

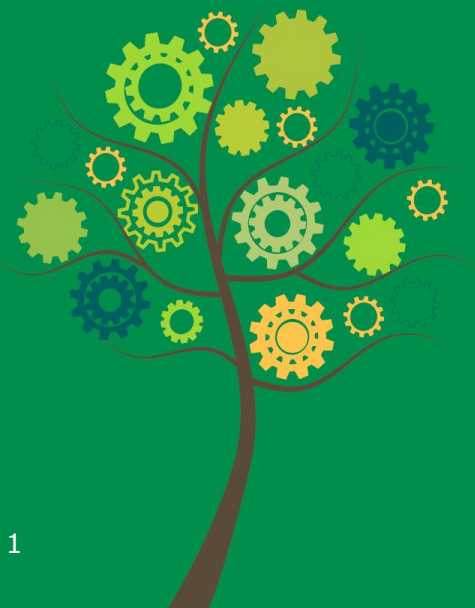
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Covid-19 and the twin transition

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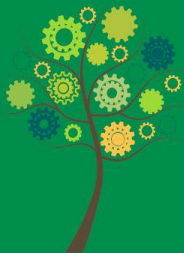




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Agenda

- The starting point:
 - rising inequality
 - the twin transition
 - path dependency and laggards
- The crisis is reinforcing structural challenges but also offers an opportunity to re-set
 - optimal sequencing of the policy response
 - Smart, Green and Skills!



Rising income inequality at EU and national level

Interpersonal inequality:

- Pre-tax incomes in the bottom 10% of the EU income distribution increased by 16% from 1995-2018, but top 1% increased 50%
- Only in 5 countries bottom 50% (ex ante) income growth above average growth

Spatial inequality:

- Share with income greater than 150% of national average 2x in dominant cities
- At EU level, no convergence of average (disposable personal) income across regions over the 2000-2016 period, unless CEE is included

Intergenerational mobility:

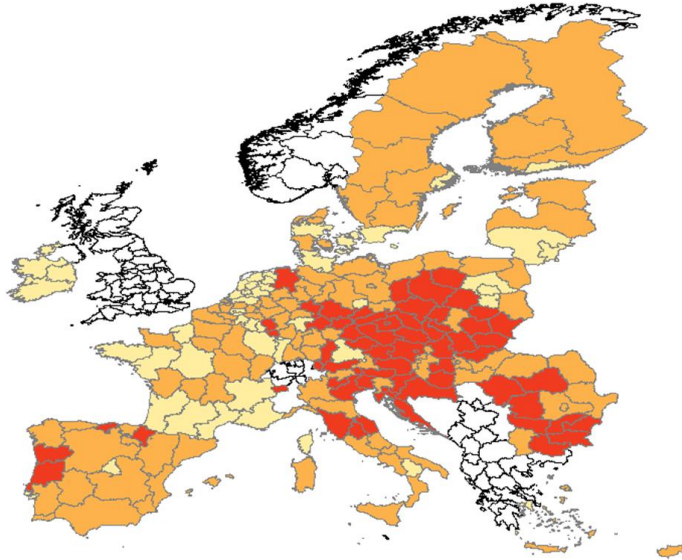
Intergenerational social mobility (in terms of types of occupation) improved for the Baby Boomer generation (1945-60), but appears to have weakened for Generation X (1960-80)

Source: EIB 2019-2020 Investment Report



The twin transition (digital and green)

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.

• Regions most at risk:

- Cluster mostly in Central and Eastern Europe
- Tend to be poorer, less densely populated and often with structurally more difficult labour market conditions
- Invest less in intangibles and none is among the 30 most R&D intensive regions
- Less “adaptive capacity” also in terms of training and active labor market policies

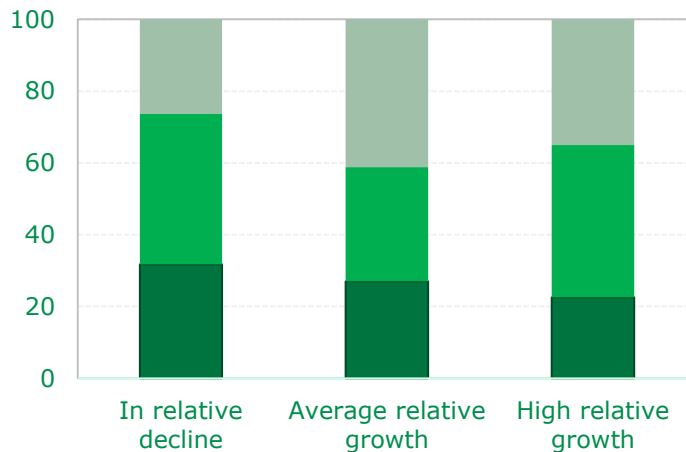
**Source: EIB 2020-2021
Investment Report,
forthcoming January 2021**



