



European
Investment
Bank

The EU bank



Estonia

EIBIS 2016

EIB Group Survey on
Investment and
Investment Finance 2016

Country Overview

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

© European Investment Bank (EIB), 2016. All rights reserved.

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

Philipp-Bastian Brutscher, 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.

EIBIS 2016 – COUNTRY OVERVIEW

Estonia

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

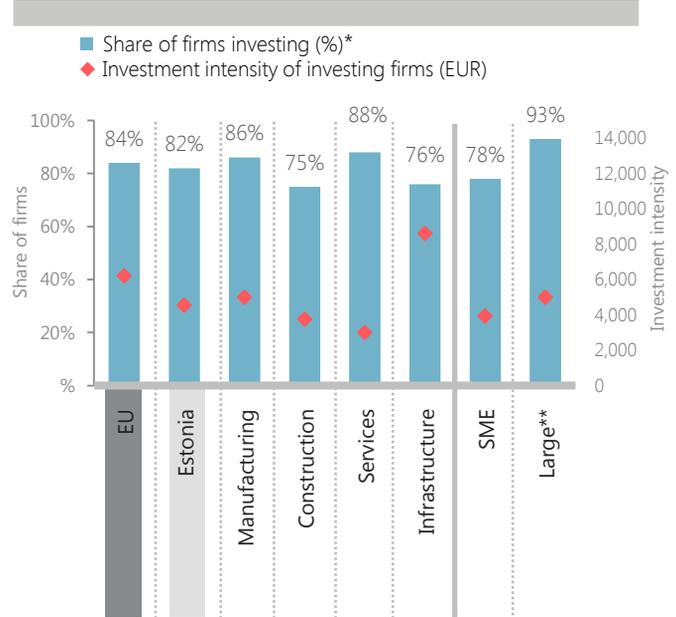
Key results

Investment outlook:	Investment outlook is clouded: more firms expect a contraction in investment in the current financial year than expect an expansion; this comes after a relatively weak investment performance in the last financial year.
Investment activity:	Firms' investment focus is replacement: more than two thirds of firm investment in Estonia is for replacing existing buildings, machinery, equipment and IT.
Investment gap:	21% firms report having invested too little over the last three years, 76% of firms believe their investment was the right amount. The share of machinery and equipment that firms consider 'state-of-the-art' is comparable to the EU average; the reported level of energy efficiency of firms' building stock, on the other hand, is well below the EU average.
Investment barriers:	Lack of skilled staff is the main barrier to investment. Nearly, eight in ten Estonian firms consider this an obstacle to investment; significantly more than for the EU as a whole.
External finance:	5% of firms are external 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, is similar to the EU average.
Firm performance:	Firms in Estonia lag in terms of productivity. A relatively large share of firms fall into the lowest productivity bracket; with service sector firms being a notable exception.

INVESTMENT DYNAMICS

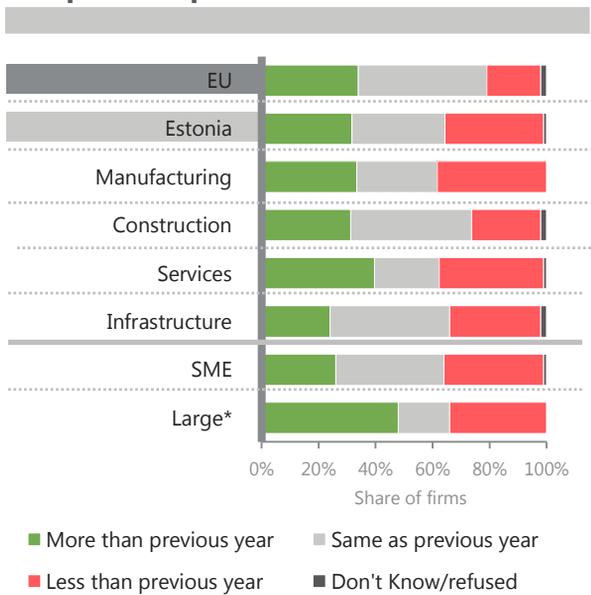
- Overall, 82% of firms in Estonia invested in the last financial year, which is similar to the average for the EU.
- The intensity of investment (investment per employee) in Estonia is below the EU average.

Investment activity in last financial year



Base: All firms (excluding don't know/refused responses)
 *The blue bars indicate the proportion of firms who have invested in the last financial year.
 A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities.
 Investment intensity is the median investment per employee of investing firms.
 **Caution very small base size less than 30

Investment activity in last financial year compared to previous

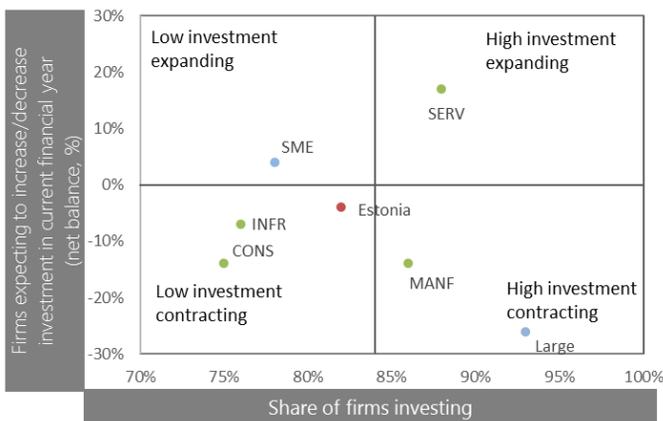


Base: All firms who invested in the last financial year
 Q. Overall was this more, less or about the same amount of investment as in the previous year?
 *Caution very small base size less than 30

- Compared to 2014, 35% of firms state that they reduced their investment activities in 2015; significantly above the figure for the EU as a whole (19%).
- On balance more firms reduced investment in Estonia than increased it (-3%); which is consistent with weak macro-economic investment figures for the year.

