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Czech Republic

EIBIS 2016

EIB Group Survey on Investment and Investment Finance 2016

Country Overview

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EIB Group Survey on Investment and Investment Finance Country Overview: Czech Republic

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

Tomas Slacik, EIB.

Disclaimer

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

About Ipsos Public Affairs

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.

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EIBIS 2016 – COUNTRY OVERVIEW

Czech Republic

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 479 firms in Czech Republic in 2016 (July-October). Note: The results are weighted by value-added, reflecting firms' contribution to the economy.

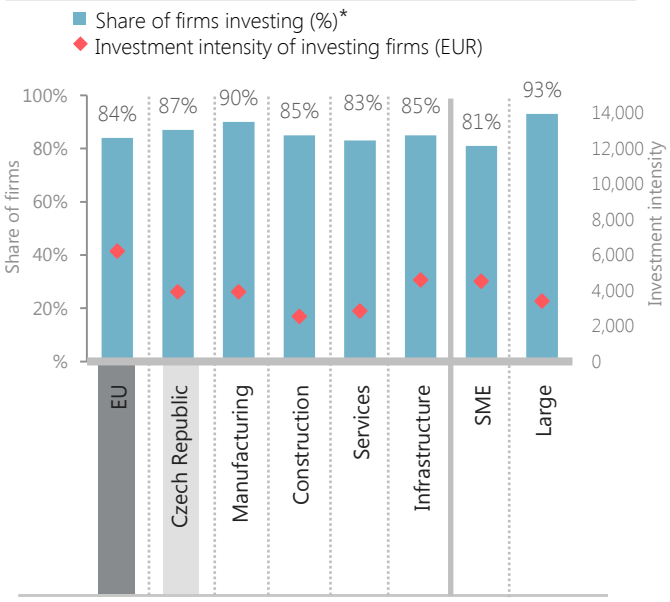
Key results

Investment outlook:	**High investment and positive outlook**: nearly nine in ten firms in the Czech republic invested in the last financial year and they have a rather a positive outlook for the current year on balance. About three quarters of firms are planning to keep investment either constant or increase it.
Investment activity:	**Nearly every second euro in the Czech Republic is invested into replacement** of existing buildings, machinery, equipment and IT. While slightly more than half of investment goes to machinery and equipment some 7% is directed to R&D. This is comparable with the EU average.
Investment gap:	**Less than every fifth firm reports that it invested too little** over the last three years. In contrast, more than three quarters of respondents believe their investment was about right. A lower share of machinery and equipment than in the EU (38% vs. 44%) is described as state-of-the-art. Only 29% (vs. 40% EU-wide) of firms' building stock meets high efficiency standards.
Investment barriers:	**Political and regulatory climate** is the main short-term barrier to investment, similarly to the EU. In the long term, lack of skilled staff is an obstacle to investment for nearly nine in ten firms (compared to 70% EU-wide) and for six of them it is a major obstacle.
External finance:	**Only three per cent of firms consider themselves 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, lower than the EU average.
Firm performance:	**Productivity levels are below the EU average** with relatively little dispersion across sectors and the greatest within-sector-variance in services.

INVESTMENT DYNAMICS

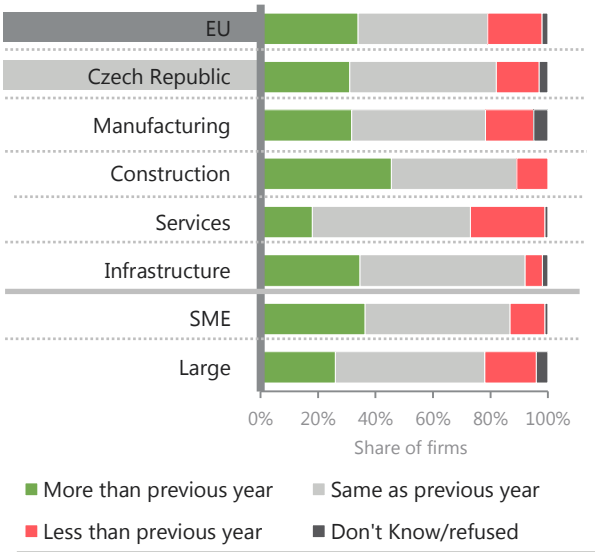
- In line with robust investment figures on the macro level, overall, 87% of firms in the Czech Republic invested in the last financial year.
- While the share of investing firms is comparable to the EU, Czech firms invested some 2,300 euros per employee less than their EU peers.

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

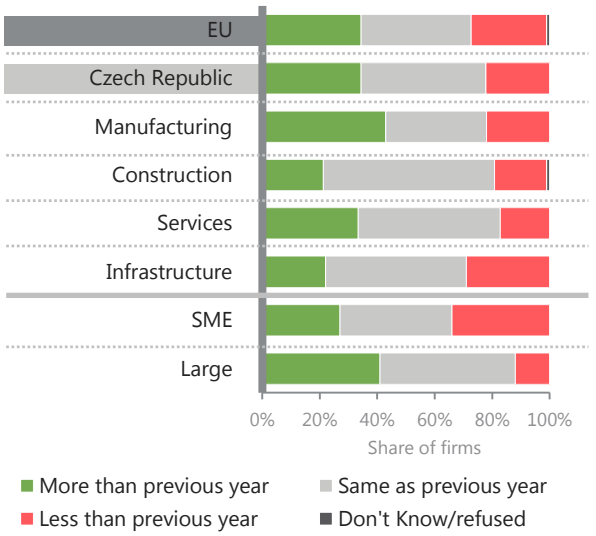


Base: *All firms who invested in the last financial year*
Q. Overall was this more, less or about the same amount of investment as in the previous year?

