



The impact of the war in Ukraine on EU regions

European Committee of the Regions

Jochen Schanz, Senior Economist, 4 July 2023



European
Investment Bank



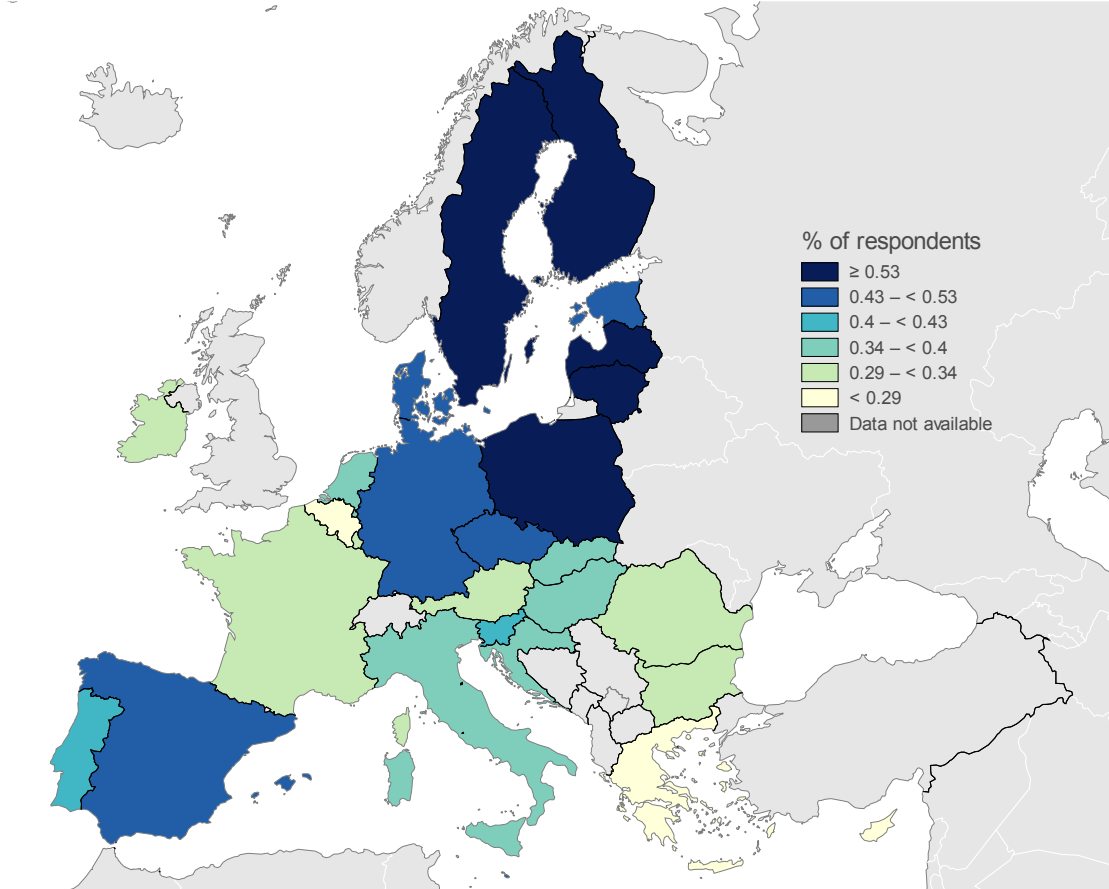
Transmission channels of the war in the Ukraine to the EU economy

- Geopolitical uncertainty is leading to **higher military spending**
- **Uncertainty** is **depressing investment**
- Higher energy prices are putting **additional pressure on energy-intensive regions to transform**
- **Refugees are alleviating employment shortages** in host countries but skills are often poorly matched
- Refugees use **social infrastructure**, which has important investment gaps in some host countries

Geopolitical uncertainty is felt acutely in the East of the EU

The war is perceived as a threat to own country particularly in the North East of the EU

Respondents "totally agreeing" that Russia's invasion of Ukraine is a threat to the security of their own country (%)



Fieldwork: 12 Jan – 6 Feb 2023.
Eurobarometer 98, question QE 3.2.

Administrative boundaries: © EuroGeographics © UN-FAO © Turkstat
Cartography: Eurostat – IMAGE, 06/2023

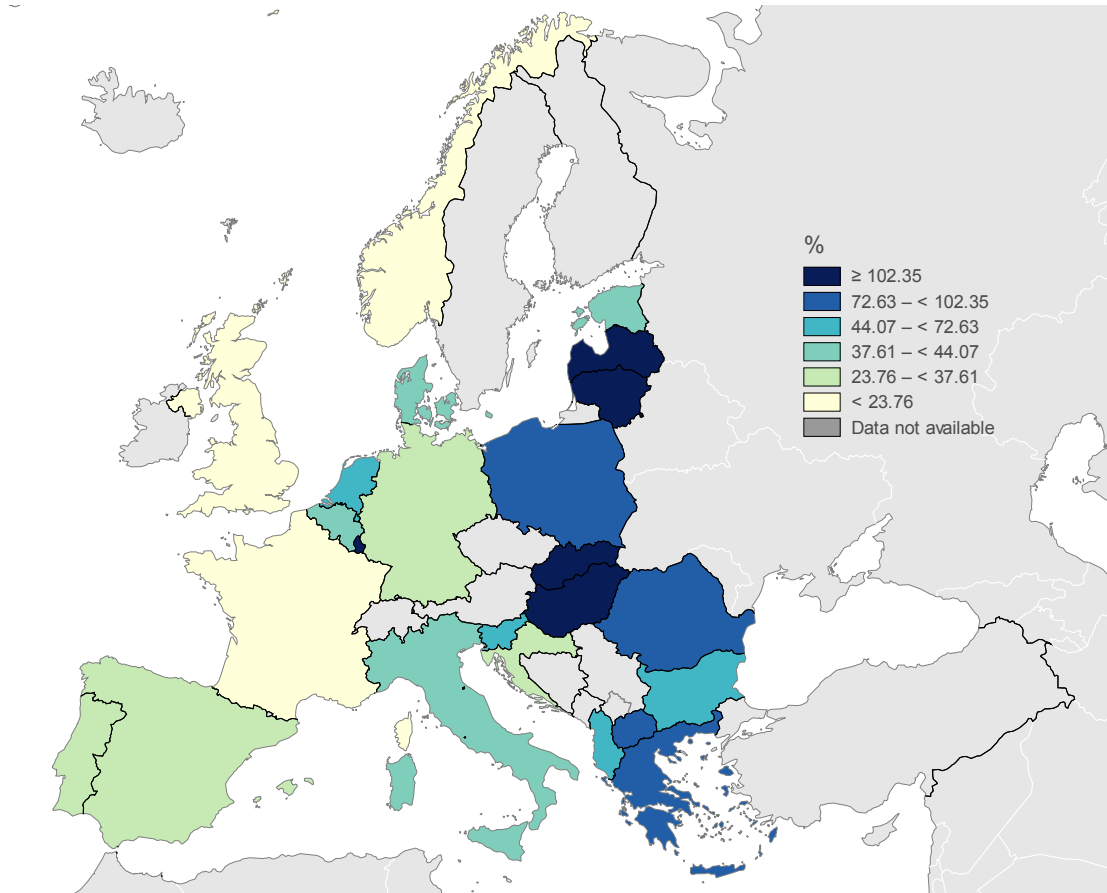


In countries close to the border of Ukraine, Russia, and Belarus, almost half of the population believe that the war is a threat to their own country's security

