

Summary

Despite the fact that Malta fell back into recession this year, its economy and banking sector have been relatively resilient over the past years. And, with the eurozone expected to come out of recession in 2013, Malta is expected to record modest growth as well. Nonetheless, a public debt of over 70% of GDP remains worrisome. Even though most of this debt is held domestically, rendering the government less vulnerable to sudden shocks in investor sentiment, reforms are needed. Still, in light of the tense political situation, we do not expect reforms to come about in the short term.

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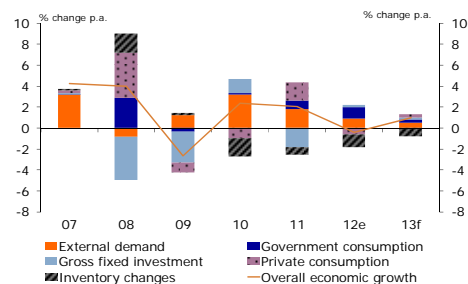
Malta			
National facts		Social and governance indicators	
Type of government	Parliamentary republic	Human Development Index (rank)	36 / 187
Capital	Valletta	Ease of doing business (rank)	n.a.
Surface area (thousand sq km)	0.3	Economic freedom index (rank)	50 / 179
Population (millions)	0.4	Corruption perceptions index (rank)	39 / 183
Main languages	Maltese (90%) English (6%)	Press freedom index (rank)	58 / 178
Main religions	Roman Catholic (98%) Other (2%)	Gini index (income distribution)	n.a.
Head of State (president)	George Abela	Population below \$1.25 per day (PPP)	n.a.
Prime Minister	Lawrence Gonzi	Foreign trade	
Monetary unit	Euro (EUR)	2011	
Economy		2011	
Economic size		Main export partners (%)	
Nominal GDP	bn USD 9 / % world total 0.01	Singapore	9
Nominal GDP at PPP	11 / 0.01	Germany	5
Export value of goods and services	8 / 0.04	France	4
IMF quatum (in mln SDR)	102 / 0.05	US	4
Economic structure		Main import partners (%)	
Real GDP growth	2011 2.1 / 5-year av. 2.2	Italy	26
Agriculture (% of GDP)	n.a. / n.a.	UK	7
Industry (% of GDP)	n.a. / n.a.	Germany	7
Services (% of GDP)	n.a. / n.a.	France	6
Standards of living		Main export products (%)	
Nominal GDP per head	USD 21252 / % world av. 196	Transport Equipment	n.a.
Nominal GDP per head at PPP	25265 / 203	Manufactured goods	n.a.
Real GDP per head	16255 / 199	Chemicals	n.a.
		Semi-manufactures	n.a.
		Main import products (%)	
		Machinery & Transport equipment	n.a.
		Food	n.a.
		Manufactured goods	n.a.
		Fuels	n.a.
		Openness of the economy	
		Export value of G&S (% of GDP)	2011 88
		Import value of G&S (% of GDP)	83
		Inward FDI (% of GDP)	9.2

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Economic structure and growth

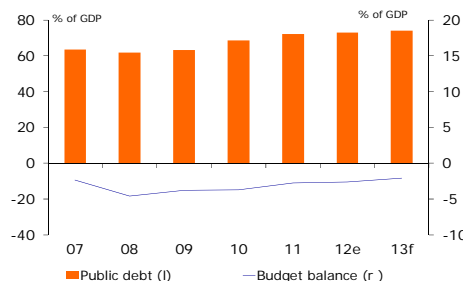
Malta's small and open economy is highly integrated with the rest of the eurozone. As such it is vulnerable to the ongoing debt crisis. With both exports and tourism slowing, Malta fell back into recession at the start of 2012 and its economy is expected to contract by 0.6% over 2012 as a whole. For 2013, we expect a modest recovery on the back of improved export demand. Still, growth is unlikely to exceed 1%. In addition, large downside risks remain, including a eurozone break-up.

Figure 1: Growth performance



Source: EIU

Figure 2: Public finances



Source: EIU

Even though Malta's banking sector is roughly eight times larger than its GDP, it is unlikely to become another Cyprus, which is currently struggling with a banking sector that is overexposed to Greece, while the government lacks the capacity to support the banks. For one, banks are far less

exposed to crisis countries. Plus, with loan/deposit ratios of 75% and sound asset quality, there seems little reason to be overly concerned.

Political and social situation

Malta’s political situation remains unstable. The governing Nationalist Party (PN) came into power in 2008, after gaining a majority in parliament. However, the departure of some its members cost PN its majority and disturbed the power balance within the party. Although general elections are not planned until mid-2013, early elections are not unlikely and, as a result, both the PN and the main opposition party have already started campaigning (at least informally). As a result, we do not expect any major (and possibly painful) reforms to come about in the short term.

Economic policy

Public debt stood at a high 72% of GDP in 2011 and is only expected to rise further this year, with the budget deficit expected to reach 2.6% of GDP in 2012. The only comforting factor is that much of this debt is held domestically and in euros. Still, spending cuts and more far-reaching reforms of both the pension and healthcare system are called for, but unlikely to be realized in the current political climate. We therefore expect the debt to increase to 77% of GDP by 2013.

Inflation is also elevated, on the back of high food prices and a sharp increase in prices in the tourist sector. For 2012, we expect inflation to average 2.5%. Given that Malta is a eurozone member the policy interest rate is set by the ECB.

