Chapter 2

Gross fixed capital formation

EU investment fell precipitously at the onset of the coronavirus outbreak

EU real gross fixed capital formation and contribution by asset type

(% change from a year earlier)

Corporate investment cycle in the European Union and the United States (in %)

Change in investment plans due to the crisis, split by firms’ expectations to finance investments internally (% of firms)

Lockdowns, uncertainty and the deteriorating outlook constrained investment in 2020

Investment drivers in the European Union, net improvement over next 12 months

Lockdowns, uncertainty and the deteriorating outlook constrained investment in 2020

Long-term impact of COVID-19 on investment

Impact of COVID-19 (in %)

Governments investment expands after years of stagnation

Government investment, % of GDP

Policy implications:

- The pandemic may continue to weigh on investment well after governments lift restrictive measures, due to elevated uncertainty and deteriorating corporate finances. These should be the policy focus in 2021.
- While the massive policy support guaranteed the flow of credit for corporations, it can be of little use for companies with shattered internal finances. The corporate sector needs creative measures that improve internal financing capacity like capital increase and debt restructuring programs.
- Large increases in government debt might put the lift-off of infrastructure investment at stake. To avoid this, governments should remain focused on increasing the share of capital expenditures in their budgets and maximize the impact of such investment for potential growth.