

Investment in France and the EU

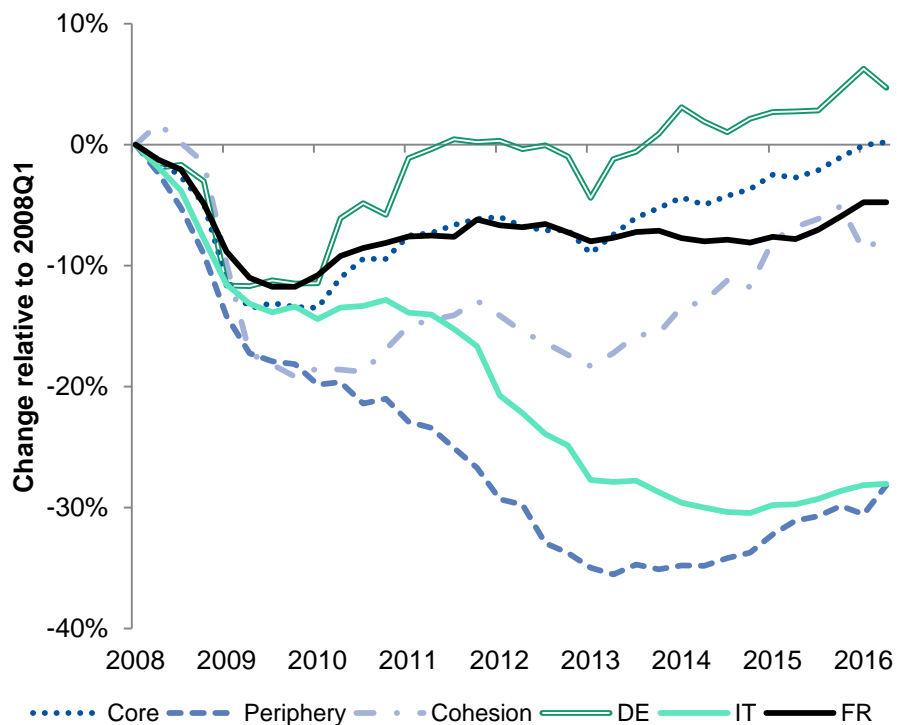
Natacha Valla

March 2017

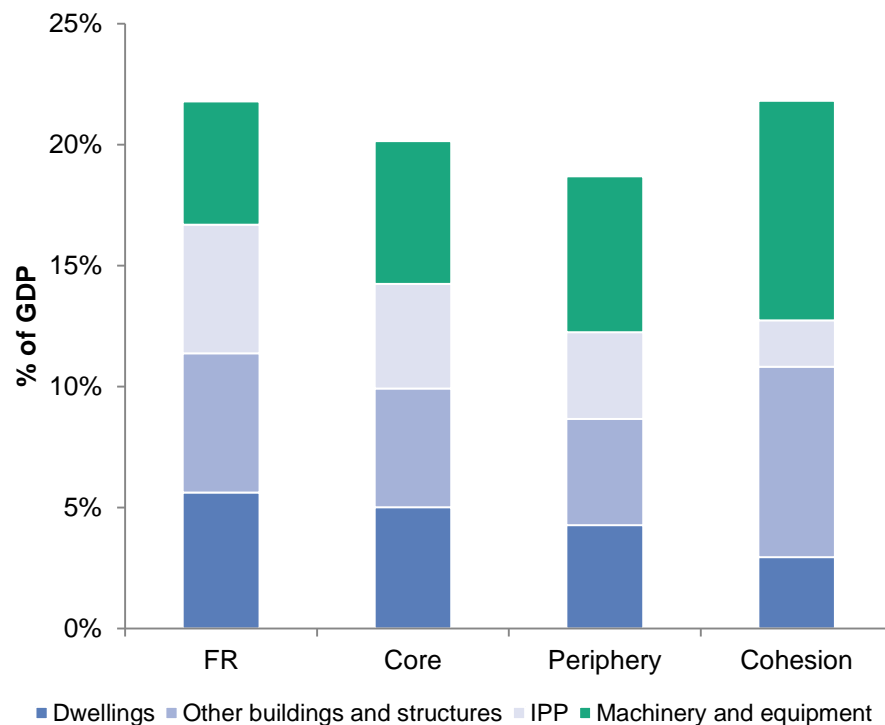
Slow recovery of investment, and with strong heterogeneity

- Overall Europe's recovery in investment is slow, especially for the countries that were hit most by the crisis as well as "new" Member states
- In France, investment has remained relatively robust during the crisis but is still 5% below the 2008 level

Investment (% change relative 2008 Q1)



Investment, by asset class 2016 Q2 (% of GDP)

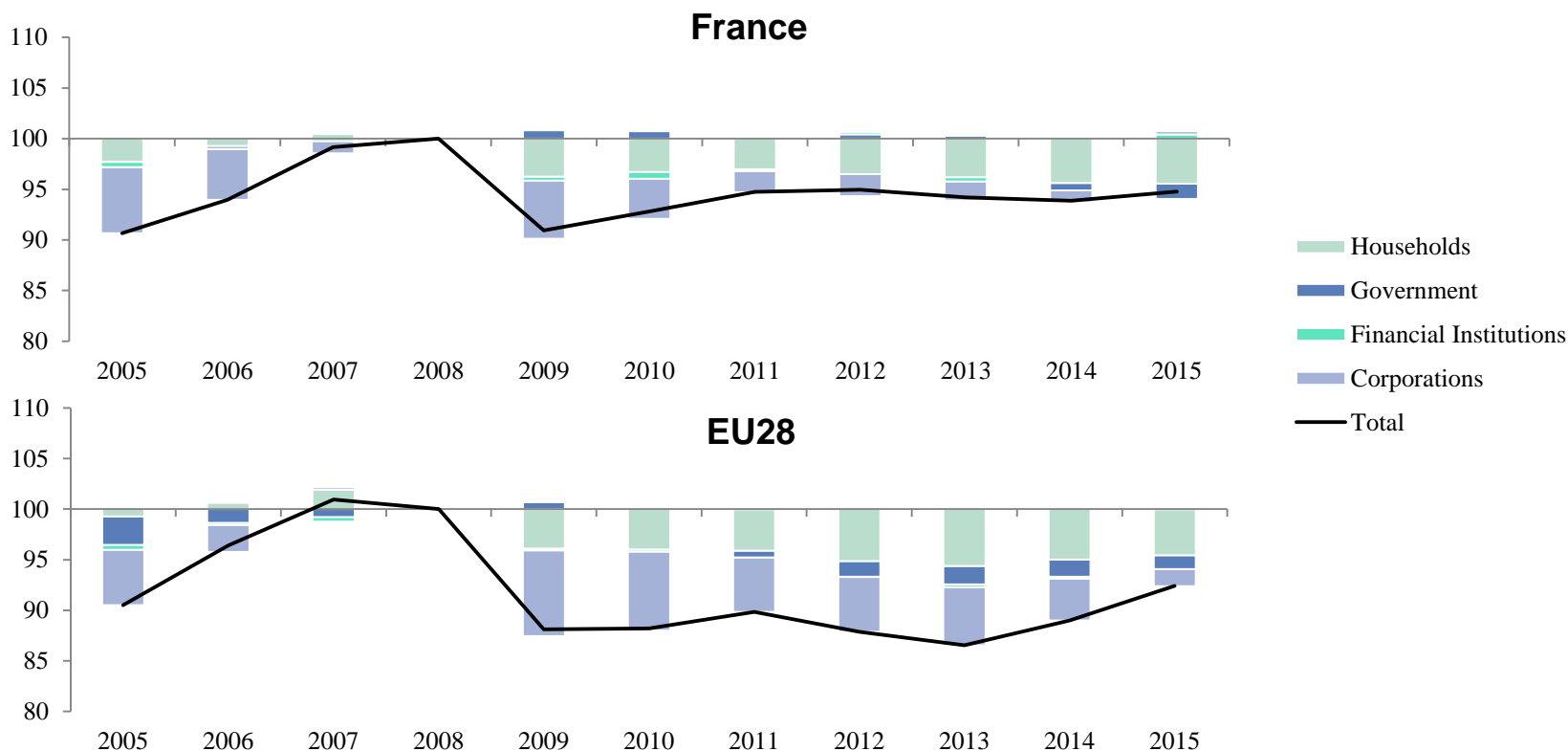


Source: EIB, based on National Accounts and Eurostat

Corporate investment is recovering gradually...

