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ACCESS TO FINANCE IN 2023

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ACCESS TO FINANCE IN 2023[1]

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Small and medium-sized enterprises (SMEs) are considered the backbone of the economy, both locally and in the EU. They account for most of the employment generated and the value added produced in the economy. Nevertheless, they have unique financing needs and face specific challenges when it comes to obtaining finance, especially in terms of access to capital markets.[2] For this reason, the ECB and the European Commission have since 2008 been conducting the Survey on Access to Finance of Enterprises (SAFE) to keep track of the financial situation and the expectations of firms, as this has implications for policy formulation.

This article reports on the latest round of the SAFE that covers all EU countries, and which was conducted by the European Commission in cooperation with the ECB between 4 September and 20 October 2023. This round covered the period between March and August 2023, and gathered information on 15,562 enterprises across the European Union. Among these, 14,083 firms employed less than 250 employees.[3] The latter include 95 Maltese firms.[4]

The financial situation of SMEs

Survey results show that between March and August 2023, 44% of SMEs in Malta reported an increase in turnover. Around 36% of SMEs reported no change, while 20% reported a decline.[5] As a result, on balance, 24% of respondents assessed turnover to have increased over the six months preceding the survey. This was marginally lower than 2022, when on balance, 25% of respondents assessed turnover to have increased. Nevertheless, over the same period a net 21% of domestic SMEs in Malta reported a decrease in profits, a higher share compared with the net 16% of domestic SMEs which reported lower profits in 2022.[6]

In the EU, a relatively smaller share of SMEs (11%) reported higher turnover.Meanwhile, profits fell for a net 19% of firms in 2023. Hence, in Malta and across the EU, firms on balance reported a decline in profits despite higher turnover. Furthermore, the assessment of profit developments in Malta was broadly similar to that in the euro area, despite Malta having a more benign assessment of turnover.

With regard to labour and other costs, a net 76% and 75% of Maltese SMEs, respectively, claimed that these have increased during the reference period. While the net share of respondents reporting higher labour costs was above that in the EU (71%), possibly reflecting the tighter labour market conditions in Malta, Maltese SMEs were slightly less likely to report increases in non-labour

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[2] Structural Business Statistics published by the NSO indicate that in 2021, 99.7% of firms in the non-financial business economy were SMEs. These accounted for 78.1% of the persons employed and for 49.8% of the overall net turnover. See NSO News Release 127/2023.

[3] Companies that employ less than 250 persons and make less than €50 million in turnover are classified as SMEs.

[4] Until 2023, the SAFE was conducted every six months, with the first round carried out by the ECB among euro area countries, and another round conducted by the European Commission in cooperation with the ECB in all EU countries. From 2024, the survey is being carried out every quarter, with three ECB rounds covering the euro area countries and one round carried out by the two institutions and covering all EU countries and some neighbouring countries.

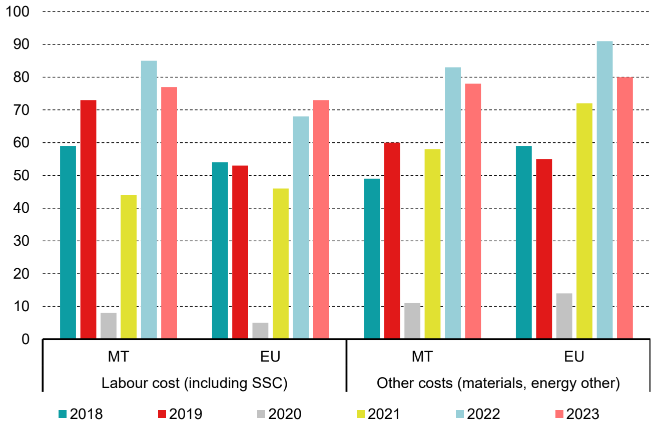
[5] Figures from SAFE are rounded, in line with the approach followed by the ECB when commenting on SAFE results.

