

Firms' investment, in times of repeated shocks: An Irish perspective

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Key messages

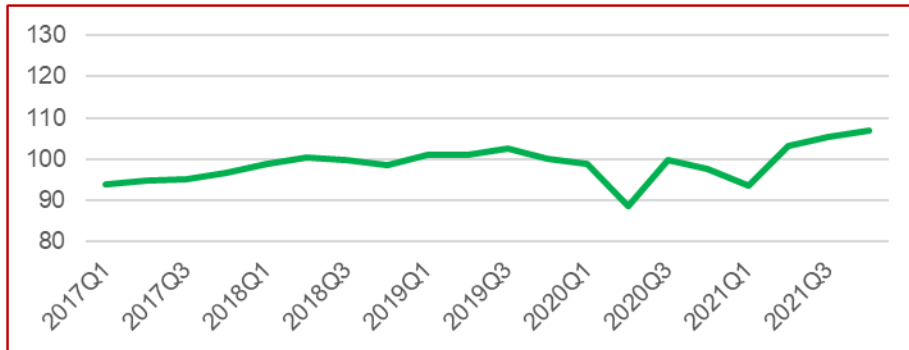
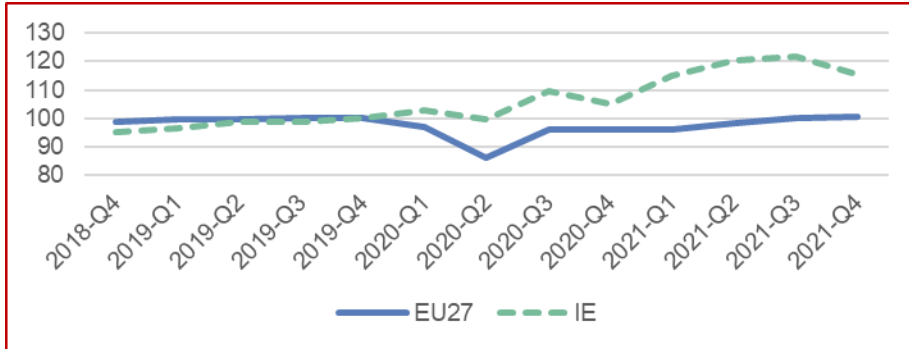
- Ireland's economic resilience to the pandemic was strong
- Policy support was successful in avoiding the worst from the pandemic
- Today – the challenge is to navigate the new shock, while not deprioritising the green and digital transformation

Strong economic rebound, with non-construction investment among driving factors...

Economic growth

GDP for IE and EU27 (top)

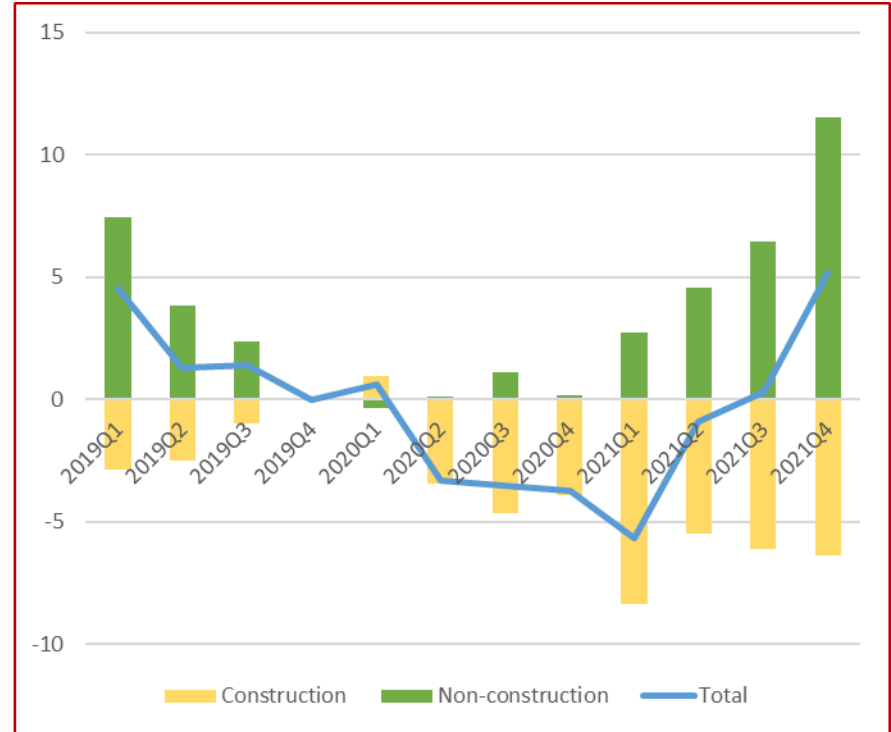
Modified Domestic Demand; 4Q 19= 100 (bottom)



Note: Cumulative change of modified domestic demand in constant prices relative to the 4Q19 level.

