

Preface

The implementation of macroeconomic policies in small states is affected by the inherent vulnerability of these countries. The inherent vulnerability of small states stems from their high dependence on a narrow range of exports and on strategic imports such as food and fuel. These features render small states disproportionately exposed to external economic shocks. Other characteristics which pose disadvantages for small states include their limited ability to exploit economies of scale, and their limited opportunities for diversification. These features have constrained policy implementation and success in small states and increased the importance and influence of external reserves, external financing, foreign investment and the international economic climate on domestic policy.

This study on the macroeconomic policies of Malta examines how the country has been successful in implementing policies that have been largely successful in promoting growth and generating employment. The best practices showed in Malta can be implemented in other small states.

Malta's strategic geographical location in the Mediterranean, close to major markets (EU) and its strong knowledge-based economy (despite its limited natural resources), have contributed to the island's advantages and spared the country from some of the adversities and vulnerabilities faced by other small states. Nonetheless, Malta relies heavily on external financial flows (mainly from the EU) for economic and social sustainability. In spite of being largely dependent on the rest of the world, Malta was partially immune to the global financial crisis. EU accession, a healthy financial system and the adoption of the euro as the national currency were the main factors that cushioned the economy from the full impact of the external shocks.

The existence of a sound and efficient financial system has brought major benefits to the banking sector and to the economy in Malta. The well-capitalised position of the banks, coupled with their low reliance on interbank funding and high dependence on retail deposits are the main factors insulating the banking sector in Malta. Despite the economic achievement, Malta is faced with the daunting task of preserving the environment, which is greatly affected by pollution. The country is struggling to strike a balance between environmental conservation and economic development. Despite the government's relentless efforts to address the impact of environmental degradation, the cost of sustaining the conservation programme is proving to be a burden on Malta's economy.