Higher military spending could crowd out productive investment

Geopolitical risk has translated into higher military spending primarily in the East of the EU

Real change in defence spending, 2014-20



Figures for 2022 are estimates
NATO (2023), Defence expenditure of NATO countries (2014-2022), 21 March. Administrative boundaries: © EuroGeographics © UN-FAO © Turkstat
Cartography: Eurostat – IMAGE, 06/2023



Shield against geopolitical uncertainty



Potential diversion of public spending from productive to precautionary investments...



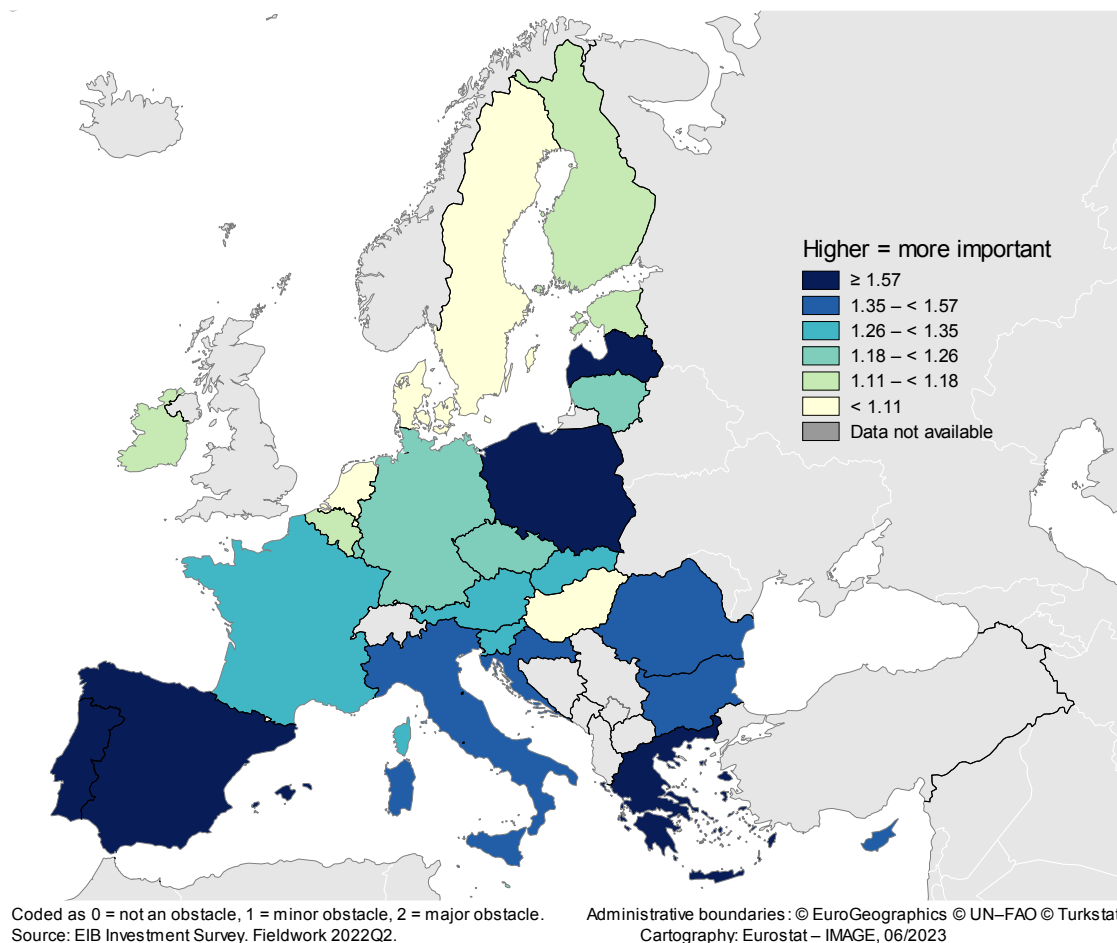
... but substantial EU support via RRF, Cohesion funds



Risk of macroeconomic imbalances from higher public deficits

Uncertainty among top three obstacles to corporate investment

Importance of uncertainty as an investment obstacle



Uncertainty a major investment obstacle for 46% of EU firms, topped only by the availability of skilled staff and high energy costs.



Uncertainty tends to be a greater investment obstacle in poorer regions and among smaller firms



Overall, uncertainty is likely to have reduced corporate investment by 1.2% of GDP in 2022

Uncertainty likely to have lowered firms' investment

	Dependent variable: Investment rate, %			
	(1)	(2)	(3)	(4)
Uncertainty				
A minor obstacle	-0.309 (2.511)	0.029 (2.559)	-3.500 (3.386)	-2.958 (3.426)
A major obstacle	-5.245** (2.636)	-5.775** (2.711)	-8.255** (3.281)	-7.269** (3.369)
Demand				
A minor obstacle	3.032 (2.135)	3.070 (2.188)	0.180 (2.203)	0.777 (2.307)
A major obstacle	2.124 (2.493)	1.031 (2.475)	-0.847 (2.307)	-0.416 (2.420)
Other impediments	0.382 (0.506)	0.480 (0.512)	0.076 (0.600)	0.091 (0.610)
Near-term outlook	1.681*** (0.615)	1.789*** (0.633)	0.074 (0.703)	0.123 (0.718)
Size, lag	-0.590*** (0.074)	-0.592*** (0.074)	-0.554*** (0.115)	-0.562*** (0.107)
Leverage, lag			-0.389* (0.219)	-0.419* (0.230)
Cash flow, % assets, lag			0.314** (0.152)	0.244 (0.201)
Sales growth, % change, lag			0.059** (0.026)	0.065** (0.030)
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	No	No	No
Country-Year FE	No	No	Yes	No
Sector-Year FE	No	No	Yes	No
Country-Sector-Year FE	No	Yes	No	Yes
Observations	23889	23790	14532	14485
Adjusted R-squared	0.053	0.059	0.043	0.050

Note: Robust standard errors in parentheses. Rejection probabilities, indicated with asterisks *, **, ***, denote significance at 10%, 5% and 1% respectively.



