

Investment and Investment Finance

The Czech versus the European Story

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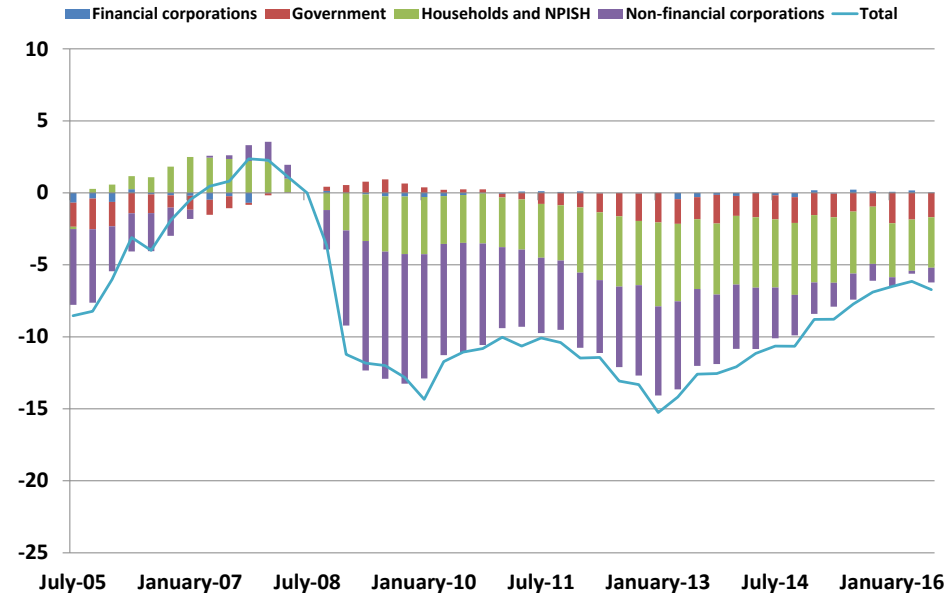
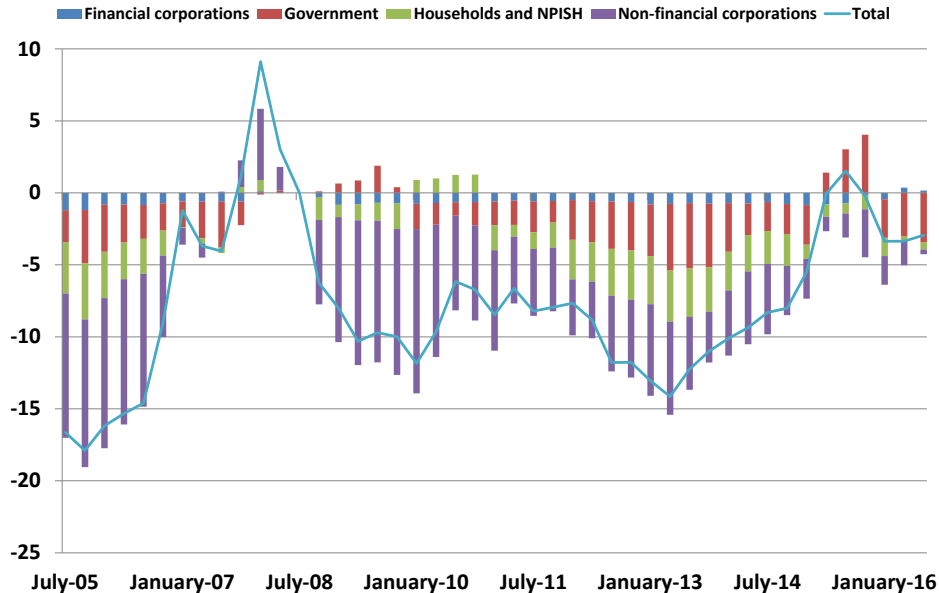
Prague, 6th of June 2017: CNB-EIB Conference

Investment dynamics similar to the aggregate of the EU, but with a strong one-off affect of the EU funds cycle

Real GFCF by institutional sector, (total rate of change with respect to 2008, in %)

Czech Republic

EU28



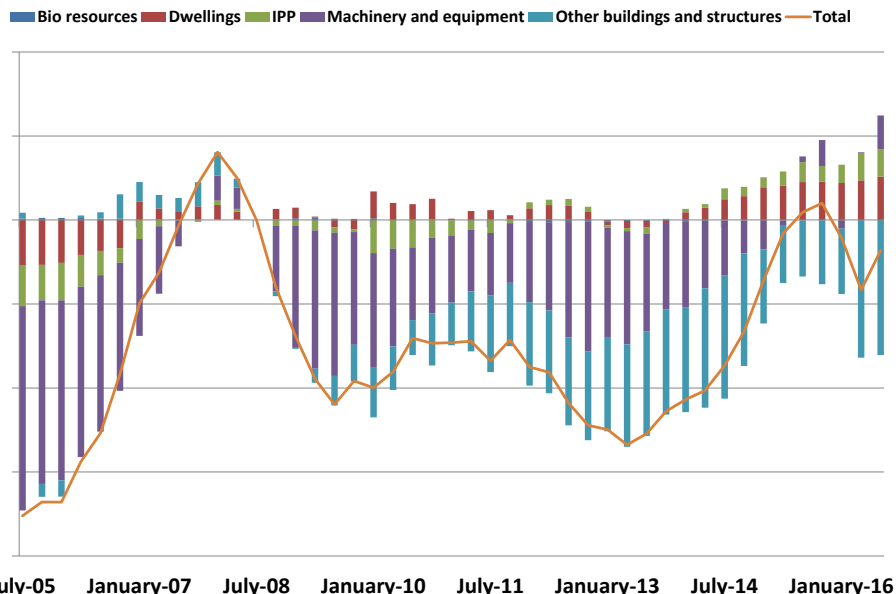
Source: National Sector Accounts, Eurostat

Note: the discrepancy between the total and the individual components is due to the statistical accounting for the "rest of the world"

