



Ten years in Economic and Monetary Union: Malta's experience

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Overview

- Economic context and timeline
- The Maltese economy since euro adoption
- Economic convergence criteria
- Lessons learned



Economic context and timeline



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The Maltese economy is very small and open

Population	460,297
GDP (€ billion)	11.1
GDP (% of EU)	0.07
GDP per capita (PPS, EU28=100)	94
GDP per capita (PPS, EA19=100)	89
Total exports (% of GDP)	136
Total imports (% of GDP)	118
FDI stock (% of GDP)*	28

* Excludes the financial sector.



The road to euro adoption

Apr 1971

Association Agreement comes into force

Jul 1990

Malta applies for EU membership

Feb 1997

Malta seeks as close a relationship with the EU as is compatible with its circumstances

1998

European Commission Communication aims at completing free trade area and strengthening co-operation with Malta. EU membership application is reactivated.

Feb 1999

European Commission recommends start of negotiations with Malta.



The road to euro adoption

May 2004

Malta joins the EU with an obligation to adopt the euro

May 2005

Maltese lira joins ERM II

July 2007

ECOFIN Council decides that Malta fulfils the convergence criteria and is eligible to adopt the euro

January 2008

Malta adopts the euro



Key considerations behind early euro adoption

- ✓ Economic benefits in terms of growth, employment, lower currency risk
- ✓ Strong trade links with the euro area
- ✓ A similar economic cycle and structure
- ✓ A relatively flexible labour market
- ✓ A long and positive track record with an exchange rate peg
- ✓ Sufficient price, income and interest rate convergence
- ! Poor track record in public finances



Key considerations behind early euro adoption

Gradual approach

- Minimum ERM II period offered a limited time window for the necessary adjustment and for fulfilling all the official criteria for euro adoption
- Degree of adjustment needed in such a short period could carry significant social costs.

Bolder reforms

- Delaying reforms undermines growth and credibility of fixed exchange rate regime
- The discipline inherent in the irrevocable fixing of the exchange rate and the policy framework in EMU offer the best prospect for long-lasting reforms.



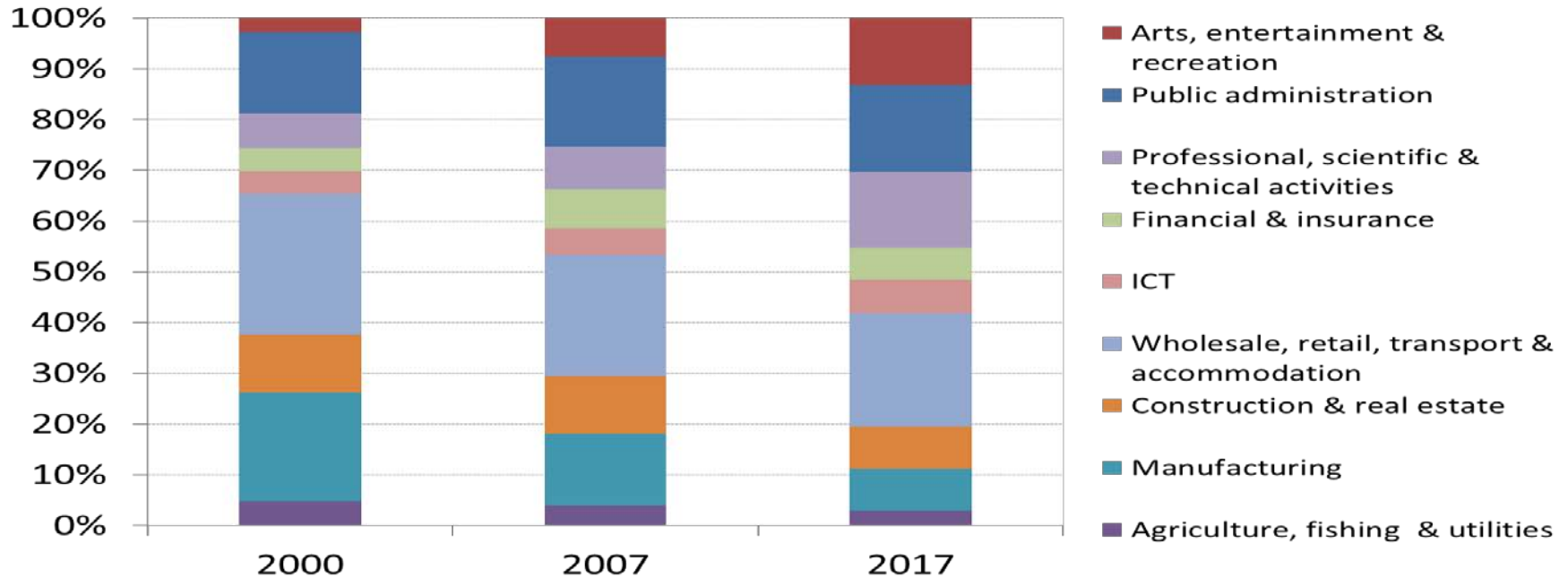
The Maltese economy since euro adoption



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The Maltese economy became more diversified and service-oriented

