

ECONOMICS – THEMATIC STUDIES

Investment constraints facing firms in Central, Eastern and South-Eastern Europe



European
Investment Bank

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October 2023



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Thematic study.

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Executive summary

Europe's economy may be rebounding from the series of shocks seen in recent years, but it is not out of the woods yet. The 2022/23 EIB Investment Report shows that European firms still face strong headwinds from high energy costs, labour market conditions (lack of skills), tightening of financial conditions and general uncertainty. In many respects, these challenges are aggravated in Central, Eastern and South-Eastern Europe (CESEE) by the region's proximity to the war in Ukraine, high share of fossil fuels in the energy mix and ongoing transformation to a new, technology-driven growth model.

This paper is based on the EIB Group Survey on Investment (EIBIS), which has been administered every year since 2016. EIBIS is a unique annual survey of some 12 500 firms across all EU Member States and a sample of firms in the United States. It collects data on firm characteristics and performance, past investment activities and future plans, sources of finance, financing issues and other challenges that firms face, such as climate change and digital transformation. For the purposes of this publication, we present carefully selected results that we believe are essential to guide the discussion on the future competitiveness, investment needs and growth of firms in CESEE.¹

Overall, the investment gaps in the CESEE region remain wider than in the European Union or the United States, with only 77% of firms in CESEE reporting broadly sufficient investment levels in recent years (versus 80% in the EU and 81% in the US). Nevertheless, investment is recovering as firms are attempting to break with the old capital-intensive growth model and seeking new opportunities, especially in technology and innovation. While firms in CESEE invested less in intangible assets (research and development, software, training and business processes) than the EU average (24% vs. 37%), the share of firms in CESEE intending to prioritise innovation in new products and services was larger (27%) than in the European Union (24%) or United States (21%). Innovation is an especially important investment priority for manufacturing firms and large firms. Among firms in CESEE, those in Slovenia and the Czech Republic are most likely to prioritise innovation.

On average, firms in CESEE are as innovative as their EU peers, but invest less in research and development. Over a third of firms in CESEE developed or introduced new products, processes or services as part of their investment activities in the recent past. In addition, CESEE firms appear to use advanced technologies (including AI and big data, internet of things, platforms, 3D printing and drones) as much as their EU peers, suggesting that their production technologies are similar on average to those in the rest of the European Union. However, active innovators — meaning firms that invested significantly in research and development and introduced a new product, process or service — are fewer and farther between in CESEE than in the European Union.

Looking at long-term barriers to investment, uncertainty and skills continue to play an important role, with 87% and 82% of firms (respectively) mentioning these constraints. Since the previous run of EIBIS, the share of firms reporting energy costs as an investment constraint (87%) has surged, especially those that view it as a major barrier (63%).

At the same time, climate change is no longer a distant reality; its effects are becoming increasingly visible. Around half of the firms in CESEE report that climate change is having an impact on their business (a “major impact” for one in ten), although this is less than the EU figure (57%). Firms in CESEE are investing to protect themselves from climate change, with around a third having already developed or invested in measures to build resilience to the physical risks caused by climate change (similar to the European Union).

The share of firms in CESEE that see the transition to stricter climate standards as a risk is larger than the share that see it as an opportunity (36% and 18%, respectively). This stands in contrast to Europe as a whole, where there is a fairly even balance. Almost 90% of firms in CESEE have already taken some form of action to reduce greenhouse gas emissions, similar to the EU average. The share of firms in CESEE investing in measures to improve energy efficiency (39%) is also similar to the EU average.

Internal financing made up the largest share of finance for CESEE firms in 2022 (70%), followed by external sources (25%). Only 4% of investment was financed from within the corporate group. Just under half of firms in CESEE that invested in the last financial year paid for at least some of their investment through external finance. As in the European Union, this share has declined significantly, in particular among large firms (down from 59%

¹ This report draws heavily from M. Ferrazzi, J. Schanz, M. Wolski, J. Delanote and F. de Novais e Silva (2022), EIB Investment Survey 2022: CESEE Overview. For the full version of the report and for further information on the EIB's activities, please visit www.eib.org.

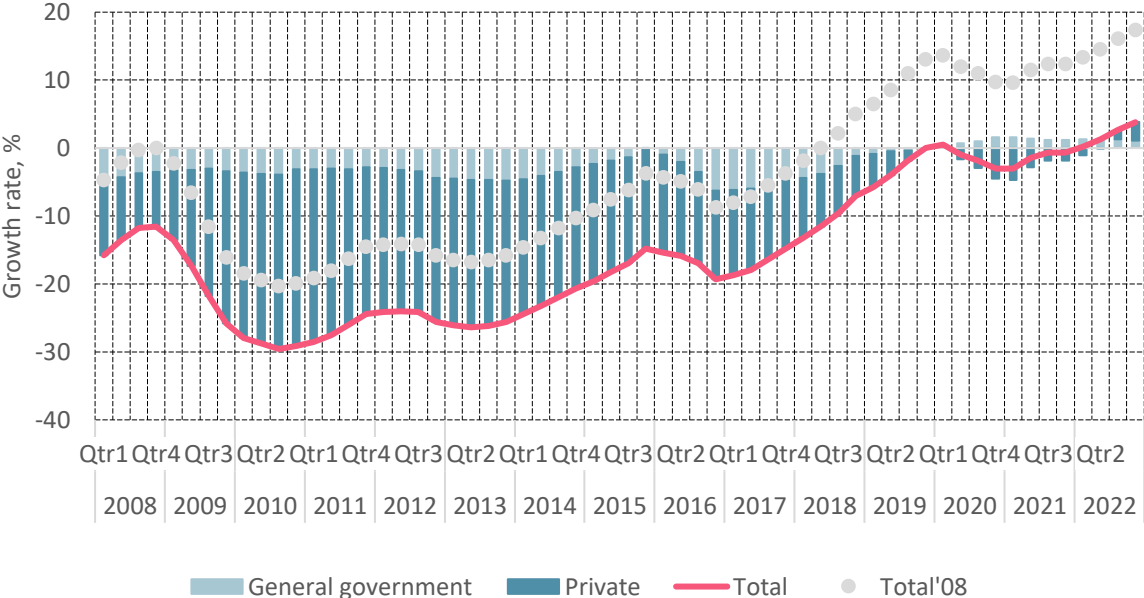
to 46%) and firms in the manufacturing sector (down from 56% to 43%). About a third of CESEE firms using external finance received grants; much more than the EU average (21%). The share of financially constrained firms in CESEE (9%) has remained stable in recent years, but is higher than the EU average (6%).

The sections that follow discuss the main observations listed above in more detail. Section 1 describes the investment landscape in the region. Section 2 shows the main investment trends, including existing investment gaps and investment obstacles reported by firms. Section 3 discusses the innovation potential of firms in the region. Investments in climate adaptation and mitigation are discussed in Section 4. Finally, Section 5 concludes with an overview of investment finance and financial constraints.

Sustainability of a capital-driven model

CESEE has been able to smoothly roll out and accelerate the European digital and green agenda thanks to its unparalleled economic progress over the last three decades. Since the beginning of its transformation in the early nineties, the region has seen rapid convergence across a range of indicators, including output per capita, productivity growth, technological progress and quality of life and living standards. Arguably, the pace and the scope of convergence have largely been driven by the capital accumulation channel — capital inflows, in the form of tangible foreign direct investments, have brought the resources and technology needed to boost output, accelerating the transition to a market-based economy. However, the Global Financial Crisis put a brake on this channel: The annual real investment level at the end of 2010 was over 20% lower than it had been two years prior, and remained subdued in the decade after the Global Financial Crisis (Figure 1).

