



# Retooling Europe's Economy

D. Revoltella  
European Investment Bank

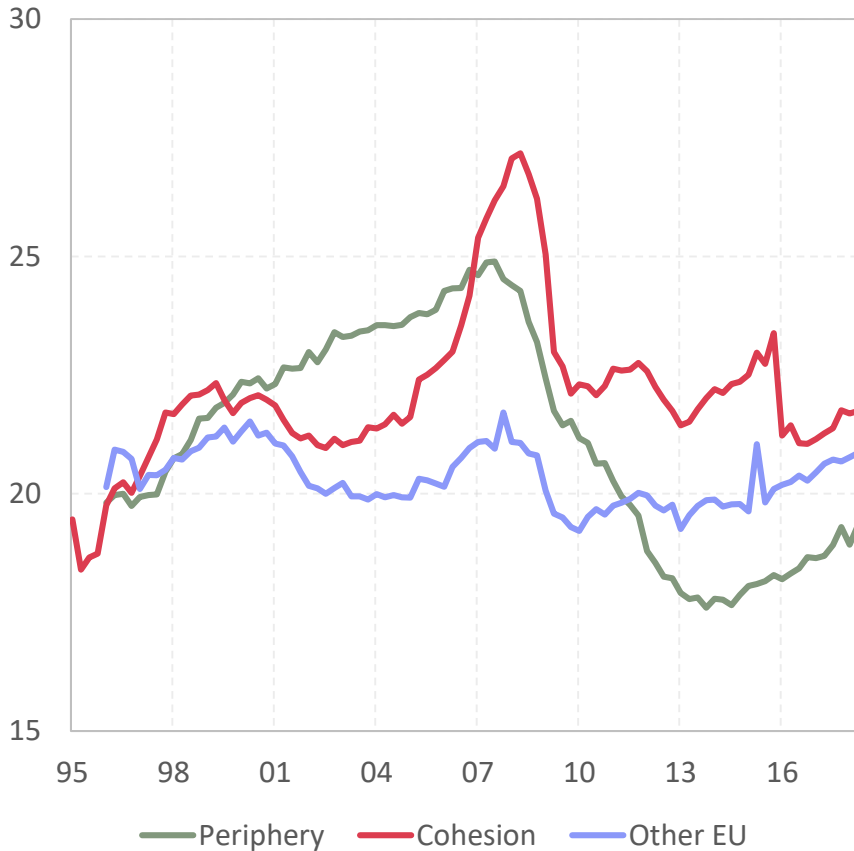
# Agenda

- **The European economy – where we stand**
- Weaknesses
- The cost of inaction
- Retooling Europe.....
- ....in a socially and environmentally sustainable way

# Investment is back and finance conditions remain accommodative

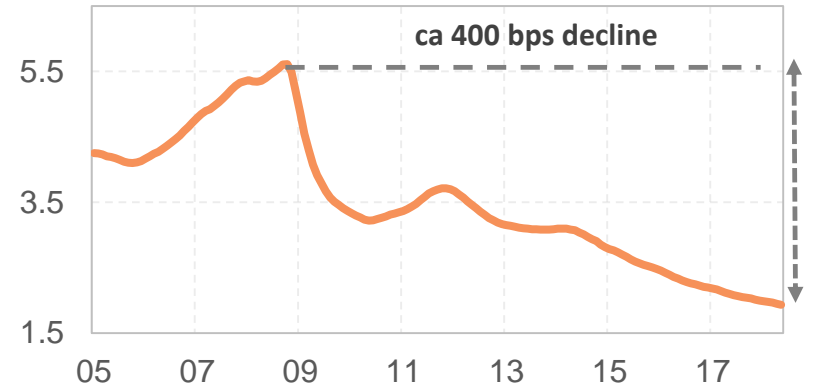
## Investment is back

Real gross fixed capital formation, % GDP



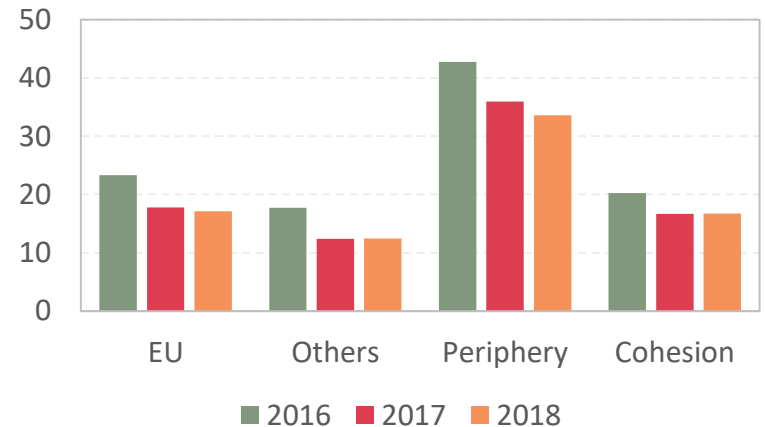
## Cost of finance substantially reduced

Average firms cost of credit (short and long term bank and bonds)