Real Investment

Quarterly Q4 2019=0

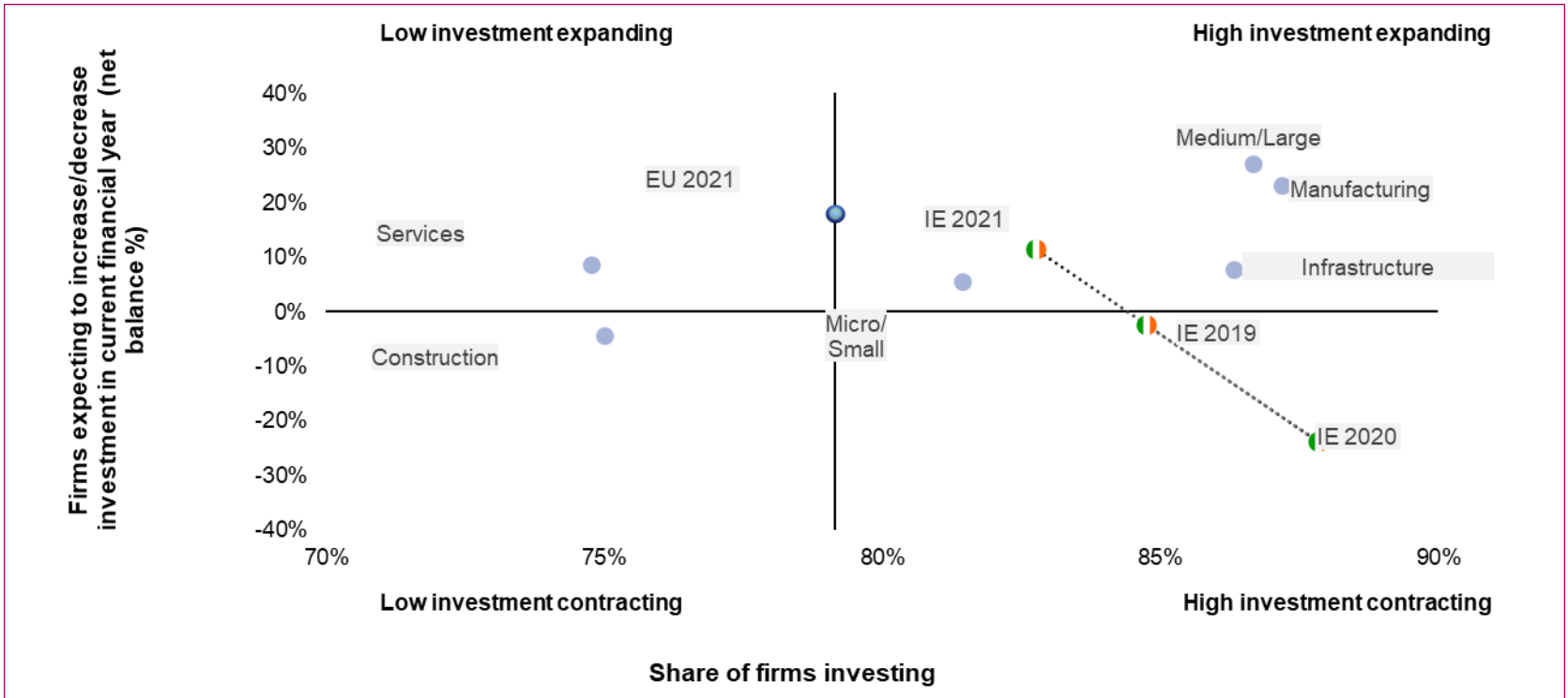


Note: 4QMA real modified gross domestic fixed capital formation. Split by, on the one hand, investment in construction and buildings and, on the other, investment not related to building and construction.

Source: Econ calculations, Central Statistics Office, Ireland

Firms' investment confirmed, despite worries

Investment sentiment



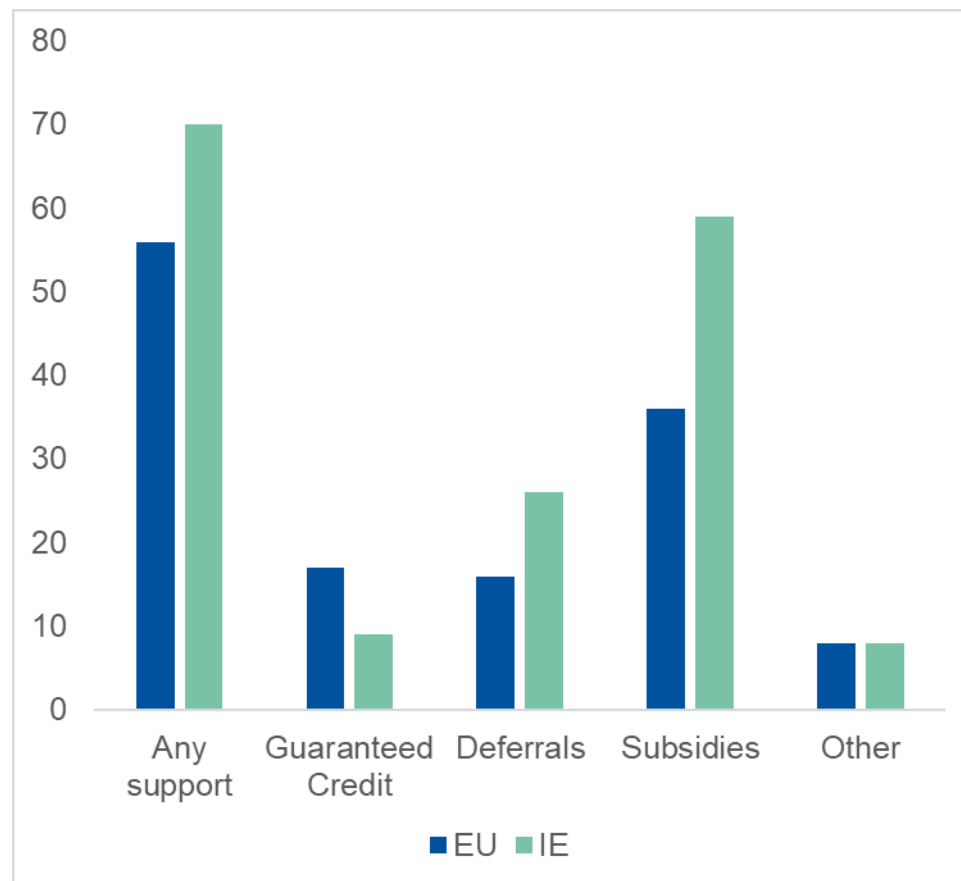
Q. Do you think that each of the following will improve, stay the same, or get worse over the next twelve months?