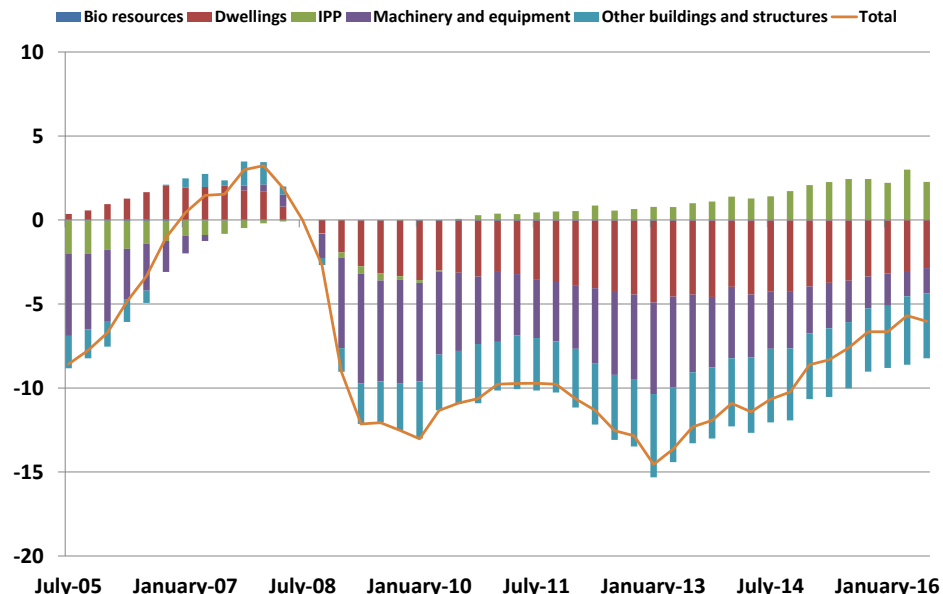
Other buildings strongly weighting downwards, while IPP and machinery and dwellings (contrary to the EU) contributing positively

Real GFCF and contribution by asset type, (total rate of change relative to 2008, in %)

Czech Republic



EU28

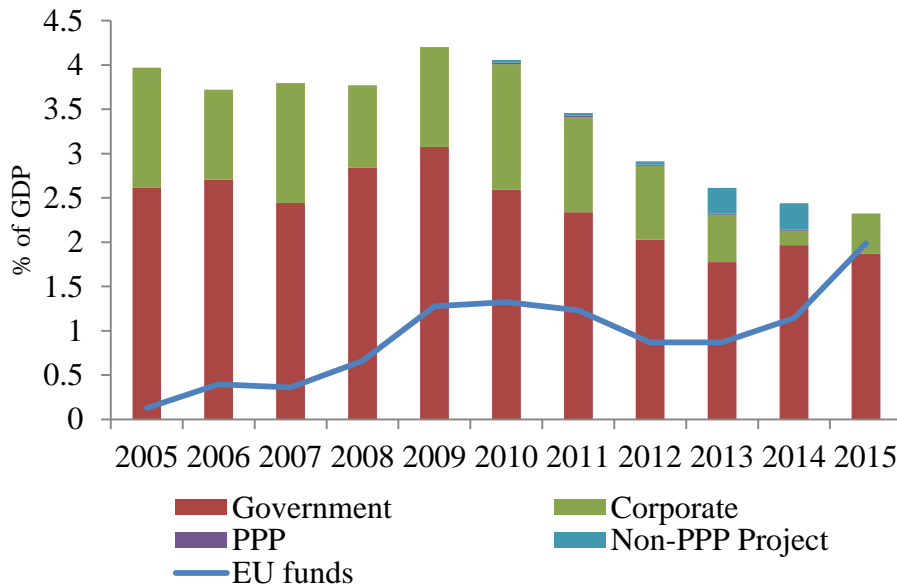


Source: National Sector Accounts, Eurostat

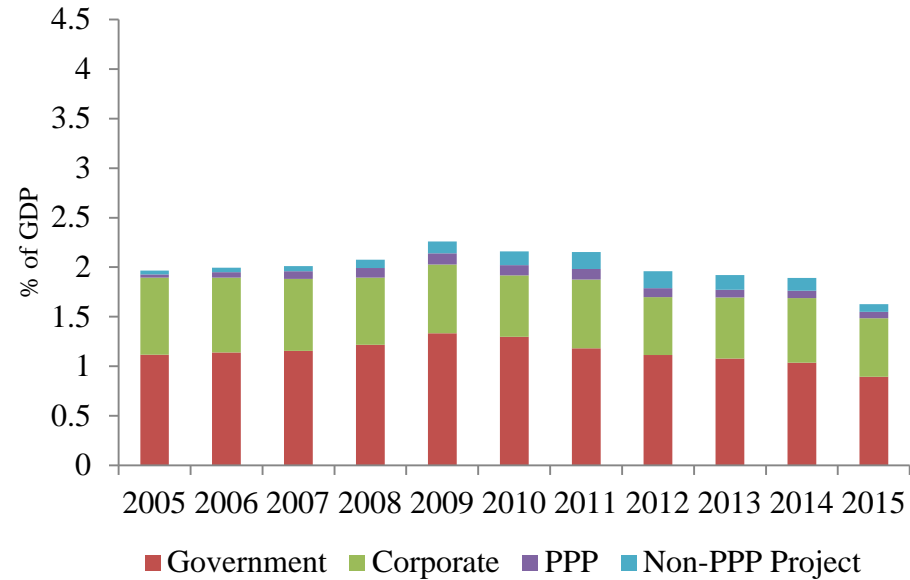
Infrastructure investment slowdown mostly on the corporate component, while government higher than the EU, in % GDP

Infrastructure investment by type as % of GDP

Czech Republic



EU28

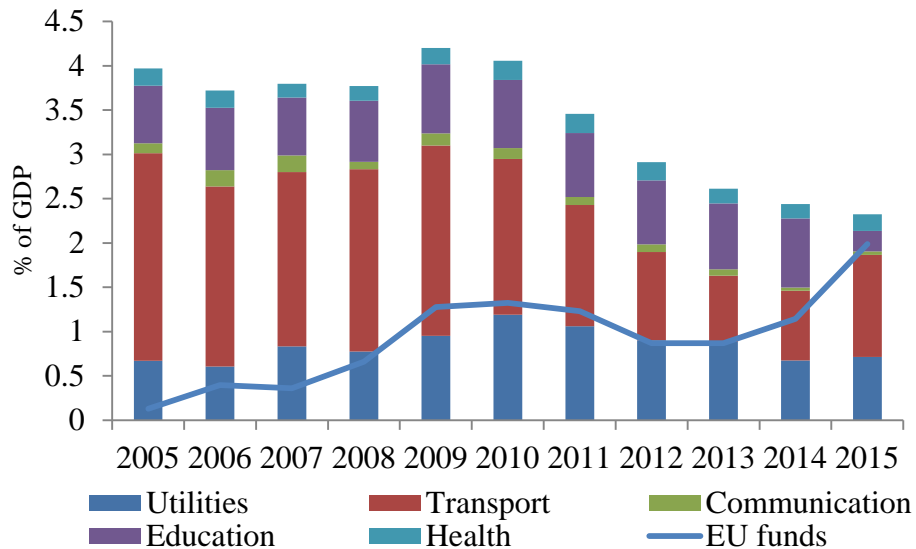


Source: Eurostat, EIB/EPEC, Projectware, includes government, corporate, PPP and non-PPP projects

