Investment and Investment Finance: EU and Denmark

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2017-2018 EIB Investment Report: Key messages

- Investment recovery, but no time for complacency

  1. Infrastructure investment

- Business competitiveness

  2. Business competitiveness

- Climate change mitigation* investment

  3. Climate change mitigation* investment

- Access to finance and finance diversification

  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

  1. Properly re-prioritize

  2. Adequate financing to be accompanied by planning & coordination

- Business environment and reallocation of resources key

  1. Business environment and reallocation of resources key

  2. All intangibles, not only R&D, crucial

  3. Skills, adoption of new technologies and innovation

- More investment to reach the 2030 targets

  1. More investment to reach the 2030 targets

  2. Policies for growth and innovation

  3. Diversification of financing means

  4. Work on incentives to increase demand for equity

* Investment in adaptation equally important.
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

Productivity growth
%

Note: Total economy excluding government.
Source: Statistics Denmark.

Note: Real GDP per hours worked.
Source: Statistics Denmark.
Strong infrastructure investment supports high quality

**Infrastructure investment**

- **per cent of GDP**


  - **Government, Corporate, PPP, Non-PPP Project**

**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)**

- **Better-than-expected infrastructure**

- **Worse-than-expected infrastructure**

**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?

**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

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
Investments 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*

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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

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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 (%)  

Leading Nordic innovators

Share of firms in category (%)  

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.

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*

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

*average share*

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

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**

- Demand for product or service
- Availability of skilled staff
- Energy costs
- Access to digital infrastructure
- Labour market regulations
- Business regulations
- Adequate transport infrastructure
- Availability of finance
- Uncertainty about the future

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**

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

Finance cross

Firms happy to rely exclusively on internal funds vs Share of firms that are external finance constrained

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

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
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