European Investment Bank
The EU bank

Public Investment In Europe

Debora Revoltella
Chief Economist EIB

Ramping up public investment and getting better value for money
Path for the Public Finances
February 2022
Irish Fiscal Advisory Council

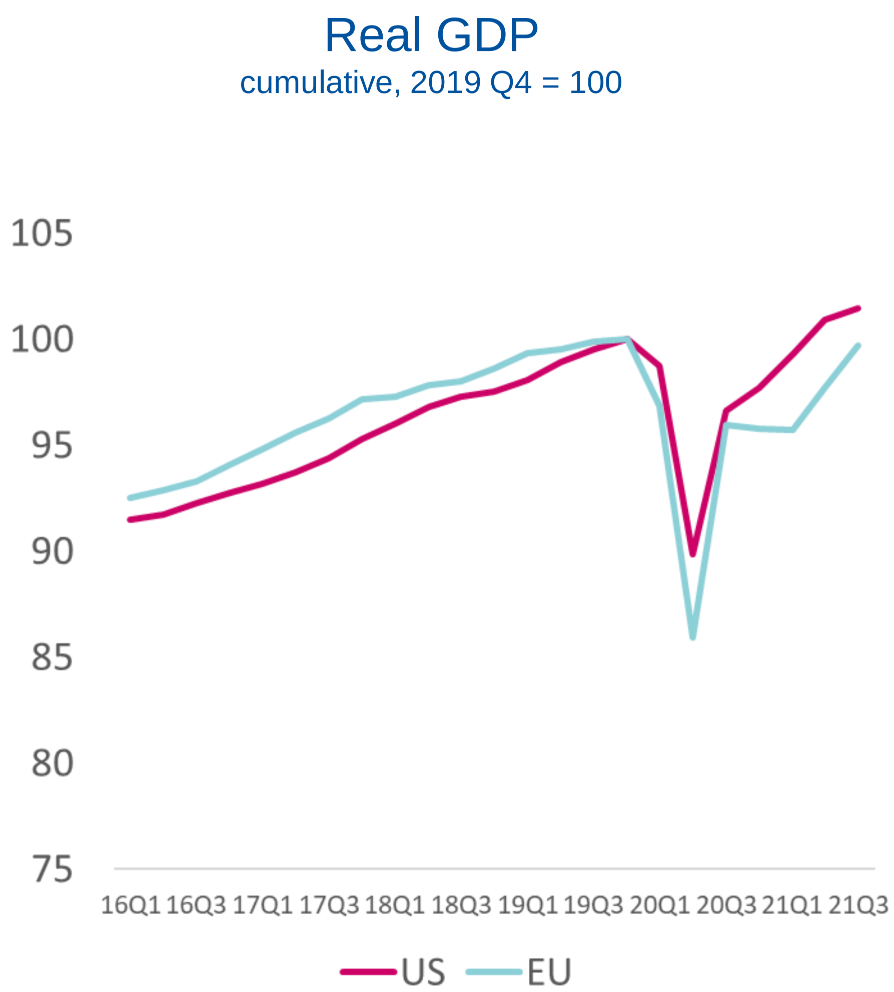
Key messages

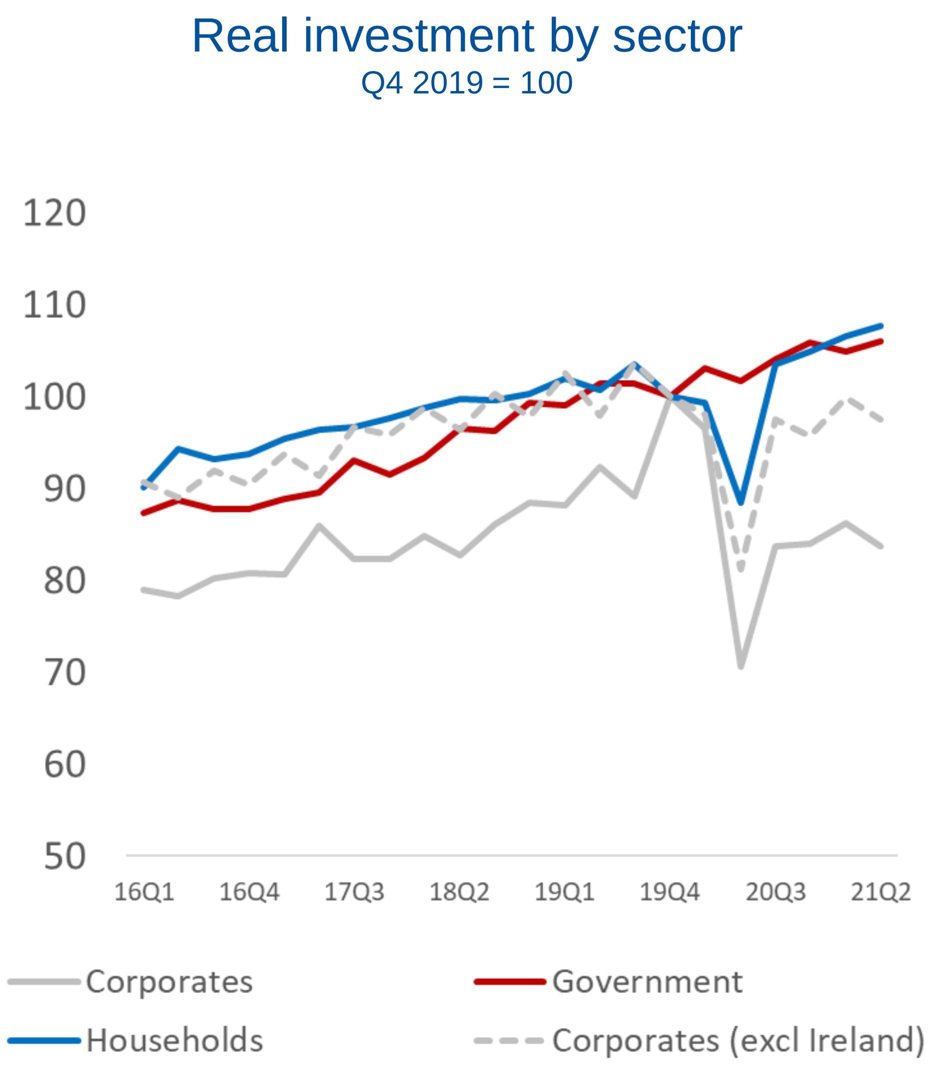
- Policy support has been successful in avoiding the worst
    - Real GDP and Investment* are back to pre-pandemic levels in just 2 years, but it is not over
- Today – the challenge is to adapt to the new normal and to reap the benefits of the green and digital transformation
- Policy focus on investment:
    - Protect public investment
    - Maximize the impact of the Recovery and Resilience Facility
    - Create the conditions for private investment