## Finance not a major obstacle

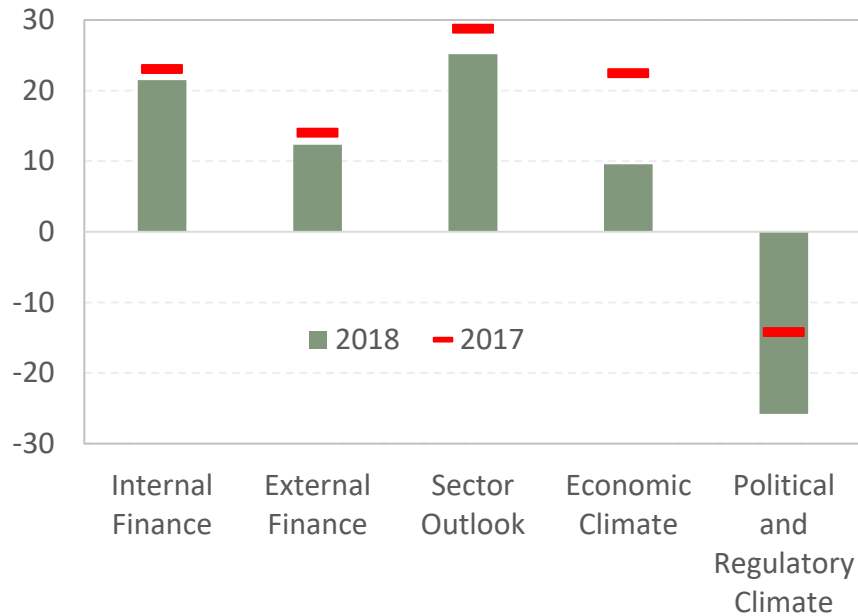
% firms stating finance is a major obstacle to investment



# Headwinds are strengthening and low long-term growth is a concern

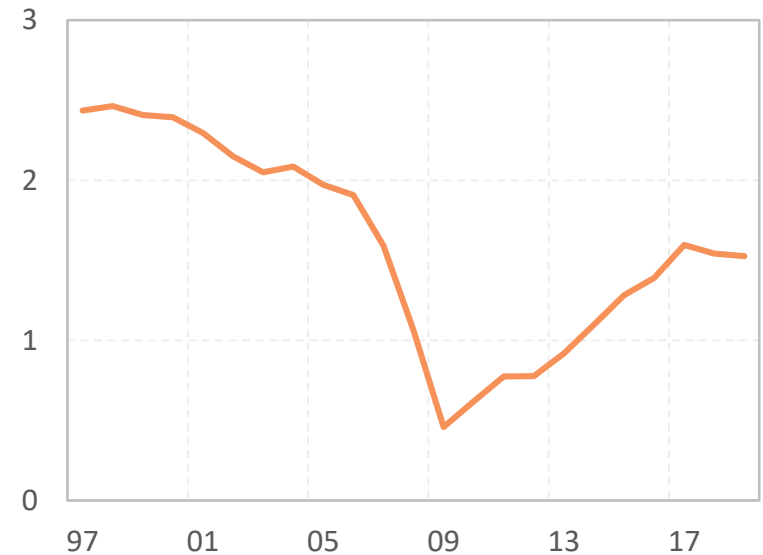
## Headwinds are strengthening

Firms considering each factor supportive, minus firms considering it negative



## Low long-term growth

Potential output growth EU



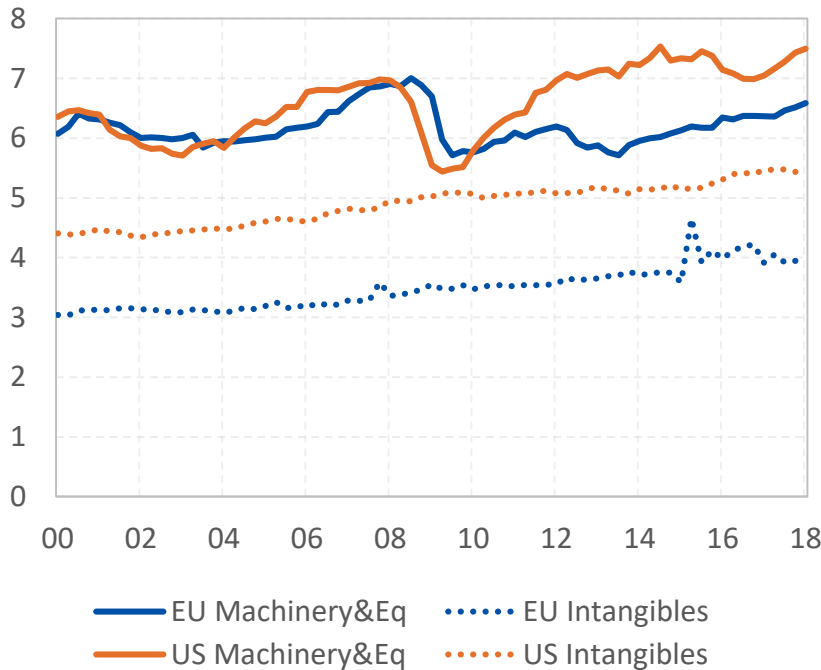
# Agenda

- The European economy – where we stand
- **Weaknesses**
- The cost of inaction
- Retooling Europe.....
- ....in a socially and environmentally sustainable way

# Europe lags in investment in machinery & equipment and in intangibles, causing concerns about technological transformation

