EIB Group Survey on Investment and Investment Finance Country Overview: Estonia
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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 some 12,300 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 40 economists, is headed by Debora Revoltella, Director of Economics.

Main contributors to this publication
Andreas Kappeler, 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.
The annual EIB Group Survey on Investment and Investment Finance (EIBIS) is an EU-wide survey of some 12,300 firms that gathers 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 408 firms in Estonia in 2017 (carried out between April and July).

### Key results

<table>
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<tr>
<th>Macroeconomic context</th>
<th>Aggregate investment remains below its pre-crisis level and has continued to fall in 2016. Weak investment performance is primarily due to a fall in other buildings and structures. In terms of institutional sectors, corporate investment is furthest below its 2008 level. Investment is forecasted by the European Commission to rebound by some 17% in 2017.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment outlook</td>
<td>More firms increased than reduced investment in 2016, which exceeded expectations. The outlook for 2017 is also positive. Firms in the service sector are particularly optimistic about their investment activity.</td>
</tr>
<tr>
<td>Investment activity</td>
<td>73% of firms invested in the last financial year. Investment to expand capacity is named as the key priority for the next 3 years by 44% of firms.</td>
</tr>
<tr>
<td>Perceived investment gap</td>
<td>19% of firms report having invested too little over the last three years, more than on average in the EU. The share of state-of-the-art machinery and equipment is below the EU average, although higher in the services sector. Notably, the services sector shows almost 50% investment in intangibles.</td>
</tr>
<tr>
<td>Investment barriers</td>
<td>Availability of skilled staff continues to be perceived as the main barrier to investment, especially by large firms. A lack of digital infrastructure is a barrier for only 17% of firms, reflecting Estonia’s leading role in this area. Firms in the service sector report labour and business regulation more often as barrier.</td>
</tr>
<tr>
<td>External finance</td>
<td>7% of firms are finance constrained, in line with the EU average. However, financing conditions for investment activities have worsened over the last year (up from 4%).</td>
</tr>
<tr>
<td>Firm performance</td>
<td>Many firms in Estonia fall in the lowest productivity class. Large firms make a fairly small contribution to total value added. Employment dynamics over the past three years have been favourable, although the share of firms reporting a decrease in employment is higher than on average in the EU.</td>
</tr>
</tbody>
</table>
INVESTMENT DYNAMICS

INVESTMENT ACTIVITY IN LAST FINANCIAL YEAR

73% of firms in Estonia invested in the last financial year, less than in the previous EIBIS wave. The share of firms that invested is below the EU average.

The share of firms investing is highest in the infrastructure sector and among large firms.

Investment intensity, that is investment per employee, is lower in Estonia than on average in the EU.

*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 intensity is reported in 2015 values (using the Eurostat GFCF deflator).

Base: All firms (excluding don't know/refused responses); **Caution very small base size less than 30 large firms

INVESTMENT CYCLE

Firms’ investment activity places Estonia in the ‘low investment expanding’ quadrant on the investment cycle. This is an improvement compared to 2016, when Estonia was placed in the low investment contracting quadrant.

Expansion in investment seems to be strongest among firms in the service sector and large firms.

Base: All firms
Share of firms investing shows the percentage of firms with investment per employee greater than EUR 500.
** Caution very small base size less than 30 for large firms
The y-axis line crosses x-axis on the EU average for 2016
**INVESTMENT DYNAMICS**

**EVOLUTION OF INVESTMENT EXPECTATIONS**

More firms in Estonia increased than reduced their investment activities in the last financial year. This is a moderate improvement compared to the previous year and well above expectations. For 2017, a further slight improvement in investment is expected. Firms in the service sector are most optimistic about their investment activity, firms in the manufacturing sector are least optimistic.

Over the next 3 years, investment in capacity expansion is cited as a priority by 44% of firms, considerably more often than in the previous EIBIS wave (25%).

Investment in new products and services has also been named more often as priority and is now close to the EU average.