Source: EIBIS 2021

Policy support was relatively generous

- 47% of Irish firms reported loss of sales due to Covid (in line with 49% in EU).
- Policy support was widespread: 70% of firms received some financial support vs 56% in EU.

Share of firms receiving policy support
% of firms

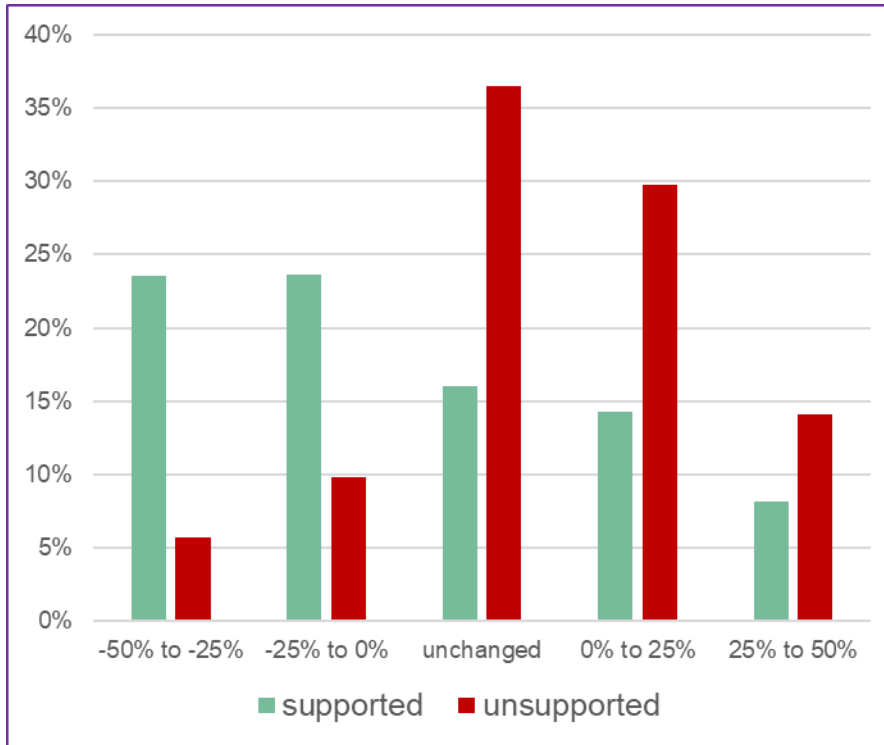


Source: EIBIS 2021

Q. Since the start of the pandemic, have you received any financial support in response to COVID-19? This can include finance from a bank or other finance provider, or government-backed finance

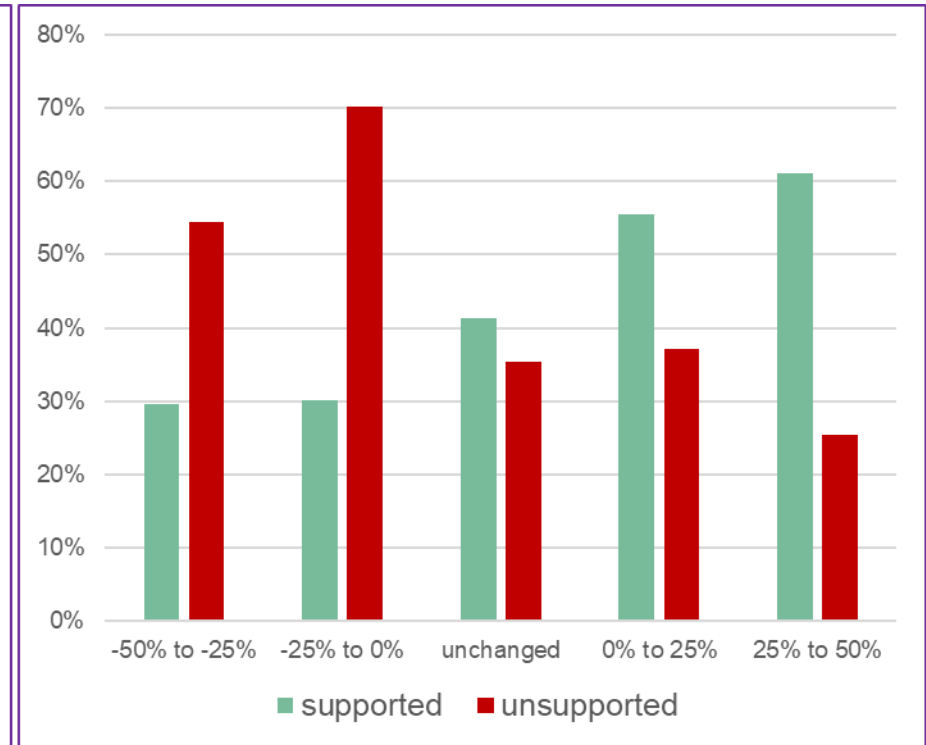
...and appropriately targeted, but slightly less effective than in other countries

