



**European  
Investment  
Bank**

*The EU bank*



**Latvia**

## **EIBIS 2016**

EIB Group Survey on  
Investment and  
Investment Finance 2016

**Country Overview**

## EIB Group Survey on Investment and Investment Finance Country Overview: Latvia

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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](mailto: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.

# EIBIS 2016 – COUNTRY OVERVIEW

## Latvia

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.

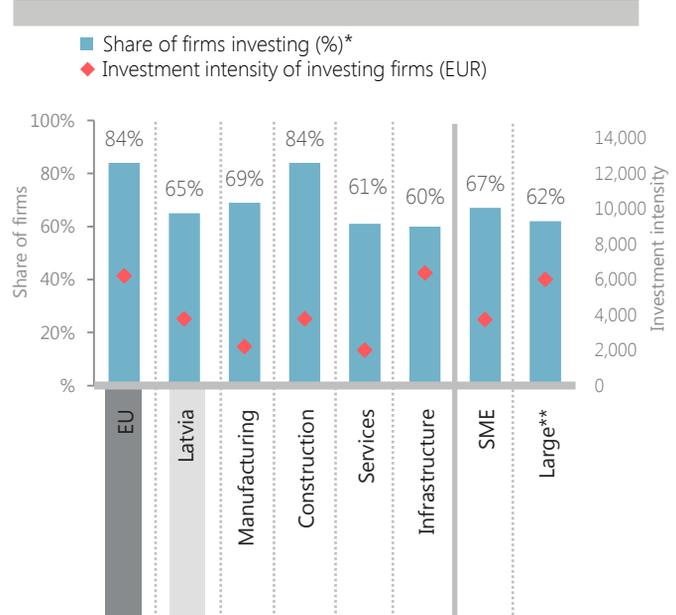
### Key results

<b>Investment outlook:</b>	<b>Investment outlook is clouded:</b> 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.
<b>Investment activity:</b>	<b>Firms' investment focus is tangibles and replacement:</b> except the manufacturing sector which intends to focus its investment activities on innovation.
<b>Investment gap:</b>	<b>23% of firms report having invested too little</b> 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.
<b>Investment barriers:</b>	<b>Uncertainty about the future and lack of skilled staff are the main barriers to investment.</b> Nearly, nine in ten Latvian firms consider these as obstacles to investment; significantly more than for the EU as a whole.
<b>External finance:</b>	<b>10% of firms are external finance constrained:</b> 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.
<b>Firm performance:</b>	<b>Firms in Latvia lag in terms of productivity.</b> A relatively large share of firms fall into the lowest productivity bracket; with the manufacturing sector lagging the most compared to their EU peers.

# INVESTMENT DYNAMICS

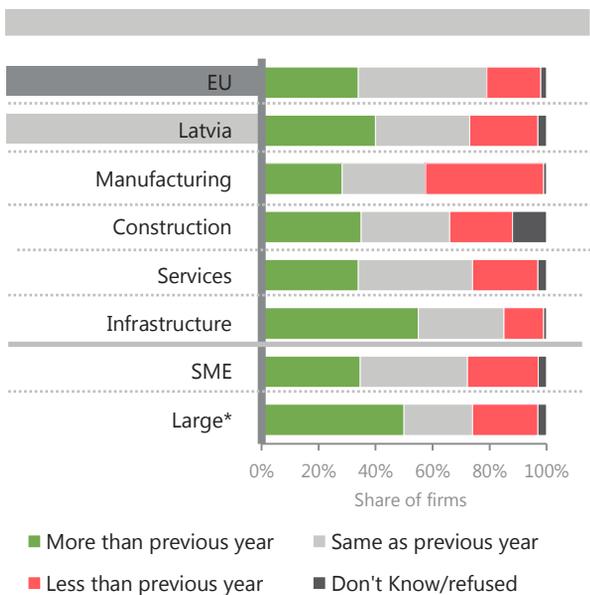
- The proportion of Latvian firms that invested in the last financial year is below the EU average (65% versus 84%).
- The intensity of investment (investment per employee) is also low compared with the EU average.

## Investment activity in last financial year



**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

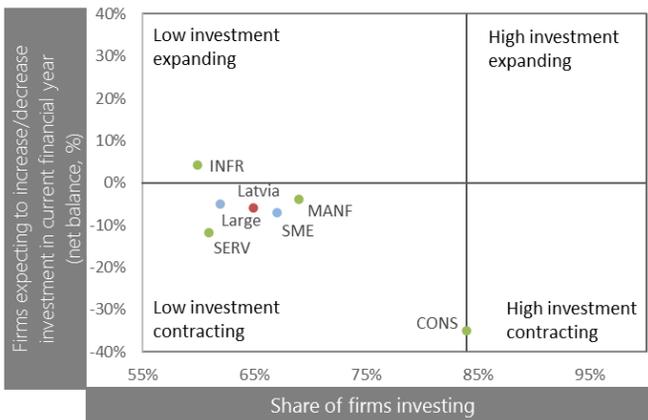


**Base:** All firms who invested in the last financial year  
 Q. Overall was this more, less or about the same amount of investment as in the previous year?  
 \*Caution very small base size less than 30

- 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%).

