

Investment in Romania and the EU

Debora Revoltella
Director
Economics Department

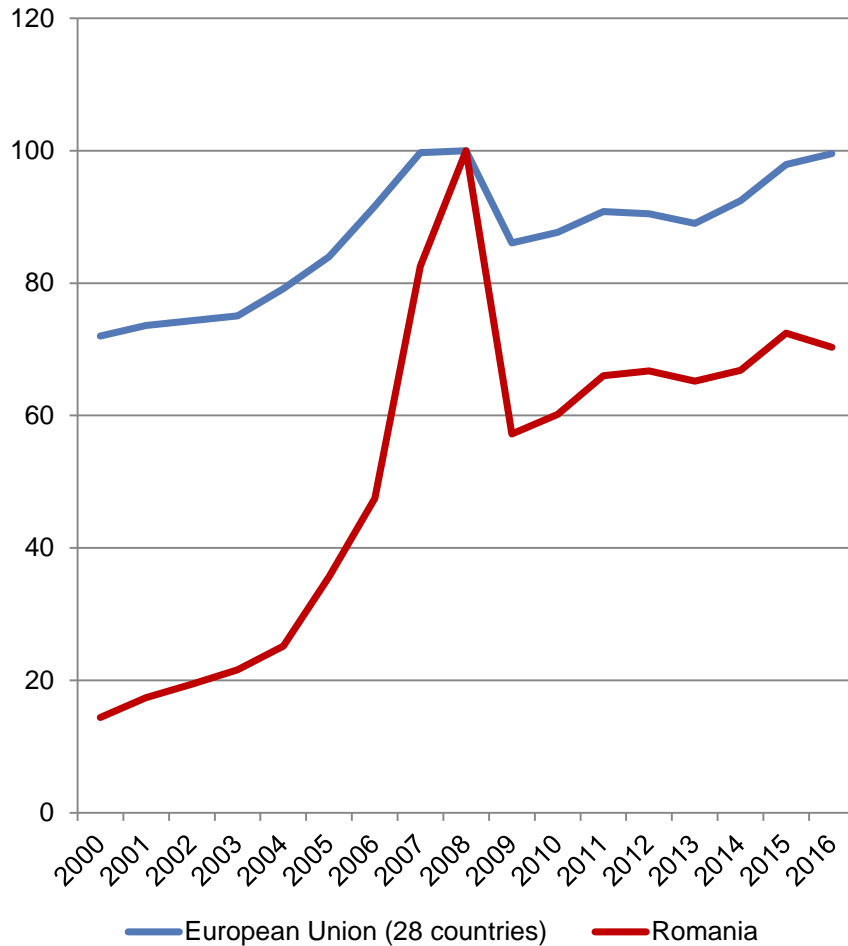
Bucharest

June 21, 2017

Investment dynamics in RO

Investment

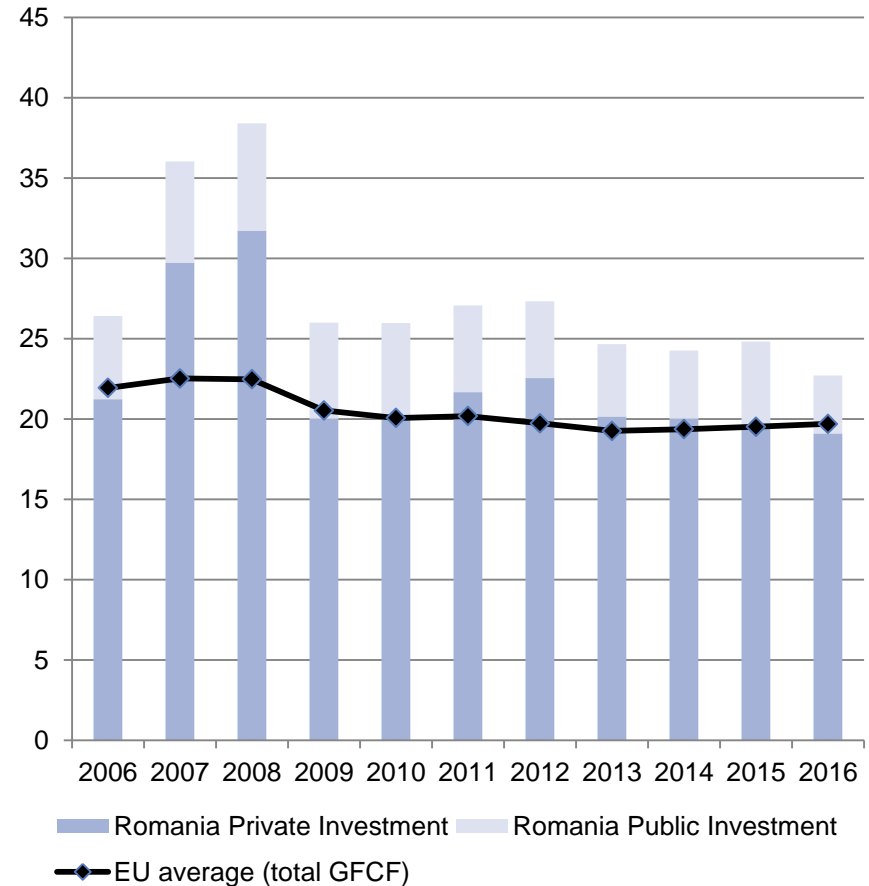
Index 2008=100



Source: Eurostat

Gross Fixed Capital Formation

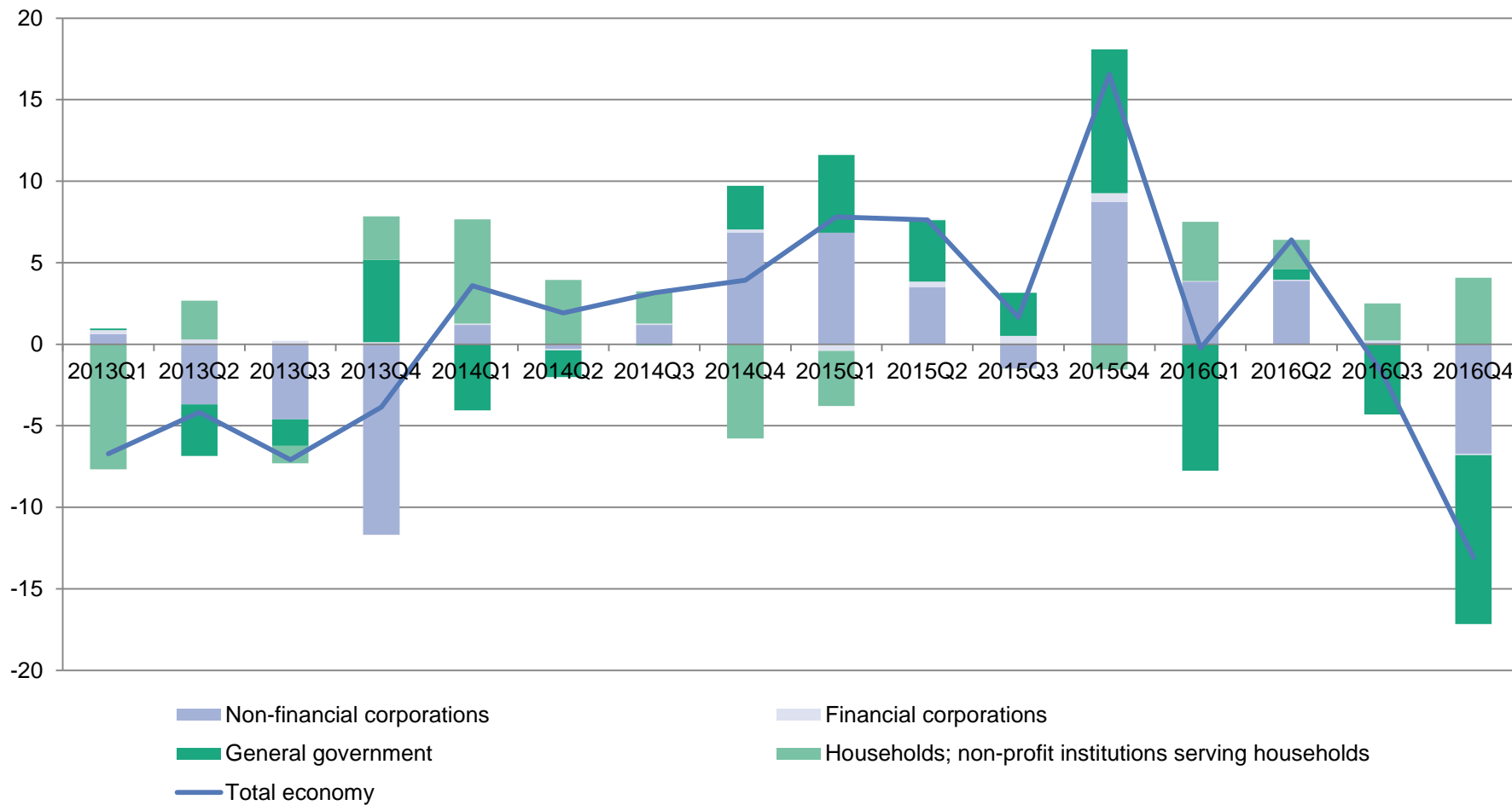
as % of GDP



Source: Ameco

Investment by sector

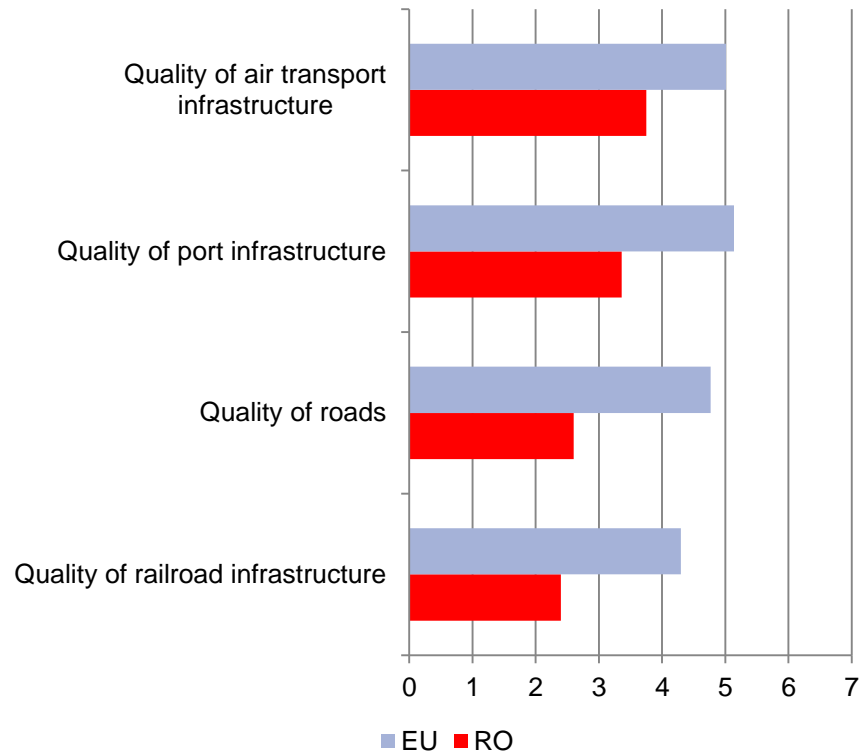
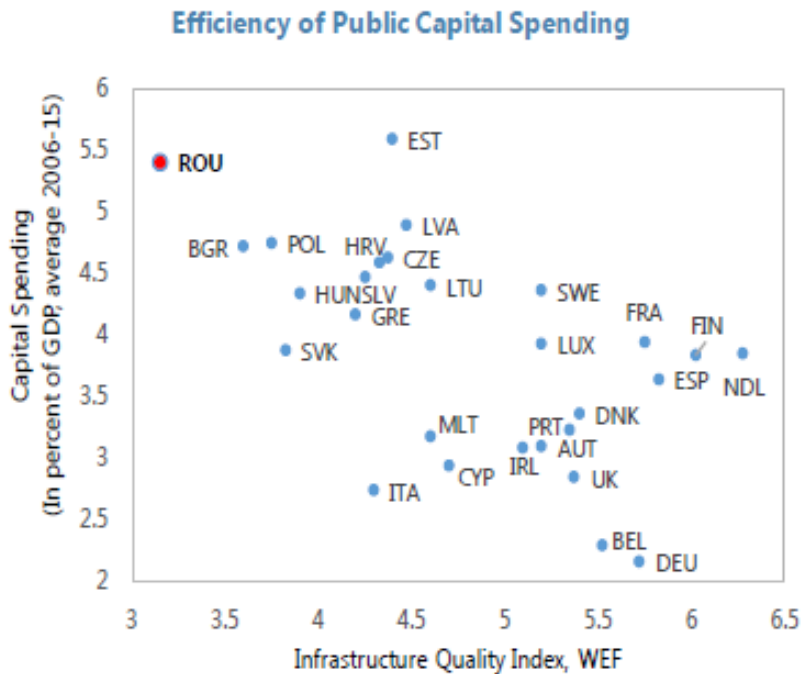
Annual percentage changes; contributions in percentage points, constant prices (2010)



Public investment: Quantity and quality counts

Higher public spending than peers with low quality of infrastructure

Quality of transport infrastructure