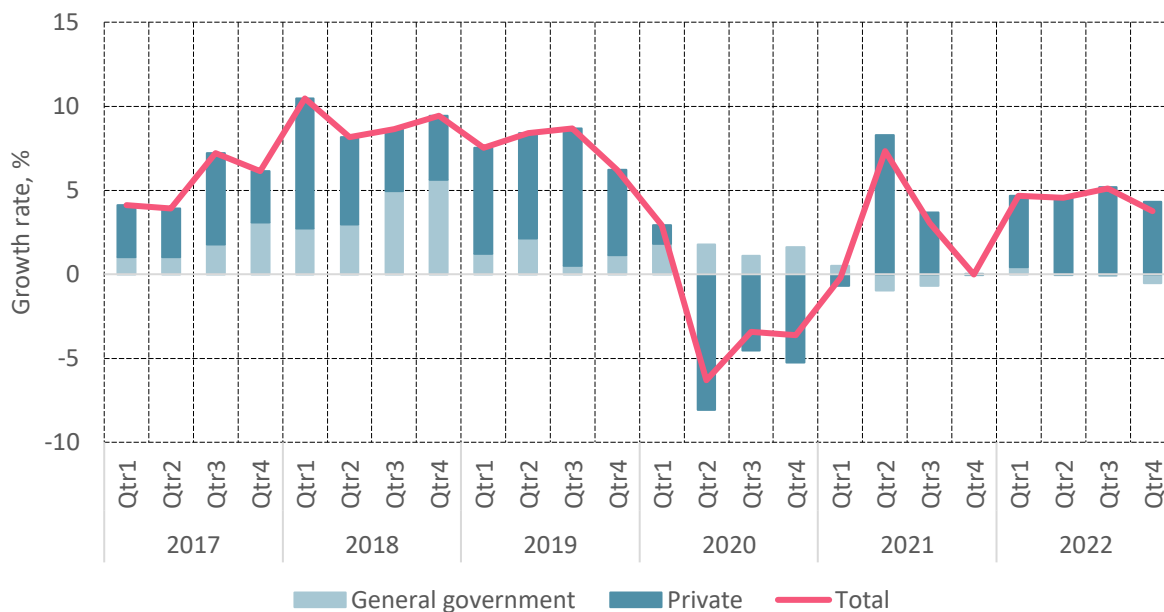
Figure 1. Cumulative growth in investment by sector



The nominal GFCF source data for all CESEE countries are non-seasonally and non-calendar adjusted. It was transformed into four-quarter sums and deflated using the implicit deflator for total GFCF (2015 = 100 euros). The four-quarter sums of total real GFCF in 2019Q4 and 2008Q4 are normalised to 0 and plotted accordingly. Source: Eurostat, authors’ calculations.

In 2019, when it appeared that investment had recovered to pre-2008 levels, the subsequent COVID-19 shock became yet another obstacle to capital flows. While it was less severe than previous shocks, being partially offset by large volumes of government capital and current spending, investment growth decelerated as it wore on: from around 7.5% between 2017 and 2019 to some 4.5% in 2022 (Figure 2).

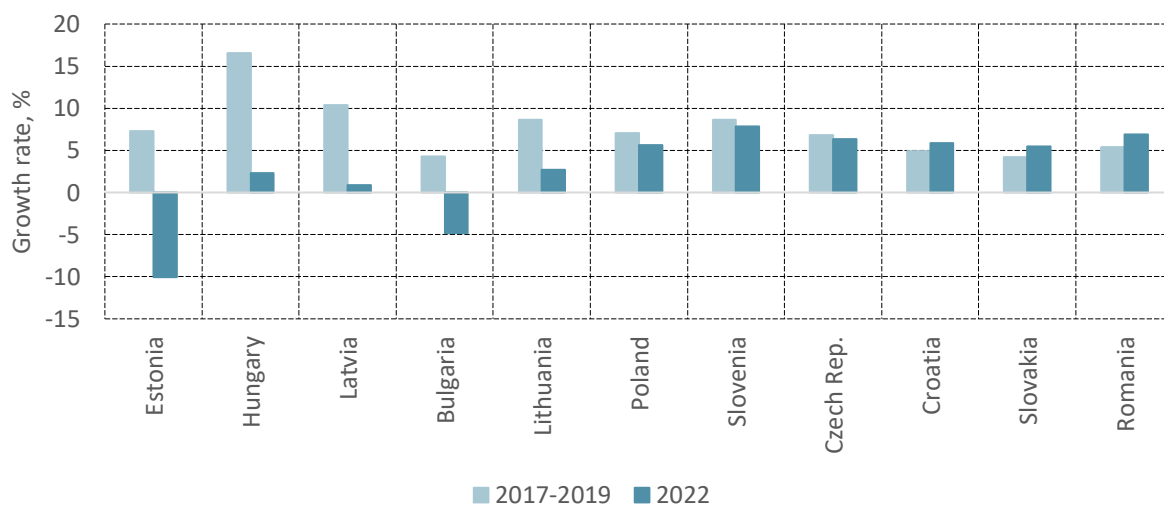
Figure 2. Annual growth in investment by sector



Year-on-year growth figures based on the nominal GFCF source data for all CESEE countries, non-seasonally and non-calendar adjusted but deflated using the implicit deflator for total GFCF (2015 = 100 euros). Source: Eurostat, authors' calculations.

However, the aggregate picture hides marked cross-country heterogeneity. In Estonia and Bulgaria, average investment growth was still negative throughout 2022. In fact, average investment growth in 2022 was higher than the 2017-2019 average in just three countries in the region, and by rather thin margins in all of them (Figure 3). Overall, the evidence points to meagre capital accumulation in the region recently, calling into question the sustainability of a capital-driven growth model. To better understand the underlying reasons and inform the policy debate around investment strategies going forward, we look in the following sections at investment dynamics and obstacles at the firm level, using the 2022 EIBIS results.

Figure 3. Average annual investment growth rate by country

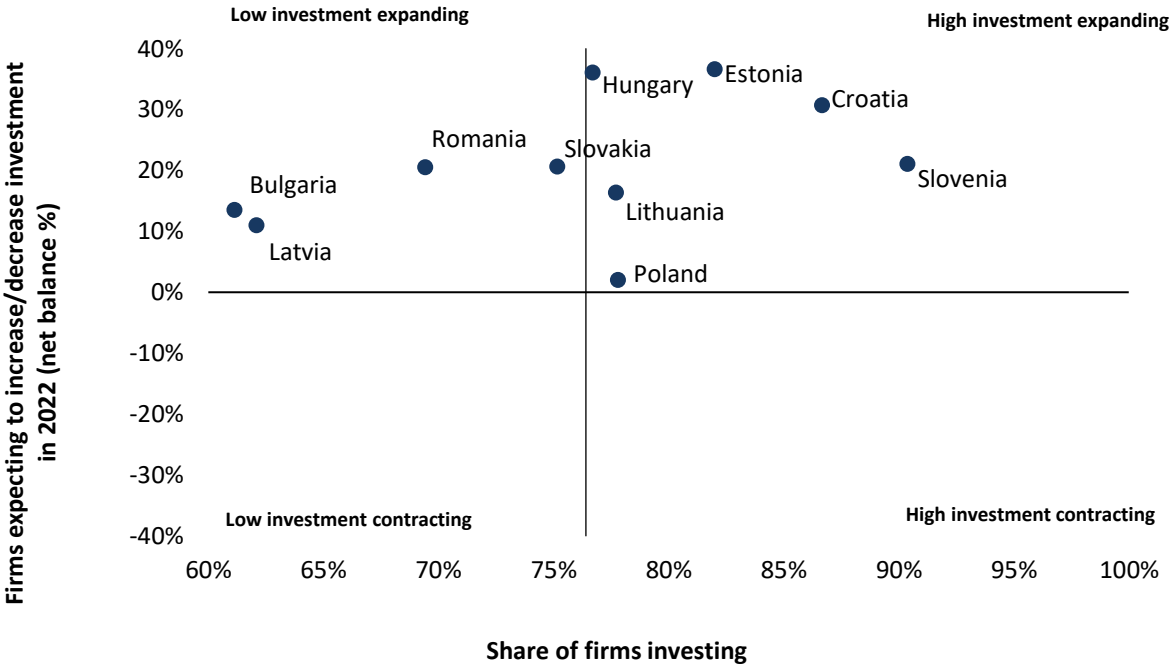


Average year-on-year growth figures based on the nominal GFCF source data for all CESEE countries, non-seasonally and non-calendar adjusted but deflated using the implicit deflator for total GFCF (2015 = 100 euros). Source: Eurostat, authors' calculations.

A shift towards technology-driven growth

The macro picture is backed up by the micro-evidence collected in EIBIS 2022. Firms planned to increase investment in 2022 across all countries in CESEE (albeit at a lower rate than in the previous year — down from 18% to 9%). While all these countries fall in the upper quadrants of the investment cycle, the share of firms already investing ranges from 61% in Bulgaria to 90% in Slovenia (Figure 4). Overall, 77% of firms in CESEE were investing in 2022, a somewhat smaller share than in the European Union. This share varies by the sector and country of operations: It was substantially higher for manufacturing firms (83%) and large firms (85%) than for service sector firms (67%) and SMEs (69%).

