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EU needs permanent investment fund for climate and energy

- *Additional 1% of EU GDP in public investment required annually*
- *Fiscal rules prevent necessary investment*
- *Financing via EU bonds economically and politically sensible*

The advancing climate change and the energy crisis triggered by the Ukraine war demonstrate dramatically the need for a green transformation of our economic system. The challenges are enormous – especially in the transport and energy sectors. In a new study, the Vienna Institute for International Economic Studies (wiiw) looks at what is necessary if the EU is to achieve its ambitious climate goals and become geostrategically independent of fossil fuels.

The conclusion must be that the COVID-19 reconstruction fund NextGenerationEU, with the Recovery and Resilience Facility (RRF) as its main element, is far from adequate to the task: on the one hand, because the funds earmarked for climate investment are too small; and on the other hand, because the subsidies will start to be withdrawn from 2024. According to the study, additional public investment of at least 1% of EU economic output is needed annually. With an EU GDP of EUR 14.6 trillion at the last count (2021), that would yield EUR 146 billion more in public investment per year for the conversion of energy and transport systems.

Austria would also benefit enormously from an EU investment fund. As the European Investment Bank has noted, at 2.4% of economic output, the requirements for hitting the national climate and energy targets are particularly high in this country. An expansion of public investment via the EU fund would also attract further private investment in climate protection and green energy.

Insufficient scope for necessary investment

'Since even the planned reform of EU fiscal rules will not enable national governments to expand investment activity in this way, we propose the establishment of a permanent EU investment fund for climate and energy,' says Philipp Heimberger, economist at wiiw and co-author of the study. This fund should enable additional public investment of at least 1% of the EU's economic output per year and should be specifically earmarked for the purpose.

The investment fund, modelled on the coronavirus reconstruction programme NextGenerationEU, would be financed through common EU bonds. It is not the individual member states, but the EU as a whole that would be liable for this with the future contributions of the member states to the EU budget. *'This would have the advantage that the national budgets would be relieved, the financing costs in all EU member states would remain sustainable and it would be easier to comply with the EU fiscal rules,'* says Andreas Lichtenberger, economist at wiiw and co-author of the study. With an EU investment fund in place, countries like Austria and Germany could also finance additional green projects much more easily, without violating Brussels' budgetary rules.

Combating climate change is more effective at the EU level

In addition, a joint EU investment offensive would have economic and political advantages over nations ‘going it alone’. For one thing, it would be much easier and more effective to coordinate meaningful investment and to secure the necessary financing at the EU level than at the national level. *‘A joint credit-financed effort at the European level would also reduce the pressure for national tax increases,’* argues Philipp Heimberger.

In terms of industrial policy, a concerted EU investment offensive in the field of climate and energy would also have very positive transnational effects on the development and commercialisation of new green technologies. *‘This could strengthen Europe, which is visibly falling behind in the “green arms race” between the US and China, in the battle for leadership in environmentally friendly technologies,’* suggests Andreas Lichtenberger.

Geopolitical capacity to act

Tackling the climate and energy crisis is also essential to ensuring a politically united and geopolitically capable EU. The study identifies a solidarity-based approach to European investment policy as an essential prerequisite for this. For example, in the Eastern European EU states – which suffer particularly from their heavy dependence on fossil fuels from Russia – the necessary investment in climate and energy must come sooner, in order to bolster the political unity of the Union. And the same goes for the Mediterranean countries, which are particularly affected by climate change.

‘An EU investment fund for climate and energy would be an effective, cost-efficient and politically feasible option to push additional green investment beyond existing programmes, while complying with EU fiscal rules and also strengthening the political cohesion of the Union,’ maintains Philipp Heimberger.

The study is available for download here.

About the Vienna Institute for International Economic Studies (wiiw)

For 50 years, wiiw has been an economic think tank that produces economic analyses and forecasts for currently 23 countries in Central, Eastern and South-Eastern Europe. In addition, wiiw conducts research in the areas of macroeconomics, trade, competitiveness, investment, the European integration process, regional development, labour markets, migration and income distribution. www.wiiw.ac.at

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