

Investment and Investment Finance in Portugal

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From recovery to sustainable growth

- Recovery in the Portuguese economy, outpacing expectations so far
- How to ensure it remains sustainable?
 - **Quality of Public Investment**
 - **Business Environment and Intangibles**
 - **Diversified Forms of Finance**

Use both macro and granular information (EIBIS 2017)* to highlight key policy areas

* EIB investment survey (2nd round, data from April-June 2017):

12,500 firms surveyed across EU28 (of which 535 in Portugal), weighted by value-added.

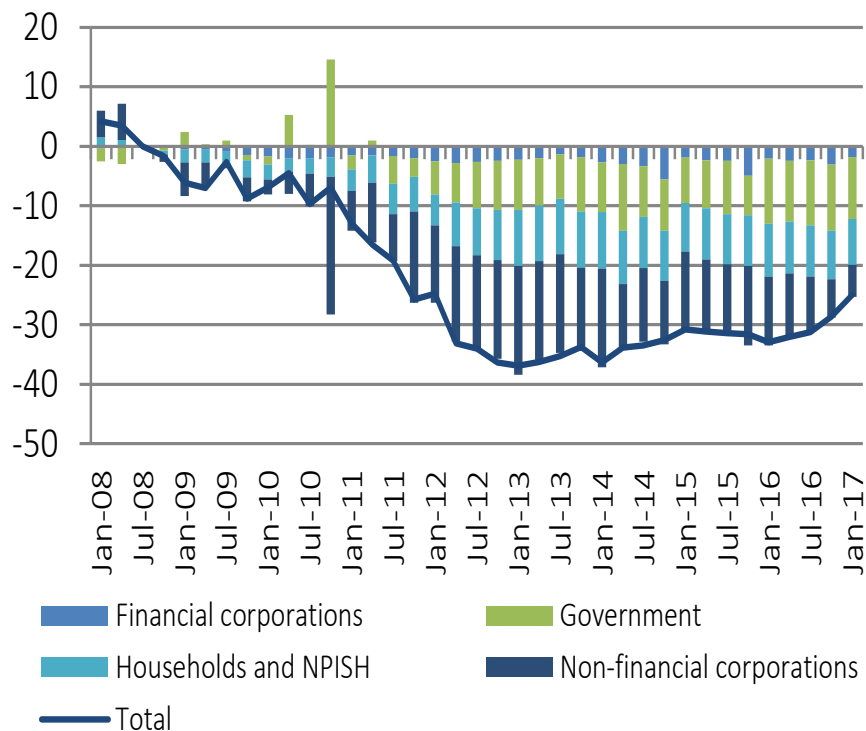
NFCs 5+ employees in manufacturing, services, construction & infrastructure sector.

Information on firm characteristics and performance, Investment needs and constraints, Past investment activities and future focus, Investment finance

Recovery of investment, mostly in productive investment

Real investment by sector

Cumulative change relative to 1Q08

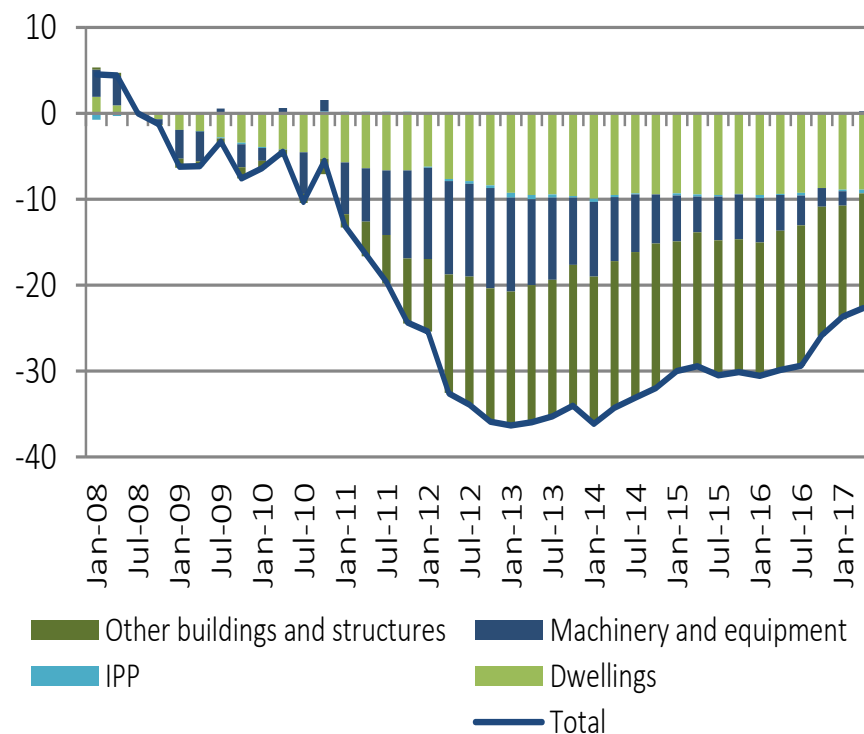


Note: Cumulative change of quarterly real investment relative to the 1Q08 level, with sector-level contributions.

Source: Econ calculations, Eurostat, national authorities

Real Investment by asset

Cumulative change relative to 1Q08



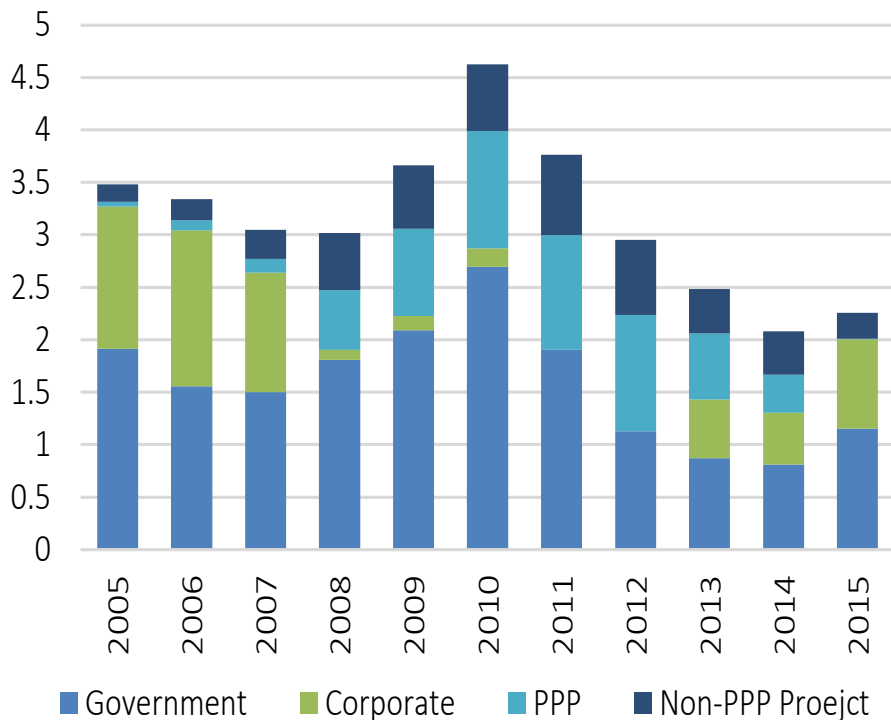
Note: Cumulative change of quarterly real investment relative to the 1Q08 level, with asset class contribution.

