

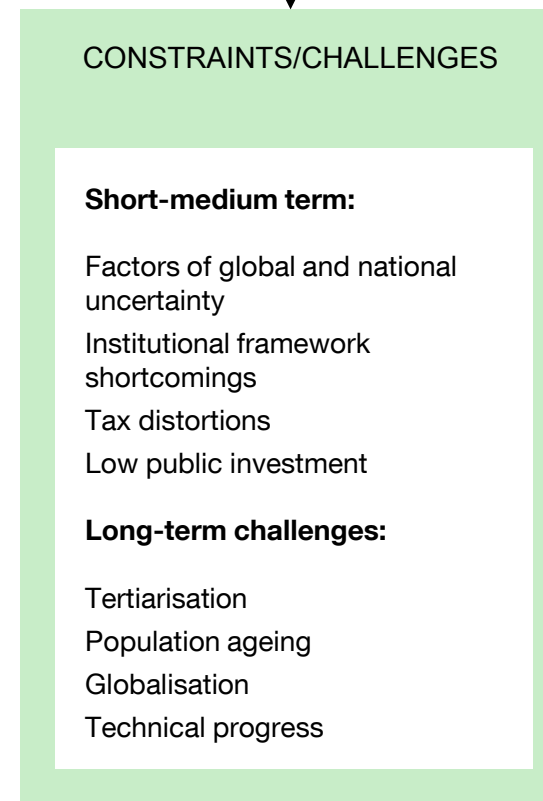
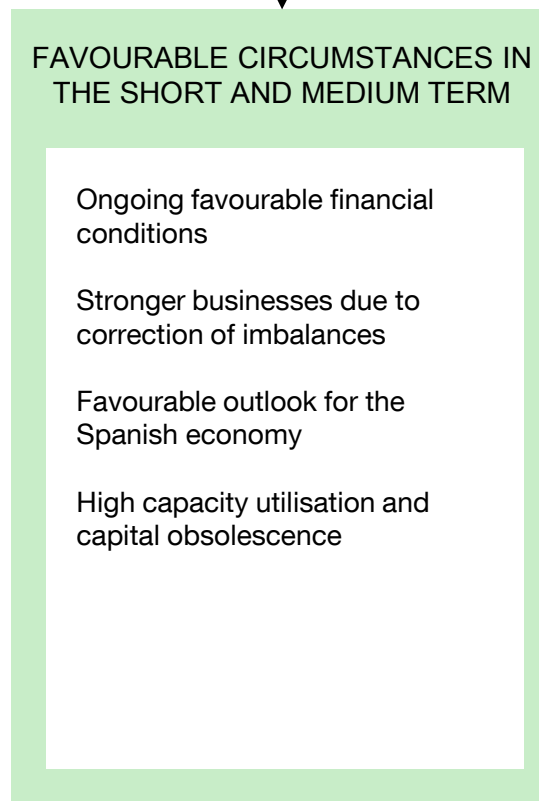
ANNUAL REPORT 2017

