European Investment Bank
The EU bank

Czech Republic

Overview

EIB INVESTMENT SURVEY

2017

EIB Group Survey on Investment and Investment Finance Country Overview: Czech Republic

About the EIB Investment Survey (EIBIS)
The EIB Group Survey on Investment and Investment Finance is a unique, EU-wide, annual survey of some 12 300 firms. It collects data on firm characteristics and performance, past investment activities and future plans, sources of finance, financing issues and other challenges that businesses face. Using a stratified sampling methodology, EIBIS is representative across all 28 member States of the EU, as well as for firm size classes (micro to large) and 4 main sectors. It is designed to build a panel of observations to support time series analysis, observations that can also be linked to firm balance sheet and profit and loss data. EIBIS has been developed and is managed by the Economics Department of the EIB, with support to development and implementation by Ipsos MORI. For more information see: http://www.eib.org/eibis.

About this publication
This Country Overview is one of a series covering each of the 28 EU Member States, plus an EU-wide overview. These are intended to provide an accessible snapshot of the data. For the purpose of these publications, data is weighted by value-added to better reflect the contribution of different firms to economic output. Contact: eibis@eib.org.

About the Economics Department of the EIB
The mission of the EIB Economics Department is to provide economic analyses and studies to support the Bank in its operations and in the definition of its positioning, strategy and policy. The Department, a team of 40 economists, is headed by Debora Revoltella, Director of Economics.

Main contributors to this publication
Miroslav Kollar, EIB.

Disclaimer
The views expressed in this publication are those of the authors and do not necessarily reflect the position of the EIB.

About Ipsos Public Affairs
Ipsos Public Affairs works closely with national governments, local public services and the not-for-profit sector, as well as international and supranational organizations. Its c.200 research staff in London and Brussels focus on public service and policy issues. Each has expertise in a particular part of the public sector, ensuring we have a detailed understanding of specific sectors and policy challenges. This, combined with our methodological and communications expertise, helps ensure that our research makes a difference for decision makers and communities.

Ipsos Public Affairs

EIBIS 2017 – COUNTRY OVERVIEW

Czech Republic

The annual EIB Group Survey on Investment and Investment Finance (EIBIS) is an EU-wide survey of some 12 300 firms that gathers information on investment activities by both SMEs and larger corporates, their financing requirements and the difficulties they face.

As the EU bank, the EIB Group responds to the need to accelerate investment to strengthen job creation and long-term competitiveness and sustainability across all 28 EU member States. EIBIS helps the EIB to contribute to a policy response that properly addresses the needs of businesses, promoting investment.

This country overview presents selected findings based on telephone interviews with 416 firms in Czech Republic in 2017 (carried out between April and August).

Key results

Macroeconomic Context	**Strong domestic demand and EU funds cycle as main drivers of investment:** Gross fixed capital formation is around its pre-crisis level. Corporate investment has improved significantly, but not fully recovered to pre-crisis level. Investment in dwellings and IPP have been recently the main drivers. Investment in machinery and equipment recovered to pre-crisis level.
Investment outlook:	**More firms increased than reduced investment in the last financial year**, with the share investing exceeding expectations. This positive outlook is expected to continue in the current year but to a lesser extent. 64% of firms operate at or above full capacity. Capacity expansion is the main investment priority for the next three years.
Investment activity:	**88% of firms invested in the last financial year**, slightly above the EU average, while the investment intensity is below the EU average. Almost 50% of firms innovated last year, while the share of investment going to intangibles is below the EU average.
Perceived Investment gap:	**15% of firms report investing too little over the last three years**, similar to the EU average. The average share of state-of-the art machinery and equipment in firms is below the EU average (38% versus 45%). This is also the case for building stock satisfying high efficiency standards (31% versus 39% across the EU).
Investment barriers:	**Availability of staff and uncertainty about the future** continue to be perceived as the main barriers to investment, as is also the case across the EU. Labour regulations are also noteworthy for Czech firms.
External finance:	**7% of firms are finance constrained**, in line with the EU average, but more than last wave. 7% of firms that used external finance are dissatisfied with collateral requirements.
Firm performance:	**Firms' productivity** is lower compared to the EU. Service sector has a relatively higher share of firms in the higher productivity classes. Construction sector on the other hand has the highest share of firms in the lowest productivity class.

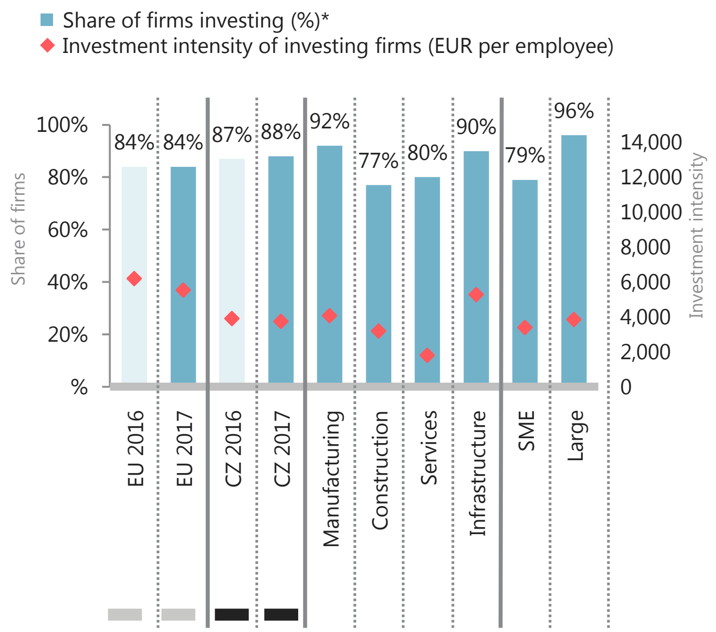
INVESTMENT DYNAMICS

INVESTMENT ACTIVITY IN LAST FINANCIAL YEAR

Almost nine in ten firms in the Czech Republic invested in the last financial year (88%), higher than the EU average of 84% and above the CEE4 level.

Firms in the manufacturing sector (92%) were more likely to invest than construction (77%) and services (80%) firms. SMEs were less likely to invest than large firms. (79% versus 96%).

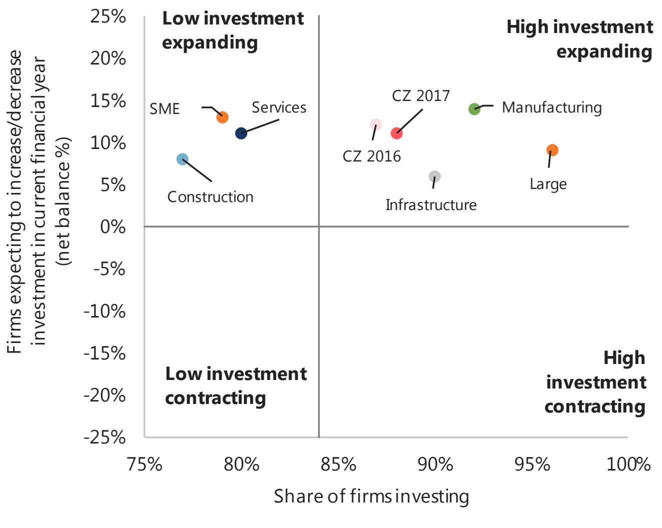
Investment intensity remains below EU average.



