



CROATIAN NATIONAL BANK

„Investment and competitiveness“

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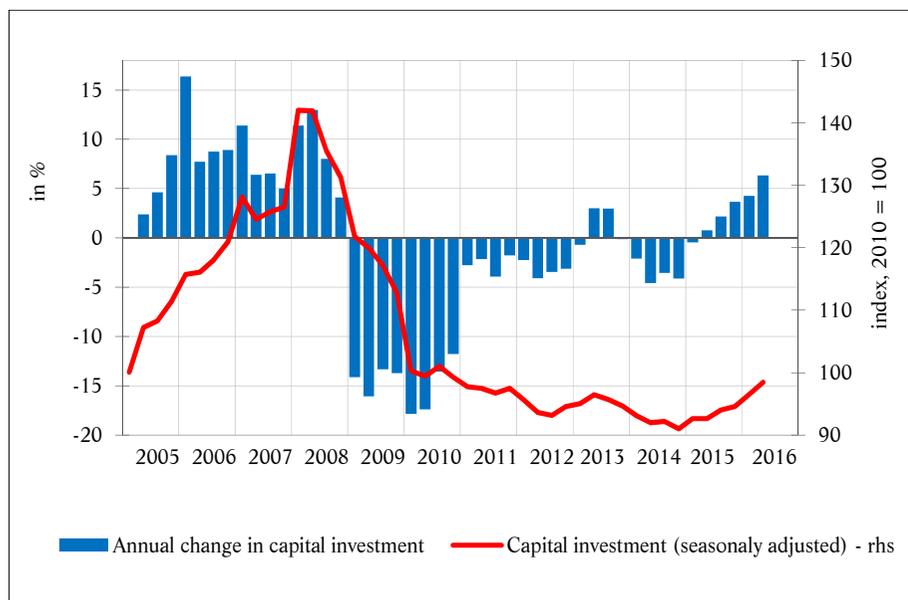
Outline

- Capital investment and FDI developments in Croatia and peer countries
- Structural position of Croatia
- Why are some countries more successful than other?

Capital investment and FDI developments in Croatia and peer countries

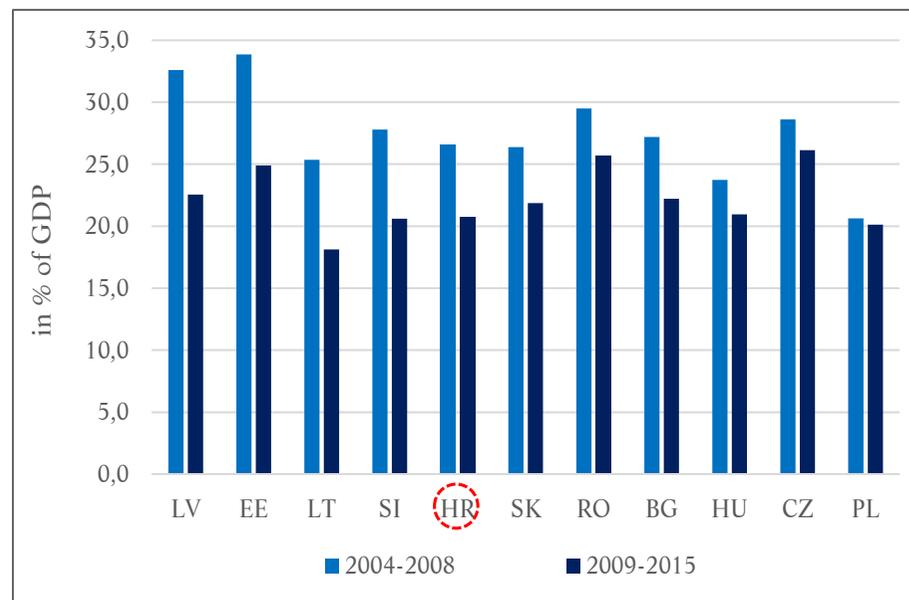
Capital investment have started to recover but remain well below pre-crisis level

Capital investment in Croatia



Source: CBS

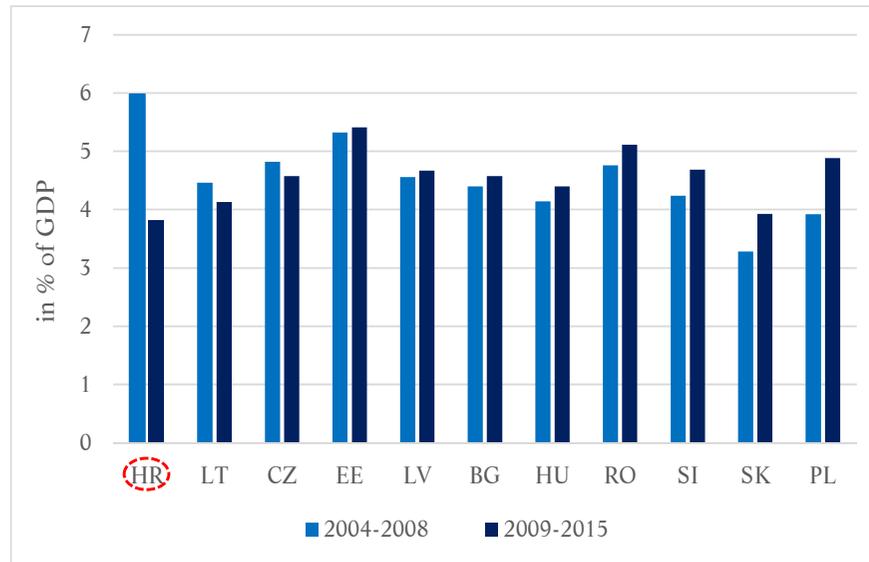
Croatia vs. peer countries



Sources: Eurostat; CBS

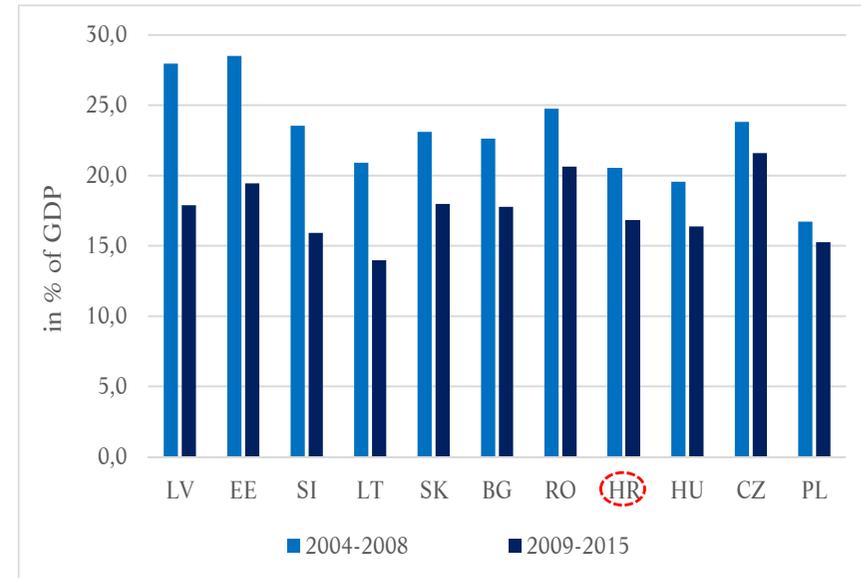
Adverse developments more pronounced in the private sector, except for Croatia

Public investment



Sources: CBS, Eurostat

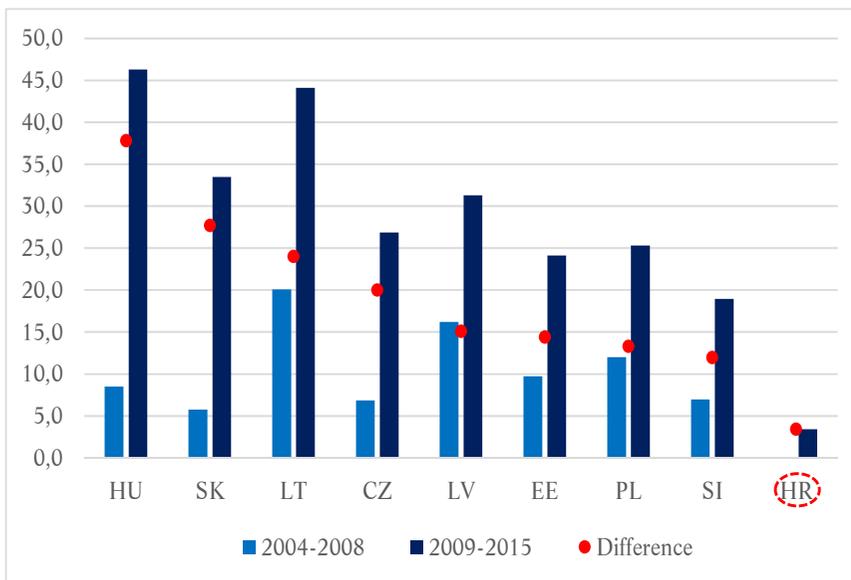
Private investment



Sources: Eurostat; HNB's estimate

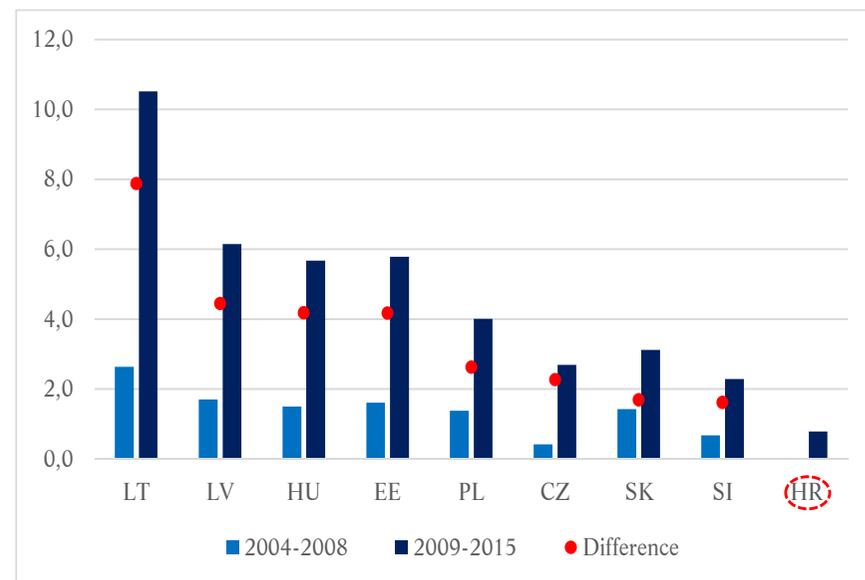
EU funding has helped to cushion the fall but...