Source: Econ calculations, Eurostat

(1) Infrastructure investment penalized, correcting pre-crisis excess

Infrastructure Investment, financing source

per cent of GDP



- Lowest level of public investment over GDP in the EU
- At low levels, correcting past unbalances
- However, as in the rest of Europe all government capital expenditures de-prioritized

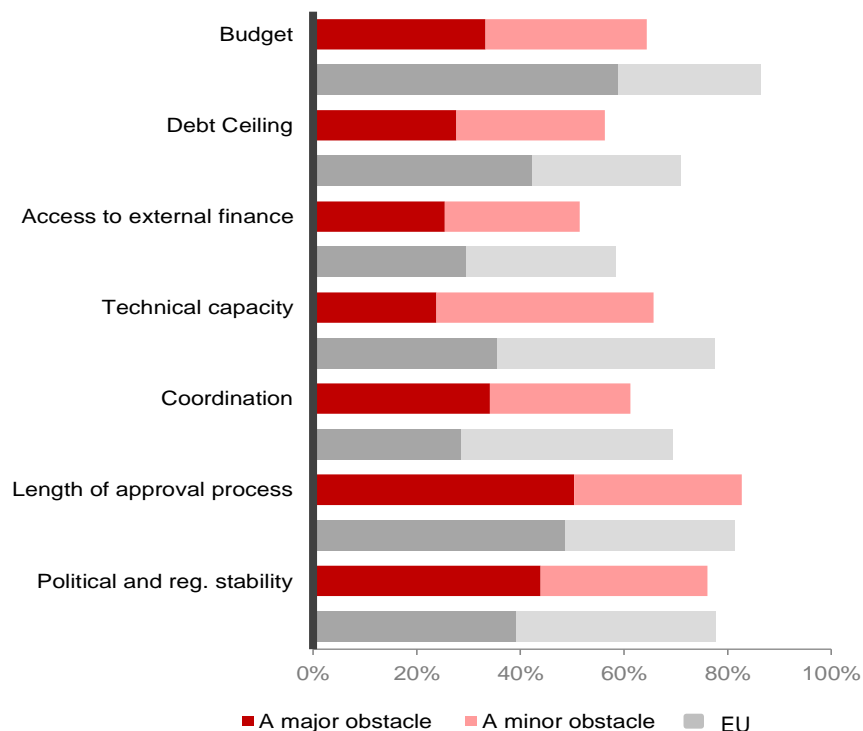
Note: Annual infrastructure investment as a share of GDP, broken down by institutional sector.

Source: Econ calculations, Eurostat, national authorities

(1) Quality of public sector spending crucial – prioritization, planning and quality control

Obstacles to infrastructure investment

net balance in per cent of municipalities

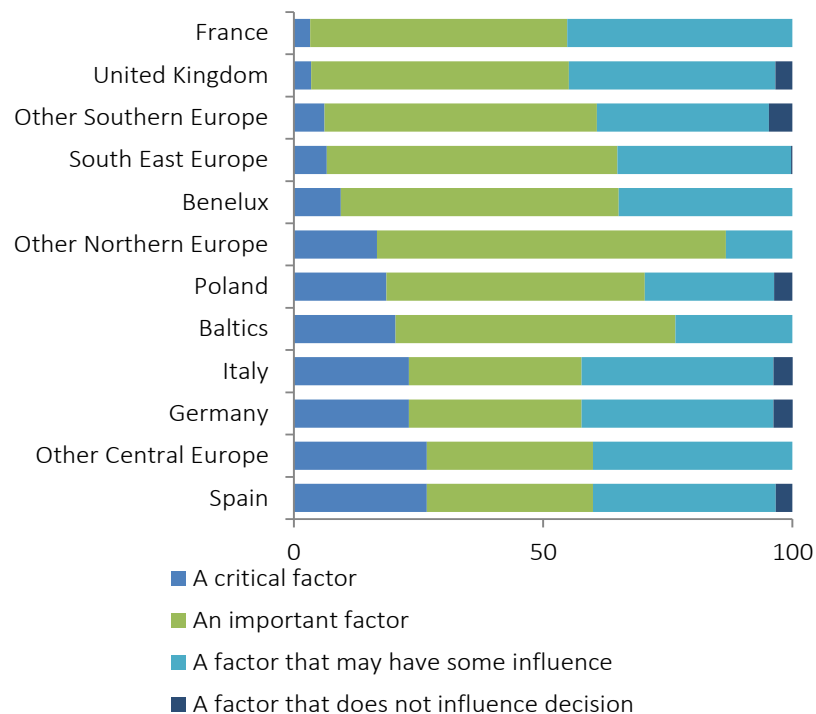


Note: Net balance of responses: Q. To what extent is each of the following an obstacle to the implementation of your infrastructure investment activities?
OSA results include CY, GR, MT, PT

