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Introduction

The geographical location of Malta at the heart of the Mediterranean has given the island a natural strategic advantage as a major trading centre. This has contributed significantly towards Malta's strong economic position. Today, Malta plays a key role in the region, as a strategic hub for trade, services and manufacturing. This has been possible thanks to the well-established public-private partnership. While the private sector provides the necessary entrepreneurial element and skills to drive the enterprise, the government ensures the enabling climate for business to prosper. Besides, the country's liberal trade policies have given the private sector a pre-eminent role in the economy.¹

As mentioned previously, Malta's geographical position plays a key role in fostering further economic activities, hence strengthening the country's economic position. Malta has been very successful in exploiting its strategic advantage, creating an economy well-suited for business opportunities. Entry into the European Union (EU) has further amplified business opportunities in Malta, as the EU is now giving the Mediterranean region a bit more attention through co-operation and partnership agreements. The strategic location of Malta gives the country the opportunity to be the bridge between the EU and those emerging markets. Malta's well-developed infrastructure, information technology (IT) facilities and financial services sector are big advantages for the country.

It is important to note that EU accession has instigated fundamental reforms in Malta. Those reforms could have taken much longer to materialise or not materialised at all had Malta not joined the EU. Two important changes that occurred as part of Malta's preparation for EU accession were the restructuring of the vast and inefficient public enterprise sector (PES) and the liberalisation of trade policies. In addition, the obligation of Malta under the Maastricht Treaty anchored policy and led to substantial fiscal consolidation as stated by the IMF Country Report 2007. As a result therefore this has provided the impetus to the restructuring of the PES.

Apart from its strategic location, Malta is rapidly developing into the leading knowledge-based economy and society in the Mediterranean. Malta has distinguished itself as elite in the field of information and communication technology (ICT) both in terms of IT expertise and range and quality of ICT services offered. Malta's great stride and success in ICT has been demonstrated through the implementation of projects such as SmartCity Malta. The well-developed ICT infrastructure of the country has over-spill benefits to other sectors, namely financial services, specialist software development and iGaming. These sectors have recorded significant growth as a result of ICT development.

Malta is well-known for its sound and stable financial system, supported by prudent monetary policy. The sound financial system, together with the adoption of the euro, has saved Malta from the brunt of the global economic downturn. The financial sector appears to be resilient in the face of the global turmoil and has thus far been able to weather the external shocks.

Unlike other small island developing states (SIDS), such as Seychelles and Mauritius, Malta has been spared from some of the adversities and vulnerabilities faced by other island states.

Like many other SIDS, Malta’s economy is largely dependent on a few sectors, namely foreign trade, manufacturing (especially electronics and pharmaceuticals), tourism and financial services. Besides, Malta produces only about 20 per cent of its food needs, has limited fresh water supplies and has few domestic energy sources.

Overall, Malta’s economy has been quite a successful story with gross domestic product (GDP) per capita of approximate US\$24,200 (2008 estimate). Figure 1.1 gives an international comparison of GDP per capita. With EU accession, it is expected that more prosperity awaits. Although the EU is the principal market for Malta’s exports, there are other export markets which have developed such as North Africa, the Near East and North America. According to a report published by the Euro Info Centre, Malta is amongst the world’s ten most trade-dependent nations. In consequence, this exposes Malta to the vicissitudes of the global and European economic downturns

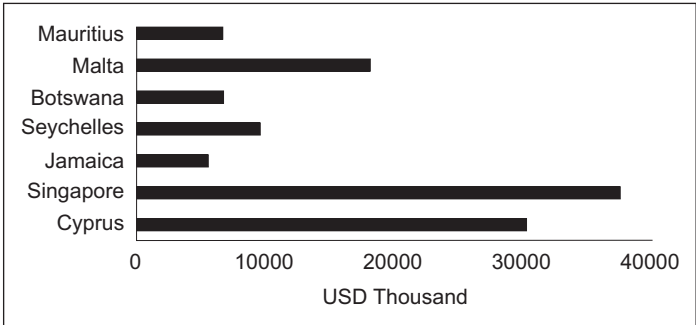


Figure 1.1 GDP per capita (2009 estimates)

Source: IMF and World Bank estimates

Notes

1. http://www.focusmm.com/malta/ma_manif.htm [last accessed May 2011]

FISCAL POLICY FRAMEWORK