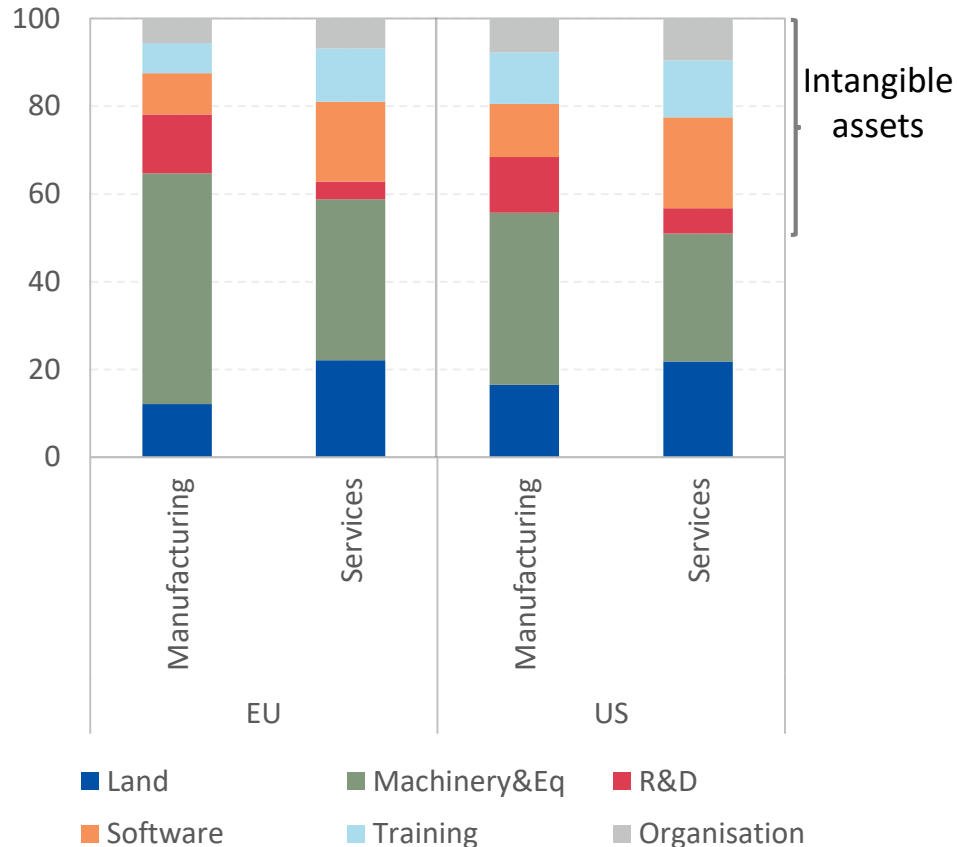
## Investment gap EU vs US

Investment in Machinery&Eq and in Intangibles, % GDP



## European firms invest less in intangibles

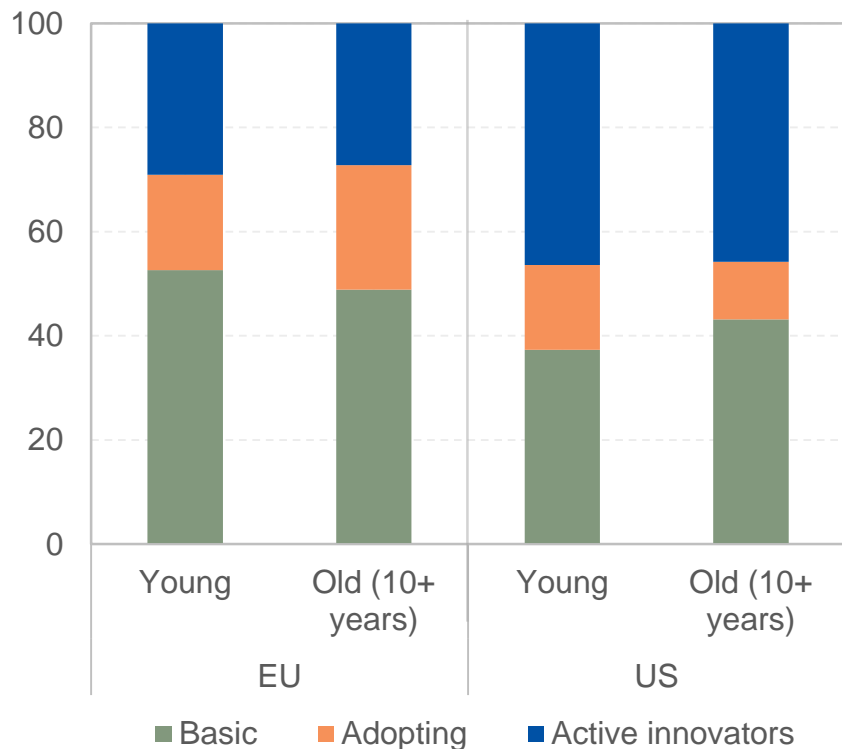
% total firms investment



# EU lacks leading innovators, particularly among young firms and “new” global leaders

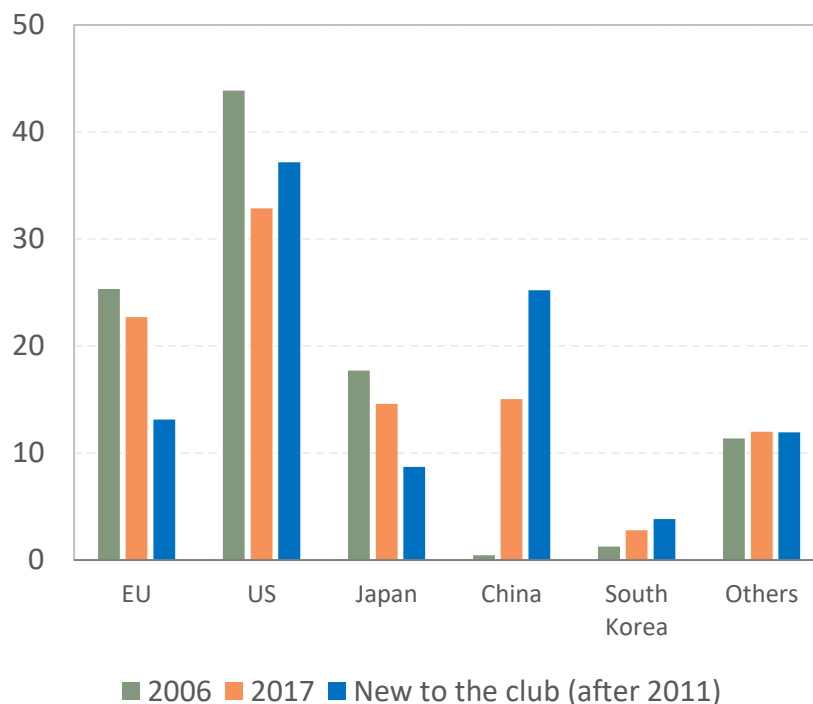
## Europe has less leading innovators

Innovation profiles by age of the firm



## Europe has less “new” global leaders

Share of top 2,500 R&D global spenders



Innovation profiles are defined based on firms’ spending on R&D and firms’ introduction of products and processes new to the firm, country or world.

