Investment, and Investment Finance in Portugal

Ricardo Santos

Lisbon
21 January 2018

Introduction

Recovery in the Portuguese economy pursuing.

How to ensure it remains sustainable?

And that it contributes to rising potential growth?

Use both macro and granular information to analyse:

The investment recovery in Portugal and gaps (in volume and quality)

The innovation activity and digital transformation

The impediments and the financing environment

Outline

1 – Investment recovery and gaps: overall picture

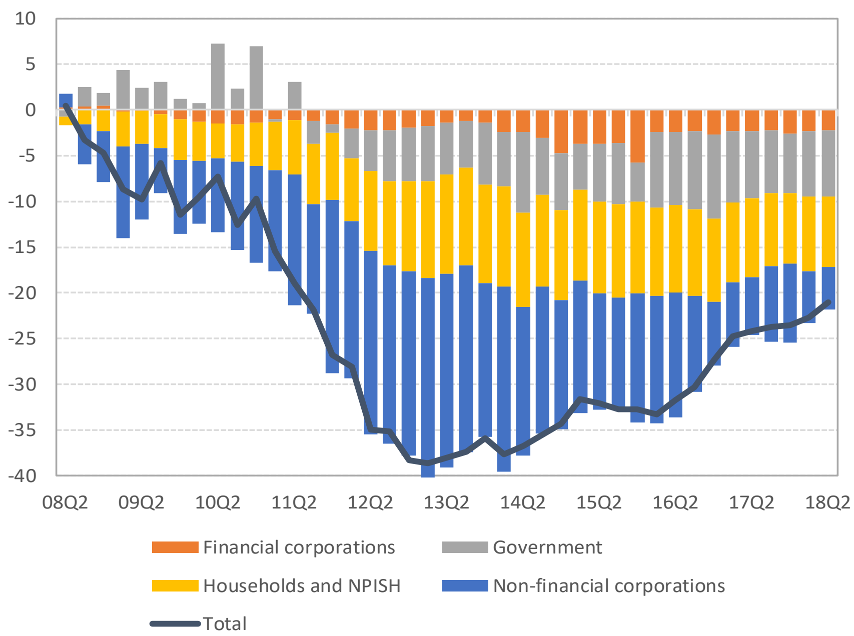
2 – Intangible, Innovation and digitalization

3 – Impediments and the financial environment

1 - A remaining substantial investment gap in Portugal

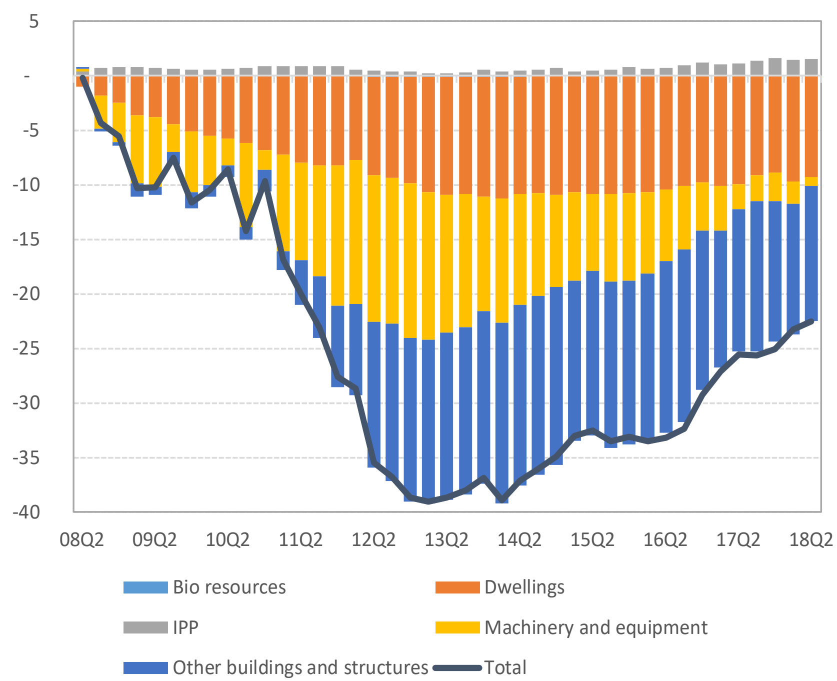
Real investment by sector

Cumulative change relative to 1Q08



Real Investment by asset

Cumulative change relative to 1Q08



Note: Cumulative change of quarterly real investment relative to the 1Q08 level, with sector-level contributions.

Source: Econ calculations, Eurostat, national authorities

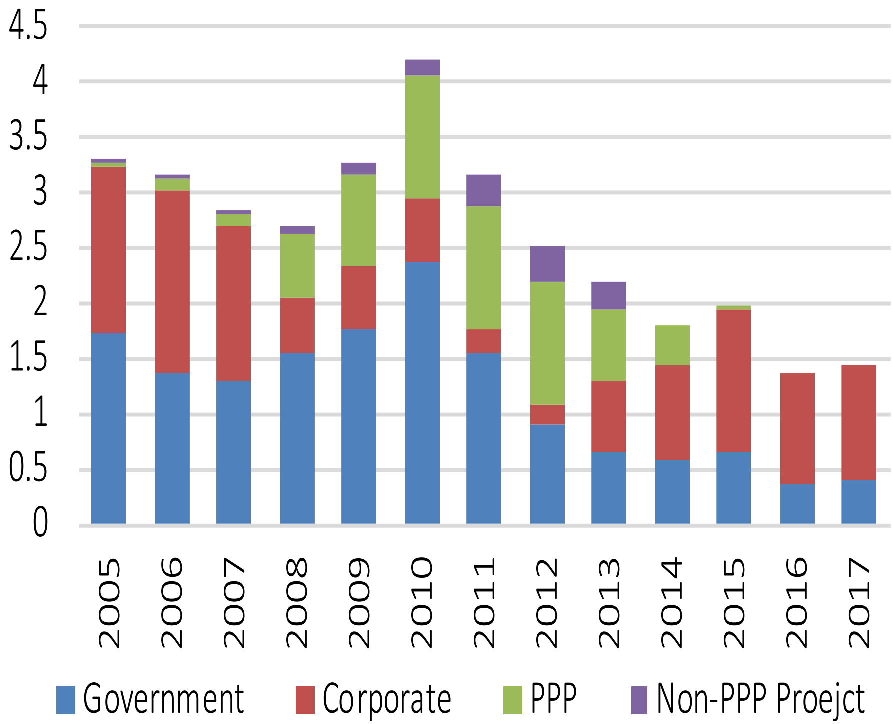
Note: Cumulative change of quarterly real investment relative to the 1Q08 level, with asset class contribution.

Source: Econ calculations, Eurostat

1 - Decline in infrastructure and growth-enhancing investment

Infrastructure investment

per cent of GDP

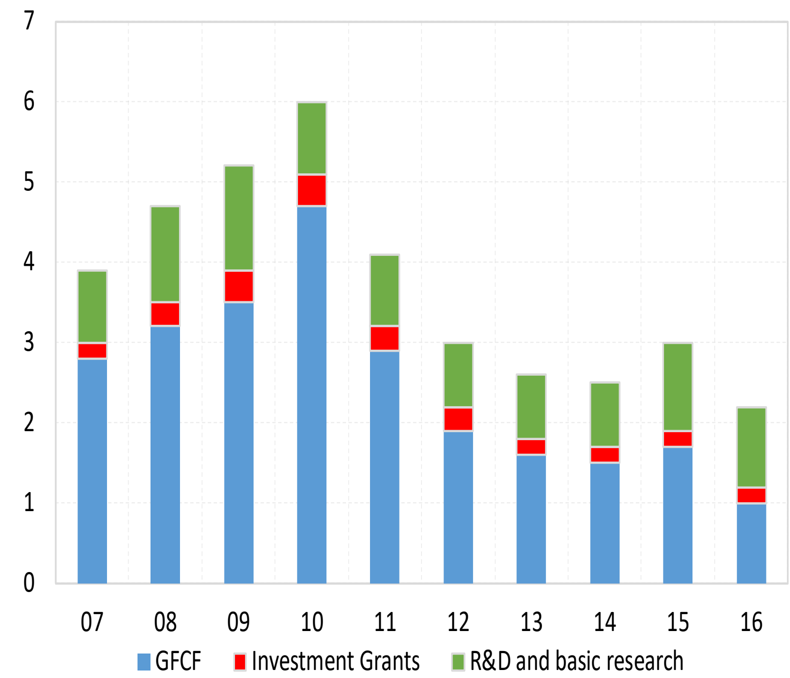


Note: Annual infrastructure investment as a share of GDP, broken down by institutional sector.

