

TRANSFORMING FOR COMPETITIVENESS

EIB Investment survey - Malta

Debora Revoltella

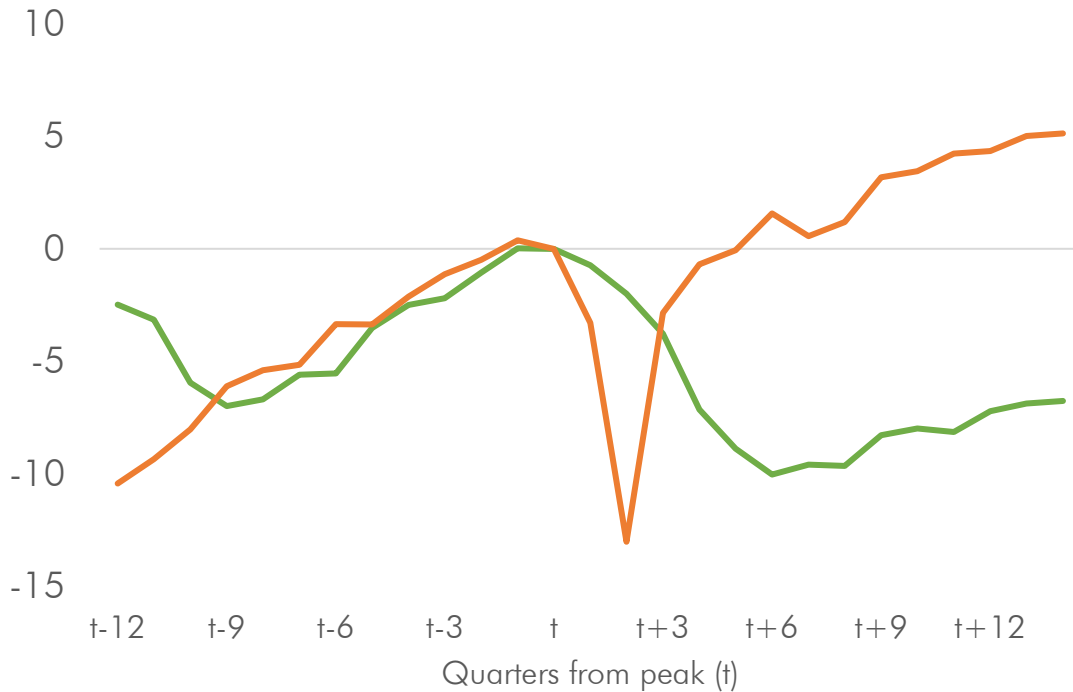
CBM-EIB conference - 15 March 2024

This time was different - investment proved resilient in the EU

In Malta, investment and corporate investment is one of the strongest among MSs

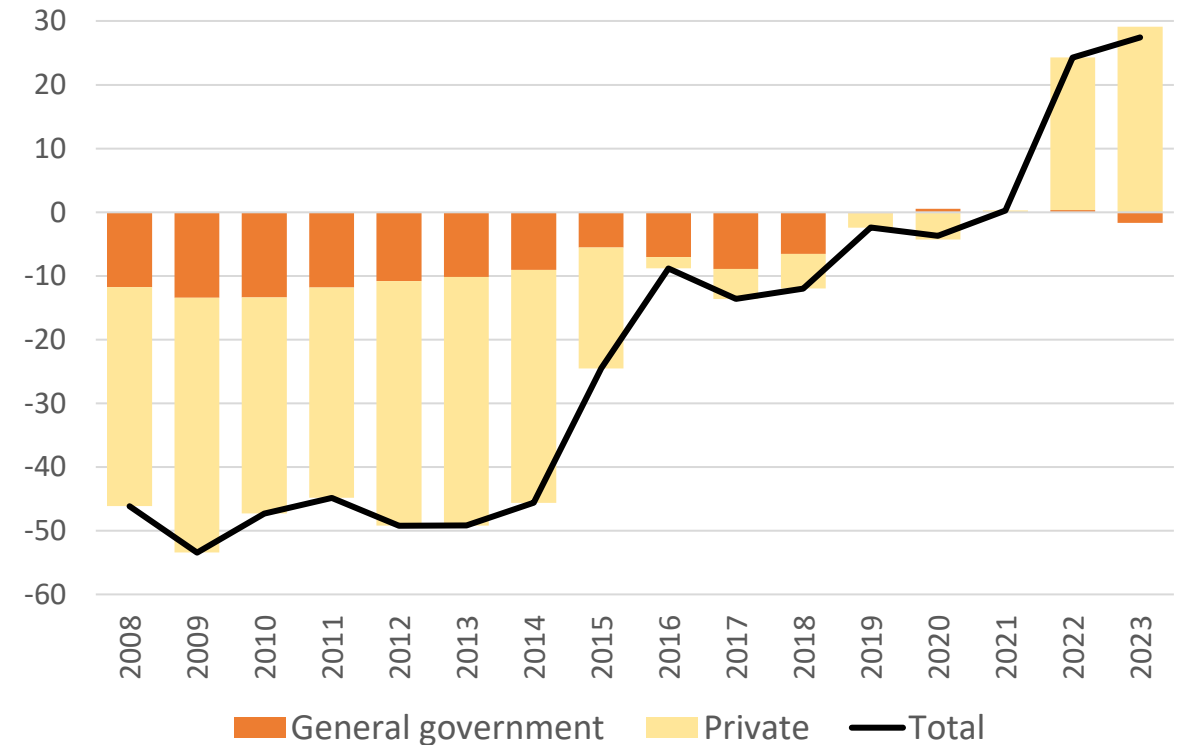
EU* real investment

Deviation from business cycle peak (quarter t), p.p.



Real investment in Malta recovered better from the pandemic/energy shock than from the Financial Crisis

Percent deviation from Q4 2019, last data Q3 2023



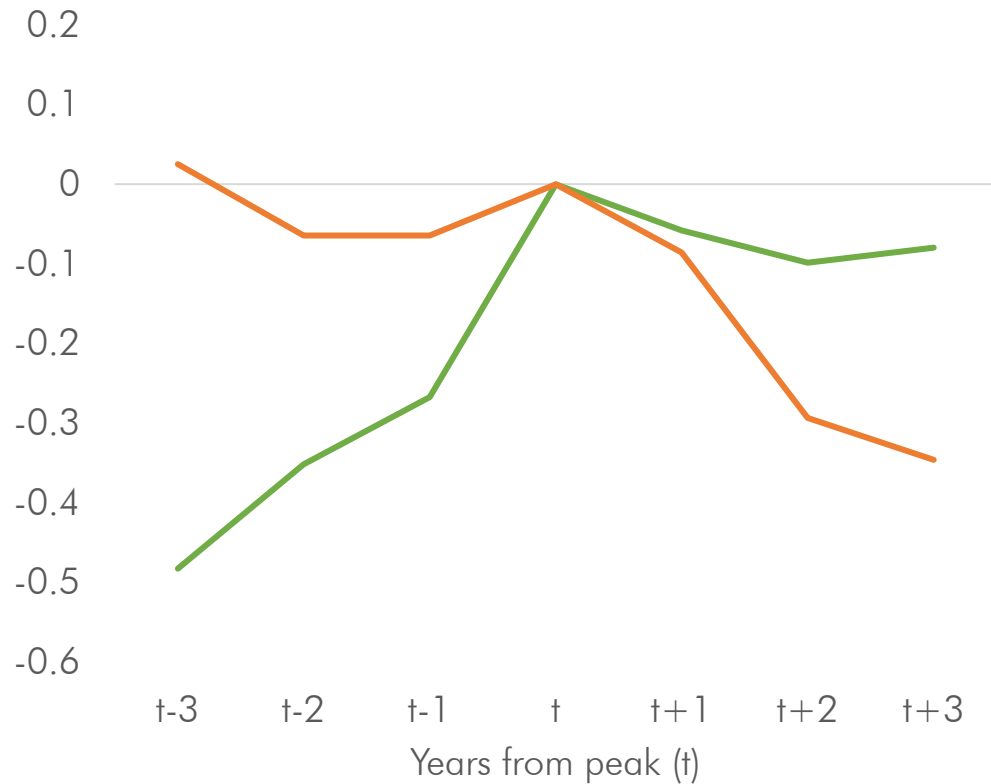
— Global financial and sovereign debt crises (t=Q1 2008)
 — Pandemic-energy shock (t=Q4 2019)

Source: EIB based on Eurostat, * EU excluding Ireland.

