European Investment Bank
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Regional results

EIB INVESTMENT SURVEY

2017

EIB Group Survey on Investment and Investment Finance Country Overview: Regional Results

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 Regional 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. The sampling methodology for EIBIS is devised to ensure representative samples by country, firm size and four main sectors. For this publication, firms' responses are aggregated based on location in regions with similar income levels. 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 – REGIONAL RESULTS

Regional results

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.

This overview presents selected findings from EIBIS for regional groups. Groups are based on differences in per capita income at NUTS 2 level (in PPS, values for 2015). We define four income clubs, i.e. 1. "Low income" regions with less than 75% of GDP pc compared to EU average (n=77), 2. "Medium –" regions with 75-100% (97), 3. "Medium +" regions 100-120% (50) and 4. "High / "Very high income" regions with GDP pc above 120% (52).

Key results

Macroeconomic Context	**Regions across Europe show strong income differentiation.** More than one in four EU residents live in Low income regions. Most are located in Central and South eastern EU member states, Greece, Portugal Spain and southern Italy.
Investment outlook:	**Firms in richer regions are more optimistic** than those in less developed regions: the net share of firms planning to invest is highest in high and very high income regions.
Investment activity:	**Investment activity is more innovation-oriented in richer regions.** Looking ahead to the next three years, replacement investments remain the priority across all regions, followed by capacity expansion for existing products and services and new products. In low income regions, firms are less likely to plan investment to develop new products and more likely to plan no investment. Investment in intangibles is higher in more developed regions.
Perceived Investment gap:	**Firms in less prosperous regions see larger investment gaps.** Around 15% of firms in the EU report having invested too little. Firms in less prosperous regions consistently report larger investment gaps, as well as lower share of state of the art machinery and building stock meeting high energy efficiency standards.
Investment barriers:	**Uncertainty about the future and availability of staff with the right skills are main barriers to investment across all regional income categories.** Firms in low income regions are more likely to report barriers. The regional variation in the perception of barriers suggest differences with respect to business cycles, regulatory factors but also physical operating conditions for firms (e.g. transport or access to finance).
External finance:	**The share of finance constrained firms is higher in low income regions:** 12% vs. 7% in the EU. This is caused mainly by the rate of firms reporting rejection when seeking external finance.
Firm characteristics:	**Firms differ across regions.** Corporates in regions with higher income are larger on average in terms of employees, assets and turnover and have been growing more.

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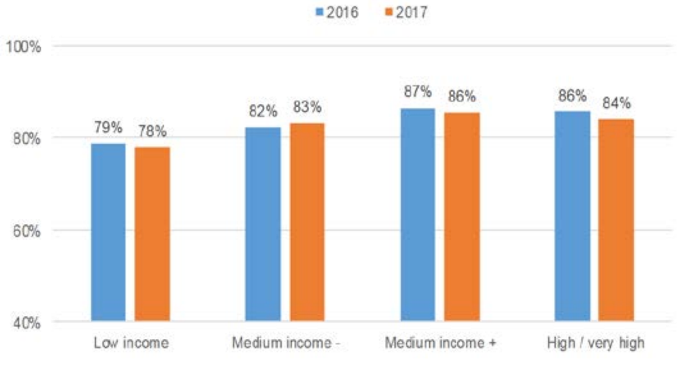
INVESTMENT DYNAMICS

INVESTMENT ACTIVITY IN LAST FINANCIAL YEAR

Investment activity tends to be highest in regions with the higher levels of development.

The share of firms that invested in the last financial year in low income regions (78%) remains below the activity of firms in higher income regions. Results are broadly stable in 2016 and 2017.



**The orange 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).

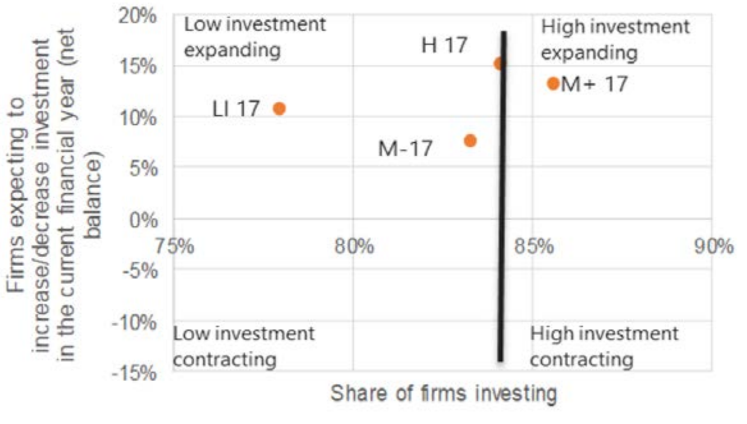
Base: All firms

INVESTMENT CYCLE

Firms in all regions expect to expand rather than contract investment.

Firms in medium and high income regions are more positive in their investment outlook.

Firms in regions with lower income (LI and M-) tend to have a lower investment share.



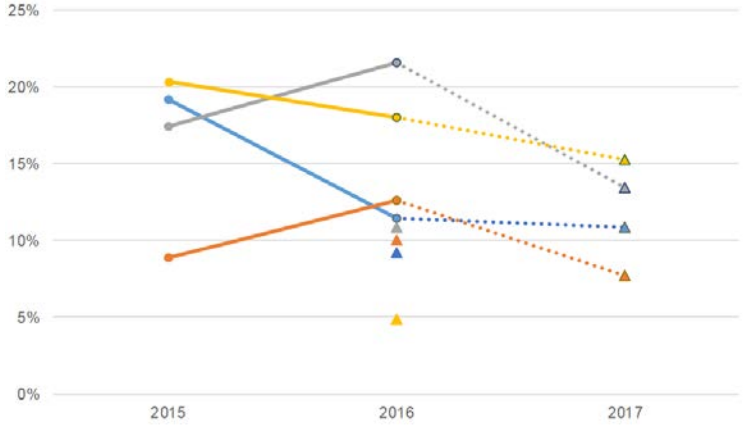
Bold vertical line marks EU average.