Source: Econ calculations, Eurostat, national authorities

Growth-enhancing expenditure (% of GDP)

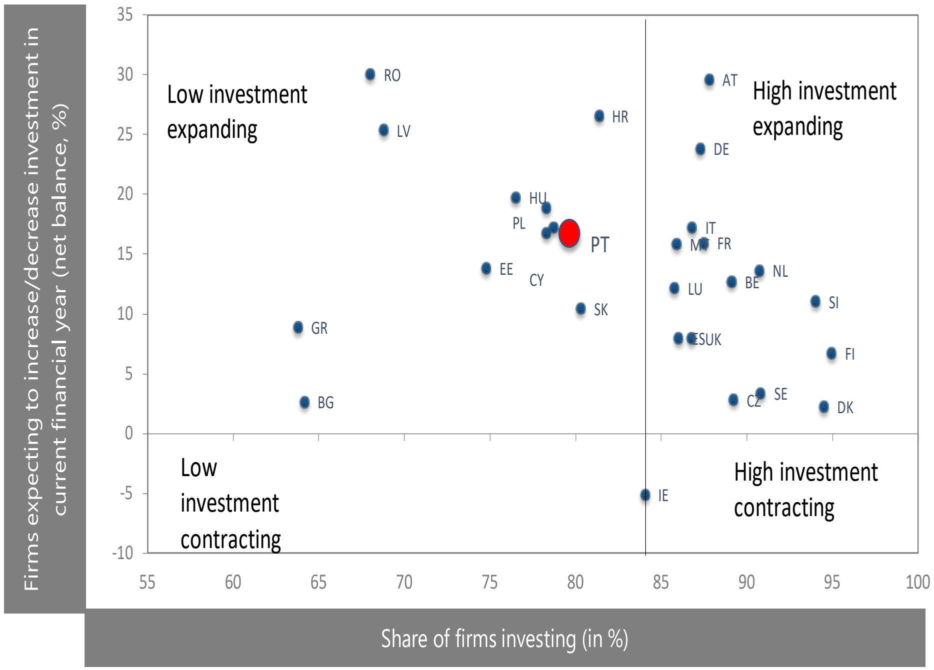
per cent of GDP



Source: Econ calculations, Eurostat, national authorities

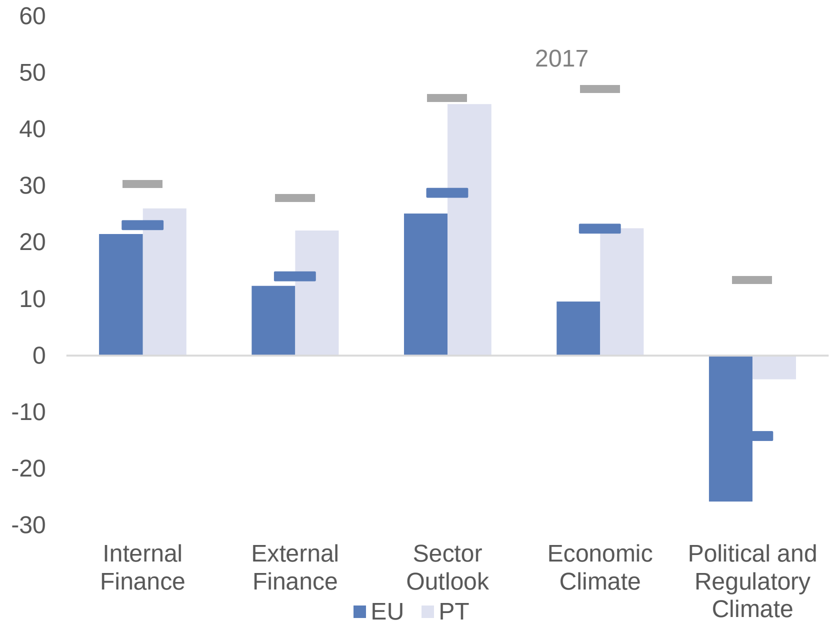
1 - Investment activity is picking up…

Investment cycle



Short-term influences on investment

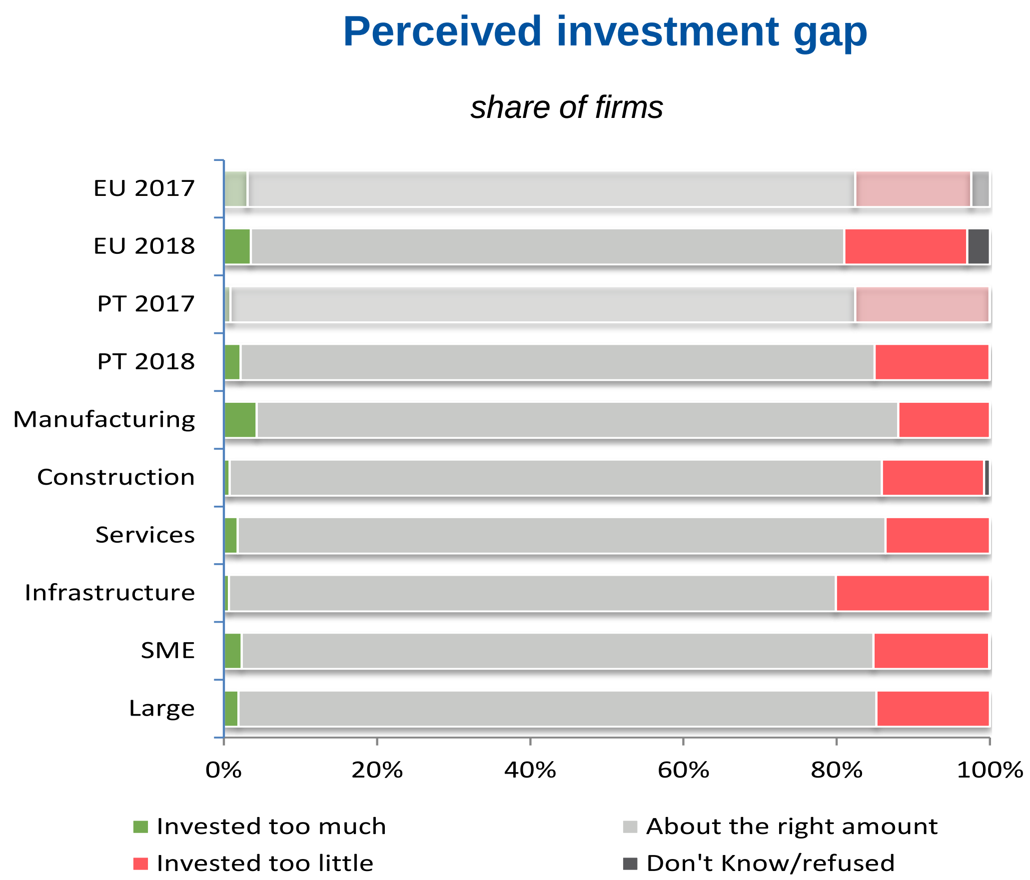
(net balance)



Note: Plots the net balance of firms set to expand investment over the percentage of firms having investment more than EUR 500 per employee. relative to the share of firms investing, by sector or Member State; cross centered on EU 2016 average.