The blue bars indicate the proportion of firms who have invested in the last financial year.
A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities.
Investment intensity is the median investment per employee of investing firms.
Investment intensity is reported in 2015 values (using the Eurostat GFCF deflator).

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

INVESTMENT CYCLE



The firms' investment activity this wave places the Czech Republic in the 'high investment expanding' quadrant on the investment cycle, with manufacturing, infrastructure and large firms leading the way.

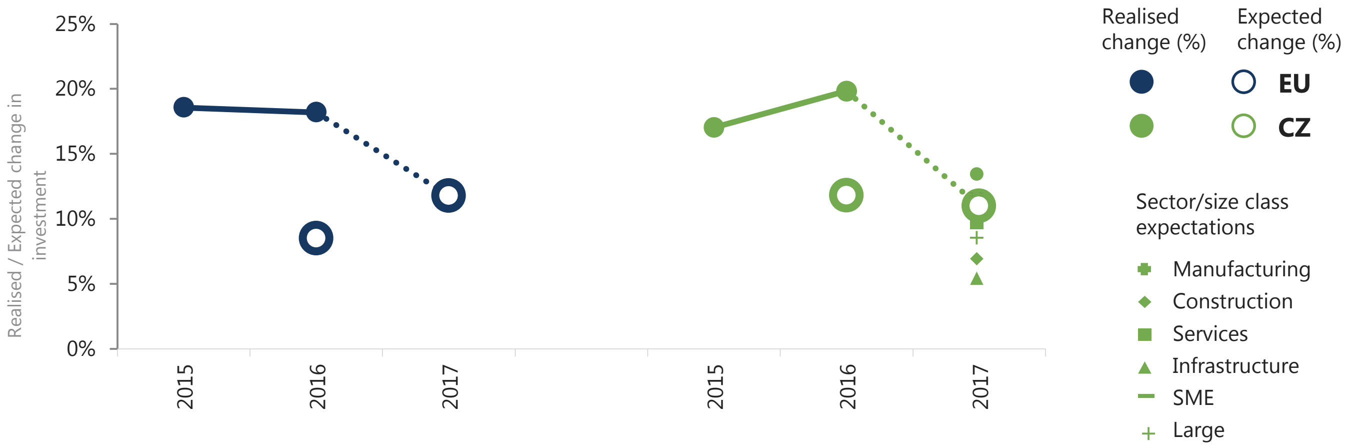
However construction and services firms, along with SMEs, sit in the 'low investment expanding' quadrant as their levels of investment are lower, but their plans to expand are in line with other firms.'

Base: All firms
Share of firms investing shows the percentage of firms with investment per employee greater than EUR 500.
The y-axis line crosses x-axis on the EU average for 2016

INVESTMENT DYNAMICS

EVOLUTION OF INVESTMENT EXPECTATIONS

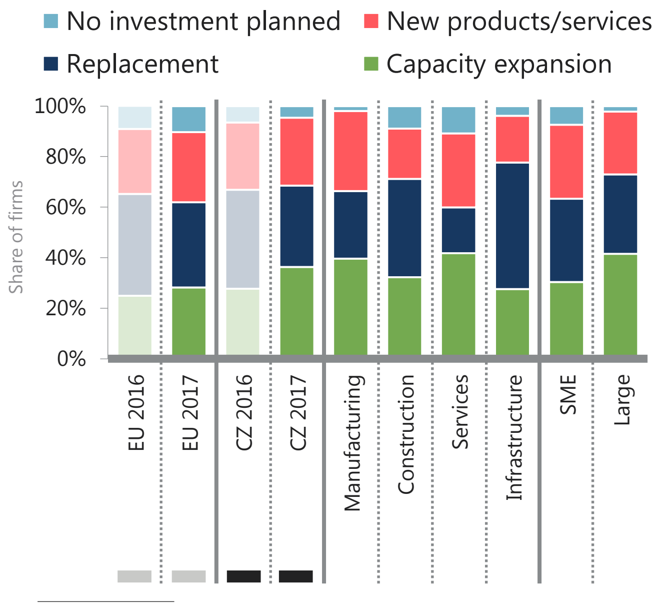
More firms in the Czech Republic increased than reduced their investment activities in the last financial year. The share of firms that invested exceeded expectations in the previous wave. In the current year, this positive outlook is expected to continue but to a lesser extent.



Base: All firms

'Realised change' is the share of firms who invested more minus those who invested less; 'Expected change' is the share of firms who expect(ed) to invest more minus those who expect(ed) to invest less.

FUTURE INVESTMENT PRIORITIES



Looking ahead to the next three years, capacity expansion is most commonly cited as a priority (36% vs 28% for the EU), followed by replacing existing buildings, machinery, equipment and IT (32%).

The Czech Republic has the 4th largest share of firms in the EU planning to expand capacity.

27% of firms state that investing in new products, processes or services is their priority over the next three years. Only 5% of firms do not plan investment in this period.

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

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?

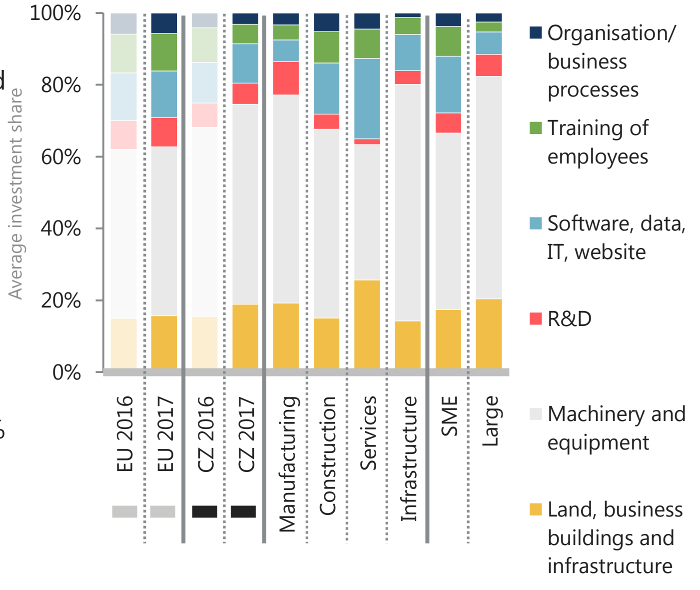
INVESTMENT FOCUS

INVESTMENT AREAS

Of the six investment areas asked about, most investment in the Czech Republic is in machinery and equipment (56%, higher than the EU average of 47%).

The Czech firms are behind the EU average in terms of investing in R&D and other intangibles. Manufacturing firms are more likely than others to invest in R&D.

