

GOZO BUSINESS SENTIMENT

2024 Vol. 1 - Issue 1



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Table of Contents

- 1. Introduction 3
- 2. Methodology..... 3
- 3. Gozo Business Sentiment Survey – Issue 1 (2024 Volume 1).....4
 - 3.1 Business Conditions and Expectations.....5
 - 3.2 Prices.....7
 - 3.3 Employment8
 - 3.4 Investment.....8
- 4. Climate Change 9
- 5. 2024 Budget initiatives & proposed 2025 Budget Measures 9
 - 5.1 2024 Budget Measures.....9
 - 5.2 Proposed 2025 Budget Measures10
- 6. Conclusion11
- Annex 1.012

Gozo Business Sentiment Survey

Issue 1 – 2024 Volume 1

1. Introduction

In a bid to gain deeper insights into sectoral developments and trends the Gozo Business Chamber (GBC), in collaboration with the Gozo Regional Development Authority (GRDA), launched the Gozo Business Sentiment (GBS). This business dialogue initiative entails establishing and maintaining regular communication with businesses operating in Gozo. The primary aim of this initiative is to gather real-time information on recent performance, business activity expectations, investment and employment trends, and pricing dynamics.

Given the lack of real-time regional economic data, this initiative aims to enhance economic analysis at a regional level, providing valuable insights for the Chamber and the GRDA to formulate policy recommendations. The objective of this exercise is to complement official economic indicators, which are available at a lag. Additionally, respondents are encouraged to share their perspectives on sectoral developments and topical economic issues. This qualitative feedback enables the Authority and the Chamber to gain a deeper understanding of the underlying factors driving current and future economic trends. Similar initiatives are undertaken by other institutions at the national level, such as the Business Dialogue conducted by the Central Bank of Malta¹ and the Malta Chamber of SMEs Barometer².

The results of the first issue of the GBS are being published in this report, future results will be published by the GBC and GRDA in joint bi-annual publications. These reports thoroughly analyse the results collected during each round and offer a comprehensive analysis of the developments observed over each period. Furthermore, each report would include additional information derived from other ad hoc questions.

The Chamber and the GRDA aspire that the GBS will gain trust among the Gozitan business community, serving as a barometer for the sentiments felt by business owners on the ground. Consequently, it aims to identify key issues that require attention and intervention.

2. Methodology

The survey has been conducted via telephone, engaging primarily with high-level representatives of the firms, utilizing a semi-structured approach. The specific content of these discussions was anonymized and treated with utmost confidentiality. Confidentiality measures ensure that only a small team of professionals working on the survey possess access to any information identifying individual companies. These interactions took the form of discussions rather than rigid surveys,

¹ <https://www.centralbankmalta.org/en/cbm-business-dialogue>

² <https://www.smechamber.mt/downloadable/>

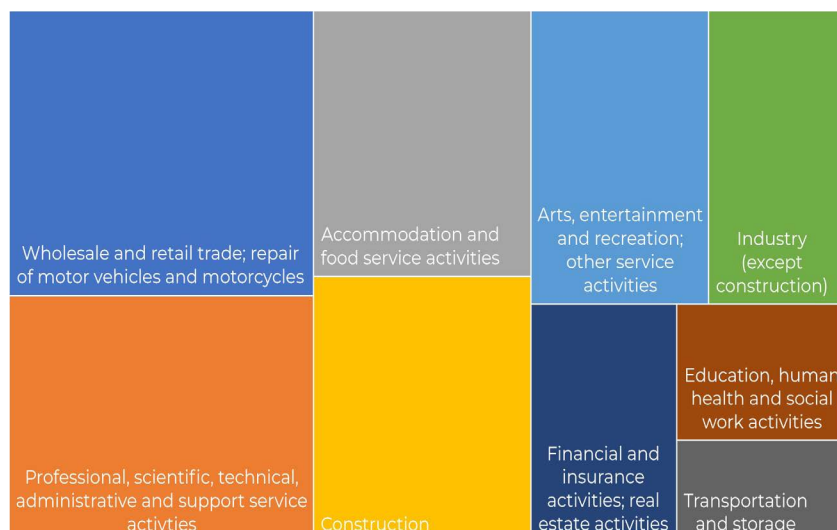
allowing respondents to freely delve into any pertinent topic related to their business or operating environment. This approach facilitates the collection of a broader range of information and yields deeper insights that might otherwise be challenging to attain.

