

COVID, CLIMATE AND DIGITALISATION – THE WAY FORWARD FOR EU BUSINESSES

DEBORA REVOLTELLA

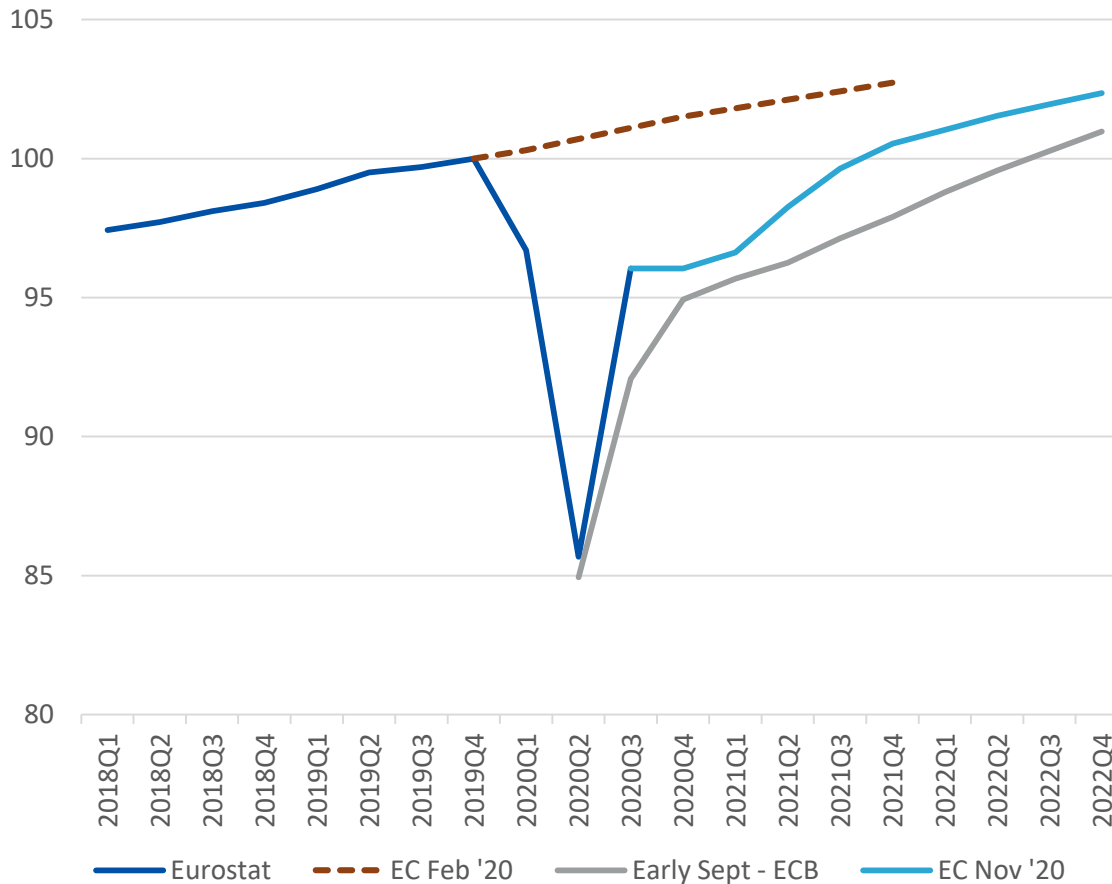
CHIEF ECONOMIST EUROPEAN INVESTMENT BANK

Agenda

- Covid-19 is a massive shock, with a slow recovery
- The crisis is reinforcing structural changes, which require firms and regions to adapt
- Focus on smart and green
- Optimal sequencing of the policy response