Overall, this points towards strengthening business dynamism going forward.

**FUTURE INVESTMENT PRIORITIES**

- No investment planned
- New products/services
- Replacement
- Capacity expansion

Q. Looking ahead to the next 3 years, which 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 for large firms

`Realised change` is the share of firms who invested more minus those who invested less; `Expected change` is the share of firms who expect(ed) to invest more minus those who expect(ed) to invest less.
INVESTMENT FOCUS

INVESTMENT AREAS

Just over half of investment in Estonia is in machinery and equipment (53%).

Investment in software, data and IT is at 14%, in line with the EU average, but is almost double in the services sector.

Only 2% of firms’ investment is in R&D, compared to an EU average of 8%.

The share of investment on training doubled compared to the previous EIBIS wave, reaching 12% in 2017.

Base: All firms who have invested in the last financial year (excluding don’t know/refused responses)
*Caution very small base size less than 30 for large firms

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?

PURPOSE OF INVESTMENT IN LAST FINANCIAL YEAR

With 44%, the largest share of investment in Estonia is dedicated to expanding capacity for existing products and services, compared to the EU overall where 50% of investment went on replacement.

Investment dedicated to replacing capacity amounted to 36% of total investment, half the proportion reported in the previous EIBIS wave.

The share of replacement investment was highest in the infrastructure sector (at 41%).

Base: All firms who have invested in the last financial year (excluding don’t know/refused responses).
*Caution very small base size less than 30 for large firms

Q. What proportion of total investment was for (a) replacing capacity (including existing buildings, machinery, equipment, IT) (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?
**INVESTMENT FOCUS**

**INNOVATION ACTIVITY**

The share of firms that innovate decreased compared to the previous EIBIS wave.

Only 14% of firms developed or introduced new products, processes or services as part of their investment activities, the lowest share among EU countries. The share has dropped by a third since the previous EIBIS wave.

Almost all of the innovation in Estonia was new to the firm or country, rather than the global market.

A fairly high share of firms in the manufacturing sector undertook innovation activity (18%).

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**INVESTMENT ABROAD**

Only 3% of firms in Estonia have invested in another country, far below the EU average (14%).

Firms in the manufacturing sector in Estonia are more likely to have invested abroad (6%) and this share has substantially increased over the last year.

Among SMEs, only 2% have invested abroad.

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*Caution very small base size less than 30 for large firms*

Q. In the last financial year, has your company invested in another country?
INVESTMENT NEEDS

PERCEIVED INVESTMENT GAP

75% of firms believe their investment over the last three years was about the right amount, broadly in line with the previous EIBIS wave.

20% report investing too little, which is a little higher than on average across the EU (15%).

Firms in the manufacturing and construction sectors perceive the gap to be larger. Roughly one-quarter of those firms report that their investment over the last three years was too low.

22% of SMEs say they have under-invested.

SHARE OF FIRMS AT OR ABOVE FULL CAPACITY

68% of firms in Estonia report operating at or above maximum capacity in the last financial year, similar to the previous EIBIS wave. This is well above the EU average of 53%.

With 82%, firms in the service sector are most likely to report operating at or above full capacity, well above the EU average for service sector firms.

Base: All firms

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 for large firms

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.
PUBLIC INVESTMENT PRIORITIES

28% of firms consider professional training and higher education (HE) as top priority for public investment.

Firms in the infrastructure sector are most likely to prioritise transport (30%). Those in the construction sector are twice as likely as firms in the service sector to select professional training and higher education as their priority for public investment (36% versus 17%).
DRIVERS AND CONSTRAINTS

SHORT TERM INFLUENCES ON INVESTMENT

On balance, firms in Estonia expect the political and regulatory climate to get worse over the next 12 months.

Estonian firms are on balance more optimistic about other economic indicators, including business prospects and access to internal finance.

*Net balance is the share of firms expecting improvement minus the share of firms expecting a deterioration

Base: All firms
Q. Do you think that each of the following will improve, stay the same, or get worse over the next 12 months?