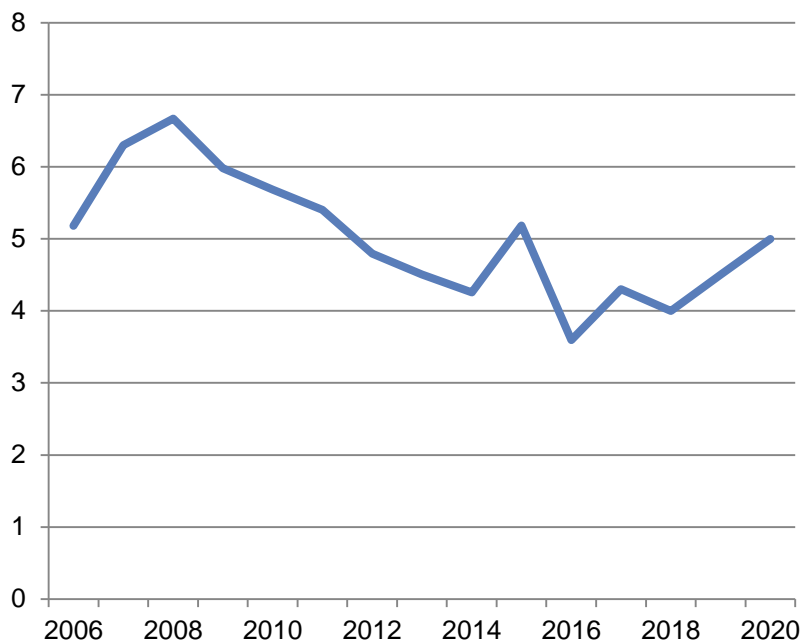
Sources: Eurostat; and World Economic Forum quality of infrastructure index (2015) on roads, railroads, seaports and air transport (average).

Source: IMF (2017)

Rating based on survey by the WEF using a scale from 1 (extremely underdeveloped) to 7 (extensive and efficient). EU value is calculated as simple average

Better EU funds absorption could benefit public investment recovery

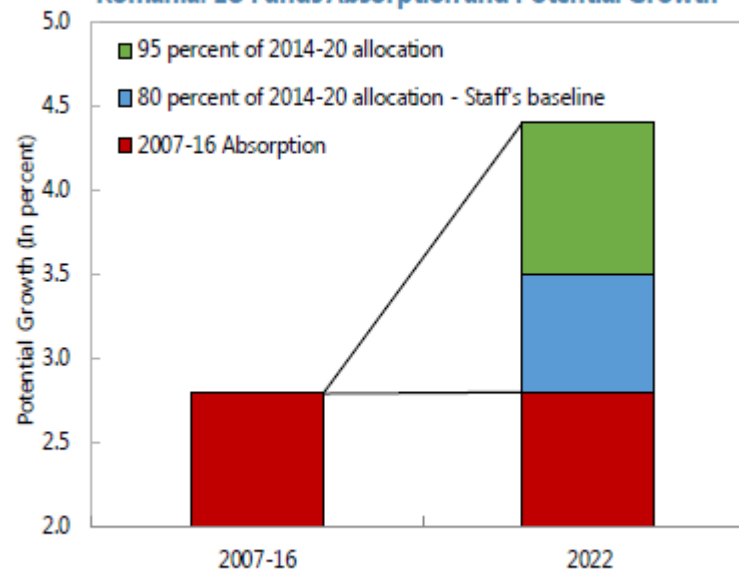
GFCF - public sector
as % of GDP



Source: Eurostat / Ameco, European Commission

Better Fund absorption could improve potential growth

Romania: EU Funds Absorption and Potential Growth

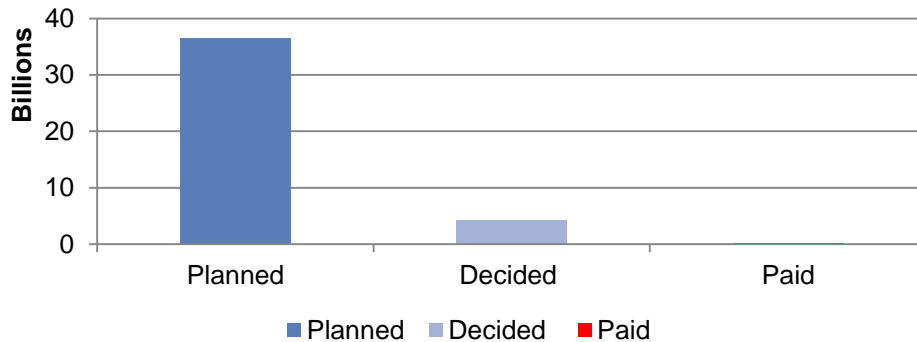


Source: IMF staff calculations.