Public intervention played an essential role in cushioning effects of shocks, while firms continued transforming

EU public investment

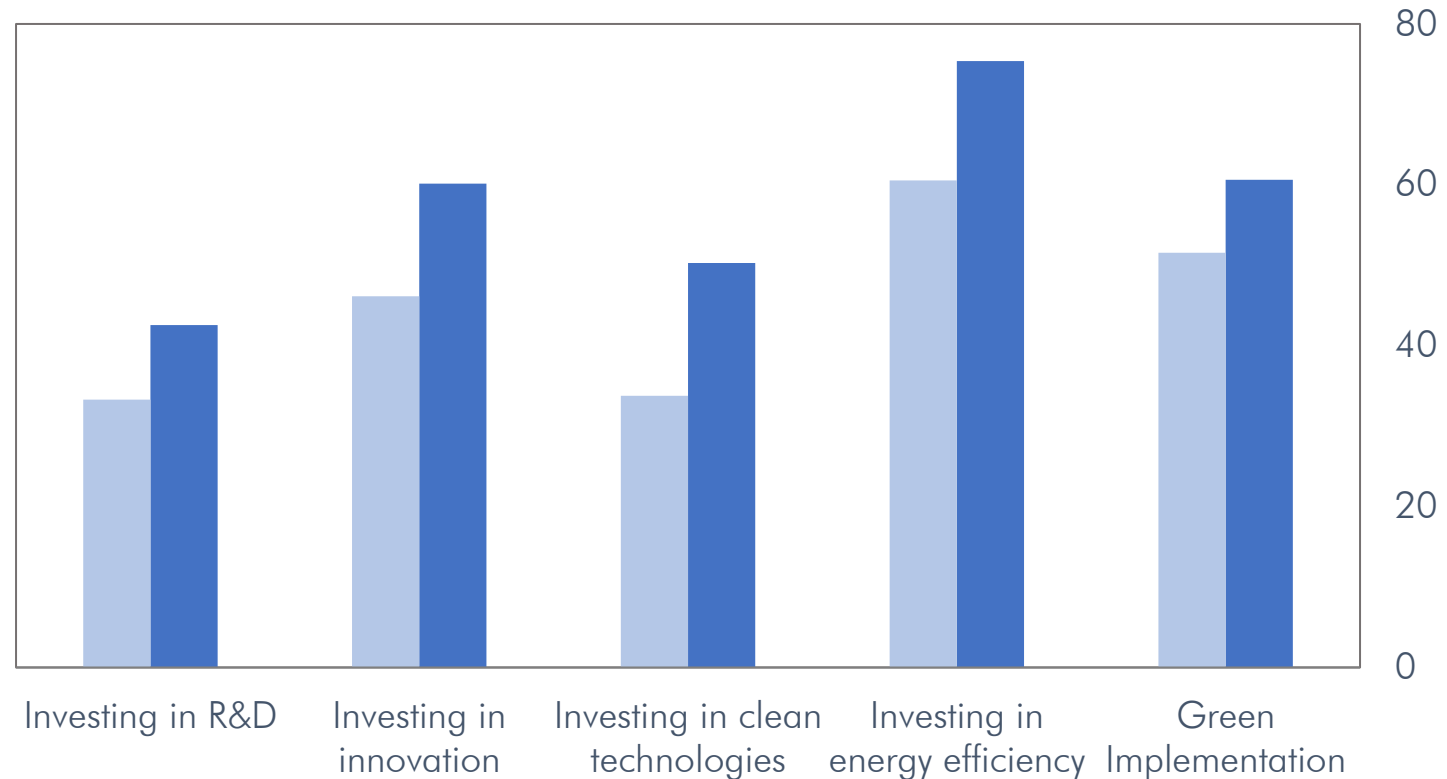
Deviation from crisis peak (year t), p.p. of GDP



— EU, pandemic-energy shock (t = 2020)
 — Average of past crises, OECD countries

Investment of EU firms, conditional on support received

% of firms undertaking the investment



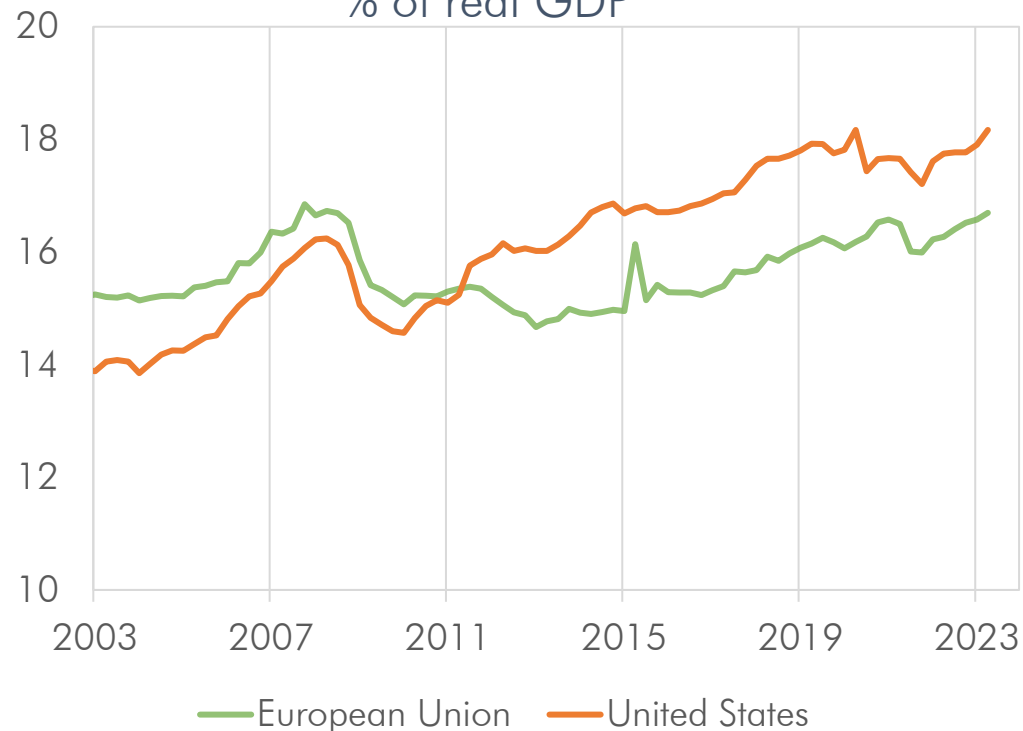
■ Firms receiving grants/subsidies
 ■ Firms with no grants/subsidies

Sources: EIB, based on Eurostat and OECD data, EIBIS 2019-2023.

At a time of large structural transformation, investment needs are sizable

Machinery and Eq, Intangibles and Infrastructure Investment

% of real GDP



- Accelerating the energy-, green- and digital transitions
- Stepping up innovation and the adoption of new technologies
- Building resilience in a deglobalizing world
- Revamping skills – Address skills shortages and need to update those of existing workers for better green/digital jobs
- Transforming in the context of an ageing and changing society – Support skills development, social infrastructure and cohesion

Source: EIB based on Eurostat.

Significant investment needs to drive transformation by...



Boosting Digital transformation



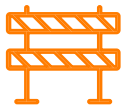
Addressing the Energy shock, accelerating transition



Supporting Climate transition



Financing amid tightening conditions



Removing Structural Barriers



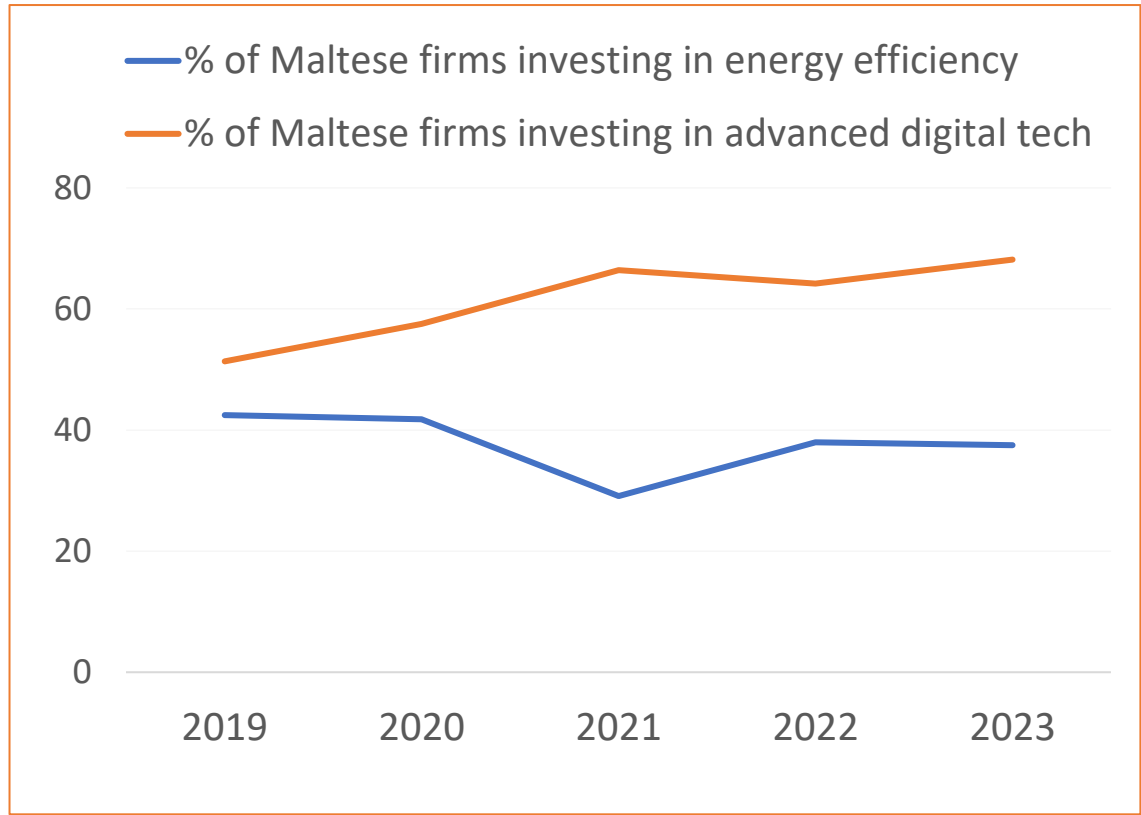
Increasing competitiveness through transformation, innovation and the removal of skills gap