The survey is conducted at two points in time, in March and September of each year. Each survey has a sampling size of 80 firms and participation is proportionally distributed to reflect Gozo's business demographic. This distribution ensures that various sectors are adequately represented. Maintaining a consistent sample size and sector representation enhances the comparability of results over time, thereby increasing the overall quality and reliability of the survey data.

Given the demanding schedules of businesses, particularly considering that most firms in Gozo are micro-enterprises, the survey was intentionally designed to be straightforward and concise to encourage participation. The survey is split in two sections. The first part of the survey is made up of standard questions that remain consistent across survey rounds. This will facilitate comparison of results across different points in time. This part of the survey includes questions on businesses economic performance, expectations for business activity, employment, investment and prices. Meanwhile the second part of survey focuses on ad hoc questions addressing relevant topics that may vary from one round to another.

3. Gozo Business Sentiment Survey – Issue 1 (2024 Volume 1)

Chart 1: GBS survey sample composition



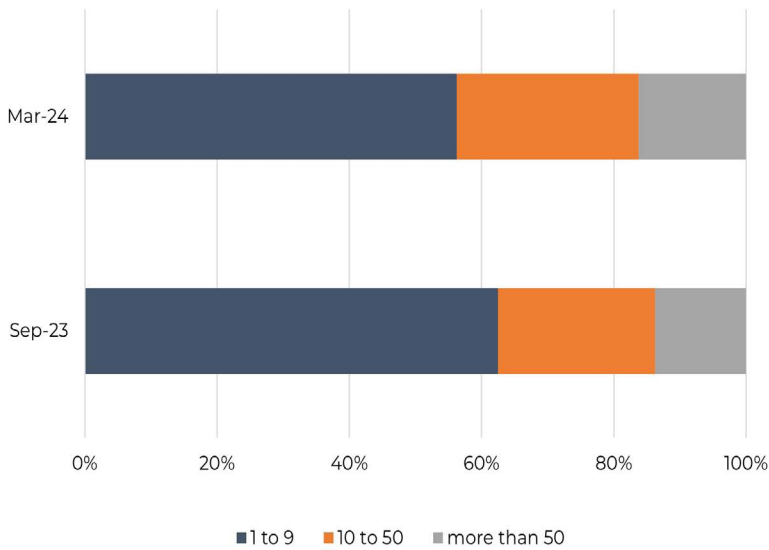
Source: Gozo Business Sentiment

The first data point of the Gozo Business Sentiment (GBS) survey was collected in September 2023, with the subsequent data point gathered six months later in March 2024. The sample composition, as described in the methodology section, was distributed to mirror the profile of enterprises operating in Gozo (see Chart 1). This distribution remained consistent across both surveys, ensuring a similar proportion of enterprises from each industry at both data collection points, even though the specific enterprises participating varied between surveys.

Throughout the two data collection periods, more than half of the participating enterprises in the survey employed 10 or fewer individuals (see Chart 2). Meanwhile, about 25% of enterprises had workforces ranging from 10 to 50 individuals, while 15% employed 50 workers or more. These figures closely resemble those reported by official statistics, affirming that the sample and composition employed in this survey accurately depict the business profile in Gozo.³

³ According to data published by Eurostat micro enterprises (between 1 and 9 employees) in Gozo constitute slightly more than half of the business population. Source: <https://grda.mt/wp-content/uploads/2023/01/Employment-Skills-in-Gozo.pdf>.