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

INVESTMENT DYNAMICS

EVOLUTION OF INVESTMENT EXPECTATIONS

Firms in M+ and H regions were positively surprised by investment dynamics. They were forecasting a net positive change in investment but realised a much stronger investment shift.



Yellow = High income
Gray = Medium +
Orange = Medium –
Blue = Low income

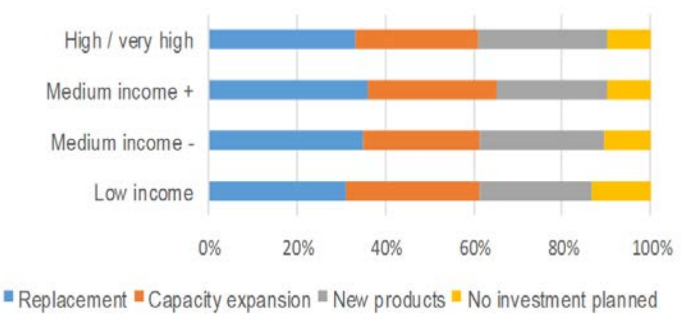
● Realised change (%)

▲ Expected change (%)

Base: All firms

'Realised change' is the share of firms who invested more minus those who invested less (mean); 'Expected change' is the share of firms who expect(ed) to invest more minus those who expect(ed) to invest less (mean).

FUTURE INVESTMENT PRIORITIES



Looking ahead to the next three years, replacement investments remain the priority across all regions, followed by capacity expansion for existing products and services and new products.

In LI regions, firms are less likely to plan invest for development of new products and more likely to not have any investment planned.

In LI regions there is also a relatively higher share of firms planning no investment in the next three years.

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?

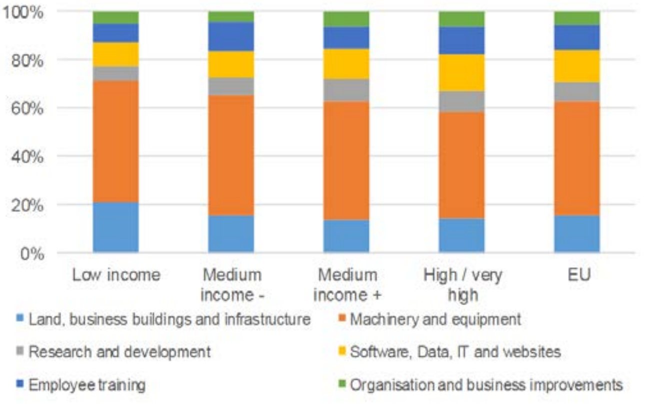
INVESTMENT FOCUS

INVESTMENT AREAS

Most investment is on machinery and equipment: it accounts for more than 50% in LI regions (for comparison: EU average 47%, HI-average 44%).

Investment in intangibles accounts for a larger share of firms' investment in more prosperous regions. Firms typically spend more on software & data, organisation and R&D. Also, the share of investment dedicated to employee training is lowest in LI regions.

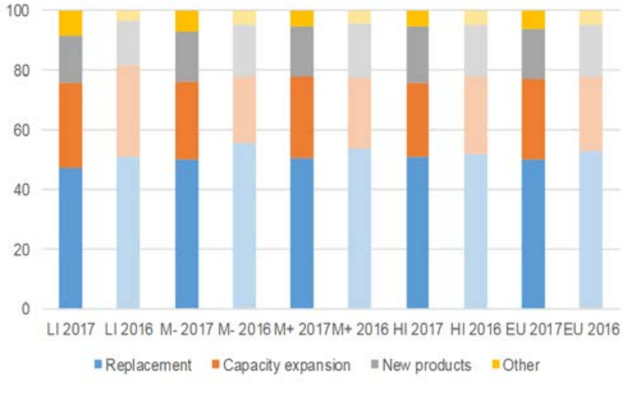
These patterns also point to differences in firm structure, specialization and business sophistication across European regions.



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?

PURPOSE OF INVESTMENT IN LAST FINANCIAL YEAR



Most investment activity in the EU is driven by needs for replacement (50% respectively). Compared to the last wave, firms put greater emphasis on capacity expansion.

Comparing across regions, capacity expansion plays a less prominent role as an investment motive in the HI group in 2017 (25% vs. 27% in the EU).

Fewer firms invest with the purpose of developing new products in LI regions, a pattern also consistent with the previous wave (16% vs. 17% in the EU).

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

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?

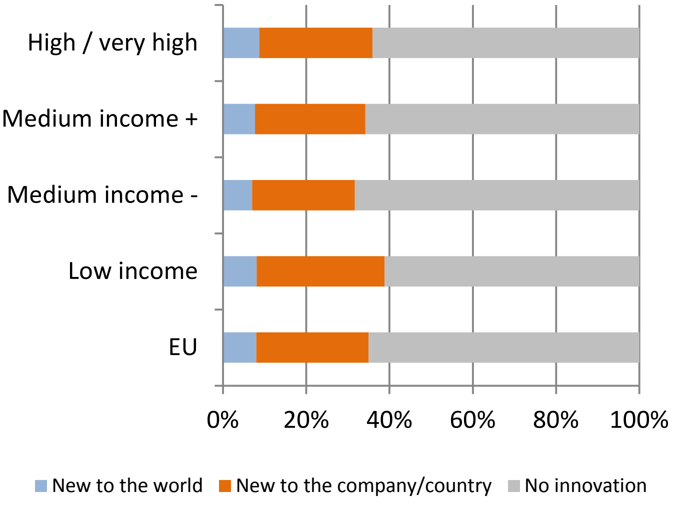
INVESTMENT FOCUS

INNOVATION ACTIVITY

Over three in ten firms developed or introduced new products, processes or services as part of their investment activities in the last financial year. This holds across all four regional groups. Firms in LI regions even tend to report innovation activity above the EU average.

