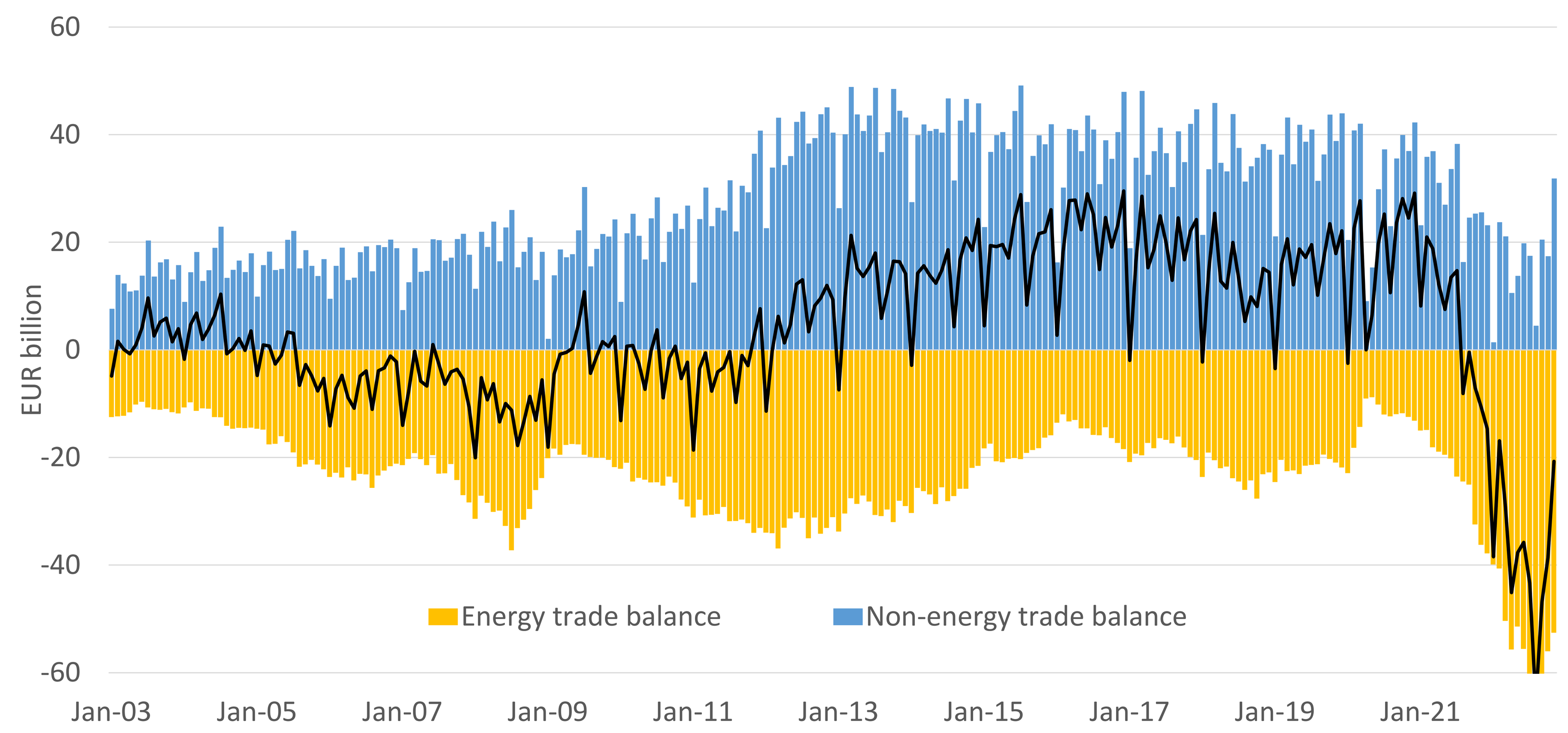