Chart 2: Workforce of sample composition



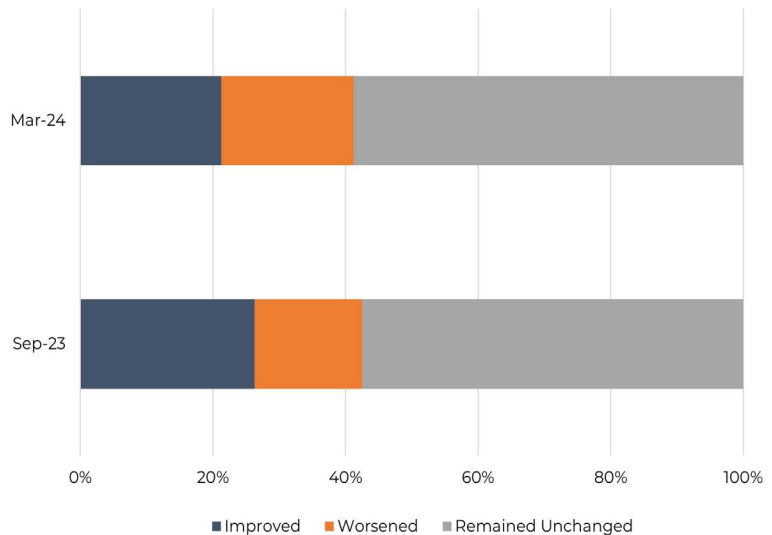
Source: Gozo Business Sentiment

Overall, business conditions of businesses operating in Gozo remained relatively stable throughout the 12-month period from April 2023 to March 2024. Indeed, around 60% of businesses interviewed in September 2023 and March 2024 expressed the view that their business conditions in the preceding six months remained the same (see Chart 3). Meanwhile, around 25% of enterprises reported improved business conditions over the period under consideration. On the other hand, the number of enterprises that expressed that their business conditions had deteriorated over this period amounted to 18%.

In general, businesses operating in Gozo reported that two of the main concerns that they are currently facing relate to employee shortages and cost pressures, with these concerns being strongly reported in both September 2023 and March 2024. These concerns are in line with the main challenges currently being faced by businesses operating in Malta.⁴

As clearly illustrated in Chart 4, more than half of the businesses surveyed in September 2023 and March 2024 cited the lack of suitable employees as a major concern. This difficulty faced by businesses operating in Gozo to find adequate skilled staff

Chart 3: Current Business conditions



Source: Gozo Business Sentiment

Note: The question put to respondents was: "Have your business conditions in the last 6 months improved, worsened, or remained unchanged?"

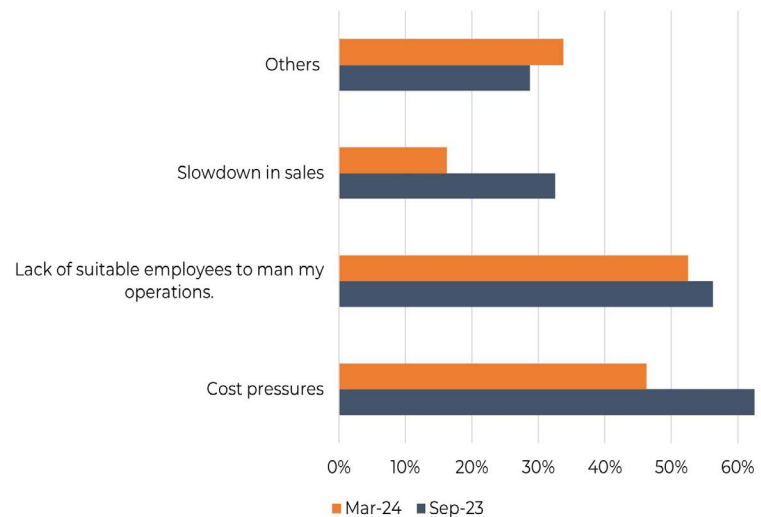
This first issue of the Gozo Business Sentiment (GBS) survey presents the findings from both data points, facilitating a comparison of results across the two time periods, considering that September 2023 as the initial data point. The list of questions asked in each round are presented in Annex A of this report.

3.1 Business Conditions and Expectations

⁴ According to the 2024 Q1 SME Barometer report of the Malta Chamber of SMEs, employee shortages and increase in inflation are the two most important issues for Maltese SMEs: <https://www.smechamber.mt/sme-barometer-q1-2024-report-published-employee-shortage-and-increase-in-inflation-remain-the-two-most-important-issues-for-businesses/>

reflects the robust labour market environment and the historically low unemployment rates. Moreover, the majority of businesses outlined that their business was facing challenges related to cost pressures. These challenges largely reflect the post-pandemic increase in international prices which were further inflated by the war in Ukraine. However, it is noteworthy to highlight that in March 2024, fewer businesses identified cost pressures as a primary concern compared to six months prior. This indicates a relaxation of cost pressures over the period from September 2023 to March 2024.

