

# Investment and Investment Finance :

## EU and Denmark

Debora Revoltella

Director Economics Department, European Investment Bank

Finanstilsynet – EIB Conference

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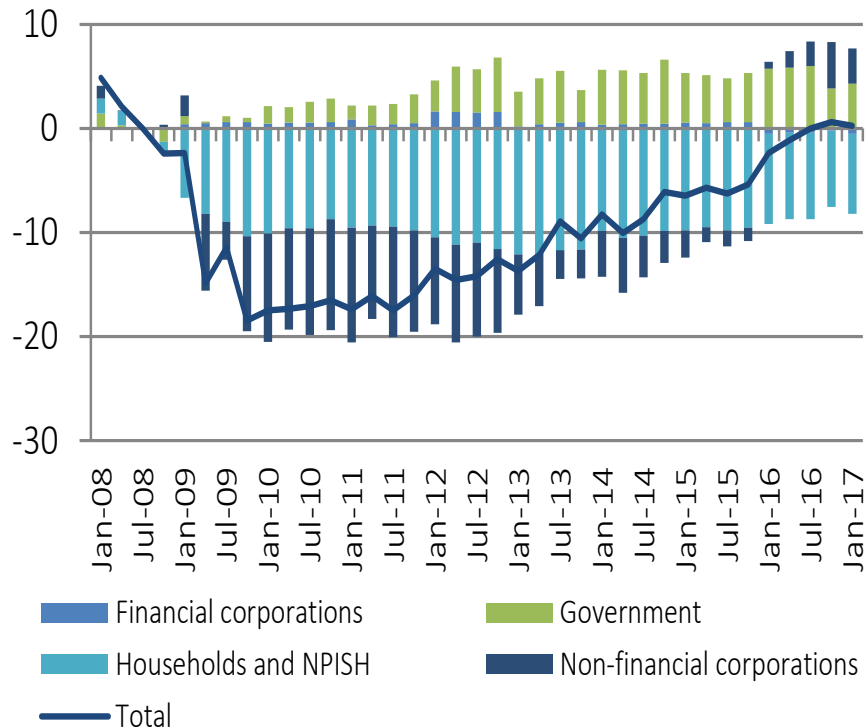
# 2017-2018 EIB Investment Report: Key messages

- Investment recovery, but no time for complacency
  1. Infrastructure investment
  2. Business competitiveness
  3. Climate change mitigation\* investment
  4. Access to finance and finance diversification
- Structural policies needed: EU & National Focus – EIB has a role
  - Properly re-prioritize
  - Adequate financing to be accompanied by planning & coordination
  - Business environment and reallocation of resources key
  - All intangibles, not only R&D, crucial
  - Skills, adoption of new technologies and innovation
  - More investment to reach the 2030 targets
  - Policies for growth and innovation
  - Diversification of financing means
  - Work on incentives to increase demand for equity

# From recovery to sustainable growth

## Real investment by sector

Cumulative change relative to 3Q08

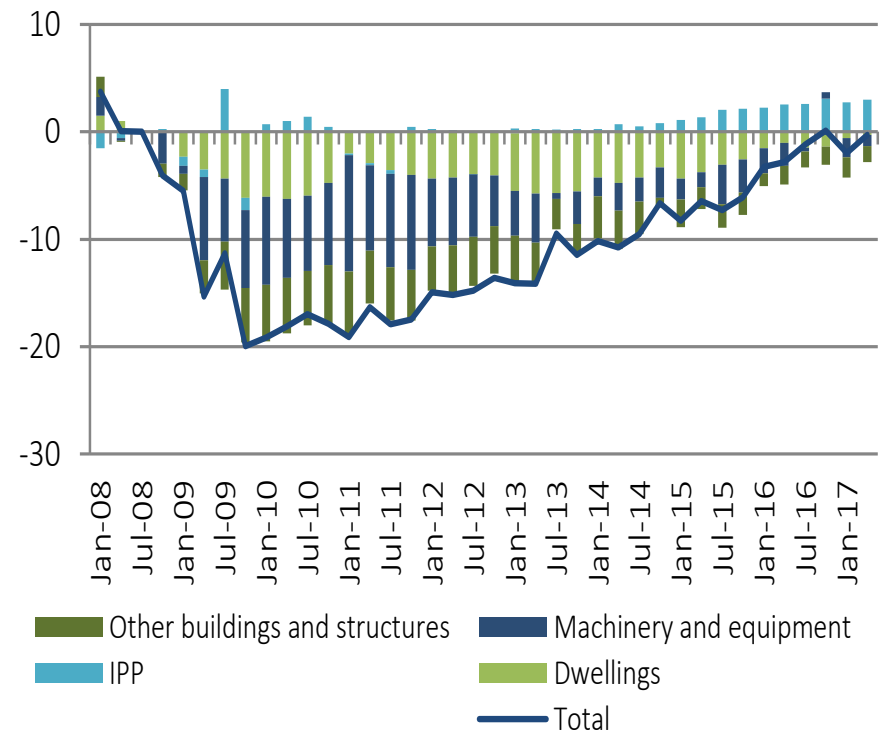


Note: Cumulative change of quarterly real investment relative to the 3Q08 level, with sector-level contributions.

Source: Econ calculations, Eurostat, national authorities

## Real Investment by asset

Cumulative change relative to 3Q08



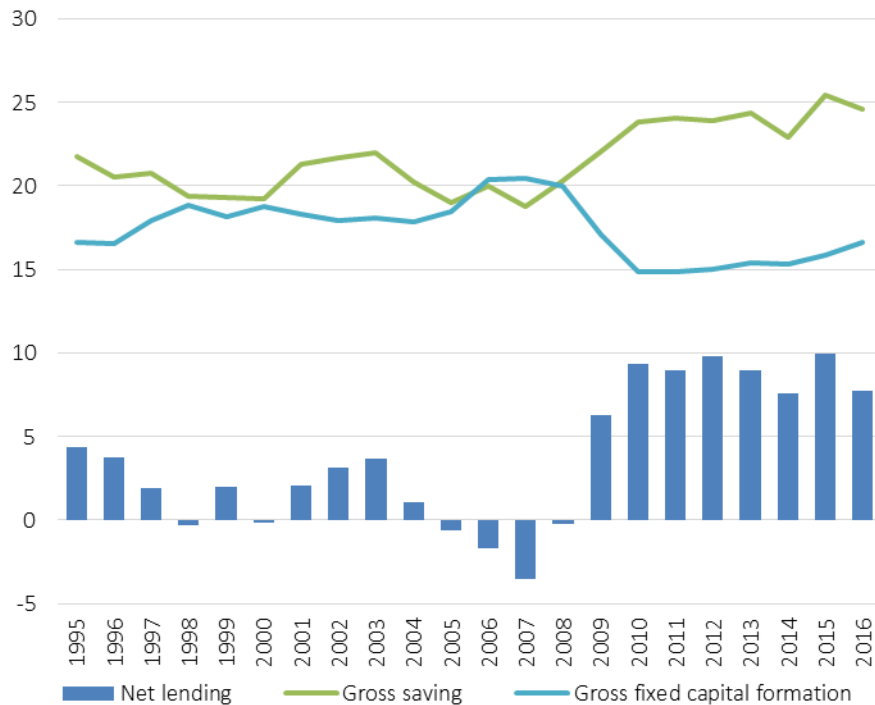
Note: Cumulative change of quarterly real investment relative to the 3Q08 level, with asset class contribution.

