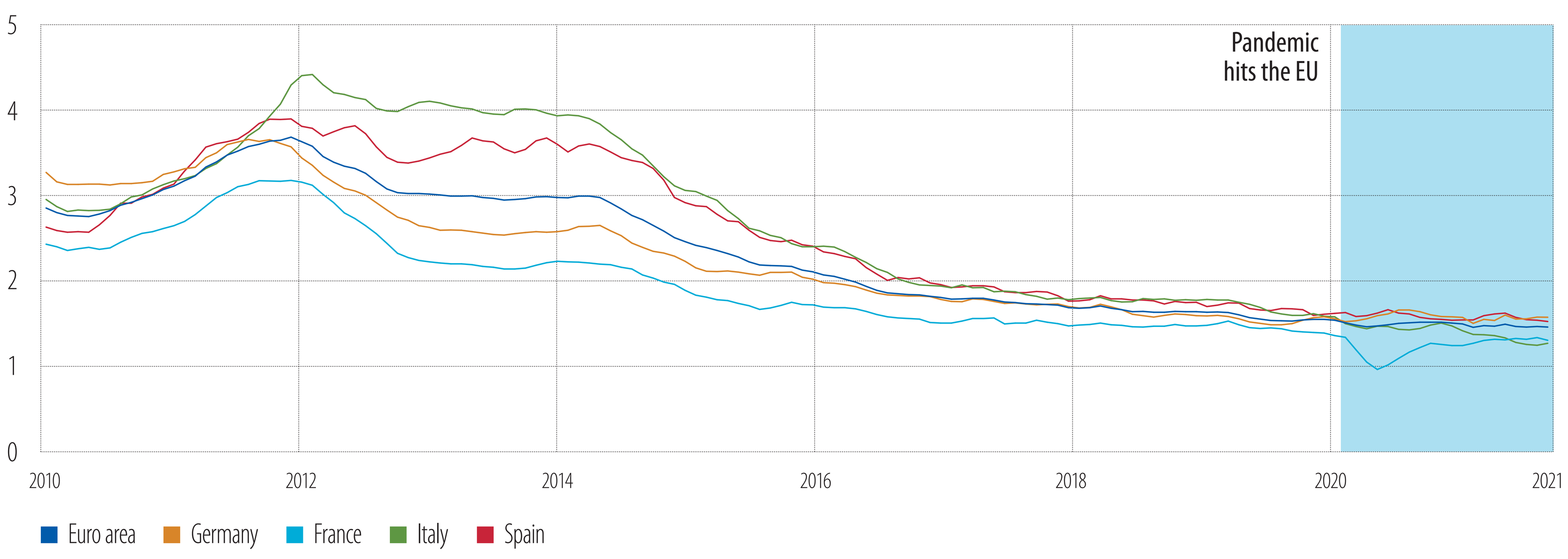
European Investment Bank
The EU bank

Chapter 3

Firms: Policy support, asymmetry and risks of scarring

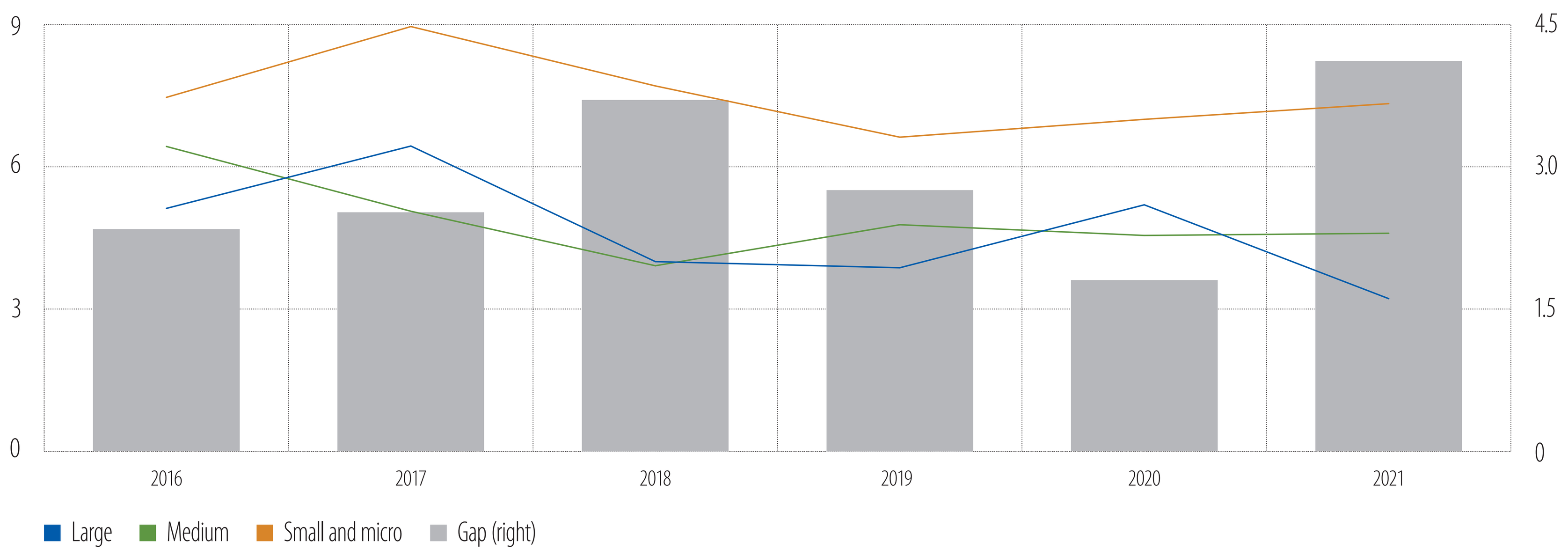
Cheap credit and overall benign financing conditions