- Raising EU funds absorption rate to 95% for the current program period could add one percentage point to potential growth
- EU-funded investment can raise quality
- Additional public investment in infrastructure could help to crowd in private investment

Potential to (better) use EU funds remains

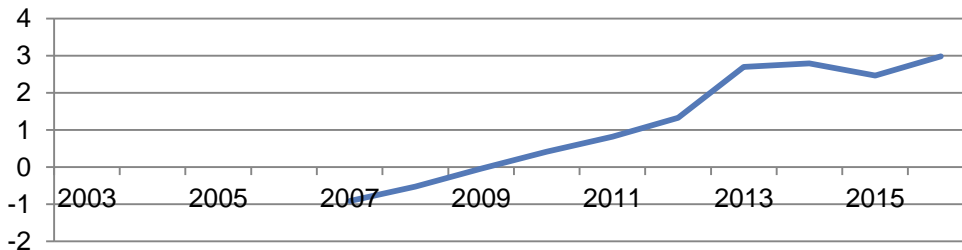
Slow implementation so far under current MFF (2014-2020)



Planned: Total budget of the programme
 Decided: Financial resources allocated to selected projects (project pipeline)
 Paid: Expenditure reported by the selected projects
 The financial data reporting is expressed in total costs only (i.e. not broken down by the EU or national share).

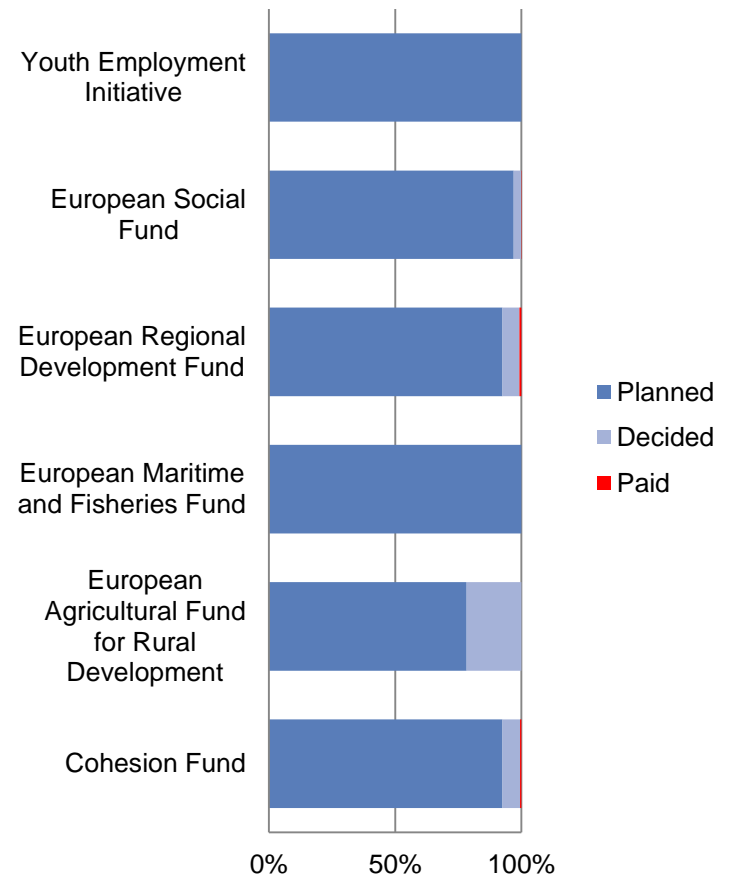
Balance of Member State vis-à-vis the EU budget

(net receiver+/payer-) (as % of GDP)



