



BANK ĊENTRALI TA' MALTA
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**BUSINESS INVESTMENT
AND INVESTMENT FINANCE
IN MALTA – EVIDENCE
FROM THE EIBIS 2017 SURVEY**

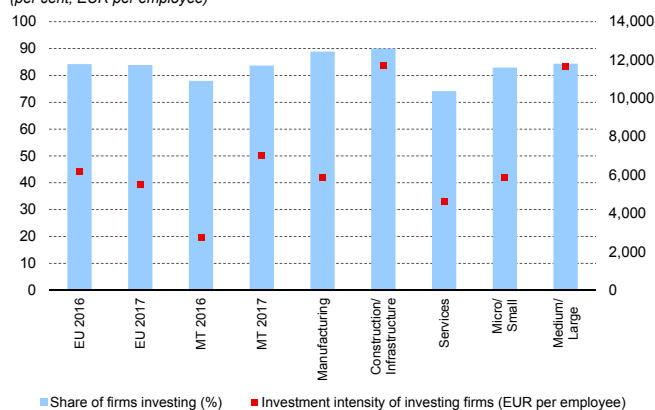
BOX 2: BUSINESS INVESTMENT AND INVESTMENT FINANCE IN MALTA – EVIDENCE FROM THE EIBIS 2017 SURVEY¹

The European Investment Bank (EIB) Group Survey on Investment and Investment Finance (EIBIS) is an EU-wide, annual survey of 12,500 firms, 178 of which are operating in Malta. It collects data on individual firm characteristics and performance, past and future investment activities, sources of finance, financing and other challenges that businesses face using a stratified sampling methodology. For EIBIS 2017, telephone interviews in Malta were carried out between April and June 2017.²

EIBIS 2017 shows a rather positive picture of business investment dynamics in Malta, with 84% of firms having invested in 2016 and more expecting to increase investment in 2017 than expecting to reduce it. 84% of firms reported that they have engaged in investment activities in the previous financial year, in line with the EU average and 6 percentage points higher than in the EIBIS 2016 (see Chart 1).³ The share is particularly high in the infrastructure sector and in manufacturing, at 94% and 89% respectively. Furthermore, the intensity of investment, defined as the median investment per employee, has increased since the previous survey and it is now higher than the EU average.

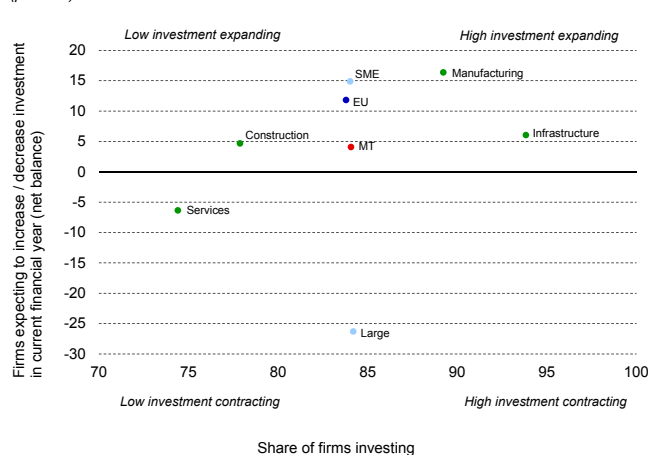
When asked about their forecasts for their investment activities for 2017, more firms expected an increase in their investments than expected a decrease (see Chart 2).

Chart 1
SHARE OF FIRMS INVESTING IN THE LAST FINANCIAL YEAR⁽¹⁾ AND INVESTMENT INTENSITY
(per cent; EUR per employee)



⁽¹⁾ A firm is considered to have invested if it spent more than €500 per employee on investment activities.
Source: EIB.

Chart 2
INVESTMENT CYCLE
(per cent)



Source: EIB.

