

INVESTMENT REPORT  
2017/2018



**KEY FINDINGS**

from recovery  
to sustainable growth



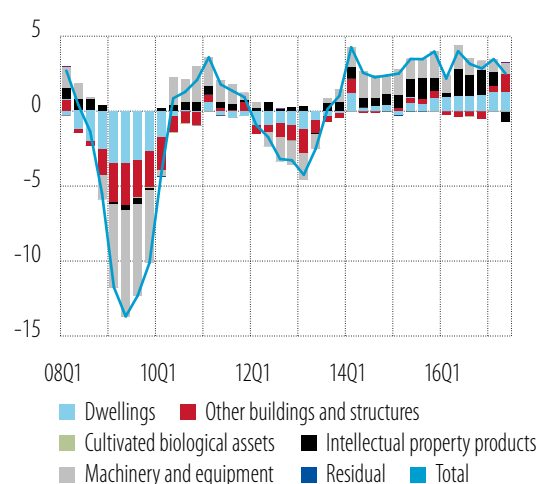


# Investment Report 2017/2018: from recovery to sustainable growth

## Key findings

### The investment recovery is broadening and strengthening

**Figure 1** Real investment (GFCF) contributions by asset type (% change over the same quarter of previous year)



Source: National accounts, Eurostat and EIB staff calculations.

Investment growth in the European Union (EU) reached an average annual rate of 3.2% in the period 2013-2016, clearly exceeding the pre-crisis (1995-2005) average of 2.8%. This investment recovery has been supported by an economic recovery in the EU that is gaining momentum, with rising levels of employment and disposable income, and improvements in consumer and business confidence.

**The rate of corporate investment has recovered to pre-crisis levels.** This is reflected in the strong contribution of investment in machinery and equipment and intellectual property. However the rate of growth of corporate investment is still below what might be expected in a strong recovery episode, despite several years of underinvestment and the challenges imposed by technological change and global competitiveness.

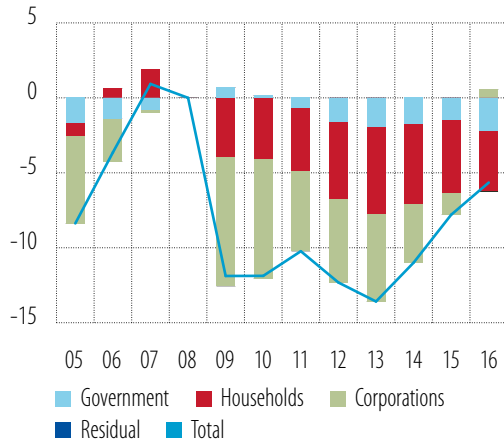
**Household investment picked up in 2016, but unevenly.** The aggregate figure masks cross-country differences: one half of EU countries experienced growth in investment in dwellings, with half of this growth occurring in Germany, the Netherlands and Sweden.

**Government investment continues to remain low as a share of GDP** in the EU, levelling out at 2.7% in 2016, the lowest level in 20 years. The contraction in government investment continued to be significant in the periphery countries – down to 2.1% - while the cohesion countries saw a sharp decline from high levels linked to the funding cycle of the European Structural and Investment Funds (ESIF).<sup>1</sup>

<sup>1</sup> For the purposes of the Investment Report, the “periphery countries” are Cyprus, Greece, Ireland, Italy, Portugal and Spain. The “cohesion countries” are Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

## Key findings

**Figure 2** GFCF by institutional sector (% change relative to 2008)



While the economic and investment recovery has become more broad-based, there is still a need for policy action to maintain conducive financing conditions, re-prioritise infrastructure investment, improve the business environment, and address the pressing structural challenges facing Europe.

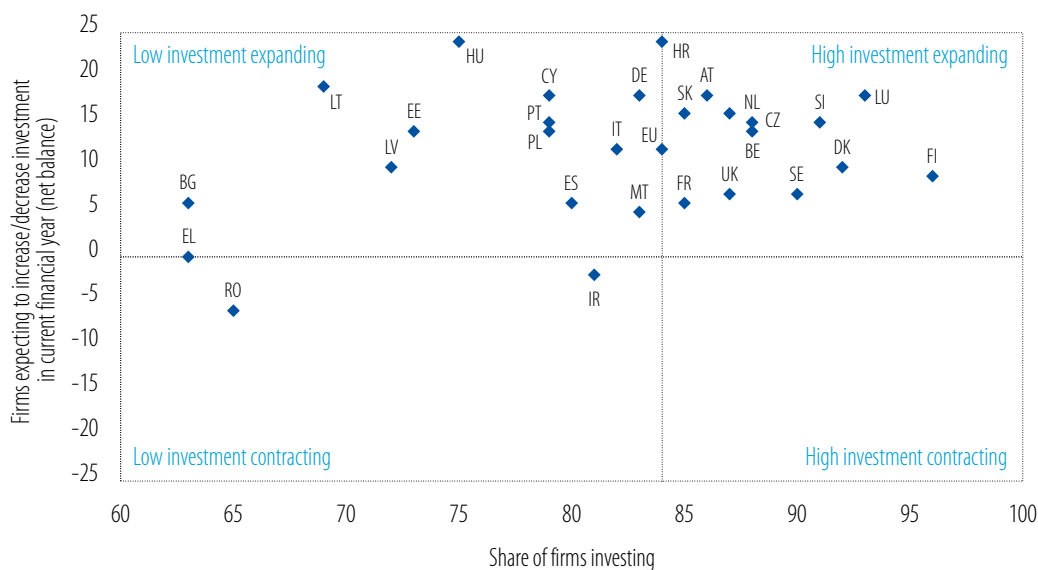
Source: Eurostat, National Accounts, EIB staff calculations.

Note: Real investment is calculated as GFCF in current prices deflated by the total GFCF deflator.

## Business investment is being driven by the improving outlook and efforts to keep pace with competitors

Firms expect to expand their investment in 2017, while investment in 2016 beat expectations. For 2017, EU firms expecting to expand their investment exceed those that expect a reduction by 12%, with reduced investment expected on balance only in Ireland and Romania. While investment appears relatively depressed in Bulgaria, Greece and Romania, it may be approaching a peak in the Nordic countries.

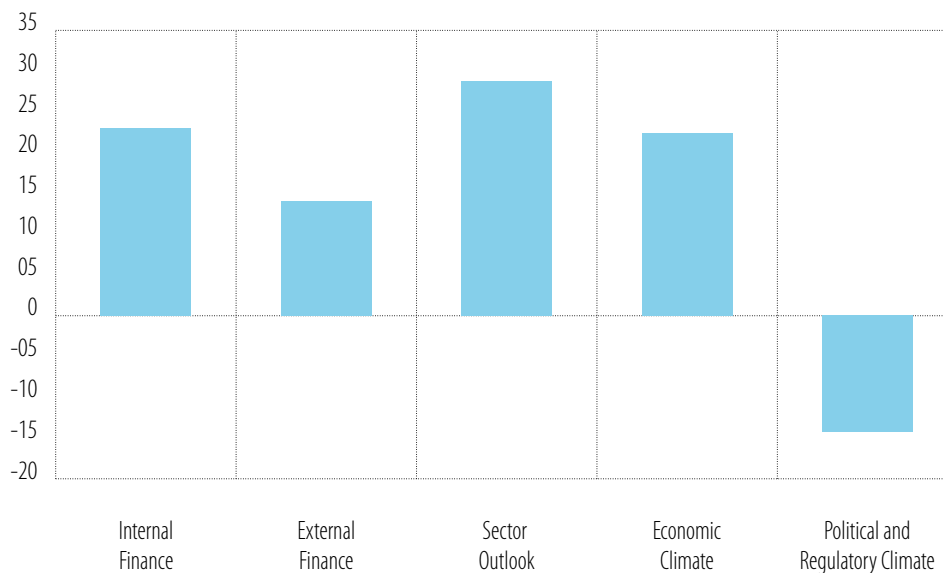
**Figure 3** Investment expectations and share of firms investing (%)



Source: EIBIS 2017.