CHAPTER 3

THE BUOYANCY OF INVESTMENT IN THE RECOVERY: DETERMINANTS AND CHALLENGES



DETERMINANTS AND CHALLENGES

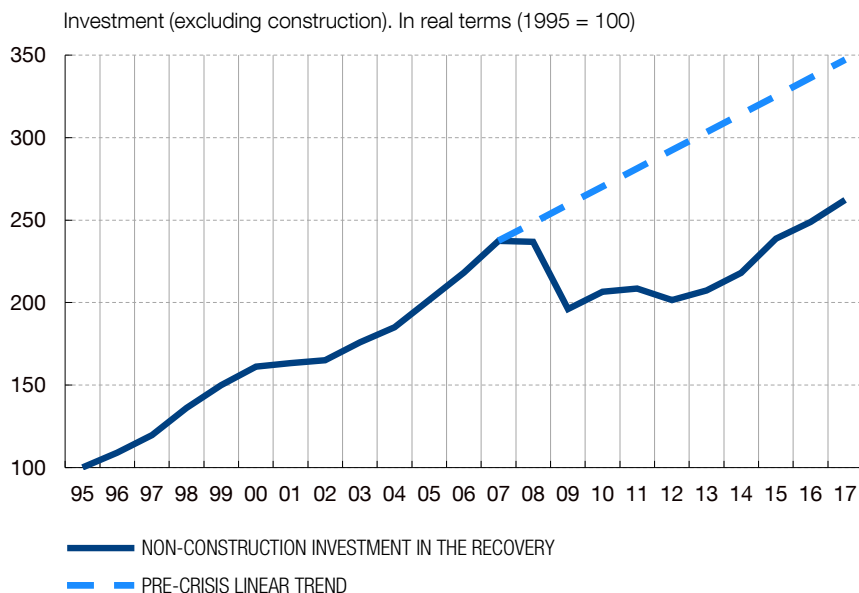


INVESTMENT IN EQUIPMENT AND INTANGIBLES BUOYANT IN THE RECOVERY

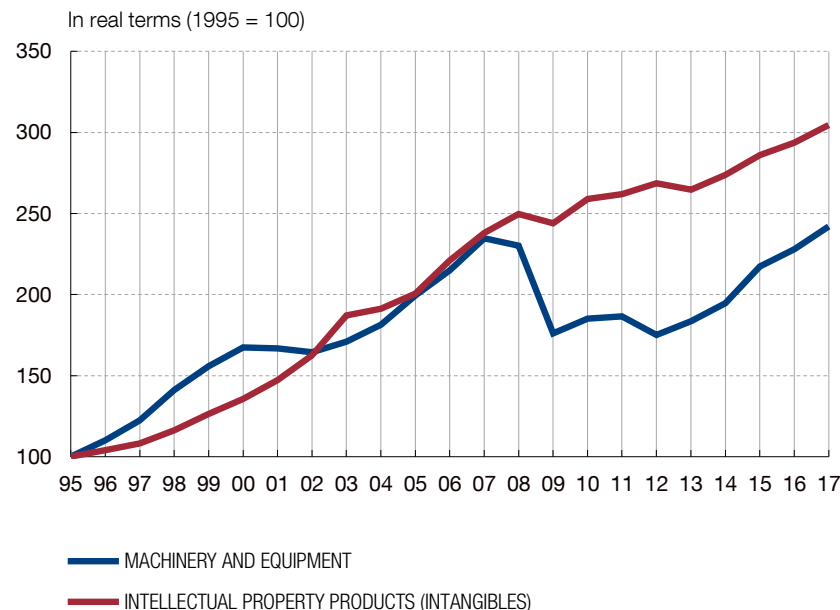


The momentum has been broad-based in terms of components, both in the case of equipment and machinery and intangible assets, which continued to be accumulated, even during the crisis, at the trend growth rate of recent decades.

NON-CONSTRUCTION INVESTMENT BUOYANT IN THE RECOVERY...