Source: Econ EIBIS

1 - How the level of investment is perceived?



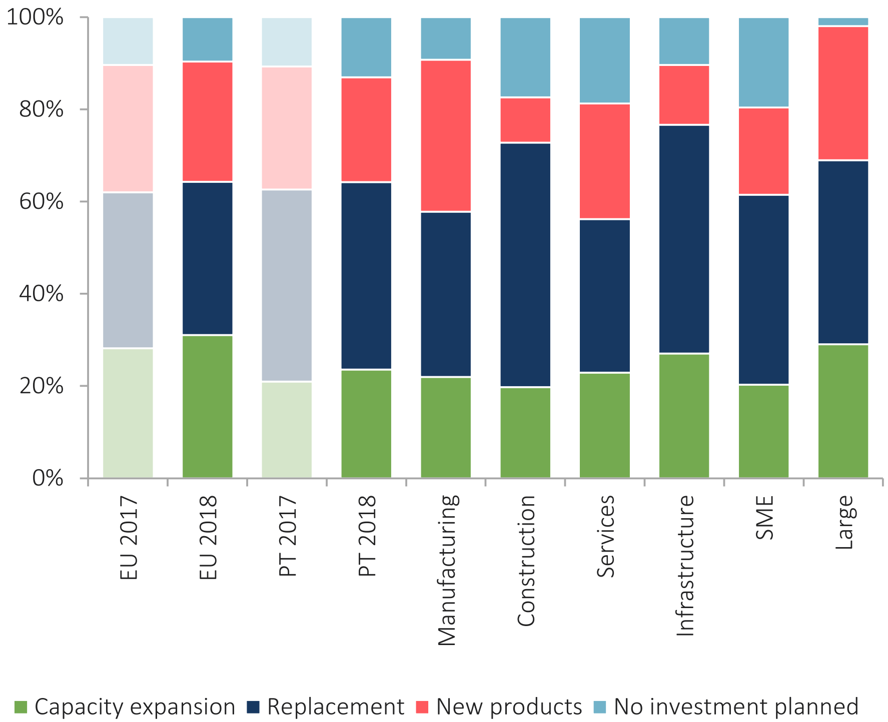
Note: Share of responses in per cent: Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount?

Source: Econ EIBIS

1 - Why are firms investing?

Future investment priorities

share of firms

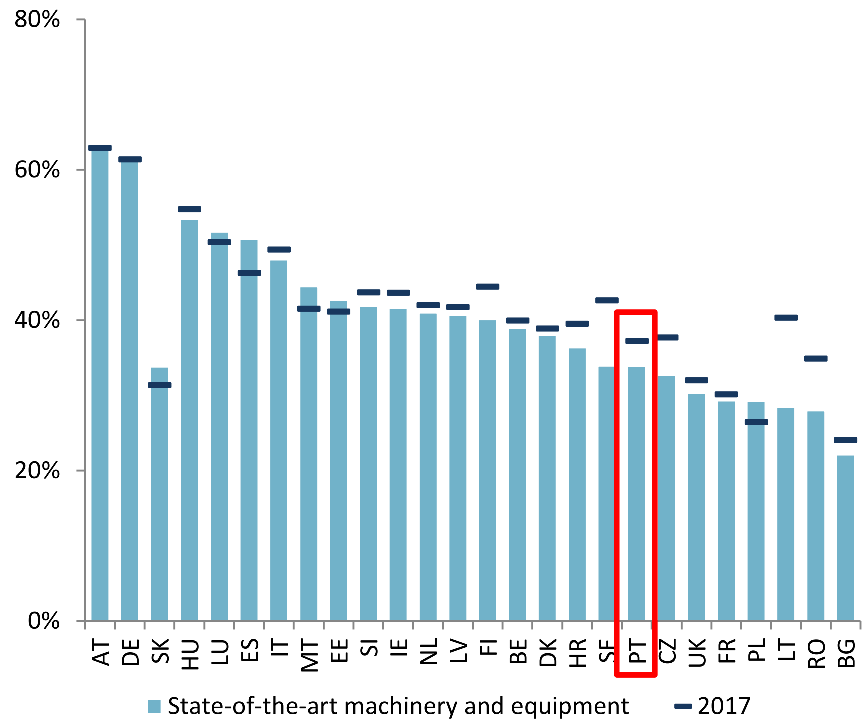


Note: Share of firms by main purpose of investment, in per cent. Q. Looking ahead to the next 3 years, which is your investment priority (a) replacing existing buildings, machinery, equipment, IT; (b) expanding capacity for existing products/services; (c) developing or introducing new products, processes,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

Source: Econ EIBIS

State-of-the-art machinery and equipment

share of total investment

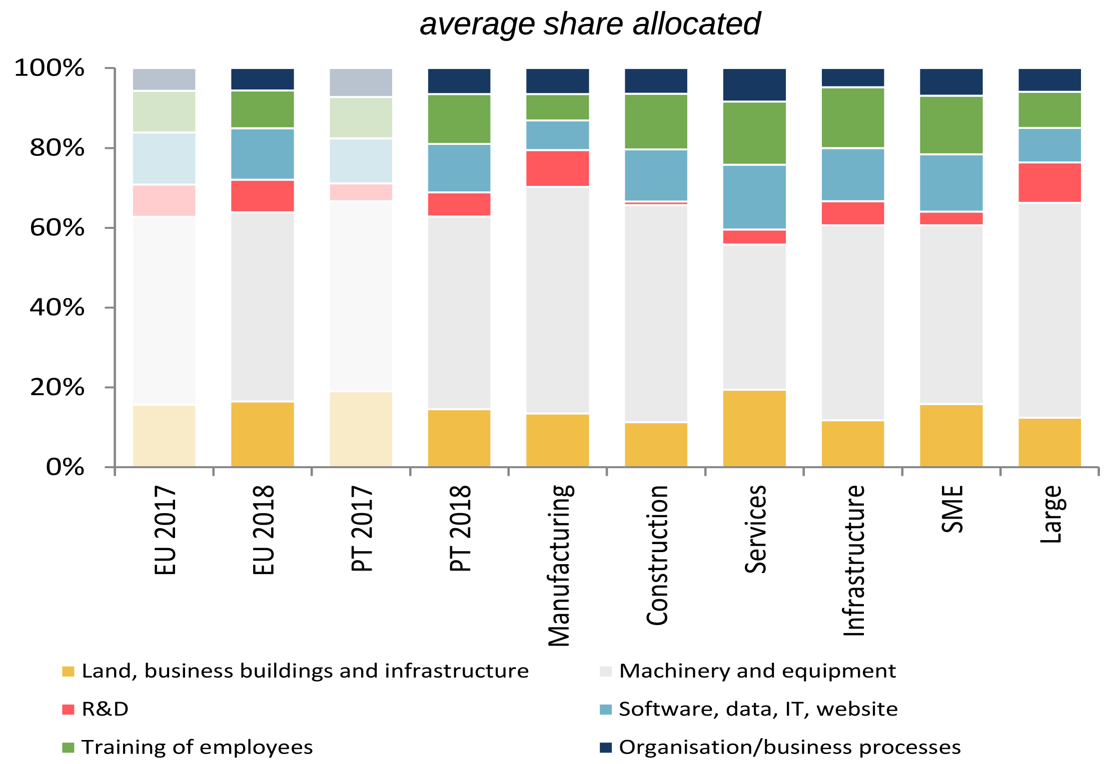


Note: Average of responses in per cent: Q. What proportion, if any, of your machinery and equipment, including ICT, would you say is state-of-the-art?

