



# Investment and Investment Finance in Croatia

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HNB- EIB Conference: Investment, moving the productivity frontier

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# Key messages

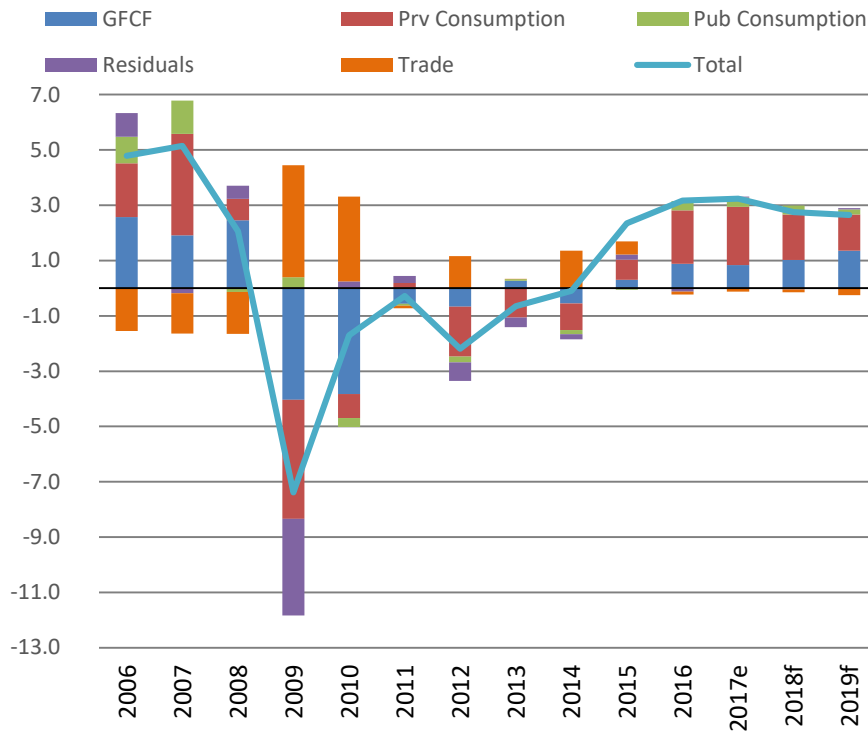
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- Recovery, but more investment focus needed
- Public sector: prioritization, efficiency and effectiveness
- On the corporate side, positive outlook
  - Focus on capacity expansion and need to upgrade the quality of the capital stock
  - Some focus on innovation, but more is needed
  - Business environment crucial – uncertainty, regulation, skills and energy costs
  - Access to finance more an issue than for the EU overall, calling for policies, particularly for innovation

# Economic growth, but potential growth poses challenges

## Real GDP growth

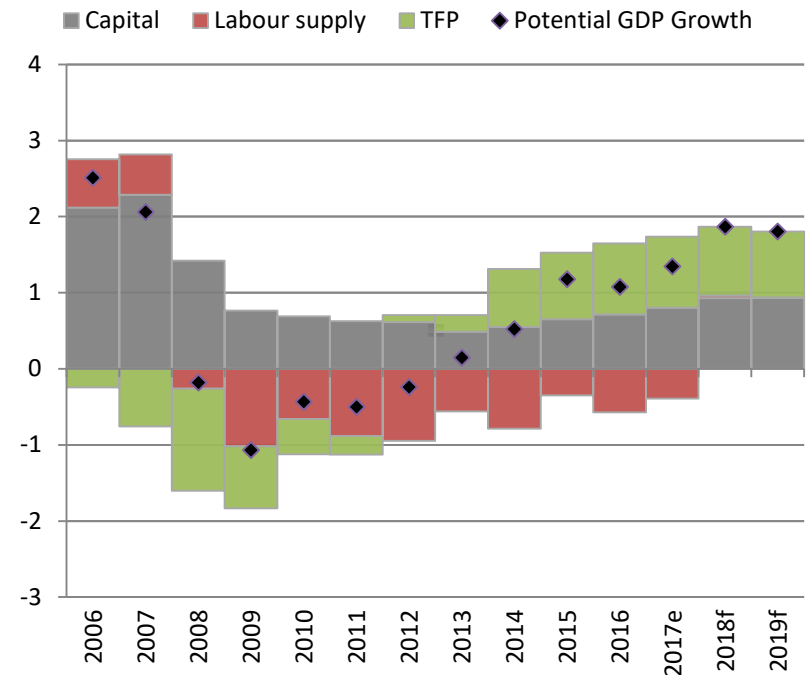
Change relative to previous year



Source: European Commission AMECO database

## Potential GDP growth

Change relative to previous year

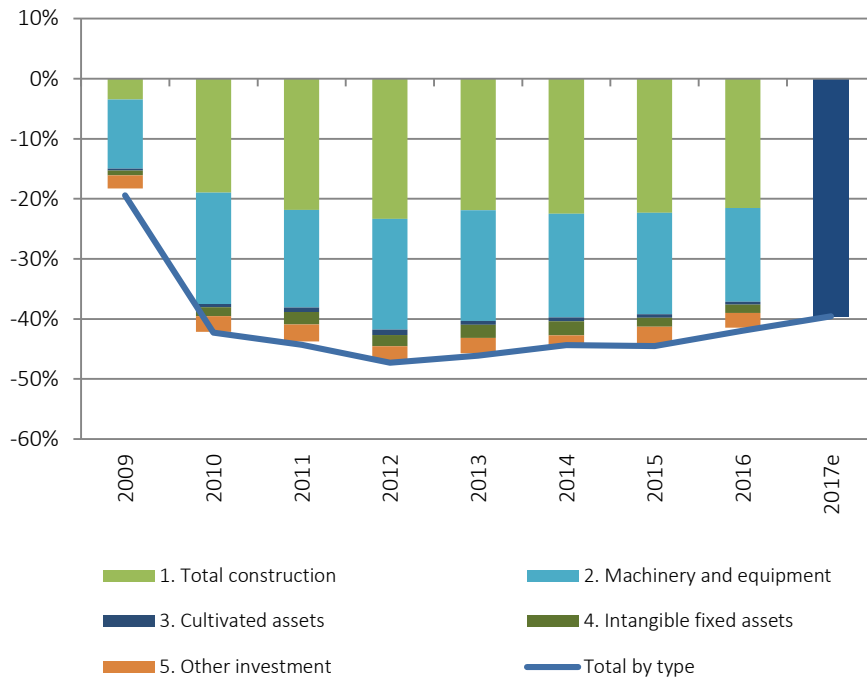


Source: European Commission

# Real investment activity strengthening

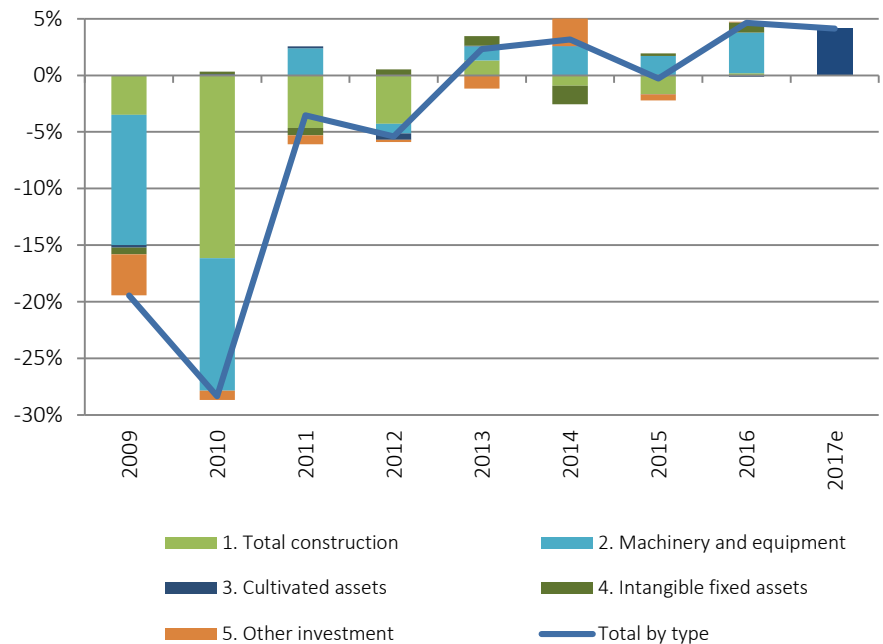
## Investment by assets

Cumulative change relative to 2008, nominal



## Investment by assets

Change relative to previous year



Note: Cumulative change of annual nominal investment relative to 2008 level, with asset class contribution

Note: Annual change of nominal investment.