... ACROSS MAIN COMPONENTS

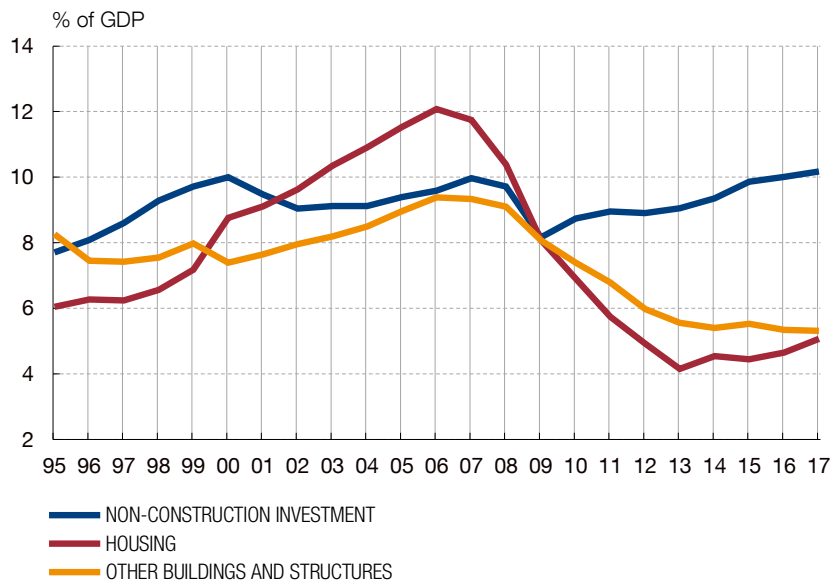


INVESTMENT IN EQUIPMENT AND INTANGIBLES BUOYANT IN THE RECOVERY

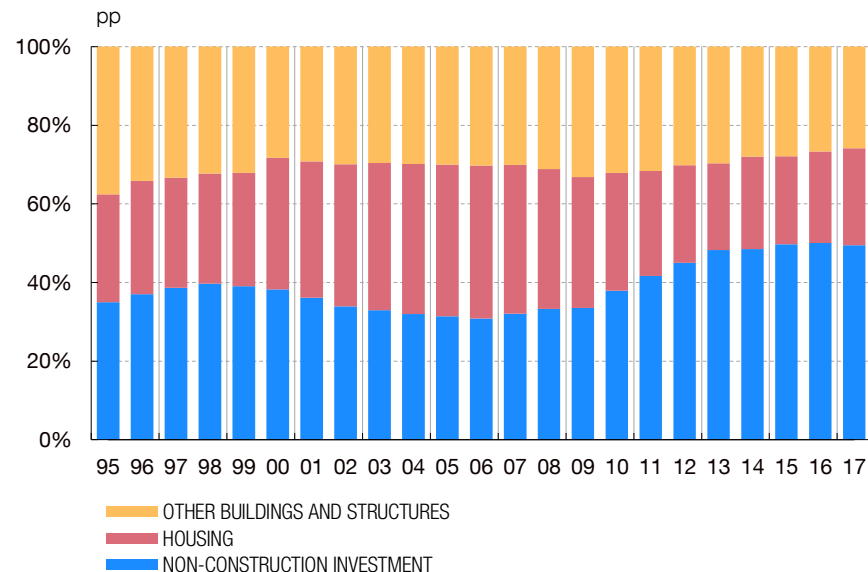


The behaviour of construction-related investment, on the other hand, was less favourable, and in 2017 stood at somewhat less than 50% of its pre-crisis level. Thus, investment in equipment and intangibles has increased as a proportion of total investment.

WHILE CONSTRUCTION-RELATED INVESTMENT MORE SUBDUED ...



... MEANING INVESTMENT IN EQUIPMENT AND INTANGIBLES UP AS A PROPORTION OF TOTAL INVESTMENT

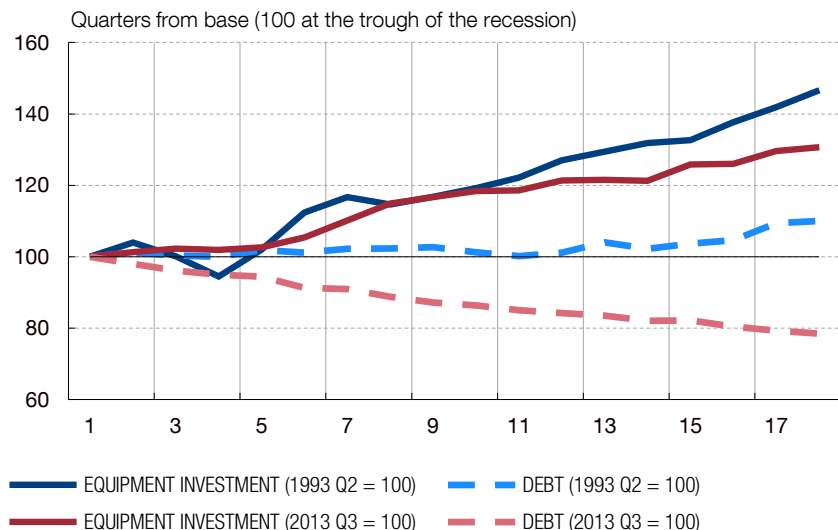


BEHAVIOUR COMPARABLE TO THE RECOVERY IN 1990s AND SLIGHTLY BETTER THAN IN THE EURO AREA, WITH DELEVERAGING

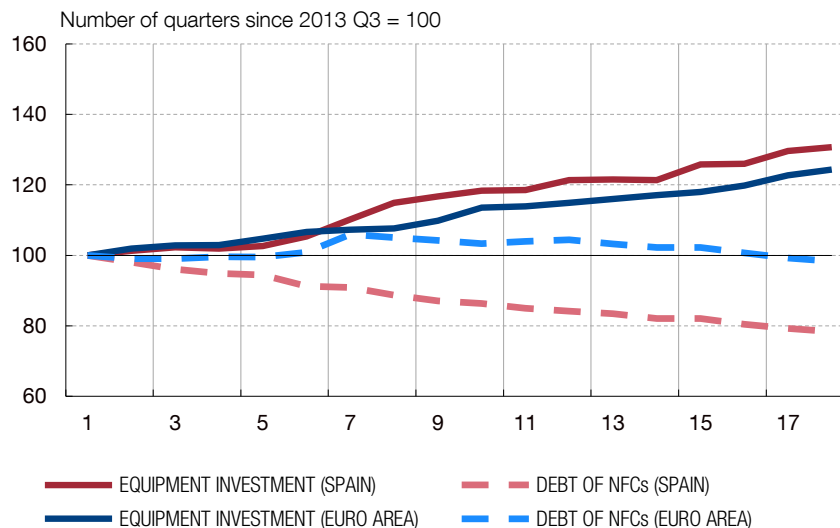


The recent behaviour of equipment investment has been similar to that in the cyclical episode in the 1990s, despite the heavy deleveraging by non-financial corporations. Also, investment has performed relatively more favourably in the recovery in Spain than in the euro area as a whole.