Public investment financed by EU funds



Sources: CBS, Eurostat

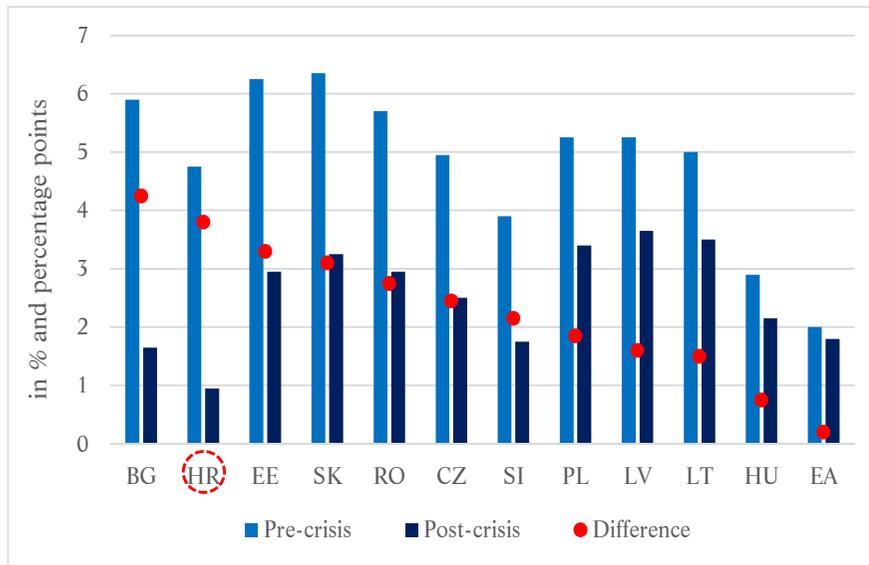
Private investment financed by EU funds



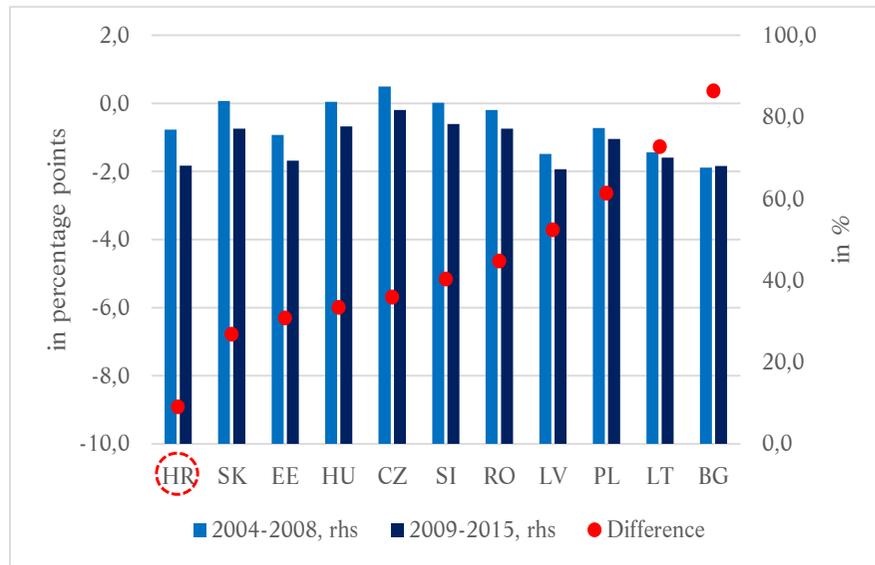
Sources: Eurostat; HNB's estimate

... adverse factors more pronounced

Expected GDP growth



Capacity utilisation in manufacturing



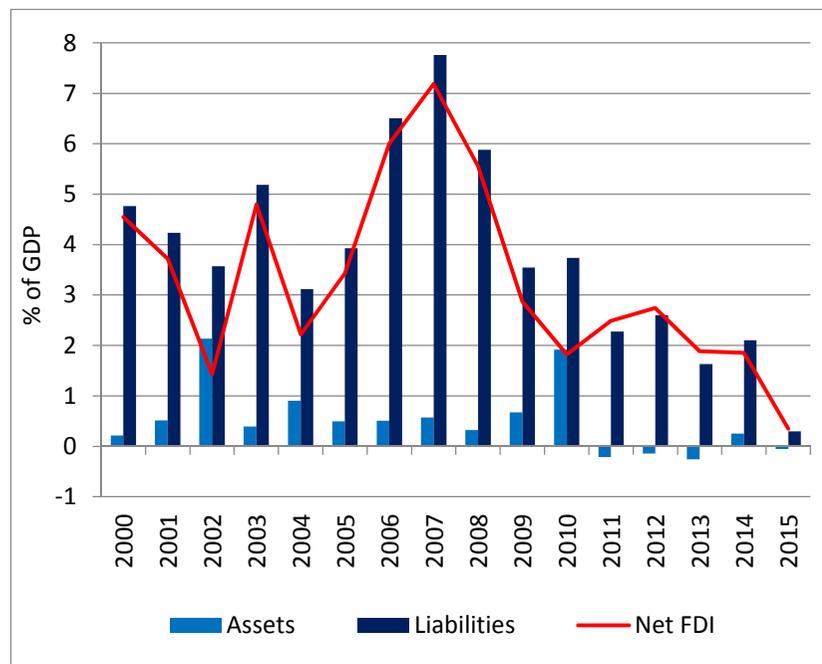
Note: Average EC's short term forecast (1 year ahead) for 2008 and 2009 for the pre-crisis period, and for 2015 and 2016 for the post-crisis period.

Sources: CBS, Eurostat

Sources: Eurostat; HNB's estimate

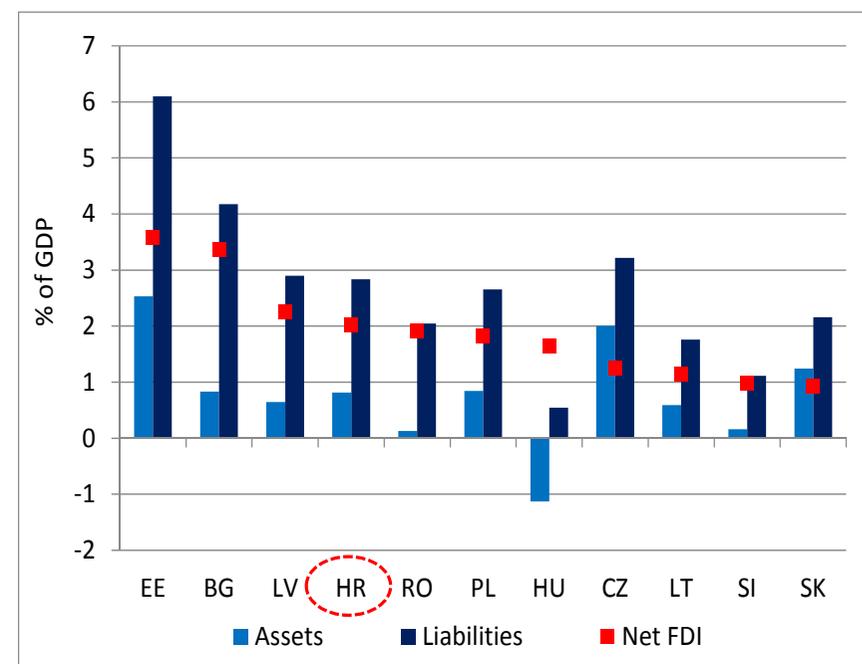
FDI inflows continue declining, both in Croatia and peer countries

FDI in Croatia



Note: Net FDI is calculated as a difference between liabilities and assets. Therefore, positive sign refers to net investment inflow.
Source: HNB

Croatia vs. peer countries, annual average 2009-2015

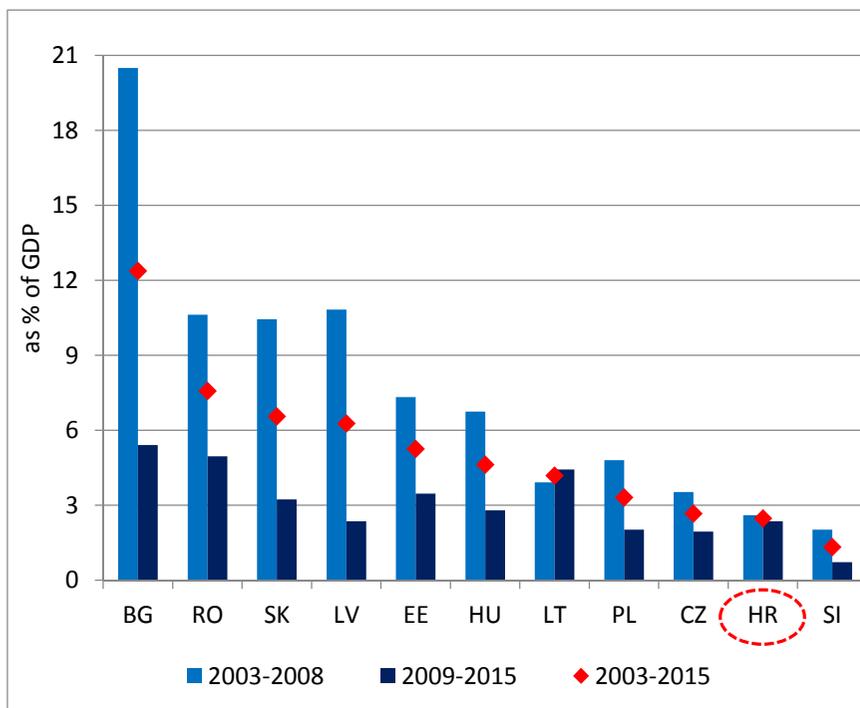


Note: Net FDI is calculated as a difference between liabilities and assets. Therefore, positive sign refers to net investment inflow.
Data for Bulgaria start from 2007.