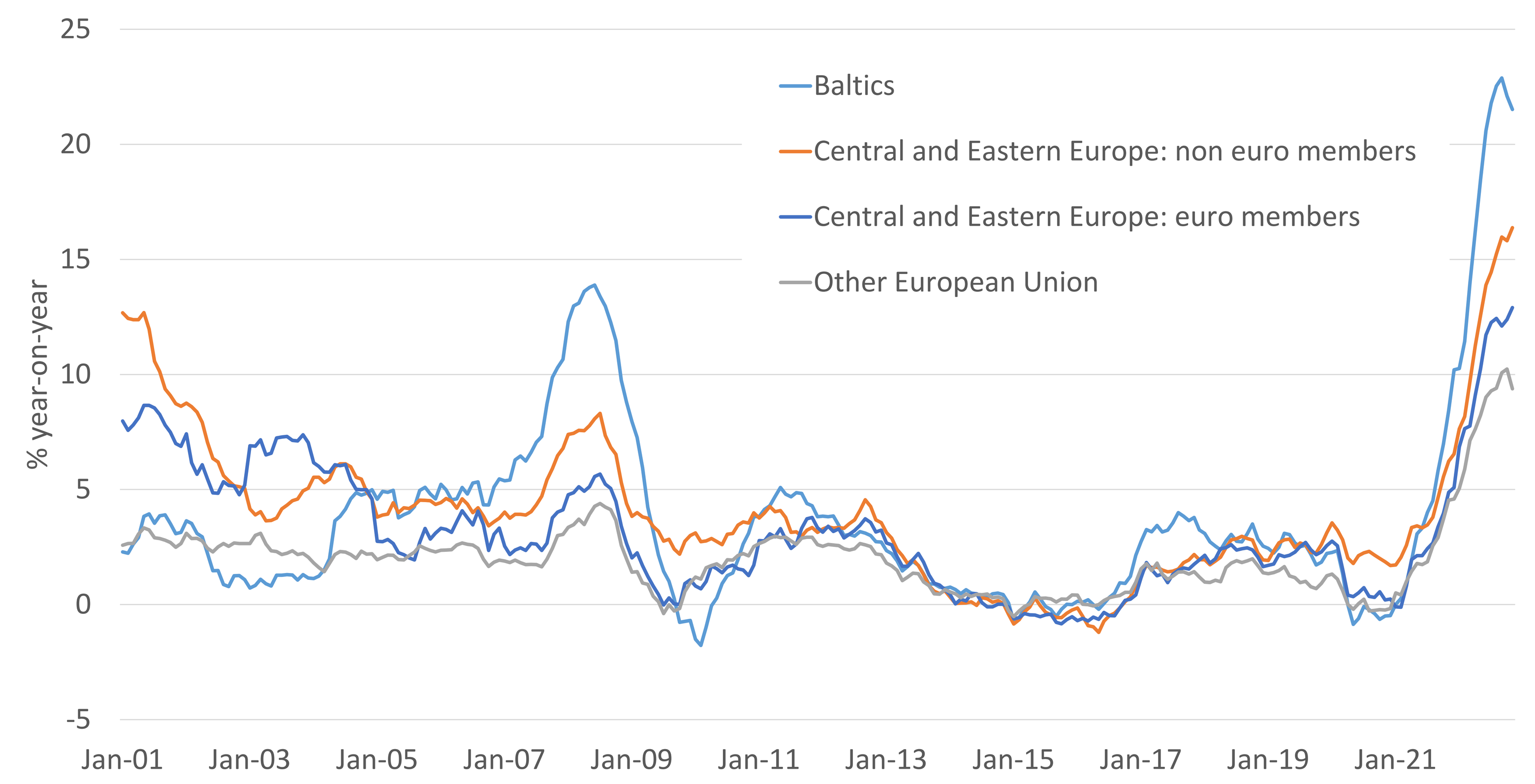
European Investment Bank

