

EIB Group survey finds need for more investment in research and state-of-the-art capital stock in Central, Eastern and South-eastern Europe

The investment outlook in Central, Eastern and South-eastern Europe is positive, but companies need to invest more in state-of-the-art machinery and equipment, and in research and development. These were the findings of the Survey of Investment and Investment Finance that the European Investment Bank published on 26 May at the GLOBSEC Forum 2017 in Bratislava. The presentation of this unique, EU-wide annual survey involving more than 12 000 firms was focused on the investment environment in Central, Eastern and South-eastern European countries (CESEE).

EIB Vice-President Vazil Hudák commented: *“the EIB Investment Survey (EIBIS) shows that the investment outlook in the CESEE region has improved in recent years. On the other hand, we see that uncertainty, the lack of skilled staff, and business and labour market regulation continue to represent major barriers for investing in this region. The region would benefit from further upscaling of the “quality” of capital stock and more support for R&D. The survey conclusions will help the EU bank to contribute to a policy response that properly addresses the needs of businesses, promoting investment in the EU”.*

The survey findings indicate that despite the fact that the share of companies investing in the region in 2015 was below the EU average, **corporate investment activity was particularly strong in Slovenia, the Czech Republic and Croatia, standing above or at the EU average. The outlook was positive overall, with almost all countries in the region showing more firms expanding investment plans in 2016, rather than scaling them back.**

The survey shows **that the investment outlook in the CESEE region for the 2016 financial year was modestly optimistic.** On balance, more firms expected an expansion in investment than a contraction, in line with the EU average. The strongest investment expectations were in Croatia, Hungary, Poland and Slovakia, while the weakest expected investment activity was in Lithuania, Estonia and Latvia. This is consistent with somewhat slower growth in the Baltics recently, strong domestic demand growth in the CEE4 countries, and a recovery from a long and deep recession in Croatia.

If compared to the EU as a whole, firms in the CESEE countries invest more in relative terms into tangibles (i.e. machinery, equipment, land, buildings, etc.) and lag behind in R&D investment. This could negatively affect the efforts of the firms to move to higher value-added production in the medium term, particularly given the fact that firms in the CESEE region lag behind the EU as a whole in terms of productivity.

Firms' investment priority for the next three years is replacement, which features particularly prominently among firms in Hungary and Estonia. Poland, the Czech Republic, and Slovakia have the highest share of firms planning to invest in new products and services. In relative terms, capacity expansion plans – usually the highest investment outlay – feature more prominently among firms in Croatia (38% of firms), Romania (33%) and Slovakia (30%), which is consistent with strong domestic demand in Slovakia and a period of under-investment during the aforementioned recession in Croatia.

The results demonstrate that **investment gaps** come not only from insufficient capital stock, but also from **shortages in terms of state-of-the-art machinery and equipment and energy efficient corporate building blocks**. Additionally, **the political and regulatory environment hampers animal spirits in the region, and availability of staff with the right skills is a prevalent issue**. Compared to the EU average, a higher share of firms remain external-finance constrained, and the main source of dissatisfaction with external finance boils down to collateral requirements and cost of funding.

The 2016 survey was conducted from July to November. The results are weighted by value-added, reflecting firms' contributions to the economy. In the CESEE EU Member States, the survey covered 4 881 firms in 11 countries.