- At the EU level, corporate investment has been the main driver of the (slow) investment recovery
- Especially in France, where corporate investment is driven by machinery and transport equipment investment and IPP

Real GFCF by institutional sector (2008 = 100)



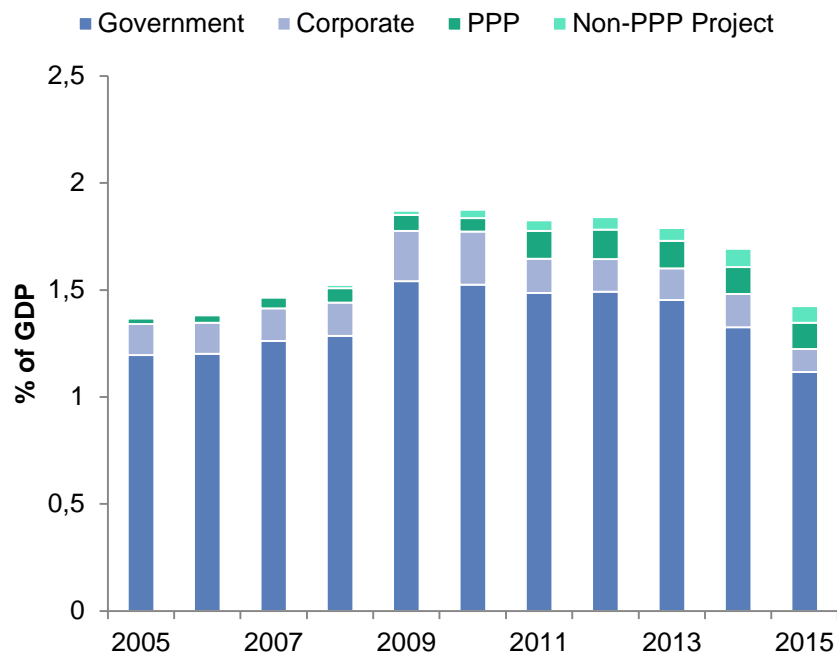
Source: EIB, based on National Accounts and Eurostat

...but infrastructure investment is falling, in the EU and France

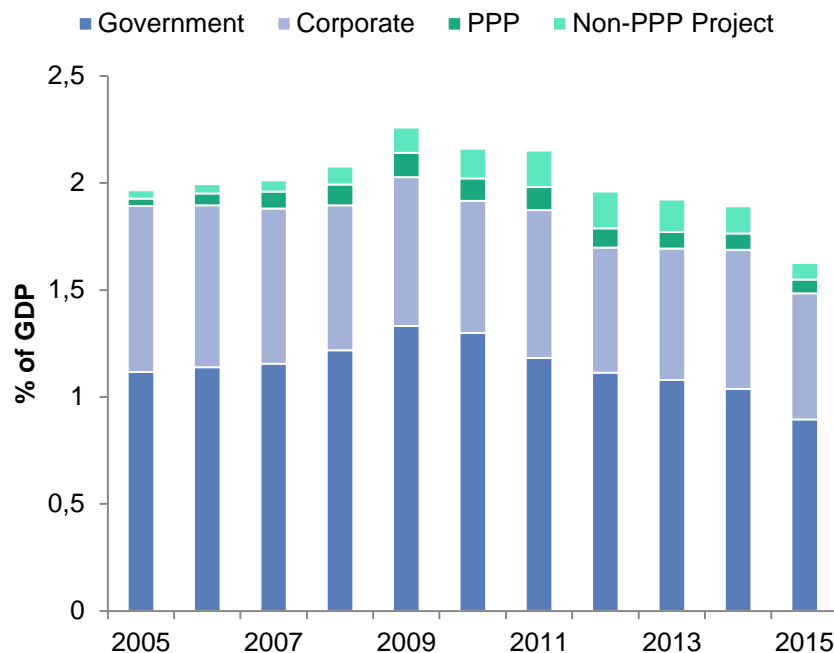
- EU infrastructure investment fell from its peak of 2.2% of GDP in 2009 to 1.6% in 2015
- Public investment accounts for most of the decline, affected by fiscal space and EU funds
- In France, public infrastructure investment (of which almost 70% is done at the local government level) remains above the EU average
- But French corporate infrastructure investment is very low (around 0.15% of GDP)

Infrastructure investment (% of GDP)

France



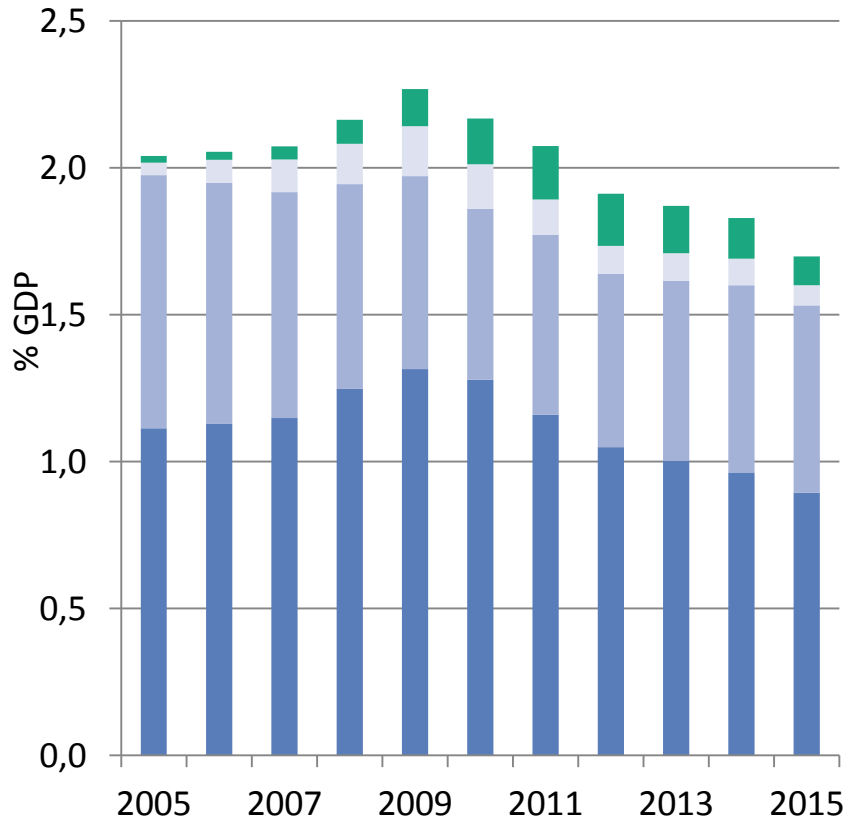
EU28



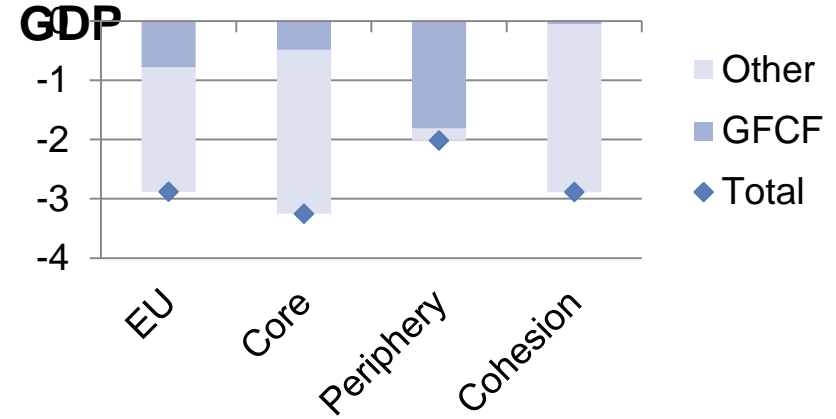
Source: EIB, based on National Accounts, Eurostat and AMECO