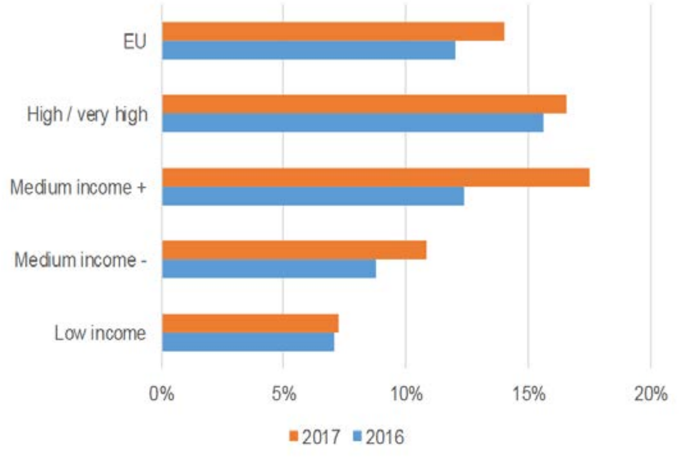
However, looking at the type of innovation, firms in more prosperous regions are more likely to report innovations that are new to the global market.

Firms in less prosperous regions typically have more innovations that are new to the company or country, suggesting innovation adoption and / or transfer of processes or technology within multinational companies operating in some lower income regions.



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



Among firms that invested in the last financial year in the EU, 14% had invested in another country, slightly up from the previous wave.

The regional split shows that companies in more prosperous regions are more likely to invest abroad. The share of companies investing abroad is more than twice as large in M+ and HI regions compared to the LI group. In the latter, only about 7% of firms report having invested in another country.

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

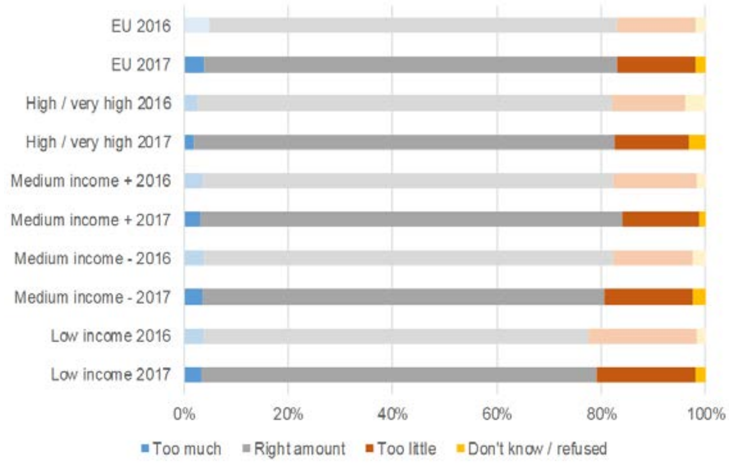
INVESTMENT NEEDS

PERCEIVED INVESTMENT GAP

Around eight in ten firms believe their investment over the last three years was about the right amount (79%) and 15% of firms report they have invested too little in the EU. However, there are differences across regional categories.

Notably, firms in more prosperous regions are more satisfied with the amount they have invested in the past. Also, they are less likely to report overinvestment.

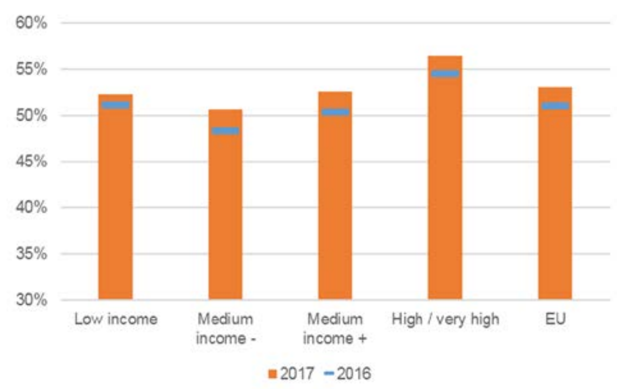
In contrast, firms in less prosperous regions tend to see larger investment gaps (19% in LI and 17% in M- regions vs. 15% in the EU). This pattern is consistent with results of the previous wave.



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?

SHARE OF FIRMS AT OR ABOVE FULL CAPACITY



Over half of firms in the EU report operating at or above capacity (53%). Capacity utilization is highest in HI regions and slightly below average in the M – group.

Compared to the last wave, capacity utilization increased across all regional groups but at the slowest pace in LI regions. Despite the broadening recovery across Europe, this might point to differences in the extent (and speed) to which it has been materializing in different places.

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?

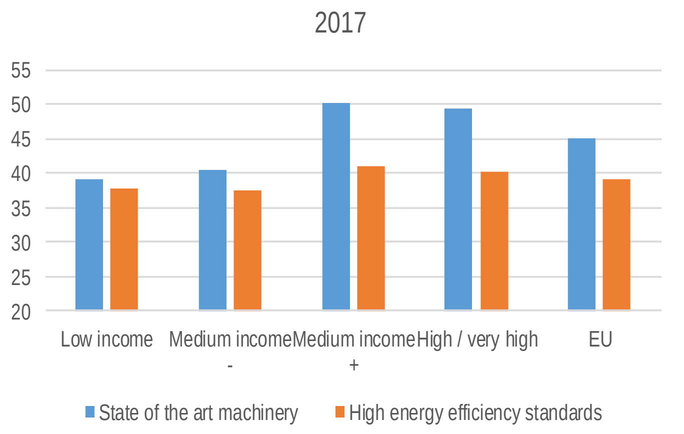
INVESTMENT NEEDS

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

The average share of machinery and equipment judged state-of-the-art differs across regional groups. While the EU average stands at 45%, differences between M+ and HI regions compared to M- and LI are about 10 pp.

