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Croatia

EIBIS 2016

EIB Group Survey on Investment and Investment Finance 2016

Country Overview

EIB Group Survey on Investment and Investment Finance Country Overview: Croatia

About the EIB Investment Survey (EIBIS)

The EIB Group Survey on Investment and Investment Finance is a unique, EU-wide, annual survey of 12,500 firms. It collects data on firm characteristics and performance, past investment activities and future plans, sources of finance, financing issues and other challenges that businesses face. Using a stratified sampling methodology, EIBIS is representative across all 28 member States of the EU, as well as for firm size classes (micro to large) and 4 main sectors. It is designed to build a panel of observations to support time series analysis, observations that can also be linked to firm balance sheet and profit and loss data. EIBIS has been developed and is managed by the Economics Department of the EIB, with support to development and implementation by Ipsos MORI. For more information see: http://www.eib.org/eibis.

About this publication

This Country Overview is one of a series covering each of the 28 EU Member States, plus an EU-wide overview. These are intended to provide an accessible snapshot of the data. For the purpose of these publications, data is weighted by value-added to better reflect the contribution of different firms to economic output. Contact: eibis@eib.org.

About the Economics Department of the EIB

The mission of the EIB Economics Department is to provide economic analyses and studies to support the Bank in its operations and in the definition of its positioning, strategy and policy. The Department, a team of 30 economists, is headed by Debora Revoltella, Director of Economics.

Main contributors to this publication

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Disclaimer

The views expressed in this publication are those of the authors and do not necessarily reflect the position of the EIB.

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Ipsos Public Affairs works closely with national governments, local public services and the not-for-profit sector, as well as international and supranational organizations. Its c.200 research staff in London and Brussels focus on public service and policy issues. Each has expertise in a particular part of the public sector, ensuring we have a detailed understanding of specific sectors and policy challenges. This, combined with our methodological and communications expertise, helps ensure that our research makes a difference for decision makers and communities.

Ipsos Public Affairs

EIBIS 2016 – COUNTRY OVERVIEW

Croatia

The annual EIB Group Survey on Investment and Investment Finance (EIBIS) is an EU-wide survey of 12 500 firms that gathers quantitative information on investment activities by both SMEs and larger corporates, their financing requirements and the difficulties they face.

As the EU bank, the EIB Group responds to the need to accelerate investment to strengthen job creation and long-term competitiveness and sustainability across all 28 EU member States. EIBIS helps the EIB to contribute to a policy response that properly addresses the needs of businesses, promoting investment.

This country overview presents selected findings based on telephone interviews with 487 firms in Croatia in 2016 (July-October). Note: The results are weighted by value-added, reflecting firms' contribution to the economy.

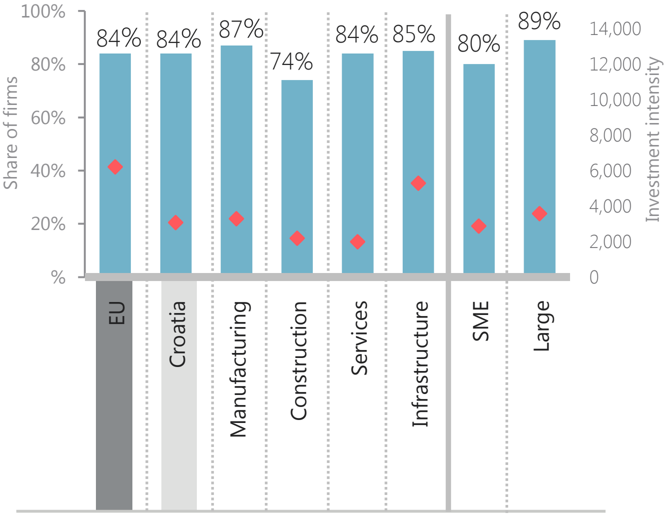
Key results

Investment outlook:	**39% of firms expect their investment to increase in the current year.** Investment activity in the previous and the current year has been higher than CESEE average and in line with the EU average. On net balance, all sectors except manufacturing plan to expand investment in the current financial year. Investment intensity is below EU average.
Investment activity:	**38% of total investment in the last year was for capacity expansion.** Croatia ranks among the top in the EU in terms of share of firms planning to invest in capacity expansion over the next three years, surpassing also the CESEE average.
Investment gap:	**22% of firms report that they invested too little over the last three years, higher than EU average.** The average share of state-of-the-art machinery and equipment of Croatian firms is below EU average. The average share of commercial building stock meeting high energy efficiency standards is in line with the EU average.
Investment barriers:	**The political and regulatory climate is seen as the main short-term barrier.** On balance, nearly half (49%) of the firms that invested too little cite political and regulatory climate as the major obstacle to investment – versus the EU average of 20%. Uncertainty about the future, business and labour market regulation, and the availability of staff with the right skills are considered as major obstacles in the long-term.
External finance:	**13% of firms are finance constrained**: the proportion of firms either dissatisfied with the amount of finance they received, had their application rejected, thought borrowing costs would be too high or were discouraged from applying, significantly higher than the EU average.
Firm performance:	**Firms in Croatia have lower productivity than the EU average.** The pace of job creation over the last three years has been higher than the EU average.

INVESTMENT DYNAMICS

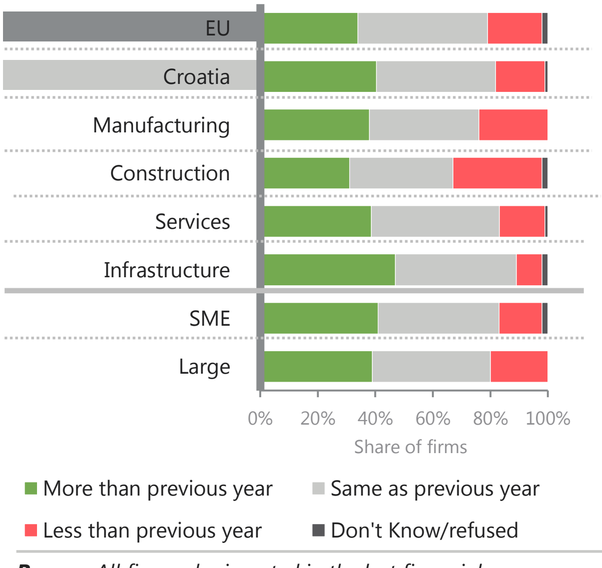
- The same share of firms in Croatia invested in the last financial year, in line with the EU average.
- The intensity of investment (investment per employee) in Croatia is highest in infrastructure compared to other industries but it is below the EU average.