INVESTMENT AND DELEVERAGING DURING RECOVERY PERIODS



INVESTMENT AND DELEVERAGING: SPAIN AND EURO AREA

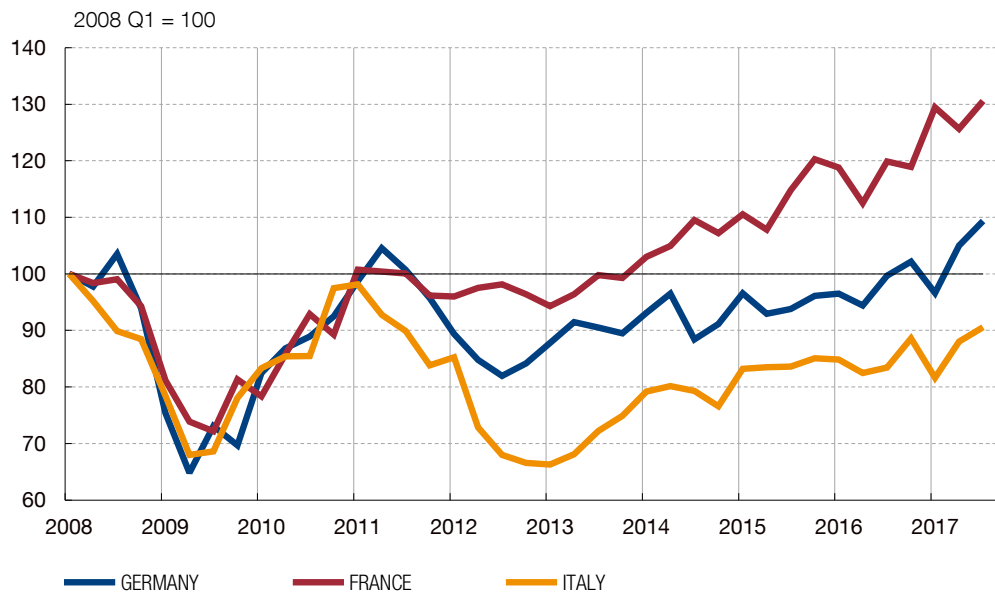


HETEROGENEOUS PERFORMANCE OF EQUIPMENT AND INTANGIBLES INVESTMENT IN THE EURO AREA



The dynamics of investment in the euro area as a whole, however, are markedly heterogeneous across countries. Of the four largest euro area countries, Italy has recorded the poorest relative performance by non-construction investment since end-2013 and France the most favourable.