Differences similarly exist for buildings satisfying high energy standards but are somewhat less pronounced.

This pattern is consistent with findings of the previous wave.

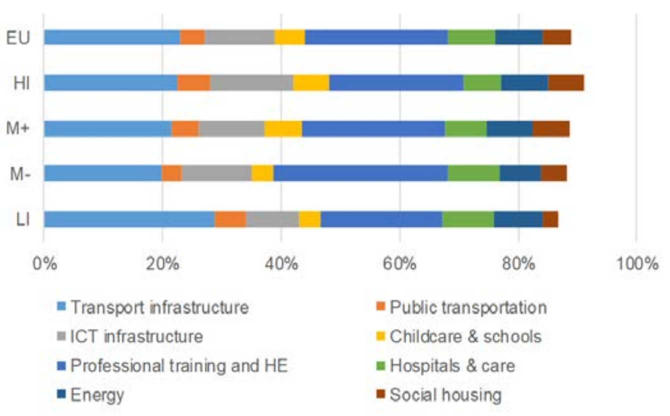


Base: All firms

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



Respondents were presented eight public investment areas and asked which one they thought should be prioritized over the next three years. While firms across all regions in the EU tend to emphasise transport infrastructure and training as key priorities, there are some differences across income groups.

For firms in LI regions, transport should be the key priority for public investment. For companies in all other income categories, HE and professional training warrants greater emphasis on balance.

Notably, ICT infrastructure moves up on the agenda with higher income in regions. This may also be driven by business sophistication and need for more (advanced) digital infrastructure in different places. While hospitals seem to be more of a priority in LI and M- regions, emphasis on childcare and schools increases with income (also reflecting needs of growing places).

Base: All firms (data not shown for those who said none/don't know/refused)

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?

DRIVERS AND CONSTRAINTS

SHORT TERM INFLUENCES ON INVESTMENT

On balance more firms in the EU expect the political and regulatory climate to deteriorate than improve in the next 12 months.

Concerns about the political and regulatory environment are most prominent in the least prosperous regions.

While overall economic conditions are seen as an increasingly positive influence, optimism is less pronounced in LI regions.

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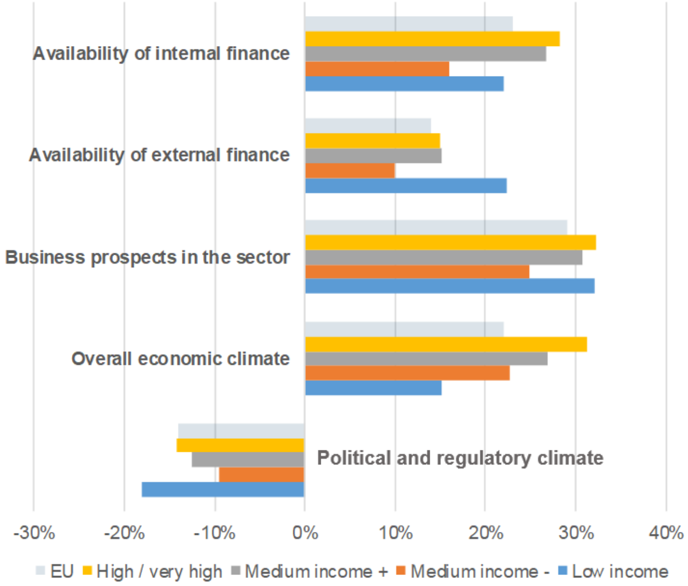
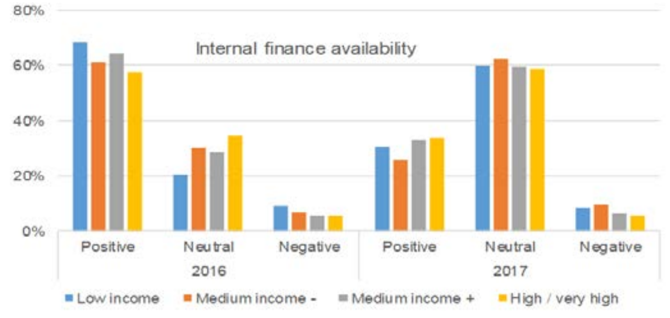


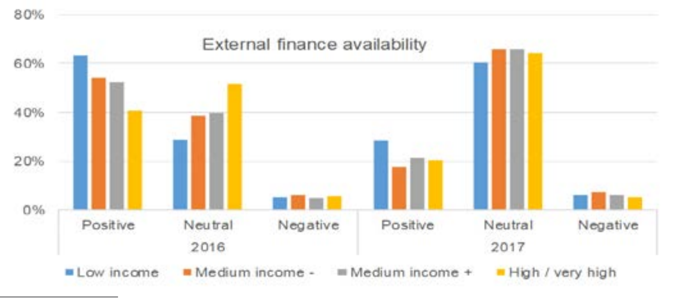
**Net balance is the share of firms expecting improvement minus the share of firms expecting a deterioration*

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 – FOCUS ON FINANCE





In the previous wave, firms were very optimistic with regards to the availability of finance - both internal and external - to improve over the next year. This was particularly pronounced in less prosperous regions, possibly reflecting tighter financing conditions in previous years.