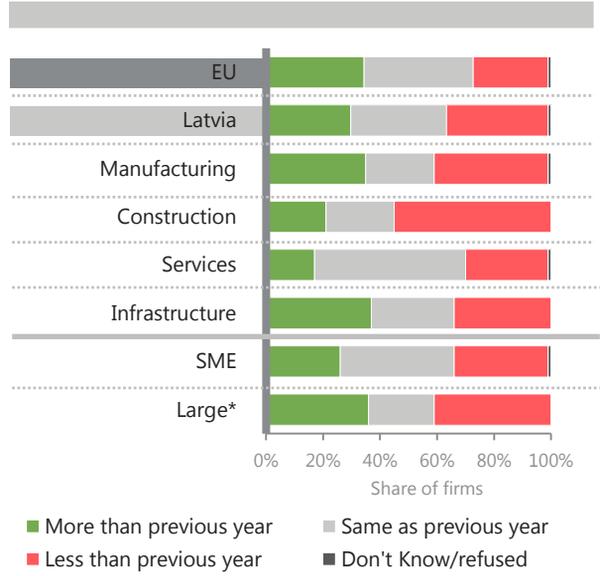
- Firms' investment outlook for 2016 is cautious.
- While 30% of firms in Latvia expect an increase in their investment activities, 36% expect a contraction (net balance: -6%).
- Within the investment cycle, this places firms in Latvia in the 'low investment; contracting' quadrant.

### 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

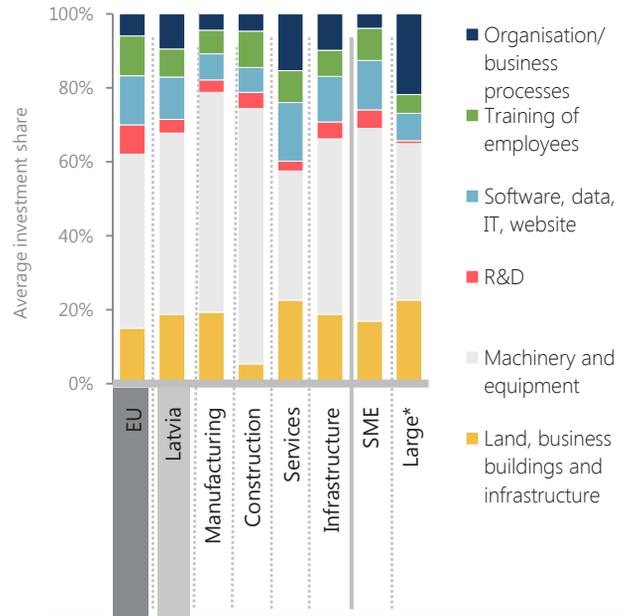
\*Caution very small base size less than 30

- 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%).