European Investment Bank The EU bank

* EU excl Ireland

Recovery, in less than 2 years



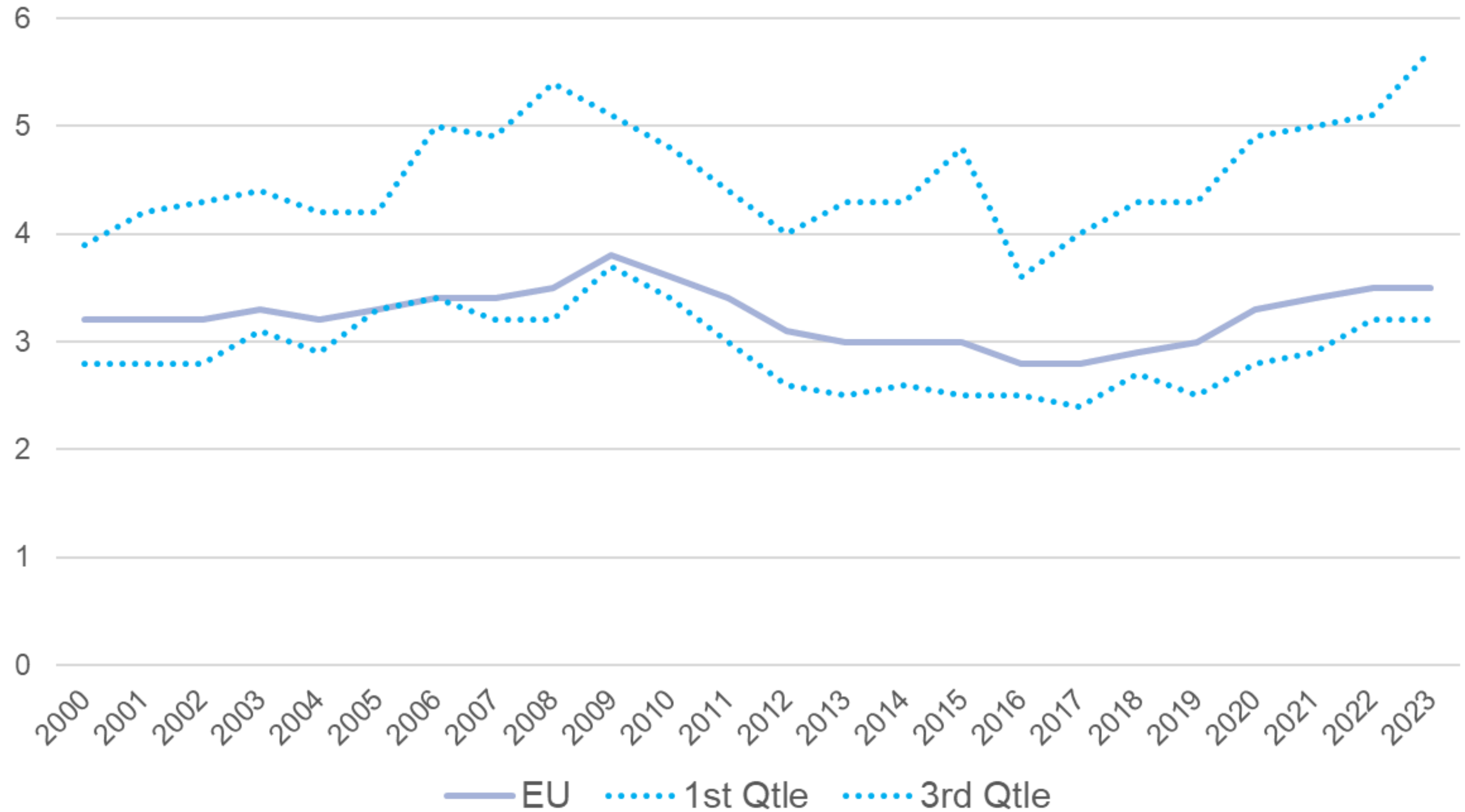


European Investment Bank The EU bank

Source: Eurostat. Note: Investment for the three institutional sectors is transformed in real terms using the implicit deflator for total GFCF in 2015 euros in chain-linked volumes. Corporates: Non-financial corporations. Government: General Government.