Intensity of policy support by sales loss groups



Note: y-axis shows share of firms receiving support

Firms increasing investment by sales loss groups and support received

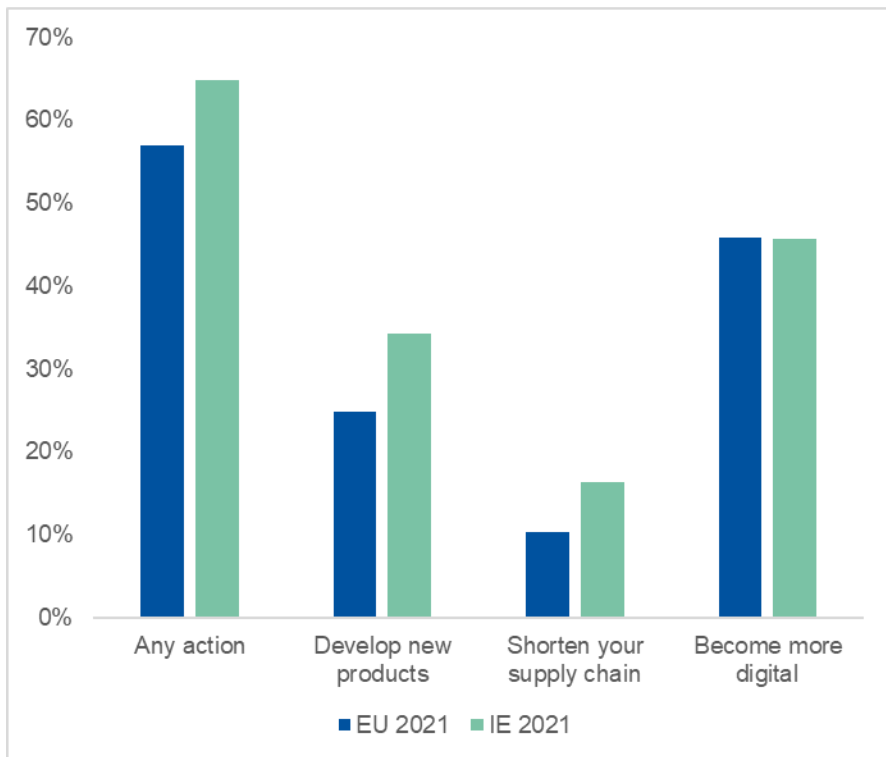


Note: y-axis shows share of firms confirming investment plans

In response to the pandemic, digitalization advanced. Irish firms more concerned about need to innovate and to review supply chains

Short term reaction to COVID-19

Share of firms %

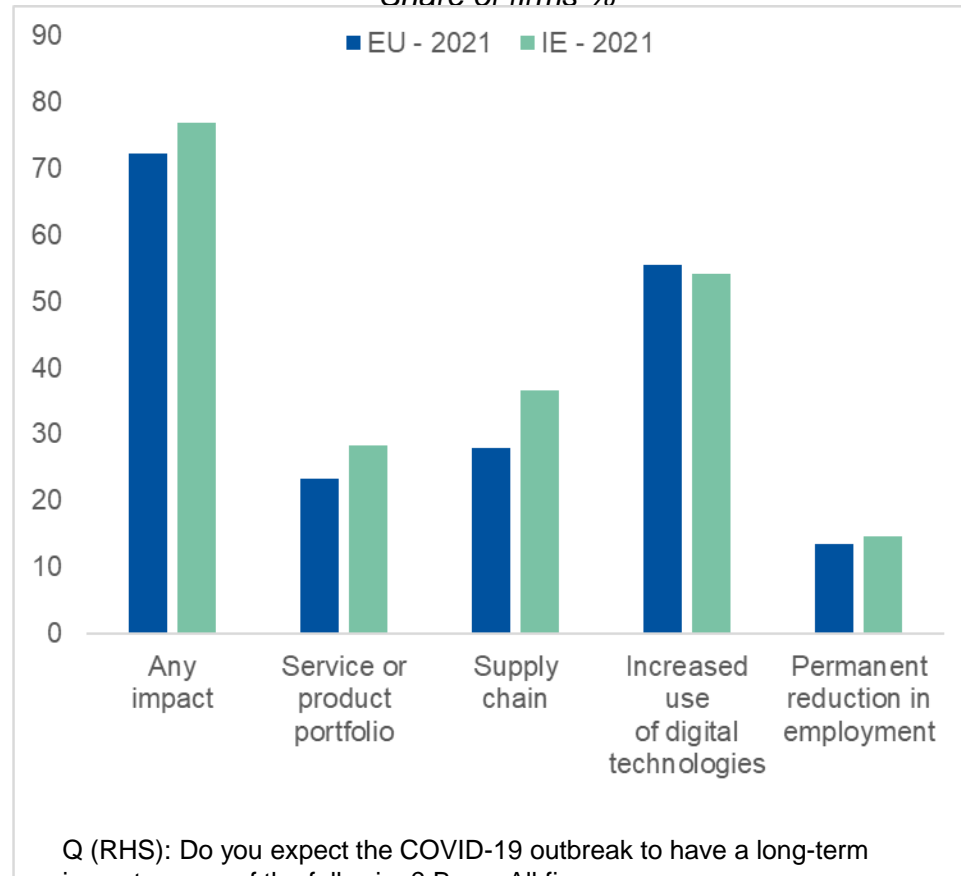


Note: Q (LHS): As a response to the COVID-19 pandemic, have you taken any actions or made investments to...? Base: All firms (excluding don't know/refused responses)

