

Business Investment and Investment Finance in Belgium: Evidence from the EIBIS 2020



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ABSTRACT

Since 2016, the European Investment Bank Group (EIB) has conducted an annual survey on *Investment and Investment Finance (EIBIS)*. This includes interviews with some 13,500 firms from the EU27 Member States, the UK and the US, of which around 480 are Belgian in 2020. The survey covers both SMEs and larger corporates in main economic sectors, offering qualitative and quantitative information about their investment activities, financing needs and the difficulties they face.

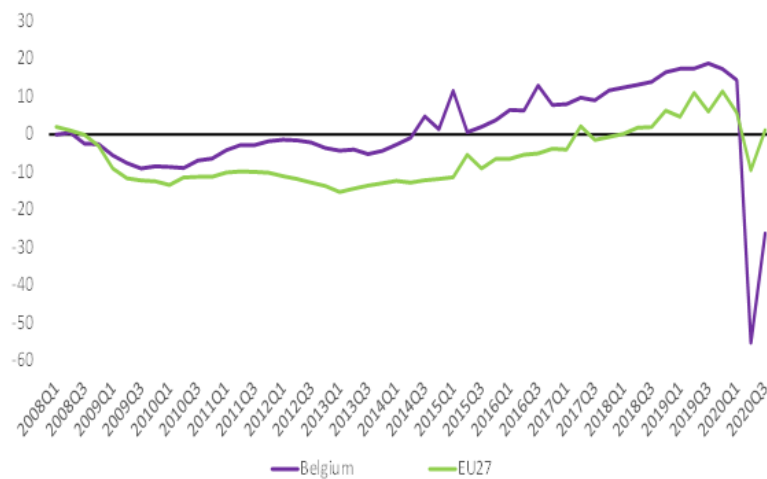
The EIBIS 2020 was conducted during the spring/early summer of 2020, right after the first wave of the COVID-19 pandemic. The impact of the pandemic on EU firms and elsewhere has been substantial, leading to large revenue losses and changes in investment strategies. Therefore, assessing business needs and setting priorities is crucial for a rapid and solid recovery of the EU.

In this context, the current note analyses and discusses the answers given by Belgian firms on their investment activities, such as objectives, obstacles, drivers, and financing conditions. These answers are compared with the responses of the other surveyed companies in the EU to identify areas for potential improvement and target setting for Belgium.

INVESTMENT DYNAMICS AND COVID-19 IMPACTS

The pandemic has severely impacted investment activity in Belgium. With the COVID-19 outbreak in the second quarter of 2020, investments declined by more than 20% compared to the last quarter of 2019 (Figure 1). This decline was mainly driven by a large drop in confidence and a contraction in domestic demand, which suffered from restrictive measures. Figure 1 also suggests that the short-term impacts of the pandemic on investment are more severe than those of the financial crisis in 2008.

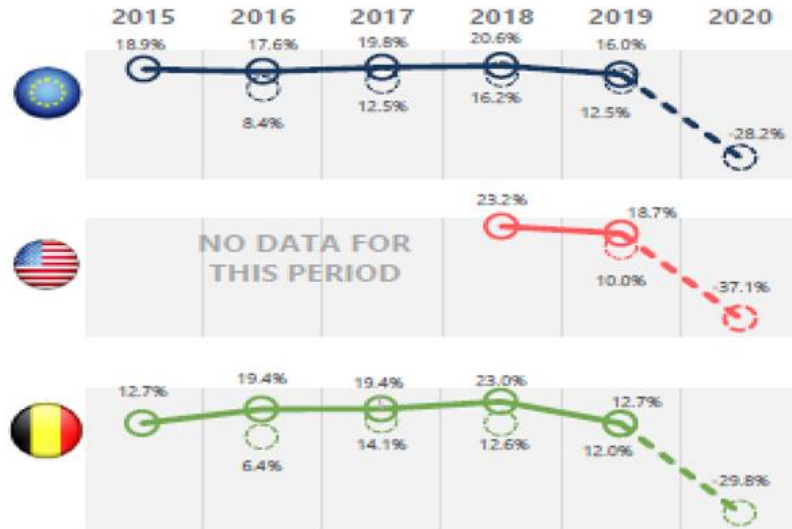
**FIGURE 1
INVESTMENT DYNAMICS OVER TIME**



*Note: The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); against the EU figures. The data has been indexed to equal 100 in 2008.
Source: Eurostat.*

