

EXECUTIVE SUMMARY

SMEs are the backbone of the EU's economy ...

All but 0.2 % of enterprises which operated in the EU-28 non-financial business sector in 2016 were SMEs. These SMEs employed 93 million people, accounting for 67 % of total employment in the EU-28 non-financial business sector, and generating 57 % of value added in the EU-28 non-financial business sector. Almost all (93 %) of the SMEs were micro SMEs employing less than 10 persons.

Within the non-financial business sector, SMEs play a particularly important role in the 'accommodation and food services', 'business services' and 'construction' sectors, in each of which they accounted for more than 80 % of EU-28 employment in 2016. Furthermore, SMEs accounted for 70 % of EU-28 employment in the 'retail and wholesale trade' sector.

... and they continue to recover from the financial crisis.

The general macro-economic environment in the EU-28 in 2016 strengthened SME activity in all industries due to the expansion of all categories of final demand (i.e. household consumption, government consumption, exports of goods and services, and capital investment by households, governments and businesses). In previous years, the main driver of SME recovery was exports.

The year 2016 marked the third consecutive year of steady increases in EU-28 SME employment and EU-28 SME value added. In total, employment by EU-28 SMEs increased annually by 1.6 % in 2015 and 2016 and the value added generated by SMEs rose by 1.4 % in 2016 following an increase of 5.8 % in 2015. As inflation continued to remain low over these two years in the EU-28, this increase in value added largely reflected a real-term increase in the volume of economic activity of EU-28 SMEs in 2015 and 2016.¹

As a result of the recent upturn, EU-28 SME employment has finally recovered from the 2008/2009 economic and financial crisis and even slightly exceeded the 2008 level in 2016. The level of value added generated by EU-28 SMEs showed even greater recovery, at 11 % higher than in 2008.

The recovery encompassed most EU Member States ...

All Member States except Latvia recorded growth in SME employment in 2016. Fourteen Member States recorded a growth in SME employment by 2 % or more. The frontrunners were Malta, Croatia, Slovakia, Portugal, Cyprus, Lithuania and Luxembourg where SME employment growth surpassed 3 % in 2016.

All Member States except Greece and Poland also saw SME value added increase in 2016. It rose by more than 2 % in 22 Member States and by more than 5 % in five Member States (Bulgaria, Croatia, Ireland, Malta and Romania).

From a long-run perspective, the EU-28 SMEs as a group have clearly recovered from the 2008/2009 economic and financial crisis, although this recovery remains less dynamic in

¹ The variation in value added growth of EU-28 SMEs reflects the significant swings in the euro/pound sterling exchange rate, which first boosted the growth rate in 2015 and then dampened it in 2016. The value added generated by the EU-27 (i.e. the EU-28 minus the United Kingdom) grew by 3.6 % in 2015 and 3.2 % in 2016. Value added measured in euros also declined in the United Kingdom but this reflects the marked depreciation of the euro vis-à-vis the pound sterling in 2016. Value added generated by UK SMEs and measured in the pound sterling increased by 6.2 %.

terms of SME employment growth. A few additional years of solid economy-wide growth will be necessary to leave the effects of the crisis fully behind.

However, at Member State level, the picture is more mixed. In only nine Member States (Austria, Belgium, Finland, Germany, Luxembourg, Malta, Poland, Sweden and the United Kingdom) were the number of SME enterprises and the level of SME employment and SME value added all higher in 2016 than in 2008. In contrast, these three SME performance indicators were still below their 2008 levels in 2016 in six Member States (Croatia, Cyprus, Greece, Italy, Portugal and Spain). The other 13 Member States show only partial recovery in one or two indicators.

... as well as all sectors ...

EU-28 SME employment expanded in practically all sectors of the economy, reflecting a balanced economy-wide growth of 2016, with some sectors recording growth of 3 % or more. However, these sectors with a higher growth of SME employment account for only a small percentage of total EU-28 SME employment. Consequently, the impact of their strong performance on overall EU-28 SME employment was limited. Annual growth in EU-28 SME employment varied considerably across the main non-financial business sectors in 2016, ranging from 0.9 % in 'construction' to 2.8 % in 'business services'.

The employment recovery in SMEs was most dynamic in services industries. Employment growth in 'wholesale and retail trade', 'accommodation and food services' as well as in 'business services' expanded by an estimated 1.7 %, 1.8 % and 2.8 %, respectively, while employment in 'manufacturing' was estimated to have increased by 1.1 % in 2016. Even with this recent upswing, SME employment in 'manufacturing' was still about 11 % below the employment levels at the start of the financial crisis in 2008. Technology intensive sectors played a prominent role in SME's growth. This refers in particular to the group of knowledge intensive services such as high tech services², which recorded the strongest SME employment growth in the EU-28.