Investment activity in last financial year



Base: *All firms (excluding don't know/refused responses)*
**The blue bars indicate the proportion of firms who have invested in the last financial year.*
A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities.
Investment intensity is the median investment per employee of investing firms.

Investment activity in last financial year compared to previous

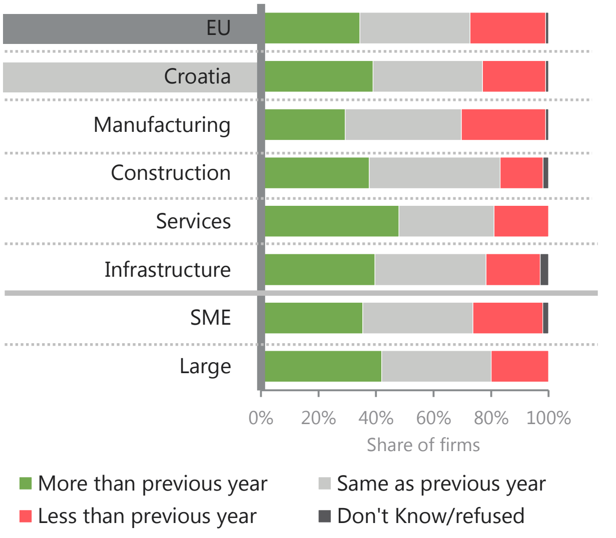


Base: *All firms who invested in the last financial year*
Q. Overall was this more, less or about the same amount of investment as in the previous year?

- Compared to 2014, 40% of firms in Croatia increased their investment activities in 2015, above the EU average.
- Construction companies were more likely than others to have reduced investment.
- Looking at the positive net balance, 23% of Croatian firms increased their investment in the last financial year compared to the previous year, versus 15% for the EU as a whole.

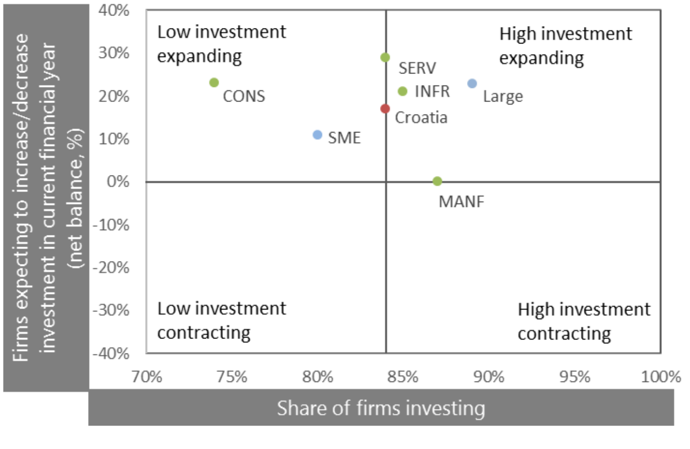
- Overall 39% of firms in Croatia expect their investment to increase in the current financial year compared to the previous one, in line with the average for the EU.
- Looking at net positive balance, 17% of firms plan to increase investment in the current financial year, versus 8% for the EU as a whole.

Expected investment in current financial year compared to last one



Base: *All firms*
Data is derived from two questions: firms who had invested in the last financial year were asked if they expect to invest more, around the same amount or less than last year; firms who had not invested in the last financial year were asked if they had already invested, or expect to invest in the current year

Investment cycle



Base: *All firms*
Share of firms investing shows the percentage of firms with investment per employee greater than EUR 500.

- On net balance, all sectors except manufacturing plan to increase investment in the current financial year. 29% of firms in manufacturing plan to invest less than in the previous year, which is consistent with their high and contracting investment position in the investment cycle.

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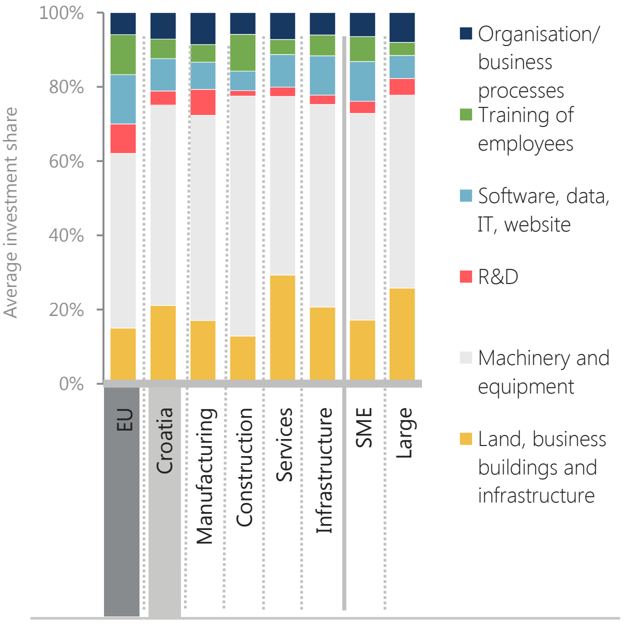
INVESTMENT ACTIVITY

