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# **SMALL AND MEDIUM-SIZED ENTERPRISES' CONTRIBUTION TO THE MALTESE ECONOMY**

## BOX 1: SMALL AND MEDIUM-SIZED ENTERPRISES' (SMEs) CONTRIBUTION TO THE MALTESE ECONOMY<sup>1</sup>

In recent years Malta's economy has expanded rapidly. Media reports tend to give greater exposure to large projects and new sectors, such as remote gaming, which may suggest that these are mostly contributing to economic growth. By contrast, this box uses data on value added and employment from Eurostat's Structural Business Statistics (SBS) to show that SMEs in the business economy sector (which excludes remote gaming<sup>2</sup>) were, in fact, the main drivers of growth in Malta.<sup>3</sup> SBS data, in fact, indicate that in 2016 the value added of the business economy sector in Malta totalled €5.5 billion, up from €3.2 billion in 2010. During this period, the share of business economy SMEs rose from 39.6% to 47.6% of the Maltese economy's gross value added.

### The latest estimates of the size of business economy SMEs in Malta

Table 1 shows value added by firm size<sup>4</sup> and by economic sector for Malta. While data for the aggregates by size are readily available from the Eurostat database, for a significant number of cases of sectors by size (e.g. value added of construction and real estate small firms) the figures shown in the Table are author's estimates. The latter were based on either past available data for these types of firms adjusted in line with more recent information on other variables such as employment for that category, or else derived as residuals from available information on sub-aggregates.

Focusing solely on the value added of the business economy sector, micro enterprises accounted for 34.5% of this total, as against 25.3% for small firms, 19.3% for medium-sized firms and 20.9% for large firms. This pattern differs by sub-sector. Construction and real estate are dominated by micro firms (that account for 53.7% of value added in the sector), while large firms account for a negligible share. The latter can also be said of the wholesale

**Table 1**  
**VALUE ADDED BY FIRM SIZE AND BY ECONOMIC SECTOR IN 2016 (€ millions)**

	Micro	Small	Medium	Large	Total
<b>Total</b>	1,900	1,393	1,066	1,153	5,512
Industry	145 *	216 *	190	361 *	912 *
Construction and real estate	334 *	203 *	68 *	17 *	622 *
Wholesale and retail trade	445 *	376	204	15 *	1,040
Transport	79	111 *	173 *	231	594 *
Accommodation and food services	80	75 *	155	82 *	392
Information and communication	197	135 *	131	141 *	604
Professional services	385	196 *	78 *	157 *	816
Administrative support services	235	81	67	149	532

Sources: Eurostat; author's estimates where indicated by \*.

<sup>1</sup> Prepared by Dr Aaron G Grech, Chief Officer - Economics. The views expressed in this Box, which are a summary of a broader article (Grech A.G. (2018), *SMEs' contribution to the Maltese economy and future prospects*, Central Bank of Malta, Policy Note, October) are the author's own and do not necessarily reflect the views of the Bank.

<sup>2</sup> Besides this sector, the business economy sector excludes agriculture and fisheries, financial services, public administration, education, social work, health, arts and recreation activities.

<sup>3</sup> The analysis will be carried out till 2016, the last year for which SBS data was available at the time of writing.

<sup>4</sup> Micro firms are those with less than 10 employees, small firms are enterprise having less than 50 employees, while medium-sized firms have between 50 and 249 employees.

and retail sector, though within this sector small firms also account for a very large share. In the accommodation and food services sector, medium-sized firms account for approximately 39.5% of value added (double the proportion observed in other sub-sectors); while in the transport sub-sector it is large firms that account for this share.

Micro wholesale and retail firms account for the largest relative share in value added in Malta. They, in fact, generated €445.0 million in 2016, equivalent to 8.1% of the overall value added of the business economy sector or nearly a quarter of the value added of all Maltese micro firms. They were closely followed in importance by micro professional services firms, with about 7.0% of the overall value added of the business economy, and micro construction and real estate firms that accounted for 6.1%. Large industrial firms contributed 6.5% of business economy value added, making them the third largest business economy sector in Malta.

The business economy sector in Malta accounted for 69.3% of total employment in 2016. Table 2 presents a sectoral breakdown of employment within Malta's business economy sector by firm size. Micro firms comprise a third of all employment in the business economy sector, while small and medium enterprises amount to nearly a quarter each. Similarly to what was observed for value added, employment in the Maltese construction and wholesale and retail sectors is dominated by micro firms. SMEs account for the lion's share of employment of most sub-sectors in Malta, with the exception of administrative support services and transportation where large firms account nearly half of employment, while in industry large firms employ nearly a third of the workforce.

Micro wholesale and retail firms, who comprise the largest sectoral share of Malta's business economy value added, also account for the largest sectoral share of employment. However their share of employment, at nearly 11.6% of overall business economy employment, is much larger than their share of value added, at 8.1%. This contrasts with the second largest business economy category in terms of value added, i.e. micro firms operating in professional services. These firms account for 4.0% of overall business economy employment and 7.0% of its value added. On the other hand, large industrial firms (the third largest category) and micro construction firms (the fourth largest category) have similar relative shares in both value added and employment.