Source: Econ calculations, Eurostat

# Too much saving, too little investment ?

## Private savings

% of GDP

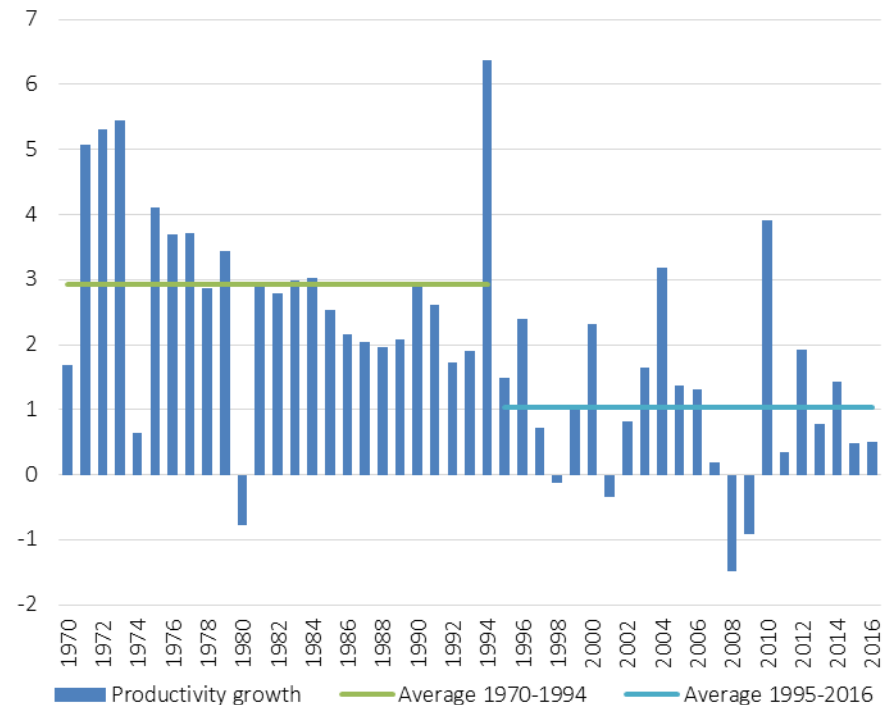


Note: Total economy excluding government.

Source: Statistics Denmark.

## Productivity growth

%



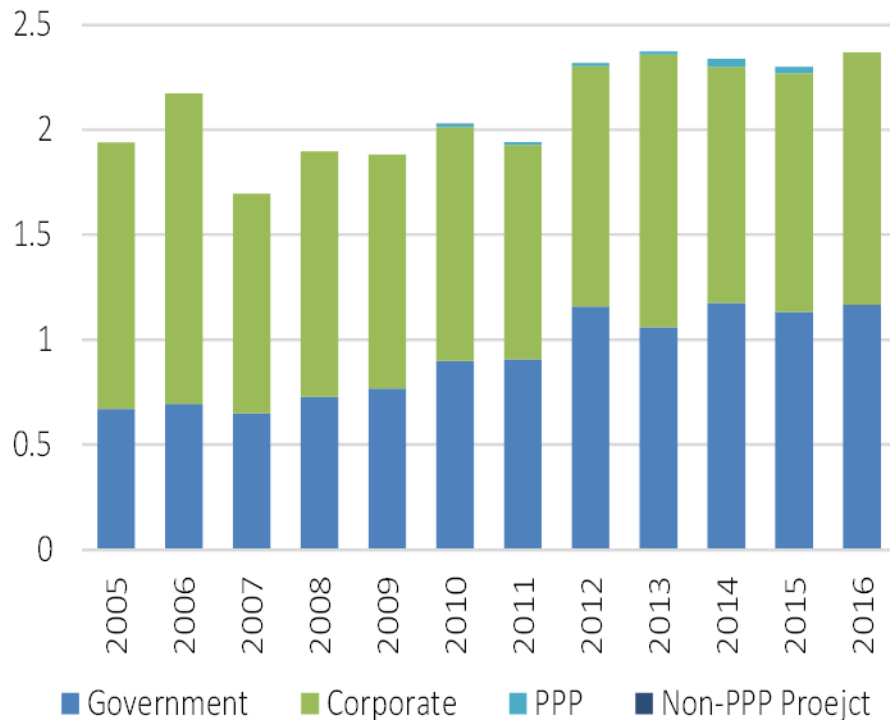
Note: Real GDP per hours worked.

Source: Statistics Denmark.

# Strong infrastructure investment supports high quality

## Infrastructure investment

per cent of GDP

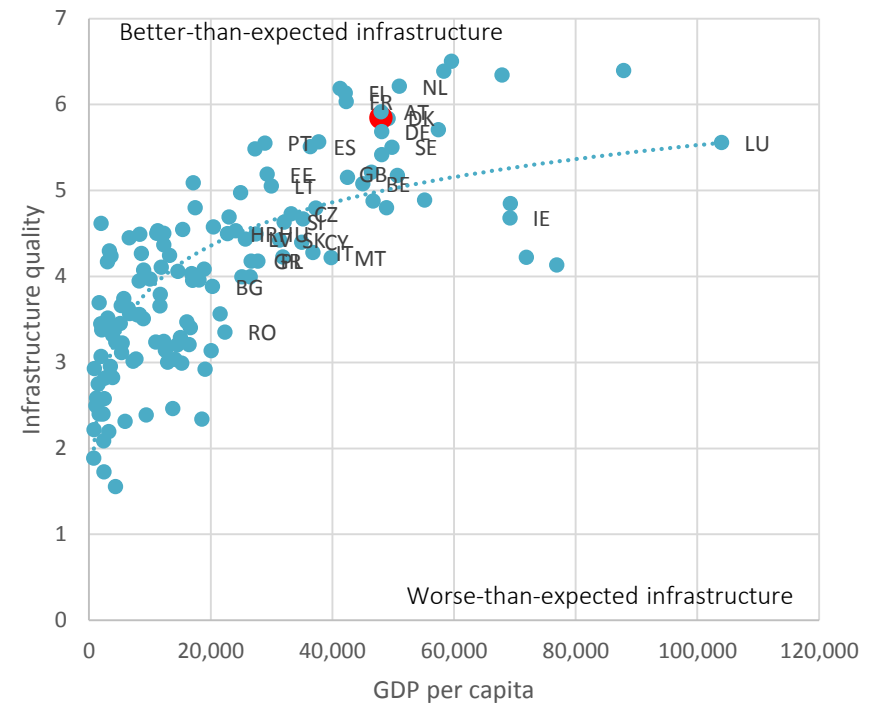


Note: Annual infrastructure investment as a share of GDP, broken down by institutional sector.