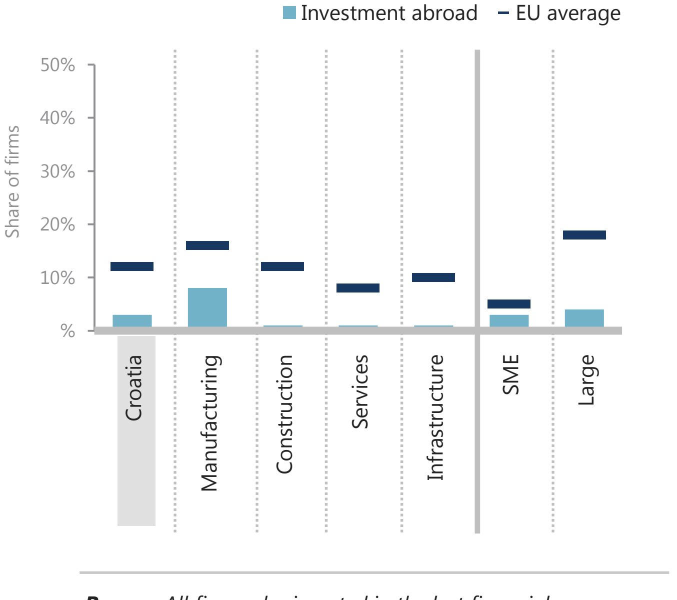
- Over half (54%) of firms in Croatia invested in machinery and equipment, and 21% in land, business buildings and infrastructure, a higher proportion than the EU as a whole.
- On the other hand, investment in R&D, software, data, IT, website, and training of employees is on average lagging behind the EU average.
- Construction companies are more likely than average to focus their investment on machinery and equipment, and training.

Investment areas



Base: *All firms who have invested in the last financial year (excluding don't know/refused responses)*
Q. In the last financial year, how much did your business invest in each of the following with the intention of maintaining or increasing your company's future earnings?

Investment abroad



Base: *All firms who invested in the last financial year*
Q. In the last financial year, has your company invested in another country?

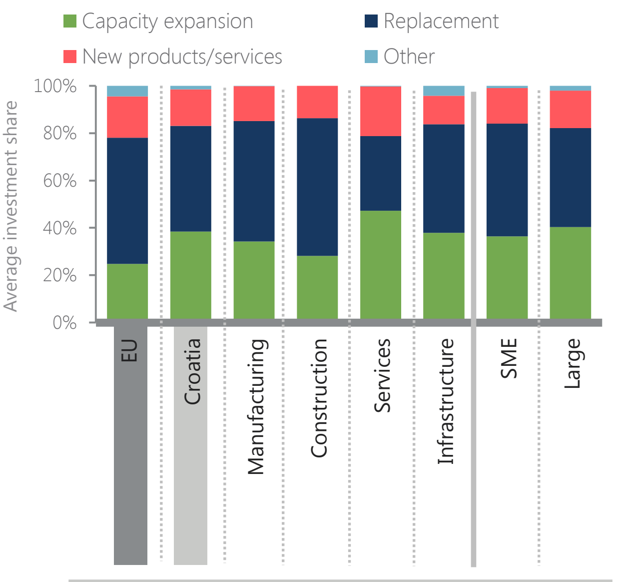
- Overall 3% of firms in Croatia invested in another country in the last financial year, below EU average.
- Manufacturing firms are relatively more likely to invest abroad than firms in other sectors.

▪ In Croatia 45% of investment last financial year was used to replace existing buildings, machinery, equipment and IT, compared to 53% across the EU.

▪ The construction sector invested a higher proportion in replacement than other sectors.

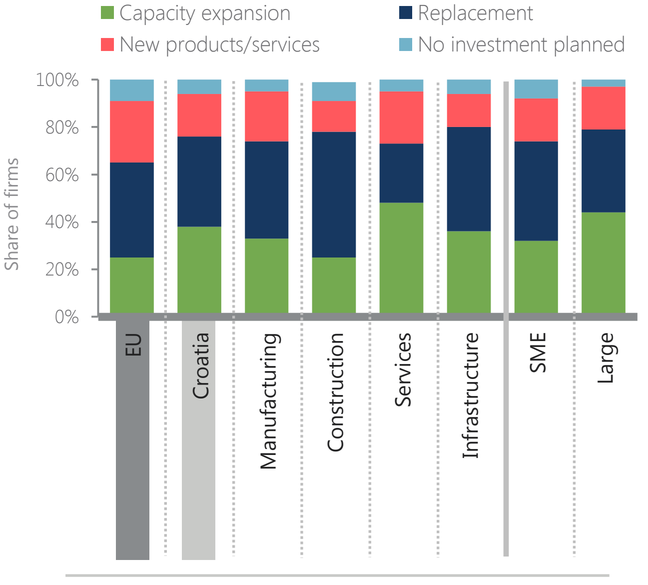
▪ Croatian firms invested 38% for capacity expansion, one of the largest shares in EU, which might reflect on the under-investment during the deep and long recession in Croatia, and pickup in demand.

Purpose of investment in last financial year



Base: *All firms who invested in the last financial year (excluding don't know/refused responses)*
Q. What proportion of total investment was for (a) replacing existing buildings, machinery, equipment, IT (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

Future investment priorities



Base: *All firms (excluding don't know/refused responses)*

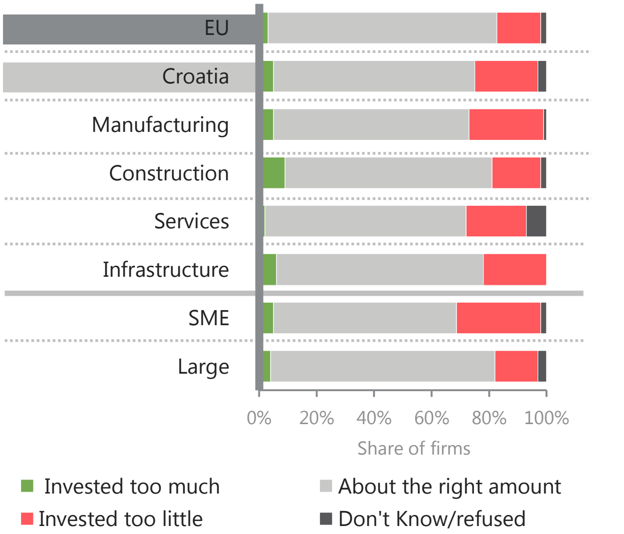
Q. Looking ahead to the next 3 years, which of the following is your investment priority (a) replacing existing buildings, machinery, equipment, IT (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

▪ With 38% of Croatian firms planning to invest in capacity expansion over the next three years, Croatia ranks at the top in the EU in terms of capacity expansion plans. The construction sector has the largest share of firms with replacement as a top priority going forward.

