



BANK ĊENTRALI TA' MALTA
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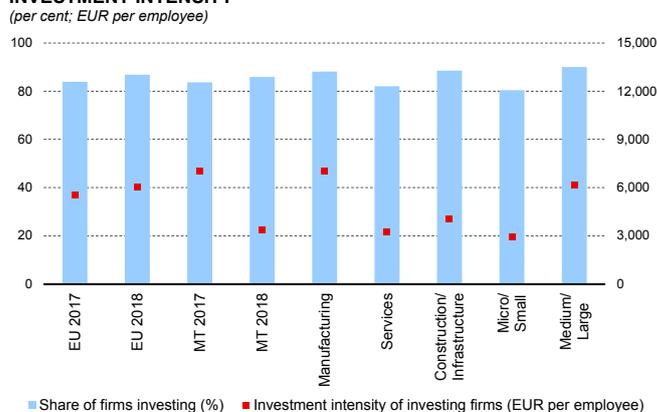
BUSINESS INVESTMENT AND INVESTMENT FINANCE IN MALTA – EVIDENCE FROM THE EIBIS 2018 SURVEY

BOX 2: BUSINESS INVESTMENT AND INVESTMENT FINANCE IN MALTA – EVIDENCE FROM THE EIBIS 2018 SURVEY¹

The EIB Group Survey on Investment and Investment Finance (EIBIS) is an EU-wide, annual survey of 12,350 firms, 170 of which are operating in Malta.² It collects data on firm characteristics and performance, past investment activities, future plans, sources of finance, financing issues and other challenges that businesses face. Using a stratified sampling methodology, the EIBIS is representative across the 28 Member States of the European Union, firm size (from micro to large) and four main sectors (manufacturing, services, construction and infrastructure). For the third wave of EIBIS, telephone interviews with Maltese firms were carried out between April and June 2018.

EIBIS 2018 points towards an acceleration of investment activities in Malta. The survey reveals that 86% of firms had invested in the previous financial year, broadly in line with the EU average (see Chart 1). The number of firms expecting an increase in investment in 2018 was larger compared with that of firms anticipating a decrease. Looking at the investment cycle, Malta has improved its positioning in EIBIS 2018 compared with EIBIS 2017, as it moved into the ‘high investment expanding’ quadrant (see Chart 2), a more favourable investment cycle position than many other EU countries.³

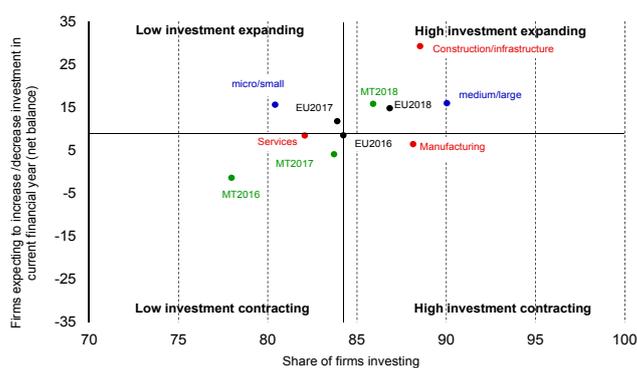
Chart 1
SHARE OF FIRMS INVESTING IN THE LAST FINANCIAL YEAR⁽¹⁾ AND INVESTMENT INTENSITY
(per cent; EUR per employee)



Source: EIBIS 2018.

⁽¹⁾ A firm is considered to have invested if it spent more than EUR500 per employee on investment activities.

Chart 2
INVESTMENT CYCLE
(per cent)



Source: EIBIS 2018.

Note: Share of firms investing shows the percentage of firms with investment per employee greater than EUR500.

¹ Prepared by Annamaria Tieske and Andreas Kappeler from the European Investment Bank (EIB).