NON-CONSTRUCTION INVESTMENT OVER THE LAST DECADE: EURO AREA COUNTRIES

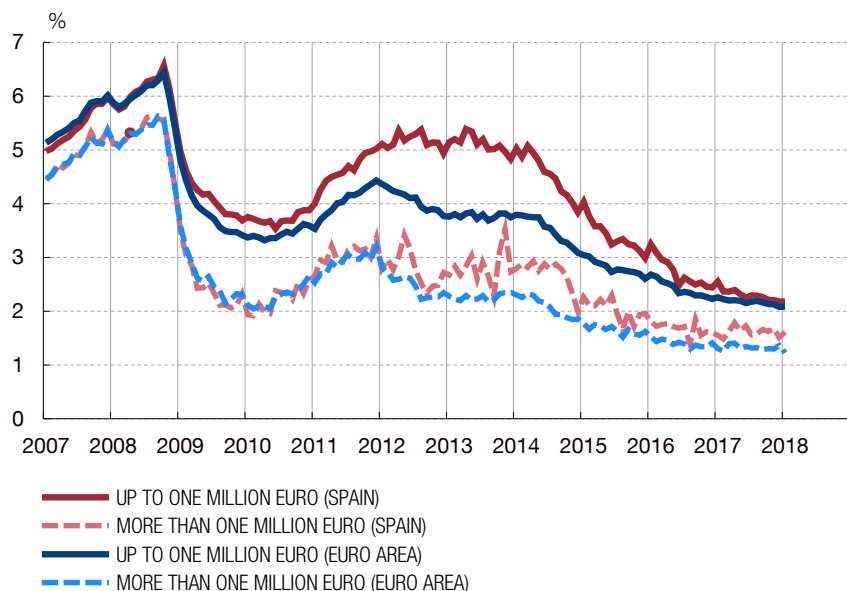


DETERMINANTS OF THE RECOVERY: FINANCIAL CONDITIONS

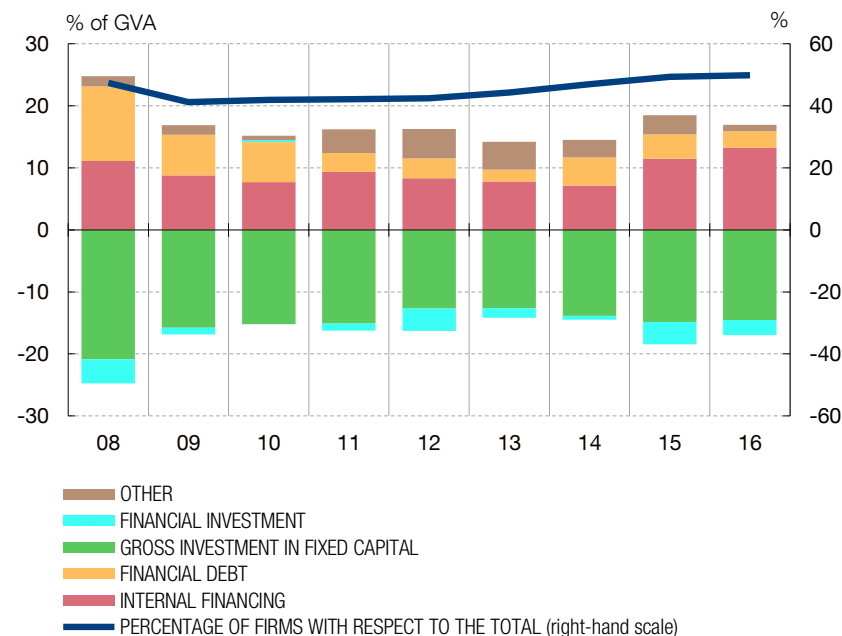


Against a background of more significant improvement in financial conditions in the Spanish economy than in the euro area as a whole, credit has generally flowed to those firms in a better economic and financial position, which has boosted investment, given that these firms are in a better situation to undertake new projects.

INTEREST RATES FOR NON-FINANCIAL CORPORATIONS



FLOWS OF ASSETS AND LIABILITIES OF FIRMS WITH ZERO OR POSITIVE NET INVESTMENT

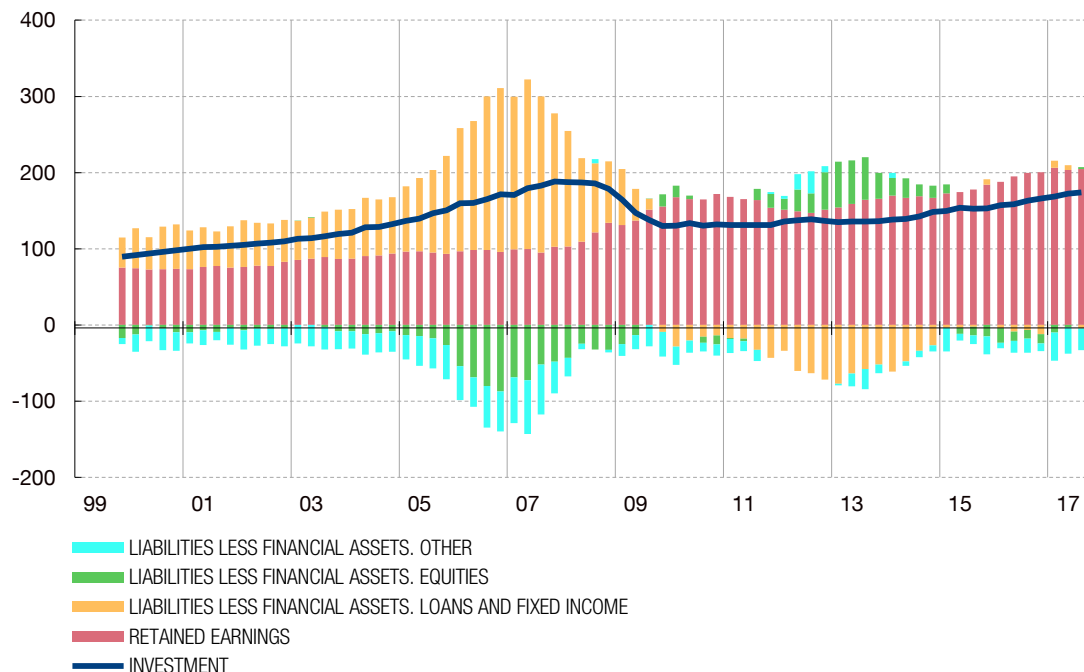


DETERMINANTS OF THE RECOVERY: USE OF OWN FUNDS



Internal sources of financing of investment not only played a significant role during the crisis, but also during the subsequent recovery.