Firms for whom “uncertainty about the future” is a major obstacle to investment likely to have 7.5% lower growth in fixed assets



Overall, reduction of corporate investment of 1.2% of GDP in 2022 due to uncertainty



Based on regression of fixed asset growth (ORBIS) on EIB Investment Survey responses and firm controls

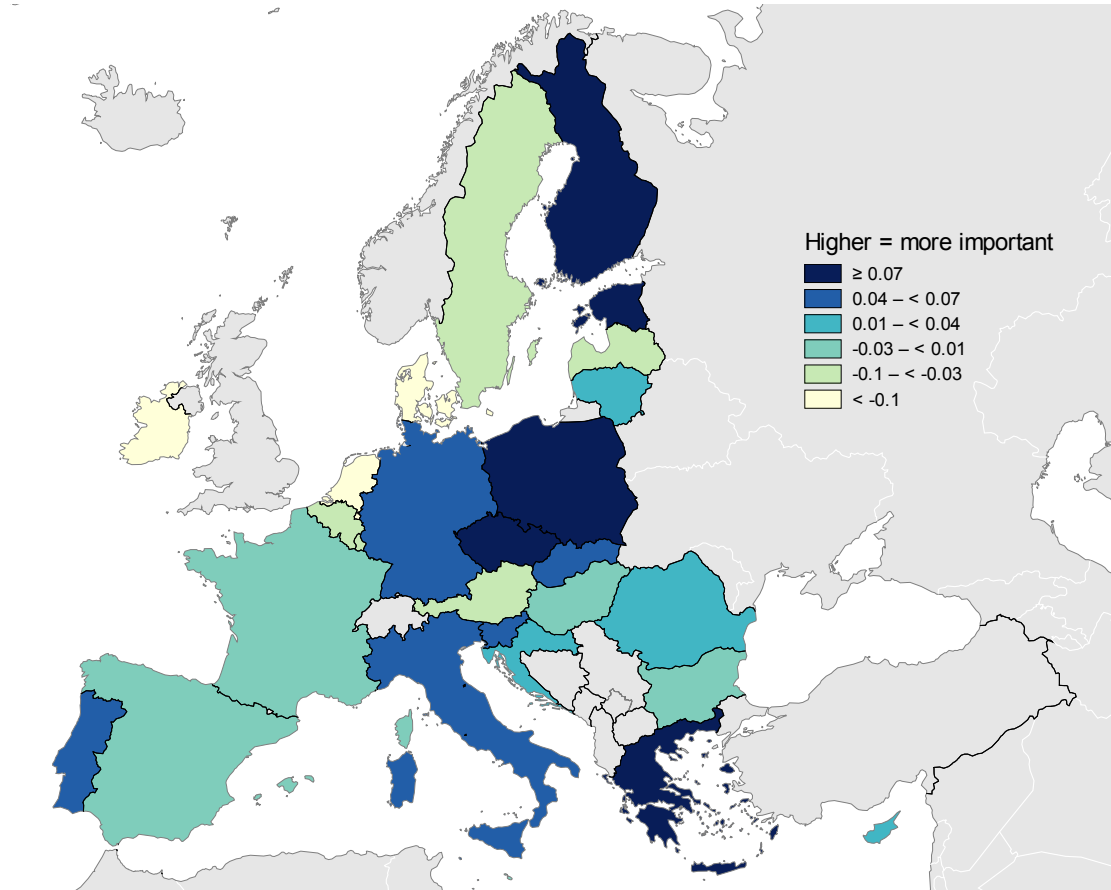


Impact on 2022 investment rate computed using 2022 survey results and firm controls

No apparent role of geopolitical uncertainty for EU corporate investment

Importance of unexplained uncertainty as an investment obstacle

Uncertainty excluding the effects of demand, energy, regulation, infrastructure, and finance



Residual of a firm-level regression of the importance of uncertainty as an investment obstacle in 2022 on its importance in 2021, and the importance of demand, energy, regulation, infrastructure, finance, and firm fixed effects. Administrative boundaries: © EuroGeographics © UN-FAO © Turkstat. Cartography: Eurostat – IMAGE, 06/2023.

Source: EIB based on EIB Investment Survey.



“Uncertainty about the future” can have many causes.

Strip answers of:

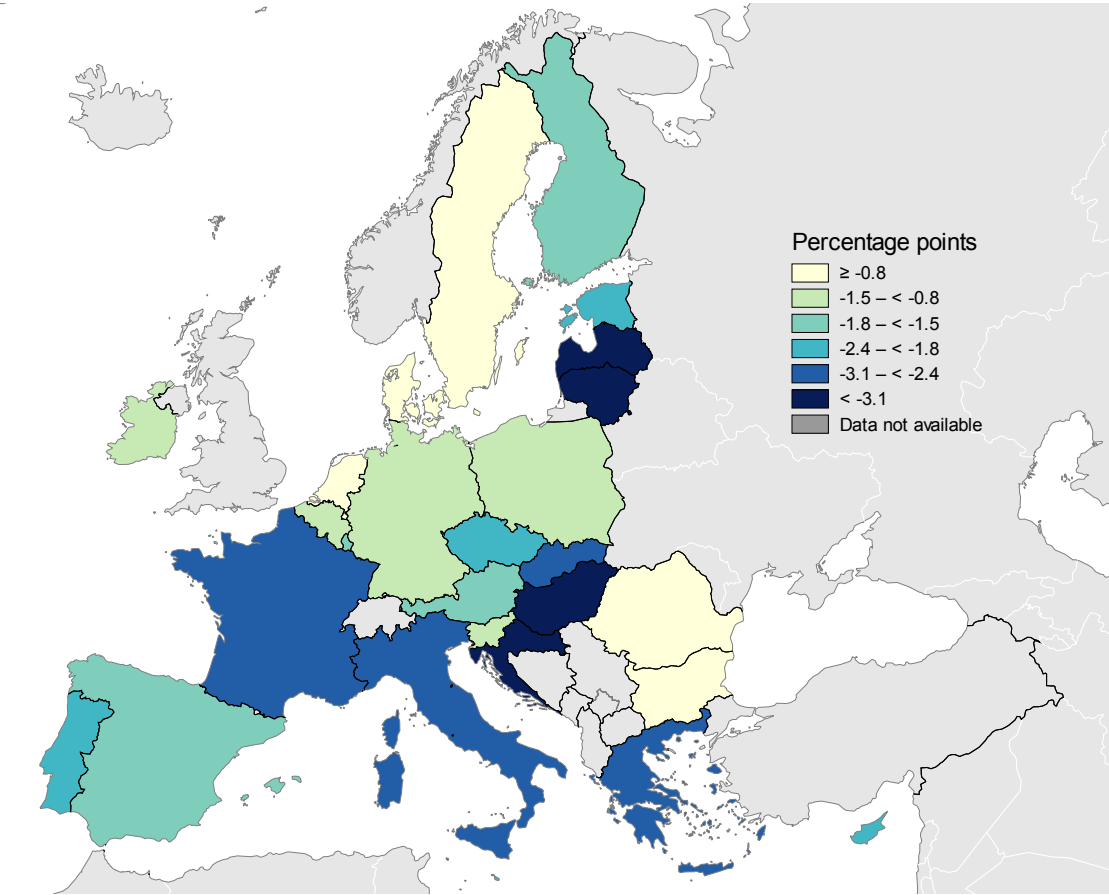
- other investment barriers: insufficient demand, lack of skills, high energy prices, regulation, infrastructure, and finance
- firm characteristics



“Residual uncertainty” might capture geopolitical risk. But no obvious geographical pattern.