Note: Base: All firms. Share of firms investing shows the percentage of firms with investment per employee greater than EUR 500. The y-axis crosses the x-axis at the EU average. Net balances show the differences between firms expecting to increase their investment activities in the current financial year and firms expecting to decrease them.

**Figure 4** Factors impacting investment in the next year – firms expecting improvement minus firms expecting deterioration (%)



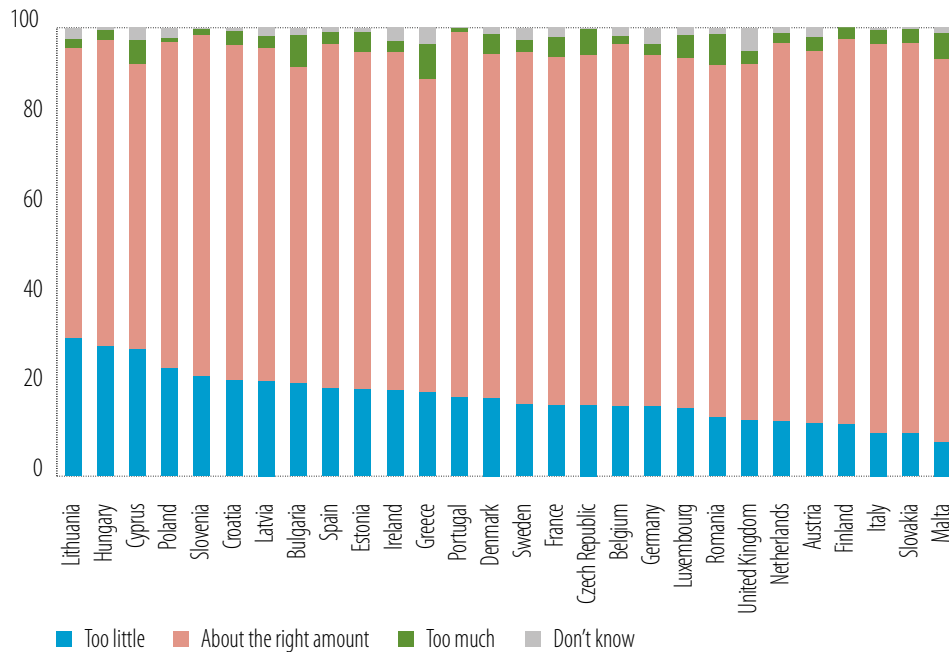
Source: EIBIS 2017.

Note: Base: All firms. Q: "Do you think that each of the following will improve, stay the same, or get worse over the next 12 months?"

**The investment upswing is supported by positive expectations regarding the economic outlook and financing possibilities**, with firms expecting conditions in their sector to improve exceeding those who expect them to deteriorate by 30%. However, expectations with regard to the political and regulatory climate are negative on balance, particularly in Greece, Belgium, the UK and Poland.

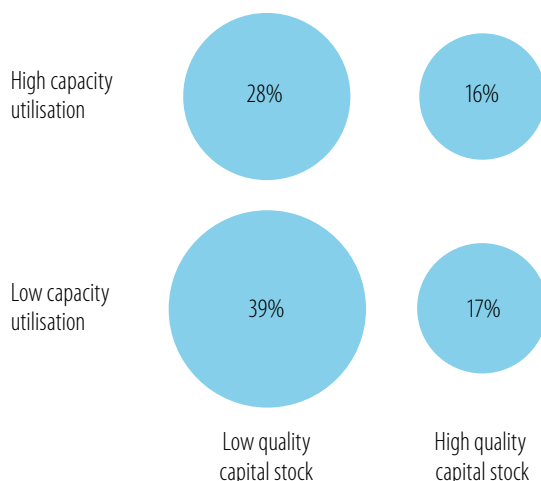
**15% of firms state that their investment activities were below needs, against a mere 3% that say they invested too much**, looking back at their investment activities over the past three years. This is despite rising levels of investment. As conditions and expectations improve, firms are revising upwards their perceptions of past levels of investment and the level of investment needed now. For this reason we should not expect this perceived gap to be rapidly closed; we estimate that it would take four to ten years if current trends were to continue.

## Key findings

**Figure 5** Did firms invest too much, too little or the right amount in the last three years? (%)

Source: EIBIS 2017.

Note: Base: All firms. Q: "Looking back at your investment over the last three years, was it too much, too little, or about the right amount to ensure the success of your business going forward?"

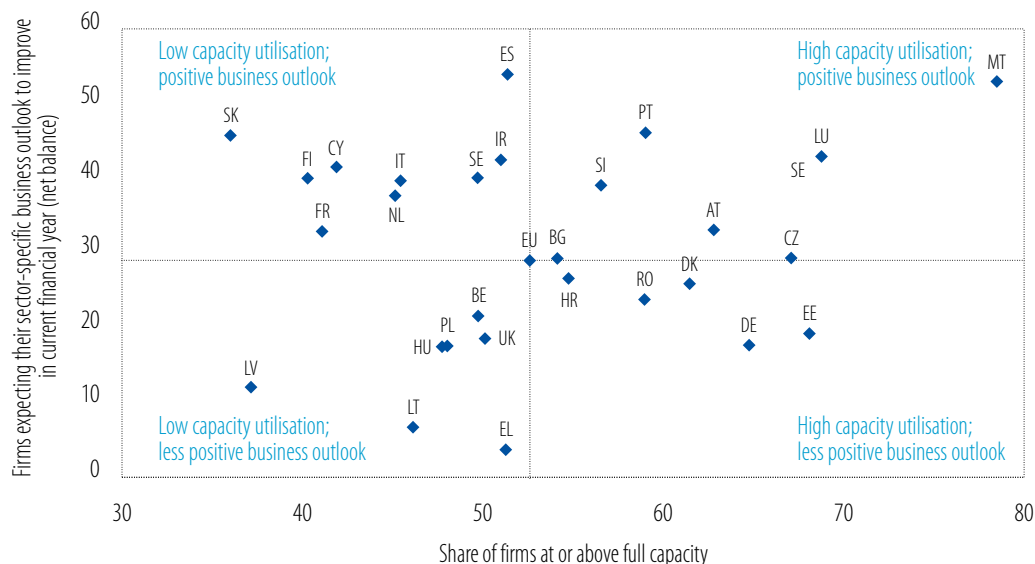
**Figure 6** Correlation between quantity and quality of capital stock and firms reporting under-investment

Source: EIBIS 2017.

Note: Firms are grouped as high quality capital stock when they report that 50%+ of their machinery and equipment is state-of-the-art. Base: All firms that report having invested "too little" in the past three years.

Firms' perception of an investment gap is correlated not with capacity utilisation but with whether they see their machinery, equipment and ICT as "state-of-the-art". The main driving force to strengthen business investment appears to be the improvement of capital quality, in response to competitive pressures, not the expansion of capital quantity to meet demand. Only 45% of firms' capital stock is considered to be state-of-the-art and only 39% of their buildings are considered to be energy efficient. The main purpose of investment remains capital replacement and upgrading, with 50% of investment going to the replacement of existing machinery and equipment, buildings and IT. Investments in capacity expansion (27%) and innovation activities (17%) were also largely unchanged.

