



# Investment and Investment Finance in Europe

Rien Wagenvoort  
European Investment Bank

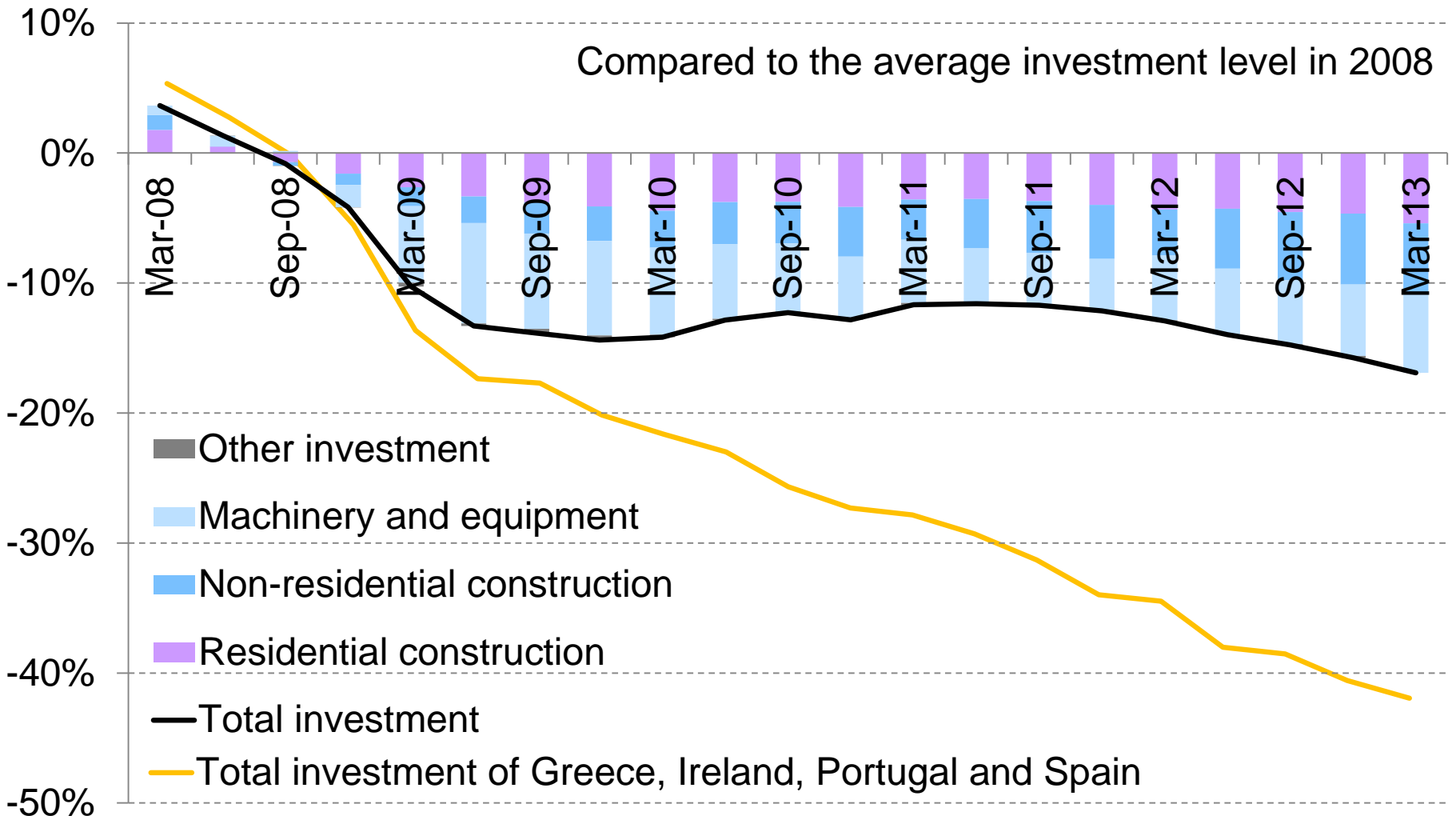


# Outline

1. What has happened to investment?
