EIBIS 2016
EIB Group Survey on Investment and Investment Finance 2016
Country Overview
Latvia
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.

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

**Key results**

**Investment outlook:** more firms expect a contraction in investment than expect an expansion for the current financial year; this comes after a relatively weak investment performance in the last financial year.

**Investment activity:** except the manufacturing sector which intends to focus its investment activities on innovation.

**Investment gap:** 23% of firms report having invested too little over the last three years and 71% say having invested about 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 is also in line with the EU average.

**Investment barriers:** Nearly, nine in ten Latvian firms consider these as obstacles to investment; significantly more than for the EU as a whole.

**External finance:** overall the proportion of firms dissatisfied with amount of finance, that had application rejected, thought borrowing costs would be too high or discouraged from applying, higher than the EU average.

**Firm performance:** A relatively large share of firms fall into the lowest productivity bracket; with the manufacturing sector lagging the most compared to their EU peers.
The proportion of Latvian firms that invested in the last financial year is below the EU average (65% versus 84%). The intensity of investment (investment per employee) is also low compared with the EU average.

Investment activity in last financial year compared to previous

- Four out of ten (40%) of firms in Latvia increased their investment activities in 2015 vis-à-vis 2014; for infrastructure firms this figure was significantly higher (55%).
- On balance more firms increased investment in Latvia in 2015 than decreased it (net balance: +16); the manufacturing sector is a major exception to this (net balance: -13%).

**Investment activity in last financial year**

- Share of firms investing (%)*
- Investment intensity of investing firms (EUR)

**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**

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*
Firms’ investment outlook for 2016 is cautious.

While 30% of firms in Latvia expect an increase in their investment activities, 36% expect a contraction (net balance: -6%).

Within the investment cycle, this places firms in Latvia in the ‘low investment; contracting’ quadrant.

Infrastructure firms are on balance somewhat more positive about their investment outlook than the aggregate (net balance: +3).

Firms active in construction, while still showing relatively high levels of investment activity, are the most down-beat about their investment outlook (net balance: -34%).

**Expected investment in current financial year compared to last one**

<table>
<thead>
<tr>
<th>Base: All firms</th>
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*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*

**Investment cycle**

- Low investment expanding
- High investment expanding
- Low investment contracting
- High investment contracting

**Share of firms investing**

- More than previous year
- Same as previous year
- Less than previous year
- Don’t Know/refused

- EU
- Latvia
- Manufacturing
- Construction
- Services
- Infrastructure
- SME
- Large*

<table>
<thead>
<tr>
<th>Share of firms</th>
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<tr>
<td>0%</td>
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</table>

**Base:**

- All firms

*Share of firms investing shows the percentage of firms with investment per employee greater than EUR 500.*
INVESTMENT ACTIVITY

- The highest share of investment spend in Latvia goes into machinery and equipment (49%), followed by land, business buildings and infrastructure (19%).
- Investment in R&D is significantly lower in Latvia than the EU average.

Investment abroad

- Overall three per cent of firms in Latvia have invested in another country, significantly below the EU average.

Investment areas

- Q. In the last financial year, has your company invested in another country?
  - Caution very small base size less than 30

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

Base: All firms who invested in the last financial year (excluding don’t know/refused responses)
The largest share of corporate investment in Latvia is intended for replacing existing buildings, machinery, equipment and IT (55%).

A further quarter (26%) is for capacity expansion – both figures are similar to the EU average.

Going forward, replacement remains the key investment priority for firms in Latvia: Over two in five (46%) of firms name replacing existing buildings, machinery, equipment and IT as their main priority for the next three years.

The main exception to this is manufacturing; only 28% of manufacturing firms name replacement as their investment priority; while 42% will want to focus on the development of new products, processes and services.
Seven out of ten firms in Latvia (71%) believe their investment over the last three years was about the right amount.

The percentage of Latvian firms that think they invested too little is significantly above the EU average (23% versus 15%).

Four in ten firms in Latvia report operating at or above maximum capacity (42%).

Share of firms operating at or above full capacity

**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

**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
- The average share of machinery and equipment described by firms as being state-of-the-art is 43% in Latvia.
- Latvia is in line with the EU average on this measure.

On average 35% of firms in Latvia report that their building stock satisfies high efficiency standards, in line with the EU average of 40%.
The political and regulatory climate is cited as a barrier to implementing planned investment in the current financial year.

Different from the EU as a whole, also the overall economic climate is perceived, on balance, to hamper (rather than support) the implementation of planned investments.

