EIBIS 2016
EIB Group Survey on Investment and Investment Finance 2016

Country Overview

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

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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.
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.
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.

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.

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.
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 abroad**

- 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.

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**

<table>
<thead>
<tr>
<th>Sector</th>
<th>EU Average</th>
<th>Croatia</th>
<th>Manufacturing</th>
<th>Construction</th>
<th>Services</th>
<th>Infrastructure</th>
<th>SME</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested too much</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>About the right amount</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Invested too little</td>
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<tr>
<td>Don’t Know/refused</td>
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</tr>
</tbody>
</table>

**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?

- 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

<table>
<thead>
<tr>
<th></th>
<th>Average share</th>
<th>Croatia</th>
<th>Manufacturing</th>
<th>Construction</th>
<th>Services</th>
<th>Infrastructure</th>
<th>SME</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>State-of-the-art machinery and equipment – EU average</td>
<td></td>
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</tr>
</tbody>
</table>

**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

<table>
<thead>
<tr>
<th></th>
<th>Average share</th>
<th>Croatia</th>
<th>Manufacturing</th>
<th>Construction</th>
<th>Services</th>
<th>Infrastructure</th>
<th>SME</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>High energy efficiency standards – EU average</td>
<td></td>
<td></td>
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</tbody>
</table>

**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 by investment performance

Firms that invested sufficiently
Firms that invested too little

Political and regulatory climate
Overall economic climate
Business prospects in the sector
Availability of external finance
Availability of internal finance

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.

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

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

#### Long term barriers by investment performance

- **Firms that invested sufficiently**
- **Firms that invested too little**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Share of firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uncertainty about the future</td>
<td></td>
</tr>
<tr>
<td>Availability of external finance</td>
<td></td>
</tr>
<tr>
<td>Adequate transport infrastructure</td>
<td></td>
</tr>
<tr>
<td>Business regulations</td>
<td></td>
</tr>
<tr>
<td>Labour market regulations</td>
<td></td>
</tr>
<tr>
<td>Access to digital infrastructure</td>
<td></td>
</tr>
<tr>
<td>Energy costs</td>
<td></td>
</tr>
<tr>
<td>Availability of staff with right skills</td>
<td></td>
</tr>
<tr>
<td>Demand for products or services</td>
<td></td>
</tr>
</tbody>
</table>

**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.
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.

**Type of external finance used for investment activities**

**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.

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

- 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.

Base: All firms
The charts reflect 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 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).
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.

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.
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

<table>
<thead>
<tr>
<th></th>
<th>EU</th>
<th>Croatia</th>
<th>Manufacturing</th>
<th>Construction</th>
<th>Services</th>
<th>Infrastructure</th>
<th>SME</th>
<th>Large</th>
<th>EU vs Country</th>
<th>Manufacturing vs Construction</th>
<th>SME vs Large</th>
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</thead>
<tbody>
<tr>
<td>10% or 90%</td>
<td>(12483)</td>
<td>(487)</td>
<td>(133)</td>
<td>(117)</td>
<td>(116)</td>
<td>(121)</td>
<td>(417)</td>
<td>(70)</td>
<td>(12483 vs 487)</td>
<td>(133 vs 117)</td>
<td>(417 vs 70)</td>
</tr>
<tr>
<td>30% or 70%</td>
<td>1.0%</td>
<td>3.3%</td>
<td>5.7%</td>
<td>6.1%</td>
<td>6.7%</td>
<td>6.1%</td>
<td>2.7%</td>
<td>6.1%</td>
<td>3.4%</td>
<td>8.3%</td>
<td>6.6%</td>
</tr>
<tr>
<td>50%</td>
<td>1.5%</td>
<td>5.0%</td>
<td>8.7%</td>
<td>9.3%</td>
<td>10.2%</td>
<td>9.4%</td>
<td>4.1%</td>
<td>9.3%</td>
<td>5.2%</td>
<td>12.7%</td>
<td>10.1%</td>
</tr>
<tr>
<td></td>
<td>1.7%</td>
<td>5.5%</td>
<td>9.5%</td>
<td>10.2%</td>
<td>11.1%</td>
<td>10.2%</td>
<td>4.5%</td>
<td>10.1%</td>
<td>5.7%</td>
<td>13.9%</td>
<td>11.0%</td>
</tr>
</tbody>
</table>

### 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
### Base sizes

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

### Percentage rounding

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