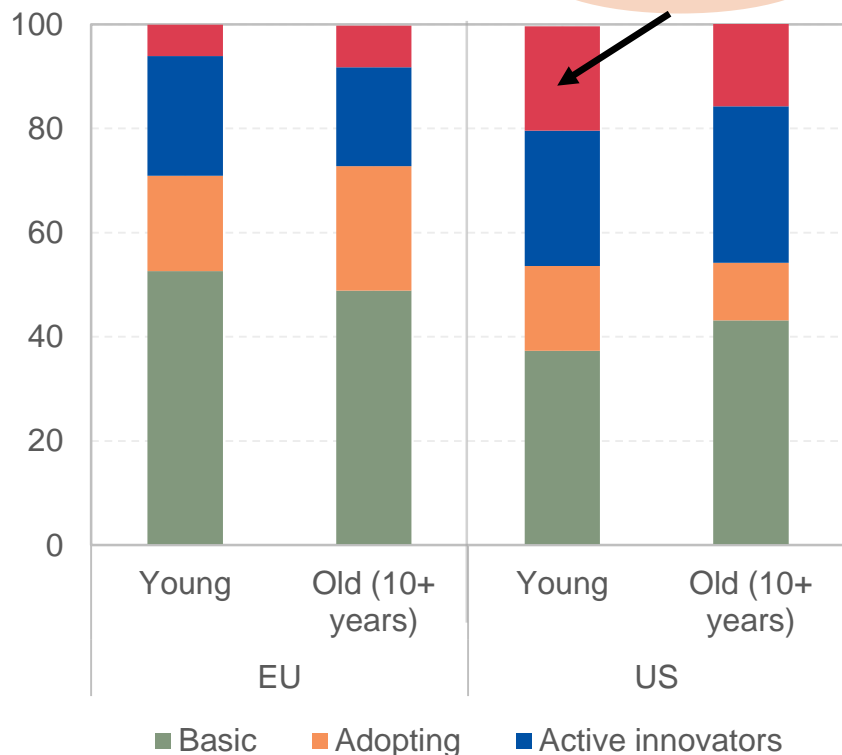
% firms in the top 2500 R&D global spenders in 2006 and 2017 and % of new entrants to this group after 2011

# EU lacks leading innovators, particularly among young firms and “new” global leaders

## Europe has less leading innovators

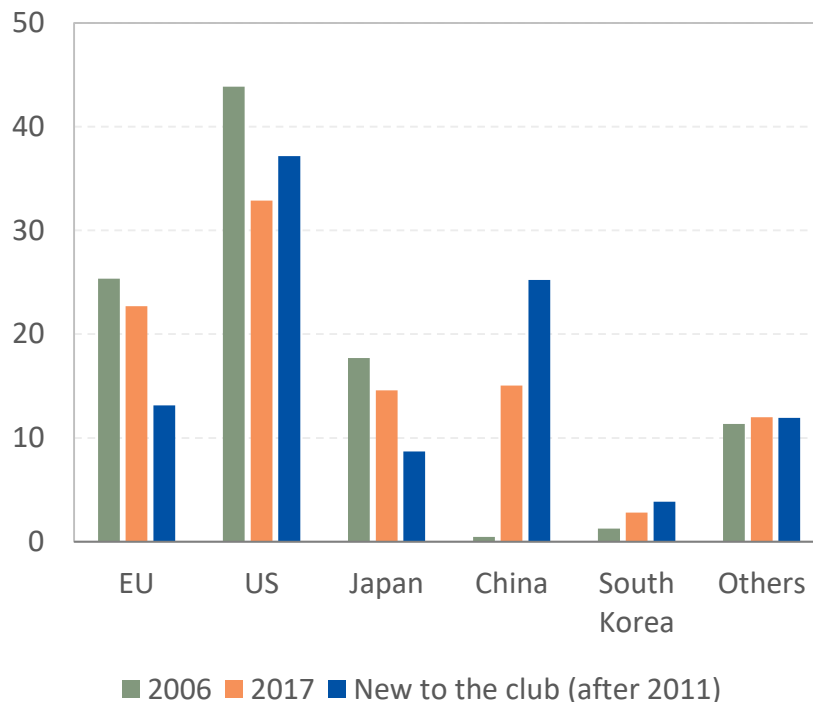
Innovation profiles by age of the firm

Leading Innovators



## Europe has less “new” global leaders

Share of top 2,500 R&D global spenders



Innovation profiles are defined based on firms’ spending on R&D and firms’ introduction of products and processes new to the firm, country or world.