[6] Net percentages refer to the difference between the percentage of respondents reporting that a given factor has increased and those reporting that it has decreased.

costs than EU firms (77%). While the net share of respondents reporting higher labour and other costs has fallen when compared with a year earlier, cost increases generally remain more prevalent than in 2021, and before the pandemic (see Chart 1).

The SAFE also reveals that in 2023, the share of local SMEs reporting an increase in interest rate expenses rose to 29%, from 16% in the preceding year. However, this share remained below the 38% reported for the EU.

Chart 1
SMEs REPORTING HIGHER LABOUR AND OTHER COSTS
(net share of respondents)



Source: SAFE, various editions.

During the period covered by the survey, on balance, the number of employees was assessed to have increased by 28% of SMEs in Malta, compared with 4% of SMEs in the EU. The share of domestic SMEs reporting a net increase in the number of employees has doubled when compared with 2022 (14%). The pace of hiring also seems to have accelerated when compared to 2019, when 22% of SMEs in Malta had reported a net increase in the number of employees, possibly reflecting the higher turnover in the context of a tight labour market.

Meanwhile, a net 26% of firms in Malta recorded an increase in inventories and working capital, compared with 3% in the EU. Domestically, this marks a slightly higher increase when compared with 2022.

With regard to fixed investment, in 2023, 45% of firms reported an unchanged level of fixed investment, while 32% reported an increase. Only 2% reported a decrease. Hence, on balance, 29% of SMEs in Malta reported an increase in investment in plant, machinery, or equipment. This is significantly higher than the 8% of SMEs in the EU. However, despite a higher share of domestic SMEs that reported higher investment, the net balance remains below that observed pre-pandemic.

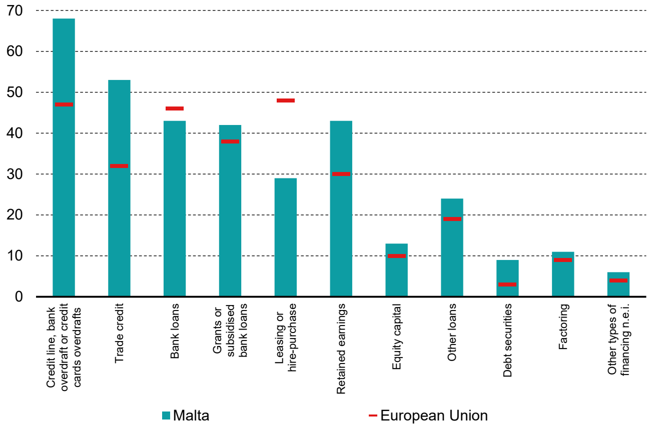
Sources of finance used by SMEs

During the period under review, 68% of SMEs in Malta deemed credit lines, bank overdrafts, and credit cards relevant for them. This rose from 61% a year earlier, and contrasts with the declining relevance of this type of financing over recent years. Meanwhile, at 43%, the share of SMEs that used bank loans in the past, or that expected to use them in the future, fell to its lowest rate.

By comparison, in the EU, at 47% and 46%, respectively, the share of respondent SMEs that used bank loans and credit lines, bank overdrafts, or credit cards overdraft, remained stable when compared with the preceding years.

In 2023, the proportion of domestic SMEs that considered trade credit as relevant to their business fell to 53%, from 63% a year earlier. While exceeding the share of Maltese SMEs that consider bank loans as relevant for their business, this was lower than the proportion of SMEs that considered other bank-related products as important (see Chart 2). Hence, although trade credit was an important source of finance for SMEs, and certain businesses might have found it easier to resort to this type of financing to fill liquidity gaps, bank-related products were more relevant.