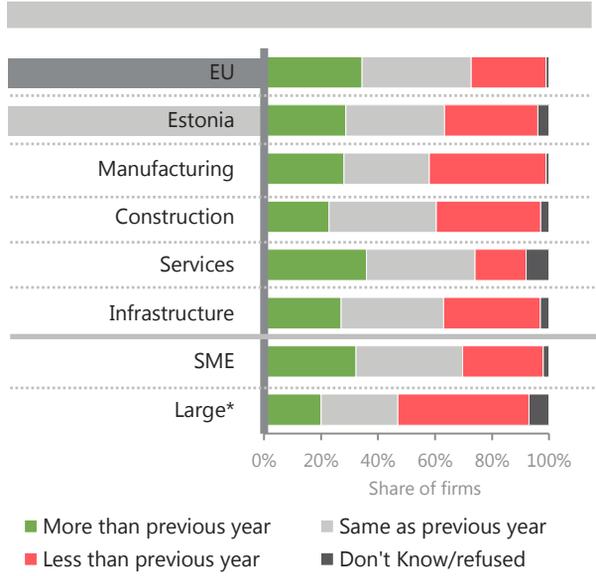
- Firms' investment outlook for 2016 remains cautious.
- While 29% of firms in Estonia expect an increase in their investment activities, 33% expect a contraction (net: -4%).
- Within the investment cycle, this places firms in Estonia in the 'low investment; contracting' quadrant.

Investment cycle



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

Expected investment in current financial year compared to last one



Base: All firms

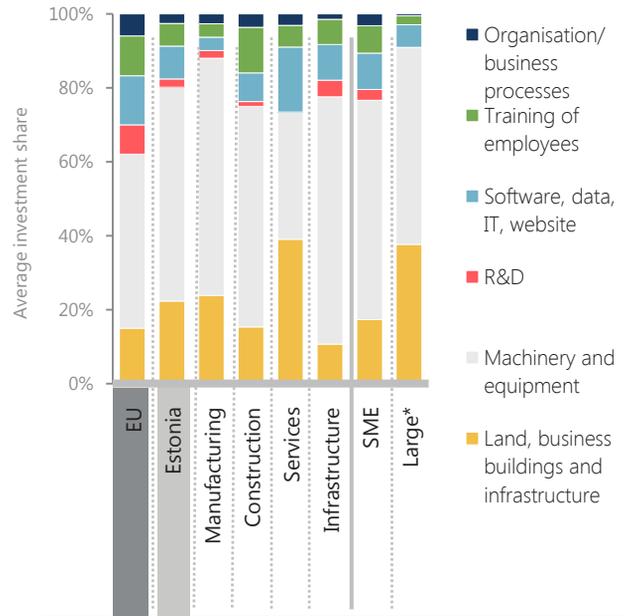
Data is derived from two questions: firms who had invested in the last financial year were asked if they expect to invest more, around the same amount or less than last year; firms who had not invested in the last financial year were asked if they had already invested, or expect to invest in the current year
*Caution very small base size less than 30

- SMEs and service sector firms are on balance more positive about their investment outlook than the aggregate.
- Large firms and the manufacturing sector, while still showing relatively high levels of investment activity, expect a contraction.
- So do firms active in construction and infrastructure where investment activity, however, is already relatively low.

INVESTMENT ACTIVITY

- The largest share of corporate investment in Estonia goes into tangible assets.
- Investment in machinery and equipment account for some 58% of investment outlays, followed by land, business buildings and infrastructure accounting for 22%.
- Investment in intangibles such as organization/business processes, R&D and training is significantly lower than the EU average.

Investment areas

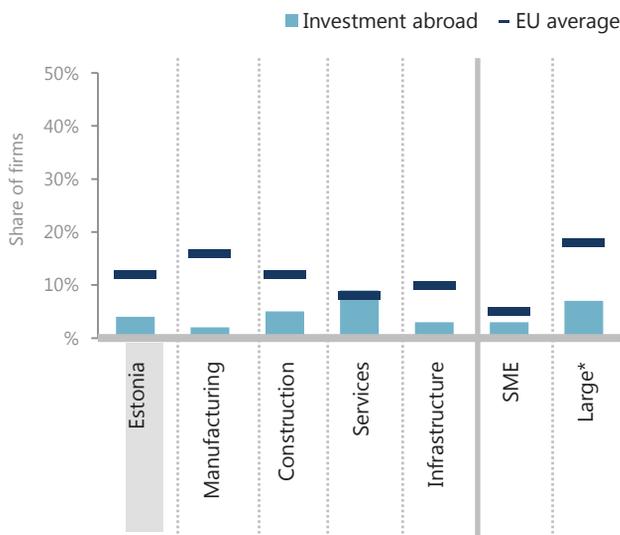


Base: All firms who have invested in the last financial year (excluding don't know/refused responses)

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?