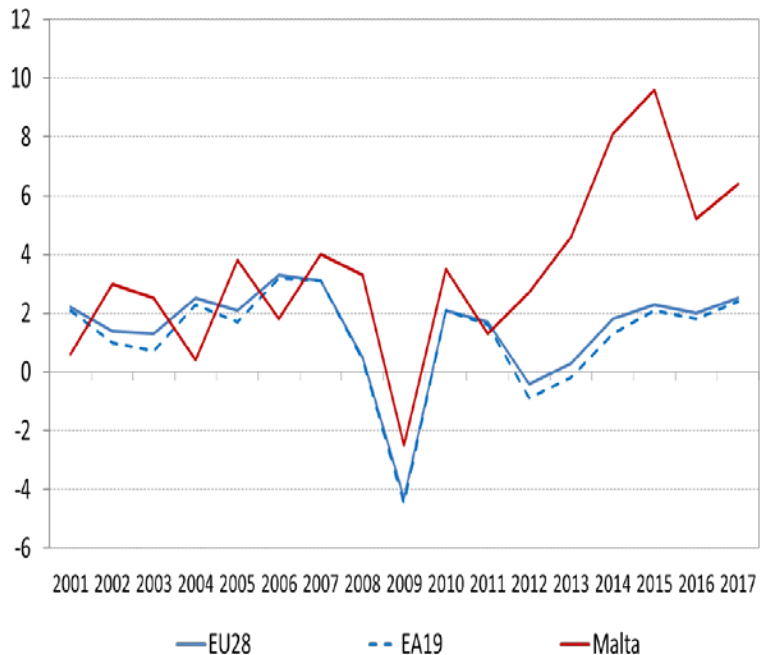
Sector share in Gross Value Added (%)



Source: National Statistics Office.

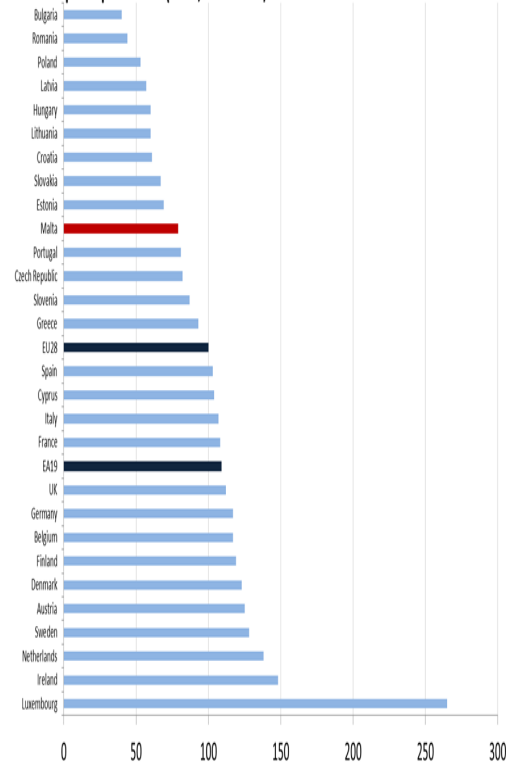
Diversification in the context of economic and financial stability facilitated income convergence

Real GDP growth
(annual % change)

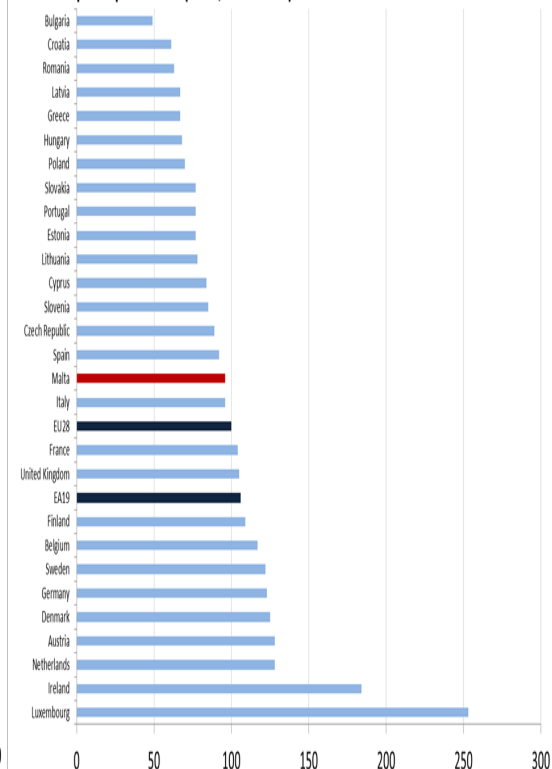


Source: Eurostat.

Real GDP per capita in PPS (2007, EU28=100)

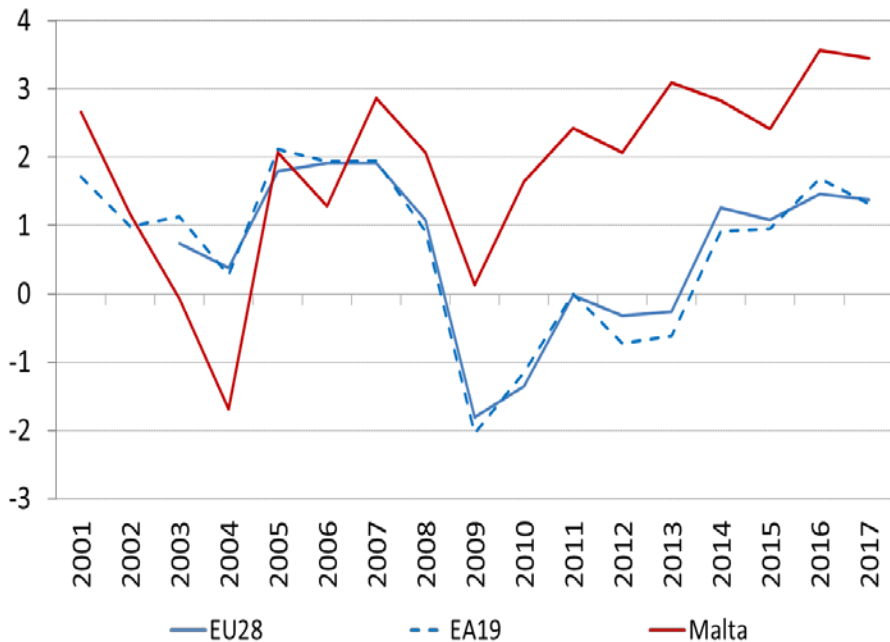


Real GDP per capita in PPS (2017, EU28=100)