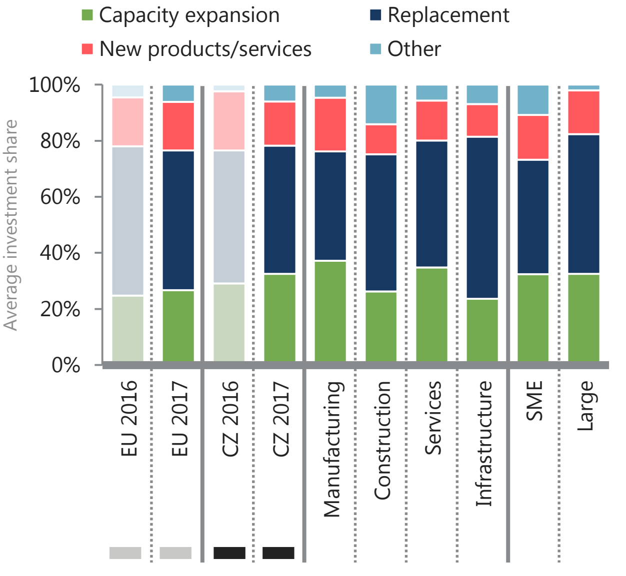
Large firms are more likely than SMEs to invest in machinery (62% versus 49%), while SMEs are more likely to invest in IT (16% versus 6%) and training (8% versus 3%).



Base: All firms who have 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?

PURPOSE OF INVESTMENT IN LAST FINANCIAL YEAR



The largest share of investment in the Czech Republic is driven by the need to replace existing buildings, machinery, equipment and IT (46%), slightly less than the EU average.

More Czech firms than the EU average invested in capacity expansion in the last financial year, driven by manufacturing and service sector firms.

Infrastructure firms (58%) are most likely to have invested in replacement, and manufacturing firms (19%) invested more than others in new products.

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

Q. 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?

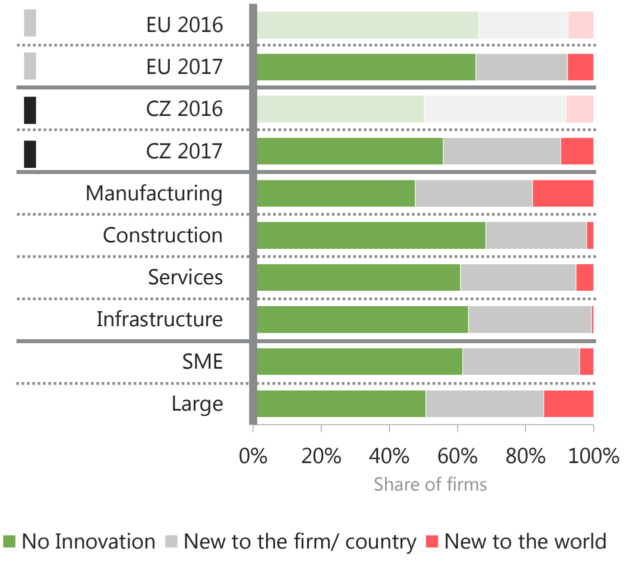
INVESTMENT FOCUS

INNOVATION ACTIVITY

Half of Czech firms developed or introduced new products, processes or services as part of their investment activities. This was above the EU average.

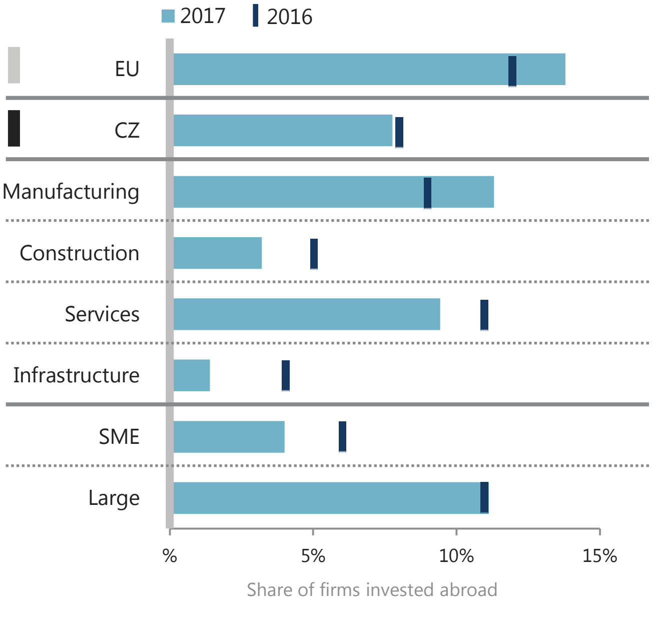
One in ten Czech firms stated that their innovations were new to the global market.

Manufacturing firms (18%) and large firms (15%) were most likely to introduce global innovations.



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

INVESTMENT ABROAD



Among firms that invested in the last financial year in the Czech Republic, 8% had invested in another country, below the EU average (14%).

Manufacturing firms (11%) are most likely to have invested abroad.

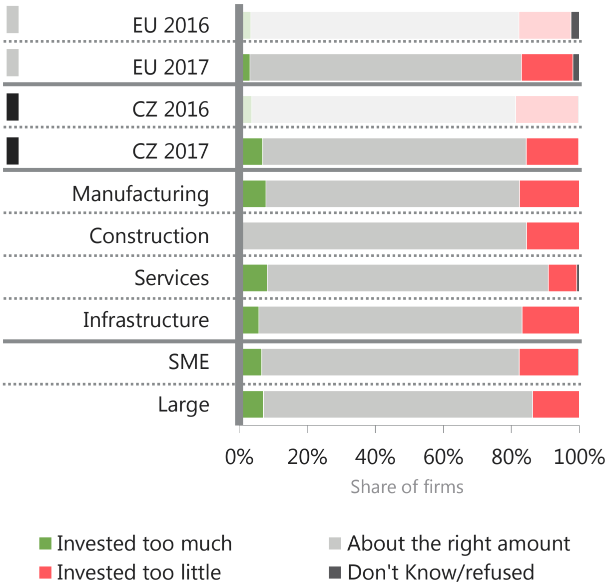
Large firms are almost three times as likely as SMEs to have invested in another country (11% versus 4%).

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

INVESTMENT NEEDS

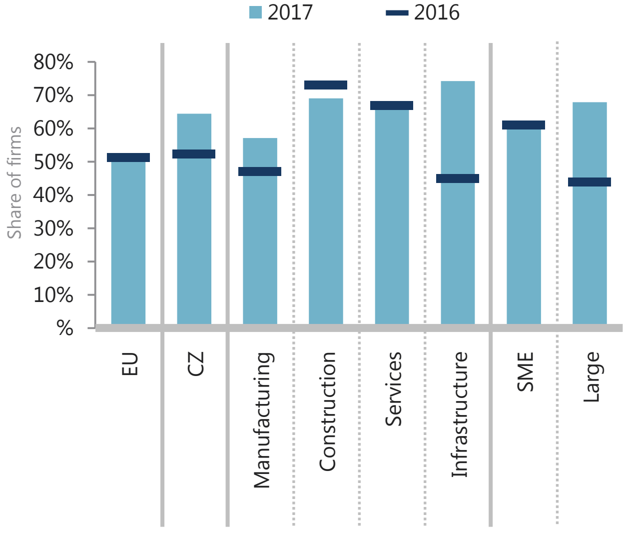
PERCEIVED INVESTMENT GAP

Around three in four firms believe their investment over the last three years was about the right amount (78%). Fifteen per cent report investing too little, similar to the EU average.



Base: All firms (excluding 'Company didn't exist three years ago' responses)
Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount?

SHARE OF FIRMS AT OR ABOVE FULL CAPACITY



In line with the strong domestic demand experienced in the Czech economy recently, almost two in three firms report operating at or above maximum capacity in the last financial year (64%), up from 52% last year. This moves the Czech Republic above the EU and CEE4 averages.

