European Investment Bank
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Estonia

Overview

EIB INVESTMENT SURVEY

2017

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

About the EIB Investment Survey (EIBIS)
The EIB Group Survey on Investment and Investment Finance is a unique, EU-wide, annual survey of some 12 300 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 40 economists, is headed by Debora Revoltella, Director of Economics.

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EIBIS 2017 – COUNTRY OVERVIEW

Estonia

The annual EIB Group Survey on Investment and Investment Finance (EIBIS) is an EU-wide survey of some 12 300 firms that gathers 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 408 firms in Estonia in 2017 (carried out between April and July).

Key results

Macroeconomic context	**Aggregate investment remains below its pre-crisis level and has continued to fall in 2016.** Weak investment performance is primarily due to a fall in other buildings and structures. In terms of institutional sectors, corporate investment is furthest below its 2008 level. Investment is forecasted by the European Commission to rebound by some 17% in 2017.
Investment outlook:	**More firms increased than reduced investment in 2016**, which exceeded expectations. The outlook for 2017 is also positive. Firms in the service sector are particularly optimistic about their investment activity.
Investment activity:	**73% of firms invested in the last financial year**. Investment to expand capacity is named as the key priority for the next 3 years by 44% of firms.
Perceived investment gap:	**19% of firms report having invested too little over the last three years**, more than on average in the EU. The share of state-of-the art machinery and equipment is below the EU average, although higher in the services sector. Notably, the services sector shows almost 50% investment in intangibles.
Investment barriers:	**Availability of skilled staff** continues to be perceived as the main barrier to investment, especially by large firms. A lack of digital infrastructure is a barrier for only 17% of firms, reflecting Estonia's leading role in this area. Firms in the service sector report labour and business regulation more often as barrier.
External finance:	**7% of firms are finance constrained**, in line with the EU average. However, financing conditions for investment activities have worsened over the last year (up from 4%).
Firm performance:	**Many firms in Estonia fall in the lowest productivity class**. Large firms make a fairly small contribution to total value added. Employment dynamics over the past three years have been favourable, although the share of firms reporting a decrease in employment is higher than on average in the EU.

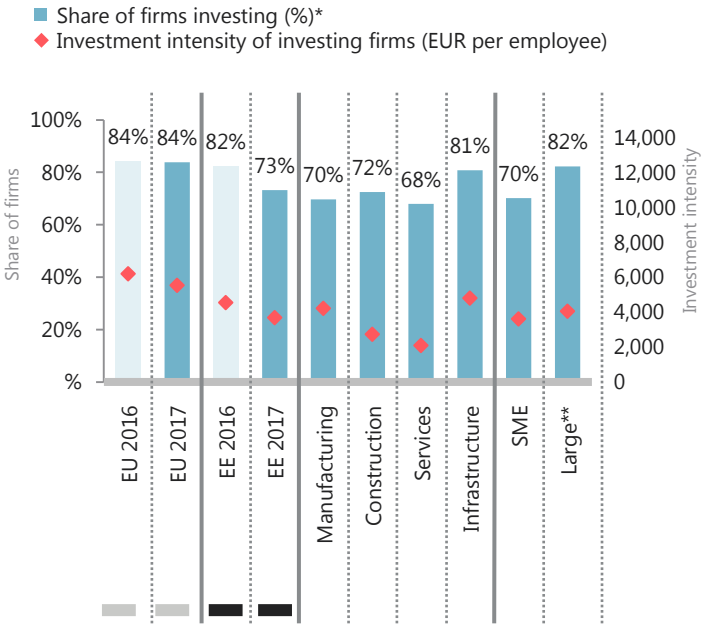
INVESTMENT DYNAMICS

INVESTMENT ACTIVITY IN LAST FINANCIAL YEAR

73% of firms in Estonia invested in the last financial year, less than in the previous EIBIS wave. The share of firms that invested is below the EU average.

The share of firms investing is highest in the infrastructure sector and among large firms.

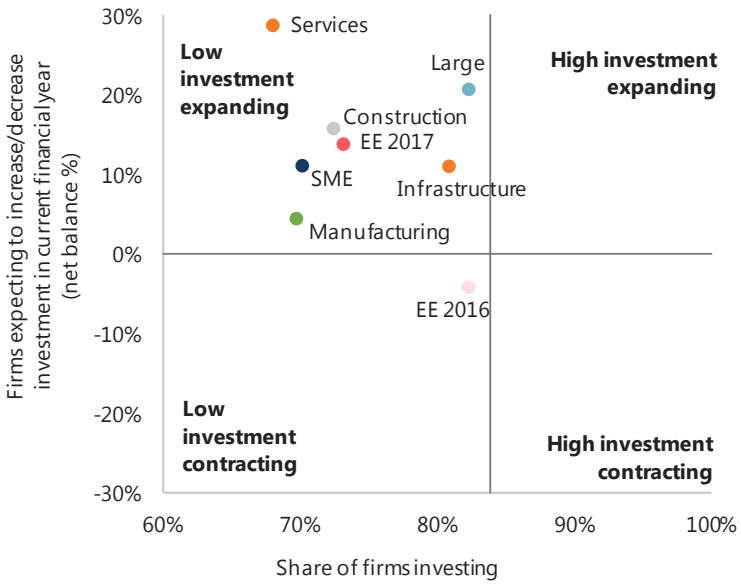
Investment intensity, that is investment per employee, is lower in Estonia than on average in the EU.



**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 intensity is reported in 2015 values (using the Eurostat GFCF deflator).

*Base: All firms (excluding don't know/refused responses); **Caution very small base size less than 30 large firms*

INVESTMENT CYCLE



Firms' investment activity places Estonia in the 'low investment expanding' quadrant on the investment cycle. This is an improvement compared to 2016, when Estonia was placed in the low investment contracting quadrant.

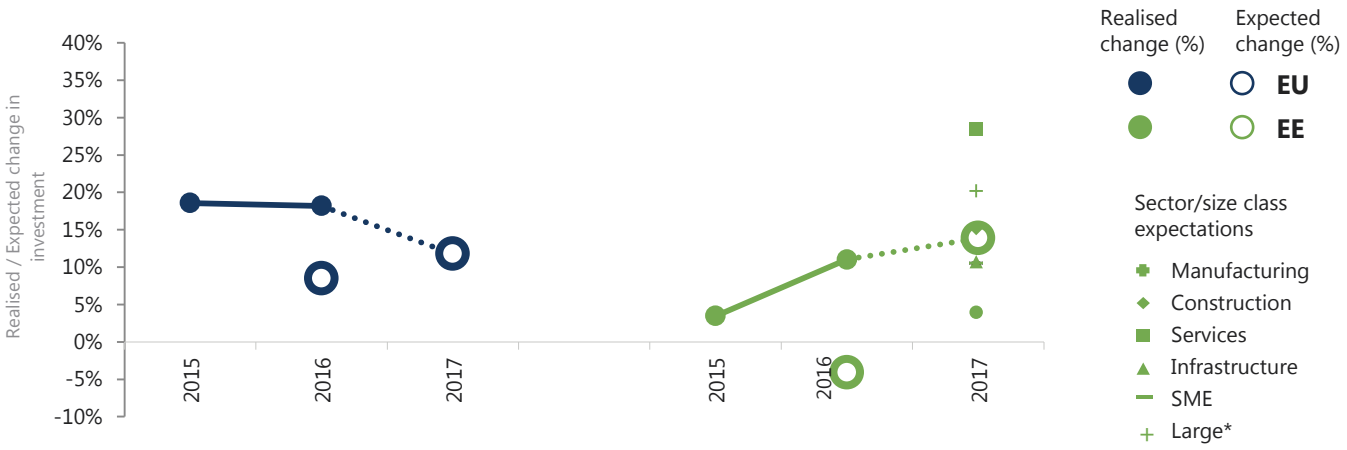
Expansion in investment seems to be strongest among firms in the service sector and large firms.