Transitions are taking up at different speed: Maltese firms are increasingly investing in digital technologies but not in energy efficiency

Challenges for Maltese firms (in %)

- Supply chain disruptions (80%)
- Concerned about uncertainty regarding energy prices (88%)
- Weather events impacting business (64%)
- Risks from the transition (35%)

Share of Maltese firms investing in advanced digital technologies and energy efficiency (in %)



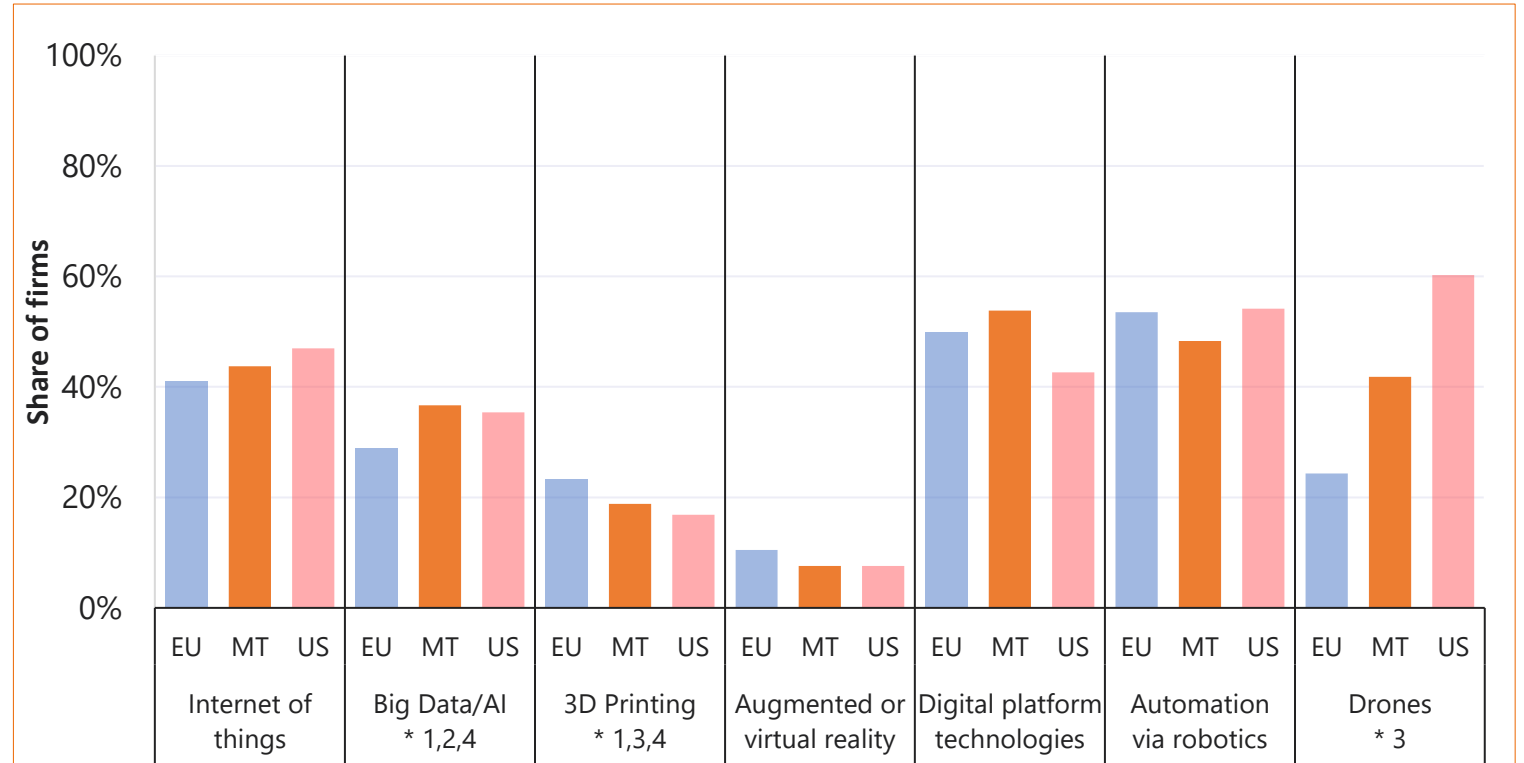
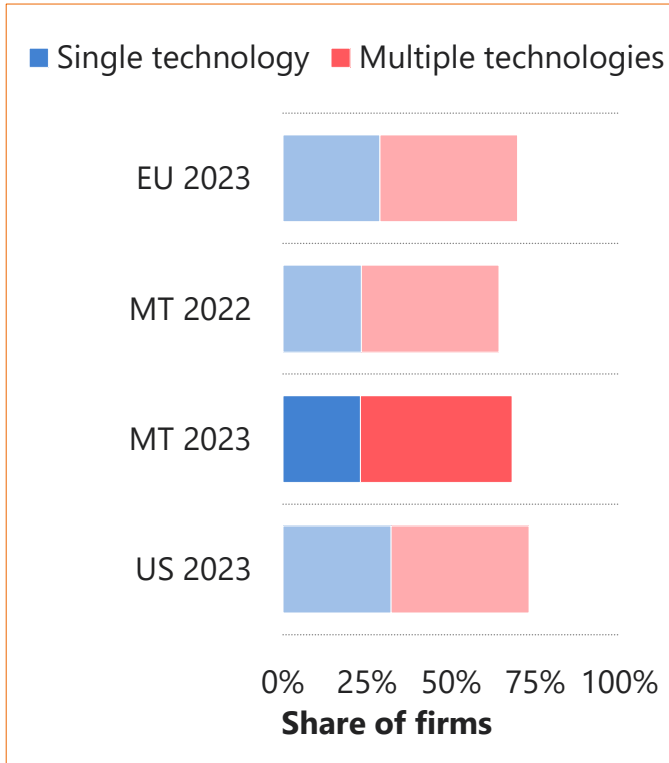
... while 13% of Maltese firms say they invested too little



The digital gap is closing: the use of advanced digital technologies becomes more widespread in Malta that is key to productivity increase

More than 2/3 uses at least one advanced digital technology

Compared to the EU, Maltese firms stand out in the use of digital platforms, drones and big data/AI