Chart 4: Businesses main pressing concerns



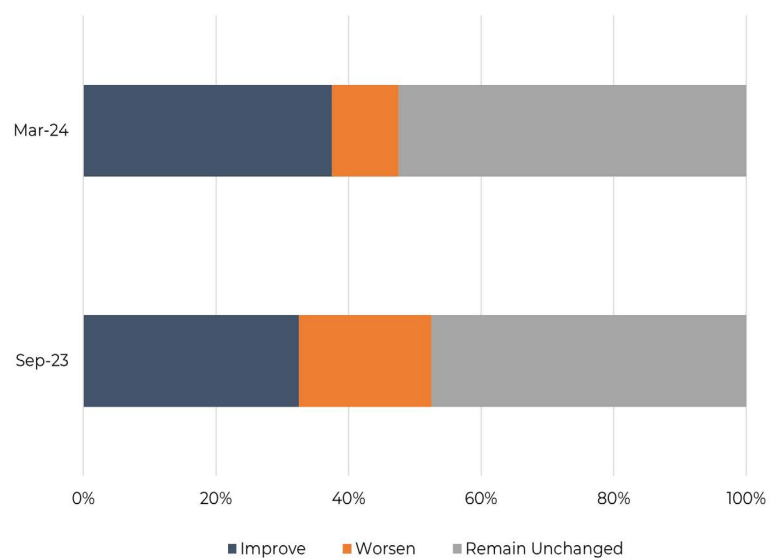
Source: Gozo Business Sentiment

Note: The question put to respondents was: "What are the main pressing concerns for your business?"

The possibility of a slowdown in sales emerged as another concern for businesses. However, it has to be noted that the number of businesses which highlighted this as a concern has recently declined, as during the March round only 16% identified this as a major issue, a decrease of 17 percentage points from the 33% when compared to September 2023. Apart from these concerns, around 30% of businesses outlined 'other' concerns. These concerns varied across the two data collection points and also the sectors in which businesses operate. In summary some of the other concerns mentioned by businesses which prevailed over the two surveys include the lack of parking availability in Victoria, increased regulatory and compliance procedures, and unsustainable development.

Looking ahead, most businesses contacted in March 2024 anticipate their business activity to remain in the same levels in the next six months. In fact, 53% of businesses contacted expect business conditions to remain unchanged (see Chart 5). Meanwhile, 38% of businesses expect their business performance to improve over the upcoming 6 months. The expected improvement in business activity over the upcoming months is particularly being envisaged for the tourism related sectors and manufacturing. This represents an improvement of 5 percentage points over the expectations reported in September 2023. On

Chart 5: Expectation for business activity



Source: Gozo Business Sentiment

Note: The question put to respondents was: "Do you expect your business conditions in the next 6 months to improve, worsen or remain unchanged?"

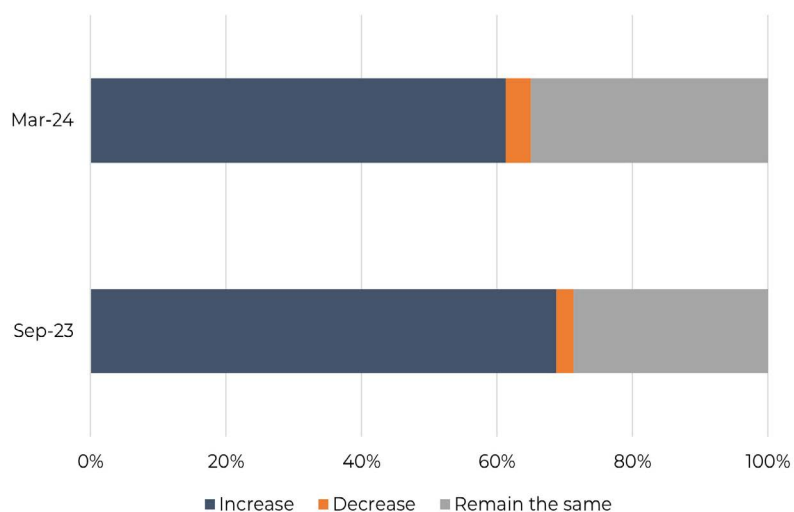
the other hand, the share of businesses which expect conditions to worsen over the next months stood at 10%, down by 10 percentage points from the expectations of the previous period.