*Caution very small base size less than 30

Investment abroad



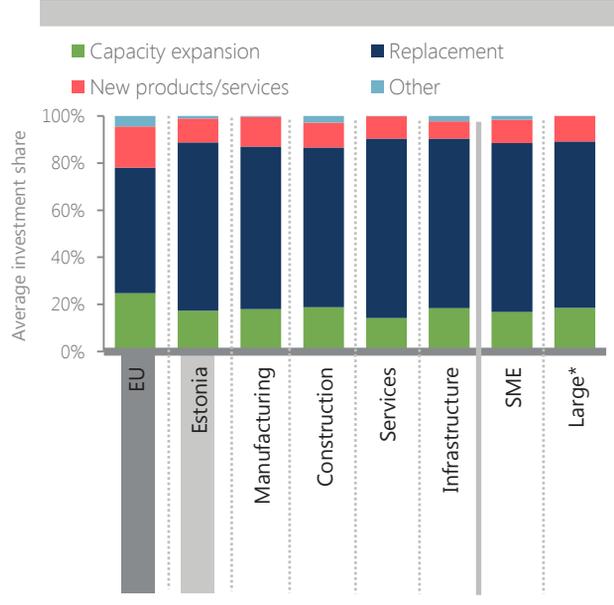
Base: All firms who invested in the last financial year
Q. In the last financial year, has your company invested in another country?

*Caution very small base size less than 30

- Overall four per cent of firms in Estonia have invested in another country in 2015, significantly below the EU average.

- The largest share of investment is intended for replacing existing buildings, machinery, equipment and IT (71%); this is significantly higher than in the EU as a whole (53%).
- The share of investment that goes into capacity expansion in Estonia (17%) is the lowest in the EU.
- Firms' main concern appears, thus, to be with up-grading the quality of capital stock rather than with quantity.

Purpose of investment in last financial year

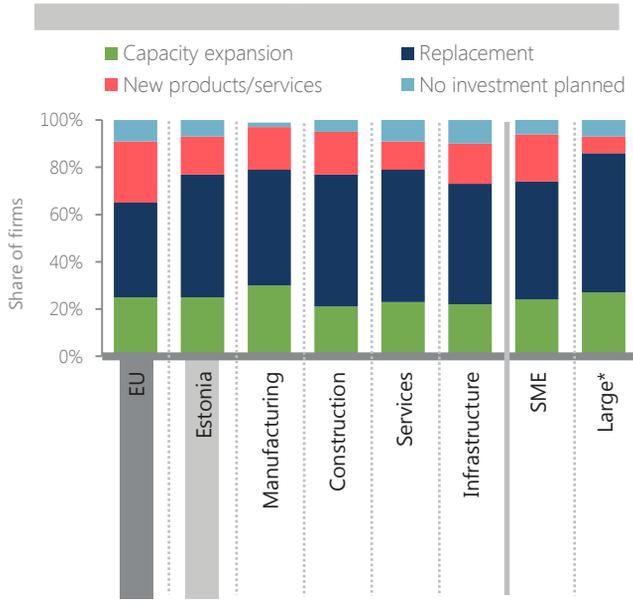


Base: All firms who invested in the last financial year (excluding don't know/refused responses)

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?

*Caution very small base size less than 30

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?

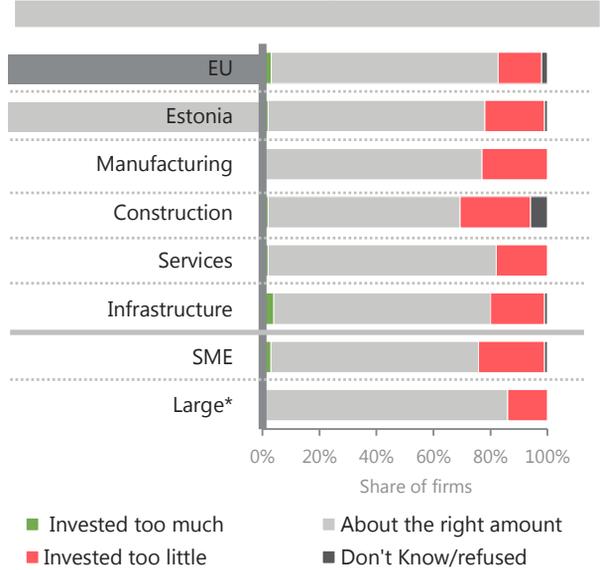
*Caution very small base size less than 30

- Going forward, replacement remains the key investment priority for firms in Estonia.
- Around half of firms planning to invest in the next three years name replacing existing buildings, machinery, equipment and IT as their main priority (52%) – this is significantly above the EU average (40%).