Base: All firms
Share of firms investing shows the percentage of firms with investment per employee greater than EUR 500.
*** Caution very small base size less than 30 for large firms*
The y-axis line crosses x-axis on the EU average for 2016

INVESTMENT DYNAMICS

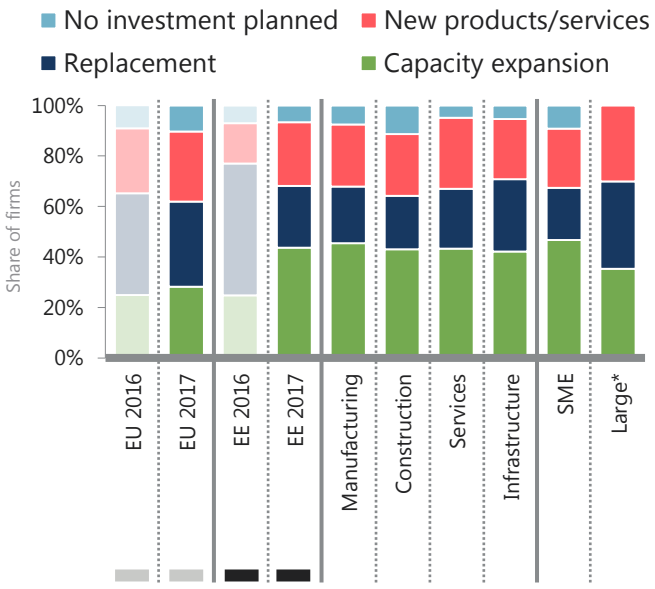
EVOLUTION OF INVESTMENT EXPECTATIONS

More firms in Estonia increased than reduced their investment activities in the last financial year. This is a moderate improvement compared to the previous year and well above expectations. For 2017, a further slight improvement in investment is expected. Firms in the service sector are most optimistic about their investment activity, firms in the manufacturing sector are least optimistic.



Base: All firms
** Caution very small base size less than 30 for large firms*
'Realised change' is the share of firms who invested more minus those who invested less; 'Expected change' is the share of firms who expect(ed) to invest more minus those who expect(ed) to invest less.

FUTURE INVESTMENT PRIORITIES



Over the next 3 years, investment in capacity expansion is cited as a priority by 44% of firms, considerably more often than in the previous EIBIS wave (25%).

Investment in new products and services has also been named more often as priority and is now close to the EU average.

Overall, this points towards strengthening business dynamism going forward.

Base: All firms (excluding don't know/refused responses)
Q. Looking ahead to the next 3 years, which 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?
** Caution very small base size less than 30 for large firms*

INVESTMENT FOCUS

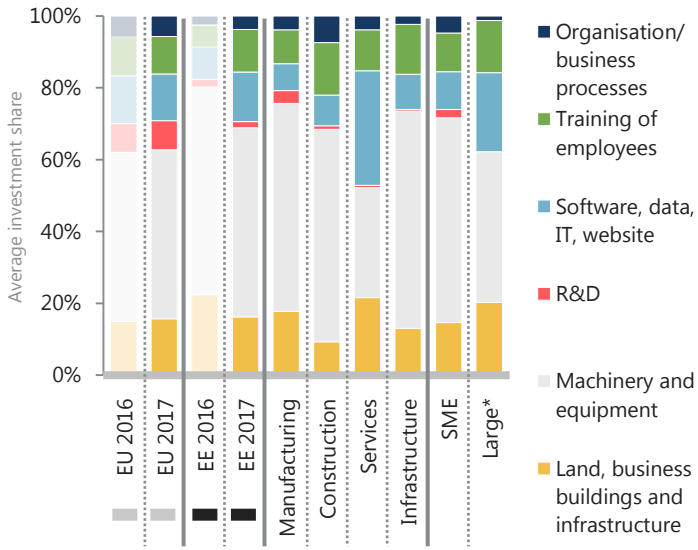
INVESTMENT AREAS

Just over half of investment in Estonia is in machinery and equipment (53%).

Investment in software, data and IT is at 14%, in line with the EU average, but is almost double in the services sector.

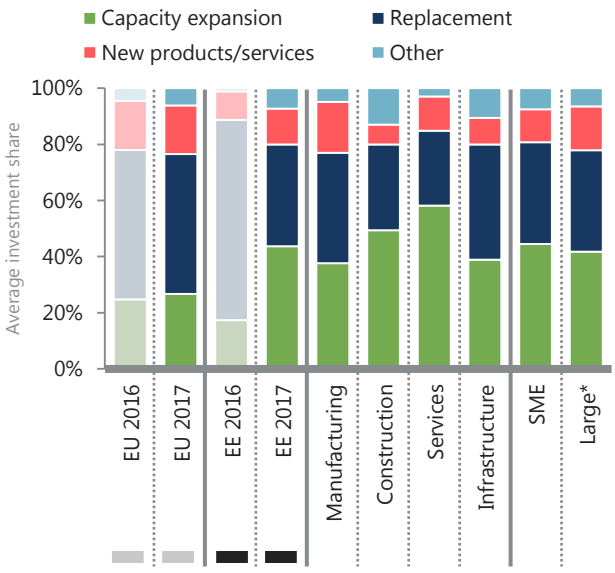
Only 2% of firms' investment is in R&D, compared to an EU average of 8%.

The share of investment on training doubled compared to the previous EIBIS wave, reaching 12% in 2017.



Base: All firms who have invested in the last financial year (excluding don't know/refused responses)
**Caution very small base size less than 30 for large firms*
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?

PURPOSE OF INVESTMENT IN LAST FINANCIAL YEAR



With 44%, the largest share of investment in Estonia is dedicated to expanding capacity for existing products and services, compared to the EU overall where 50% of investment went on replacement.

Investment dedicated to replacing capacity amounted to 36% of total investment, half the proportion reported in the previous EIBIS wave.

The share of replacement investment was highest in the infrastructure sector (at 41%).