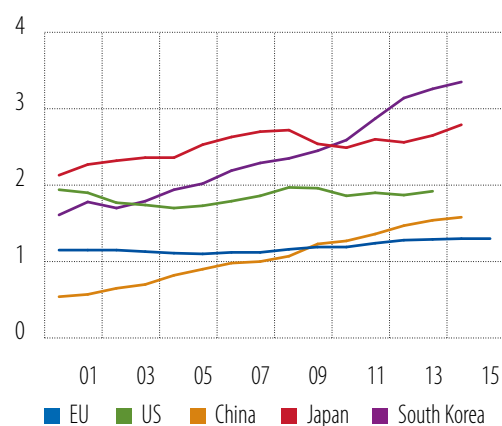
**Capacity utilisation by firms is little changed on average, with few countries likely to encounter capacity constraints soon.** In 2016, the share of firms operating at or above planned capacity (53%) increased by only one percentage point over the previous year. Taking the business outlook into account, it appears that capacity constraints are most likely to be met (at the aggregate level) in Malta and Luxembourg.

**Figure 7** Capacity utilisation and business outlook (%)

Source: EIBIS 2016 and EIBIS 2017.

## The recovery is now turning a spotlight on structural investment needs: innovation, skills, infrastructure and sustainability

**Innovation by EU firms needs to move up a gear, both at the frontier and through innovation adoption.** EU investment in research and development (R&D) is not matching growth in other global economies, as it remains almost unchanged at 2% of GDP. The gap between EU R&D levels and those in the US, Japan, South Korea and China is driven by weaker business R&D in the EU. Innovation in the EU is generally dominated by older and larger firms, and the relative lack of young innovators may help explain the business R&D gap. But other types of intangible investment – e.g. in software, training, organisational capital, etc. – complement R&D and are also important drivers of innovation and innovation adoption. Intangibles account for 37% of investment by EU firms on average. More productive firms and exporters tend to invest more in intangibles.

**Figure 8** Business R&D expenditures (% of GDP), 2000-2015, EU and selected countries

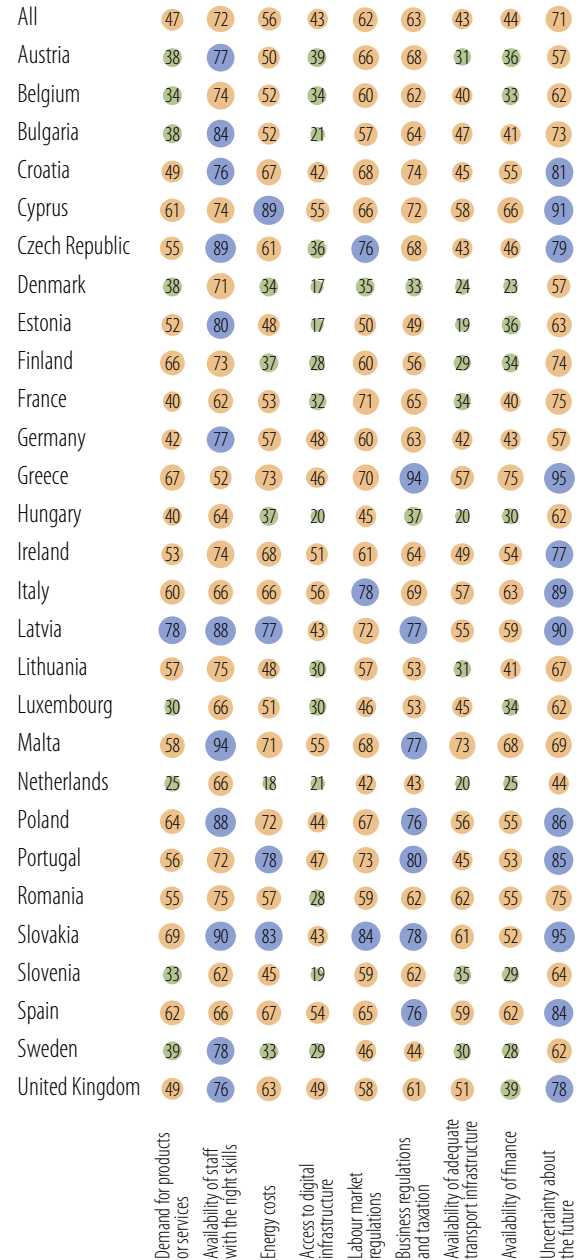
Source: Eurostat and OECD.

## Key findings

**Skills availability is now the most frequently cited obstacle to investment**, with “lack of staff with the right skills” cited by 72% of firms, narrowly overtaking “uncertainty about the future” as the top obstacle. The skills problem appears particularly severe in many cohesion countries such as Poland, Slovakia, the Czech Republic and Latvia, which are subject to substantial emigration of skilled workers, and in some other EU countries such as Germany, Austria, and the UK, which may be suffering home-grown skills shortages.

**Figure 9**

### Structural barriers to investment



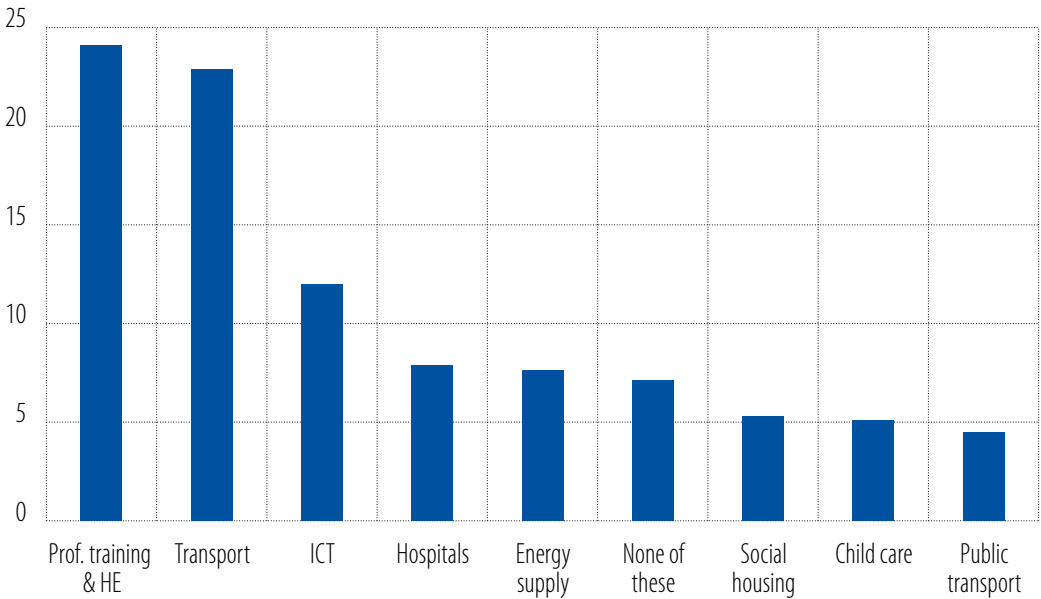
Source: EIBIS 2017.

Note: A blue circle means that the share of mentions of a particular obstacle is in the top quartile; a green circle means that it is in the bottom quartile; and an orange circle means that it is between the two. The size of the circle and the number inside indicate the share of firms mentioning an area as either a minor or major obstacle. Base: All firms. Q: “Thinking about your investment activities in #country#, to what extent is each of the following an obstacle? Is it a major obstacle, a minor obstacle or not an obstacle at all?”