INVESTMENT NEEDS

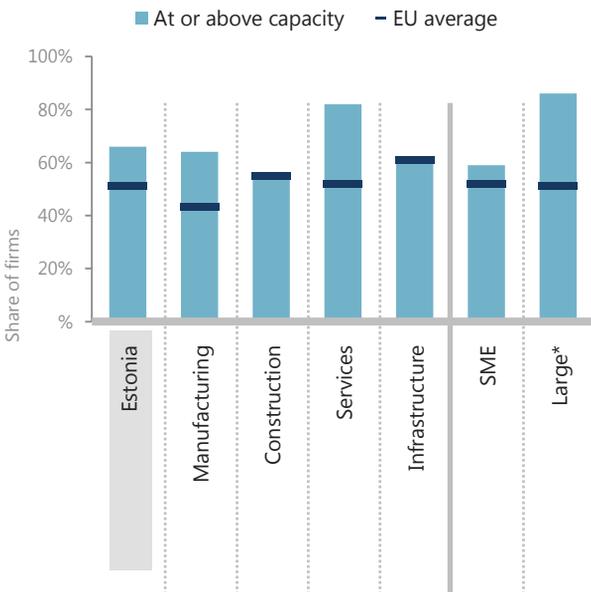
- Overall, 76% of firms in Estonia believe their investment over the last three years was about the right amount. 21% report investing too little.

Perceived investment gap



Base: All firms (excluding 'Company didn't exist three years ago' responses)
 Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount to ensure the success of your business going forward?
 *Caution very small base size less than 30

Share of firms at or above full capacity



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

Full capacity is the maximum capacity attainable under normal conditions e.g., company's general practices regarding the utilization of machines and equipment, overtime, work shifts, holidays etc.

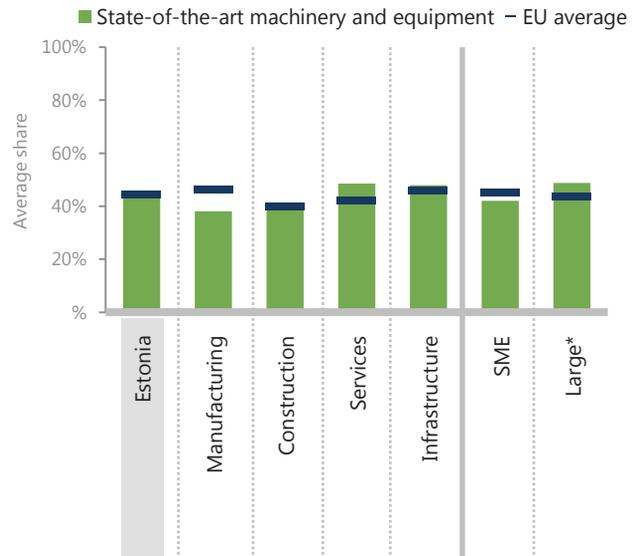
Q. In the last financial year, was your company operating above or at maximum capacity attainable under normal circumstances?

*Caution very small base size less than 30

- Two thirds of companies in Estonia report operating at or above maximum capacity in the last financial year, significantly above the EU average (66% versus 51%).
- The high share of service sector firms above normal capacity reflects the reported expansion of investment in this sector, although the priority of most firms, even in this sector, remains replacement investment and thus capital stock quality issues.

- The average share of state-of-the-art machinery and equipment in Estonian firms is similar to the EU average (44%).

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

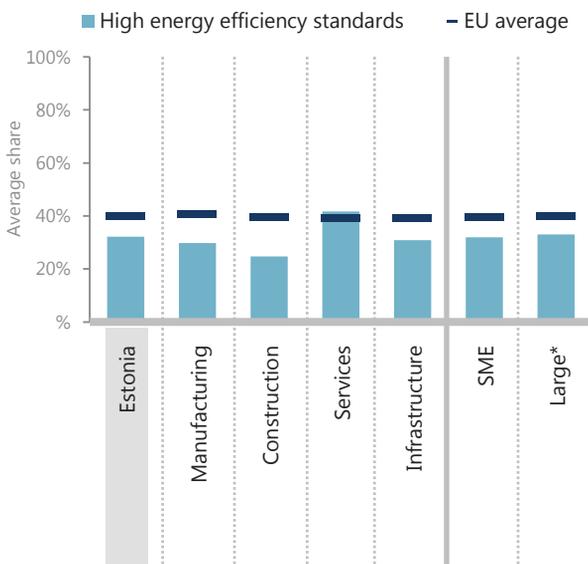


Base: All firms

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

*Caution very small base size less than 30

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?

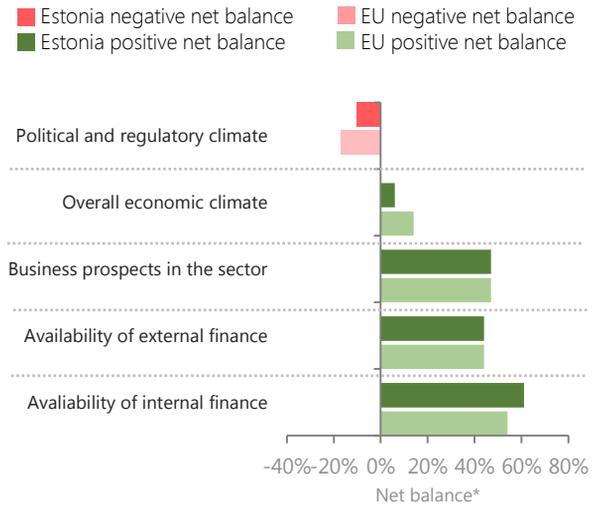
*Caution very small base size less than 30

- Estonian firms report that about 32% of their building stock satisfies high energy efficiency standards; this is lower than the EU as a whole (40%).

