'Fact Finding on Investment and the Investment Gap in France and in Europe'
Key Takeaways
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1. Briefing on EIB, EIF and EFSI activities under the Juncker Plan

Key features of the Juncker Plan: more than 200 projects (EIB and EIF) have already been approved in 23 EU countries (with highest allocations in Spain, Italy, and France in this order), for about €77bn (25% of the overall target of €315bn). Most of them use more innovative financial products and focus on smaller and riskier projects. The Plan implies a real change of 'risk' scale for the EIB (risky projects scaled-up from €4-5bn to €20bn per year). The EIF, which supports small and innovative businesses with disruptive technologies through equity and quasi-investments, is also central to the Juncker plan. The EIB is developing its own local and operational presence in member states to better address market demand. Furthermore, national promotional banks are key to the success of the Plan: the EIB is currently developing guidelines to increase the cooperation with them. Finally, the Plan will be fostered by the recent European Commission decision to combine – blend – EIB finance with ESIF (EU Structural and Investment Funds).

Examples of projects recently approved in France include: a small company involved in recycling titanium (the first in Europe) in Auvergne, a transition region, co-financed with BPI; an agriculture cooperative in Normandy exporting milk to China (internationalisation of SMEs); a participation in a fund focusing on small infrastructure investments; support to third financing companies to carry out energy efficiency renovations on private homes on a large scale (a sector where banks are absent).

2. Investment needs and the investment gap in France

On the macroeconomics of investment in France: During the crisis, the decrease in Gross Fixed Capital Formation (GFCF) was more modest in France and Germany than in the UK or the US. But the recovery is slower in France than in these three other countries. The fall in France was mainly due to the decrease in households' investment. There are also some changes in the structure of investment for non-financial corporations (NFCs), with a lower share going to machinery and equipment, which implies that the capital stock is aging. In France, since 2000, there is less investment in modernisation and rationalisation of production equipment and in product innovation – which are conducive to productivity growth – and most equipment investment is related to the renewal of existing capacity. The relatively low number of robots in use in manufacturing production is a frequently mentioned indicator of a broader phenomenon as it is lower in France than in Germany or Italy. More generally, R&D investment is also lower in France than in Germany.

On the role of the Commissariat Général à l'Investissement (CGI): as 'coordinator' in France for the Juncker Plan, the CGI discussed 300 projects with promoters and was able to draw 3 'bottom-up' stylised facts. First, the Plan triggered a real movement towards smaller infrastructure projects, in particular in the area of small energy projects (e.g. windfarms or photovoltaic parks). Second, however, France remains a country with large infrastructure projects and EFSI has contributed to unlock 3 large projects (e.g. motorway around Strasbourg), "Plan France Très Haut Débit" to finance fiber optic cable installations in (remote) areas where public support is needed. French departments could be the promoters for broadband projects, but in fact, so far, two regions have attributed concession contracts for an implementation by the

[1] The EIB co-organised a workshop on investment together with France Stratégie in Paris on 11 March 2016. All relevant players were present (CDC, BPI, CGI, INSEE, Banque de France, EUROSTAT, ECB). The main objective was to identify investment gaps in France and Europe in the context of the operational implementation of the Investment Plan for Europe. This was the first of a "fact finding" series to be unrolled in a few EU member states.

private sector. Third, EFSI does allow the EIB to finance smaller projects with more risk. For instance, to better help innovative start-ups to scale up their operations once they stop receiving public support but are not strong enough to survive by themselves (a so called "Death Valley" in the lifecycle of innovative firms). France is not the country that suffered the most during the crisis but if the Plan Juncker supports more mature start-ups, this would allow for the development of more small-scale industrial projects.

On the role of the Caisse des Dépôts (CDC): CDC contributed €8bn, alongside with other national promotional banks (e.g. Cassa Depositi e Prestiti, KFW, BGK), to focus on smaller projects often promoted by local municipalities. For instance, two third of recent PPP projects were worth less than €30m. There is a need to "industrialise" the process for starting joint CDC-EIB infrastructure projects and the local presence of CDC can add value. The joint CDC-EIB presence on PPPs can create important leverage effects as it gives credibility to the projects.