Implementation by fund for Romania

(total costs) % of planned

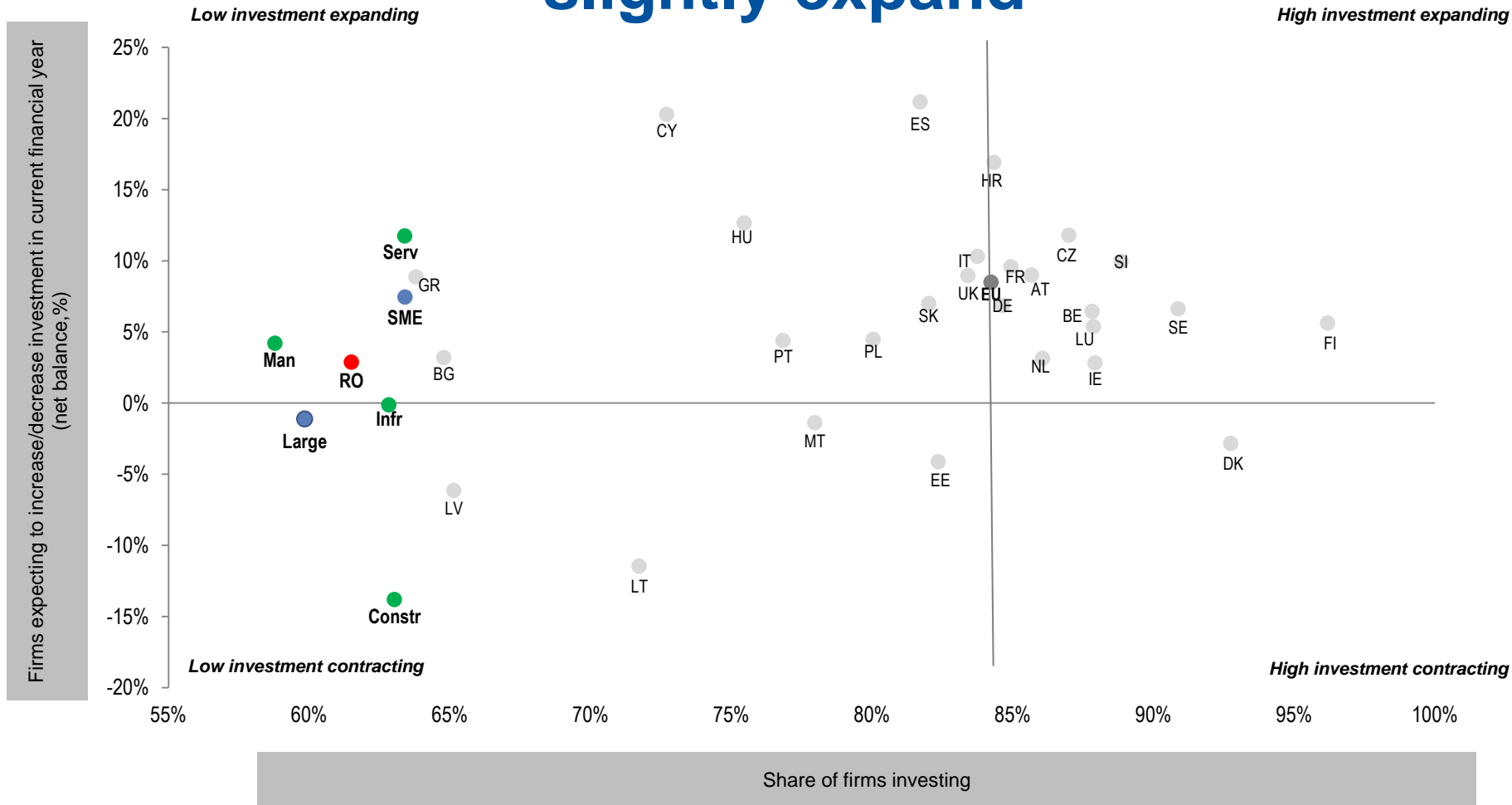


Source: EU Cohesiondata and ECB

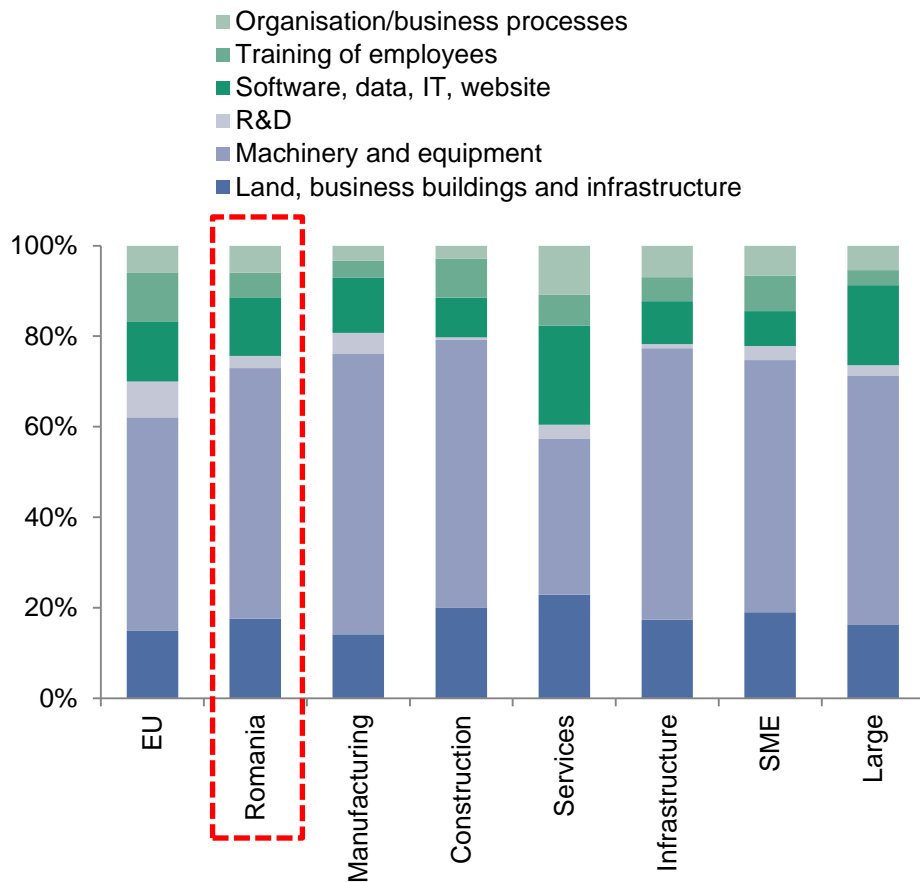
EIB Investment Survey (EIBIS)

- Annual survey commenced Q2 2016
- Some 12,500 firms surveyed across EU28 (of which 476 in Romania)
- Includes NFCs with 5+ employees operating in manufacturing, services, construction & infrastructure
- Representative of the economy (firms weighted by added-value)
- Provides qualitative and quantitative information on
 - Firm characteristics and performance
 - Investment needs and constraints
 - Past investment activities and future focus
 - Sources of finance

The share of Romanian firms investing is rather low but, on balance, these expect to slightly expand

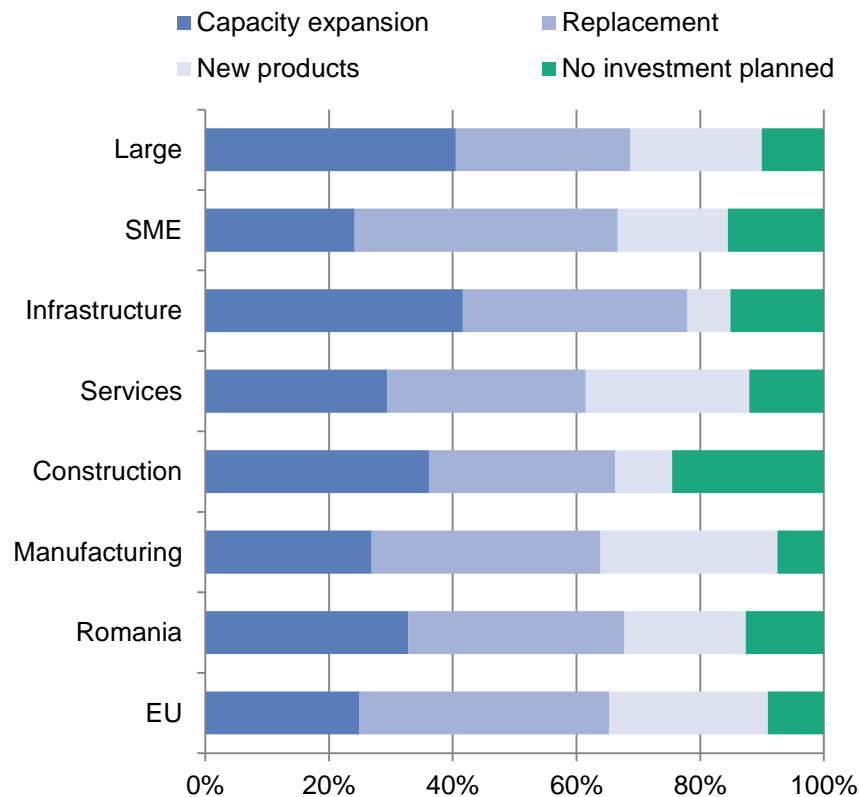


Firms' investment: Mostly tangibles



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

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?

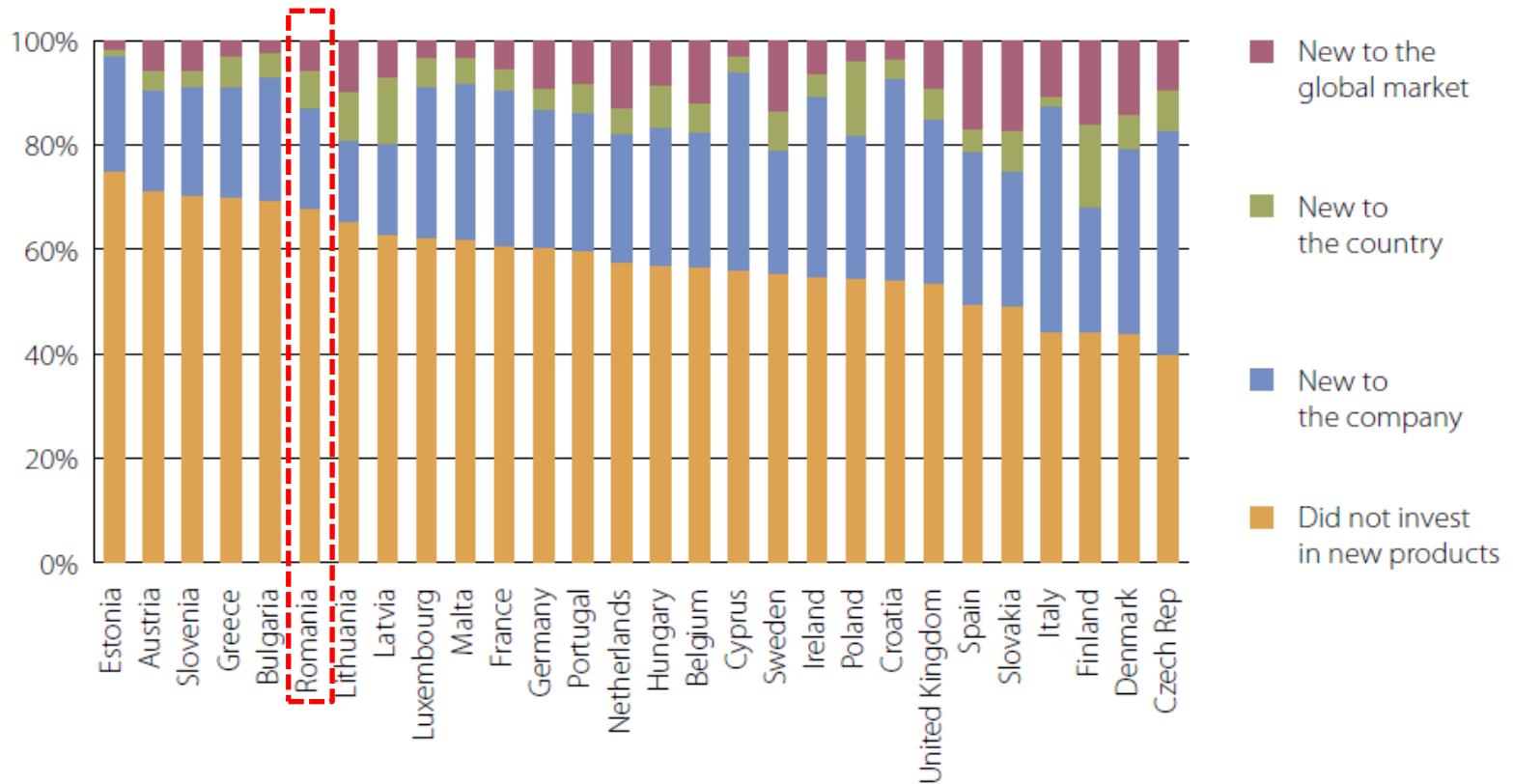


Base: All firms (excluding don't know/refused responses)

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?

