European Commission

European Investment Bank

Factsheet 1

WHY DOES THE EU NEED AN INVESTMENT PLAN?

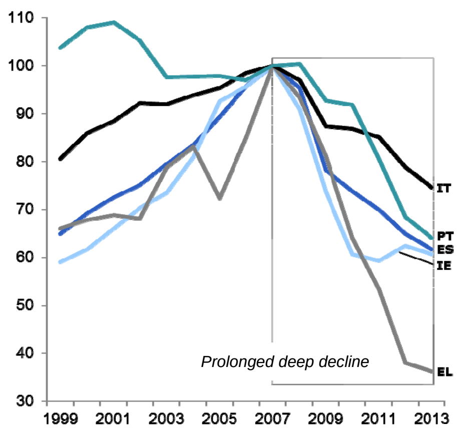
Since the global economic and financial crisis, the EU has been suffering from low levels of investment. Collective and coordinated efforts at European level are needed to reverse this downward trend and put Europe firmly on the path of economic recovery.

What is the current investment situation?

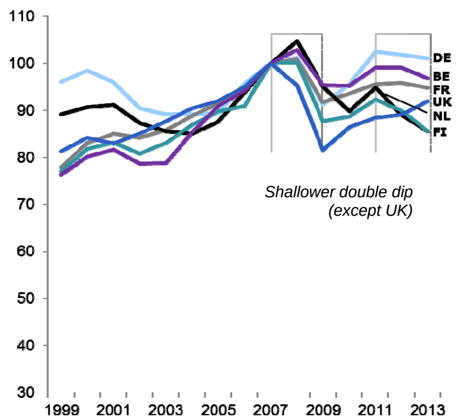
The European Commission's most recent economic forecasts showed that weak investment has led to a fragile recovery from the economic crisis in the EU and even more so in the euro area. While Gross Domestic Product (GDP) and private consumption in the EU were in the second quarter of 2014 roughly at the same level as in 2007, **total investment was about 15% below 2007 figures**. In certain Member States, the decline in investment has been even more dramatic.

Real gross fixed capital formation by Member State
Index 2007=100

Member States with biggest drop in investment
E.g., Greece, Ireland, Italy, Portugal, Spain



Other selected Member States
E.g., Belgium, Finland, Germany, Netherlands, UK

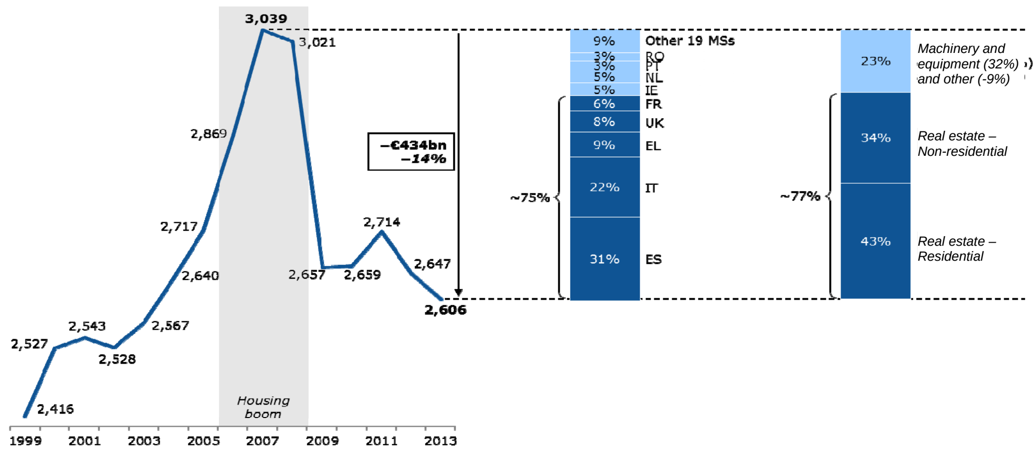


Compared to the 2007 peak, **investments have dropped by around € 430 billion**. Five Member States (France, the United Kingdom, Greece, Italy and Spain) account for around 75% of the drop, owing to the size of their economy or the sheer magnitude of the investment drop, or both.