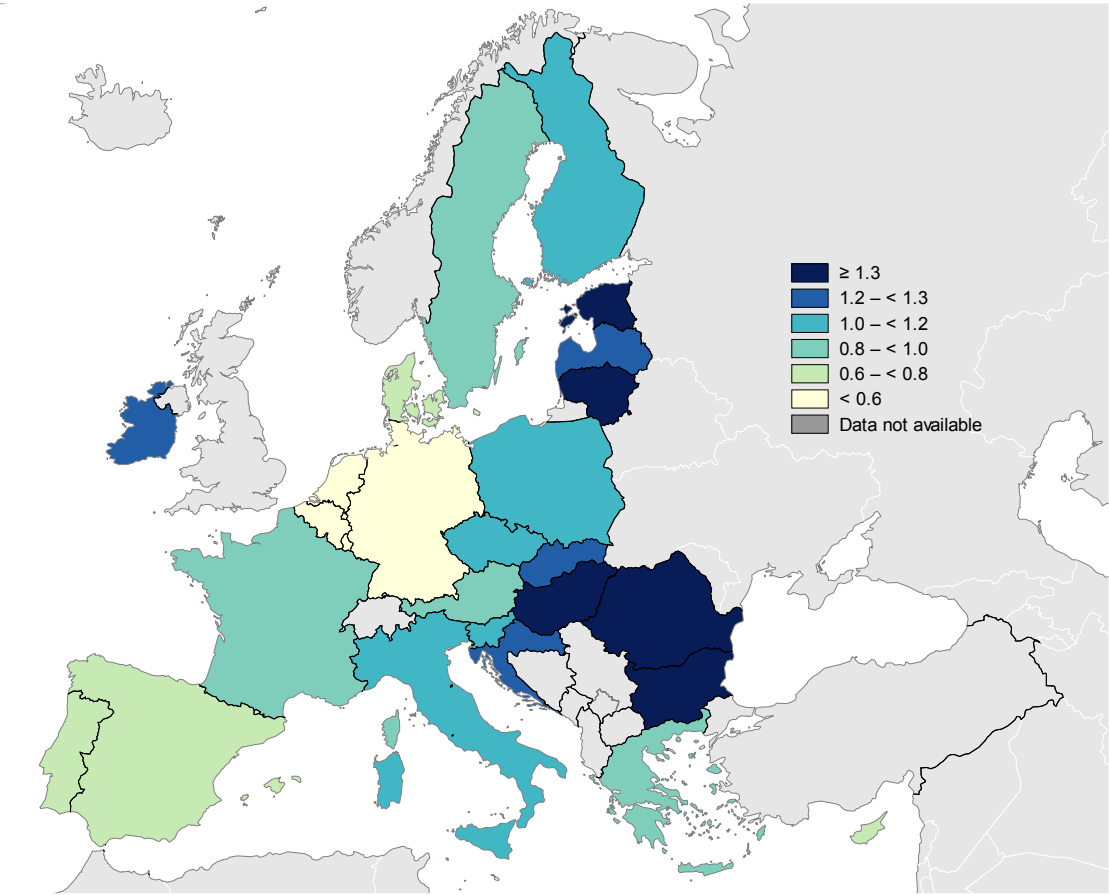
Energy shock with higher impact on rural households

Deterioration of the energy trade balance, 2022 vs 2021
% of GDP



Trade balance for mineral fuels, lubricants and related materials SITC 3. Administrative boundaries: © EuroGeographics © UN-FAO © Turkstat
Source: Eurostat. Cartography: Eurostat – IMAGE, 06/2023

Difference in the impact of energy on HICP inflation on rural areas vs cities
Percentage points, May 2023 vs Feb 2022

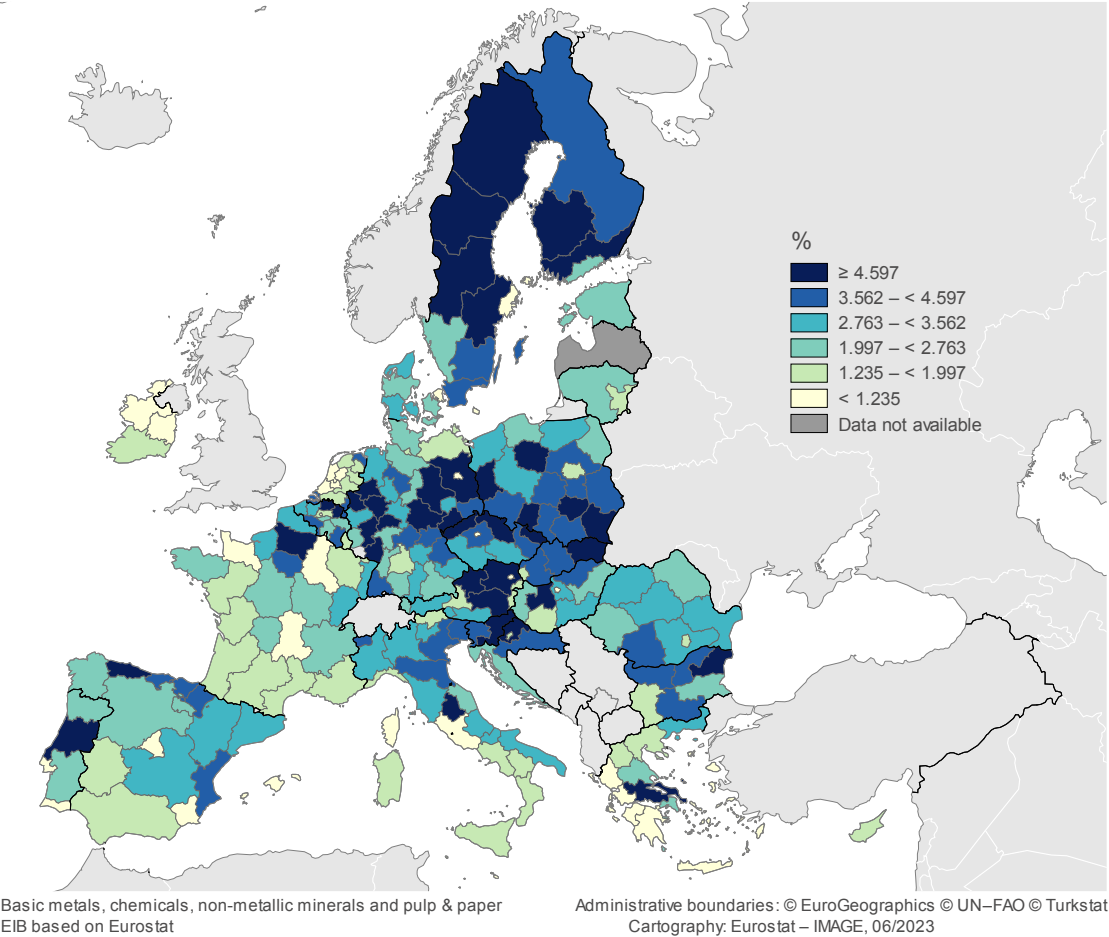


CPI components for food (CP01), transport (CP07), and energy use for households (CP045). Administrative boundaries: © EuroGeographics © UN-FAO © Turkstat
Source: EIB based on Eurostat. Cartography: Eurostat – IMAGE, 06/2023