INVESTMENT FLOWS AND FINANCING OF NON-FINANCIAL CORPORATIONS

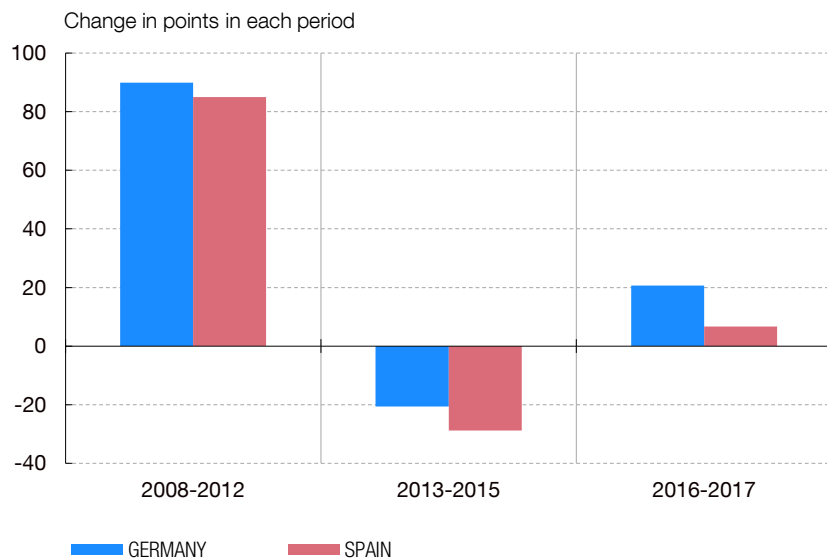


DETERMINANTS OF THE RECOVERY: REDUCTION OF UNCERTAINTY

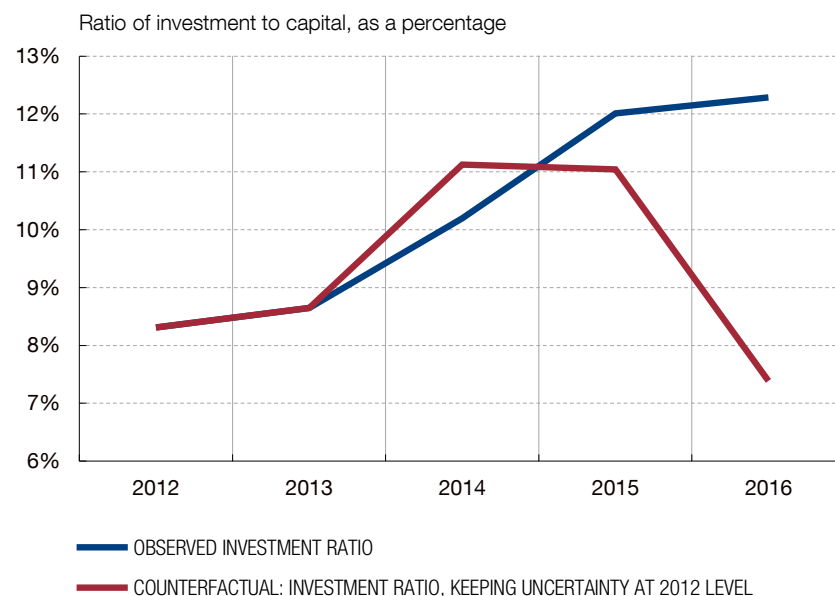


Economic uncertainty has diminished significantly during the recent recovery in Spain, from the highs recorded in 2012. The evidence available, based on both aggregate and individual data, shows that a less uncertain environment is conducive to business investment.