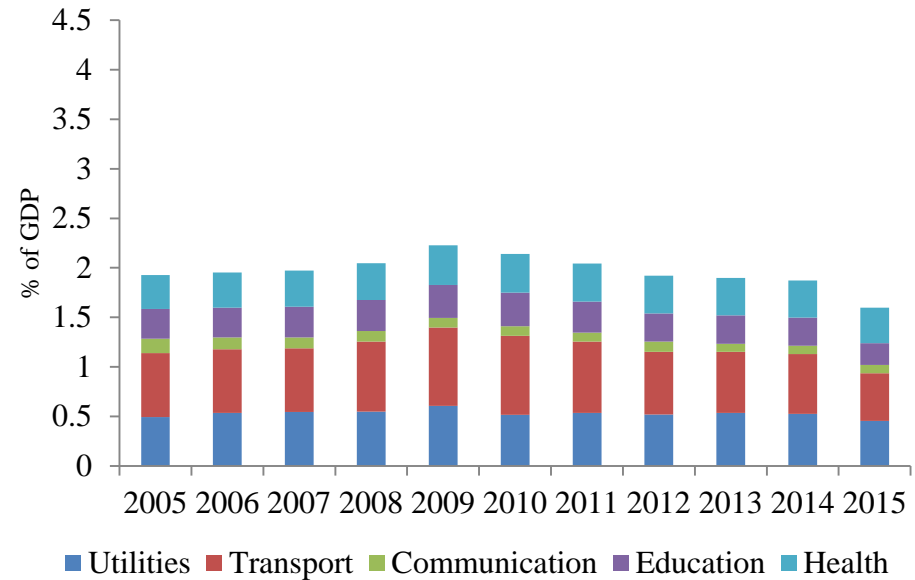
Infrastructure investment vs EU: health and communication lagging behind

Infrastructure investment by sector as % of GDP

Czech Republic



EU28



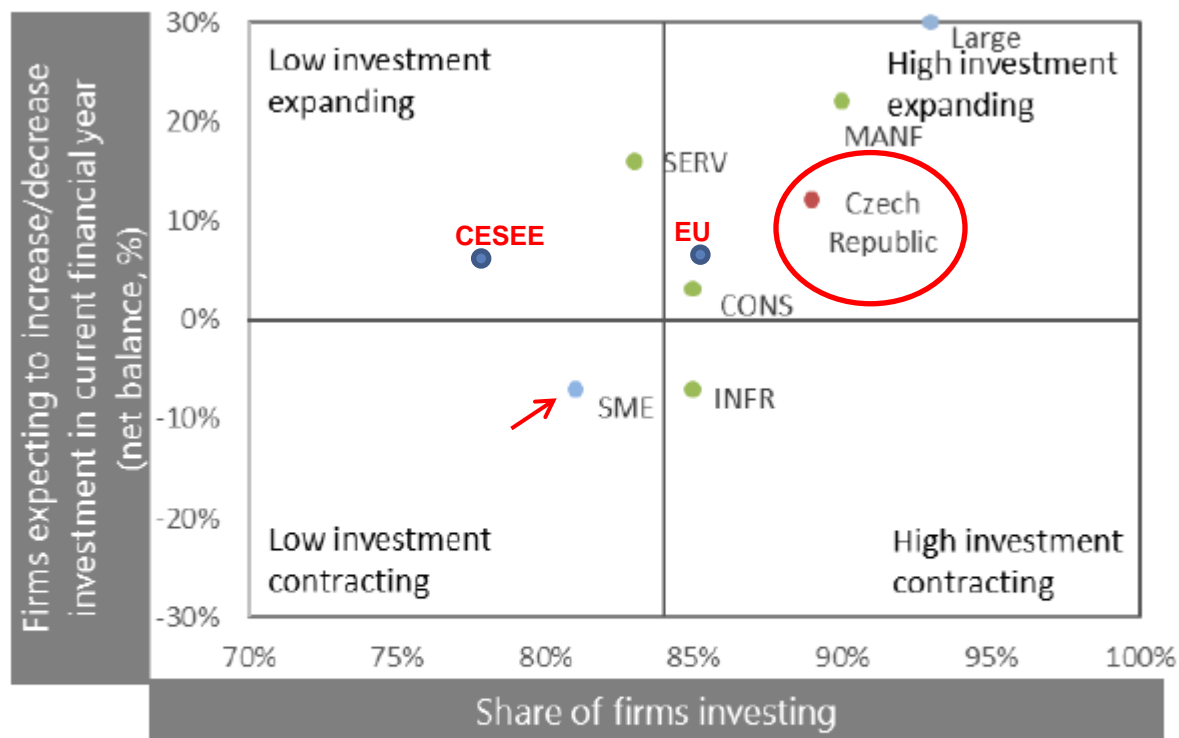
Source: Eurostat, EIB/EPEC, Projectware, includes government, corporate, PPP and non-PPP projects

The EIB Investment Survey (EIBIS) 2016

- Some 12,500 completed telephone interviews in total
- Survey of non-financial corporate sector (with 5+ employees)
- Covering manufacturing, services, construction and infrastructure sector
- Representativeness at high scientific standards for:
 - the EU 28 (as a whole)
 - each Member country (separately)
 - 4 industry grouping (within each Member country – for most countries), and
 - 4 size classes (within each Member country – for most countries)
- Implemented once a year (panel plus cross-section) – 1st run summer 2016
- In the Czech Republic, 479 firms have been asked.

Investment cycle phase: high and expanding, SMEs lag behind

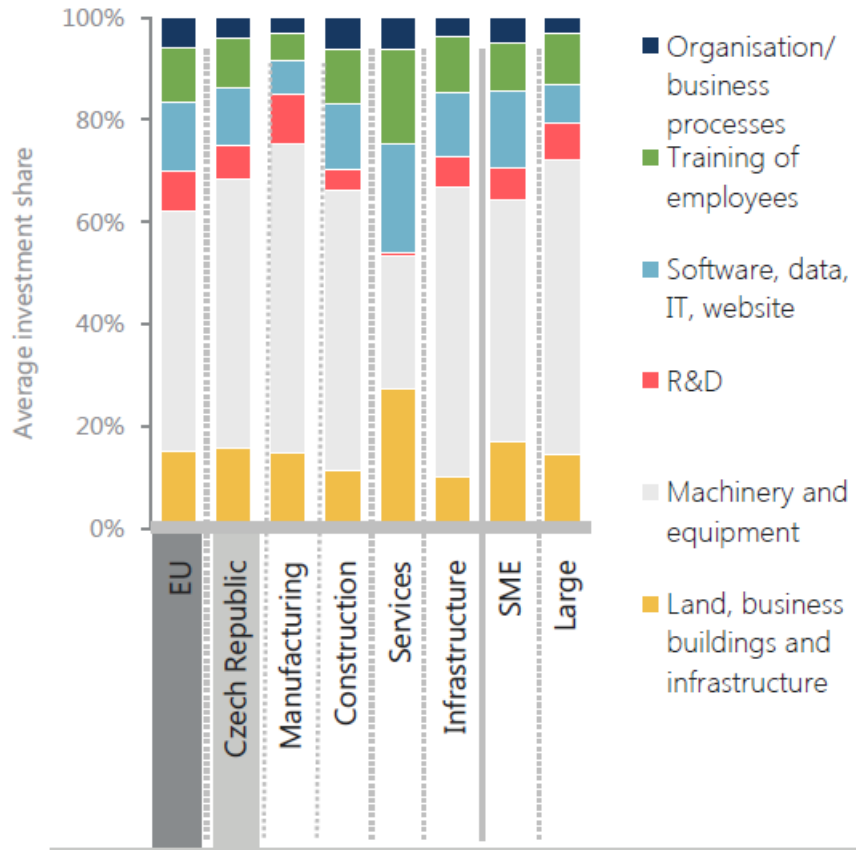
Investment cycle



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

Machinery and equipment investment dominates, investment in intangibles in line with EU and above CESEE, but EU overall has issues