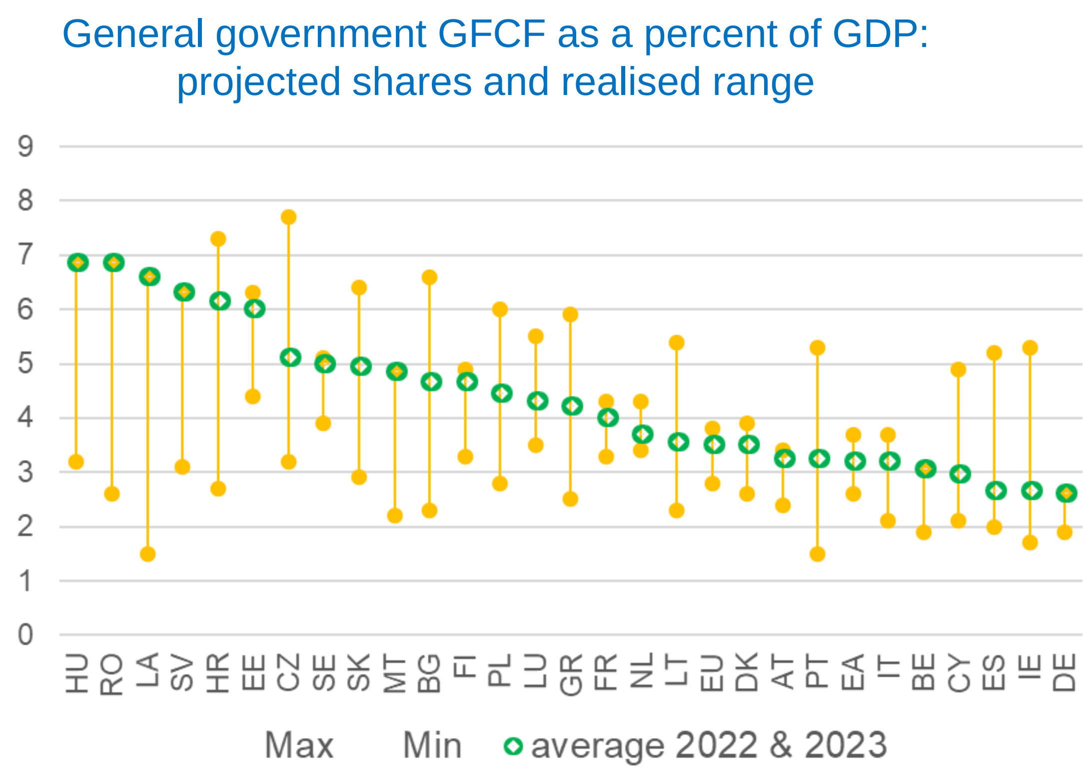
General government investment is holding up

Annual GFCF government sector in EU in percent of GDP,
With quartiles for Member States



Source: EIAMECO

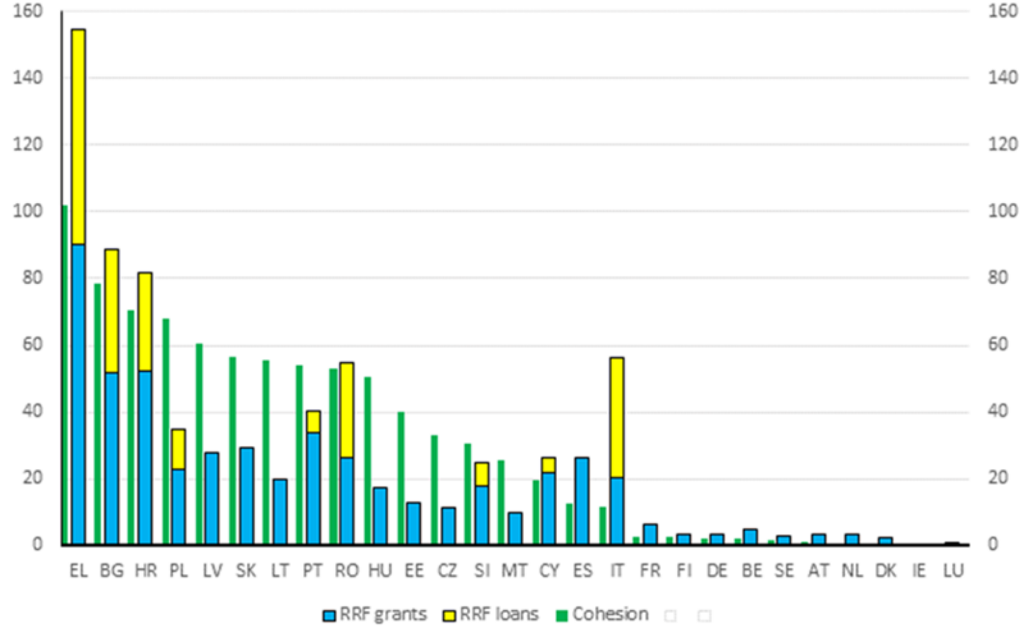
Public investment rising to high levels for some



Source: AMECO
Note: The bars plot, for the years 2000 to 2021, the range of annual GFCF by general government as a share of GDP. The green dots show the projected average shares for 2022 and 2023.