INVESTMENT CONSTRAINTS

- The political and regulatory climate is perceived as the main barrier to the implementation of planned investment in the current financial year.
- Sector specific prospects and finance are seen as clearly supportive; in line with the EU as a whole.

Short term influences on investment

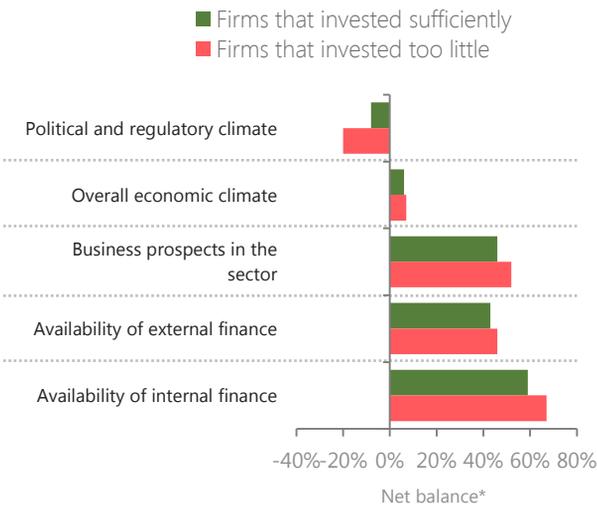


Base: All firms who have planned to invest in the current financial year

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)

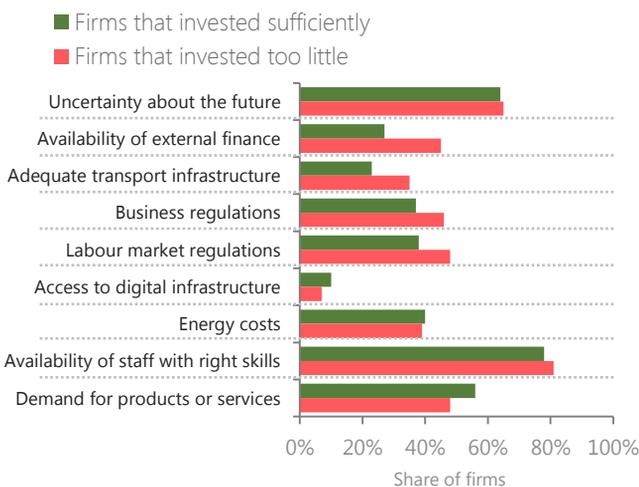
Q. How do each of the following affect your ability to carry out your planned investment. Does it affect it positively or negatively, or make no difference at all?

* Net balance is the share of firms seeing a positive effect minus the share of firms seeing a negative effect

- Among firms who report that their investment in the past three years has been below needs, these results are confirmed. An (even) larger proportion of firms finds that the political and regulatory climate hampers their investment activities.

- Lack of skilled staff is the main long-term barrier to investment for firms in Estonia. About eight in ten Estonian firms consider the (un-)availability of skilled staff as an obstacle to investment; this is a significantly higher share than for the EU as a whole.
- Uncertainty and demand also stand out as significant concerns for Estonian firms.

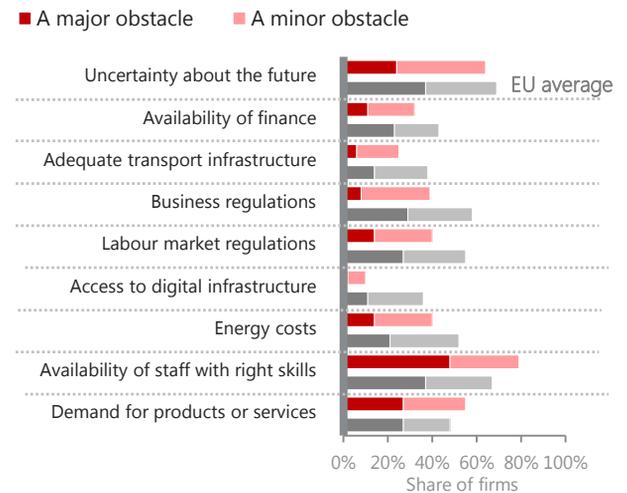
Long term barriers by investment performance



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 Estonia, 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 to investment



