BUSINESS INVESTMENT AND INVESTMENT FINANCE IN MALTA – EVIDENCE FROM THE EIBIS 2021 SURVEY

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BOX 1: BUSINESS INVESTMENT AND INVESTMENT FINANCE IN MALTA – EVIDENCE FROM THE EIBIS 2021 SURVEY¹

The EIB Group Survey on Investment and Investment Finance (EIBIS) is an EU-wide, annual survey of some 13,500 firms, 180 of which are operating in Malta.² It collects data on firms’ characteristics and performance, investment outlook, access to finance, barriers to investment, as well as other challenges firms face, such as climate change and digital transformation. Using a stratified sampling methodology, the EIBIS is representative across the 27 Member States of the European Union, the United Kingdom and the United States, as well as firm size (from micro to large) and four main sectors (manufacturing, services, construction and infrastructure). For the sixth wave of EIBIS, telephone interviews with Maltese firms were carried out between March and July 2021. As a result, the data presented reflect the impact of the pandemic and the effect of the policy support implemented, but they pre-date the war in Ukraine and its consequences on the Maltese economy. The survey results remain however extremely relevant, as they present a snapshot of structural features of the economy, which is crucial to assess resilience to the current period of repeated shocks.

Investment in Malta – the pandemic, policy support and outlook

In 2021, the Maltese economy was recovering from the pandemic, relying on substantial policy response. By mid-2021, real GDP and investment were around pre-pandemic levels. The impact of the pandemic was strong, but policy support allowed firms to recover quickly.

In 2021, 58% of firms in Malta reported a decline in sales compared to the beginning of 2020, well above the EU average (49%). The policy response was widespread in Malta, with 74% of firms having received financial support, a higher share than in the European Union (56% of firms). Support was mostly in terms of subsidies and tax deferrals (in both cases, the share of firms receiving support was higher than the EU average). Around a quarter of firms (26% of Maltese firms) increased their debt position, which is more than the average

Table 1

<table>
<thead>
<tr>
<th>Share of firms recording decline in sales</th>
<th>Share of firms receiving support</th>
<th>Of which subsidies</th>
<th>Of which deferrals of payments</th>
<th>Share of firms increasing debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU 2021</td>
<td>49.0</td>
<td>56.0</td>
<td>36.0</td>
<td>16.0</td>
</tr>
<tr>
<td>MT 2021</td>
<td>58.0</td>
<td>74.0</td>
<td>59.0</td>
<td>31.0</td>
</tr>
</tbody>
</table>

Source: EIBIS 2021.
Base: All firms excluding don’t know/refused responses.

Question 1: What has been the impact so far of the COVID-19 pandemic on your company’s sales or turnover compared to the beginning of 2020?
Question 2: Since the start of the pandemic, have you received any financial support in response to COVID-19? This can include finance from a bank or other finance provider, or government-backed finance.
Question 3: Has your company taken any of the following actions as a result of the COVID-19 pandemic?

¹ Prepared by Annamaria Tueske, Wouter van der Wielen and Debora Revoltella from the European Investment Bank (EIB).
EU share of 16% (see Table 1). In addition, 6% have raised new equity from the current owners, and 3% have raised new equity from new sources, both in line with the EU average.

Policy support even prevented part of the shock on firms’ investment to materialise. In EIBIS 2020, 47% of Maltese firms were expecting to reduce investment in 2020. One year later, only 16% of firms reported that they actually reduced investment. For 2021, the share of firms expecting to decrease investment slightly exceeded that of firms expecting to increase investment, with a small negative net balance of 1.5%, which makes Maltese firms slightly more negative than the rest of EU firms.

Chart 1 shows the evolution over time of firms’ short-term outlook. It is reminded that this is recorded for 2021, thus being post-pandemic, but before the war shock materialised. In line with EU firms, firms in Malta expected improvements in terms of the economic climate, the business prospects, and the availability of external and internal finance. Moreover, more firms in Malta expected the political and regulatory climate to improve rather than deteriorate in 2021, while the net balance of EU firms remained negative in this respect.

Areas for investment
Chart 2 presents the breakdown of firms’ investment by area of activity. Maltese firms have a relatively high share of investment in intangibles. Investment for software development stands out, accounting for 22% of total investment, versus 15% in the European Union. Smaller firms and firms in the services sector were particularly more likely than other firms to invest in the area of software.
data, IT and website activities. On the other hand, construction/infrastructure and manufacturing firms were more likely to invest in training (11% and 10%, respectively) than firms in the services sector (3%).

The pandemic as a driver for change
Firms perceived the COVID-19 pandemic as a structural shift for the economy, requiring structural transformation. According to EIBIS 2021, the majority of Maltese firms (73%) considered COVID-19 to have a long-term impact on at least one of the four aspects they were asked about (see Chart 3). Some 54% of Maltese firms expected the pandemic to require, in the long term, more digitalisation. Around a third of firms (34%) expected an impact on firms’ supply chains and 23% of firms foresaw an impact on their service or product portfolio.

With those long-term expectations, firms indeed reacted swiftly. 64% of firms in Malta have taken actions to react to the pandemic (see Chart 4), above the EU average (57%). Digitalisation stood out with over half of firms (55%) reporting that they have taken action or invested to become more digital. Around a third (32%) of firms have developed new products, services or processes followed by 17% of firms that shortened their supply chain.