**Professional training and higher education is the area of public investment that firms would most commonly like to prioritise**, as specified by 24% of firms, closely followed by investment in transport. One in three manufacturing firms named professional training and higher education as the priority; a similar proportion of firms in sectors related to infrastructure was most concerned with transport.

**Figure 10** Firms' priorities for public investment (% of firms)

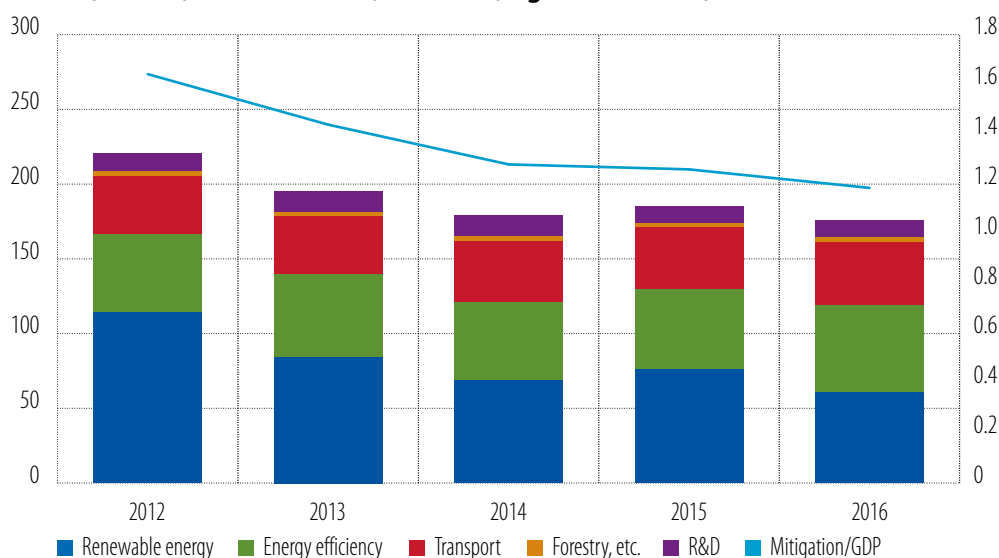


Source: EIBIS 2017.  
Note: Q: "From your business's perspective, if you had to prioritise one area of public investment for the next three years, which one would it be?"

## Key findings

**Investment in climate change mitigation is estimated at 1.2% of EU GDP** and has declined from 1.6% in 2012 due to factors that include the reduction in capital costs for renewable energy and changes in incentives that saw the cooling of the “solar boom”. The EU is on target to reduce CO<sub>2</sub> emissions to 20% below 1990 levels by 2020, but dramatic increases in the rate of emissions reduction will be needed to meet targets for 2030, 2040 and 2050 under the Paris Accord and the European Commission’s roadmap.

**Figure 11** Composition of EU-28 climate change mitigation investment (EUR bn, left-hand scale, % of GDP, right-hand scale)



Source: IEA, BNEF, OECD, Eurostat, and author’s calculations.

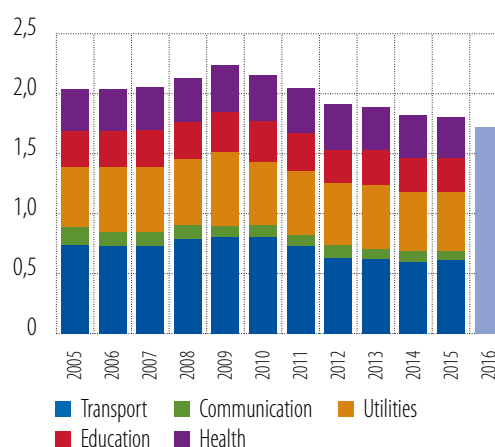
## There is no recovery in infrastructure investment yet – undermining Europe’s long-term potential

**Investment in infrastructure has halted its decline, but it is still at 20% below pre-crisis levels, thus slowing economic convergence.** Infrastructure investment appears to have stabilised at 1.8% of GDP, down from a peak of 2.2% in 2009, with transport infrastructure the most badly affected. The decline is strongest in countries with the lowest infrastructure quality, pointing to a slowdown in the convergence process.

Source: Eurostat; Projectware and EPEC.

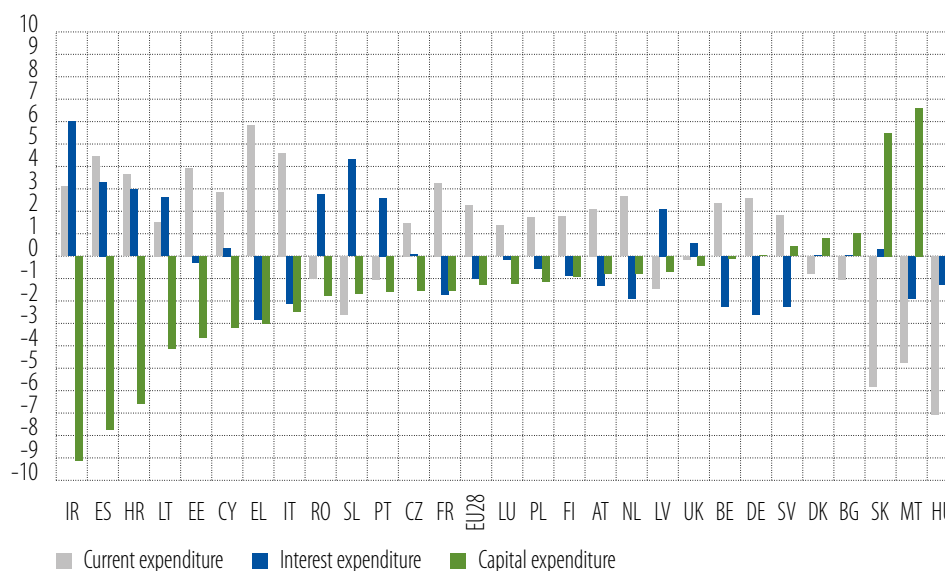
Note: Based on EIB Infrastructure Database. Data missing for Belgium, Croatia, Lithuania, Poland, Romania and the UK. 2016 figures are preliminary.

**Figure 12** Infrastructure investment by sector (% of GDP)



**Infrastructure investment has been hit by fiscal consolidation that has been biased against capital expenditure**, with prioritisation given to current expenditure such as social transfers. Some of the decline in public investment, including infrastructure, may be due to structural changes in the economy. However, in many countries the quality of existing infrastructure has declined with investment, pointing to outstanding needs.