Cost of corporate bank borrowing is historically low (% per annum)



Source: EIB estimates based on Refinitiv.

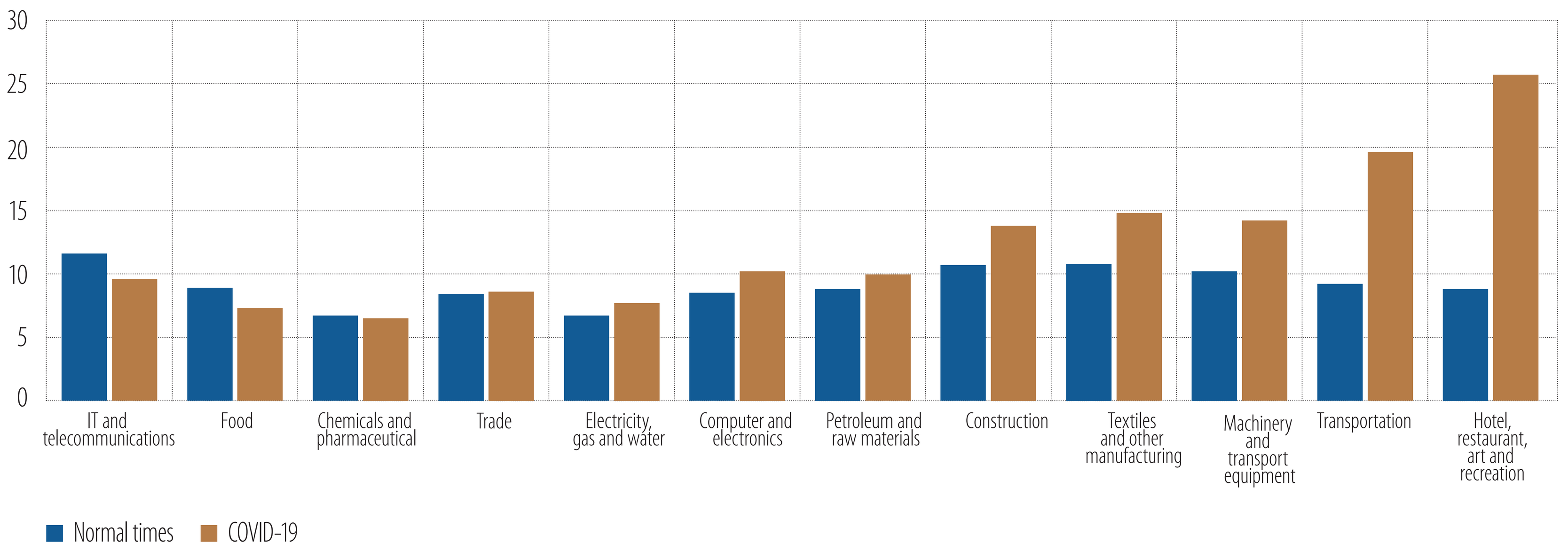
Financing conditions are very accommodative overall, but less so for smaller firms (% of finance constrained firms), by size



Source: EIBIS, 2016-2021.