INVESTMENT NEEDS

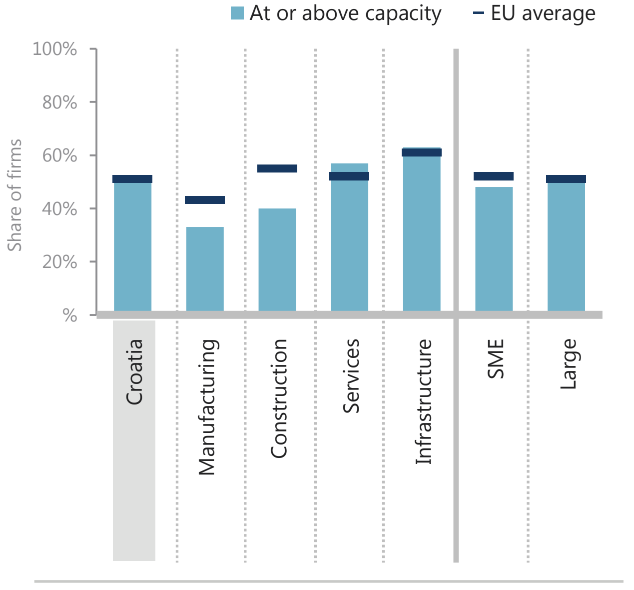
- Overall 22% of firms in Croatia believe they invested too little over the last three years, well above the EU average of 15%.
- SMEs are more likely than large firms to report investing too little.

Perceived investment gap



Base: *All firms (excluding 'Company didn't exist three years ago' responses)*
Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount to ensure the success of your business going forward?

Share of firms at or above full capacity

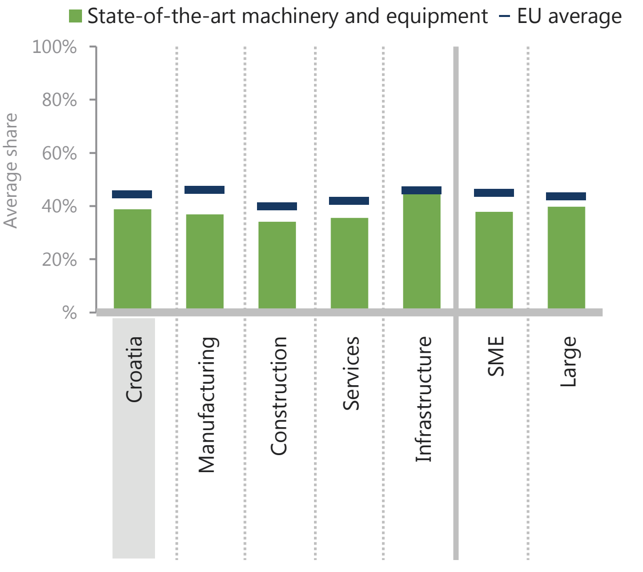


Base: *All firms (data not shown for those operating somewhat or substantially below full capacity)*
Full capacity is the maximum capacity attainable under normal conditions e.g., company's general practices regarding the utilization of machines and equipment, overtime, work shifts, holidays etc.
Q. In the last financial year, was your company operating above or at maximum capacity attainable under normal circumstances?

- Overall, about the same share of firms in Croatia as the EU average reported operating at or above maximum capacity in the last financial year.
- However, infrastructure firms are more likely than others to be operating at full capacity.

On average, firms in Croatia consider a smaller share of their machinery and equipment to be state-of-the-art, compared to the EU average.

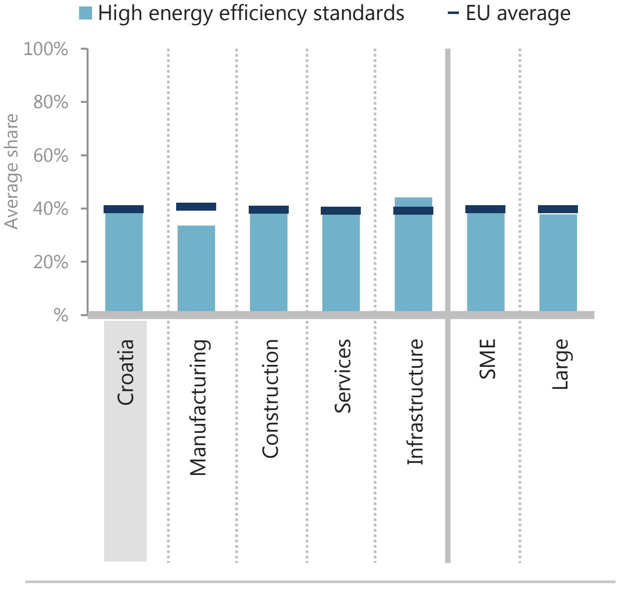
Average share of state-of-the-art machinery and equipment



Base: *All firms*

Q. What proportion, if any, of your machinery and equipment, including ICT, would you say is state-of-the-art?

Average share of building stock meeting high energy efficiency standards



Base: *All firms*

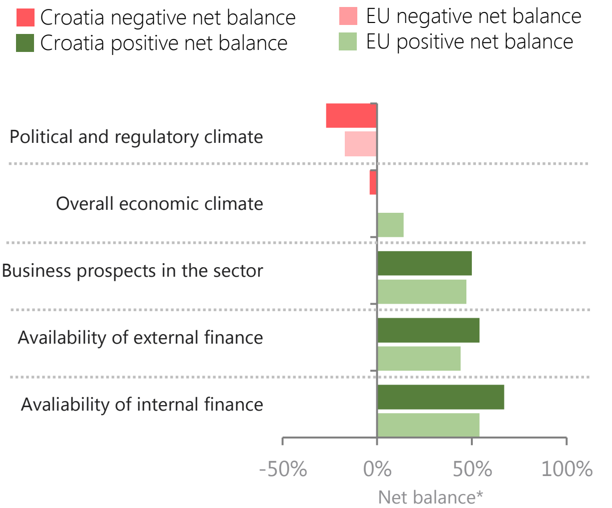
Q. What proportion, if any, of your commercial building stock satisfies high or highest energy efficiency standards?