Chapter 1:
The macroeconomic context

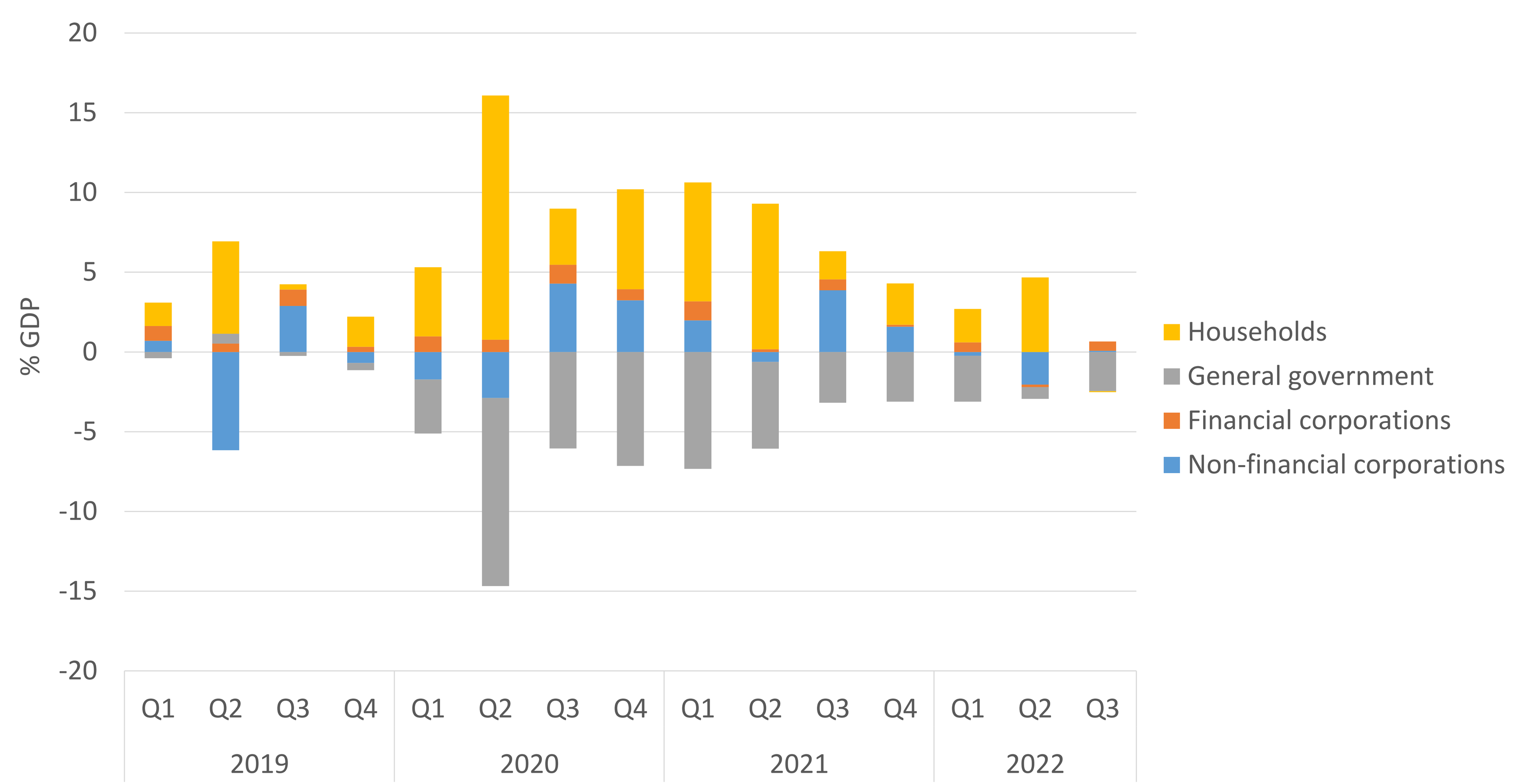
A loss of wealth in the European Union: Higher energy costs absorbed 3.5% more of EU GDP than before the Ukraine war. Those extra costs weighed on the EU trade balance.