Covid-19 economic crisis – a slow recovery

Real GDP – recovery scenario Q4 2019=100

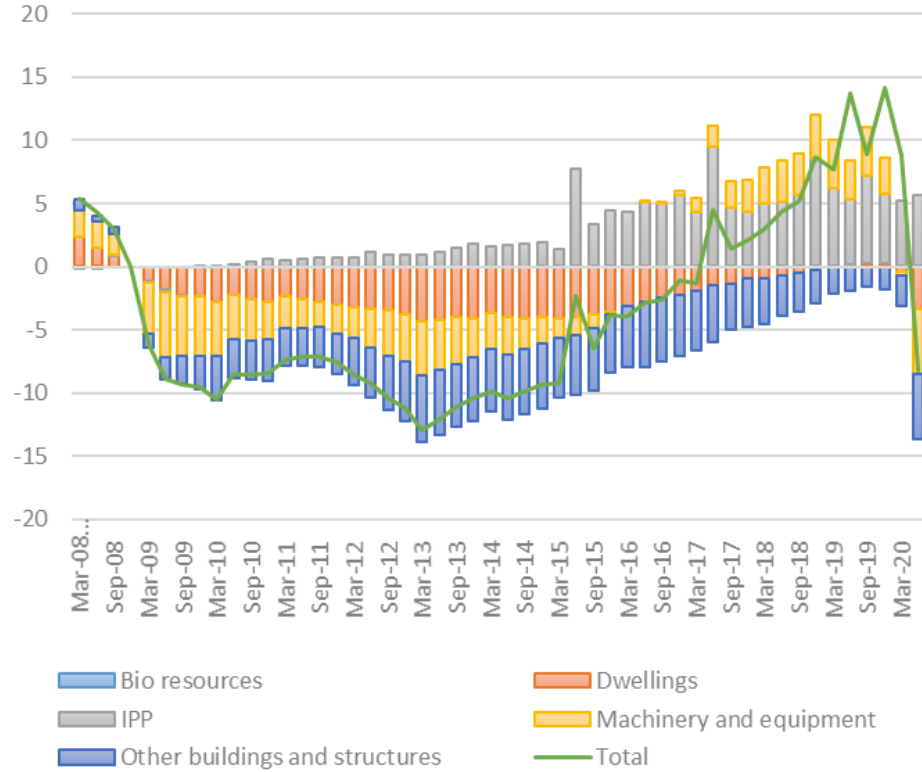


- How much the shock remains a “one-off-exceptional”?
- How much the shock will generate permanent change in behavior for economic agents?

Source: Eurostat, EIB calculations.

Covid-19 economic crisis – Investment impacted, as uncertainty remains a drag for long

EU27 GFCF by asset type, as a share of GDP
 (% cumulative, 2008=100, last data point 2Q20)



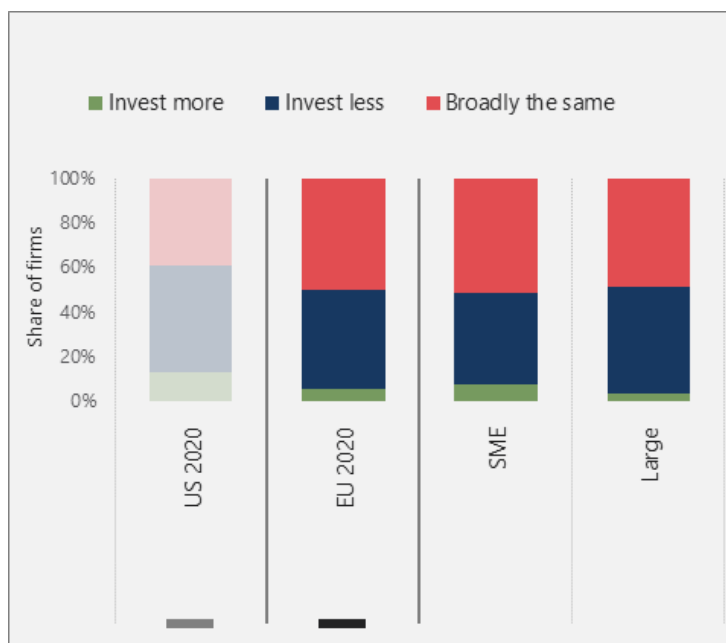
Source: Eurostat, EIB calculations

Uncertainty has 3 dimensions:

- the medical element (immunization, vaccine, second round of contagions)
- the economic-contagion element (second round effect of the crisis)
- the long term structural changes element (change in preferences, global value chains, new business models, role of the state, etc)

Shock on firms - transform or stagnate

Covid-19 impact on investment (% firms)