Chart 2
SOURCES OF FINANCE DEEMED RELEVANT BY SMEs
(used in the past or consider using in the future; percentage of respondents)



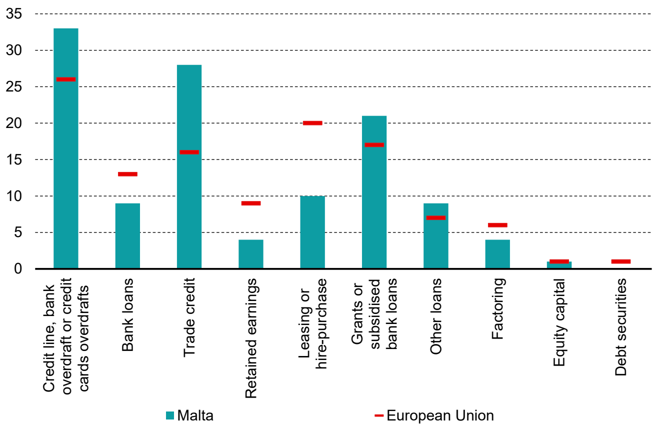
Source: SAFE (2023).

At 42%, the share of SMEs in Malta that considered grants or subsidised bank loans as being relevant to their enterprise declined in 2023, when compared with 53% a year earlier. Similarly, the share of SMEs in the EU that mentioned this type of financing as being relevant fell to 38% in 2023, from 42% in the preceding year. In both Malta and the EU, these shares remain somewhat above those observed pre-pandemic, when the proportion of SMEs that considered this source of financing as being relevant for their business stood at 40% and 31%, respectively.

During the period under review, the relevance of internal funds (retained earnings or asset sales) as a source of finance rose in Malta, following a decline in 2022. In 2023, 43% of domestic SMEs considered this source as relevant for their business, up from 32% a year earlier. Hence, it almost reached the share of 46% recorded pre-pandemic. Furthermore, it remained above a net 30% reported in the EU. In fact, Malta (along with Croatia) had the highest share of firms assessing internal funds as relevant among all EU countries.

Chart 3 reports on the use of the different types of funding sources during the six months preceding the survey. Credit lines, bank overdrafts and credit cards, trade credit and retained earnings were the most frequently used source of financing by domestic SMEs.

Chart 3
SOURCES OF FINANCE USED BY SMEs IN 2023
(over the preceding six months; percentage of respondents)



Source: SAFE (2023).

The share of domestic SMEs using these sources rose to 33% from 30% in 2022. However, with just a third of SMEs resorting to this type of financing in 2023, the importance of this type of financing is lower than that recorded before the pandemic, when half of the respondent SMEs used this type of financing. Nevertheless, the share of domestic SMEs that used this type of financing in 2023 continued to be above that in the EU (26%).

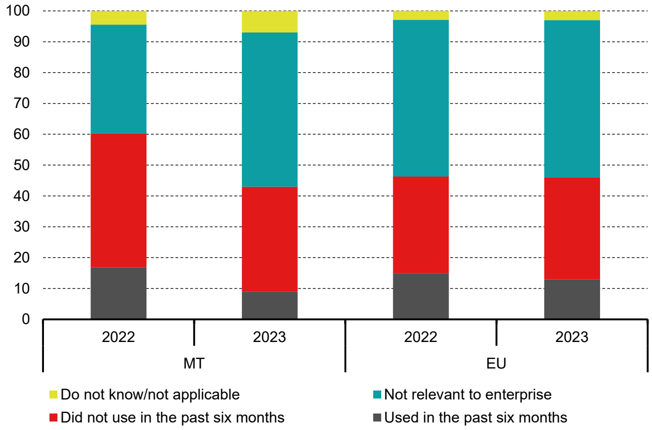
Meanwhile, the share of firms that used bank loans in the six months preceding the survey fell to just 9% in Malta, from 17% a year earlier. This marks the lowest share observed in the preceding decade.

