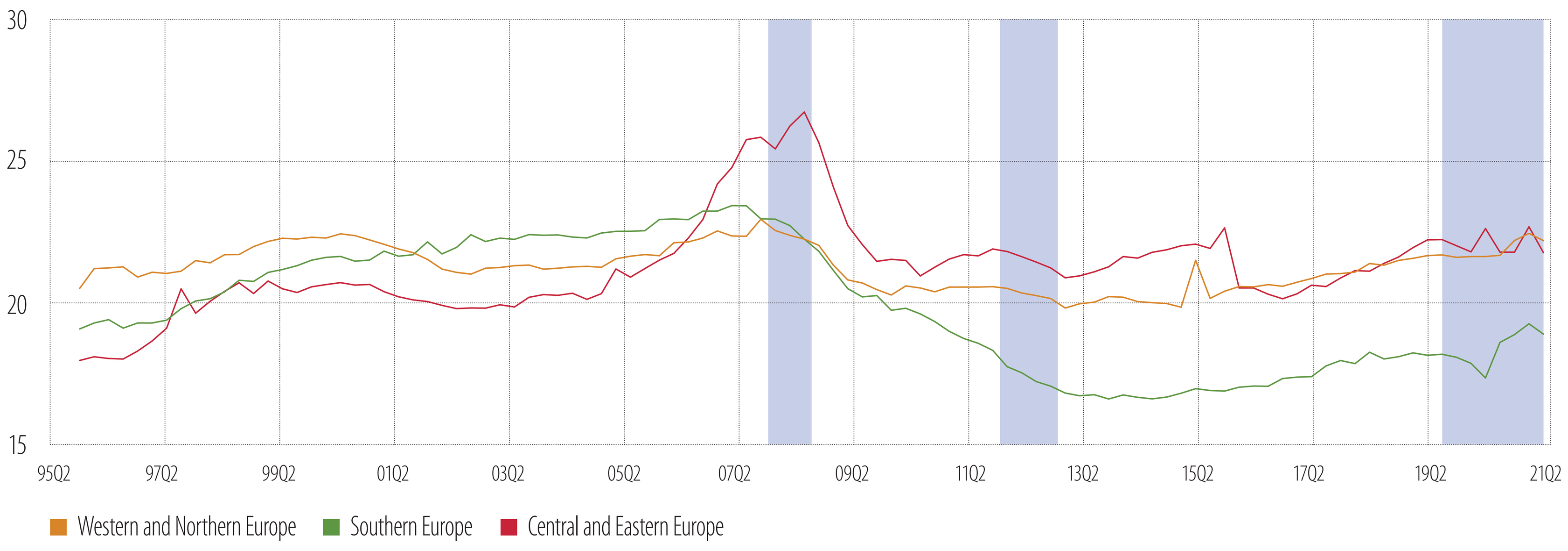
European Investment Bank
The EU bank

Chapter 2

The state of investment in the European Union: Government, corporate, infrastructure, climate

Overall investment fell less than expected

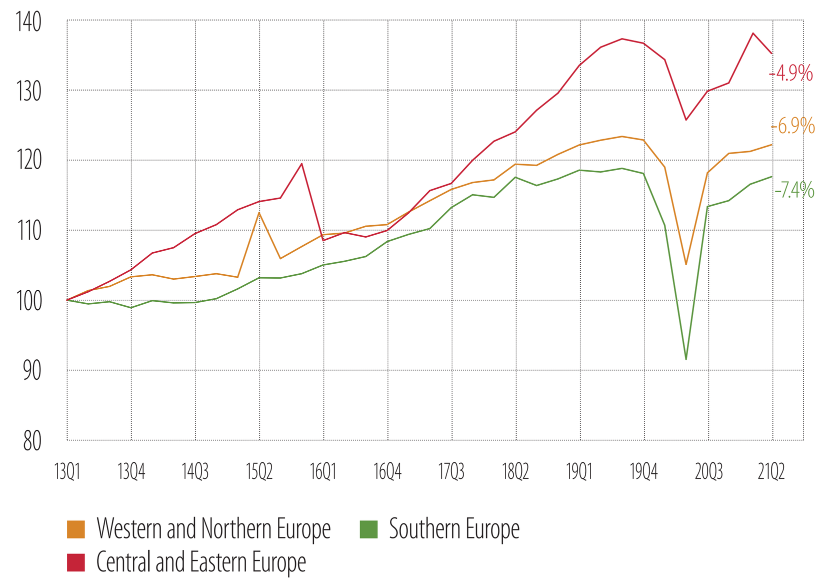
Resilient government and household investment offset the decline of corporate investment (% GDP)