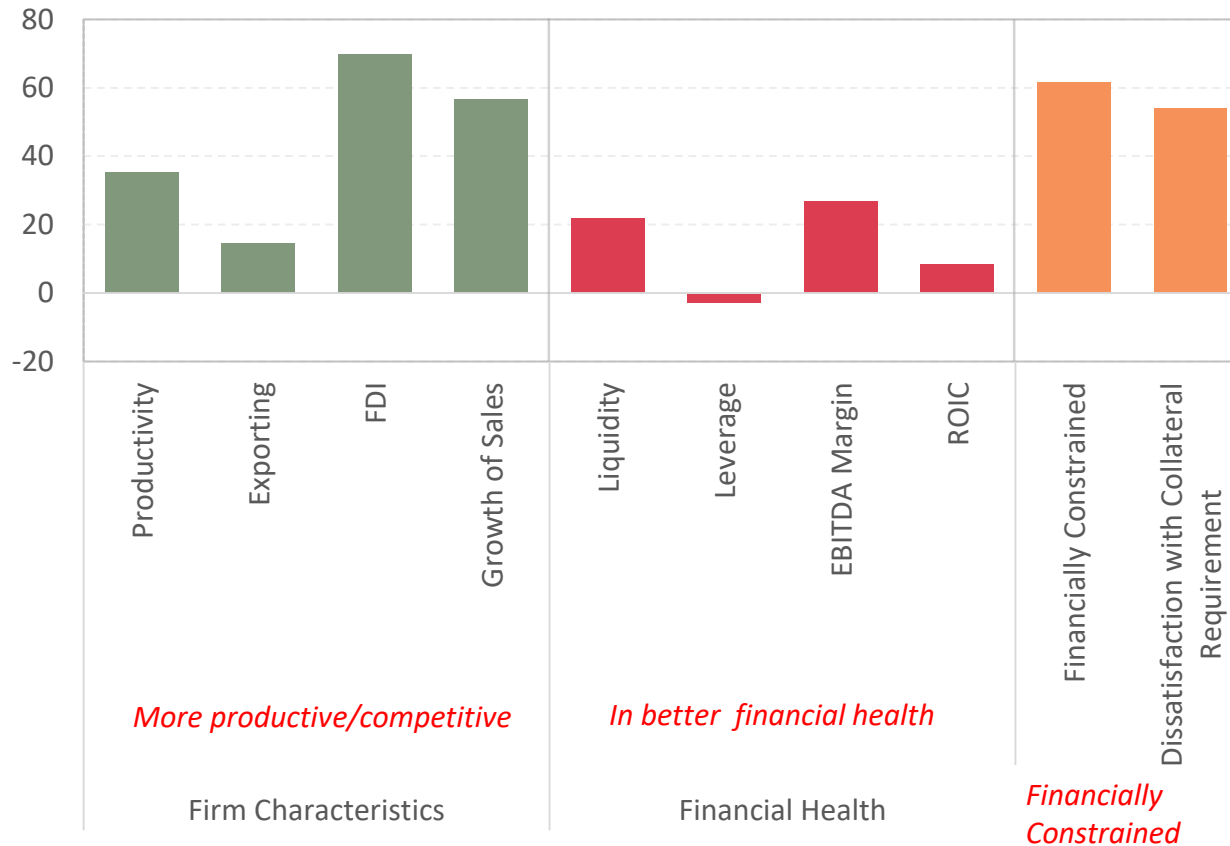
% firms in the top 2500 R&D global spenders in 2006 and 2017 and % of new entrants to this group after 2011



# The EU financial sector is ill-suited to support innovation

## Difference between innovating and non-innovating firms

(% deviation from non-innovators, defined as non-patenting firms)



*More productive/competitive*

*In better financial health*

*Financially  
Constrained*

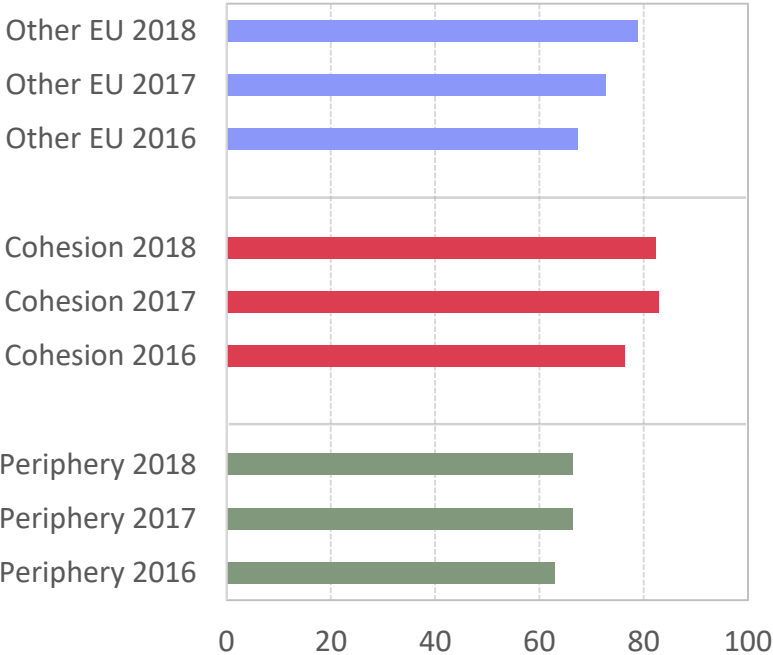
Firm Characteristics

Financial Health

# 77% of firms consider lack of skills an impediment to investment and more innovative firms are even more concerned

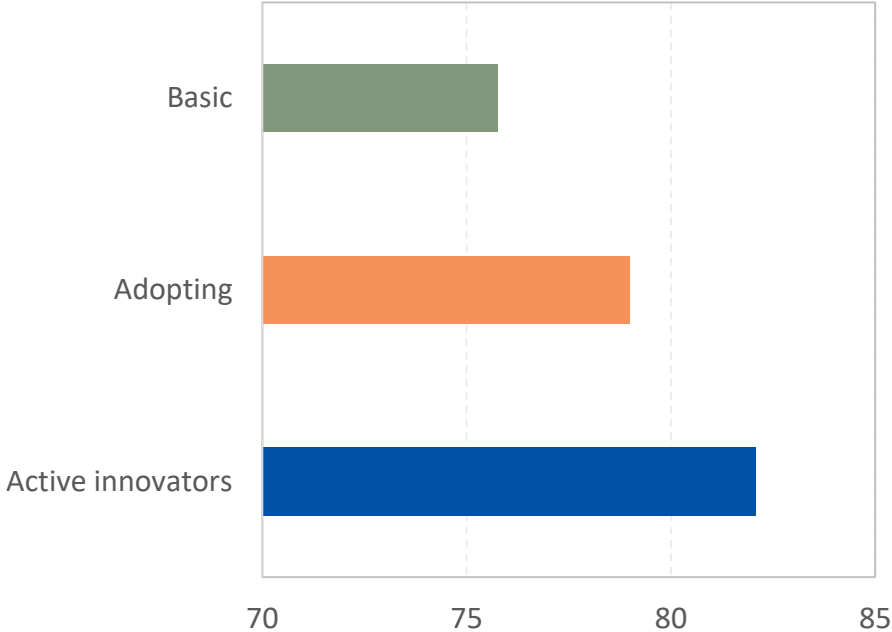
## Lack of staff with the right skills as an impediment to investment