Around a third (34%) of domestic SMEs did not use bank loans in 2023, as opposed to 43% in 2022. Meanwhile, half of the SAFE respondents domestically considered them irrelevant for their enterprise, above the share of 35% a year earlier. By comparison, in the EU, a higher share of SMEs (51%) stated that bank loans were irrelevant for their enterprise, while 34% claimed that they did not use bank loans in the six months preceding the survey. Compared to 2022, the share of SMEs that resorted to bank loans was lower both in Malta and in the EU. Moreover, in Malta, the proportion of firms that did not use bank loans or considered them irrelevant was higher when compared with 2022, whereas in the EU these shares were broadly unchanged (see Chart 4).

When asked to elaborate on why bank loans are not deemed relevant, 79% of domestic SMEs stated they did not need this type of financing. This share was only marginally higher than that of 78% in 2022. Meanwhile, 7% reported that interest rates or prices were too high, while 14% cited other reasons.[7] None of those surveyed claimed that no bank loans were available, as opposed to 5% in 2022.

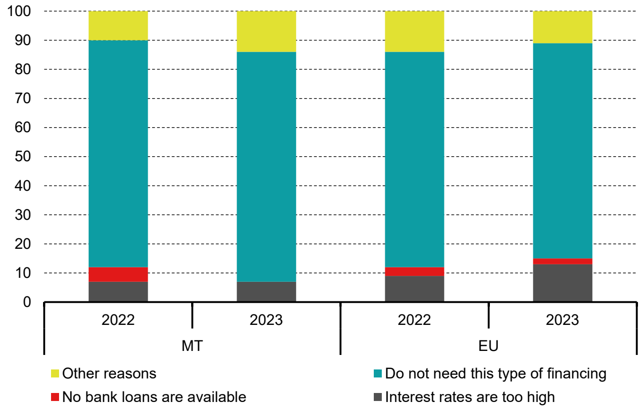
Meanwhile, in the EU, 74% of the firms considered bank loans as being irrelevant because they did not need such financing unchanged when compared with a year earlier. The proportion of those that mentioned interest rates as being too high rose to 13% from 9% in 2022. Another 11% of SMEs mentioned other reasons (see Chart 5).

Chart 4
NEW LOANS OR LOAN RENEWALS
(percentage of respondents who took new loans or renewed the loans in the past six months)



Sources: SAFE (2022); SAFE (2023).

Chart 5
REASONS WHY BANK LOANS ARE DEEMED IRRELEVANT FOR BUSINESS
(percentage of respondents who replied that bank loans were irrelevant for their enterprise)



Sources: SAFE (2022); SAFE (2023).

7 'Other reasons' include insufficient collateral or guarantees, reduced control over the enterprise, too much paperwork and unspecified reasons.

The proportion of SMEs that used trade credit in 2023 fell to 28% from 32% a year earlier and marks the lowest share since at least 2014 when 15% of SAFE respondents used this type of financing. While the share of SMEs in Malta that used this type of financing was double the EU average, heterogeneity across countries persists.

The share of Maltese SMEs that used internal funds (retained earnings or proceeds from the sale of assets) stood at 21%, broadly unchanged from that of 22% in 2022 (see Chart 3). This share remained above that in the EU, which rose to 17% during the period under review, from 14% a year earlier. Although the share of domestic SMEs remained larger when compared with those in the EU, the gap has narrowed.

In 2023, the share of domestic SMEs that reported using subsidised loans or grants fell to 4%, from 13% in the preceding year. This share was below that reported for the EU (9%). In Malta, this share has also fallen below that recorded pre-pandemic suggesting that this type of financing is no longer important. Similarly, the share of firms using other loans such as those from family and friends, a related enterprise or shareholders, fell to 9% from 11% a year earlier.

While the proportion of domestic firms that used leasing or hire-purchase fell to 10%, from 15% in 2022, the share of firms across the EU that used this type of financing remained broadly unchanged at 20%. During the period under review, only 1% of domestic SMEs made use of equity capital, and none resorted to debt securities. In fact, debt securities, factoring and equity capital remained the three sources of finance that were least used in Malta and across the EU.