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

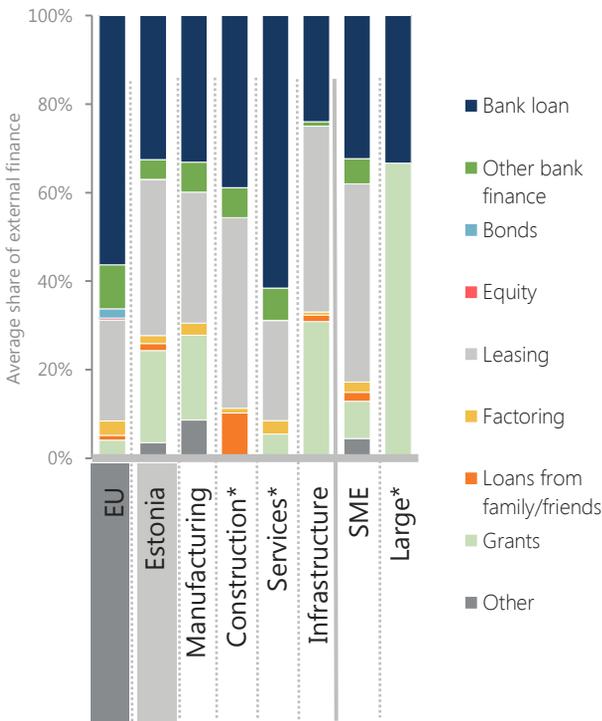
Q. Thinking about your investment activities in Estonia, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

- Views on long term barriers are broadly similar among those who report underinvestment and those who report investments in line with needs.
- The main exception to this is access to external finance, which is more often a barrier to investment by those firms that feel that they have invested too little in the past.

INVESTMENT FINANCE

- Firms in Estonia primarily use internal funds to finance their investment activities (73% compared to 60% for the EU as a whole).
- Leasing or hire purchase is the most common source of external finance.
- Firms that used external finance are on balance satisfied with the amount, cost, maturity and type of finance received (more firms are fairly rather than very satisfied).

Type of external finance used for investment activities

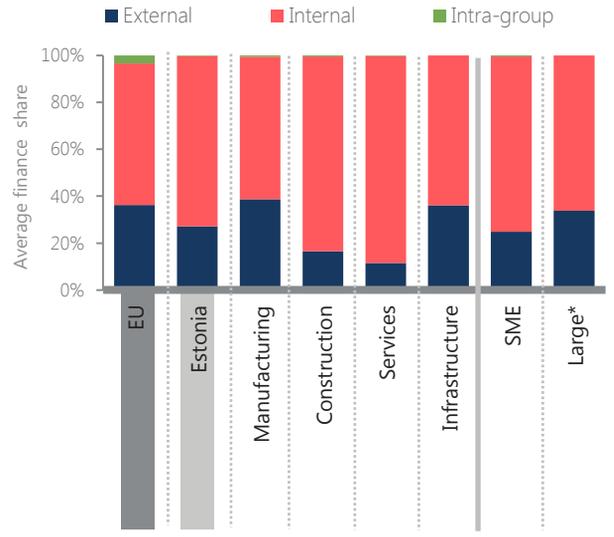


Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)

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

*Caution very small base size less than 30

Source of investment finance

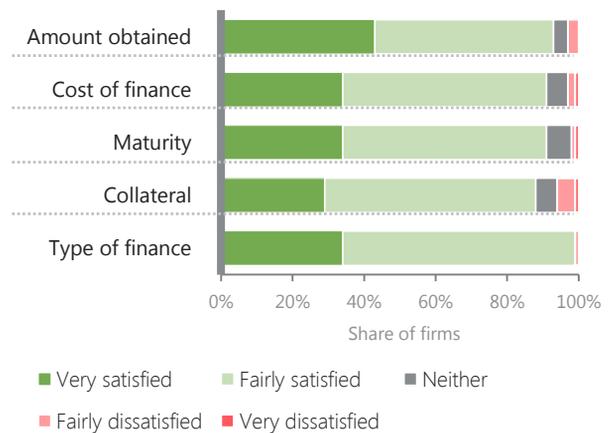


Base: All firms who invested in the last financial year (excluding don't know/refused responses)

Q. Approximately what proportion of your investment in the last financial year was financed by each of the following?

*Caution very small base size less than 30

Satisfaction with external finance

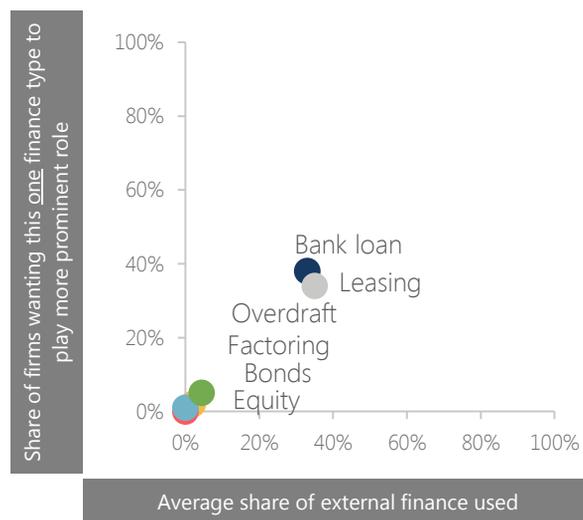


Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)