- On balance, investment activity increased year on year. While around half of firms in the Czech Republic kept their investment constant, 31% increased their investment activity thus overcompensating 15% of firms which invested less, in line with the EU averages.
- Investment acceleration was particularly pronounced in the construction sector compared to other sectors. Macroeconomic data suggest that mainly construction of dwellings recovered noticeably.

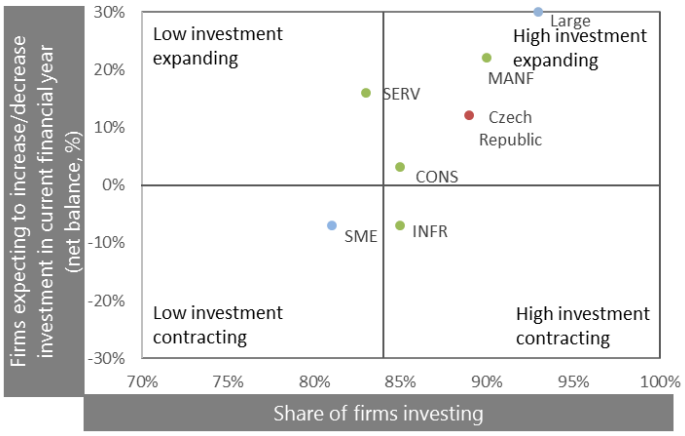
- On balance, investment should increase in the next financial year as the share of firms (34%) planning to increase investment exceeds the 22% of firms who are planning to invest less, in line with the EU average.
- Over two in five (43%) firms in the Czech Republic, in line with the EU-wide average (38%), will hold their investment activity constant.
- Investment is set to get a boost particularly in the manufacturing sector (43%).

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



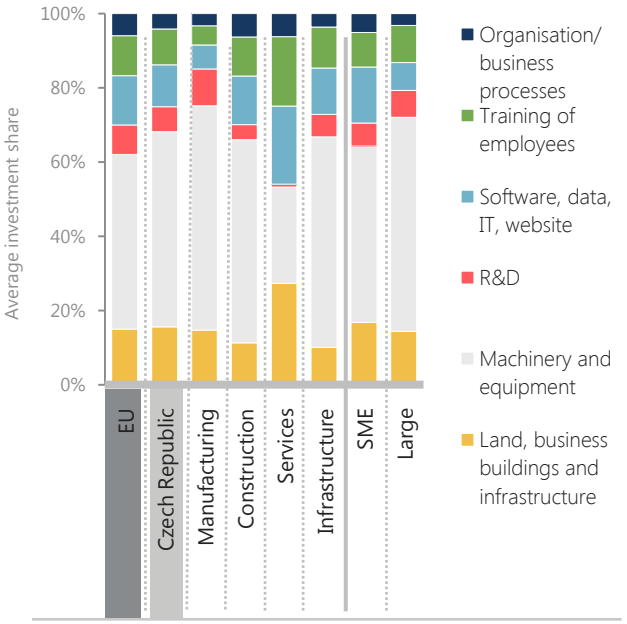
Base: *All firms*
Share of firms investing shows the percentage of firms with investment per employee greater than EUR 500.

- Overall, firms in the Czech Republic are in the 'high investment; expanding' quadrant within the investment cycle.
- Yet this is driven solely by large firms as SME firms are planning to further shrink their already low investment activity.
- A sectoral decomposition suggests that only in the infrastructure sector investment is expected to contract at a comparatively high level.

INVESTMENT ACTIVITY

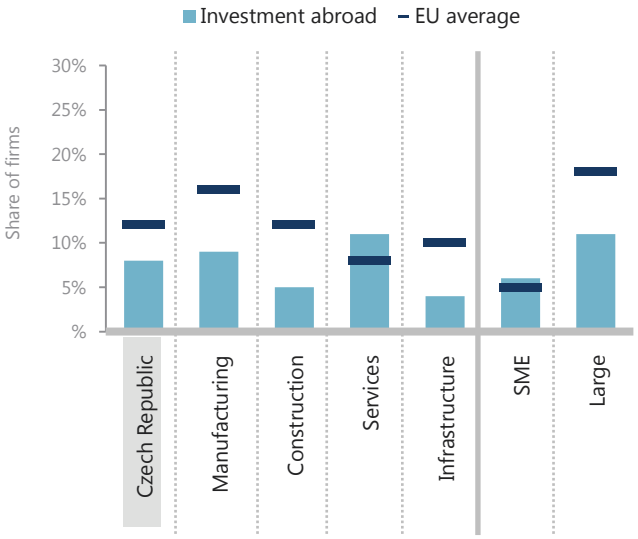
- The largest share - slightly more than half (53%) - of investment in the Czech Republic went to machinery and equipment, above the EU average of 47%. This corresponds to a strong increase in equipment investment on the macro level in 2015 (8.5%).
- Manufacturing firms spend particularly large shares on machinery and equipment (60%) as well as on R&D (10%).
- Positively, the share of investment going to R&D (7%) is in line with the EU (8%).