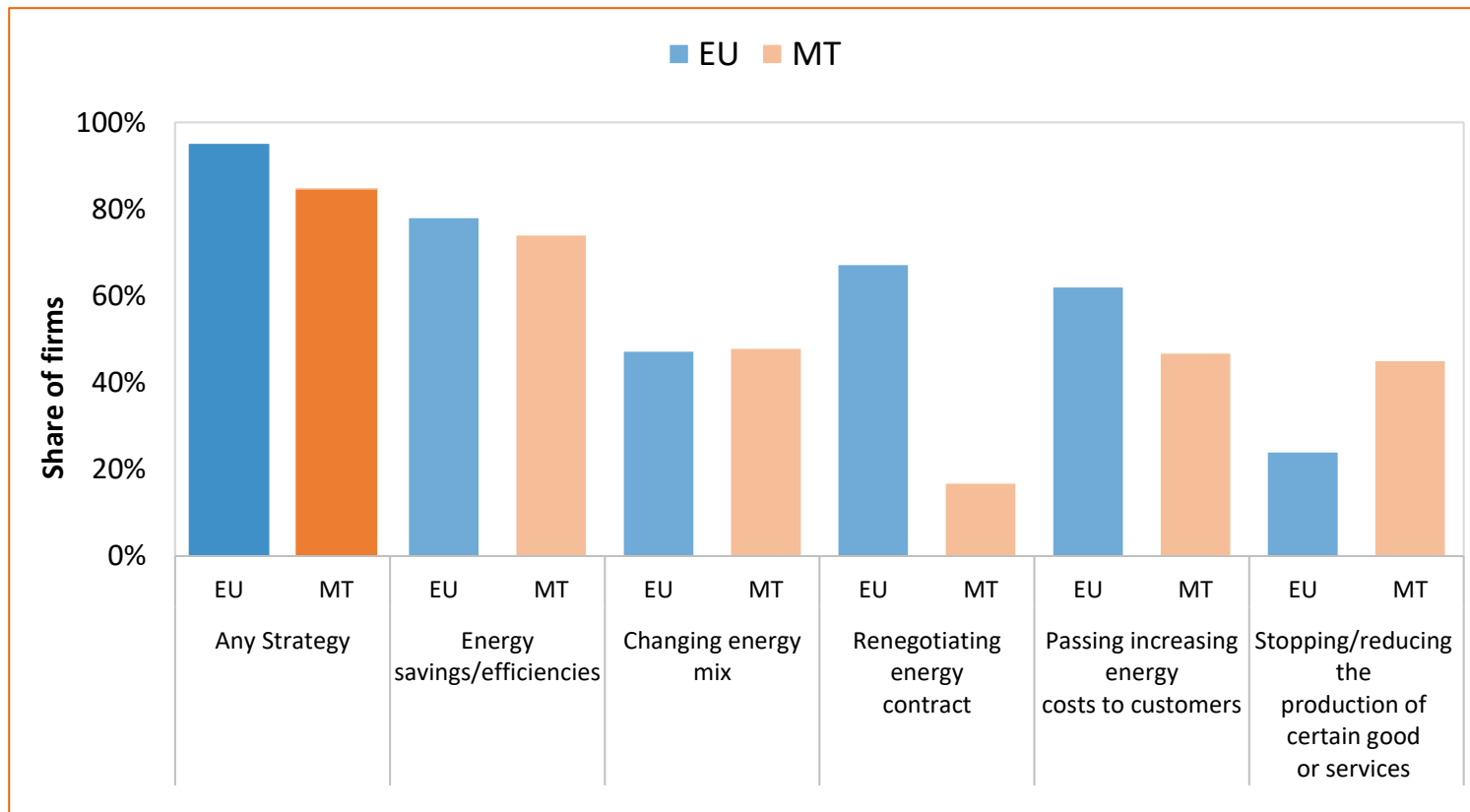
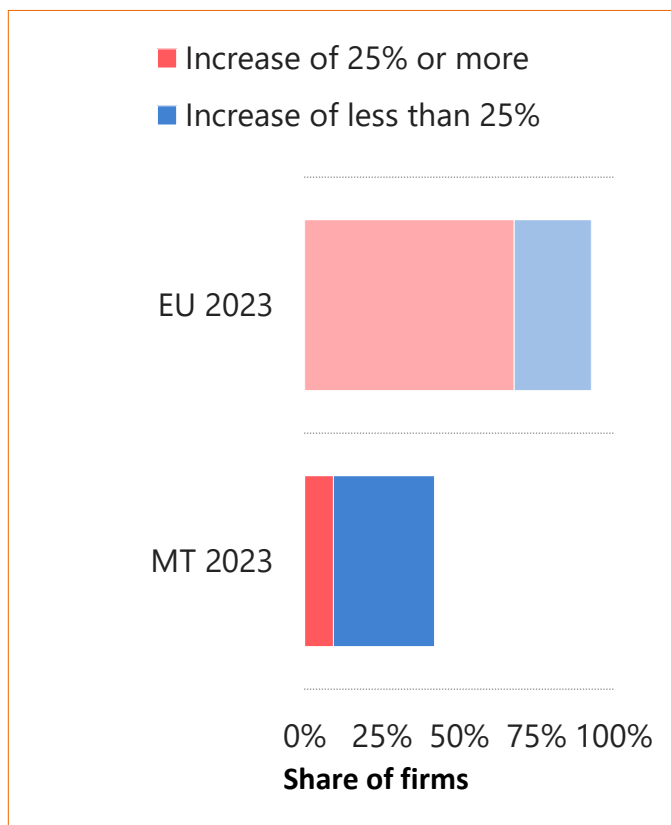
* Sector: 1 = Asked to manufacturing firms, 2 = Asked to services firms, 3 = Asked to construction firms, 4 = Asked to infrastructure firms



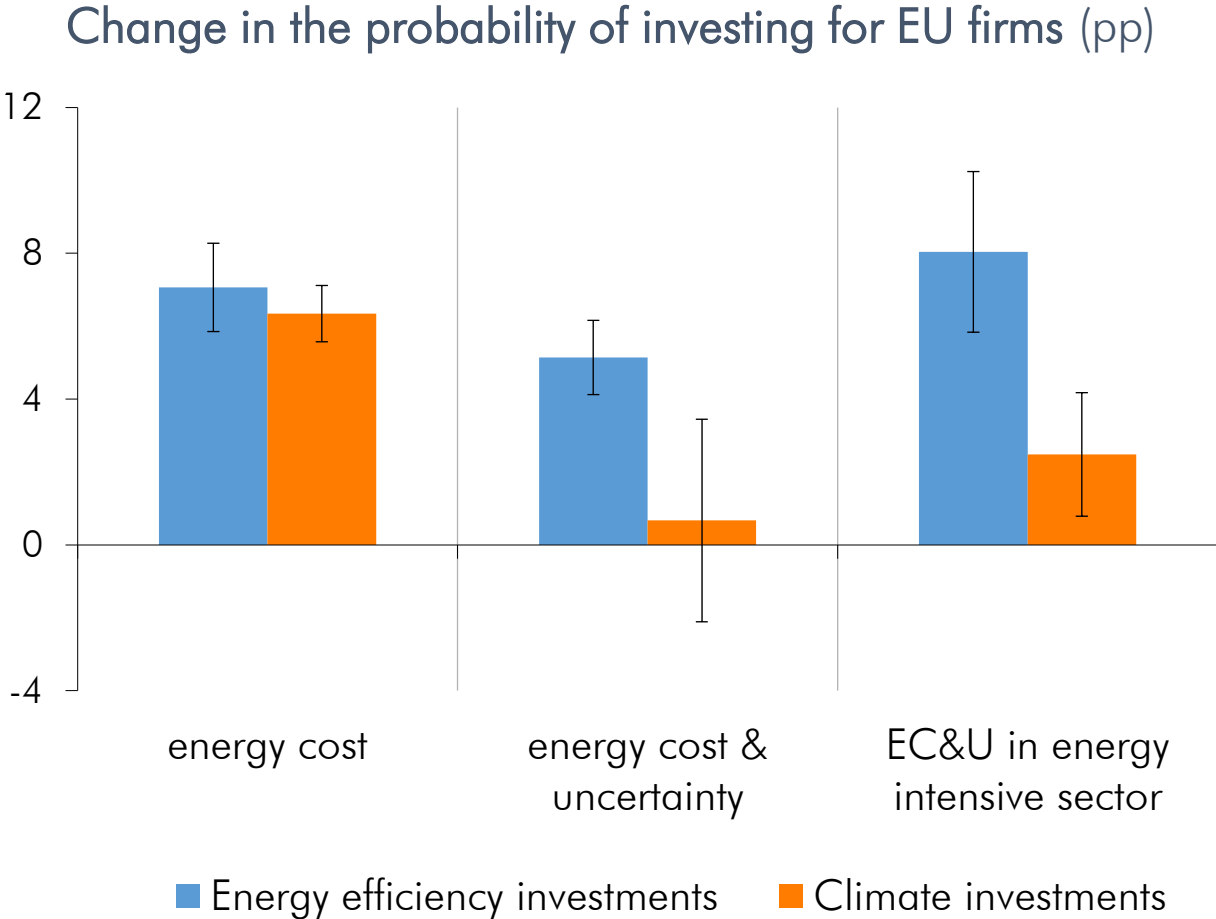
Energy crisis and transition – EU wide challenge raising issues of competitiveness

Maltese firms much less impacted by the energy crisis than their EU peers

7x less Maltese firms reported 25+% increase in energy spending than in the EU stopped/reduced production of goods and services also much more frequently