Source: *Eurostat and OECD National accounts, EIB staff calculations.*

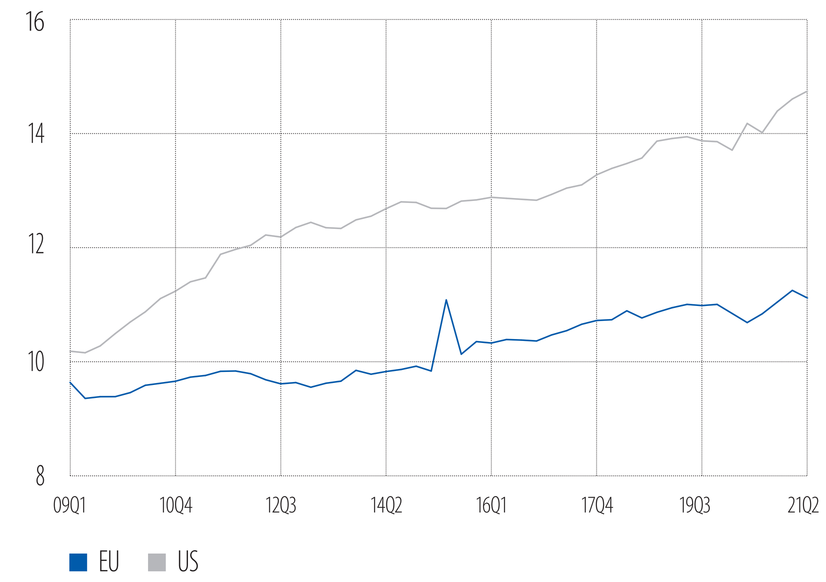
The pandemic accentuated certain investment weaknesses

Divergence of regional investment trends in the European Union (an index, 2013Q1=100)



Source: *Eurostat National accounts, EIB staff calculations.*

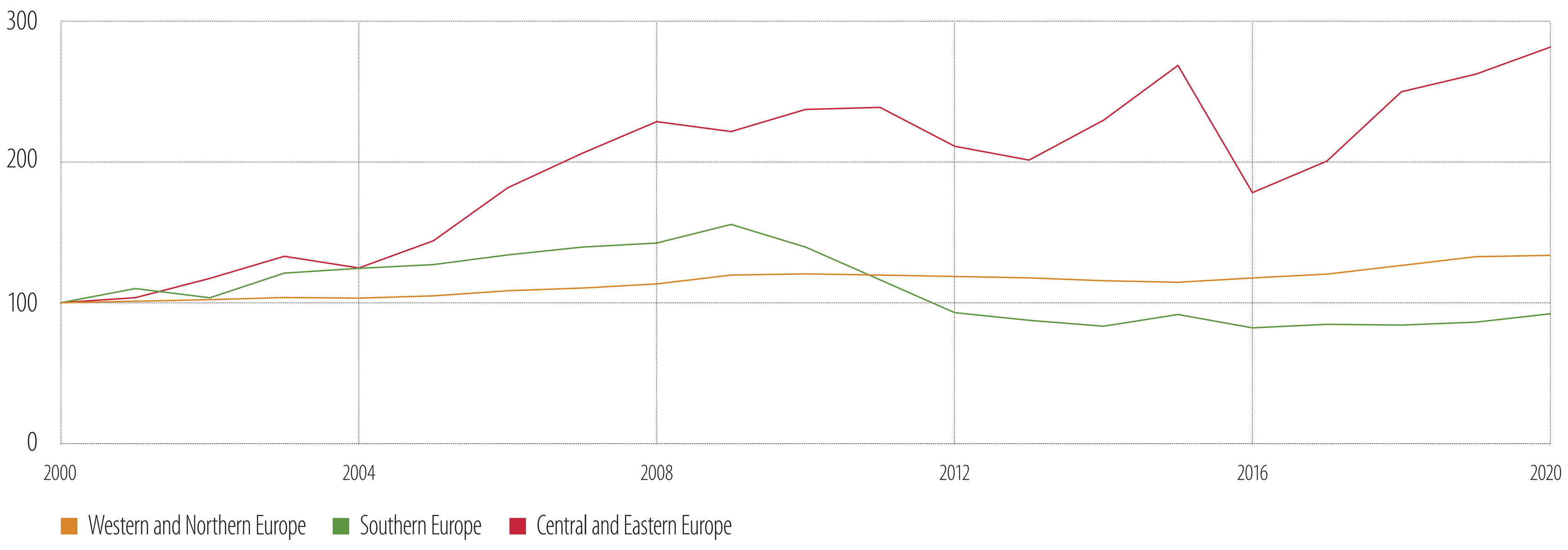
The investment gap with the United States for machinery and equipment and intellectual property increased further (investment as % GDP)



