EIB Group Survey on Investment and Investment Finance Country Overview: Malta
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About the EIB Investment Survey (EIBIS)
The EIB Group Survey on Investment and Investment Finance is a unique, EU-wide, annual survey of some 12 300 firms. It collects data on firm characteristics and performance, past investment activities and future plans, sources of finance, financing issues and other challenges that businesses face. Using a stratified sampling methodology, EIBIS is representative across all 28 member States of the EU, as well as for firm size classes (micro to large) and 4 main sectors. It is designed to build a panel of observations to support time series analysis, observations that can also be linked to firm balance sheet and profit and loss data. EIBIS has been developed and is managed by the Economics Department of the EIB, with support to development and implementation by Ipsos MORI. For more information see: http://www.eib.org/eibis.

About this publication
This Country Overview is one of a series covering each of the 28 EU Member States, plus an EU-wide overview. These are intended to provide an accessible snapshot of the data. For the purpose of these publications, data is weighted by value-added to better reflect the contribution of different firms to economic output. Contact: eibis@eib.org.

About the Economics Department of the EIB
The mission of the EIB Economics Department is to provide economic analyses and studies to support the Bank in its operations and in the definition of its positioning, strategy and policy. The Department, a team of 40 economists, is headed by Debora Revoltella, Director of Economics. Contact: economics@eib.org
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Ipsos Public Affairs works closely with national governments, local public services and the not-for-profit sector, as well as international and supranational organizations. Its c.200 research staff in London and Brussels focus on public service and policy issues. Each has expertise in a particular part of the public sector, ensuring we have a detailed understanding of specific sectors and policy challenges. This, combined with our methodological and communications expertise, helps ensure that our research makes a difference for decision makers and communities.
The annual EIB Group Survey on Investment and Investment Finance (EIBIS) is an EU-wide survey of some 12,300 firms that gathers information on investment activities by both SMEs and larger corporates, their financing requirements and the difficulties they face.

As the EU bank, the EIB Group responds to the need to accelerate investment to strengthen job creation and long-term competitiveness and sustainability across all 28 EU Member States.

EIBIS helps the EIB to contribute to a policy response that properly addresses the needs of businesses, promoting investment.

This country overview presents selected findings based on telephone interviews with 178 firms in Malta in 2017 (carried out between April and June).

### Key results

#### Macroeconomic context

The economy of Malta expanded by 7.2% in 2016, supported by strong domestic demand. Robust job creation drove unemployment to record lows at 4.2% in August 2017.

#### Investment outlook

More firms increased than reduced investment in the last financial year. This positive outlook is expected to continue, but to a lesser extent, as firms in the services sector and generally larger firms, expect to reduce than increase their investment this year.

#### Investment activity

84% of the firms invested in the last financial year, similar to the EU average (84%) and higher than last survey’s wave in Malta (78%). Investment intensity (investment per employee) has also increased.

#### Perceived investment gap

Only 8% of the firms reported investing too little over the last three years. The reported “investment gap” in Malta is the lowest across the EU. Public investment in transport was also a notable priority for firms in Malta.

#### Investment barriers

The lack of availability of skilled staff continues to be the most commonly cited perceived barrier to investment (by 94% of the firms, while 78% consider it as a major obstacle – the highest figure in the EU).

#### External finance

6% of the firms are finance constrained, similar to the EU average (7%). This is the proportion of firms dissatisfied with the amount of finance obtained, sought finance but did not receive it, did not seek finance because they thought borrowing costs were too high or they would be turned down.

#### Firm performance

Firms’ productivity is lower than the EU benchmarks. The infrastructure sector has a relatively high share of firms in the higher productivity class, while the construction sector has a high share of firms in the lowest productivity class.
INVESTMENT DYNAMICS

INVESTMENT ACTIVITY IN LAST FINANCIAL YEAR

Around eight in ten firms in Malta (84%) invested in the last financial year, 6pp higher than last year’s figure (78%) and in line with the EU average (84%).

The intensity of investment (investment per employee) has increased since the previous wave (EUR 7,007) and is now slightly higher than the EU average of EUR 5,515.