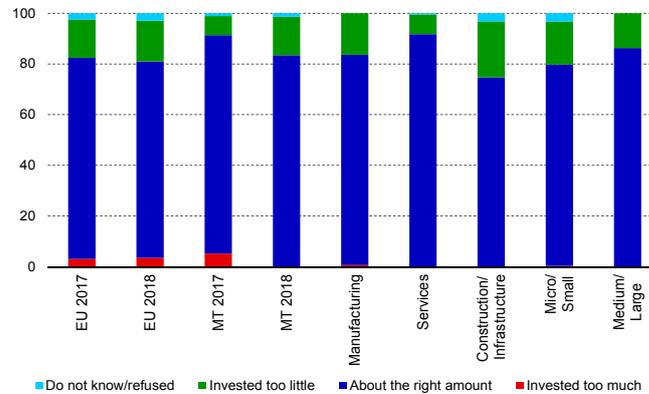
² EIB (2018a). *EIB Investment Survey, Investment and Investment Finance Country Overview: Malta 2018*, European Investment Bank, Luxembourg, <http://www.eib.org/en/infocentre/publications/all/econ-eibis-2018-malta.htm>.

³ EIB (2017). *EIB Investment Survey, Investment and Investment Finance Country Overview: Malta 2017*, European Investment Bank, Luxembourg, <http://www.eib.org/en/infocentre/publications/all/econ-eibis-2017-malta.htm>.

The “investment gap” perceived by Maltese firms increased. More than eight in ten firms believe their investment over the last three years was about the right amount (see Chart 3). Nonetheless, investment gaps persist: 15% of firms reported having invested too little, twice the share registered in EIBIS 2017, but broadly in line with the EU average. When asked about their investment priorities over the next three years, one third of firms mentioned investment in new products, processes and services, slightly above the EU average (see Chart 4). Services firms are more likely to prioritise capacity expansion (40%) than average.

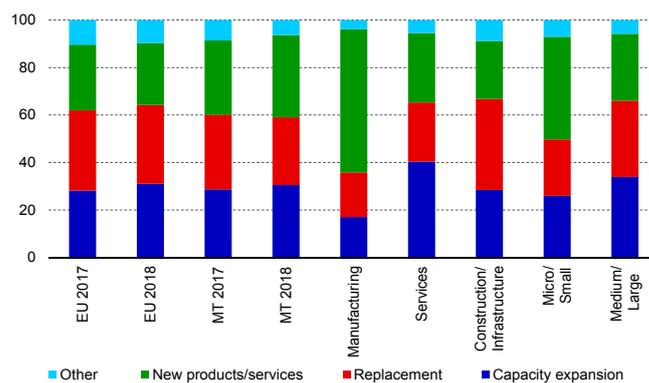
Innovation activities by Maltese firms are moderate. In the last financial year, just over three in ten firms in Malta developed or introduced new products, processes or services as part of their investment activities, slightly less than the EU average (see Chart 5). However, the share of firms with innovation activity that is new to the country/world was slightly above the EU average. Firms in Malta are conscious of the relevance of

Chart 3
PERCEIVED INVESTMENT GAP⁽¹⁾
(per cent)



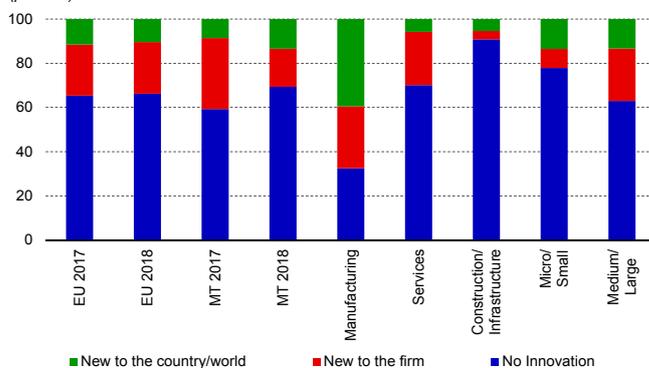
Source: EIBIS 2018.
⁽¹⁾ Question: Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount?

Chart 4
FUTURE INVESTMENT PRIORITIES⁽¹⁾
(per cent)



Source: EIBIS 2018.
Note: Very small base size of less than 30 firms.
⁽¹⁾ Question: Looking ahead to the next 3 years, which is your investment priority? (share of firms by purpose of investment).