3.2 Prices

As outlined in an earlier part of this note, cost pressures are presently one of the primary concerns for businesses in Gozo. This concern is anticipated to persist over the next six months, with many businesses expressing expectations of rising input prices during this period. In fact, 61% of surveyed firms in March 2024 anticipate an increase in the prices of products and services necessary for their operations over the upcoming six months (see Chart 6). However, despite the expectation of increased input prices, being high in March 2024, this is less significant when compared to the expectations reported in September 2023. Meanwhile, 35% of firms anticipate prices to remain unchanged, marking a six-percentage-point increase from the expectations reported in September 2023.

The majority of firms surveyed in March 2024 anticipate no change in the prices of the products and services they offer over the next six months. Specifically, 60% of businesses expect their output prices to remain stable. Meanwhile, 38% anticipate an increase in their prices, with only 3% expecting a decrease (see Chart 7).

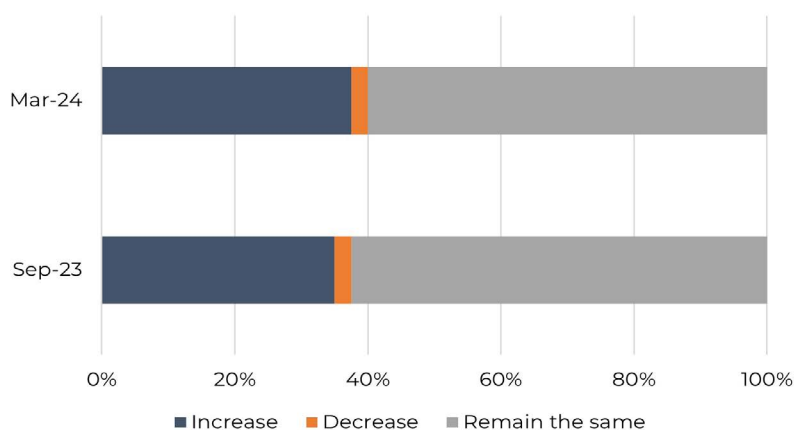
Chart 6: Price expectations of products or services purchased



Source: Gozo Business Sentiment

Note: The question put to respondents was: "Over the next 6 months are prices of products and services purchased, expected to increase, decrease or remain the same?"

Chart 7: Price expectations of products or services sold



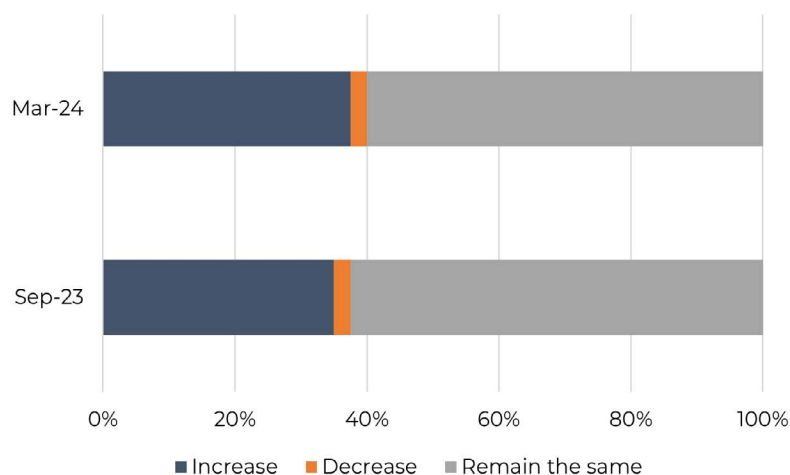
Source: Gozo Business Sentiment

Note: The question put to respondents was: "Over the next 6 months are prices of products and services sold, expected to increase, decrease or remain the same?"

3.3 Employment

Over the past 12 months, nearly 40% of businesses in Gozo reported to have increased their labour force, with this increase being reported across all sectors. Going forward, over the next six months, more than half of the surveyed businesses in Gozo expressed their intention to expand their workforce, as indicated in Chart 8. The sectors with the highest interest in increasing their workforce are primarily in the tourism related sectors, manufacturing, and professional services. Moreover, it is important to highlight that no business has indicated plans to reduce their workforce over the next six months, highlighting the robust labour market environment currently prevailing in Gozo.

