

COUNTRY PROFILE: REPUBLIC OF MALTA**DATED: JULY 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	2B	No restriction

Recent Political Highlights

- Lawrence Gonzi took office in March 2004, just before Malta entered the EU. His ruling Nationalist Party won re-election by a slim margin in March 2008. The Nationalist party won re-election with 49.3% of the vote, earning it 35 seats while the Labour Party received 48.8% of the vote (34 seats). The two parties dominate Malta's polarised and evenly divided politics.

Recent Economic Highlights

- The population of Malta is estimated at 407,000.
- Possessing few indigenous raw materials and a very small domestic market, Malta's recent economic development has been based on tourism which accounts for roughly 30% of GDP. Exports of manufactured goods, mainly semi-conductors, account for some 75% of total Maltese exports.
- The government has pursued a policy of gradual economic liberalisation, taking some steps to shift emphasis from reliance on direct government intervention and control to policy regimes that allow a greater role for market mechanisms. As a consequence of the liberalising reforms, Malta has experienced a three-year long expansion underpinned by foreign direct investment and export diversification.
- Due to buoyant EU activity, growth accelerated to 3.8% in 2007 while the external current account deficit declined to 5.5% of GDP. This reflected new export-oriented activities such as pharmaceuticals, online gaming and financial and business service sectors. The introduction of low cost flights, addition of Malta as a destination for cruises and price moderation triggered a revival of tourism in 2007. Tourist arrival grew by just over 10% to 129,378 in June this year compared with June last year, while total nights spent increased by 12.5%. The first half of this year show a 15% increase in arrivals to 577,313. Much of the increase came from German, Italian and Spanish markets while there were decreases from the American, Libyan and Russian markets.
- The IMF expects economic growth to decelerate to between 2% and 2.5% in 2008-09, reflecting unfavourable external developments. High international prices of oil, commodities and food will keep inflation relatively high.
- Malta joined the Exchange Rate Mechanism The in 2007 was the main contributor II in 2005 to put itself on the path to enter the Eurozone and in January 2008 it formally adopted the euro as its official currency.
- Consolidation of public finances has improved over recent years. The budget deficit was brought down from 10.7% of GDP in 1998 to 1.6% of GDP in 2007. The European Commission said there are risks to Malta achieving its targeted fiscal balanced budget in 2010 due to reliance on volatile tax revenue items in 2008. The assessment was offered by the Commission after it examined Malta's financial stability programme. In addition Malta's competitiveness in the euro area may be at risk in the event of the departure from wage moderation in the public sector which may spill over onto the private sector. The general government gross debt is planned to proceed at a satisfactorily pace and is expected to fall below the 60% of GDP reference value by 2009.
- The Chamber for Small and Medium Enterprises insisted that the government should reduce excise duty on fuel since it was too much of a burden on transporters who depend on their jobs for a living. There has been a 15% increase in the cost of transport over the EU due to fuel price increases. The situation is worse for Malta due to it being an island state since it depends fully on road transport for the distribution of all goods imported from other countries. Thus prices have increased by 22% in Malta. This year alone the government is expected to collect about €90 million in excise duty on fuel. Escalating fuel costs have a direct impact on several sectors such as tourism.

Latest Trade Developments

- Main exports: machinery and transport equipment and manufactures.
- Main imports: machinery and transport equipment, manufactured and semi-manufactured goods, food, beverages and tobacco.
- Major trade partners: Eurozone area, UK, Singapore and US.
- South African exports to Malta totalled R56m in 2006 and R34m in 2007.