Base: All firms who have invested in the last financial year (excluding don't know/refused responses).
**Caution very small base size less than 30 for large firms*
Q. What proportion of total investment was for (a) replacing capacity (including existing buildings, machinery, equipment, IT) (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

INVESTMENT FOCUS

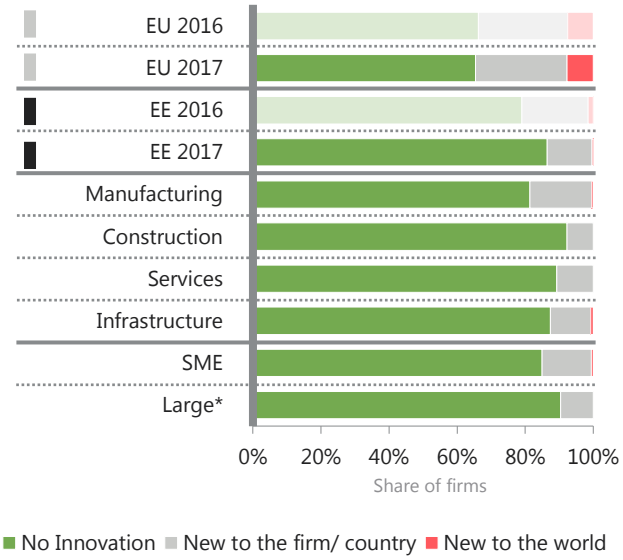
INNOVATION ACTIVITY

The share of firms that innovate decreased compared to the previous EIBIS wave.

Only 14% of firms developed or introduced new products, processes or services as part of their investment activities, the lowest share among EU countries. The share has dropped by a third since the previous EIBIS wave.

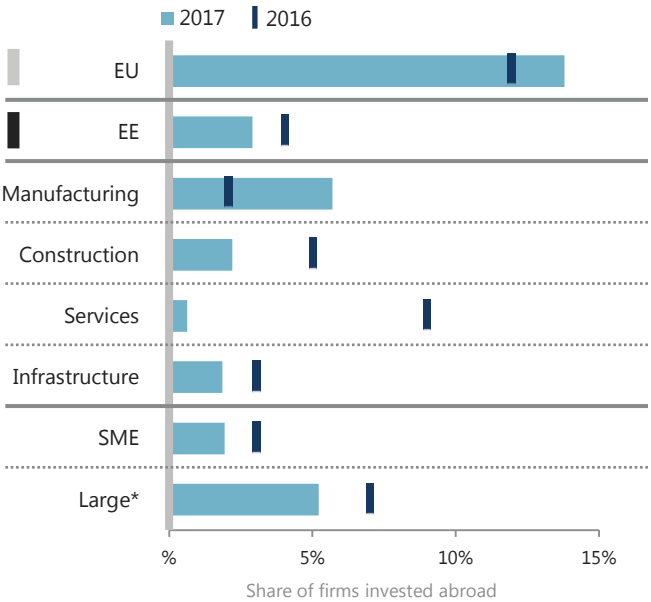
Almost all of the innovation in Estonia was new to the firm or country, rather than the global market.

A fairly high share of firms in the manufacturing sector undertook innovation activity (18%).



Base: All firms (excluding don't know/refused responses)
**Caution very small base size less than 30 for large firms*
Q. What proportion of total investment was for developing or introducing new products, processes, services?
Q. Were the products, processes or services new to the company, new to the country, new to the global market?

INVESTMENT ABROAD



Only 3% of firms in Estonia have invested in another country, far below the EU average (14%).

Firms in the manufacturing sector in Estonia are more likely to have invested abroad (6%) and this share has substantially increased over the last year.

Among SMEs, only 2% have invested abroad.

Base: All firms who invested in the last financial year
**Caution very small base size less than 30 for large firms*
Q. In the last financial year, has your company invested in another country?

INVESTMENT NEEDS

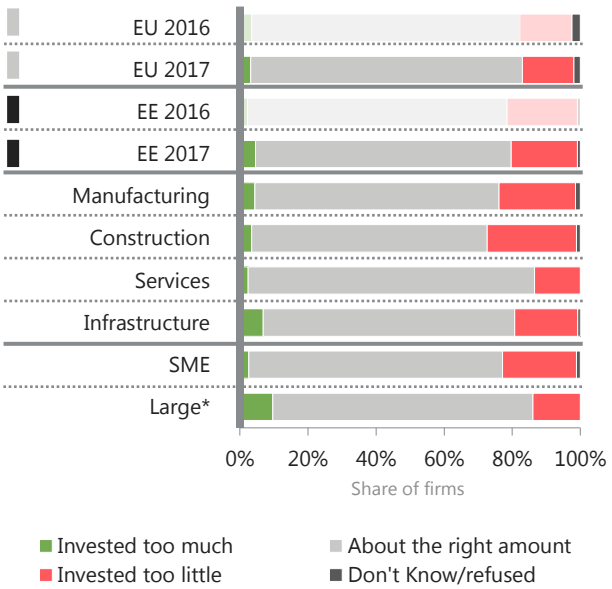
PERCEIVED INVESTMENT GAP

75% of firms believe their investment over the last three years was about the right amount, broadly in line with the previous EIBIS wave.

20% report investing too little, which is a little higher than on average across the EU (15%).

Firms in the manufacturing and construction sectors perceive the gap to be larger. Roughly one-quarter of those firms report that their investment over the last three years was too low.

22% of SMEs say they have under-invested.

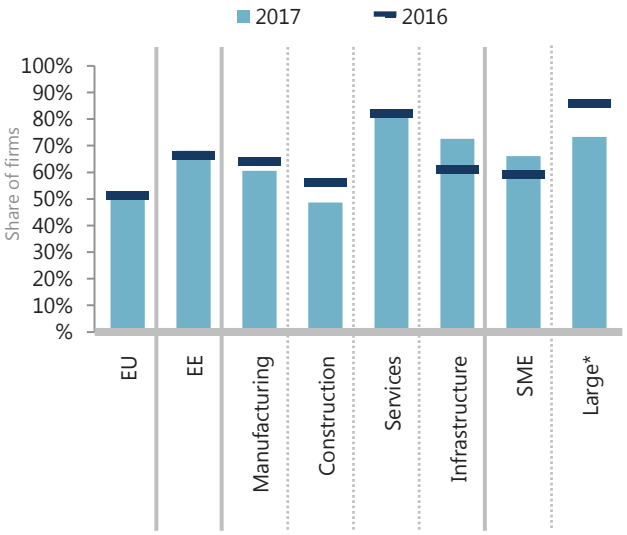


Base: All firms (excluding 'Company didn't exist three years ago' responses)

Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount?

** Caution very small base size less than 30 for large firms*

SHARE OF FIRMS AT OR ABOVE FULL CAPACITY



68% of firms in Estonia report operating at or above maximum capacity in the last financial year, similar to the previous EIBIS wave. This is well above the EU average of 53%.

With 82%, firms in the service sector are most likely to report operating at or above full capacity, well above the EU average for service sector firms.

Base: All firms

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?