*The blue bars indicate the proportion of firms who have invested in the last financial year. A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities. Investment intensity is the median investment per employee of investing firms. Investment intensity is reported in 2015 values (using the Eurostat GFCF deflator).

Base: All firms
*Caution very small base size less than 30 for Construction/Infrastructure.

INVESTMENT CYCLE

More firms expect to increase investment than reduce investment in the current financial year.

There is a relatively large variation according to firms’ size and sector, with firms in the services sector as well as medium/large firms expecting to reduce rather than increase their investments in the current financial year.

*Caution very small base size less than 30 for Construction/Infrastructure.

Share of firms investing shows the percentage of firms with investment per employee greater than EUR 500.

The y-axis line crosses x-axis on the EU average for 2016.
EVOLUTION OF INVESTMENT EXPECTATIONS
Substantially more firms in Malta increased than reduced their investment activities in the last financial year, with their investment confounding expectations from the previous wave. Although, in the current year, this positive outlook is expected to continue, expectations remain conservative. On balance, more firms in the services sector as well as larger firms expect their investment activities to decline.

FUTURE INVESTMENT PRIORITIES
Looking 3 years ahead, there is no consensus among firms in Malta on their investment priorities. Specifically, 31% of the firms prioritise investment in replacing existing machinery, buildings, equipment and IT, another 31% prioritise developing or introducing new products, processes or services, while capacity expansion is the priority for 29% of firms. Overall, this pattern is similar to the EU average.

Around half of Micro/Small firms in Malta (49%) prioritise investment in new products and services compared to 17% of Medium/Large firms.

Base: All firms (excluding don’t know/refused responses); *Caution very small base size less than 30 for Construction/Infrastructure

Q. Looking ahead to the next 3 years, which is your investment priority (a) replacing existing buildings, machinery, equipment, IT; (b) expanding capacity for existing products/services; (c) developing or introducing new products, processes, services?
**INVESTMENT AREAS**

From the six investment areas asked about, most investment in Malta is in machinery and equipment (48%), followed by software, data and IT/website activity (17%) and land, business buildings and infrastructure (16%). This pattern is broadly similar to the previous survey wave as well as to the EU-wide findings.

The share of investment taken up by machinery and equipment is highest in the manufacturing sector (67%).

**PURPOSE OF INVESTMENT IN LAST FINANCIAL YEAR**

The largest share of investment in Malta is driven by the need to replace buildings, machinery, equipment and IT (59%), which is a little higher than last year’s level (54%) and this year’s EU average (50%).

The overall pattern is relatively stable across sectors and firms’ size classes.
INVESTMENT FOCUS

INNOVATION ACTIVITY

Four in ten firms (40%) developed or introduced new products, processes or services as part of their investment activities (the corresponding EU figure is 35%).

Firms in the manufacturing sector are more likely to exhibit high levels of innovation (62%).

Very few firms in Malta claimed to have undertaken innovations that were new to the global market, compared to an EU average of 8%.

Base: All firms (excluding don’t know/refused responses)

*Caution very small base size less than 30 for Construction/Infrastructure.

Q. What proportion of total investment was for developing or introducing new products, processes, services?

Q. Were the products, processes or services new to the company, new to the country, new to the global market?

INVESTMENT ABROAD

Among firms in Malta that invested in the last financial year, 4% had invested in another country. This is the same as in the previous survey wave, but remains lower than the EU average (14%).

Higher shares of firms in the manufacturing and services sectors invested abroad in the last year compared to the previous year. Moreover, smaller firms increased their investments abroad in the last financial year relative to the previous year.

Base: All firms who invested in the last financial year

*Caution very small base size less than 30 for Construction/Infrastructure.

Q. In the last financial year, has your company invested in another country?
PERCEIVED INVESTMENT GAP

The vast majority of firms (86%) believe that their investment over the last three years was about the right amount compared to the EU average of 79%.

In Malta, 8% of the firms reported too little investments over the last 3 years. The particular “investment gap” is below the EU average of 15%. In fact, it is lowest figure when compared across individual countries in the EU.