The gloomy picture of business investment dynamics in Belgium is also confirmed by EIBIS 2020. The outlook for 2020 is largely pessimistic (net -30%) but remains in line with the general sentiment of other firms across the EU (Figure 2). In 2020, more firms expected to decrease rather than increase investment (net balance of firms), presenting more pessimistic views compared to EIBIS 2019 (Figure 3). In the investment cycle, Belgium has moved into the ‘high investment contracting’ quadrant and is close to the EU average in terms of expectations. In fact, there was not a single “High Investment expanding” economy in 2020 as no European country registered a net balance of firms expanding investment. Fewer firms in the infrastructure sector expect to reduce their investments in the current financial year than in other sectors. While large and manufacturing firms have a high share of firms investing, they also present the highest share of firms expected to decrease rather than increase investments in the current financial year.

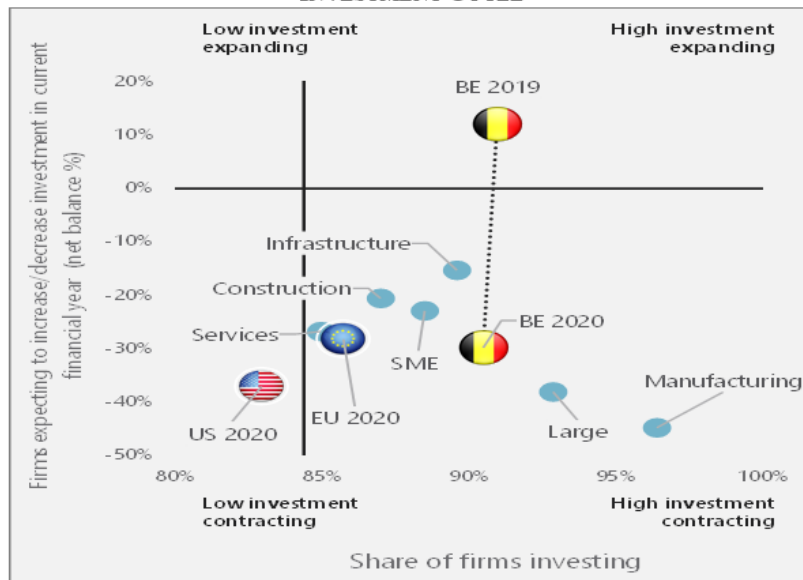
**FIGURE 2
EVOLUTION OF INVESTMENT EXPECTATIONS**



Note: Realised/expected change in investment. '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.

Source: EIBIS 2020

**FIGURE 3
INVESTMENT CYCLE**

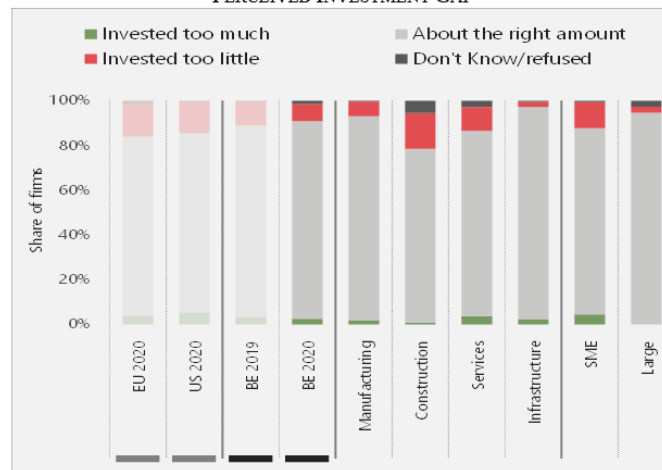


Note: Share of firms investing shows the percentage of firms with investment per employee greater than EUR 500. The y-axis line crosses the x-axis on the EU average for 2016.

Source: EIBIS 2020

The “investment gap” perceived by Belgian firms in 2020 is smaller than the EU average, but the implications from the pandemic point to increasing investment needs in the future. The share of firms that report having invested too little over the last three years has decreased from 10% to 7.5% (Figure 4), which is lower than the EU average (15%). This has been thanks to firms indicating that investment was about the right amount. However, similar to the rest of Europe, almost half of the Belgian firms (46%) reported that they expect to invest less due to the pandemic (Figure 5). Furthermore, around two in five firms (39%) with investment plans for the current financial year, planned to abandon or delay their investments due to COVID-19, a share slightly above the EU average (35%). These views point towards increasing investment needs in the future, especially in digital technologies, as some 66% voiced a need to invest in this area to tackle the negative implications brought by COVID-19.