Source: EIBIS 2021

Longer-term impact of the pandemic

Share of firms %



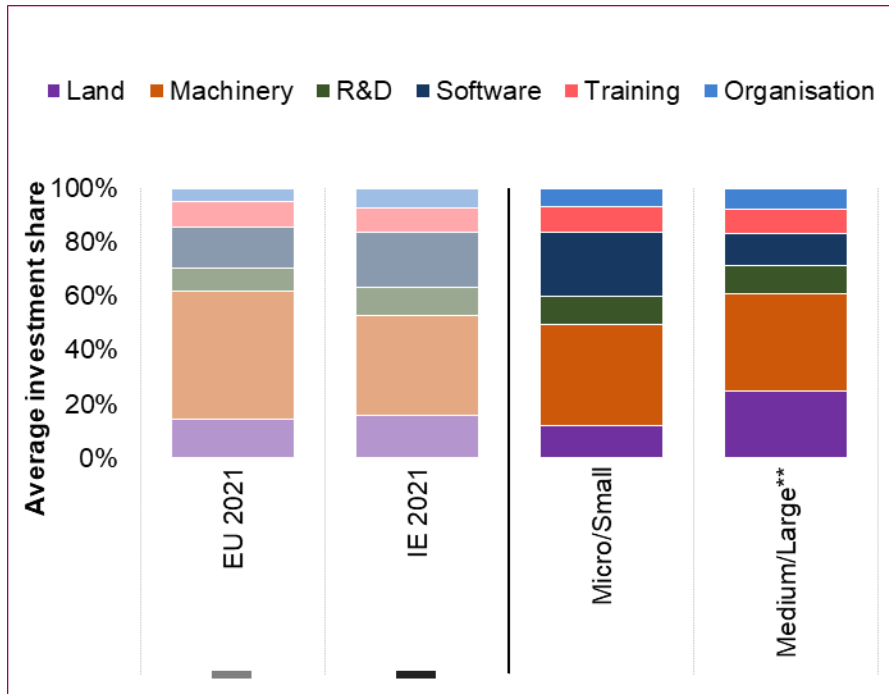
Q (RHS): Do you expect the COVID-19 outbreak to have a long-term impact on any of the following? Base: All firms.

Source: EIBIS 2021

The share of investment dedicated to intangibles is high. But Ireland lagging behind in digitalisation