High energy costs encourage green investments but uncertainty hinders it

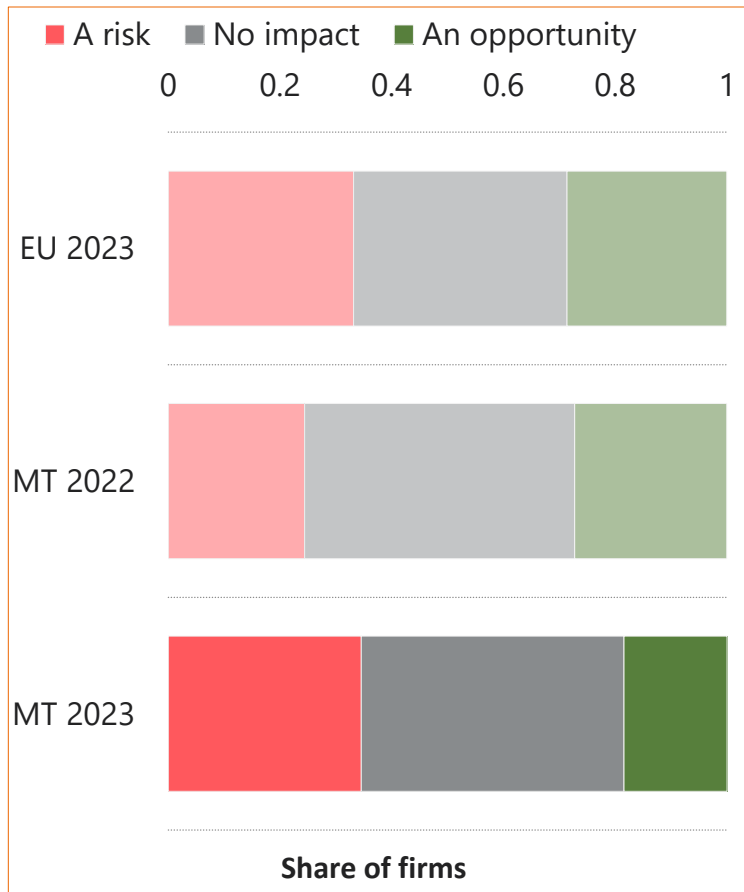


Note: Marginal effects of major concerns regarding energy costs and uncertainty on the probability of investing in energy efficiency or in climate, by energy intensity, after accounting for country, sector and size effects. Whiskers represent 95% confidence intervals. For more information see Kalantzis et al (2023).

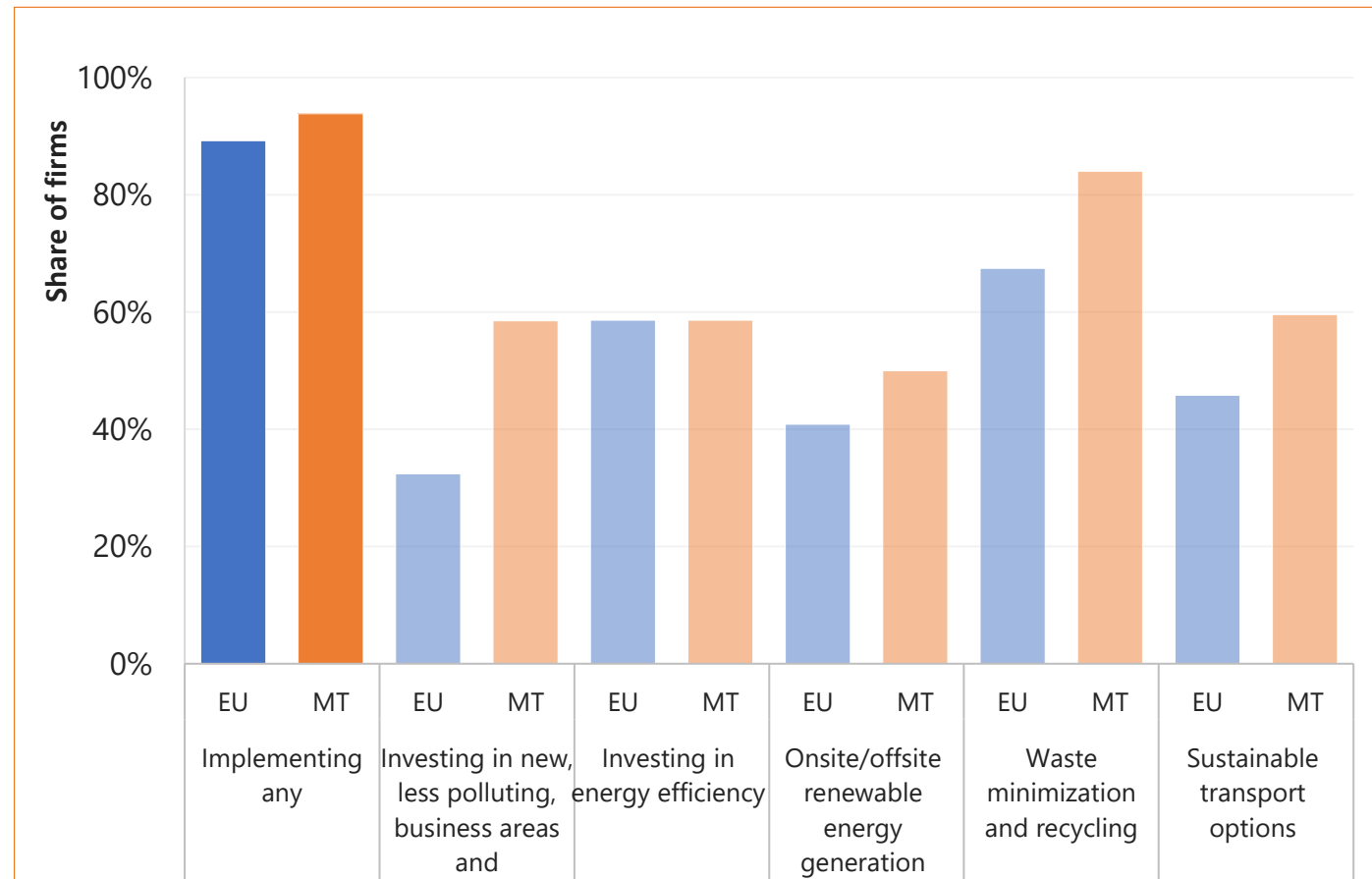


While climate change mitigation investments are also relatively high

Maltese firms see transition to net zero economy increasingly as risk



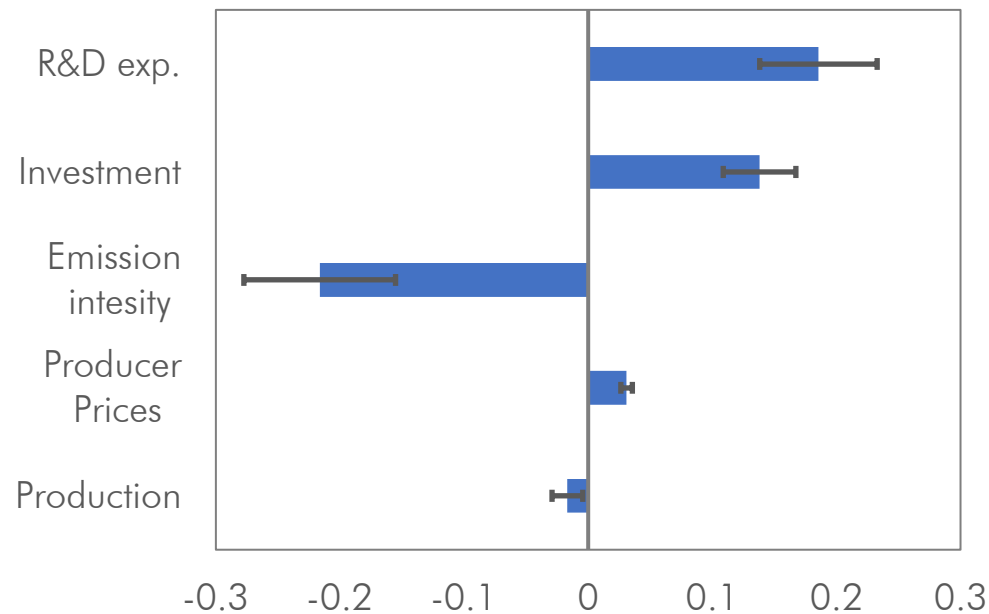
... and their actions reducing GHG top the EU except regarding energy efficiency



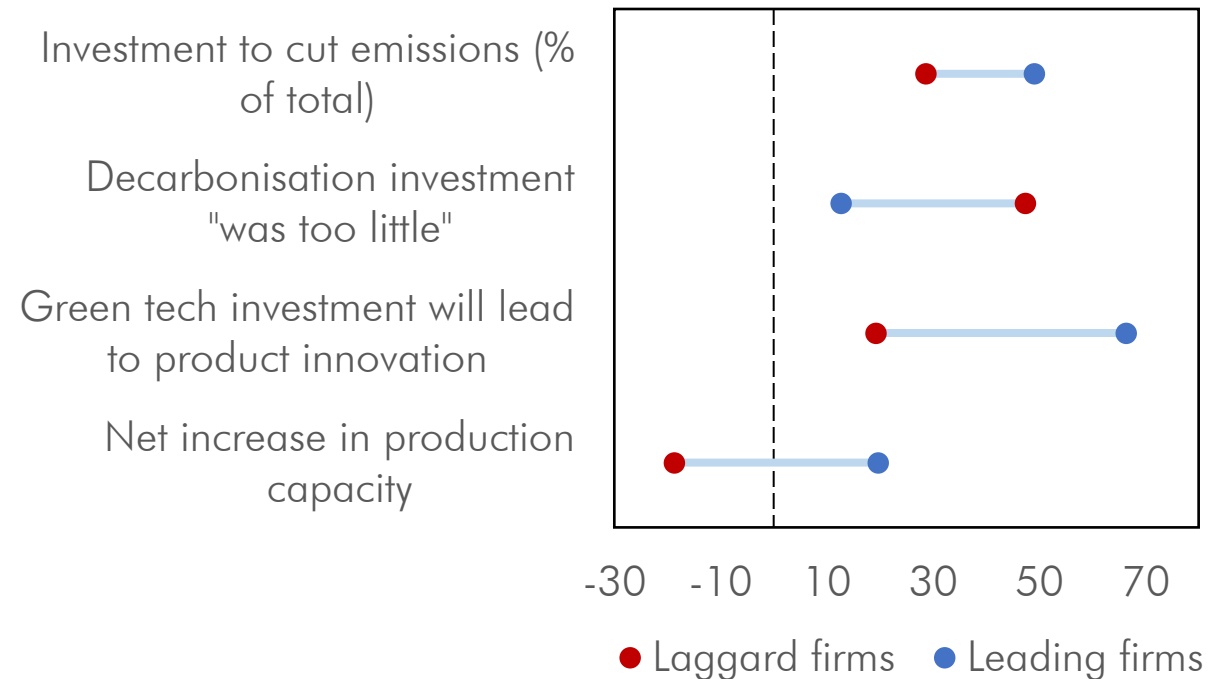


Progressive tightening of ETS is effective in the EU but a decarbonisation divide emerges between firms