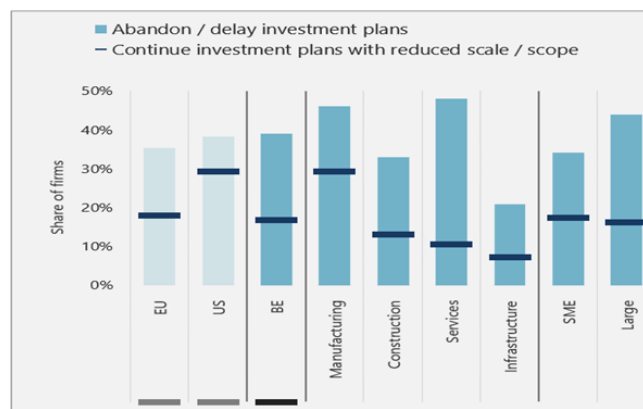
FIGURE 4
PERCEIVED INVESTMENT GAP



Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount?

Source: EIBIS 2020

FIGURE 5
INVESTMENT CYCLE AND COVID-19 IMPACTS



Note: Please note some firms may be taking multiple actions, i.e. abandoning/delaying some investment plans whilst continuing with other plans at a reduced scale or scope.

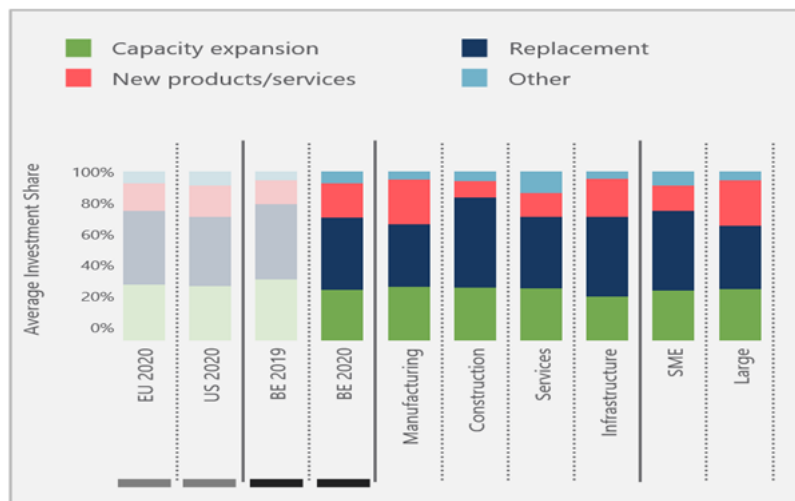
Q. You said you will invest less due to coronavirus. Can I just check which of the following actions will your company undertake?

Source: EIBIS 2020

Investment Focus, Drivers and Constraints

Belgian firms are shifting from capacity expansion to the introduction of new products and replacement. Like EU peers, replenishment of the capital stock had been the dominant investment priority in 2020 (Figure 6). Replacement of buildings, equipment and IT accounted for the largest share of investment in the same year (46%). Capacity expansion constituted almost a quarter (24%) of all investment. Only the manufacturing (29%) and infrastructure (24%) sectors appeared to invest in new products or services.

FIGURE 6
PURPOSE OF INVESTMENT IN LAST FINANCIAL YEAR

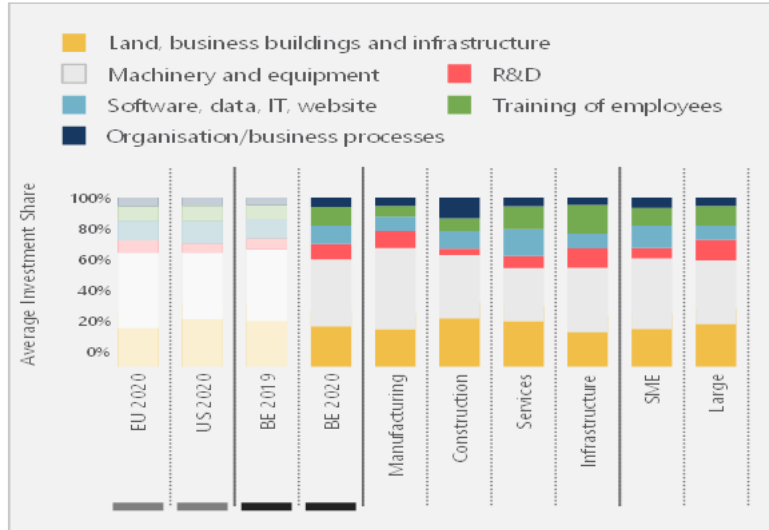


Q. What proportion of total investment was for (a) replacing capacity (including existing buildings, machinery, equipment, IT) (b) expanding capacity for existing products/ services (c) developing or introducing new products, processes, services?