Source: Econ EIBIS – survey of 600 municipalities in the EU

Importance of ex-ante assessments

share of responses in per cent



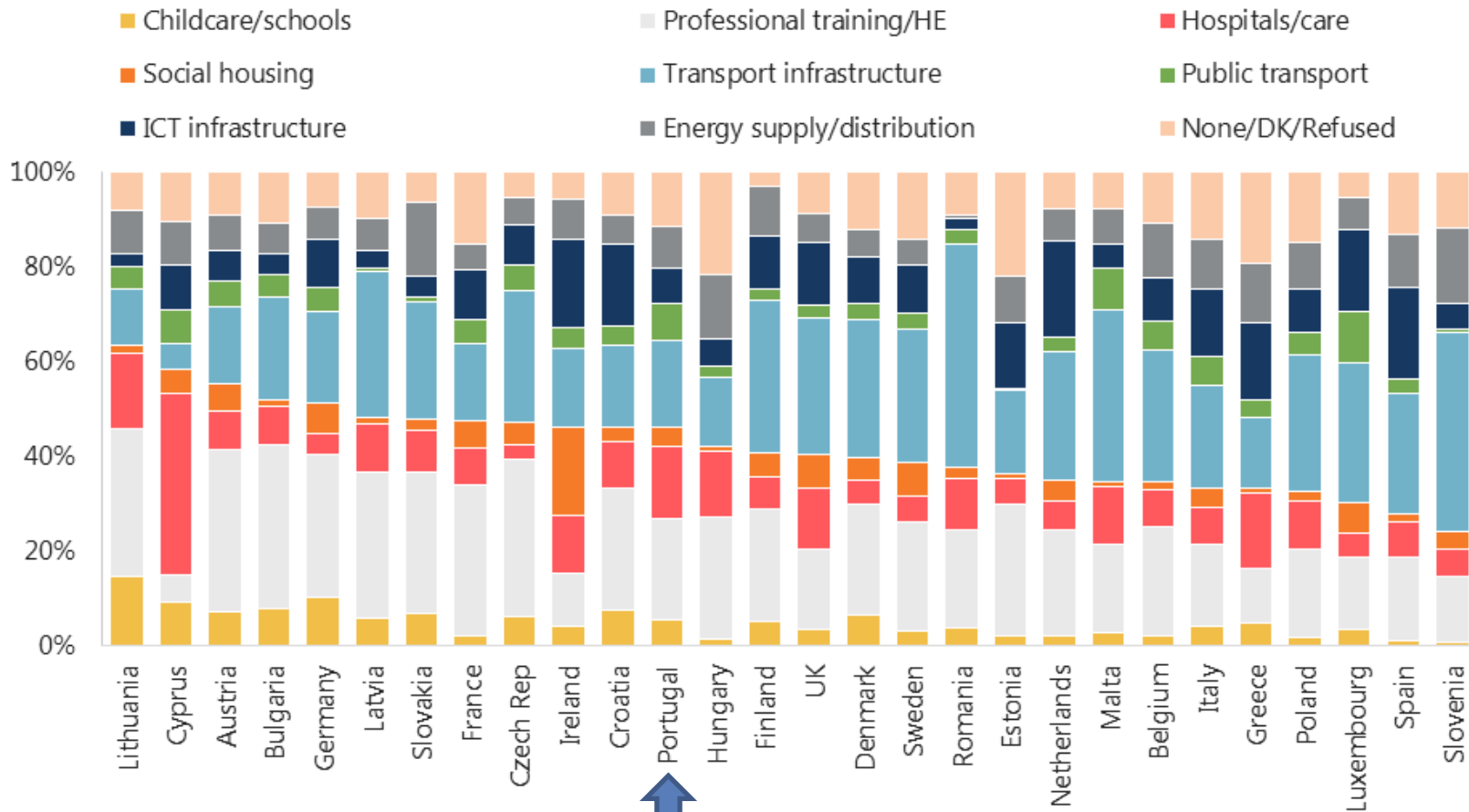
Note: Q. And how important would you say are the results of the independent assessment/s when deciding whether or not to go ahead with a project?

Source: Econ EIBIS – survey of 600 municipalities in the EU

(1) Firms declared prioritization for public investment

Firms declared public investment priorities

(firms prioritization for public investment for the next 3 years)