Source: Econ calculations, Eurostat, national authorities

## Infrastructure quality

Scale from 1 to 7 (best)



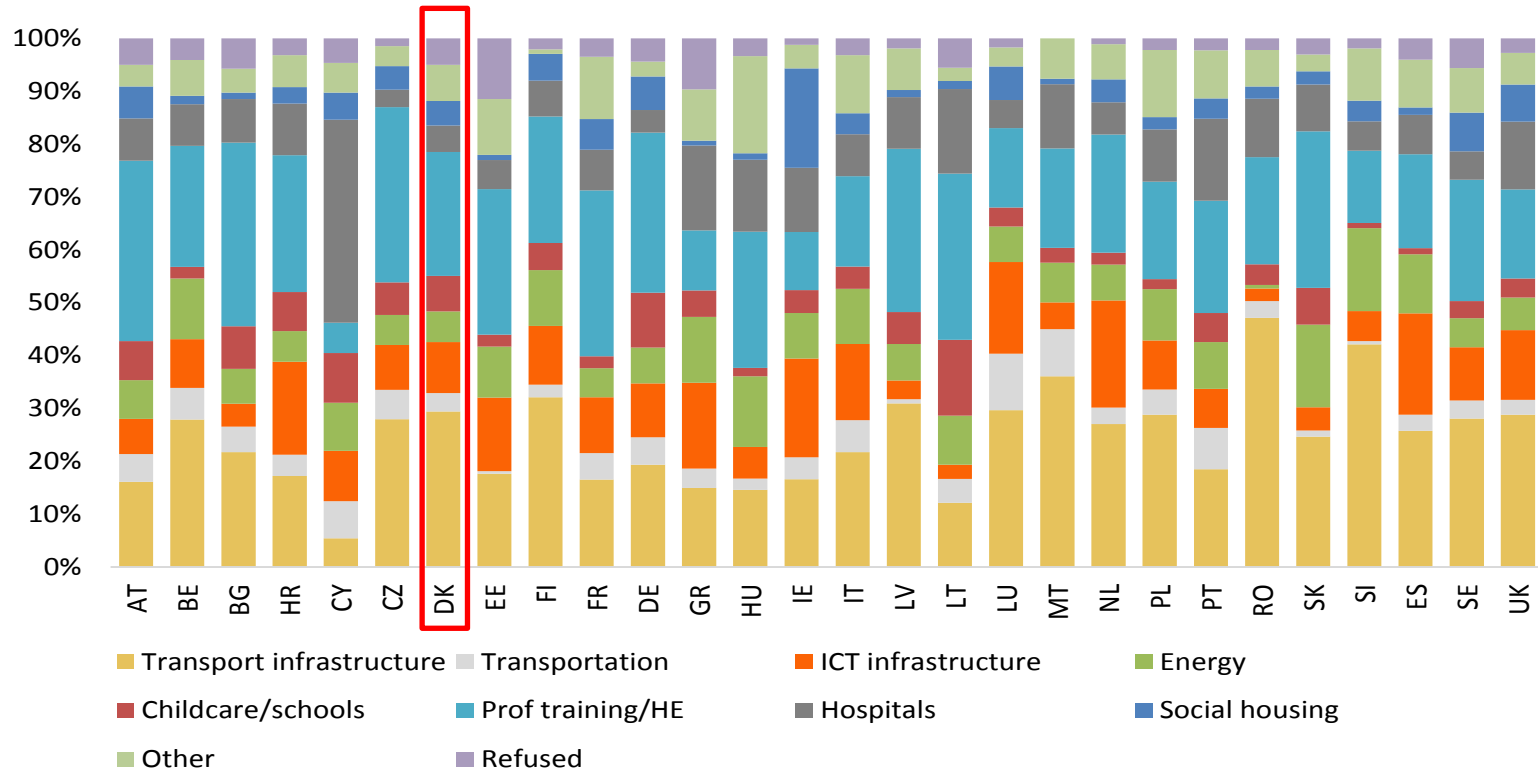
Note: Infrastructure quality scored from 1 to 7 (best) against GDP per capita; blue line plots predicted values.

Source: World Economic Forum and IMF

# Transport infrastructure, training and education are the most important public investment priorities

## Perceived public investment priorities

*proportion of responses*



Note: Proportion of responses in per cent: 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?

Source: Econ EIBIS

# What can 12,000 firms tell us about the investment climate?

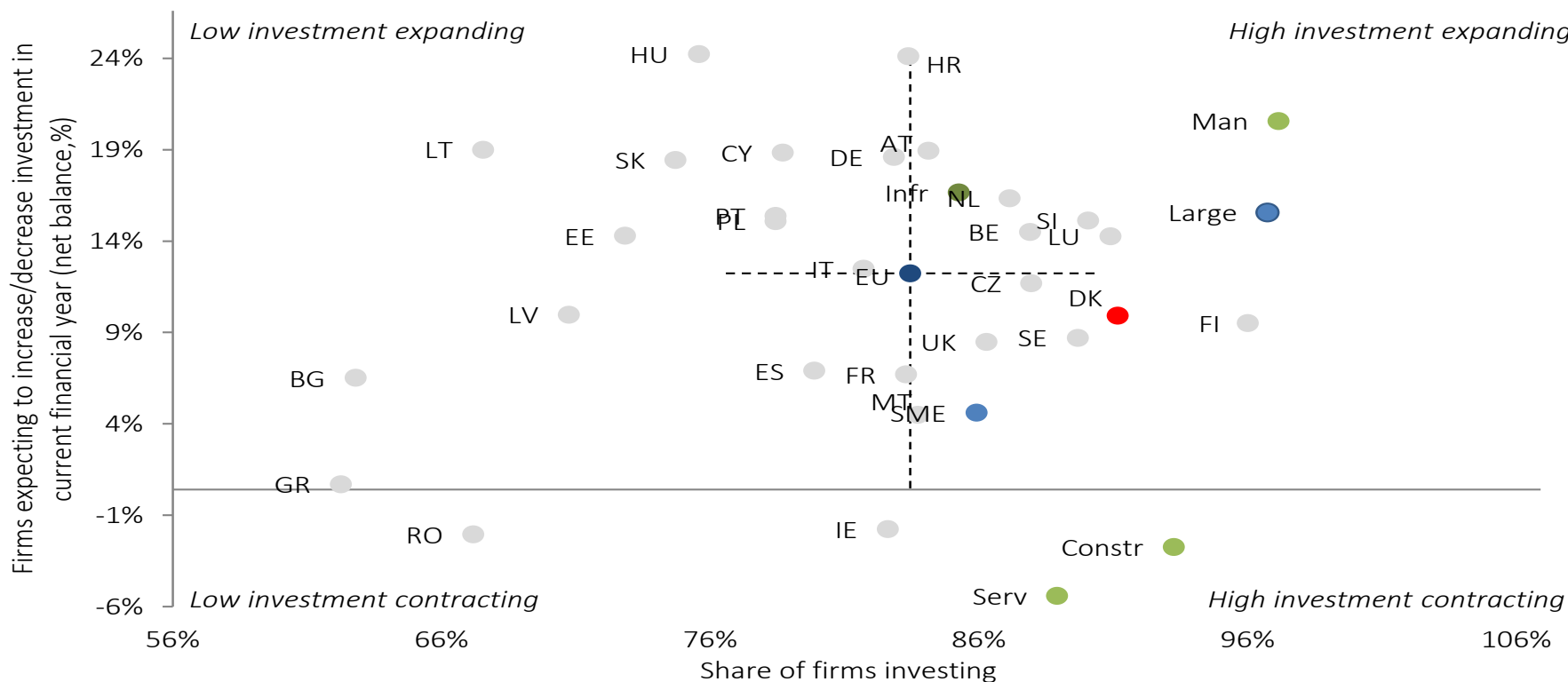
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## **EIB investment survey:**

- 12,300 firms surveyed across EU28 (of which 428 in DK)
- 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