Source: EIBIS 2020

Investment in intangibles, including R&D and training of employees, and innovation (development of new products/services) have been increasing in Belgium. In all sectors, investment in intangible assets constitute almost 40% and are stable (Figures 7 and 8). Investments that support innovation, notably technological catch-up, have gained importance, especially in the infrastructure and manufacturing sectors, where investment in research and development are highly pronounced (13% and 11%, respectively). Nonetheless, investment in machinery and equipment stand out for their share (47%) compared to the other five investment areas. This pattern is broadly in line with the EU investment trends in general and across sectors.

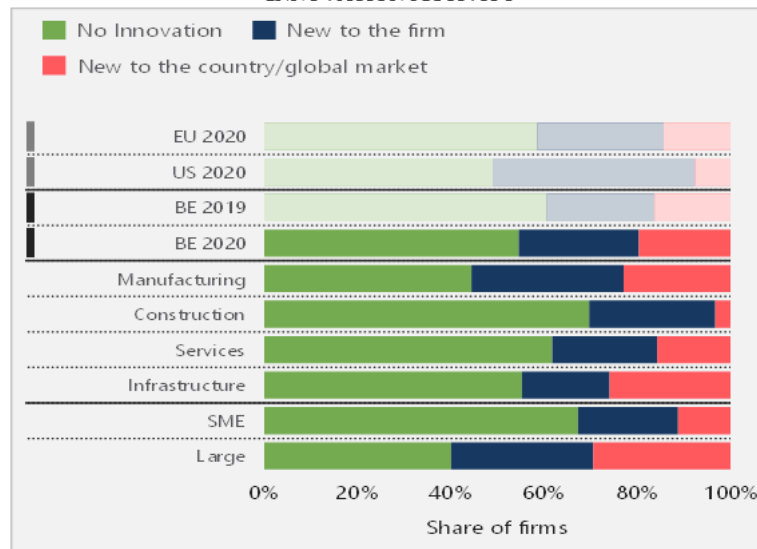
**FIGURE 7
INVESTMENT AREAS**



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: EIBIS 2020

**FIGURE 8
INNOVATION ACTIVITY**



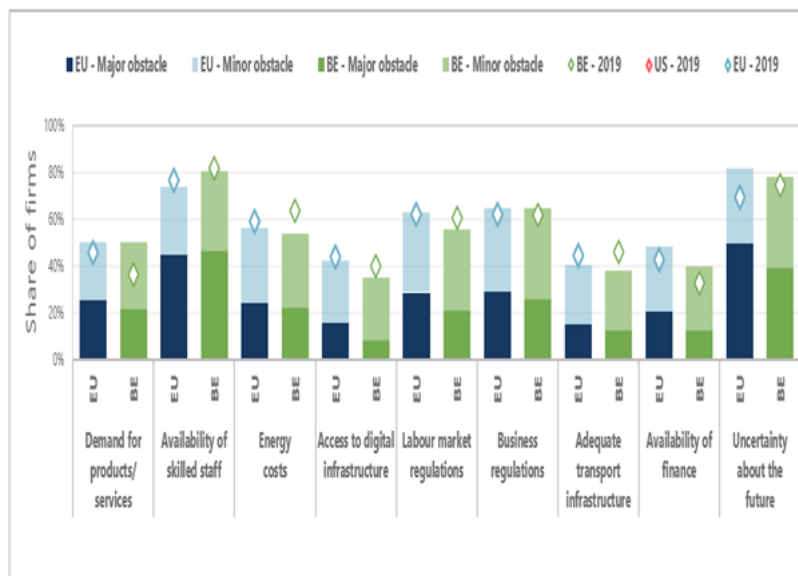
Q. What proportion of total investment was for developing or introducing new products, processes, services?