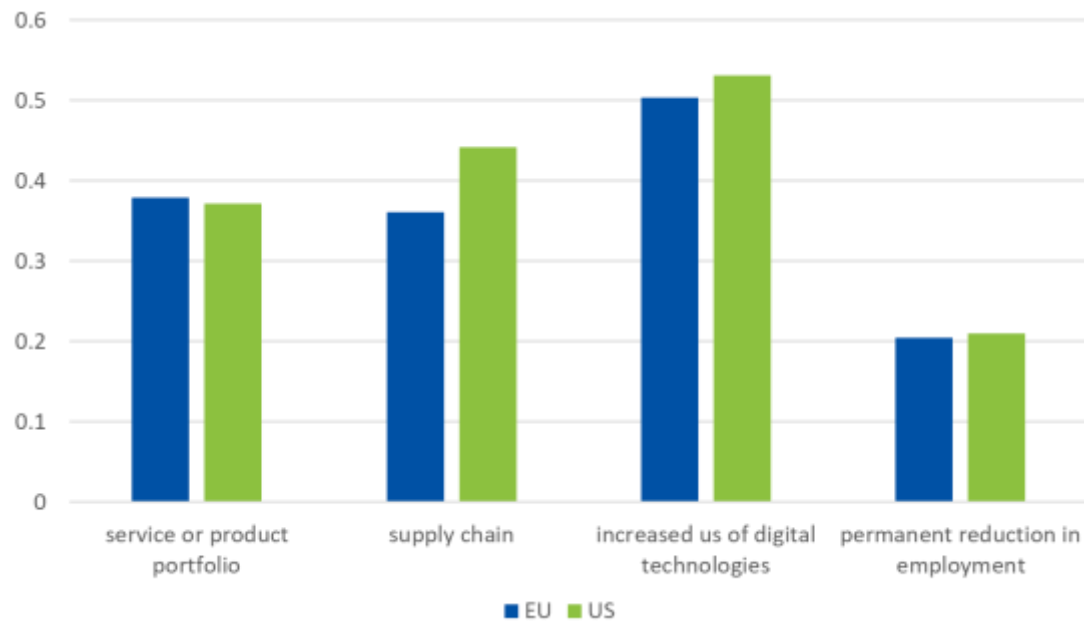


Source: EIBIS – EIB Investment Survey

- Survey data suggest Covid-19 is having a strong effect on firms investment
- Simulations of firms balance sheets support the view
 - Liquidity shortfalls and short term measures
 - Cumulative net revenues loss raging from 6-10% of assets for SMEs, 2-3.5% for large corporates
 - Investment to shrink by 30-50%
- Trade off investment vs leverage

Covid-19 adds to structural trends - a “new normal” in the long term

Covid-19 long term impact points to a “new normal”
(% firms)



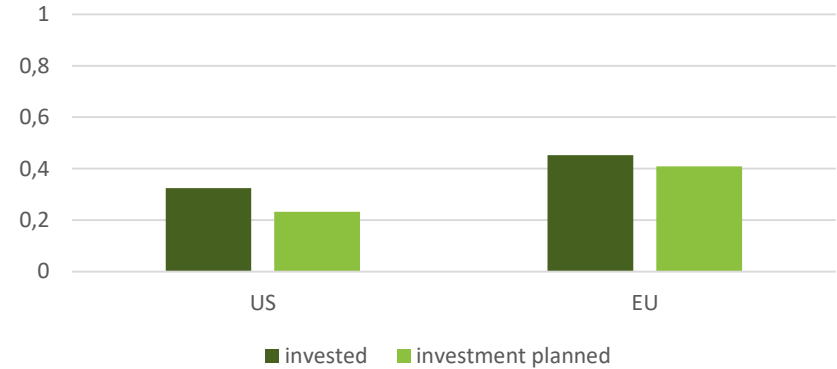
Source: EIBIS 2020

EU firms more prone (compared to US firms) to tackle climate change, but policy guidance is needed