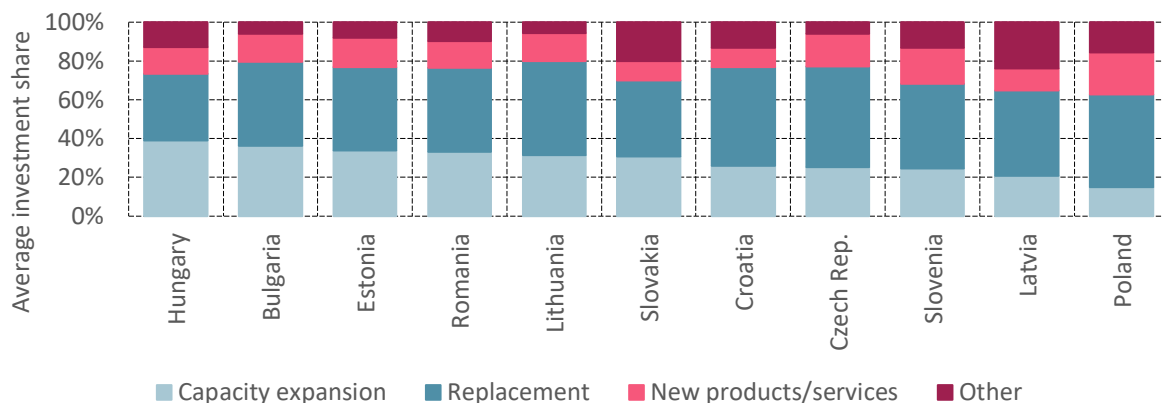
Figure 4. Investment cycle and evolution of investment expectations by country



Share of firms investing shows the percentage of firms with investment per employee greater than €500. The y-axis line crosses the x-axis on the CESEE average for EIBIS 2022. Base for share of firms investing: All firms (excluding the responses don't know/no answer). Base for expected change: All firms. Source: EIB Investment Survey.

For CESEE firms, the main purpose of investment remained the replacement of capacity, at the same rate as the EU average (46% of firms in both CESEE and Europe). The next most reported purposes were capacity expansion (25% in CESEE) and innovation (17%), in line with the trends observed previously. Firms in manufacturing (20%) and large firms (18%) invested relatively more in innovation. Firms in Poland (22%), Slovenia (19%) and the Czech Republic (17%) allocated the highest share of investment to innovation, by devoting more investment to developing new products or services (Figure 5).

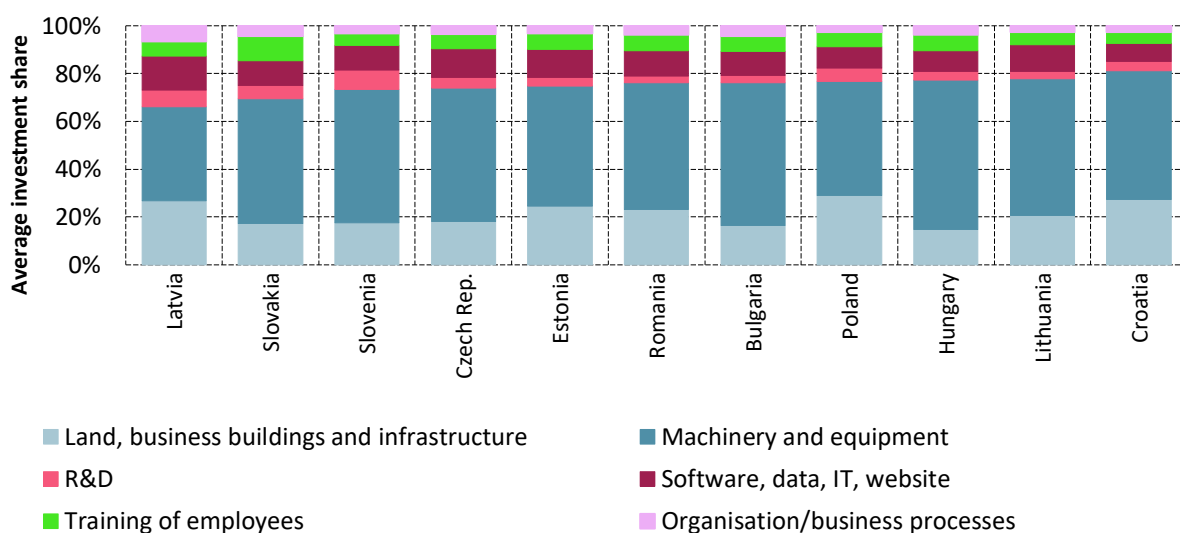
Figure 5. Purpose of investment in last financial year by country



Question: What proportion of total investment was for (a) replacing capacity (including existing buildings, machinery, equipment, IT); (b) expanding capacity for existing products/services; (c) developing or introducing new products, processes, services? Base: All firms that invested in the last financial year (excluding the responses don't know/no answer). Source: EIB Investment Survey.

The capital-intensive growth model of the past is still echoed in firms' chosen investment areas today, in which tangible production assets predominate. Compared to firms in the European Union and United States, firms in the CESEE region put a larger share of investment into machinery and equipment (53%, vs. 49% in the EU and 47% in the US) and a smaller share into intangible assets (24%, vs. 37% in the EU and 33% in the US). Machinery and equipment were especially prevalent in the investment spending of firms in manufacturing (60% of their investment spending) and construction (59%), whereas firms in the services sector invested relatively more in digital technologies (18%). The share of investment in intangible assets was highest in Latvia, Slovakia, Slovenia and the Czech Republic (Figure 6).

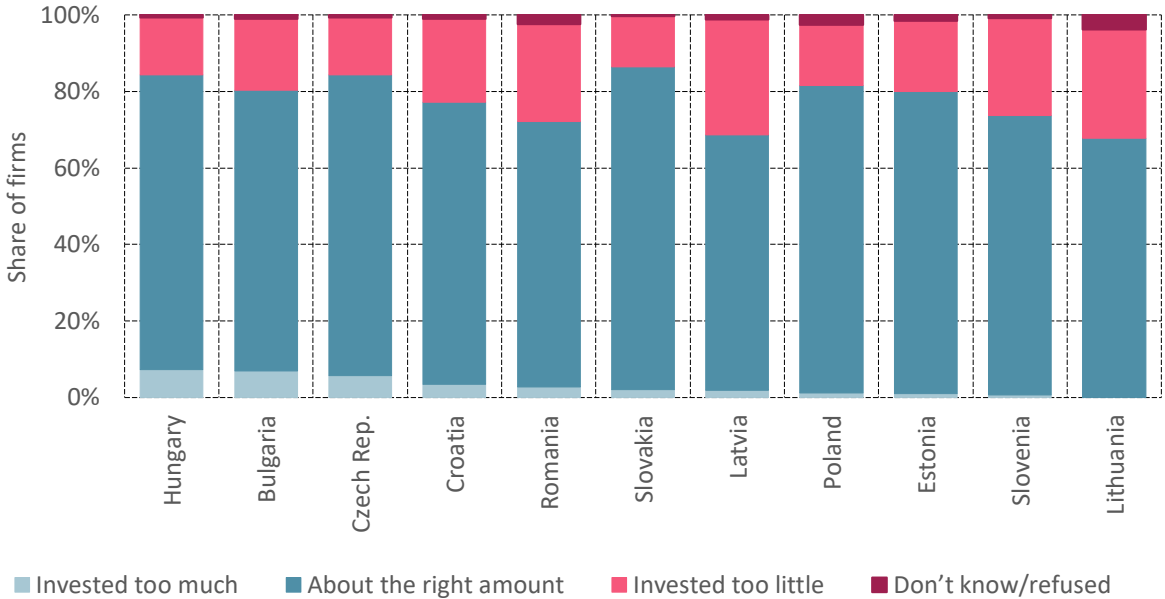
Figure 6. Investment areas by country



Question: 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? Base: All firms that invested in the last financial year (excluding the responses don't know/no answer). Source: EIB Investment Survey.

The survey results point to large investment gaps. Fewer firms in CESEE than in Europe as a whole or the United States believe that they invested about the right amount over the past three years (77% in CESEE, 80% in the EU and the 81% in the US). Instead, a sizeable share of firms — at least 10%, and up to 30% depending on the country — perceive that they have not invested enough to face the current challenges. Infrastructure firms (22%) are somewhat more likely to feel they’ve underinvested than firms operating in other sectors. The same is true for SMEs (21%) relative to large firms (15%). Firms in Lithuania (28%) and Latvia (30%) were the most likely to think that they invested too little in the last three years (Figure 7). Though small, the share of firms believing they invested too much was highest in Hungary (7%), Bulgaria (7%) and the Czech Republic (6%).