Source: Eurostat; HNB

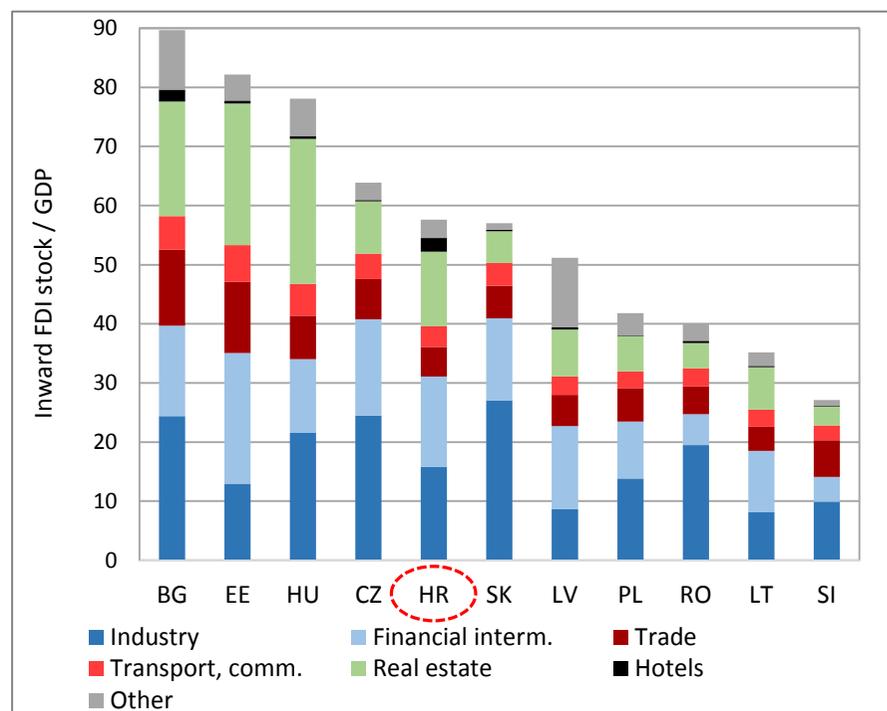
Although stock of FDI is relatively high, *greenfield* and FDIs in industry are modest in Croatia

Greenfield investment projects, annual average



Source: UNCTAD, World Investment Report 2016

FDI composition by sectors, inward FDI stock at the end of 2014



Note: Data for Slovakia refer to the end 2013. Industry includes mining and quarrying, manufacturing, electricity, gas and water supply.

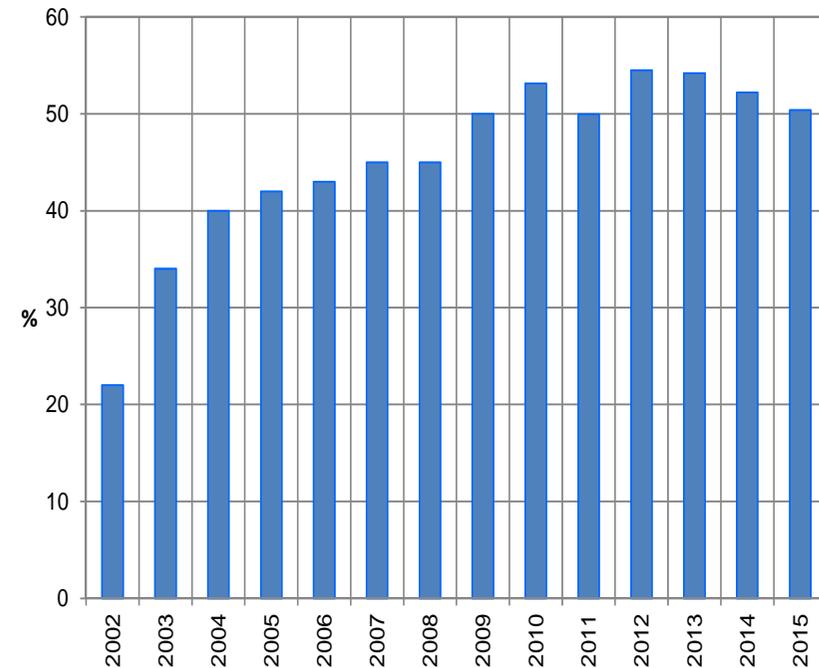
Source: WiiW

FDIs impact on domestic productivity and exports is positive

Effects of FDIs on productivity (Marić, 2008):

- Own-firm effects: FDI firms are on average by one-third more productive than domestic firms in the same sector
- Spillover effects: FDIs had positive effect on other domestic firms in different sectors of the economy
- Positive effects in the 1999-2002 period stronger compared to 2003-2005 period

Share of FDI firms in Croatian exports

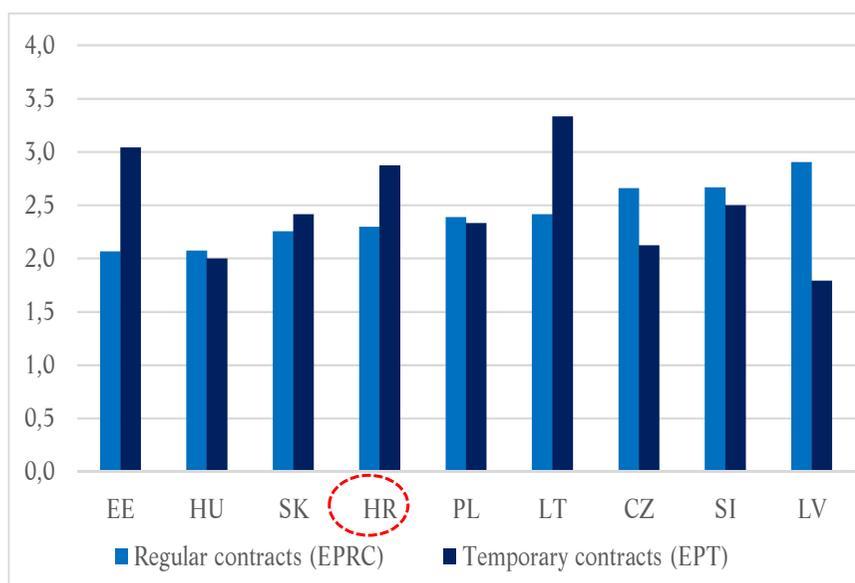


Sources: FINA for data until 2010, later CBS and HNB

Structural position of Croatia

Employment protection and product market regulation

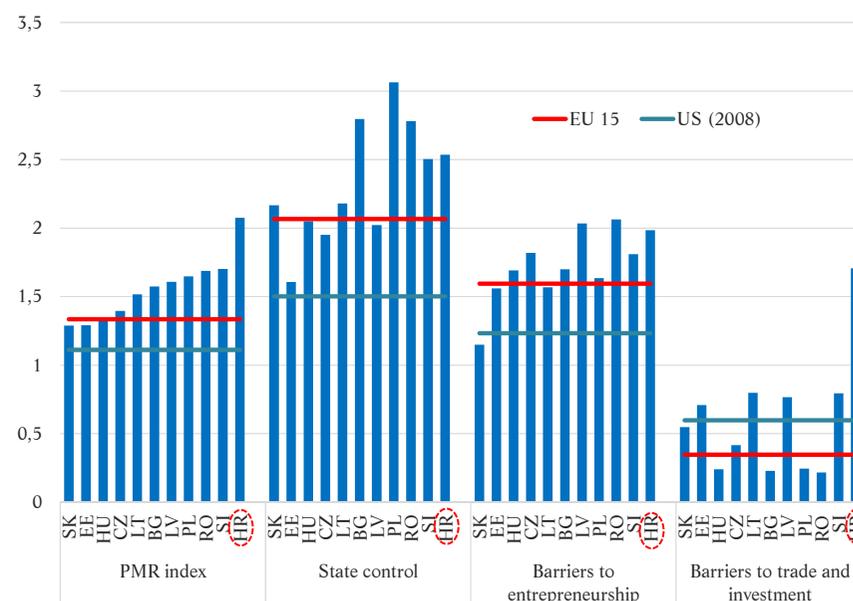
Employment protection legislation(2013)



Note: Data for Croatia and Lithuania refer to 2015.

