

Part III – Country Case Studies

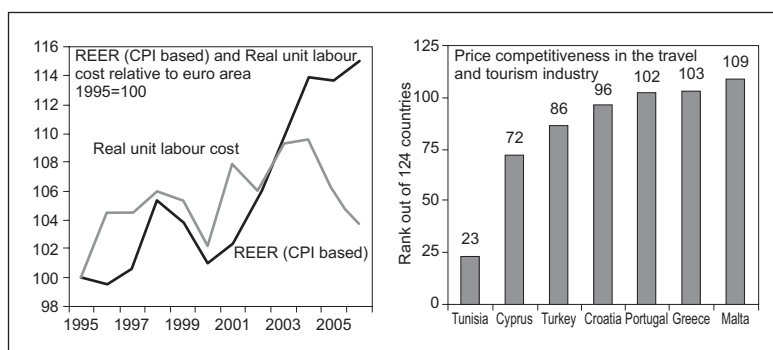
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Malta's deteriorating external competitiveness

The case study below has been taken directly from the IMF Country Report 2007.

Box 7.1 Malta's deteriorating external competitiveness

Malta is a prototypical small open economy with a narrow economic base. It is a price-taker in international markets and, at 83 per cent, the share of exports in GDP (2006) is high. Two major sectors – tourism and electronics – generate more than one third of GDP and half of exports. Underscoring the fragility of the economic base, a single semiconductor plant – belonging to a large multinational corporation – generates the bulk of electronics exports.



Source: Eurostat; IMF; Travel and Tourism Competitiveness Report 2007; and World Economic Forum.

Several indicators suggest rising competitive pressures. Deteriorating trade and services balances and an appreciating REER, are evidence of eroding competitiveness. Although increasing trade integration has contributed to a declining share of value added in output – including for the tourism and electronics sector – profit margins appear to be falling. Moreover, market share declines, including for the major exports, point to a possible loss of competitiveness.

7.1 Depositor Compensation Scheme

The case study below has been taken directly from the CBM Annual Report 2003.

Box 7.2 Depositor compensation scheme

The Depositor Compensation Scheme (formerly referred to as the Deposit Guarantee Scheme) came into force in January 2003 and was extensively revised in November. Modelled on the EU Directive on deposit guarantee schemes (94/19/EC), the Scheme is designed to provide for the compensation of eligible depositors in the event of a bank failure.

The Scheme currently applies to deposits denominated in Maltese lira, and all banks licensed to operate in Malta that accept Maltese lira deposits are obliged to participate in it.

The main objective of the Depositor Compensation Scheme is to maintain a fund to be used for the payment of compensation so as to provide a means of protection for private depositors. The Scheme has a distinct legal personality and is governed by a Management Committee made up of representatives from the Malta Financial Services Authority (MFSA), the Central Bank of Malta, associations representing banks and a consumer.

The Committee is responsible for managing and administering the Scheme and the contribution paid into it by the participating banks. It is also responsible for verifying any claims made and deciding on the compensation to be paid to claimants.

The Committee is obliged to publish a set of audited financial statements on an annual basis in order to ensure complete transparency with respect to the transaction of funds within the Scheme. While it should ensure that the general public is adequately informed about the Scheme, and participating banks are required to make available adequate and clear information about its applicability, participants in the Scheme are subject to the Professional Secrecy Act, and are thus obliged to keep confidential any information obtained in the course of their operations.

Compensation to claimant depositors is only payable when a bank is unable to repay funds to the depositor and in case where there is no prospect of the bank being able to do so in the foreseeable future. The total compensation to be paid out is the *lesser* of an amount representing 90% of a depositor's eligible deposits, or the Maltese lira equivalent of 20,000 euros calculated on the basis of the official exchange rate prevailing on the date of settlement of the claim.

Any depositor who entrusts funds on deposit to a credit institution – except for the purposes of a business, trade of profession – is eligible to make a claim.¹ The regulations exclude the following from the definition of a depositor:²

- Sole traders, companies and other commercial partnerships;
- Professional and institutional depositors;
- National and international institutions, governments and administrative authorities;
- Local and municipal councils or authorities.

Depositors have the right to claim all their eligible deposits, including the total aggregate deposits held with a bank (or bank) and any interest accrued thereon. However, the compensation paid out must be netted against any outstanding loans or other liabilities which a claimant may have from/ to the failed credit institution.

1. For the purpose of the regulation, debt securities issued by the same institution and liabilities arising out of own acceptance and promissory notes do not constitute a deposit.
2. Refer to the First Schedule to the Regulations.

Source: Central Bank of Malta, Annual Report 2003