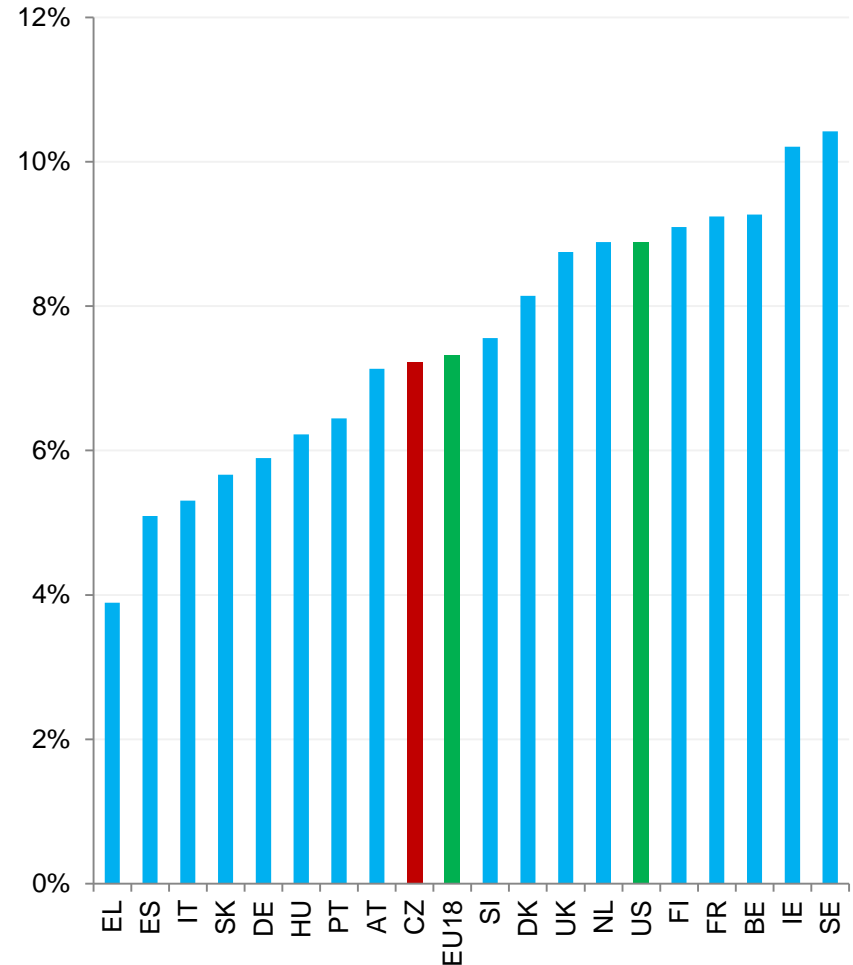
Investment areas



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?

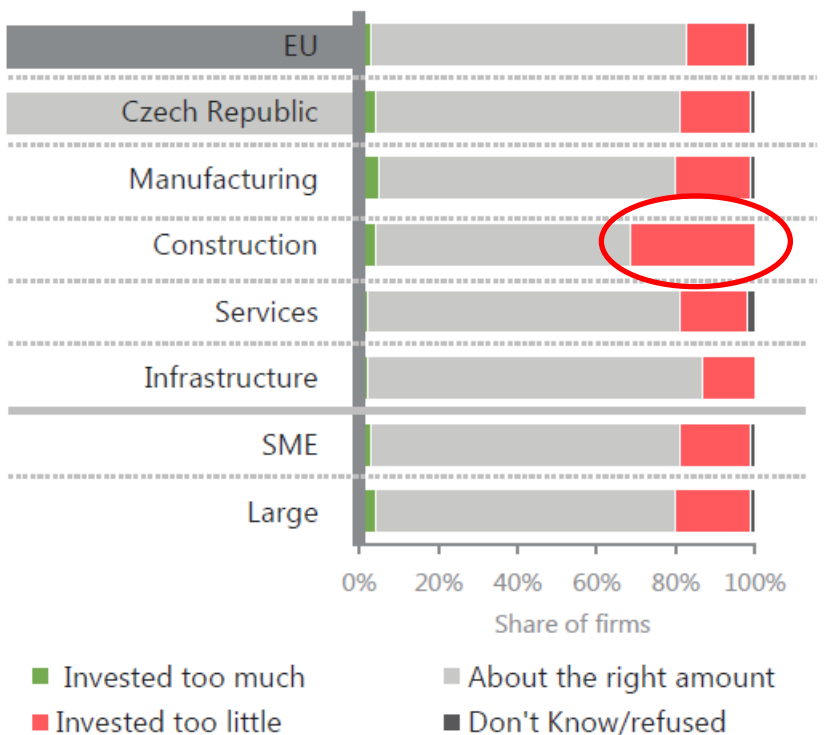
Investments in intangibles (% of GDP)



Source: EIB Investment Survey and Eurostat and INTAN-Invest database, OECD

Most firms do not detect investment gaps, but those who do, are concerned for capital stock quality. Construction firms more concerned

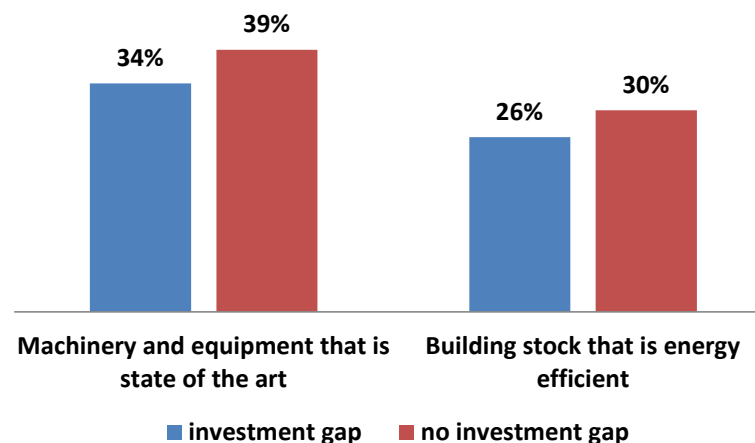
Perceived investment gap



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?