Higher costs of CO2 emissions prompt decarbonization and transformation (impact of a 1% increase in certificate prices, in %)



Decarbonisation leaders invest more, innovate more, and do not reduce their production capacity (% of firms)



Note: Marginal effects based on panel regressions (2012-2022), taking into account sectorial and country effects, as well as control variables such as value added at factor cost in production value, share of labour and energy prices. See Kalantzis et al (2023).

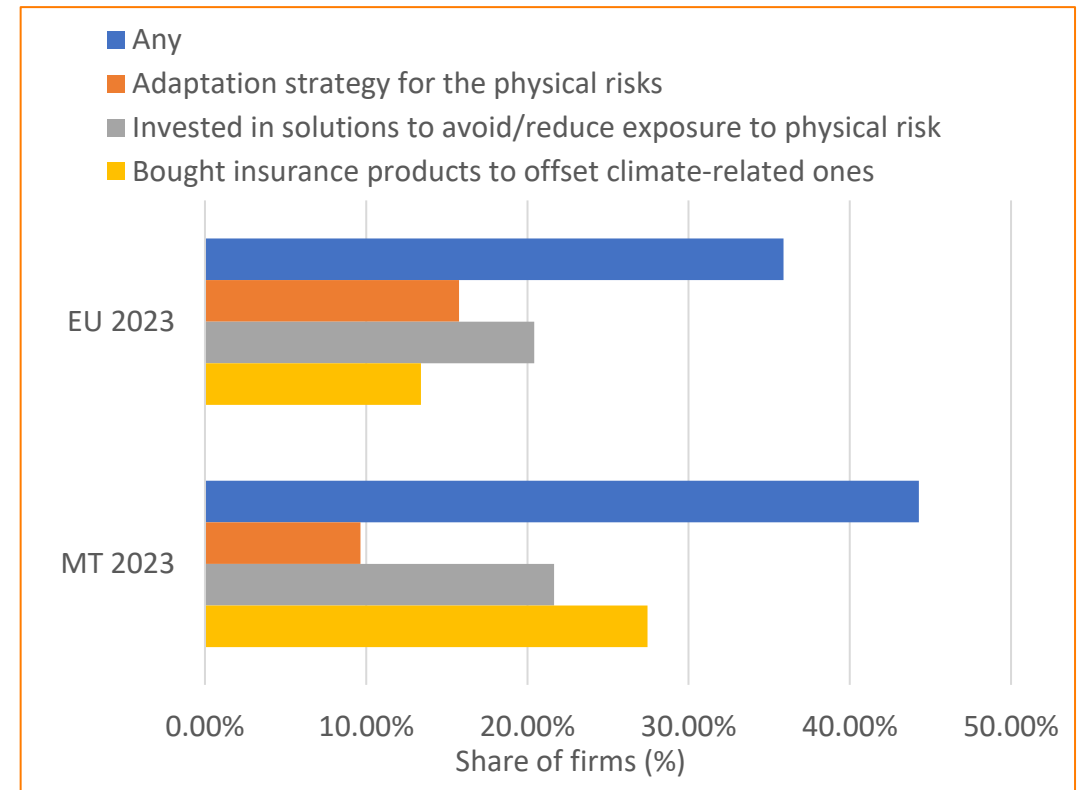
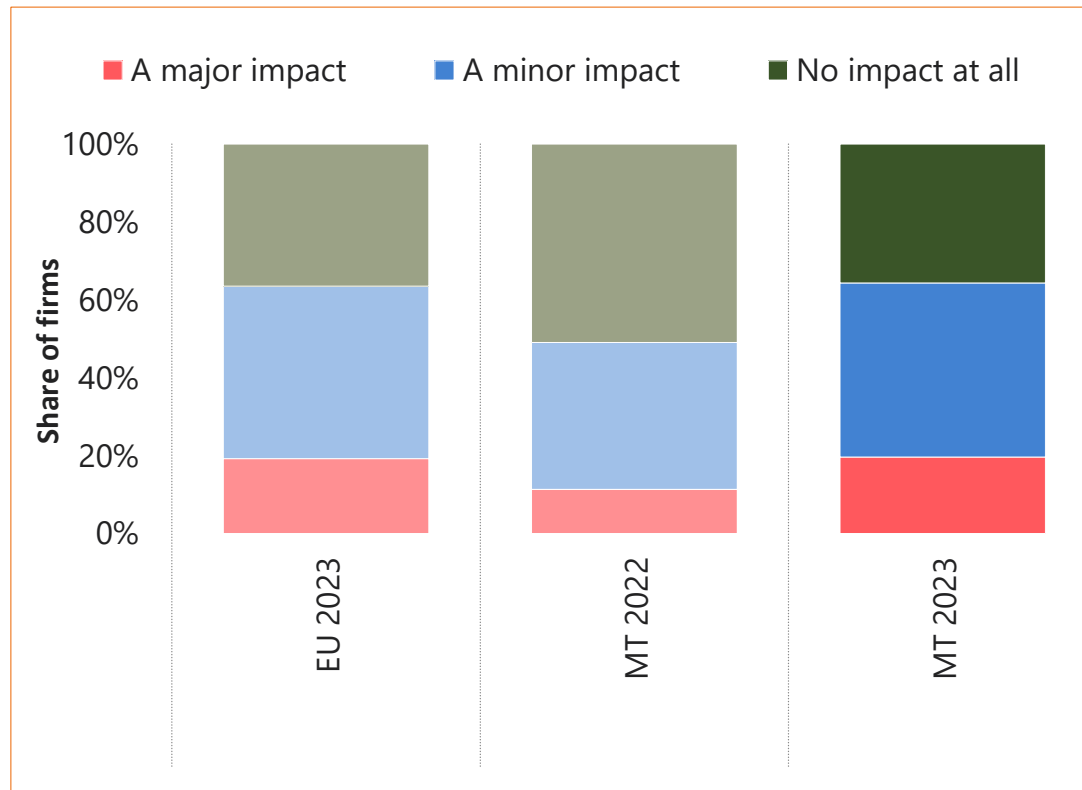
90% of firms see price and regulation uncertainty as the main impediment to invest in green technologies

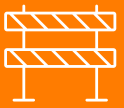


Climate change adaptation investments are on the rise in Malta

Maltese firms perceive impact from physical risk increasingly

... and they are more probable to invest in resilience than their EU counterparts

