Investment in Romania and the EU

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Investment dynamics in RO

Investment
Index 2008=100

Gross Fixed Capital Formation
as % of GDP

Source: Eurostat
Source: Ameco
Investment by sector

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

Source: Eurostat
Public investment: Quantity and quality counts

Higher public spending than peers with low quality of infrastructure

Quality of transport infrastructure

- Quality of air transport infrastructure
- Quality of port infrastructure
- Quality of roads
- Quality of railroad infrastructure

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.

Source: IMF (2017)
Better EU funds absorption could benefit public investment recovery

- 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

Source: Eurostat / Ameco, European Commission
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).

Implementation by fund for Romania
(total costs) % of planned

Balance of Member State vis-à-vis the EU budget
(net receiver+/payer-) (as % of GDP)

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?

- Organisation/business processes
- Training of employees
- Software, data, IT, website
- R&D
- Machinery and equipment
- Land, business buildings and infrastructure

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

**Net balance**

<table>
<thead>
<tr>
<th>Sector</th>
<th>EU 15%</th>
<th>Romania 19%</th>
<th>Manufacturing 19%</th>
<th>Construction 19%</th>
<th>Services 14%</th>
<th>Infrastructure 24%</th>
<th>SME 22%</th>
<th>Large 17%</th>
</tr>
</thead>
<tbody>
<tr>
<td>About the right amount</td>
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<td>Invested too little</td>
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<tr>
<td>Don't Know/refused</td>
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</tbody>
</table>

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**

- State of the art equipment
- Energy efficient buildings

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

In percent

<table>
<thead>
<tr>
<th>State of the Art equipment</th>
<th>Highly energy efficient buildings</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU average</td>
<td>Romania</td>
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</table>

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?

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

...but notably for state-owned companies
What are investment impediments?

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

- Uncertainty about the future
- Availability of finance
- Adequate transport infrastructure
- Business regulations
- Labour market regulations
- Access to digital infrastructure
- Energy costs
- Availability of staff with right skills
- Demand for products or services

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)
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

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

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)

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

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

Share of investing firms that are external finance constrained

0% 2% 4% 6% 8% 10% 12% 14% 16% 18%

Share of investing firms that are happy to rely excl. on internal funds

0% 5% 10% 15% 20% 25% 30%

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.

Base: All investing firms
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

Distribution of firms by productivity class

- 1st EU Quintile
- 2nd EU Quintile
- 3rd EU Quintile
- 4th EU Quintile
- 5th EU Quintile
Thank you!