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

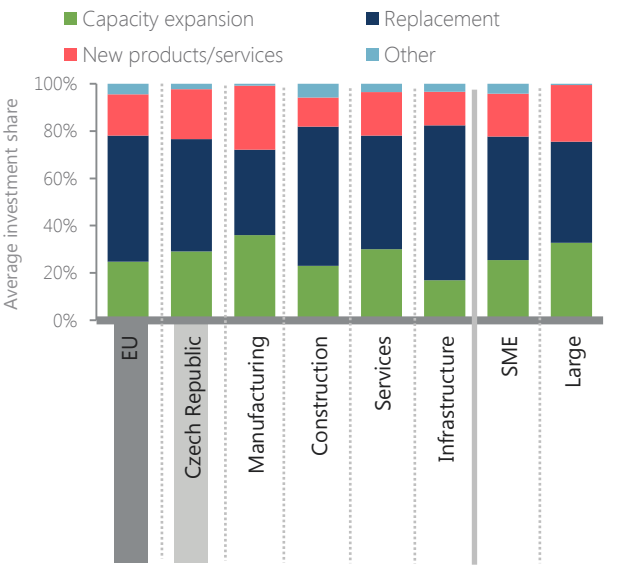


Base: *All firms who invested in the last financial year*
Q. In the last financial year, has your company invested in another country?

- In the last financial year 8% of Czech firms invested in another country, in line with other EU-wide firms.

- Nearly every second euro is invested into replacement of existing buildings, machinery, equipment and IT (47%), with the infrastructure sector being more likely than other sectors to invest in this area (66%).
- While this is still the largest share of overall investment for the Czech Republic, it is lower than the EU average (53%).
- Manufacturing firms stick out as they invest the largest share (36%) in capacity expansion and new products and services (27%). These are significantly higher shares than the national average.

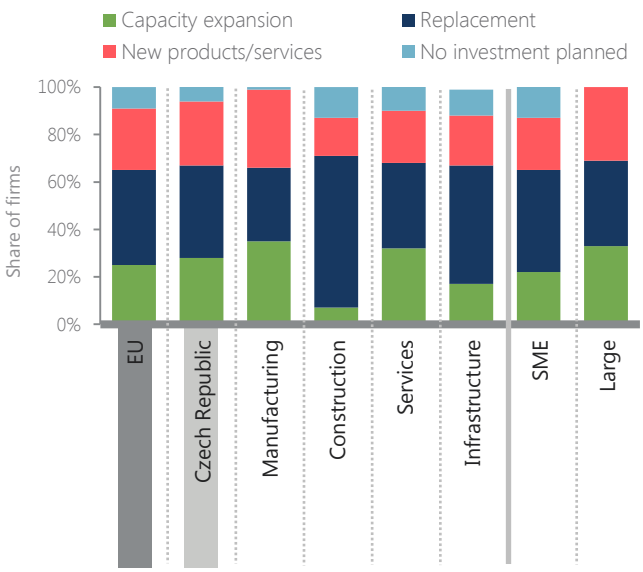
Purpose of investment in last financial year



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)*

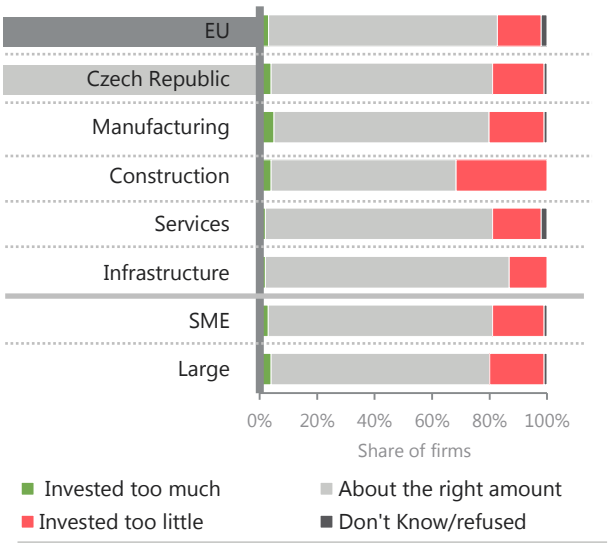
Q. Looking ahead to the next 3 years, which of the following is your investment priority (a) replacing existing buildings, machinery, equipment, IT (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

- Looking ahead, replacement remains an investment priority for most firms in the Czech Republic (39%), in line with the EU average (40%).
- In the construction sector the share of firms investing in replacement of existing buildings, machinery, equipment and IT is significantly higher than the national average (64%).
- Manufacturing firms are more likely to invest in capacity expansion (35% vs. 28% overall) compared to firms in other sectors.