2. What have been the driving factors?
3. Main policy implications



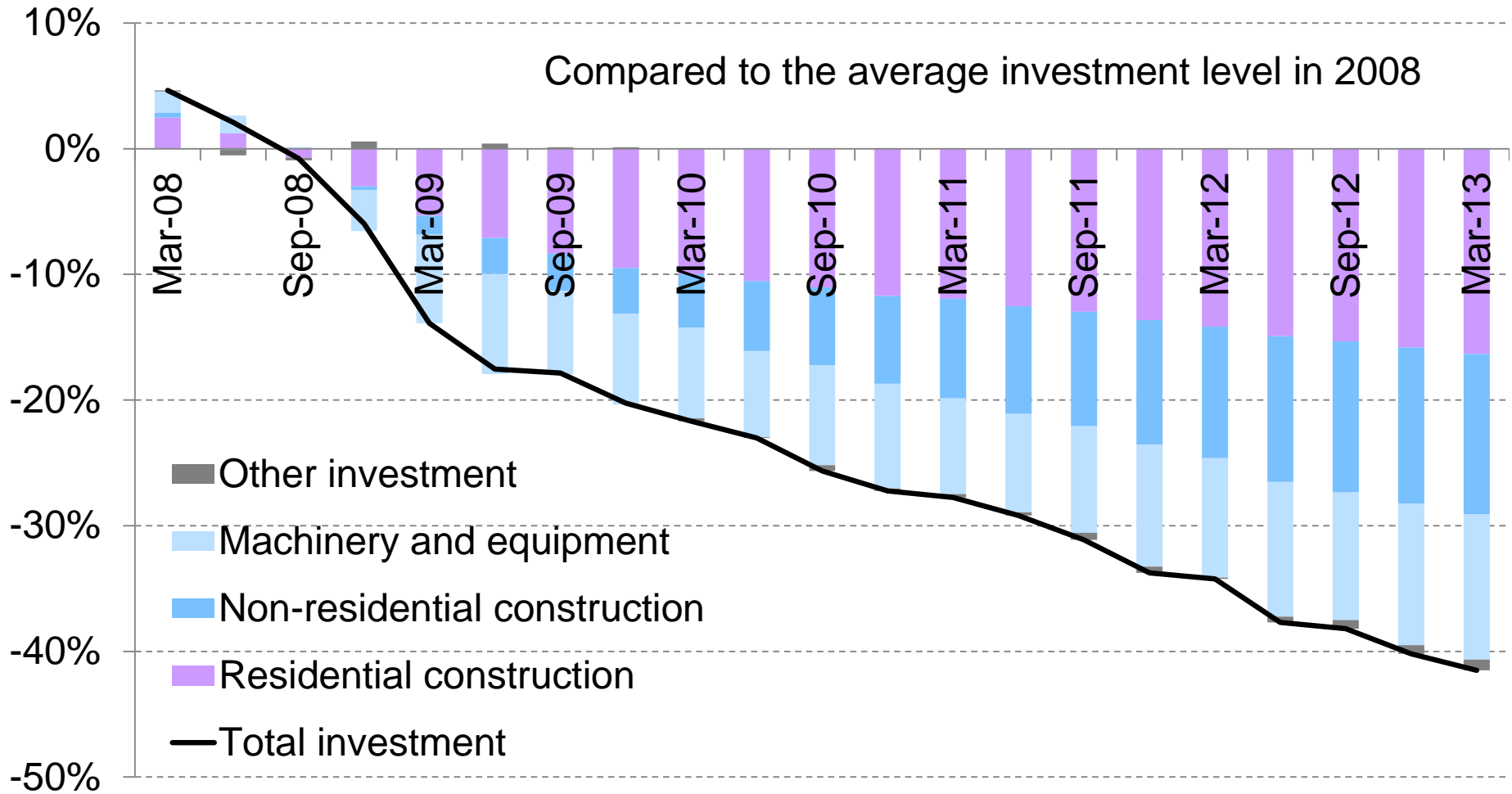
# 1.1 Decline in gross fixed investment in the EU