Sources: CBS, Eurostat

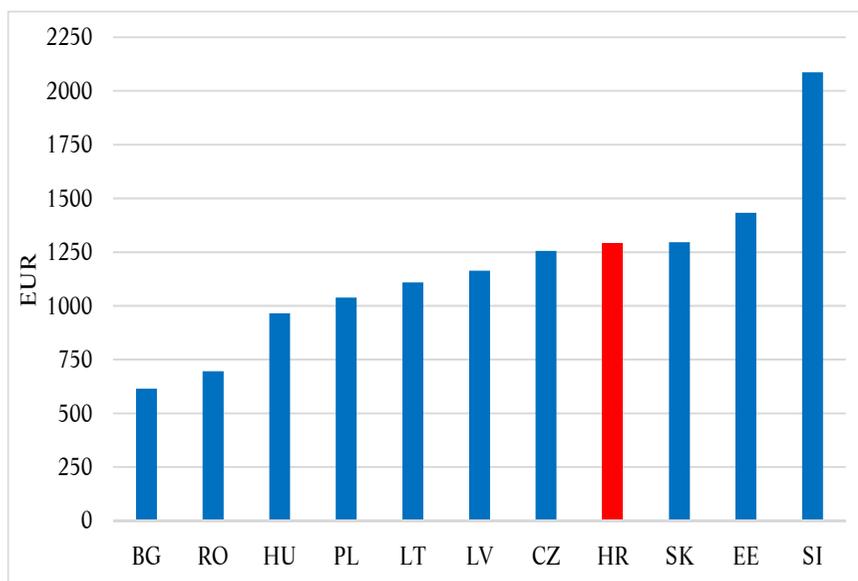
Product market regulation (2013)



Sources: Eurostat; HNB's estimate

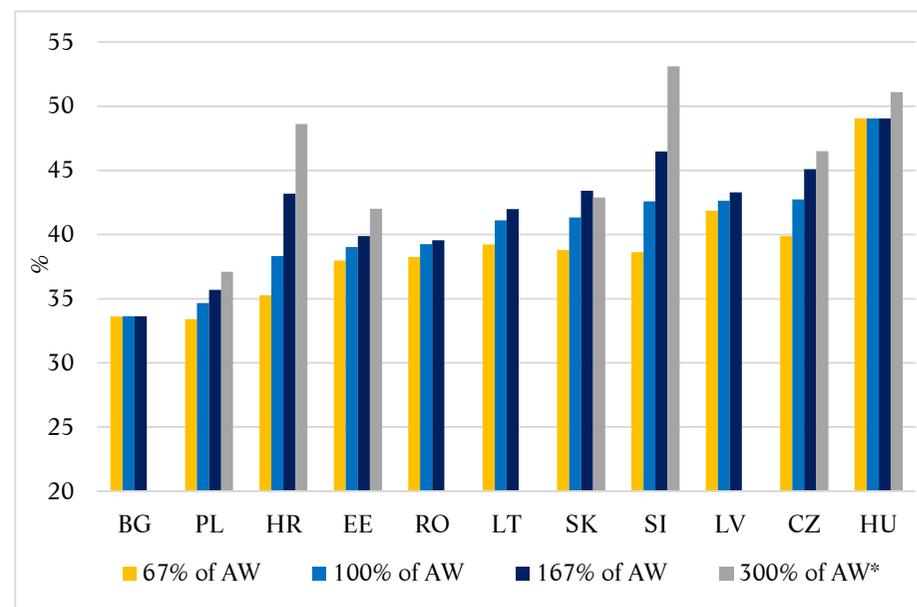
Labour cost

Compensation per employee



Sources: CBS, Eurostat

Tax wedge

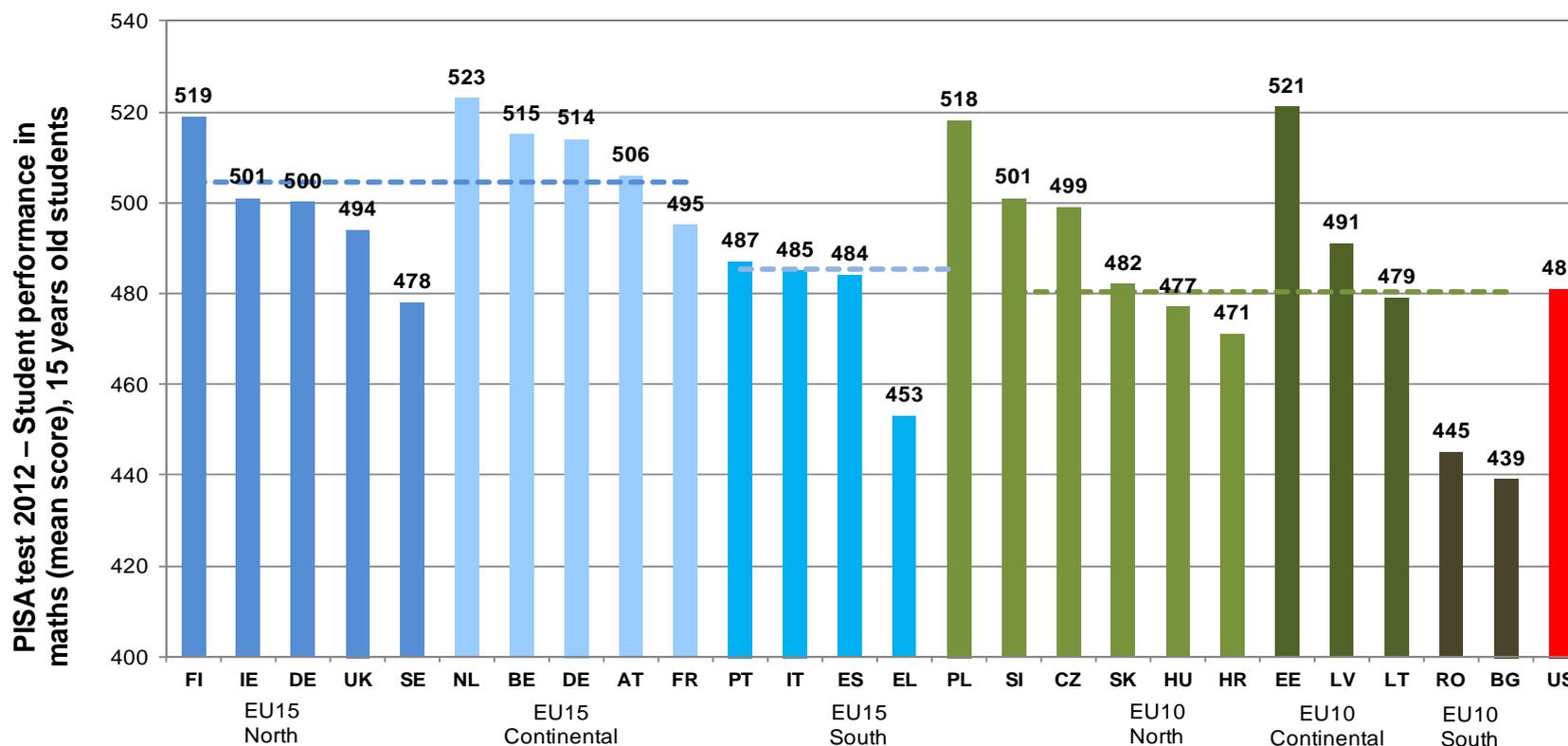


*Data refer to 2014, except for Croatia which are for 2015.

Sources: OECD; HNB's estimate

Different educational outcomes according to PISA test results

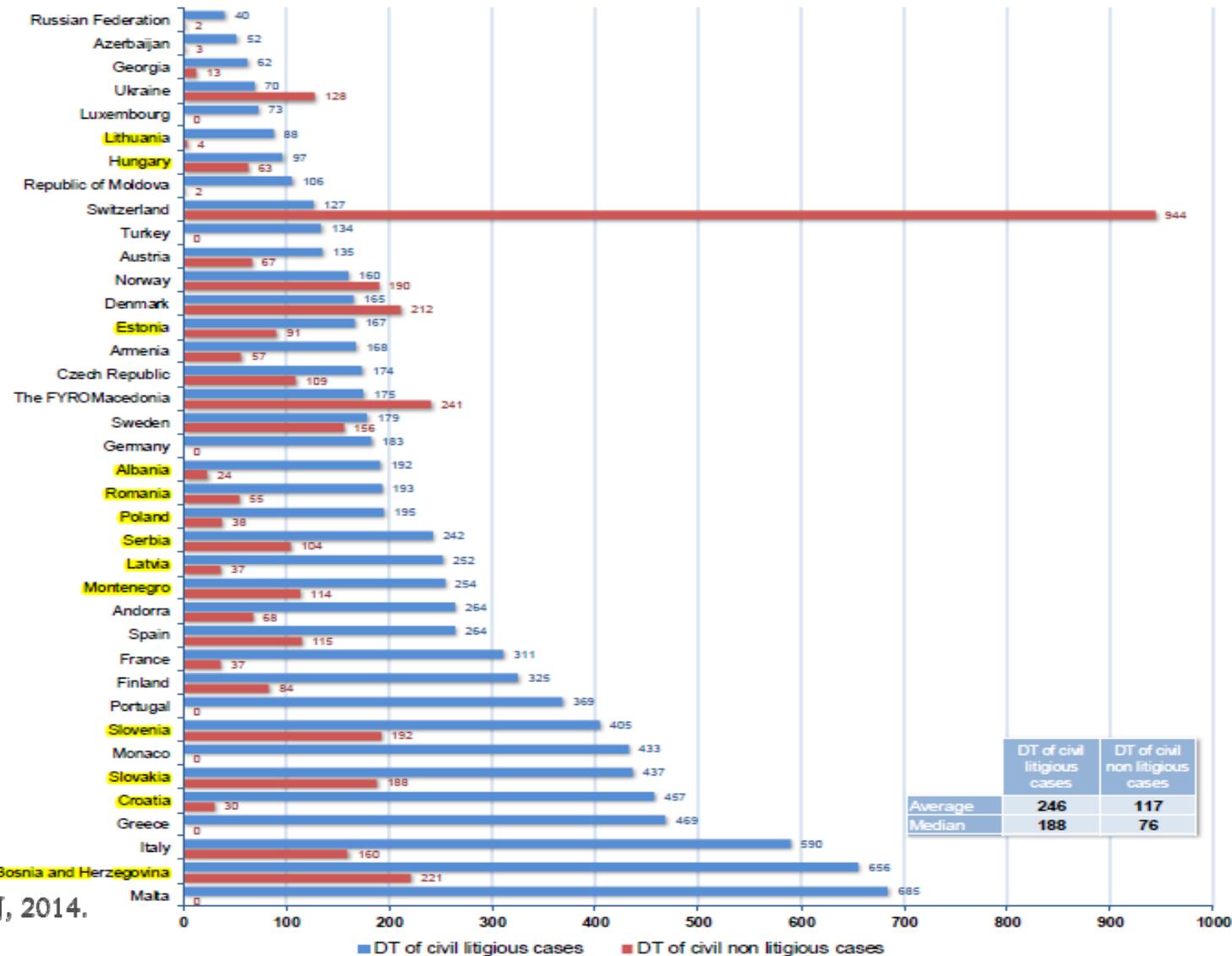
PISA test 2012 – Student performance in maths (mean score)