Q. Were the products, processes or services new to the company, new to the country, new to the global market?

Source: EIBIS 2020

Similar to other Member States, uncertainty and a shortage of skills are the main barriers to investment. As per EIBIS 2020, Belgian firms from all sectors and sizes select skills mismatch and economic uncertainty as important constraints. Shortage of skills remained as the main obstacle from 2019 to 2020, despite an increase in uncertainty. In the EU, however, uncertainty dethroned skills in 2020. These obstacles are followed by the costs of energy, labour and business regulation (Figure 9). Considering the importance of intangible capital and technological absorption in Belgium, skills capacity looks set to become an increasingly important factor for future growth.

**FIGURE 9
LONG TERM BARRIERS TO INVESTMENT**



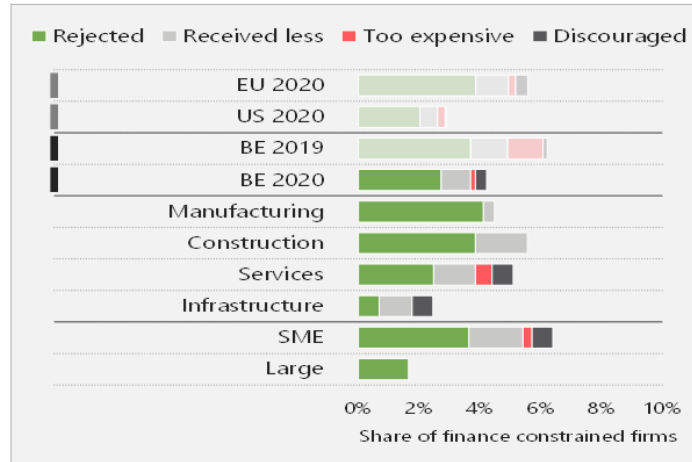
Q. Thinking about your investment activities in Belgium, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

Source: EIBIS 2020

Access to Finance

Access to finance appears to be a minor limiting factor for investment in Belgium, except for small firms. A minority of firms (4%) are finance constrained (Figure 11), less than the EU average (7%) and down by 2pp from the EIBIS 2019. Firms across sectors presented similar proportions, with those in construction and services recording the highest levels of constraints (6%) and those in infrastructure displaying the lowest (3%).

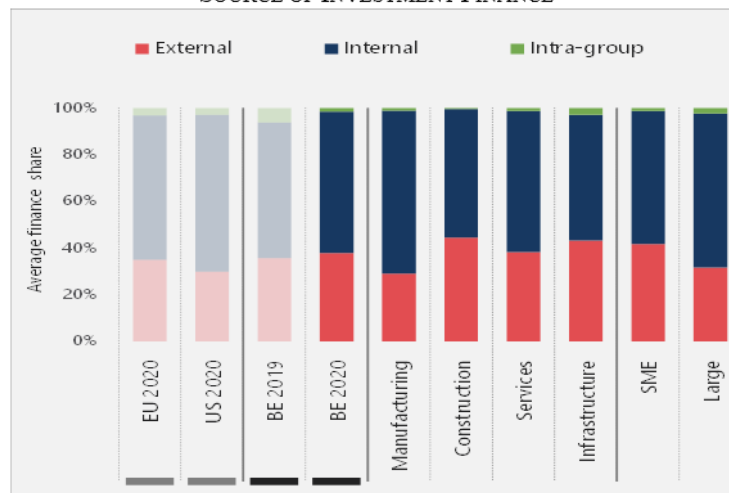
FIGURE 10
SHARE OF FINANCE CONSTRAINED FIRMS



Note: 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: EIBIS 2020

Belgian firms, in line with their EU counterparts, rely on internal finance for about 60% of their funding needs and almost exclusively on bank finance to satisfy their external funding needs. Three out of five firms in Belgium were financed by internal sources (Figure 11), which is broadly in line with EIBIS 2019 and the EU average (58% and 62%, respectively). This is common across sectors, except for manufacturing firms, which depend more on internal finance sources (70%). Bank loans account for about 63% of total external finance, a proportion that increased considerably from 59% in EIBIS 2019 and is well above the EU average (59%). The remaining sources of external funding present much lower shares.