SHORT TERM INFLUENCES BY SECTOR AND SIZE (NET BALANCE)

The assessment of short-term influences differs substantially across sectors. For example, firms in the service sector are fairly pessimistic about the political and regulatory climate.

Firms in the infrastructure sector are fairly pessimistic about the economic climate and business prospects.

Base: All firms
Q. Do you think that each of the following will improve, stay the same, or get worse over the next 12 months?

*Caution very small base size less than 30 for large firms
80% of firms consider the availability of skilled staff as an obstacle to investment activities, more than on average in the EU.

Access to digital infrastructure is only mentioned by 17% of firms as obstacle in Estonia. This reflects the country’s leading role in this area.

Large firms are particularly concerned about the availability of skilled staff, SMEs about uncertainty.

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**LONG TERM BARRIERS TO INVESTMENT**

**DRIVERS AND CONSTRAINTS**

**LONG TERM BARRIERS BY SECTOR AND SIZE**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Demand for products / services</th>
<th>Availability of skilled staff</th>
<th>Energy costs</th>
<th>Digital infrastructure</th>
<th>Labour regulations</th>
<th>Business regulations</th>
<th>Transport infrastructure</th>
<th>Availability of finance</th>
<th>Uncertainty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>56%</td>
<td>85%</td>
<td>54%</td>
<td>19%</td>
<td>44%</td>
<td>48%</td>
<td>20%</td>
<td>40%</td>
<td>65%</td>
</tr>
<tr>
<td>Construction</td>
<td>50%</td>
<td>83%</td>
<td>53%</td>
<td>18%</td>
<td>51%</td>
<td>46%</td>
<td>19%</td>
<td>50%</td>
<td>74%</td>
</tr>
<tr>
<td>Services</td>
<td>52%</td>
<td>89%</td>
<td>55%</td>
<td>21%</td>
<td>63%</td>
<td>55%</td>
<td>26%</td>
<td>36%</td>
<td>61%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>49%</td>
<td>67%</td>
<td>43%</td>
<td>17%</td>
<td>46%</td>
<td>47%</td>
<td>11%</td>
<td>27%</td>
<td>58%</td>
</tr>
<tr>
<td>SME</td>
<td>48%</td>
<td>76%</td>
<td>42%</td>
<td>13%</td>
<td>46%</td>
<td>45%</td>
<td>18%</td>
<td>37%</td>
<td>65%</td>
</tr>
<tr>
<td>Large*</td>
<td>63%</td>
<td>90%</td>
<td>63%</td>
<td>20%</td>
<td>59%</td>
<td>59%</td>
<td>23%</td>
<td>15%</td>
<td>58%</td>
</tr>
</tbody>
</table>

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 it a major obstacle, a minor obstacle or not an obstacle at all?

* Caution very small base size less than 30 for large firms
75% of firm’s investment funding comes from internal sources, compared to 62% for the EU on average. The share of internal funding reported by Estonian firms did not change much since last year.

Firms in the infrastructure and manufacturing sectors have a much higher share of external finance (33% and 27% respectively) than those in the construction sector (9%).

Bank loans account for the highest share of external finance (44%), closely followed by leasing (41%). These finance types were also most prevalent in the previous EIBIS wave, though to a lesser extent.

Grants now only make up 7% of external finance compared with 21% in the previous EIBIS wave.
19% of firms in Estonia report being highly profitable, broadly similar to the share from the previous EIBIS wave (23%) and the EU average (20%).

Large firms in Estonia are most likely to be highly profitable (32%).

Only 6% of Estonian firms say they did not apply for external finance because they were happy to rely exclusively on internal sources. Across the EU, this share is at 16%.

The share of firms that did not apply for external finance because they are happy to rely exclusively on internal sources dropped substantially since the previous wave. The drop was most pronounced in service sectors and among large firms.

