

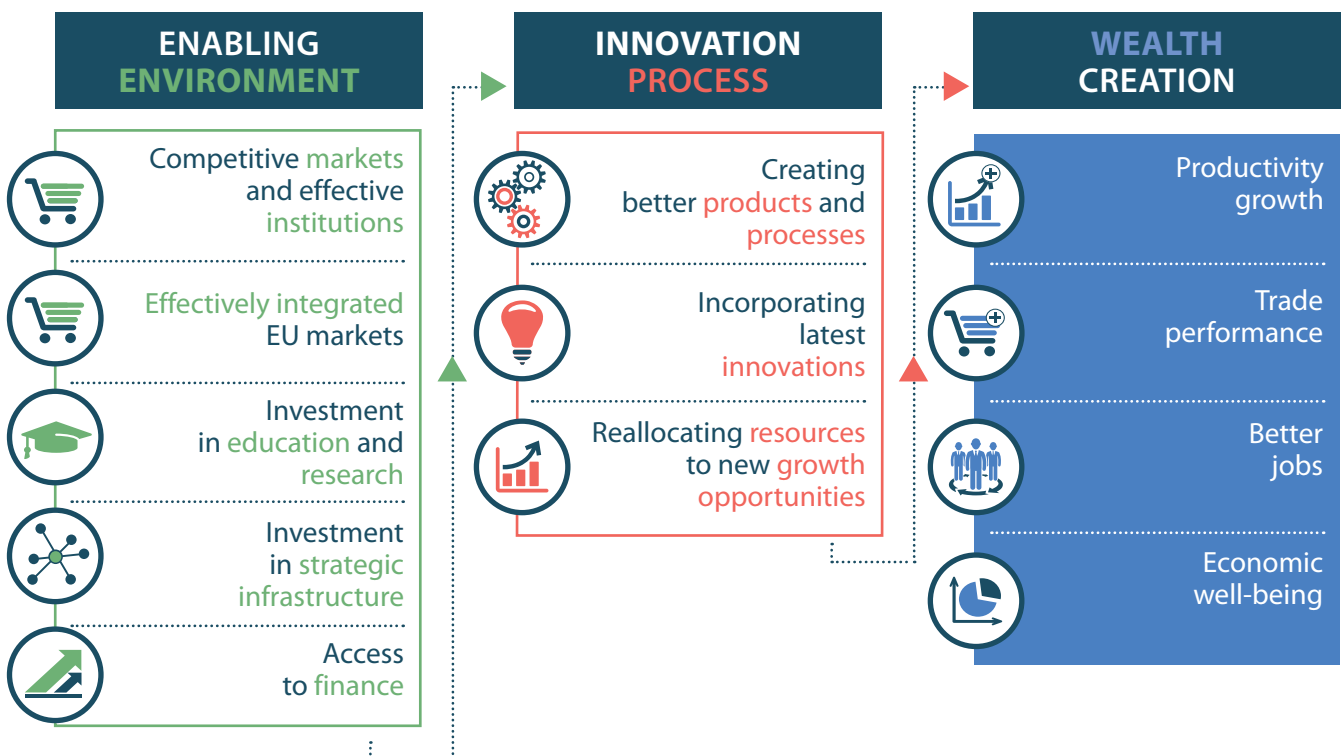


Investing in competitiveness

The Investment Plan for Europe presented by European Commission and the EIB has put long-term investment and the economic competitiveness of Europe back on the agenda. Are we investing enough? What is holding back investment? How can investment support innovation and Europe’s ability to compete? What policy actions are needed?

Two key EIB reports explore these questions: the annual *Investment and Investment Finance* report for the EIB Economics Conference and the report on *Restoring EU competitiveness*.

Increasing EU competitiveness



Invest more, invest better

Europe is facing a structural crisis of competitiveness...

Europe is suffering not only from low growth. Even more worryingly, its long-term growth potential is in decline. For two decades, **investment has been too low, and arguably much went to the wrong sectors**, undermining productivity, hampering Europe's growth potential and putting its competitiveness at risk.

- Investment in productive fixed capital has been consistently lower than in countries like the US and Japan.
- Europe is far from meeting its target for investment in R&D, lagging behind our main competitors, and needs to invest more in higher education.
- Many critical shortcomings exist in Europe's infrastructure, especially in energy, transport and digital networks.

The European economy is less efficient at reallocating resources to growth opportunities, including to young innovative firms with high productivity and growth potential. Market gaps include:

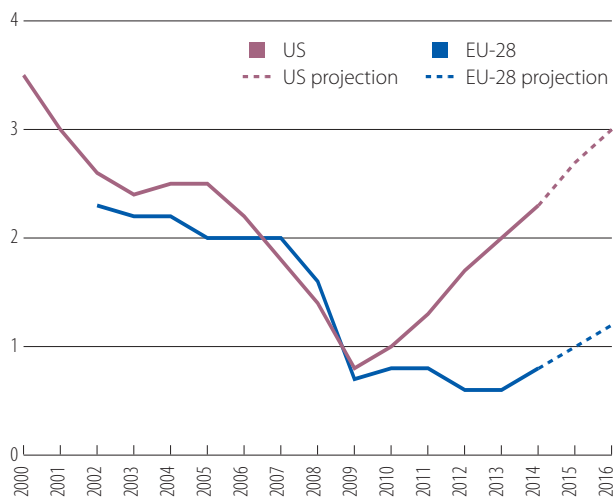
- A lack of equity-based financing such as venture capital that is adapted to the needs of innovative start-ups and growth-stage firms.
- Less flexible institutions and a fragmented internal market, including labour markets that make it harder for fast growing firms get the high-skilled labour they need.

