Chapter 2

The state of investment in the European Union: Government, corporate, infrastructure, climate

Overall investment fell less than expected
Resilient government and household investment offset the decline of corporate investment (% GDP)

The pandemic accentuated certain investment weaknesses
Large and more productive firms proved more resilient
Near term investment outlook has improved for firms
Source: Eurostat National accounts, EIB staff calculations.

The rise in government spending was highest in the most indebted countries
Insulating government investment from the next fiscal consolidation should be a priority

Near term investment outlook has improved for firms
Corporate investment has increased, albeit more slowly than in the rest of the economy (firms expecting an improvement or deterioration, net balance in %)

Firms expect to accelerate their green and digital transformation
Digital technologies will become more common
Uncertainty and a lack of skilled labour stand in the way (% of respondents)

Maintaining investment throughout the recovery
- Total investment in the European Union is back to pre-crisis levels mostly due to the resilience of government and household investment. Corporate investment has been lagging and picked up only in the second quarter of 2021. Uncertainty and firms’ desire to strengthen their balance sheet likely dampened investment. These issues should be taken into consideration when deciding whether to wind down policy support to the corporate sector.
- The pandemic accentuated differences in investment activity within the European Union as the hardest-hit countries also experienced weaker growth in investment before 2020. Furthermore, during the pandemic the gap with the United States for investment in equipment and intellectual property products continued to widen. This could exacerbate the gap in productivity growth between the European Union and the United States.
- Reinstating the EU fiscal rules in 2023 might put pressure on some of the more indebted countries to consolidate their finances. EU policymakers should take the necessary steps to protect government investment.
- Investment in climate change, while increasing, falls short of what is necessary to meet ambitious targets. Turning Fit for 55 proposal into legislation is crucial to give impetus to investment.