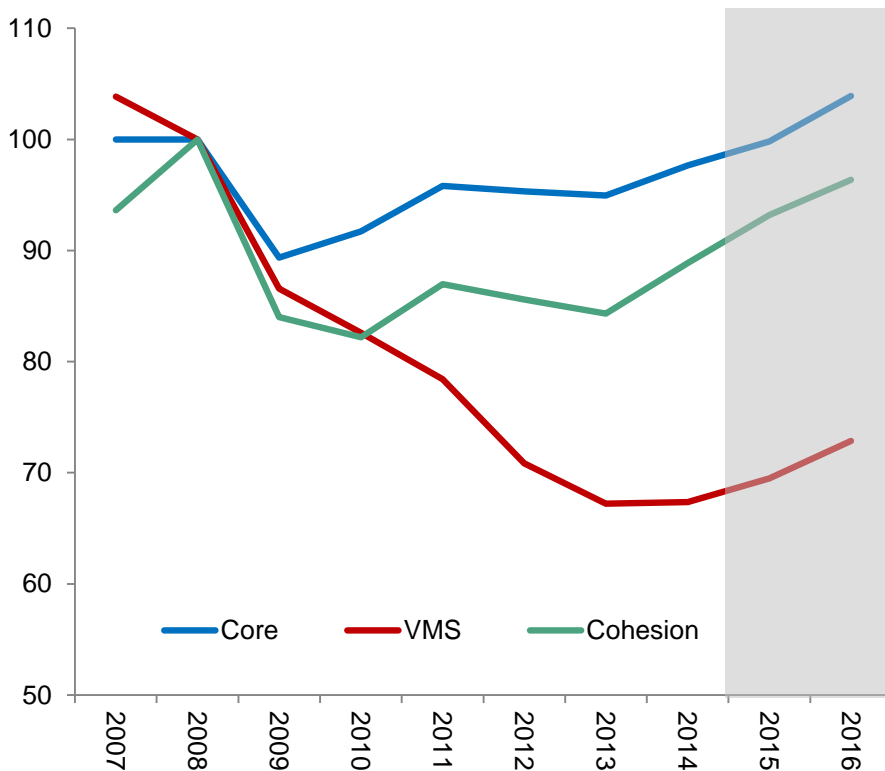
** Compared to US VC financing flows

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.