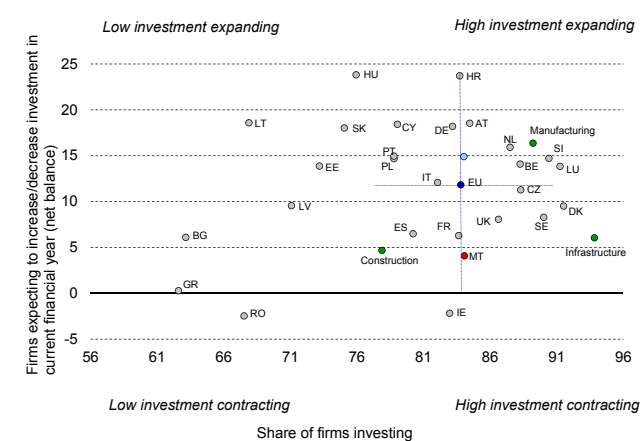
¹ Prepared by the EIB on the basis of findings for Malta collected through the EIB Group Survey on Investment and Investment Finance (EIBIS). The views expressed are those of the EIB and do not necessarily reflect those of the Central Bank of Malta. Any errors are the authors' own.

² EIB Investment Survey (2017), [Investment and Investment Finance Country Overview: Malta 2017](#).

³ EIB Investment Survey (2016), [Investment and Investment Finance Country Overview: Malta 2016](#).

Such a positive outlook, however, is mostly shared by firms in manufacturing, infrastructure and construction, while the service sector's expectations are for a mild deceleration. Moreover, although investment expectations are overall positive, firms in Malta are more conservative than most of their EU counterparts (see Chart 3).

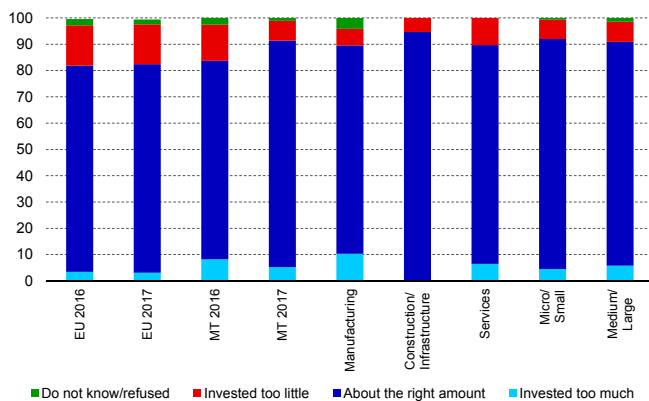
Chart 3
INVESTMENT CYCLE FOR EUROPE
(per cent)



Source: EIB.

The “investment gap” perceived by Maltese firms is lower than the EU average. However, relatively high capacity utilisation rates indicate that future investment needs remain high. The share of firms that report having invested too little over the last three years has declined from 14% to less than 8% (see Chart 4).

Chart 4
PERCEIVED INVESTMENT GAP⁽¹⁾
(per cent)



* Question: Looking back at your investment over the last three years, was it too much, too little, or about the right amount?

Source: EIB.

EIBIS 2017 provides evidence that the particular “perceived investment gap” is below the EU average of 15% and makes Malta the EU country with the lowest share of firms reporting under-investment. Furthermore, the share of firms reporting too much investment declined (from 8% to 5%) and high levels of capacity utilisation also point towards further investment needs. As a matter of fact, 79% of firms report operating at or above maximum capacity, which places Malta substantially above the EU average of 53% and Malta’s rate for 2016 at 69% (see Chart 5).⁴ As a consequence, the share of firms expecting to focus their investment activities on expanding their capacity, increased from 20% to 30% between the 2016 and 2017 surveys (see Chart 6). When compared across sectors, the services sector contains the highest proportion of firms operating at or above full capacity