# 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 areas

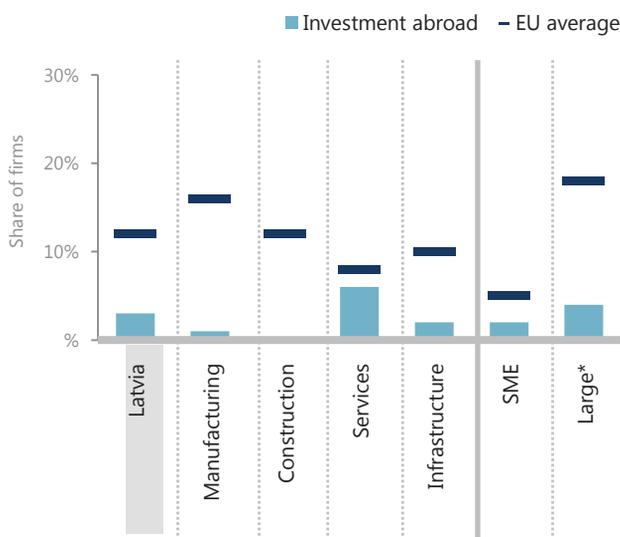


**Base:** All firms who have invested in the last financial year (excluding don't know/refused responses)

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



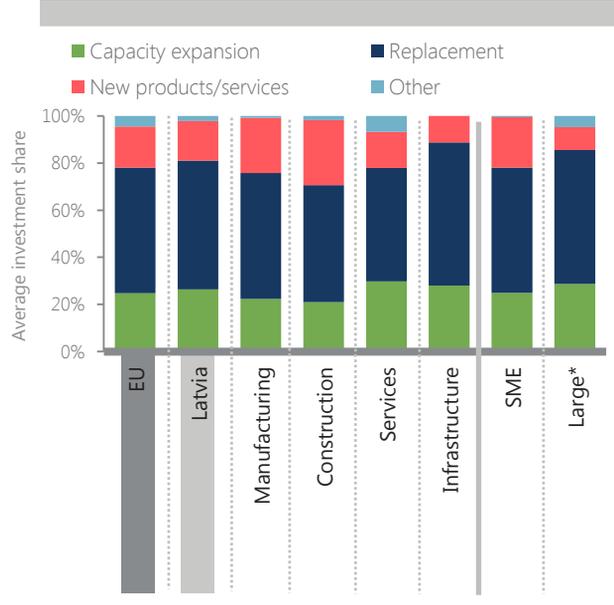
**Base:** All firms who invested in the last financial year  
Q. In the last financial year, has your company invested in another country?

\*Caution very small base size less than 30

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

- 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.

### Purpose of investment in last financial year

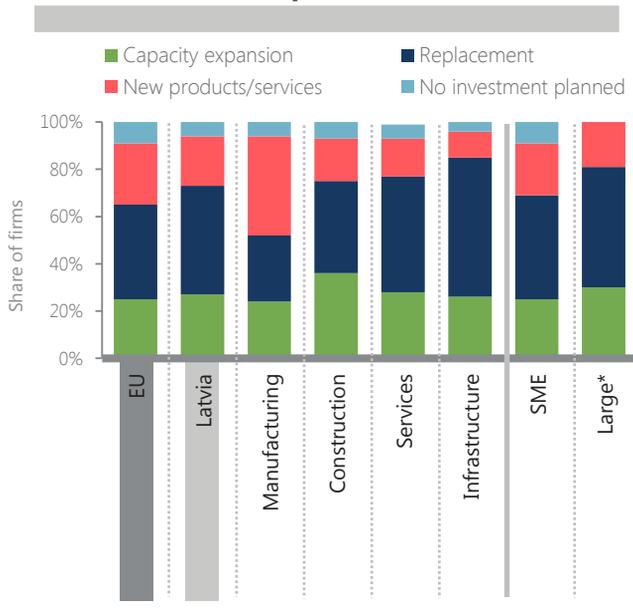


**Base:** All firms who invested in the last financial year (excluding don't know/refused responses)

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?

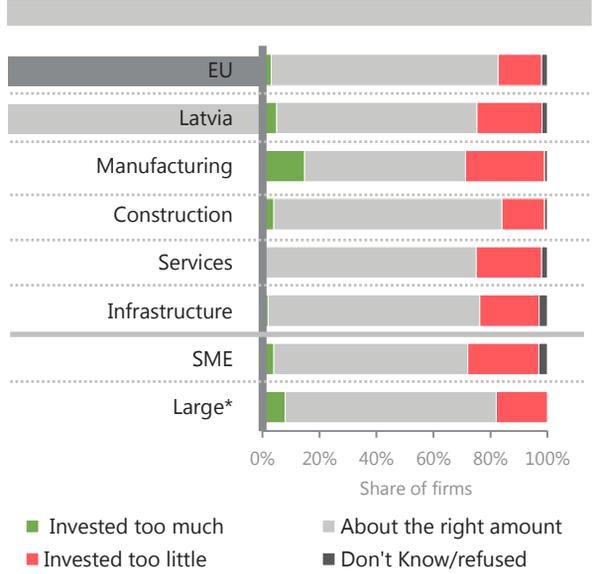
\*Caution very small base size less than 30

- Going forward, replacement remains the key investment priority for firms in 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.

# INVESTMENT NEEDS

- 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%).