** Caution very small base size less than 30 for large firms*

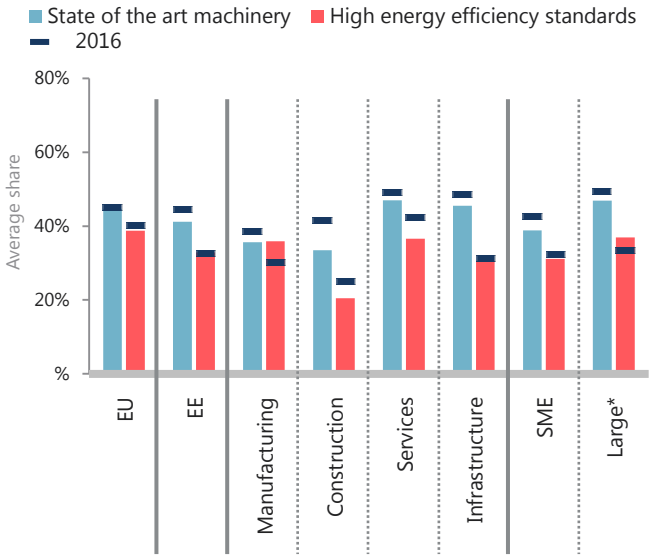
INVESTMENT NEEDS

SHARE OF STATE OF THE ART MACHINERY AND BUILDING STOCK MEETING HIGH ENERGY EFFICIENCY STANDARDS

The average share of state-of-the-art machinery and equipment in firms is slightly below the EU average (41% versus 45%).

33% of firms' building stock in Estonia satisfies high energy efficiency standards, compared to 39% across the EU.

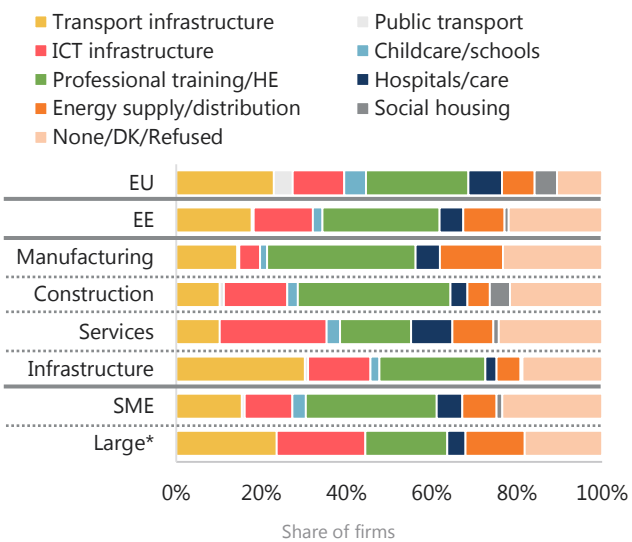
The findings for Estonia are broadly in line with the previous EIBIS wave.



Base: All firms
**Caution very small base size less than 30 for large firms*

Q. What proportion, if any, of your commercial building stock satisfies high or highest energy efficiency standards?
Q. What proportion, if any, of your machinery and equipment, including ICT, would you say is state-of-the-art?

PUBLIC INVESTMENT PRIORITIES



28% of firms consider professional training and higher education (HE) as top priority for public investment.

Firms in the infrastructure sector are most likely to prioritise transport (30%). Those in the construction sector are twice as likely as firms in the service sector to select professional training and higher education as their priority for public investment (36% versus 17%).

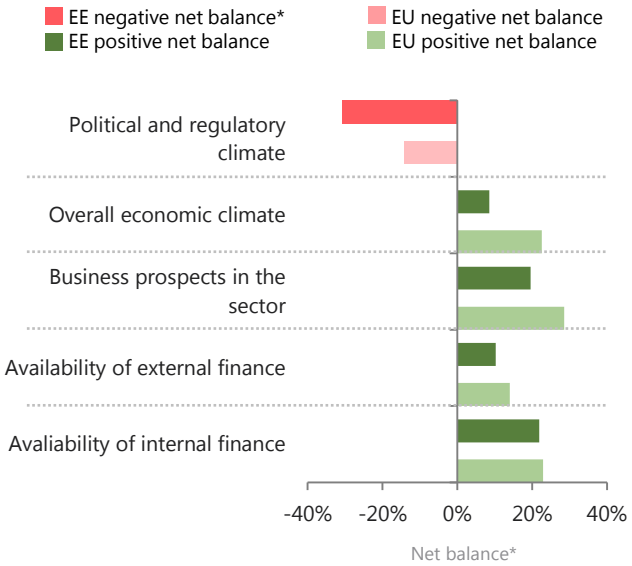
Base: All firms
Q. From your business' perspective, if you had to prioritise one area of public investment for the next 3 years, which one would it be?
** Caution very small base size less than 30 for large firms*

DRIVERS AND CONSTRAINTS

SHORT TERM INFLUENCES ON INVESTMENT

On balance, firms in Estonia expect the political and regulatory climate to get worse over the next 12 months.

Estonian firms are on balance more optimistic about other economic indicators, including business prospects and access to internal finance.

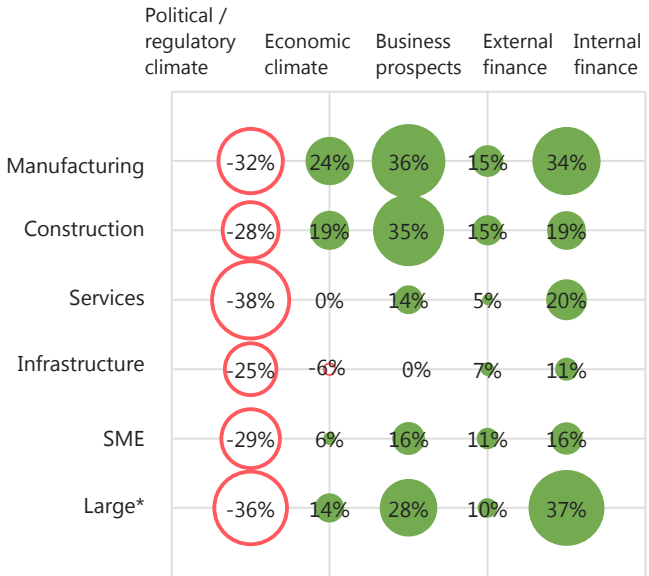


**Net balance is the share of firms expecting improvement minus the share of firms expecting a deterioration*

Base: All firms

Q. Do you think that each of the following will improve, stay the same, or get worse over the next 12 months?

SHORT TERM INFLUENCES BY SECTOR AND SIZE (NET BALANCE)



The assessment of short-term influences differs substantially across sectors. For example, firms in the service sector are fairly pessimistic about the political and regulatory climate.

Firms in the infrastructure sector are fairly pessimistic about the economic climate and business prospects.