Source: Econ EIBIS

1 - Which investments are firms focusing on?

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

Outline

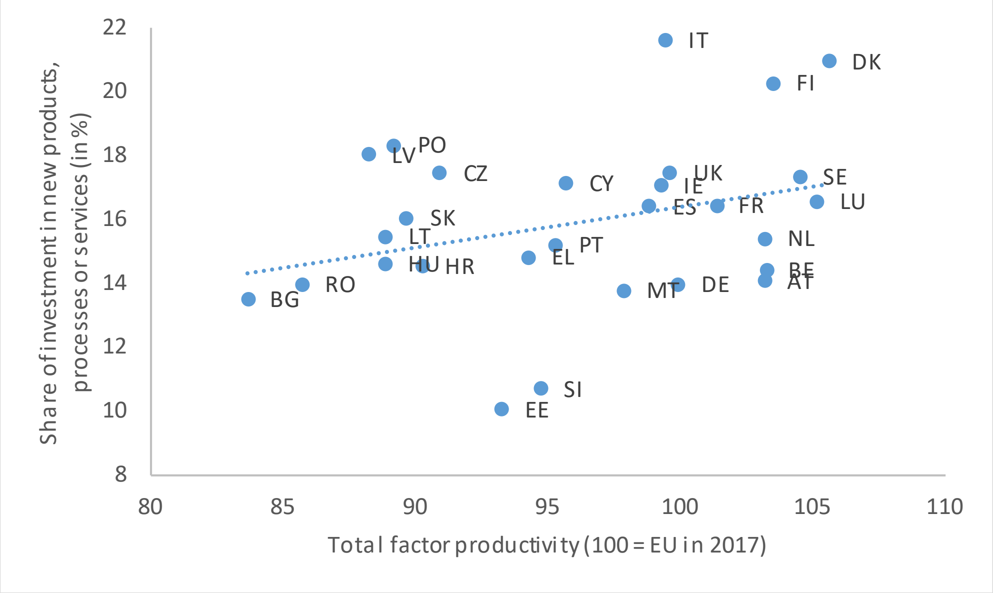
1 – Investment recovery and gaps: overall picture

2 – Intangible, Innovation and digitalization

3 – Impediments and the financial environment

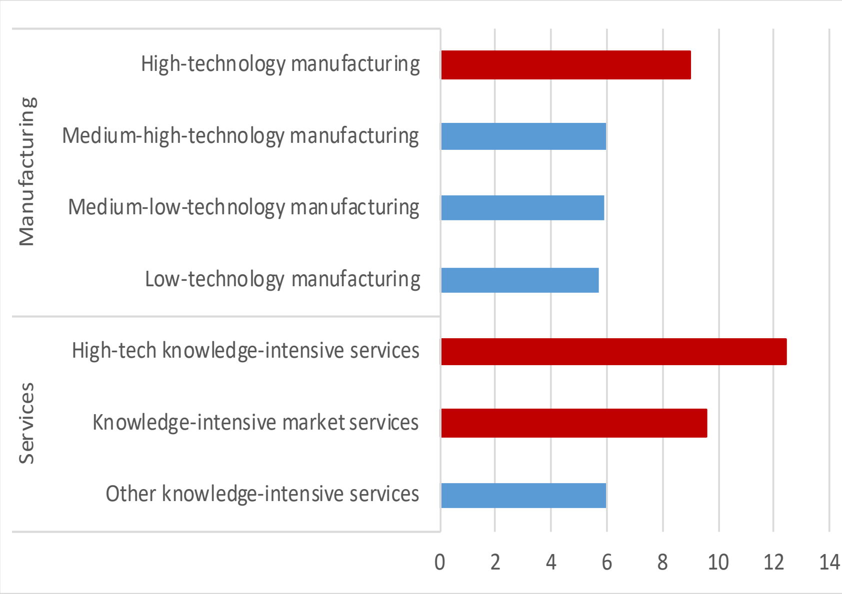
2- Innovation and growth

Innovation and productivity



High growth enterprises by technology intensity of the sector

(%)



Note:

Source: Eurostat and EIB calculations

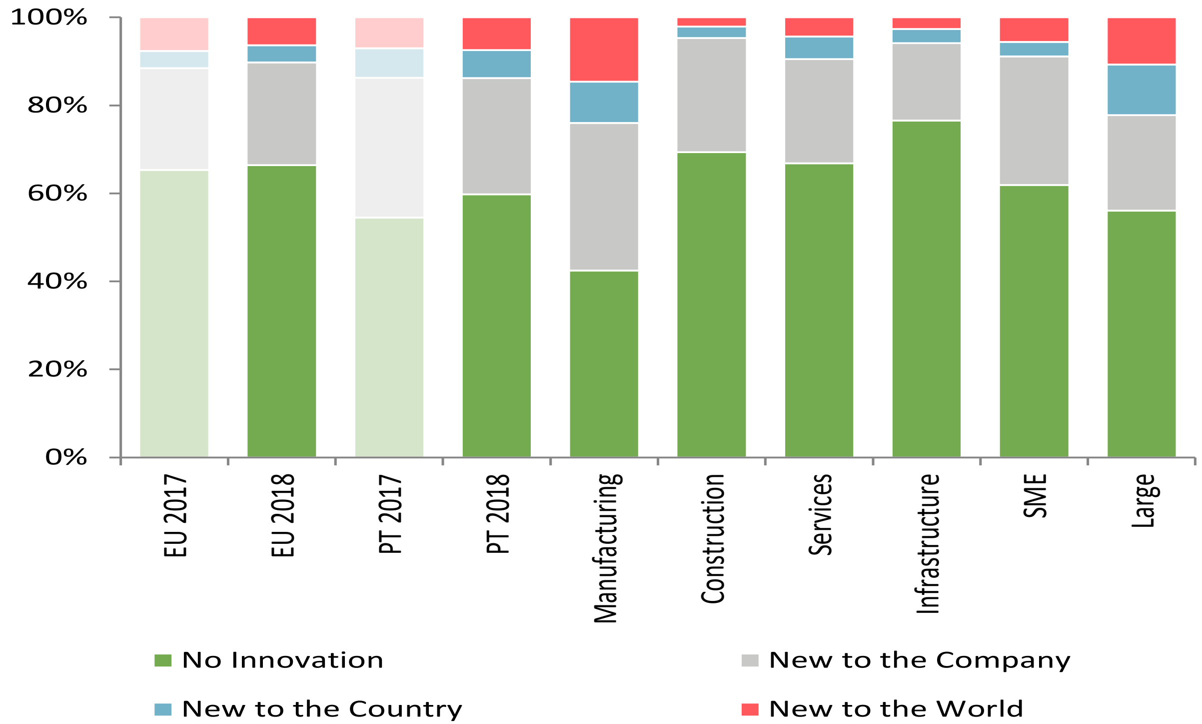
Note: Share of high growth enterprises (HGEs, in %), by technology intensity of the sector

Source: EIBIS 2018

2 – How do companies innovate?