The Czech economy has the 5th largest share in the EU of firms operating at or above their full capacity.

Firms in the infrastructure sector are more likely than manufacturing firms to report operating at or above full capacity (74% compared to 57%).

Base: All firms
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?

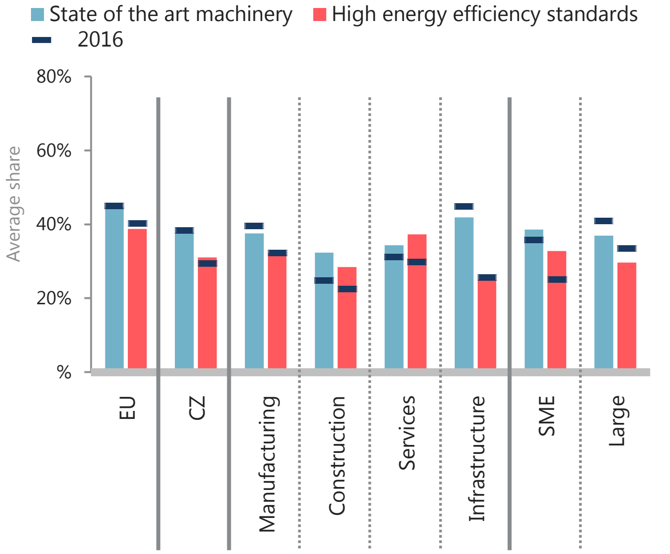
INVESTMENT NEEDS

SHARE OF STATE OF THE ART MACHINERY AND BUILDING STOCK MEETING HIGH ENERGY EFFICIENCY STANDARDS

The average share of state-of-the-art machinery and equipment in firms is below the EU average (38% versus 45%).

On average just under a third of firms' building stock in the Czech Republic satisfies high efficiency standards compared to the EU average of 39%.

These findings are similar to the last wave.

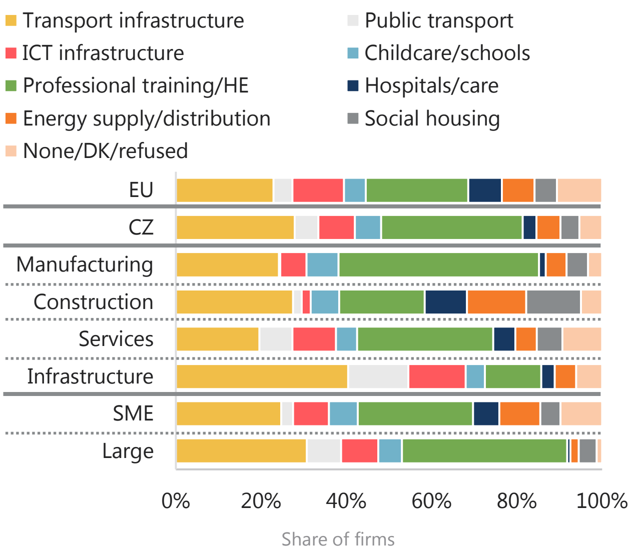


Base: All firms

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

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

PUBLIC INVESTMENT PRIORITIES



Eight areas of public investment were read out to respondents who were asked which one they thought should be the priority over the next three years. A third of Czech firms considered professional training/higher education a priority (33%), above the EU average (24%). This was closely followed by transport infrastructure (28% vs 23% for the EU).

Within the Czech Republic, manufacturing firms were most likely to prioritise professional training/higher education. Infrastructure firms were more likely than other sectors to select transport infrastructure.

Base: All firms

Q. From your business' perspective, if you had to prioritise one area of public investment for the next 3 years, which one would it be?

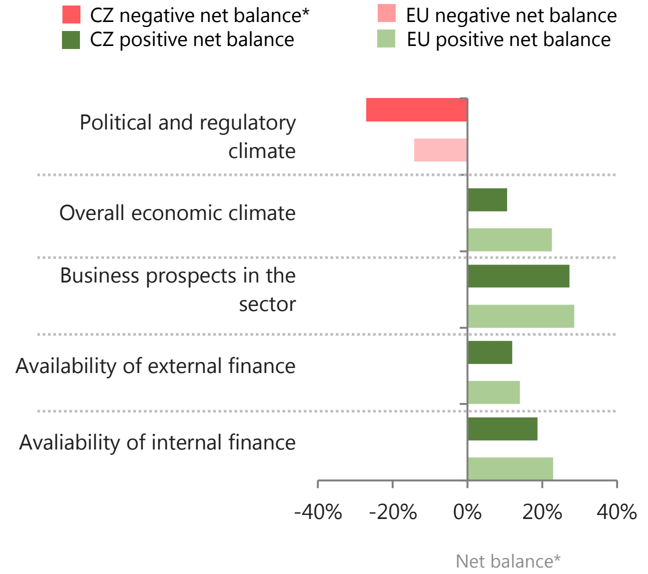
DRIVERS AND CONSTRAINTS

SHORT TERM INFLUENCES ON INVESTMENT

On balance more firms expect the political and regulatory climate to deteriorate than improve in the next 12 months. This is worse than the EU average and may reflect the pre-election period in which interviews were carried-out.

Despite the strong growth of the Czech economy at the moment, Czech firms (11%) are slightly less optimistic than the EU average (22%) about the overall economic climate.

As is the case in the EU overall, firms in the Czech Republic tend to be more positive than negative about the other influences on investment asked about.

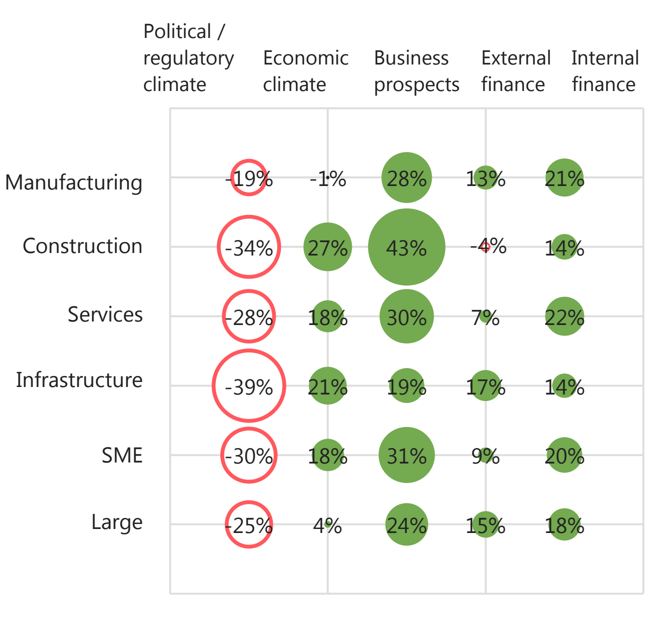


**Net balance is the share of firms seeing improvement minus the share of firms seeing a deterioration*

Base: All firms

Q. Do you think that each of the following will improve, stay the same, or get worse over the next 12 months?

SHORT TERM INFLUENCES BY SECTOR AND SIZE (NET BALANCE)



Construction firms are more likely to feel negatively about the availability of external finance.