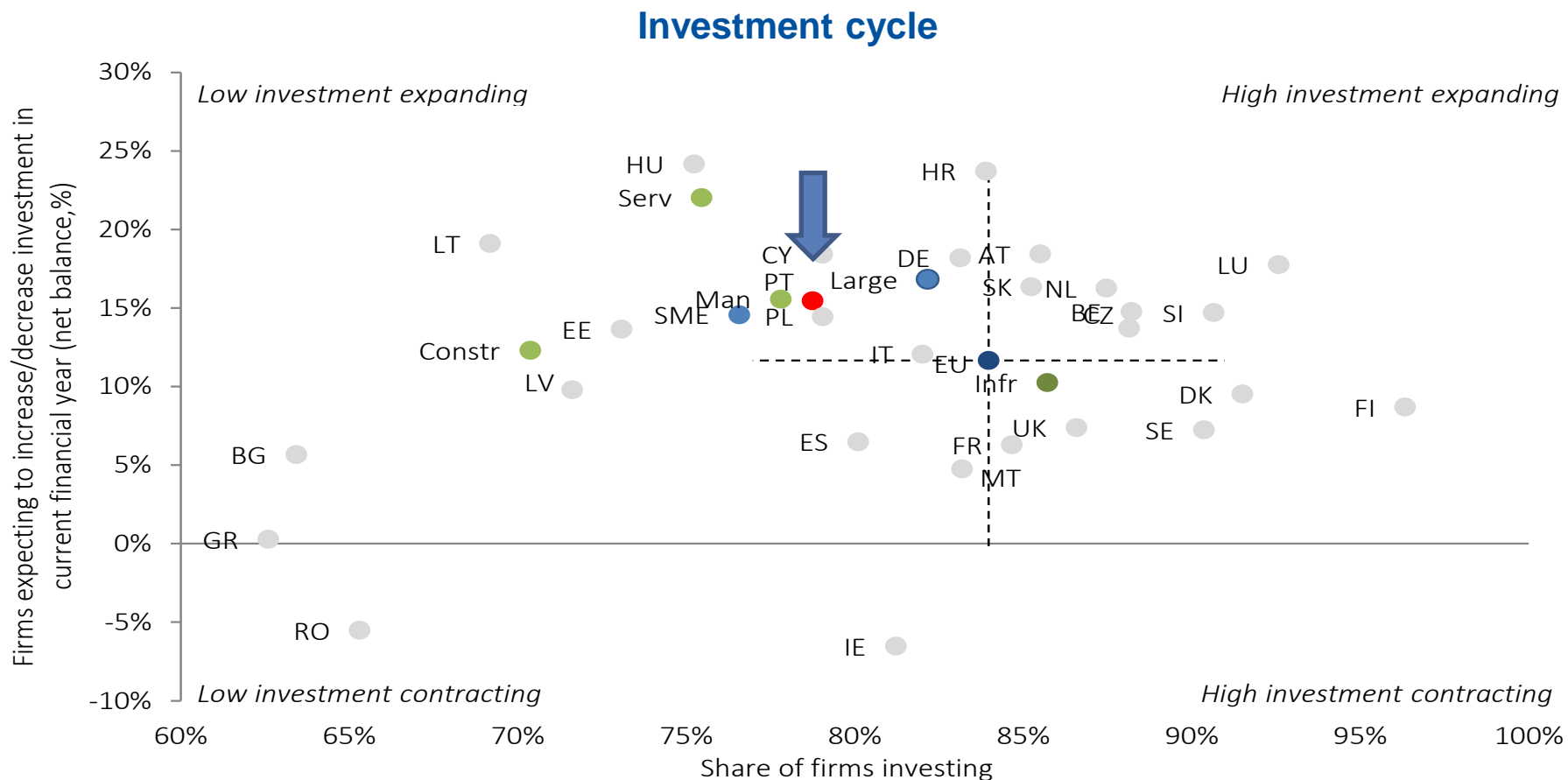
Source: EIB Investment Survey

Base: All firms

15/12/2017

From your business' perspective, if you had to prioritise one area of public investment for the next 3 years, which one would it be?

(2) Business investment activity is picking up



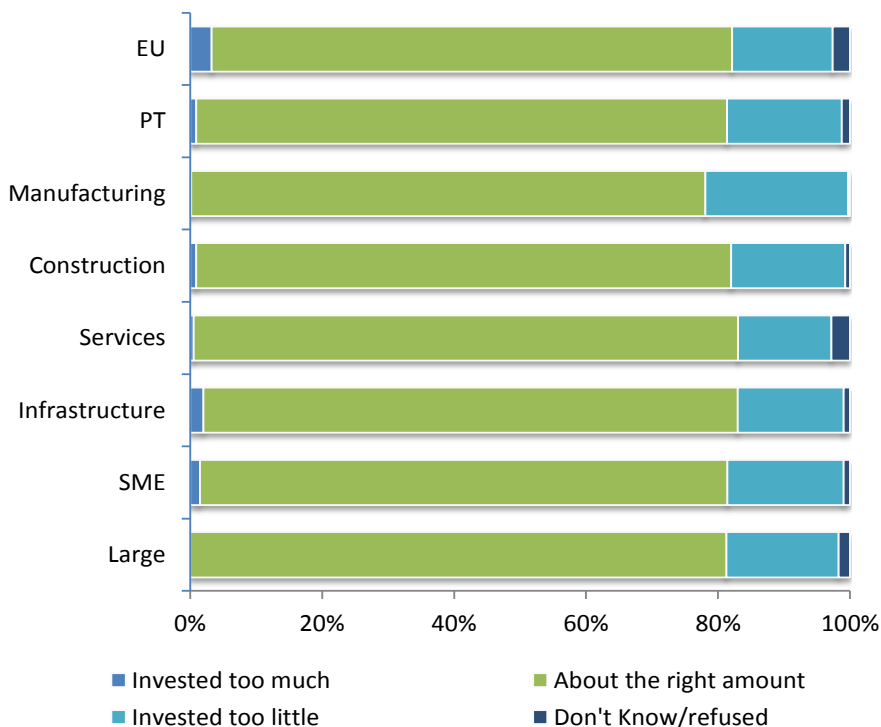
Note: Plots the share of firms with investment expanding/contracting relative to the share of firms investing, by sector or Member State; cross centred on EU average.

Source: Econ EIBIS

(2) Perceived Investment gap associated to quality of the capital stock

Perceived investment gap

per cent

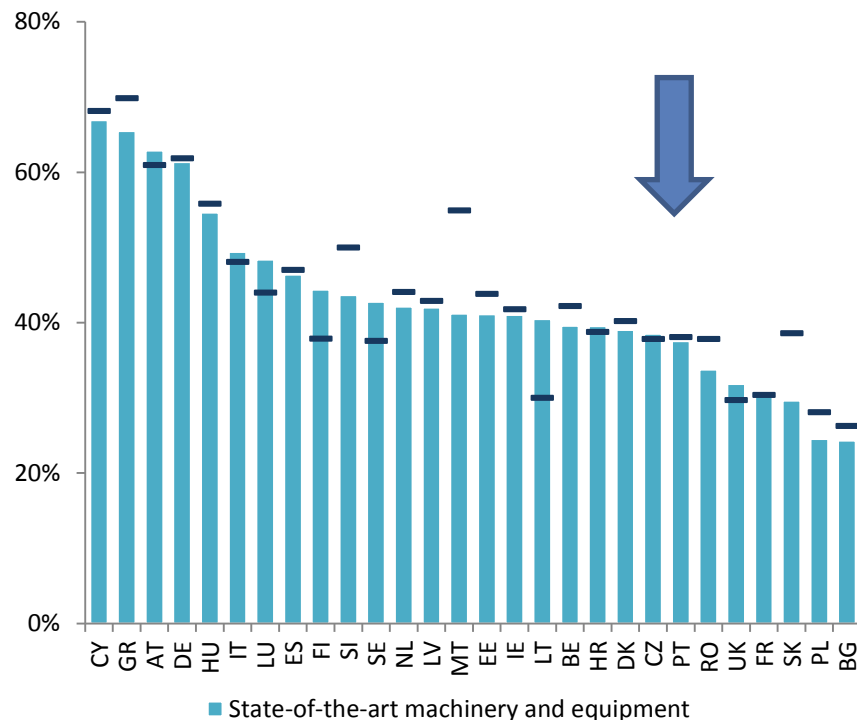


Note: Share of responses in per cent: Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount?

