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Background

SMEs constitute the backbone of the EU economy, not only in terms of number of enterprises and contribution to employment and GDP (over 60% of the business economy's GDP is produced in SMEs) but also as a key source of innovation, creativity, and flexibility. Therefore, the SME development is crucial and to a large extent determines the development of the EU economy in general. The ENSR (European Network for Social and Economic Research) has developed an innovative quantitative tool based on the EC economic forecast published in May 2023¹ quantifying the evolution of the European economy for 2022, 2023 and 2024, detailing results simultaneously by sector and enterprise size.

To obtain a more detailed forecast for SMEs and large enterprises, the existing macroeconomic forecast has been disaggregated amongst the business economy (industry, construction, trade, other commercial services (NACE Rev. 2 sections B-J and L-N), and the remaining economy (all other economic sectors including government). Within the business economy enterprise size-classes are distinguished, so SMEs are the enterprises with less than 250 persons employed, and large enterprises are the ones with over 250 employees. Within SMEs, micro, small and medium-sized enterprises are distinguished (having less than 10, between 10 and 49, and 50 or more persons employed).

ENSR (European Network for Social and Economic Research) is a network of organisations specialised in applied policy research with a special focus on small and medium-sized enterprises (SMEs) and entrepreneurship. Founded in 1991, the network covers 33 countries, including the EU Member States plus EEA and other European countries. For further details see <https://www.ensr.eu>. Panteia has been producing SME-forecast for the EU economy since 1992

Methodological considerations

Based on various statistical information from EUROSTAT² and the European Commission³, for each Member State an input-output table has been constructed within the business economy that, simultaneously, distinguishes between economic sectors and size-class categories. From these tables national models have been constructed that forecast GDP-growth by economic sector and size-class. These models consider macro-economic final demand growth (consumption, investment, export) as well

¹ https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/spring-2023-economic-forecast-improved-outlook-amid-persistent-challenges_en

² Supply, use and input-output tables, to be found under National Accounts in EUROSTAT's database <https://ec.europa.eu/eurostat/web/main/data/database>

³ The SME Performance Review published by DG Internal Market, Industry, Entrepreneurship and SMEs https://single-market-economy.ec.europa.eu/smes/sme-strategy/sme-performance-review_en

as GDP-growth by country (as published by DG ECFIN). The models have been set up in such a way that GDP by sector and enterprise size-class is fully consistent with DG ECFIN’s macro-economic forecast. In this report only aggregated forecasts for EU are published

Forecasts at macro-level

At first a more detailed estimate was calculated at macro level: table 1 shows the expected development of the EU economy during 2022 -2024.

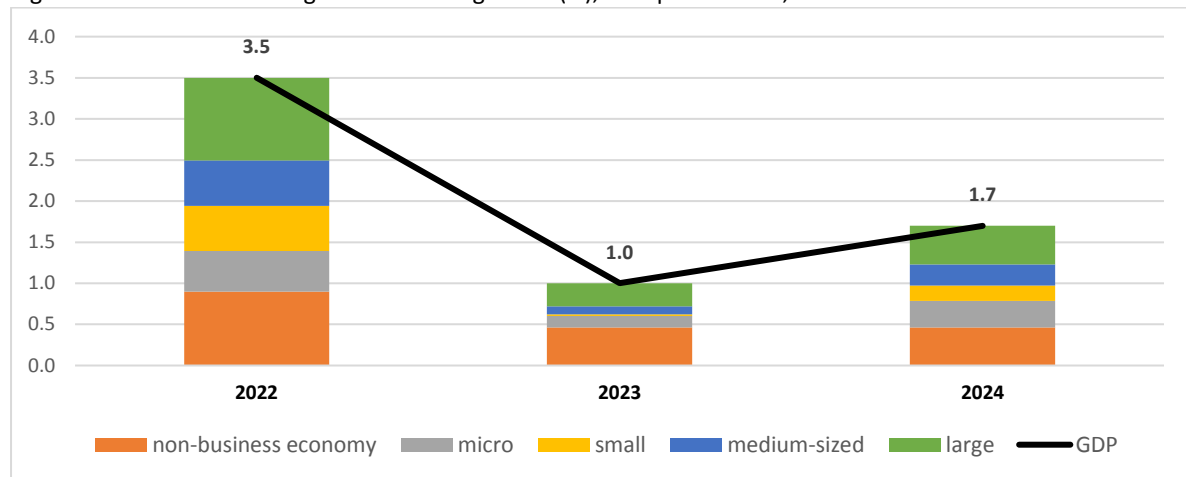
Table 1: macro-economic development European Union, 2022 -2024