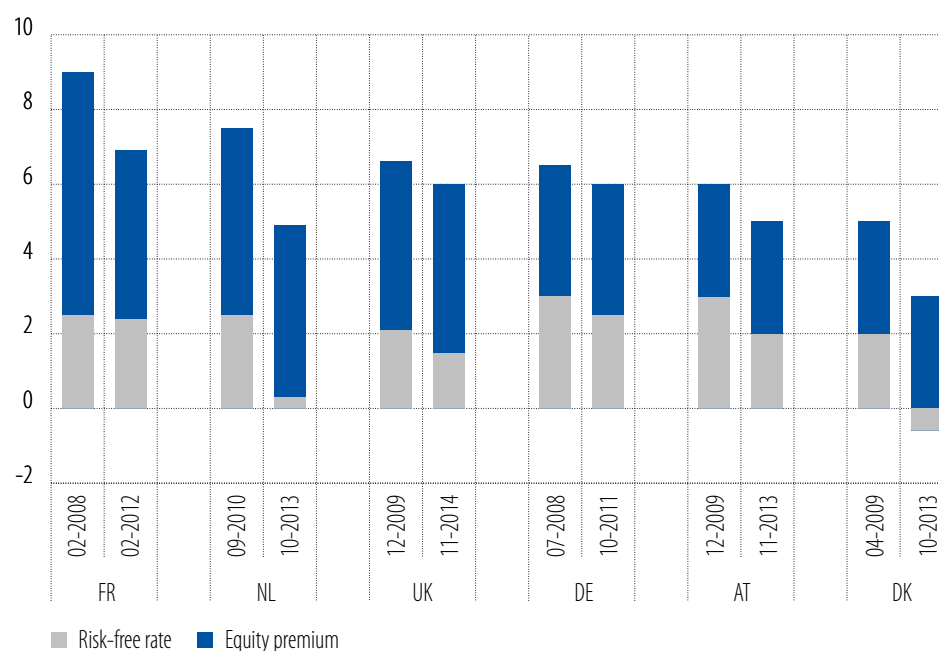
**Figure 13** Changes in government outlays, 2015 versus 2008 (percentage points of total)



Source: Eurostat. COFOG Statistics.

Note: Change in the share of current expenditure, interest expenditure and capital expenditure as a share of total government outlays.

**Figure 14** European regulators' allowed returns on equity, 2008-2014 (%)



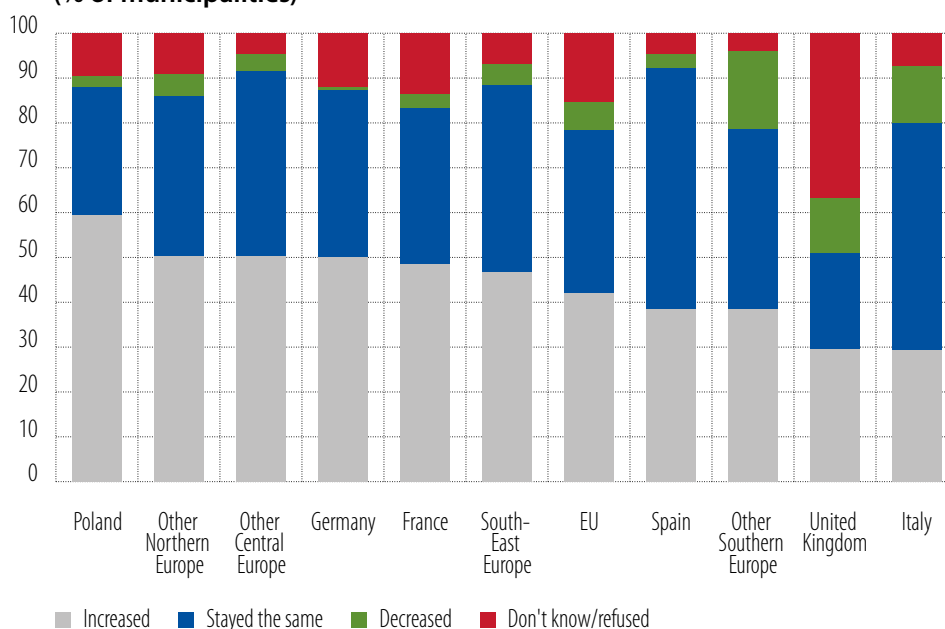
Source: Grayburn and Haug (2015).

## Key findings

**Corporate infrastructure has also struggled to keep up with pre-crisis rates**, in part due to regulatory pressure on allowed returns. Investments by Special Purpose Vehicles are well below pre-crisis levels, with access to finance continuing to be a bottleneck. Public Private Partnerships make up 6% of infrastructure investment. Stricter rules for the accounting of these PPPs as government liabilities could pose a risk to this investment.

**50% of infrastructure investment takes place at the sub-national level, with municipalities reporting a more up-beat picture than national figures suggest.** 36% more municipalities reported an increase in investment than reported a decline, according to the special EIBIS module on municipal investment. This may suggest that the predominantly urban areas covered by the module have been less affected by the decline in infrastructure investment than other areas. However, municipalities were also less likely to report increased infrastructure investment in countries or regions that have seen larger aggregate declines.

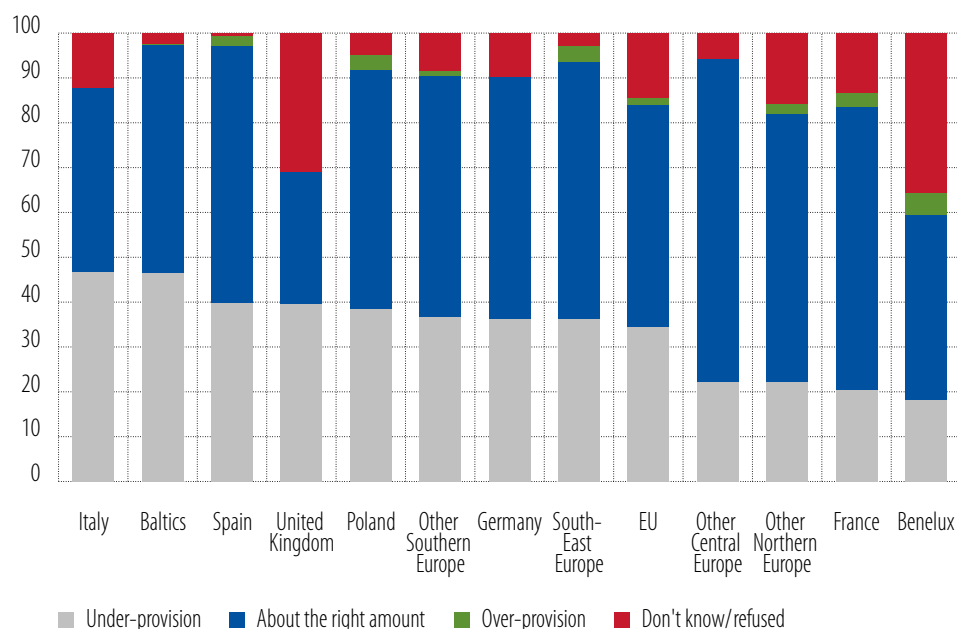
**Figure 15** Change in infrastructure investment activities in European municipalities (% of municipalities)



Source: EIBIS 2017, Municipality Survey.

Note: Q: If exclusively responsible for infrastructure investment activities: Over the last five years has your investment spending increased, decreased or stayed around the same? If partially responsible: Has the overall investment spend on infrastructure in your municipality increased, decreased or stayed around the same over the last five years?

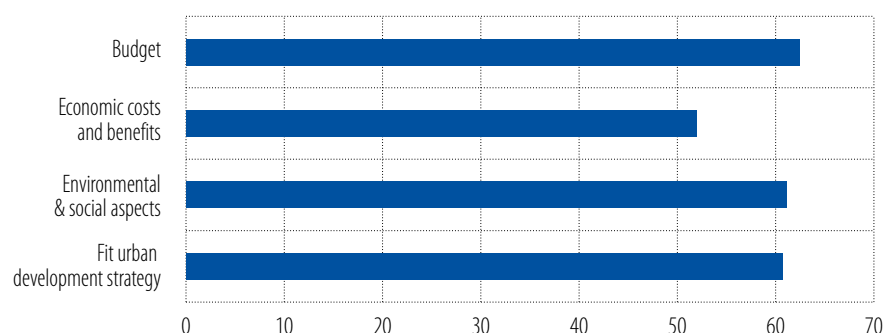
**Municipalities nonetheless report a significant investment gap**, with 34% saying that investment over the last five years has been below needs, and under 1% reporting over-provision. Urban transport, ICT and social housing are most frequently named as sectors suffering from under-provision, but with strong variation across countries. Municipalities that report under-provision of infrastructure also tend to indicate that their infrastructure is more out-dated. There is also evidence that poor infrastructure quality hampers business investment: firms (in the main EIBIS survey) that identify poor transport and ICT infrastructure as barriers to investment tend to be located in municipalities that report poor infrastructure quality in these sectors.