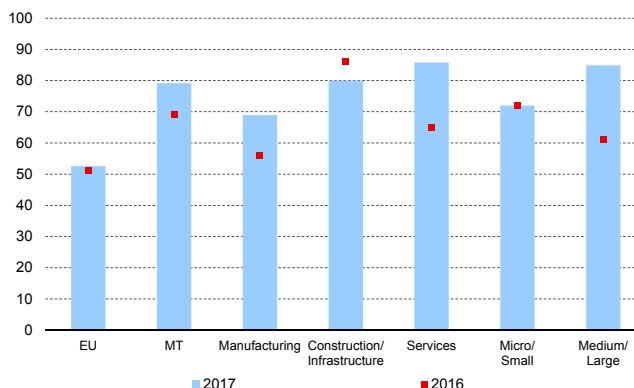
⁴ Full capacity is the maximum capacity attainable under normal conditions, for example, a company’s general practices regarding the utilization of machines and equipment, overtime, work shifts, holidays etc.

(86%). Likewise, larger firms are most likely to operate at or above full capacity (85%).

EIBIS allows the identification of perceived barriers to investment: lack of staff with the right skills is revealed as a key risk. The vast majority of firms in Malta (94%) consider the lack of skilled staff to be an obstacle to their investment activities, which is much higher than the EU average of 72% (see Chart 7) and is equally spread across sectors and size classes. Most importantly, 78% of firms consider the lack of skilled staff to be a major barrier for their investments – the highest in the European Union. Given the fact that investment in capacity expansion is generally supported by a strong demand for labour, this barrier will almost certainly become an even bigger issue going forward, which could undermine firms’ ability to realise their investment plans.

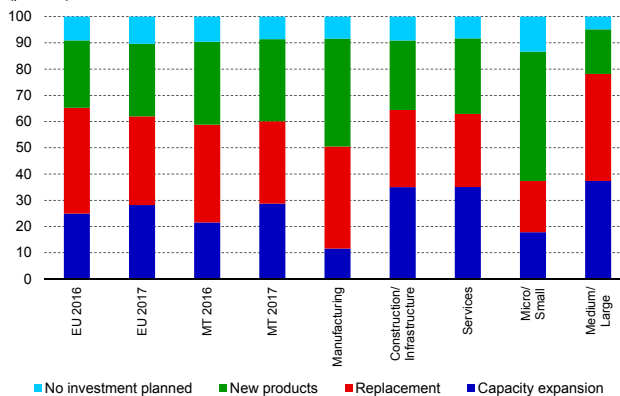
Firms in Malta are also relatively concerned about the state of transport infrastructure in the country, energy costs and business regulations. Firms in Malta are significantly more likely to name these three areas

Chart 5
CAPACITY UTILISATION⁽¹⁾
(per cent)



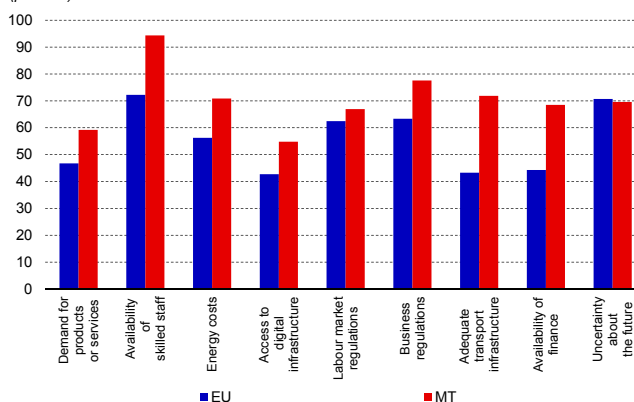
⁽¹⁾ Question: In the last financial year, was your company operating above or at maximum capacity attainable under normal circumstances?
Source: EIB.

Chart 6
FUTURE INVESTMENT PRIORITIES⁽¹⁾
(per cent)



⁽¹⁾ Question: Looking ahead to the next three years, which is your investment priority? (share of firms by purpose of investment).
Source: EIB.