Base: All firms *Caution very small base size less than 30 for large firms
Q. What was your main reason for not applying for external finance for your investment activities? Was happy to use internal finance/didn’t need the finance (Unprompted)
DISSATISFACTION WITH EXTERNAL FINANCE RECEIVED

Firms that used external finance are on balance satisfied with the amount, cost, maturity, collateral and type of finance received.

The highest proportion of dissatisfaction in Estonia is with collateral required (3%). This is slightly less than for the EU on average.

Dissatisfaction with the characteristics of external finance received is concentrated in the construction sector and, to a lesser extent, manufacturing.

One in ten construction firms are dissatisfied with the amount obtained and cost. Manufacturing firms mainly register dissatisfaction with collateral requirements.

**DISSATISFACTION BY SECTOR AND SIZE**

<table>
<thead>
<tr>
<th>Type of finance</th>
<th>Amount obtained</th>
<th>Cost</th>
<th>Length of time</th>
<th>Collateral</th>
<th>Type of finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing*</td>
<td>0%</td>
<td>4%</td>
<td>0%</td>
<td>8%</td>
<td>0%</td>
</tr>
<tr>
<td>Construction*</td>
<td>10%</td>
<td>10%</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Services*</td>
<td>0%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>0%</td>
<td>0%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>SME</td>
<td>1%</td>
<td>3%</td>
<td>2%</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>Large*</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

*Caution very small base sizes less than 30 for Large firms and all sectors except infrastructure.

**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 ....?
SHARE OF FINANCE CONSTRAINED FIRMS

7% of all firms can be considered finance constrained, up from 4% in the previous wave. The share of finance constrained firms is now in line with the EU average.

The share of finance constrained firms is particularly high in the construction sector.

None of the large firms interviewed reported to be finance constrained.

Financing conditions for investment activities have worsened over the last year. Estonian firms are similar to the average EU firm in terms of being finance constrained. However, the share of firms reporting that they do not use external funding because they are happy relying exclusively on internal funds is well below the EU average.

Differences across size classes and sectors are predominantly in the percentage of firms being external finance constrained rather than the happiness to exclusively use internal funds to finance investment.
Large firms account for only 28% of value-added, compared to 50% for the EU on average. This partly reflects the small size of the economy, which makes it more difficult for firms to grow beyond a certain size.

Employment dynamics over the past three years have been favourable in Estonia, with more firms expanding than contracting. However, the share of firms reporting a decrease in employment is higher than on average in the EU.

Productivity of Estonian firms is lower than on average in the EU. Manufacturing and construction sectors are characterised by a particularly high share of firms in the lowest productivity class.

Base: All firms

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

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 2016, aggregate investment remains below pre-crisis levels and has continued to fall.

Weak investment performance is primarily due to a fall in corporate investment. Government investment is also below its 2008 level.

Investment in other buildings and structures continues to fall, as does investment in machinery and equipment. Instead, investment in dwellings and IPP has gained momentum.

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.

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.

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.
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.

<table>
<thead>
<tr>
<th>EU vs Estonia</th>
<th>Manufacturing vs Construction</th>
<th>SME vs Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>(12338 vs 408)</td>
<td>(107 vs 105)</td>
<td>(386 vs 22)</td>
</tr>
</tbody>
</table>

**10% or 90%**

- EU: 1.1%
- Estonia: 3.6%
- Manufacturing: 6.7%
- Construction: 6.4%
- Services: 8.1%
- Infrastructure: 6.3%
- SME: 2.9%
- Large: 10.5%
- EU vs Estonia: 3.8%
- Manufacturing vs Construction: 9.2%
- SME vs Large: 10.9%

**30% or 70%**

- EU: 1.6%
- Estonia: 5.6%
- Manufacturing: 10.2%
- Construction: 9.8%
- Services: 12.4%
- Infrastructure: 9.7%
- SME: 4.5%
- Large: 16.1%
- EU vs Estonia: 5.8%
- Manufacturing vs Construction: 14.1%
- SME vs Large: 16.7%

**50%**

- EU: 1.8%
- Estonia: 6.1%
- Manufacturing: 11.1%
- Construction: 10.7%
- Services: 13.5%
- Infrastructure: 10.5%
- SME: 4.9%
- Large: 17.6%
- EU vs Estonia: 6.3%
- Manufacturing vs Construction: 15.4%
- SME vs Large: 18.2%

**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 an industry-by-industry regression analysis (with country dummies).