... and is expected to continue in 2017 and 2018.

SMEs are expected to continue their relatively steady pace of growth in 2017 and 2018. EU-28 SME employment is forecast to increase by 1 % in 2017 and 0.9 % in 2018, and EU-28 SME value added is predicted to grow by 2.5 % in 2017 and 3.8 % in 2018. Some of the projected acceleration of growth in value added reflects the expected pick-up in inflation from the very low levels of previous years.

Fast-growing firms play a significant role in employment creation ...

Start-ups and scale-ups are important drivers of economic growth. This report shows that **on average 9.2 % of firms with at least 10 employees in the EU-28 'business economy' were high-growth firms** in 2014, the most recent year for which such data was available. Shares of high-growth firms above 12 % were found in Malta, the United Kingdom, Sweden, Latvia, Hungary and Ireland, while the lowest shares of these firms were found in Cyprus and Romania (each below 3 %). On average in the EU-28, 'information and communication' and 'administrative and support services' were the sectors with the highest rates of fast-growing firms, with rates of 15 % and 12.7 % respectively. With 11 % each, 'transportation and storage' and 'professional, scientific

² High tech services include a number of IT-related sectors such as 'Motion picture, video and television programme production, sound recording and music publishing activities', 'Programming and broadcasting services', 'Telecommunications', 'Computer programming, consultancy and related activities', 'Information service activities' and 'Scientific research and development'.

and technical activities' were also among the sectors with the highest shares of high-growth firms.

Since 2016, the EU's 'Europe's next leaders: the Start-up and Scale-up Initiative' provides comprehensive support to ambitious start-ups and innovative high-growth firms. The initiative combines a range of existing and new actions to reduce existing barriers to growth so as to enable start-ups and scale-ups to expand their business across Europe and beyond.

... while over 90% of newly created firms are born in traditional (i.e. non-ICT) sectors.

According to the most recent data (2012-2014), the large majority of newly created firms in the EU-28 were born in non-ICT industries. Namely, the ICT sector (ICT manufacturing, ICT services, ICT wholesale and online retail trade) accounted for only 7.9% of all EU-28 enterprise births during this period.

The average enterprise birth rate³ stood at around 10% over the period 2010 to 2014 – the most recent years for which harmonised data was available – with about 70% of newly created firms having had no employees. The enterprise birth rate of 22 Member States stood within a range of +/- 3.5 percentage points of the EU average, but there were also some outliers such as Belgium's enterprise birth rate being only about half of it, while the Lithuanian rate was 1.5 times higher. Newly created enterprises (less than one year old) accounted for between 6% and 15% of all enterprises in the EU-28 business economy across sectors. The 'wholesale and retail trade', 'professional, scientific and technical activities' and 'construction' sectors stood out. Together, these three sectors accounted for 58% of all enterprise births over the period 2012-2014 in total.

Among SMEs, the approximately 31 million self-employed play an underestimated role ...

Many of the EU-28 SMEs are run by self-employed individuals, i.e. individuals who are active in a business but not in a paid employment position. These businesses may have different legal structures (e.g. sole trader, incorporated business, partnership, etc.), but they all have in common that at least one self-employed person is involved in the business.

In 2016, 30.6 million individuals were self-employed in the EU-28, **accounting for 14% of total EU-28 employment**. 71.5% of these self-employed did not employ any staff. The proportion of self-employment in total employment varies greatly among Member States. In 2016, it ranged from 7.7% in Denmark to 29.5% in Greece. Overall, self-employment in 2016 was more prevalent in Central-Eastern and Southern EU Member States than in Western EU Member States. A wide range of factors could explain these differences, for example average working hours of salaried employees, educational levels, the average age of the population, wage levels, tax rates, etc.

New information technologies have led to new ways of production and opportunities for self-employment. However, so far there is little evidence that the emergence of the so-called 'platform' or 'gig' economy, i.e. an economy characterised by the presence of many online platforms matching individuals wishing to offer particular services with individuals seeking these services, has had a considerable EU-wide impact on the self-employment rate. It should be noted, though, that this sector is intrinsically difficult to measure.

³ The term enterprise birth rate is defined as number of newly created enterprises in year t divided by number of active enterprises in year t-1.

... although at least some of them are dynamic job creators.

Newly founded firms, created by self-employed, have survival rates typically between 30-60 % after the first five years. These figures are not fundamentally different from other newly founded businesses. Also, their mortality rate does not accelerate over time. The employment performance of firms created by self-employed individuals is mixed. While data for the surviving firms show that the vast majority of firms created by the self-employed do not substantially increase employment in the five years following their creation, there is a sub-set of up to 20 % of firms that manages to increase employment by more than 5 employees. Hence, in combination with the sheer **number of self-employed, this segment does have a sizeable impact on the economy**, and especially on employment creation.