Source: Econ EIBIS

State-of-the-art machinery and equipment

average share in per cent



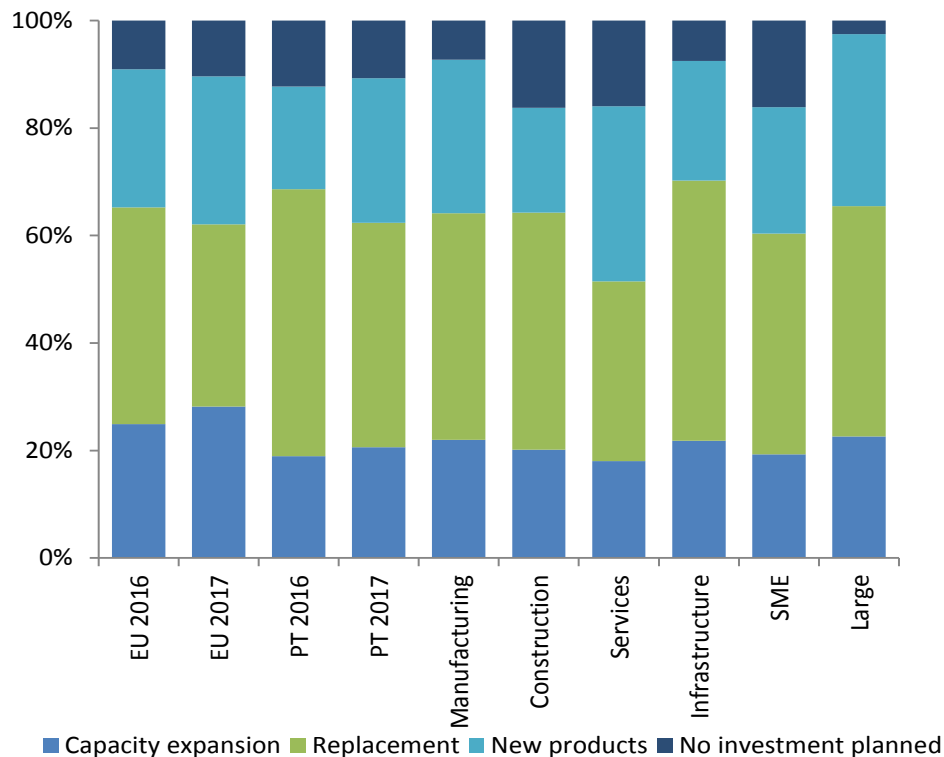
Note: Average of responses in per cent: Q. What proportion, if any, of your machinery and equipment, including ICT, would you say is state-of-the-art?

Source: Econ EIBIS

(2) Firms investing more in replacement and less in capacity expansion vs the average of the EU

Future investment priorities

per cent of total investment



- Replacement
- Significant share of firms with no investment plans in the next 3 years in construction and services and among SMEs

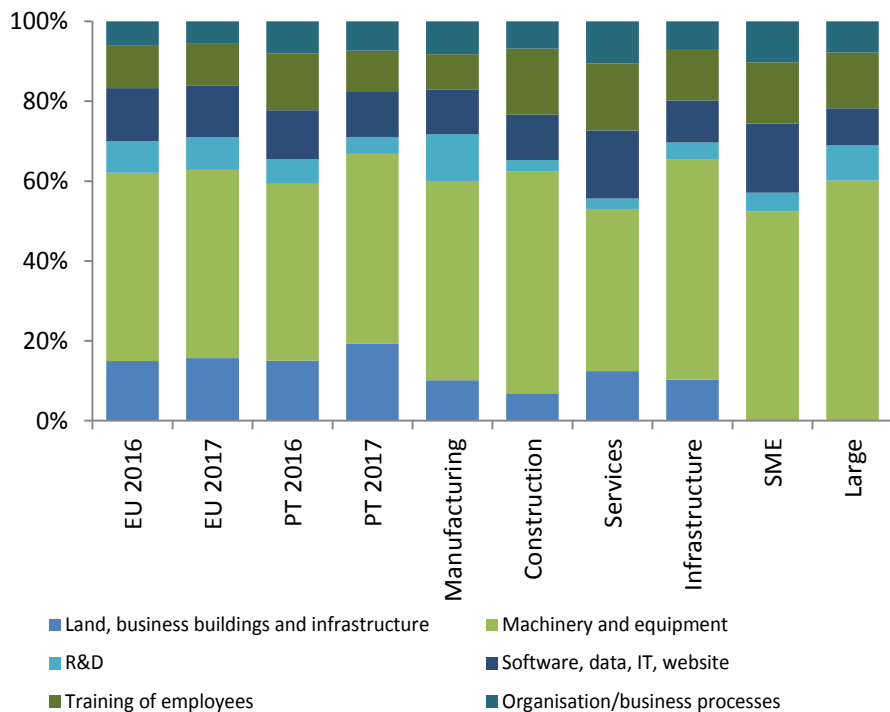
Note: Share of firms by main purpose of investment, in per cent. Q. Looking ahead to the next 3 years, which is your investment priority (a) replacing existing buildings, machinery, equipment, IT; (b) expanding capacity for existing products/services; (c) developing or introducing new products, processes, services?

Source: Econ EIBIS

(2) Low share of investment in intangibles and most of innovation being adoption

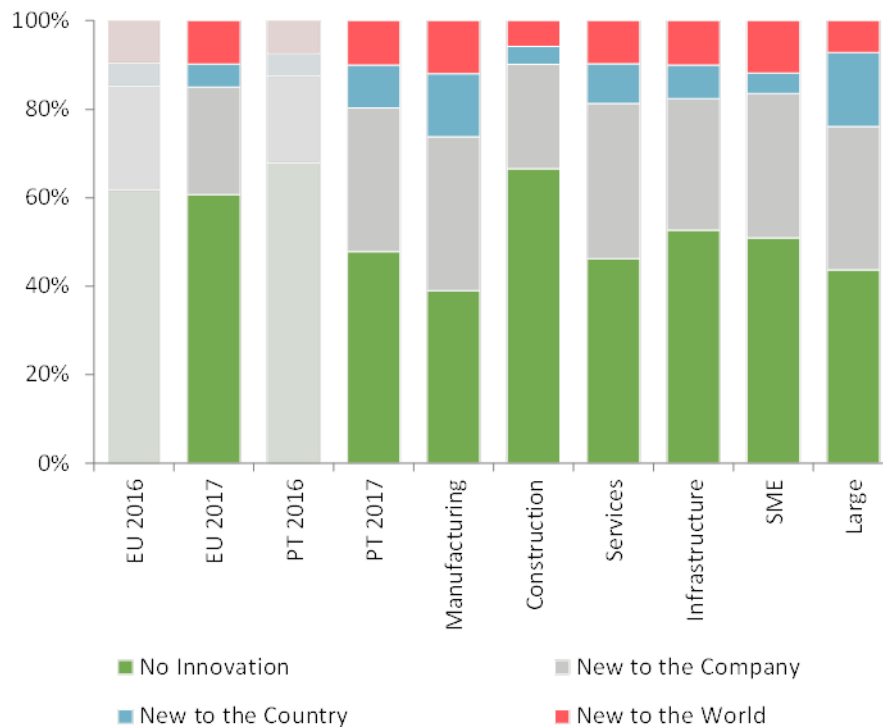
Areas of investment

per cent



Innovation activity

Average share allocated



Note: Average of responses for allocations by area in per cent: 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?