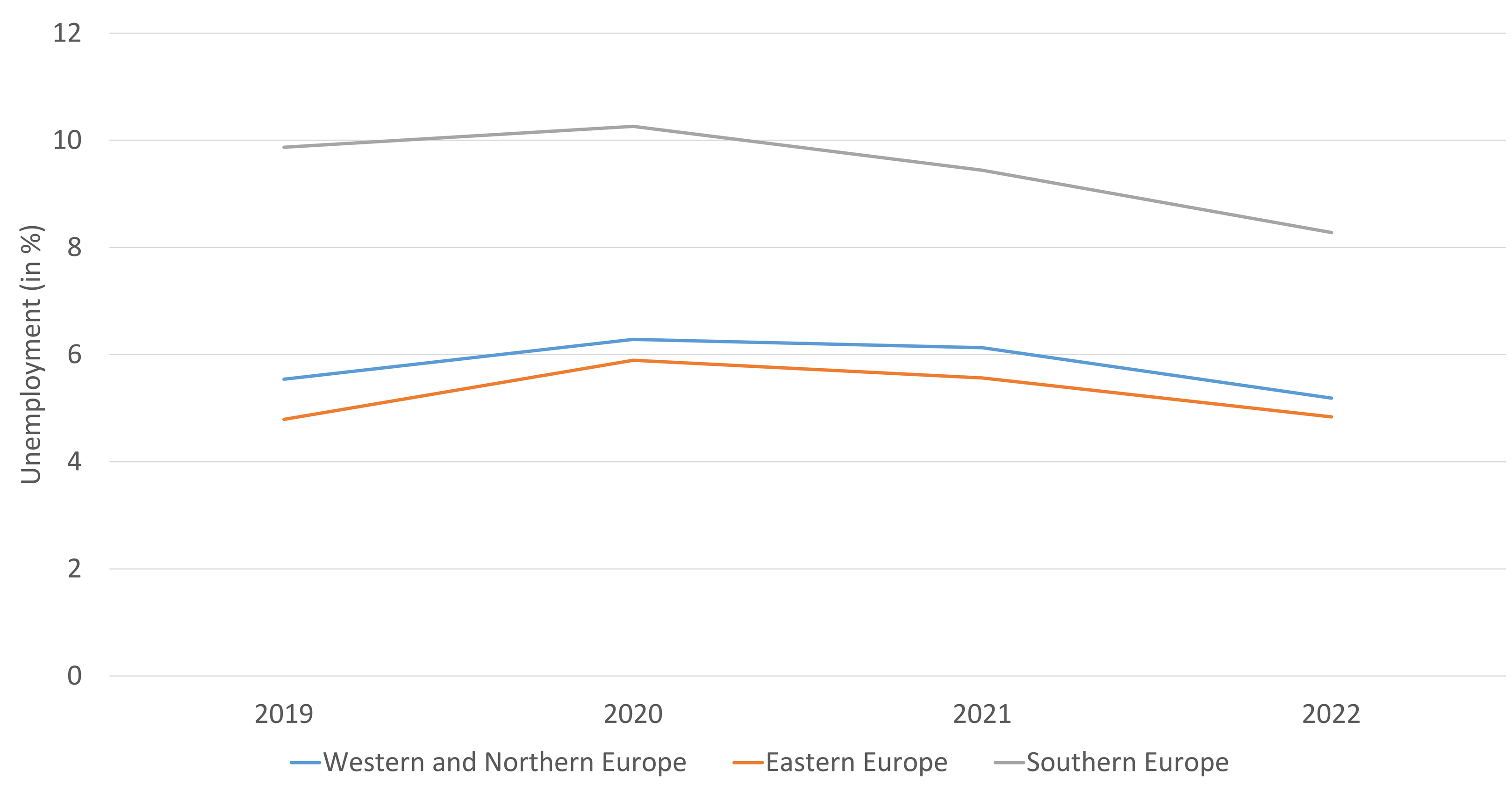
Inflation jumped to record levels, with large differences across EU countries.