Chart 8: Employment expectations



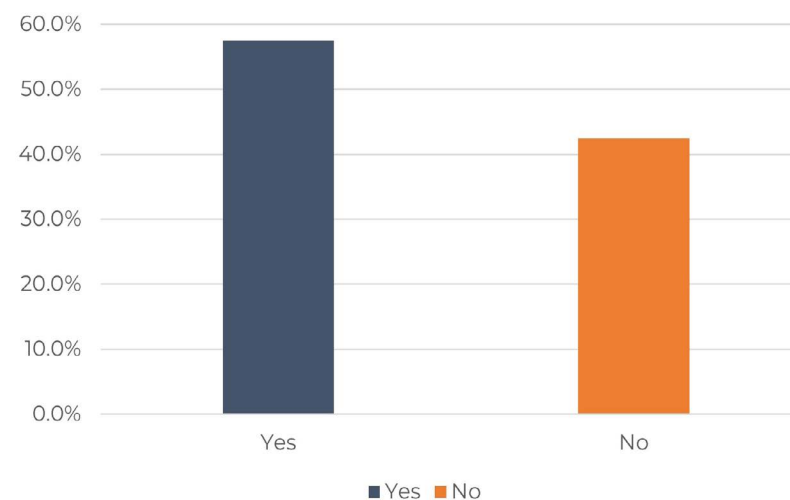
Source: Gozo Business Sentiment

Note: The question put to respondents was: "Do you plan to increase the number of employees over the next 6 months?"

3.4 Investment

During the last 12 months, nearly 60% of businesses in Gozo have carried out some type of investment in their business. Looking at investment plans, over the next six months, more than half of the surveyed businesses in Gozo plans to carry out some form of investment in their business, as indicated in Chart 9. Industries showing the most interest in pursuing investment opportunities are predominantly found in the wholesale and retail trade, construction, arts and entertainment and accommodation and food services sectors.

Chart 9: Investment Plans



Source: Gozo Business Sentiment

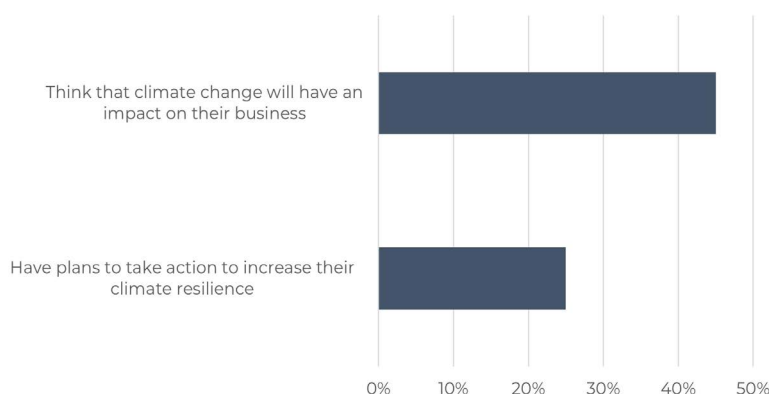
Note: The question put to respondents was: "Do you expect to carry out any capital investment over the next 6 months?"

4. Climate Change

Changes in weather patterns and extreme weather events present significant risks to businesses, including operational disruptions, increased costs, regulatory pressures, and shifts in consumer preferences. According to the latest European Investment Bank (EIB) Investment Survey, 64% of EU-based firms have incurred losses due to climate change, marking a 7-percentage point increase compared to the previous year. However, a survey conducted in September 2023 revealed that only 45% of businesses based in Gozo

acknowledged the potential impact of climate change on their operations, including possible disruptions or consumer preference changes (see Chart 10). Furthermore, only half of these firms are actively taking measures to enhance climate resilience. This suggests that, in comparison to their EU counterparts, businesses in Gozo demonstrate lower awareness of the risks posed by climate change to their operations despite existing studies suggesting that islands are particularly vulnerable to changes in weather patterns.

Chart 10: Climate change impact & resilience



Source: Gozo Business Sentiment

Note: The questions put to respondents was: "Do you think that climate change will impact your business?" & "do you have any plans to increase your business resilience to climate change?"