Note: EU15 = Denmark, Finland, Sweden, Ireland and United Kingdom(North), Austria, Belgium, France, Germany, and Netherlands, (Continental), Greece, Italy, Portugal, and Spain (South). EU 10 = Estonia, Latvia and Lithuania(North), Croatia, Czech Republic, Hungary, Poland, Slovakia and Slovenia (Continental), Bulgaria and Romania(South)

Source: OECD

Disposition time (DT) for litigation and non-litigation civil and **commercial cases** - number of days to complete proceedings in 1st instance court

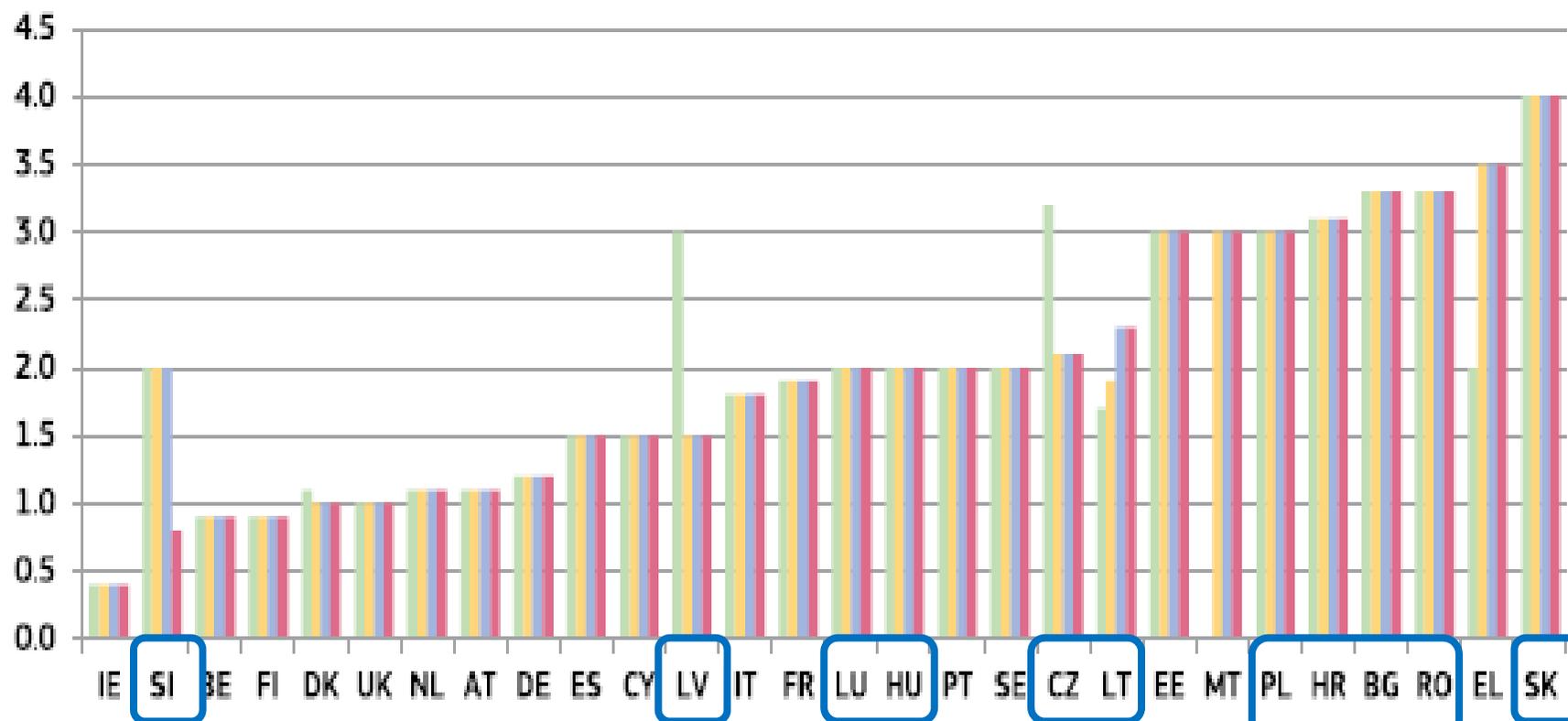


Source: CEPEJ, 2014.

Time needed to resolve insolvency – full or partial collection of claims by creditors in years



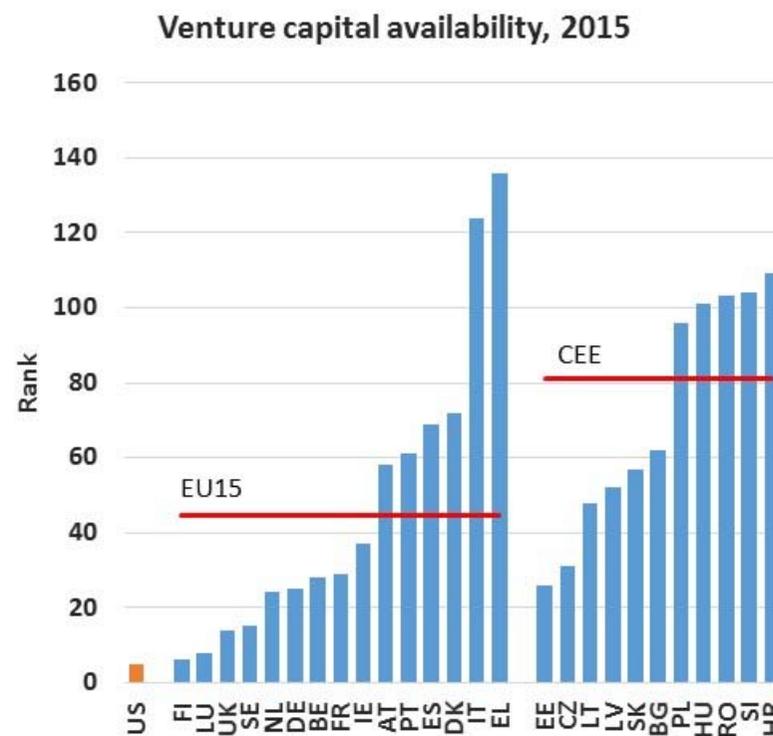
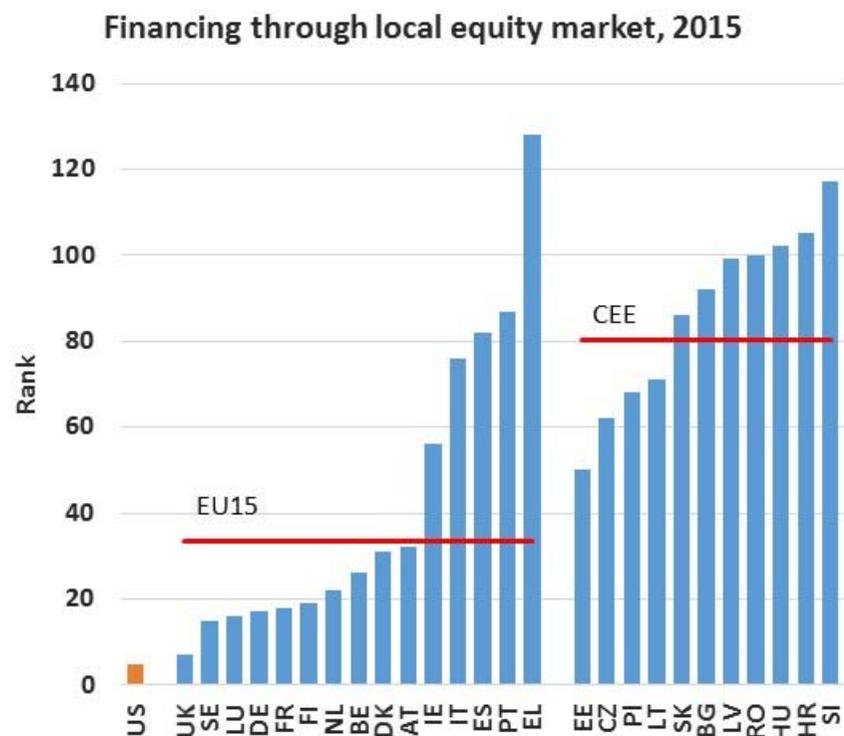
Source: World Bank Doing Business