Chart 7
LONG TERM BARRIERS TO INVESTMENT⁽¹⁾
(per cent)



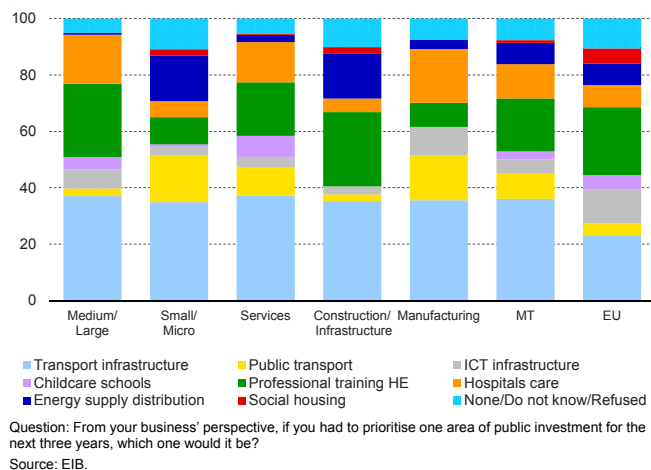
⁽¹⁾ Question: Thinking about your investment activities in Malta, to what extent is each of the following an obstacle? Is it a major obstacle, a minor obstacle or not an obstacle at all?
Source: EIB.

as obstacles to investment than firms elsewhere in the European Union (see Chart 7). Although this pattern is similar to the pattern observed in the EIBIS 2016, transport infrastructure is now more likely to be perceived as an obstacle (by 72% of the firms versus 53% in the last survey wave).

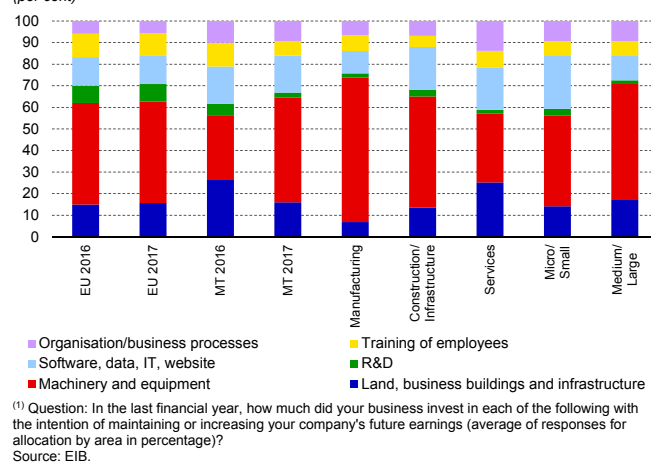
Firms consider transport infrastructure and training to be public investment priorities. Respondents were asked to choose between eight areas of public investment as a necessary priority over the next three years. More than one third of the firms (36%) cited transport infrastructure as the priority for investment over the next three years (see Chart 8). This was followed by professional training or higher education (19%) and hospitals and care (12%). It should also be highlighted that the reported figures on transport are consistent across firms and among all the sectors and size groups. It is also one of the highest results in the European Union. It should also be noted that in Malta, a higher share of firms consider public transport and hospitals to be policy priorities than in the European Union.

Firms in Malta are conscious of the relevance of investment in intangibles, with a particular preference for software, data, IT and websites. Still, in terms of innovation, they appear more focused on adoption rather than pure innovation. EIBIS 2017 indicates that firms in Malta allocated around 36% of their investment outlays to investments in intangibles, 7 percentage points less than the EIBIS 2016 (see Chart 9). Moreover, firms in Malta showed a marginally higher propensity to adopt new products, processes or services than the EU overall, but

**CHART 8
PERCEIVED PUBLIC INVESTMENT PRIORITIES⁽¹⁾**
(per cent)



**Chart 9
AREAS OF INVESTMENT⁽¹⁾**
(per cent)



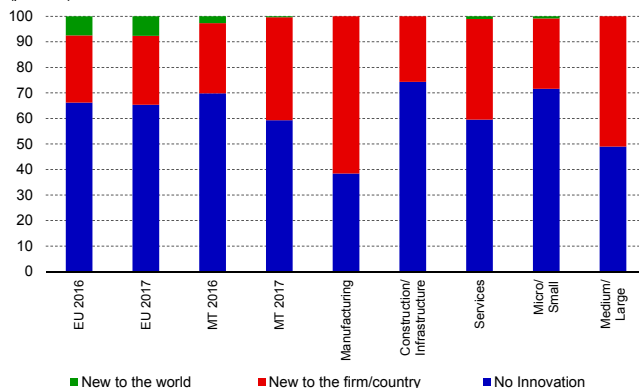
mostly in the adoption of technologies new to the country and the firm, rather than new to the world (see Chart 10).