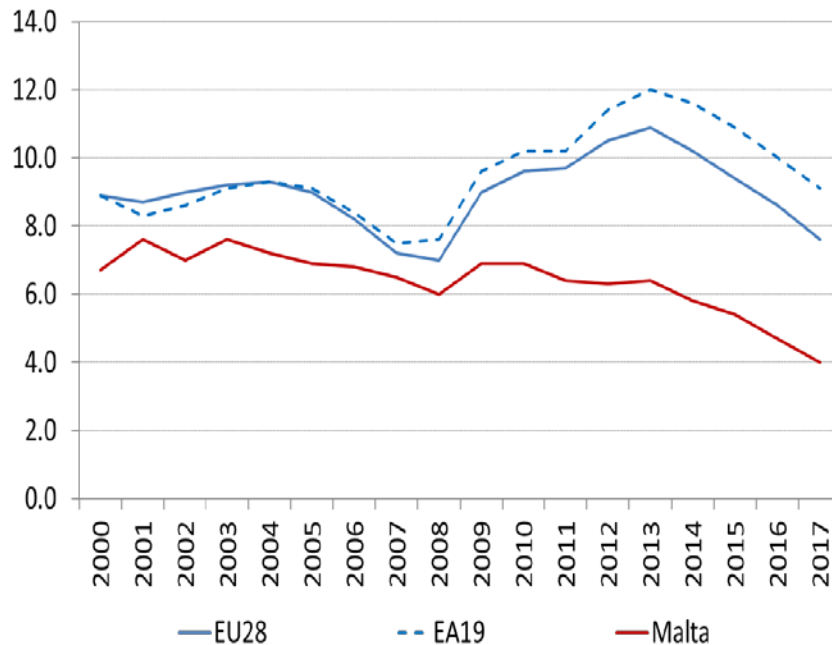


Robust economic growth supported job creation and lower unemployment

Employment growth
(15-64 years, annual percentage change)



Unemployment rate
(% of active population)



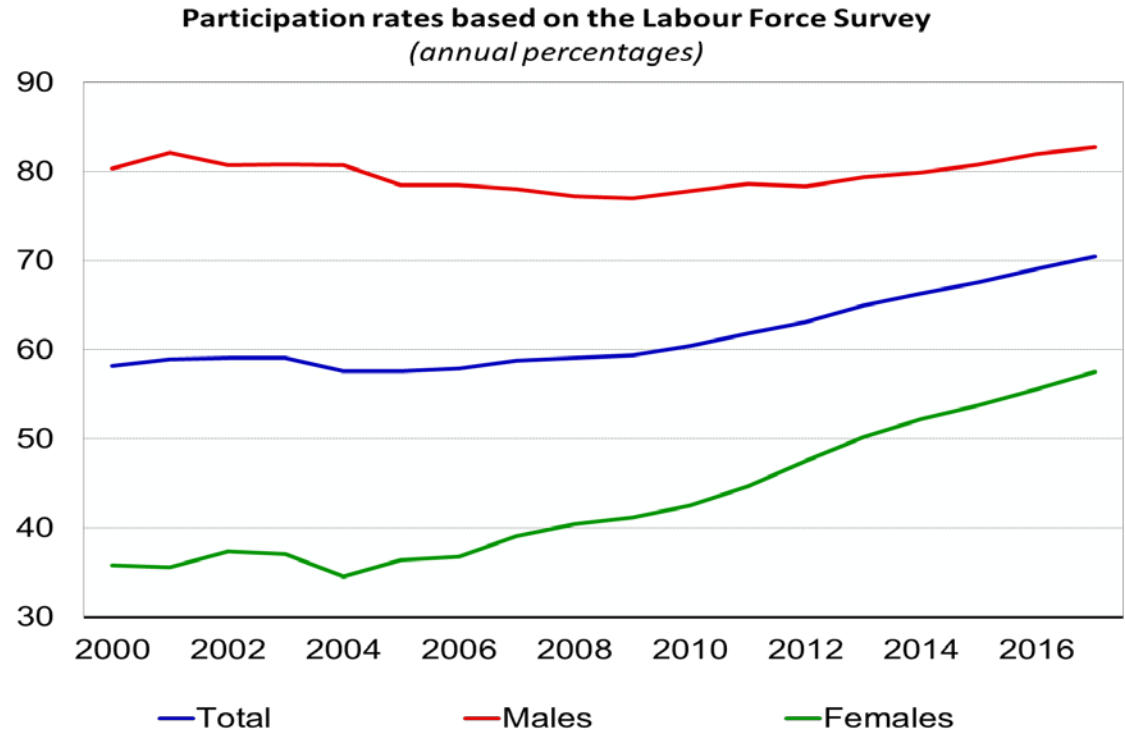
Source: Eurostat, ECB Statistical Data Warehouse.

Source: Eurostat.

Unemployment fell despite increased labour market participation

Supporting factors

- Income tax reforms
- Make work pay initiatives
- Free child care facilities
- Enhanced training & re-skilling programmes
- Life-long learning
- Pension reform



Source: Eurostat.