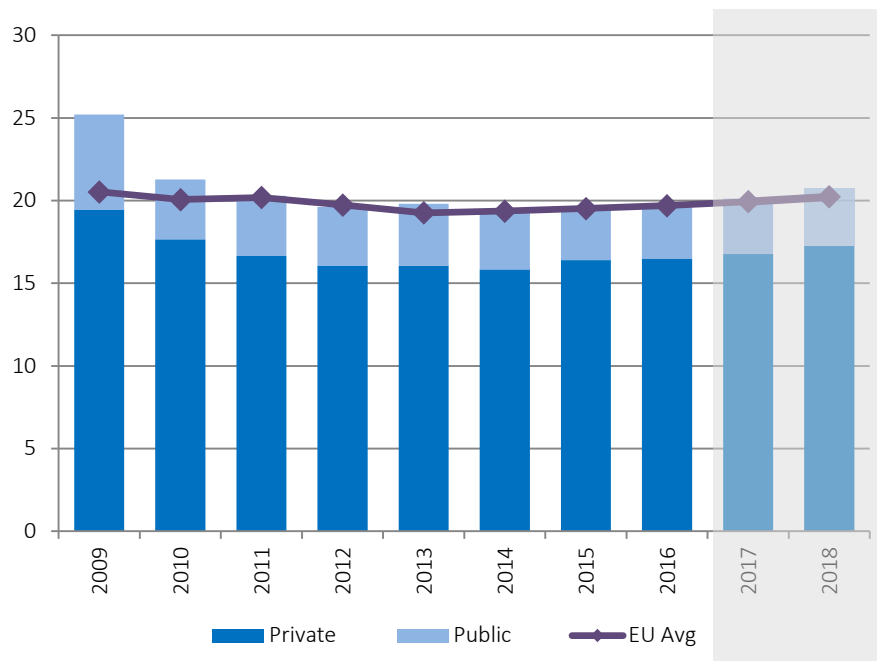
Source: Econ calculations, Croatian Bureau of Statistics.

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# Public investment penalised by public sector expenditure prioritisation

## Real Investment: private vs. public

Per cent of GDP

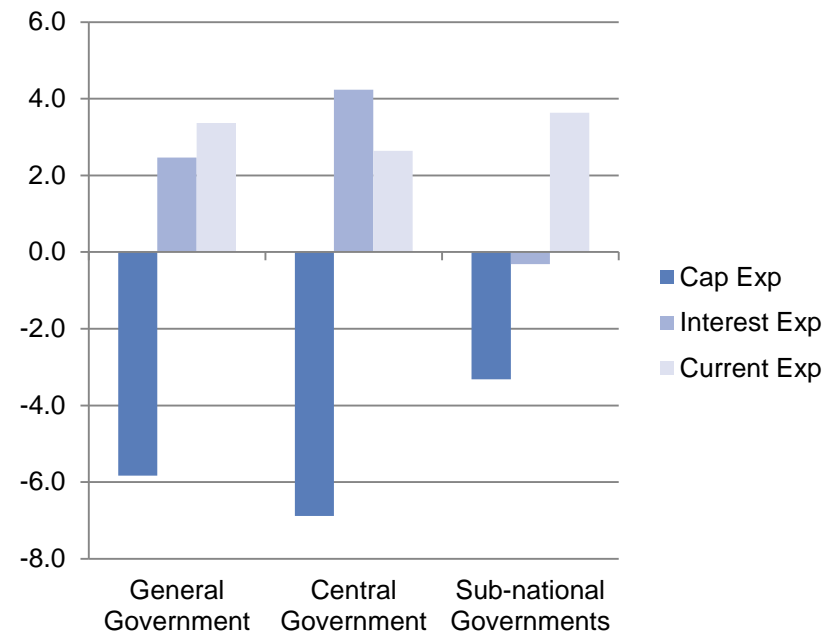


Note: Annual share of real investment in GDP with shares of private and public sector.