Access to finance is not a big concern for firms in Malta, with the exception of innovative firms. A minority of firms (6%) are financially constrained (see Chart 11), broadly in line with the EU average (7%). This dropped from 10% in the EIBIS 2016 survey. However, the picture is different for innovative firms (both adopters and inventors). The share of innovative firms that are financially constrained is nearly 9%, which is well above the EU average for innovative firms (7.5%).

Although internal finance and intra-group funding play a strong role (see Chart 12), firms in Malta rely almost exclusively on bank finance to satisfy their external funding needs.

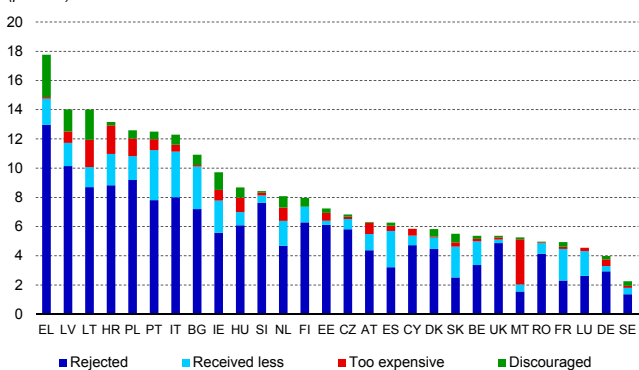
Bank loans account for about 83% of total external finance, followed by newly issued bonds (8%) and other bank finance (7%) (see Chart 13). External finance in the form of leasing and factoring, which in the rest of the European Union accounts for about one fourth of total external finance,

**Chart 10
INNOVATION ACTIVITIES⁽¹⁾**
(per cent)



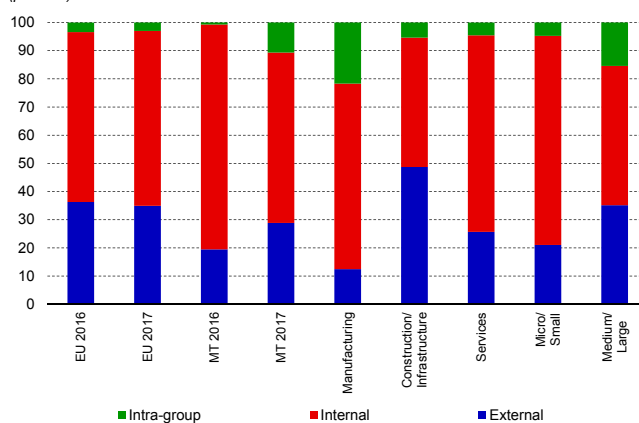
⁽¹⁾ Question: What proportion of total investment was used for developing or introducing new products, processes, services? Were the products, processes or services new to the company, new to the country, new to the global market?
Source: EIB.

**Chart 11
SHARE OF FINANCIALLY CONSTRAINED FIRMS⁽¹⁾**
(per cent)



⁽¹⁾ Financially 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: EIB.