FIGURE 11
SOURCE OF INVESTMENT FINANCE

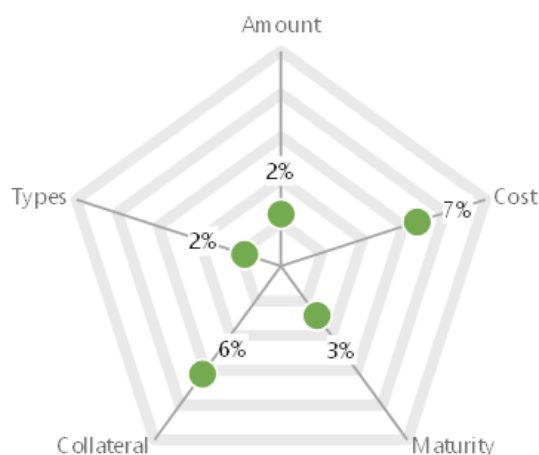


Q. What proportion of your investment was financed by each of the following?

Source: EIBIS 2020

Cost of funding and collateral conditions are the most commonly cited concerns of Belgian firms relying on external finance. EIBIS showed that firms in Belgium are more likely to be dissatisfied with the cost of finance (7%) and collateral requirements (6%), similar to the EU average (Figure 12). Dissatisfaction with collateral requirements is reported by at least one in ten manufacturing, construction firms and SMEs. Nevertheless, the share of firms dissatisfied with the latter fell substantially from 14% in EIBIS 2016.

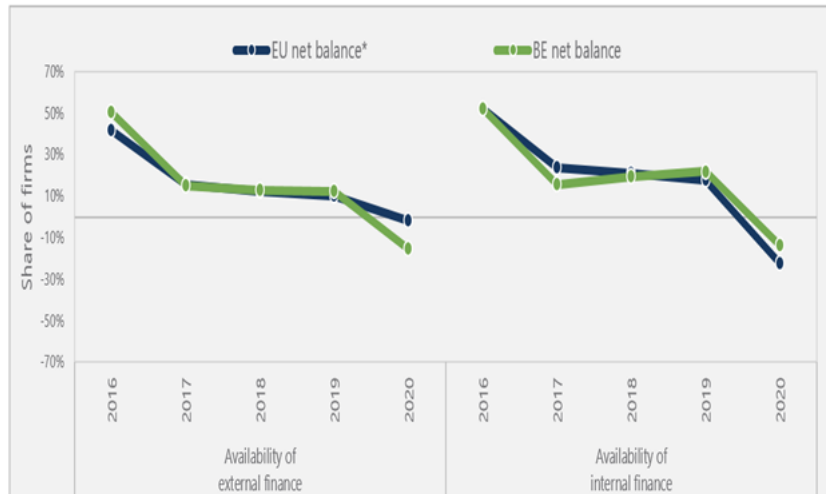
FIGURE 12
DISSATISFACTION WITH EXTERNAL FINANCE



Q. How satisfied or dissatisfied are you with?
Source: EIBIS 2020

Over the next twelve months, more firms in Belgium expect a deterioration rather than improvement in the availability of external and internal finance. This is in line with firms across the EU (Figure 13). Belgian firms are much less optimistic about the availability of internal finance (-14% versus 22% in EIBIS 2019) than the availability of external finance (-15% versus 12% in EIBIS 2019). Construction firms appear to be more negative than other sectors for their availability of both external and internal finance.

FIGURE 13
SHORT TERM FIRM OUTLOOK OF INTERNAL AND EXTERNAL FINANCE



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

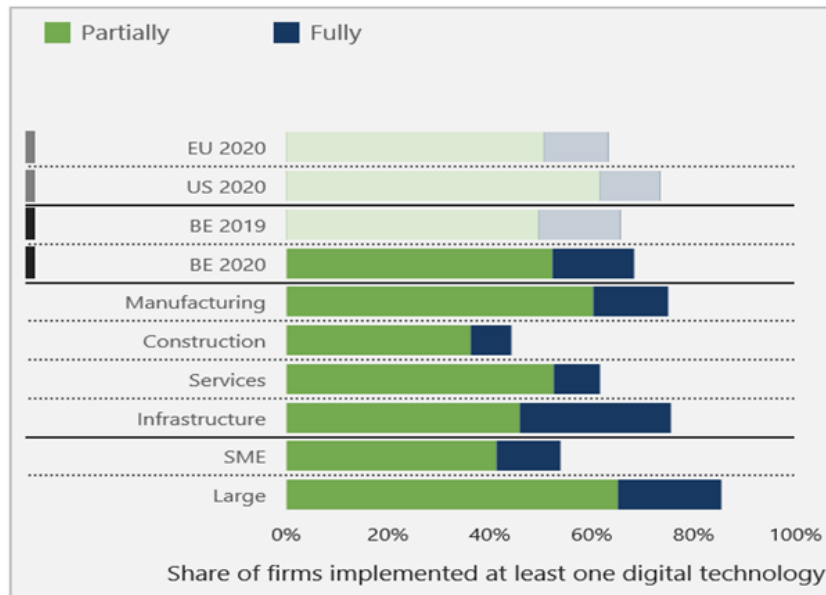
*Note: *Net balance is the share of firms seeing improvement minus the share of firms of seeing a deterioration*