Source: European Commission AMECO database

## Difference in p.p. in public expenditure (2005-2016)

Per cent of total expenditure

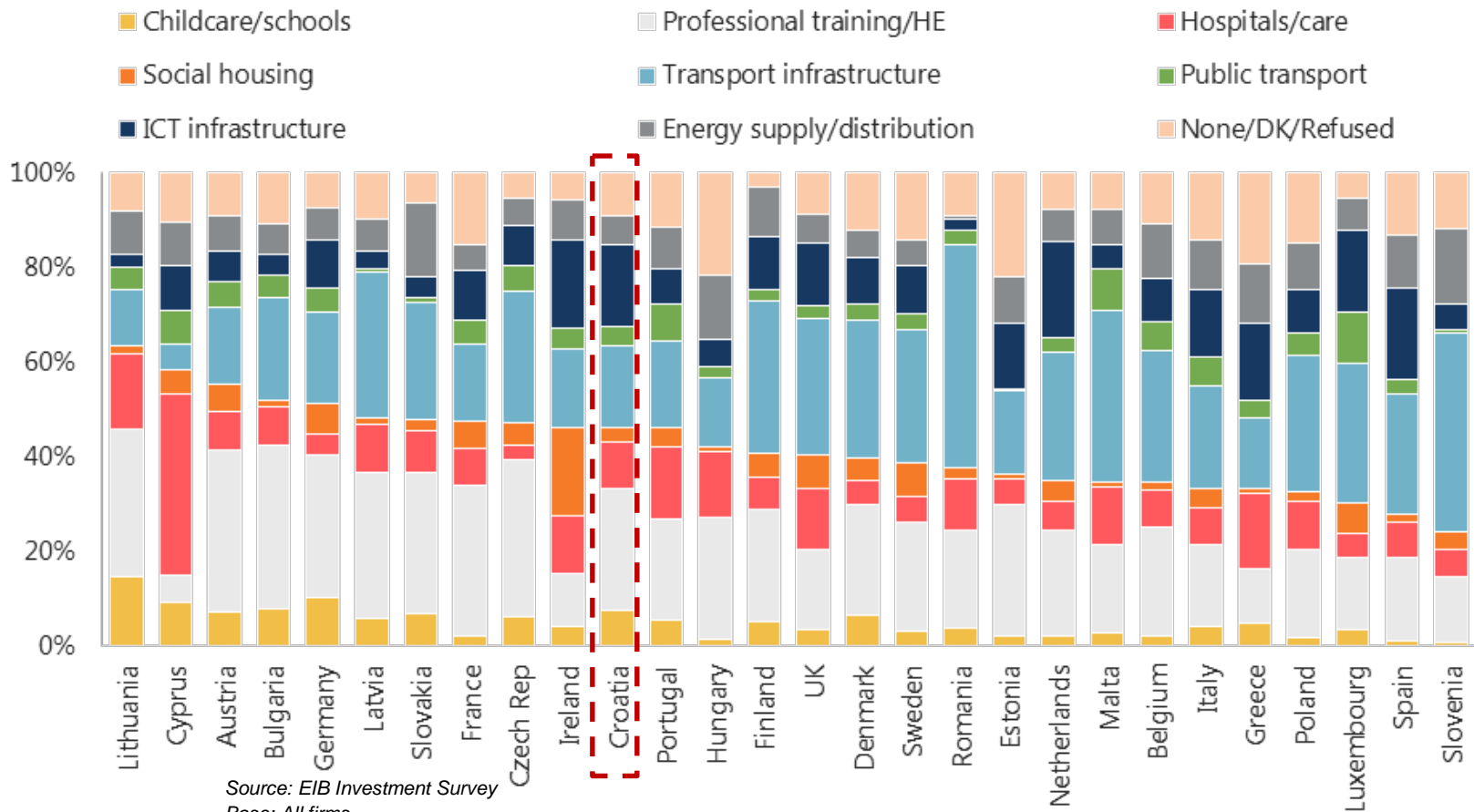


Note – local and regional governments account for 1/3 of public investment

Source: Eurostat

# According to Croatian firms public investment should focus on professional training and ICT infrastructure

## Firms declared public investment priorities (firms prioritization for public investment for the next 3 years)



Source: EIB Investment Survey  
Base: All firms

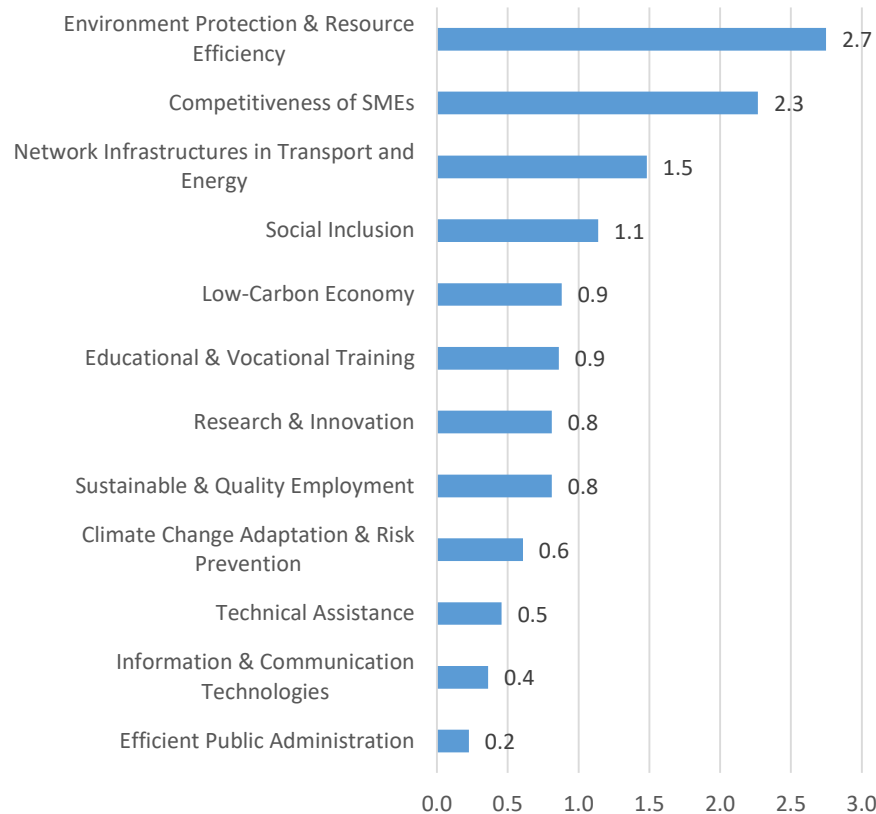
Q. From your business' perspective, if you had to prioritise one area of public investment for the next 3 years, which one would it be?