The same investment pattern exists across firms’ sectors and sizes.

SHARE OF FIRMS AT OR ABOVE FULL CAPACITY

Nearly eight in ten firms (79%) report operating at or above maximum capacity in the last financial year. This places Malta above the EU average of 53% and the corresponding 2016 survey’s figure for Malta (69%). The particular figure is also the highest reported in the EU.

The services sector contains the highest proportion of firms across sectors operating at or above capacity (86%).

Likewise, larger firms contain the highest proportion of firms operating at or above capacity (85%).
SHARE OF STATE OF THE ART MACHINERY AND BUILDING STOCK MEETING HIGH ENERGY EFFICIENCY STANDARDS

The average share of state-of-the-art machinery and equipment in firms in Malta is 41%, which is similar to the EU-wide figure of 45%.

On average 39% of the firms’ building stock satisfies high energy efficiency standards. This is identical to the EU average.

Within Malta, these proportions are lower than last year when firms said 55% of their machinery was state-of-the-art and 58% of their building stock met high energy efficiency standards. This reduction is consistent across all types of firm, and there is little variation across firms’ size or sector.

PUBLIC INVESTMENT PRIORITIES

Respondents were asked to choose between eight areas of public investment as a necessary priority over the next 3 years.

More than one third of the firms (36%) cited transport infrastructure as the priority for investment over the next three years. This was followed by professional training/higher education (19%) and hospitals and care (12%). All the other areas were selected by one in ten firms or fewer.

Transport infrastructure was a popular priority for the firms in Malta and this reported figure was consistent across firms from all sectors and sizes. The particular figure is also one of the largest in the EU.
On balance, slightly more firms in Malta expect the political and regulatory climate to improve than deteriorate in the next 12 months. This is in contrast to firms across the EU which are on average, more negative.

In net terms, firms in Malta are more positive than the EU-wide aggregates in all the factors, except the overall economic climate. Moreover, they show particularly strong optimism when it comes to the business prospects within their sector.

*Net balance is the share of firms expecting improvement minus the share of firms expecting a deterioration

Base: All firms

Q. Do you think that each of the following will improve, stay the same, or get worse over the next 12 months?

Across sectors and firms’ sizes, more manufacturing and medium/large firms expect the political and regulatory climate to deteriorate than improve in the next twelve months.

Otherwise, all types of firms are positive about all the short term influences on investment, with comparatively little variation between sectors or between smaller and larger firms.
LONG TERM BARRIERS TO INVESTMENT
The vast majority of firms in Malta (94%) consider the availability of skilled staff as an obstacle to investment activities, which is much higher than the EU average of 72%. Most importantly, 78% of the firms consider the particular obstacle as a major barrier for their investments. The particular figure is also the highest in the EU.

Firms in Malta are also more likely than their EU counterparts to view business and labour market regulations, digital and transport infrastructure, demand for products or services, energy costs and availability of finance as obstacles to investment. The pattern in Malta is similar to last year, but transport infrastructure is now more likely to be perceived as an obstacle (by 72% of the firms against 53% in the last survey’s wave).

There is little variation across firms’ sizes or sectors.

Base: All firms (data not shown for those who said not an obstacle at all/don’t know/refused)

Q. 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?
INVESTMENT FINANCE

SOURCE OF INVESTMENT FINANCE

In Malta the majority of firms’ investment is funded through internal funds (60%), with external finance accounting for a 29% share. This is in line with the EU averages of 62% and 35% respectively.

However, the share of finance made up by internal funds has decreased from 80% in the last survey’s wave to 60%.

Intra-group funding makes up a larger share of investment finance in Malta (11%) than the EU average (3%).

The share of investment financed by external sources is relatively larger for construction and infrastructure firms (49%), while manufacturing firms use more intra-group funding than firms in other sectors.

Base: All firms who invested in the last financial year (excluding don’t know/refused responses)

Q. What proportion of your investment was financed by each of the following?

**Caution very small base size less than 30 for Construction/Infrastructure.

Q. Approximately what proportion of your external finance does each of the following represent?

**Caution very small base size less than 30 for Medium/Large firms and all sectors except Services.

Q. What proportion of your external finance was used for investment activities from family, friends or business partners?**

Bank loans account for the highest share of external finance (83%) followed by newly issued bonds (8%) and other bank finance (7%).