Government infrastructure investment impacted by the fiscal stance

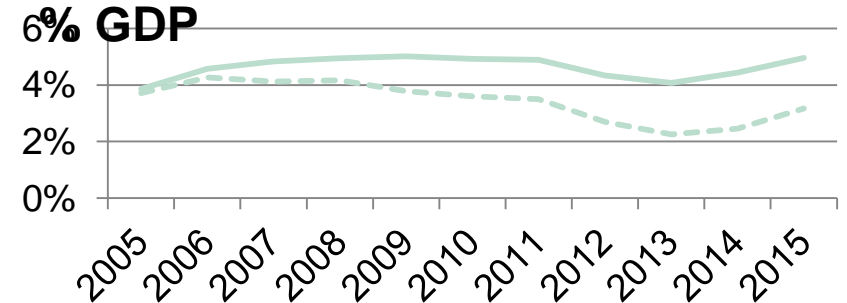
EU infrastructure investment, % GDP



Contribution to change in government expenditure 2009-15, % GDP



Public investment rate in Cohesion, % GDP



Project finance - non PPP PPP



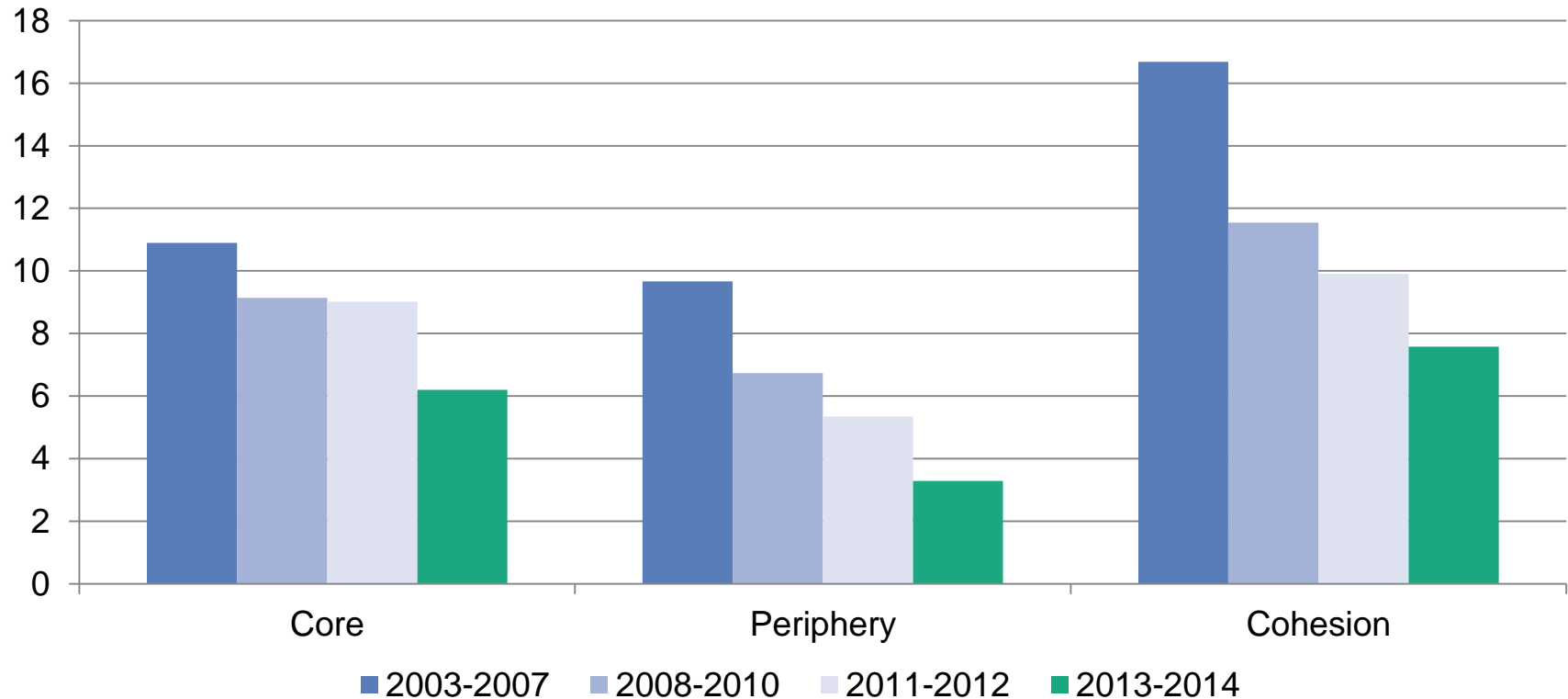
Government

Public investment (without ESIF payments)

Public investment

Investment returns are low

Nominal internal rates of return on assets

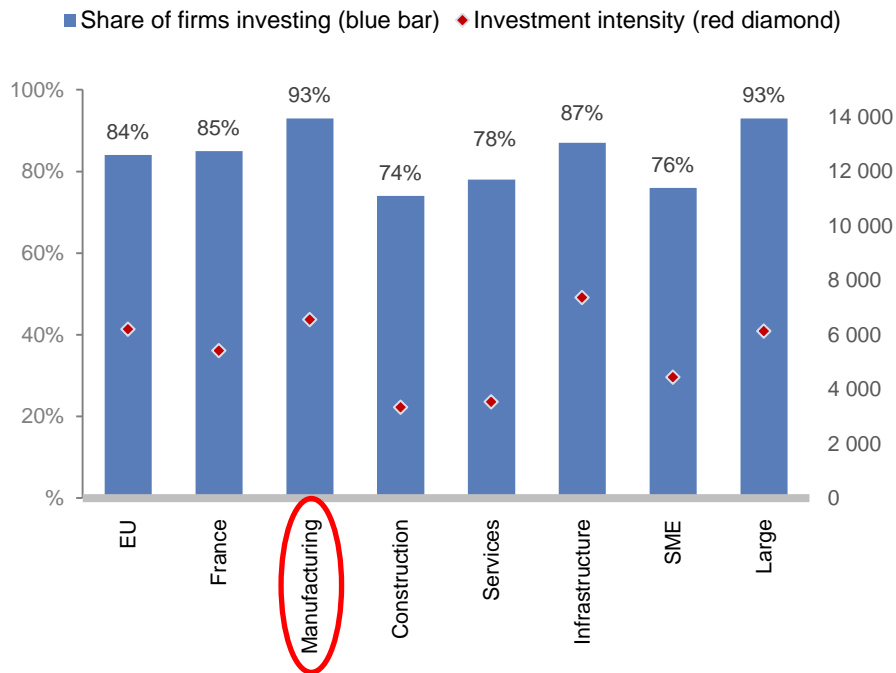


EIB Investment Survey (EIBIS)

- Some 12,500 firms in the 28 EU member states (602 firms in France)
- Survey of non-financial corporate sector (firms with 5+ employees)
 - Covering manufacturing, services, construction and infrastructure sector
- Qualitative and quantitative information on:
 - firm characteristics and performance
 - past investment activities and future plans
 - sources of finance
 - and challenges that businesses face
- Representative of the economy (firms weighted by value-added) at the level of:
 - EU28
 - each EU member state (separately)
 - 4 industry groups (within each member state – for most countries)
 - and 4 size classes (within each member state – for most countries)
- Annual survey for an initial period of 3 years (panel plus cross-section)

High share of investment in intangibles in France, driven by firm training (highest share in the EU)

Investment activity last year

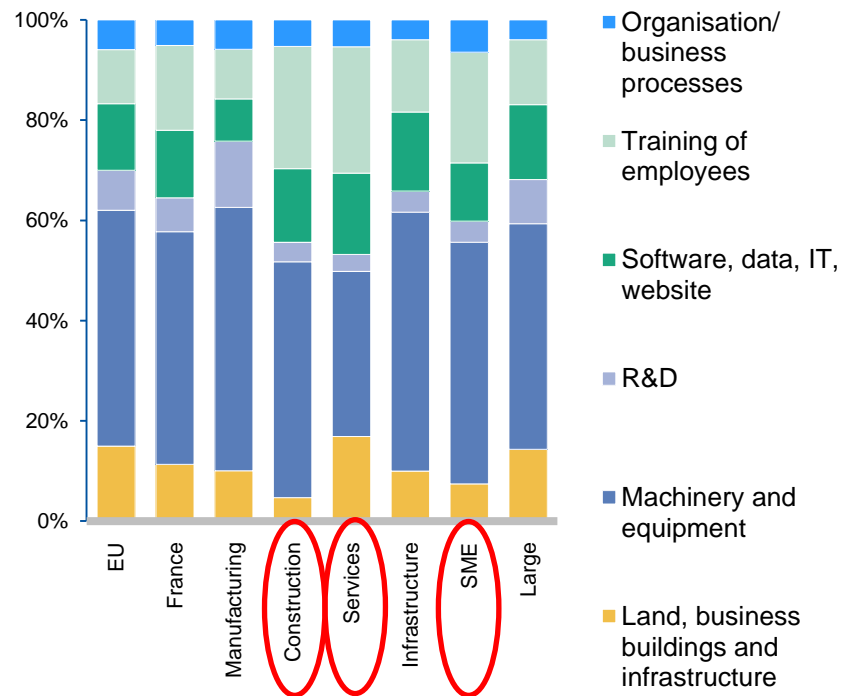


Base: All firms (excluding don't know/refused responses)

*The green bars indicate the proportion of firms who have invested in the last financial year. A firm is considered to have invested if it spent at least EUR 500 per employee on investment activities.

Investment intensity is the median investment per employee of investing firms.

Investment areas

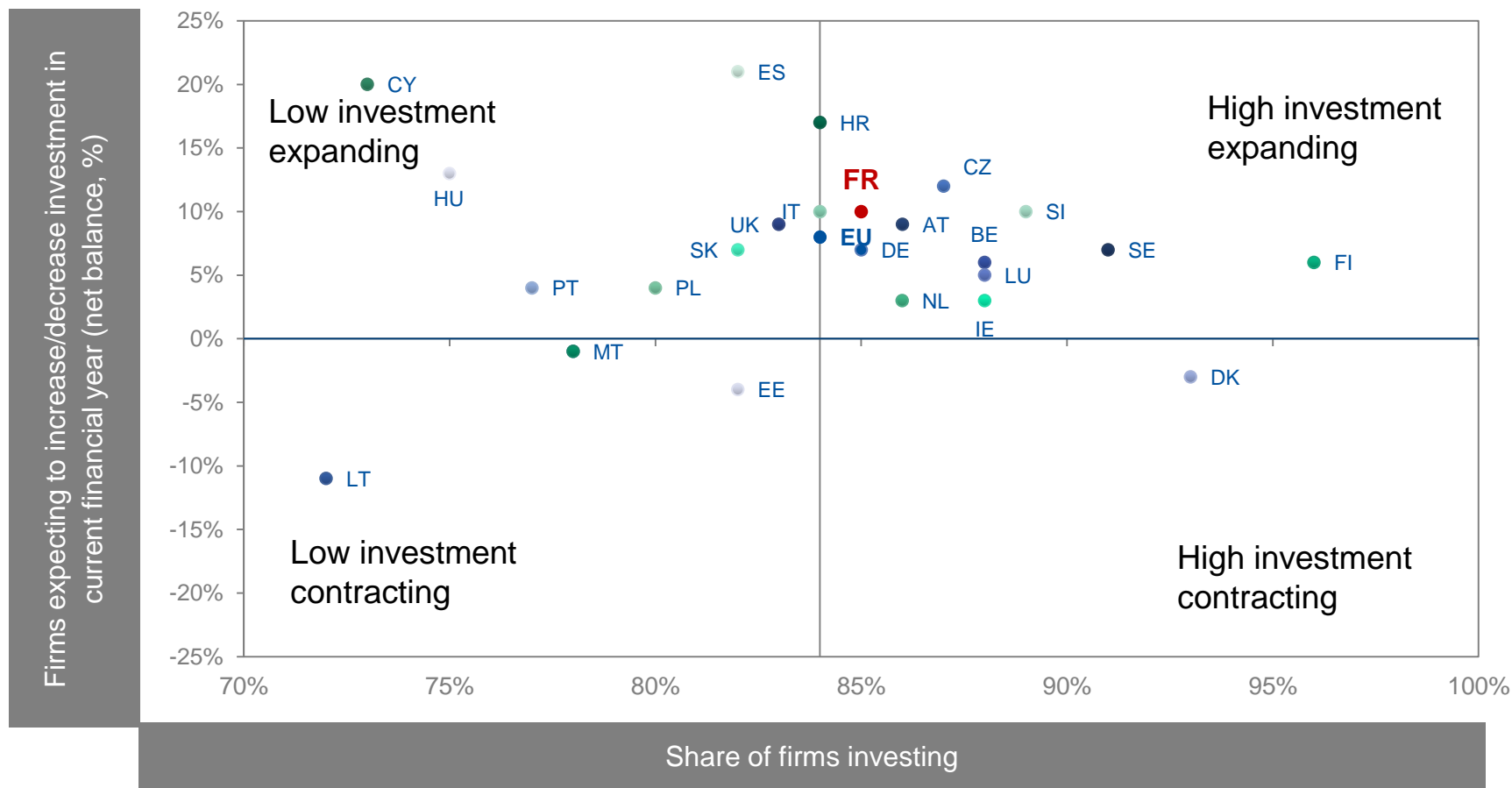


Base: All firms that invested in the last financial year (excluding don't know/refused responses)

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?