Source: EU Justice Scoreboard 2016

Access to finance

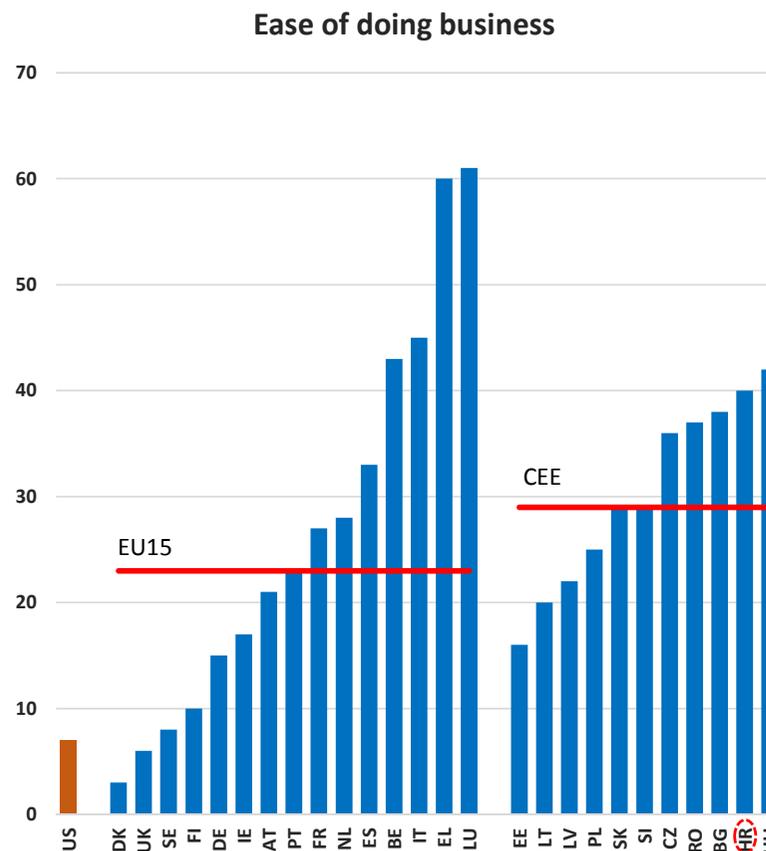
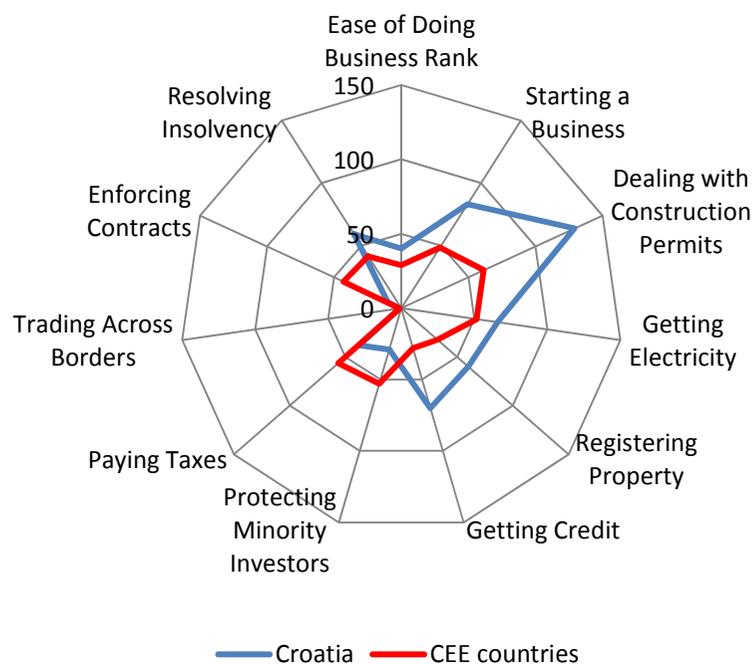
Diversified sources of finance would boost growth of young and innovative companies



Note: Groupings' ranks are based on GDP-weighted country rankings.

Source: Global Competitiveness Report 2016

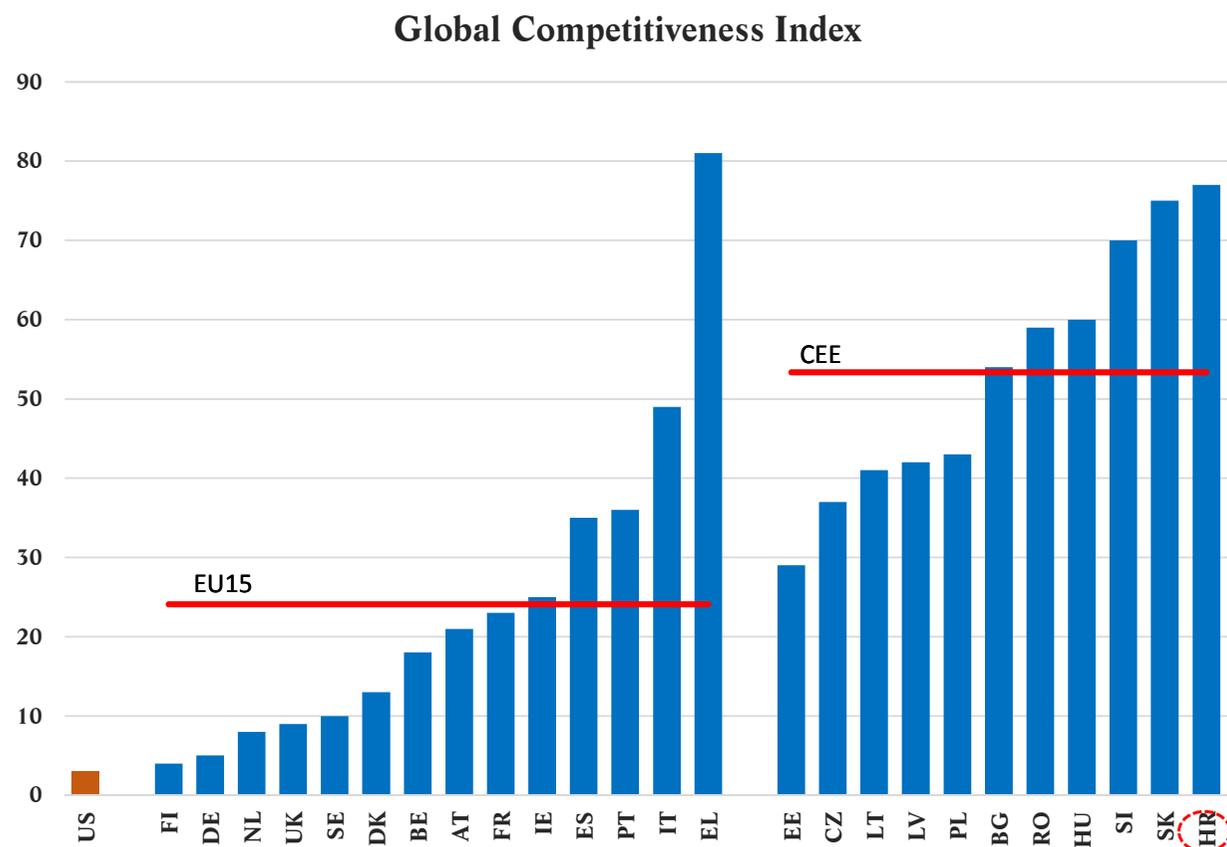
Business climate indicators



Note: A high ease of doing business (a low numerical rank) means that the regulatory environment is conducive to business operation. EU-15 stands for average of "old" EU member countries.

Source: World Bank, Doing Business 2016

Business climate indicators (2)



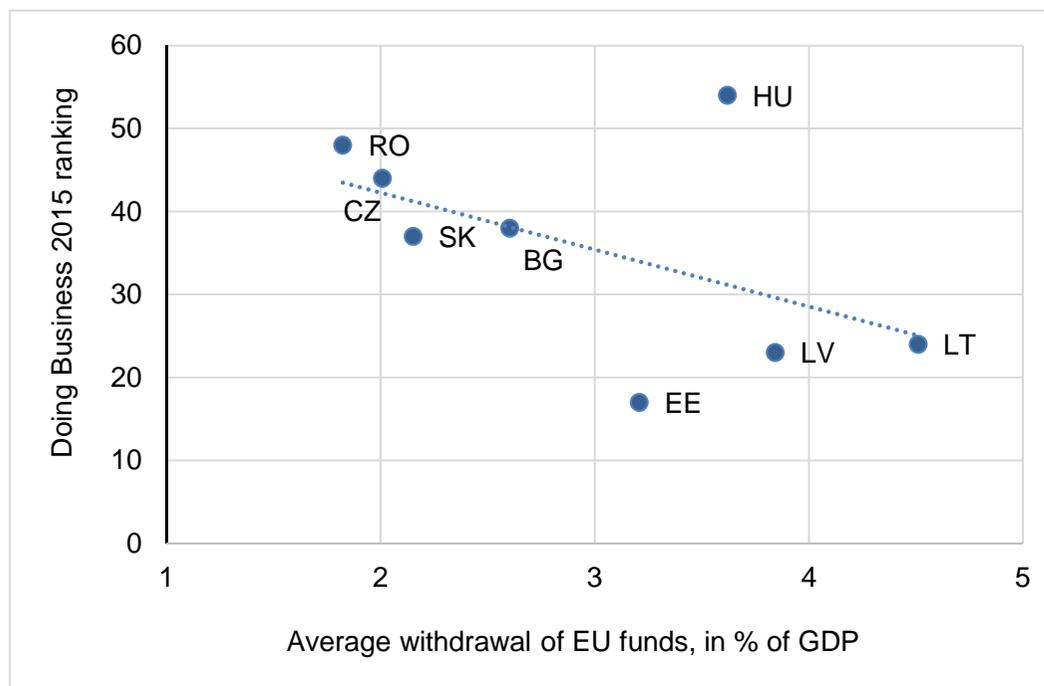
Note: High ease of Global Competitiveness Index (a low numerical rank) means higher degree of competitiveness.