INVESTMENT NEEDS

- More than three quarters of firms in the Czech Republic (77%) believe their investment over the last three years was about right, in line with the EU average.
- Less than every fifth firm (18%) believes that it invested too little.
- However, the share of firms that report they invested too little is highest in the construction sector (32%).

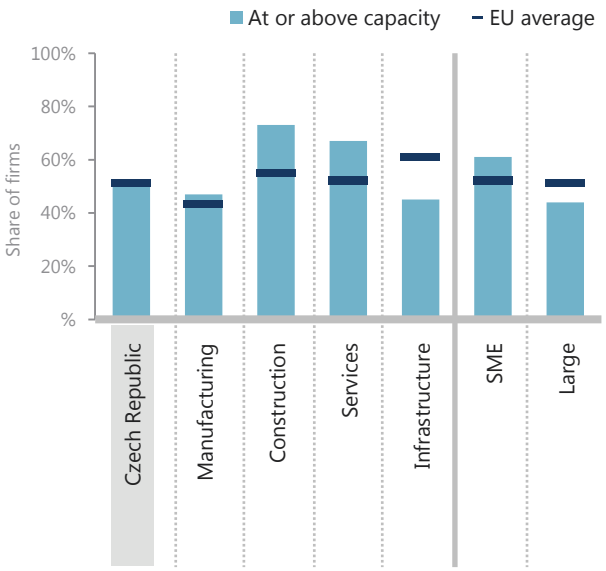
Perceived investment gap



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



- Around half (52%) of firms in the Czech Republic, in line with the EU average, report to have operated at or above maximum capacity in the last financial year.
- The share of firms operating at or above full capacity is largest in the construction sector (73%).

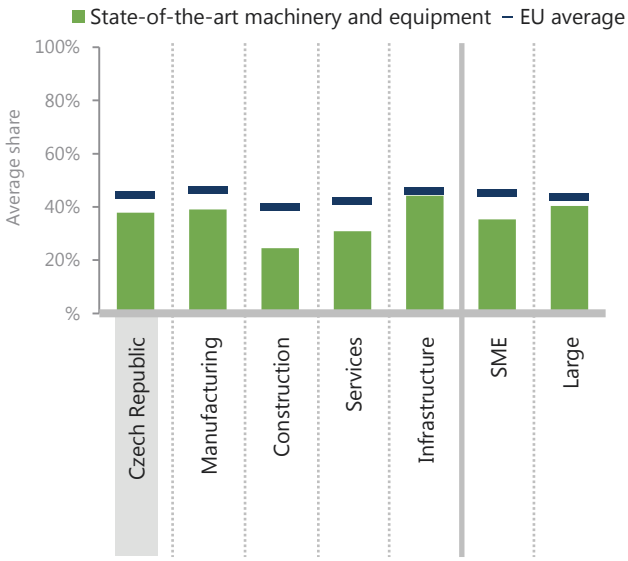
Base: *All firms (data not shown for those operating somewhat or substantially below full capacity)*

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?

- On average, firms in the Czech Republic consider 38% of their machinery and equipment to be state-of-the-art, which is lower than the EU average (44%).

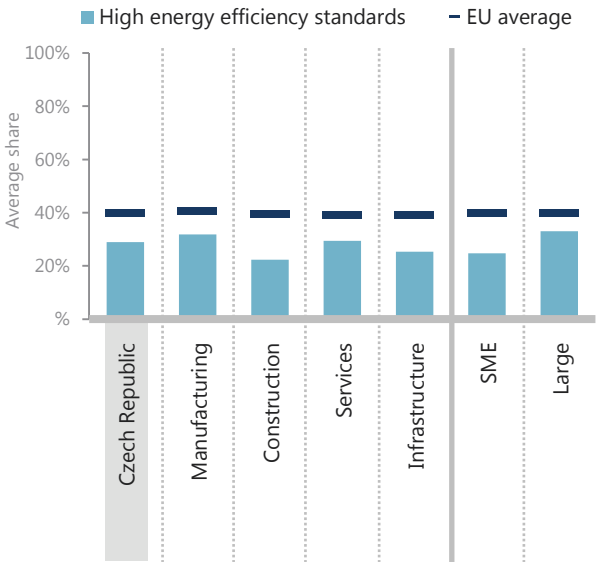
Average share of state-of-the-art machinery and equipment



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*

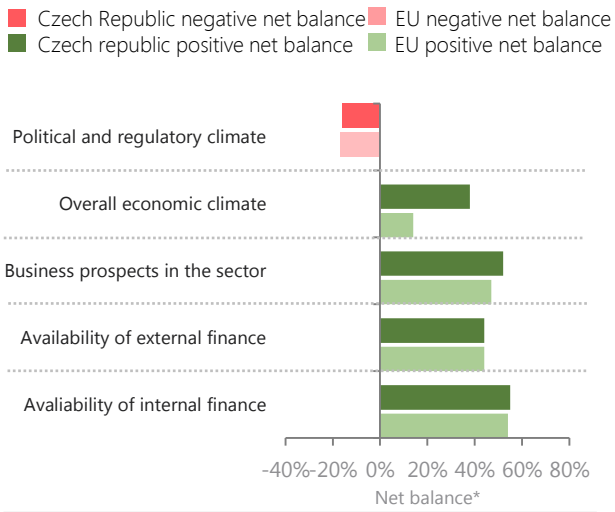
Q. What proportion, if any, of your commercial building stock satisfies high or highest energy efficiency standards?

