

Malta



Prime Minister: Lawrence GONZI	Population (2007 est.): 407,810
Finance Minister: Tonio FENECH	GDP (2007): €5.4 billion
Central Bank Governor: Michael BONELLO	GDP/capita: €13,200
Joined the EU: 2004	GDP by sector:
Adopted the Euro: 2008	Agriculture 2.7%
Currency prior to Euro: Maltese Lira	Industry 22.3%
	Services 74.9%
	Life Expectancy (women / men): 82 / 77
	2005 2006 2007 2008*
Real GDP growth rate	3.5% 3.1% 3.7% 2.4%
Inflation	2.5% 2.6% 0.7% 4.4%
Unemployment Rate	7.2% 7.1% 6.4% 5.9%

* forecast

Malta in the EU and the Euro Area

Malta was granted independence from Britain in 1964, at which point it assumed its full name, the Republic of Malta. 40 years on, in 2004, it joined the EU, along with 9 other new member states. On 1 January 2008 Malta adopted the Euro, replacing the Maltese Lira. EU membership has been to some extent beneficial although this has not been sufficient to offset the significant downturn in the Maltese economy dating back to 2001, in particular in regard to trade.

Economic Overview of Malta

During the 1980s and 1990s Malta achieved high levels of economic growth and prosperity, at least relative to other countries who joined the EU in 2004 and most certainly relative to Cyprus, which perhaps represents the most similar economic entity within the EU. However, since 2001 such trends have been somewhat reversed and Malta has begun to experience serious economic difficulties.

As a country highly dependent on trade, the Maltese economy is incredibly sensitive to fluctuations in global economics, especially among its main trading partners. A combination of global trade, liberalization and expanding production in the developing world has helped provide substantial competition to Malta's traditional sectors with the result of a significant external drag on exports. Nevertheless, in recent years Malta's economy grew by over 3%, driven by reforms that lead to productivity gains, increased foreign direct investment and export diversification into new dynamic sectors. Domestic demand increased substantially, as employment and income rose throughout this period. Until now the financial crisis had a modest effect on Malta but economic activity, especially the external sector, is expected to suffer from the ensuing global slowdown in 2009 and 2010. Domestic demand will remain the main driver of growth.

The Executive Board of the IMF¹ considered that Malta will face some challenges from a weakening global economy, higher food and fuel prices, and possible risks in the financial sector. Meanwhile, Maltese reports have shown that the current financial crisis has not yet posed a significant threat to Malta's financial service sector. Moreover, the decline in traditional sectors could outpace the emergence of new export activities. Maltese authorities need to increase the flexibility in product and labor markets, as well as to modernize the public sector to achieve sustainable growth and stay competitive.

Some Economic Challenges Facing Malta

Labour participation

Only 54% of the working age population are in full time employment, as compared with the aim of 70% in the Lisbon strategy. Low employment rates are most pronounced among women and a significant measure of reform is required to transform female labour rates. In particular, the combination of tax and benefit measures should be re-assessed so there is less financial incentive for married women, especially mothers, to remain out of employment.

Diversification of Industry and Exports

Malta's recent difficulties in trade have sprung partly from external factors associated with global production and global markets, although part of the problem also lies in Malta's internal industrial structure. As a small country, Malta has found it difficult to diversify and has consequently become unduly dependent on exports in a confined range of industry sectors, most notably electronics and technology. This makes it all the harder for the economy to adapt to global economic developments and hence the huge difficulties created for Malta with the collapse of the technology bubble in 2000. To avoid over-dependence in this respect, the Maltese economy really needs to diversify into less traditional sectors, thus allowing it to switch to competing in an alternative range of areas upon the onset of deterioration in conventional industries.

Improving Secondary Education Levels

Only 45% of people now in their twenties have completed upper secondary education – the lowest out of the EU25 (the 25 member states as of 2004). Malta suffers from a very high rate of early school leavers and only a minimal portion of these enter alternative vocational training, well below the EU average. The lack of education is particularly a problem for Malta given its reliance on the electronics industry, much of which requires a relatively high level of skill and innovation. Reform should be focused on changes to the nature and efficiency of the education system rather than just a general policy of increased funding and expansion, since currently education expenditure compares surprisingly favorably with the EU average.

¹ International Monetary Fund (IMF), <http://www.imf.org/external/np/sec/pn/2008/pn08104.htm> 08/11/08