**Manufacturing sector**

Based on the NACE classification of economic activities, firms in group C (manufacturing).

**Construction sector**

Based on the NACE classification of economic activities, firms in group F (construction).

**Services sector**

Based on the NACE classification of economic activities, firms in group G (wholesale and retail trade) and group I (accommodation and food services activities).

**Infrastructure sector**

Based on the NACE classification of economic activities, firms in groups D and E (utilities), group H (transportation and storage) and group J (information and communication).

**SME**

Firms with between 5 and 249 employees.

**Large firms**

Firms with at least 250 employees.
## BASE SIZES

<table>
<thead>
<tr>
<th>Base definition and page reference</th>
<th>EU 2016/2017</th>
<th>EE 2016/2017</th>
<th>Manufacturing</th>
<th>Construction</th>
<th>Services</th>
<th>Infrastructure</th>
<th>SME</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>All firms, p. 2, 3, 7, 8, 11, 13, 14</td>
<td>12483/12338</td>
<td>400/408</td>
<td>105</td>
<td>107</td>
<td>90</td>
<td>106</td>
<td>386</td>
<td>22</td>
</tr>
<tr>
<td>All firms (excluding don’t know/refused responses), p. 3</td>
<td>12159/12020</td>
<td>388/388</td>
<td>101</td>
<td>105</td>
<td>85</td>
<td>97</td>
<td>368</td>
<td>20</td>
</tr>
<tr>
<td>All firms (excluding don’t know/refused responses), p. 5</td>
<td>12071/12073</td>
<td>388/398</td>
<td>102</td>
<td>105</td>
<td>87</td>
<td>104</td>
<td>377</td>
<td>21</td>
</tr>
<tr>
<td>All firms who have invested in the last financial year (excluding don’t know/refused responses), p. 4</td>
<td>10060/10321</td>
<td>268/284</td>
<td>74</td>
<td>76</td>
<td>56</td>
<td>78</td>
<td>268</td>
<td>16</td>
</tr>
<tr>
<td>All firms who invested in the last financial year, p. 5</td>
<td>10881/10889</td>
<td>335/342</td>
<td>87</td>
<td>91</td>
<td>69</td>
<td>95</td>
<td>322</td>
<td>20</td>
</tr>
<tr>
<td>All firms (excluding ‘Company didn’t exist three years ago’ responses), p. 6</td>
<td>12453/12306</td>
<td>399/407</td>
<td>105</td>
<td>106</td>
<td>90</td>
<td>106</td>
<td>385</td>
<td>22</td>
</tr>
<tr>
<td>Base: All firms (data not shown for those who said not an obstacle at all/don’t know/refused), p. 9</td>
<td>12483/12338</td>
<td>400/408</td>
<td>105</td>
<td>107</td>
<td>90</td>
<td>106</td>
<td>386</td>
<td>22</td>
</tr>
<tr>
<td>All firms who used external finance in the last financial year (excluding don’t know/refused responses), p. 10, 11, 12</td>
<td>9093/9131</td>
<td>292/287</td>
<td>65</td>
<td>85</td>
<td>53</td>
<td>84</td>
<td>275</td>
<td>12</td>
</tr>
<tr>
<td>All firms (excluding don’t know, refused and missing responses), p. 14</td>
<td>12162/11513</td>
<td>396/376</td>
<td>94</td>
<td>98</td>
<td>85</td>
<td>99</td>
<td>359</td>
<td>17</td>
</tr>
</tbody>
</table>