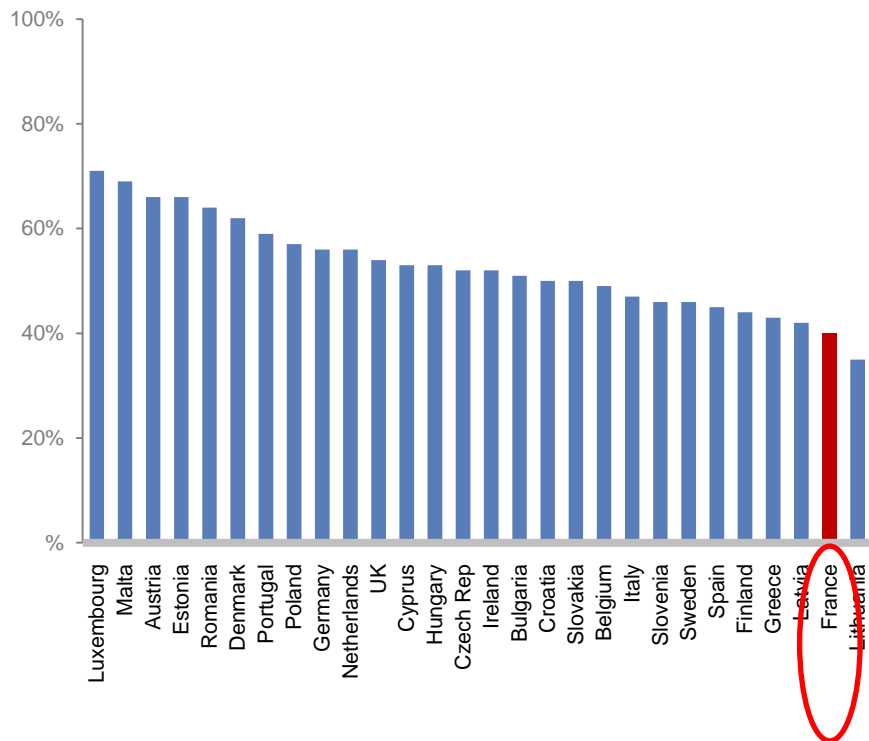
Many firms are investing and are expecting to increase investment this year (except in the construction sector)

Investment cycle by country

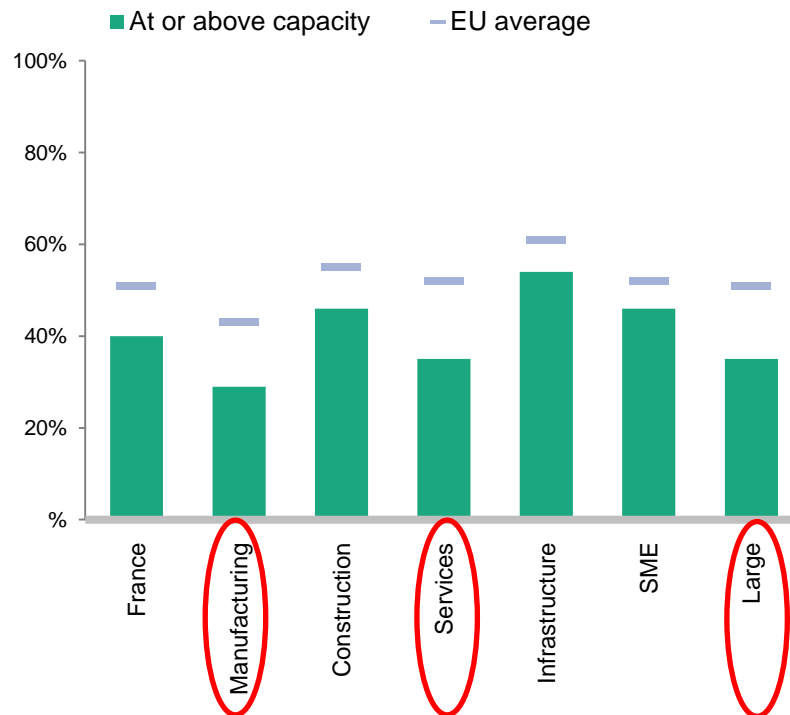


Only 40% of the firms are operating at or above maximum capacity in France, below the EU average of 51%

Share of firms at or above full capacity



Share of firms at or above full capacity in France



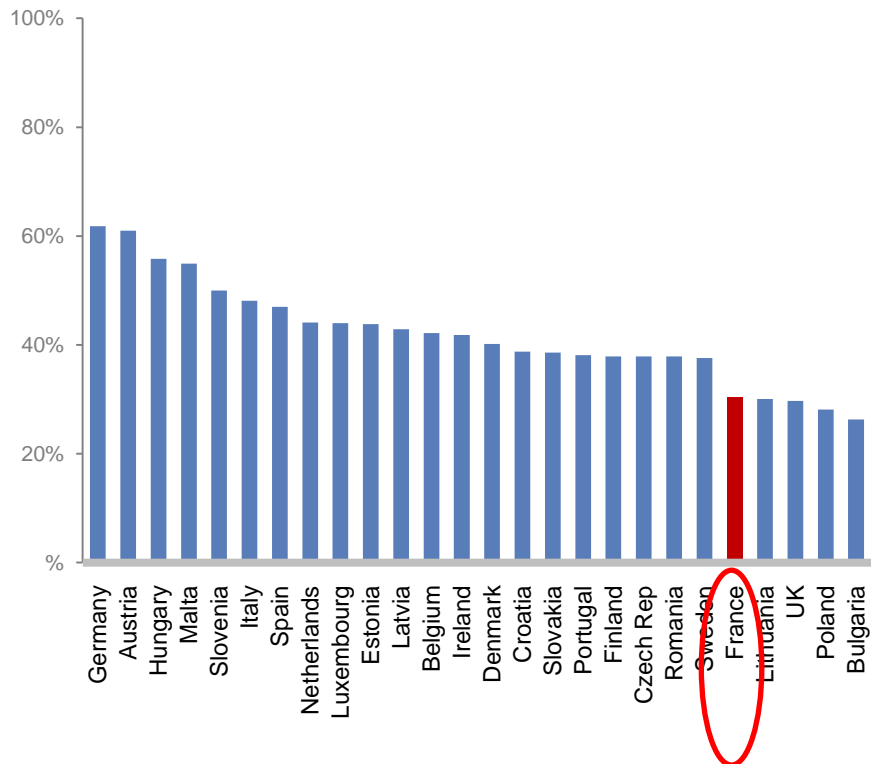
Base: All firms (data not shown for those operating somewhat or substantially below full capacity)

Full capacity is the maximum capacity attainable under normal conditions e.g., company's general practices regarding the utilization of machines and equipment, overtime, work shifts, holidays etc.

Q. In the last financial year, was your company operating above or at maximum capacity attainable under normal circumstances?

Low shares of machinery and equipment considered to be state-of-the-art in France... and of buildings meeting high energy efficiency standards

Average share of state-of-the-art machinery and equipment

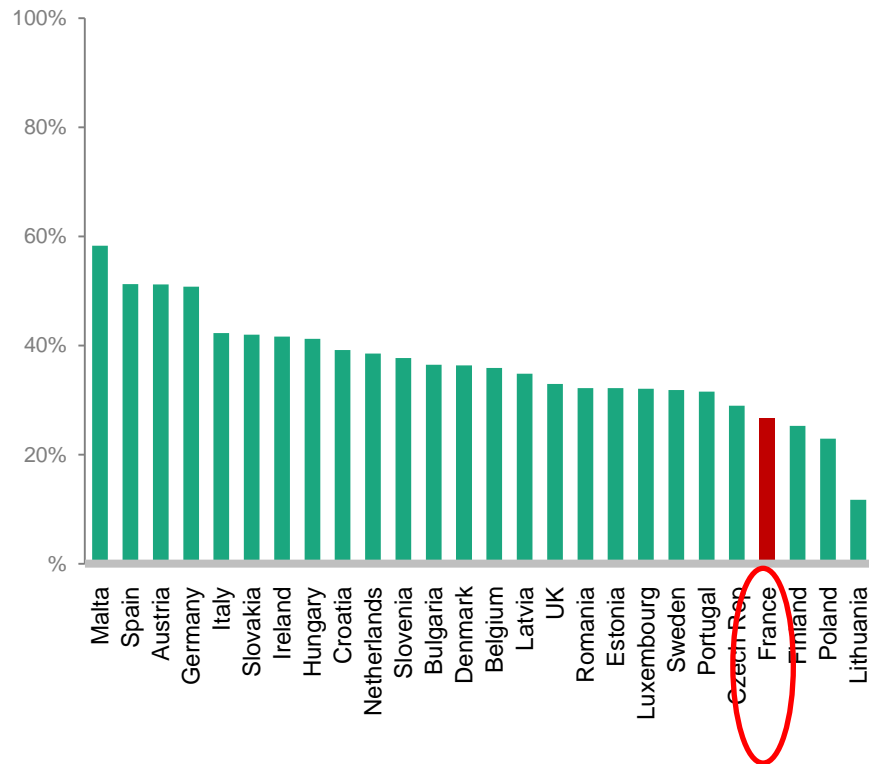


Base: All firms

Q. What proportion, if any, of your machinery and equipment, including ICT, would you say is state-of-the-art?

Data not shown for Greece and Cyprus, as the Greek translation may have influenced interpretation of the question. This will be addressed in the next round of interviews.

