Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

European Investment Bank
The EU bank

EU Country Series - Ireland

Event summary of conference on Investment and Investment Finance in Ireland held on April 10, 2017, at the Central Bank of Ireland, Dublin

On April 10, 2017, the EIB and Central Bank of Ireland jointly hosted a conference on *Investment and Investment Finance: Funding Growth and Recovery; The Irish history from a European Perspective.*

The event gave rise to an excellent debate, as key actors that play a role to support investment in Ireland were brought together. Participation ranged from ministry of finance, central bank, EIB, European Commission, and a variety of national public and private actors.

In his opening comments, **Governor Lane** stressed the importance of corporates, especially SMEs, to the ever-more robust and broad recovery. **EIB Vice-President McDowell** underlined this view and also highlighted the critical role played by infrastructure spending. Following these remarks, **EIB Chief Economist Debora Revoltella** presented the EIB's report on investment in Europe and first results of the EU-wide EIB Investment Survey (EIBIS), which was also released today. Following this presentation were two roundtable discussions, the first focusing on the investment and financing situation in Ireland and the second on policy responses to the current situation. The panels were followed by a keynote speech given by Michael Noonan, Minister for Finance. VP McDowell closed proceedings, summarizing the important messages from the event.

Revoltella's presentation focused first on the macro investment data for Ireland and then on the Irish results from EIBIS. The data show similar trends and sectoral composition for both Ireland and the EU. The amplitude of the cycle, however, is of different dimensions. The Irish economy was more severely affected during the crisis and staged a much more lively recovery. For both Ireland and EU, household and government sectors were the principal transmitters of the shock and remain the principal drag on investment growth. Driving the recovery is the non-financial corporate sector, though this is driven to an important extent by intellectual property. Infrastructure investment has been a particular casualty of reduced government spending, which is particularly stark in Ireland. Growth and investment unfriendly fiscal consolidation underlies this.

Revoltella's presentation then passed on to the EIBIS results, focusing on Ireland. The survey shows that the share of Irish firms investing is well above the European average. The survey indicates that a sectoral shift is to follow, with services and construction, in particular, to expand investment after having held back. In terms of investment focus, Irish firms focus proportionately more on intangible assets, though real estate is also an important focus. Interestingly, EIBIS date reveal that intangibles are important for small and micro firms. As for investment needs, the survey establishes capacity constraints, quality of capital stock, and level of underinvestment, with Irish firms, in general, and services, in particular, showing elevated needs. Beyond that, Irish firms seek to absorb technology rather than generate it. When compared to EU peers, they focus on replenishing the capital stock and invest into products and processes that are new to the company.

Access to finance in Ireland continues to improve, though polarization remains important. On the one hand, a high share of firms relies on internal financing. On the other, an important share of firms remains financially constrained, especially smaller, younger firms and those that deem themselves to have underinvested. These constraints are further reflected in dissatisfaction with respect to collateral requirements and cost of finance.

As for impediments to investment, uncertainty and availability of skilled staff are to the fore in the EU as in Ireland. Energy costs and access to digital infrastructure tend to constrain Irish firms.

John McCarthy, Chief Economist of the Department of Finance, chaired the first Panel, *Financing Investment in the Recovery – Irish Challenges in a European Context*.

Gabriel Fagan, Chief Economist of the Central Bank, remarked on the improving business situation of Irish SMEs, the increase in reported SMEs investing, the improvement in financing conditions, and the importance of internal funds for investment. On the relevance of internal funds, he mentioned this was not the case pre-crisis and hinted that while going back to pre-crisis leverage might not be the solution, also being much more restrictive than international peers might limit firms' growth. Based on its relationship to domestic demand, Irish bank lending appears low both relative to previous Irish numbers and current European peers.

Martina Lawless, associate Research Professor from the ESRI, highlighted the importance of SMEs for employment. She offered support both for Fagan's findings of ongoing improvement as well as for Revoltella's views on polarization. Lawless focused on remaining financing issues facing smaller firms, in particular, such as low maturities, higher interest rates, tight collateral conditions, and the relatively high share of firms reporting as "discouraged borrowers". Brexit and skills shortage were noted as particular concerns going forward.