Real gross fixed capital formation
EU-28, in 2013 prices, € bn

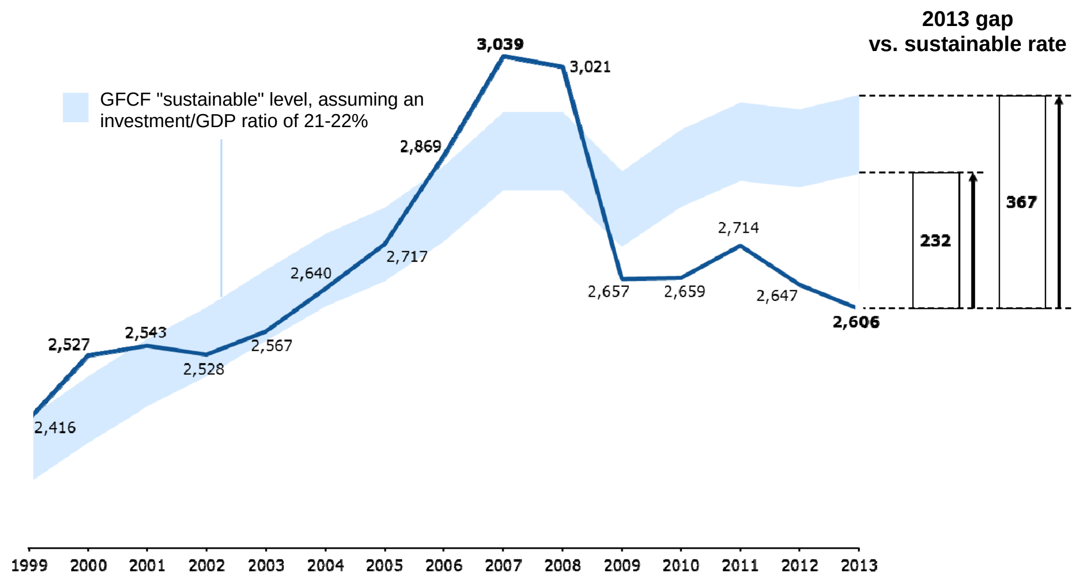
Share of total drop by country
EU-28, in percentage*

Share of total drop by sector
EU-26, in percentage*



In 2013, investment accounted for 19.3% of GDP, roughly 2 percentage points below the longer-term average (excluding boom-bust years). This means that **current investment levels in the EU are € 230 to € 370 billion below the historical norm.**

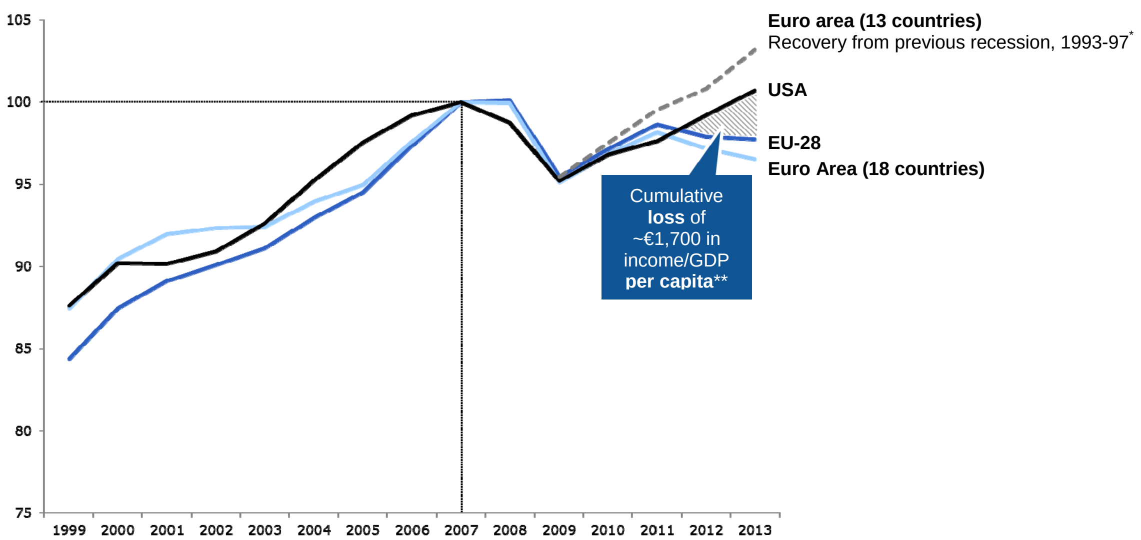
Real gross fixed capital formation – Observed trend vs. "sustainable" level
EU-28, in 2013 prices, € bn



Why is lack of investment a problem?