EU-15 stands for average of "old" EU member countries.

Source: World Bank, Doing Business 2015

Better business environment also enhances absorption of EU funds

Average annual withdrawal of EU funds since the EU accession vs. 2015 Doing Business ranking, in % of GDP



Sources: ECB and World Bank.

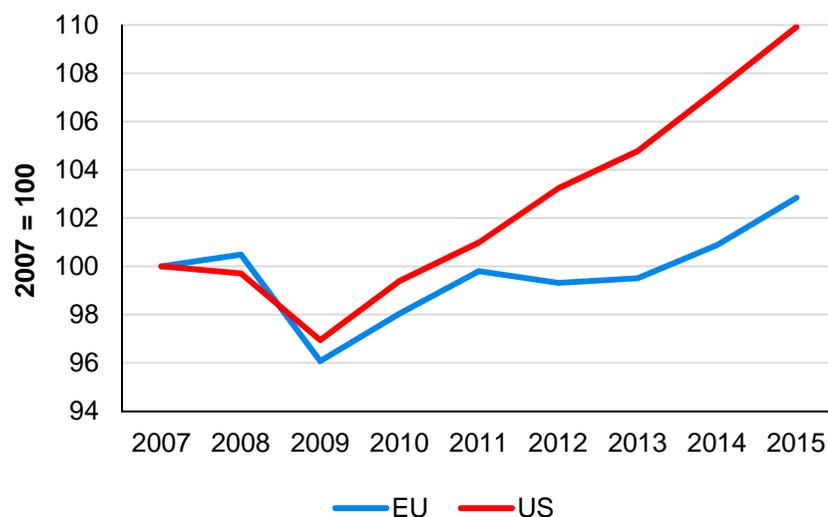
**Why are some countries more successful
than other?**

Why are some countries more successful (1)

Europe and US

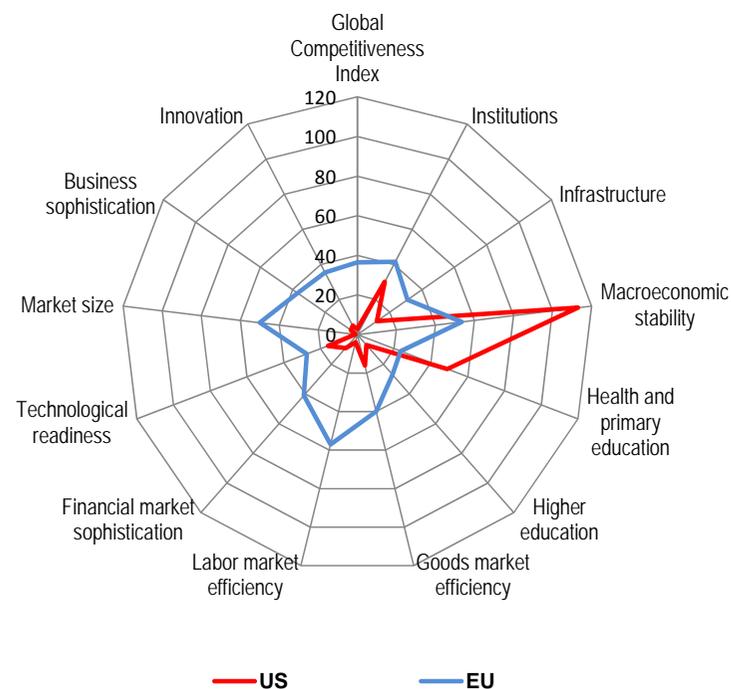
Faster recovery in US could be explained by....

Real GDP



Sources: Eurostat and BEA.

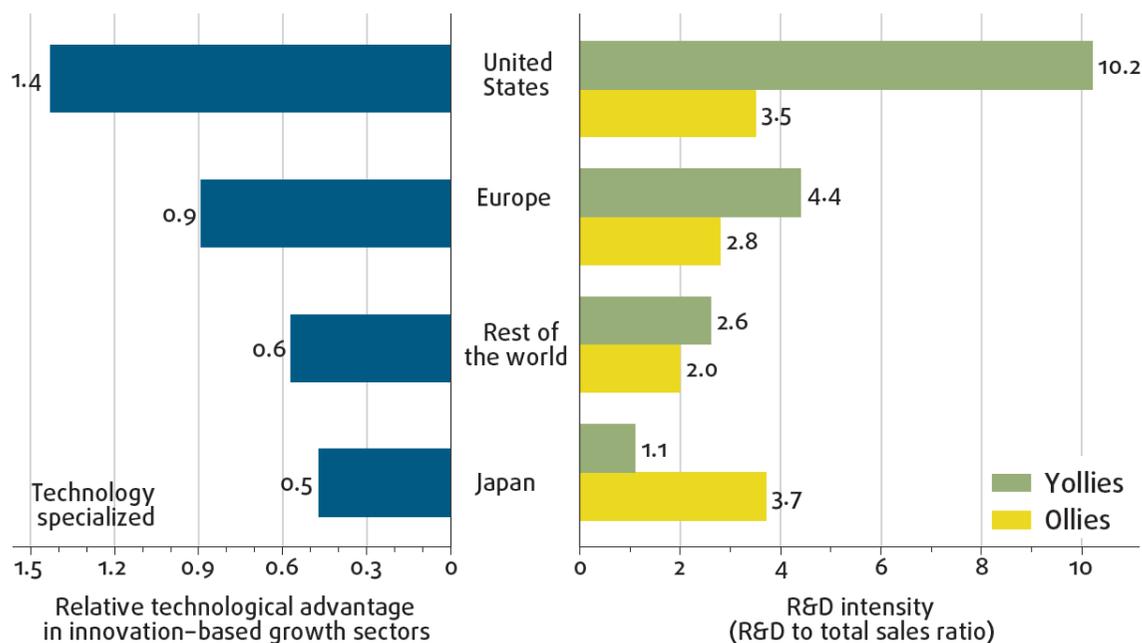
... better structural position



Source: World Economic Forum, Global Competitiveness Report 2015-2016

US firms specialize in technologically advanced and R&D-intensive products, younger firms lead ...

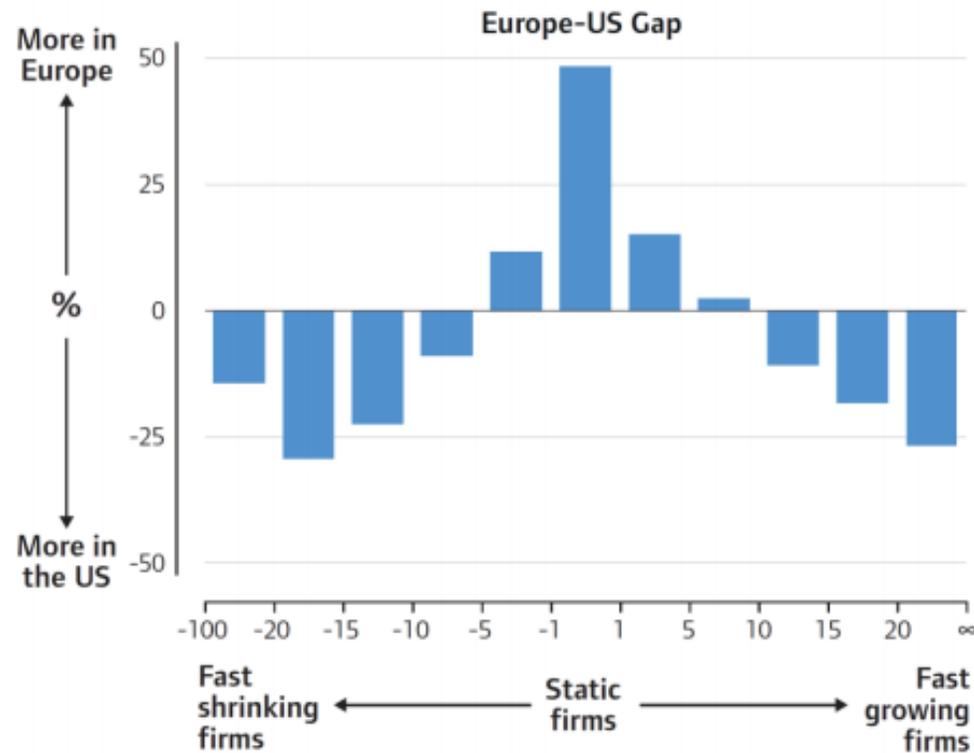
Europe specializes in old sectors, the US in new



Note: R&D intensity is measured as the ratio of R&D spending to total sales, for firms established after 1975 (young leading innovators or “Yollies”) or before 1975 (“Ollies”). The relative technological advantage is calculated as the share of each region or country (say Europe) in the R&D of a particular sector (say the Internet) relative to the share of Europe in world R&D; values greater than 1 indicate the region is technology specialized in the sector.

Source: Bruegel and World Bank staff calculations, based on the European Commission’s Institute for Prospective Technological Studies R&D Scoreboard

Europe is lagging in business dynamism ...