**Figure 16** Infrastructure investment gaps (% of municipalities)

Source: EIBIS 2017, Municipality Survey.

Note: Q: For each of the following, would you say that, overall, past investment in your municipality has ensured the right amount of infrastructure, or led to an under-provision or over-provision of infrastructure capacity?

**There is a need for better planning and prioritisation of public infrastructure investment.** While 84% of municipalities state that they have an urban development strategy, only 61% have such a strategy and say that they consult it in planning infrastructure projects. Similarly, only 61% of municipalities carry out an environmental and social impact assessment or assess the budgetary implications of a project, while only 52% carry out an economic cost-benefit assessment. Moreover, only 38% of municipalities both carry out some kind of ex ante assessment and consider it to be an important or critical factor in decision-making.

**Figure 17** Implementation of ex ante assessments of infrastructure projects (% of municipalities)

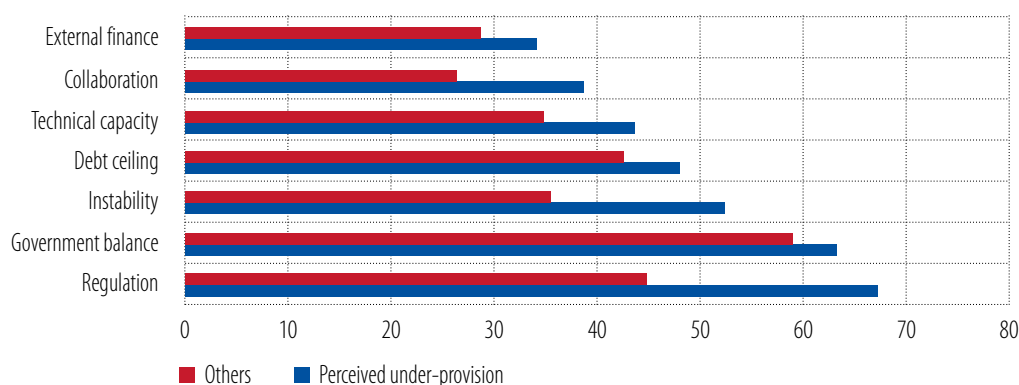
Source: EIBIS 2017, Municipality Survey.

Note: Q: Before going ahead with an infrastructure project, do you carry out an independent assessment of...? And: how important would you say are the results of the independent assessment/s when deciding whether or not to go ahead with a project?

## Key findings

**Fiscal constraints, rather than access to finance, are seen as the main obstacle** to infrastructure investment by municipalities. This is particularly the case among municipalities that report infrastructure gaps. Among them, 75% consider fiscal constraints to be a major obstacle. However any loosening of fiscal rules for municipalities should be accompanied by measures to ensure more effective planning and prioritisation of investments.

**Figure 18** Major obstacles to infrastructure investment (% of municipalities, with/without perceived past under-provision of infrastructure)



Source: EIBIS 2017, Municipality Survey.

Note: Q: To what extent is each of the following an obstacle to the implementation of your infrastructure investment activities...? Is it a major obstacle, a minor obstacle or not an obstacle at all? Q: For each of the following, would you say that, overall, past investment in your municipality has ensured the right amount of infrastructure, or led to an under-provision or over-provision of infrastructure capacity?

## There is still a need to improve the business environment

**A majority of European firms consider business regulations (63%) and labour market regulations (62%) to be a barrier to investment** (Figure 9). Stringent labour market regulation and significant market regulatory impediments also affect the efficient allocation of resources at the firm level; EIBIS data shows that less efficient firms are more likely to see regulations, energy costs and access to finance as barriers to investment. Rigidities in labour and other markets are also constraining investment in intangibles and innovation.

**Uncertainty remains one of the foremost barriers to investment; open and flexible markets should reduce its impact.** “Uncertainty about the future” was cited by 71% of firms as an obstacle deterring their planning of investment, unchanged from the previous year. While it is difficult to change perceptions of uncertainty, more market flexibility and lower barriers to firm entry and exit reduce costs related to irreversibility of investment and sunk costs, thereby reducing the negative impact of global uncertainty on investment.

**Digital, transport and energy infrastructure are important to realise the efficiency benefits of the single market.** While they are less generally seen as barriers to investment, 43% of firms complain about a lack of access to digital infrastructure and poor transport infrastructure and see them as obstacles. Moreover, digital and transport infrastructure are among firms’ top three priorities for public investment, being selected as the priority by 12% and 22% of firms respectively. 56% of firms consider energy costs to be an impediment to investment. In these cases, there are significant differences in results by country, suggesting that there is still significant progress to be made towards a fully integrated single market, despite the great efforts to date.

## Persistent financial fragmentation could slow convergence and reduce capacity to absorb shocks

**The EU financial system is overcoming its financial fragmentation, but slowly.** Gross financial flows remain substantially reduced relative to pre-crisis levels, while net flows reveal strong shifts with current account surpluses emerging in all EU regions.

**The development of current account surpluses has come at the expense of investment and convergence.** During the crisis, domestic savings became a binding constraint on investment in the periphery countries, thus impeding the convergence process. In the cohesion countries, a current account surplus has emerged since the sovereign debt crisis, at the expense of investment. This is despite the fact that the lower level of development in cohesion countries should entail greater investment opportunities and ability to attract investment.

**Figure 19 Savings, investment and current account balances (% of GDP)**



Source: EIB staff calculations based on Eurostat.

Note: Annual data up to 2017 based on the European Commission's Spring forecast.

## Key findings

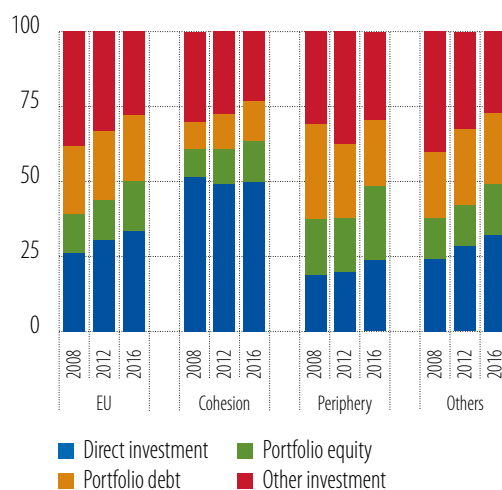
### A shift from cross-border debt to equity holdings is positive for financial stability.

Although the scale of capital flows has declined, a gradual shift in composition from debt to equity holdings is a positive signal, as equity – particularly in the form of foreign direct investment – tends to enhance shock absorption capacity. Stock positions show net debt levels stabilising for the cohesion countries and slightly re-balancing for periphery countries.

### The persistence of fragmentation implies sub-optimal private risk-sharing across the EU.

An estimated indicator of financial integration across the EU suggests that reintegration has progressed since the sovereign debt crisis but is yet to reach the levels that existed shortly after the introduction of the euro. This also implies a sub-optimal level of private risk-sharing across the EU, limiting the EU economy's ability to absorb asymmetric shocks. To a large extent, financial stabilisation appears to be the result of extraordinary monetary policy measures. The gradual withdrawal of such measures will prove a test of the underlying financial system stability. The Capital Markets Union has an important role to play in creating conducive conditions for the acceleration of private sector risk-sharing and the convergence process.

