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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	EIB Investment Report 2021/2022: Recovery as a springboard for change - briefing

Delegations will find attached the main findings of the EIB Investment Report 2021/2022: Recovery as a springboard for change.

BRIEFING

- › An unprecedented shock, then a fast investment rebound
- › Emergency policy support has been effective: firms could quickly revive investment plans, but some scars may still emerge
- › Risk of asymmetric recovery and transformation: some firms and regions surge ahead; others may be left behind; uncertainty remains a threat
- › A policy focus on investment remains critical:
 - › Europe faces tremendous green and digital investment needs
 - › These needs cannot be met without accelerating private investment
 - › This requires risk-sharing, a continued policy focus, and public investment that is sustained and catalytic

An unprecedented shock

Then an unexpected rapid rebound

The pandemic caused the steepest recession in Europe's post-war history, EU real GDP falling 14% by mid-2020, relative to a year earlier.

However, EU real GDP is back to pre-crisis levels, less than 2 years after the start of the pandemic.

It took only 2 years for investment to recover from the initial pandemic shock, compared to more than a decade after the Global Financial Crisis. EU real investment first fell abruptly, but less than originally feared.

- › **Government investment** maintained a steadily rising trend.
- › **Household investment** (mostly dwellings) declined, but rallied quickly, supported by government action that protected jobs and disposable income.
- › **Corporate investment**: Half of all European firms surveyed in mid-2020 expected to cut back investment due to the pandemic. By mid-2021, "only" 32% said they did so. In 2021 the short-term outlook for investment turned very positive.

Pandemic-related policy support averted a systemic economic crisis

- › The EU's timely response in 2020-21 prevented firms from going out of business, enabling Member States to absorb most of households' income loss.
- › 56% of EU firms received some kind of policy support, including grants (36%), guaranteed or subsidised credit (17%) and deferred payments (16%).
- › Support was directed successfully towards firms in temporary difficulty, facing a large loss of revenue and temporary liquidity needs, helping them to rebound quickly.
- › Support was not skewed towards firms in poor financial health, before the pandemic, thus minimising distortions.
- › Widespread scarring appears to have been avoided, thanks to policy support that maintained benign finance conditions. However, resilience to a full phase-out of support has yet to be tested.
- › Policy support was springboard for transformation: it allowed firms to reactivate their investment plans and to digitalise.

With the pandemic exacerbating transformation needs, many firms are taking the opportunity to transform

- › 55% of European firms foresee an increased use of digital technologies as a long-term result of the pandemic.
- › 46% have responded to the pandemic by becoming more digital, including 34% of those that do not yet use advanced digital technologies.
- › 25% of European firms are developing new products or services as a response to the pandemic.
- › Firms are also waking up to climate change and climate transition: 58% perceive impacts from climate change and 60% see the climate transition as either a risk or an opportunity for their business. 47% now plan climate-related investment.
- › The EU is a global leader in climate-related innovation, a position it must capitalise on for future competitiveness.

But there is a risk of an asymmetric recovery, with many left behind

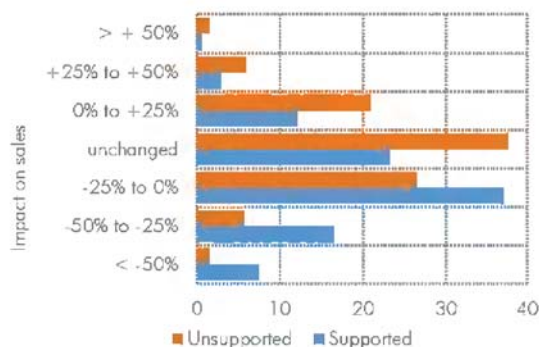
- › 26% of EU firms have not started their digitalisation journeys. They represent 33% of private sector employment. The digital divide is increasing.

And high uncertainty could still derail recovery and transformation

- › 25% appear content to "wait and see" on climate change.
 - › The number of firms investing in training fell 10% during the pandemic, even though 79% of firms consider lack of skilled workers to be an obstacle to investment.
 - › Macroeconomic and policy uncertainty still threatens recovery and transformation. Investment rebounded in 2021 on a wave of reduced uncertainty, but uncertainty remains a barrier to investment for 73% of firms, prompting many to "wait and see".
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Policy support was skewed towards heavily-affected firms

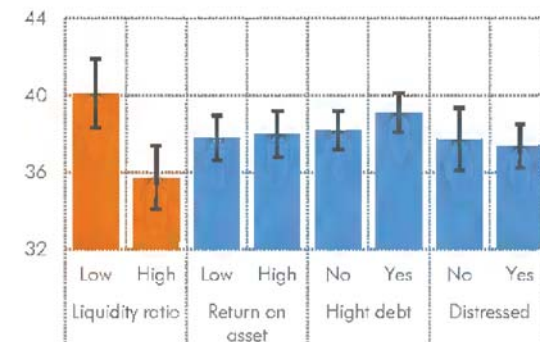
Distribution of supported and unsupported firms (in %), by the pandemic's impact on sales



Source: EIBIS 2021, EIB calculations.