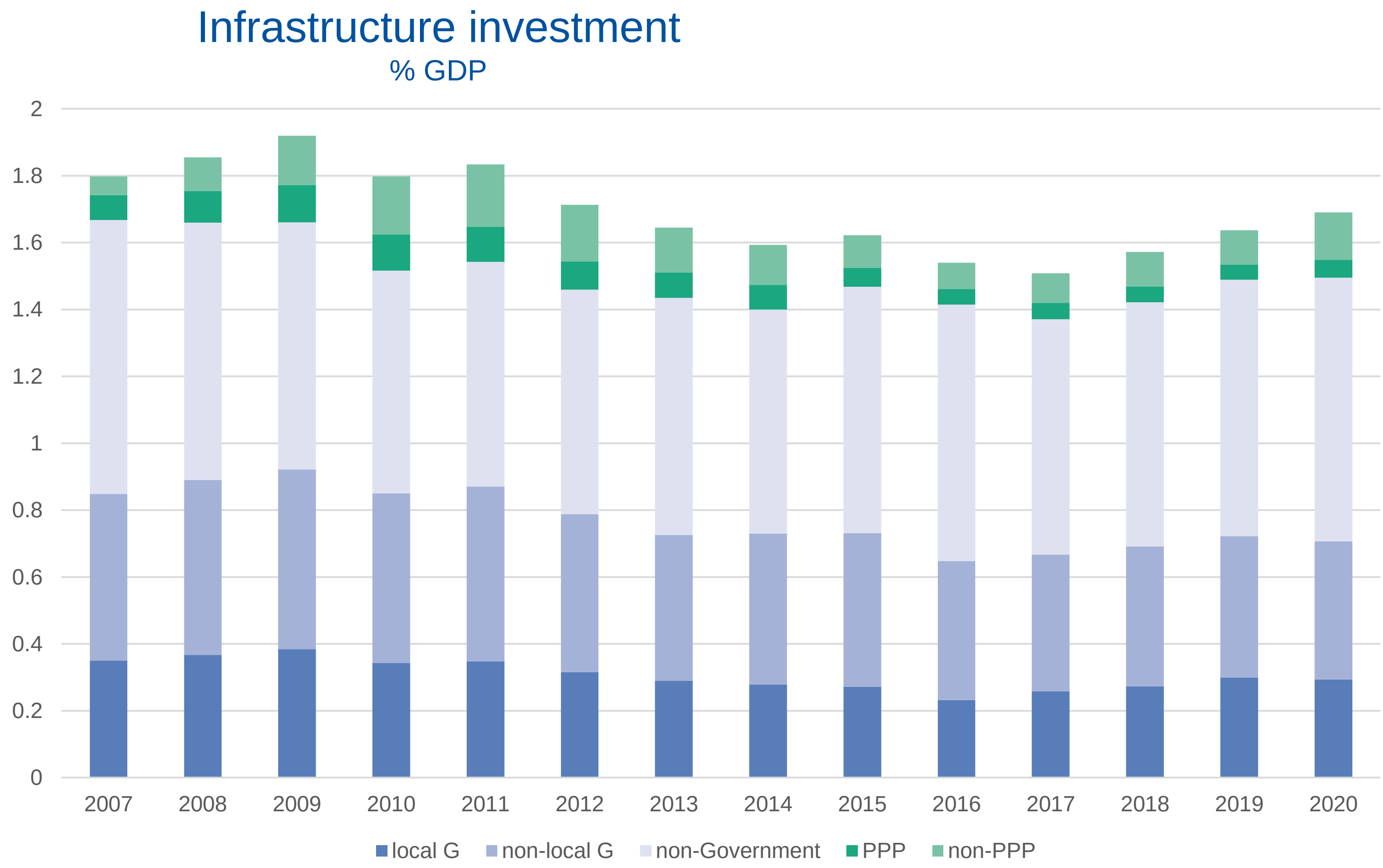
Public investment boosted by temporary relaxation of SGP requirements and new MFF and NGEU/RRF funds

Cohesion and RRF funds,
in % of Member State GFCF



Source: EIB calculations based on data from European Commission and Eurostat
Notes: MFF 2021-2027 Cohesion funds and NGEU funds relative to 2019 GFCF.