The economy has also benefited from the growing presence of foreign workers

FOREIGNERS BY ECONOMIC SECTOR

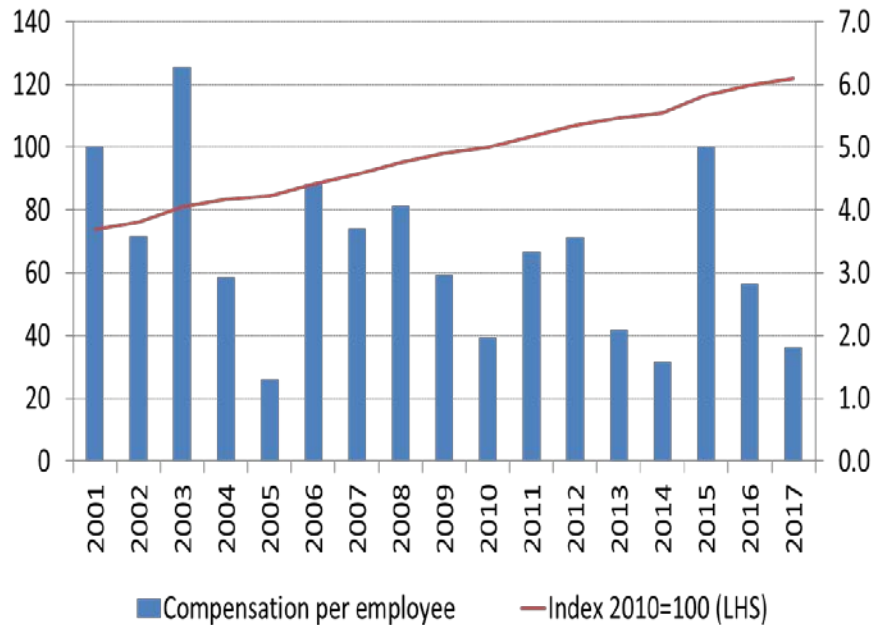
	Persons			% of foreigners			% of employment		
	2002	2007	2017	2002	2007	2017	2002	2007	2017
Accommodation and Food Service Activities	327	1208	6607	12.7%	18.5%	15.4%	2.6%	8.3%	35.7%
Agriculture, Forestry and Fishing	10	63	167	0.4%	1.0%	0.4%	0.3%	1.5%	5.1%
Arts, Entertainment and Recreation	118	627	5772	4.6%	9.6%	13.4%	6.6%	21.5%	57.2%
Construction	436	868	2813	16.9%	13.3%	6.5%	3.6%	6.7%	23.4%
Financial and Insurance Activities; Real Estate Activities	90	194	1896	3.5%	3.0%	4.4%	1.3%	2.5%	15.1%
Manufacturing; Quarrying; Utilities	370	1057	3166	14.3%	16.2%	7.4%	1.1%	3.8%	12.5%
Other Service Activities	100	248	1413	3.9%	3.8%	3.3%	2.9%	5.8%	22.5%
Professional, Scientific and Technical Activities; Administrative and Support Service Activities	436	1078	10556	16.9%	16.5%	24.6%	4.5%	7.7%	29.6%
Public Admin; Education; Health and Social Work Activities	300	500	3584	11.6%	7.7%	8.3%	0.9%	1.3%	6.8%
Wholesale and Retail Trade; Transportation and Storage; ICT	394	677	6997	15.3%	10.4%	16.3%	1.1%	1.7%	13.0%
	2581	6520	42971	100.0%	100.0%	100.0%	1.68%	3.91%	18.64%

Source: Jobsplus, CBM Workings

Enhanced competition and trade linkages, and labour supply growth helped keep a lid on wage growth and inflation

Compensation per employee

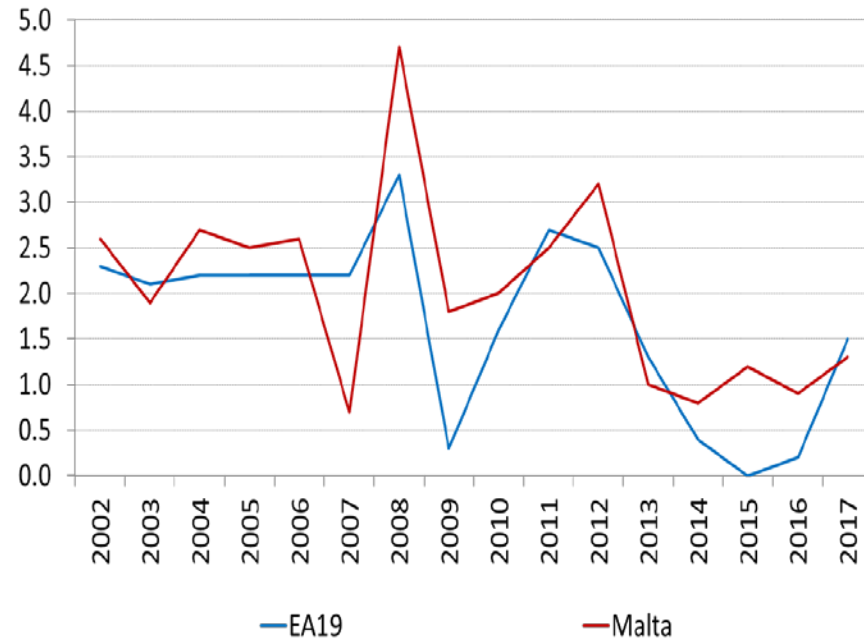
(Index 2010=100, annual % change)



Source: National Statistics Office.