UNCERTAINTY AS MEASURED BY THE EPU: SPAIN AND GERMANY



EFFECT OF UNCERTAINTY: MODEL WITH INDIVIDUAL DATA

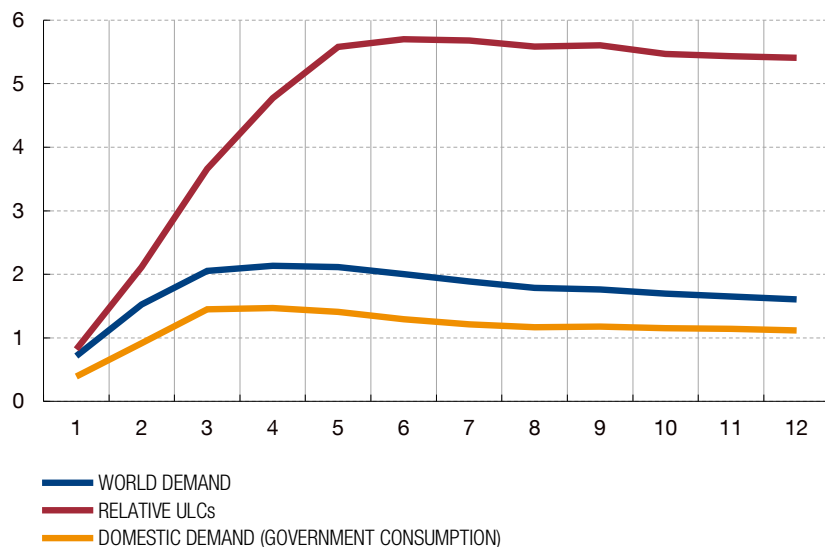


DETERMINANTS OF THE RECOVERY: GREATER EXPORT ORIENTATION

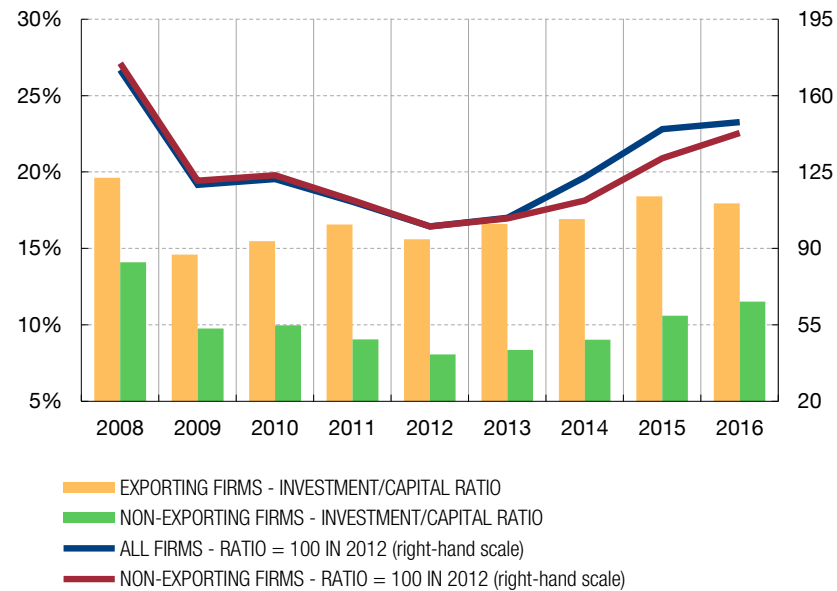


The export orientation of the Spanish economy has increased, boosting business investment. The favourable behaviour of exports has been based on the recovery of the price competitiveness. Also, the evidence available indicates that given the weakness of domestic demand, Spanish firms have become more external-market oriented.

CUMULATIVE RESPONSE BY INVESTMENT TO A SHOCK EQUIVALENT TO A 1% INCREASE IN GDP OVER THREE YEARS



INVESTMENT OF EXPORTING AND NON-EXPORTING FIRMS: INDIVIDUAL DATA

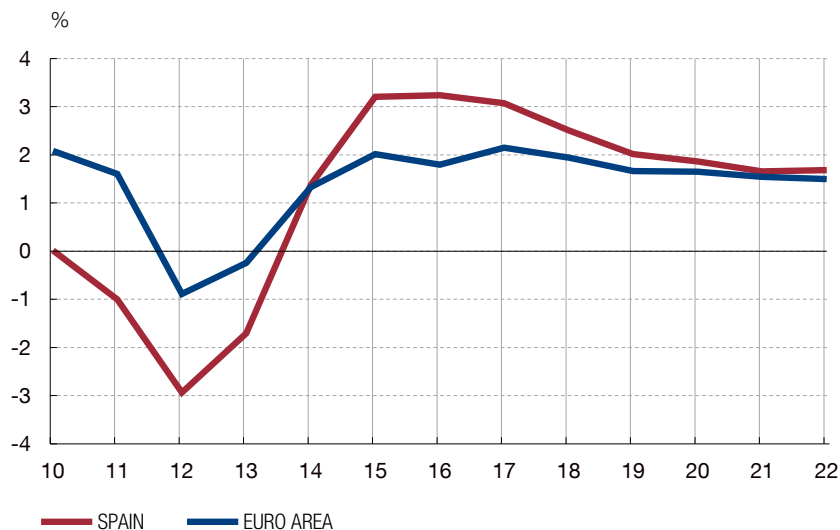


FAVOURABLE CIRCUMSTANCES IN THE SHORT AND MEDIUM TERM

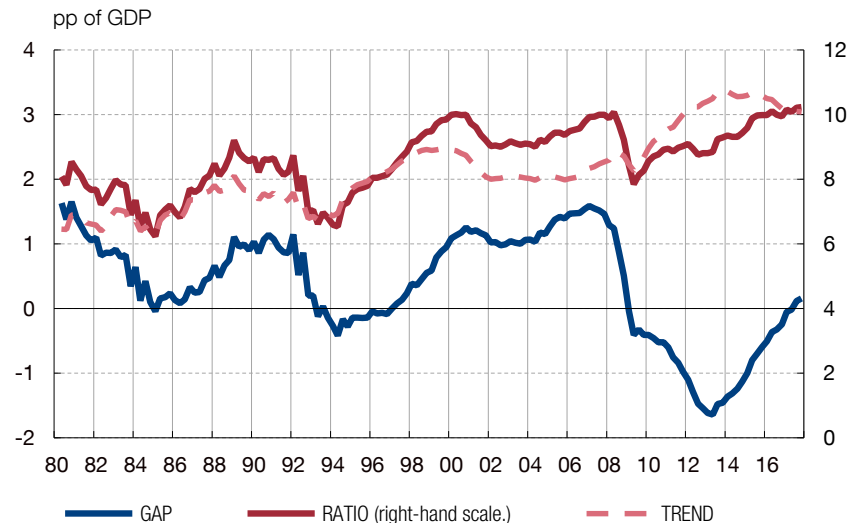


A series of factors will favour protracted buoyant investment in the short and medium term including most notably, ongoing positive financial conditions, the correction of business sector imbalances and an outlook of continued recovery in the Spanish economy.