- Overall, firms in the Czech republic state that 29% of their building stock meets high efficiency standards, significantly below the EU-wide average (40%).

INVESTMENT CONSTRAINTS

- In line with the EU aggregate, the political and regulatory climate is perceived as the main barrier to investment in 2016.
- All other factors have played a strong positive role.

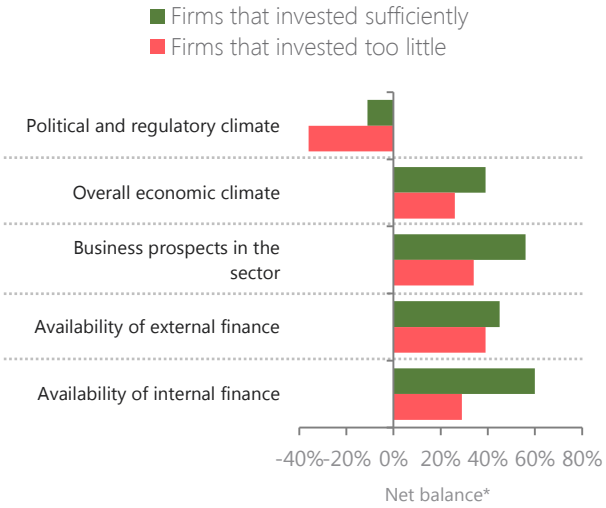
Short term influences on investment



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



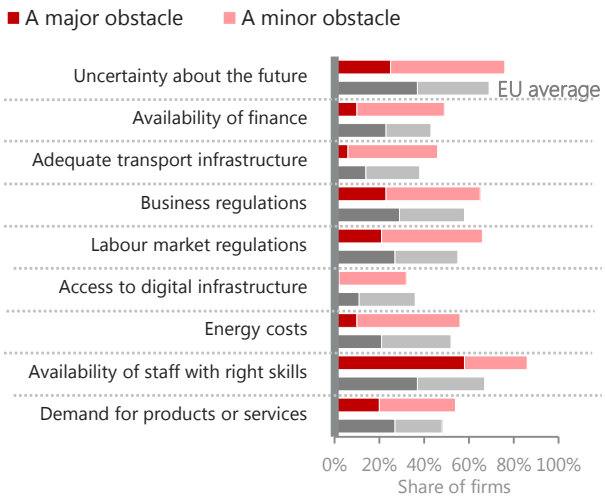
Base: *All firms who have planned to invest in the current financial year and who invested too much, about the right amount or too little in the last financial year (excluding don't know/refused/Company didn't exist three years ago responses)*

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 which report to have invested below their needs over the last three years have a less positive assessment of factors influencing their investment.
- A higher proportion of such firms see the political and regulatory climate as a burden to their investment activities and the positive effect of other factors is somewhat weaker than among firms which have invested sufficiently in the last years.

- In the context of tight labour market conditions on the macro level, lack of skilled staff is a long-term obstacle to investment for nearly nine in ten and for six in ten it is a major impediment (higher than the EU average).
- Uncertainty about the future is another long-term barrier to investment for nearly 80% (70% in the EU) of interviewed firms in the Czech Republic. Yet, unlike in the EU, most firms see it only as a minor obstacle.

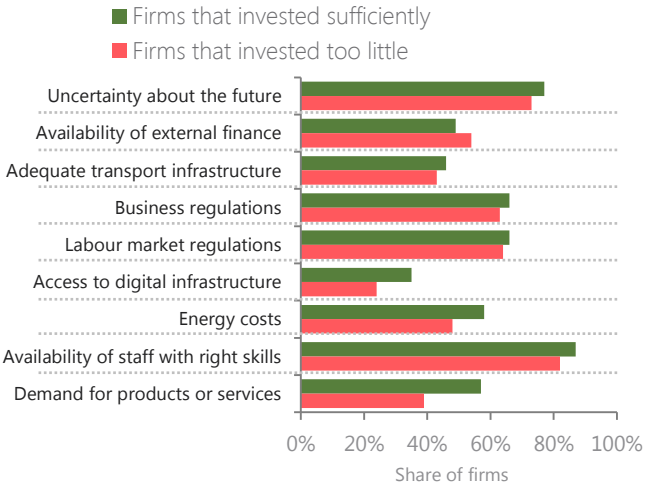
Long term barriers to investment



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 Czech Republic, 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*