While construction firms are most optimistic about their business prospects, they are also among the most pessimistic about political and regulatory climate.

Manufacturing firms and large companies are most negative about the economic climate, but are less likely to be pessimistic about the political and regulatory climate.

Base: All firms

Q. Do you think that each of the following will improve, stay the same, or get worse over the next 12 months?

DRIVERS AND CONSTRAINTS

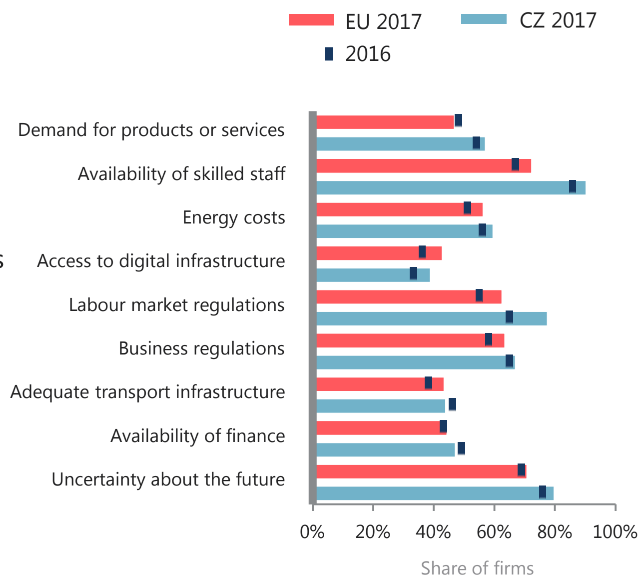
LONG TERM BARRIERS TO INVESTMENT

90% of Czech firms see the availability of skilled staff as an obstacle to investment activities, above the EU average. This corresponds to the firms' top priority for public investment in professional training and higher education.

The number of firms citing labour market regulations has risen to 77%, up from 65%, moving the Czech Republic above the EU average of 62%.

Manufacturing firms and large companies are more likely than others to see availability of staff as a barrier (97% and 96 %, respectively).

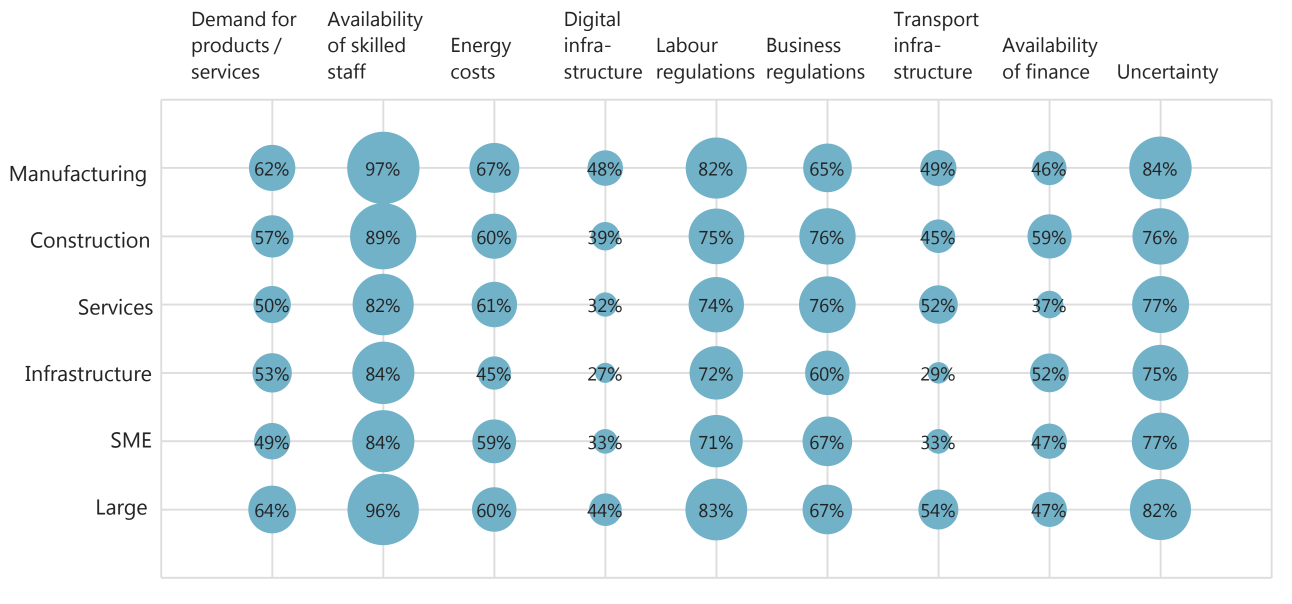
Business regulations are most negatively felt in the construction and services sectors.



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 the Czech Republic, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

LONG TERM BARRIERS BY SECTOR AND SIZE



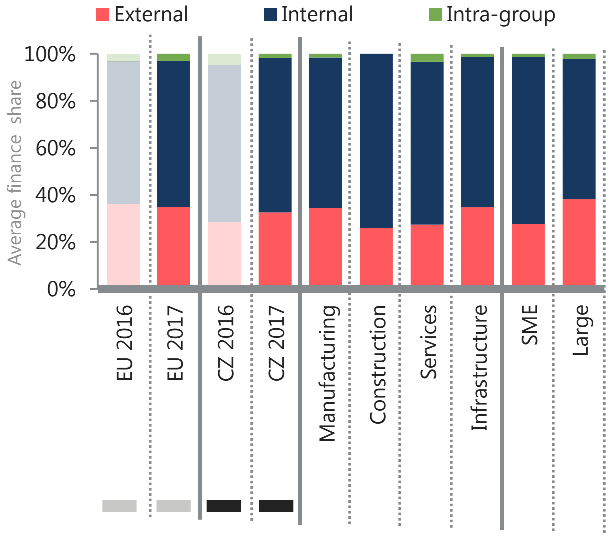
Base: All firms (data not shown for those who said not an obstacle at all/don't know/refused)

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

INVESTMENT FINANCE

SOURCE OF INVESTMENT FINANCE

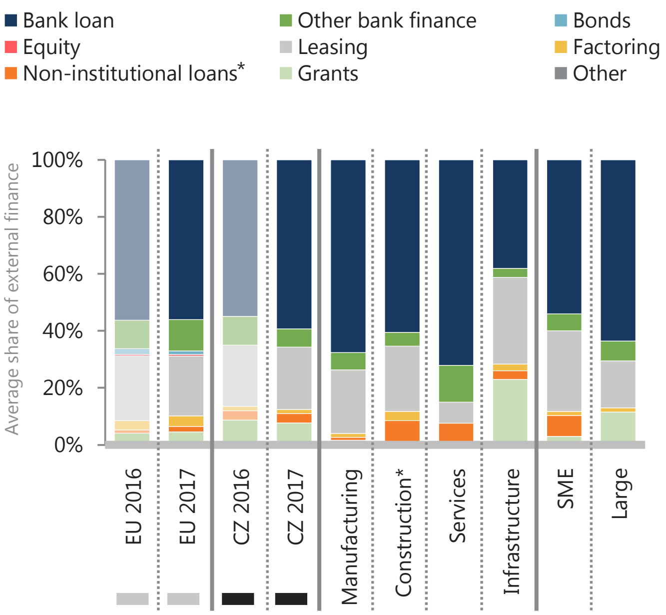
Internal funds account for the highest share of investment finance (66%), only slightly above the EU average (62%).