- On average firms assess the level of their machinery and equipment to be of high energy efficiency standards similar to the EU as a whole (but above CESEE average).

INVESTMENT CONSTRAINTS

- On balance, political, regulatory, and overall economic climate are cited by more firms in Croatia than the EU average as the main barrier to implementing planned investment in the current financial year.
- The availability of internal and external finance are seen as the most positive factors in enabling investment in Croatia, slightly above EU average. This corresponds to recent easing of credit standards by Croatian banks.

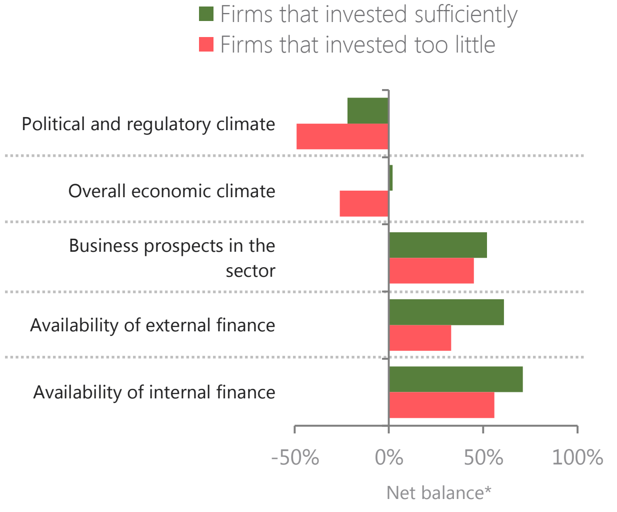
Short term influences on investment



Base: *All firms who have planned to invest in the current financial year*

Q. How do each of the following affect your ability to carry out your planned investment. Does it affect it positively or negatively, or make no difference at all?
**Net balance is the share of firms seeing a positive effect minus the share of firms seeing a negative effect*

Short term influences by investment performance



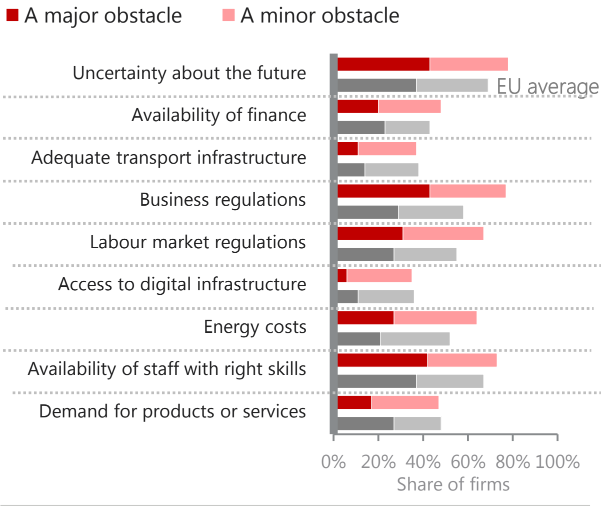
Base: *All firms who have planned to invest in the current financial year and who invested too much, about the right amount or too little in the last financial year (excluding don't know/refused/company didn't exist three years ago responses)*

Q. How do each of the following affect your ability to carry out your planned investment. Does it affect it positively or negatively, or make no difference at all?
** Net balance is the share of firms seeing a positive effect minus the share of firms seeing a negative effect*

- Firms that invested too little are more likely than those who invested sufficiently to consider the political and regulatory climate as well as the overall economic climate as the two major barriers to investment.

- Firms in Croatia consider the future uncertainty, business and labour market regulations, high energy costs and availability of staff with the right skills as the main structural barriers to investment over the longer term (all above EU averages).
- In particular the labour market regulation, business regulation and energy costs rank among the long-standing structural bottlenecks in Croatia.

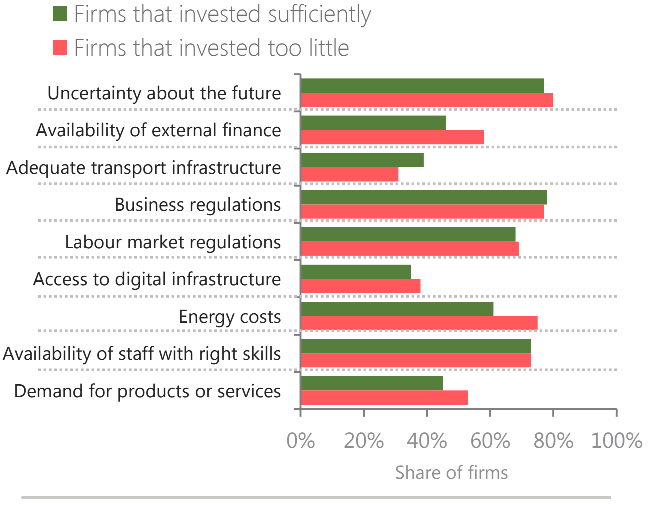
Long term barriers to investment



Base: *All firms (data not shown for those who said not an obstacle at all/don't know/refused)*

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

Long term barriers by investment performance



Base: *All firms who invested too much, about the right amount or too little in the last financial year (excluding don't know/refused/company didn't exist three years ago responses), data shown for firms who said each was a major or minor obstacle*