While the overall share of bank finance is similar between waves, there has been a move away from non-loan bank finance (such as overdrafts and other credit lines) towards bank loans.

Firms in Malta show the largest share of bank loans in their financing mix across the EU countries.
More broadly, almost nine in ten firms in Malta said that they generated some profit (86%). Around four in ten firms in Malta (41%) report profits exceeding 10% of turnover. This is similar to the 44% of firms that reported this level of profit in the previous survey wave.

Construction and infrastructure firms are the least likely to be profitable across sectors.

Malta reports one of the highest shares of highly profitable firms across the EU.

Around one in five firms in Malta (22%) report that they did not need to apply for external finance as they were happy to use internal finance or did not need the finance.

Firms in the construction and infrastructure sector are the least likely to report satisfaction (14%), while 27% of the services sector firms report satisfaction about the internal sources of finance. 30% of the smaller firms report satisfaction about the internal sources of finance, compared to 16% of the larger firms.

Base: All firms
*Caution very small base size less than 30 for Construction/Infrastructure.

Q. What was your main reason for not applying for external finance for your investment activities? Was happy to use internal finance/didn’t need the finance

Base: All firms (excluding don’t know/refused responses)

*Caution very small base size less than 30 for Medium/Large firms and all sectors except Services.

Q: Taking into account all sources of income in, did your company generate a profit or loss before tax, or did you break even? Highly profitable is defined as profits/turnover bigger than 10%
DISSATISFACTION WITH EXTERNAL FINANCE RECEIVED

Firms in both Malta and across the EU that used external finance are on balance satisfied with the amount, cost, maturity, collateral and type of finance received.

Firms in Malta are most likely to be dissatisfied with the cost of finance (12%), as well as with the collateral requirements (9%). Nevertheless, the share of firms that are dissatisfied with collateral requirements fell substantially from 22% in the last year’s survey.

*Caution very small base size for Medium/Large firms and all sectors except Services.

Q. How satisfied or dissatisfied are you with ....?

The cost of external finance is unsatisfactory for 23% of the services sector firms. Moreover, 21% of the manufacturing firms using external finance are dissatisfied with the collateral requirements.

*Base: All firms who used external finance in the last financial year (excluding don’t know/refused responses)

**Base: All firms who used external finance in the last financial year (excluding don’t know/refused responses)
SHARE OF FINANCE CONSTRAINED FIRMS

A minority of the firms in Malta (6%) are finance constrained. This is in line with the EU average of 7% of firms. The particular figure dropped from 10% in last year’s survey.

Base: All firms

*Caution very small base size less than 30 for Construction/Infrastructure.

Finance 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)

**Financing constraints for 2016 among non-investing firms estimated; ***Caution very small base size of non-investing firms (n=14)

FINANCING CROSS

Within Malta, construction and infrastructure sector firms are the least likely to rely on internal finance and demonstrate the largest financial constraints.

The reverse applies to services and manufacturing sector firms in Malta, which demonstrate low shares of financed constrained companies and high reliance on internal funds.

Smaller firms are also more likely to rely on internal funds than larger firms while they are also less financed constrained.

Base: All firms

*Caution very small base size less than 30 for Construction/Infrastructure.

Data derived from the financial constraint indicator and firms indicating main reason for not applying for external finance was ‘happy to use internal finance/didn’t need finance’

The x- and y-axes lines cross on the EU average for 2016.
**PROFILE OF FIRMS**

**CONTRIBUTION TO VALUE ADDED**

In terms of the weighted size distribution, large firms account for around one quarter of the share of value-added in Malta (26%) compared to the EU average (50%). Medium and small firms therefore make up a greater share of value added in Malta than in the case of the EU.

Employment dynamics over the past three years are favourable in Malta with more firms expanding than contracting.