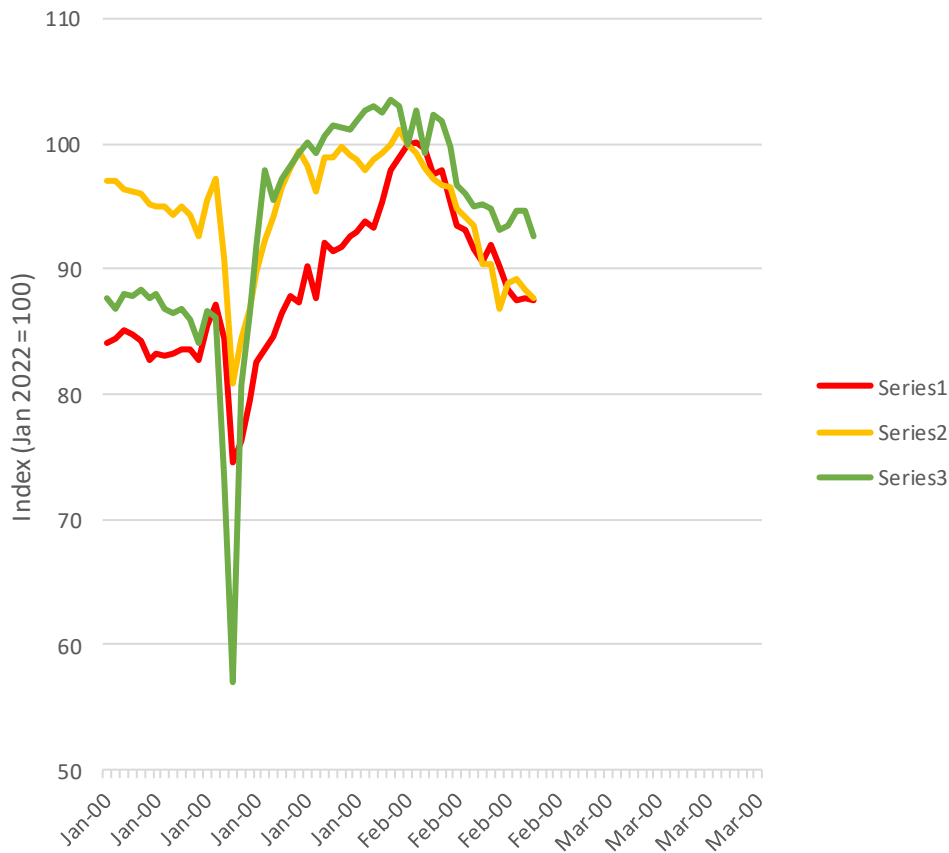
Additional pressure on energy-intensive manufacturing to transform

Employment in energy-intensive manufacturing

% of employment in private business, 2019



Energy-intensive manufacturing production

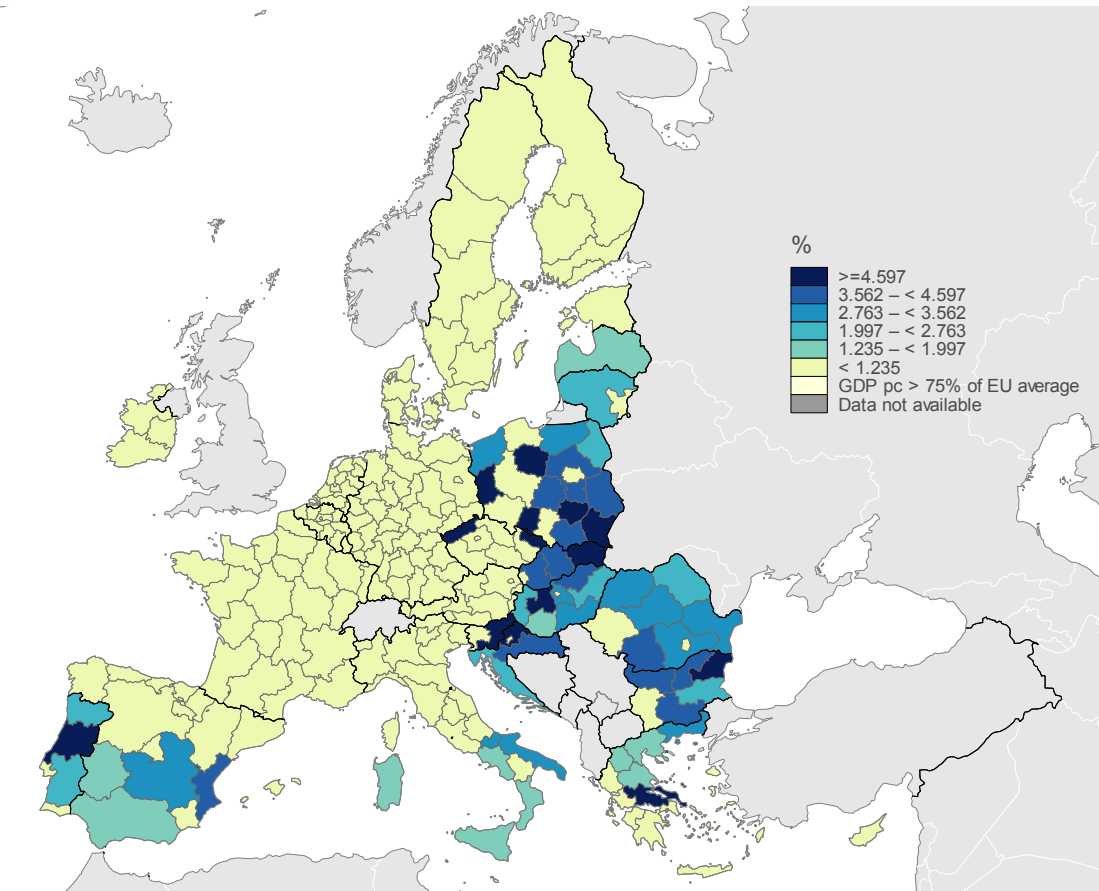


Volumes, sa. Basic metals, chemicals, non-metallic minerals and pulp & paper, aggregated using value added in 2021.