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

Q. What proportion of your investment was financed by each of the following?

TYPE OF EXTERNAL FINANCE USED FOR INVESTMENT ACTIVITIES



* *Caution very small base size less than 30*

Bank loans account for the highest share of external finance (59%), with leasing some way behind on 22%.

No firms in the Czech Republic report using equity as a form of external finance and factoring accounts for only 1%.

Infrastructure firms (23%) are more likely than others to use grant financing.

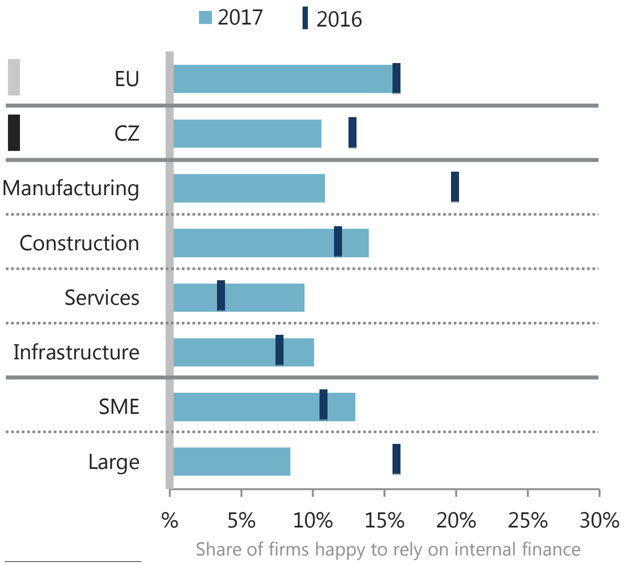
Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)

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

**Loans from family, friends or business partners*

INVESTMENT FINANCE

SHARE OF FIRMS HAPPY TO RELY EXCLUSIVELY ON INTERNAL SOURCES TO FINANCE INVESTMENT



Around one in ten of all firms in the Czech Republic report the main reason for not applying for external finance was because they are happy to use internal funds or did not have a need for it (below the EU average and less than last wave).

Unlike last year, when large firms and firms in the manufacturing sector were significantly more likely to be happy to rely on internal sources, this year's wave is more consistent across different sectors and sizes of firms.

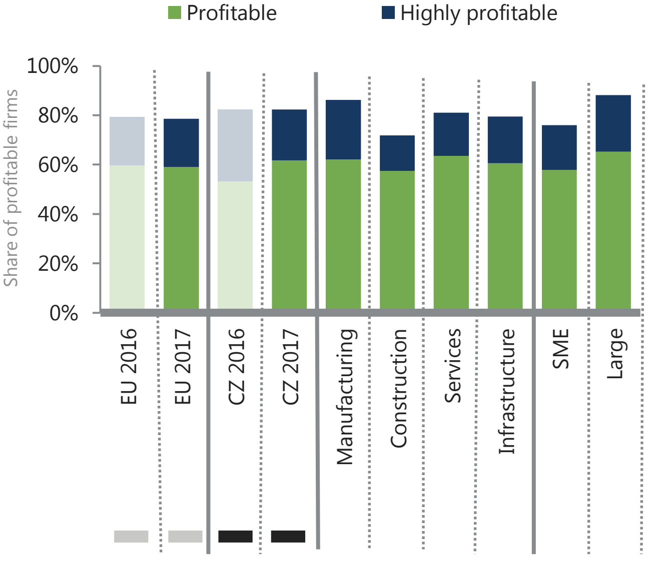
Base: All firms (excluding don't know/refused)

Q. What was your main reason for not applying for external finance for your investment activities? Was happy to use internal finance/didn't need the finance

SHARE OF PROFITABLE FIRMS

The proportion of Czech firms which are profitable (82%) is in line with the EU average (79%) and the proportion reported in the Czech Republic in the previous wave (82%).

One in five firms in the Czech Republic report to be highly profitable (21%).



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

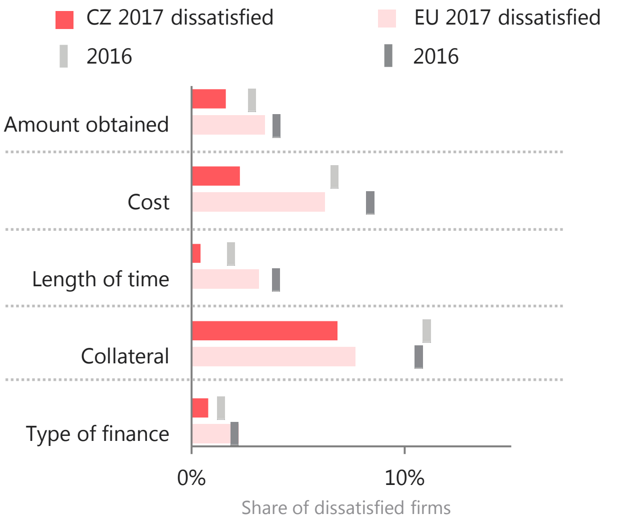
Q: Taking into account all sources of income in, did your company generate a profit or loss before tax, or did you break even? Highly profitable is defined as profits/turnover of 10% or more.

SATISFACTION WITH FINANCE

DISSATISFACTION WITH EXTERNAL FINANCE RECEIVED

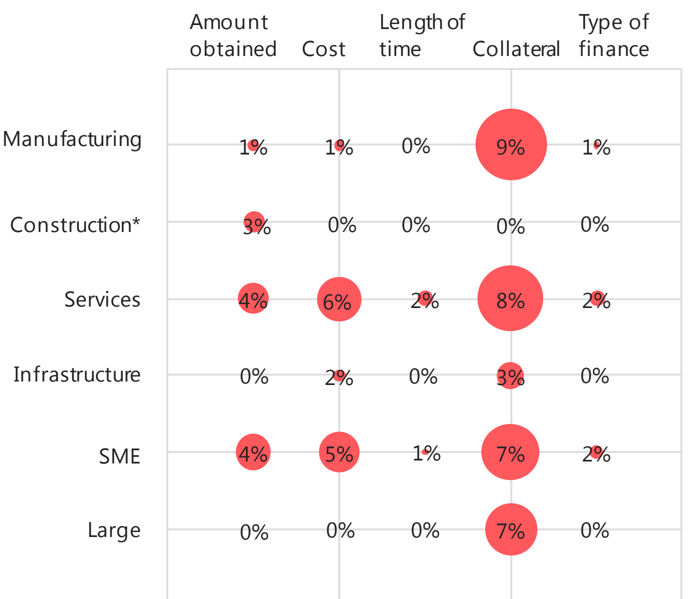
Firms that used external finance are on balance satisfied with the amount, cost, maturity, collateral and type of finance received.

As is the case across the EU as a whole, firms in the Czech Republic are most likely to be dissatisfied with the collateral required (7%).



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

DISSATISFACTION BY SECTOR AND SIZE



Dissatisfaction with collateral requirements is most pertinent among manufacturing and services firms.

Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)
Q. How satisfied or dissatisfied are you with ....?
** Caution very small base size less than 30*

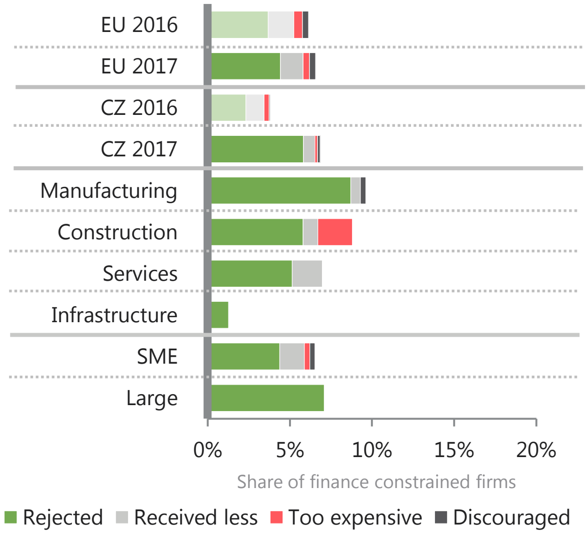
SATISFACTION WITH FINANCE

SHARE OF FINANCE CONSTRAINED FIRMS

Seven per cent of all firms can be considered finance constrained, in line with the EU average, but significantly more than the last wave.

Firms in the infrastructure sector (1%) are less likely to be finance constrained. Manufacturing firms have experienced the most dramatic increase since the last wave.

10% of those firms that did not invest are estimated to be finance constrained.

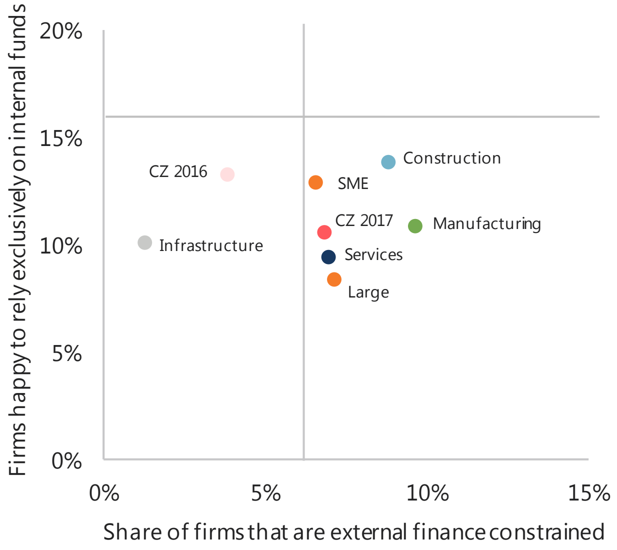


Base: All firms

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)

**Financing constraints for 2016 among non-investing firms estimated*

FINANCING CROSS



Czech firms are in line with the EU in terms of their levels of finance constraint, and they are slightly below the EU average in their likeliness to rely on internal funds.

Manufacturing and construction firms stand out as being more likely finance constrained.

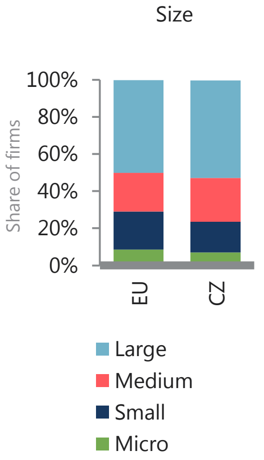
Base: All firms

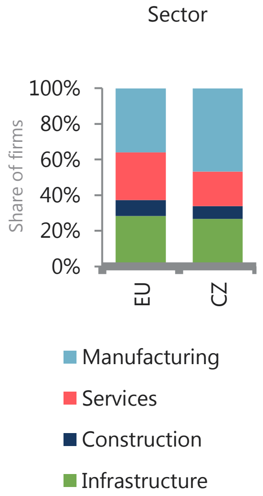
Data derived from the financial constraint indicator and firms indicating main reason for not applying for external finance was 'happy to use internal finance/didn't need finance'

The x- and y-axes lines cross on the EU average for 2016

PROFILE OF FIRMS

CONTRIBUTION TO VALUE ADDED





In terms of the weighted size distribution, larger firms account for the greatest share of value-added (52%), in line with the EU average (50%).

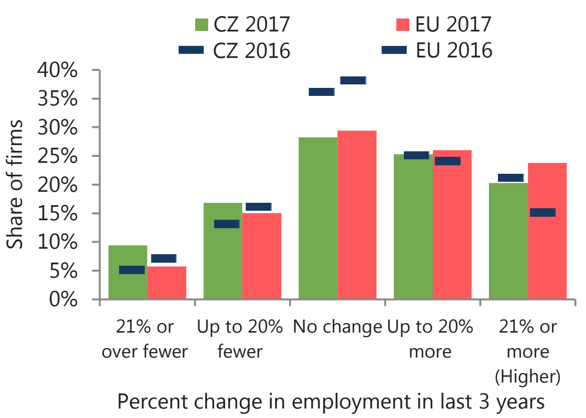
Employment dynamics over the past three years are favourable in the Czech Republic with more firms expanding jobs than contracting, in line with historically low unemployment rate.

Firms in the Czech Republic have lower productivity compared to the EU benchmark. Service sector has a relatively high share of firms in the higher productivity classes. Construction sector on the other hand has the highest share of firms in the lowest productivity class.

Base: All firms

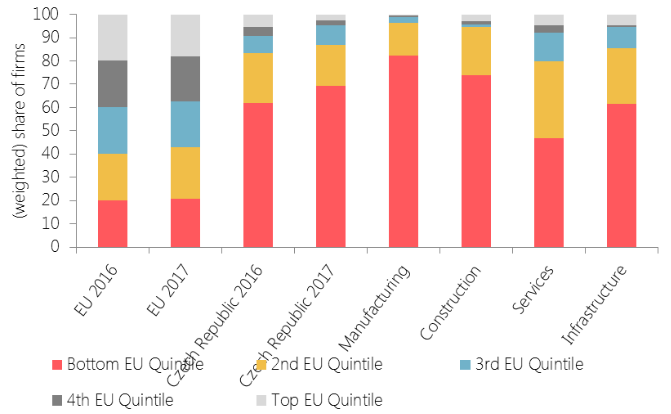
The charts reflects the relative contribution to value-added by firms belonging to a particular size class / sector in the population of firms considered. That is, all firms with 5 or more employees active in the sectors covered by the survey. Micro: 5-9 employees; Small: 10-49; Medium: 50-249; Large: 250+.

EMPLOYMENT DYNAMICS IN LAST THREE YEARS



Base: All firms (excluding don't know, refused and missing responses)
Q. Thinking about the number of people employed by your company, by how much has it changed in the last 3 years?

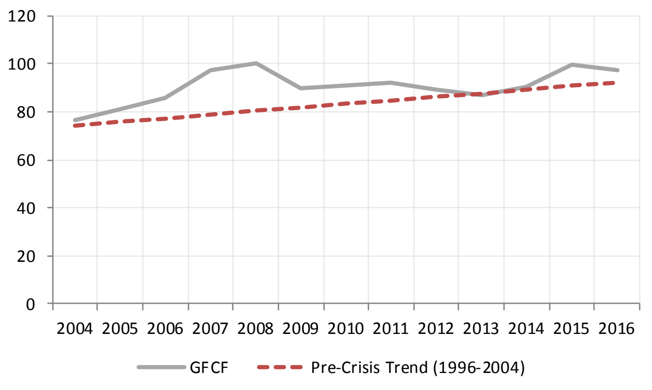
DISTRIBUTION OF FIRMS BY PRODUCTIVITY CLASS



Share of firms by productivity class (Total Factor Productivity). Productivity classes are defined on the basis of the entire EU sample.