**Table 2**  
**EMPLOYMENT BY FIRM SIZE AND BY ECONOMIC SECTOR IN 2016**

	Micro	Small	Medium	Large	Total
<b>Total</b>	45,922	33,881	31,841	30,962	142,606
Industry	4,307	5,902	5,671	8,900 *	24,780
Construction and real estate	7,093 *	2,162 *	1,984	1,671	12,911
Wholesale and retail trade	16,548	10,044	6,519	1,242	34,353
Transport	2,113	2,248 *	2,111 *	5,374	11,846
Accommodation and food services	5,783 *	4,880	6,303	2,290 *	19,255
Information and communication	1,954 *	2,086	2,516	2,004 *	8,560
Professional services	5,701	4,032	2,464	1,669	13,867
Administrative support services	2,423	2,527	4,273	7,812	17,034

Sources: Eurostat; author's estimates where indicated by \*.

### The growth of business economy SMEs since 2010

SBS data suggest that between 2010 and 2016, the contribution of business economy SMEs rose. Taken together, micro, small and medium-sized firms in the business economy sector increased their share in Malta's total gross value added from 39.6% to 47.6%. If one excludes Malta's non-business economy sector, growth in value added would have still been more than double the increase observed in the EU economy as a whole. SBS data suggests that instead of becoming more concentrated, economic activity in Malta is spreading over a growing number of SMEs.

For instance, between 2010 and 2016 micro-firms in professional services, information and communication and administrative support services increased their value added by €557 million, more than doubling their initial activity. In 2016 these firms employed approximately 10,000 persons, up by a quarter since 2010. Although they accounted for one in twenty of all employees in Malta, they contributed one sixth of the growth in value added during this period. By contrast small-sized wholesale and retail firms, who also employed about one in twenty of all employees in 2016, saw an increase of €211 million between 2010 and 2016, implying a contribution of one-fourteenth of overall growth in value added.

Table 3 shows estimates of the growth in value added of SMEs by sector as a percentage of the overall growth in value added in the Maltese economy between 2010 and 2016. To provide some perspective, the remote gaming sector – the sector that tends to attract most attention in the media as the driver of economic expansion – accounted for approximately 20.8% of overall growth in value added during this period. Table 3 indicates that SMEs in the business economy sector accounted for a much larger contribution, of close to two-thirds. The relative importance of micro firms in the business economy sector in generating value added has risen considerably over time, more than keeping pace with the growth of the remote gaming sector. In absolute terms, the rise in the remote gaming's value added mirrored the increase observed among micro-firms in professional services, information and communication and administrative support services.

Looking at employment growth during the same period, the rise observed in the remote gaming sector was only slightly higher than that seen amongst small-sized professional services firms and the same as that of micro wholesale and retail firms. Taken together,

**Table 3**  
**SME CONTRIBUTION BY SECTOR (% OF 2010-2016 ECONOMY WIDE GROWTH)**

	Micro	Small	Medium
<b>Business Economy</b>	31	21	13
Industry	0 *	1 *	0 *
Construction and real estate	3 *	4 *	1
Wholesale and retail trade	8 *	7	3 *
Transport	1	1 *	3 *
Accommodation and food services	1	1 *	2
Information and communication	4	3 *	2 *
Professional services	8	3 *	1 *
Administrative support services	5	1 *	1 *

Sources: Eurostat; author's estimates where indicated by \*.

**Table 4**  
**SME SHARE OF 2010-2016 ECONOMY WIDE GROWTH IN EMPLOYMENT**

	Micro	Small	Medium
<b>Business Economy</b>	14	21	14
Industry	-1	0	-0
Construction & real estate	1 *	0 *	-0
Wholesale & retail trade	7	3 *	4
Transport	-0	1 *	1 *
Accommodation and food services	3 *	5	0
Information & communication	1 *	3 *	1 *
Professional services	2	6 *	3 *
Administrative support services	1	2	4

Sources: Eurostat; author's estimates where indicated by \*.

business economy SMEs accounted for nearly half of the growth in employment between 2010 and 2016. Comparing Table 3 and Table 4, there is a noticeable difference between the contribution to growth in value added of micro firms and their relative share of employment growth. This reflects the fact that micro-firms in professional services, information and communication and administrative support services accounted for a significantly smaller rise in employment than their very substantial contribution to growth in value added.

These trends show how vital the contribution of SMEs has been to the recent acceleration in growth of the Maltese economy. A recent survey carried out by the European Investment Bank<sup>5</sup> indicates that micro and small firms in Malta are planning to focus their investment much more to be able to launch new products, including improving their use of information technology. This suggests the potential for further growth in this sector. However, the survey shows that micro and small firms are relying to a large extent on internal financing, while they are facing significant skills shortages and infrastructure gaps. It is very important that policymakers use the current strong economic situation to take steps to ensure that SMEs operate in an optimal business environment, with better access to finance and skilled labour, and be sustained by an adequate infrastructure.

<sup>5</sup> See "Business and investment and investment finance in Malta – Evidence from the EIBIS 2018 survey", Quarterly Review 2019:2, Central Bank of Malta.