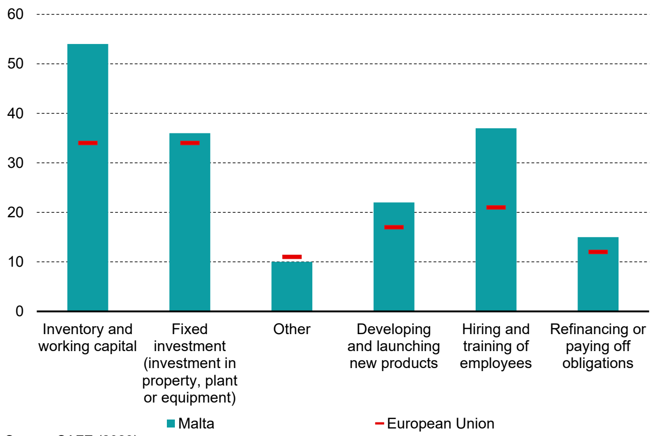
Uses of external finance

The purpose for which SMEs in Malta and in the EU used external financing obtained during 2023 is shown in Chart 6. The share that obtained external financing for inventory and working capital fell to 54% in 2023, from 56% a year earlier but remained above that of 34% in the EU, which stood unchanged compared with 2022.

In Malta, the proportion of domestic SMEs that used external financing for fixed investment in property, plant or equipment rose to 36% from 34% a year earlier and stood only marginally above that of 34% in the EU. By contrast, the proportion of SMEs in Malta that used external financing for the development and launching of new products fell to 22% from 29% in the preceding year but remained above that of 17% across the EU.

Meanwhile, 37% of Maltese SMEs used external financing for hiring and training purposes, down from 48% in 2022. Nevertheless, this remains the second highest percentage on record since 2015 possibly reflecting high staff turnover rates in the

Chart 6
USES OF EXTERNAL FINANCE
(over the preceding six months; percentage of respondents)



Source: SAFE (2023).

context of a tight labour market. It also stood significantly above that of 21% recorded among EU respondents, which share was broadly unchanged from a year earlier. A further 15% of domestic SMEs used external finance to refinance or pay off obligations, compared to 12% in the EU.

Most pressing problems facing SMEs

The most pressing problems that SMEs faced between 2019 and 2022 are shown in Chart 7.

The availability of skilled staff or experienced managers remained a pressing problem for the largest share of domestic respondents, although the proportion of firms reporting this fell to 25% in 2023, from 35% in the preceding year. This was also lower than the shares recorded in the three years preceding the pandemic. Likewise, in the EU, the availability of skilled staff or experienced managers was the most important problem for 29% of SMEs. This marks a 2 percentage points increase since the last survey. It should be noted that the availability of skilled staff or experienced managers is the most important problem for SMEs in all but four countries. The shares range from 13% in Lithuania to 43% in Croatia, respectively.

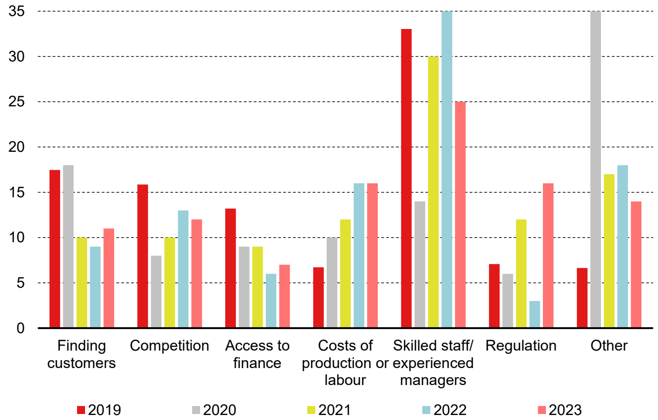
The next most pressing problems faced by domestic SMEs relate to costs of production or labour, and regulation. In each case, 16% of firms in Malta considered these as challenging issues in 2023. This share of firms concerned with costs ranges from 27% in Poland and Luxembourg, to 14% in Germany.