Innovation activity

Average share allocated

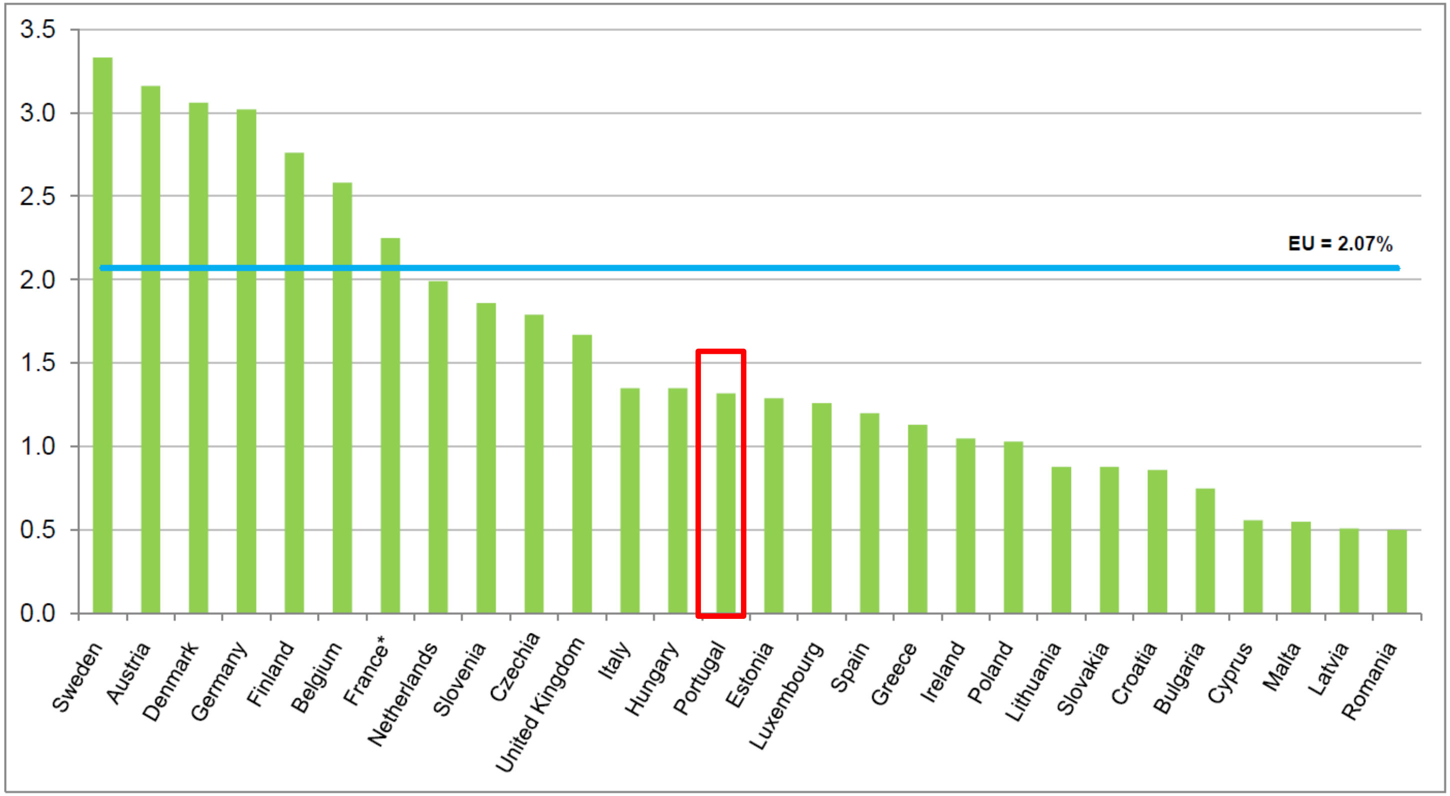


Note: Average of responses in per cent: Q. What proportion of total investment was for developing or introducing new products, processes, services? Q. Were the products, processes or services new to the company, new to the country, new to the global market?

Source: Econ EIBIS

2 – Portuguese investment in R&D is still below the EU average

R&D intensity in the EU Member States, 2017
(R&D expenditure as % of GDP)

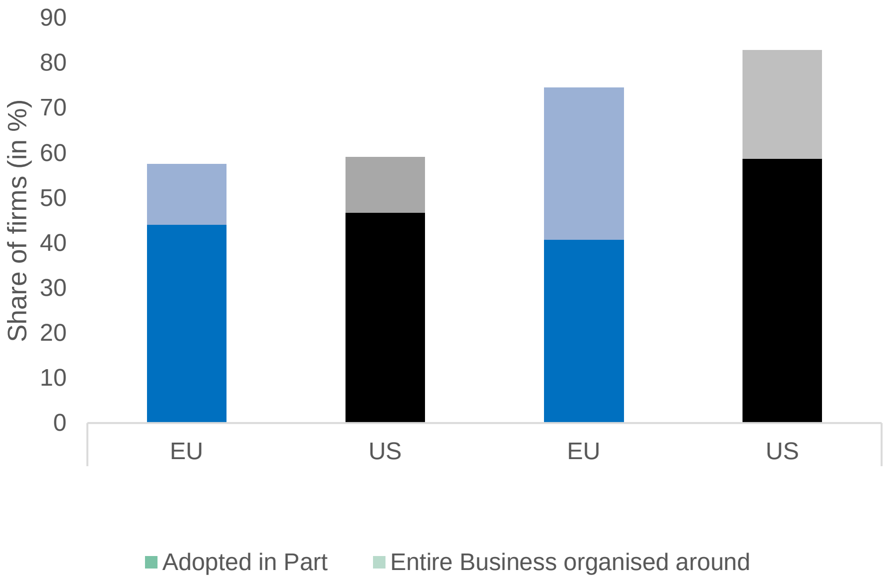


* 2016 data instead of 2017

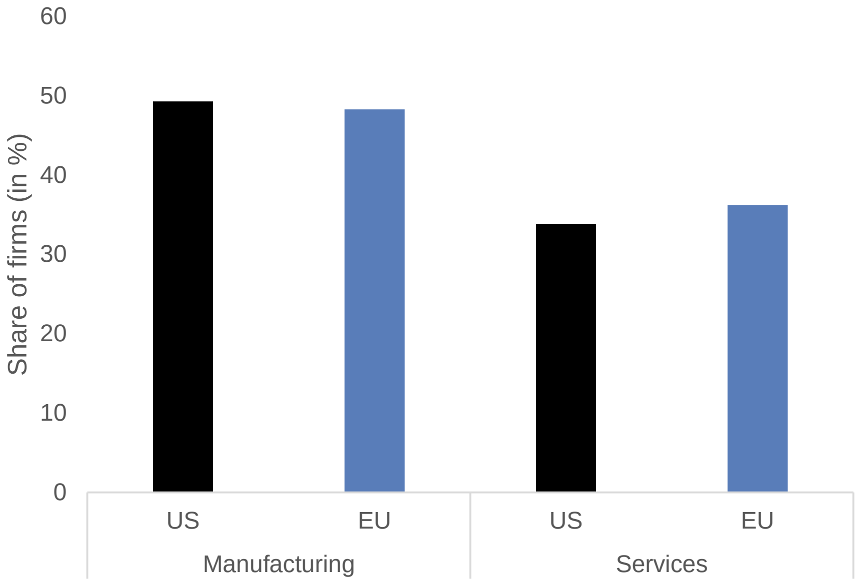
Source: Eurostat

2 - Digitalisation

Share of firms that have adopted digital technologies
(%)



Share of firms that reported not having invested enough in the last three years
(%)



Source: EIB calculations based on the EIBIS 2018 and EIBIS Digital and Skills Survey 2018