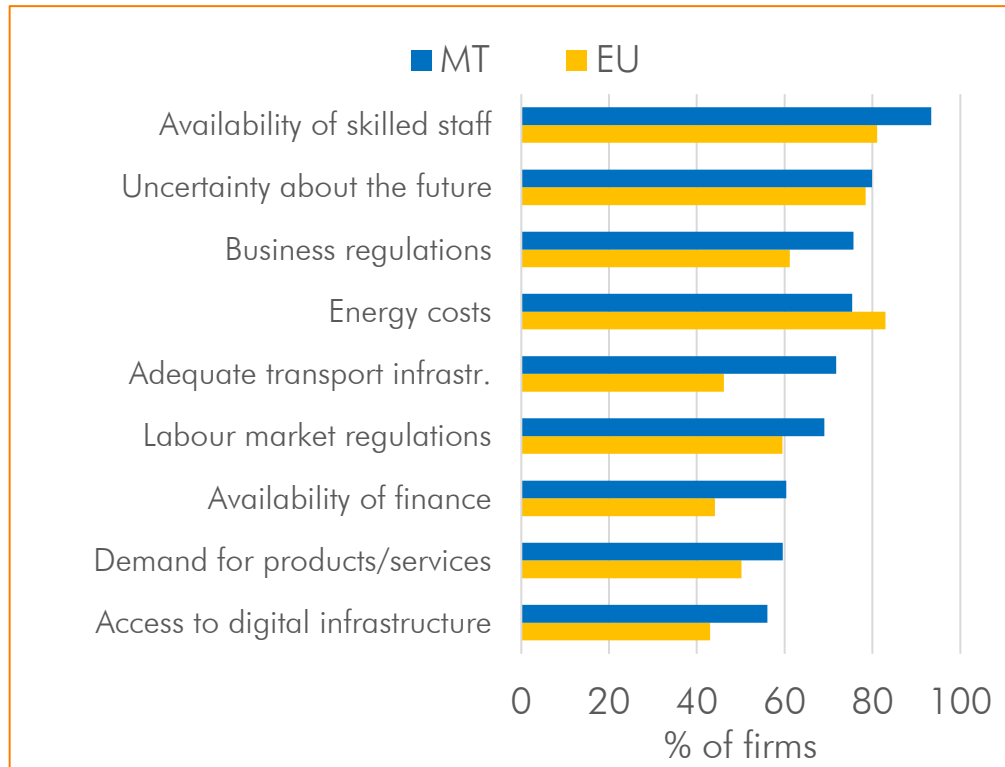




Improving the business environment is of key importance for Maltese firms

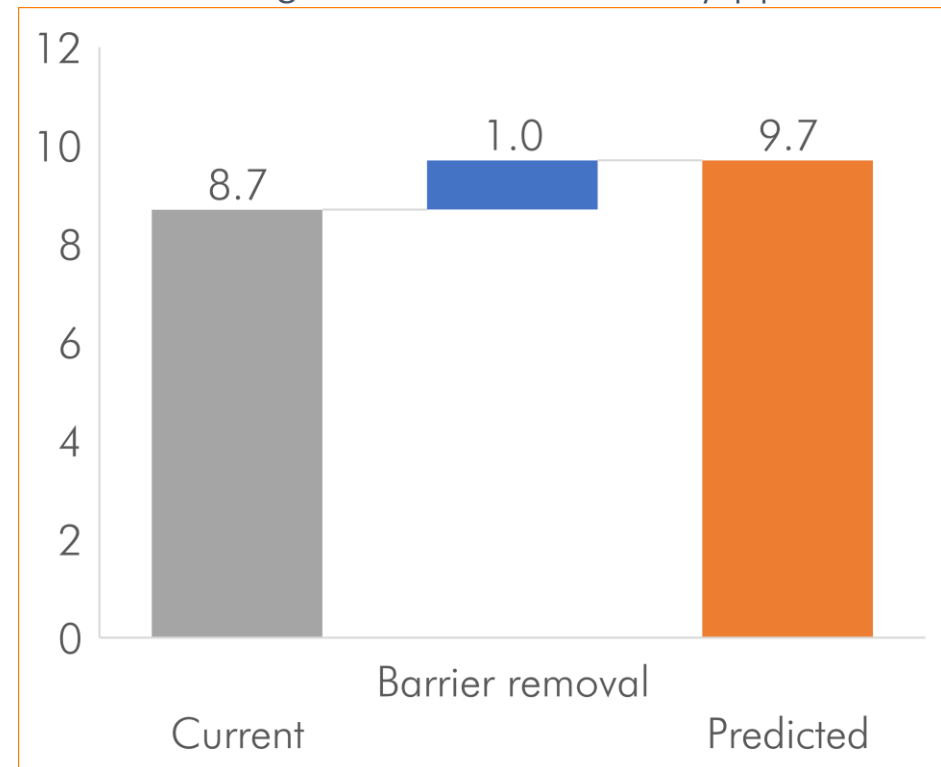
Skilled labour, uncertainty about the future and business regulation are the major long-term barriers to investment

% of firms



Firms' investment rate and predicted effect of removing major barriers

Average investment intensity pp

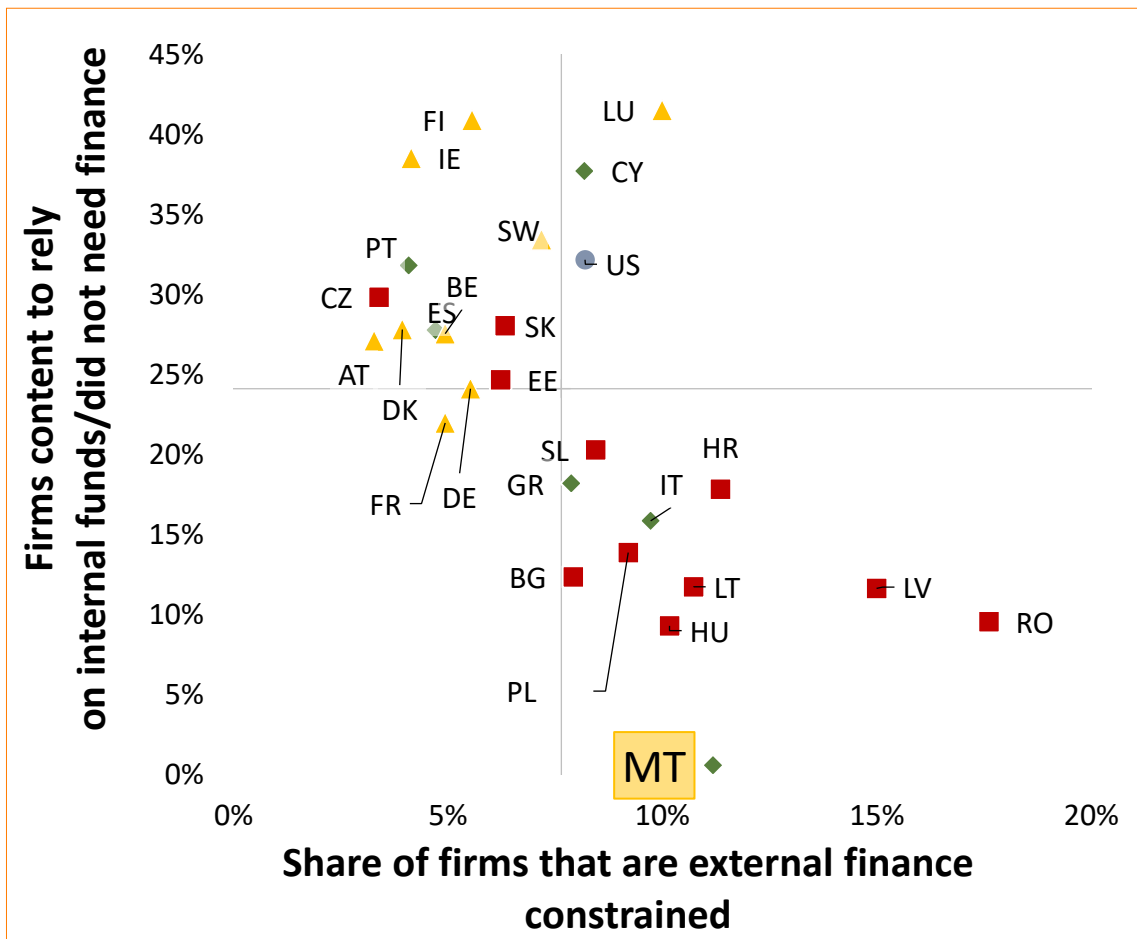


Sources: LHS: EIBIS 2023. RHS: EIB Investment Report, based on a regression of the investment rate on the number of investment obstacles that a firm describes as major. The blue bar shows the marginal increase in the investment rate if a firm describes one less investment obstacle as major. For details, see EIB Investment Report 2023/24, chapter 4.