Other non-financial barriers that undermine firm growth also include the problem of finding customers for the firms' products or services. The share of firms with this concern increased to 11%, from 9% in 2022, but stood below that of 16% in the EU. Furthermore, 12% of SMEs in Malta mentioned that competition was their most pressing problem, marginally down from 13% in 2022, and above 10% of firms in the EU.

Meanwhile, 14% of domestic SMEs have reported 'other problems' than those listed in the survey as the most challenging issues that they faced in 2023, down from 18% in the preceding year but above the share of 9% in the EU.

With regard to access to finance, in 2023, the share of SMEs in Malta that considered this as a most pressing problem has risen slightly to 7%, from 6% a year earlier. It stood only marginally above the share of 6% recorded in the EU. Nevertheless, in four countries at least 10% of respondent firms consider access to finance as their most important problem. This share was highest in Greece (11%), and Lithuania (13%), and lowest in Luxembourg (2%).

Chart 7
MOST PRESSING PROBLEM FACING FIRMS
(percentage of respondents)



Source: SAFE, various editions.

Availability of financing

SAFE respondents were asked whether the availability of different types of financing has improved, remained unchanged, or deteriorated for the enterprise in the six months preceding the survey. With regard to bank loans, a net share of 2% reported an improvement in the availability of bank loans in Malta as opposed to a net share of 3% that reported a deterioration in 2022. The latest outcome also contrasts with that in the EU, where a net 9% of firms – up from 8% in 2022 – reported a deterioration in the availability of bank loans.

Similarly, a net 5% of SMEs in Malta reported an improvement in the availability of credit lines, bank or credit card overdrafts in 2023, a higher share than a net 2% that reported a similar improvement a year earlier. Meanwhile, in the EU, the net share of SMEs reporting a deterioration rose to 7% from 4% in 2022.

With regard to trade credit, a higher net share of SMEs (9%) in Malta claimed improved availability of trade credit compared to a net 1% of EU firms that reported a deterioration. Likewise, on balance, 11% of domestic respondents claimed that the availability of financing through leasing or hire-purchase improved. Although this marks a decline from the net 18% reporting an improvement in 2022, it still represents a better outturn compared to the EU, where a net 1% reported a deterioration.

SAFE respondents were asked about their expectations of the availability of these sources of financing in the six months ahead. In this regard domestic SMEs expected an amelioration in the availability of almost all of these sources. However, a deterioration is expected in the availability of bank loans. Meanwhile, in the EU, on balance, surveyed SMEs expectations of deterioration outweighed positive ones in the availability of the various types of financing mentioned above, most notably in bank loans, bank overdraft, credit line or credit card overdraft.

Credit demand

The SAFE also provides information on the demand for finance by participating firms. Table 1 shows the percentage of firms that applied for selected sources of financing since 2019.

The proportion of SMEs that applied for bank overdraft, credit lines or credit card overdrafts rose to 18% in 2023 but remained below the shares reported in 2019 and 2020. During the same period, 43% did not apply because of sufficient internal funds. Hence, although slightly lower than the 46% in 2022, internal earnings remained the main factor behind domestic firms' reluctance to apply for a bank loan. Meanwhile, the share of those that did not apply because of possible

Table 1
FOR EACH OF THE FOLLOWING WAYS OF FINANCING, COULD YOU PLEASE INDICATE WHETHER YOU:
Over the preceding six months; percent of responding firms

	Bank overdraft, credit line or credit card overdrafts					Bank loans					Trade credit				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Applied over the past six months	24	26	14	14	18	16	20	21	15	12	32	29	32	26	11
Did not apply because of possible rejection	8	3	4	8	2	6	1	3	7	0	1	1	2	4	1
Did not apply because of sufficient internal funds	48	51	55	46	43	53	59	58	40	50	29	44	48	31	55
Did not apply for other reasons	14	20	28	31	32	16	19	18	38	36	28	23	18	39	22

Source: SAFE (various editions).

rejection fell to 2% from 8% a year earlier, while the proportion of those that did not apply for other reasons remained broadly unchanged at 32%. Replies were broadly similar to those reported by SAFE respondents in the EU.