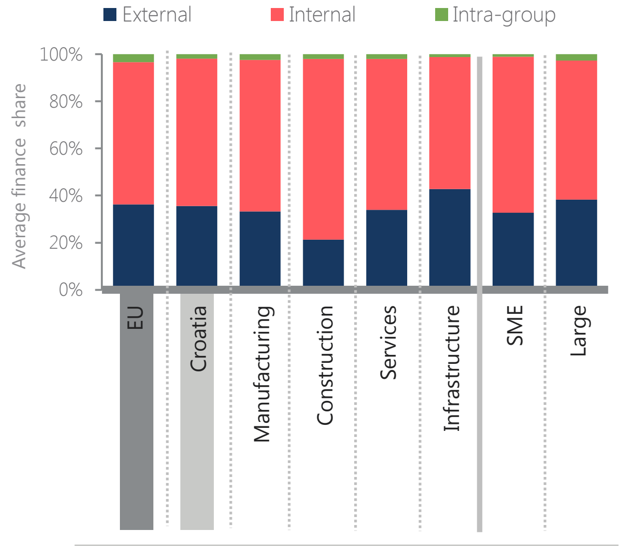
Q. Thinking about your investment activities in Croatia, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

- For firms that invested too little in the last financial year, the future uncertainty, labour market regulations and energy costs were the main obstacles to investment.
- On balance, the factors contributing most to the difference between firms that invested too little and those that invested enough were the availability of external finance, energy costs and demand for products and services.

INVESTMENT FINANCE

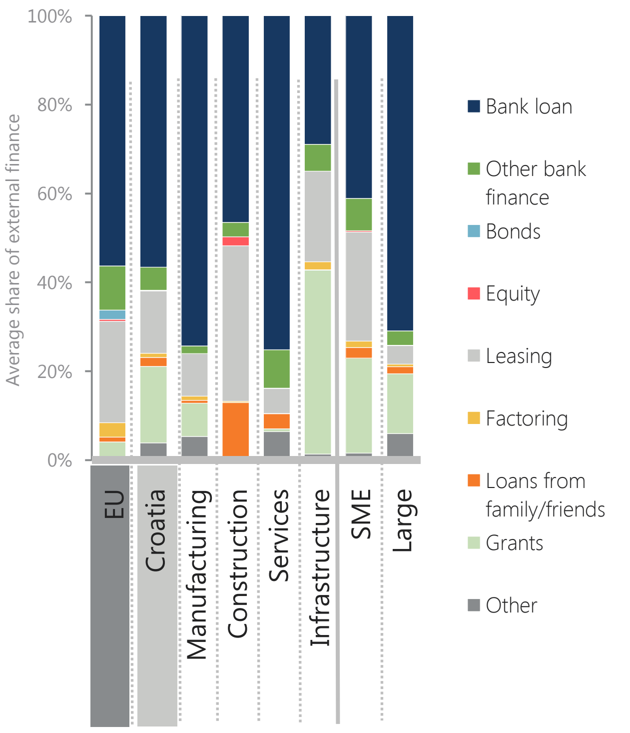
- Croatian firms rely to a large extent on internal funds to finance their investments, similarly to the EU as a whole. Internal funds are the most common in construction sector. Bank loans are the most common source of external finance, particularly for manufacturing firms.
- Of the firms that used external finance, 19% were dissatisfied with the collateral requirements and 17% with the cost of finance.

Source of investment finance



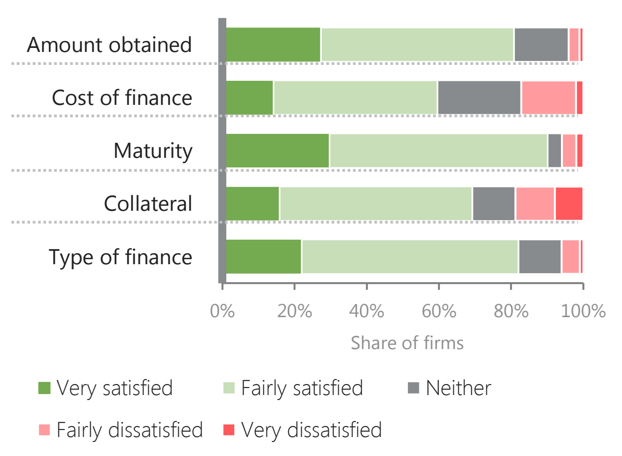
Base: *All firms who invested in the last financial year (excluding don't know/refused responses)*
Q. Approximately what proportion of your investment in the last financial year was financed by each of the following?

Type of external finance used for investment activities



Base: *All firms who used external finance in the last financial year (excluding don't know/refused responses)*
Q. Approximately what proportion of your external finance does each of the following represent?

Satisfaction with external finance

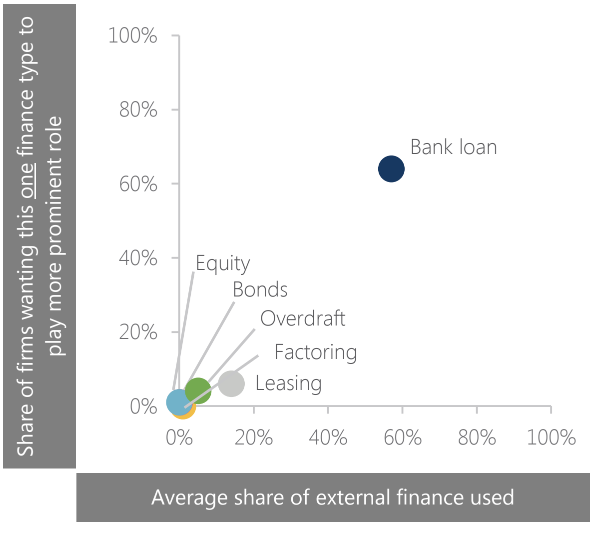


Base: *All firms who used external finance in the last financial year (excluding don't know/refused responses)*

Q. How satisfied or dissatisfied are you with ...?

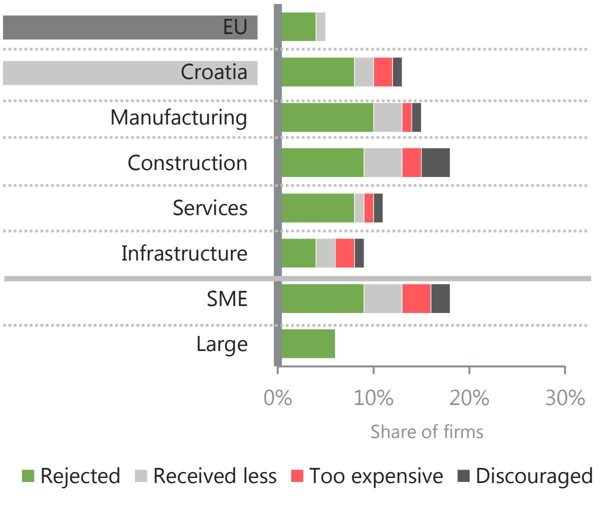
- Firms in Croatia want more of the types of external finance they are already using, namely bank loans, which is in line with the EU average.