Base: All firms

Q. Do you think that each of the following will improve, stay the same, or get worse over the next 12 months?

**Caution very small base size less than 30 for large firms*

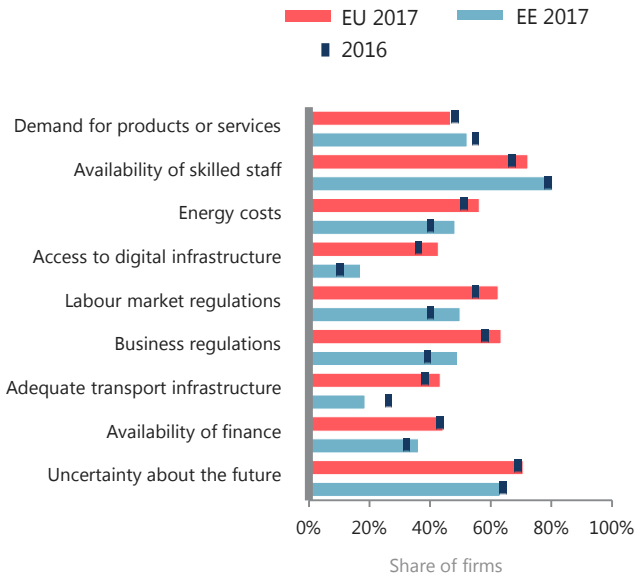
DRIVERS AND CONSTRAINTS

LONG TERM BARRIERS TO INVESTMENT

80% of firms consider the availability of skilled staff as an obstacle to investment activities, more than on average in the EU.

Access to digital infrastructure is only mentioned by 17% of firms as obstacle in Estonia. This reflects the country's leading role in this area.

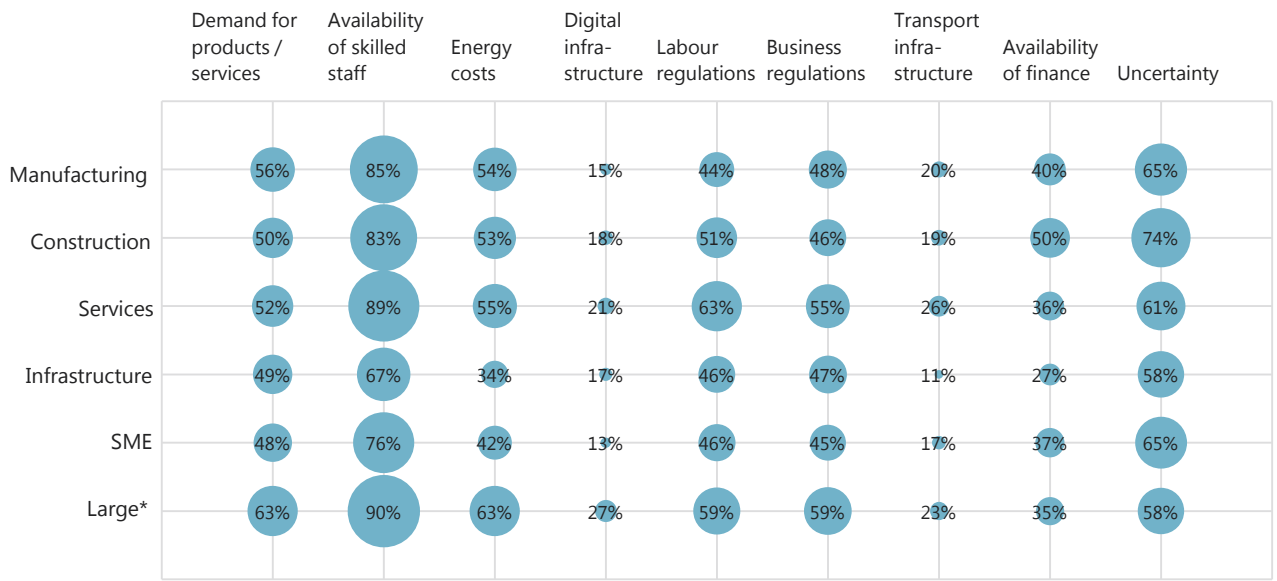
Large firms are particularly concerned about the availability of skilled staff, SMEs about uncertainty.



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 Estonia, to what extent is each of the following an obstacle? Is it a major obstacle, a minor obstacle or not an obstacle at all?

LONG TERM BARRIERS BY SECTOR AND SIZE



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 Estonia, to what extent is each of the following an obstacle? Is it a major obstacle, a minor obstacle or not an obstacle at all?

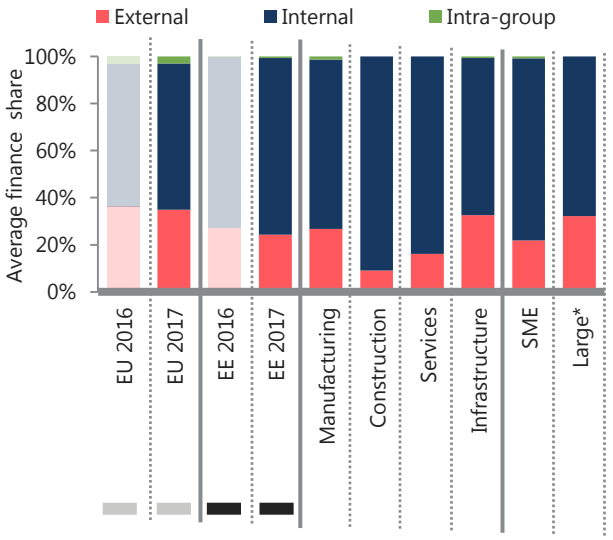
** Caution very small base size less than 30 for large firms*

INVESTMENT FINANCE

SOURCE OF INVESTMENT FINANCE

75% of firm's investment funding comes from internal sources, compared to 62% for the EU on average. The share of internal funding reported by Estonian firms did not change much since last year.

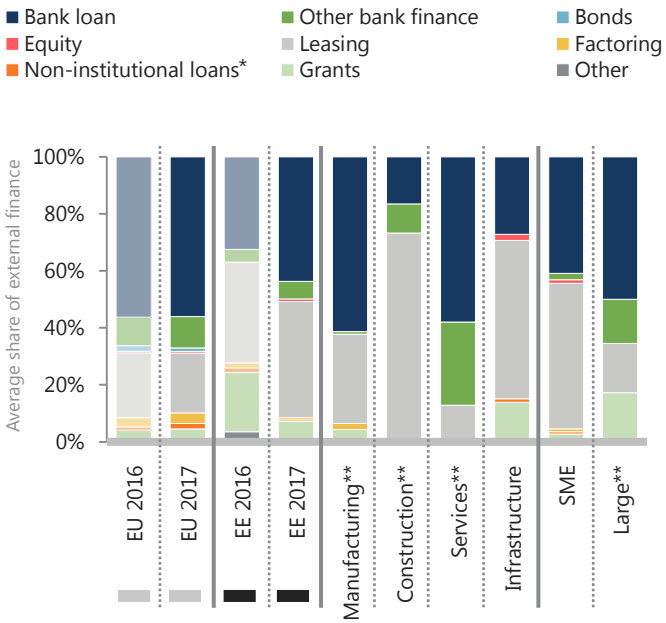
Firms in the infrastructure and manufacturing sectors have a much higher share of external finance (33% and 27% respectively) than those in the construction sector (9%).