Overall, the worshop made clear that France has strong expertise and public support in project preparation (e.g. through CDC and CGI), which is not found in all other European countries. In France, even when the project promotors are private operators, public authorities are originating 50% of projects. The exchange of good practices across Europe will therefore be crucial.

3. Investment needs and the investment gap in Europe

Macroeconomic facts on investment: The crisis led to a significant slowdown in investment across the developed world. Yet, some factors behind this slowdown are also EU and Euro area specific. GFCF in the EU (and the Euro area) is well below the pre-crisis trend (1995–2006). The shortfall reached €150bn in 2015Q3 for the EU (€110bn for the Euro area). In terms of GDP, investment is 2% below the pre-crisis average for the EU (2.2% for the Euro area).

A breakdown of the Euro area into the Core (DE, FR, NL and AT), where France does not fare bad compared to other large countries, and the Periphery (IT, ES, PT and IE) reveals stark contrasts. GFCF increased rather early after the initial financial crisis in the core, while it continued to decrease well into 2014 in the periphery. Measured as a percentage of GDP, GFCF in the core was 0.9% below its pre-crisis average of 21.3% (1996–2006), while in the Periphery it was 4.4% below its pre-crisis average of 22.6% in the third quarter of 2015.

Significant cross-country heterogeneity in investment development means that the Plan should evolve continuously to address both country-specific cyclical and structural issues.

Empirical evidence on investment drivers and link with labour regulation (2 papers): A paper on the recent slump in investment across developed economies by disentangling the role of expected demand, uncertainty and the cost of capital, was presented. Investment growth dropped from 4.5% before the crisis to 0.5% over 2008-2014. About 80% of the fall in investment is found to be due to expected demand, while 20% to uncertainty. The impact of financial conditions has been seemingly smaller and in any case only relevant in a few Euro area countries. In addition, the paper suggests that systematically over-optimistic GDP growth forecasts since 2008 have supported business investment to a large extent.

Another paper looked at the impact of labour regulation on capital intensity and labour quality, suggesting that employment protection legislation (EPL) has a positive impact on capital intensity (capital as a share of GDP) and a negative impact on capital quality (e.g. ICT capital as a share of GDP or R&D share in investment). EPL also has a positive impact on employment quality (the share of skilled workers). EPL implies a substitution between labour and capital. This suggests that structural reforms could lead to a decrease in investment and a decrease in labour quality but an increase in ICT capital.

Empirical evidence suggests that in the Euro area, about 80% of the fall in investment is due to expected demand, 20% to uncertainty, while financial conditions only played a marginal role. Other evidence surprisingly suggested that structural reforms could lead to a decrease in investment and labour quality but an increase in ICT capital.

4. What do national account statistics have to say?

The standard measure of investment is GFCF, which is then scaled up by GDP to recover a measure of investment intensity. ESA 2010 set new standards for national accounts that broadened the concept of investment data to better cover R&D investment. Data on investment can be disaggregated by sector (corporations, government, household), by industry (NACE aggregation) or by type (asset breakdown).

In terms of composition of investment, NFCs represent almost 57% of investment in the EU28; households represent 26% (but it is often difficult for statisticians to distinguish between households and small businesses); general government 15% and the remaining 2% are covered by financial corporations.

But generally, a conceptual distinction should be made between GFCF and the notion of investment used in economics. Investment represents expenditure (e.g. second-hand machinery purchasing) whereas GFCF represents (gross) changes in the capital stock.

Data sources for investment vary across countries: only half of EU Member States are using balance sheets data. Often, estimation is needed (e.g. for R&D, intangible investment, agriculture). The increasing use of micro data will help to better understand investment dynamics in Europe.