IBEC's Fergal O'Brien made a number of points on the rationale for public capital investment. He contrasted Ireland's young demographic profile with fact that the Irish public investment to GDP ratio is the lowest in the EU and pointed to the modest quality of Irish infrastructure in a European context. The importance of the Fiscal Compact in hampering future investment was also highlighted as an important risk facing the economy. He also highlighted that scaling and growth is where there are more financing blockages for MIDCAP firms, with a positive start up culture prevalent in Ireland.

Carlos Martinez Mongay of the European Commission pointed out that despite recent improvements, the output gap remains negative and investment remains weak in a historical context. Real and Potential GDP have grown at a much slower pace since 2008 than the US and other developed economies. Real GDP will have grown by only 5 per cent in the euro area between 2008 and 2018, while the equivalent for the US and other European countries is around 15%. For investment, the euro area will not even have reach 100% of the 2008 figure by 2018. Mr. Martinez Mongay pointed to financing constraints, high indebtedness, deleveraging, subdued demand and uncertainty as playing a contributory role.

John Moran, Irish Member of the EIB Board, moderated the second panel on *Supporting investment with innovative policies*.

Declan Hughes from the Department of Jobs Enterprise and Innovation reported on key insights from the Action Plan for Jobs and its focus on finance for growth. He reported that seed and venture capital raised by SMEs in 2016 was €888m. While much had been done, Hughes noted the usefulness of further exploring together with the EIB innovative ways in terms of how to fill remaining gaps. In this regard, he specifically welcomed the opening of the local office.

Jillian Mahon of the Strategic Banking Corporation of Ireland spoke about the activity of the corporation since March 2015, with total supported investment facilities of €906m by end-2016. The SBCI refers to its key roles as being in supporting access to finance and in supporting competition. Mahon spoke about a new risk-sharing approach from the SBCI which aims to even the playing field relative to European countries where credit guarantees and risk-sharing supports from the public sector are very common. A pilot project has been rolled out in the Agri sector. She also noted the important collaboration with EIB/EIF, especially on credit guarantees, such as COSME, InnovFin, agriculture, and importance of EFSI to bridge market failures.

Eugene O'Callaghan of the Irish Strategic Investment Fund described the "double bottom line" approach of the Fund. The Fund has a total portfolio return of 4% per annum and aims for additionality in all of its investment activity. The Fund aims to fill gaps in longer-term financing in all parts of firms' capital structure. He stressed the importance of flexible instruments to complement extant financing, noting collaboration with the EIB on afforestation and education projects as well as SMEs.

Catherine Moroney of AIB talked about the availability of financing in Ireland, explaining that 96% of formal applications to the bank are accepted. She therefore focused on the importance of providing risk sharing while facilitating and encouraging high growth sectors. Given their concerns about losing control of their business, Moroney stated that Irish firms are reluctant to take up offers for equity participation. This led her to focus on the need to explain what kind of financing is available and to reassure on control retention.

Minister for Finance, Michael Noonan, T.D., praised the strong and broad-based recovery across all sectors of the Irish economy. He conceded, however, that a degree of concentration makes it vulnerable to a global sea change, such as the U.S. tax treaty's, Brexit, or populism in Europe. The Minister raised some of the current challenges for Ireland, in particular the current low level of public investment poses a challenge for future generations. To counter this, a public investment plan of some EUR 47bn is to be revived. Noonan asked for EIB support in detecting opportunities for self-funding projects that can be considered as off-balance sheet or suitable for PPPs. In this respect he expressly looks forward to a visit in May to the EIB.

In closing, **VP Andrew McDowell** noted the Minister's call for deeper engagement and spoke of the need for a flexible approach and adaptable instruments, with risk sharing and balance sheet considerations critical to support investment and lending activities. He also talked about the importance of infrastructure investment and invited to think at constructive ways for allowing more public investment targeting productivity-enhancing measures.