07/03/2018

# Investment financing and EU funds absorption

## Total Budget of ESIF 2014-2020, Croatia

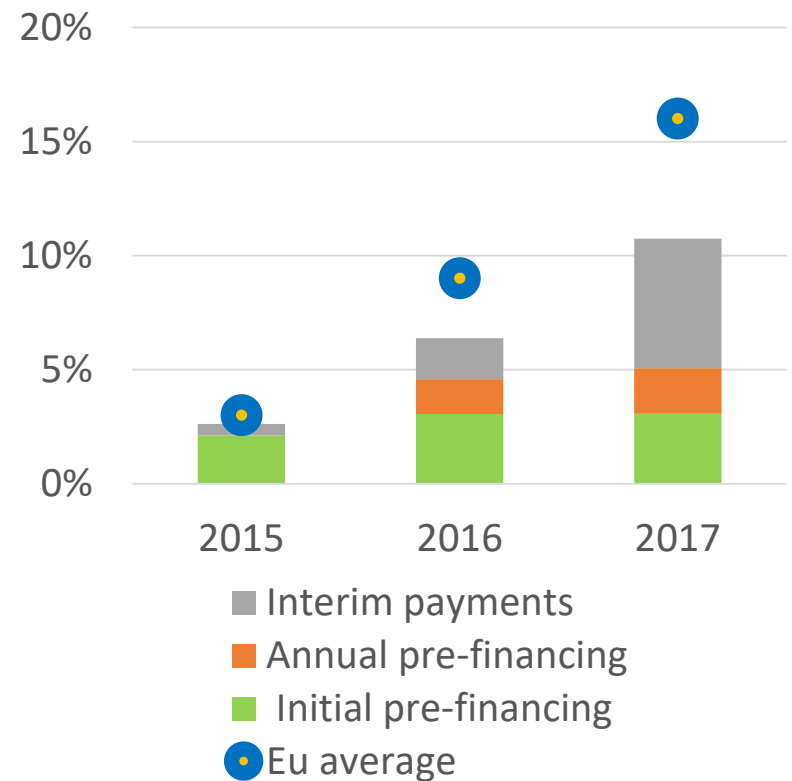
EUR bn



Source: European Commission: Open Data Portal for the ESIF

## Total EU payments

Per cent of total allocated funds, cumulative

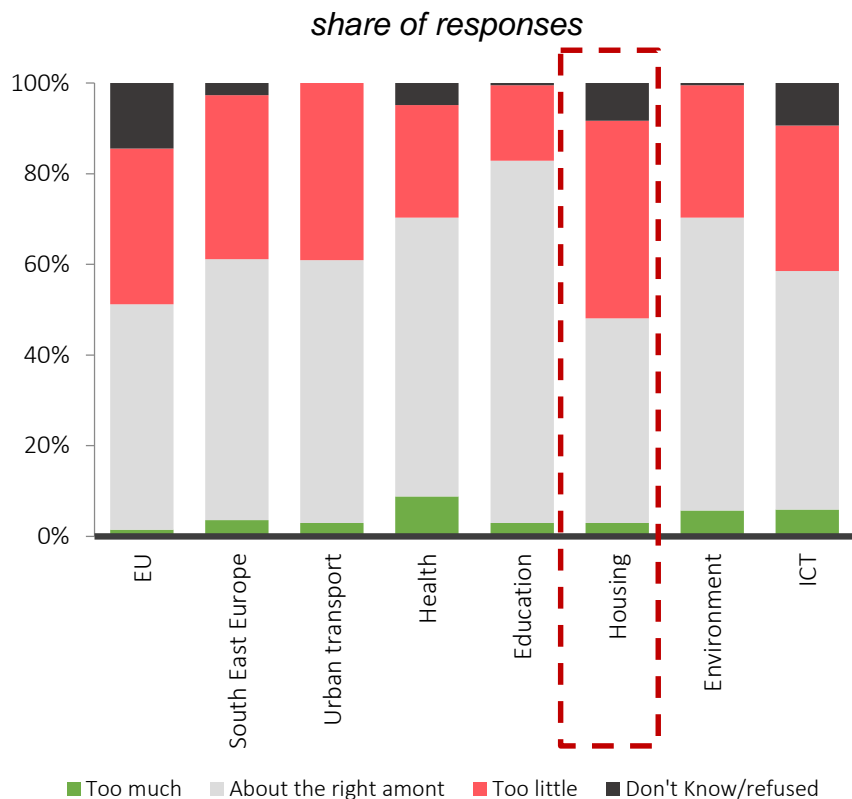


Source: European Commission: Open Data Portal for the ESIF



# At municipality level, gaps, and investment implementation hindered by long approval process

## Municipalities' perceived investment gap

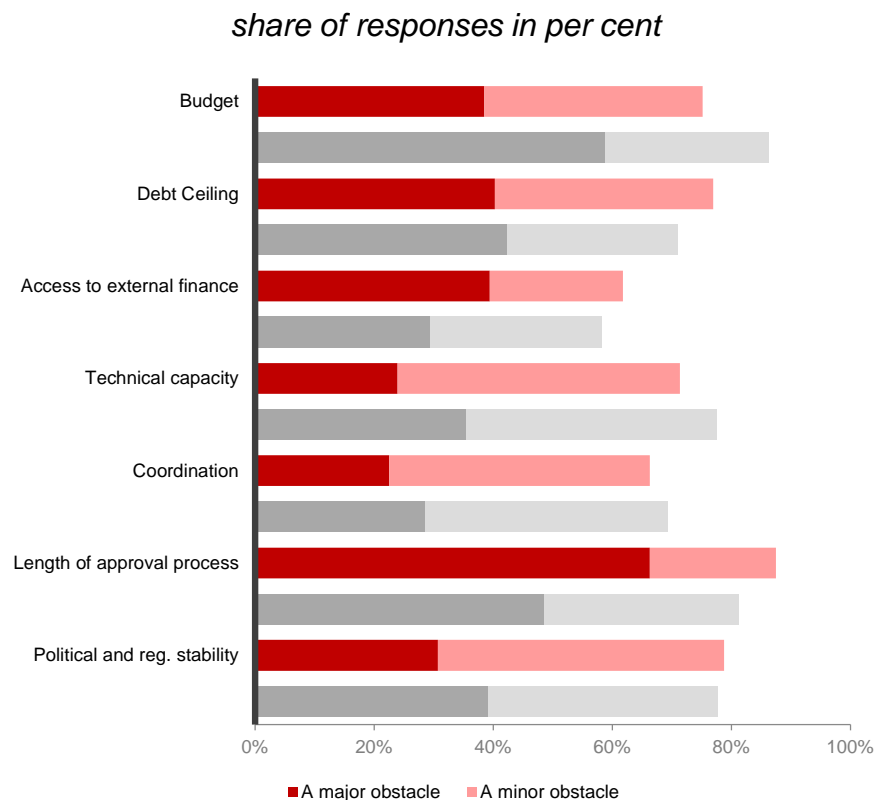


Note: Proportion of responses: Q. For each of the following, would you say that, overall, past investment in your municipality has ensured the right amount of infrastructure, or led to an under provision or over provision of infrastructure capacity?

Note: South East Europe include: Bulgaria; Croatia and Romania

Source: Econ EIBIS

## Obstacles to infrastructure investment



Note: Share of responses in per cent. Q. To what extent is each of the following an obstacle to the implementation of your infrastructure investment activities?

Note: South East Europe include: Bulgaria; Croatia and Romania

Source: Econ EIBIS



# The EIBIS: What can 12,000 firms tell us about investment trends in Europe?

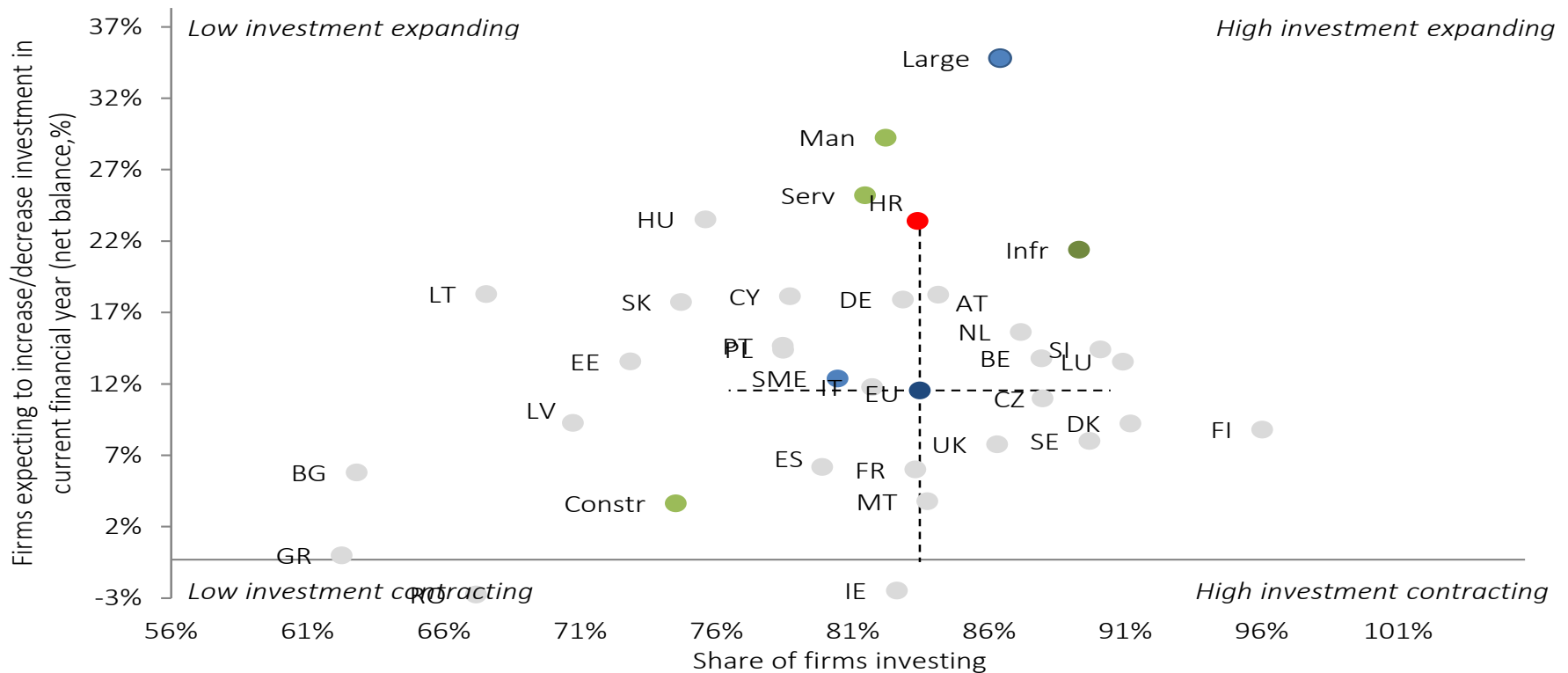
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## **EIB investment survey:**

- 12,500 firms surveyed across EU28 (of which 536 in Croatia)
- 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
- Representative of the economy (firms weighted by value-added)
- Data collected from April-July 2017