Investment gap and quality of capital (all firms)



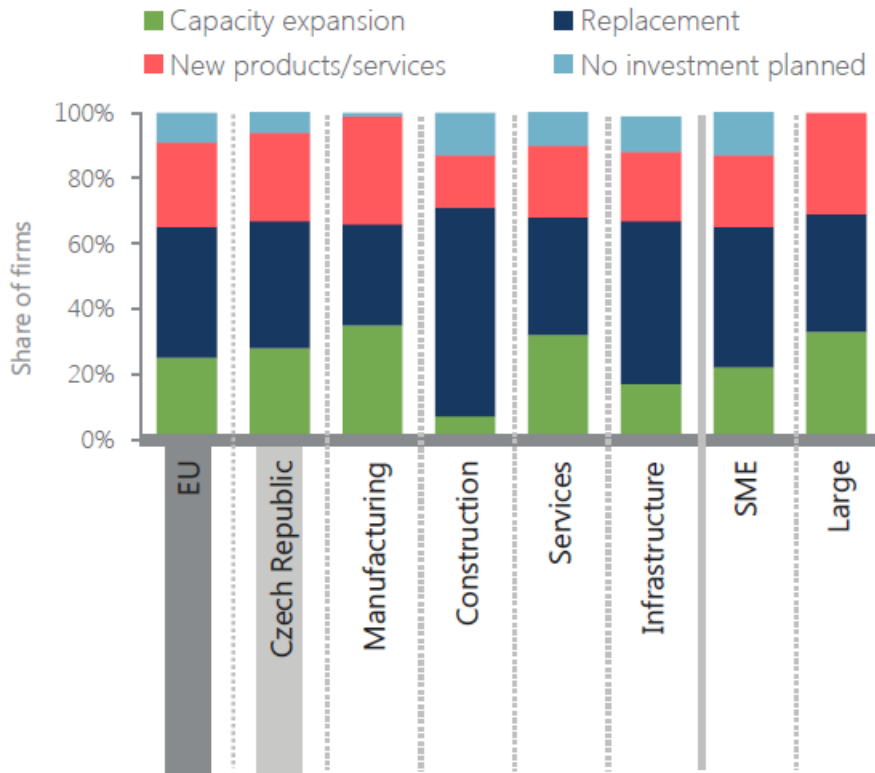
Base: All firms

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

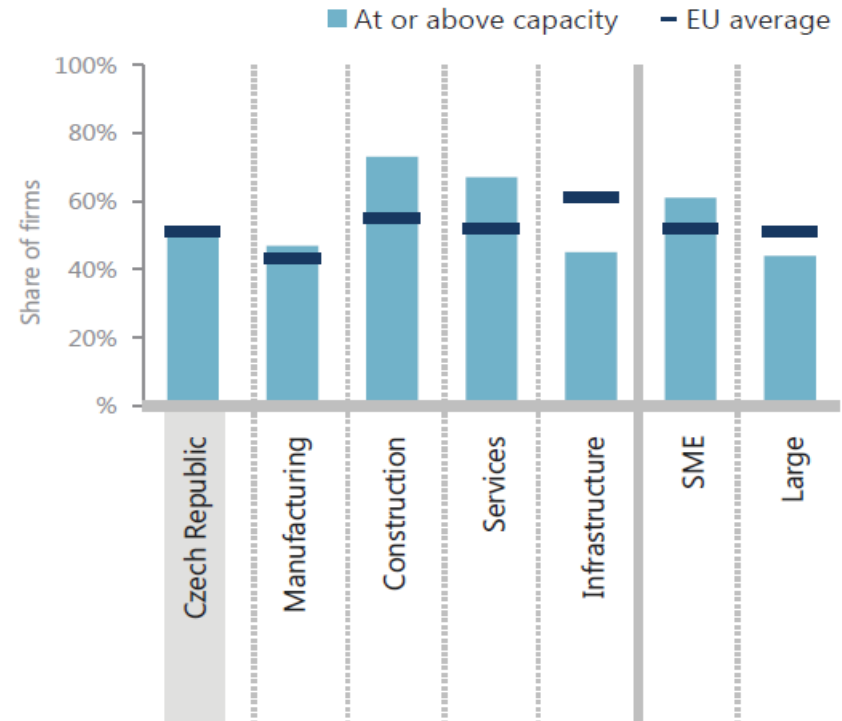
Q. What proportion, if any, of your commercial building stock satisfies high or highest energy efficiency standards

Capacity expansion and investment in new products in manufacturing, with all firms planning to invest, while replacement dominates in construction

Future investment priorities



Production capacity



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?

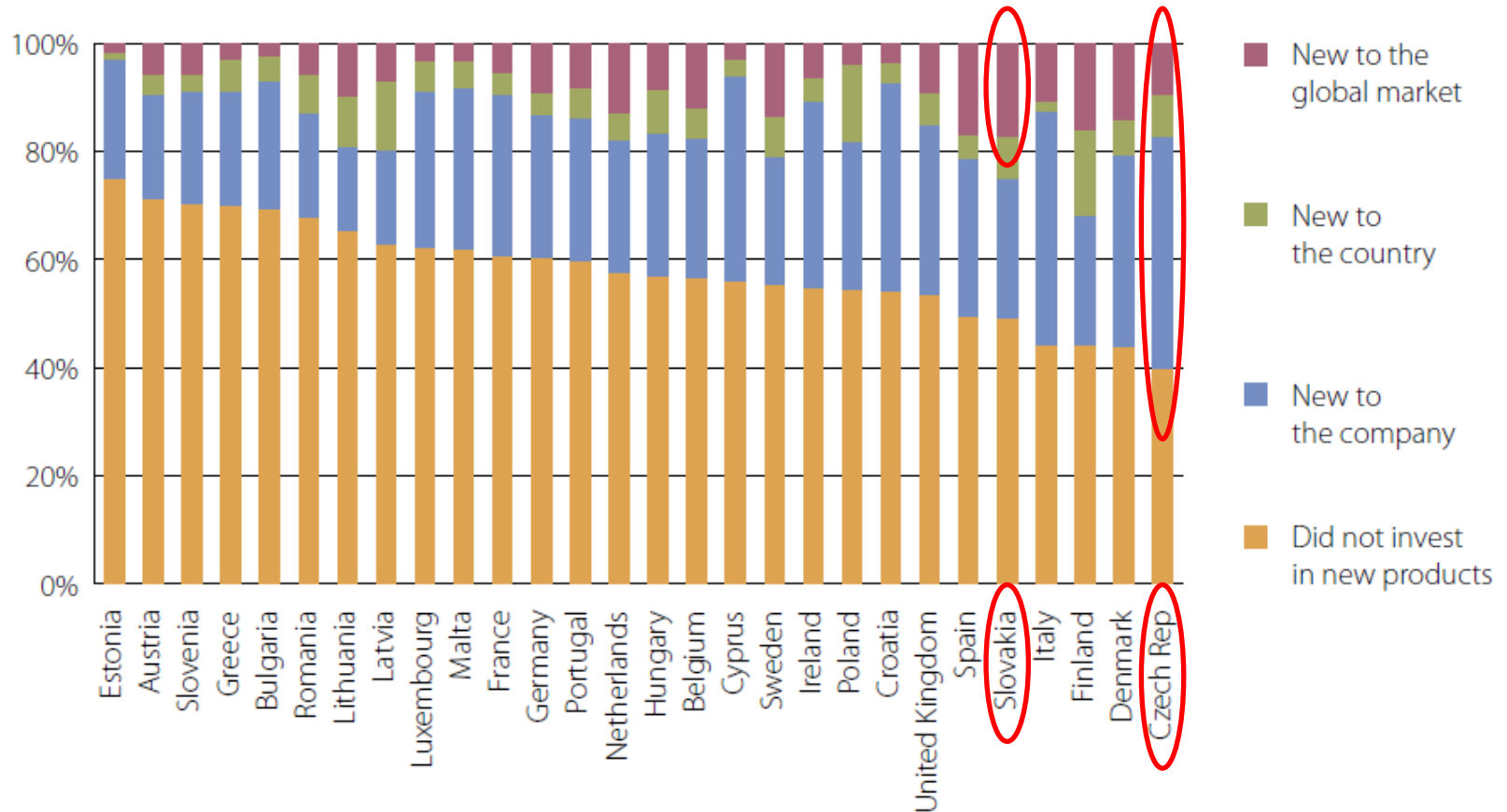
Base: All firms (data not shown for those operating somewhat or substantially below full capacity)