Source: Econ EIBIS

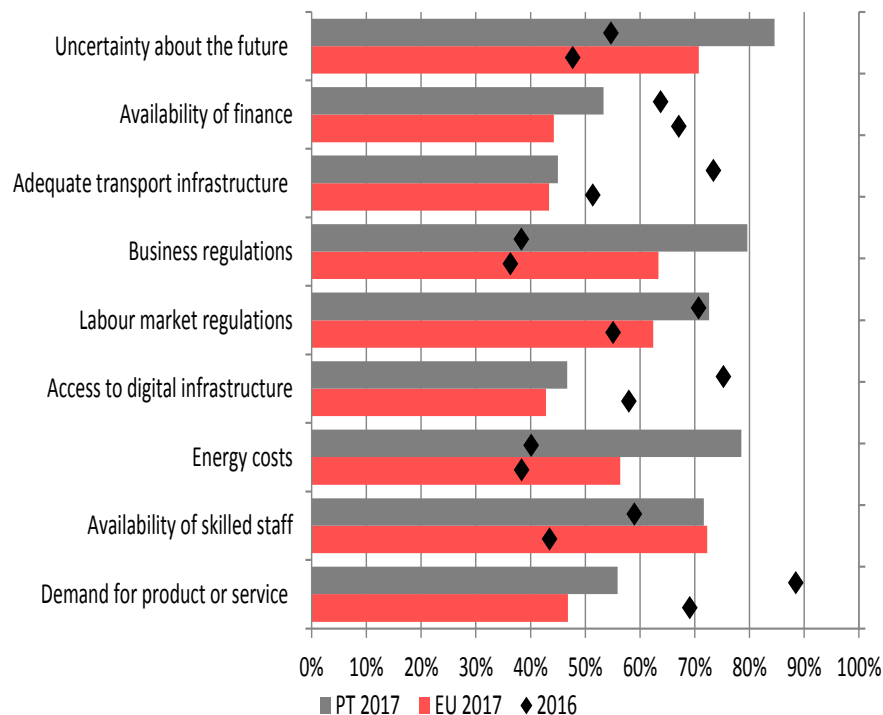
Note: Average of responses in per cent: Q. What proportion of total investment was for developing or introducing new products, processes, services? Q. Were the products, processes or services new to the company, new to the country, new to the global market?

Source: Econ EIBIS

(2) Uncertainty, regulation and energy costs major impediments to investment, relatively more in Portugal

Long-term barriers to investment

per cent



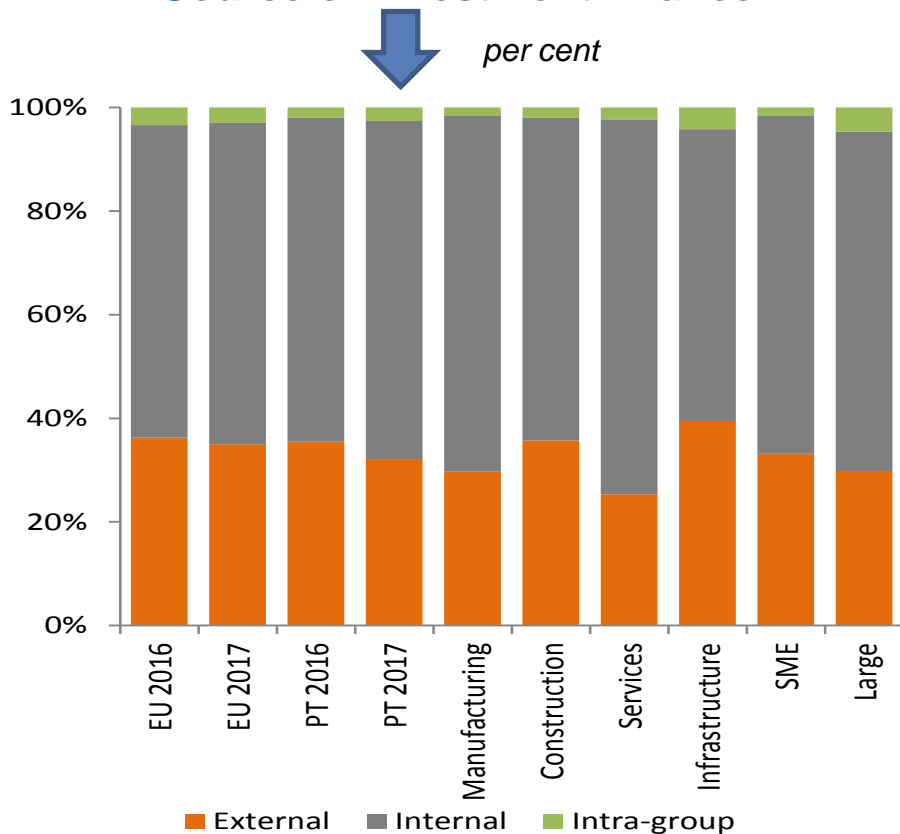
- Uncertainty, regulation and energy costs as key impediments for firms investment
- Regulation also affecting flexibility, allocation of resources, capacity to react to uncertainty and innovate