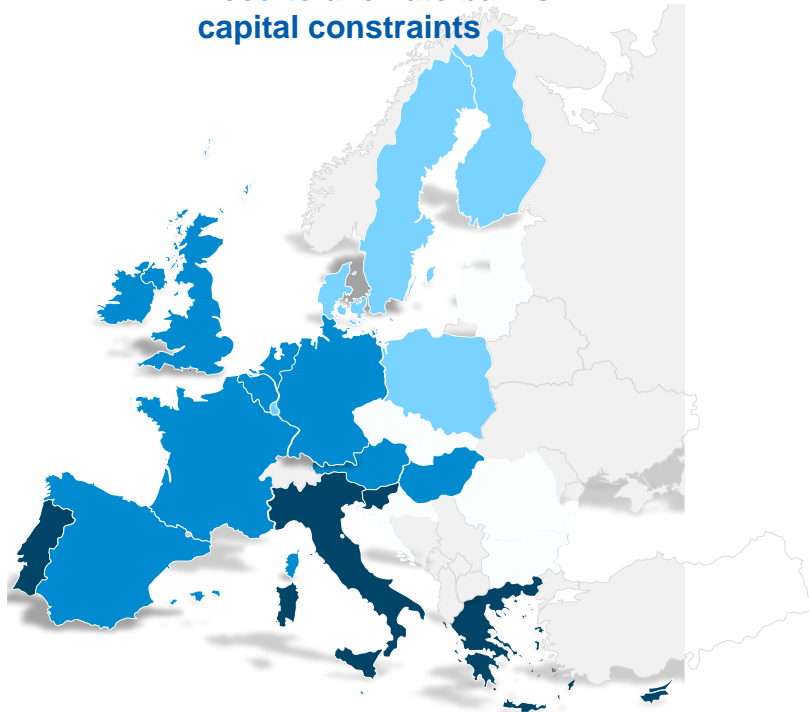
Nb: Index average 2008=100

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

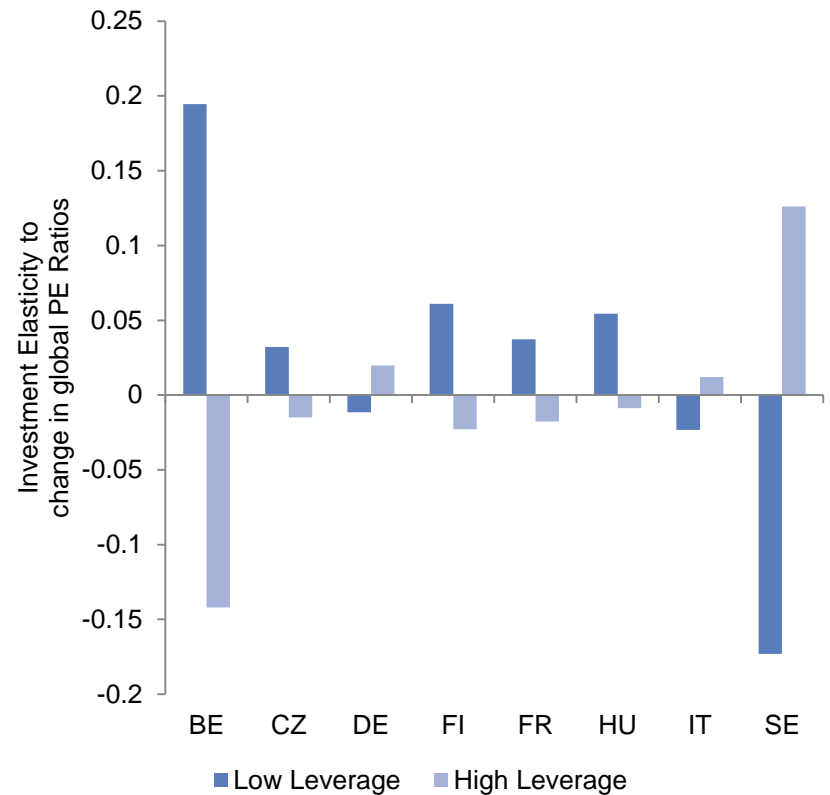
Cohesion: BG, CR, ES, HR, HU, LIT, LA, MA, PL, RO, SK

Financial frictions – banks and corporate leverage

Need to alleviate banks' capital constraints



Investment Responsiveness to Global Growth Opportunities



Moderate
Medium
Strong
No data

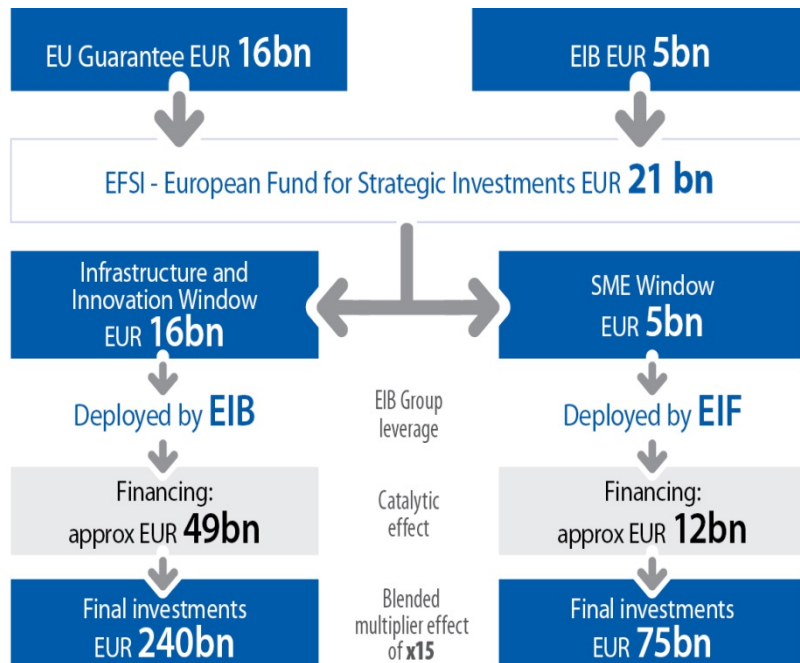
Need to alleviate constraints
- Banks: Capital adequacy ratio under the ECB asset quality review adverse scenario

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?