Investment, and Investment Constraints in Portugal

Ricardo Santos

Lisbon
26 March 2019
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 impediments and the financing environment

The role of the EIB group
Outline

1 – Investment recovery and gaps: overall picture

2 – Impediments and the financial environment

3 – The role of the EIB group
1 - A remaining substantial investment gap in Portugal

Real investment by sector
*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

Real Investment by asset
*Cumulative change relative to 1Q08*

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

Source: Econ calculations, Eurostat
1 – Corporate investment is picking up…

Investment cycle

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?

Perceived investment gap

share of firms

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

State-of-the-art machinery and equipment

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?

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

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
1 – 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
Outline

1 – Investment recovery and gaps: overall picture

2 – Impediments and the financial environment

3 – The role of the EIB group
2 - 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
**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
2 - Diversity of access to finance across the EU

Financing cross

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

Share of finance constrained firms

<table>
<thead>
<tr>
<th>Type of finance</th>
<th>EU 2017</th>
<th>EU 2018</th>
<th>PT 2017</th>
<th>PT 2018</th>
<th>Manufacturing</th>
<th>Construction</th>
<th>Services</th>
<th>Infrastructure</th>
<th>SME</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount obtained</td>
<td>0% 2% 4% 6% 8% 10% 12% 14%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>0% 2% 4% 6% 8% 10% 12% 14%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Length of time</td>
<td>0% 2% 4% 6% 8% 10% 12% 14%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collateral</td>
<td>0% 2% 4% 6% 8% 10% 12% 14%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Type of finance</td>
<td>0% 2% 4% 6% 8% 10% 12% 14%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Type of finance</th>
<th>Portugal</th>
<th>EU</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount obtained</td>
<td>0% 2% 4% 6% 8% 10% 15% 20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>0% 2% 4% 6% 8% 10% 15% 20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Length of time</td>
<td>0% 2% 4% 6% 8% 10% 15% 20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collateral</td>
<td>0% 2% 4% 6% 8% 10% 15% 20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Type of finance</td>
<td>0% 2% 4% 6% 8% 10% 15% 20%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

Source: Econ EIBIS
2 – Innovative firms face higher financing constraints

Differences between innovative and non innovative companies

Source: EIBIS16 and 17
Notes: Difference vs non innovative (=100)
2 – Foreign owned firms face less constraints

**Difference between Domestic and Foreign Owned Firms**

*share of responses*

<table>
<thead>
<tr>
<th>Category</th>
<th>EU28</th>
<th>Portugal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uncertainty</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Availability finance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business reg</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LM reg</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Digital access</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Availability staff</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Share of firms with financial constraints**

*share of responses in per cent*

<table>
<thead>
<tr>
<th>Year</th>
<th>Home owned</th>
<th>Foreign owned</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>12</td>
<td>16</td>
<td>18</td>
</tr>
<tr>
<td>17</td>
<td></td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>4</td>
<td></td>
<td>5</td>
</tr>
</tbody>
</table>

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

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
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.
1 – Investment recovery and gaps: overall picture

2 – Impediments and the financial environment

3 – The role of the EIB group
3 – EIB group activity in Portugal

Signatures
2014-2018 (Mn EUR)

- 2014: 1,453 Mn EUR
- 2015: 1,832 Mn EUR
- 2016: 1,780 Mn EUR
- 2017: 1,906 Mn EUR
- 2018: 1,979 Mn EUR

Increase of +36% from 2014 to 2018.
3 – EIB group activity in Portugal

Share of total signatures

<table>
<thead>
<tr>
<th>Year</th>
<th>Ambiente</th>
<th>Infraestrutura</th>
<th>Inovação</th>
<th>PMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>9,2%</td>
<td>14,5%</td>
<td>67,2%</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>9,2%</td>
<td>12,0%</td>
<td>53,6%</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>3,7%</td>
<td>25,2%</td>
<td>45,7%</td>
<td>25,4%</td>
</tr>
</tbody>
</table>

EIB group activity in Portugal

Share of total signatures

- 2016: 67.2%
- 2017: 53.6%
- 2018: 45.7%

- Ambiente: 9.2%, 9.2%, 3.7%
- Infraestrutura: 14.5%, 12.0%, 25.2%
- Inovação: 67.2%, 53.6%, 45.7%
- PMEs: 0%, 0%, 25.4%
3 – EIB group products – how we finance firms

- **Pre-seed Stage of development**
- **Startup SMEs and Small MidCaps** (<250 employees)
- **Small MidCaps and MidCaps** (250-500 employees)
- **Large MidCaps** (500-3,000 employees)
- **Large Caps**

- **First “Valley of Death”**
- **Second “Valley of Death”**

- **Funding size (EURm)**
  - **< 1.0m**
  - **< 7.5m**
  - **< 10m**
  - **< 25m**

- **Access to finance**
  - **EIB group products**
  - **how we finance firms**

- **Innovation finance gap**
  - EUR 7.5m-25m

- **Growth Finance Gap – expansion capital**
  - EUR 7.5m-25m
### 3 – Instruments for innovation and entrepreneurship

<table>
<thead>
<tr>
<th>Equity e equity-like</th>
<th>Dívida</th>
<th>Assessoria</th>
</tr>
</thead>
<tbody>
<tr>
<td>o O Grupo BEI é o maior investidor da Europa de Fundo de Fundos</td>
<td>o Dívida senior e subordinada disponível para empresas com maior maturidade (visibilidade de liquidez)</td>
<td>o Suporte às empresas inovadoras – melhorar a sua preparação para o investimento</td>
</tr>
<tr>
<td>o Investimentos intermediados (via TT, VC e PE funds) em todos os setores e geografias</td>
<td>o Disponível tanto no BEI, diretamente, como através dos seus parceiros intermediários</td>
<td>o Explorar as diferentes opções de financiamento dentro e fora do Grupo BEI</td>
</tr>
<tr>
<td>o Um novo instrumento «venture debt» para jovens empresas inovadoras disponível diretamente no BEI</td>
<td>o Condições mais flexíveis e, em geral, mais favoráveis</td>
<td>o Ajudar a desenvolver uma narrativa de crédito / equity para investidores</td>
</tr>
</tbody>
</table>

**InnovFin e European Fund for Strategic Investments (EFSI)**
Thank you