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?

Czech firms invest in innovation: with lots of adoption of existing technologies

Investment in new products, process or services that are new to the company, new to the country or new to the global market?

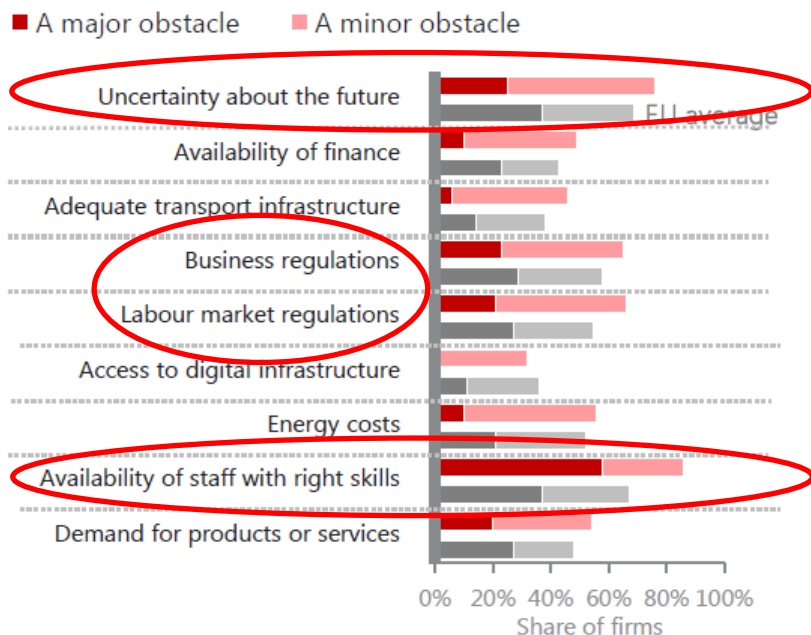


Base: All firms that invested in the last financial year (excluding don't know/refused responses)

Q. Were the new products, process or services (a) new to the company, (b) new to the country, (c) new to the global market?

Uncertainty, availability of skills and business and labor regulations main impediments

Long term investment constraints



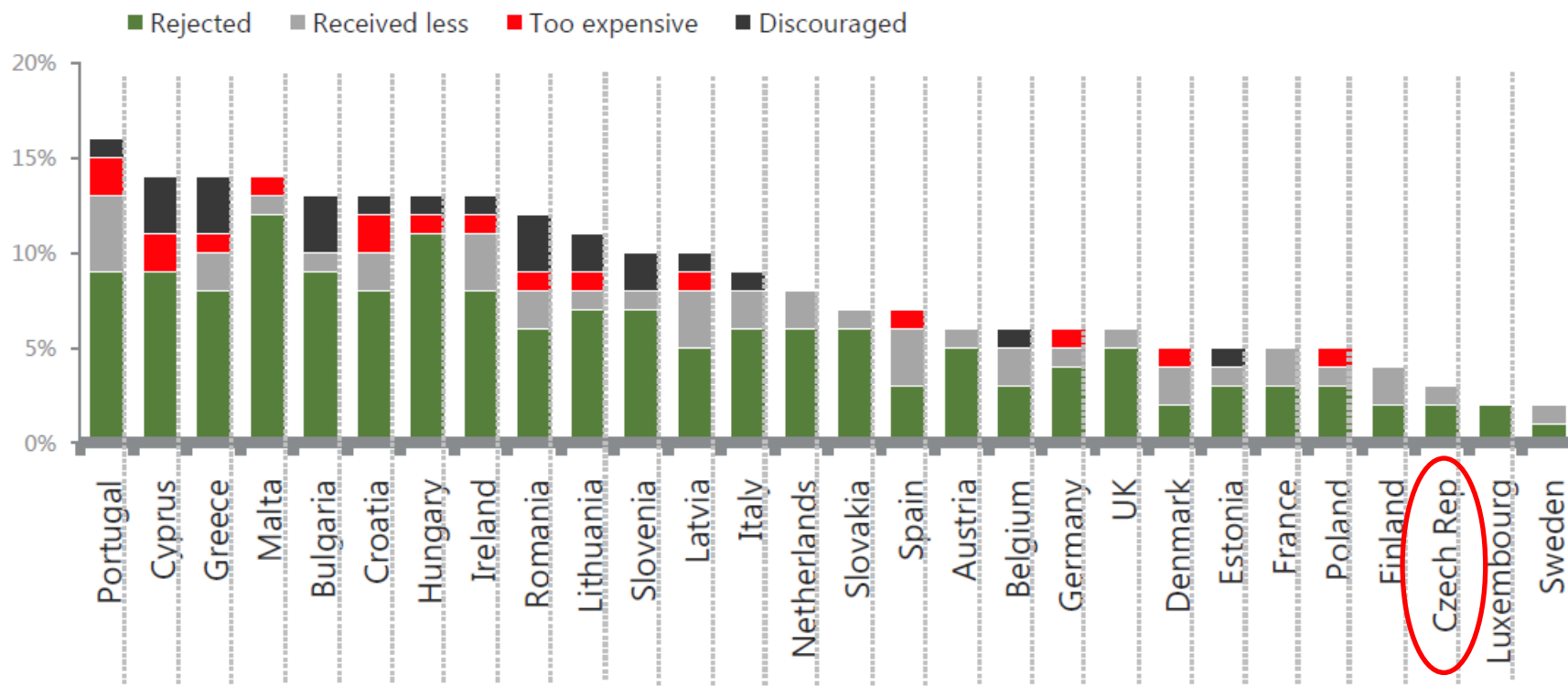
Base: All firms (data not shown for those who said not an obstacle at all/don't know/refused)