% firms



## Lack of skills, by type of firms

% firms

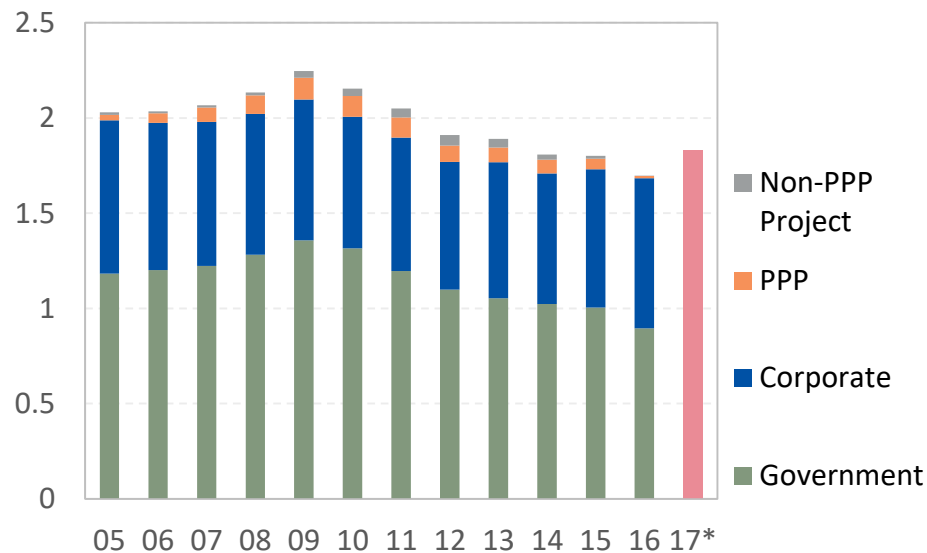


73% of firms provide training; however 21% believe investment in training was insufficient

# Enabling infrastructure is crucial, but investment in infrastructure largely lags the recovery

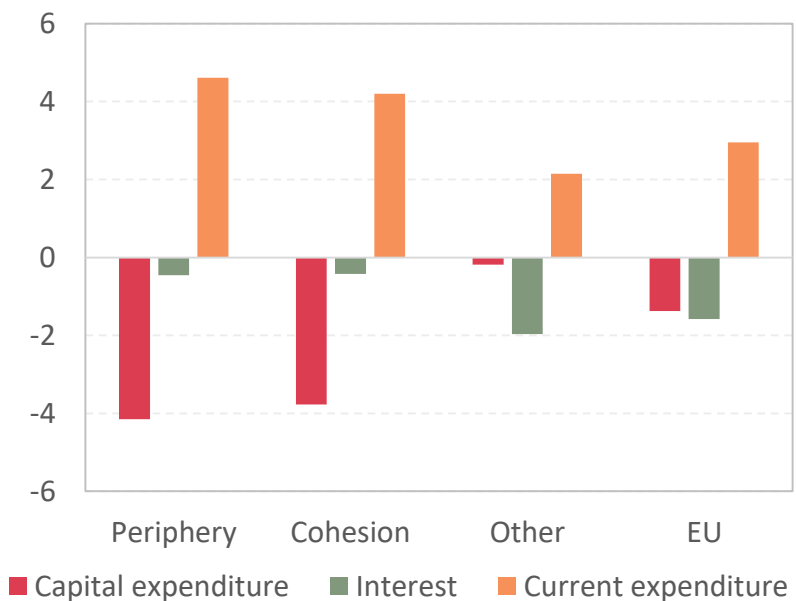
## Infrastructure investment remains low

Investment in infrastructure % GDP



## Public sector expenditure composition

Difference between 2017 and 1995-2016 average in % of GDP



- Low investment in infrastructure is not due to a saturation effect
- Need to re-prioritise, enhance governance and technical capacity, and clarify incentives

# Institutional framework is key

---

In the EU:

**66%**

of **firms** consider **business regulation** an impediment to investment

**43%**

of **municipalities** with poor infrastructure say **technical capacity** is a major obstacle