**Figure 20** Share of cross-border liabilities (%)



Source: EIB staff calculations based on IMF.

## Financing conditions for firms are generally supportive, but deleveraging remains a drag

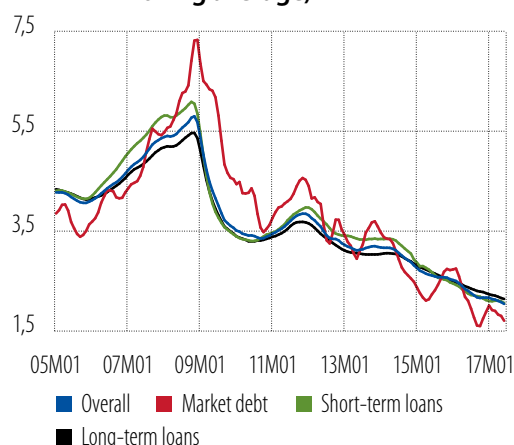
### Financial conditions have remained supportive and have even marginally improved since mid-2016.

This has been an enabling factor in the strengthening of corporate investment and consolidation of the economic recovery. With the US Federal Reserve Board having entered a cycle of monetary policy tightening, the risks of secular stagnation appear to have abated.

EU firms continue to be net savers overall, exporting savings to the rest of the world in a way that contradicts the historical norm and suggests many firms are unwilling to invest, despite a liquid financial position. The shift from net borrower to net saver was particularly pronounced for firms in the periphery and cohesion countries following the financial crisis, but as of the start of 2017, excess corporate savings are diminishing in both regions.



**Figure 21** Composite nominal cost of debt financing for firms in the EU (% per year, three-month moving average)



Nonetheless, many corporates and banks are still on a deleveraging path, helping to explain the modesty of the recovery, despite very accommodative monetary policies and slightly supportive fiscal policy overall. Deleveraging is a factor particularly in the periphery countries where firms have reduced their debt to GDP ratio by around 20 percentage points to approximately 125%, partially closing the gap with the EU average of about 95%.

Source: EIB staff calculations based on ECB and Thomson Reuters.

Note: The overall cost of financing is calculated as a weighted average of the cost of bank lending and the cost of market-based debt, based on their respective outstanding amounts. Monthly data up to June 2017.

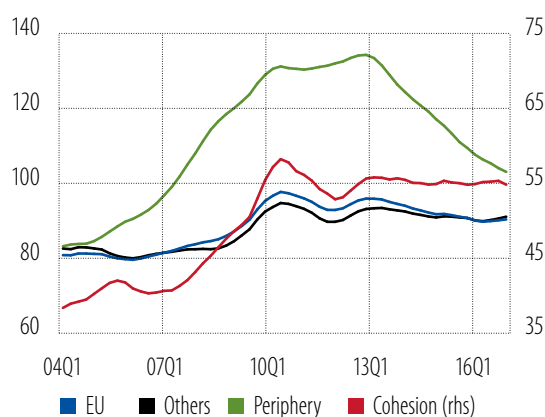
**Figure 22** Nominal net borrowing over investment (%; non-financial corporate sector)



Source: EIB staff calculations based on Eurostat sectoral accounts.

Note: Four-quarter moving average of non-seasonally adjusted data. Data up to 2016:Q4.

**Figure 23** Corporate debt over GDP (%)



Source: EIB staff calculations based on Eurostat sectoral accounts.

Note: Data up to 2017:Q1. Four-quarter moving average. Debt is comprised of bank loans and debt securities. Italy is not included in the periphery aggregates as data are available over a very short time span.

Accordingly, bank lending to firms continues to stagnate, despite an ongoing decline in borrowing costs. Bank loans to non-financial corporates still show a modest decline in periphery countries, and very slight growth in the group of "Other EU" countries, with a welcome up-tick to 8% growth in the cohesion countries. The cost of short-term and long-term loans and market debt have all continued a downward trend.

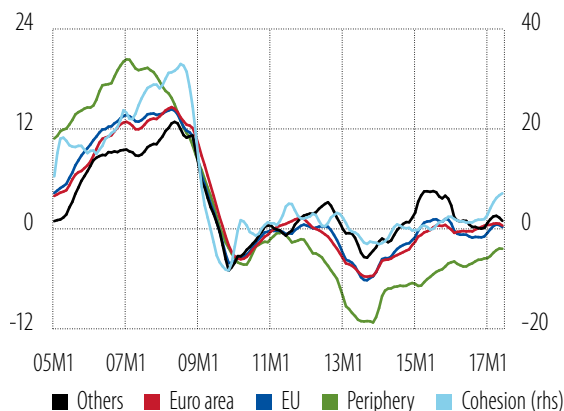
## Key findings

**Banks continue to repair balance sheets,** driven by regulatory changes. The fears of the low interest rate environment for financial stability have not materialised and the liquidation of three banks, two in Italy and one in Spain, during 2017 had more to do with elevated exposure to non-performing loans. The ongoing recovery should facilitate a more rapid disposal of these impaired assets and the further adjustment to the new regulatory environment.

**Survey evidence suggests access to finance is not a major concern for most firms, but there are localised constraints.** The numbers of firms that are considered finance-constrained is still relatively elevated in some periphery and cohesion countries such as Greece, Portugal and Poland, while the number of firms satisfied to rely on internal funds is also low in some of these countries, such as Italy. Firms' dissatisfaction with financing conditions is mostly linked to costs and collateral availability.

**Financing is more difficult for firms that are young, small or innovative, or with high investment in intangibles.** These firms typically suffer from high fixed financing costs and a lack of credit history, while innovation implies higher-risk investment activities and intangible assets (also linked to innovation) are hard or impossible to collateralise.

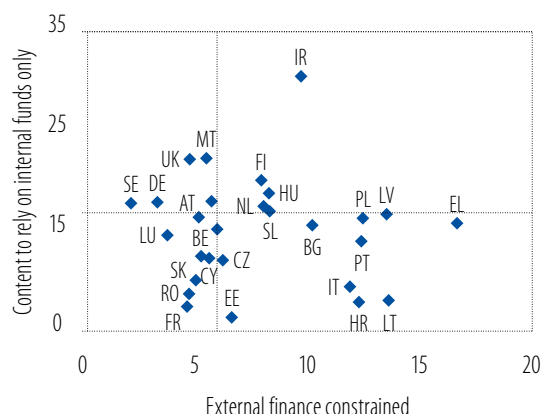
**Figure 24** Bank loans (annual growth rate, %)



Source: EIB staff estimations based on ECB and Eurostat.

Note: Data up to June 2017.

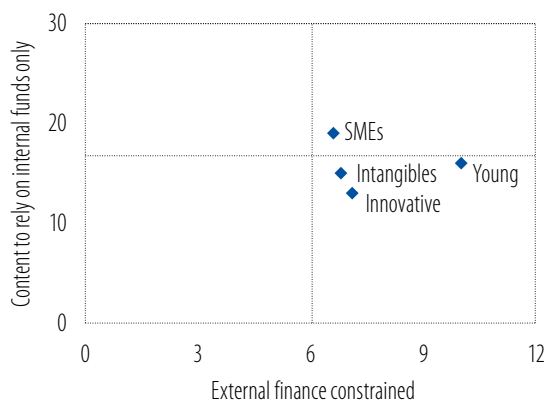
**Figure 25** Financing cross (% of firms)



Source: EIBIS 2017.