Outline

1 – Investment recovery and gaps: overall picture

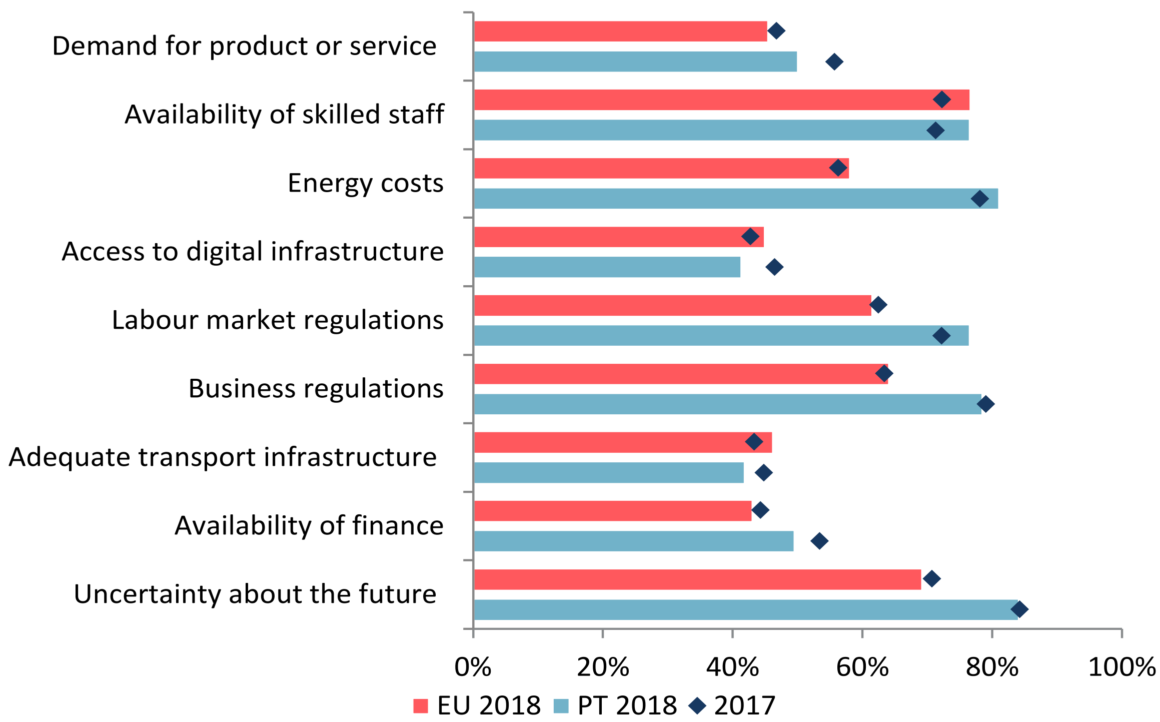
2 – Intangible, Innovation and digitalization

3 – Impediments and the financial environment

3 - Uncertainty, regulation and energy costs major impediments to investment, relatively more in Portugal

Long-term barriers to investment

share of responses



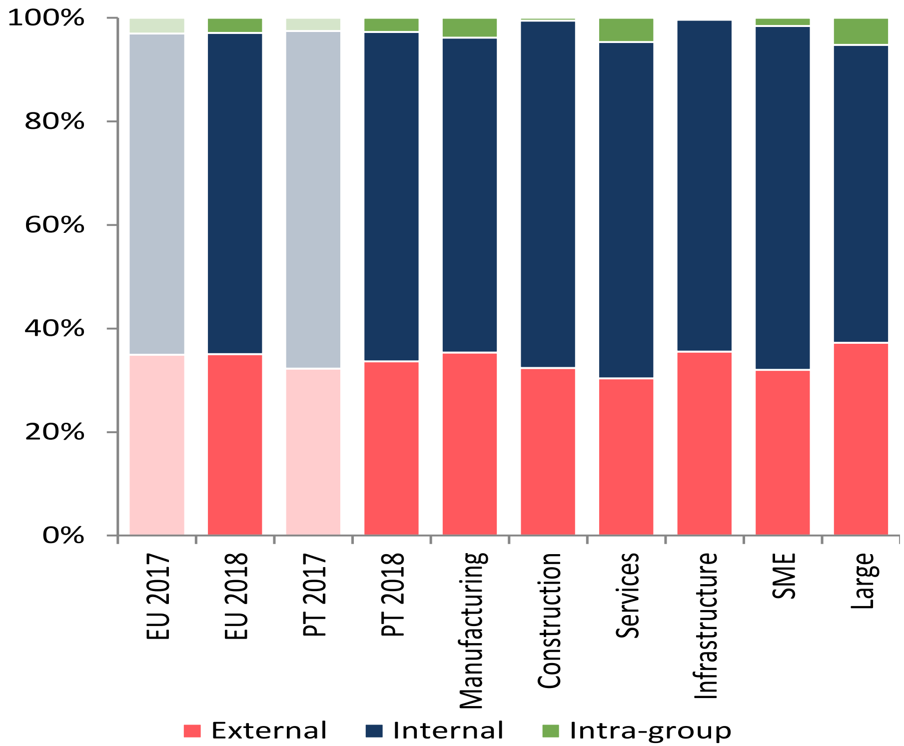
Note: Share of responses in per cent: Q. Thinking about your investment activities, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

Source: Econ EIBIS

3 - Source of finance

Source of investment finance

average proportion

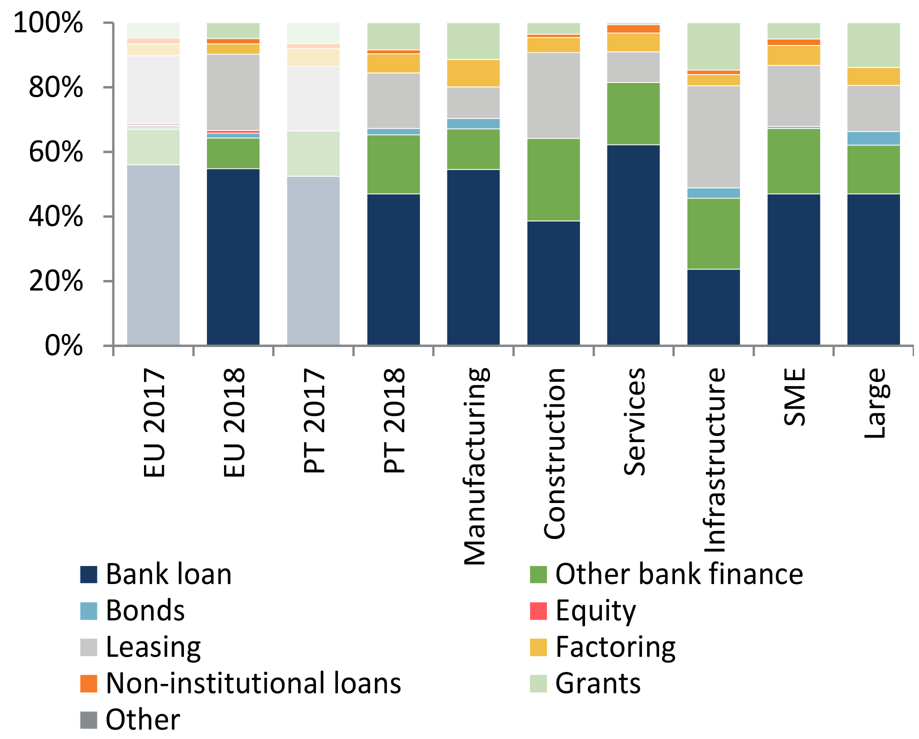


Note: Average of responses in per cent: Q. What proportion of your investment was financed by each of the following?