# 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.

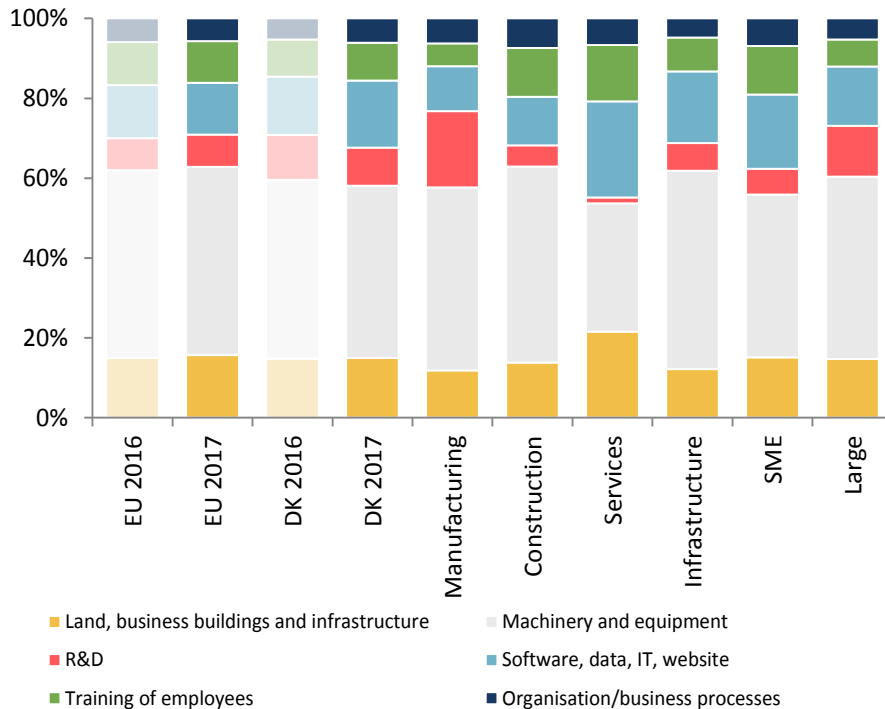
Source: Econ EIBIS



# Investment in intangibles relatively good

## Areas of investment

*average share allocated*



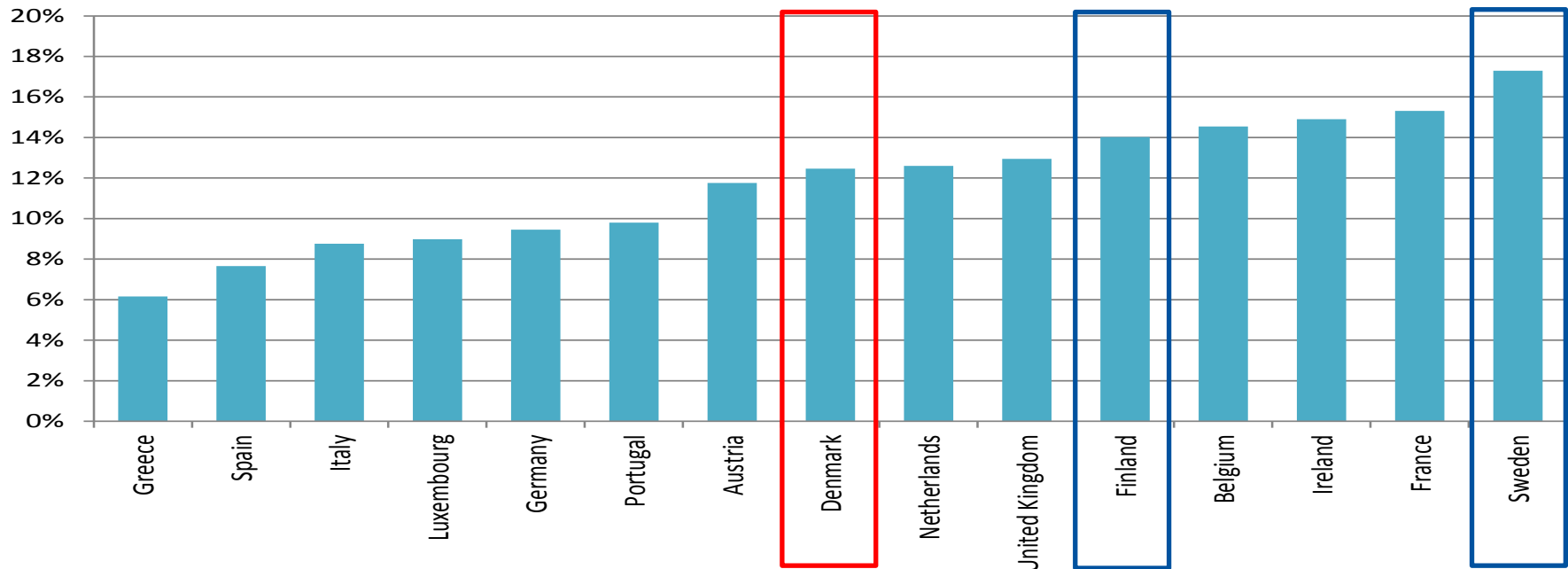
Note: Average of responses for allocations by area in per cent: Q. In the last financial year, how much did your business invest in each of the following with the intention of maintaining or increasing your company's future earnings?

Source: Econ EIBIS

# Investment in intangibles lack Nordic top performers

## Investments in intangibles

share of GDP in 2014



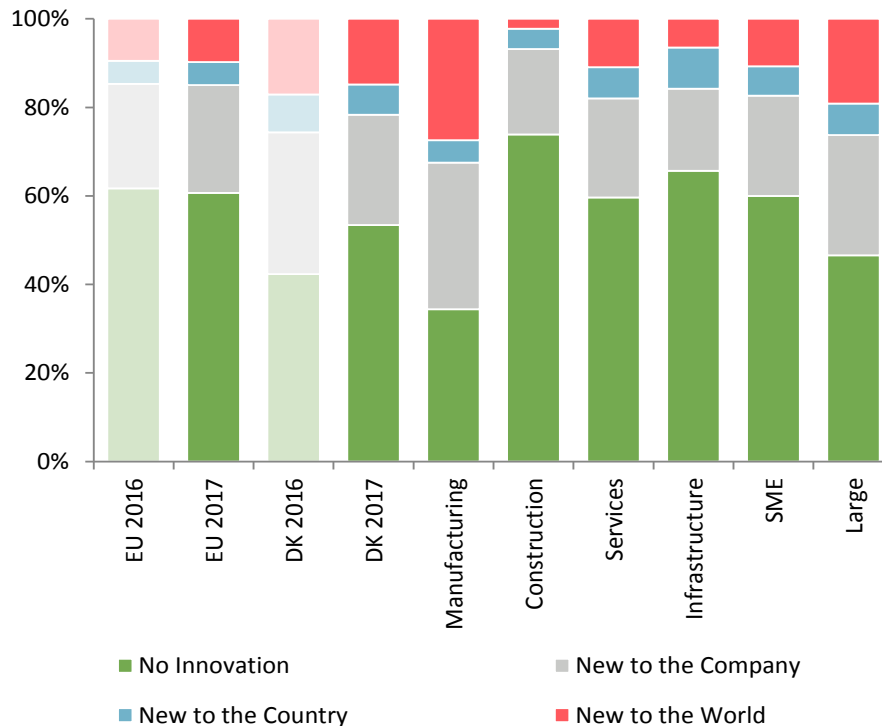
Note: Software and databases” consist of expenditures on: Computer software and databases. “Innovative property” consist of expenditures on: Research and Development (R&D); New product development costs in the financial industry; Design; Mineral Explorations, Entertainment, Artistic and Literary Originals. “Economic competencies” consist of expenditures on: Brand; Organisational Capital; Training. R&D and software and databases are included in gross fixed capital formation in national accounts, while the other categories of intangible assets are not included in national accounts. To obtain a measure of intangible investment intensity, expenditures on intangible assets are divided by gross value added. The measure of gross value added is consistent with this broader definition of gross fixed capital formation, which includes investment in all intangible assets.