Source: Eurostat



# 1.2 Decline in gross fixed investment in Greece, Ireland, Portugal and Spain

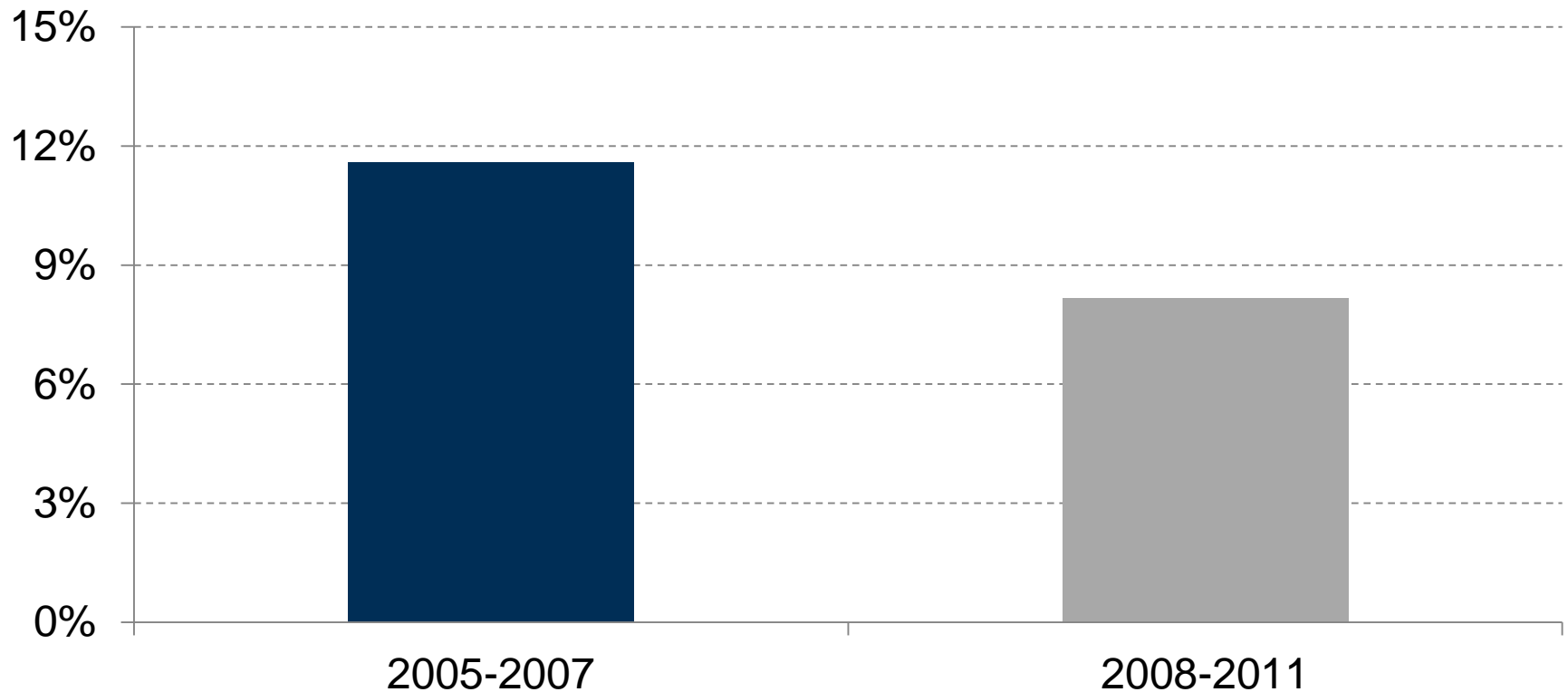


Source: Eurostat



## 1.3 The impact of the crisis on investment performance

*Nominal annual returns on investment by non-financial corporations in the EU*



*Source: Own calculations based on the Orbis database (Bureau van Dijk)*