	2022	2023	2024
gross value added by demand			
household consumptic	4.0	0.5	1.8
government consump	1.1	0.7	0.8
investment	4.0	0.9	2.1
exports	7.1	3.0	3.3
final demand	4.9	1.4	2.2
imports	7.9	2.1	3.2
gross value added	3.5	1.0	1.7
gross value added by source			
total economy	3.5	1.0	1.7
non-business econom	3.0	1.6	1.5
business economy			
micro	2.7	0.8	1.8
small	4.4	0.2	1.5
medium-sized	4.3	0.8	2.0
SME	3.6	0.6	1.8
large	3.8	1.1	1.8
total	3.7	0.8	1.8

Source DG ECFIN and ENSR experts’ calculation

In 2022, the non-business economy contributed approximately one quarter to total GDP-growth (Figure 1). SMEs made up for almost one half of GDP-growth in 2022, whereas large enterprises contributed almost 30% of total economic growth. The share of GDP-growth originating from SMEs is expected to decrease significantly in 2023 to about one quarter, while the contribution of large enterprises is expected to remain constant. The decreasing share of SMEs in economic growth is expected to be compensated in 2023 by the non-business economy (which includes government as well); the share of government consumption in final demand is estimated to be much higher in 2023 compared to 2022. In 2024, GDP-growth is expected to be higher than in 2023, mainly because of additional growth in the non-business economy and in SMEs.