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

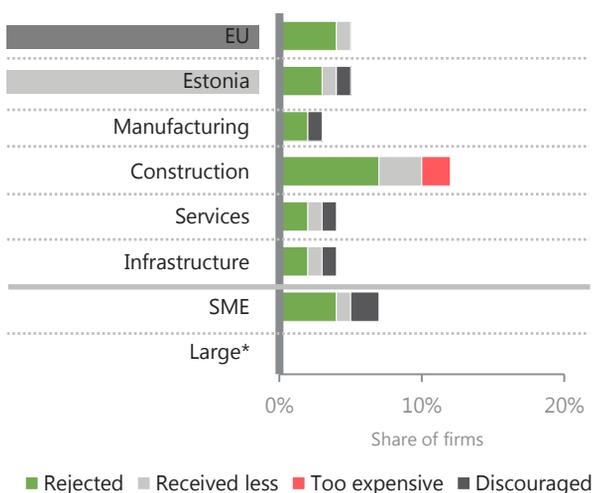
- Overall firms in Estonia want more of the types of external finance they are already using: bank loans and leasing arrangements.

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



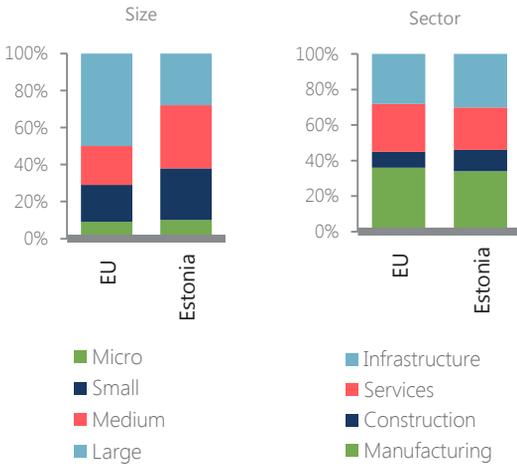
Base: All firms
Finance constrained firms include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive)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

*Caution very small base size less than 30

- Five per cent of firms in Estonia can be considered external finance constrained – similar to the EU figure.
- A significantly higher percentage of construction firms (12%) is finance constrained; this is likely to be a legacy of the boom and bust cycle that led to the crisis.

PROFILE OF FIRMS

Contribution to Value-Added

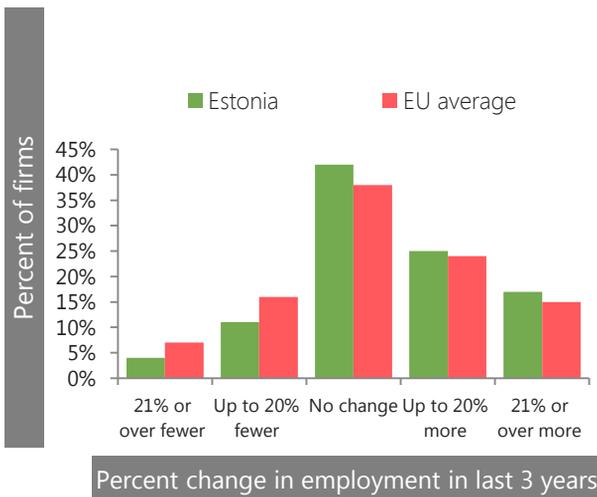


Base: All firms

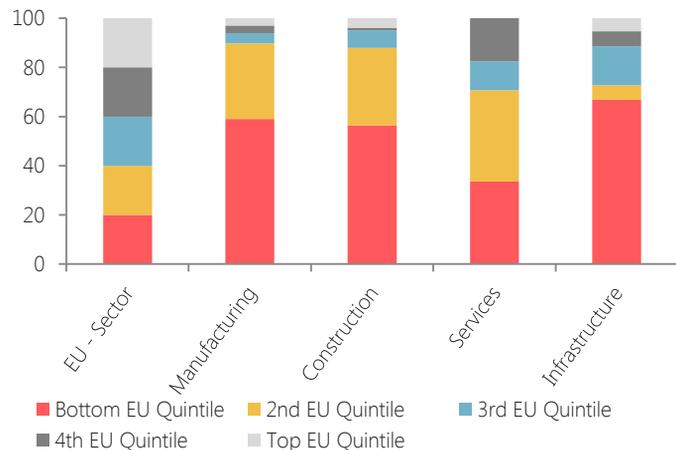
The charts reflect the relative contribution to value-added by firms belonging to a particular size class / sector in the population of firms considered. That is, all firms with 5 or more employees active in the sectors covered by the survey. Micro: 5-9 employees; Small: 10-49; Medium: 50-249; Large: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

- In the weighted size distribution, medium-sized companies account for the largest share of firms (34%).
- Large companies are underrepresented in Estonia compared to the EU average.
- Employment dynamics in Estonia are comparable to the EU as a whole.
- A relatively high share of firms in Estonia fall into the lowest productivity class; with the notable exception of services. About 17% of service firms in Estonia fall into the top EU productivity quintile.