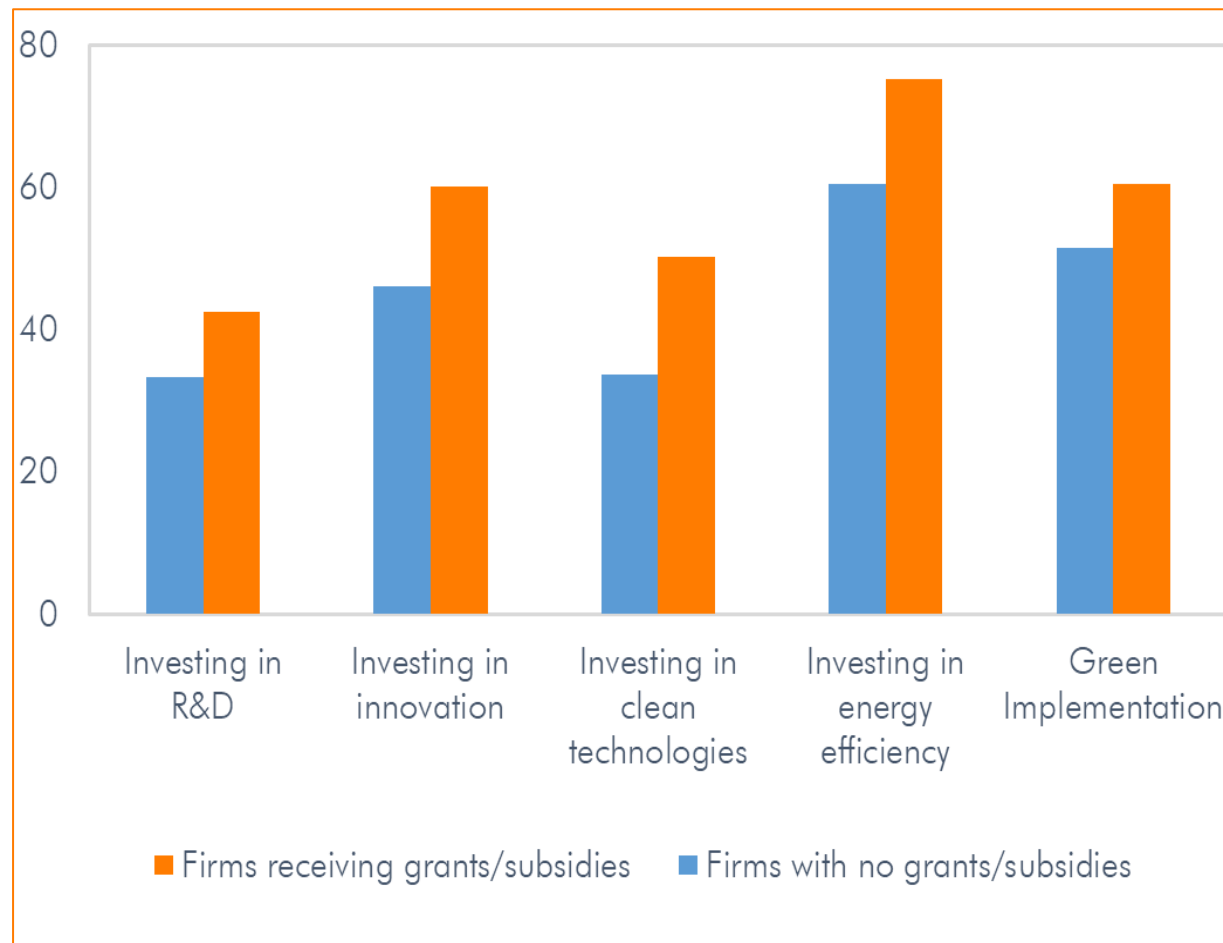


Going forward – focus on access to finance and targeted catalytic instruments

Financing cross all firms (% firms)

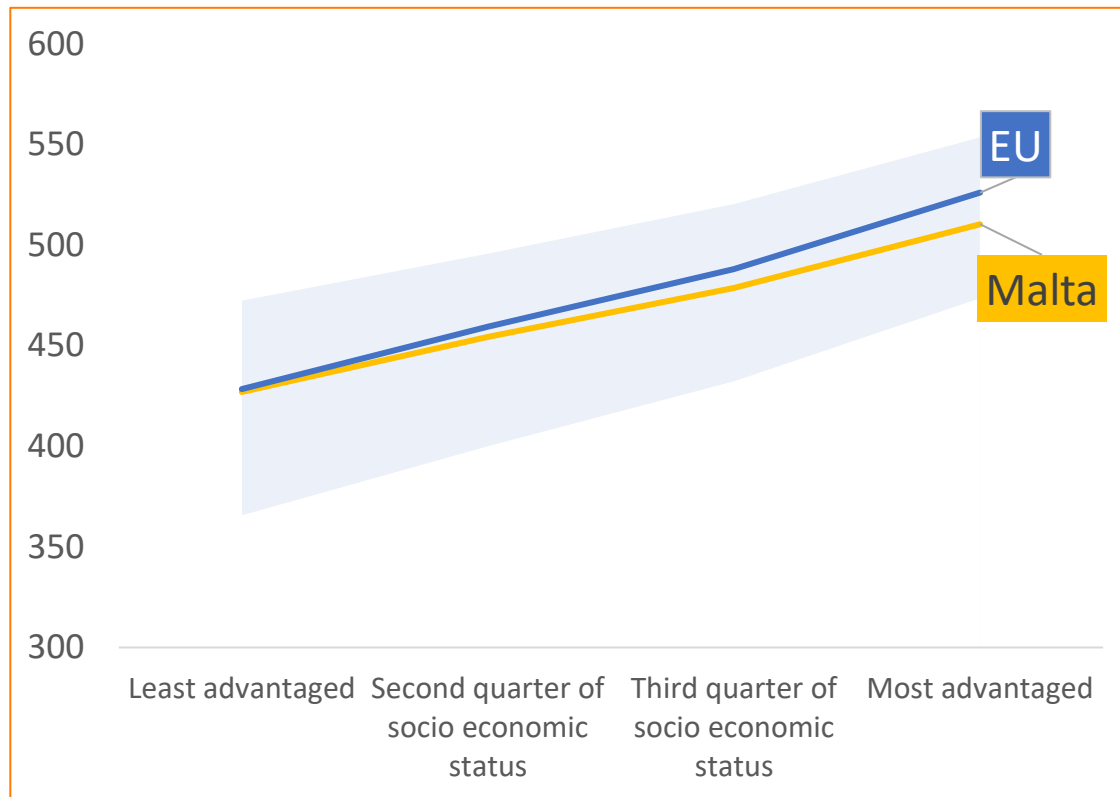


Investment of firms, conditional on support received % of firms



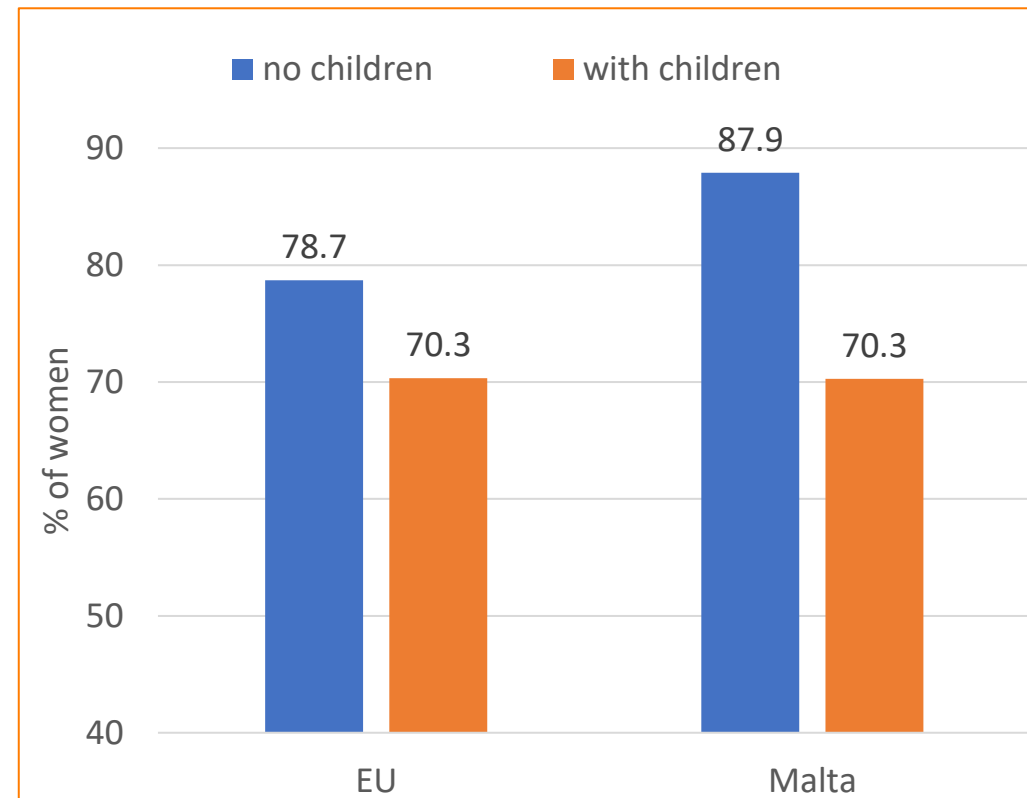
Investments in social infrastructure, such as schooling and child care, could help close the skills gap

PISA mathematics scores of 15-year olds by their families' socio-economic background



Source: EIB based on OECD (2023). Note: The lines show the mean 2022 PISA scores for mathematics for different quartiles of the country-level distribution of the PISA index of economic, social and cultural status (ESCS). The shaded area is bounded by the highest and lowest score across EU countries for the respective country-level quartiles.

Share of women employed by number of children (% , aged 25-54)



Source: EU LFS. Data for 2022.

Conclusions: transforming the economy to improve competitiveness

- To stay competitive, we need to invest in the digital- green- and energy transition
 - Enable and incentivise the adoption of advanced digital solutions
 - Support firms to develop climate adaptation strategy
 - Ensure clear, stable incentives for energy efficiency investments
 - Focus on access to finance and the deployment of catalytic instruments
 - Competitiveness also requires building skills and strengthening social cohesion