Low innovation activity – firms mostly adopt

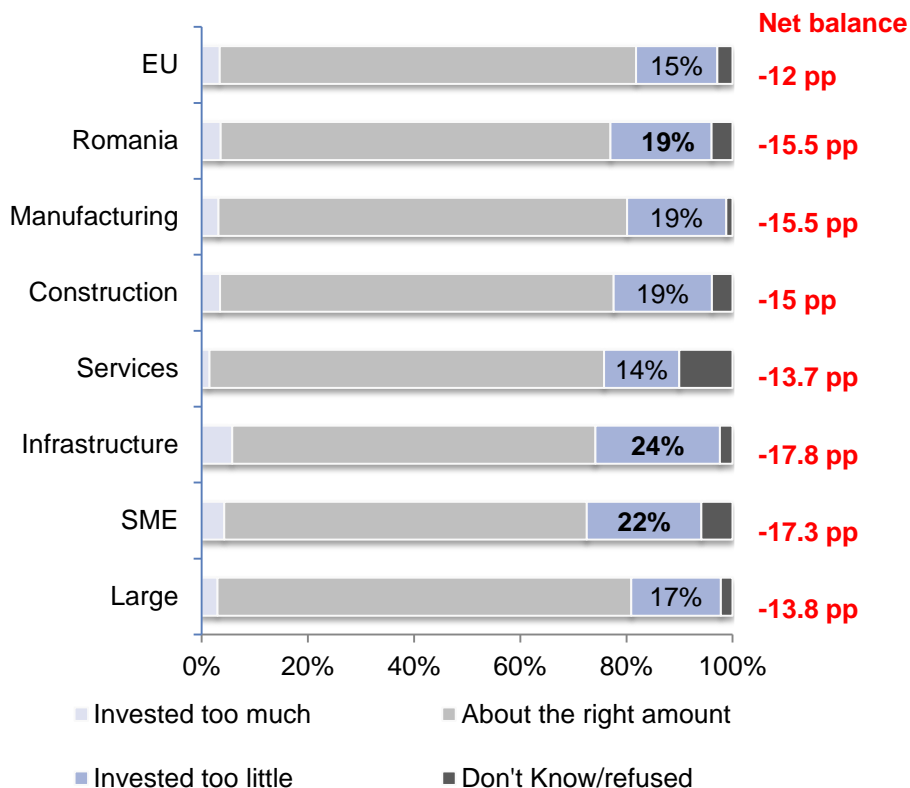
Investment in new products, process or services that are new to the company, new to the country or new to the global market?



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

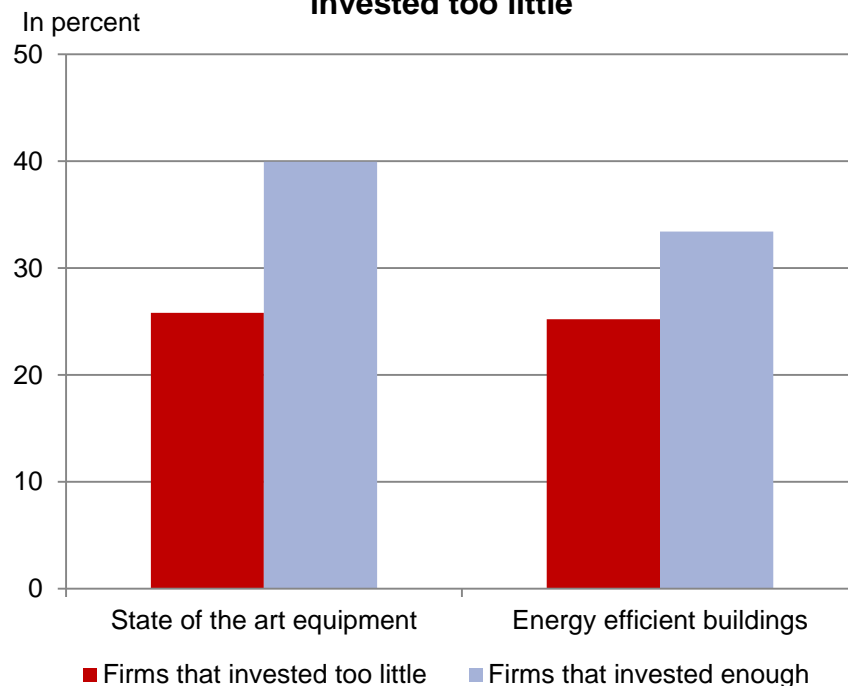
Q. Were the new products, process or services (a) new to the company, (b) new to the country, (c) new to the global market?

Romania: Larger investment gap than EU average



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?

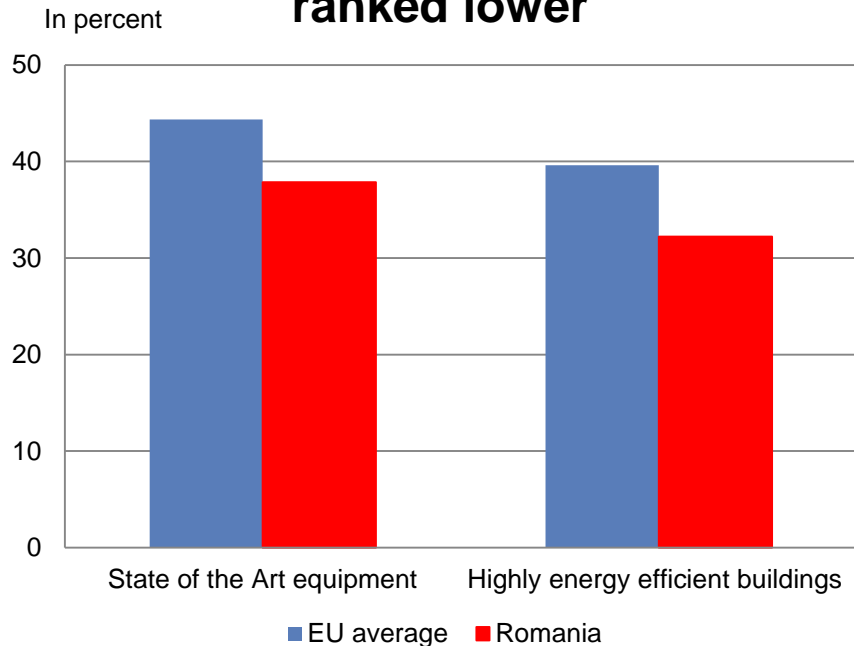
Lower quality capital stock for firms that invested too little



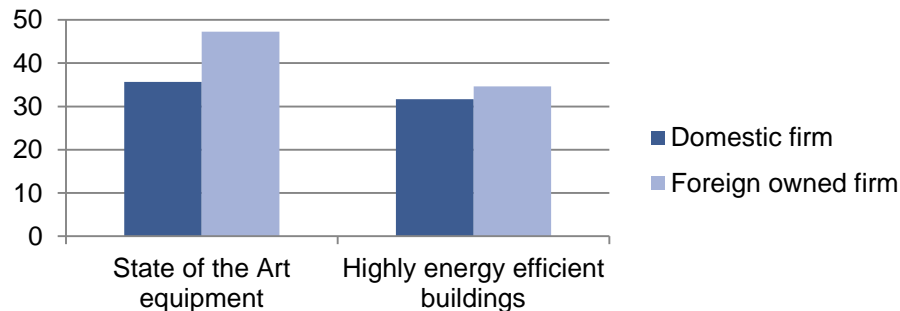
Base: All firms (excl. don't know and refused answers)
 Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount to ensure the success of your business going forward?
 Q. What proportion, if any, of your machinery and equipment, including ICT, would you say is state-of-the-art?
 Q. What proportion, if any, of your commercial building stock satisfies high or highest energy efficiency standards?

Differences in (perceived) quality of capital stock

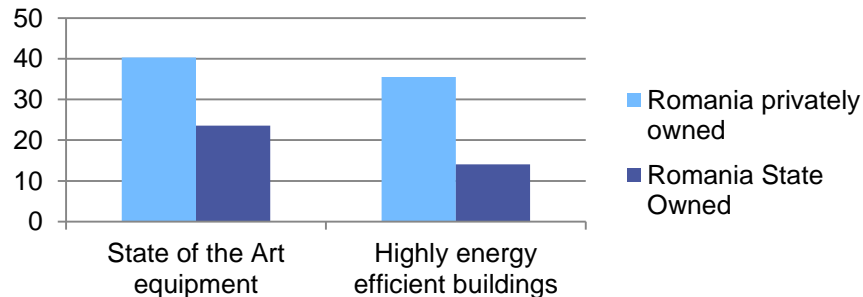
Overall quality of capital stock ranked lower



Quality of capital stock less of an issue for foreign-owned firms...