Meanwhile, the proportion of SMEs that applied for bank loans fell to 12%, from 15% a year earlier. This was also the lowest share recorded over the past five years and short of the 20% reported for the EU. However, none of the respondent firms claimed that they did not apply because of possible rejection. Half of the domestic SMEs did not apply due to sufficient internal funds, while slightly more than a third did not apply for other reasons. The results are comparable with those in the EU, where sufficient internal funds and ‘other reasons’ were mentioned by 46% and 32%, respectively of respondents. In contrast to Malta, however, 5% of firms mentioned fear of rejection as a factor that kept them from applying for a bank loan.

When it comes to trade credit, the percentage of domestic respondents that applied for this type of finance more than halved, and stood at 11% in 2023, from 26% a year earlier. This was significantly below that of 29% in the EU. In 2023, 55% of SMEs in Malta did not apply because of sufficient internal funds, as opposed to 31% in 2022. While only 1% did not apply for fear of rejection, slightly more than a fifth did not apply for other reasons – a smaller share than that reported in the preceding year. When compared with replies gathered across the EU, the share of those that applied for trade credit in Malta was lower than in the EU, mostly because a higher share of SMEs in Malta had sufficient internal funds (55% in Malta vis-à-vis 36% in the EU).

Looking forward, participating SMEs were asked about the type of external financing that they would solicit to realise their growth ambitions. Both domestic and SMEs in the EU expressed a stronger preference for bank loans. In Malta, 65% of SMEs preferred bank loans during the period under review. This is lower than the share of 76% of SMEs that preferred this type of financing in 2022. Only 14% of domestic SMEs showed preference to taking loans from other sources – an unchanged share from a year earlier. Meanwhile, 10% of respondents replied that they would seek equity investment, a higher share than the 1% who showed this preference in 2022. Overall, the preference ranking in Malta was in line with that in the EU. However, a smaller share of SMEs in the EU preferred bank loans and equity investment to finance their growth ambitions, at 62% and 6%, respectively.

Firms participating in the SAFE were also asked about what they considered as limiting factors for obtaining finance, with 29% of domestic SMEs believing that there were no obstacles, almost the same share as that of 33% in the EU. However, when it comes to paperwork, 27% of SMEs in Mata believed that this was too much, as opposed to 6% in the EU. The share of SMEs that considered interest rates as being a potential limiting factor stood at 19% in Malta, significantly below 34% in the EU. However, both rates were higher than the shares of 16% and 26% in Malta and the EU, respectively, for 2022. Meanwhile, 7% of local respondents said that they had insufficient collateral or guarantees, largely in line with 8% in the EU, but lower than 21% a year earlier.

Conclusion

The SAFE 2023 shows some moderation in turnover growth as a slightly lower net share of domestic SMEs reported higher turnover when compared with a year earlier. On balance, Malta’s SMEs reported a deterioration in profits, amid persistent increases in input costs. Although input costs were lower than a year earlier, they continued to be mentioned by around three-fourths of the surveyed firms. By contrast, a higher proportion of SAFE respondents reported an increase in interest rate expenses compared with 2022. Nevertheless, interest rate increases were reported much less frequently than in other countries, reflecting the weaker transmission of monetary policy tightening in Malta.

While the proportion of firms in Malta reporting the availability of skilled or experienced managers as a pressing problem fell when compared with preceding years, these remain the most pressing issues. Costs and to a similar extent, regulation were considered as an important problem by around 15% of SMEs in Malta. Access to finance, however, remained the least pressing issue for domestic firms.

With regard to the availability of finance, this is generally better than in the EU, and is expected to remain as such in the near future, irrespective of financing instrument. Nevertheless, the use of bank loans declined in 2023, which seems to stem mainly from the availability of internal funds, as a small net share of local respondents signalled that the availability of bank loans had improved.