While the availability of finance on balance is still seen as a positive influence on investment, fewer firms expect it to further improve. Here, firms across regions are rather similar in their judgement.

This might reflect a mix of not facing difficulties to tap finance sources at present and anticipation of monetary tightening.

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?

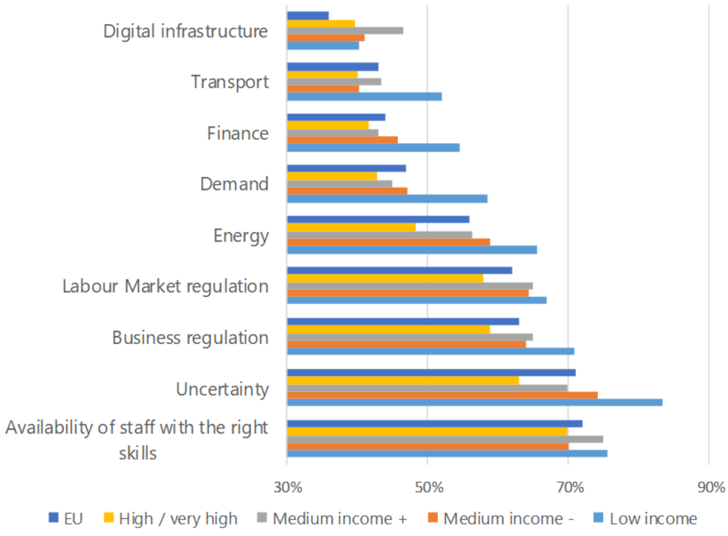
DRIVERS AND CONSTRAINTS

LONG TERM BARRIERS TO INVESTMENT

Uncertainty about the future and limited availability of staff with the right skills are the main long-term barriers to investment for firms across the EU and in all regional categories.

In general, firms in low income regions are more likely to report obstacles. While some of the differences between high and low income regions, e.g. for demand, may also reflect differences in business cycles positions, stronger concerns about energy, finance and transport also point to structurally tougher operating conditions for firms in less prosperous regions.

At the same time, regulation is perceived less burdensome in HI regions.

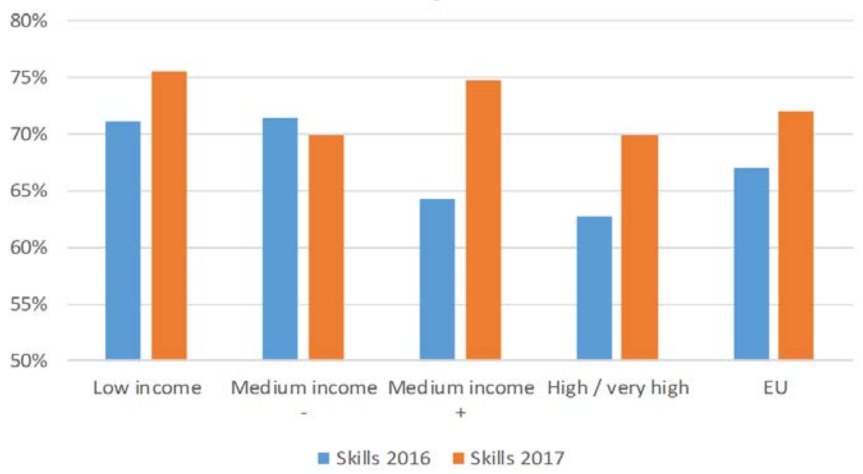


Base: All firms (data not shown for those who said not an obstacle at all/don't know/refused)

Q. Thinking about your investment activities in Romania, 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' EVOLUTION – FOCUS ON SKILLS

Compared to the first wave of EIBIS, concerns about energy, digital infrastructure, transport, labor market and business regulation have somewhat increased across all regions – albeit from different levels. Similarly, limited availability of staff with the right skills is perceived as a bigger impediment with the exception of M- regions.



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

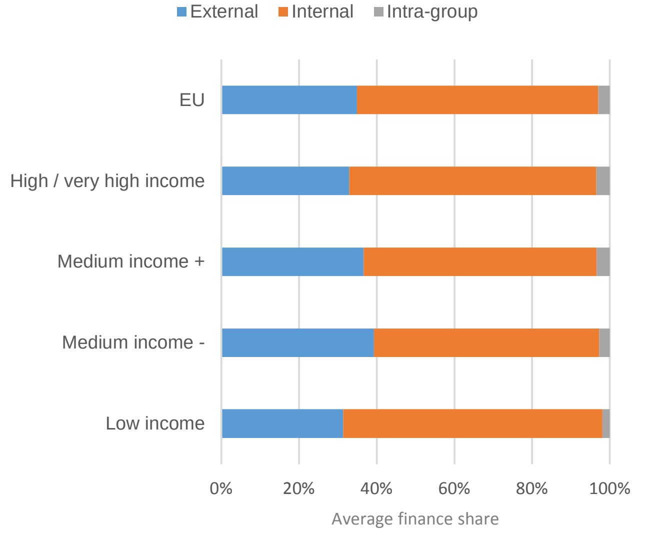
INVESTMENT FINANCE

SOURCE OF INVESTMENT FINANCE

In the EU, internal funds account for the highest share of investment finance (62%). Reliance on internal funds is particularly strong in low income regions (67%) and high income ones (64%). The reasons, however, might differ, with a higher percentage of firms in High income regions happy to rely on internal sources and higher percentage of finance constrained firms in LI regions.