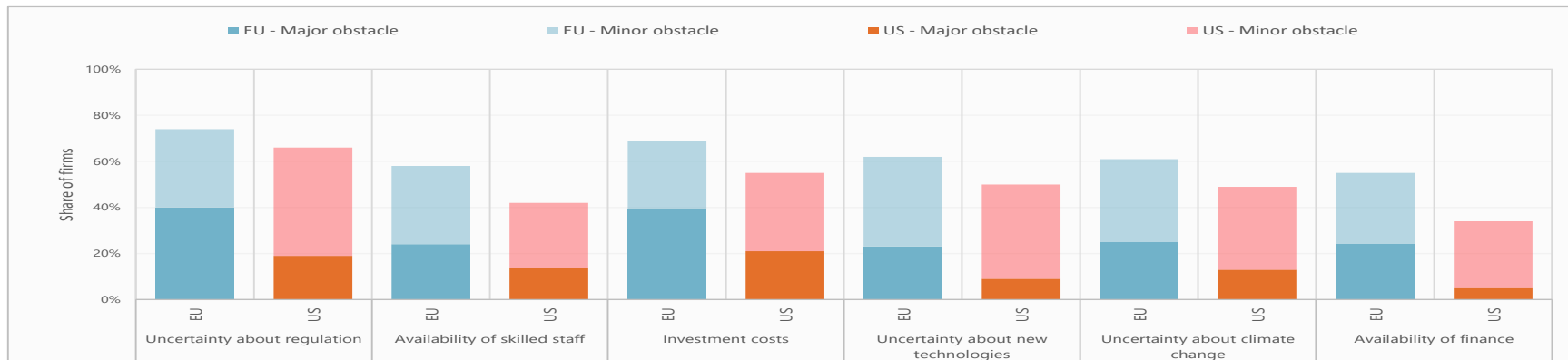
Firms perception of physical/ transition risk

- Some 60% of EU firms perceive to be subject to physical risk (20% perceive a major impact)
- Some 35% of EU firms see at least one negative aspect associated to transition risk (vs 50% in the US)

Firms plans to invest to tackle climate change

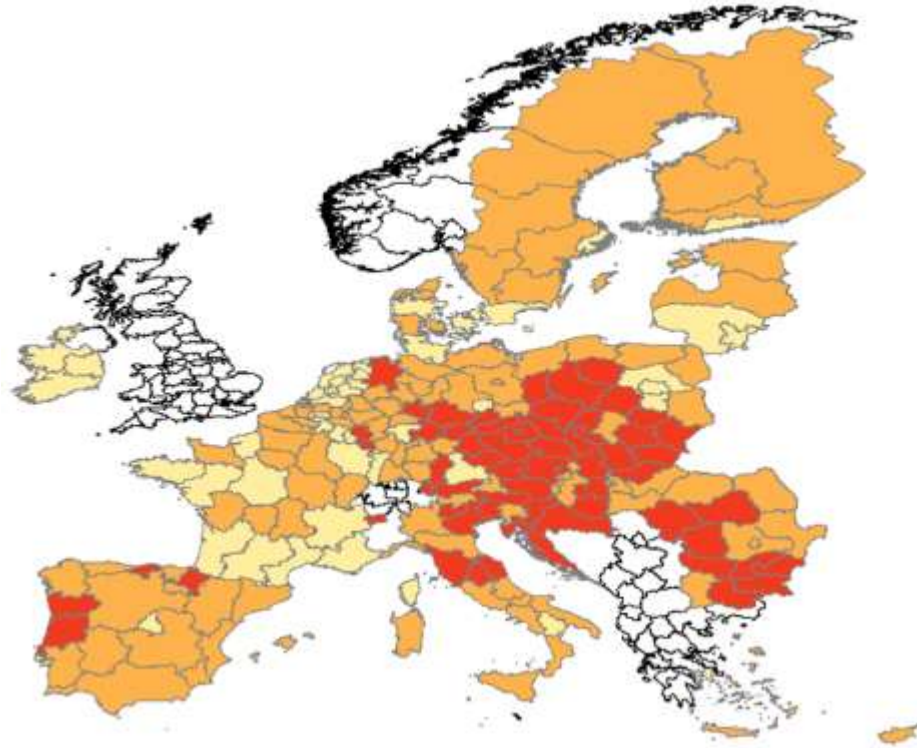


Impediments to invest in climate change (in%)



Regional level – Covid-19 and the twin transition risk

EU27 regions – twin transition risks



Source: ECON calculations.

Note: Red= High exposure to two types of transition risk, i.e. linked to automation and potential job losses in carbon intensive industries.

Orange = high exposure to one type of transition. Yellow = relatively low exposure to both types of risks. EU outermost regions not displayed.

Policy response

- A massive economic shock. Some signs of rebound, but full recovery will take time
- Investment impacted strongly, with uncertainty a drag for long
- The status-quo is changing. The new normal will require investment to adapt
- Smart and digital as the new mantra
- From short term measure to long term focus
 - Private and public sector incentives to align
 - Clarity in terms of targets and policy guidance
 - Incentives and focus on skills