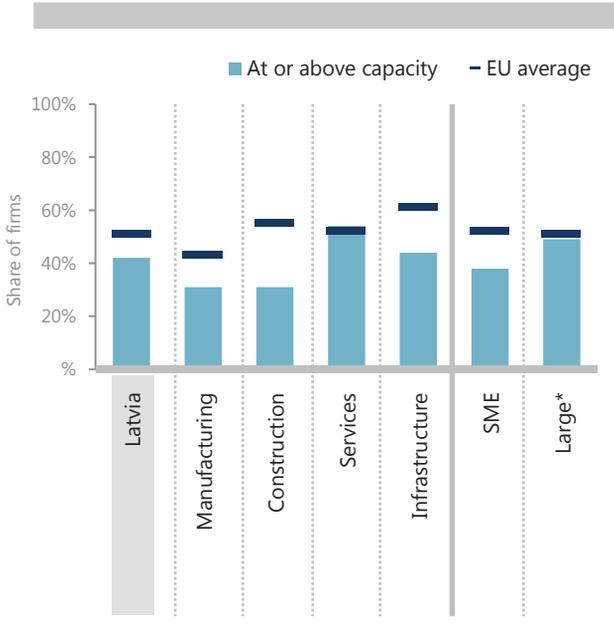
## Perceived investment gap



**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

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

## Share of firms at or above full capacity



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

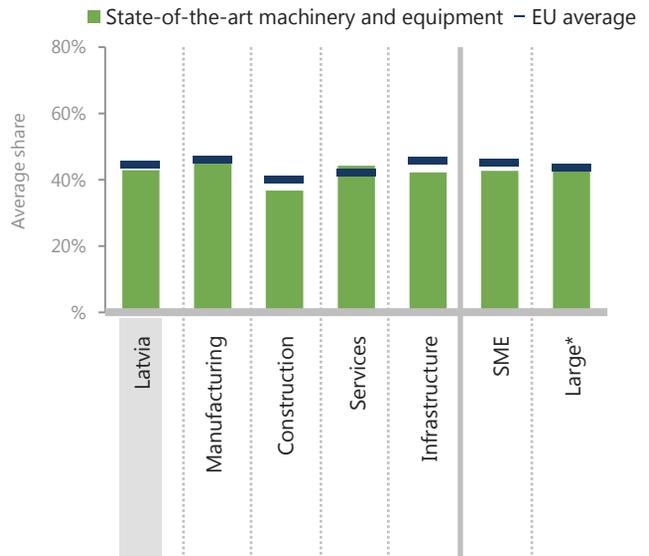
Full capacity is the maximum capacity attainable under normal conditions e.g., company's general practices regarding the utilization of machines and equipment, overtime, work shifts, holidays etc.

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

- 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.

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

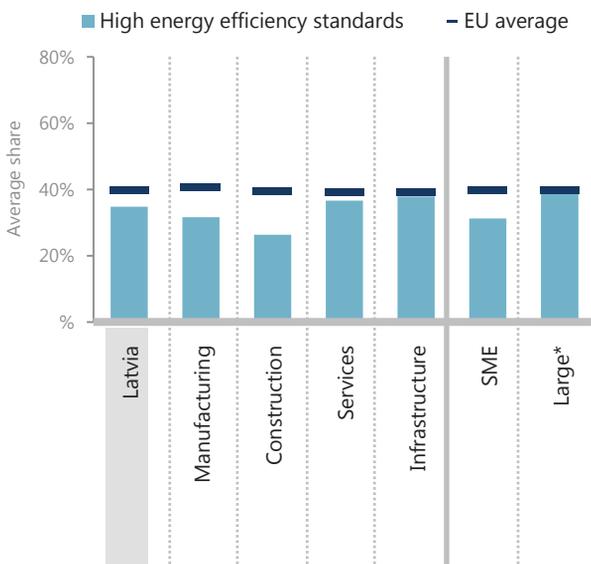


**Base:** All firms

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?

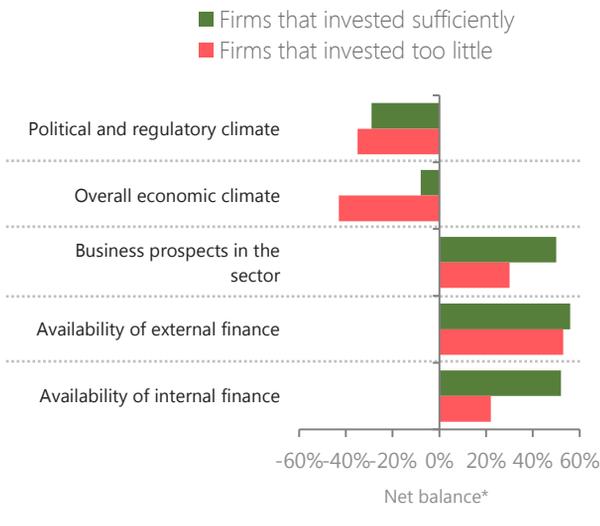
\*Caution very small base size less than 30

- On average 35% of firms in Latvia report that their building stock satisfies high efficiency standards, in line with the EU average of 40%.