Source: EIBIS 2020

Twin Transition: Digital and Climate

The adoption of digital technologies by Belgian firms has grown in 2020. It is higher than the EU average but lags that of the United States (Figure 14). Approximately two out of three firms (68%) have implemented at least one digital technology. Digitalization is higher in infrastructure and manufacturing firms, with adoption rates of 76% and 75% respectively, and is lower among construction firms (44%). Large firms are more likely than SMEs to have implemented at least one digital technology (86% versus 54%). Belgium infrastructure firms also reported relatively a high take-up of platform technologies, while firms in manufacturing highlighted automation via advanced robotics and the internet of things.

FIGURE 14
IMPLEMENTATION OF DIGITAL TECHNOLOGIES

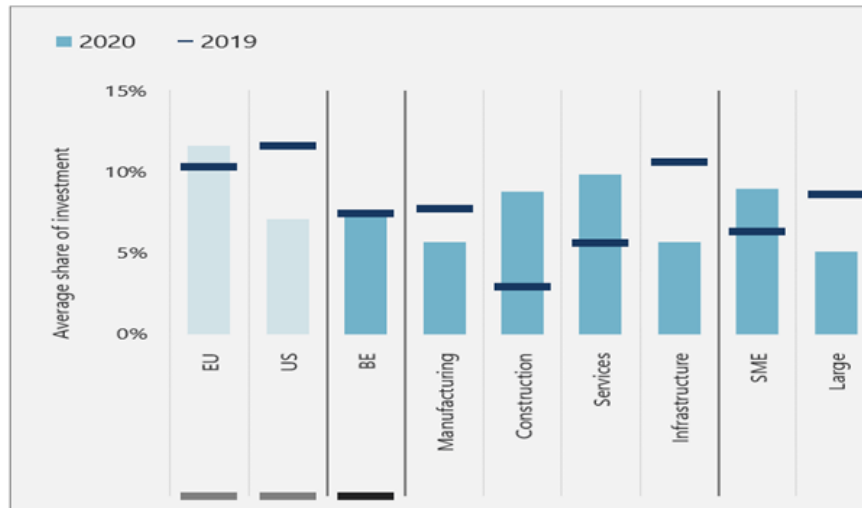


Q. Can you tell me for each of the following digital technologies if you have heard about them, not heard about them, implemented them in parts of your business, or whether your entire business is organised around them?

Source: EIBIS 2020

Belgian firms are on the right path towards a low-carbon future but can do better at investing in energy efficiency. Some 50% of firms in Belgium have “already invested” and a similar share “plan to invest” in the next three years in measures to tackle climate change (in line with the EU average). However, it appears that a relatively lower share of Belgian firms (40% against 47% amongst EU peers) have invested in improving their energy efficiency (Figure 15). This difference is also reflected in the share of the investment budget spent by Belgian firms for this purpose, a low 7% compared to the 12% EU average. Belgian firms perceive uncertainty about regulation and taxation (81%) and the cost of climate investment (73%) as the main barriers to climate action.