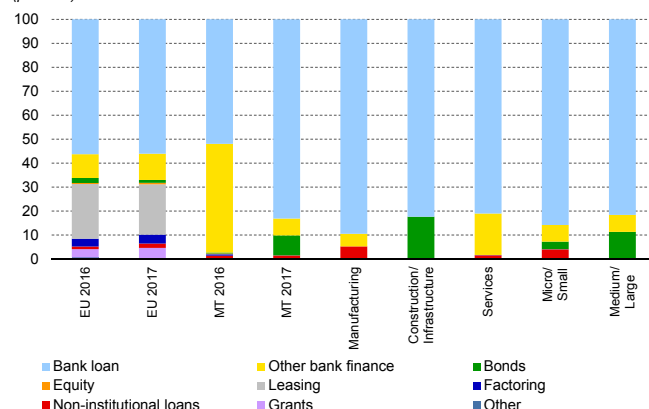
**Chart 12
SOURCE OF INVESTMENT FINANCE⁽¹⁾**
(per cent)



⁽¹⁾ Question: What proportion of your investment was financed by each of the following?
Source: EIB.

plays practically no role in Malta, and neither does funding from business angels or venture capitalists in the form of external equity (see Chart 13). Addressing the need for external financing diversification is important. The EIB Investment Report 2017/2018 (see Chapter 7) provides evidence in favour of a more diversified mix of business finance, highlighting that a combination of different sources of finance improves the resilience of the corporate sector and encourages innovation.⁵ In addition, there is evidence that more use of equity finance supports the growth of young innovative firms (see Chapter 9), which is a critical factor for supporting competition and productivity growth.

Chart 13
TYPE OF EXTERNAL FINANCE USED FOR INVESTMENT ACTIVITIES⁽¹⁾
(per cent)



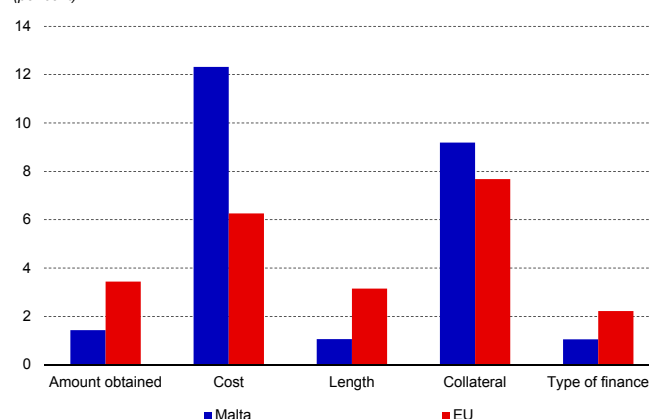
⁽¹⁾ Question: Approximately what proportion of your external finance does each of the following represent?
Source: EIB.

Maltese firms complain about collateral conditions and the cost of funding. In particular, firms are more likely to be dissatisfied with the cost of finance (12%) and collateral requirements (9%) than their EU counterparts (see Chart 14). Nevertheless, the share of firms that are dissatisfied with collateral requirements fell substantially from 22% in EIBIS 2016.

In conclusion, the EIBIS 2017 results reveal a positive picture of investment dynamics in Malta, but also highlight areas for policy attention. Business investment continues to grow and expectations remain positive.

The key risk for a sustained upswing in investment activities in Malta is represented by skill shortages. Nearly nine in ten firms already consider

Chart 14
DISSATISFACTION WITH EXTERNAL FINANCE⁽¹⁾
(per cent)



⁽¹⁾ Question: How satisfied or dissatisfied are you with the following?
Source: EIB.

⁵ EIB Investment Report 2017/2018, [From recovery to sustainable growth](#).

this to be a bottleneck for their investment activities. Moreover, the situation with regard to transport infrastructure, energy dependency and business regulations affect firms in Malta worse than firms in the rest of the European Union.

In order to safeguard the positive investment dynamics, it will be important to ensure that the investment carried out translates into productive outcomes. More diversification in available forms of finance to support intangible investment and innovation is also important.

From a policy perspective EIBIS 2017 suggests that dealing with the problem of skill shortages, together with improving the transport system, working towards lower energy costs and simplifying business regulations, will be key areas to focus on. Furthermore, considering alternative ways to diversify firms' financing mix will be additionally important, in order to ensure that investment activities translate into productivity enhancing outcomes.