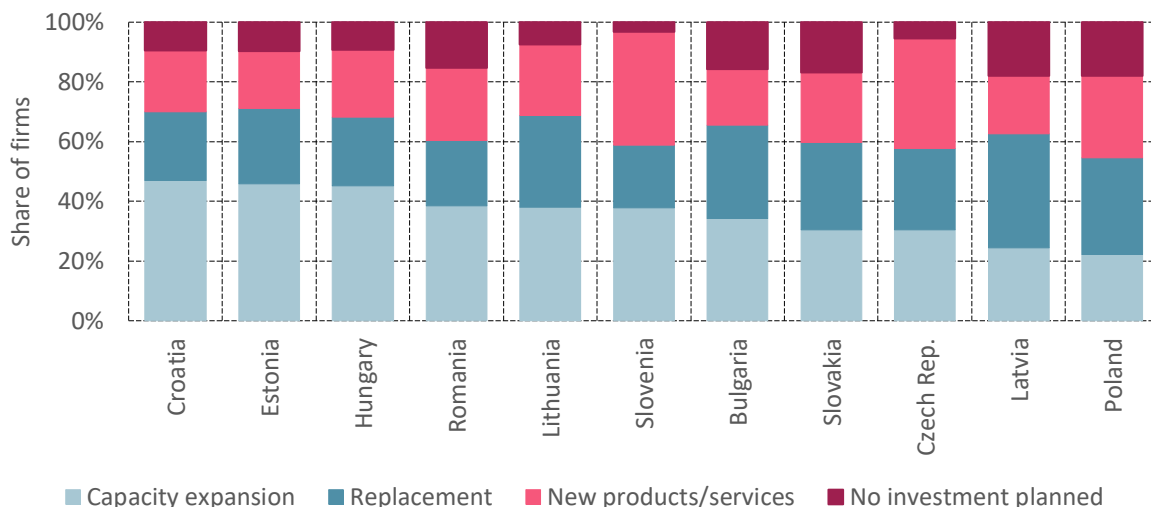
Figure 7. Perceived investment gap by country



Question: Looking back at your investment over the last three years, was it too much, too little or about the right amount? Base: All firms that invested in the last financial year (excluding the responses don't know/no answer). Source: EIB Investment Survey.

To close these investment gaps, firms in the region intend to explore technology-driven growth opportunities more than their EU and US peers. The share of firms intending to prioritise capacity expansion over the next three years was considerably smaller in CESEE (31%) and the rest of the European Union (30%) than it was in the United States (41%). Instead, more firms intended to prioritise innovation in new products and service in CESEE (27%) than in the EU (24%) or US (21%). Innovation was an especially important investment priority for manufacturing firms (36%) and large firms (31%). Among firms in CESEE, those in Slovenia (38%) and the Czech Republic (37%) were the most likely to prioritise innovation (Figure 8). Capacity expansion was most often quoted as the top investment priority by firms in Croatia (47%), Estonia (46%), and Hungary (45%).

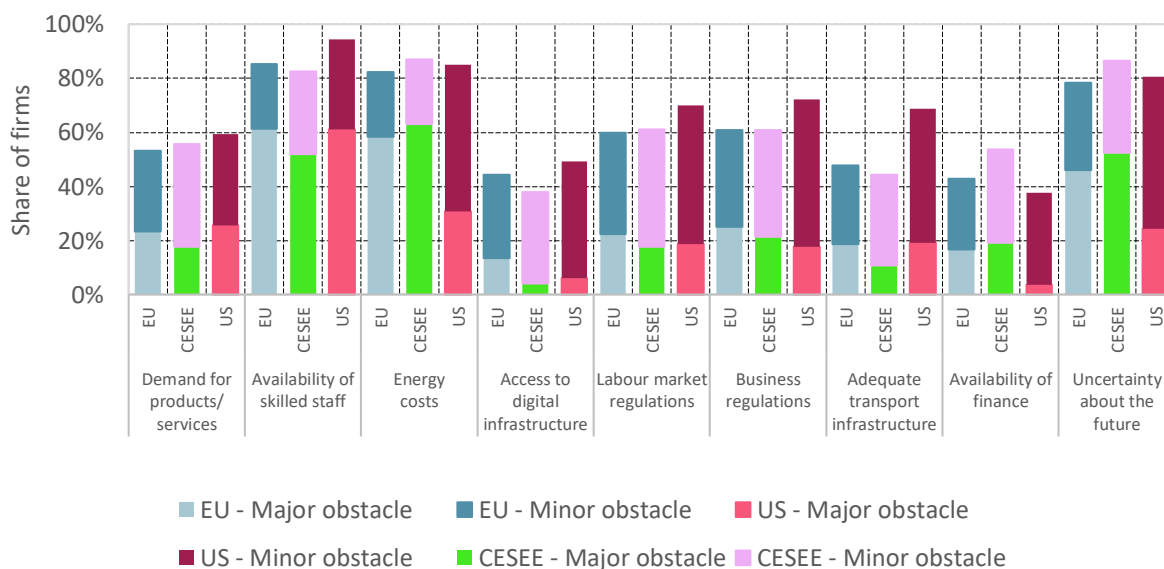
Figure 8. Future investment priorities by country



Question: Looking ahead to the next three years, which is your investment priority: (a) replacing capacity (including existing buildings, machinery, equipment, IT); (b) expanding capacity for existing products/services; (c) developing or introducing new products, processes, services? Base: All firms that invested in the last financial year (excluding the responses don't know/no answer). Source: EIB Investment Survey.

Overcoming the existing obstacles will be essential to bridge the investment gaps. The most frequently mentioned long-term barriers to investment in CESEE are uncertainty about the future (87%), energy costs (87%) and the availability of skilled staff (82%), similar to the EU averages (Figure 9). In CESEE, large firms are more likely than SMEs to report facing several obstacles, including energy costs, access to digital infrastructure, labour market regulations and inadequate transport infrastructure.

Figure 9. Long-term barriers to investment



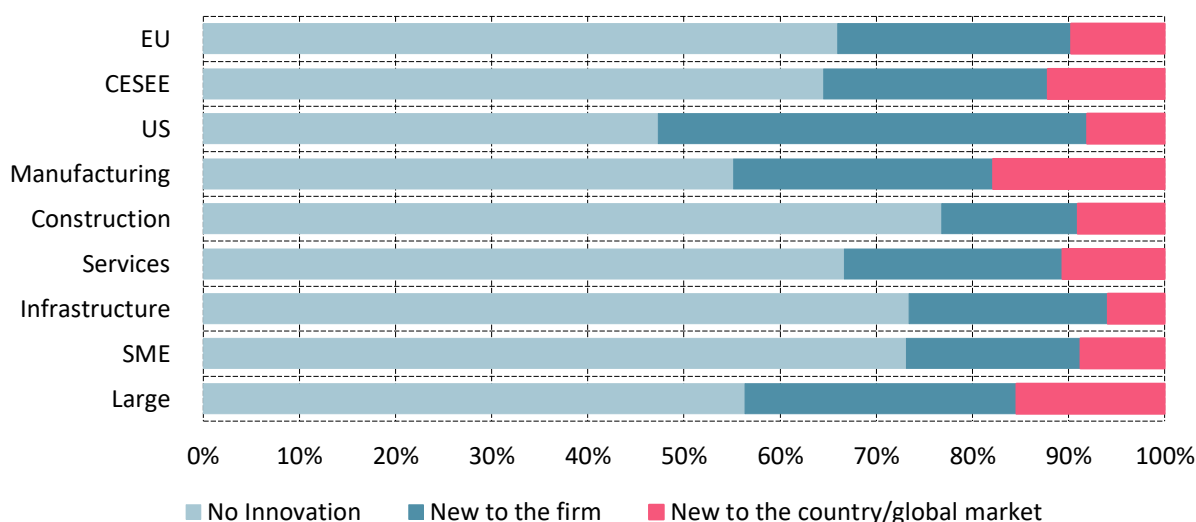
Question: Thinking about your investment activities, to what extent is each of the following an obstacle? Is it a major obstacle, a minor obstacle or not an obstacle at all? Base: All firms (data not shown for those who said not an obstacle at all/don't know/no answer). Source: EIB Investment Survey.