5. 2024 Budget initiatives & proposed 2025 Budget Measures

5.1 2024 Budget Measures

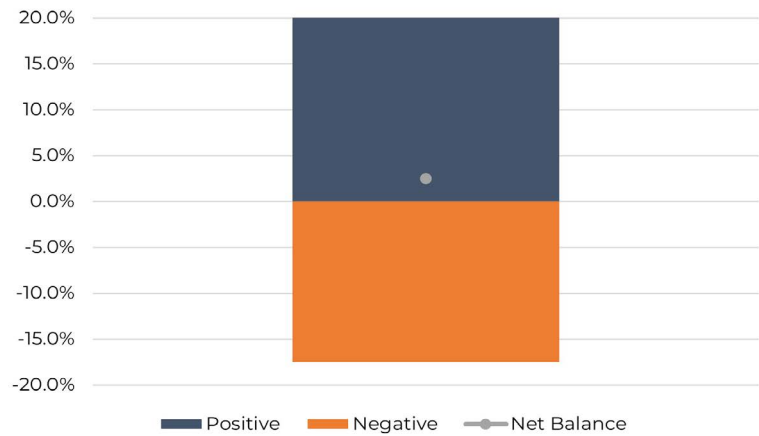
During the March 2024 survey, respondents were asked which measures as outlined in the 2024 Budget Speech, has or is anticipated to impact their business. The following were the budget measures earmarked by business:

- Increase in the minimum wage and COLA adjustment.
- Decrease in part-time tax.
- The increase in stamp duty for Gozo-based properties.
- Urban Conservation Areas (UCA) Scheme incentives.
- The Micro Invest Scheme, where undertakings operating in Gozo were eligible for a tax credit of up to 65% of their eligible capital expenditure, and/or wage costs incurred.

- Increase in insurances due the introduction of new building regulations.
- Environmental Measures.
- Funds for businesses targeting digitalisation.

Overall, the measures presented in the 2024 Budget are anticipated to have a positive effect on Gozitan businesses, as indicated by the businesses themselves. Specifically, 20% of respondents expect a positive overall impact from the budgetary measures, while 17% foresee a negative effect (see Chart 11). Consequently, the overall net impact is positive, standing at 3%. Meanwhile, 63% of respondents have yet to determine how the measures outlined in the 2024 Budget will affect them.

Chart 11: Impact of 2024 Budget measures



Source: Gozo Business Sentiment

Note: The question put to respondents was: "Do you foresee this impact from the measure being positive or negative? Or is it yet to be determined?"

5.2 Proposed 2025 Budget Measures

Respondents were also asked to propose measures to be included in the 2025 budget. The following budgetary measures were highlighted:

- Initiatives targeting better connectivity between the two islands.
- More support to cover transport costs for Gozitan based businesses.
- Introduce a more equitable framework for those operating in the real estate sector to ensure further transparency.
- Further assistance for the self-employed who invest in their business.
- Introduce a measure to entice tourists for longer night stays.
- Introduce a system of VAT where VAT is paid against receipts and not against invoices.
- Provide co-working spaces at the Digital Innovation Hub in Xewkija.