Source: Eurostat and INTAN-Invest database, OECD

# Innovation is a key future investment priority

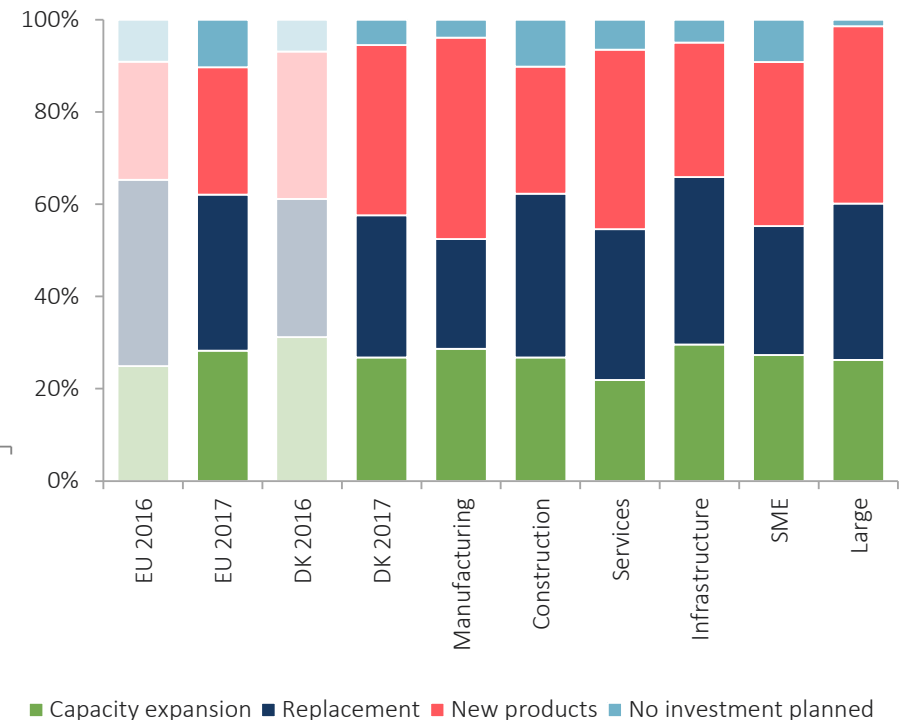
## Innovation activity

average share allocated



## Future investment priorities

share of total investment



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

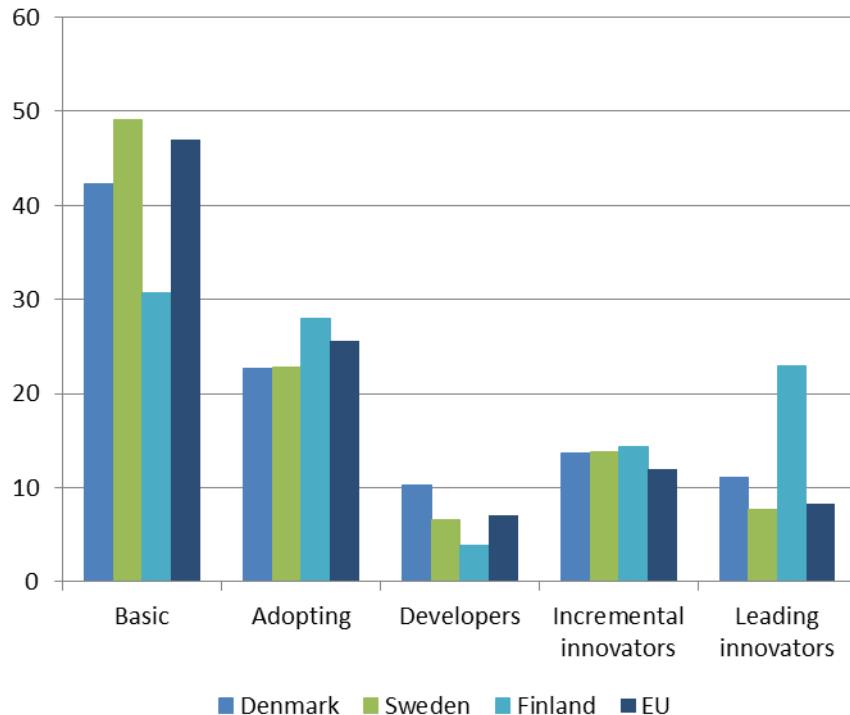
Note: Share of firms by main purpose of investment, in per cent. Q. Looking ahead to the next 3 years, which is your investment priority (a) replacing existing buildings, machinery, equipment, IT; (b) expanding capacity for existing products/services; (c) developing or introducing new products, processes,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

Source: Econ EIBIS

# A story of two tales: Innovation dynamism driven by both young growth companies and old, large firms

## Innovation profile

Share of total firms (%)

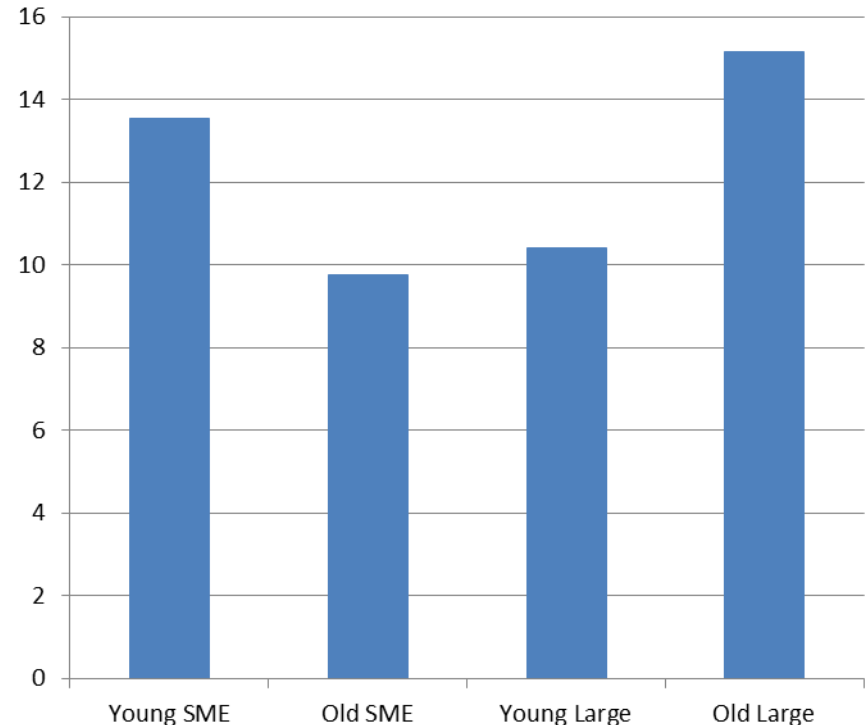


Note: Leading innovators are firms with high R&D activity (at least 0.1% of turnover) who report developing products new to the country or world. Incremental innovators are firms with high R&D activity who report developing products new to the company. Developers are firms with high R&D activity who don't report developing new products. Adopting firms have low R&D activity but report developing new products. Basic firms have low R&D activity and don't report developing new products.