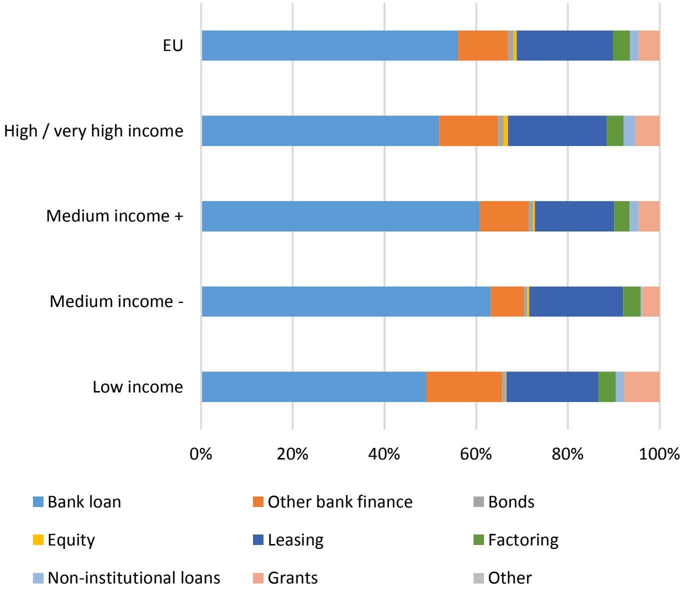
Medium income regions report a relatively higher share of external financing compared to other regions.

Intra-group financing is overall limited, but more common in high income regions, reflecting higher sophistication of firms' organizational models.



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

TYPE OF EXTERNAL FINANCE USED FOR INVESTMENT ACTIVITIES



Bank loans account the highest share of external finance (56%), followed by leasing (21%) and other types of bank finance (11%).

The proportion of firms using grants is particularly high in low income regions (8%) but also in high income ones (5%), probably due to spatially-blind support schemes.

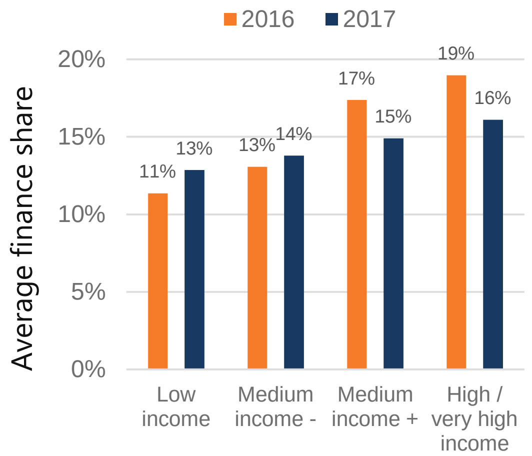
Overall, almost no external finance comes from equity and bonds. They are slightly more common in high income regions, potentially also reflecting firms' closeness to financial centres and levels of capital market development across the EU.

Other bank finance make up an relatively higher share of external finance among service sector firms.

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?

INVESTMENT FINANCE

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



Across EU firms, 16% report that their main reason for not applying for external finance was because they were happy to use internal funds / did not have a need for it.

The proportion of firms happy to rely on internal funds tends to be smaller for firms located in regions that are less prosperous.

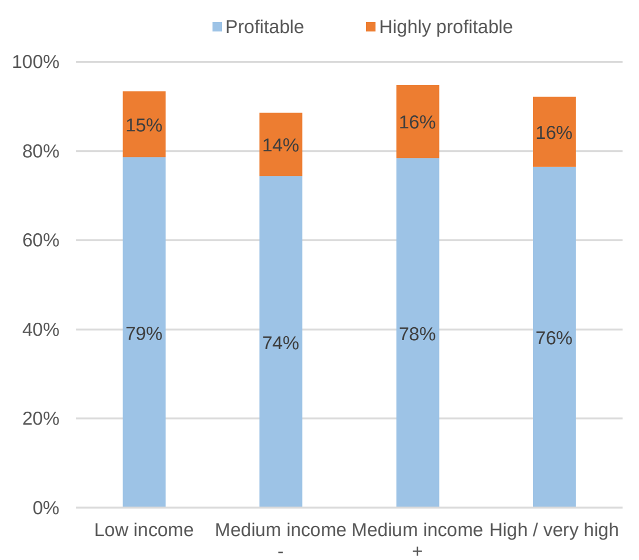
Base: All firms

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

SHARE OF PROFITABLE FIRMS

Nearly eight in ten businesses across the EU (79%) reported having generated a profit in the last financial year. By regional groups, Medium – regions display the lowest share of profitable and highly profitable corporates.

Firms in Lower income regions do not display lower shares which may also reflect that some Central Eastern and South Eastern European countries have a relatively high share of profitable corporations in European comparison.



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

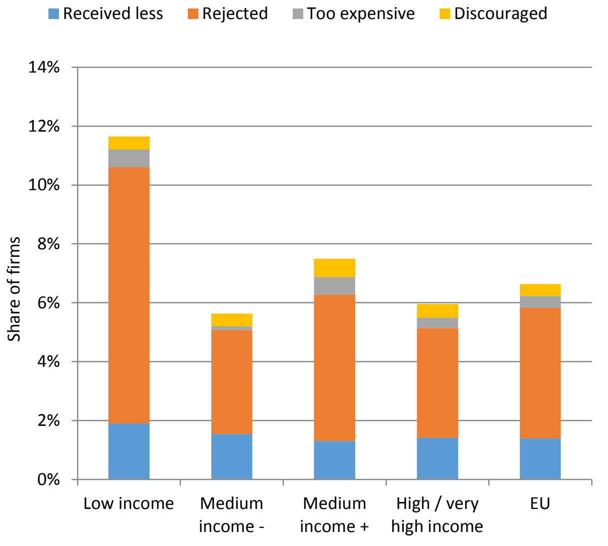
Q: Taking into account all sources of income in, did your company generate a profit or loss before tax, or did you break even? Highly profitable is defined as profits/turnover bigger than 10%

SATISFACTION WITH FINANCE

SHARE OF FINANCE CONSTRAINED FIRMS

In the EU, seven per cent of all firms can be considered finance constrained. Firms in low income regions are more likely to be finance constrained (almost 12%).