... starkly aggravated by the financial crisis

Market failures associated with the economic and financial crisis are making the situation much worse:

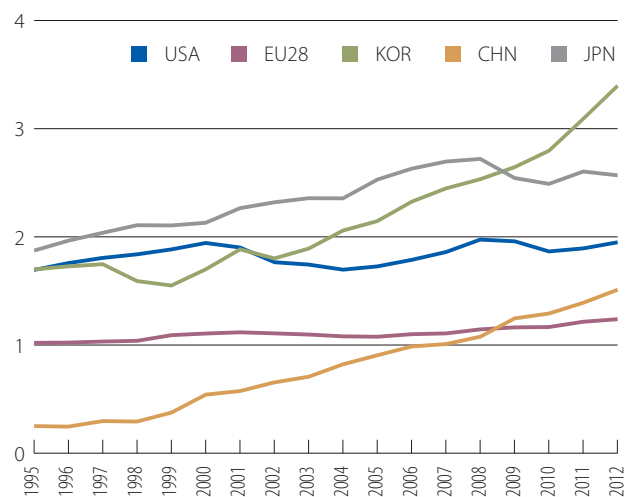
- There is ample liquidity in Europe's financial system, but investment is being held back by weak demand, high uncertainty, low investor confidence and high levels of firm leverage.
- Impaired capacity to absorb further risk is keeping Europe's banks from expanding investment in the real economy, particularly high-risk investments like R&D and start-ups.
- Public investment and infrastructure investment has been hit by the fiscal consolidation need of many governments.

EU's potential growth rate remains depressed



Note: growth rate (%) of potential GDP (estimate of GDP with labour and capital stock fully utilised, reflecting underlying productivity). Source: European Commission.

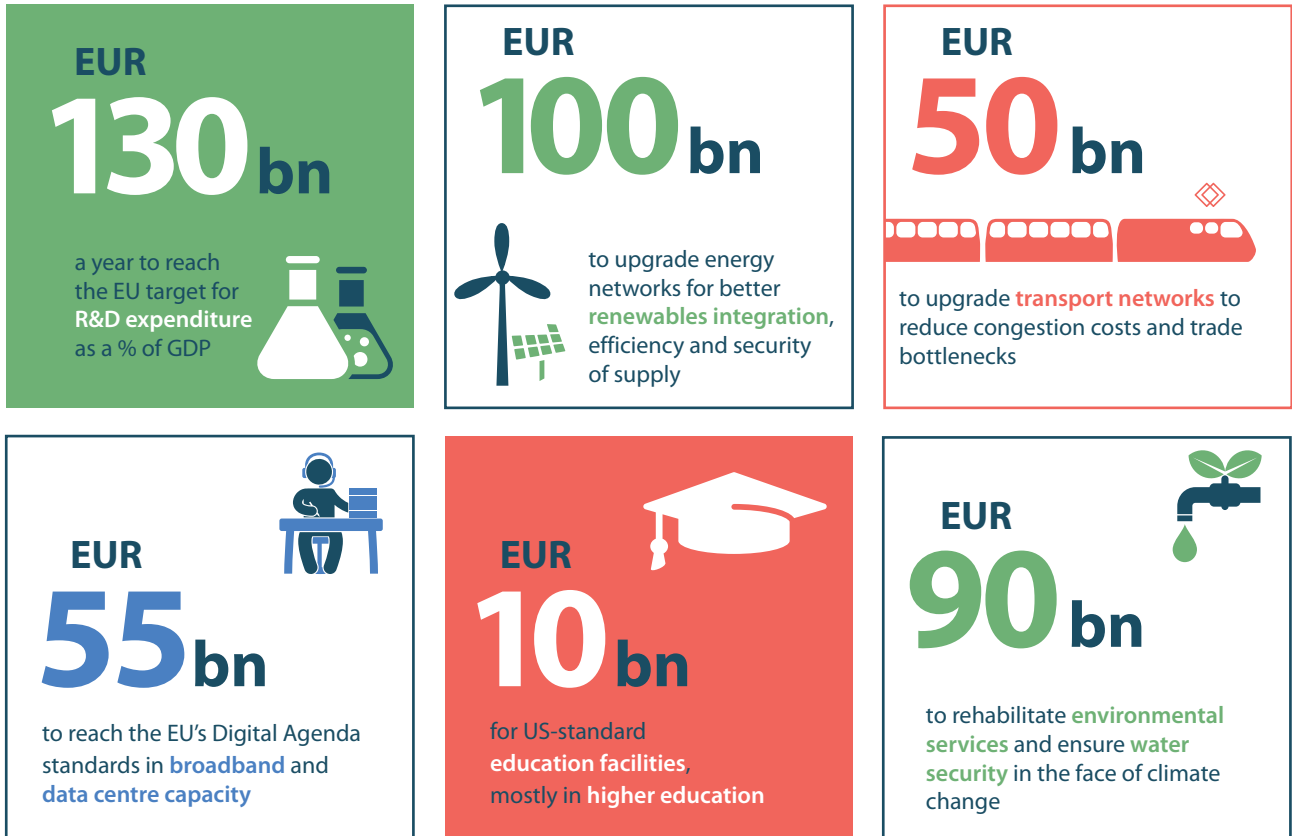
Europe is falling behind in R&D investment