Innovation potential

On average, CESEE firms are just as innovative as their peers in the rest of the European Union. Both areas fall behind the United States, where it is much rarer for firms to report not having innovated (Figure 10). In CESEE just over a third of firms (35%) developed or introduced new products, processes or services as part of their investment activities in 2021, in line with the current EU average. 12% of firms in CESEE report the development/introduction of products, processes or services that were new to either the country or the global market in EIBIS 2022, mainly driven by firms in the manufacturing sector (18%). Moreover, this type of innovation was more common among large firms (15%) than SMEs (9%). These patterns are also typical of other regions in the European Union.

Within CESEE, levels of innovation were highest among firms in Slovenia (48%) and Poland (44%), while they were lowest in Slovakia (14%). However, at the country level, firms’ assessments of their innovation can vary substantially from year to year. For example, in Slovakia, only 14% of firms reported having introduced new products, processes or services in 2021; for 2020 by contrast, 39% reported that they innovated. The large extent of innovation in 2020 may have reflected the need to respond to the pandemic. However, average results across the region are more stable.

Figure 10. Innovation activity by region, sector and size

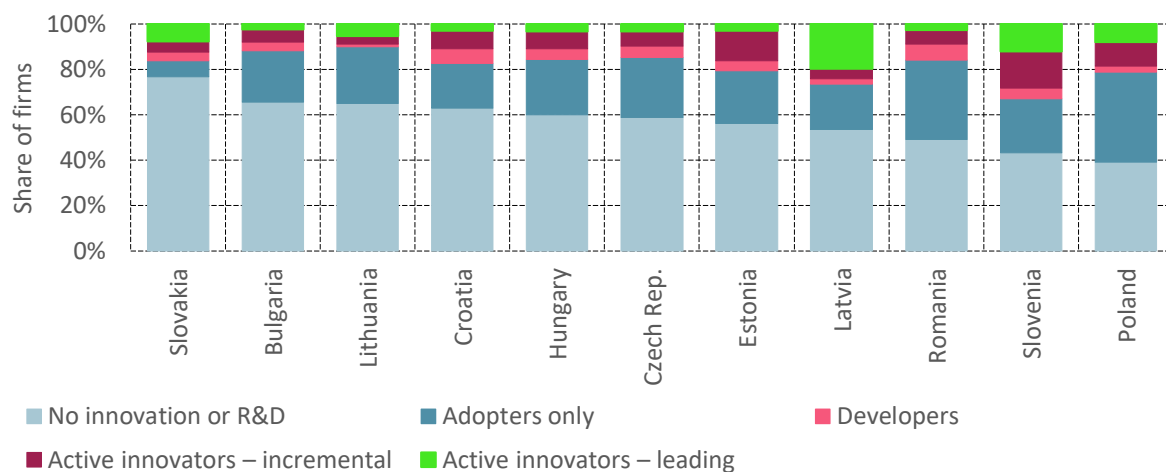


Question: What proportion of total investment was for developing or introducing new products, processes, services? Were the products, processes or services new to the company, new to the country, new to the global market? Base: All firms that invested in the last financial year (excluding the responses don't know/no answer). Source: EIB Investment Survey.

Relative to the European Union, CESEE firms invest less in research and development overall. By combining a measure of firms’ investment in innovation (their R&D expenditures) with a measure of innovation outcomes (changes to products, processes or services), we can paint a more comprehensive picture of firms’ innovation capacity. Active innovators — that is, firms that invested significantly in research and development and introduced a new product, process or service — are a little more sparsely spread in CESEE than in Europe. Conversely, the share of firms that are adopting innovation without investing in own research and development is higher for CESEE than the EU average.

Differences across countries are large, but should be viewed with caution, as country-level results are volatile from year to year. In 2021, the proportion of active innovators was higher in Slovenia (28%) and Latvia (24%) than in other CESEE countries (Figure 11).

Figure 11. Innovation profile by country

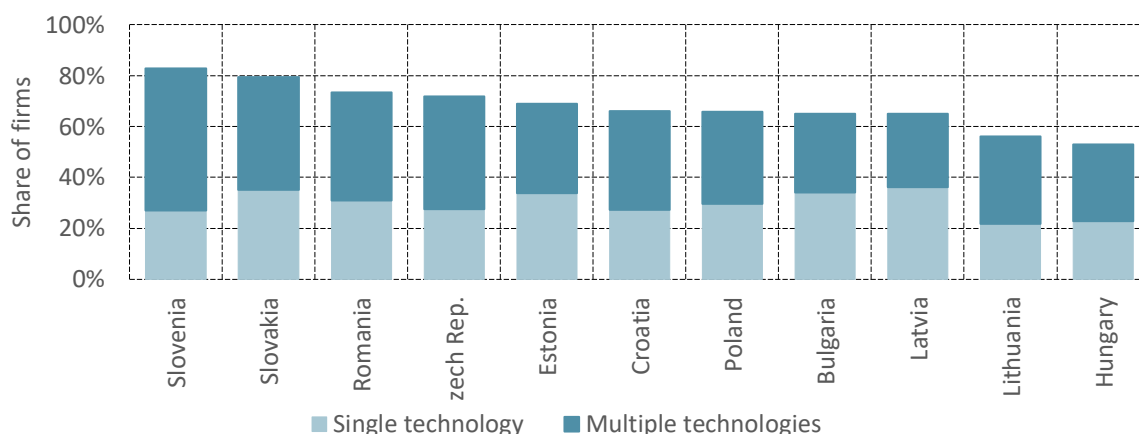


Question: What proportion of total investment was for developing or introducing new products, processes, services? Were the products, processes or services new to the company, new to the country, new to the global market? In the last financial year, how much did your business invest in research and development (including the acquisition of intellectual property) with the intention of maintaining or increasing your company's future earnings? Base: All firms that invested in the last financial year (excluding the responses don't know/no answer). Source: EIB Investment Survey.

CESEE firms use advanced technologies as much as their peers in the rest of the European Union. We classify firms by the number of advanced technologies they use in production in order to measure how close they are to the production frontier. To that end, we provide firms with a list of technologies specific to their sector (such as artificial intelligence, 3D printing or drones).

Overall, 67% of firms in CESEE used at least one advanced digital technology, in line with the current EU average (69%). Firms in the manufacturing sector are the most likely to have adopted multiple digital technologies (47%), while construction firms are the least likely (14%). Large firms are more likely than SMEs to implement multiple technologies at the same time (49% versus 27%). CESEE firms are strong in the implementation of robotics (49%), the internet of things (42%) and platforms (38%). The shares of firms using at least one advanced technology are highest in Slovenia (83%) and Slovakia (79%), and lowest in Lithuania (56%) and Hungary (53%) (see Figure 12).

Figure 12. Use of advanced digital technologies by country



Question: To what extent, if at all, are each of the following digital technologies used within your business? Please say if you do not use the technology within your business. Base: All firms that invested in the last financial year (excluding the responses don't know/no answer). Source: EIB Investment Survey.

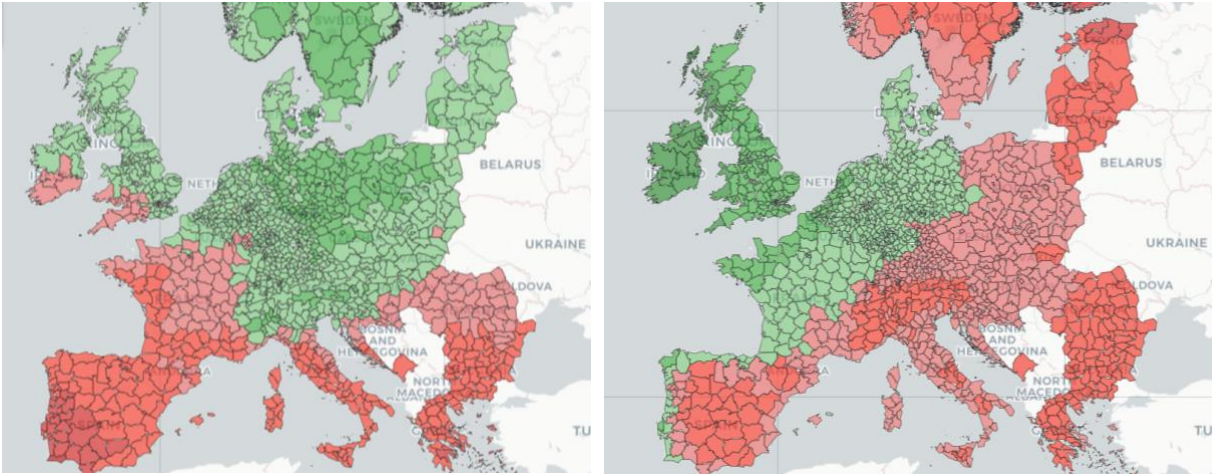
Climate change is no longer a distant reality

Climate change is more and more visible in day-to-day life for firms operating in Europe. It is no longer an abstract concept, but a tangible reality, with around half of firms in CESEE reporting that it is impacting their business. Although the impact of climate change's is already visible in CESEE, with many countries in the region already experiencing its effects — like changes in the number of consecutive dry days or increasing temperatures (Figure 13) — its perception is less relevant than for EU firms (57%). Firms in the infrastructure sector and large firms in CESEE are more exposed, and are the most likely to report that weather events are impacting their business (57% and 56%, respectively). The highest shares of CESEE firms reporting impacts from weather events are in Romania (69%) and Croatia (59%), while Latvia and Bulgaria have the lowest shares (but still relatively high at 41% and 44%, respectively) (see Figure 14).