Base: All firms who invested in the last financial year (excluding don't know/refused responses)
**Caution very small base size less than 30 for large firms*

Q. What proportion of your investment was financed by each of the following?

TYPE OF EXTERNAL FINANCE USED FOR INVESTMENT ACTIVITIES



Bank loans account for the highest share of external finance (44%), closely followed by leasing (41%). These finance types were also most prevalent in the previous EIBIS wave, though to a lesser extent.

Grants now only make up 7% of external finance compared with 21% in the previous EIBIS wave.

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

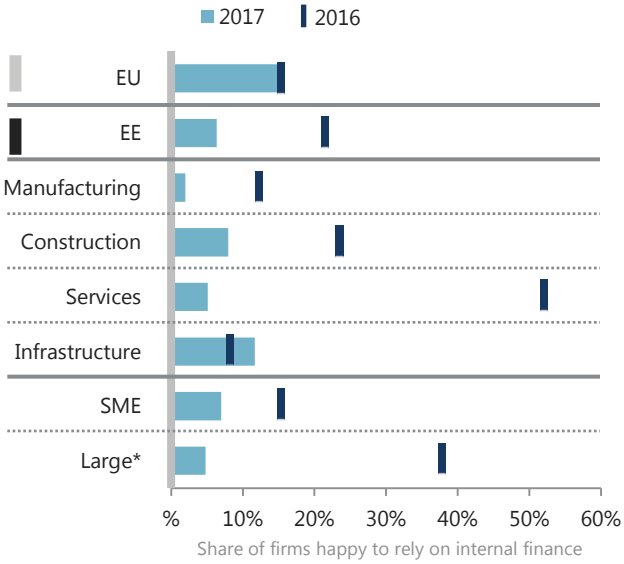
Q. Approximately what proportion of your external finance does each of the following represent?

**Loans from family, friends or business partners*

*** Caution very small base size less than 30 for large firms and all sectors except Infrastructure*

INVESTMENT FINANCE

SHARE OF FIRMS HAPPY TO RELY EXCLUSIVELY ON INTERNAL SOURCES TO FINANCE INVESTMENT



Only 6% of Estonian firms say they did not apply for external finance because they were happy to rely exclusively on internal sources. Across the EU, this share is at 16%.

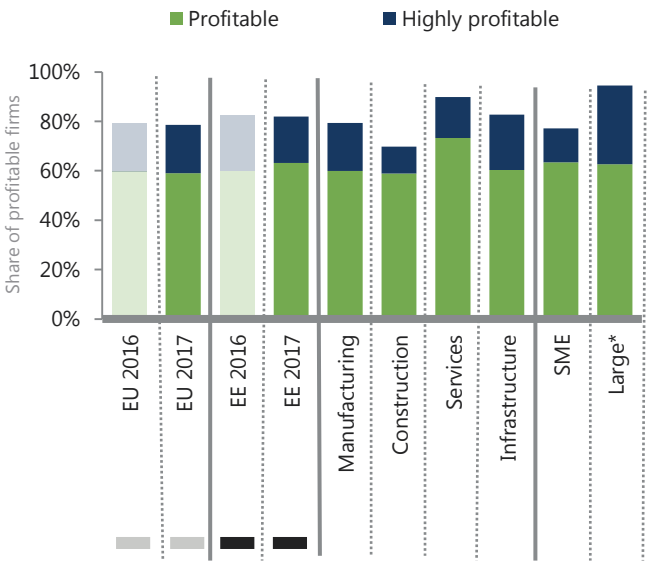
The share of firms that did not apply for external finance because they are happy to rely exclusively on internal sources dropped substantially since the previous wave. The drop was most pronounced in service sectors and among large firms.

*Base: All firms *Caution very small base size less than 30 for large firms*
Q. What was your main reason for not applying for external finance for your investment activities? Was happy to use internal finance/didn't need the finance (Unprompted)

SHARE OF PROFITABLE FIRMS

19% of firms in Estonia report being highly profitable, broadly similar to the share from the previous EIBIS wave (23%) and the EU average (20%).

Large firms in in Estonia are most likely to be highly profitable (32%).



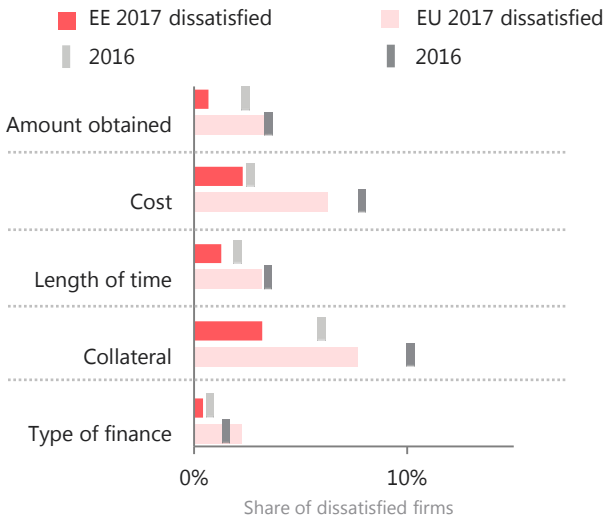
Base: All firms (excluding don't know/refused responses)
**Caution very small base size less than 30 for large firms*
Q: Taking into account all sources of income in, did your company generate a profit or loss before tax, or did you break even? Highly profitable is defined as profits/turnover of 10% or more.

SATISFACTION WITH FINANCE

DISSATISFACTION WITH EXTERNAL FINANCE RECEIVED

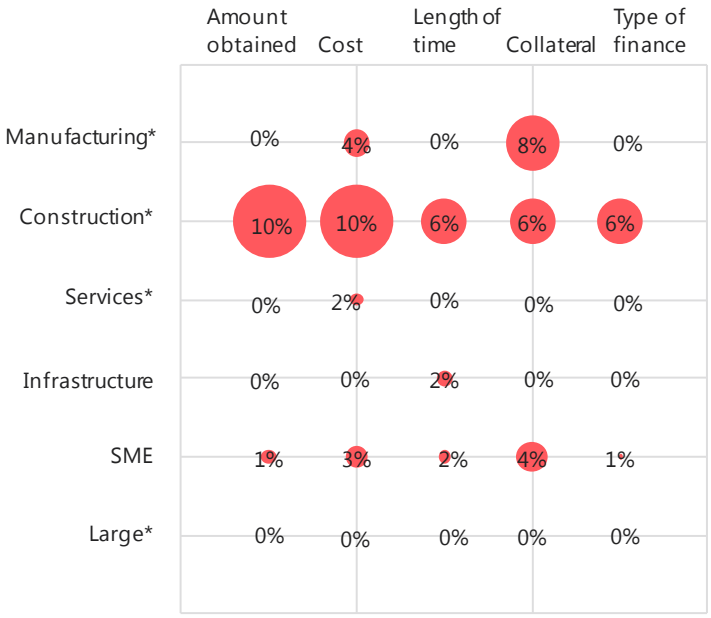
Firms that used external finance are on balance satisfied with the amount, cost, maturity, collateral and type of finance received.