FIGURE 15
AVERAGE SHARE OF INVESTMENT IN MEASURES TO IMPROVE ENERGY EFFICIENCY

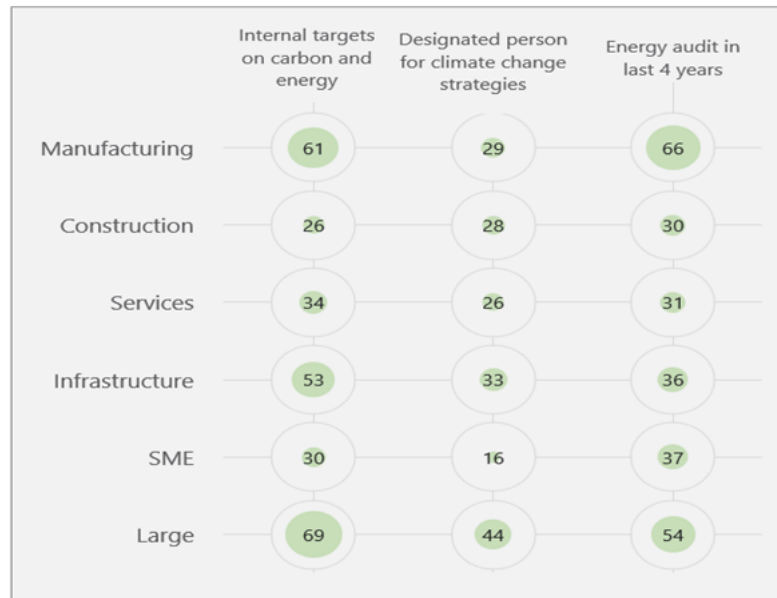


Q. What proportion of total investment in the last financial year was primarily for measures to improve energy efficiency in your organisation?

Source: EIBIS 2020

Belgian firms are more likely than EU firms to implement green management practices. Some 30% (vs 23% in the EU) have a dedicated climate staff, and almost half have set internal targets on carbon and energy (vs 41% in the EU). However, Belgian firms lag behind the EU in the share of firms with a conducted energy audit over the past four years (45% vs 55% in the EU). Within the country, the adoption rate of green management practices is more pronounced in manufacturing firms and larger firms (Figure 16).

FIGURE 16
ENERGY TARGETS, MANAGEMENT AND INTERNAL AUDIT BY SECTOR AND SIZE



Q. did your company set and monitor internal targets on carbon emissions and energy consumption?... have a designated person responsible for defining and monitoring climate change strategies?... had an energy audit?

Source: EIBIS 2020

Belgian firms appear to have greater concerns about the impact of the transition to a low-carbon future on their supply chains than any other impact of climate change. Only two-fifths (39%) perceive their business has been affected by climate change and the related changes in weather patterns, lower than the EU average (58%). When it comes to the impacts of the transition to a low-carbon future, Belgian firms tend to view these impacts positively rather than negatively on reputation (38%) and market demand (16%). In contrast, more firms expect this transition to have a negative rather than positive impact on their supply chain (-16%), which reflect their anticipation of higher input costs due to stricter climate policies.

Concluding Remarks

In 2020, the economy in Belgium was severely affected by the COVID-19 outbreak, as domestic demand suffered from restrictive measures and a large drop in confidence – only half of Belgian firms reported operating at or above full capacity and 20% expected as a long-term impact to have a permanent reduction in employment.

Not surprisingly, the crisis impacted on investment plans perceived impact on investment. Almost half of the firms in the EIBIS2020 survey reported that they expected to invest less due to the

pandemic and two-fifths of firms with investment plans for the current financial year plan to abandon or delay their investments due to COVID-19. These views point towards increasing investment needs in the future.

A positive development under the current economic circumstances and uncertainty is that an increasing share of firms invested in innovation in Belgium. Almost half of all firms developed or introduced new products, processes, or services as part of their investment activities, with one-fifth having undertaken innovation that is new to the country or even to the world. Moreover, approximately two out of three firms have implemented at least one of the digital technologies they were polled on.

Concerning climate change and climate-related policies, the majority of firms in Belgium see the energy transition to a low-carbon future with a positive view. In addition, a minority feel exposed to risks stemming from climate change, including extreme weather events. Around half of firms have invested to tackle physical and transition climate risks, and a similar share is planning to do so over the next three years. An area for improvement relates to investments in energy efficiency, where Belgian firms are lagging behind their EU peers.

As in most Member States, availability of skilled staff, uncertainty about the future and business regulations are perceived as the main barriers to investment. Uncertainty about taxation and regulation, together with investment costs, also seem to hinder investment in climate.

Finance conditions appear to be a limited concern for investment in Belgium, except for small firms. A minority of firms face challenges with respect to their finance or are dissatisfied with their external financing terms but appear to have higher concerns over the next year about the availability of internal finance. Belgium should take advantage of the favourable finance conditions to reorient public and private spending to support the green and digital transitions while promoting skills and education to enhance productivity growth and contribute to the increased inclusiveness of its society.

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[EIBIS 2020 - Belgium overview](#)

[2] EIB, “*EIB Investment Report 2020/2021: Building a smart and green Europe in the COVID-19 era*”, 2021.

[EIB Investment Report 2020/2021: Building a smart and green Europe in the COVID-19 era](#)