Average share of building stock meeting high energy efficiency standards



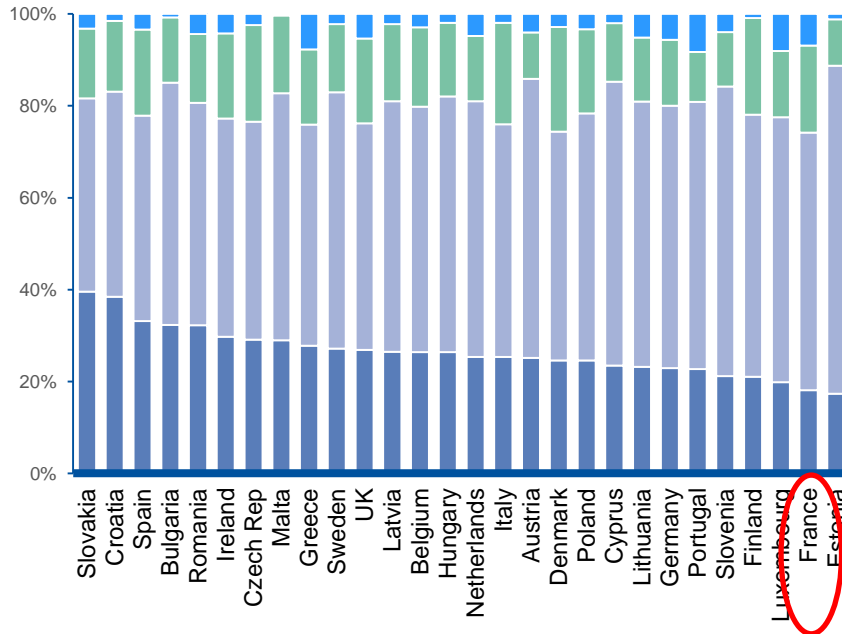
Base: All firms

Q. What proportion, if any, of your commercial building stock satisfies high or highest energy efficiency standards?

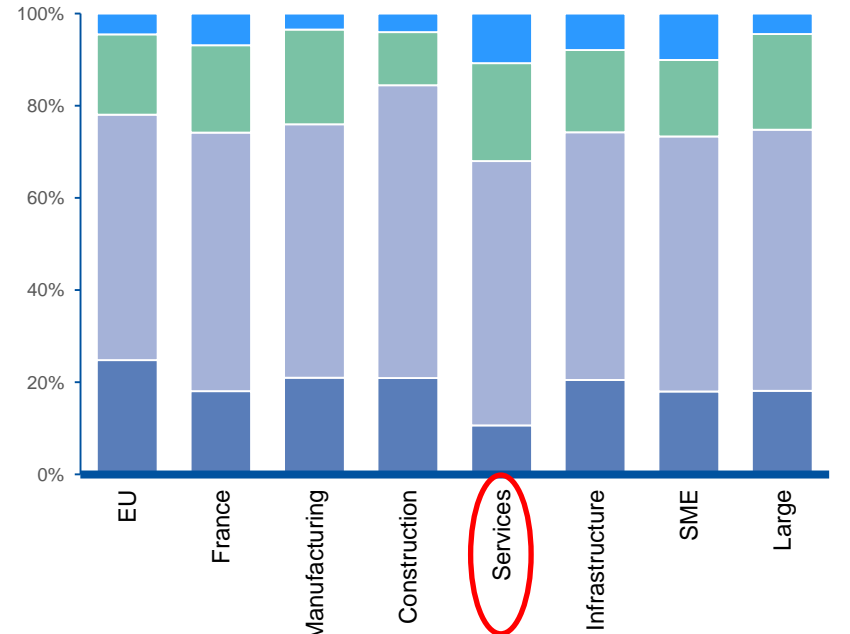
Data not shown for Greece and Cyprus, as the Greek translation may have influenced interpretation of the question. This will be addressed in the next round of interviews.

Last year, over half of investment spending was for replacement purposes, and investment for capacity expansion is low in France (18%), while 19% of investment went into developing new products and services

Purpose of investment last year



Purpose of investment last year in France



■ Capacity expansion ■ Replacement ■ New products/services ■ Other

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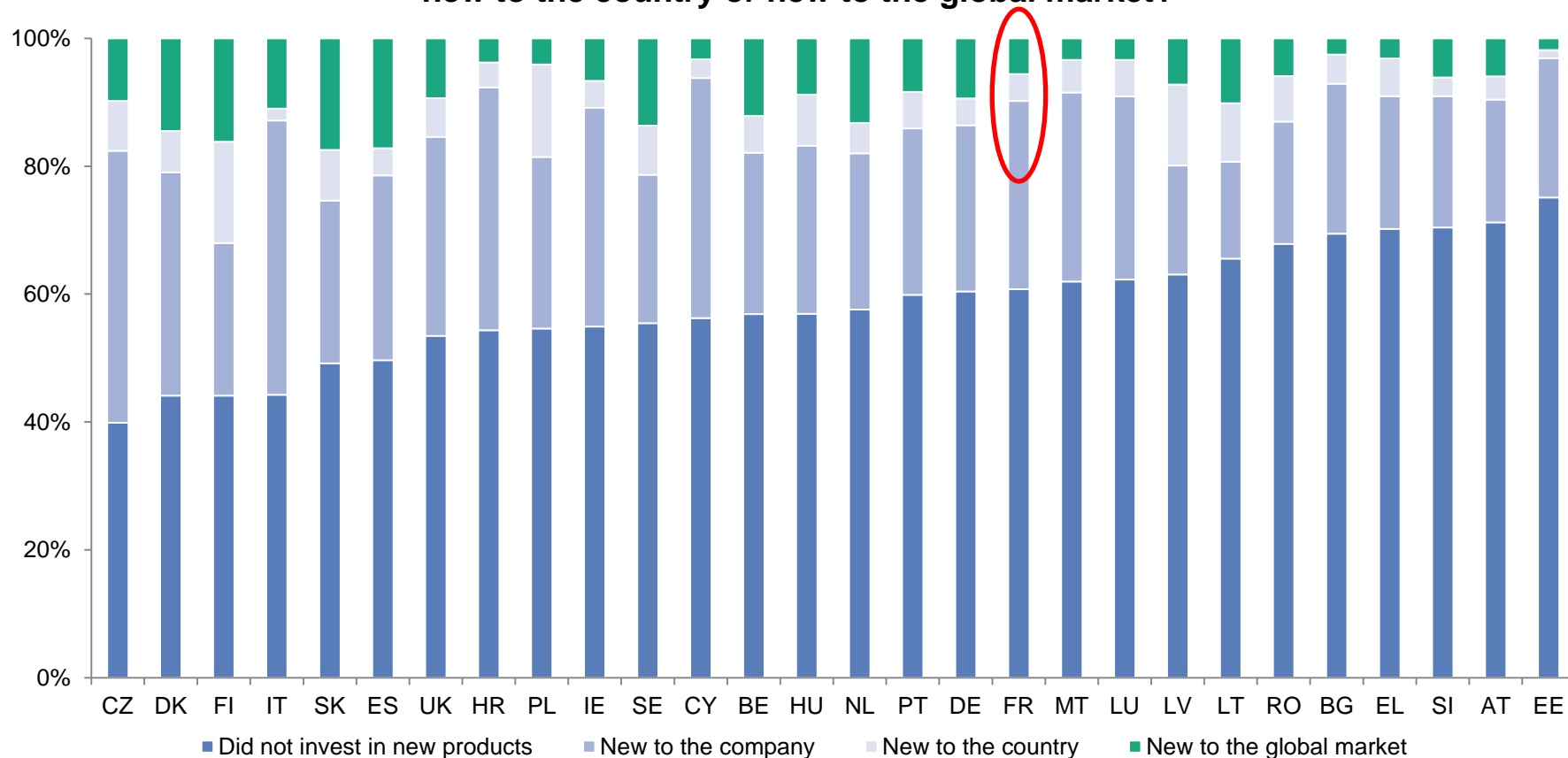
Base: All firms that invested in the last financial year (excluding don't know/refused responses)

Q. What proportion of total investment was for

- (a) replacing existing buildings, machinery, equipment, IT
- (b) expanding capacity for existing products/services
- (c) developing or introducing new products, processes, services?

French firms (6%) less likely than in the EU (10%) to report that they developed products and services that are new to the global market

Investment in new products, process or services that are new to the company, new to the country or new to the global market?