Source: Econ EIBIS

## Leading Nordic innovators

Share of firms in category (%)



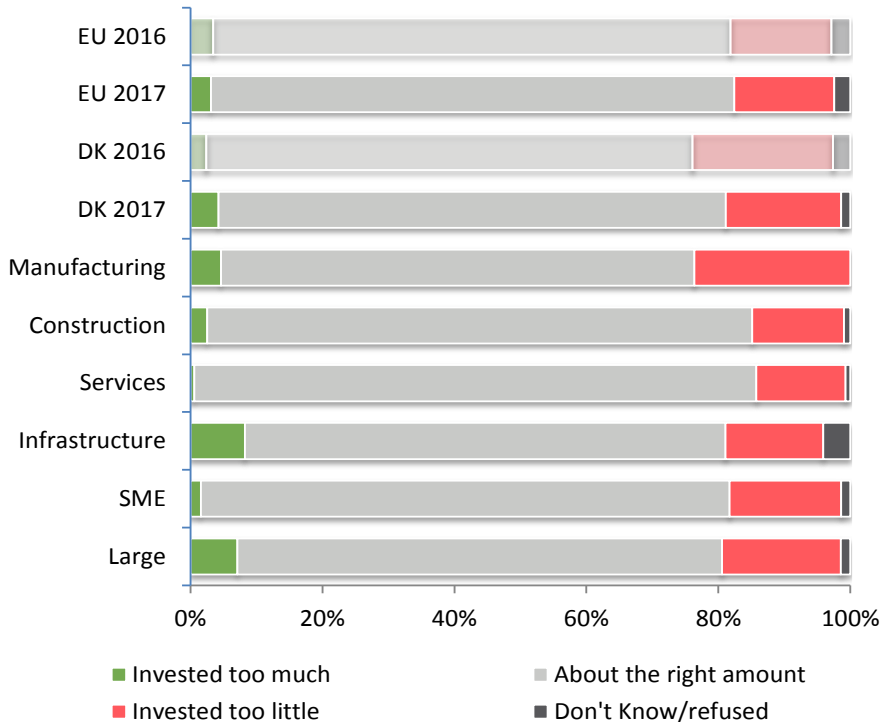
Note: Sample is based on Danish, Swedish and Finnish firms. SMEs are firms with less than 250 employees. Young firms are less than five years old.

Source: Econ EIBIS

# 17% of firms report investing too little over the past three years

## Perceived investment gap

share of firms

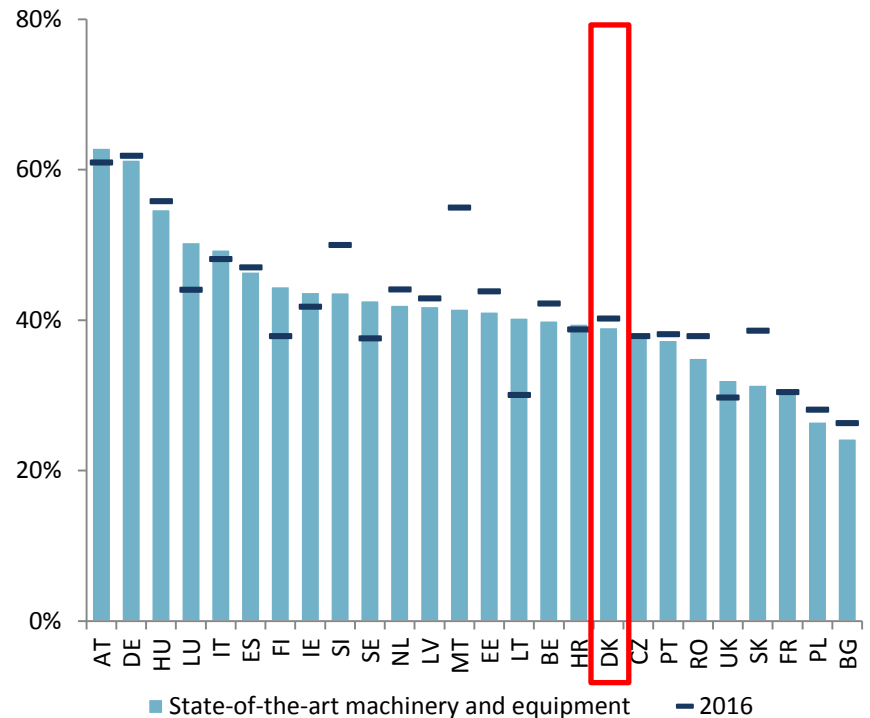


Note: Share of responses in per cent: Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount?

Source: Econ EIBIS

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

average share



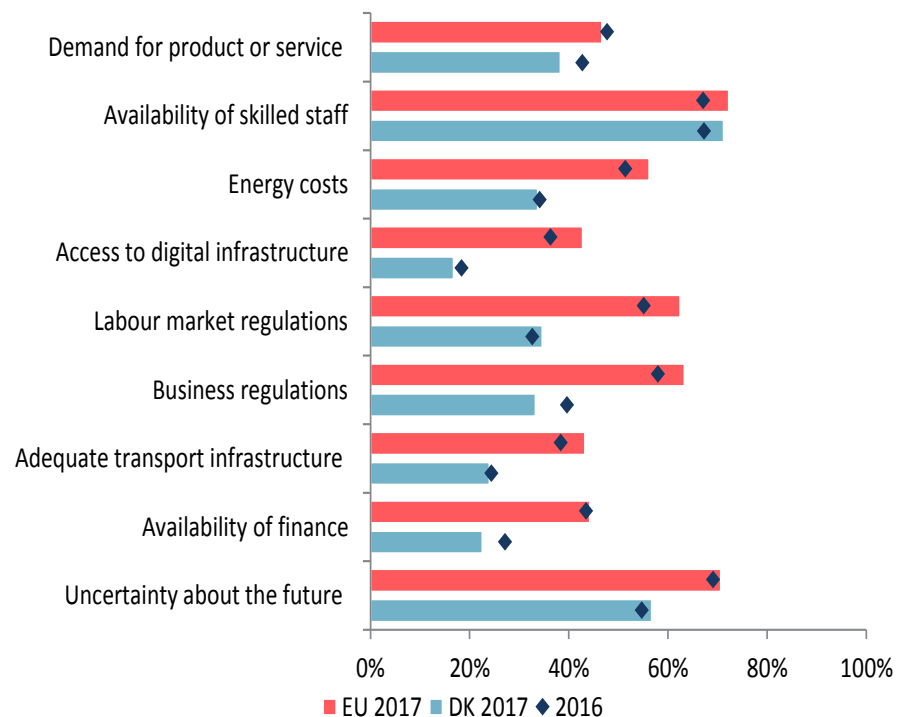
Note: Average of responses in per cent: Q. What proportion, if any, of your machinery and equipment, including ICT, would you say is state-of-the-art?