Infrastructure investment holding up



Source: EIB calculations, Eurostat, EPEC, IJ Global
Note: Note: Approximation of annual infrastructure investment in EU27 by institutional sector as a share of GDP, expressed as a percentage. Infrastructure projects are divided into those that are Public Private Partnerships (EPEC) and those that are not (IJ Global). The remainder is split between Government and Corporate investment. COFOG data provide the basis for Government investment. Relevant data series are not published for Belgium, Croatia, Lithuania, Poland and Romania. Some data gaps remain in 2020 and one in 2019 due to lagging data releases.

European Investment Bank The EU bank

The history of the last 40 years shows strong adjustments of public investment to consolidation

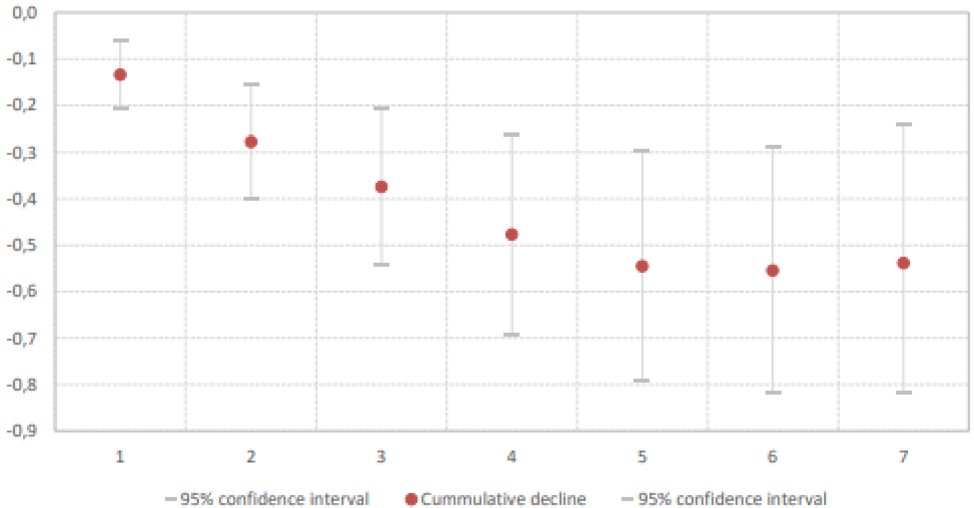


Fig. 5 Response of Government Investment Following a Fiscal Consolidation, Cumulative pp of GDP.

Source of data: Authors' calculations.

Source: EIBIS 2021

With repercussions at the local level – where gaps exist

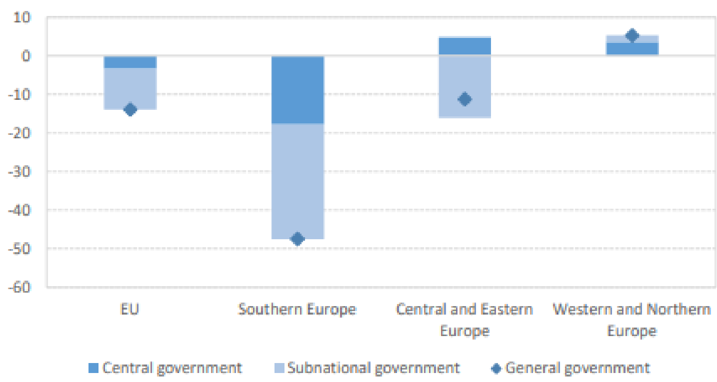


Fig. 3 Total Change in GFCF of the General Government and Contributions by Levels of Gover
2009–16, %.

Source of data: Eurostat Government finance statistics and authors' calculations.

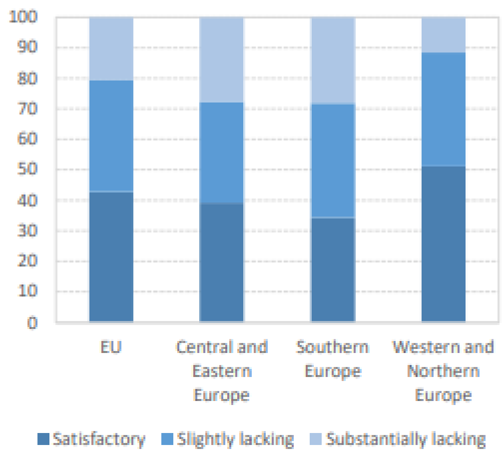


Fig. 4 Infrastructure Investment in the EU, % GDP (Panel a) and Adequacy of Infrastructure Stock of Transport Infrastructure (Panel b).