Source: *Eurostat and OECD National accounts, EIB staff calculations.*

Government investment increased throughout the crisis

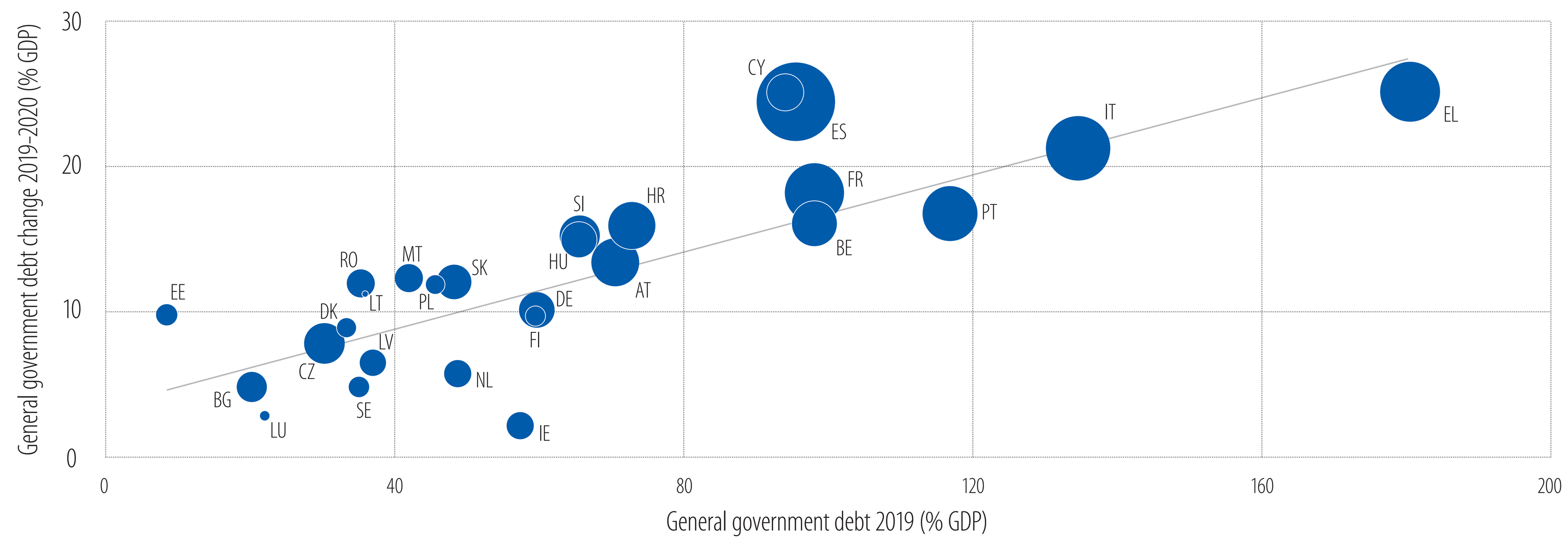
The suspension of EU budget rules and European Central Bank (ECB) bond buying facilitated a countercyclical expansion in investment (index of real government investment, 2000=100)