Source: Econ EIBIS

# Availability of skills and uncertainty main obstacles to investment

## Long-term barriers to investment

*share of responses*



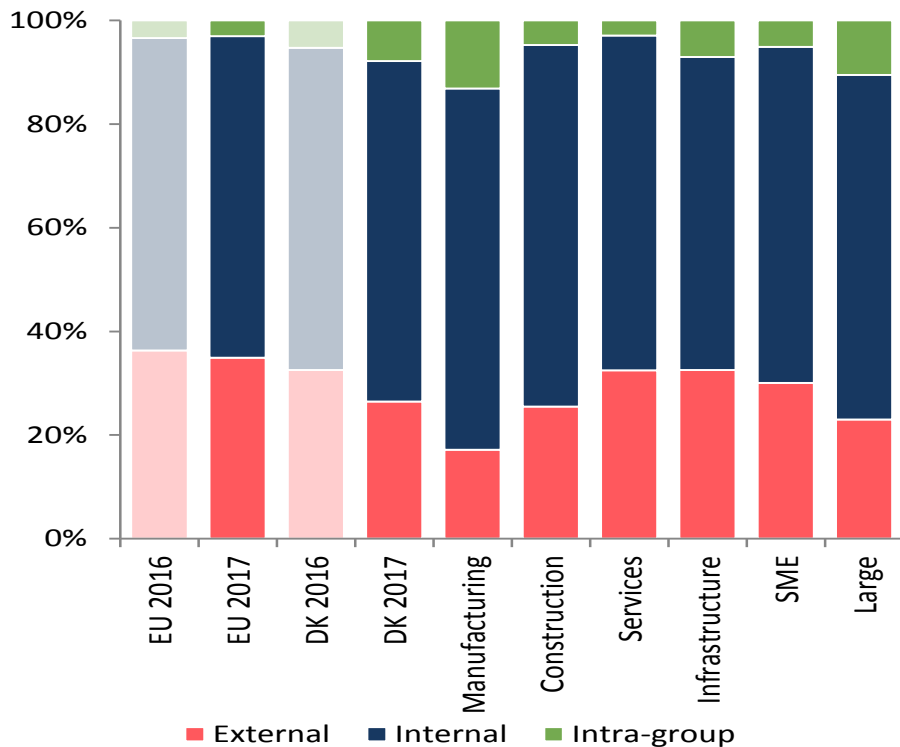
Note: Share of responses in per cent: Q. Thinking about your investment activities, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

Source: Econ EIBIS

# Banks and mortgage-credit institutions dominate external finance provision, scope for diversification ?

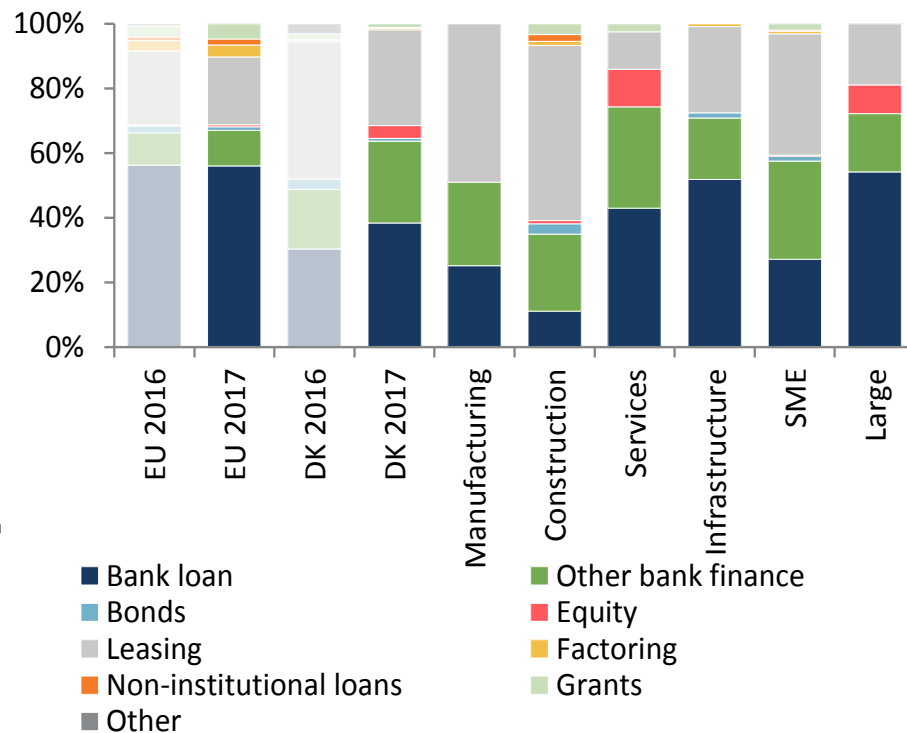
## Source of investment finance

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?

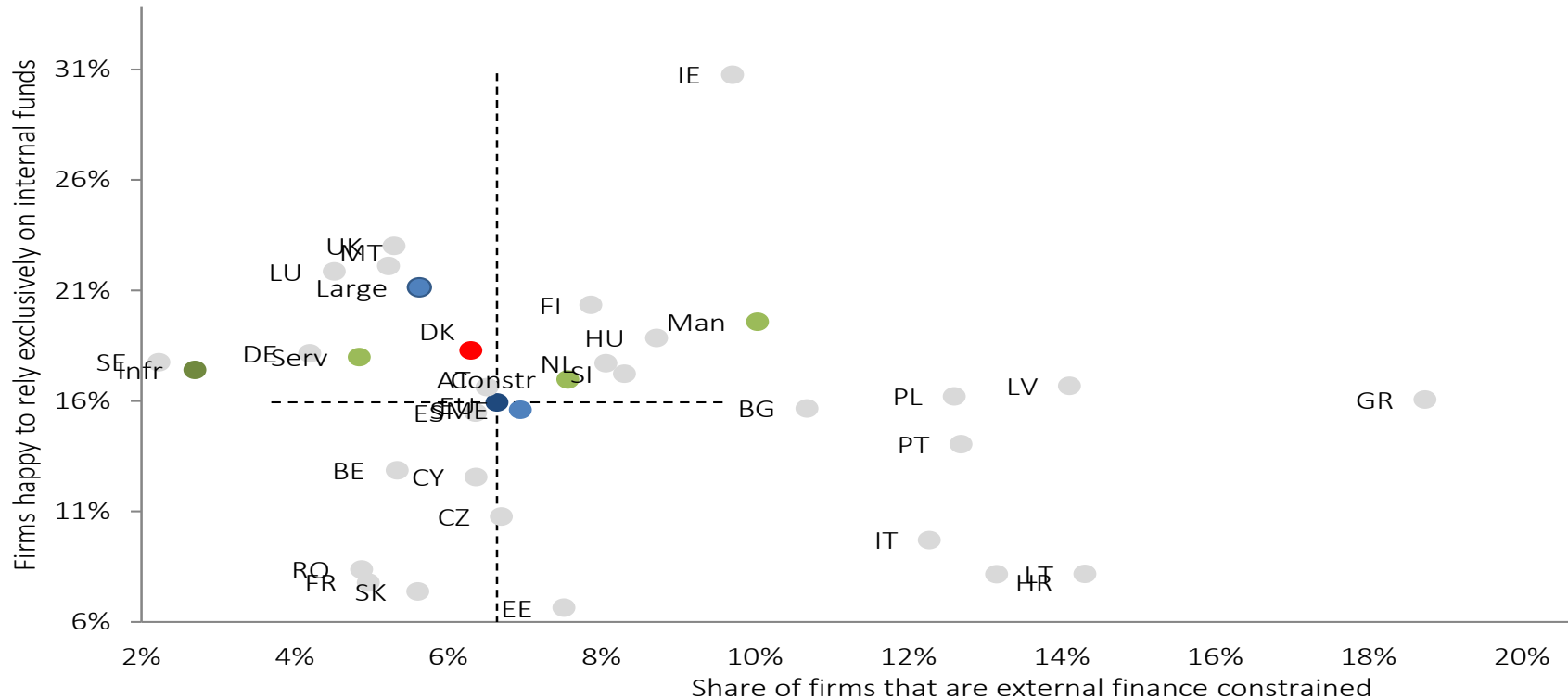
Note: Q. Approximately what proportion of your external finance does each of the following represent?