The highest proportion of dissatisfaction in Estonia is with collateral required (3%). This is slightly less than for the EU on average.



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 ....?

DISSATISFACTION BY SECTOR AND SIZE



Dissatisfaction with the characteristics of external finance received is concentrated in the construction sector and, to a lesser extent, manufacturing.

One in ten construction firms are dissatisfied with the amount obtained and cost. Manufacturing firms mainly register dissatisfaction with collateral requirements.

Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)
**Caution very small base sizes less than 30 for Large firms and all sectors except infrastructure.*
Q. How satisfied or dissatisfied are you with ....?

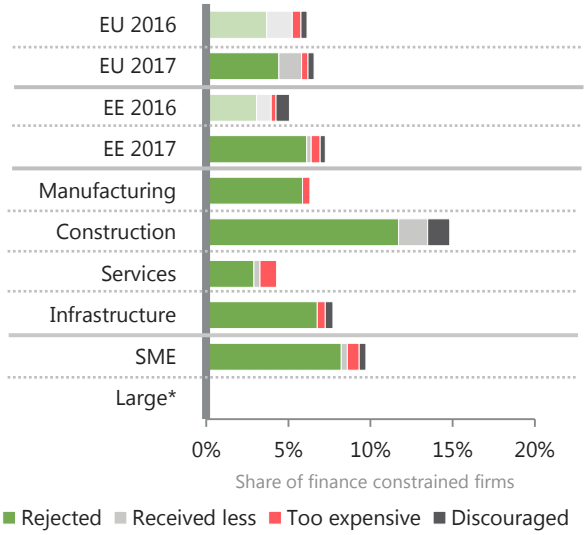
SATISFACTION WITH FINANCE

SHARE OF FINANCE CONSTRAINED FIRMS

7% of all firms can be considered finance constrained, up from 4% in the previous wave. The share of finance constrained firms is now in line with the EU average.

The share of finance constrained firms is particularly high in the construction sector.

None of the large firms interviewed reported to be finance constrained.

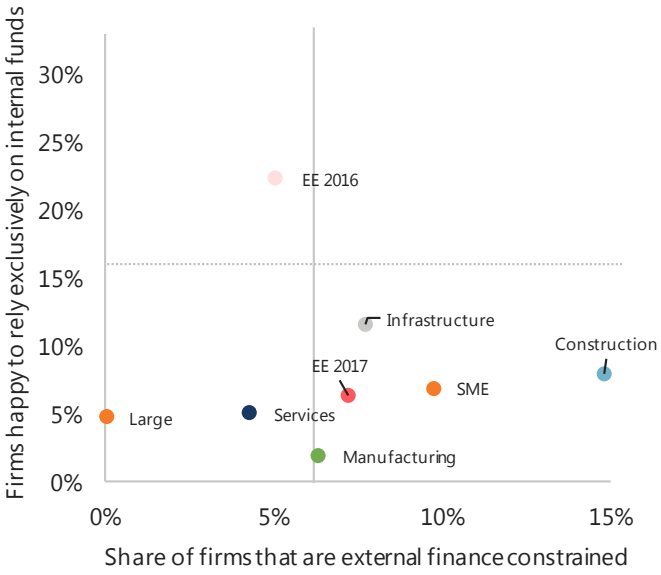


*Base: All firms; *Caution very low base size less than 30 for large firms*

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)

***Financing constraints for 2016 among non-investing firms estimated*

FINANCING CROSS



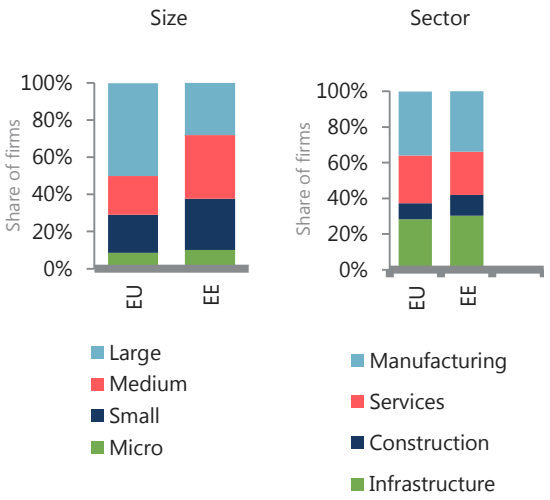
Financing conditions for investment activities have worsened over the last year. Estonian firms are similar to the average EU firm in terms of being finance constrained. However, the share of firms reporting that they do not use external funding because they are happy relying exclusively on internal funds is well below the EU average.

Differences across size classes and sectors are predominantly in the percentage of firms being external finance constrained rather than the happiness to exclusively use internal funds to finance investment.

*Base: All firms; *Caution very low base size less than 30 for large firms*
Data derived from the financial constraint indicator and firms indicating main reason for not applying for external finance was 'happy to use internal finance/didn't need finance'
The x- and y-axes lines cross on the EU average for 2016

PROFILE OF FIRMS

CONTRIBUTION TO VALUE ADDED



Large firms account for only 28% of value-added, compared to 50% for the EU on average. This partly reflects the small size of the economy, which makes it more difficult for firms to grow beyond a certain size.

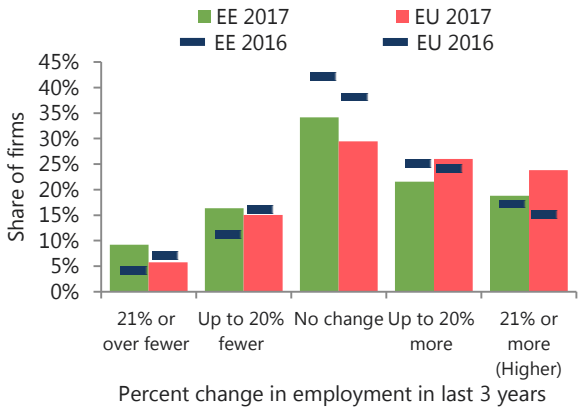
Employment dynamics over the past three years have been favourable in Estonia, with more firms expanding than contracting. However, the share of firms reporting a decrease in employment is higher than on average in the EU.

Productivity of Estonian firms is lower than on average in the EU. Manufacturing and construction sectors are characterised by a particularly high share of firms in the lowest productivity class.