Pressure to transform also increases in poorer regions

Employment in energy-intensive manufacturing

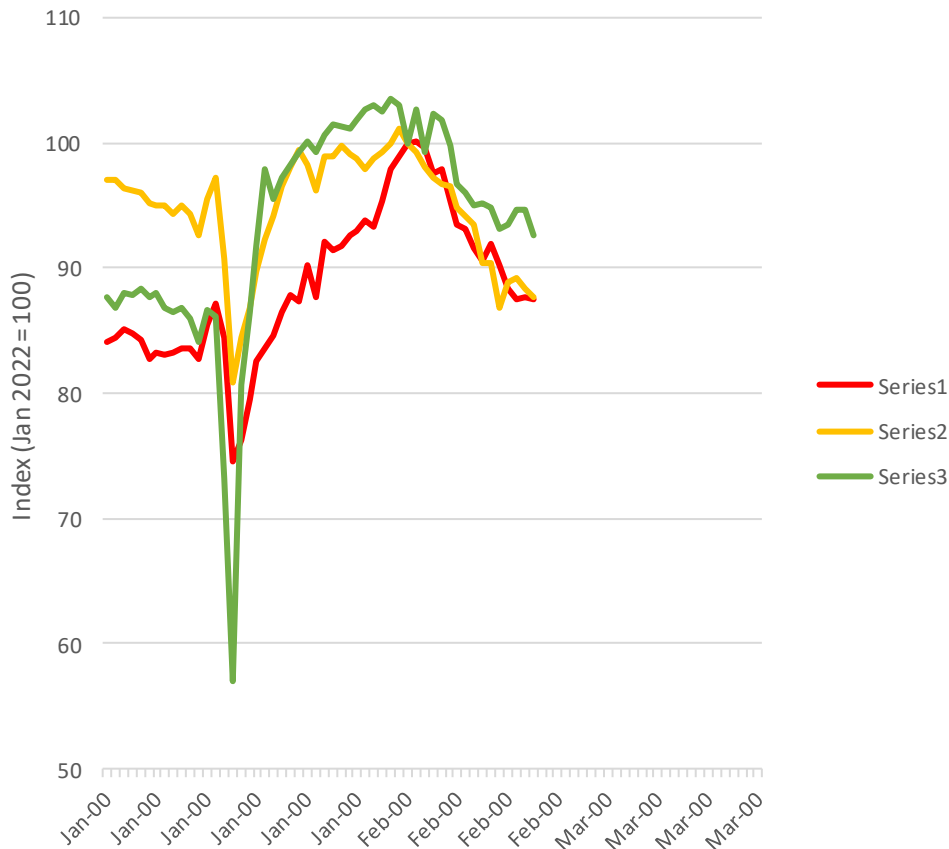
% of employment in private business, 2019, in regions with GDP pc < 75% of EU average



Basic metals, chemicals, non-metallic minerals and pulp & paper
Source: EIB based on Eurostat.

Administrative boundaries: © EuroGeographics © UN-FAO © Turkstat
Cartography: Eurostat – IMAGE, 06/2023

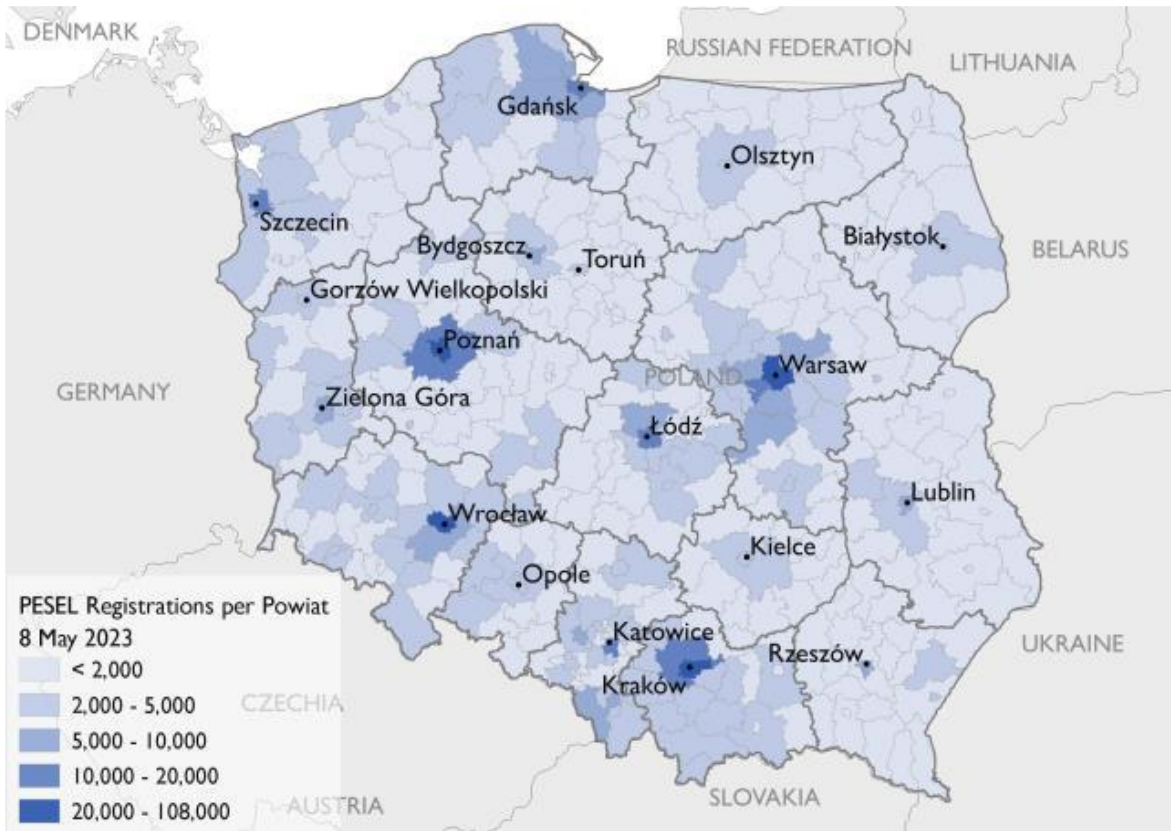
Energy-intensive manufacturing production



Volumes, sa. Basic metals, chemicals, non-metallic minerals and pulp & paper, aggregated using value added in 2021.