Source: Econ EIBIS

Type of external investment financing

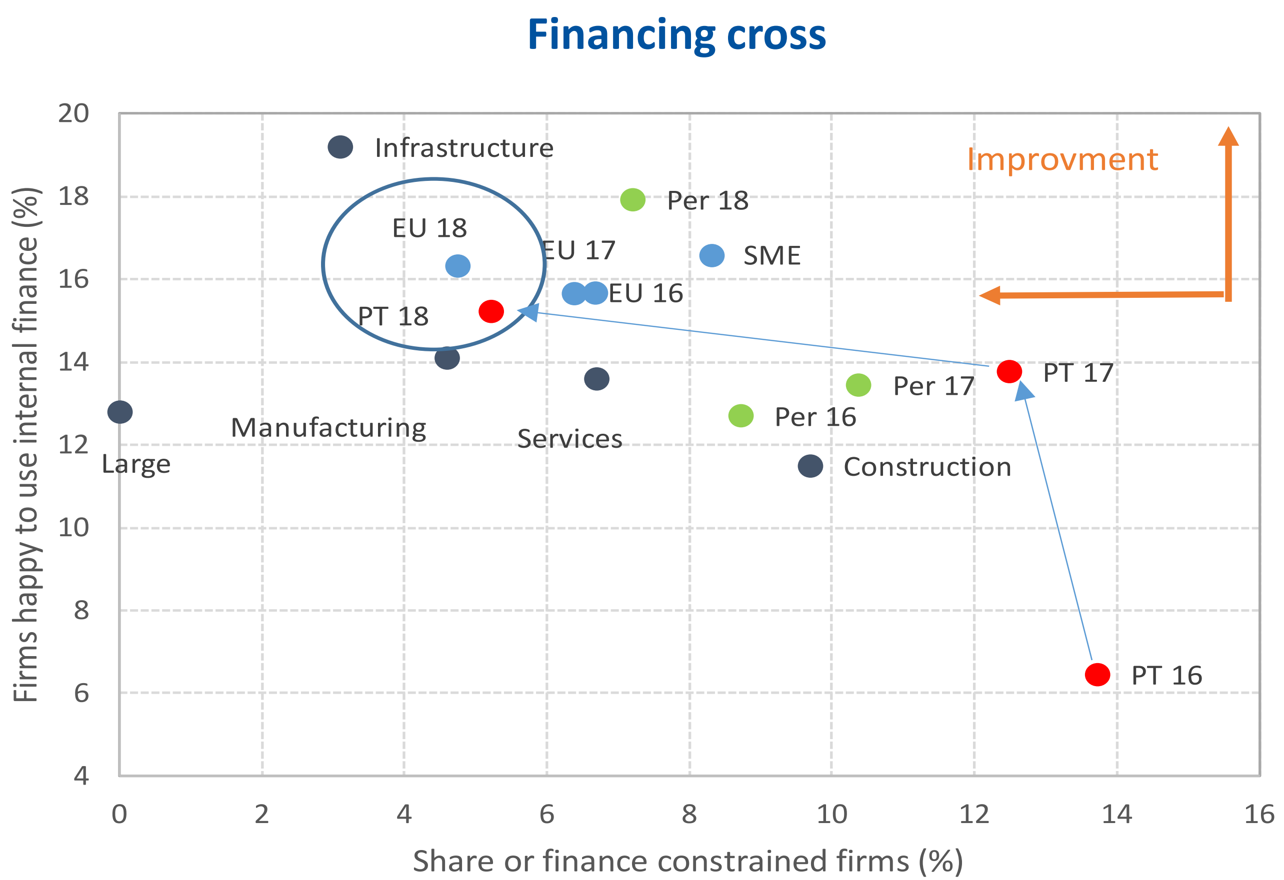
average proportion



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

Source: Econ EIBIS

3 - Diversity of access to finance across the EU

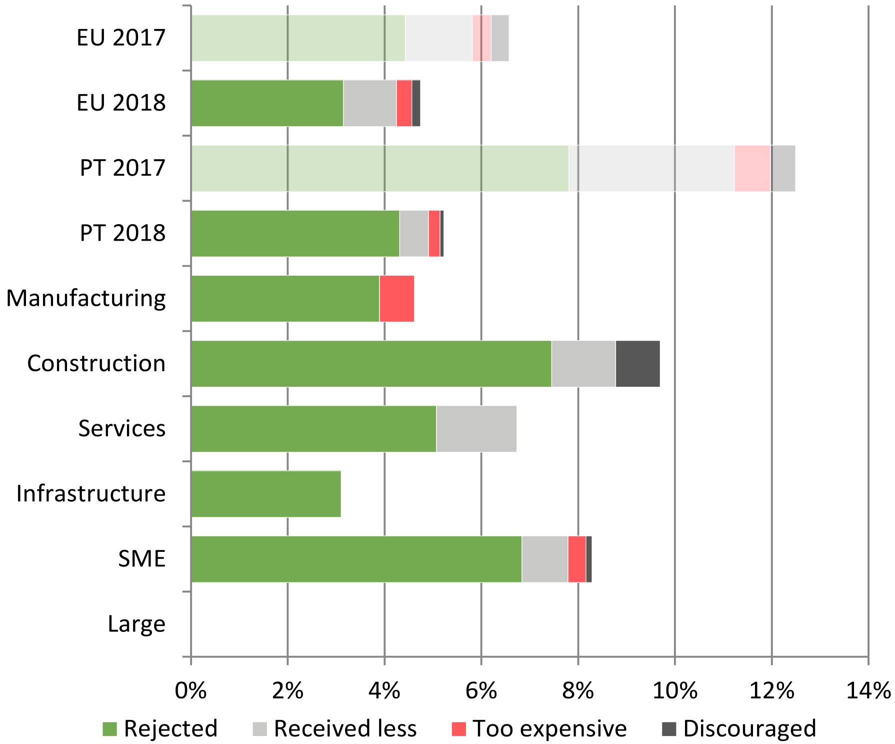


Source: EIBIS16, 17 and 18.
Notes: All firms. Firms indicating main reason for not applying for external finance was 'happy to use internal finance/didn't need finance'. ***Financial Constraint*** *indicator includes: rejected, too expensive and discouraged.*

3 – Share of finance constrained firms is now the same as in the EU

Share of finance constrained firms

per cent

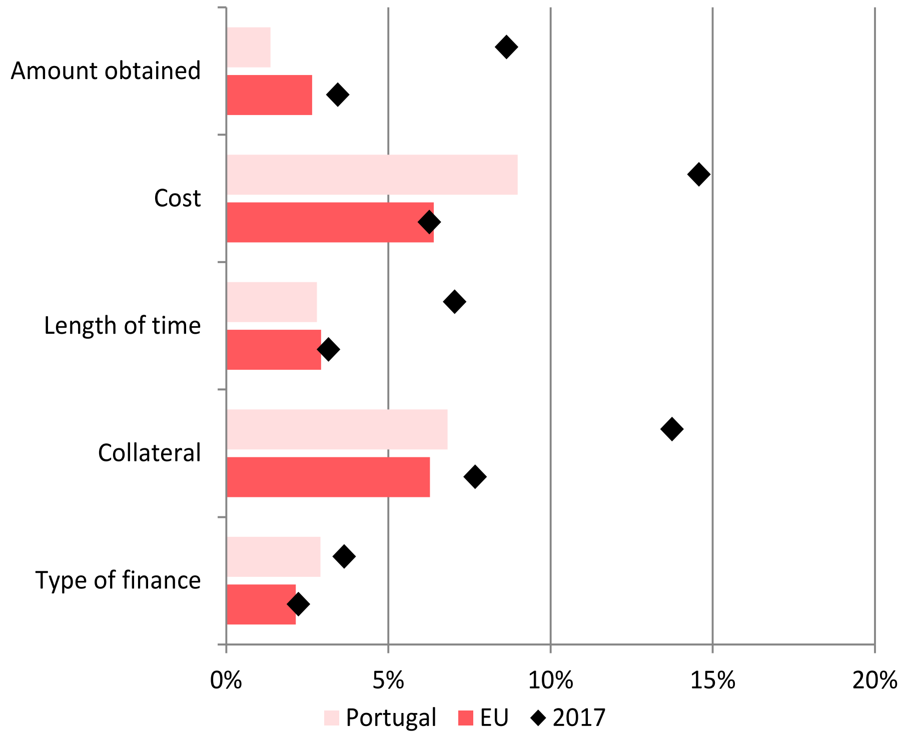


Note: Proportion of firms considering themselves finance constrained: Finance constrained firms include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive) or they would be turned down (discouraged)