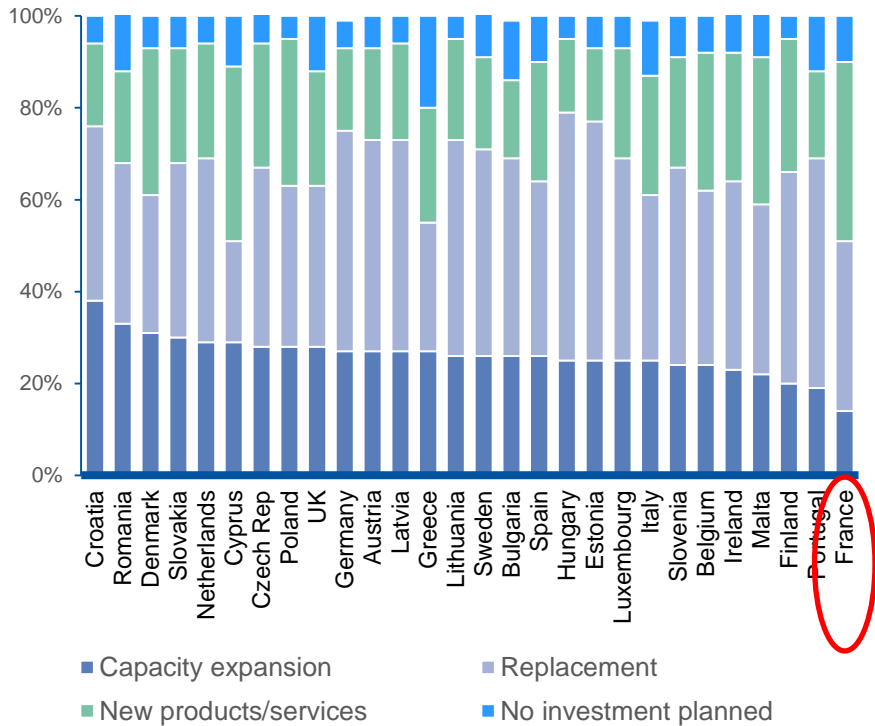


Base: All firms that invested in the last financial year (excluding don't know/refused responses)

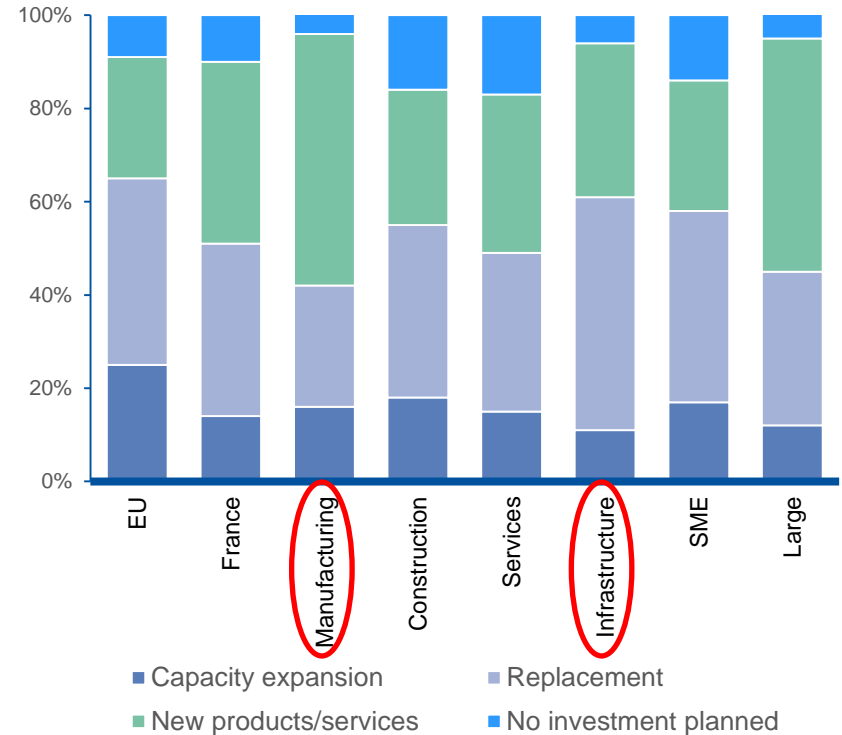
Q. Were the new products, process or services (a) new to the company; (b) new to the country; (c) new to the global market?

Looking ahead, investment in new products, processes and services is the most commonly cited priority in France (39% of the firms, highest share in the EU), whereas capacity expansion is a priority for only 14% of the firms

Future investment priorities



Future investment priorities in France



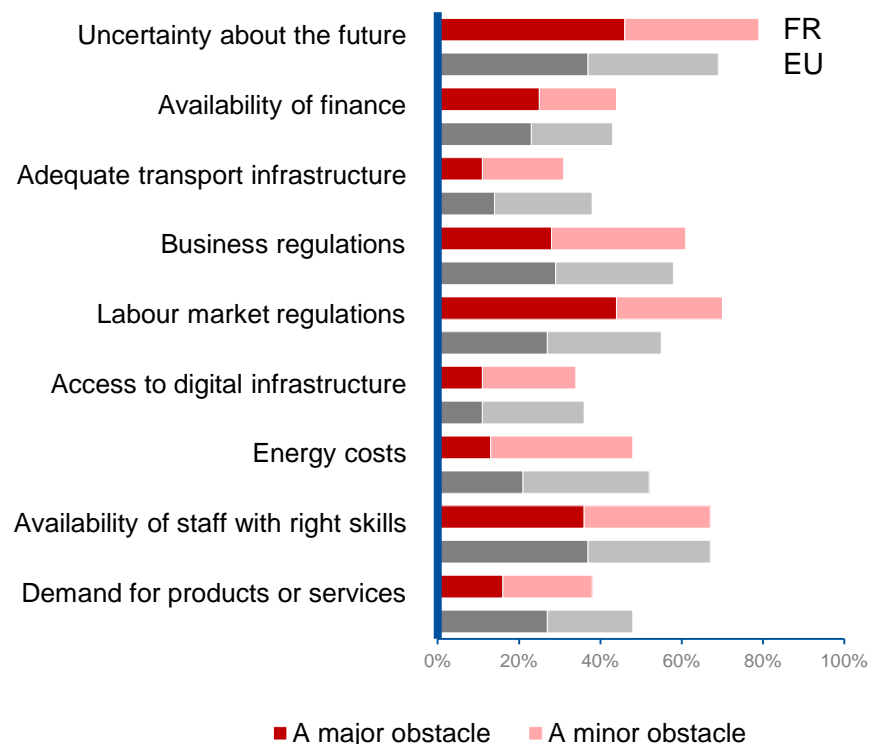
Base: All firms (excluding don't know/refused responses)

Q. Looking ahead to the next 3 years, which of the following 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?

Uncertainty about the future and labour market regulations are perceived as the main long term barriers to investment

Long term barriers to investment



Base: All firms (data not shown for those who said not an obstacle at all/don't know/refused)
Q. Thinking about your investment activities in France, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

- Uncertainty about the future and labour market regulations are perceived as stronger obstacles in France than in the EU
- The (lack of) availability of staff with the right skills, and business regulations and taxation, also stand out as important barriers to investment in France
- These obstacles are perceived as particularly strong for French firms in the services sector

French firms in construction and manufacturing are well represented at the EU productivity frontier

Firms at the EU productivity frontier

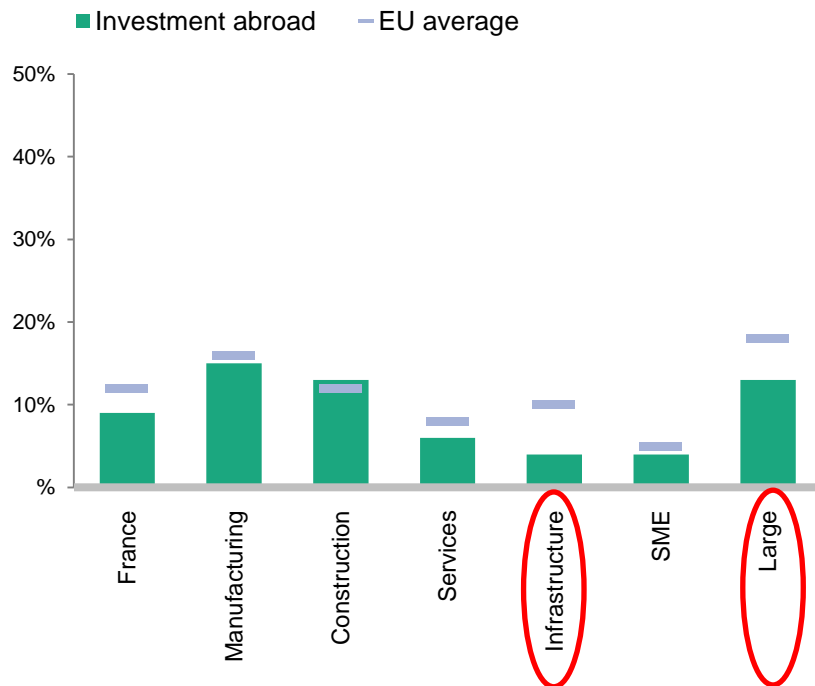


- EU productivity frontier identified as the top 5% firms in the TFP distribution for each 8 NACE sub-sectors covered by EIBIS
- Only around 4% of French firms at the EU productivity frontier
- Firms in France in construction and manufacturing are well represented at the EU productivity frontier...
- ...but very few firms in France at the EU productivity frontier in services and infrastructure (no French firms at the frontier for the utilities sectors)