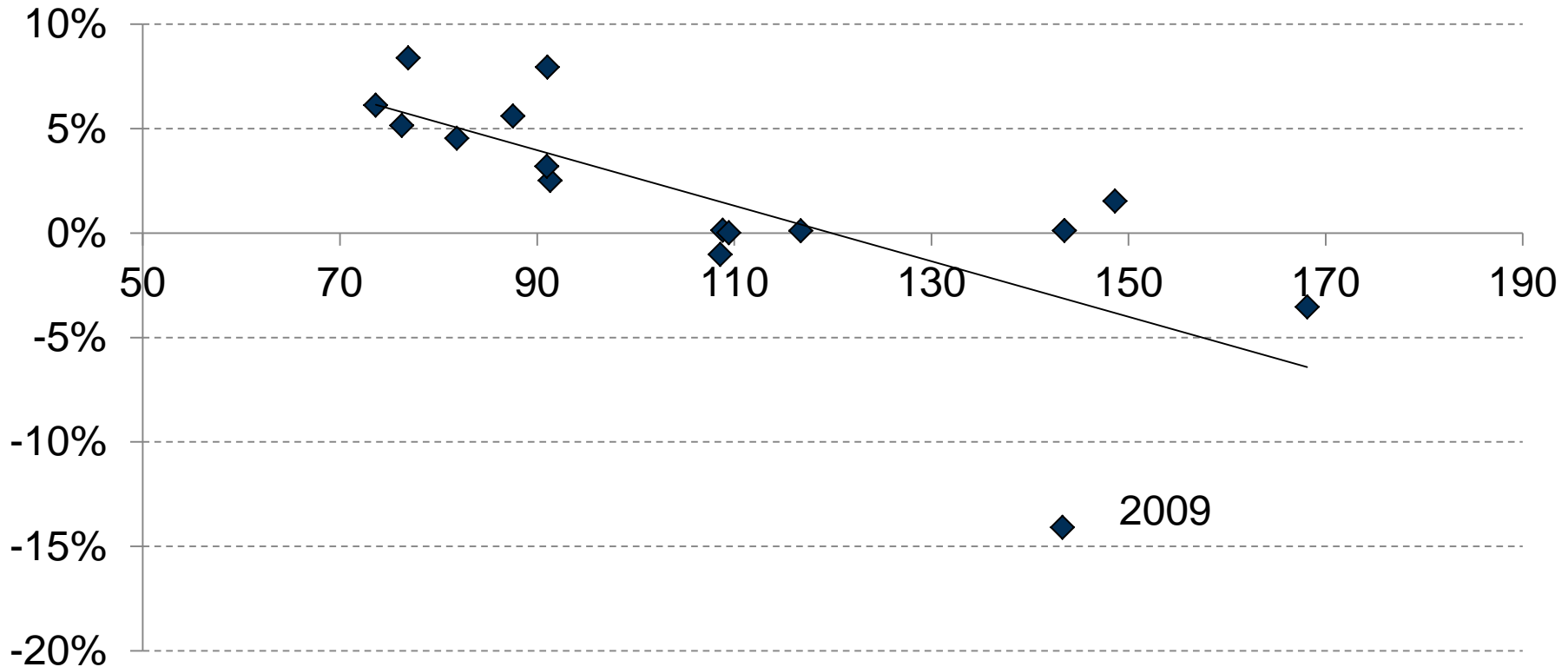
## 2.1 What have been the driving factors?

- Correction of excesses in the past
- Uncertainty
- Finance



## 2.2 The most immediate cause of the investment decline has been uncertainty

*Annual rate of change of business fixed investment against an index of economic policy uncertainty (1997-2012)*