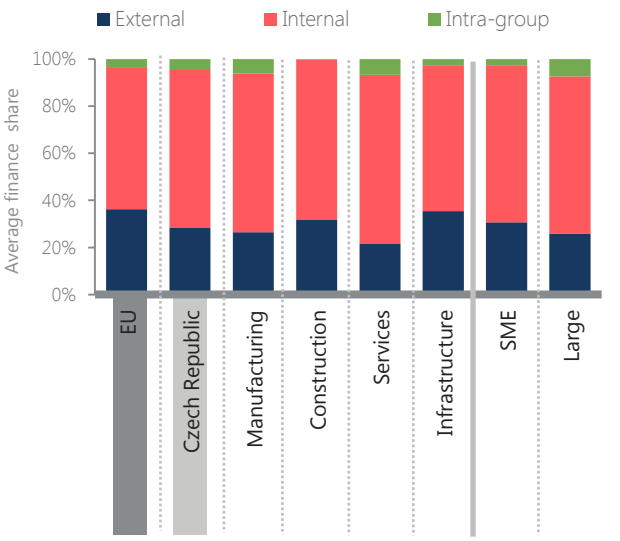
Q. Thinking about your investment activities in Czech Republic, to what extent is each of the following an obstacle? Is it a major obstacle, a minor obstacle or not an obstacle at all?

- The perception of long term barriers to investment is broadly similar among firms which have reportedly underinvested and those which have invested in line with needs.
- Interestingly, a larger share of firms which have invested sufficiently views access to digital infrastructure, energy costs and weak demand as long-term obstacle to investment.

INVESTMENT FINANCE

- More than two thirds (66%) of firms' investment finance comes from internal funds, above the EU average of 60%.
- Nearly three in ten of investment finance comes from external sources, mostly bank loans (55%), in line with the EU.
- Firms using external finance are on balance (often very) satisfied with all financing conditions, though slightly less so with collateral requirements.

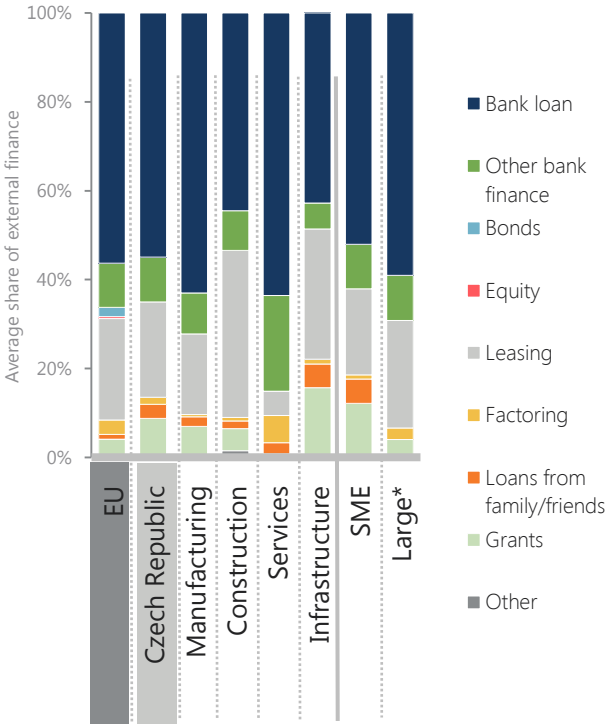
Source of investment finance



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

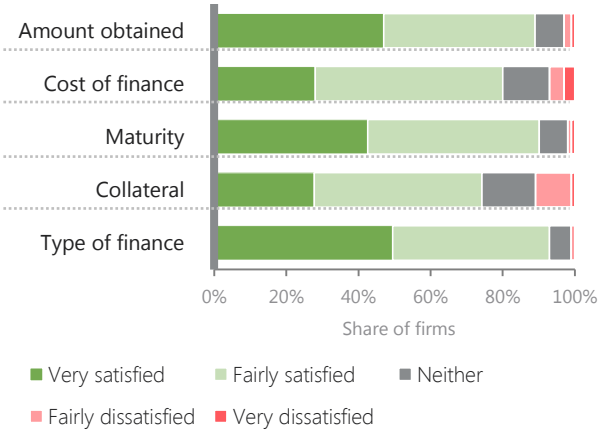


Base: *All firms who used external finance in the last financial year (excluding don't know/refused responses)*

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

**Caution very small base size less than 30*

Satisfaction with external finance

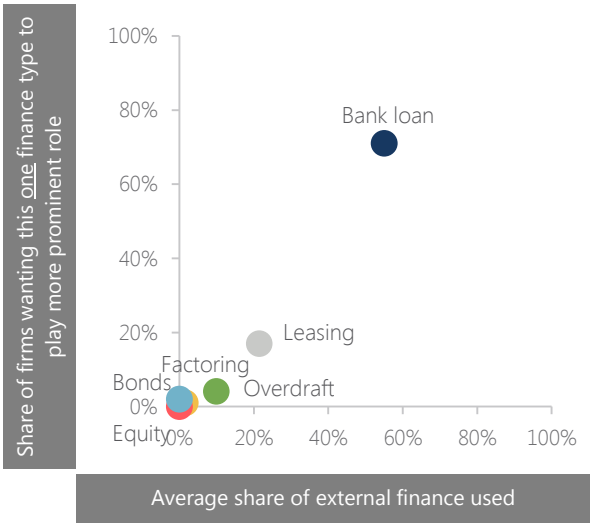


Base: *All firms who used external finance in the last financial year (excluding don't know/refused responses)*