In the short term, weak investment slows economic recovery. The EU's recovery appears to have stalled, compared both to other major economies and the previous recession in Europe (between 1993 and 1997).

Real GDP per capita – European Union vs. USA
Index 2007=100



The drop in investment accounts for the largest proportion of the fall in GDP between 2007 and 2013. To keep up with the pace of investment in the U.S., the EU should have invested an additional € 540 billion in 2012-2013. In the longer term, the lack of investment hurts growth and competitiveness. Weak investment in the euro area has a considerable impact on the capital stock, which in turn holds back Europe's growth potential, productivity, employment levels and job creation.

Why is investment not taking off?

The main reason for persistently weak investment is **low investor confidence**. This uncertainty is rooted in low expectations about the demand for goods and services, the fragmentation of financial markets and a lack of sufficient risk-bearing capacity that is required to catalyse investments. Due to the uncertainty of economic and political developments and the still high levels of indebtedness in parts of the EU economy and their impact on credit risk, access to finance has been difficult, in the Member States most affected by the crisis, especially for riskier long-term finance projects, mid-cap companies and SMEs. Limited fiscal room for manoeuvre, coupled with a constraint of bank finance reduce the system's capacity for risk-bearing. In this context, the best use of public money is to strengthen the risk-bearing capacity in order to re-launch private investment.

Why not simply increase the size of the EU budget?

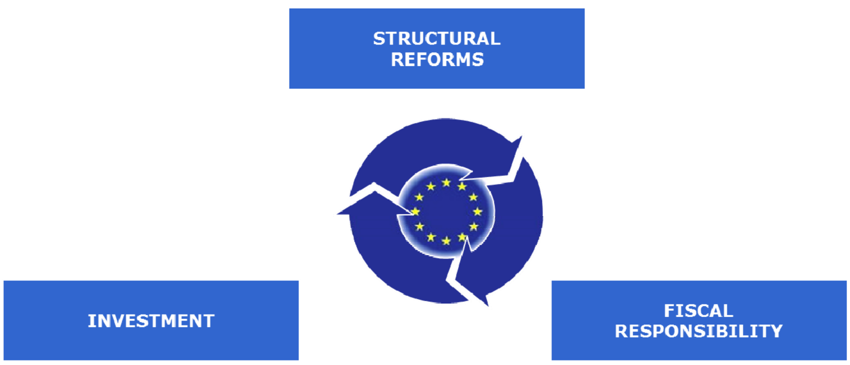
Providing more money through the EU budget is not a silver bullet. It also ignores the political reality of the relatively small size of the EU budget (€ 180 billion per year, around 1% of EU GNI) which is the result of very complex negotiations between the EU institutions. The EU budget, within its existing margins, has a role to play as a **catalyst for private investment**, but this has to be complemented by other sources of finance and regulatory changes that help create the right investment climate.

"Producing money" or creating new debt will not fix the problem. In fact, there is ample liquidity in financial institutions and corporates at present (in contrast to 2011) but the problem is that all this liquidity is not put to productive use. This is what the Investment Plan aims to correct and this requires action on several fronts at the same time.

What is the solution?

