Investment and Investment Finance in Europe

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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

Compared to the average investment level in 2008

- Decline in gross fixed investment in the EU
- Source: Eurostat
- Total investment of Greece, Ireland, Portugal and Spain

- Other investment
- Machinery and equipment
- Non-residential construction
- Residential construction
- Total investment
- Total investment of Greece, Ireland, Portugal and Spain

Source: Eurostat
1.2 Decline in gross fixed investment in Greece, Ireland, Portugal and Spain

Compared to the average investment level in 2008

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 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

Source: Eurostat

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