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

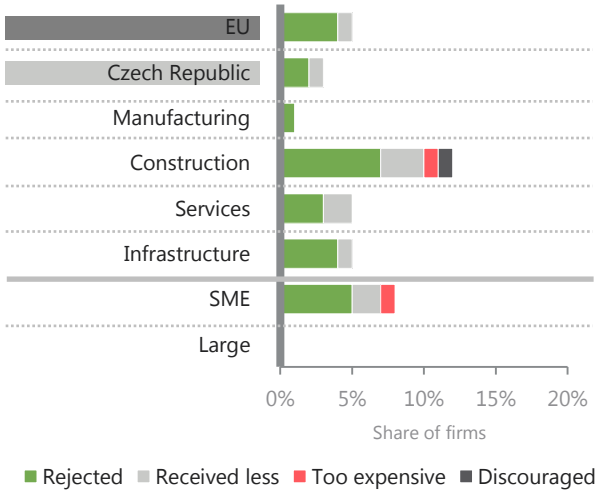
- In general, firms in the Czech Republic tend to want more of the type of external finance they are already using, especially bank loans.
- An exception are overdrafts. They currently amount to nearly 30% of external finance but only four per cent of firms state that they would like them to play a more prominent. role.

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

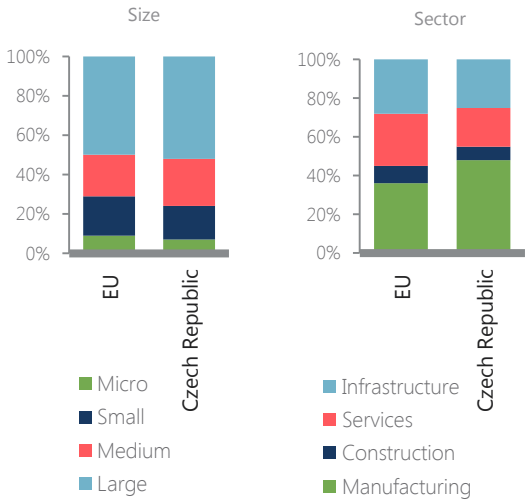


Base: *All firms*
Finance constrained firms include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive)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

- Only three per cent of firms in the Czech Republic can be considered external finance constrained, compared to the EU-wide average of five per cent.
- More than one in eight (12%) of firms in the construction sector report some sort of financing restriction, which is significantly higher than other sectors.

PROFILE OF FIRMS

Contribution to Value-Added

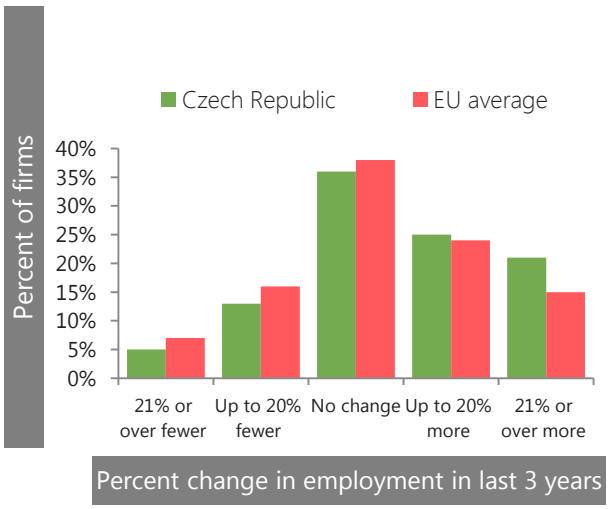


Base: *All firms*

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+.

- In line with the EU, large firms in the Czech Republic contribute 52% to the value added.
- Sectoral breakdown suggests that manufacturing firms contribute a significantly larger share to value added (48%) than in the EU (36%).
- Employment dynamics in the Czech Republic is similar to the EU.
- Depending on the sector, 45-80% of firms fall into the lowest productivity class compared to EU peers. This is surprising for the manufacturing sector given the importance of the (largely foreign-owned) car industry.

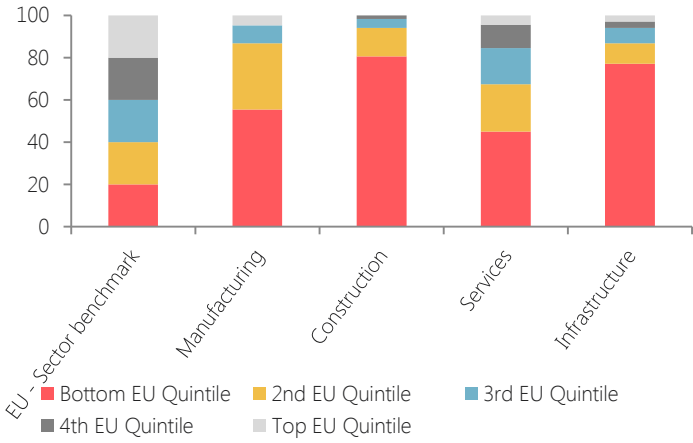
Employment dynamics in last 3 years



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?