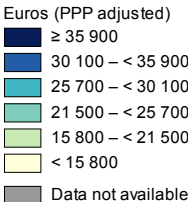
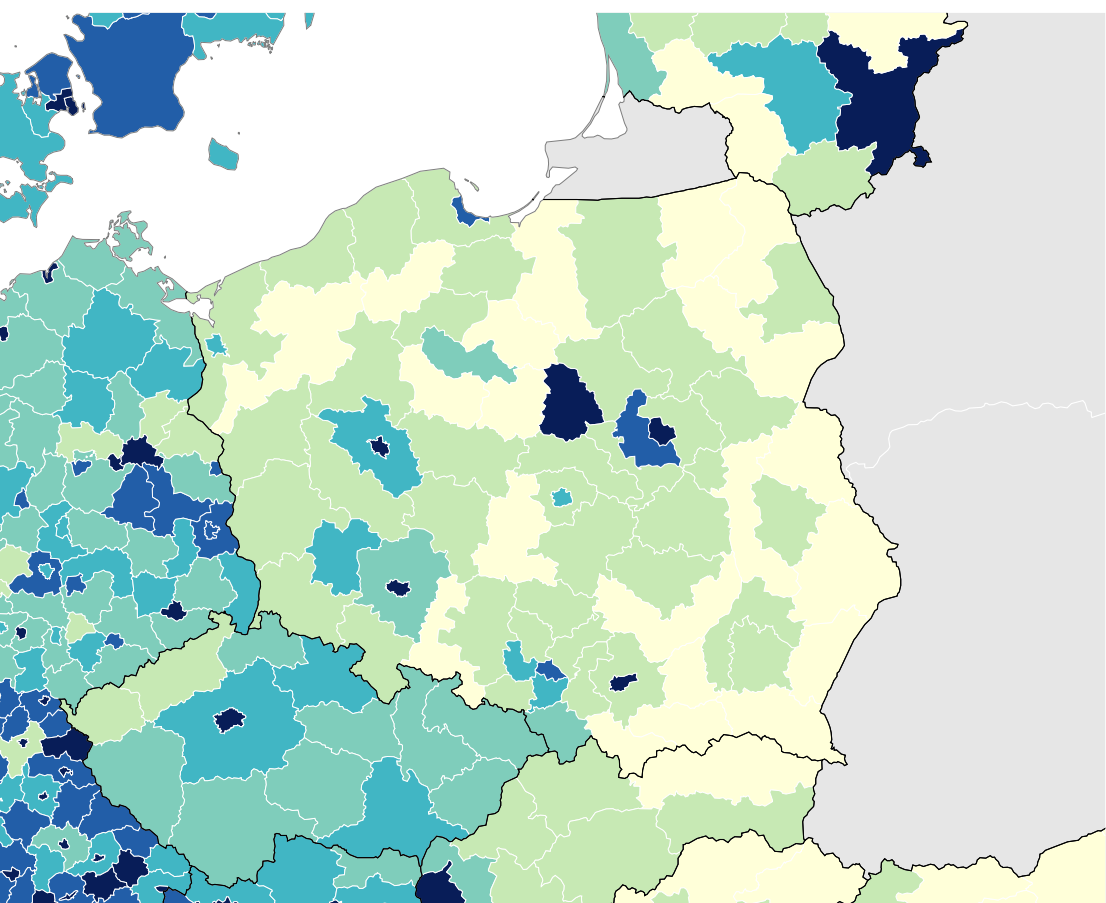
Refugees reduce shortage of skilled labour in richer, metropolitan areas...

Example: Registered refugees in Poland



Source: UN International Organisation for Migration (2023), *DTM Poland Snapshot*, June.

GDP per capita (purchasing power adjusted)



Source: Eurostat (data from 2021).

... but poor matching holds back contribution to local economy



Most refugees are women with high educational background

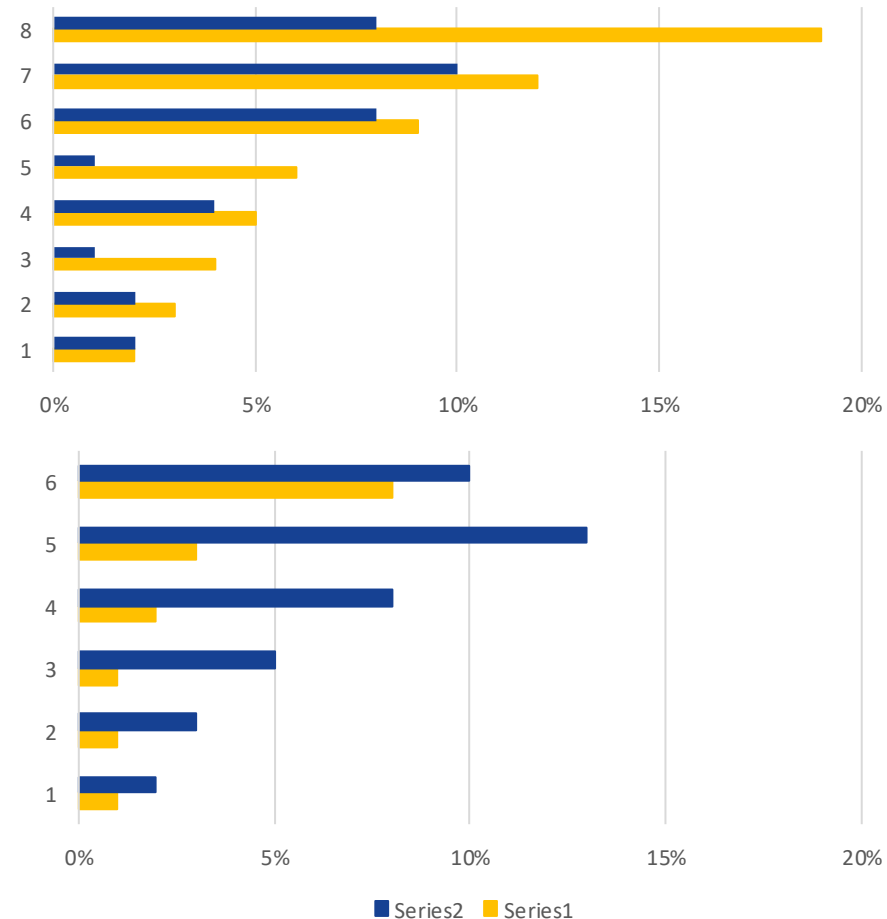


Language and childcare are main barriers (→ part-time work)



Agglomerations preferred but not always possible where refugees rely on shelters

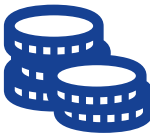
Example: Old and new employment for refugees in Slovakia



Whether refugees are perceived to pose challenges or offer opportunities is not linked to host region's wealth



Municipalities bordering Ukraine or Belarus report more often inadequate social infrastructure