Source of data: Eurostat, European PPP Expertise Centre (EPEC), IJ Global, and EIB staff calculations (Panel a); EIB Municipality Survey 2020 (Panel b).

European Investment Bank The EU bank

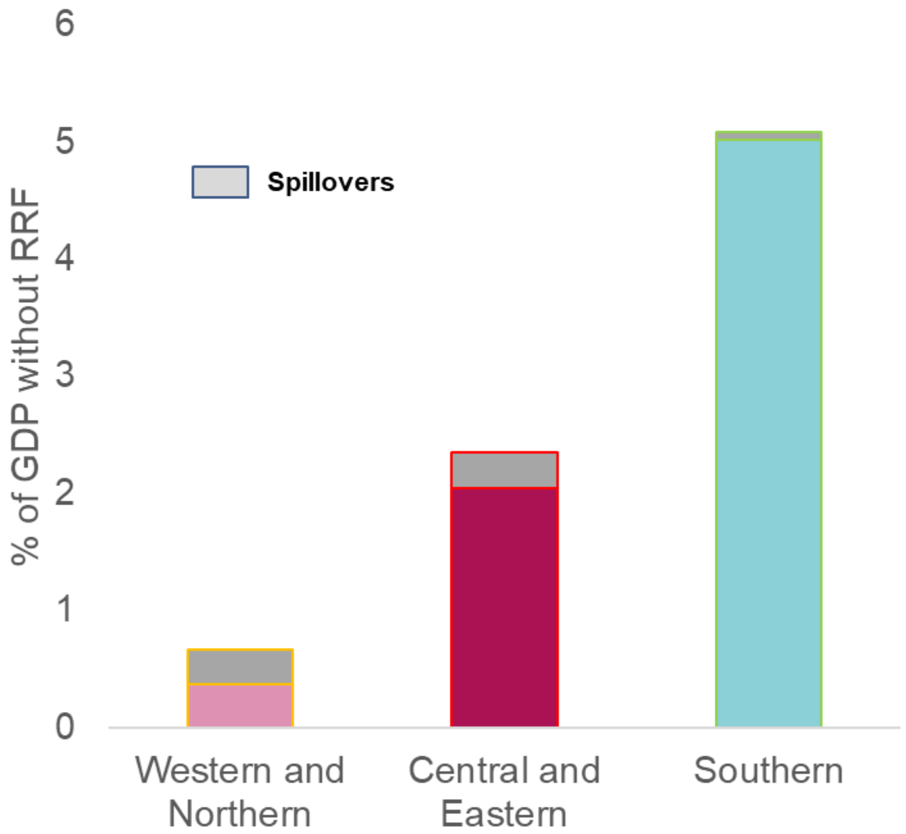
Source: EIBIS 2021

The new normal requires fast adaptation, with investment to reap the benefit of the green and digital transition

A policy focus on investment is crucial

Fully exploit the potential embedded in the Recovery and Resilience Facility and protect public investment from fiscal consolidation

Estimated impact of the RRF by 2030 (% GDP)