# INVESTMENT CONSTRAINTS

- 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 by investment performance

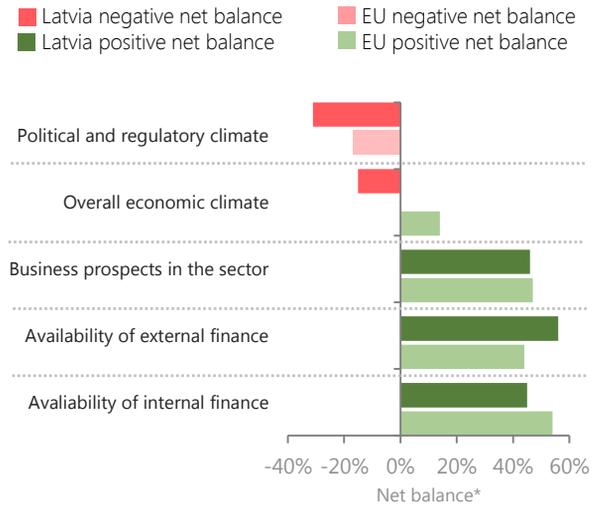


**Base:** All firms who have planned to invest in the current financial year and who invested too much, about the right amount or too little in the last financial year (excluding don't know/refused/company didn't exist three years ago responses)

**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

## Short term influences on investment



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

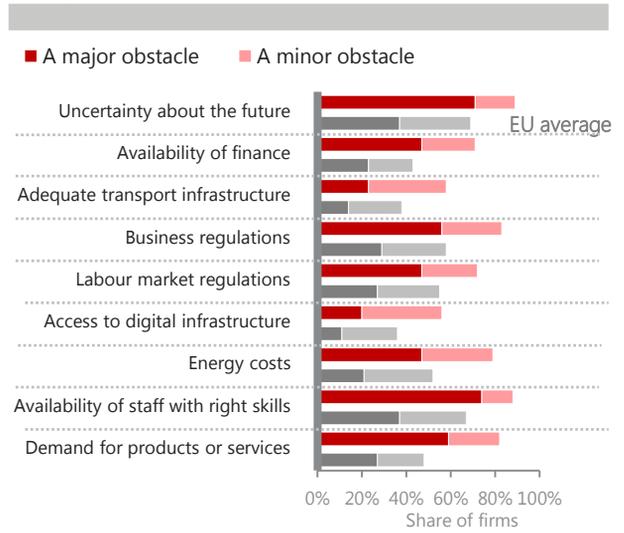
**Q.** How do each of the following affect your ability to carry out your planned investment. Does it affect it positively or negatively, or make no difference at all?

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

- 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).

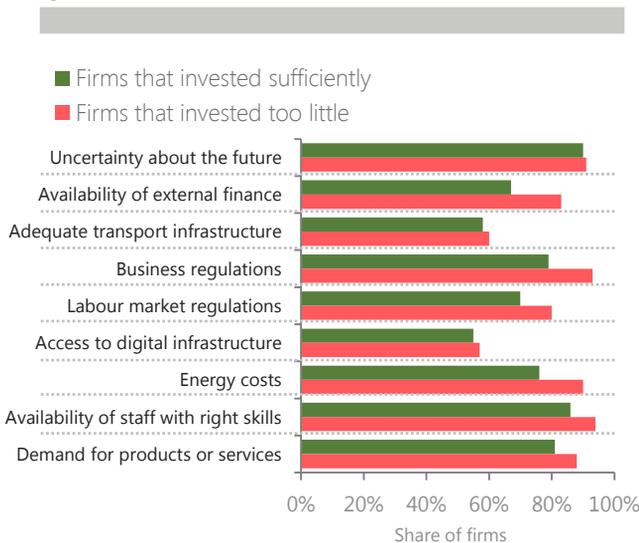
### Long term barriers to investment



**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 Latvia, 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 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)

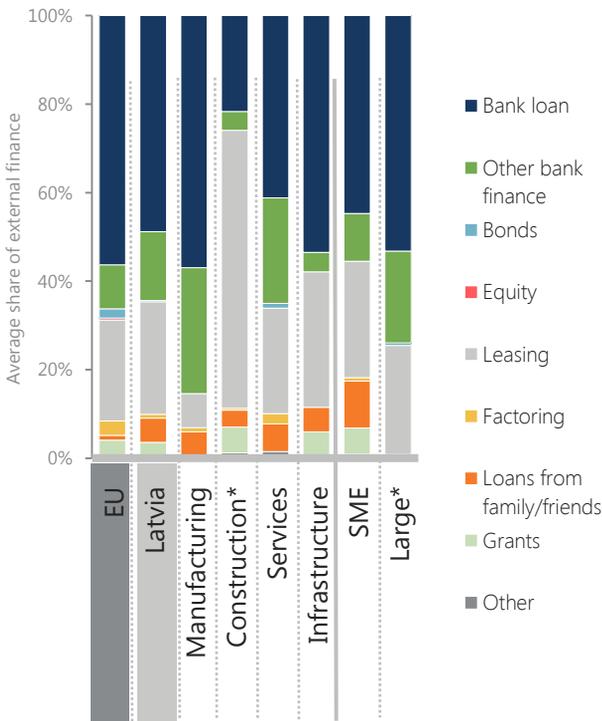
Q. Thinking about your investment activities in Latvia, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