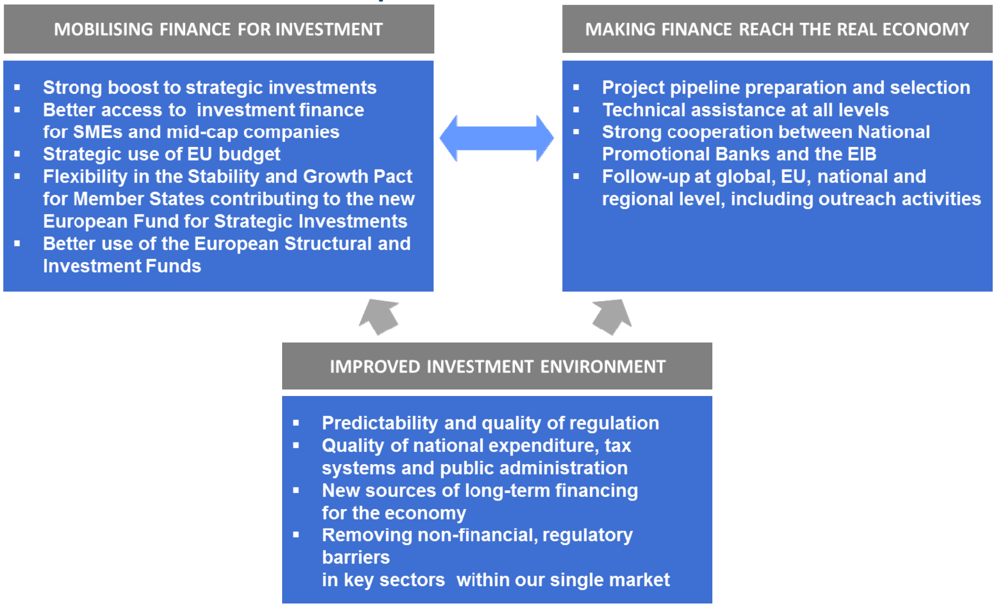
Adequate levels of resources are available and need to be mobilised across the EU in support of investment. There is no single, simple answer, no growth button that can be pushed, and no one-size-fits-all solution. The Commission is setting out an approach based on three pillars: **structural reforms** to put Europe on a new growth path; **fiscal responsibility** to restore the soundness of public finances and cement financial stability; and **investment** to kick-start growth and sustain it over time.

Economic policy priorities: Three pillars



The Investment Plan for Europe is based on three strands, which are mutually reinforcing. First, mobilising sources of investment finance to deliver at least € 315 billion of additional investment over the next three years, and making better use of public money to attract private investors. Second, making sure this extra finance contributes to growth in ways that are adapted to each sector and geography. And third, measures to improve the investment environment in Europe and thereby trigger knock-on effects.

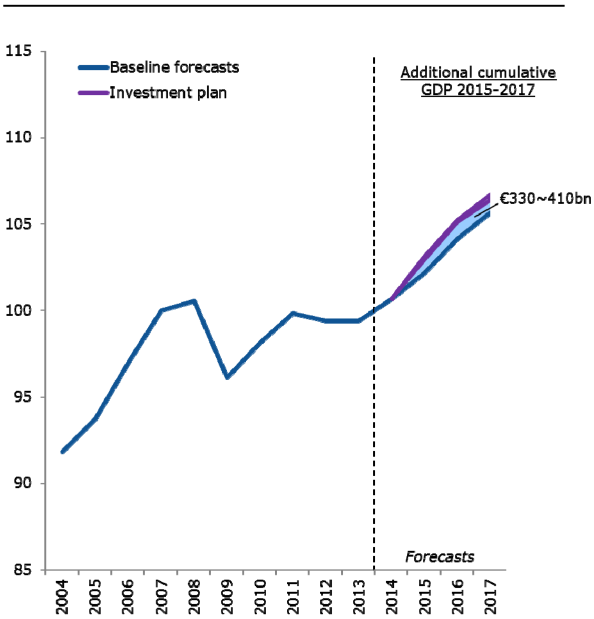
An Investment Plan for Europe: Three Strands



The Investment Plan for Europe has **three objectives**: to provide additional fuel to the EU's recovery and reverse the drop in investment; to take a decisive step towards meeting the long-term needs of our economy by boosting competitiveness in strategic areas; and to strengthen the European dimension of our knowledge, human capital and physical infrastructure, and the interconnections that are vital to our Single Market.

According to European Commission estimations, **the Investment Plan has the potential to add €330 to €410 billion to the EU's GDP and create 1 to 1.3 million new jobs in the coming three years.**

Real GDP
EU-28, index 2007=100



Employment
EU-28, millions of workers