Investment and Investment Finance in Europe: a policy perspective

Panel Session I

Catherine L. Mann
OECD Chief Economist

European Investment Bank
Annual Economics Conference
23 November 2017

www.oecd.org/economy/economicoutlook.htm
ECOSCOPE blog: oecdecoscope.wordpress.com
Investment Recovering; Shortfalls Remain
Structural factors inhibit, even as demand improves

Investment shortfalls by country
Non-residential investment, % of potential GDP

Notes: RHS: Long-term needs are estimated following methodology of Lewis et al. (2014).
Source: OECD Economic Outlook database; and OECD calculations.
Credit is Flowing to Firms
rise in debt-GDP in most countries offset by growth

Decomposition of changes in non-financial corporations
debt-to-GDP ratio\(^1\) 2007-2016

1. The change in debt-to-GDP ratio is decomposed according the formula: \(d(\text{debt}[t]) = -g(t)/(1+g[t])*\text{debt}[t-1] + \text{net credit flows}[t] = \text{other changes}[t]\), where \(g[t]\) is percentage nominal GDP growth (divided by 100), and the first term indicates the contribution of nominal GDP growth to debt dynamics. Other changes reflect changes due to write-offs, reclassification and revaluation.

Source: OECD, National Accounts database; and OECD calculations.
Role for Banking Union
Discipline NPLs & Zombies; help improve dynamism

Average zombie firm share for each category of bank health

Note: the average zombie firm share for each bin of bank health, purged of country-industry-fixed effects. The relationship is statistically significant at the 1% level and is based on over 1.5 million firm-bank observations for 11 European countries over the period 2001-2014.

Productivity gains from reducing zombie capital

Note: Firms aged 10 years or more and with profits not covering interest payments over three consecutive years. The sample excludes firms that are larger than 100 times the 99th percentile of the size distribution in terms of capital stock or number of employees.
Services harmonization would promote competitiveness, esp smaller firms

Services trade restrictiveness indices

*2016, covering 44 countries*

Note: Covers the 35 OECD members plus Brazil, China, Colombia, Costa Rica, India, Indonesia, Lithuania, Russia and South Africa. Source: OECD STRI database.

The burden of restrictions falls disproportionately on smaller firms

Note: Average effect across sectors and countries based on microdata from Belgium, Finland, Germany, Italy, Japan, the United Kingdom and the United States. The numbers indicate the ad valorem tariff equivalent of an STRI score of 0.2 on top of what is incurred by firms with turnovers of EUR 500m and above. Source: Rouzet, Benz and Spinelli (2017), “Trading Firms and Trading Costs in Services”, OECD Trade Policy paper.
Role for Digital Single Market
trade & investment potential inhibited by regulations

More ‘connected’ countries sell more products to more destinations

But cross-border data transfer restrictions (and local storage requirements) are rising

Note: Figures show correlation between internet use per 100 inhabitants, number of products exported and export market. To avoid correlations arising through other variables, such as internet use and income, or number of products and size of markets, the residuals from a regression of the trade outcomes with respect to per capita GDP and size of markets with country specific fixed effects and time dummies are taken.
Monetary Policy Window for Fiscal Policy
Governments are set to ease

Government gross interest payments have declined
Average annual difference between 2011-14 and 2017-18

Fiscal stance is expected to ease
Change in underlying primary balance, % of potential GDP

Note: LHS based on general government gross interest payments. Data for 2017-2018 are OECD projections. Source: OECD Economic Outlook database; and OECD calculations.
Use space for Fiscal-Structural initiatives to maximise impact on growth and inclusiveness

<table>
<thead>
<tr>
<th>Impact of spending reform</th>
<th>Growth</th>
<th>Income of the poor</th>
<th>Countries with most room for gains</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving education</td>
<td></td>
<td></td>
<td>CHL, GRC, MEX, PRT, TUR</td>
</tr>
<tr>
<td>Increasing public investment and R&amp;D</td>
<td></td>
<td></td>
<td>DEU, GBR, ITA, MEX, TUR, USA</td>
</tr>
<tr>
<td>Increasing government effectiveness</td>
<td></td>
<td></td>
<td>FRA, GRC, HUN, ITA, SVN</td>
</tr>
<tr>
<td>Increasing family benefits</td>
<td></td>
<td></td>
<td>CHE, ESP, GRC, PRT, USA</td>
</tr>
<tr>
<td>Decreasing public subsidies</td>
<td></td>
<td></td>
<td>BEL, CHE</td>
</tr>
</tbody>
</table>

Positive impact

Uncertain or no impact