- 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

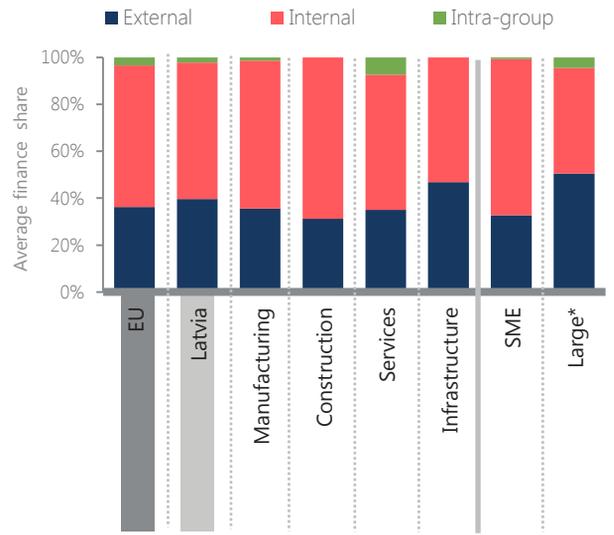


**Base:** All firms who used external finance in the last financial year (excluding don't know/refused responses)

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

\*Caution very small base size less than 30

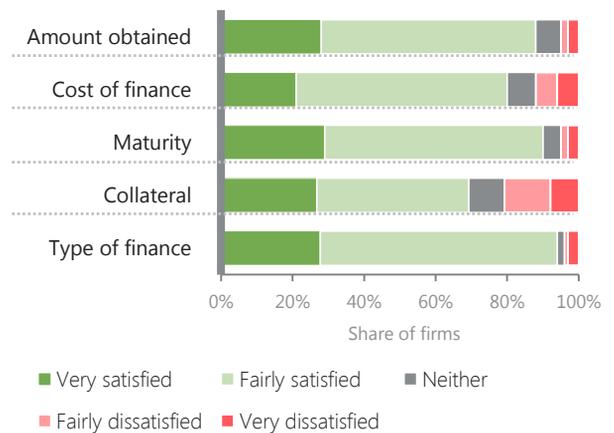
## Source of investment finance



**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?

## Satisfaction with external finance

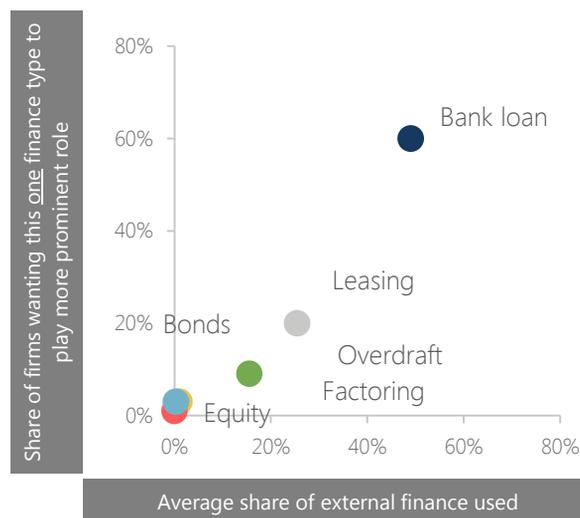


**Base:** All firms who used external finance in the last financial year (excluding don't know/refused responses)

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

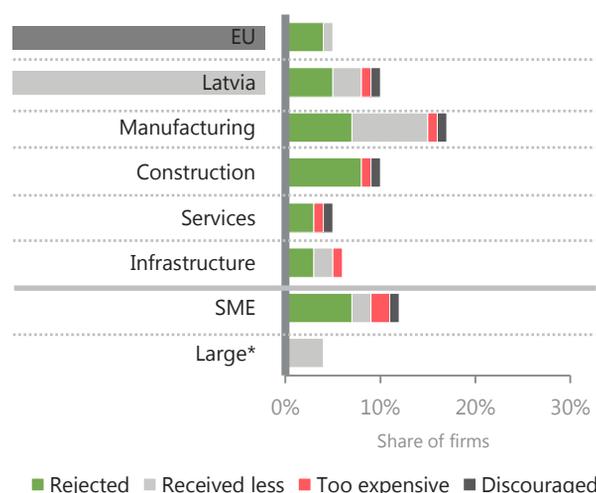
- Overall firms in Latvia want more of the type of finance they are already using.
- Ten per cent of Latvian firms can be considered finance constrained; this figure rises to close to one fifth (17%) for manufacturing firms.