Barriers to investment
Uncertainty about the future is the most frequently cited long-term barrier to investment in Malta, followed by the availability of skilled staff (82%), with both shares in line with

![Chart 3](chart3.png)

**COVID-19 LONG-TERM IMPACT**

(share of firms)

![Chart 4](chart4.png)

**SHORT-TERM ACTIONS AS A RESULT OF COVID-19**

(share of firms)
those reported in EIBIS 2020 (84%, see Chart 5). In contrast to their EU counterparts, firms in Malta are more likely to cite uncertainty about the future (73% EU versus 84% in Malta) and availability of finance (46% EU versus 55%) and less likely to name energy costs (64% EU versus 54%) as a barrier to investment.

Access to finance conditions remained tighter in Malta, compared to the EU average, with 9% of firms being credit constrained (see Chart 6), which is higher than the EU average of 5% and slightly higher than the share reported in EIBIS 2020 (6%). Construction/infrastructure firms are more likely to be finance constrained (13%) than firms in other sectors.

When looking at satisfaction with the finance received, firms that used external finance are on balance satisfied (see Chart 7). The highest dissatisfaction is with collateral requirements (16%), the length of time over which the financing needs to be repaid (10%), the cost of finance (7%), and the amount of financing (3%).

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**Chart 5**
LONG-TERM BARRIERS TO INVESTMENT
(share of firms)

**Chart 6**
SHARE OF FINANCE-CONSTRAINED FIRMS
(share of firms)

**Chart 7**
DISSATISFACTION WITH EXTERNAL FINANCE RECEIVED
(share of firms)
The digital and green transition and managerial transformation

When asked about digitalisation, Maltese firms were more likely to have implemented multiple advanced digital technologies compared to their EU counterparts (44% versus 23%). Two thirds (66%) of firms in Malta have implemented at least one of the advanced digital technologies they were asked about, which is in line with the EU average (61%). The most commonly implemented technologies in Malta were digital platforms (55%), followed by drones (33%), robotics (32%) and the internet of things (31%). The implementation share for Big data/AI was higher than the EU average (see Chart 8).

Maltese firms are less likely than the average EU firm to have already experienced the effects of climate change. 44% of firms in Malta stated they are exposed to physical climate risk (i.e. state that climate change and the related changes in weather patterns are currently impacting their business). This compares to 58% in the EU overall. However, Maltese firms are starting to internalise the risks associated with the transition to net zero. Overall, almost 60% of firms see an effect of the climate transition on their business. The share of firms that see the transition to stricter climate standards and regulations as an opportunity rather than as a risk over the next five years is higher (32% and 26%, respectively).

As Chart 9 shows, 42% of firms in Malta have already invested to deal with climate change, and 43% have plans to do so in the next three years, an increase since EIBIS 2020 (both 31%), but in line with the EU averages (43% and 47% respectively). Larger firms are more likely to plan to invest than smaller firms (52% versus 30%).

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* Source: EIBIS 2021.
* Not every digital technology was asked of each sector.
* Reported share combine the technology implemented 'in parts of business' and 'entire business organised around it'.
* Question: Can you tell me for each of the following digital technologies if you have heard about them, not heard about them, implemented them in parts of your business, whether your entire business is organised around them?
* Sector: 1 = Asked of Manufacturing firms, 2 = Asked of Construction/Infrastructure firms, 3 = Asked of Services firms, 4 = Asked of Infrastructure firms.

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* Source: EIBIS 2021.
* Base: All firms excluding don't know/refused responses.
* Question: Now thinking about investments to tackle the impacts of weather events and to deal with the process of reduction in carbon emissions, which of the following applies?
Around 29% of firms invested in energy efficiency in 2020 (see Chart 10), a lower share than in EIBIS 2020 (42%) and the EU average (37%). There is a significant gap between the proportion of larger and smaller firms engaging in energy efficiency improving investment (40% compared to 13%), as well as in the average share of energy efficiency measures of total investment (14% versus 4% for smaller firms).

Firms in Malta outperformed the EU average on striving for gender balance (80% versus 60%, see Chart 11) and using a strategic monitoring system in 2020 (67% versus 55%). Seven in ten (69%) firms linked individual performance to pay, while half of the firms in Malta (53%) set and monitored internal targets on carbon emissions and energy consumption in 2020. Larger firms were more likely than smaller firms to use strategic monitoring systems (77% versus 54%) as well as to set and monitor internal targets of carbon emissions and energy consumption (62% versus 39%).

**Conclusion**

In 2021, firms in Malta were expecting a fast recovery from the pandemic, and had an improving outlook, and a relative good position in terms of digitalisation, gender balance, and firm management.

The war in Ukraine adds an additional shock, with important spillovers at the global and local level. Malta is likely to be particularly affected, due to the negative terms of trade shock and energy dependency. On the fiscal front, additional support for rising energy and other commodity prices will partly offset the withdrawal of COVID-related support. The challenge ahead is to keep the economy transforming, dealing with the green and digital transition, while withstanding the new shock.