MEDIUM-TERM GROWTH OUTLOOK (WEO)



GAP BETWEEN EQUIPMENT INVESTMENT AND ITS TREND

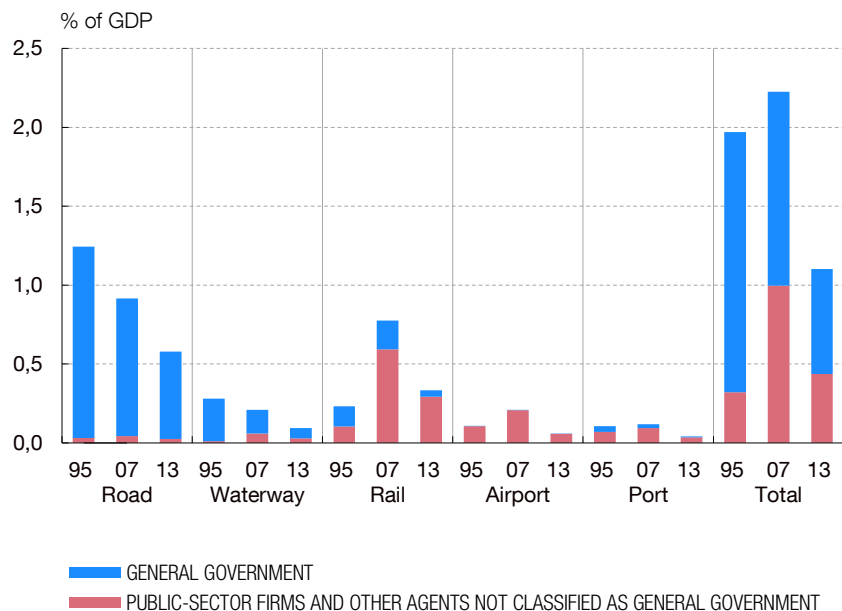


CONSTRAINTS

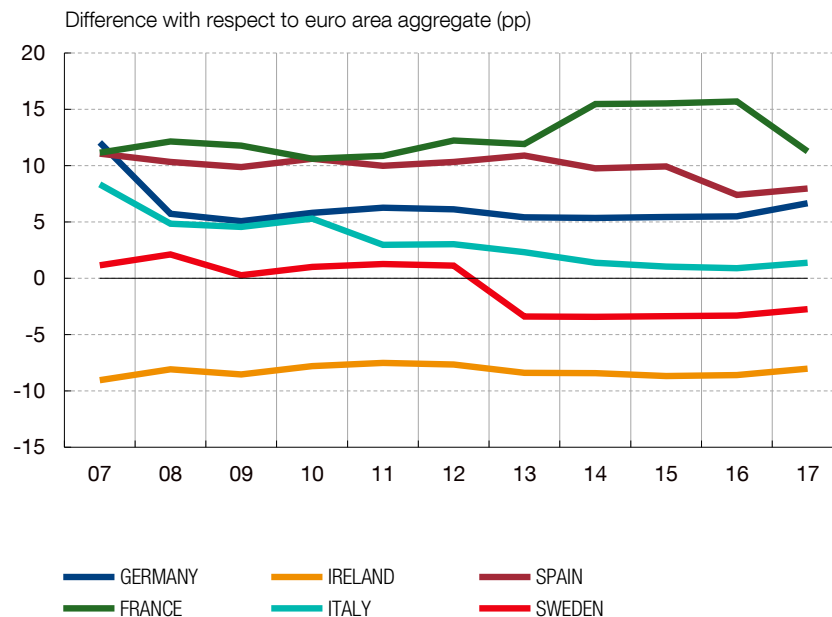


There is a series of factors which could curb the momentum of investment in the short and medium term, if suitable policies are not implemented. These factors include, most notably, global and national risks which could increase uncertainty, low public investment, the shortcomings of the institutional framework and distortions arising from the tax system for businesses.

PUBLIC SECTOR INVESTMENT IN INFRASTRUCTURE



TAX ON BUSINESS INVESTMENT RETURNS





- The growing importance of services in advanced economies has meant that investment has been **restructured slightly** towards sectors with investment ratios that are lower than traditional ratios.
- **Higher weight of intangible assets** that require lower upfront outlays than tangible assets, which could explain the reduction in investment ratios in developed economies. Complementarity?
- Noteworthy among the factors which could reduce the strength of investment in the developed economies are that a large number of emerging economies are now integrated into the world economy and that **firms are increasingly international**.
- From a long-term perspective, **population ageing** will affect the advanced economies' investment potential