Source: *Eurostat National accounts, EIB staff calculations.*

The rise in government spending was highest in the most-indebted countries

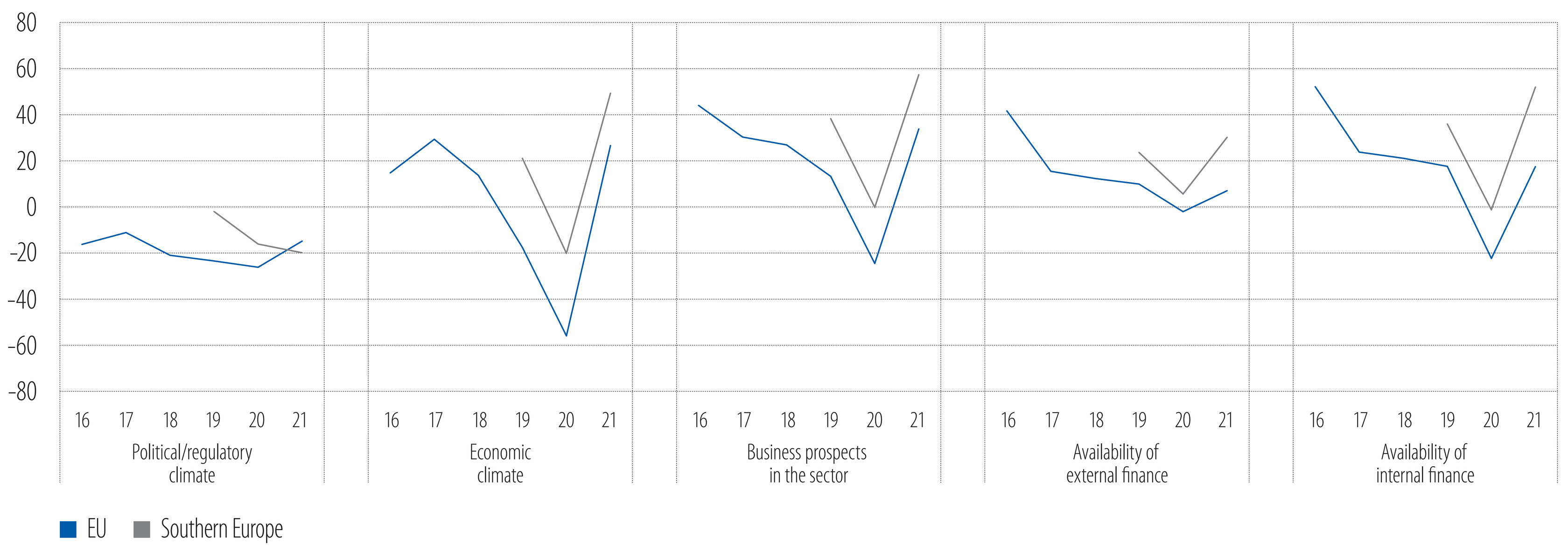
Insulating government investment from the next fiscal consolidation should be a priority



Source: *Eurostat National accounts, EIB staff calculations.*

Near term investment outlook has improved for firms

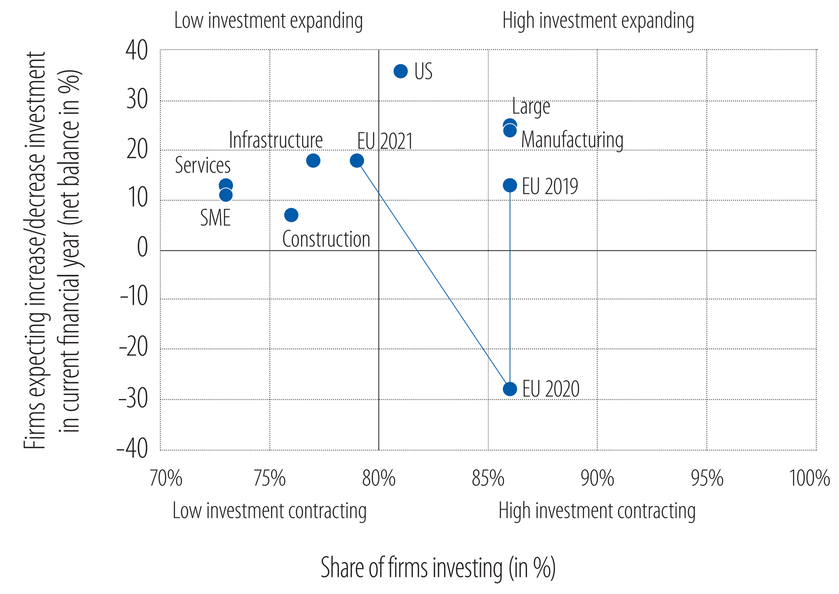
Corporate investment has increased, albeit more slowly than in the rest of the economy (firms expecting an improvement or deterioration, net balance in %)