# From a business perspective - investment activity is picking up

## Investment cycle



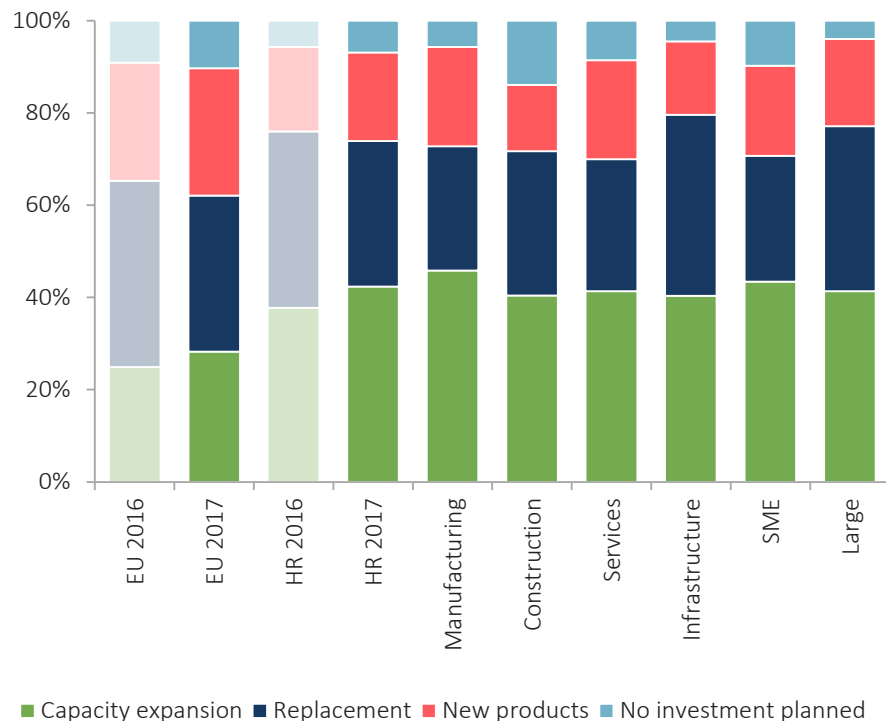
Note: Plots the share of firms with investment expanding/contracting relative to the share of firms investing, by sector or Member State; cross centred on EU average.

Source: Econ EIBIS

# Firms plan to invest in capacity expansion and have relatively high share of investment going in land

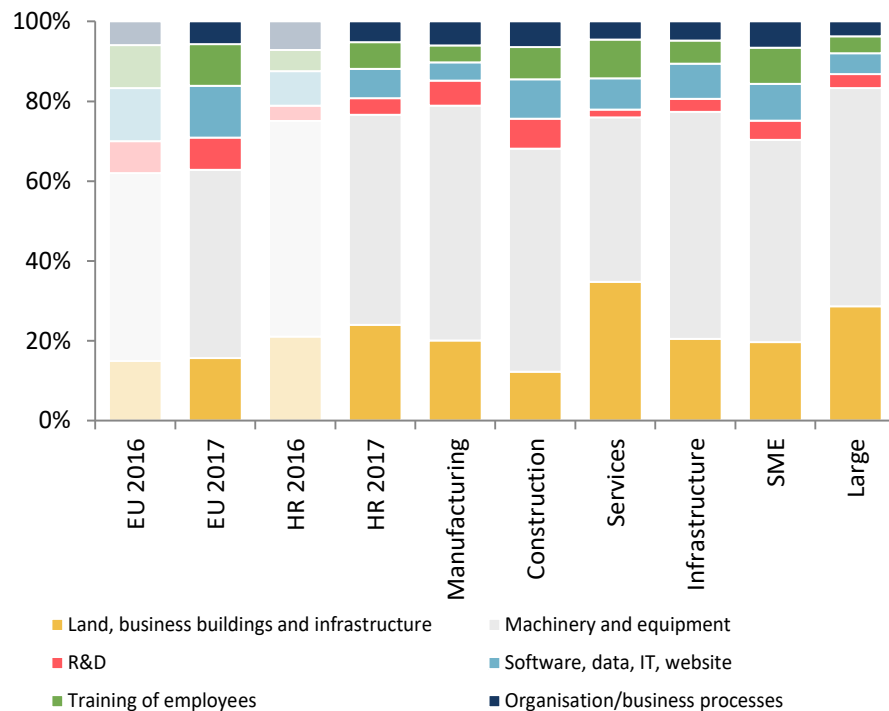
## Future investment priorities

share of total investment



## Areas of investment

average share allocated



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

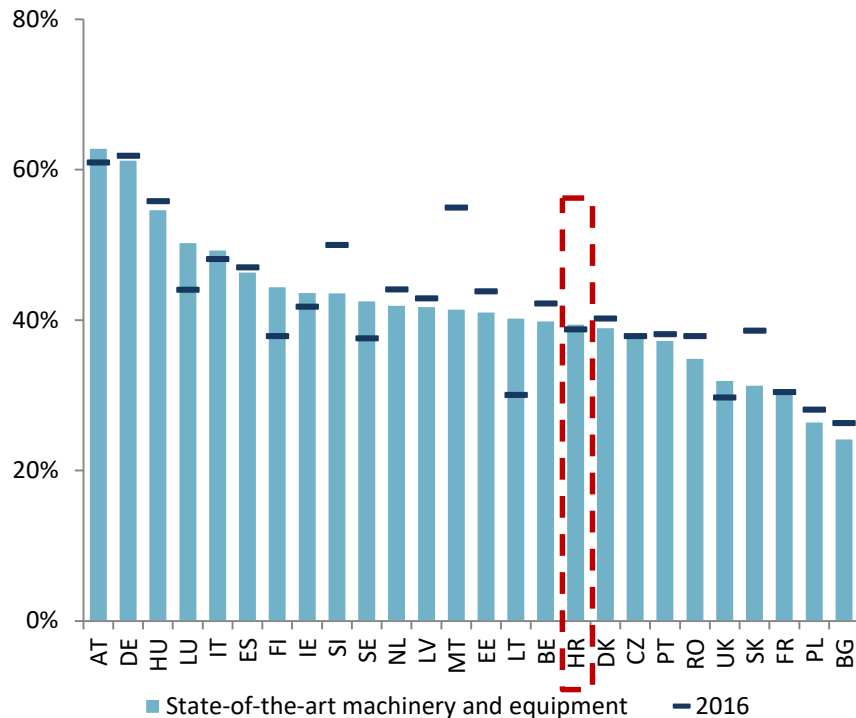
Note: Average of responses for allocations by area in per cent: Q. In the last financial year, how much did your business invest in each of the following with the intention of maintaining or increasing your company's future earnings?

Source: Econ EIBIS

# Quality of assets needs upgrade

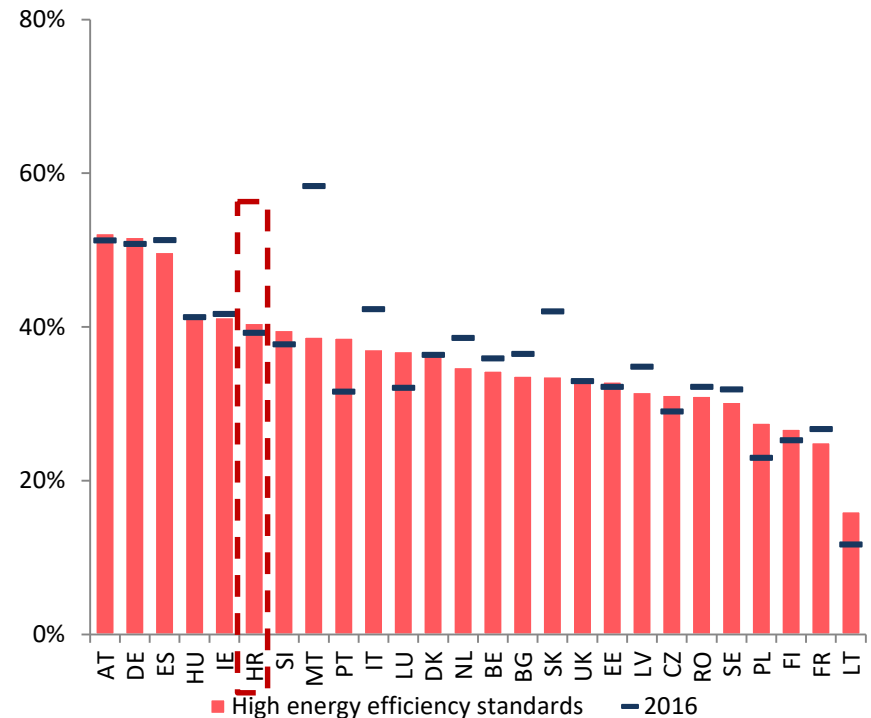
## State-of-the-art machinery and equipment