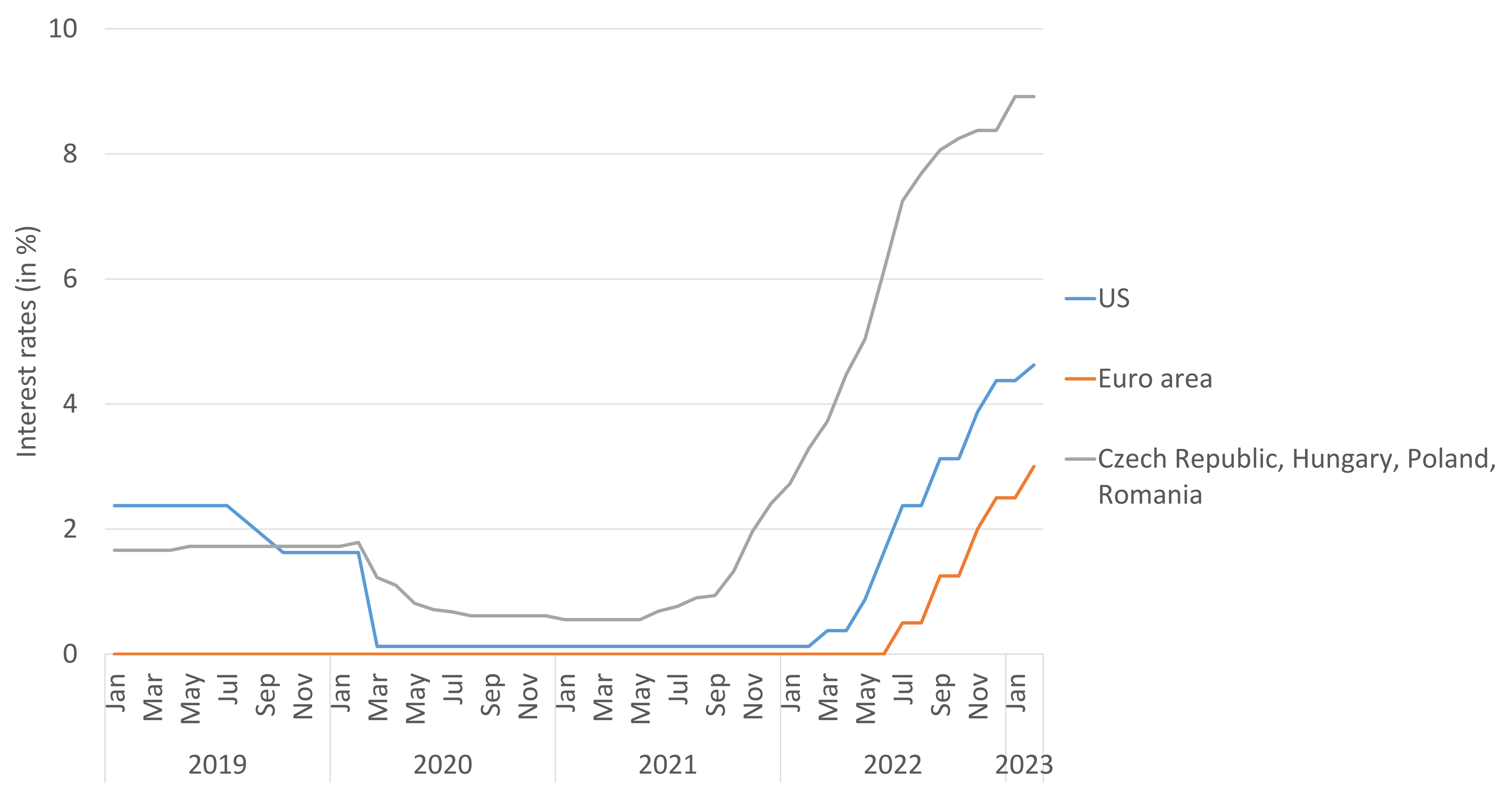
Government support helped offset rising commodity prices, halting fiscal consolidation after the pandemic.