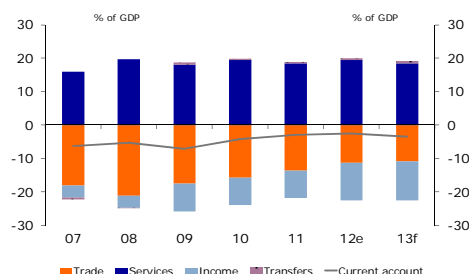
Balance of payments

Malta’s current account deficit came down in recent years, from 7.5% of GDP in 2009, to an expected 1% of GDP in 2012, as import demand slowed. However, in 2013 we expect the deficit to widen as the economy comes out of recession. Still, as domestic demand is not expected to recover rapidly, the current account deficit is expected to linger around 1% of GDP.

External debt

Net external debt stood at an extremely high 489% of GDP in 2011. Nonetheless, we find comfort in the fact that most external debt consists of deposits held by foreigners, which remained more or less stable throughout the crisis. In addition, most external debt is denominated in euros. Despite this high level of external debt, Malta is a net creditor, with most foreign assets held by the financial institutions.

Figure 3: Current account balance



Source: EIU

Malta							
Selection of economic indicators	2007	2008	2009	2010	2011	2012e	2013f
<i>Key country risk indicators</i>							
GDP (% real change pa)	4.3	4.0	-2.7	2.4	2.1	-0.4	1.0
Consumer prices (average % change pa)	1.3	4.3	2.1	1.5	2.7	2.5	2.1
Current account balance (% of GDP)	-6.3	-5.4	-7.2	-4.2	-3.0	-2.6	-3.6
Total foreign exchange reserves (m USD)	3785	368	532	536	500	515	531
<i>Economic growth</i>							
GDP (% real change pa)	4.3	4.0	-2.7	2.4	2.1	-0.4	1.0
Gross fixed investment (real change pa)	0.6	-19.7	-18.2	9.9	-12.5	1.6	1.4
Private consumption (real change pa)	0.4	6.9	-1.5	-1.5	2.8	-1.0	0.5
Government consumption (real change pa)	0.1	14.5	-1.6	0.6	3.7	4.9	1.4
Exports of G&S (real change pa)	9.5	3.8	-10.7	17.7	0.7	0.5	2.5
Imports of G&S (real change pa)	5.4	4.6	-11.7	13.7	-1.2	-0.5	2.1
<i>Economic policy</i>							
Budget balance (% of GDP)	-2.4	-4.6	-3.8	-3.7	-2.7	-2.6	-2.1
Public debt (% of GDP)	63	62	63	69	71	73	74
Money market interest rate (%)	4.3	4.5	1.2	0.8	1.4	1.5	1.6
M2 growth (% change pa)	18	10	-1	3	2	4	7
Consumer prices (average % change pa)	1.3	4.3	2.1	1.5	2.7	2.5	2.1
Exchange rate LCU to USD (average)	0.7	0.7	0.7	0.8	0.7	0.8	0.8
Recorded unemployment (%)	6.5	6.1	6.9	6.9	6.5	n.a.	n.a.
<i>Balance of payments (m USD)</i>							
Current account balance	-467	-460	-581	-342	-269	-220	-320
Trade balance	-1350	-1822	-1428	-1279	-1221	-980	-1000
Export value of goods	3305	3192	2427	3091	3635	3670	3790
Import value of goods	4656	5014	3856	4370	4856	4650	4790
Services balance	1192	1685	1456	1574	1636	1680	1670
Income balance	-272	-311	-672	-673	-726	-970	-1060
Transfer balance	-38	-12	63	38	42	50	60
Net direct investment flows	979	523	748	907	770	760	760
Net portfolio investment flows	2000	-400	-400	1900	3200	0	0
Change in international reserves	818	-3425	165	2	-25	-20	-20
<i>External position (m USD)</i>							
Total foreign debt	27800	40900	45000	42500	43500	49300	48500
Short-term debt (including bank deposits)	17500	26100	35000	32100	31700	35900	35400
Total debt service due, incl. short-term debt	20000	21543	31267	38725	36100	35700	39900
Total foreign exchange reserves	3785	368	532	536	500	490	480
International investment position	1455	294	n.a.	n.a.	n.a.	n.a.	n.a.
Total assets	49417	51939	n.a.	n.a.	n.a.	n.a.	n.a.
Total liabilities	47963	51645	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Key ratios for balance of payments, external solvency and external liquidity</i>							
Trade balance (% of GDP)	-18.1	-21.2	-17.6	-15.7	-13.7	-11.3	-11.0
Current account balance (% of GDP)	-6.3	-5.4	-7.2	-4.2	-3.0	-2.6	-3.6
Inward FDI (% of GDP)	13	10	11	12	9	10	9
Foreign debt (% of GDP)	373	477	556	523	489	570	534
Foreign debt (% of XGSIT)	270	336	421	383	382	436	421
International investment position (% of GDP)	19.5	3.4	n.a.	n.a.	n.a.	n.a.	n.a.
Debt service ratio (% of XGSIT)	194	177	293	349	317	316	346
DSR excluding short term debt (% of XGSIT)	20	33	48	34	35	35	35
Interest service ratio incl. arrears (% of XGSIT)	18	21	22	21	22	22	23
FX-reserves import cover (months)	7	1	1	1	1	1	1
FX-reserves debt service cover (%)	19	2	2	1	1	1	1
Cover excluding short term debt	95	9	10	14	12	12	12
Liquidity ratio	137	176	116	95	110	107	96
Liquidity ratio excl ST debts (bank deposits)	325	387	333	346	370	363	353

Source: EIU

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