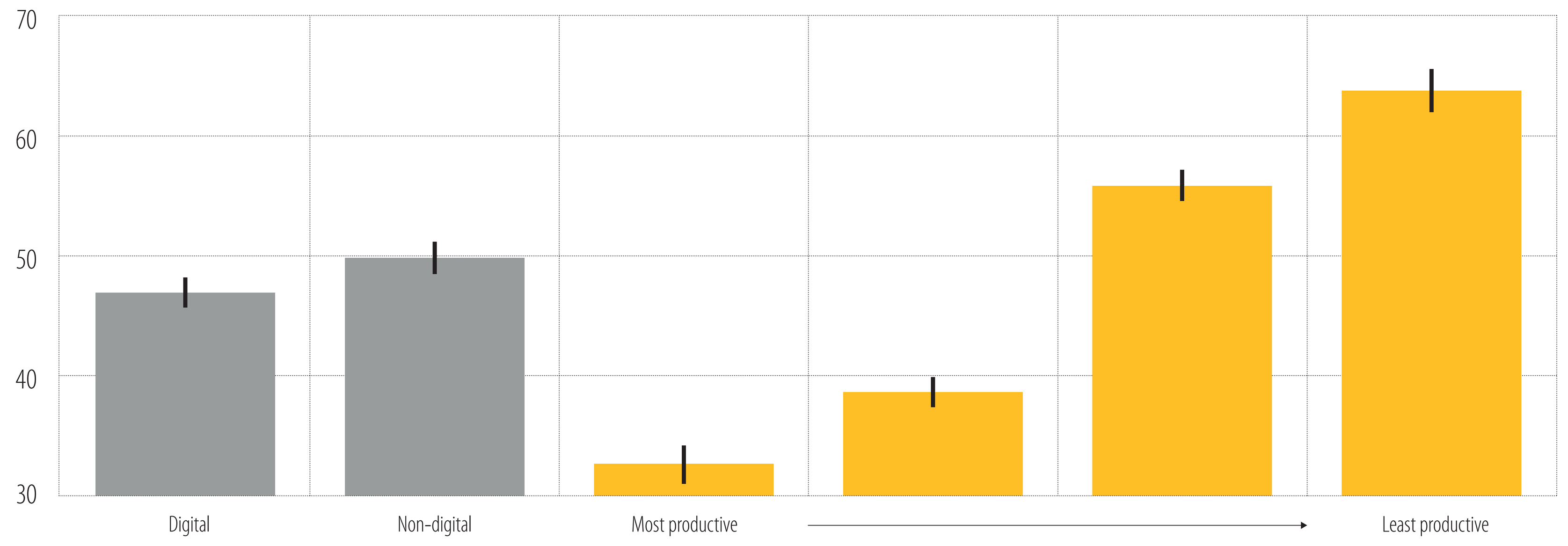
The crisis has affected sectors and firms asymmetrically, and corporate vulnerabilities have increased

Firms (in %) recording losses during the pandemic



Source: EIB estimates based on the EIBIS-ORBIS historical matched database and Eurostat turnover statistics.