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Path dependency and laggards

Municipalities Investment purpose,
next 5 years



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- New infrastructure assets
- Modernisation and adaptation
- Maintenance and repair

The issue of laggards persists:

- At the **municipality** level, where high growth municipalities plan to invest more in new infrastructure and modernization (also have invested more and have lower infrastructure gaps)
- At the **firm** level, with stickiness at bottom of the productivity distribution, particularly in some countries, due to low exit of firms
- At the **individual** level (basic and advanced digital skill gaps)
- But ultimately also at the **country** level, particularly in front of systemic shocks, combining to structural shifts and fiscal constraints

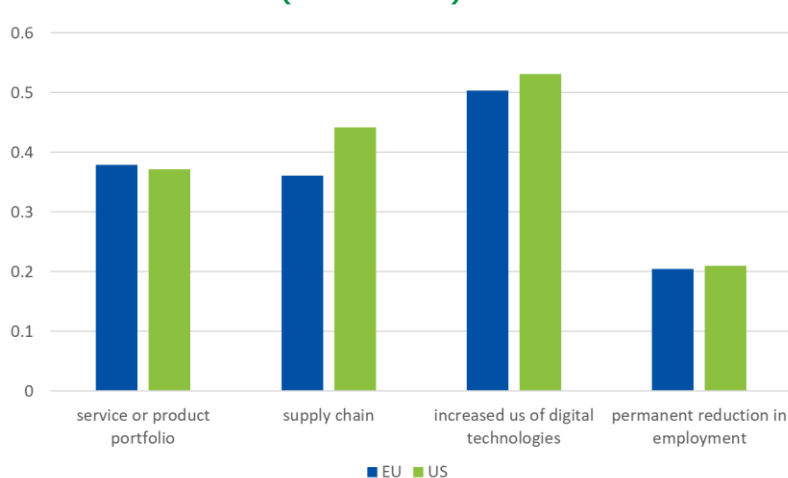
Source: EIB 2020-2021 Investment Report, forthcoming January 2021



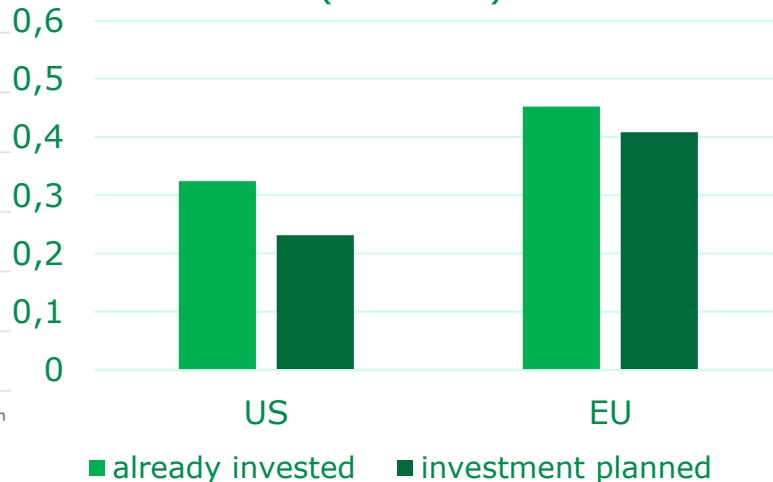
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Covid-19 and Climate as a turning point

Covid-19 long term impact as a "new normal"
(% firms)

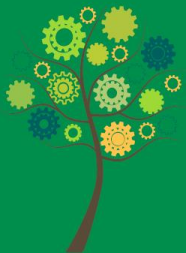


Climate investment (physical and transition risk)
(% firms)



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Source: EIB 2020-2021 Investment Report, forthcoming January 2021



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Focus on short and long term policies

- Labor market: short term vs active market policies
- Firms: liquidity versus incentives for structural transformation
- Regions and municipalities: crisis response and cohesion
- Smart and Green and job creation
- From short term measures to long term focus
 - Short term shields vs reallocation of resources
 - Clarity in terms of focus and policy guidance
 - Private and public sector incentives to align
 - Smart and Green incentives and focus on skills

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Thank you!

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