Note: The cross indicates the EU average. Data derived from the financial constraint indicator and on firms indicating that the main reason for not applying for external finance was that they were "happy to use internal finance/didn't need finance." Base: All firms.

**Figure 26** Financing cross by type of firms (% of firms)



**Although greater use of equity financing would promote greater resilience to financial crises, there is little evidence of unmet demand for equity finance.** Corporates continue to prefer debt to equity and there is little demand for any change in the composition of finance. Preference for debt may be the result of the fear of losing operational control as well as tax incentives.

**Having a range of financing options to match different types of investment appears beneficial and provides firms with better opportunities for innovation.** Bank credit appears particularly suitable for investment in tangible assets, and external finance in general tends to be used for such investment. Bank credit is less well suited to investment in intangible assets, however, which tends to be mostly financed through retained earnings or equity. Trade credit proved to be a life-line for firms during the crisis as a way to fund working capital.

## We need to seize a window of opportunity to address structural investment needs

### Recommendations:

**The recovery does not mean that we can relax about investment.** We do not need to stimulate investment for countercyclical reasons but we do need to address the backlogs that have built up over the crisis in investment to address long-term structural needs. Both public and private investment has a vital role to play in this. Likewise, there are important opportunities for targeted policy intervention to ease specific financing constraints for businesses to promote innovation and sustainable growth.

**There is a need to re-prioritise public infrastructure investment and to support it with better planning and prioritisation between alternative investment opportunities.** This is key at all levels, including at the national level and at the EU level to overcome issues of single market fragmentation. Improvements in capacity for planning and prioritisation are also particularly needed at the sub-national level where significant weaknesses are observed, and which would go hand-in-hand with stronger re-prioritisation in public financing.

**Enhancing the productivity and competitiveness of the EU economy requires attention to innovation, including investment in intangibles, particularly skills,** as the EU is falling behind peer economies in this regard. Skills should be an important priority, relevant across Europe, although exact needs may vary. R&D spending, particularly by businesses, needs to increase, but policy should also target all types of intangibles, which are complementary and all important to innovation.

**Climate change mitigation investment needs to accelerate if Europe is to stay on track.** The fact that Europe is likely to meet its 2020 targets does not mean that a higher rate of investment is not needed to meet the reductions envisaged for 2030 and beyond, particularly given the fall in the rate of mitigation investment since 2012.

**Completing the Banking Union and advancing the Capital Markets Union is needed to enhance stability, promote private sector risk-sharing and spur faster convergence.** With a degree of fragmentation persisting in the EU financial system, and subdued market conditions largely a product of extraordinary monetary policy, progress is needed to ensure resilience as monetary stimulus is gradually withdrawn.

## Key findings

**A more diversified mix of business finance needs to be encouraged to foster innovation and stability.** Less reliance on bank debt and more use of equity finance would support the growth of young innovative firms and investment in intangibles, as well as making the corporate sector more resilient to banking sector stress. But as firms are not asking for more equity on average, the problem is not only one of supply; attention is also needed on incentives. Policies to encourage equity financing, including private equity and venture capital, are crucial. Guarantees can also be a powerful measure to improve incentives for bank financing of finance-constrained categories of firms. Such measures to ease financial constraints for young, small and innovative firms will facilitate adjustment processes and promote greater productivity growth and competitiveness.

**Reforms to improve the business environment will help firms cope with uncertainty, improve resource allocation efficiency and promote innovation.** Improving the business environment is not something that can be achieved overnight, but should involve lighter-touch and smarter regulation of labour, product and services markets, as well as reforms that facilitate the creation of new firms and the orderly exit of others from the market where necessary.

# The European Investment Bank

**The European Investment Bank, the EU bank, plays an important catalytic role in promoting sound investment projects in support of EU policy goals in Europe and beyond.** In 2016, the EIB provided EUR 75bn in long-term finance to support private and public productive investment, with the EIF providing EUR 9.5bn. At a first estimate, together this helped realise investment projects worth roughly EUR 280bn.

**The EIB is both a bank and a public institution.** As a bank, it raises money from international capital markets, using its AAA credit rating. As a public institution owned by the 28 Member States of the EU, it lends these funds to finance investment projects that address systemic market failures or financial frictions, targeting four priority areas in support of smart sustainable and growth and job creation: innovation and skills, SMEs, climate action and strategic infrastructure.

**The EIB delivers sound operations at the highest standards.** All the projects the EIB finances must not only be bankable, but also comply with strict economic, technical, environmental and social standards in order to yield tangible results in improving people's lives. Alongside lending, the Bank's blending activities can help leverage available resources, e.g. helping to transform EU funds into financial products such as loans, guarantees and equity. Advisory activities and technical assistance can help projects to get off the ground and maximise value-for-money.

**The investments supported by the EIB Group have a strong and lasting impact on the EU economy.** Working closely with the European Commission Joint Research Centre, the Bank's economists have used the well-established RHOMOLO model to estimate the future macroeconomic impact of EIB-supported operations in the EU. By 2020, investments supported by the EIB Group in 2015 and 2016 are expected to have added around 2.3% to EU GDP and around 2.25 million jobs. These investments are also expected to have a longer-term structural effect on productivity and competitiveness, raising GDP by an estimated 1.5% and jobs by some 1.27 million over the baseline scenario with no EIB intervention.

**The European Fund for Strategic Investments** plays an integral role in the EIB Group's activities, as part of the Investment Plan for Europe. As of mid-September 2017, 572 EFSI transactions were approved in 28 EU countries, potentially leveraging 75% of the full EUR 315bn envisaged. EFSI-supported investments up to the end of 2016 are expected to enhance GDP by 2020 by an estimated 0.67% with 690,000 jobs added, with a lasting impact expected of 0.4% of GDP and 340,000 additional jobs after 20 years (2036).



### About the Investment Report

The EIB Investment Report 2017/2018: from recovery to sustainable growth is designed to serve as a monitoring tool providing a comprehensive overview of the developments and drivers of investment and its finance in the EU. It combines an analysis and understanding of key market trends and developments, with a more in-depth thematic focus, which this year is devoted to the impact of uncertainty, innovation and resource allocation on business investment. The report brings together internal EIB analysis and collaborations with leading experts in the field. It is structured in three parts covering recent developments in gross fixed investment and intangible capital (part I), investment finance (part II) and business investment: uncertainty, innovation and resource allocation (part III).

The report incorporates the latest results from the annual EIB Investment Survey (EIBIS). The survey covers some 12,500 firms across the EU and a wide spectrum of questions on corporate investment and investment finance. It thus provides a wealth of unique firm-level information about investment decisions and investment finance choices, complementing standard macroeconomic data. EIBIS 2017 also includes a special survey of 555 large municipalities across the EU inquiring about infrastructure needs, planning and financing.

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### About the Economics Department of the EIB

The mission of the EIB's Economics Department is to provide economic analyses and studies to support the Bank in its operations and in the definition of its positioning, strategy and policy. The Department, a team of 40 economists, is headed by Debora Revoltella, Director of Economics.

### The European Investment Bank

The EIB is the bank of the European Union. As the world's largest multilateral borrower and lender, we provide finance and expertise for sound and sustainable investment projects, mostly in the EU. We are owned by the 28 Member States and the projects we support contribute to furthering EU policy objectives. Under our external mandates, we also help to implement the financial pillar of the EU's foreign policy.

### Disclaimer

The views expressed in this publication are those of the author(s) and do not necessarily reflect the position of the EIB.



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## INVESTMENT REPORT 2017/2018



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## KEY FINDINGS

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