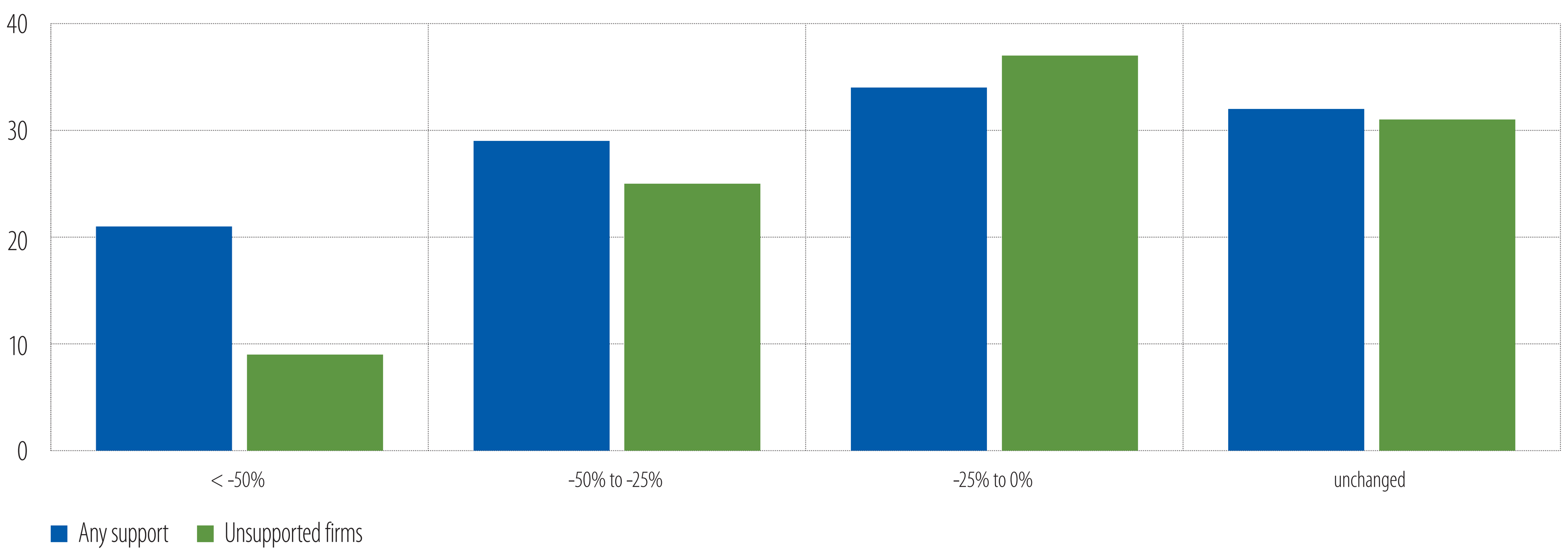
Probit estimation, probability of being supported (in %)



Source: EIB estimates based on the EIBIS 2021.

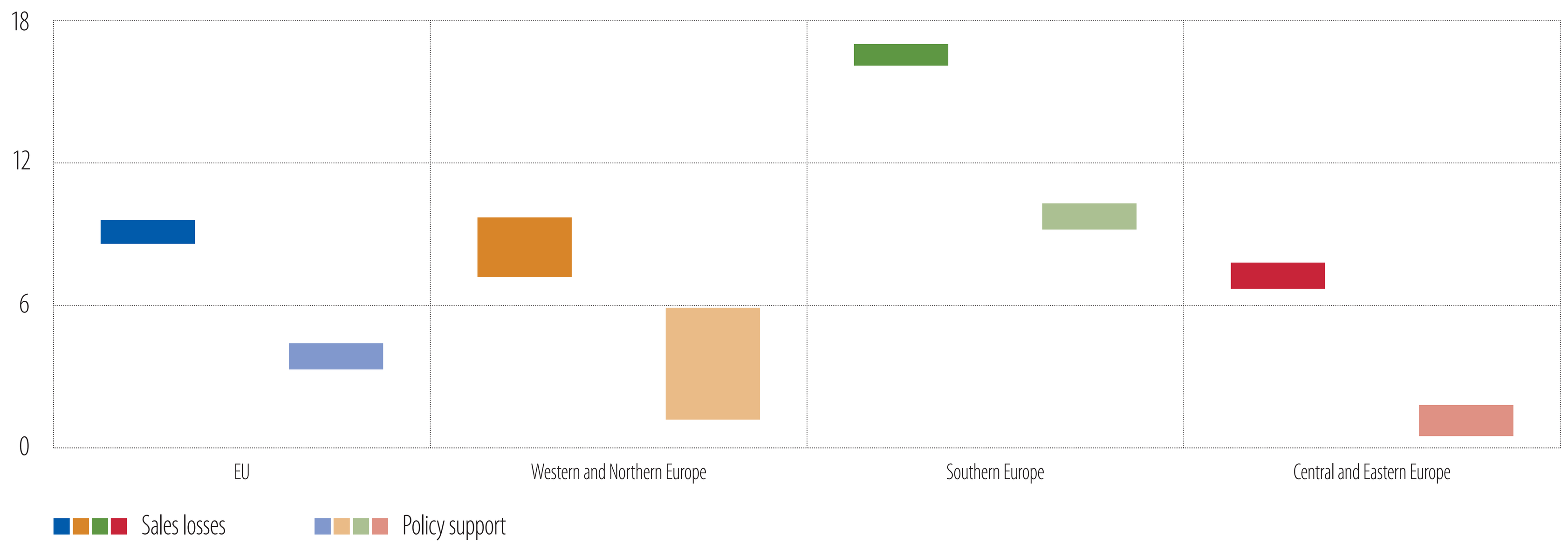
Policy support, received by 56% of firms, attenuated the impact of the crisis on investment