average share



## Share of high energy efficiency buildings

average share



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

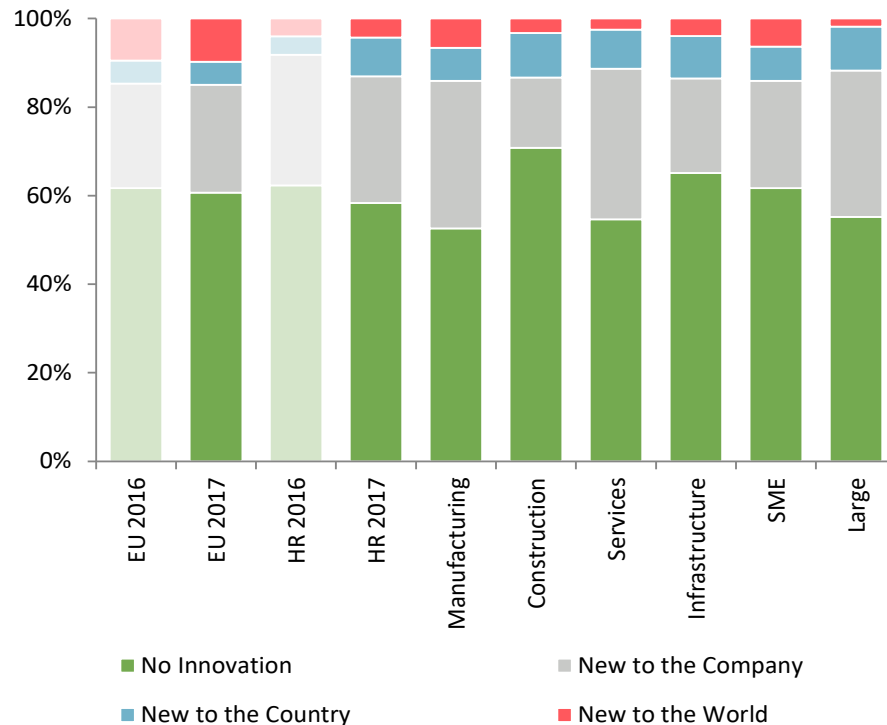
Note: Average of responses in per cent: Q. What proportion, if any, of your commercial building stock satisfies high or highest energy efficiency standards?

Source: Econ EIBIS

# Firms have an innovation focus, but mostly they rely on adoption of innovation

## Innovation activity

average share allocated



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?

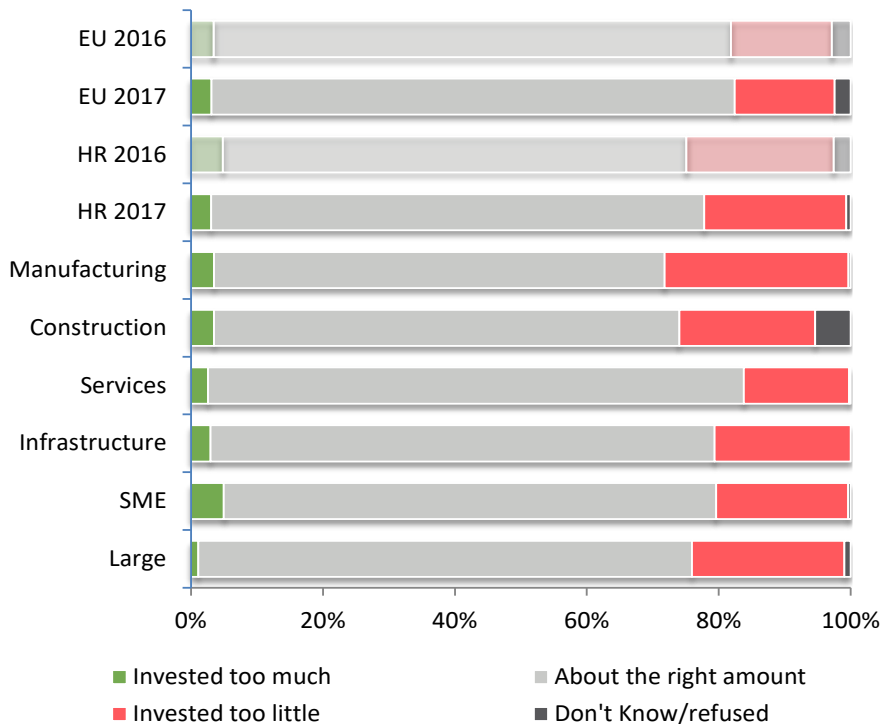
Source: Econ EIBIS

- Croatia is moderate innovator for the EU scoreboard – with relative strength in firms investment and skills, but low in innovation environment and innovators
- There is a group of micro and small firms, in innovative sectors that can be seen as leading innovators