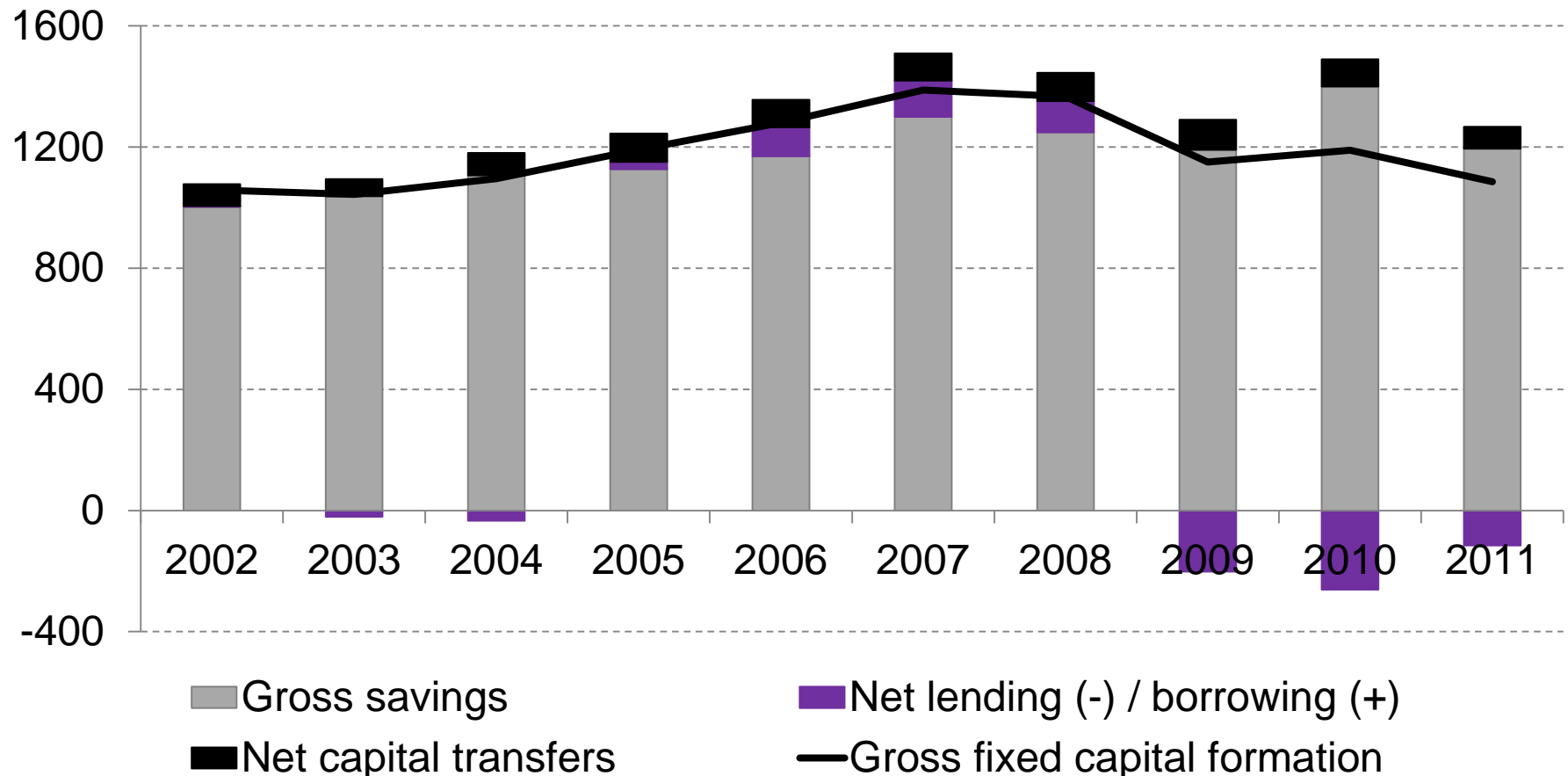


Source: Baker, Bloom, and Davis at [www.PolicyUncertainty.com](http://www.PolicyUncertainty.com) and Eurostat