**Short term influences on investment**

<table>
<thead>
<tr>
<th>Category</th>
<th>Latvia negative net balance</th>
<th>Latvia positive net balance</th>
<th>EU negative net balance</th>
<th>EU positive net balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political and regulatory climate</td>
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<tr>
<td>Overall economic climate</td>
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<tr>
<td>Business prospects in the sector</td>
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<tr>
<td>Availability of external finance</td>
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<tr>
<td>Availability of internal finance</td>
<td></td>
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</tbody>
</table>

**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.*

Firms reporting to have invested too little in the last three years are more likely to cite the overall economic climate as the main barrier to implementing planned investment.
Firms in Latvia consider uncertainty about the future and lack of skilled staff the main structural barriers to investment; with about nine in ten firms name these as obstacles.

Business regulation also stands out as a significant concern (in particular compared to the EU average).

All long term barriers are more significant among firms that say they have invested too little in the last three years compared to firms that invested sufficiently); this is true in particular for access to external finance, business regulation and energy costs.
INVESTMENT FINANCE

- Firms in Latvia rely to a large extent on internal funds to finance their investment activities - in line with firms across the EU.

- Bank loans are the most common source of external finance, followed by leasing.

- Firms are on balance satisfied with the external finance they have received; albeit less so with respect to collateral requirements.

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

**Source of investment finance**

**Satisfaction with external 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?

**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 Latvia want more of the type of finance they are already using.

Ten per cent of Latvian firms can be considered finance constrained; this figure rises to close to one fifth (17%) for manufacturing firms.

Financing constrained firms are more prevalent among manufacturing firms.
PROFILE OF FIRMS

Contribution to Value-Added

- In the weighted size distribution, medium-sized companies account for the largest share of firms in Latvia (30%).
- Large companies are underrepresented compared to the EU average.
- Firms in Latvia tend to fall into the lowest productivity class; with some positive outliers in the services sector. The manufacturing sector lags the most compared in terms of productivity compared to their EU peers.

Employment dynamics in last 3 years

Distribution of firms by productivity class

- 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?
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 ‘machinery and equipment’ are lagging most compared to 2008.
The final data are based on a sample, rather than the entire population of firms in Latvia, 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>Latvia</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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<tbody>
<tr>
<td>10% or 90%</td>
<td>1.0%</td>
<td>4.4%</td>
<td>7.6%</td>
<td>9.8%</td>
<td>7.8%</td>
<td>8.3%</td>
<td>2.8%</td>
<td>10.7%</td>
<td>4.5%</td>
<td>12.3%</td>
<td>11.0%</td>
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<tr>
<td>30% or 70%</td>
<td>1.5%</td>
<td>6.7%</td>
<td>11.6%</td>
<td>14.9%</td>
<td>12.0%</td>
<td>12.7%</td>
<td>4.2%</td>
<td>16.4%</td>
<td>6.8%</td>
<td>18.9%</td>
<td>16.9%</td>
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<tr>
<td>50%</td>
<td>1.7%</td>
<td>7.3%</td>
<td>12.7%</td>
<td>16.3%</td>
<td>13.1%</td>
<td>13.9%</td>
<td>4.6%</td>
<td>17.9%</td>
<td>7.4%</td>
<td>20.6%</td>
<td>18.4%</td>
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</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.
EIBIS 2016 – COUNTRY TECHNICAL DETAILS

Base sizes

<table>
<thead>
<tr>
<th>Base definition and page reference</th>
<th>EU</th>
<th>Latvia</th>
<th>Manufacturing</th>
<th>Construction</th>
<th>Services</th>
<th>Infrastructure</th>
<th>SME</th>
<th>Large</th>
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<tbody>
<tr>
<td>All firms, p. 3, p. 6, p. 7, p. 9, p. 11, p. 12, p. 13</td>
<td>12483</td>
<td>400</td>
<td>109</td>
<td>71</td>
<td>113</td>
<td>107</td>
<td>377</td>
<td>23</td>
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<tr>
<td>All firms (excluding don’t know/refused responses), p. 2</td>
<td>11838</td>
<td>353</td>
<td>96</td>
<td>62</td>
<td>103</td>
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<tr>
<td>All firms (excluding those who have no investment planned/don’t know/refused responses), p. 5</td>
<td>12159</td>
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<td>All firms (excluding ‘Company didn’t exist three years ago’ responses), p. 6</td>
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<td>All firms who invested in the last financial year, p. 2</td>
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<td>59</td>
<td>82</td>
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<tr>
<td>All firms who have invested in the last financial year (excluding don’t know/refused responses), p. 5</td>
<td>9682</td>
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<td>79</td>
<td>56</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>
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<td>319</td>
<td>91</td>
<td>59</td>
<td>82</td>
<td>87</td>
<td>300</td>
<td>19</td>
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<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>323</td>
<td>N/A</td>
<td>N/A</td>
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<td>N/A</td>
<td>N/A</td>
<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>162</td>
<td>48</td>
<td>25</td>
<td>38</td>
<td>51</td>
<td>146</td>
<td>16</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.