Figure 13. Exposure to climate hazards in Europe

Change in consecutive dry days

Change in mean temperatures

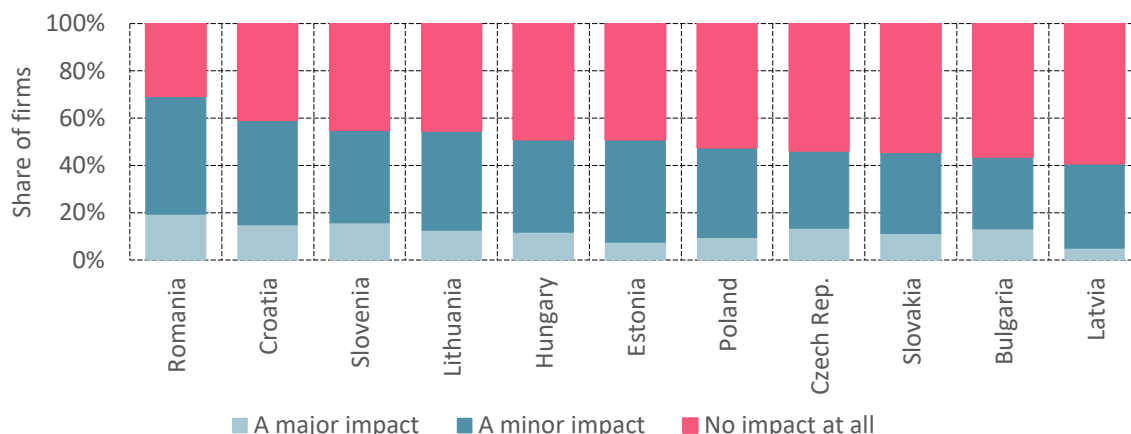


Consecutive dry days: the difference in the number of consecutive dry days (with precipitation less than 1 mm) between the 1981-2010 period (observed baseline) and the 2036-2065 period (future projection) under RCP 8.5 scenario.

Mean temperature: the difference in daily mean temperature between the 1981-2010 period (observed baseline) and the 2036-2065 period (future projection) under RCP 8.5 scenario.

Source: European Climate Risk Typology — <http://european-crt.org/map.html>; NUTS3 regions (“small regions” with populations between 150 000 and 800 000 people).

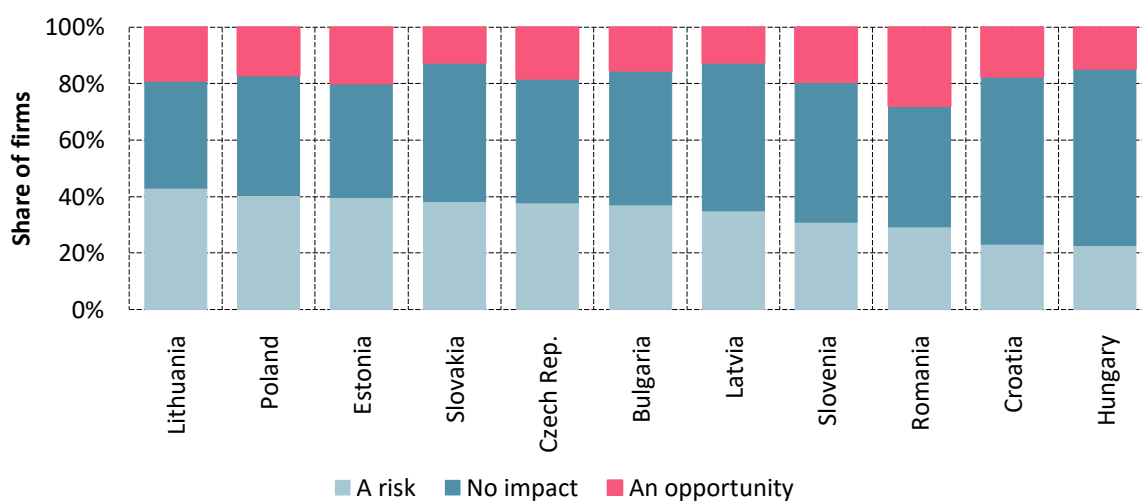
Figure 14. Impact of climate change – physical risk by country



Question: Thinking about the impact of climate change on your company, such as losses due to extreme climate events, including droughts, flooding, wildfires, storms or changes in weather patterns due to progressively increasing temperature and rainfall: What is the impact, also called physical risk, of this on your company? Base: All firms (excluding the responses don't know/no answer). Source: EIB Investment Survey.

Transition risk is of particular concern for firms in CESEE. Transition risk is generated when actions are taken towards a lower carbon economy, so as to force firms to change their business models or production methods. CESEE firms are more exposed to this risk due to energy-intensive production and high shares of fossil fuels in power generation. As a result, more of the region's firms see the transition to stricter climate standards and regulations as a risk than as an opportunity (36% and 18%, respectively). This stands in contrast to Europe as a whole, where there is a fairly even balance (32% risk, 29% opportunity). Firms in the infrastructure sector are the most likely to see the transition to a net-zero emissions economy over the next five years as a risk (41%), while services firms are the most likely to think there will be no impact on their company (53%). Large firms are significantly more likely than SMEs to see the transition as an opportunity (22% versus 14%). In CESEE, Lithuanian firms are most likely to see the transition to a net-zero emissions economy as a risk (43%), while firms in Romania are most likely to see it as an opportunity (28%) (see Figure 15).

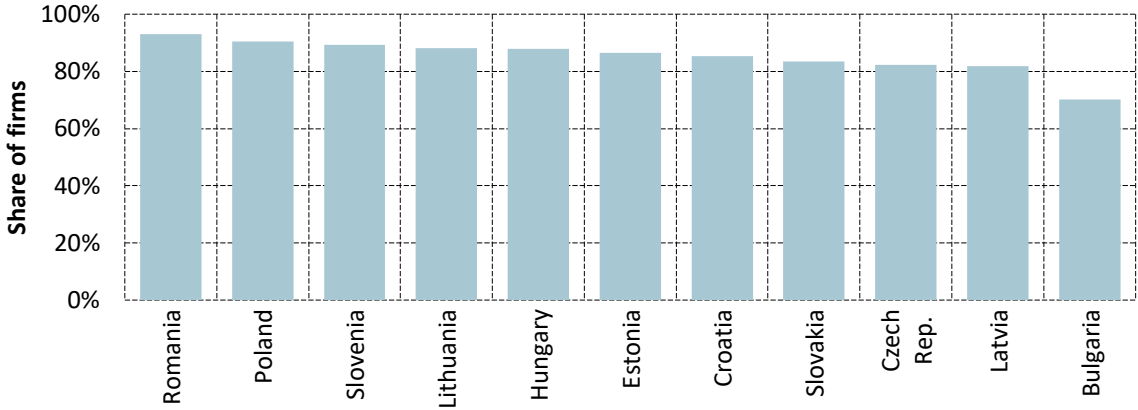
Figure 15. Impact of climate change – transition risk by country



Question: Thinking about your company, what impact do you expect this transition to stricter climate standards and regulations will have on your company over the next five years? Base: All firms (excluding the responses don't know/no answer). Source: EIB Investment Survey.

CESEE firms are working to transition their economies and firms towards a greener business model: Almost 90% of firms in CESEE take action to reduce greenhouse gas emissions, similar to the EU average. Here, the main actions taken in CESEE are minimising waste and recycling (67%) and investing in energy efficiency (55%) — an investment that has proved highly profitable in the last few years. Compared to the EU average, firms in CESEE were less likely to invest in or implement sustainable transport options (32% versus 43%). Across CESEE, firms in Romania (93%) and Poland (90%) were the most likely to be taking such action overall, while firms in Bulgaria (70%) were the least likely (Figure 16).