Support targeted short-term liquidity needs, not firms that were already financially weak

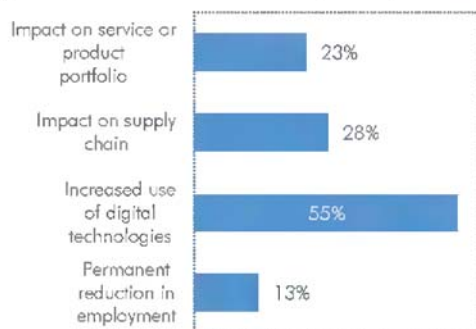
Predicted probability of firms receiving policy support, by pre-pandemic characteristic (in %)



Source: EIBIS 2021, EIB calculations

Most EU firms expect the pandemic to have a lasting impact on their operations

Long-term effects of COVID-19 expected (% of firms)



Source: EIBIS 2021.

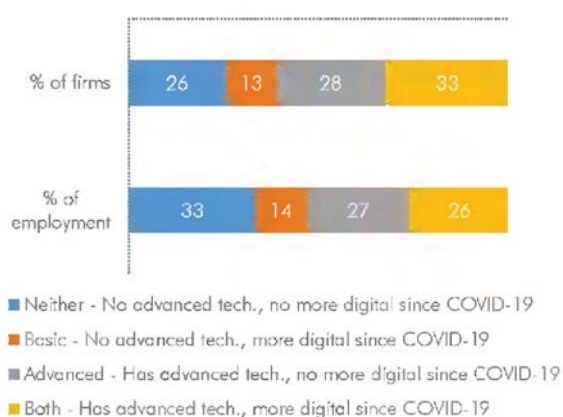
How EU firms see climate change and the climate transition as affecting their operations

% of firms



Source: EIBIS 2021.

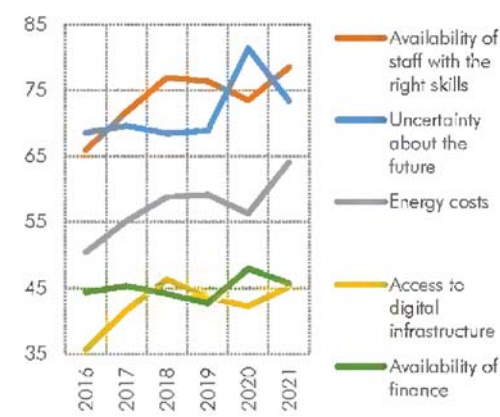
A third of EU employment is in firms that neither use advanced digital technologies nor became more digital as a response to the pandemic



Source: EIBIS 2021, Eurostat

Low availability of skills and uncertainty persist as top barriers to long-term investment

% of EU firms citing the obstacle as major or minor



Source: EIBIS 2021.

Europe faces tremendous investment needs

- › **Strains on Europe's energy system are an indicator of the urgency of climate investment**, both in renewable energy generation and Europe-wide transmission networks. Some €350bn additional investment in energy systems is needed every year.
 - › **Europe still lags on digitalisation, with asymmetries growing**. With pandemic-related digital uptake stronger among US firms, Europe still has far to go, and the rollout of digital infrastructure is still well below needs in many regions.
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These needs cannot be met without accelerating private investment

- › **The investment volumes required can only be achieved by catalysing a gear-shift in private investment**.
 - › **The climate transition now demands massive investment by firms and households** in energy efficiency, green transport technology and low-carbon industrial processes.
 - › **The digitalisation process centres on firm-level investment** in innovation, technology adoption and workforce skills.
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Catalysing private investment requires public investment and continued policy guidance

- › **EU leadership on climate policy has been critical in the recovery**. To catalyse more private climate investment, we need to maintain momentum, advance the implementation of regulatory proposals and maximise the potential of the EU single market.
 - › **Create the conditions to accelerate digitalisation** through supportive infrastructure, information security and data-governance, a digitalised public sector and an intensified focus on skills. Where it digital infrastructure was better, firms were more likely to digitalise as a response to the pandemic.
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Sustaining public investment is critical...

- › **Commitment to public investment remains crucial in the recovery phase**. Reinstating the fiscal framework "as is" might imply more than double the rate of consolidation seen in recent years in the most affected Member States, potentially jeopardising the recovery and undermining long-term growth.
 - › **Successful implementation of the Recovery and Resilience facility is a vital step**, which could significantly enhance economic convergence, potentially lifting GDP by as much as 5% by 2030 in in parts of Europe that need it the most. Ensuring capacity for implementation is now crucial.
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...as is risk-sharing to further catalyse private investment

- › **Risk-sharing instruments at the EU level remain crucial to counter the impact of high uncertainty on private investment**.
 - › **Targeted incentives for digitalisation and climate change have proven to be effective**, with recipient firms much more likely to continue their transformation through the pandemic.
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About the [EIB Investment Report](#): The EIB's flagship annual report on investment in Europe provides a comprehensive overview of the developments and drivers of investment and its finance in the European Union. It combines an analysis of key market trends with a more in-depth thematic focus, this year on European progress towards a digital and green future post-COVID-19. The report draws extensively on the results of the annual **EIB Investment Survey (EIBIS)** a survey of 12 000 firms in the European Union, with representative comparator samples of 800 firms in the United States.