Source: *EIBIS, 2016-2021.*
Base: *All firms (excluding don't know/refusals to respond).*
Question: *Do you think that each of the following will improve, stay the same, or get worse over the next 12 months?*

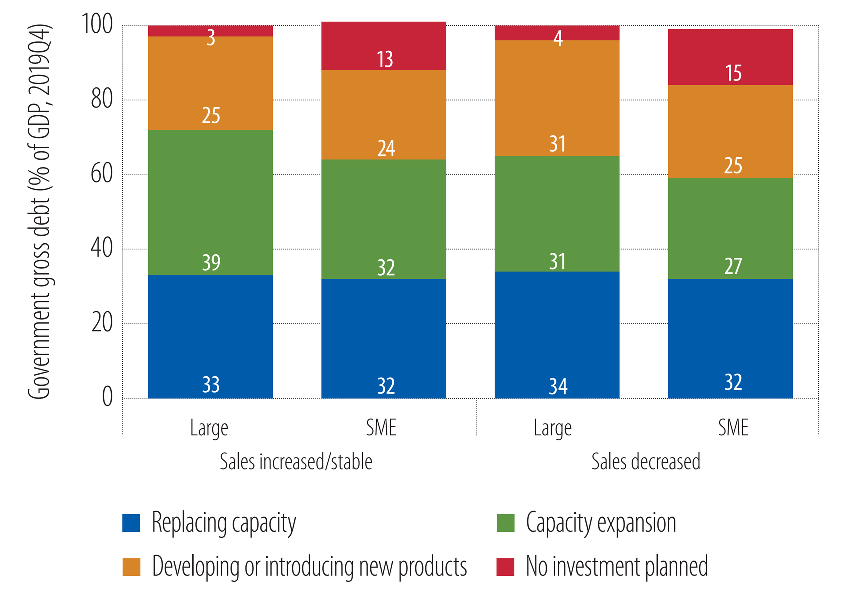
Large and more productive firms proved more resilient

Investment of large firms rebounded more



Source: *Source: EIBIS 2019, 2020 and 2021.*

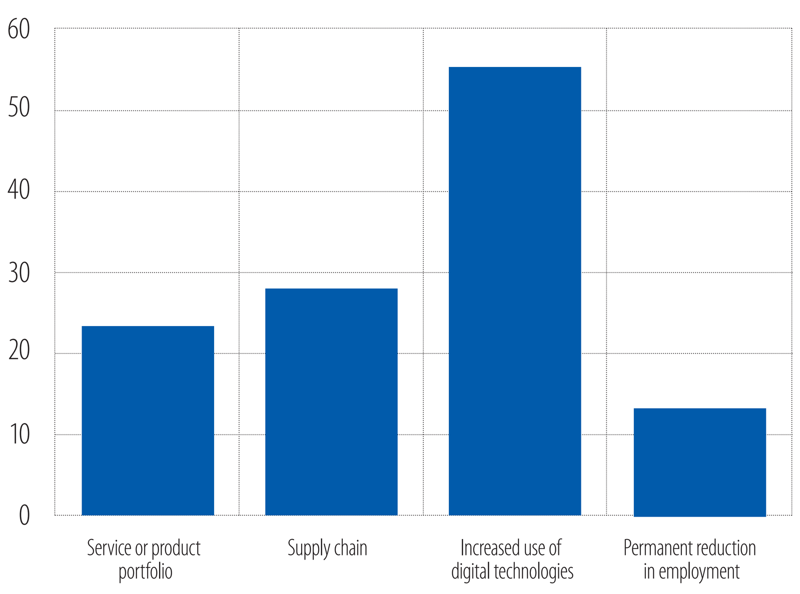
Small and medium-size enterprises (SMEs) are less likely to invest in the near future