HICP inflation in Malta and in the euro area

(%)



Source: Eurostat.

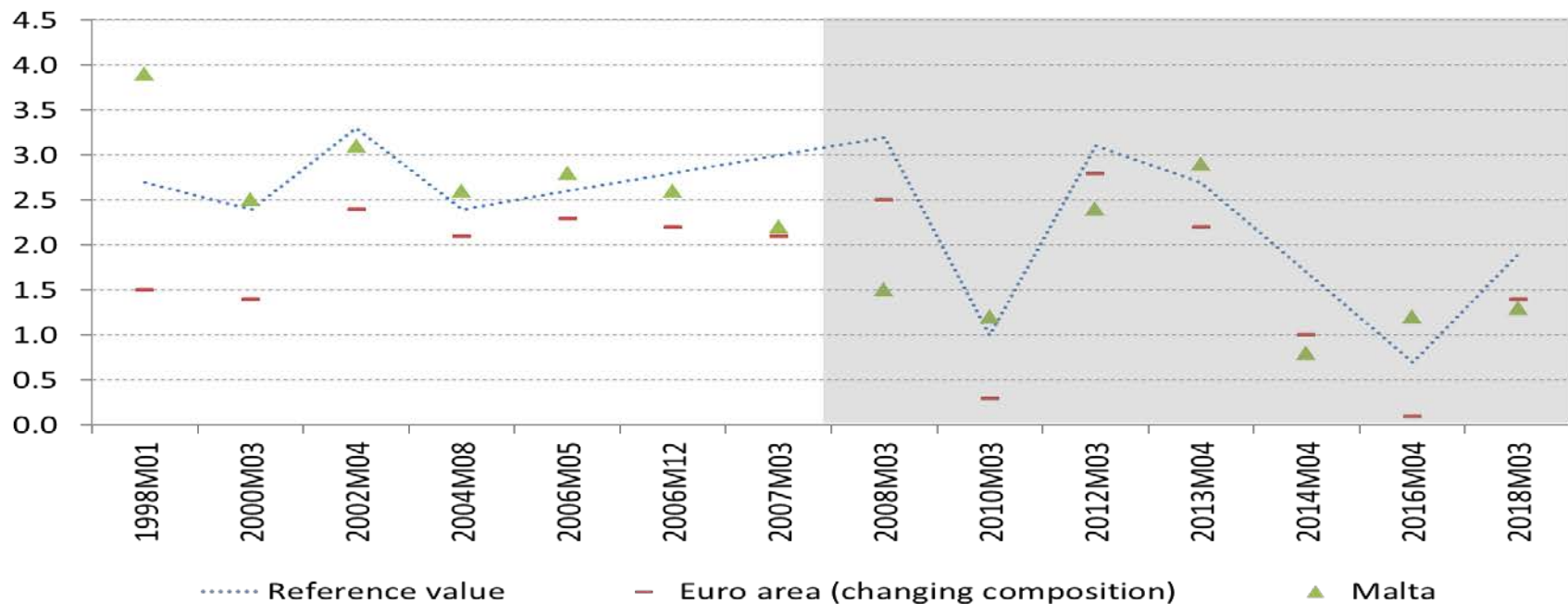


Economic convergence criteria



The inflation criterion

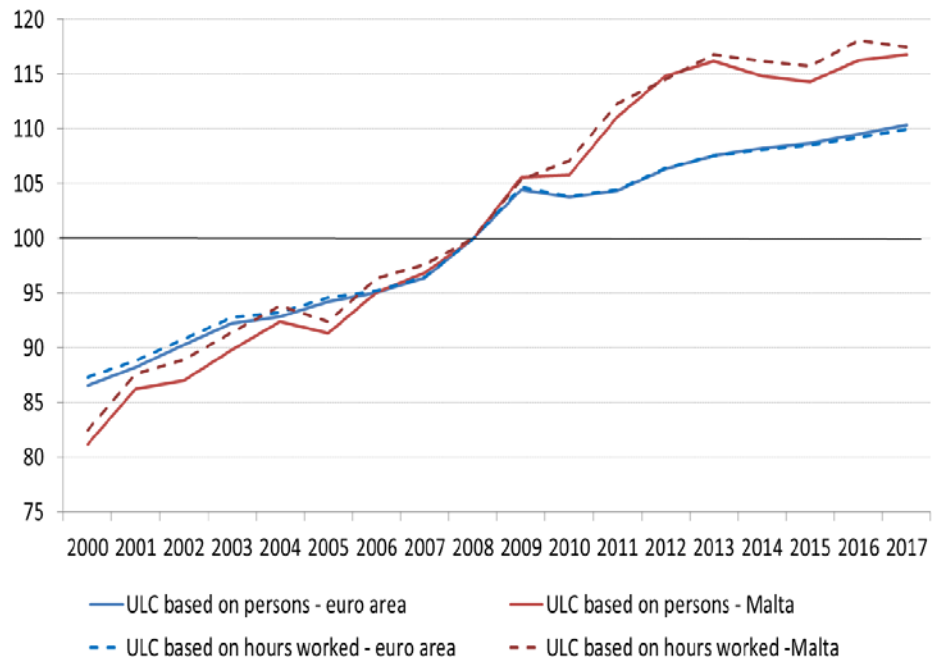
HICP inflation in Malta and the euro area
(annual % change, 12-month moving average)



Sources: Eurostat, European Commission Convergence Report 2018.
Dates in this chart correspond to the cut-off months considered in Convergence Reports.