MACROECONOMIC INVESTMENT CONTEXT

Investment Dynamics over time



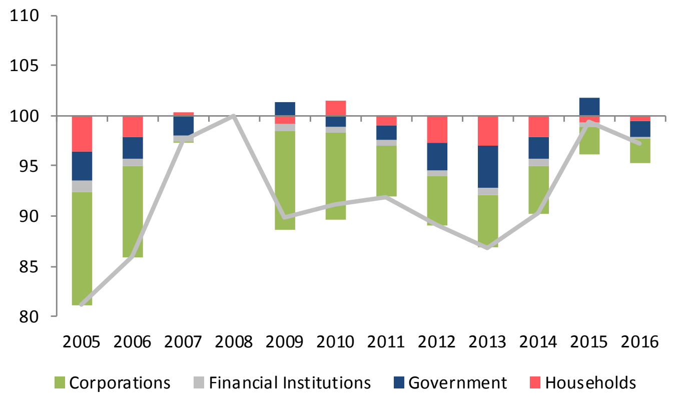
Gross fixed capital formation is around pre-crisis level and slightly above the level achieved with pre-crisis trend growth rate.

Corporate investment has improved significantly, but not fully recovered to pre-crisis level.

Investment in dwellings and IPP have been recently the main drivers. Investment in machinery and equipment recovered to pre-crisis level.

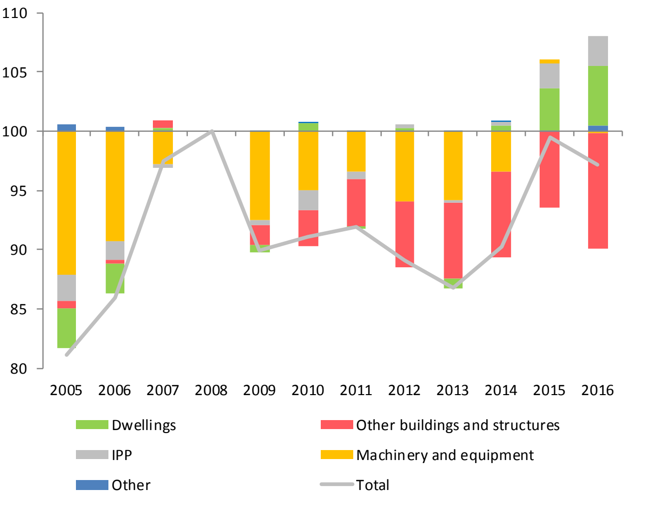
The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); against the series 'pre-crisis trend. The data has been index to equal 100 in 2008. Source: Eurostat.

Investment Dynamics by Institutional Sector



The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); by institutional sector. The data has been indexed to equal 100 in 2008. Source: Eurostat.

Investment Dynamics by Asset Class



The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); by asset class. The data has been indexed to equal 100 in 2008. Source: Eurostat.

EIB 2017 – COUNTRY TECHNICAL DETAILS

SAMPLING TOLERANCES APPLICABLE TO PERCENTAGES AT OR NEAR THESE LEVELS

The final data are based on a sample, rather than the entire population of firms in the Czech Republic, so the percentage results are subject to sampling tolerances. These vary with the size of the sample and the percentage figure concerned.

	EU	Czech Republic	Manu-facturing	Cons-truction	Services	Infras-tructure	SME	Large	EU vs Czech Republic	Manufacturing vs Construction	SME vs Large
	(12338)	(416)	(151)	(84)	(86)	(95)	(343)	(73)	(12338 vs 416)	(84 vs 151)	(343 vs 73)
10% or 90%	1.1%	3.3%	5.2%	6.6%	7.0%	6.8%	2.8%	5.8%	3.5%	8.4%	6.4%
30% or 70%	1.6%	5.1%	7.9%	10.1%	10.6%	10.3%	4.2%	8.9%	5.3%	12.8%	9.8%
50%	1.8%	5.6%	8.6%	11.0%	11.6%	11.3%	4.6%	9.7%	5.8%	14.0%	10.7%

GLOSSARY

Investment	A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities with the intention of maintaining or increasing the company's future earnings.
Investment cycle	Based on the expected investment in current financial year compared to last one, and the proportion of firms with a share of investment greater than EUR 500 per employee.
Productivity	Total factor productivity is a measure of how efficiently a firm is converting inputs (capital and labor) into output (value-added). It is estimated by means of an industry-by-industry regression analysis (with country dummies).
Manufacturing sector	Based on the NACE classification of economic activities, firms in group C (manufacturing).
Construction sector	Based on the NACE classification of economic activities, firms in group F (construction).
Services sector	Based on the NACE classification of economic activities, firms in group G (wholesale and retail trade) and group I (accommodation and food services activities).
Infrastructure sector	Based on the NACE classification of economic activities, firms in groups D and E (utilities), group H (transportation and storage) and group J (information and communication).
SME	Firms with between 5 and 249 employees.
Large firms	Firms with at least 250 employees.

EIB 2017 – COUNTRY TECHNICAL DETAILS

BASE SIZES

Base definition and page reference	EU 2016/ 2017	CZ 2016/2017	Manufacturing	Construction	Services	Infrastructure	SME	Large
All firms, p. 2, 3, 6, 7, 8, 11, 14	12483/12338	479/416	151	84	86	95	343	73
All firms (excluding don't know/refused responses), p. 3	12159/12020	472/405	149	80	83	93	332	73
All firms (excluding don't know/refused responses), p. 5	12071/12073	459/411	148	82	86	95	338	73
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 4	10060/10321	447/383	141	78	81	83	320	63
All firms who invested in the last financial year, p. 5	10881/10889	453/399	148	80	83	88	329	70
All firms (excluding 'Company didn't exist three years ago' responses), p. 6	12453/12306	479/415	151	84	85	95	342	73
All firms (data not shown for those who said not an obstacle at all/don't know/refused), p. 9	12483/12338	479/416	151	84	86	95	343	73
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 10	9093/9131	399/342	124	71	69	78	293	49
All firms (excluding don't know, refused and missing responses), p. 14	12162/11513	469/398	143	81	82	92	331	67

European Investment Bank
The EU bank

Economics Department
economics@eib.org
www.eib.org/economics

Information Desk
+352 4379-22000
+352 4379-62000
info@eib.org

European Investment Bank
98-100, boulevard Konrad Adenauer
L-2950 Luxembourg
+352 4379-1
+352 437704
www.eib.org

twitter.com/EIB
facebook.com/EuropeanInvestmentBank
youtube.com/EIBtheEUbank

Czech Republic

Overview

print: QH-06-17-196-EN-C ISBN 978-92-861-3446-3 doi:10.2867/495717
digital: QH-06-17-196-EN-N ISBN 978-92-861-3445-6 doi:10.2867/93591

EIB INVESTMENT SURVEY

2017