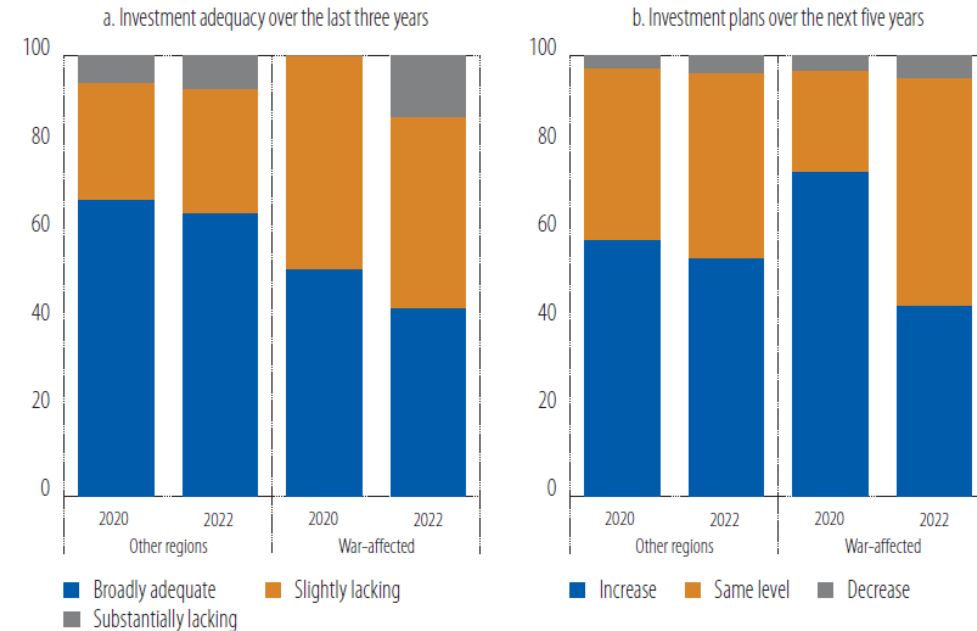
These concerns do not seem to translate into plans to increase investment in social infrastructure. Financial constraints could play a role.



No evidence that refugees are perceived to pose more of a challenge or are less of an opportunity in these regions.

Figure 16

Adequacy of municipalities' investment in social infrastructure (% of respondents), by survey wave and proximity to Ukraine/Belarus border



Source: EIB Municipality Survey 2020/2022 and EIB staff estimates.
Question: In the last three years, would you say that within your municipality or city the level of investment in infrastructure projects was broadly adequate, slightly lacking or substantially lacking in each of the following areas?

Source: EIB Municipality Survey 2020/2022 and EIB staff estimates.

Question: For each of the following areas, if you compare the average annual infrastructure investment you are planning for the next five years vs. the average annual infrastructure investment recorded in in the last three years, does your municipality or city expect to increase, decrease, or have around the same level of spending on infrastructure investment?



The impact of the Ukraine war on regional cohesion is mixed, but likely negative

- Uncertainty is a particularly important investment obstacle in poorer regions and is **depressing investment**, which is particularly needed in poorer regions.
- Higher energy prices put **additional pressure on energy-intensive regions to transform**, which poorer regions may find more difficult to deal with.
- The **consumption** bundle of households in rural regions, which are often poorer, became more expensive than that of households living in cities.
- Richer agglomerations in Eastern Europe arguably benefit most from the skills that refugees bring to their host countries.
- **Social infrastructure gaps** are larger in EU regions close to the conflict, which tend to be poorer, but there is no evidence that refugees are perceived to be more of a challenge or less of an opportunity in these regions than elsewhere.



EIB support to Ukraine and to Member States

European Committee of the Regions

Bianca Faragau, Policy Officer, 4 July 2023

EIB Ukraine Solidarity Package



- The EIB has disbursed **EUR 2.31bn for Ukraine** and **EUR 2.28bn for MS** dealing with influx of refugees
- **Reconstruction**: the EIB has adopted **EU4U Initiative** (Trust Fund) to collect support from allies
- **For inside the EU: Programme Loan for EU MS = EIB €4 bn facility** to help cities and regions address urgent investment needs for welcoming Ukrainians
- **EMBRACE Advisory Platform** for technical assistance and advisory to help local authorities

Ukraine Solidarity Package

A special EUR 4 billion Programme Loan to EU Member States

Purpose: increase the capacity of cities and regions to address urgent investment needs for welcoming Ukrainian people

Extended eligibility: construction, refurbishment, extension of infrastructure in EU MS (housing, health, education etc.)

Derogations:

- Up to 100% EIB contribution to eligible cost
- Up to 100% cumul EIB and EU funding
- Deadline: by end of 2023, to be implemented by Feb 2028

Examples:

- **EUR 2 bn to Poland intermediated by BGK**
- **EUR 85 m to Rzeszow for urban infrastructure programme**
- **EUR 200 m framework loan to Czechia**

Promoters: public authorities at national, regional/ local level, NPBs.



Extended eligibilities

Sector	Category of eligible expenditure	Examples
Housing, shelter and community integration	Long-term housing provision within a public policy framework	<ul style="list-style-type: none"> • Social and affordable housing and related social infrastructure • Upgrading, reconfiguration, conversion of appropriate buildings to adapt them to long-term housing use
	Temporary shelter and related facilities and services	<ul style="list-style-type: none"> • Reception centres and other short-term accommodation facilities • Short-term equipment needs eg. health equipment, sanitary supplies, teaching materials, essential household items • Water tankers and mobile water treatment plants • Transportation costs • Food supply chain management and equipment • Additional staff costs for provision of health care, childcare, training, education and psycho-social support, including where delivered by private companies and NGOs.
Infrastructure to address increased demand for related services	Long-term infrastructure	<ul style="list-style-type: none"> • Water supply and wastewater treatment • Solid waste management • Sustainable mobility infrastructure and vehicles to connect host communities to labour markets, services and essential infrastructure • Innovation enabling infrastructure such as broadband, data centres • Food supply chain infrastructure
Health infrastructure, medical supplies and services	Long-term health infrastructure	<ul style="list-style-type: none"> • New health infrastructures or adaptation and extension of existing facilities to cater for increased community demands
	Temporary medical supplies and services	<ul style="list-style-type: none"> • Temporary medical installations • Medicines, vaccines, diagnostic kits • Emergency medical vehicles • Medical supply chain equipment and infrastructure • ICT solutions

Extended eligibilities (II)

Sector	Category of eligible expenditure	Examples
Education	Schools and other education facilities	<ul style="list-style-type: none"> • New or expansion of existing schools to provide for increased demand
	Temporary education support	<ul style="list-style-type: none"> • Additional staff costs for specialised education services like languages and adult education
SME support and enterprise development	Long-term SME support	<ul style="list-style-type: none"> • Infrastructure and utilities for enterprise and commercial business sites associated with refugee integration
	Temporary support to employment	<ul style="list-style-type: none"> • Additional staff costs and training materials associated with access to employment
Climate action	Investment improving resilience	<ul style="list-style-type: none"> • Flood protection, heat protection, to protect refugee infrastructure or housing from extreme weather events

Dedicated advisory platform: EMBRACE

- **Advisory assistance to rapidly deploy investment projects, financial instruments and platforms** in the short, medium and long term.
- Support provided by:
 - ✓ the **EIB under the InvestEU Advisory Hub**;
 - ✓ **fi-compass** supporting managing authorities and other relevant stakeholders to use EU funding such as AMIF (Asylum, Migration and Integration Fund) via financial instruments to target integration of migrants;
 - ✓ **JASPERS** to support the deployment of EU funds allocated from sources such as the ESIF, including REACT-EU and CARE (Cohesion's Action for Refugees in Europe).

EMBRACE Advisory Platform – Solidarity Package for Ukraine



THANK YOU



European
Investment Bank