Unit labour costs and price convergence

Nominal unit labour costs
(Index 2008 = 100)



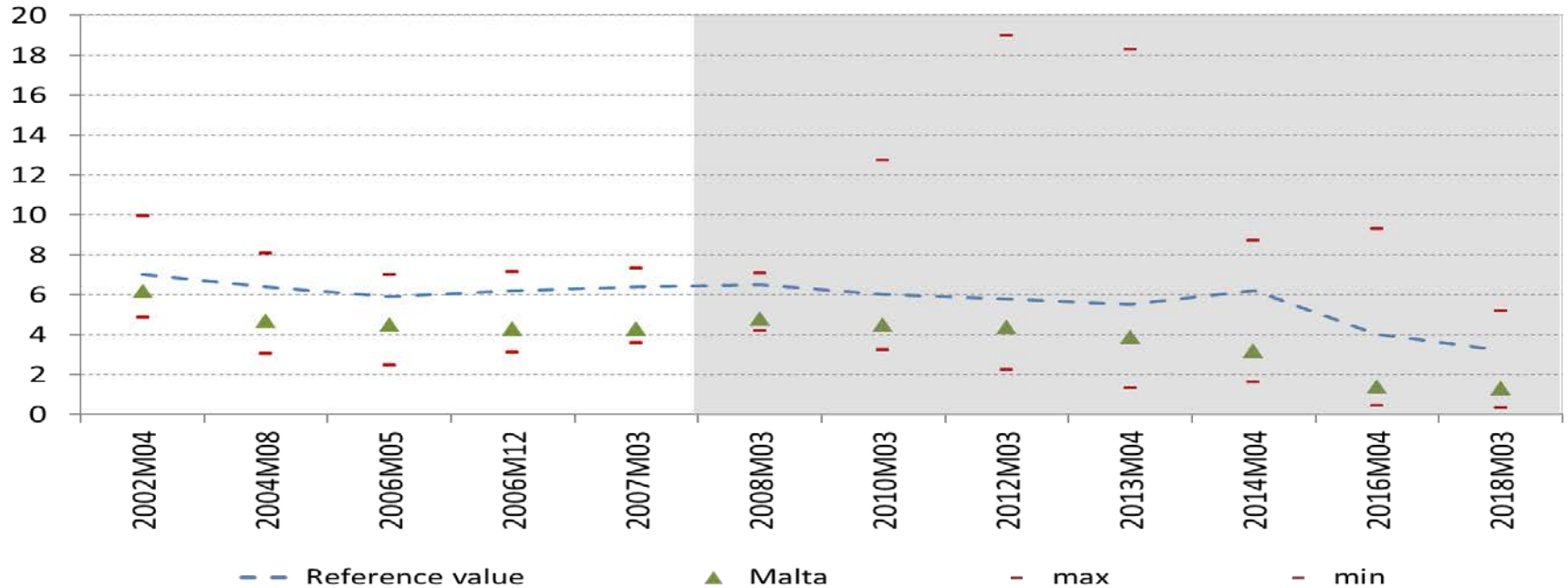
Source: Eurostat

Purchasing power parities (PPPs), price level indices (EA19 = 100)

	2007	2017
GDP	69	81
Actual individual consumption	70	80
Food and non-alcoholic beverages	80	102
Alcoholic beverages, tobacco and narcotics	95	103
Housing, water, electricity, gas and other fuels	46	53
Household furnishings, equipment and maintenance	105	98
Health	51	79
Transport	97	83
Communication	83	92
Recreation and culture	78	83
Education	54	94
Restaurants and hotels	81	80
Miscellaneous goods and services	71	79
Source: Eurostat, CBM calculations		

The interest rate criterion

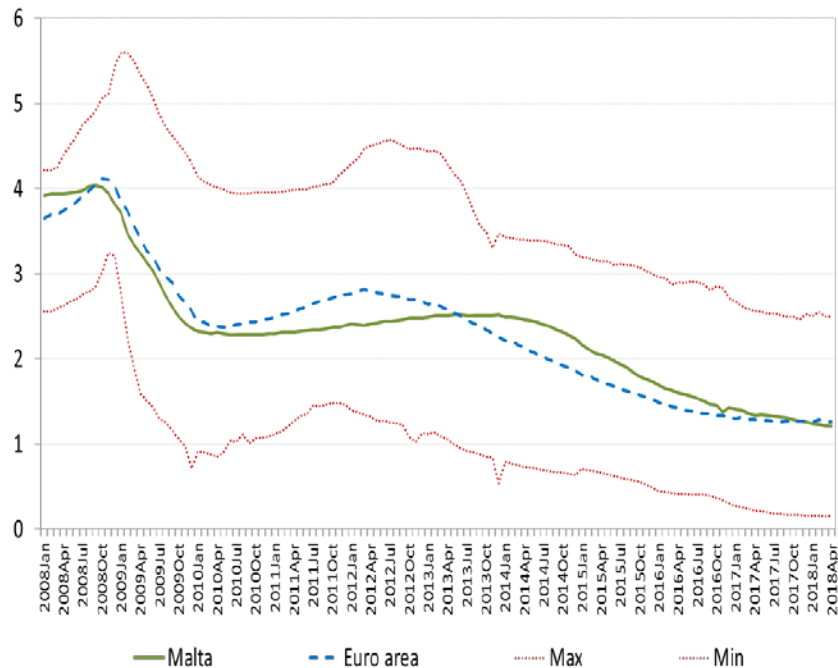
Long-term interest rate in Malta and the euro area
(% per annum, 12-month moving average)



Sources: Eurostat, European Commission Convergence Reports 1998 - 2018.
Dates in this chart correspond to the cut-off months considered in Convergence Reports.