## 2.3 Finance is not a problem across the board but it is a serious constraint for some firms

*Investment and savings by non-financial corporations in the EU (in EUR bn)*



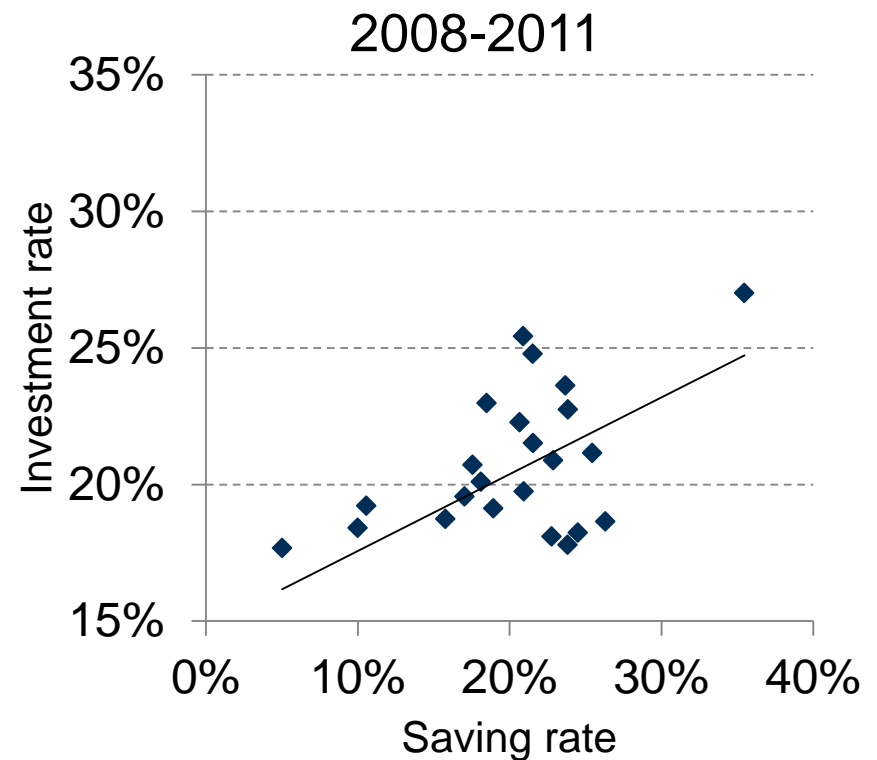
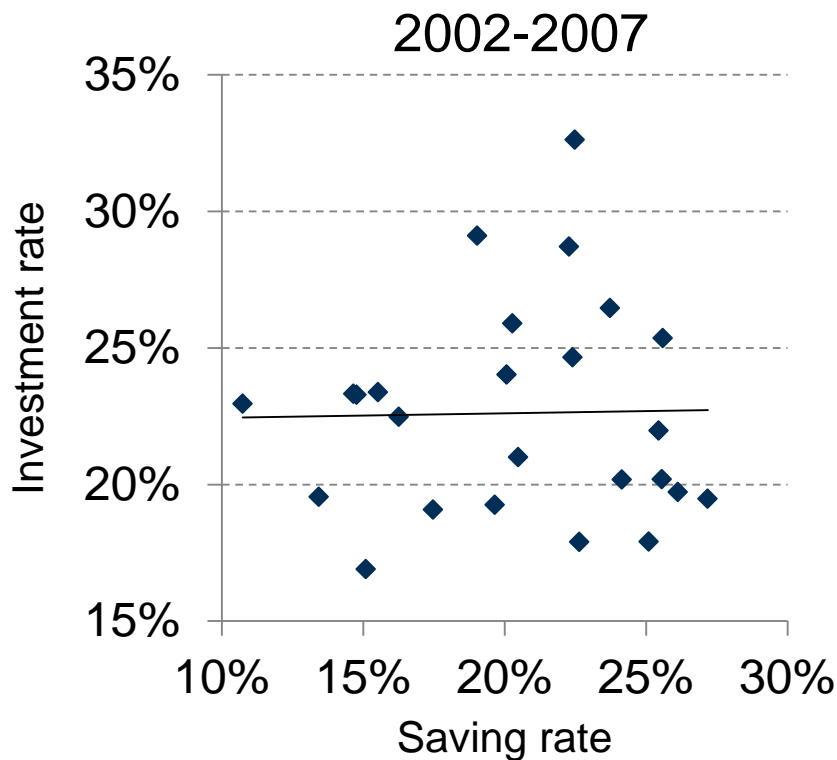
Source: Eurostat





## 2.4 The abrupt disruption of cross-border capital flows has made some countries more dependent on domestic saving

*Correlation between national investment and saving rates*



Source: Eurostat



## 2.5 The financial crisis placed an additional strain on SMEs' access to funds in some countries

*Indications of financing constraints:*

- ❖ More than half of SMEs in major crisis countries faced obstacles for receiving bank loans
- ❖ Scaling back of private equity markets
- ❖ R&D expenditures fell for SMEs in Portugal and Spain but not for large firms
- ❖ Equity payout ratios fell more for SMEs than large firms

### 3. Main policy implications

- Resolving uncertainty needs commitment and rapid progress on the institutional reform of European banking
- Public policy should seek to enhance bank lending and alternative finance sources where there is evidence of financing gaps
- Last but not least, with some countries suffering from persistently low investment returns, structural reforms that encourage a shift of resources to more productive activities need to be continued