Chart 5
INNOVATION ACTIVITIES⁽¹⁾
(per cent)

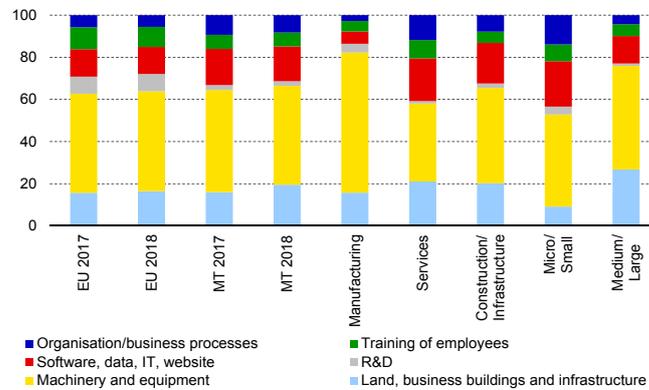


Source: EIBIS 2018.
Note: Very small base size of less than 30 firms.
⁽¹⁾ Question: What proportion of total investment was used for developing or introducing new products, processes, services? Were the products, processes or services new to the company, new to the country, new to the global market?

investment in intangibles, with a greater preference, relative to the European Union, for software, data, IT and websites (see Chart 6). However, investment in research and development (R&D) and training of employees is comparatively low.

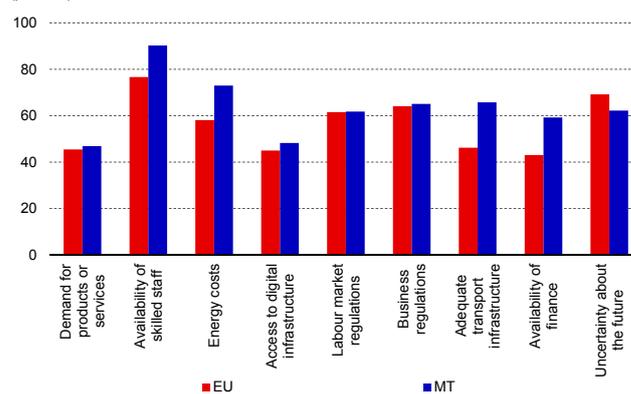
EIBIS 2018 identifies lack of staff with the right skills as a key barrier to investment in Malta. Availability of skilled staff is perceived also in 2018 as the most pressing long-term barrier to investment by 90% of firms in Malta, similar to the results from EIBIS 2017 (see Chart 7). However, the lack of skills seems to be mainly associated with finding appropriate external candidates: Maltese firms say that only 6% of their staff does not have the right skills to fit their company's needs, broadly in line with the EU average (see Chart 8). The proportion of staff deemed not to have appropriate skills is particularly low among staff in higher level occupations (2%). Energy costs, the quality of transport infrastructure and business regulations are other prevalent obstacles stated by firms (see Chart 7). The barriers to

Chart 6
AREAS OF INVESTMENT⁽¹⁾
(per cent)



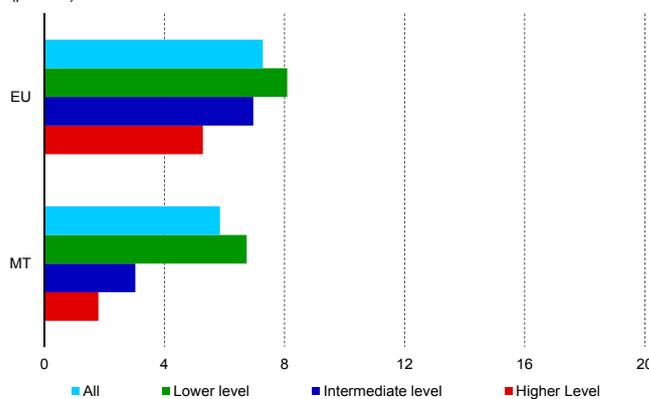
Source: EIBIS 2018.
⁽¹⁾ Question: In the last financial year, how much did your business invest in each of the following with the intention of maintaining or increasing your company's future earnings (average of responses for allocations by area in percentage)?

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



Source: EIBIS 2018.
⁽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?