Firms in Malta have lower levels of productivity compared to the EU benchmarks. However, the infrastructure sector has a relatively high share of firms in the top productivity class compared to firms in other sectors, while the construction sector has a relatively high share of firms in the lowest productivity class.

**EMPLOYMENT DYNAMICS IN LAST THREE YEARS**

Base: All firms

Q. Thinking about the number of people employed by your company, by how much has it changed in the last 3 years?

**DISTRIBUTION OF FIRMS BY PRODUCTIVITY CLASS**

Share of firms by productivity class (Total Factor Productivity). Productivity classes are defined on the basis of the entire EU sample.
The graph shows the evolution of total Gross Fixed Capital Formation (in real terms) against the series ‘pre-crisis trend. The data has been indexed to equal 100 in 2008. Source: Eurostat.

Following an increasing trend in the past years, aggregate investment in Malta in 2016 was around 50% above the investment levels observed in 2008.

In the last year, investment expansion is observed in machinery and equipment, IPP and other investments.

Although investments in other buildings and structures and dwellings recovered in the last years, they still contribute negatively to the Gross Fixed Capital Formation in Malta in 2016.
The final data are based on a sample, rather than the entire population of firms in Malta, so the percentage results are subject to sampling tolerances. These vary with the size of the sample and the percentage figure concerned.

<table>
<thead>
<tr>
<th></th>
<th>EU</th>
<th>Malta</th>
<th>Manufacturing</th>
<th>Services</th>
<th>Construction/Infrastructure</th>
<th>Micro/Small Medium/Large</th>
<th>EU vs Malta</th>
<th>Manufacturing vs Construction/Infrastructure</th>
<th>Micro/Small vs Medium/Large</th>
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<td>(178)</td>
<td>(44)</td>
<td>(105)</td>
<td>(29)</td>
<td>(125)</td>
<td>(53)</td>
<td>(12338 vs 178)</td>
<td>(44 vs 29)</td>
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<td>10% or 90%</td>
<td>1.1%</td>
<td>6.3%</td>
<td>11.7%</td>
<td>8.5%</td>
<td>12.3%</td>
<td>7.7%</td>
<td>9.4%</td>
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<td>16.9%</td>
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<tr>
<td>30% or 70%</td>
<td>1.6%</td>
<td>9.6%</td>
<td>17.9%</td>
<td>12.9%</td>
<td>18.8%</td>
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<td>9.7%</td>
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<tr>
<td>50%</td>
<td>1.8%</td>
<td>10.4%</td>
<td>19.6%</td>
<td>14.1%</td>
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<td>12.9%</td>
<td>15.7%</td>
<td>10.6%</td>
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**GLOSSARY**

**Investment**
A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities with the intention of maintaining or increasing the company’s future earnings.

**Investment cycle**
Based on the expected investment in current financial year compared to last one, and the proportion of firms with a share of investment greater than EUR 500 per employee.

**Productivity**
Total factor productivity is a measure of how efficiently a firm is converting inputs (capital and labor) into output (value-added). It is estimated by means of an industry-by-industry regression analysis (with country dummies).

**Manufacturing sector**
Based on the NACE classification of economic activities, firms in group C (manufacturing).

**Construction sector**
Based on the NACE classification of economic activities, firms in group F (construction).

**Services sector**
Based on the NACE classification of economic activities, firms in group G (wholesale and retail trade) and group I (accommodation and food services activities).

**Infrastructure sector**
Based on the NACE classification of economic activities, firms in groups D and E (utilities), group H (transportation and storage) and group J (information and communication).

**SME**
Firms with between 5 and 249 employees.

**Large firms**
Firms with at least 250 employees.
## BASE SIZES

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<th>MT 2016/2017</th>
<th>Manufacturing</th>
<th>Construction/Infrastructure</th>
<th>Services</th>
<th>Small/Micro</th>
<th>Medium/Large</th>
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<td>All firms, p. 2, 3, 7, 8, 11, 13, 14</td>
<td>12483/12338</td>
<td>160/178</td>
<td>44</td>
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<td>All firms (excluding don’t know/refused responses), p. 3</td>
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<td>159/177</td>
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