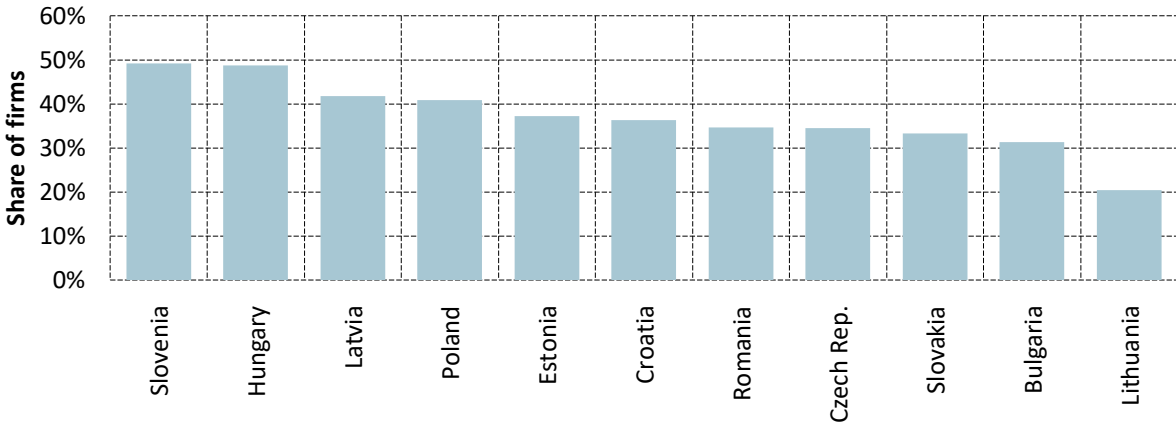
Figure 16. Actions to reduce greenhouse gas emissions by country



Question: Is your company investing in or implementing any of the following to reduce greenhouse gas (GHG) emissions? Base: All firms (excluding the responses don't know/no answer). Source: EIB Investment Survey.

The share of firms in CESEE investing in measures to improve energy efficiency (almost 40%) is similar to EU average, despite the fact that the CESEE business model is more energy-intensive. Among firms in CESEE, those in the manufacturing sector (48%) and large firms (50%) were the most likely to be investing in energy efficiency. In CESEE, Slovenia and Hungary have the largest share of firms investing in energy efficiency (both 49%), while Lithuania has the smallest (20%) (Figure 17).

Figure 17. Share of firms investing in measures to improve energy efficiency by country



Question: What proportion of the total investment in the last financial year was primarily for measures to improve energy efficiency in your organisation? Base: All firms (excluding the responses don't know/no answer). Source: EIB Investment Survey.

Financing investments: intra-group, banks or internal finance?

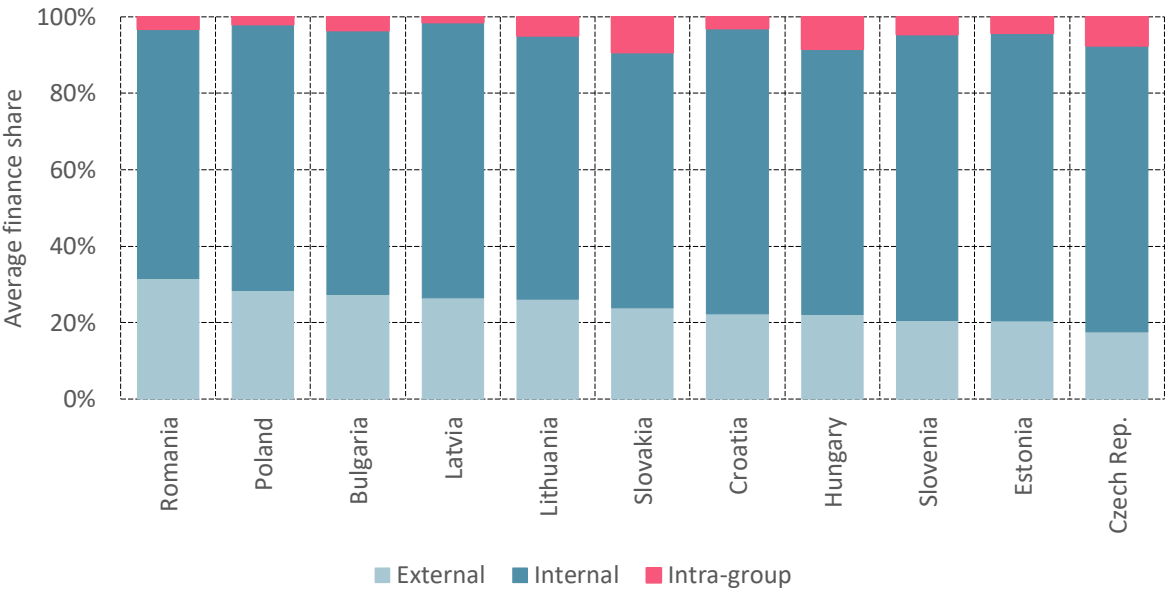
For the most part, the banking sector in CESEE is dominated by a few international cross-border banking groups that control more than 50% of all banking assets in the region. In most CESEE countries (with the exception of Hungary and Poland), the share of foreign banks is between 70% and 95%.

The CESEE banking sector is well developed, and has recently been liquid, stable and profitable, following the harsh turbulence of the Global Financial Crisis and subsequent years. Loans to deposit ratios stabilised at between 70% and 80% on average — significantly lower than in the past. In particular, abundant liquidity from local deposits made CESEE banking markets more resilient, and no longer dependent on foreign funding from parent banks’ headquarters. Return on equity remained above 10% in most years during the last decade (the exceptions were 2014 and 2020). Financial inclusion is close to the levels seen in high-income countries.

This stability was not threatened even in 2022-2023, despite the banking crisis of US regional banks and Credit Suisse, and the presence of some cross-border international banking groups in the Russian market (and in Ukraine and Belarus). During this period, banks were well served by a traditional, robust business model with high interest margins generated by higher lending rates (and relatively low and stable rates on sticky deposit accounts).

While commercial banks are relevant for financing firms in CESEE, internal finance remains dominant: It makes up the largest share of finance for the region’s firms (70%, versus an EU average of 65%) (see Figure 18). External finance accounts for 25%. The use of intra-group financing represents, on average, just 4% of overall corporate investment in CESEE, despite the role of foreign direct investments in most countries, with parent companies often financing their CESEE subsidiaries (albeit less than in the past). Sources of finance vary by firm size: Large firms finance a bigger share of investment through intra-group funding than SMEs (6% compared with 2%) and a smaller share through internal finance (68% versus 74%). The share of firms using external finance is highest in Romania (32%) and lowest in the Czech Republic (18%).

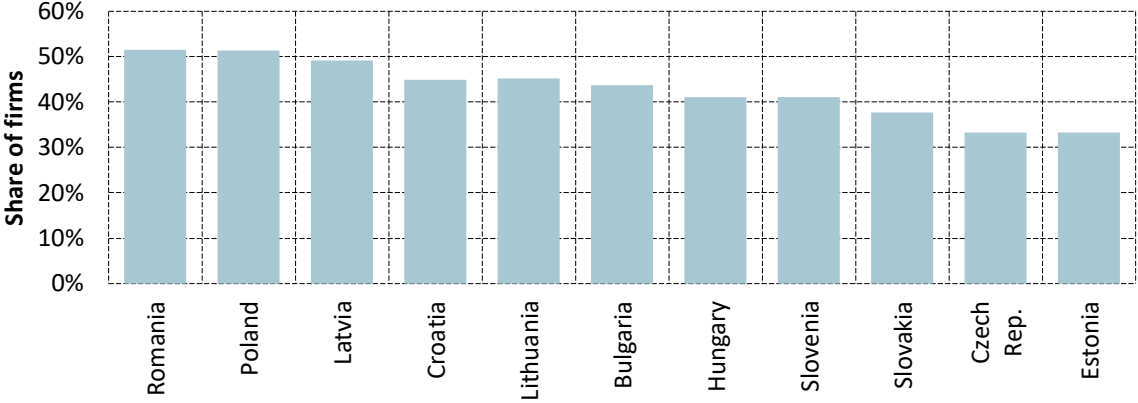
Figure 18. Source of investment finance by country



Question: What proportion of your investment was financed by each of the following? Base: All firms that invested in the last financial year (excluding the responses don't know/no answer). Source: EIB Investment Survey.