Chart 8
SHARE OF EMPLOYEES WITHOUT THE RIGHT SKILLS⁽¹⁾
(per cent)



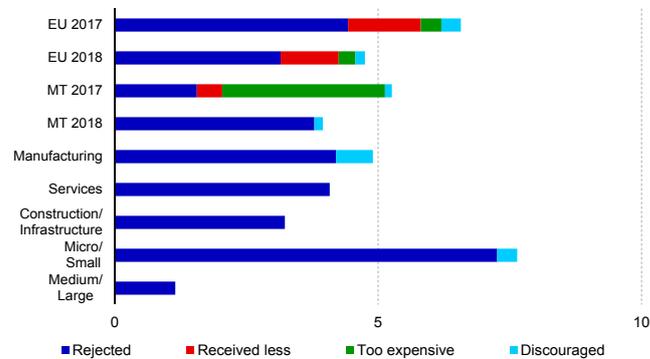
Source: EIBIS 2018.
⁽¹⁾ Question: How many of your existing staff would you regard having the right skills to fit your company's needs?

investment perceived by firms in Malta in 2018 are broadly in line with those identified in EIBIS 2017.

Access to finance is not a big concern for firms in Malta, albeit being a more binding constraint for micro and small firms. 4% of firms in Malta are financially constrained (see Chart 9), which is slightly below the EU average. This dropped from 6% in EIBIS 2017. However, micro and small firms tend to be more concerned about access to finance than larger ones. Like in most other EU countries, firms in Malta rely mainly on internal finance (73%). This is slightly higher than last year's share (60%), and places Malta above the EU average (62%) (see Chart 10).

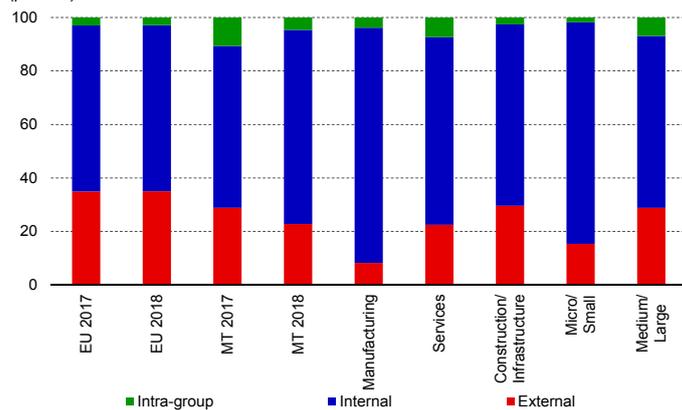
As to external funding sources, firms in Malta rely almost exclusively on bank finance. At 23%, the share of external finance has declined compared with 2017 and is also below the EU average (see Chart 10). Bank loans account for about 88% of total external finance, followed by newly issued bonds and grants (see Chart 11). External finance in the form of leasing, which

Chart 9
SHARE OF FINANCIALLY CONSTRAINED FIRMS⁽¹⁾
(per cent)



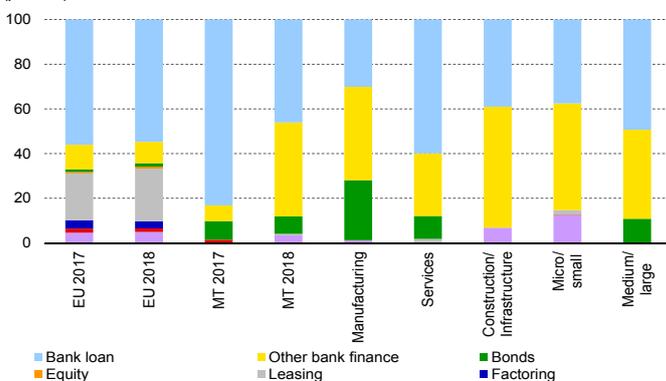
Source: EIBIS 2018.
Note: Very small base size of less than 30 firms.
⁽¹⁾ Financially constrained firms include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive) or they would be turned down (discouraged).

Chart 10
SOURCE OF INVESTMENT FINANCE⁽¹⁾
(per cent)



Source: EIBIS 2018.
⁽¹⁾ Question: What proportion of your investment was financed by each of the following?