### [Q28/Q36] 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

### [Q30/Q32/Q33] Share of finance constrained firms



**Base:** All firms

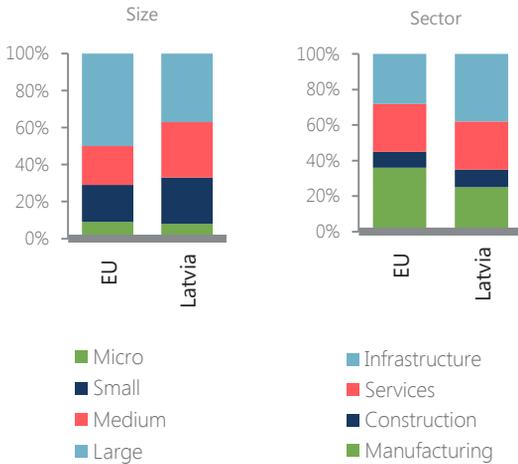
Finance constrained firms include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive) or they would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

\*Caution very small base size less than 30

- Financing constrained firms are more prevalent among manufacturing firms.

# PROFILE OF FIRMS

## Contribution to Value-Added

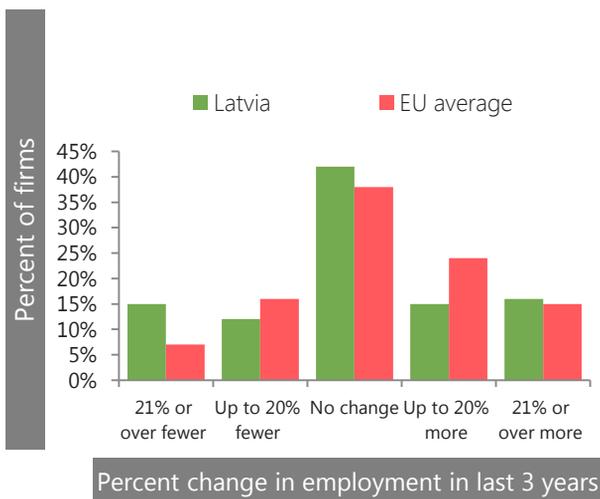


**Base:** All firms

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 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.

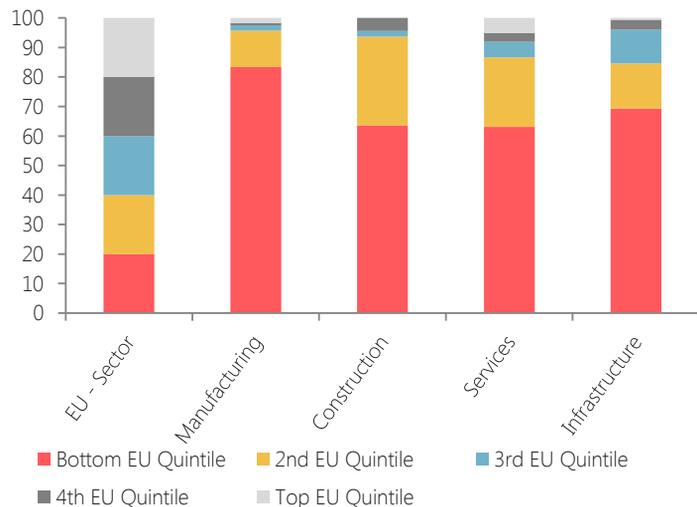
## Employment dynamics in last 3 years



**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?

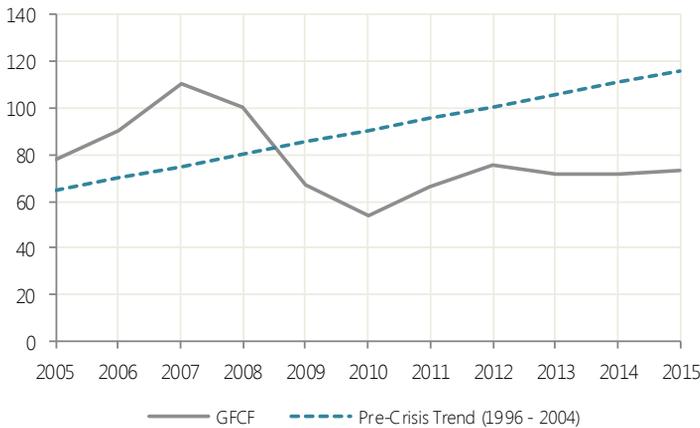
## Distribution of firms by productivity class