Source: Econ EIBIS

Dissatisfaction with external finance

share of responses



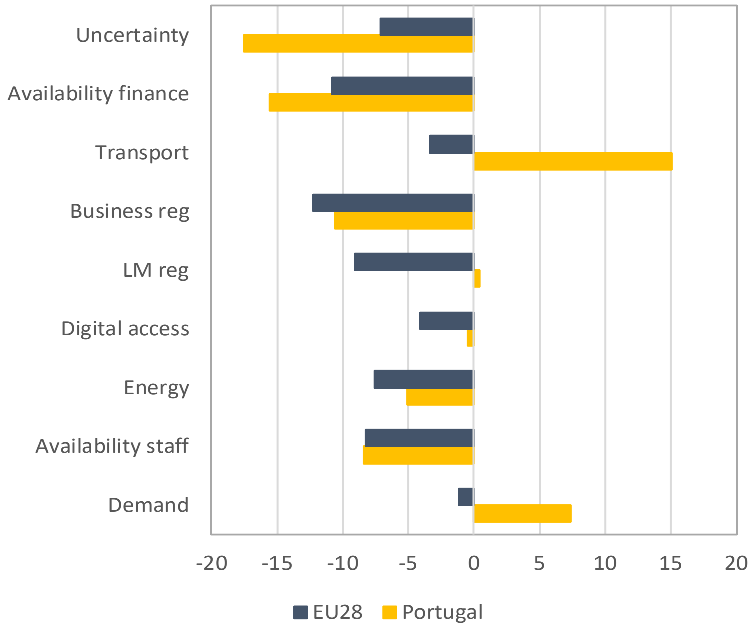
Note: Average share of responses, in per cent Q. How satisfied or dissatisfied are you with ….?

Source: Econ EIBIS

3 – Foreign owned firms face less constrains

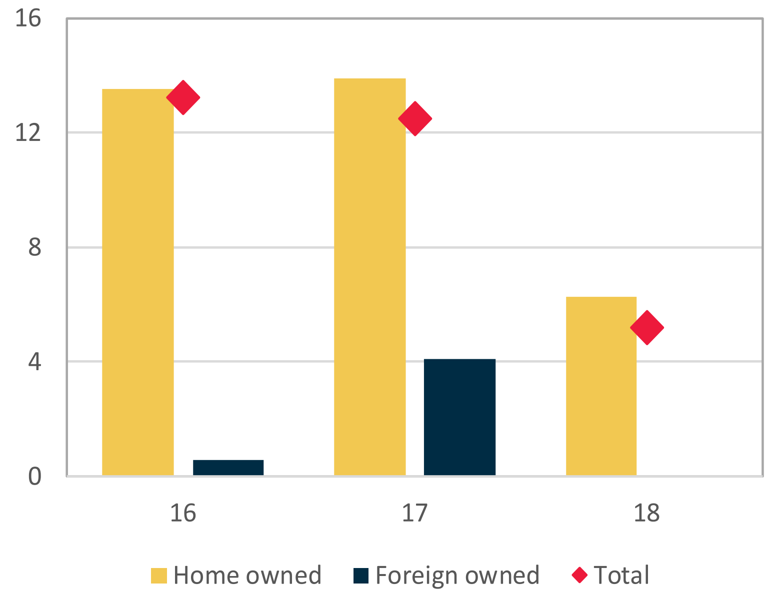
Difference between Domestic and Foreign Owned Firms

share of responses



Share of firms with financial constraints

share of responses in per cent



Note: Share of responses in per cent: Q. Thinking about your investment activities, to what extent is each of the following is a major obstacle?

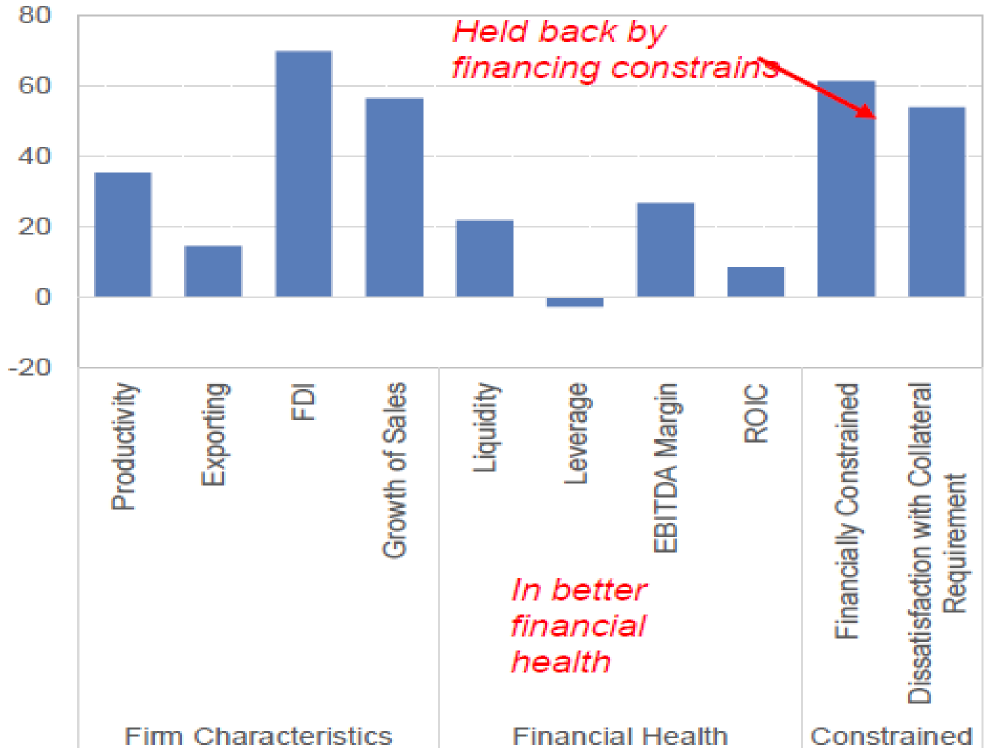
Source: Econ EIBIS

Note: Share of responses in per cent: Q. Thinking about your investment activities, to what extent is availability of finance a constrain?

Source: Econ EIBIS

3 – Innovative firms face higher financing constrains

Differences between innovative and non innovative companies



Source: EIBIS16 and 17
Notes: Difference vs non innovative (=100)

Summary

- **Still a 20% investment gap** but more firms increased than reduced investment in the last financial year. A large part of the gap reflects still weak investment by the government and households.

- **Firms hold a positive investment outlook for the current financial year**, with large firms and infrastructure sector firms being the most positive. However, short term tailwinds are weaker than in last year.

- **15% of firms report investing too little in the last three years**, similar to the EU average and below the previous wave.

- Stands in the **lower part of the EU distribution in terms of intangible investment**. The average share of state-of-the art machinery and equipment in firms is also below the EU average (37% versus 45%).

- **Uncertainty** about the future is the main barrier to investment, followed by **energy costs and regulation** (both business and labour market) and– all more so in Portugal than EU-wide. Foreign owned firms are less constrained than those domestically owned.

- Only **5% of firms are finance constrained**, down from 12% in the previous wave, and now in line with the EU average.

Thank you