This is caused mainly by the rate of firms rejected when seeking external finance (9%), much higher than in regions with other income categories.

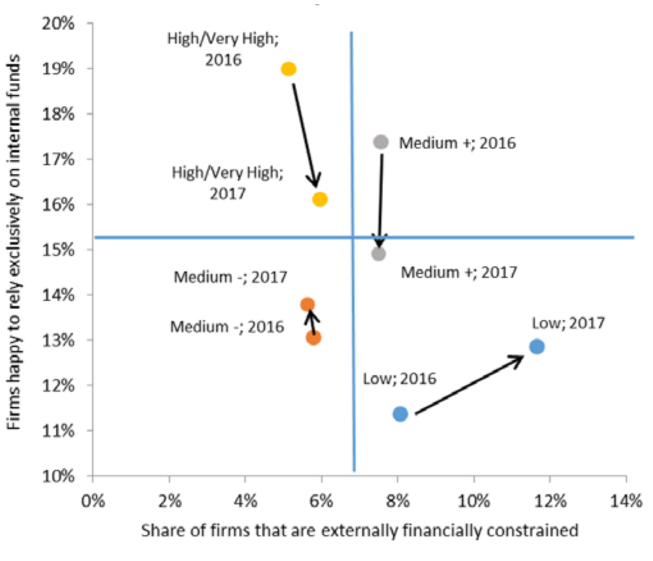


Base: All firms

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)

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

FINANCING CROSS



Firms in low income regions, compared to the previous wave, register a significantly higher share of financially constrained firms. At the same time, the share of firms declaring to be happy to rely on internal funds has also increased significantly.

For other categories of regions, the share of financially constrained firms has changed only marginally, but the share of firms happy to use internal finance only has decreased significantly in regions with GDP per capita above the EU average.

Base: All 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'

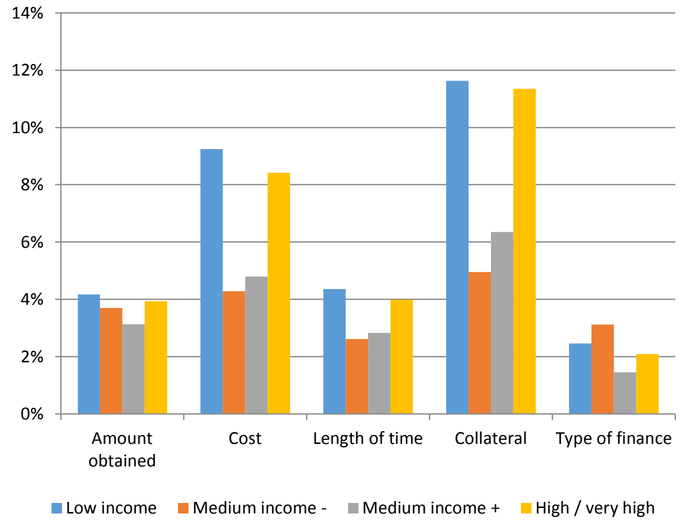
SATISFACTION WITH FINANCE

DISSATISFACTION WITH EXTERNAL FINANCE RECEIVED

Firms that used external finance are much more likely to be satisfied than dissatisfied with the amount, cost, maturity, collateral and type of finance received. Only a limited share of firms reported dissatisfaction.

The collateral required is the main source of dissatisfaction, especially in low income and in high income regions.

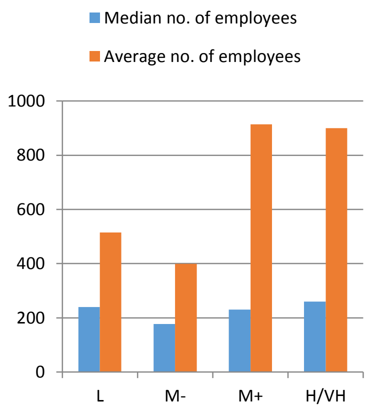
Also costs seem to be an issue for these two categories of regions.

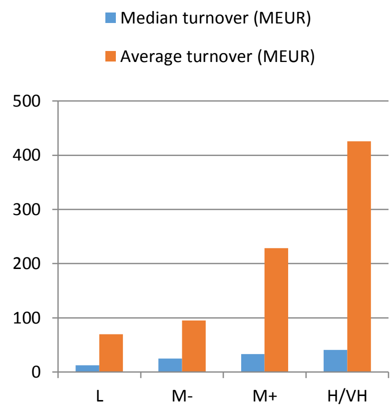


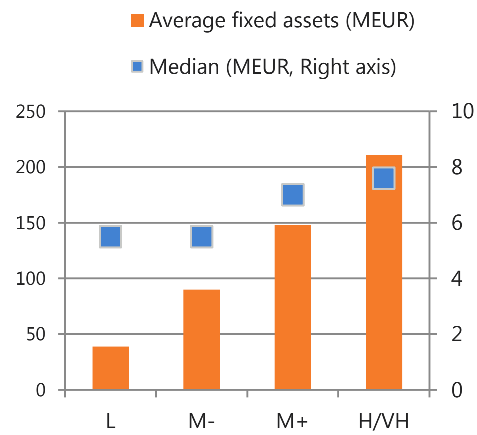
Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)
Q. How satisfied or dissatisfied are you with ....?