...but notably for state-owned companies



Base: All firms

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

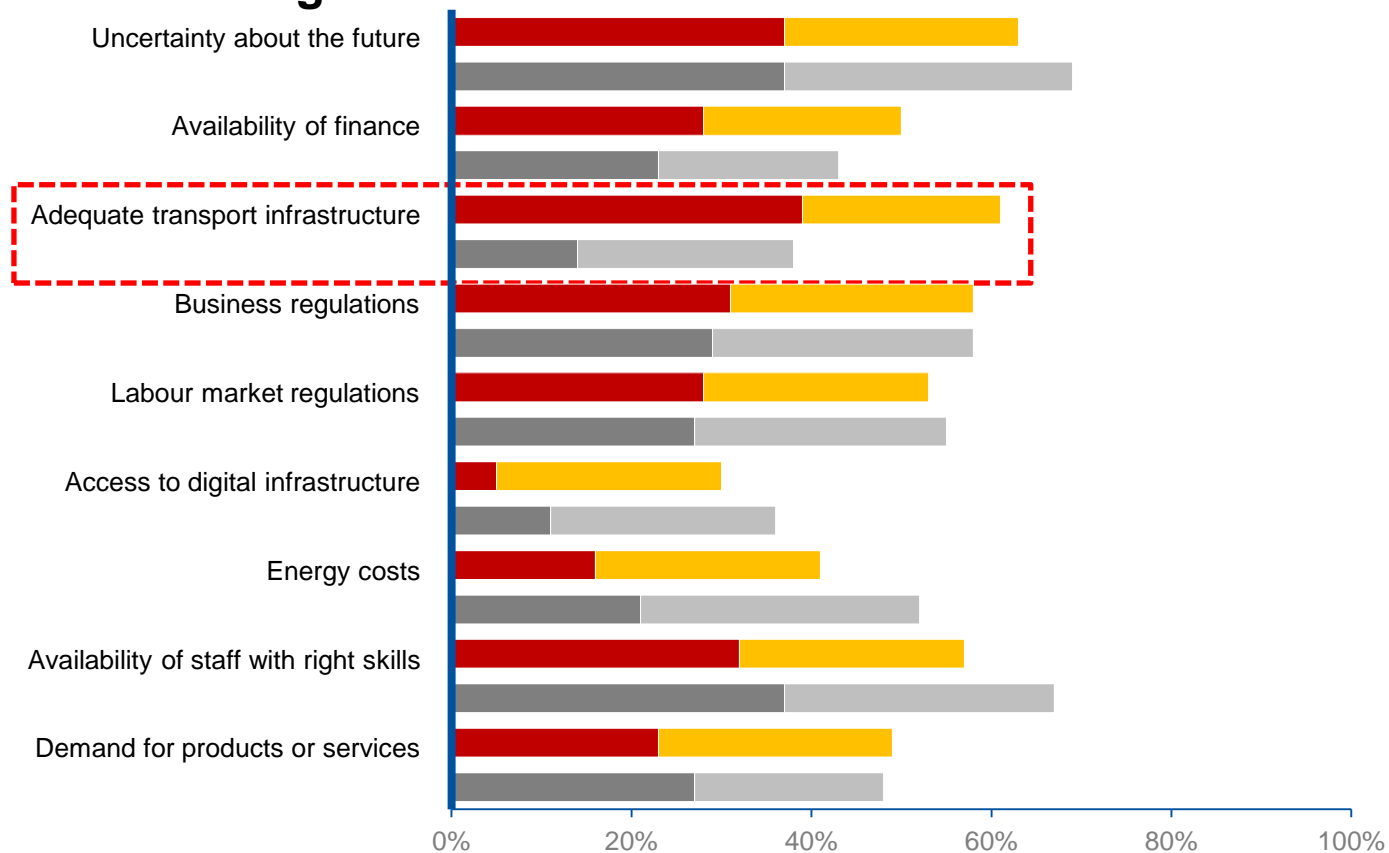
Q. What proportion, if any, of your commercial building stock satisfies high or highest energy efficiency standards?

What are investment impediments?

Long term barriers

1st bar: Romanian firms:
Red=Major obstacle,
orange=Minor obstacle

2nd bar: EU average for
comparison: Dark gray: Major
obstacle, light gray: Minor
obstacle



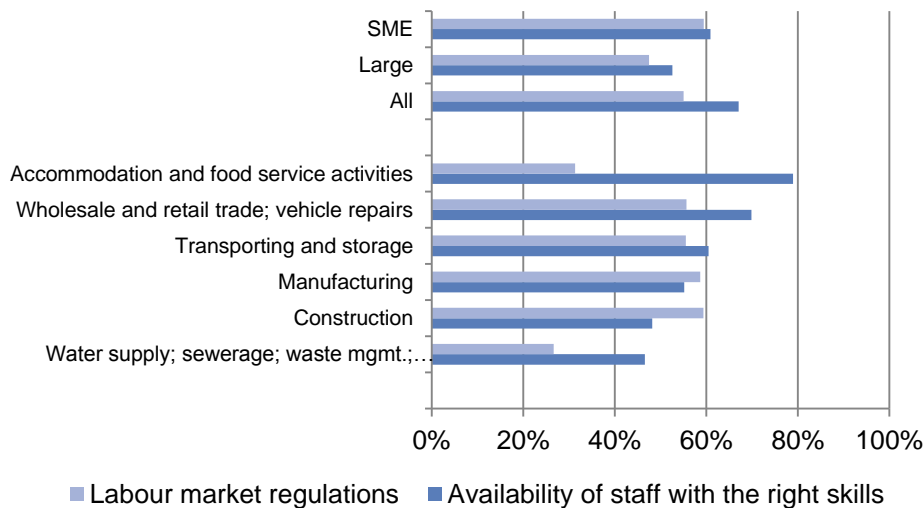
Base: All firms (data not shown for those who said not an obstacle at all/don't know/refused)

Q. Thinking about your investment activities in Romania, to what extent is each of the following an obstacle? (Major/minor/not at all)

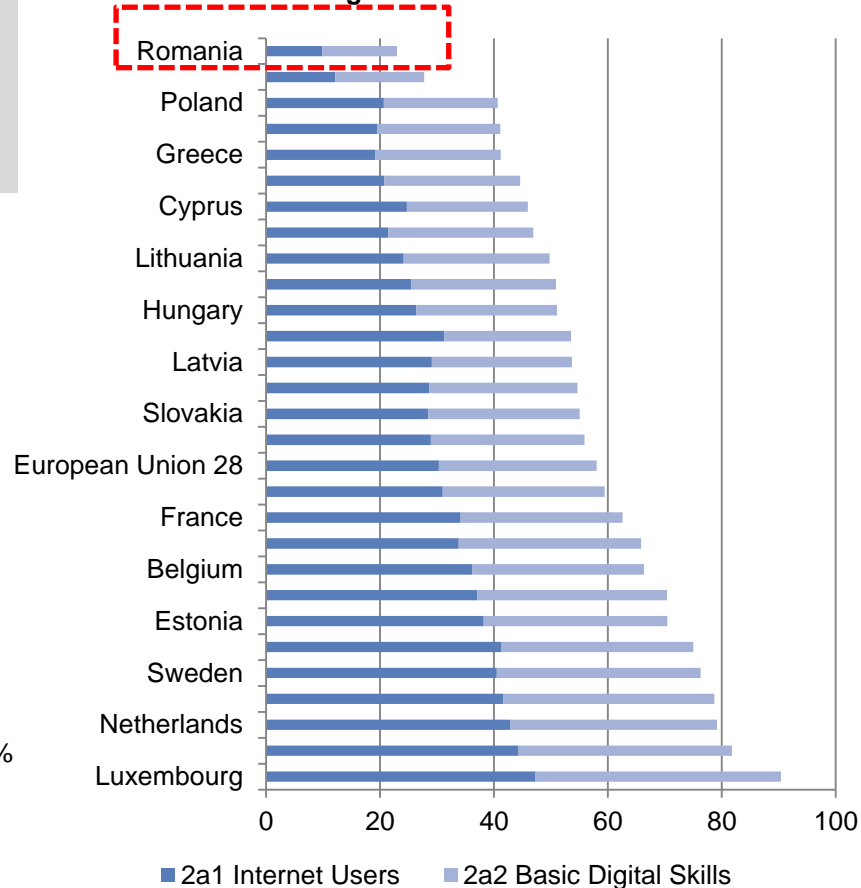
Increasing risks to investment from labour market?