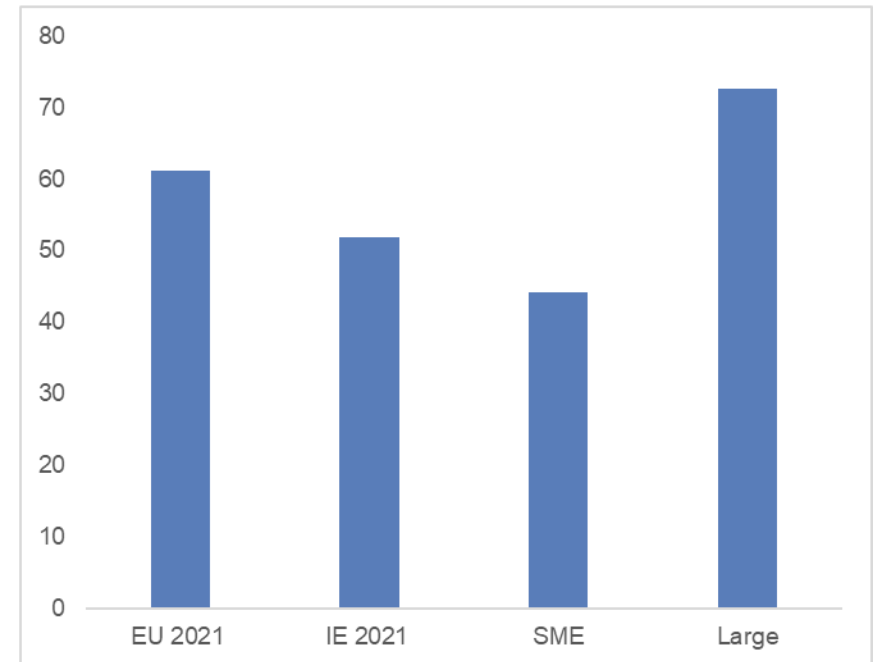
Investment by asset

Share of firms



Advanced digitalisation

average share allocated



Q. Approximately what proportion of your external finance does each of the following represent?

Source: EIBIS 2021

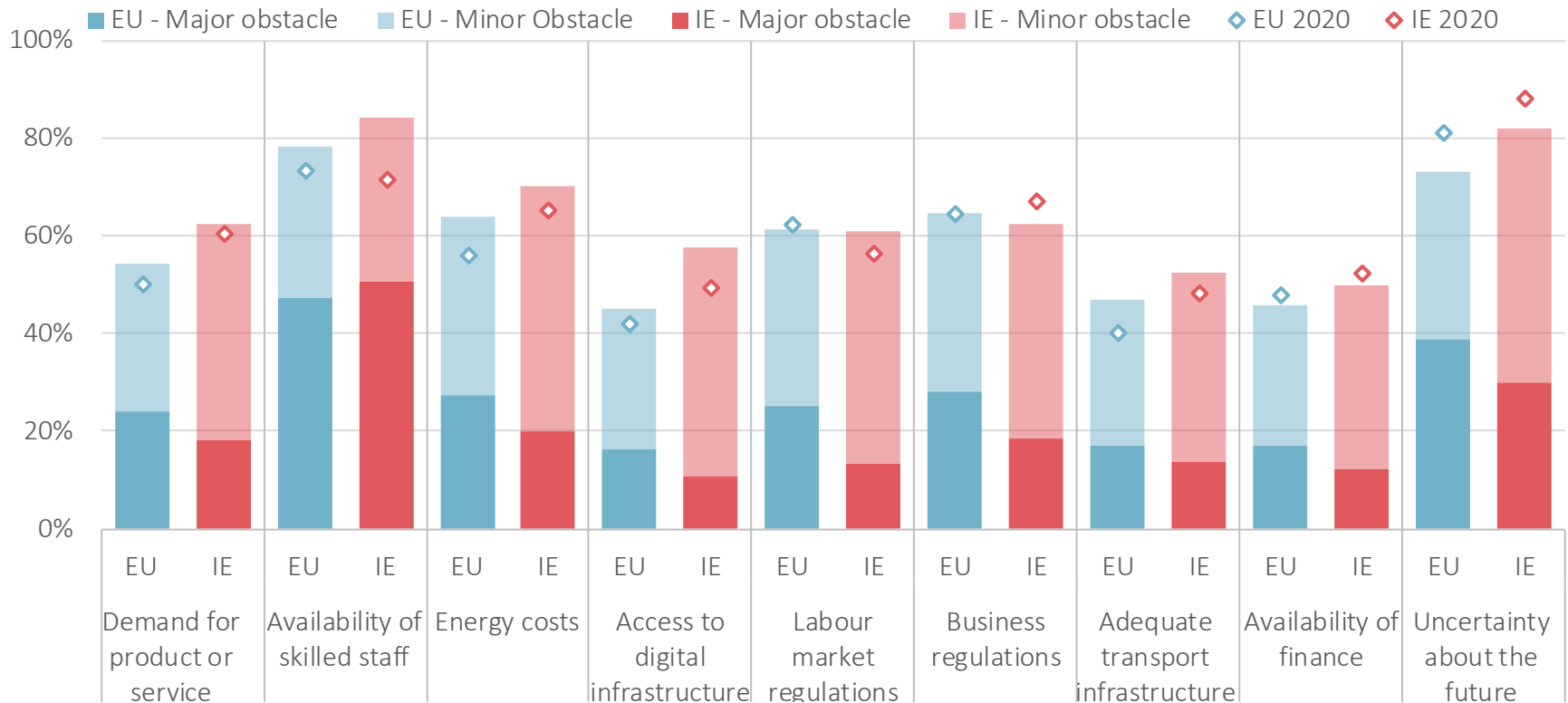
Q. Can you tell me for each of the following digital technologies if you have heard about them, not heard about them, implemented them in parts of your business, or whether your entire business is organised around them?

Source: EIBIS 2021

Lack of skills the principal barrier to investment, followed by uncertainty – biggest jumps recorded for energy cost & digital

Barriers to investment

% of firms

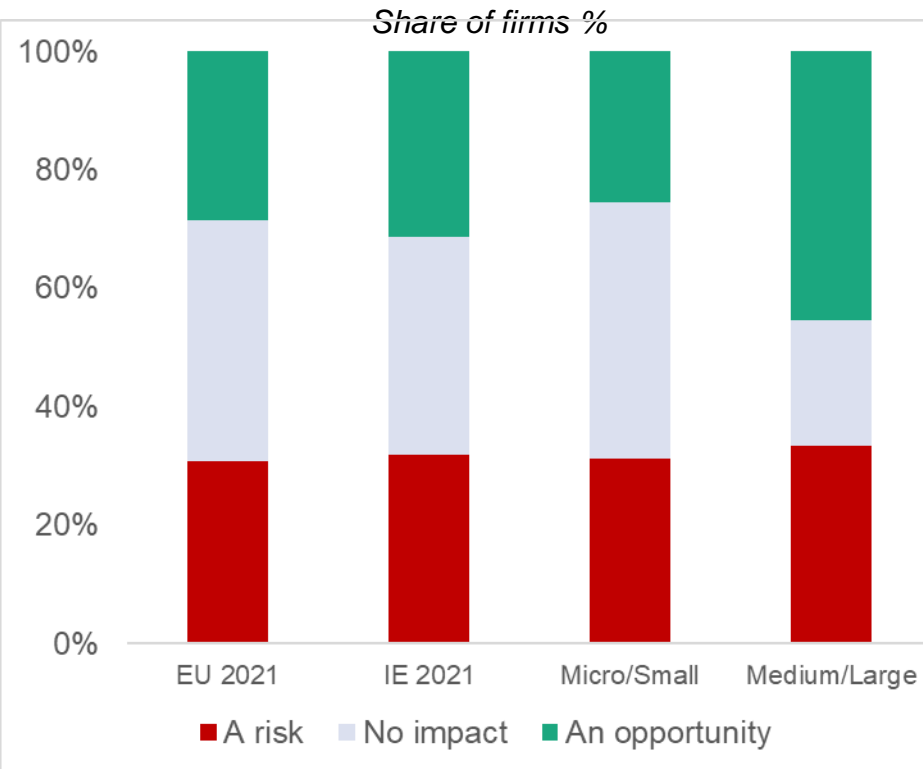


Q. Thinking about your investment activities in Ireland, to what extent is each of the following an obstacle? Is it a major obstacle, a minor obstacle or not an obstacle at all?