Source: *EIBIS 2021.*
Base: *All firms (excluding don't know/refusals to respond).*
Question: *What has been the impact so far of the COVID-19 pandemic on your company's sales or turnover compared to the beginning of 2020? Looking ahead to the next three years, which of the following is your investment priority: Replacing capacity; capacity expansion; Developing or introducing new product; No investment planned?*

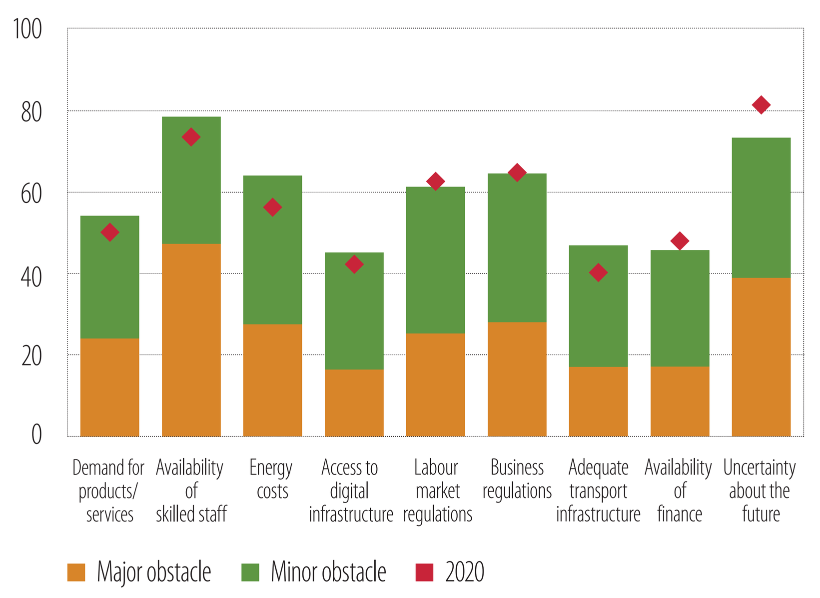
Firms expect to accelerate their green and digital transformation

Digital technologies will become more common (% of firms)



Source: *EIBIS 2021.*
Base: *All firms (excluding don't know/refusals to respond).*
Question: *Do you expect the COVID-19 outbreak to have a long-term impact on any of the following: your service or product portfolio; your supply chain; increased use of digital technologies; permanent reduction in employment?*

