Investment and Investment Finance in Croatia

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Director Economics Department EIB

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Zagreb - March 07, 2018
Key messages

• 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

- GFCF
- Prv Consumption
- Pub Consumption
- Residuals
- Trade
- Total

Potential GDP growth

Change relative to previous year

- Capital
- Labour supply
- TFP
- Potential GDP Growth

Source: European Commission AMECO database

Source: European Commission
Real investment activity strengthening

Investment by assets

Cumulative change relative to 2008, nominal

Change relative to previous year

Note: Annual change of nominal investment.

Source: Econ calculations, Croatian Bureau of Statistics.

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

Source: Econ calculations, Croatian Bureau of Statistics.
Public investment penalised by public sector expenditure prioritisation

Real Investment: private vs. public

Per cent of GDP

![Graph showing real investment: private vs. public over years 2009 to 2018, with private and public sectors represented by different colors. The EU average is also shown.]

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

![Bar chart showing difference in p.p. in public expenditure for General Government, Central Government, and Sub-national Governments, with different expenditure categories like Cap Exp, Interest Exp, and Current Exp.]
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)

- Childcare/schools
- Social housing
- ICT infrastructure
- Professional training/HE
- Transport infrastructure
- Energy supply/distribution
- Hospitals/care
- Public transport
- None/DK/Refused

Source: EIB Investment Survey
Base: All firms

Q. From your business' perspective, if you had to prioritize one area of public investment for the next 3 years, which one would it be?
Investment financing and EU funds absorption

Total Budget of ESIF 2014-2020, Croatia

<table>
<thead>
<tr>
<th>Category</th>
<th>EUR bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment Protection &amp; Resource Efficiency</td>
<td>2.7</td>
</tr>
<tr>
<td>Competitiveness of SMEs</td>
<td>2.3</td>
</tr>
<tr>
<td>Network Infrastructures in Transport and Energy</td>
<td>1.5</td>
</tr>
<tr>
<td>Social Inclusion</td>
<td>1.1</td>
</tr>
<tr>
<td>Low-Carbon Economy</td>
<td>0.9</td>
</tr>
<tr>
<td>Educational &amp; Vocational Training</td>
<td>0.9</td>
</tr>
<tr>
<td>Research &amp; Innovation</td>
<td>0.8</td>
</tr>
<tr>
<td>Sustainable &amp; Quality Employment</td>
<td>0.8</td>
</tr>
<tr>
<td>Climate Change Adaptation &amp; Risk Prevention</td>
<td>0.6</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>0.5</td>
</tr>
<tr>
<td>Information &amp; Communication Technologies</td>
<td>0.4</td>
</tr>
<tr>
<td>Efficient Public Administration</td>
<td>0.2</td>
</tr>
</tbody>
</table>

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

Obstacles to infrastructure investment

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: 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?

Source: Econ EIBIS

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?

**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

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

Share of high energy efficiency buildings

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

- Croatia is a 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.

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
Those that did not invest enough have lower quality of assets

Perceived investment gap

<table>
<thead>
<tr>
<th>Segment</th>
<th>Too Much</th>
<th>Right Amount</th>
<th>Too Little</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU 2016</td>
<td>20%</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>EU 2017</td>
<td>20%</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>HR 2016</td>
<td>20%</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>HR 2017</td>
<td>20%</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>20%</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>Construction</td>
<td>20%</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>Services</td>
<td>20%</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>20%</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>SME</td>
<td>20%</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>Large</td>
<td>20%</td>
<td>60%</td>
<td>20%</td>
</tr>
</tbody>
</table>

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?

Capacity utilisation

<table>
<thead>
<tr>
<th>Segment</th>
<th>Too Much</th>
<th>Right Amount</th>
<th>Too Little</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firms that invested too little</td>
<td>41%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firms that invested enough</td>
<td>60%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| State-of-the-art machinery and equipment

<table>
<thead>
<tr>
<th>Segment</th>
<th>Too Much</th>
<th>Right Amount</th>
<th>Too Little</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firms that invested too little</td>
<td>25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firms that invested enough</td>
<td>44%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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
  - EU 2016
  - EU 2017
  - HR 2016
  - HR 2017
  - Manufacturing
  - Construction
  - Services
  - Infrastructure
  - SME
  - Large

- Dissatisfaction with external finance
  - Amount obtained
  - Cost
  - Length of time
  - Collateral
  - Type of 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).

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

Dissatisfaction with access to finance

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

Source: EIB Investment Survey

*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

• 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**

<table>
<thead>
<tr>
<th>Source</th>
<th>Average Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU 2016</td>
<td>100%</td>
</tr>
<tr>
<td>EU 2017</td>
<td>80%</td>
</tr>
<tr>
<td>HR 2016</td>
<td>60%</td>
</tr>
<tr>
<td>HR 2017</td>
<td>40%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>20%</td>
</tr>
<tr>
<td>Construction</td>
<td>0%</td>
</tr>
<tr>
<td>Services</td>
<td>0%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>0%</td>
</tr>
<tr>
<td>SME</td>
<td>0%</td>
</tr>
<tr>
<td>Large</td>
<td>0%</td>
</tr>
</tbody>
</table>

**Type of external investment financing**

<table>
<thead>
<tr>
<th>Type of Finance</th>
<th>Average Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loan</td>
<td>100%</td>
</tr>
<tr>
<td>Other bank finance</td>
<td>80%</td>
</tr>
<tr>
<td>Bonds</td>
<td>60%</td>
</tr>
<tr>
<td>Leasing</td>
<td>40%</td>
</tr>
<tr>
<td>Non-institutional loans</td>
<td>20%</td>
</tr>
<tr>
<td>Equity</td>
<td>0%</td>
</tr>
<tr>
<td>Factoring</td>
<td>0%</td>
</tr>
<tr>
<td>Non-institutional loans</td>
<td>0%</td>
</tr>
<tr>
<td>Grants</td>
<td>0%</td>
</tr>
<tr>
<td>Other</td>
<td>0%</td>
</tr>
</tbody>
</table>

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

Source: Econ EIBIS

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

Source: Econ EIBIS