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

- Lack of skilled staff and labor market regulation as a barrier to investment: one of the highest in EU
- Skill mismatches & business and labor market regulation as main impediments across all sectors and above EU average
- Manufacturing and construction firms complain the most about high labor market regulation

One of the lowest share of finance constrained firms in EU

Share of finance constrained firms (firms that invested)

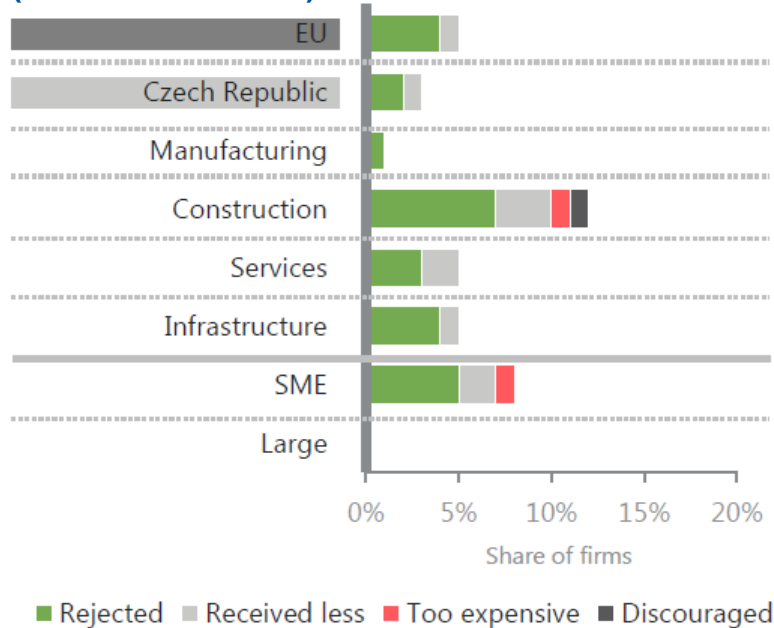


Base: All firms

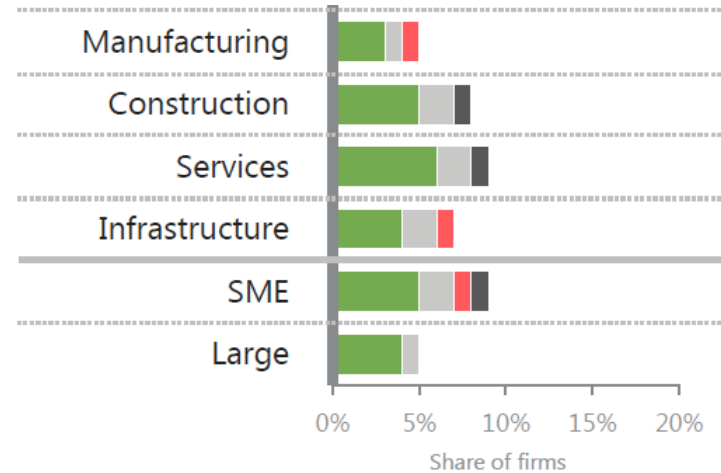
Finance constrained firms include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive) or they would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

No concerns for large firms, while small and construction firms relatively more finance constrained

Czech Republic: share of finance constrained firms (firms that invested)



EU: share of finance constrained firms (firms that invested)

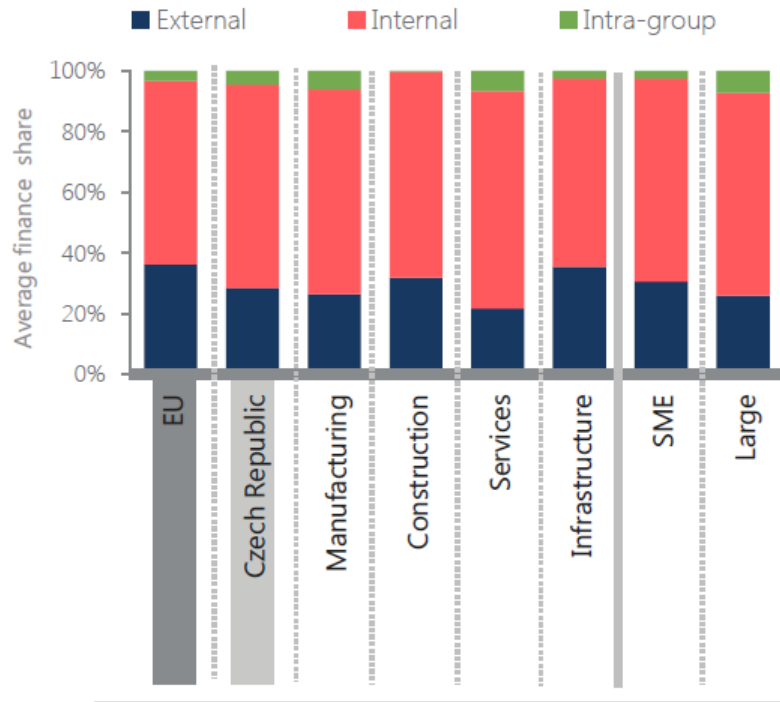


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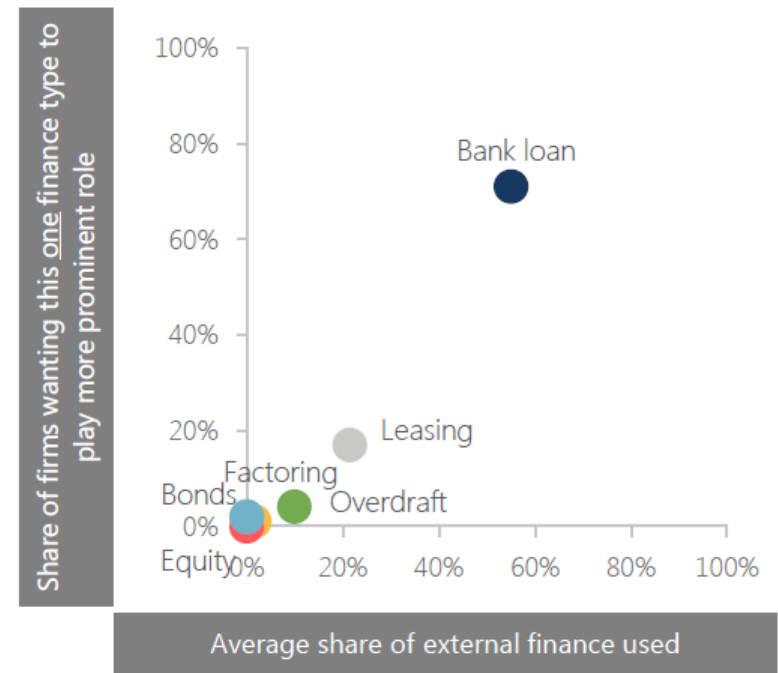
Intra-group funding visible in manufacturing and for large firms. Firms want bank loans more, little incentive to move to non-bank finance

Sources 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?