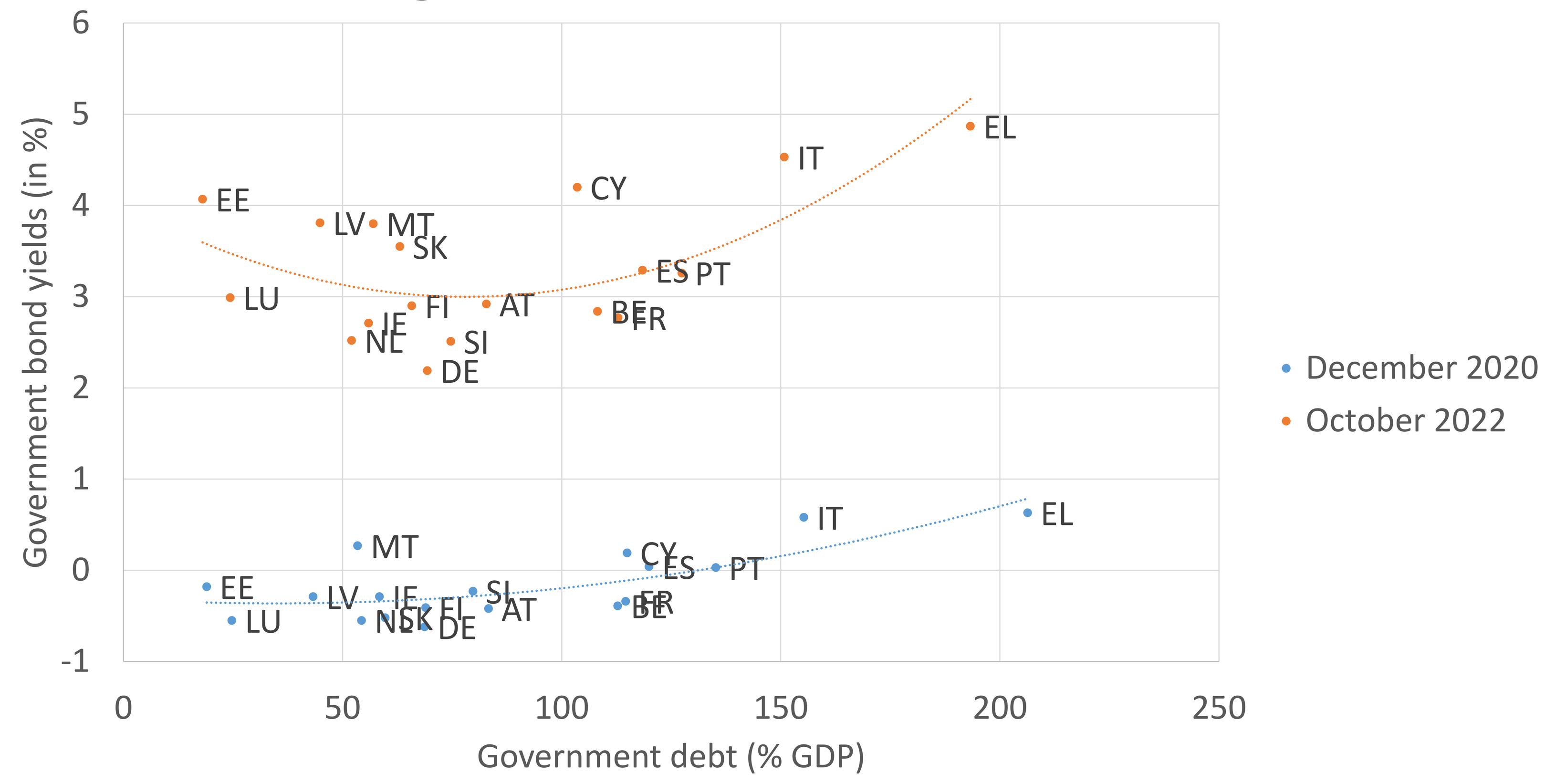
Labour markets remained tight as firms perceived the shock to be temporary and, considering the scarcity of qualified staff, companies preferred to hold on to their employees.



The recovery from the pandemic and higher commodity prices put pressure on inflation. Central banks raised interest rates rapidly, in particular in Central and Eastern Europe.



Credit spreads widened as monetary policy tightened, but they remained contained despite increased government spending, arguably reflecting the European Central Bank's ability to purchase government bonds at scale.



POLICY IMPLICATIONS

→ The crisis has hit different countries to different extents. EU governments need to coordinate their economic policies, particularly for energy and the single market, to ensure a level playing field for EU firms.

→ Public investment needs to be protected despite pressure on government spending to dampen the impact of the energy price shock on households and firms.

→ Plans to invest in the green and digital transitions need to be implemented effectively.

The EIB Investment Report, issued annually by the European Investment Bank, provides a comprehensive overview and analysis of investment and the financing of investment in the European Union. It combines the exploration of investment trends with in-depth analysis, focusing especially on the drivers and barriers to investment activity.

The Investment Report 2022/2023 can be downloaded at https://www.eib.org/en/publications/20220211-investment-report-2022