Supported firms are more optimistic about investment (% of firms planning to invest more)



Source: EIB estimates based on EIBIS 2021. Note: the y-axis reports the share of firms planning to increase investment.

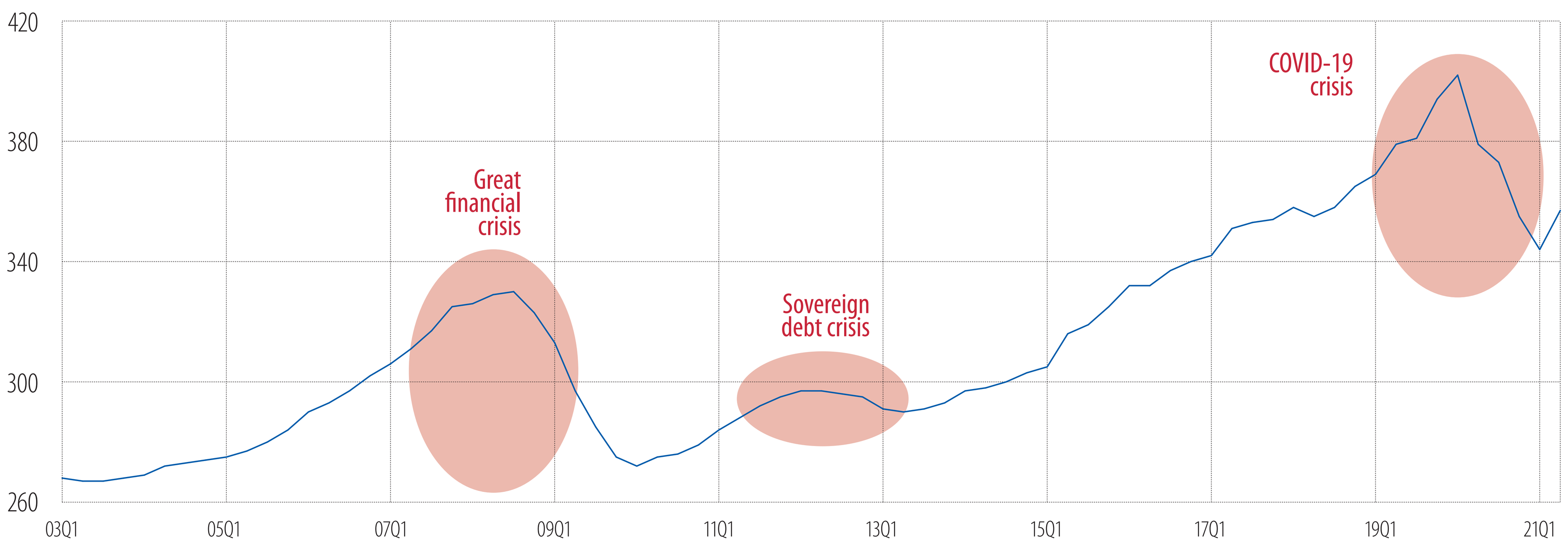
The impact of sales losses and policy support on the probability of increasing investment (range of firms planning to invest more, in %)



Source: EIB estimates based on EIBIS 2021 and ORBIS.
Note: The bars indicate the impact range estimated through a suite of models. The impact of sales declines (of above 25%) is always negative and is reported in absolute terms.