Employment dynamics in last 3 years



Within country productivity comparison



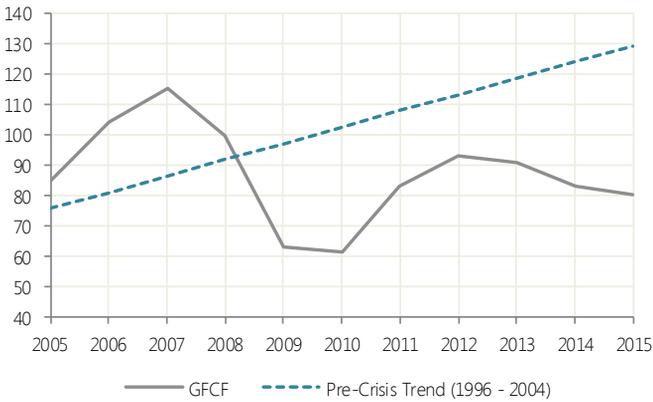
Base: All firms (excluding don't know, refused and missing responses)

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

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

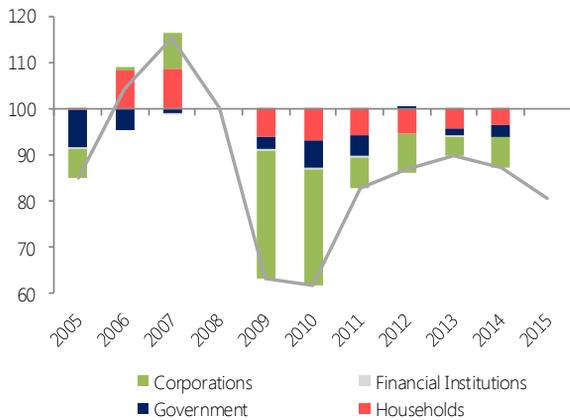
Investment Dynamics over time



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

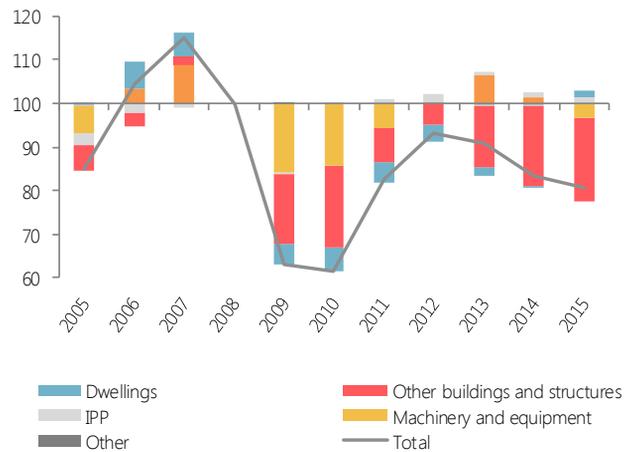
- In 2015, aggregate investment is still some 20% below its 2008 levels.
- The gap is bigger when compared to the pre-crisis trend; even though slowing potential growth makes this a difficult benchmark to reach.
- The corporate sector and investments in 'other buildings and structures' are lagging most compared to 2008.

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.

EIBIS 2016 – COUNTRY TECHNICAL DETAILS

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.

Approximate sampling tolerances applicable to percentages at or near these levels

	EU	Estonia	Manu- facturing	Cons- truction	Services	Infras- tructure	SME	Large	EU vs Country	Manufacturing vs Construction	SME vs Large
	(12483)	(400)	(105)	(113)	(88)	(94)	(385)	(15)	(12483 vs 400)	(105 vs 113)	(385 vs 15)
10% or 90%	1,0%	4,2%	7,7%	7,1%	9,8%	6,8%	3,0%	12,8%	4,3%	10,5%	13,1%
30% or 70%	1,5%	6,4%	11,8%	10,8%	15,0%	10,3%	4,6%	19,5%	6,5%	16,0%	20,0%
50%	1,7%	7,0%	12,9%	11,8%	16,3%	11,3%	5,0%	21,3%	7,1%	17,5%	21,8%

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	Estonia	Manufacturing	Construction	Services	Infrastructure	SME	Large
All firms, p. 3, p. 6, p. 7, p. 9, p. 11, p. 12, p. 13	12483	400	105	113	88	94	385	15
All firms (excluding don't know/refused responses), p. 2	11838	378	101	104	83	90	363	15
All firms (excluding those who have no investment planned/don't know/refused responses), p. 5	12159	388	104	108	86	90	373	15
All firms (excluding 'Company didn't exist three years ago' responses), p. 6	12453	399	105	113	87	94	384	15
All firms (excluding don't know, refused and missing responses), p. 13	12162	396	103	113	87	93	381	15
All firms who invested in the last financial year, p. 2	12281	395	104	111	86	94	380	15
All firms who invested in the last financial year, p. 4	10881	335	94	91	71	79	320	15
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 4	10060	268	70	77	54	67	259	9
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 5	9682	314	87	86	65	76	300	14
All firms who invested in the last financial year (excluding don't know/refused responses), p. 10	9093	292	78	87	61	66	282	10
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	334	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	113	35	27	15	36	109	4

Percentage rounding

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



**European
Investment
Bank**

The EU bank

Economics Department

 economics@eib.org
www.eib.org/economics

Information Desk

 +352 4379-22000
 +352 4379-62000
 info@eib.org

European Investment Bank

98-100, boulevard Konrad Adenauer
L-2950 Luxembourg

 +352 4379-1
 +352 437704
www.eib.org