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

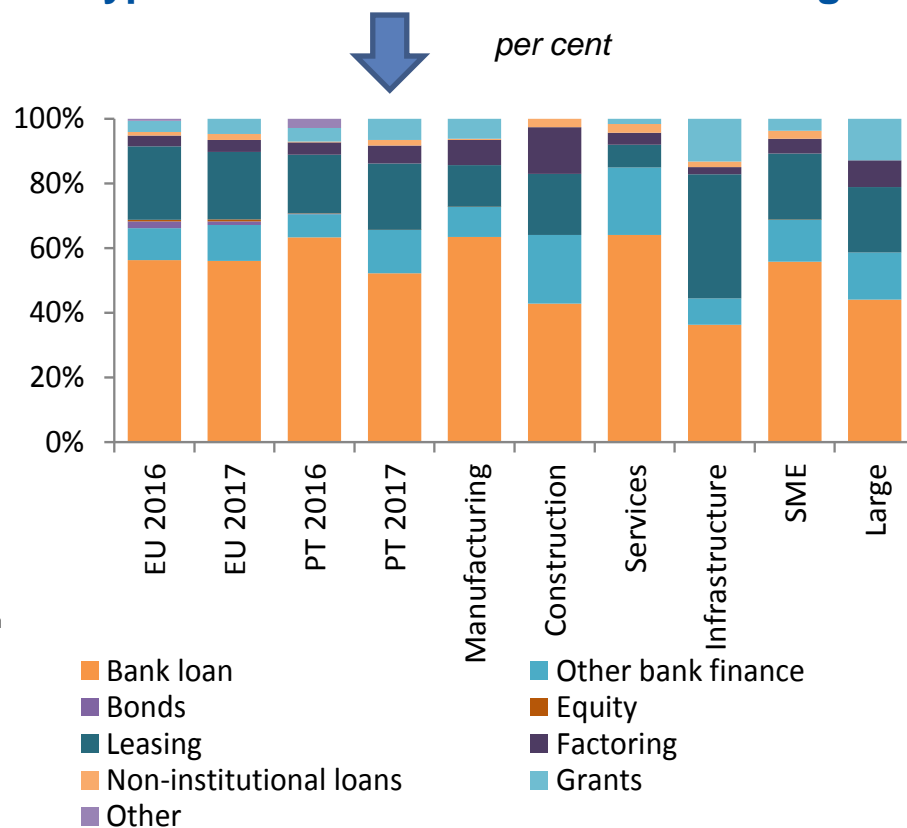
Source: Econ EIBIS

(3) Traditional sources of finance – mostly internal and bank based

Source of investment finance



Type of external investment financing



Note: Average of responses in per cent: Q. What proportion of your investment was financed by each of the following?

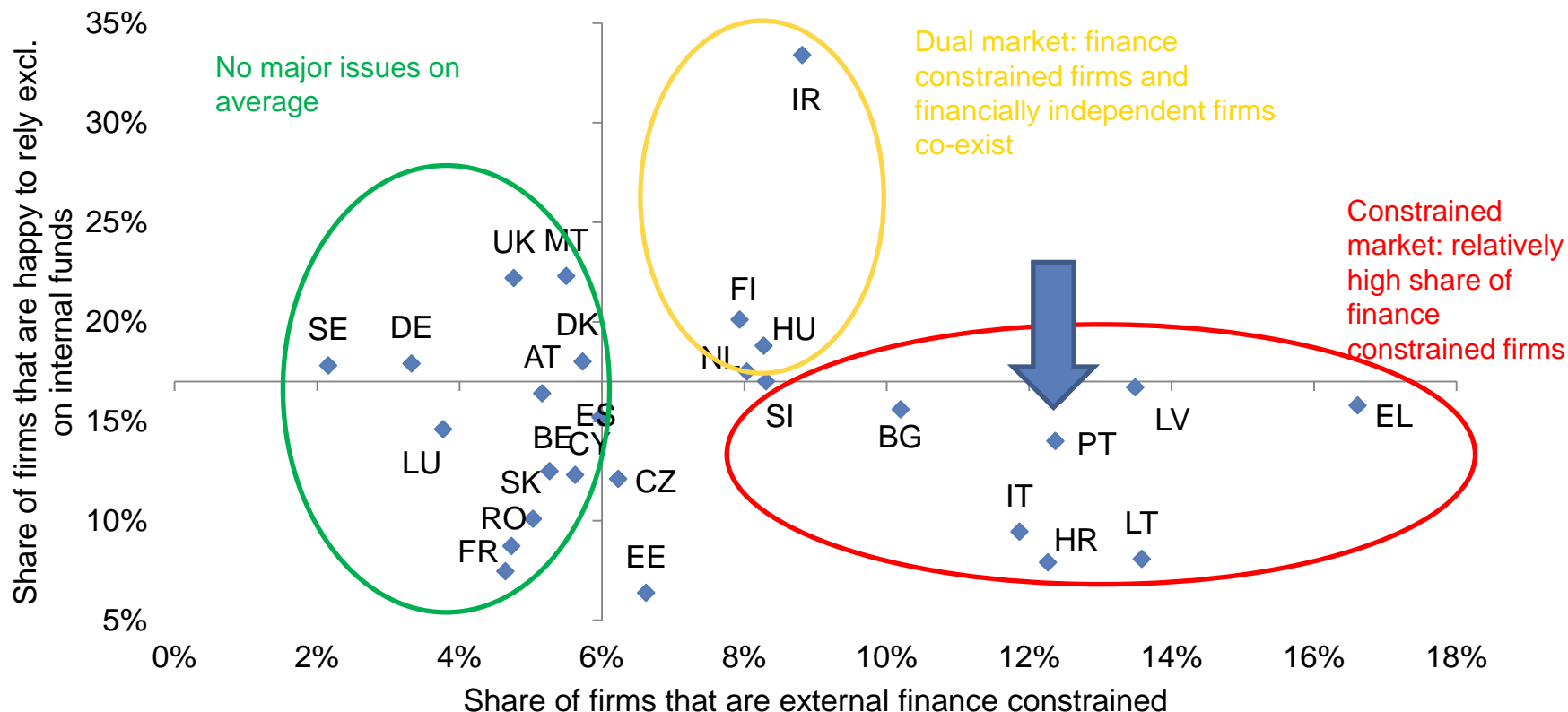
Note: Q. Approximately what proportion of your external finance does each of the following represent?

Source: Econ EIBIS

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(3) Access to finance – not a major EU problem, but a problem for some (including Portugal)

Financing cross – share of firms happy to rely on internal finance and credit constrained firms