In regions with **high quality institutions**

firms are **3x** more likely to **innovate**

**63%**

of **firms** consider **labor market regulation** an impediment to investment

**9x**

more likely to **introduce a patent**

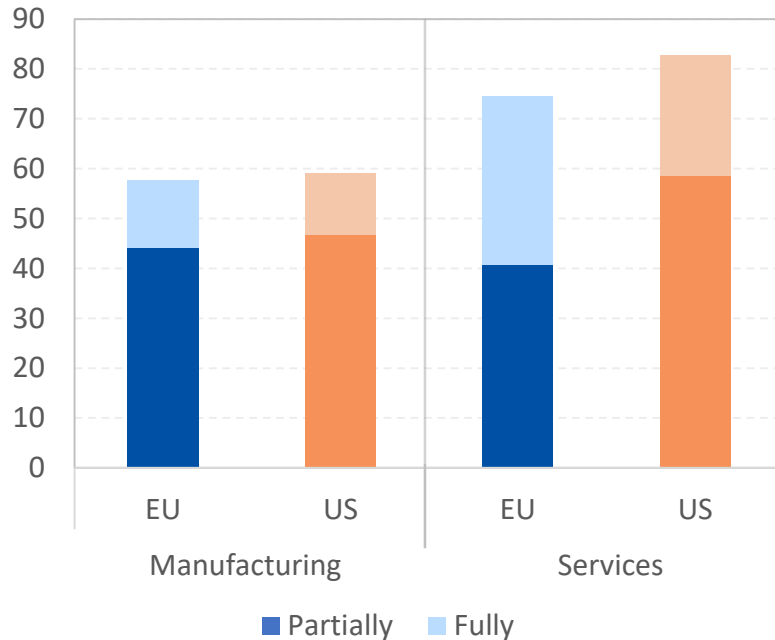
# Agenda

- The European economy – where we stand
- Weaknesses
- **The cost of inaction**
- Retooling Europe.....
- ....in a socially and environmentally sustainable way

# Digitalisation is the next challenge; EU delays come at a cost

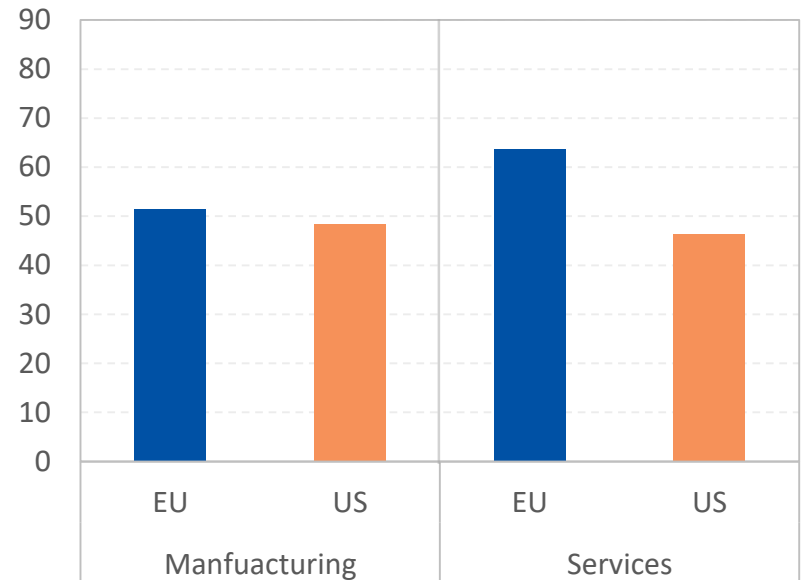
## EU lagging in adoption, particularly in the service sector

% firms adopting digital technologies, partially or fully



## Cost of delayed adoption

% firms stating that sales would have been lower, had they not invested in digitalisation

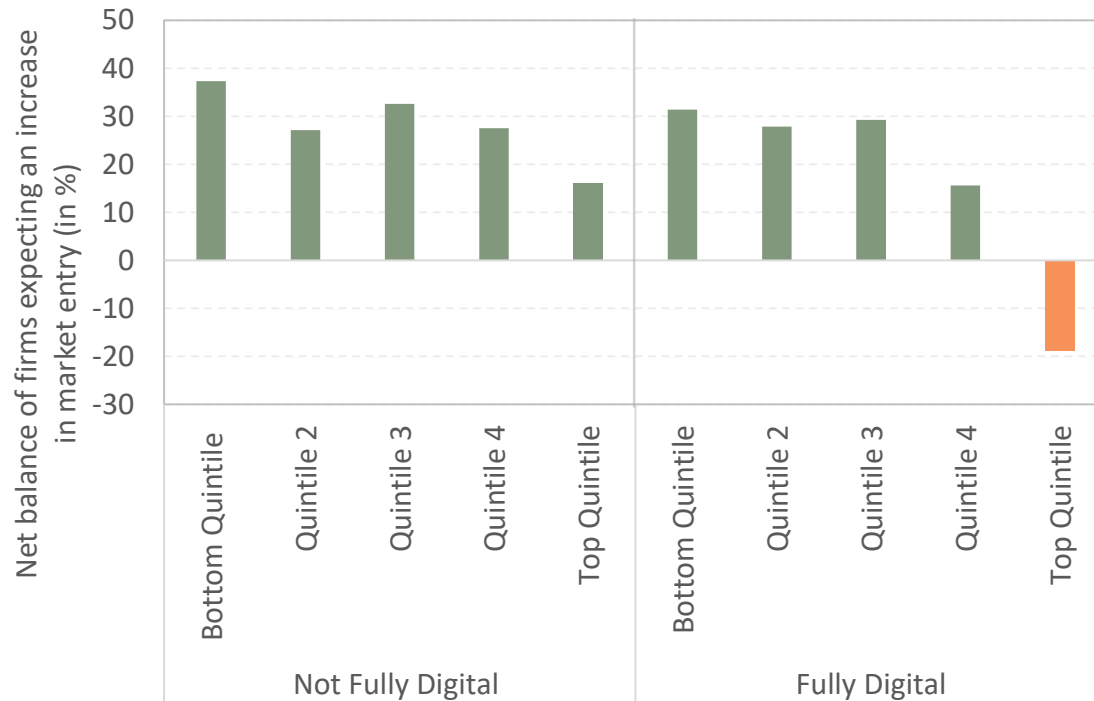


There is a cost in delayed digitalisation in terms of productivity, investment and innovation