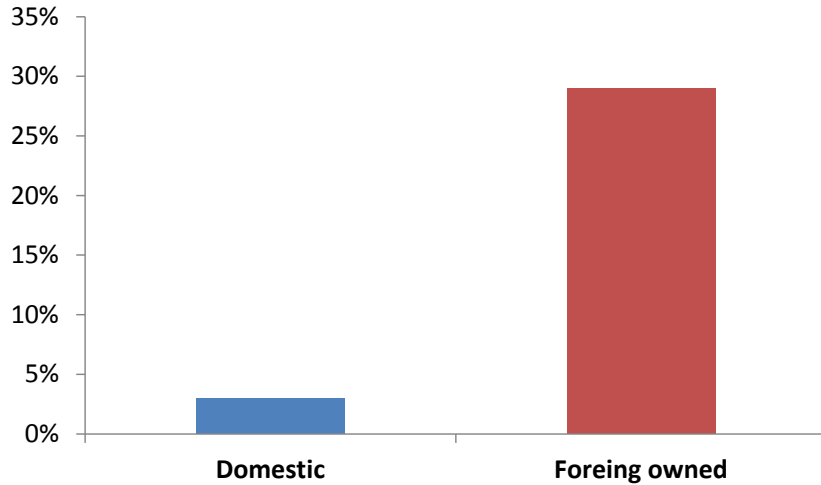
What source of finance firms want more?



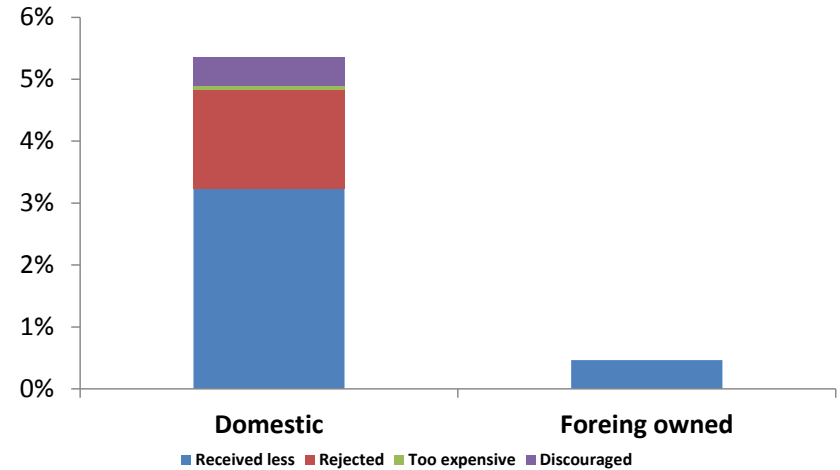
Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)
 Data is derived from two questions: firms were first asked about the types of external finance used in the last financial year and then which one type of external finance they would want to have a more prominent role over the next 3 years

Investment activity of foreign owned firms in the Czech Republic

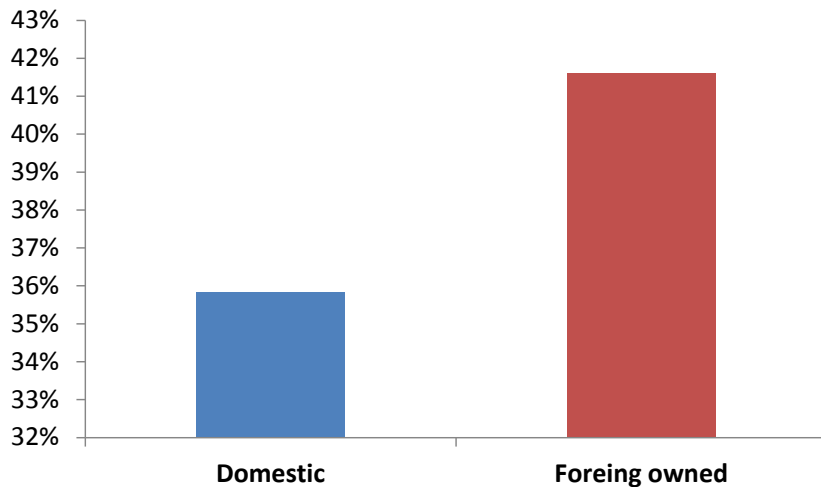
Investment Outlook (Net Balance)



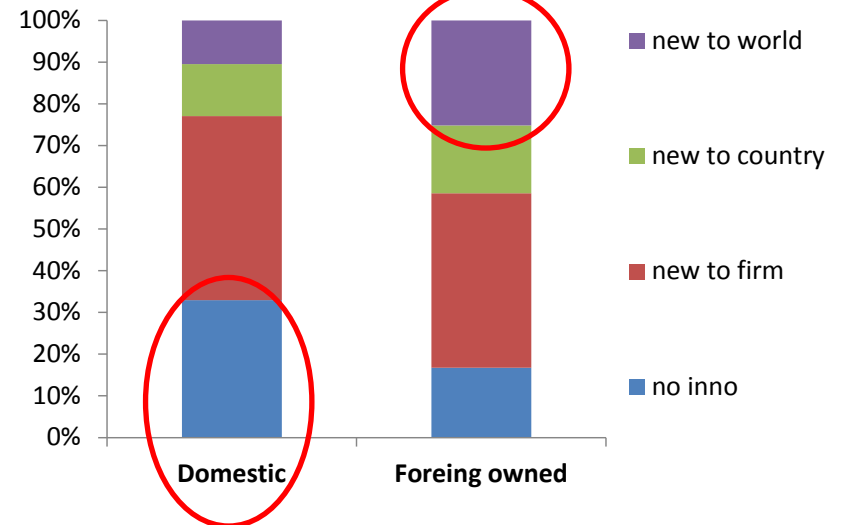
External Finance Constrained



Machinery & equipment @ state of the art



Innovation Activity



Conclusions

- Recovery of investment mimics EU averages, but strong one-off dependency from the EU funds cycle
 - Other buildings and structures still a drag
 - Private infrastructure investment much lower than in the past
 - Generally, investment in health and communication infrastructure low
- Business outlook positive
 - Largest share of investment in machinery and equipment
 - Czech firms show attention to intangibles, which are comparable to EU averages. At the EU level, however a gap exists
 - Most firms do not detect investment gaps, but those who do, are concerned for capital stock quality
 - Construction firms more concerned: above capacity, but low quality of capital stock
 - Capacity expansion and investment in new products dominates in manufacturing
 - Czech firms invest in innovation: with lots of adoption of existing technologies
- Foreign firms particularly positive
- Uncertainty, availability of skills and business and labor regulations main impediments. The case for more investment in skills.
- Access to finance not a key concern

Thank you