Chart 11
TYPE OF EXTERNAL FINANCE USED FOR INVESTMENT ACTIVITIES⁽¹⁾
(per cent)



Source: EIBIS 2018.
Note: Very small base size of less than 30 firms.
⁽¹⁾ Question: Approximately what proportion of your external finance does each of the following represent?

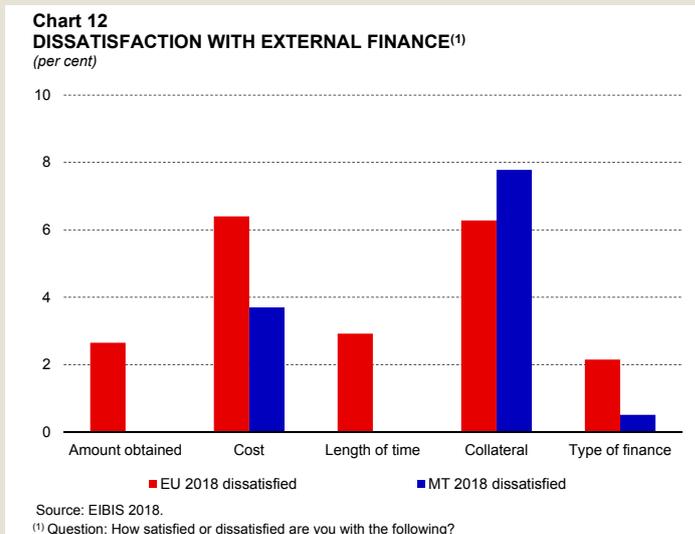
in the rest of the EU accounts for about one fourth of total external finance, plays a marginal role in Malta. The availability of funding from business angels or venture capitalists in the form of external equity plays a negligible role. External financing diversification is important for innovation and the growth of firms, as also highlighted in Chapter 6 of the EIB Investment Report 2018/2019.⁴ Mal-

ttese firms do not report any external finance characteristics as particularly unsatisfactory, with the exception of collateral requirements (see Chart 12).

In conclusion, the EIBIS 2018 results reveal a positive picture of investment dynamics in Malta, but also highlight areas for policy attention. After exceptional investment growth between 2014 and 2016, aggregate investment levelled off in 2017. Business investment continues to grow and expectations remain positive. The share of firms expecting a further increase in investment activities going forward exceeds the share of firms expecting a contraction. The share of investment in expanding capacity has increased from 22% to 36% in 2018.

Despite the investment upswing, investment gaps persist. 15% of firms report having invested too little; this is more than twice as many as in EIBIS 2017. Against the backdrop of favourable macroeconomic conditions, this points towards rising perceived investment needs. At the same time, firms' productivity remains lower than the EU average. The average share of machinery and equipment that is perceived state-of-the-art is 45%, similar to EIBIS 2017 and broadly in line with the EU average. Moreover, 13% of firms claim to have undertaken innovations that were new to the country or global market, slightly above the EU average of 10%. EIBIS 2017 also identified transport infrastructure and training to be key public investment priorities for Malta.

Skill shortages represent a key risk for a sustained investment upswing in Malta. Nine in ten firms consider a lack of skilled staff to be a bottleneck for their investment activities. However, the lack of skills seems to be mainly associated with finding appropriately skilled workers on the labour market: Maltese firms say that only 6% of their existing staff does not have the right skills to fit their company's needs.



⁴ EIB (2018b). *EIB Investment Report 2018/2019, retooling Europe's economy*, European Investment Bank, Luxembourg. <http://www.eib.org/en/infocentre/publications/all/investment-report-2018.htm>

From a policy perspective, addressing skill shortages, infrastructure gaps, energy costs and financial diversification are key to promote innovation and productivity growth. Besides skills, energy costs, transport infrastructure, and business regulations are other major barriers to investment identified in EIBIS 2018. Addressing these shortages would not only boost investment but also innovation in Malta. In the last financial year, just over three in ten firms in Malta developed or introduced new products, processes or services as part of their investment activities. Moreover, considering alternative ways to diversify firms' financing mix is important to promote innovation, investment and productivity growth.