Base: All firms with an estimate of TFP

Low investment abroad for infrastructure and large firms

Investment in another country

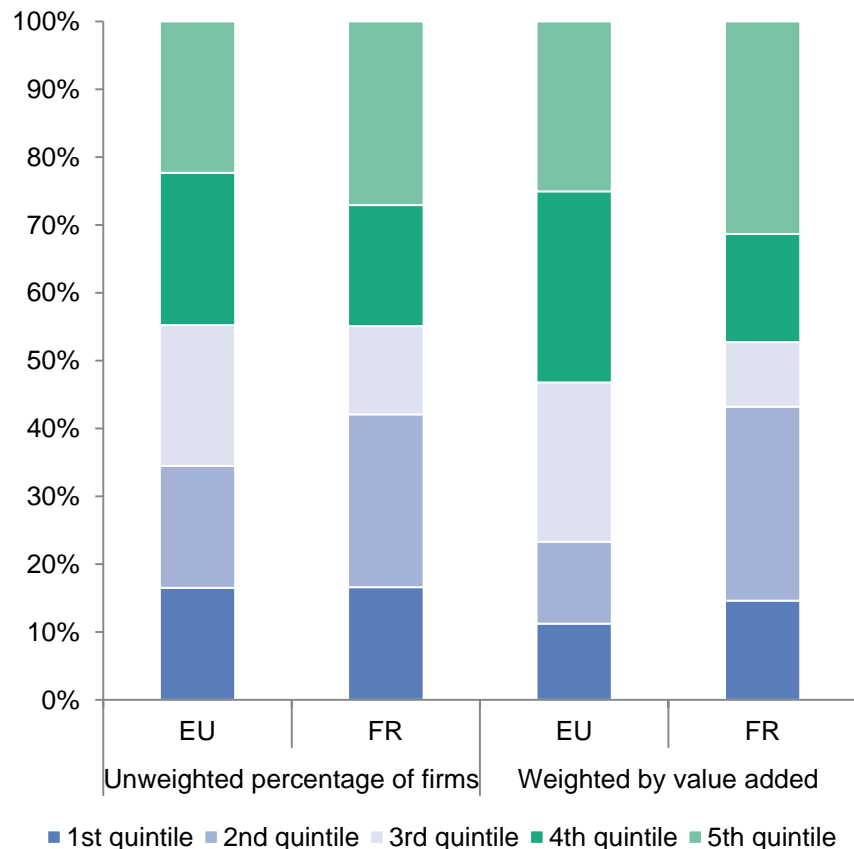


Base: All firms that invested in the last financial year
Q. In the last financial year, has your company invested in another country?

- Only 9% of the firms in France invested abroad in 2015, close to the EU average of 12%
- Investment in another country is low in the infrastructure sector, where only 4% of the firms in France (EU average is 10%)
- 13% of large firms in France have invested abroad, compared to the EU average of 18%

In France, the most productive firms (top 20% of the TFP distribution) generate 31% of employment, compared to a share of 25% in the EU

Employment share by quintiles of the TFP distribution in the EU and France

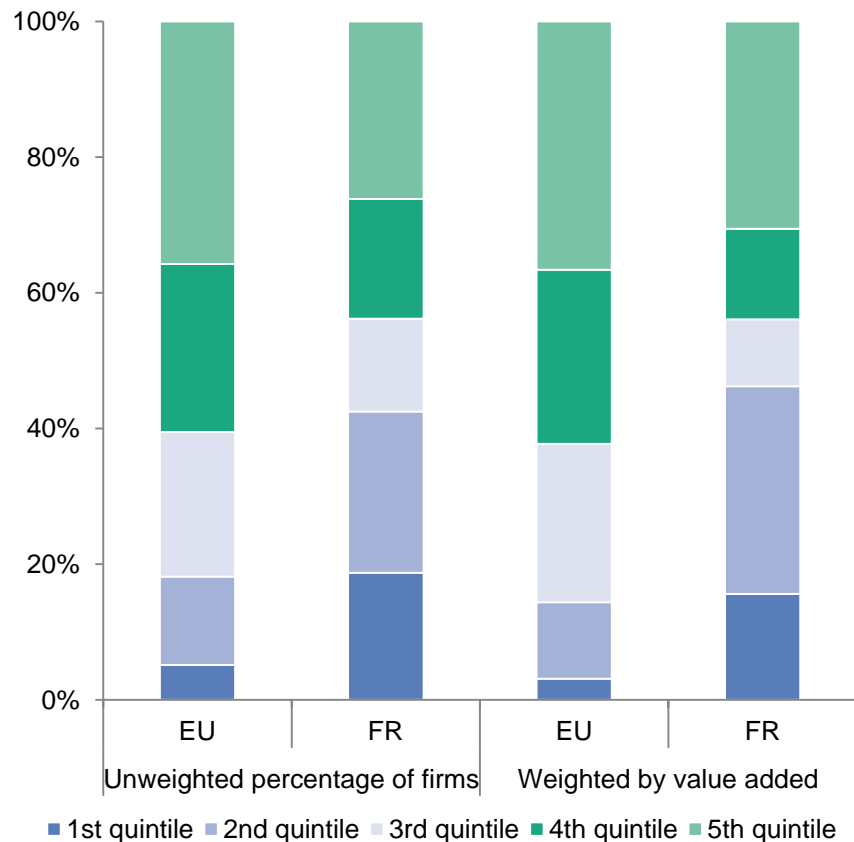


Base: All firms with an estimate of TFP

- But firms in France with low productivity (e.g. bottom 40% of the TFP distribution) generate 43% of employment...
- ...unlike in the EU as a whole, where firms with low productivity represent less than 25% of employment
- This may suggest an inefficient allocation of labour in France, with many people working in firms that are not very productive

Low productivity firms represent a larger share of total investment in France than in the EU

Share of investment by quintiles of the TFP distribution in the EU and France

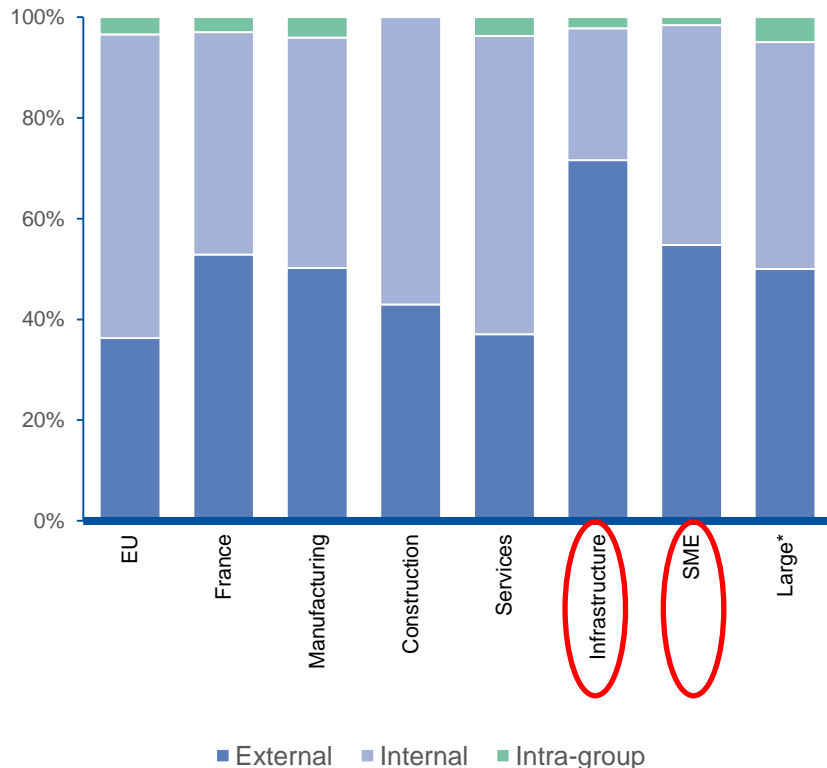


Base: All firms with an estimate of TFP and that invested in the last financial year (excluding don't know/refused responses)

- The most productive firms (top 20% of the TFP distribution) generate 31% of total investment in France, compared to a share of 36% in the EU...
- ...and, unlike in the EU as a whole, firms in France with low productivity (bottom 40% of the TFP distribution) represent more than 40% of total investment
- Again possibly suggesting an inefficient allocation of resources