# “Winner takes all”: the cost of delay for Europe might be long lasting

## Will digitalization increase competition?

Expectations by productivity quintiles for fully and non fully digital firms



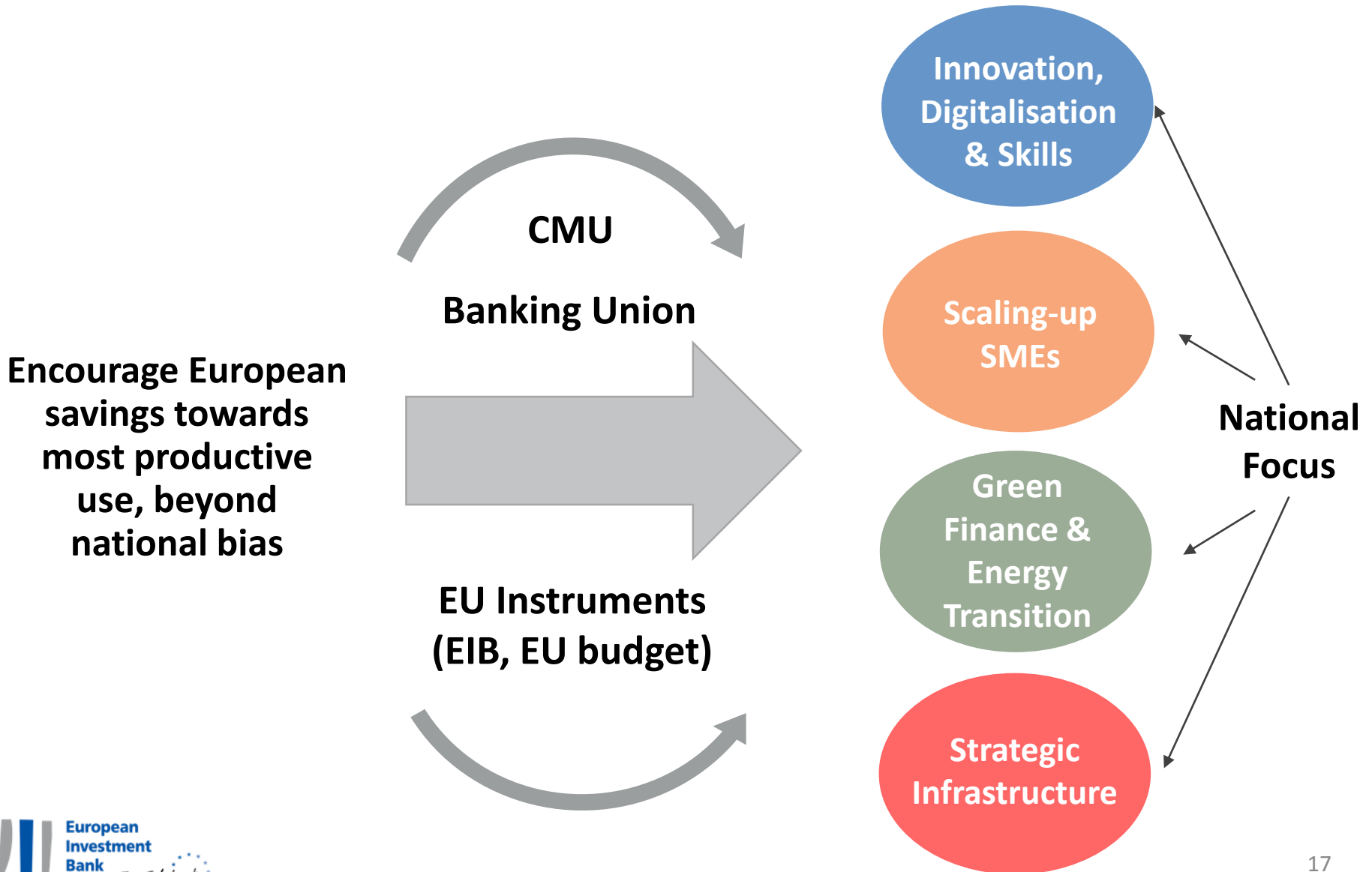
Firms are grouped by quintile in terms of Total factor Productivity. The graph shows the percentage of firms that expect digitalisation to increase competition minus those that expect competition to decrease (net value).

# Agenda

- The European economy – where we stand
- Weaknesses
- The cost of inaction
- **Retooling Europe.....**
- ....in a socially and environmentally sustainable way



# Retooling Europe's Economy



# Retooling Europe's Economy

---

- ▶ Encourage a dynamic, innovative **business environment**:
  - ▶ Improve **regulatory conditions** for firm growth, and market entry and exit
  - ▶ Address the EU “equity gap” and “**growth stage trap**”, on the demand and supply side
- ▶ Commit to **market efficiency**:
  - ▶ Commit to further deepening the **single market, particularly for services** (crucial for digitalisation incentives)
  - ▶ Work on creating the conditions for a true European **digital market**

# Retooling Europe's Economy

---

- ▶ Unblock critical investment in **infrastructure** and **innovation**:
  - ▶ Better infrastructure **governance**, complement finance with **technical capacity**
  - ▶ Support innovation and adoption of new technologies, considering complementarities between asset classes and private/public investment
    - ▶ **Incentivise all intangibles**, not only R&D
- ▶ **Work together on skills**:
  - ▶ The technological skills gap can be an opportunity for **win-win** policies addressing at the same time **competitiveness** and **social inclusion...**
  - ▶ ...with potential for more **EU coordinated** action

# Agenda

- The European economy – where we stand
- Weaknesses
- The cost of inaction
- Retooling Europe.....
- ....in a socially and environmentally sustainable way

# The Retooling of Europe must be socially and environmentally sustainable

**18%** EU jobs  
at risk of automation

Investment in **energy efficiency** has to increase **fourfold** to meet new EU targets

**65%** of EU firms expect further digitalisation to lead to more demand for high skilled staff,  
vs **24%** expecting more demand for low-skilled staff

**Big data** regulation and ownership

EU investment in **climate change mitigation** is **1.3%** of GDP  
down from **1.6%** in 2012

**Cybersecurity**