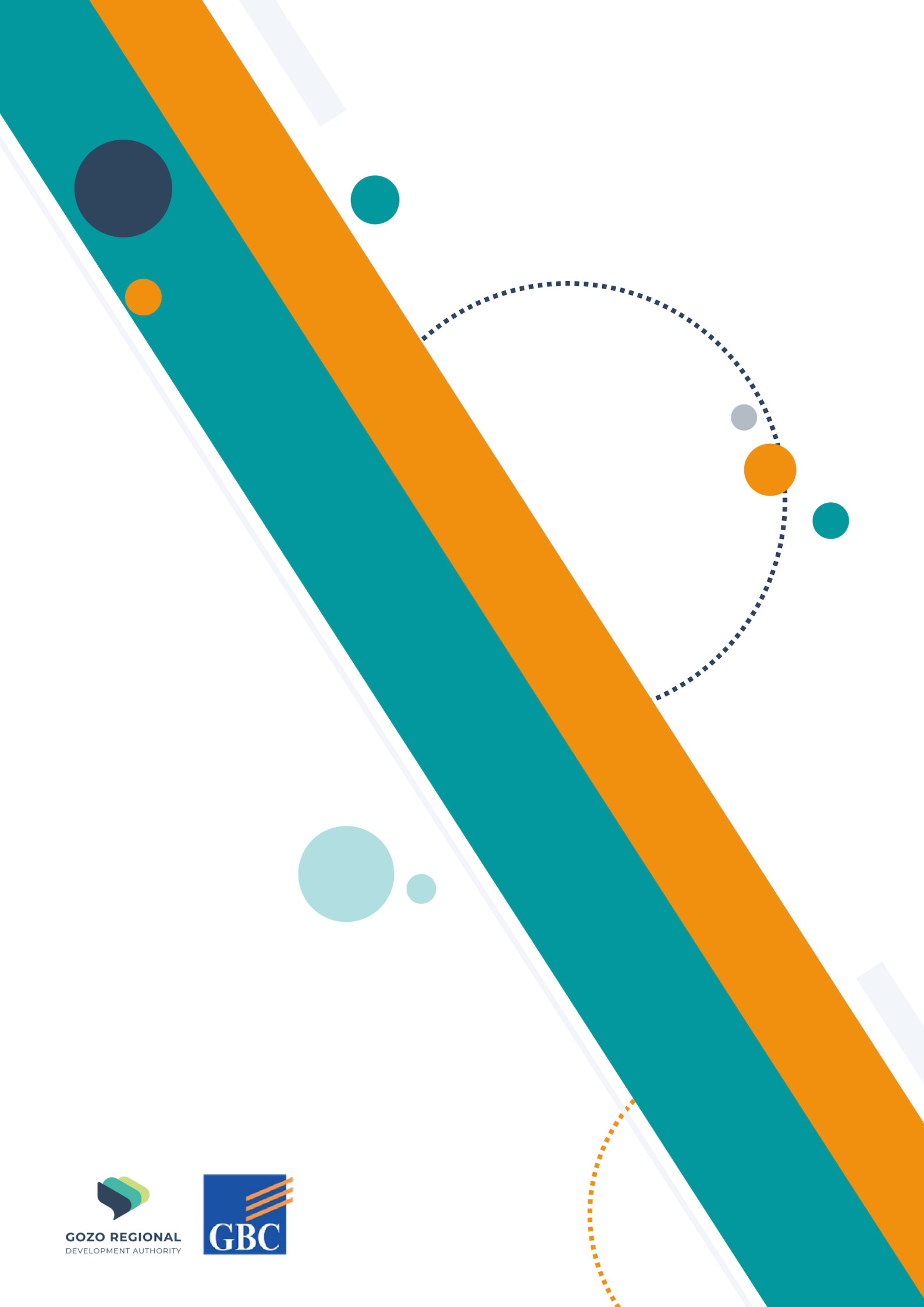
6. Conclusion

This exercise is important as it provides a snapshot of business and economic sentiment in Gozo at a timely interval. As this survey will be carried out in the coming years through a consistent methodology it will provide an important tool for both comparison and policymaking throughout the years.

Despite the numerous challenges businesses have faced in recent years, including the COVID-19 pandemic, inflation pressures, and the persistent difficulties related to the island's geographical constraints, businesses in Gozo have shown remarkable resilience. Looking ahead, and despite current challenges, business activity in Gozo is generally expected to improve or remain relatively stable. This however should not in any way reduce the continuous efforts towards adopting and implementing a regional focused strategic approach. Within this perspective, the efforts should remain relentless in addressing some of the inherent difficulties faced by the Gozitan economy, while adopting a strategic outlook which will translate in concrete actions which are implemented at a policy level.

Annex 1.0

Questions	September 2023	March 2024
Q1	What is the sector in which your business operates?	
Q2	What is your current workforce?	
Q3	Have business conditions improved, worsened or remained the same over the last 6 months?	
Q4	Do you expect business conditions to improve, worsen or remain the same over the next 6 months?	
Q5	What are the main pressing concerns for your business?	
Q6	Have you carried out any capital investment over the last 6 months	
Q7	Do you expect to carry out any investment over the next 6 months?	
Q8	Have you increased the number of employees over the last 6 months	
Q9	Over the next 6 months, do you plan to increase the number of employees?	
Q10	Over the next six months, are prices of products and services purchased expected to increase remain unchanged or decrease?	
Q11	Over the next six months, are prices of products and services sold to increase, remain the same or decrease?	
Q12	Do you think that climate change will impact your business?	Which measures, as outlined in the 2024 Budget Speech, has or is anticipated to impact your business?
Q13	Do you have any plans to increase your business resilience to climate change?	Do you foresee this impact from the measure being positive or negative? Or is it yet to be determined?
Q14	Are you aware of the Environmental, Social and Governance criteria (ESG) and how these will impact your business?	What measures do you believe should be included in the budget for the upcoming year?



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