Just under half of the CESEE firms that invested in the last financial year had financed at least some of their investment through external finance (45%), in line with the EU average (also 45%). The decline since EIBIS 2021 is particularly strong among large firms (down from 59% to 46%) and among firms in the manufacturing sector (down from 56% to 43%). More than half of firms in Romania (52%) and Poland (51%) paid for at least some of their investment through external finance (Figure 19).

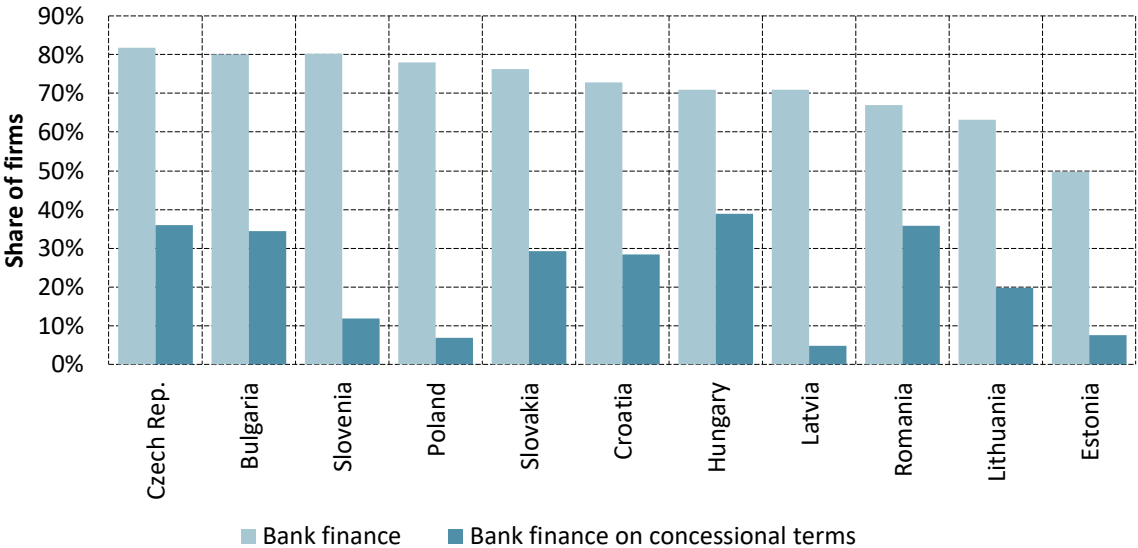
Figure 19. Use of external finance by country



Question: Approximately what proportion of your investment in the last financial year was financed by each of the following? Base: All firms that invested in the last financial year (excluding the responses don't know/no answer). Source: EIB Investment Survey.

Three-quarters (75%) of firms that reported using external finance said they'd had access to bank finance in the last financial year (Figure 20). About one in five firms in CESEE using external finance (21%) received bank finance on concessional terms. Major differences can be observed across CESEE countries, with firms in Hungary (39%), the Czech Republic (36%) and Romania (36%) the most likely to receive bank finance on concessional terms, and firms in Latvia (5%), Poland (7%) and Estonia (8%) the least likely.

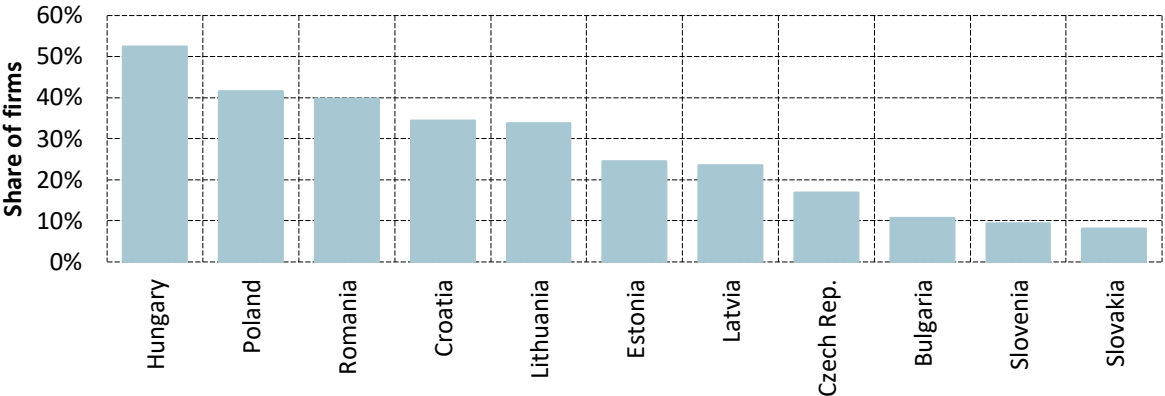
Figure 20. Access to bank finance and conditions by country



Question: Which of the following types of external finance did you use for your investment activities in the last financial year? Was any of the bank finance you received on concessional terms (e.g. subsidised interest rates, longer grace period to make debt payments)? Base: All firms using external finance (excluding the responses don't know/no answer). Source: EIB Investment Survey.

About a third of firms in CESEE using external finance (34%) received grants. This is related to the use of EU funds, vehiculated via the banking sectors in various forms (lending, guarantees, grants) and is significantly higher than the EU average (21%). Firms receiving grants in CESEE finance 37% of their investment this way. Firms in the infrastructure sector are the most likely to receive grants (63%), with the lowest proportion seen among manufacturing firms (19%). There are large differences across CESEE countries: The proportion that received grants as part of their external financing ranged from 53% in Hungary to 8% in Slovakia (Figure 21).

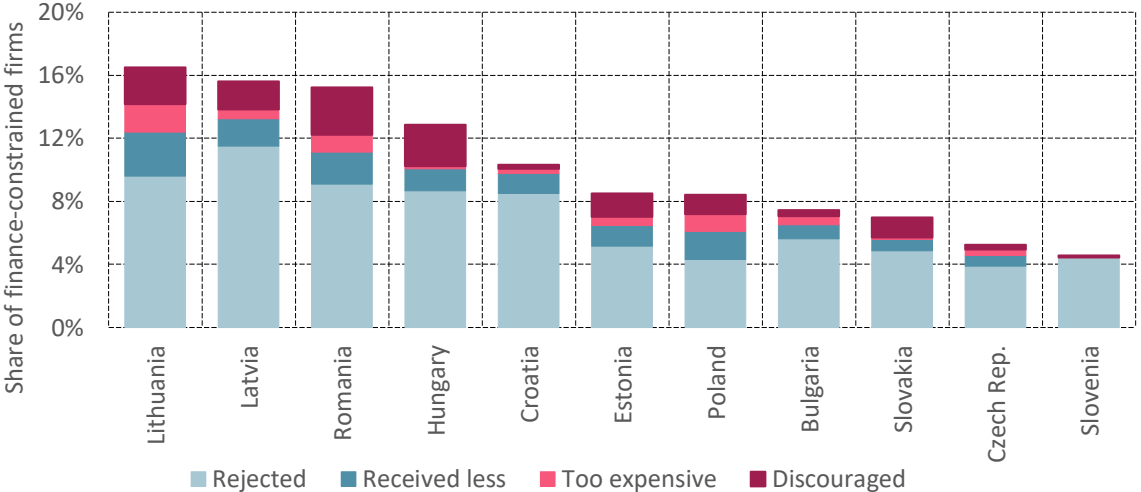
Figure 21. Share of firms with finance from grants by country



Question: What proportion of your total investment in your last financial year was financed by grants? Base: All firms that received grants (excluding the responses don't know/no answer). Source: EIB Investment Survey.

The share of financially constrained firms in CESEE (9.2%) is higher than the EU average (6.2%). The main constraint reported by firms in CESEE is rejection of loan applications (5.8%). SMEs are more likely than large firms to be finance constrained (11.8% versus 6.8%). Lithuania, Latvia and Romania report the largest shares of financially constrained firms in CESEE, while the Czech Republic and Slovenia report the lowest (Figure 22).

Figure 22. Share of finance-constrained firms by country



Finance-constrained firms include: those dissatisfied with the amount of finance obtained (received less), those that sought external finance but did not receive it (rejected) and those that did not seek external finance because they thought that borrowing costs would be too high (too expensive) or that they would be turned down (discouraged). Base: All firms (excluding the responses don't know/no answer). Source: EIB Investment Survey.

Investment constraints facing firms in Central, Eastern and South-Eastern Europe



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