- Low birthrates & external migration
- Unemployment (-), wages (++)
- Moving up the value chain ⇔ find (and keep) qualified staff

A major or minor investment obstacle



Basic Digital skills and web use



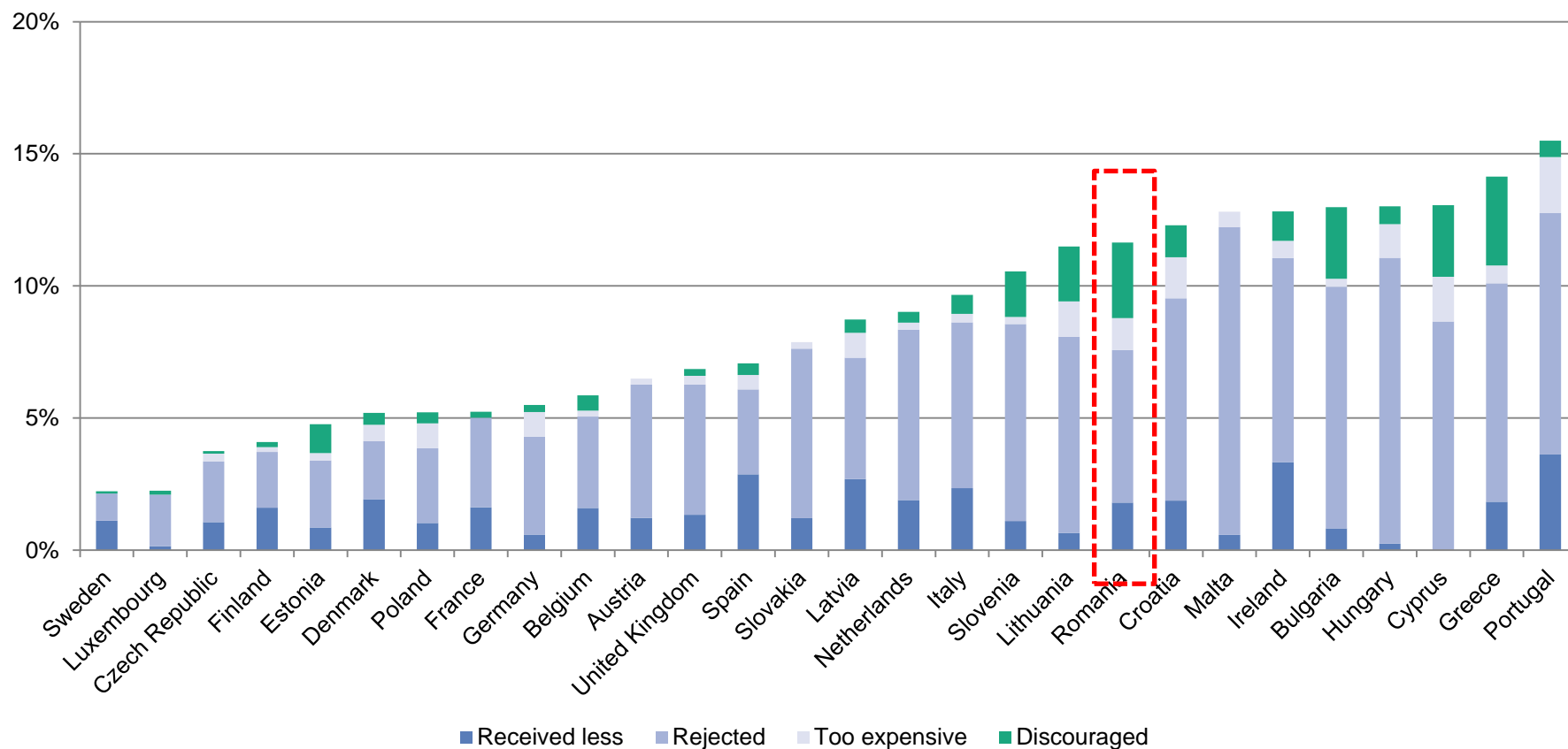
Base: All firms who have planned to invest in the current financial year.

Q. How do each of the following affect your ability to carry out planned investment? (Positively/negatively/no difference)

DESI Basic Skills and Usage sub-dimension calculated as the weighted average of the normalised indicators: 2a1 Internet Users (50%), 2a2 Basic Digital Skills (50%)

Source: European Commission

Problems with financing

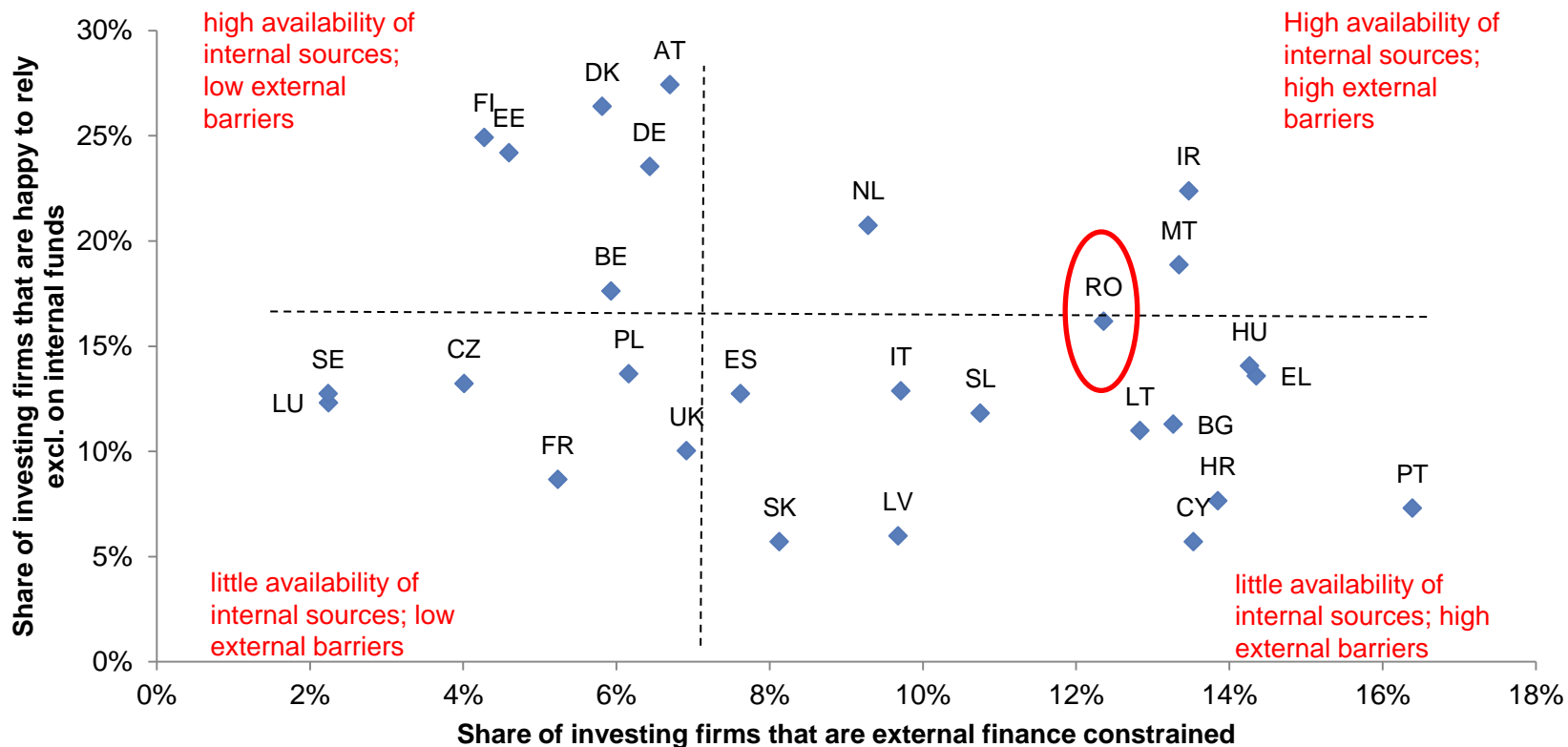


Base: All firms

Finance constrained firms include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not get 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).