PROFILE OF FIRMS

FIRMS SIZE

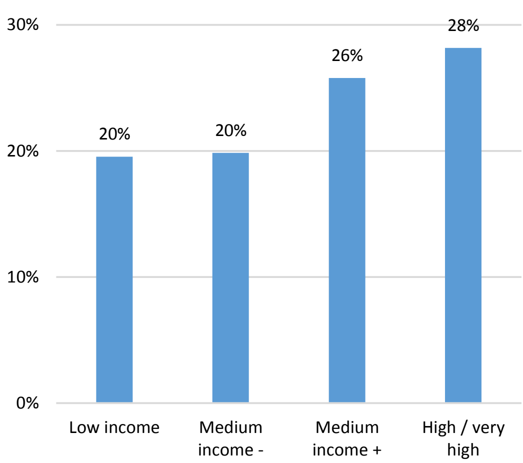






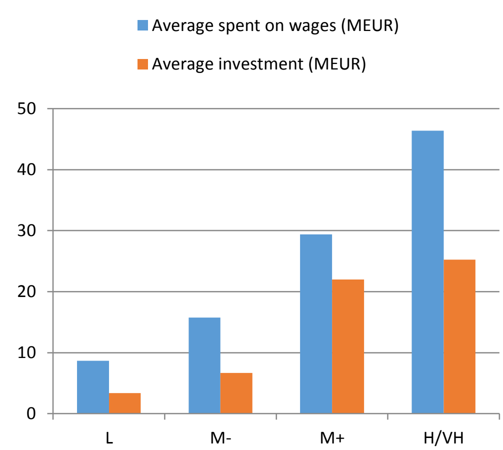
Firms in regions with higher income are larger on average in terms of employees. However, the median of employees ranges between 180 (M-) and 260 (H/VH). Firms in high income regions (H/VH) register significantly higher turnover and fixed assets on average. The median turnover ranges between EUR 12 million (Low income) and EUR 41 million (high/very high income).

EMPLOYMENT DYNAMICS IN LAST THREE YEARS



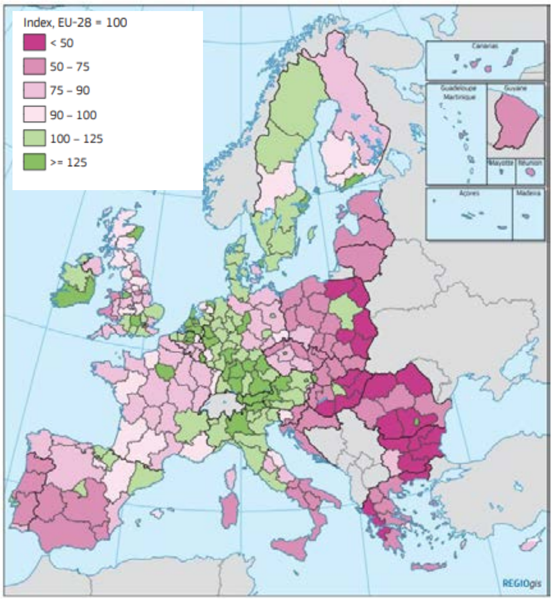
Base: All firms (excluding don't know, refused and missing responses)
Q. Thinking about the number of people employed by your company, by how much has it changed in the last 3 years?

SPENT ON WAGES AND INVESTMENT



MACROECONOMIC CONTEXT

GDP in EU's regions

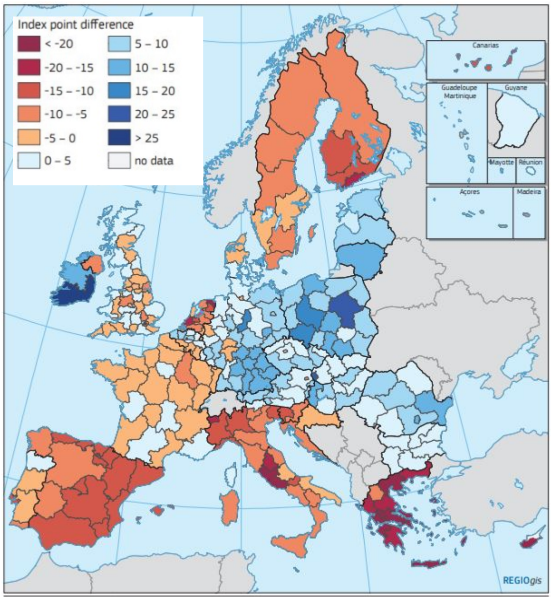


Most of the very high and high income regions are located in Southern England, Benelux, Germany, Austria and down to northern Italy. A few capital cities and northern regions outside this area are also in this group. Many middle income cities are located in the west of the EU and low income ones in the south and the east.

From 2008 onwards, regional disparities increased in terms of GDP and unemployment. Basically all the regions in the EU-13 converged. Instead, regions located in Ireland, Italy, Spain, Portugal and Greece saw a reduction of GDP per capita. Many regions in these countries still have a GDP per head and an employment rate below pre-crisis levels.

Demographic trends diverge, with higher income regions witnessing significant population increases. The demographic trend is very differentiated, with higher income regions witnessing a significant increase of population.

GDP growth 2008-2015



Dynamics by category of regions

	H / VH	MI+	MI-	LI
GDP/capita (PPS, 2015 average)	44990	31510	24982	16647
Average GDP/capita (% of EU, 2015)	156	109	87	58
Total GDP (% of EU in PPS)	33.8	24.5	26.9	14.7
Change in % of EU's GDP (2015-14)	-0.6	0.2	0.1	0.2
Population % of EU (2016)	22.6	22	30.8	24.6
Population growth (2016-10)	3.5%	2.1%	1.4%	-2.0%
Average unemployment rate (2016, %)	5.5	6.2	8.1	13.5
Average change in unemployment rate (2016-15)	-0.32	-0.56	-0.71	-1.29

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.

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Regional results

EIB INVESTMENT SURVEY

2017