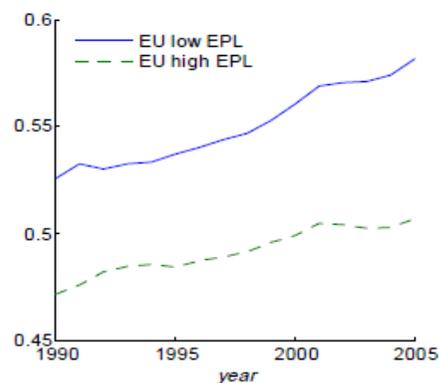
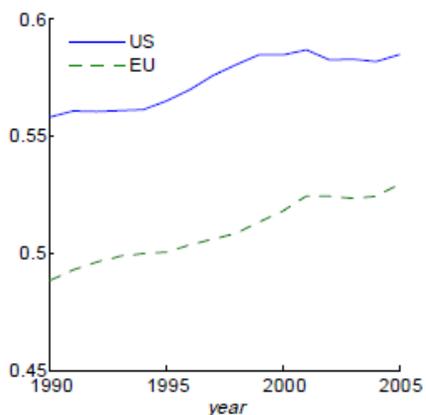


Source: Biosca, A. B., A look at business growth and contraction in Europe, 2011, 3rd European Conference on Corporate R&D and Innovation

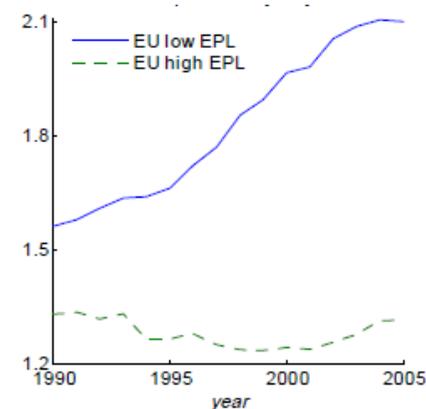
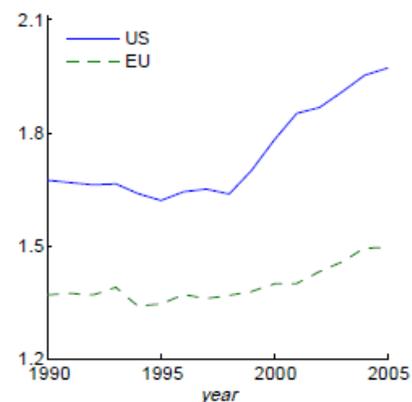
Why were firms like Facebook, Google and E-bay created in the US and not in EU?

Labour market institutions in EU not conducive to adopt risky ICT investment decisions ...

Employment share in ICT intensive sectors



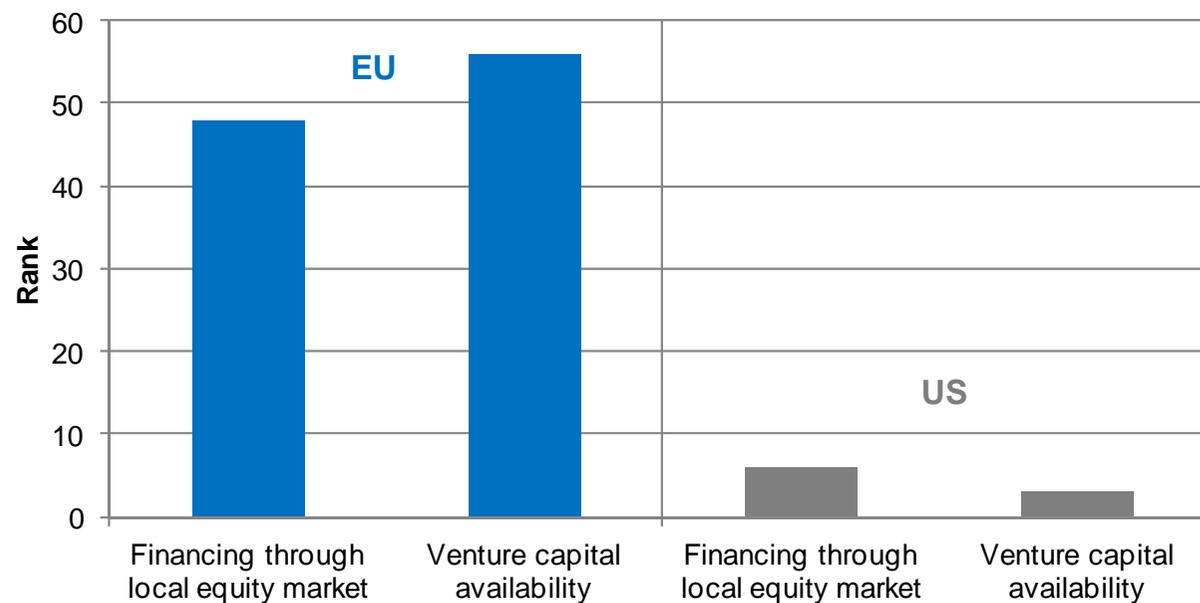
Labour productivity growth in ICT intensive sectors



Source: Bartelsman, Eric J, Pieter A Gautier, and Joris de Wind (2010), "Employment Protection, Technology Choice, and Worker Allocation", IZA DP No. 4895

..nor are the financial markets
- a key to the growth of young companies ...

Access to finance rankings



Note: EU is a GDP weighted average of EU28 country rankings

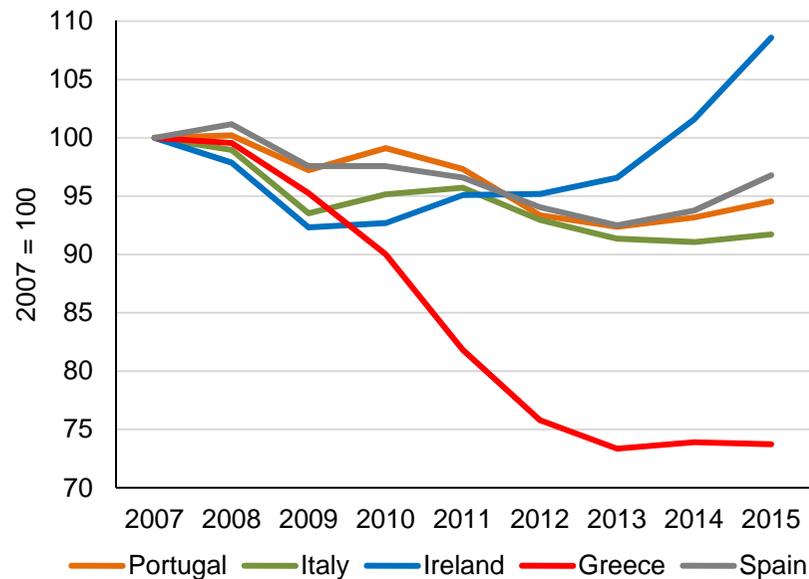
Source: Global Competitiveness Report 2014-2015

Why are some countries more successful (2)

Peripheral EU countries - GIIPS

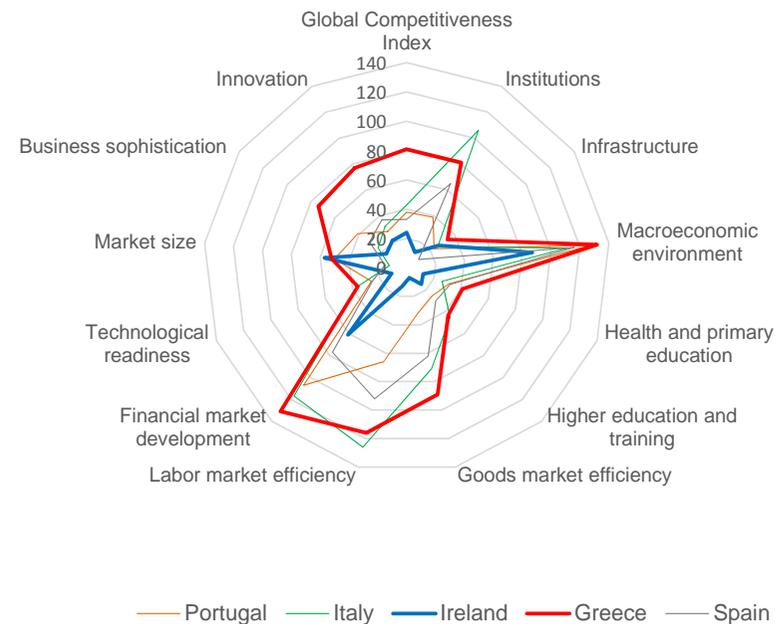
Fastest post-crises recovery in Ireland could be explained...

Real GDP



Source: Eurostat

... by better structural position



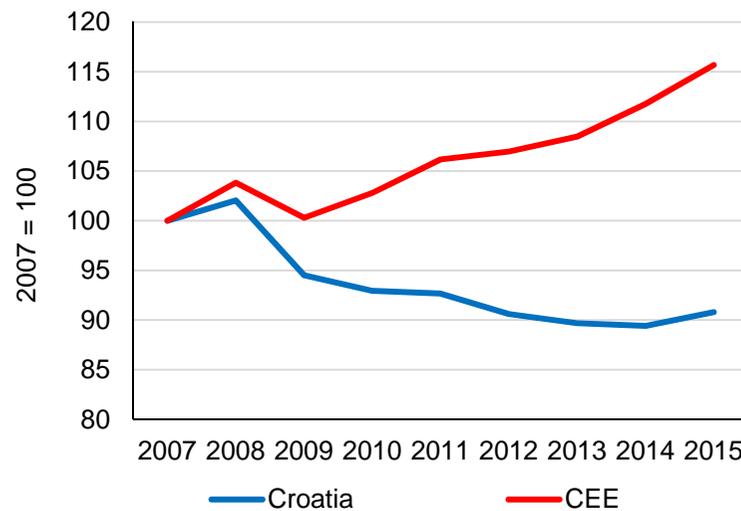
Note: Lower ranking indicates that country is more competitive.
 Source: World Economic Forum, Global Competitiveness Report 2015–2016

Why are some countries more successful (3)

Croatia and CEE countries

Slower recovery in Croatia than in CEE countries could be explained...

Real GDP



Note: CEE includes Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.
Source: Eurostat

...by worse structural position



Note: CEE includes Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.
Lower ranking indicates that country is more competitive.
Source: World Economic Forum, Global Competitiveness Report 2015-2016

Hvala 😊