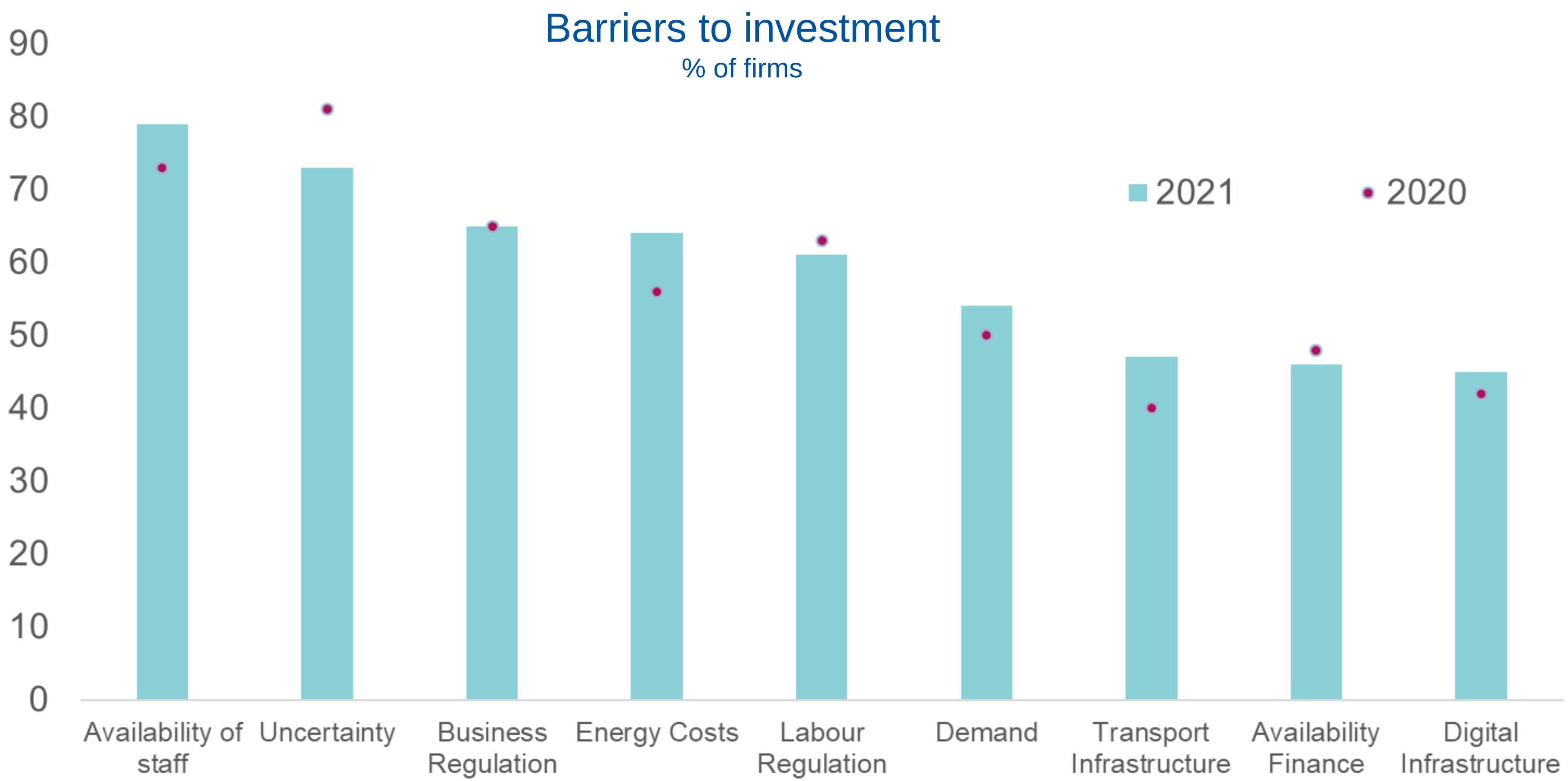
As it stands, the Growth and Stability Pact would require a primary surplus of

3% of GDP vs. 1%

on average during 2015-2019, in the most indebted countries

Source: EIB Investment Report , based on Rohmolo, JRC-EIB. The bars indicate the estimate impact of the RRF in terms of wider GDP.

Unlock private investment by addressing barriers: lack of skills, risk sharing, policy clarity and infrastructure



Sources: EIBIS

Conclusions

- So far so good but vulnerabilities and asymmetries remain
- Accelerating investment is crucial, to adapt to the new normal and reap the benefits of the green and digital transformation
- Going forward, policy focus should target investment:
  - Protect public investment
  - Maximize impact of the Recovery and Resilience Facility
  - Prioritize policies with the potential to unleash more private investment: skills, risk sharing, policy clarity and infrastructure