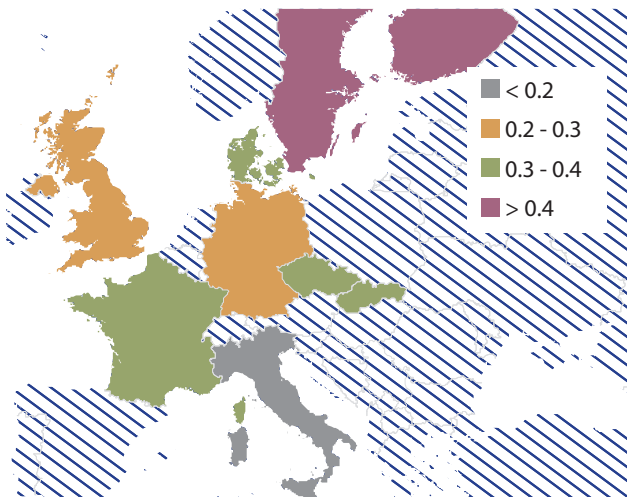
Source OECD

How big are Europe's investment gaps?

Comparing annual EU investment levels with what would be necessary to reach EU targets and the pace-setting standards set by key trade partners gives an indication of the scale of the challenge:

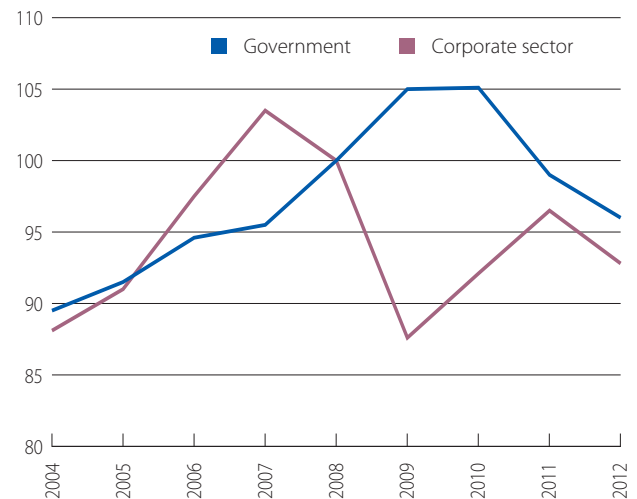


Many EU economies lag in efficiency at allocating resources to high productivity firms



Note: Allocative efficiency 2005-2011, selected EU countries. Allocative efficiency estimates how much activity is concentrated in high productivity firms. Estimate for the US is 0.6. EIB calculations based on Bureau van Dijk: Orbis.

EU public and private investment in infrastructure has been hit by the crisis



Note: Index 2008 = 100. Source: Eurostat, EIB staff calculations.

Innovating to succeed

A dynamic economy is critical to competing in an increasingly open world. We need innovation to be at the technological frontier, investment to integrate innovations, and an economy that can respond rapidly to new growth opportunities. Public intervention needs to create the right environment for investment and innovation. It should promote a dynamic process of renewal, with sector-level policy targeting innovation spin-offs and synergies without distorting the market.

The **Investment Plan for Europe**, proposed by the European Commission and the EIB, is designed to give a new push to strategic investment, while addressing structural weaknesses and realising the full potential of integrating EU markets.



Investment and Investment Finance in Europe

<http://www.eib.org/infocentre/publications/all/investment-and-investment-finance-in-europe-2015.htm>



Restoring EU competitiveness

<http://www.eib.org/infocentre/publications/all/restoring-eu-competitiveness.htm>

Action is needed for:

- **Improving the environment for private investment**, including regulatory action to promote competition and the reallocation of resources to more competitive firms and activities, and better provision of risk-bearing financing for SMEs and innovation.
- **Enhancing technical support** for the identification, preparation and implementation of strategic projects to ensure that investment gets to where it is needed in the real economy.
- **Addressing strategic investment needs**, including in R&D, education, competitiveness-enhancing infrastructure, through transparently-managed public investment that targets market failures without undermining competition.
- The new **European Fund for Strategic Investments** will enable the EIB group to step up its provision of much needed risk-bearing financial products and to perform a catalytic function, mobilising EUR 315bn to help build a more competitive, sustainable and prosperous EU economy.

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