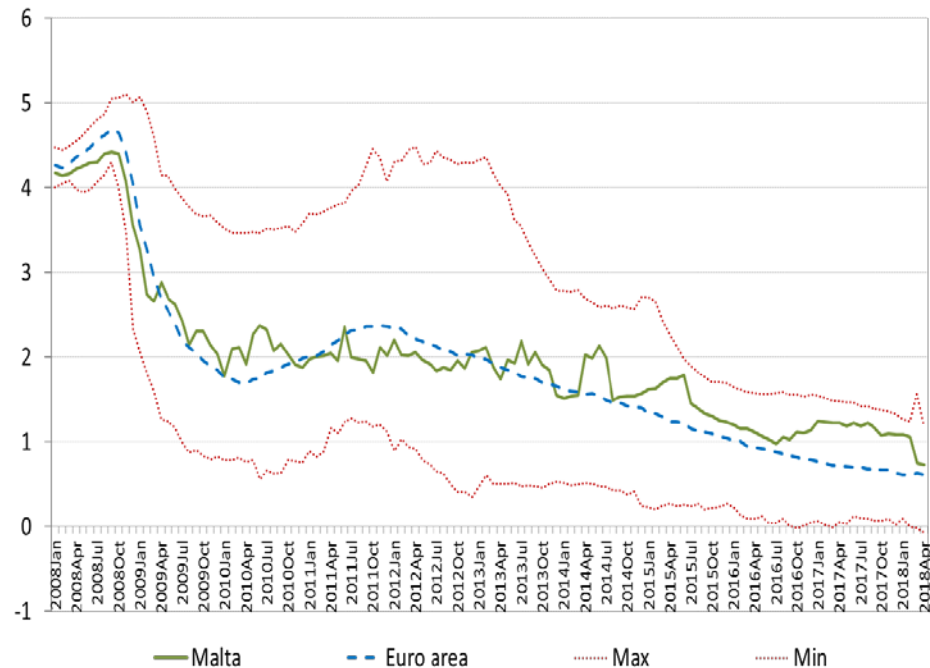
Retail deposit rates

MFI interest rates on household deposits
(outstanding amounts, all maturities, % per annum)



Source: ECB SDW.
Last observation: April 2018.

MFI interest rates on NFC deposits
(outstanding amounts, all maturities, % per annum)

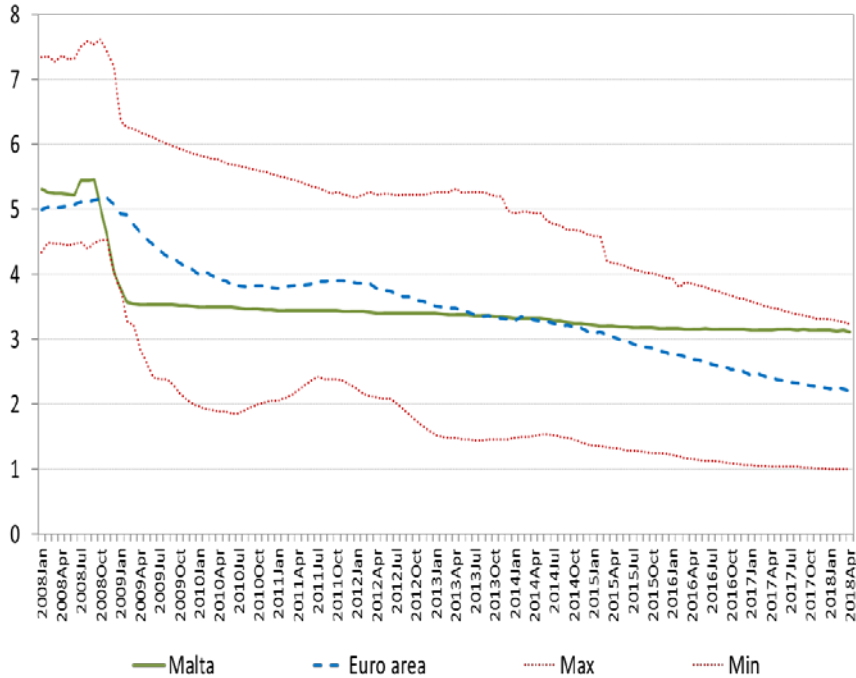


Source: ECB SDW.
Last observation: April 2018.