Source: EIBIS 2021

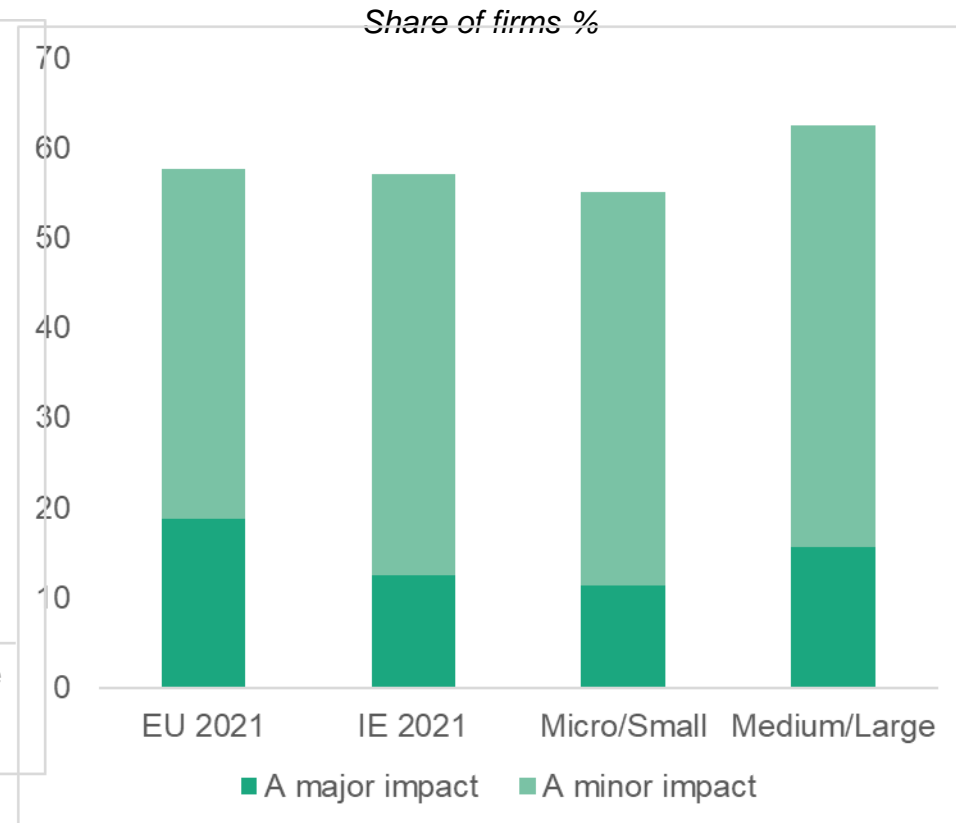
Impact of climate change not a priority everywhere...

Impact of climate change – transition



Q (LHS): Thinking about your company, what impact do you expect this transition to stricter climate standards and regulations will have on your company over the next five years? Base: All firms (excluding don't know/refused responses).

Impact of climate change – physical

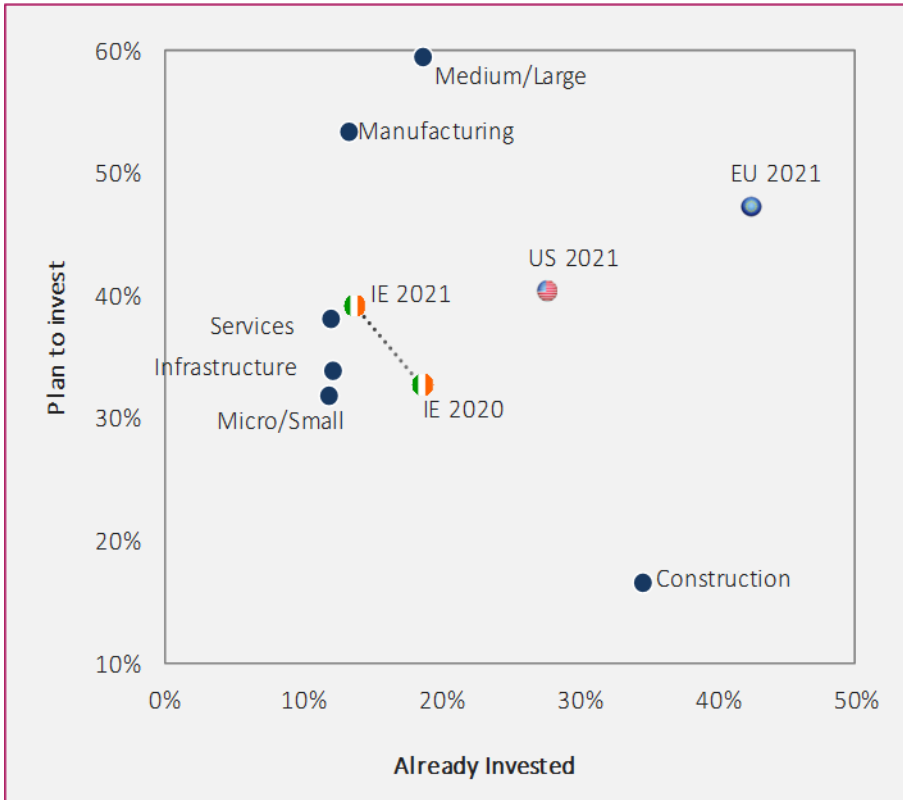


Q (RHS): Thinking about climate change and the related changes in weather patterns, would you say these weather events currently have a major impact, a minor impact or no impact at all on your business? Base: All firms (excluding don't know/refused responses).