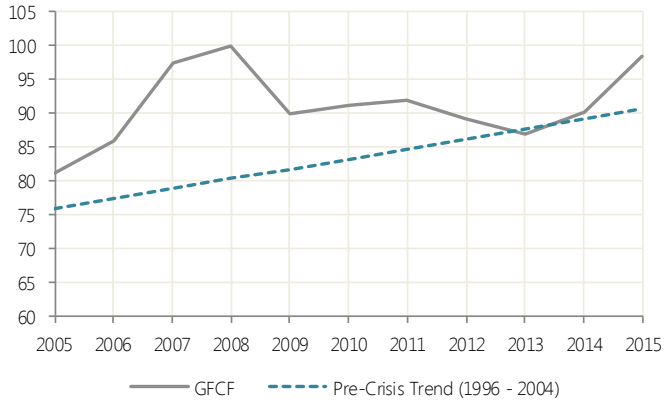
Distribution of firms by productivity class



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

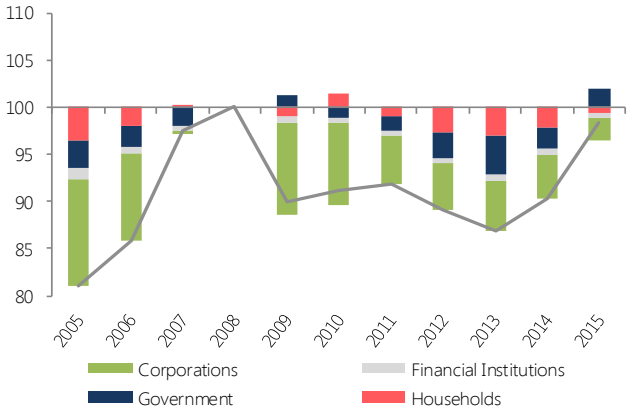
Investment Dynamics over time



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 .

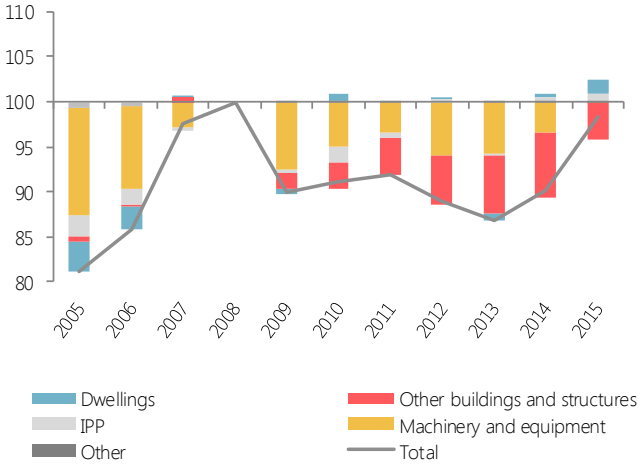
- A strong investment recovery in the last years has been driven particularly by improvements in corporate investment and an exceptional boost from EU co-financed public investment. However, investment in dwellings has also made a contribution.
- Investment is thus just below the 2008 level on account of buildings and structures but is well above a long term pre-crisis trend.

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.

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EIBIS 2016 – COUNTRY TECHNICAL DETAILS

The final data are based on a sample, rather than the entire population of firms in Czech Republic, 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	Czech Republic	Manu-facturing	Cons-truction	Services	Infras-tructure	SME	Large	EU vs Country	Manufacturing vs Construction	SME vs Large
	(12483)	(479)	(193)	(100)	(92)	(94)	(413)	(66)	(12483 vs 479)	(193 vs 100)	(413 vs 66)
10% or 90%	1.0%	3.7%	5.3%	7.9%	9.7%	7.2%	3.1%	6.5%	3.8%	9.5%	7.2%
30% or 70%	1.5%	5.6%	8.0%	12.1%	14.8%	11.0%	4.7%	10.0%	5.8%	14.5%	11.0%
50%	1.7%	6.1%	8.8%	13.2%	16.2%	12.0%	5.2%	10.9%	6.4%	15.8%	12.0%

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.

EIBIS 2016 – COUNTRY TECHNICAL DETAILS

Base sizes

Base definition and page reference	EU	Czech Republic	Manufacturing	Construction	Services	Infrastructure	SME	Large
All firms, p. 3, p. 6, p. 7, p. 9, p. 11, p. 12, p. 13	12483	479	193	100	92	94	413	66
All firms (excluding don't know/refused responses), p. 2	11838	455	184	94	86	91	393	62
All firms (excluding those who have no investment planned/don't know/refused responses), p. 5	12159	472	190	98	90	94	406	66
All firms (excluding 'Company didn't exist three years ago' responses), p. 6	12453	479	193	100	92	94	413	66
All firms (excluding don't know, refused and missing responses), p. 13	12162	469	189	98	90	92	404	65
All firms who invested in the last financial year, p. 2	12281	473	190	99	92	92	409	64
All firms who invested in the last financial year, p. 4	10881	453	184	93	86	90	393	60
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 4	10060	447	182	93	83	89	388	59
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 5	9682	413	172	84	74	83	357	56
All firms who invested in the last financial year (excluding don't know/refused responses), p. 10	9093	399	156	84	76	83	355	44
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	427	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	196	83	35	30	48	175	21

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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