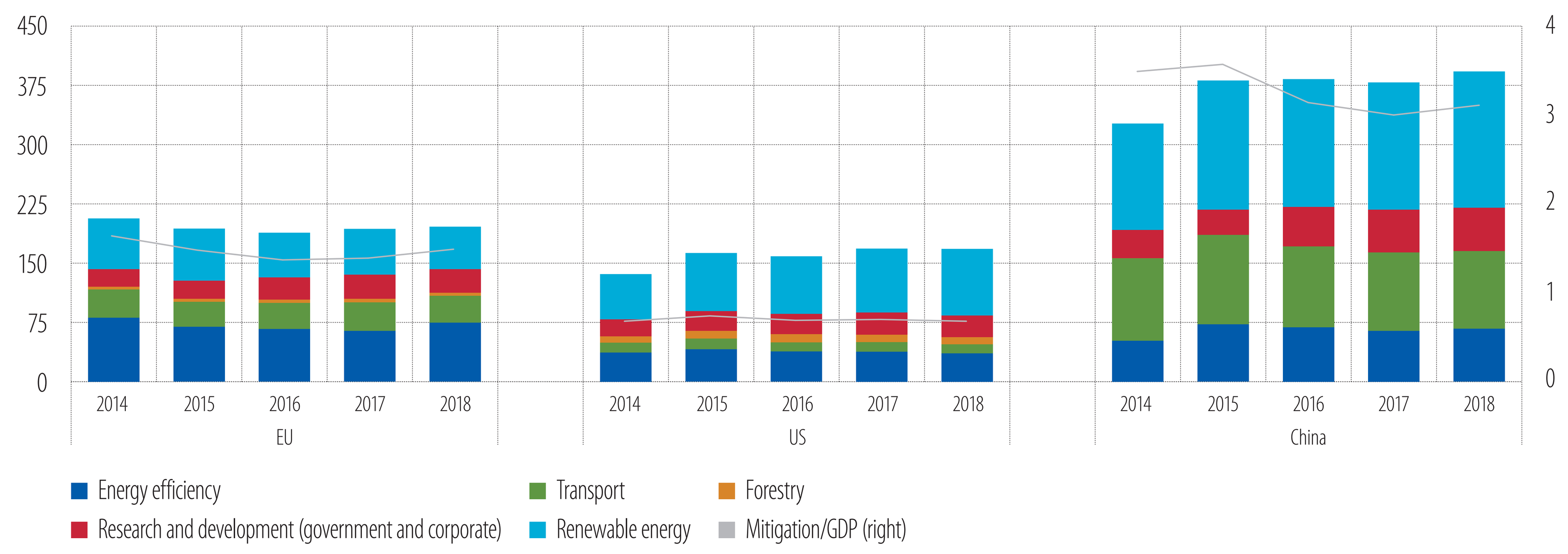
Uncertainty and a lack of skilled labour stand in the way (% of respondents)



Source: *EIBIS 2021.*
Base: *All firms. Data not shown for those who answered not an obstacle/don't know/refused.*
Question: *Thinking about your investment activities, to what extent is each of the following an obstacle? Is it a major obstacle, a minor obstacle or not an obstacle at all?*

Near term investment outlook has improved for firms

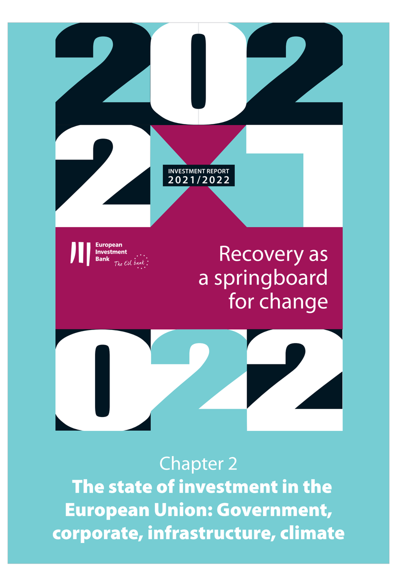
Investment in climate change mitigation (left axis: 2019 EUR billion: right axis: % GDP), by sector



Source: *International Energy Agency (IEA), Eurostat, Joint Research Centre (JRC) and authors' estimates.*

Maintaining investment throughout the recovery

- Total investment in the European Union is back to pre-crisis levels mostly due to the resilience of government and household investment. Corporate investment has been lagging and picked up only in the second quarter of 2021. Uncertainty and firms' desire to strengthen their balance sheet likely dampened investment. These issues should be taken into consideration when deciding whether to wind down policy support to the corporate sector.
- The pandemic accentuated differences in investment activity within the European Union as the hardest-hit countries also experienced weaker growth in investment before 2020. Furthermore, during the pandemic the gap with the United States for investment in equipment and intellectual property products continued to widen. This could exacerbate the gap in productivity growth between the European Union and the United States.
- Reinstating the EU fiscal rules in 2023 might put pressure on some of the more indebted countries to consolidate their finances. EU policymakers should take the necessary steps to protect government investment.
- Investment in climate change, while increasing, falls short of what is necessary to meet ambitious targets. Turning Fit-for-55 proposal into legislation is crucial to give impetus to investment.



Chapter 2 of the ***Investment Report 2021/2022: Recovery as a springboard for change*** can be downloaded at:

https://www.eib.org/attachments/publications/economic_investment_report_2021_chapter02_en.pdf