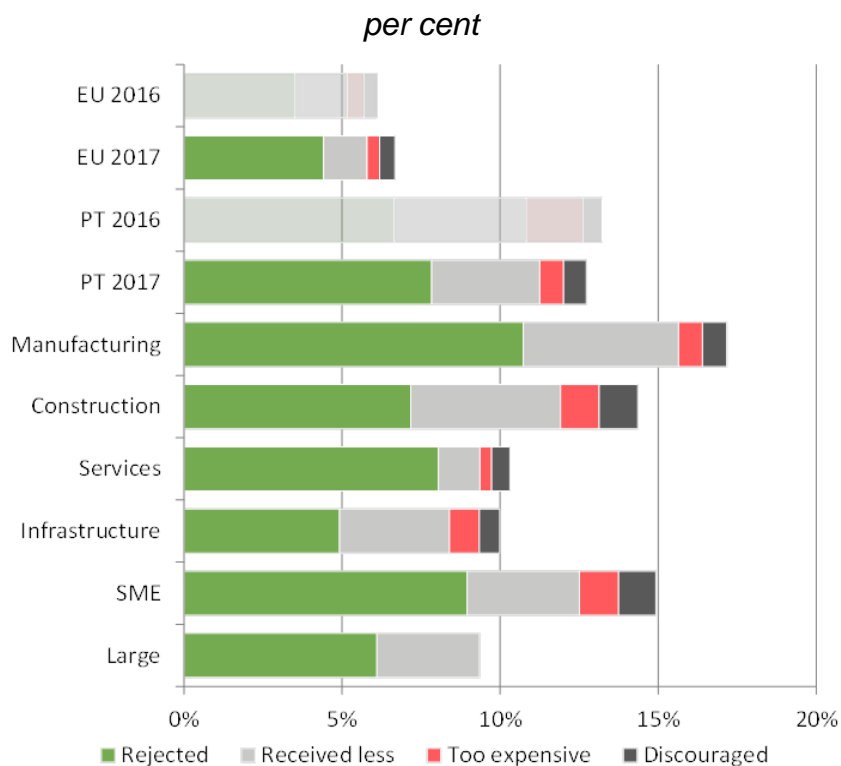
Base: All firms

Question: Data derived from the financial constraint indicator and firms indicating main reason for not applying for external finance was 'happy to use internal finance/didn't need finance'.

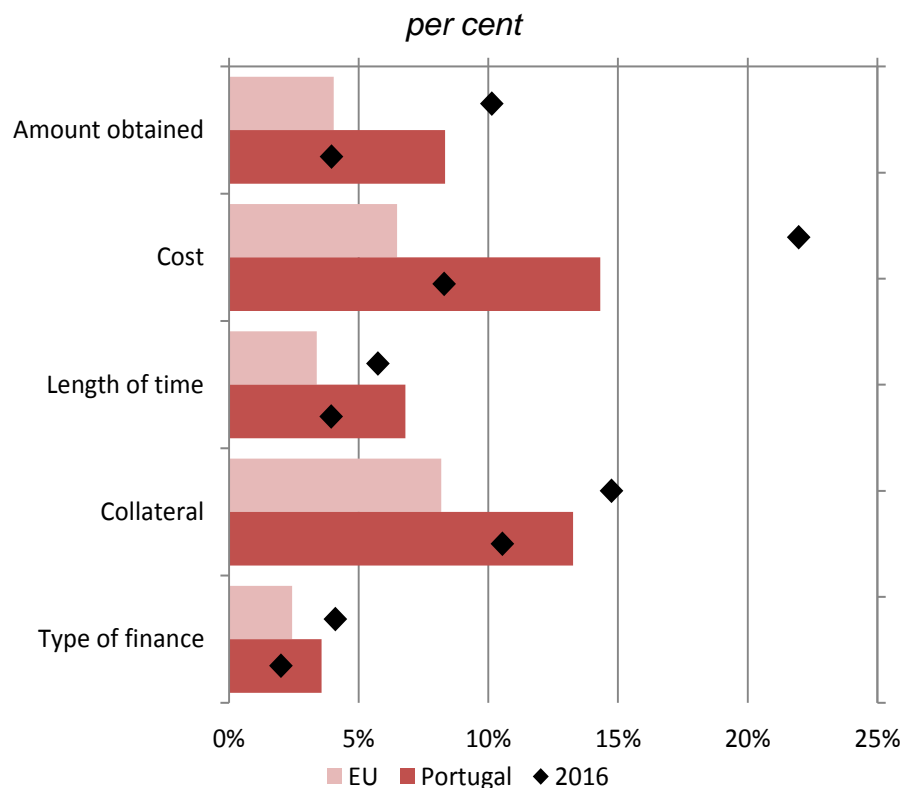
Financial Constraint indicator include: firms dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive) or they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

(3) Access to finance varying across sectors and size, with concerns mostly for collateral and costs

Share of finance constrained firms



Dissatisfaction with external finance



Note: Proportion of firms considering themselves finance constrained: 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)

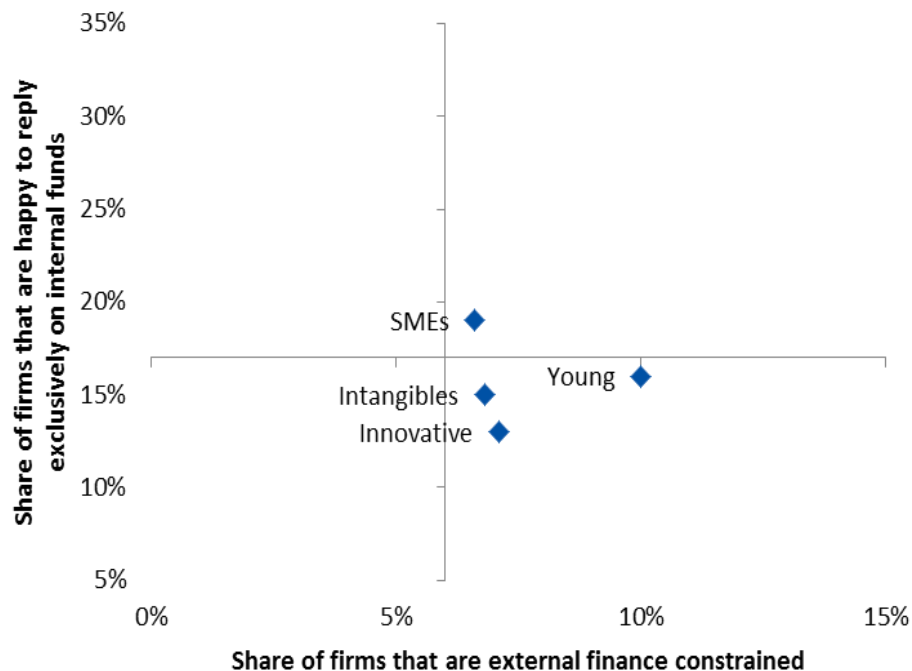
Source: Econ EIBIS

Note: Average share of responses, in per cent Q. How satisfied or dissatisfied are you with?

Source: Econ EIBIS

4. EU access to finance – young, innovative firms

EU Financing cross – firms happy to rely on internal finance and firms credit constrained



Innovative firms and young SMEs are

50%

more likely than other firms to be **credit constrained**

Firms with access to diversified forms of finance can invest more in intangibles

Less than **1%**
of firms would prefer **more equity finance**

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

Source: EIB Investment Survey

Conclusions

- **Quality of Public Investment**
- **Business Environment and Intangibles**
- **Diversified Forms of Finance**

Thank you