Types of finance used versus the one type of finance firms want to use more



Base: *All firms who used external finance in the last financial year (excluding don't know/refused responses)*
Data is derived from two questions: firms were first asked about the types of external finance used in the last financial year and then which one type of external finance they would want to have a more prominent role over the next 3 years

Share of finance constrained firms

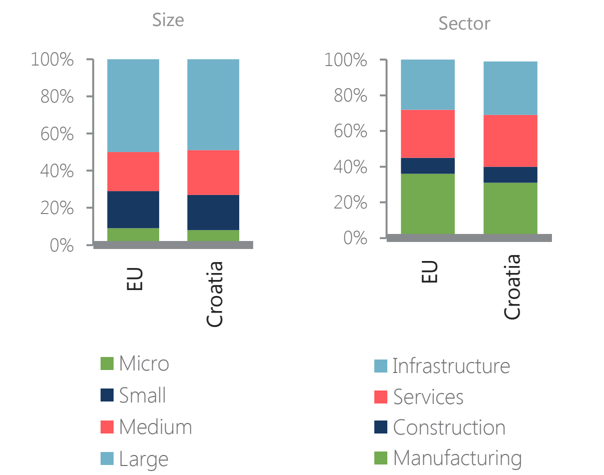


Base: *All firms*
Finance constrained firms include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive)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

- Overall 13% of firms in Croatia can be considered finance constrained – much more than in the EU as a whole, which reflects on the continued deleveraging in the economy.
- Croatia ranks among the highest in EU in terms of the share of firms that regarded external finance as too expensive.

PROFILE OF FIRMS

Contribution to Value-Added

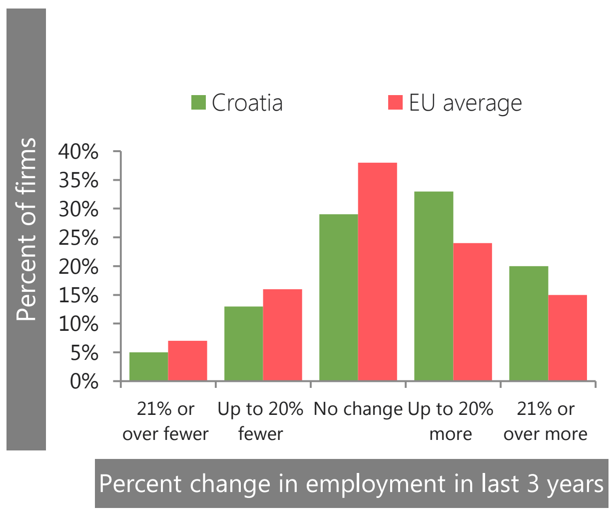


Base: *All firms*

The charts reflects the relative contribution to value-added by firms belonging to a particular size class / sector in the population of firms considered. That is, all firms with 5 or more employees active in the sectors covered by the survey. Micro: 5-9 employees; Small: 10-49; Medium: 50-249; Large: 250+.

- The size and sector distribution of firms in Croatia in terms of their contribution to value-added is similar to the EU average.
- The pace of job creation in Croatia over the last three years was higher than the EU average.
- Firms in Croatia have significantly lower productivity compared to the EU average, with a large share of firms in the bottom EU productivity quantile. Services sector has relatively the largest share of firms falling into the highest (sector-specific) productivity class.

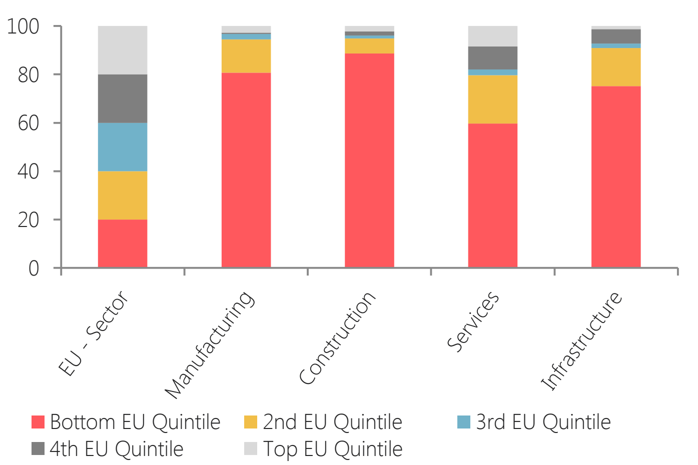
Employment dynamics in last 3 years



Base: *All firms (excluding don't know, refused and missing responses)*

Q. Thinking about the number of people employed by your company, by how much has it changed in the last 3 years?

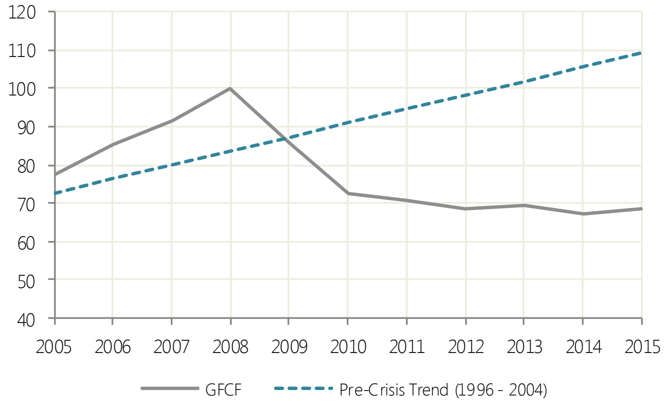
Distribution of firms by productivity class



Share of firms by productivity class (Total Factor Productivity). Productivity classes are sector specific; they are defined on the basis of the entire EU sample (for a particular sector).