Base: All firms

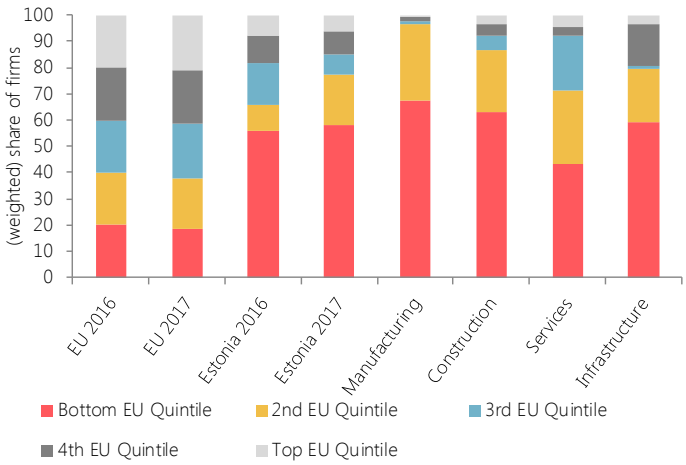
The charts reflects the relative contribution to value-added by firms belonging to a particular size class / sector in the population of firms considered. That is, all firms with 5 or more employees active in the sectors covered by the survey. Micro: 5-9 employees; Small: 10-49; Medium: 50-249; Large: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

EMPLOYMENT DYNAMICS IN LAST THREE 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?

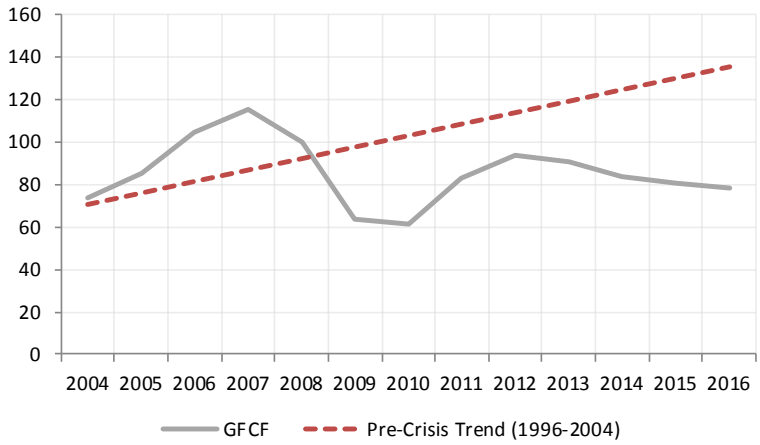
DISTRIBUTION OF FIRMS BY PRODUCTIVITY CLASS



Share of firms by productivity class (Total Factor Productivity). Productivity classes are defined on the basis of the entire EU sample.

MACROECONOMIC INVESTMENT CONTEXT

Investment Dynamics over time



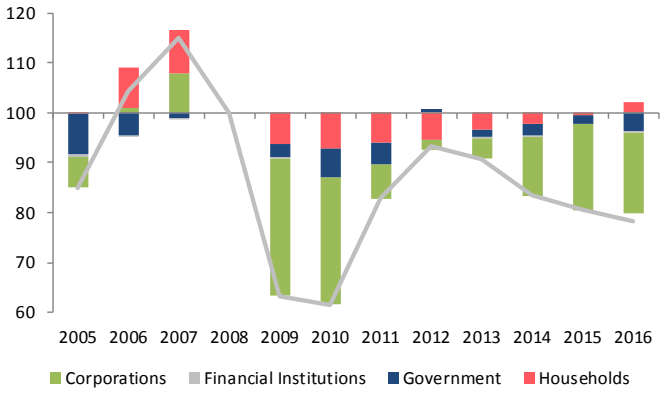
The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); against the series 'pre-crisis trend. The data has been index to equal 100 in 2008. Source: Eurostat.

In 2016, aggregate investment remains below pre-crisis levels and has continued to fall.

Weak investment performance is primarily due to a fall in corporate investment. Government investment is also below its 2008 level.

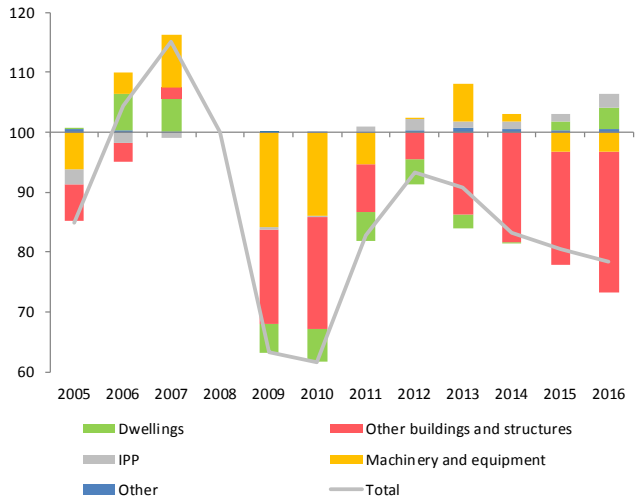
Investment in other buildings and structures continues to fall, as does investment in machinery and equipment. Instead, investment in dwellings and IPP has gained momentum.

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.

Investment Dynamics by Asset Class



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

EIB 2017 – COUNTRY TECHNICAL DETAILS

SAMPLING TOLERANCES APPLICABLE TO PERCENTAGES AT OR NEAR THESE LEVELS

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

	EU	Estonia	Manu-facturing	Cons-truction	Services	Infras-tructure	SME	Large	EU vs Estonia	Manufacturing vs Construction	SME vs Large
	(12338)	(408)	(105)	(107)	(90)	(106)	(386)	(22)	(12338 vs 408)	(107 vs 105)	(386 vs 22)
10% or 90%	1.1%	3.6%	6.7%	6.4%	8.1%	6.3%	2.9%	10.5%	3.8%	9.2%	10.9%
30% or 70%	1.6%	5.6%	10.2%	9.8%	12.4%	9.7%	4.5%	16.1%	5.8%	14.1%	16.7%
50%	1.8%	6.1%	11.1%	10.7%	13.5%	10.5%	4.9%	17.6%	6.3%	15.4%	18.2%

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 an industry-by-industry regression analysis (with country 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.

EIB 2017 – COUNTRY TECHNICAL DETAILS

BASE SIZES

Base definition and page reference	EU 2016/ 2017	EE 2016/2017	Manufacturing	Construction	Services	Infrastructure	SME	Large
All firms, p. 2, 3, 7, 8, 11, 13, 14	12483/12338	400/408	105	107	90	106	386	22
All firms (excluding don't know/refused responses), p. 3	12159/12020	388/388	101	105	85	97	368	20
All firms (excluding don't know/refused responses), p. 5	12071/12073	388/398	102	105	87	104	377	21
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 4	10060/10321	268/284	74	76	56	78	268	16
All firms who invested in the last financial year, p. 5	10881/10889	335/342	87	91	69	95	322	20
All firms (excluding 'Company didn't exist three years ago' responses), p. 6	12453/12306	399/407	105	106	90	106	385	22
Base: All firms (data not shown for those who said not an obstacle at all/don't know/refused), p. 9	12483/12338	400/408	105	107	90	106	386	22
All firms who used external finance in the last financial year (excluding don't know/refused responses), p. 10, 11, 12	9093/9131	292/287	65	85	53	84	275	12
All firms (excluding don't know, refused and missing responses), p. 14	12162/11513	396/376	94	98	85	99	359	17

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Estonia

Overview

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