Source: Econ EIBIS

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# Need to consider internal funds when looking at finance-constrained firms

## Finance cross



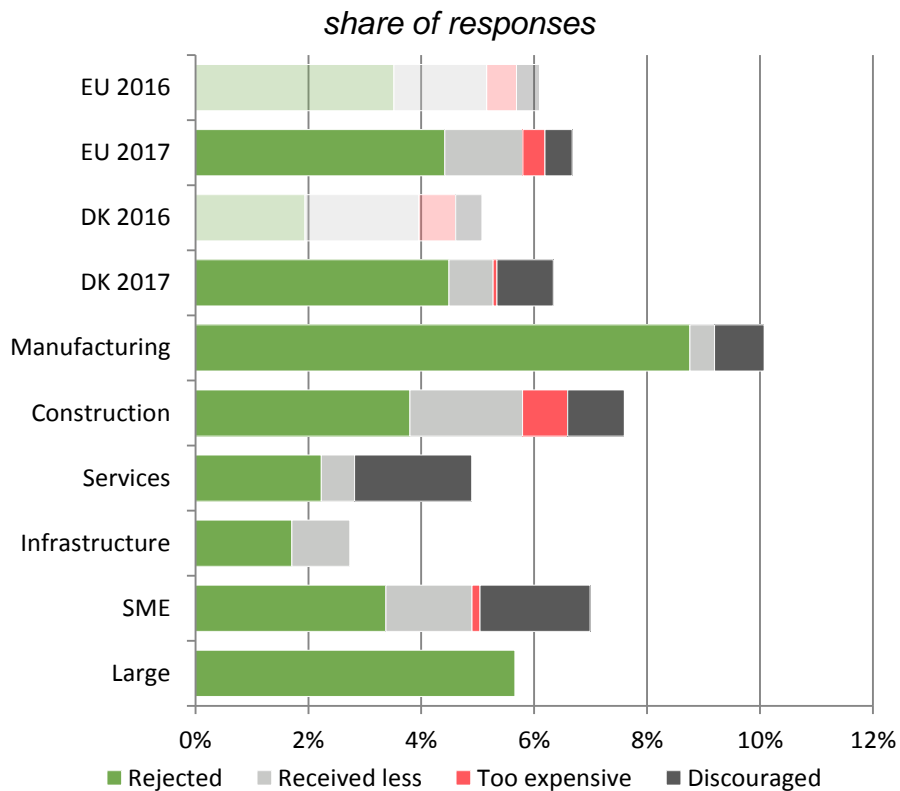
Note: Proportion of firms reliant on internal finance over share financially constrained firms, by sector or Member State.

Source: Econ EIBIS



# Overall benign financing environment, highest dissatisfaction related to costs

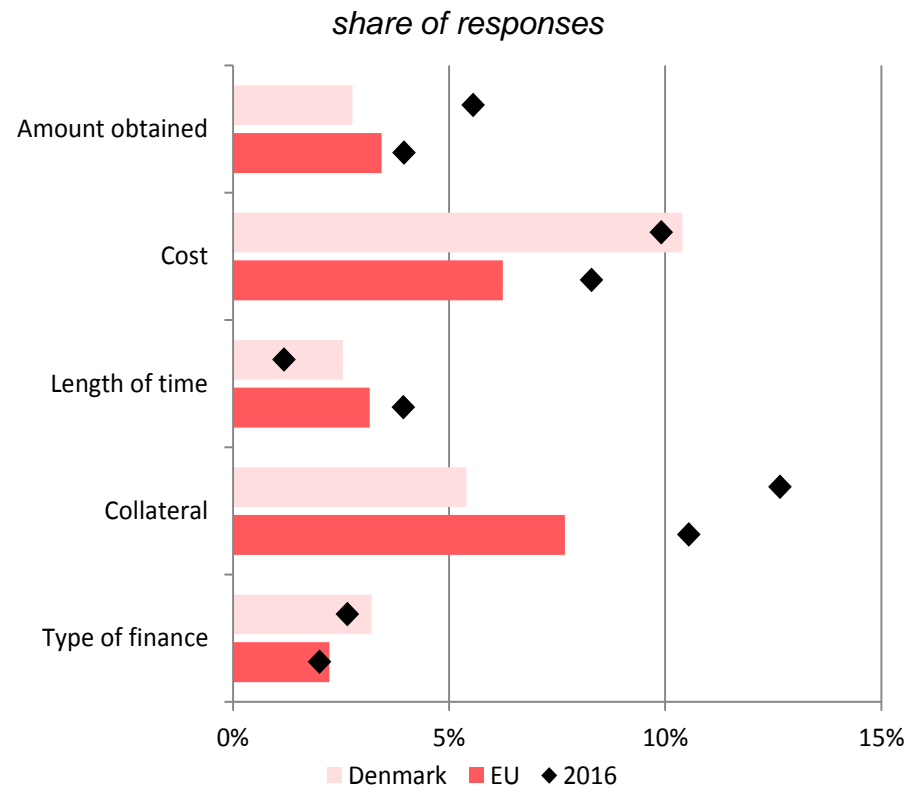
## Share of finance constrained firms



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

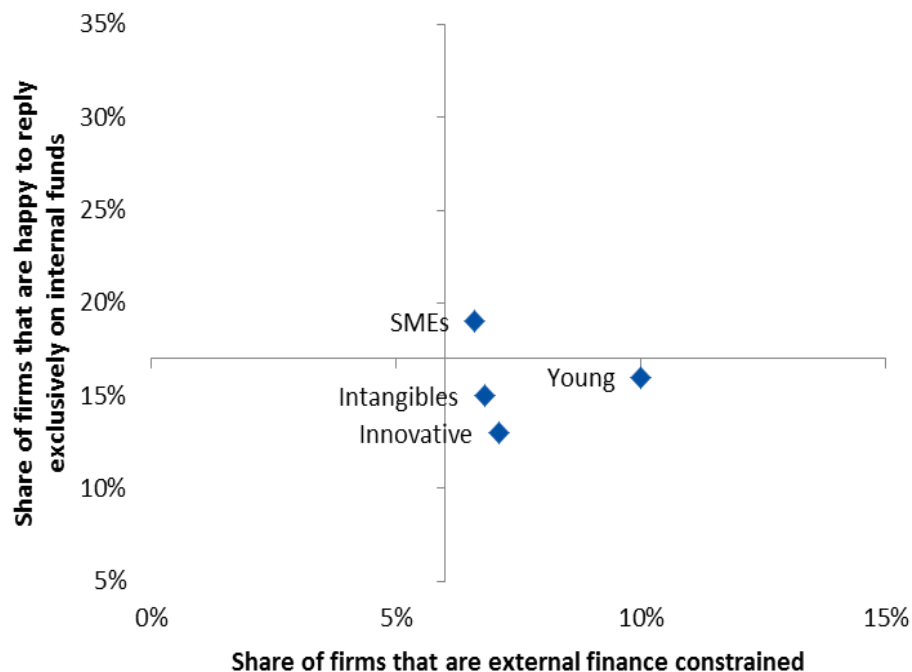


Note: Average share of responses, in per cent Q. How satisfied or dissatisfied are you with ....?

Source: Econ EIBIS

# Access to finance for 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

# Conclusion

- Dynamic investment, with spotlight turning to structural investment needs in support of productivity and innovation
- Infrastructure focus well preserved
- Innovation is driven by both young growth companies and well-established firms
- Potentially still scope for adopting “state-of-the-art” technology
- Availability of skilled staff and uncertainty are main obstacles to investment
- Overall benign financing environment but relatively high dissatisfaction with costs and potential for further focus on diversification

# Thank you