MACROECONOMIC INVESTMENT CONTEXT

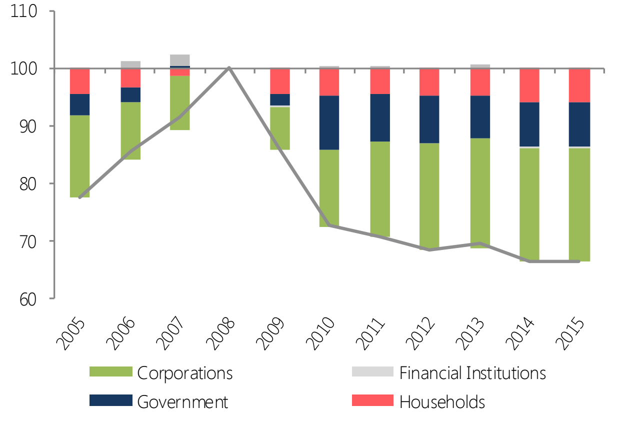
Investment Dynamics over time



The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); against the series 'pre-crisis trend. The data has been index to equal 100 in 2008. Source: Eurostat .

- The Croatian economy is recovering from a deep and long recession, following a pre-crisis credit-driven consumption and investment boom.
- As a result of the recession, the resulting economic adjustment, and of the private sector deleveraging, there is a substantial investment gap with respect to the level based on the pre-crisis trend growth rate.

Investment Dynamics by Institutional Sector



The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); by institutional sector. The data has been indexed to equal 100 in 2008. Source: Eurostat .

- Corporate sector investment remains the main drag, as a result of the ongoing deleveraging. Sizeable public sector investment cuts after 2010 have also contributed to the inferior investment dynamics.
- Investment in Croatia is still lagging behind its regional peers and EU average vis-à-vis the pre-crisis levels. The pickup in investment level has started later than the EU average, and from a low base, promising a potential for a faster catching-up. The recent rebound in public sector projects, infrastructure investment, and better EU fund absorption are encouraging signs.

EIBIS 2016 – COUNTRY TECHNICAL DETAILS

The final data are based on a sample, rather than the entire population of firms in Croatia, so the percentage results are subject to sampling tolerances. These vary with the size of the sample and the percentage figure concerned.

Approximate sampling tolerances applicable to percentages at or near these levels

	EU	Croatia	Manu-facturing	Cons-truction	Services	Infras-tructure	SME	Large	EU vs Country	Manufacturing vs Construction	SME vs Large
	(12483)	(487)	(133)	(117)	(116)	(121)	(417)	(70)	(12483 vs 487)	(133 vs 117)	(417 vs 70)
10% or 90%	1.0%	3.3%	5.7%	6.1%	6.7%	6.1%	2.7%	6.1%	3.4%	8.3%	6.6%
30% or 70%	1.5%	5.0%	8.7%	9.3%	10.2%	9.4%	4.1%	9.3%	5.2%	12.7%	10.1%
50%	1.7%	5.5%	9.5%	10.2%	11.1%	10.2%	4.5%	10.1%	5.7%	13.9%	11.0%

Glossary

Investment	A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities with the intention of maintaining or increasing the company's future earnings
Investment cycle	Based on the expected investment in current financial year compared to last one, and the proportion of firms with a share of investment greater than EUR 500 per employee
Productivity	Total factor productivity is a measure of how efficiently a firm is converting inputs (capital and labor) into output (value-added). It is estimated by means of a country-by-country regression analysis (with industry dummies)
Manufacturing sector	Based on the NACE classification of economic activities, firms in group C (manufacturing)
Construction sector	Based on the NACE classification of economic activities, firms in group F (construction)
Services sector	Based on the NACE classification of economic activities, firms in group G (wholesale and retail trade) and group I (accommodation and food services activities).
Infrastructure sector	Based on the NACE classification of economic activities, firms in groups D and E (utilities), group H (transportation and storage) and group J (information and communication).
SME	Firms with between 5 and 249 employees
Large firms	Firms with at least 250 employees

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EIBIS 2016 – COUNTRY TECHNICAL DETAILS

Base sizes

Base definition and page reference	EU	Croatia	Manufacturing	Construction	Services	Infrastructure	SME	Large
All firms, p. 3, p. 6, p. 7, p. 9, p. 11, p. 12, p. 13	12483	487	133	117	116	121	417	70
All firms (excluding don't know/refused responses), p. 2	11838	472	131	114	111	116	404	68
All firms (excluding those who have no investment planned/don't know/refused responses), p. 5	12159	470	130	109	112	119	404	66
All firms (excluding 'Company didn't exist three years ago' responses), p. 6	12453	487	133	117	116	121	417	70
All firms (excluding don't know, refused and missing responses), p. 13	12162	476	131	116	113	116	409	67
All firms who invested in the last financial year, p. 2	12281	484	132	117	114	121	414	70
All firms who invested in the last financial year, p. 4	10881	439	123	102	103	111	372	67
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 4	10060	387	106	91	87	103	338	49
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 5	9682	354	107	72	81	94	299	55
All firms who invested in the last financial year (excluding don't know/refused responses), p. 10	9093	398	106	94	96	102	341	57
All firms who have planned to invest in the current financial year and who invested too much, about the right amount or too little in the last financial year (excluding don't know/refused/company didn't exist three years ago responses), p. 8	10536	424	N/A	N/A	N/A	N/A	N/A	N/A
All firms who used external finance in the last financial year (excluding don't know/refused responses), p. 10, p. 11	4344	189	56	36	37	60	155	34

Percentage rounding

Percentage with value of less than 0.5 but greater than zero has not been displayed in the charts.

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