Access to finance is an issue for some firms

Access to Finance among Investing Firms



Base: All investing firms

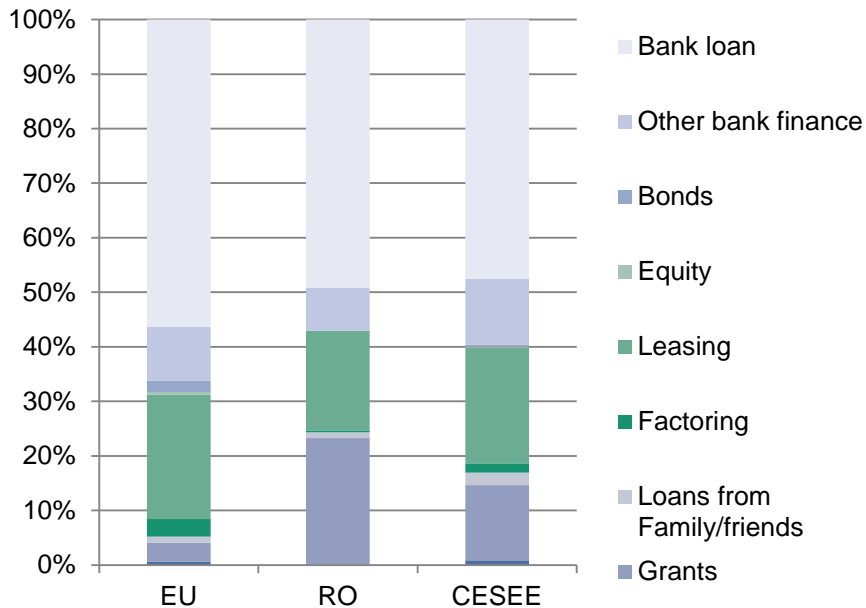
Finance constrained firms include: those that invested which dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive)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

Firms happy to use internal funds are those that invested using exclusively internal funds and who stated that they did not seek any external finance because they were satisfied with their internal funds.

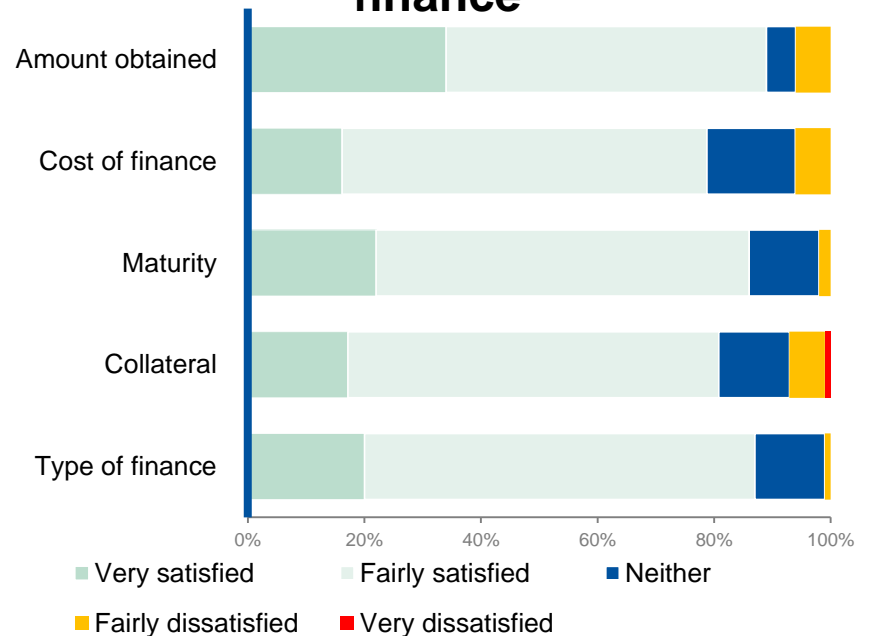
Financing (constraints)

- Romanian firms strongly rely on internal sources of financing (71%)
- Bank loans dominate external financing
- Firms want more of the same

Sources of external financing



Satisfaction with external finance



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

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

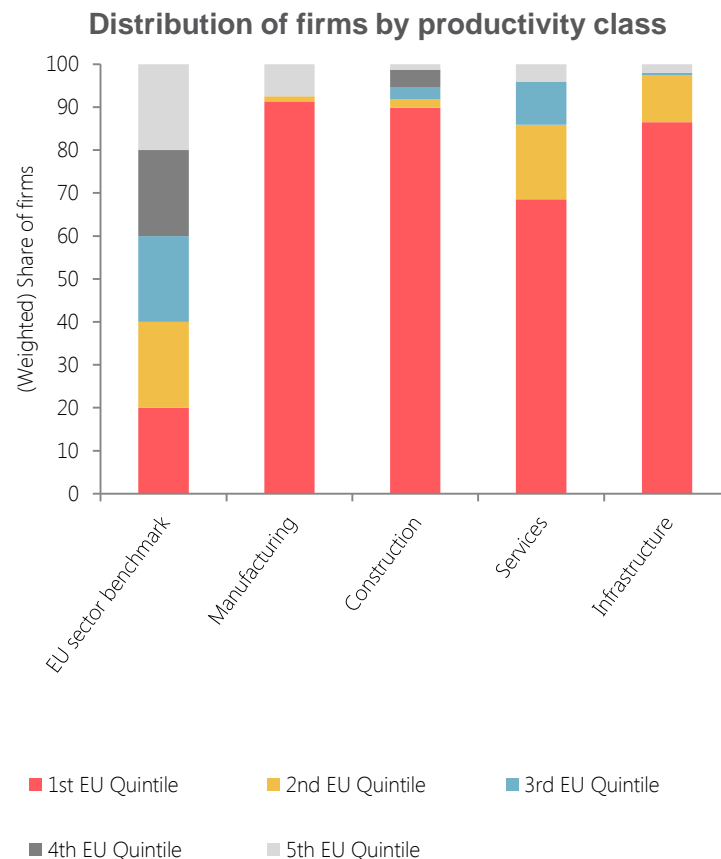
Base: All firms who used external finance in the last financial year (excl. don't know/refused responses).

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

Summary findings for Romania

- Still strong investment need
- Public sector GFCF ↔ EU funds
 - Project preparation and absorption of structural funds
- Corporate investment outlook remains moderate
- Issues with quality of capital and differences between foreign and domestic firms
- Business environment with constraints
 - Transport infrastructure
 - Skills
- Access to finance an issue for some firms

Very small fraction of Romanian firms compare to EU best performers



Thank you!



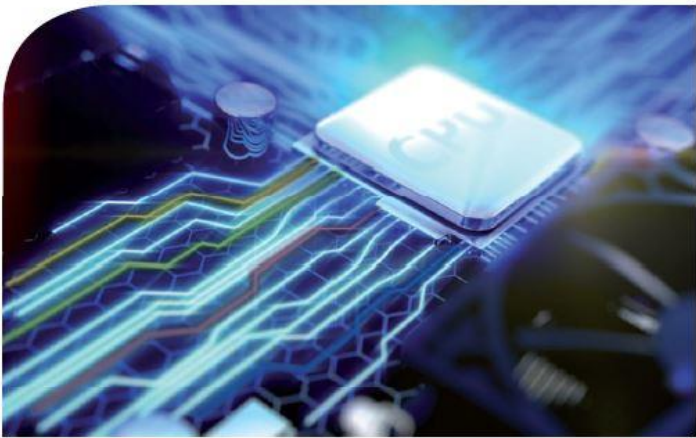
2016

Investment and Investment Finance in Europe
Financing productivity growth



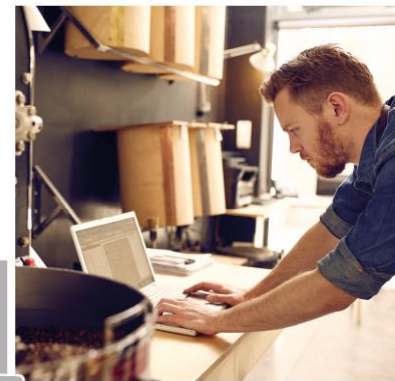
Investment and Investment Finance in Europe

Financing productivity growth



2016

www.eib.org/eibis



Germany

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



EIB Investment Survey - Tracking investment needs and constraints across Europe

Download Results

Explore the data

Topic: **INVESTMENT NEEDS**

Indicator: Firms operating at or above maximum capacity attainable

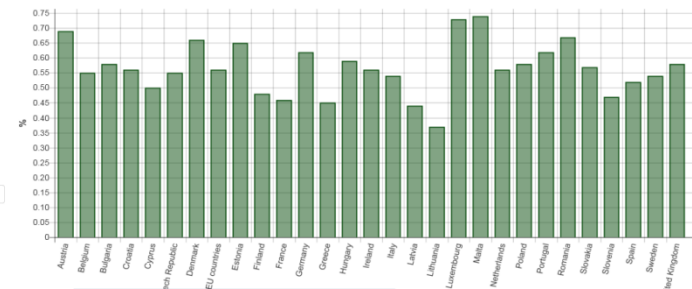
Country comparison: **Cross-country** | Within country

Year: 2015

Comparator: **Country average** | Sectors | Firm size classes

Download: **Link** | File | Image

Firms operating at or above maximum capacity attainable under normal conditions: 2015 [Cross country: EU]



Data provided on this site are © European Investment Bank. Users are requested to acknowledge the "European Investment Bank - EIBIS" at the source. The EIB cannot be held liable for damages arising from the use of this data by other parties.