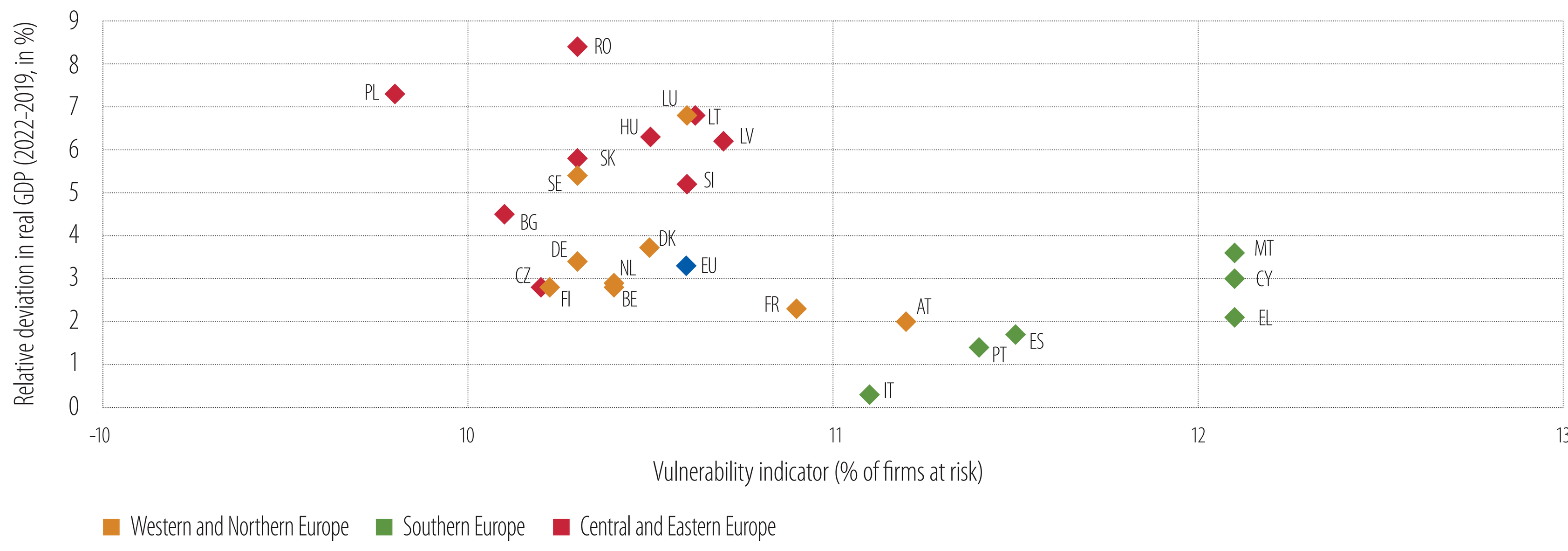
An ongoing recovery in investment, but risks remain

Compared to other crises, COVID-19 weighed less on real corporate investment (billions of 2005 euros)



Source: EIB estimates based on Eurostat data.

Given the diverse composition of EU economies, pockets of vulnerabilities may persist



Source: EIB estimates based on Eurostat, EIBIS-ORBIS database.

Lessons learned and things to think about before withdrawing support

- Initial fears of massive bankruptcies did not materialise so far. The blow to corporate investment was softer than expected, and investment is now recovering.
- These favourable developments are largely due to the massive policy support still in place across EU economies. The support effectively targets firms hardest hit by the crisis.
- Firms that received support tend to be more positive about investing in the future, and the support enabled them to recapitalise.
- The crisis and the policy support helped spur digitalisation, even though some firms are still lagging.
- Discussions on phasing out or targeting policy support need to balance the benefits of continuing support with the costs.

Chapter 3 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_chapter03_en.pdf