# Those that did not invest enough have lower quality of assets

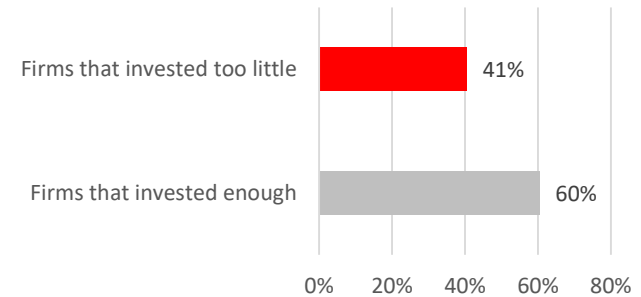
## Perceived investment gap

share of firms



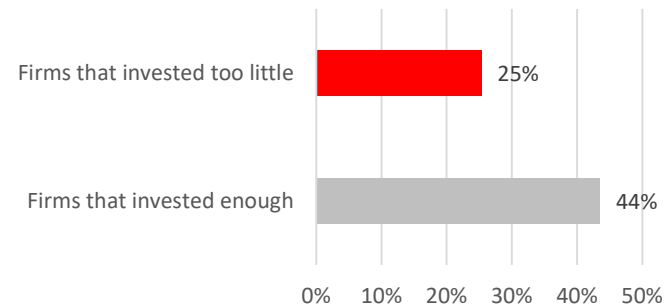
## Capacity utilisation

share of firms at or above capacity



## State-of-the-art machinery and equipment

share of firms



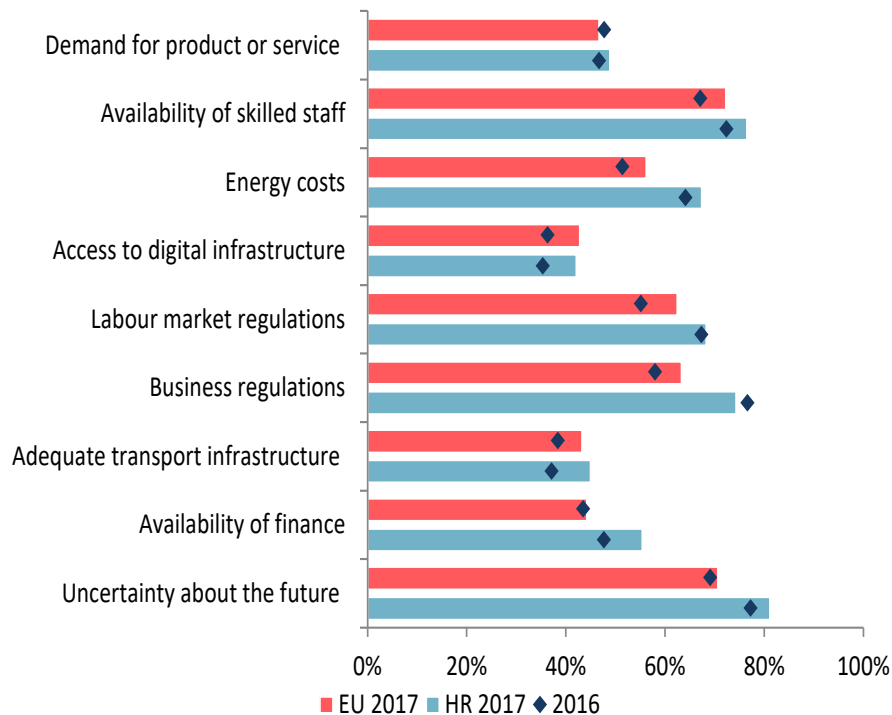
Note: Share of responses in per cent: Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount?

Source: Econ EIBIS

# Business environment and availability of skilled staff need improvements

## Long-term barriers to investment

*share of responses*



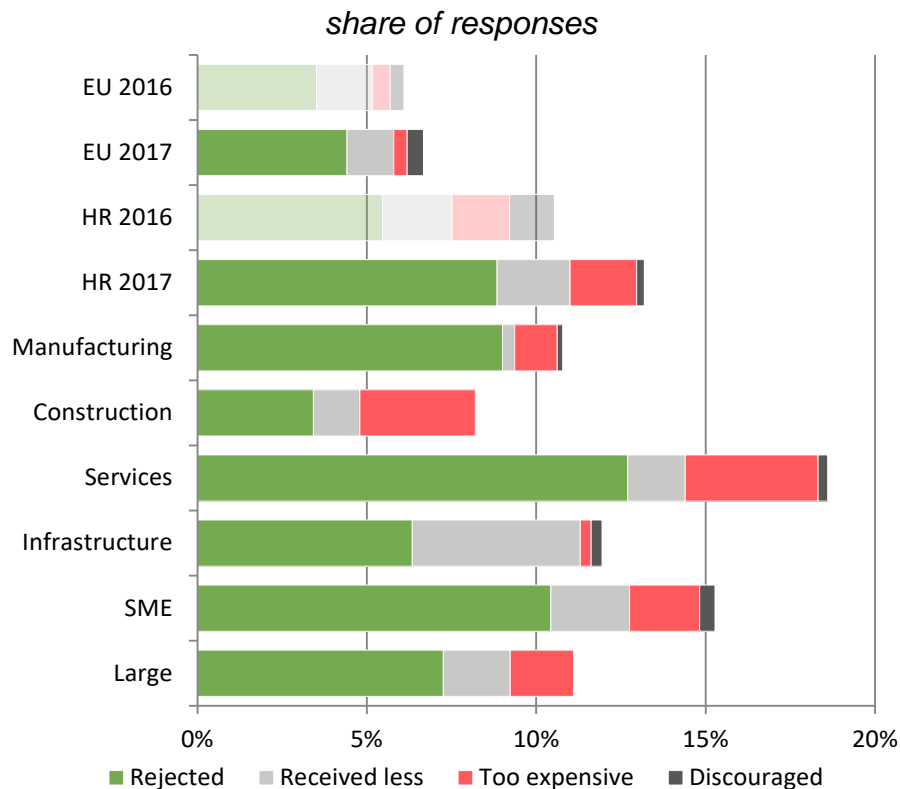
- Uncertainty
- Regulation and skills
- Energy costs and access to finance

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

# Access to finance is more a concern than for the average of the EU, mostly for guarantees

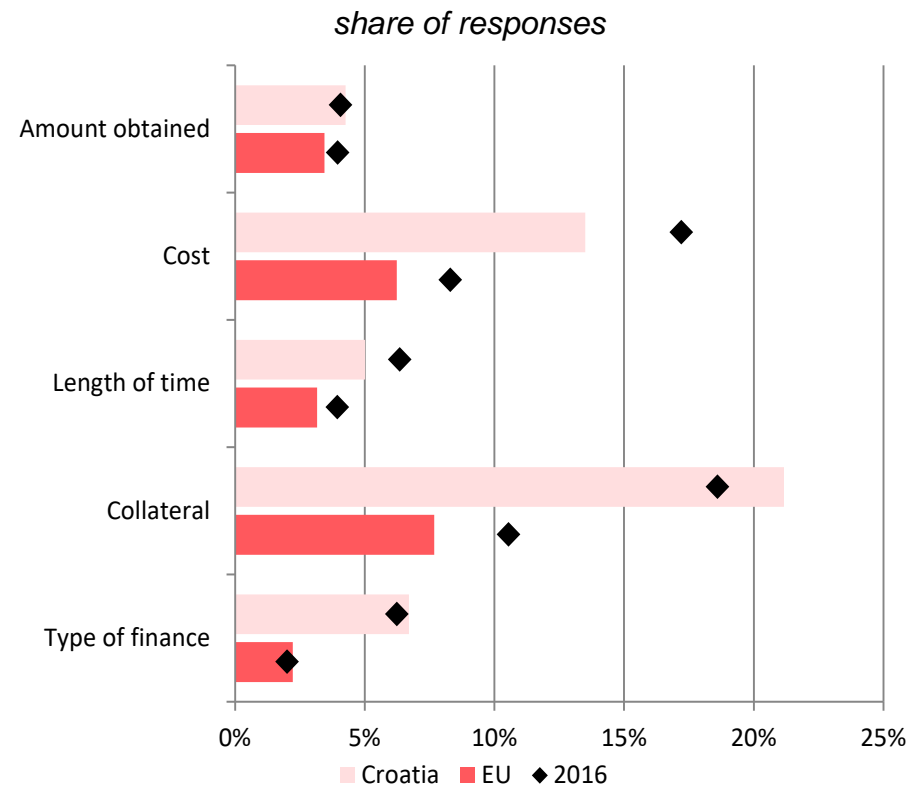
## Share of finance constrained firms



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

## Dissatisfaction with external finance



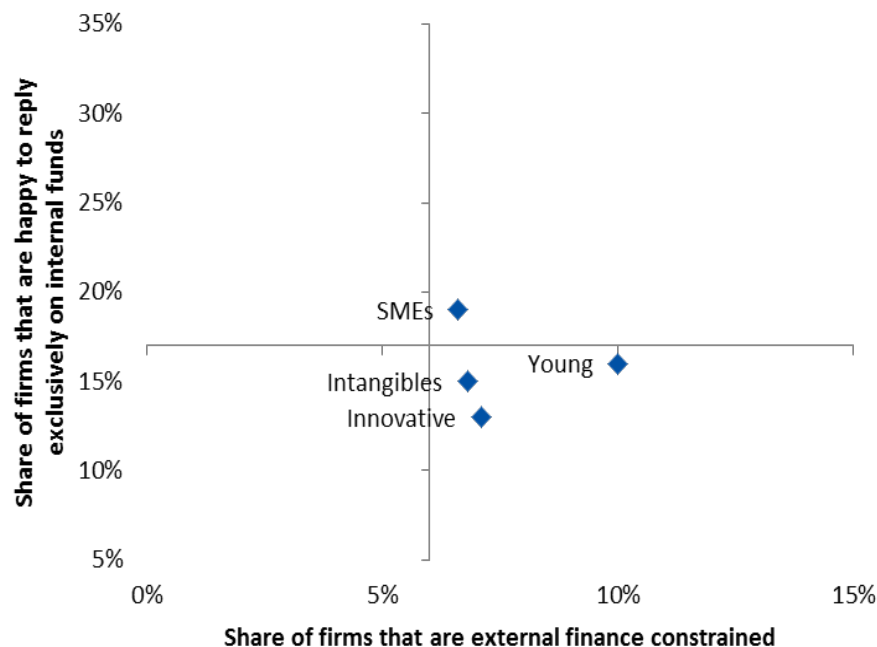
Note: Average share of responses, in per cent Q. How satisfied or dissatisfied are you with ....?