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

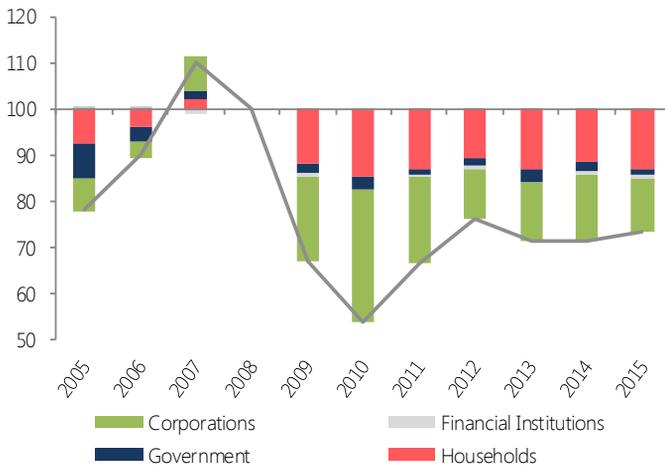
## Investment Dynamics over time



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

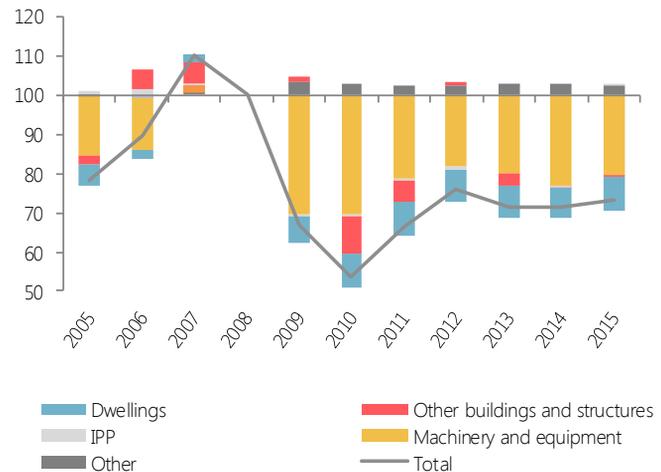
- In 2015, aggregate investment is still some 20% below its 2008 levels.
- The gap is bigger when compared to the pre-crisis trend; even though slowing potential growth makes this a difficult benchmark to reach.
- The corporate sector and investments in 'machinery and equipment' are lagging most compared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

	EU	Latvia	Manu- facturing	Cons- truction	Services	Infras- tructure	SME	Large	EU vs Country	Manufacturing vs Construction	SME vs Large
	(12483)	(400)	(109)	(71)	(113)	(107)	(377)	(23)	(12483 vs 400)	(109 vs 71)	(377 vs 23)
10% or 90%	1.0%	4.4%	7.6%	9.8%	7.8%	8.3%	2.8%	10.7%	4.5%	12.3%	11.0%
30% or 70%	1.5%	6.7%	11.6%	14.9%	12.0%	12.7%	4.2%	16.4%	6.8%	18.9%	16.9%
50%	1.7%	7.3%	12.7%	16.3%	13.1%	13.9%	4.6%	17.9%	7.4%	20.6%	18.4%

## 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	Latvia	Manufacturing	Construction	Services	Infrastructure	SME	Large
All firms, p. 3, p. 6, p. 7, p. 9, p. 11, p. 12, p. 13	12483	400	109	71	113	107	377	23
All firms (excluding don't know/refused responses), p. 2	11838	353	96	62	103	92	335	18
All firms (excluding those who have no investment planned/don't know/refused responses), p. 5	12159	386	105	69	108	104	364	22
All firms (excluding 'Company didn't exist three years ago' responses), p. 6	12453	400	109	71	113	107	377	23
All firms (excluding don't know, refused and missing responses), p. 13	12162	386	108	65	112	101	365	21
All firms who invested in the last financial year, p. 2	12281	392	105	71	110	106	369	23
All firms who invested in the last financial year, p. 4	10881	335	92	63	88	92	315	20
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 4	10060	304	80	59	82	83	290	14
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 5	9682	292	79	56	77	80	274	18
All firms who invested in the last financial year (excluding don't know/refused responses), p. 10	9093	319	91	59	82	87	300	19
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	323	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	162	48	25	38	51	146	16

## 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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