Figure 1: contribution of segments to GDP-growth (%), European Union, 2022 -2024



Source DG ECFIN and ENSR experts' calculation

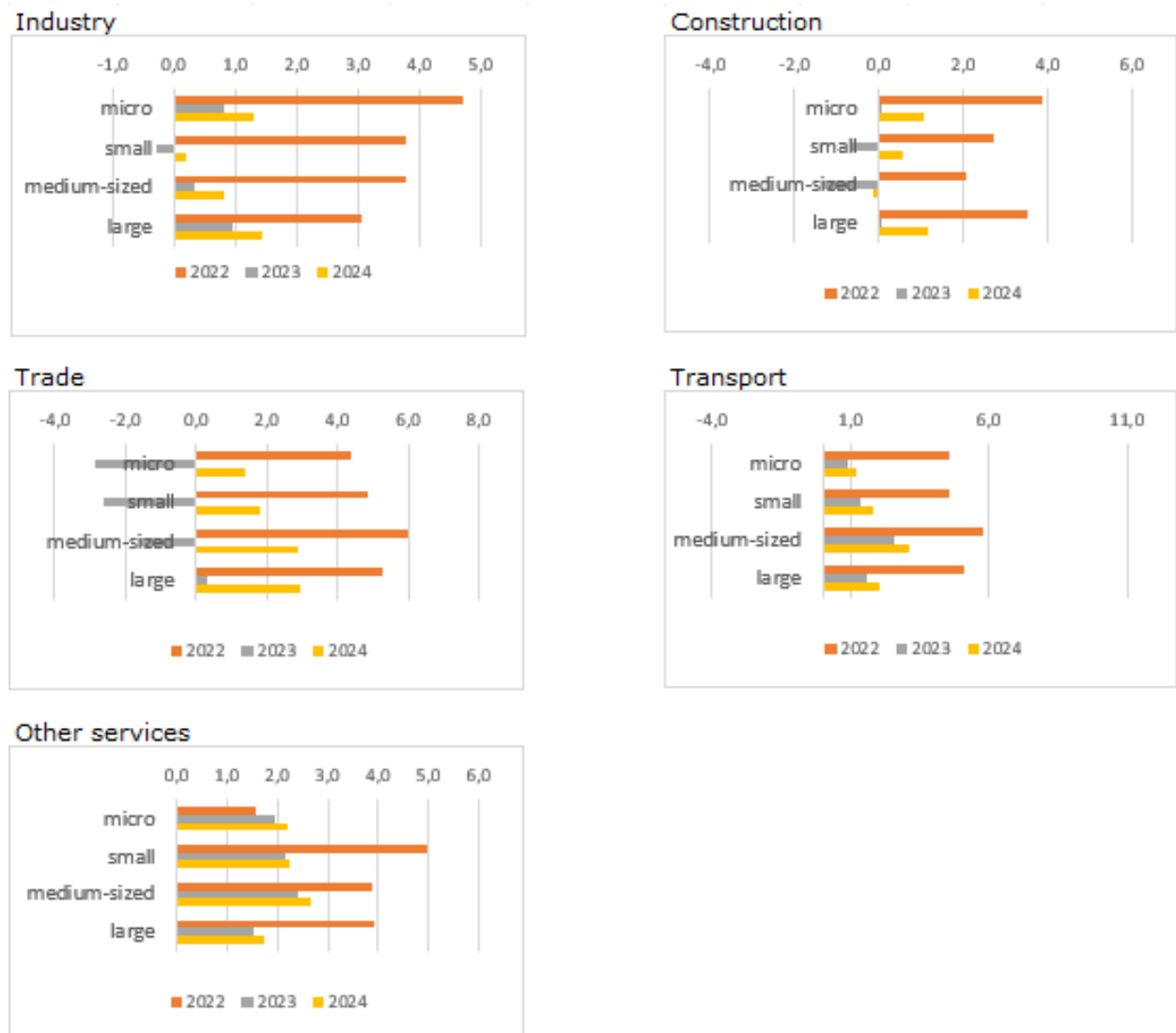
Forecasts by enterprise size and sector

Figure 2 shows the development of GDP in SMEs and large enterprises in five sectors within the business economy: industry (NACE B -E), construction (NACE F), trade (NACE G), transport (NACE H) and other services (NACE I, J, L -N). Within Industry, Construction and Trade, large enterprises are expected to perform better than SMEs in 2023 and 2024. Particularly in Industry, it is expected that increasing exports will have a relatively higher influence on large enterprises (since large enterprises in industry are more oriented towards exports than SMEs). In the case of the Construction sector, expected contracting housing investment will mostly affect SMEs *vis-à-vis* large enterprises. Contrarily, SMEs in Transport and in Other services are expected to exhibit stronger GDP-growth in 2023 and 2024, partially explained by increasing exports and the expected “catch-up effect” for those sectors particularly affected by sluggish development in the 2020 -2022 period (*e.g.*, tourism, hotels and restaurants) as well as by the expected rebound in private consumption in 2024. Private consumption is expected to increase by 1.8% in 2024 thanks to lower inflation. The lower and decreasing inflation is still comparatively high and to large extent determines the ECB moves in terms of interest rate. Another hike is expected even in July 2023. This will lead to further increase in borrowing costs and lower investment rates. This will particularly affect SMEs in industry and construction where SMEs are expected to perform worse compared to large companies in 2024⁴.

Another aspect affecting the development of SMEs in Europe is availability of workforce. Employment growth in EU is expected to be 0.5% this year and 0.4% in 2024. Here the rather positive impact will be created by the flow of Ukrainian refugees. In 2023 and 2024 the number of refugees will be close to 1% of EU current population. The increased supply of labour will decrease the pressure on wage growth and allow SMEs to grow faster especially in labour intensive sectors such as services. More detailed data about the SME growth by size and sector is provided below.

⁴ https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/spring-2023-economic-forecast-improved-outlook-amid-persistent-challenges_en#thematic-boxes---spring-2023

Figure 2: GDP-growth by sector and size-class, European Union, 2022 -2024



Source DG ECFIN and ENSR experts' calculation

To sum up: the forecast indicates that in many sectors like Industry, Trade and Construction the impact of economic turbulence is more significant for SMEs in 2022 and 2023. However, one can expect a more rapid rebound of SMEs when the situation becomes more stable in 2024. This will be determined by improved availability of labour, decreased inflation, more stable energy prices and interest rates. Still this development will be rather uneven in different EU countries ranging from less than 1% to more than 4% in 2023. More rapid GDP development both in 2023 and 2024 is expected in smaller and not so wealthy EU countries in majority of the cases located in the Eastern part of EU⁵. Often, those countries have a relatively large proportion of SMEs in their economies.

⁵ https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/spring-2023-economic-forecast-improved-outlook-amid-persistent-challenges_en#thematic-boxes---spring-2023