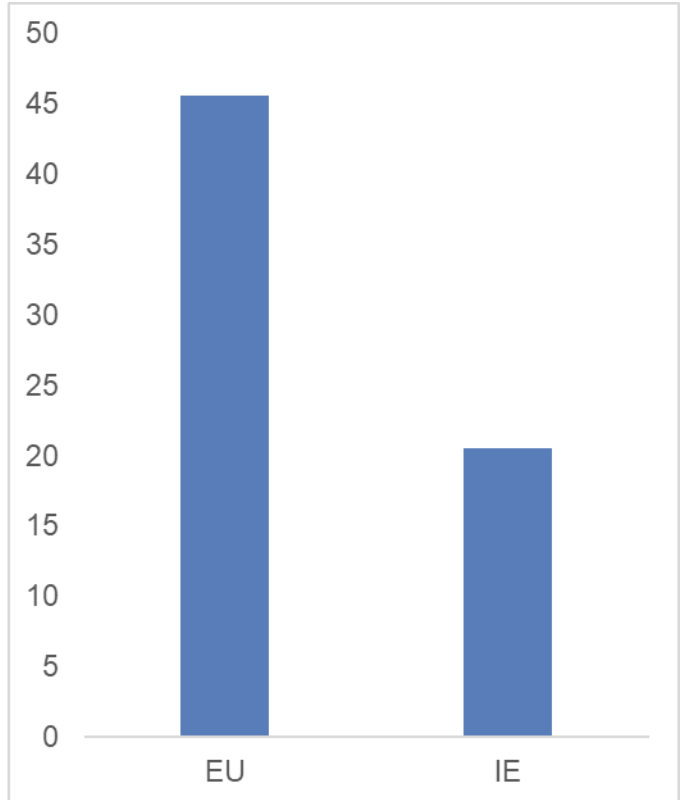
... reflected in lagging investment targeting climate change

Firms' investment in climate

Share of firms %



Firms' setting climate targets

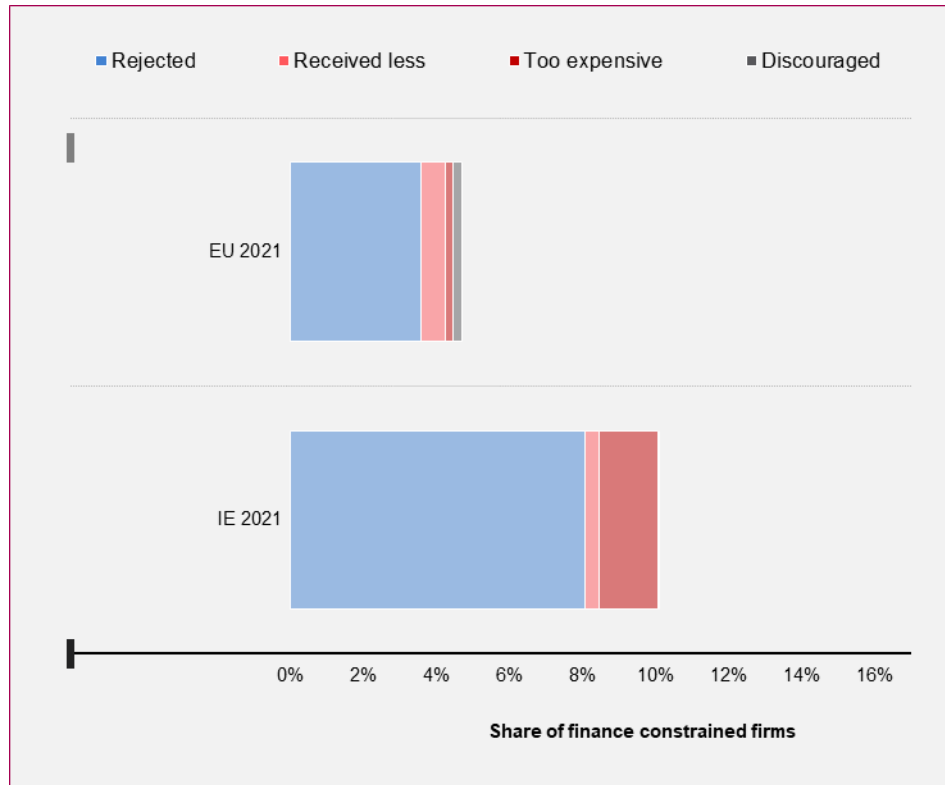


Q: Now thinking about investments to tackle the impacts of weather events and to deal with the process of reduction in carbon emissions, which of the following applies?

Source: EIBIS 2021

Concerns about access to credit growing among larger firms

Dissatisfaction with external finance



Firms concerns mostly related to cost of finance

Note: Finance constrained firms include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive) or they would be turned down (discouraged)

Source: EIBIS 2021

The war in Ukraine as a large geopolitical (not localised) shock

✓ **Ukraine:**

- ✓ War scenario – major disruptions
- ✓ Migration crisis

✓ **Russia (and Belarus):**

- ✓ Sanctions unfolding – SWIFT, central bank reserves, and impact on international financial markets
- ✓ Disruptions on energy supply and trade still uncertain

✓ **Wider transmission of shock:**

- ✓ impact differs depending on (1) energy and commodity shock (with a price and quantity shock), (2) trade links, (3) financial sector exposure, (4) refugee crisis
 - ✓ New shock adds to pre-existing vulnerabilities in EU and the Neighborhood, adversely affecting the resilience of the recovery
- ✓ Impact likely to be felt broadly, beyond Ukraine, requiring specific policies for Europe and the wider region

The war shock adds to pre-existing vulnerabilities

Higher market uncertainty, impacting on valuations and possibly lower private investment

Higher Inflation via commodity channel and supply disruptions

Increased policy uncertainty vs inflation impacting central bank policy response

Second round effects on companies – high costs, supply disruptions, loss of business and possibly coinciding with withdrawal of COVID-19 supports

Impact on public finances due to new support measures and increased military spending

Climate transition & or vs energy security?

Conclusions

- A new shock, bringing back the focus on energy security and energy efficiency
- Access to finance, skills & access to infrastructure remain a concern

Thank you