Firms in France report the highest share of external finance in the EU

Source of investment finance



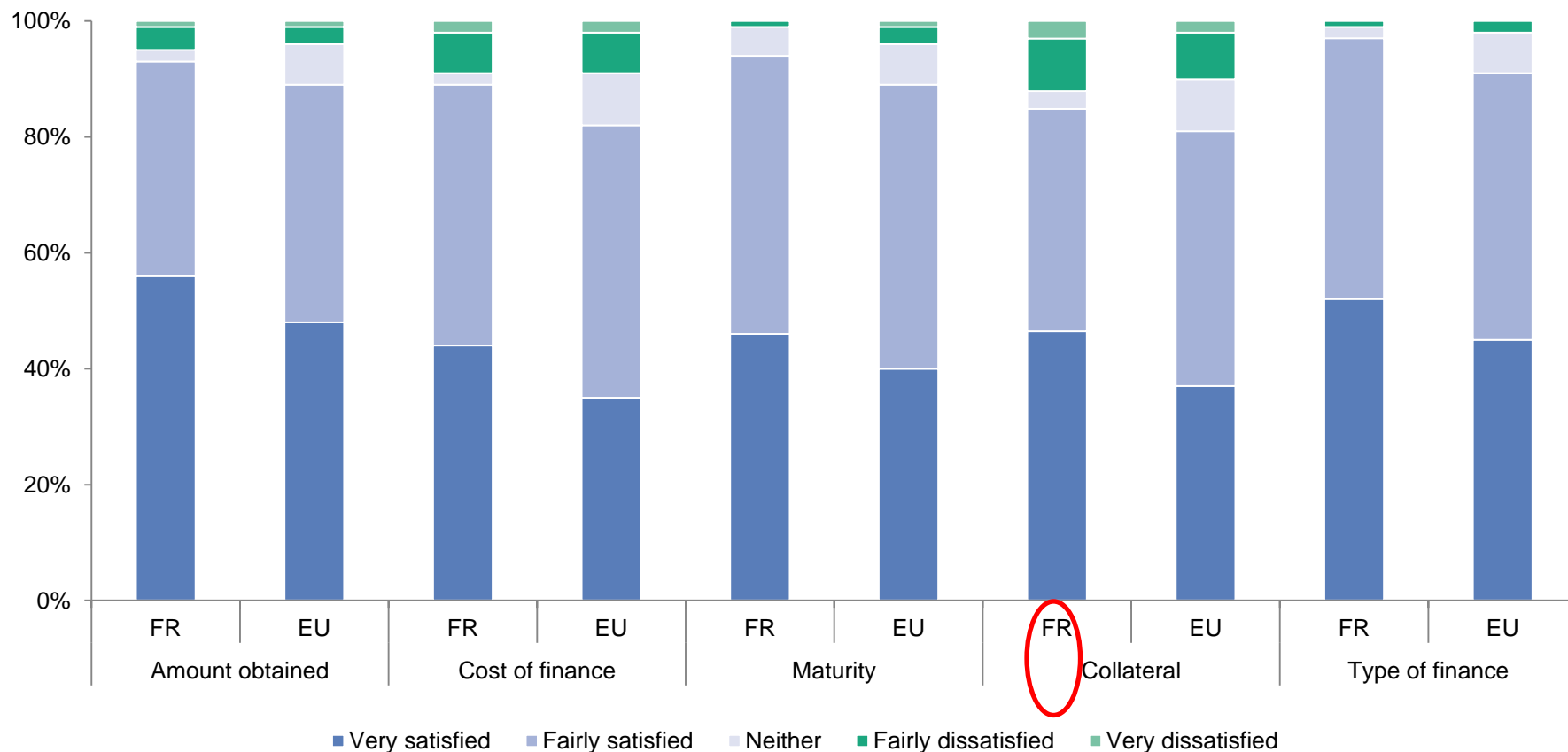
Base: All firms (data not shown for those who said not an obstacle at all/don't know/refused)

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

- Firms report the highest share of external finance in the EU (53% in France; EU average is 36%)...
- ...and the lowest share of internal finance (44% in France; EU average is 60%)...
- ...in a context of weak profit margins that may limit the capacity of self-financing.
- Bank loans are the most common source of external finance

Firms in France are mostly satisfied with external finance but collateral requirement can be a problem for certain firms

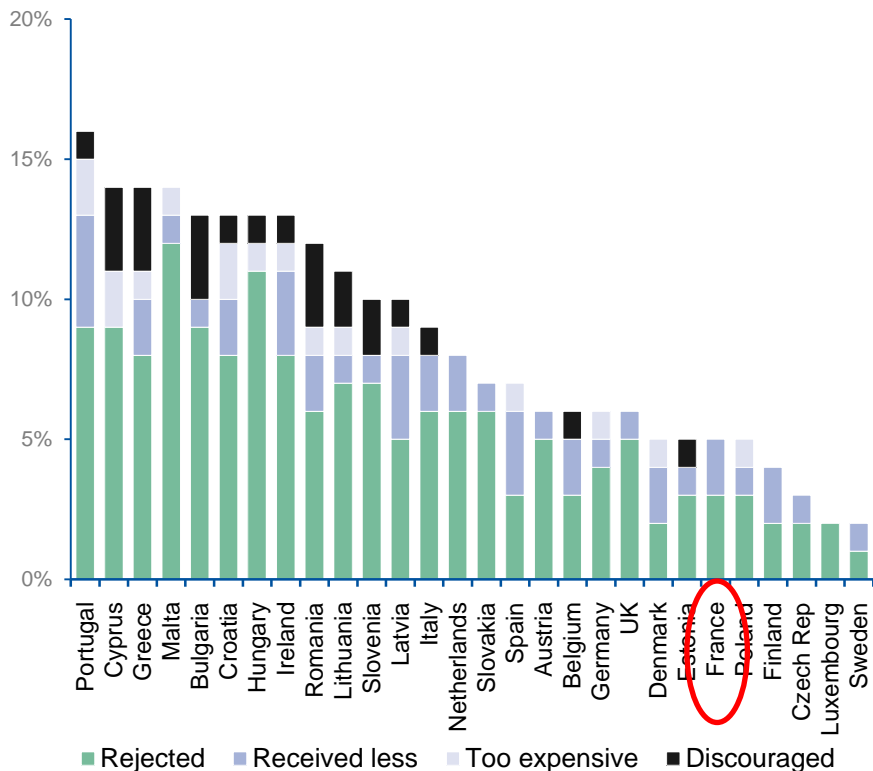
Satisfaction with external finance



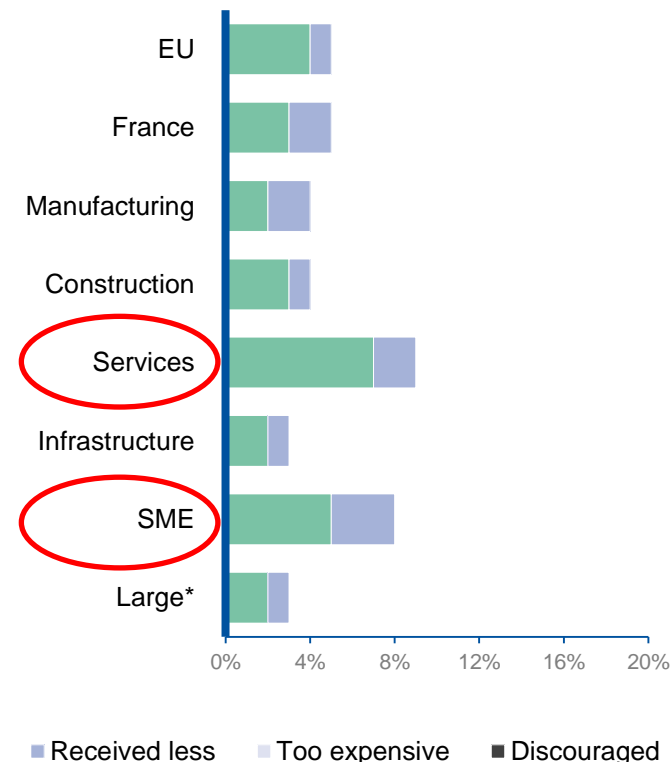
Base: All firms that used external finance in the last financial year (excluding don't know/refused responses)
 Q. How satisfied or dissatisfied are you with ...?

Only 5% of firms in France consider themselves to be credit constrained, but firms in services and SMEs are more likely to be finance constrained

Share of finance constrained firms



Share of finance constrained firms in France



Base: All firms

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)

Key messages for discussion (1)

- In France, investment has remained relatively robust during the crisis (compared to many EU countries) but is still 5% below the 2008 level
- Public infrastructure investment (of which almost 70% is done at the local government level) remains above the EU average but has been falling in recent years and private infrastructure investment is very low
- **Policy implications:** crucial to put in place a system in place for coordinating and relaunching infrastructure investment at different levels of the economy (public, local government, private sector)

Key messages for discussion (2)

- Uncertainty about the future and labour market regulations perceived as the main long term barriers to investment in the private sector
- Firms that are not productive generate a large share of employment and investment in France, compared to the EU as whole
- **Policy implications:** Need for more predictive public policies and a more efficient reallocation of resources (with less protection for firms that are not productive)
- Firms in France report the highest share of external finance, in a context of weak profit margins that may limit the capacity of self-financing
- They are mostly satisfied with the conditions for external finance but collateral requirement can be a problem for certain firms in France
- **Policy implications:** Target interventions to improve conditions for investment finance and innovation – in particular for SMEs, firms in services and firms that invest in intangibles

Policy messages

- Differences among countries call for a differentiated approach
- Financial sector:
 - Further efforts to restructure the banking sector and create a full banking union
 - Focus on diversification of financial sources
 - New options for more equity financing – i.e. level playing field equity vs debt
- Public Sector:
 - Potential growth and TFP – Structural reforms to boost returns on investment
 - A case for stronger and better defined “industrial policies”?
 - Quality of spending
 - Institutional capacity
 - National, regional, municipal coordination
 - Catalytic instruments

- Public support to investment:
 - Focus on productive investment (with impact on TFP)
 - Quality infrastructure, supporting market integration
 - Innovation
 - Access to Finance
 - Climate
 - Cross-European instruments to facilitate efficient re-allocation of excessive domestic savings, even intra-EU
 - Equity, other than debt: level playing field for private equity, lower barriers for firms to listing and issuing in capital markets
 - Advisory and technical assistance

Policy messages – additional views

- DG EcFin: not much fiscal space but more quality investment and EFSI 2
- OECD: use fiscal space to support quality investment and structural reforms (and put EFSI co-financing out of the fiscal rules)
- IMF: fiscal stabilizer for EMU based on investment and focus on advancement of the banking union!
- Others: diffusion of innovation and more equity financing