Source: Econ EIBIS



# EU Access to finance – dissatisfied firms

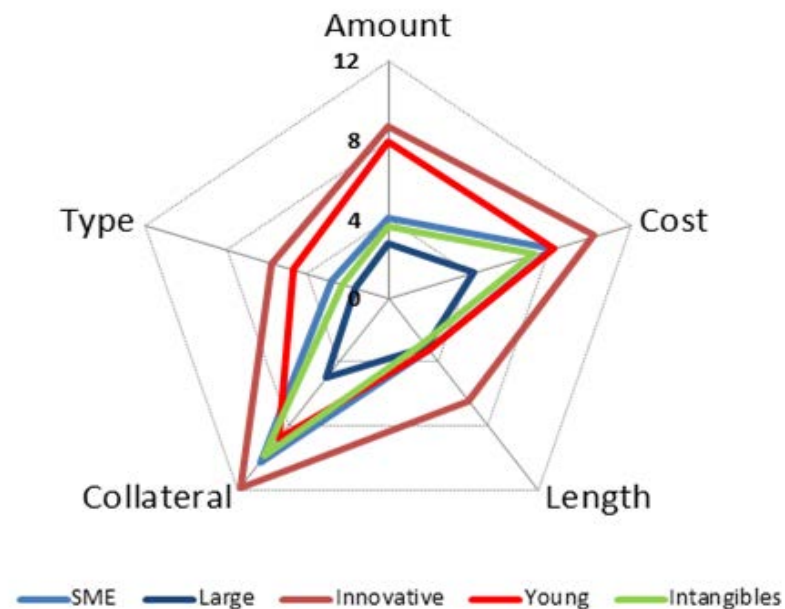
Financing cross – firms happy to rely on internal finance and firms credit constrained



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

Source: EIB Investment Survey

Dissatisfaction with access to finance



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 ....?

\*INNOVATIVE: firms that allocated more than one third of their investment spent to the development and introduction of new products; processes and services; YOUNG: firms that are younger than 5 years; INTANGIBLES: firms that allocated a relatively large share (+50%) of their investment spent to intangibles.

Source: EIB Investment Survey

# Conclusions

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- Recovery, with positive contribution from investment, but more needed
- Public investment
  - More to do with EU funds absorption
  - At regional and local level, budget but also technical capacity and time for approval a constraint
- On the corporate side, positive outlook
  - Focus on capacity expansion
  - Need to upgrade the quality of the capital stock
  - Some focus on innovation, but more is needed
  - Business environment crucial – uncertainty, regulation, skills and energy costs
  - Access to finance more an issue than for the EU overall, calling for policies, particularly for innovation

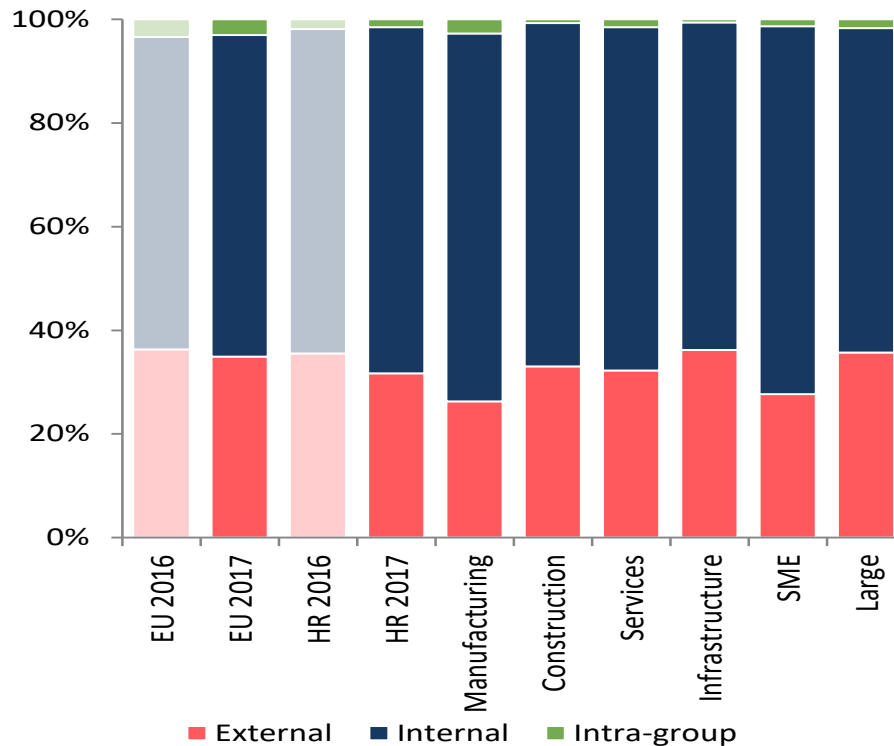
# Thank you



# Mostly internal finance and dominance of banks and leasing, with some visible role of grants

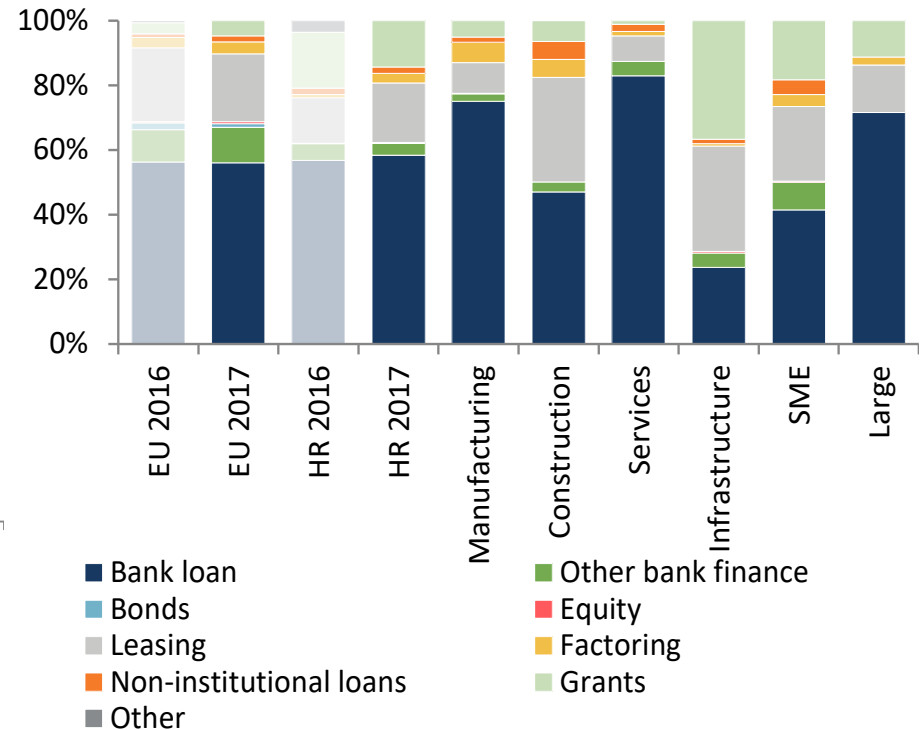
## Source of investment finance

average proportion



## Type of external investment financing

average proportion



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

Source: Econ EIBIS