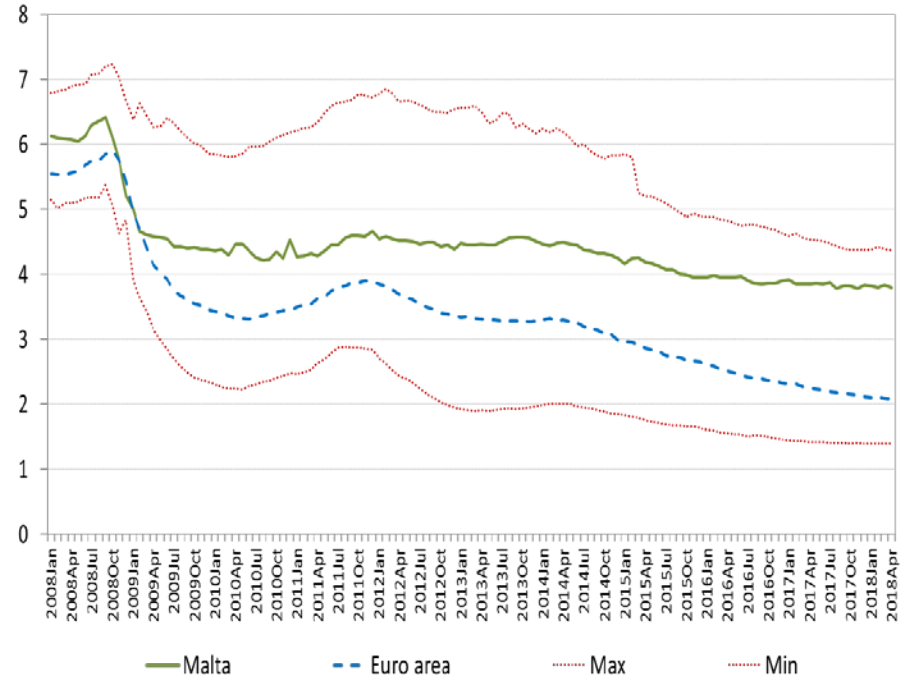
Retail lending rates

MFI interest rates on loans to households for house purchase
(outstanding amounts, all maturities, % per annum)



Source: ECB SDW.
Last observation: April 2018.

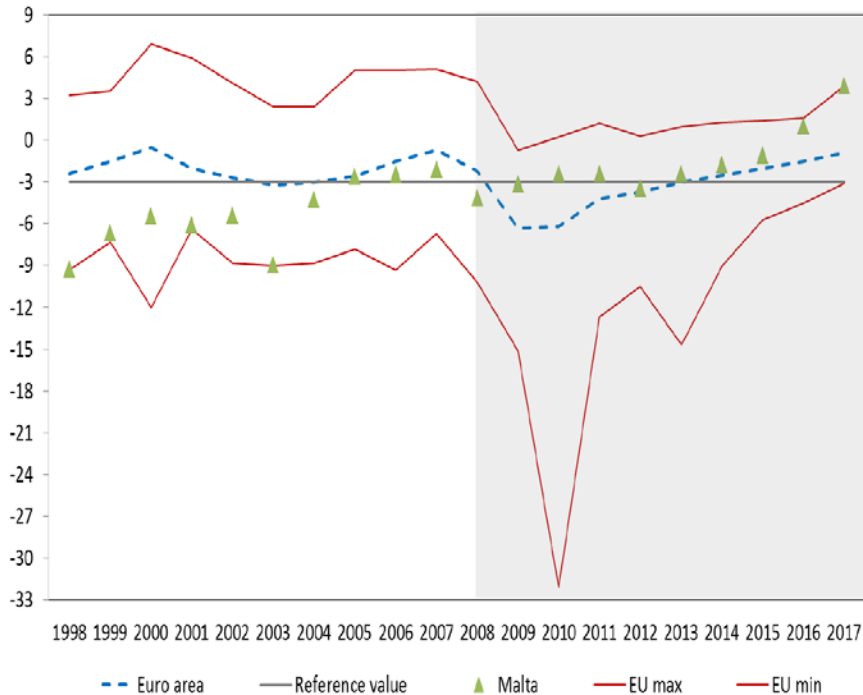
MFI interest rates on loans to non-financial corporations
(outstanding amounts, all maturities, % per annum)



Source: ECB SDW.
Last observation: April 2018.

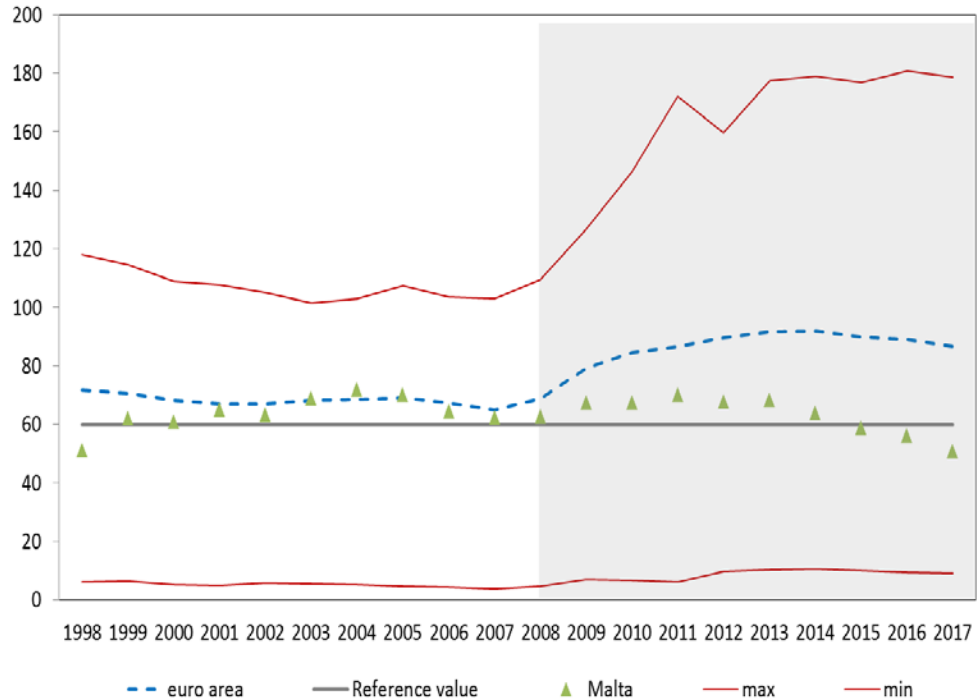
The fiscal criteria

General government balance
(% of GDP)



Source: Eurostat

General government debt
(% of GDP)



Source: Eurostat



The cyclically-adjusted balance

Cyclically-adjusted general government balance
(% of GDP)

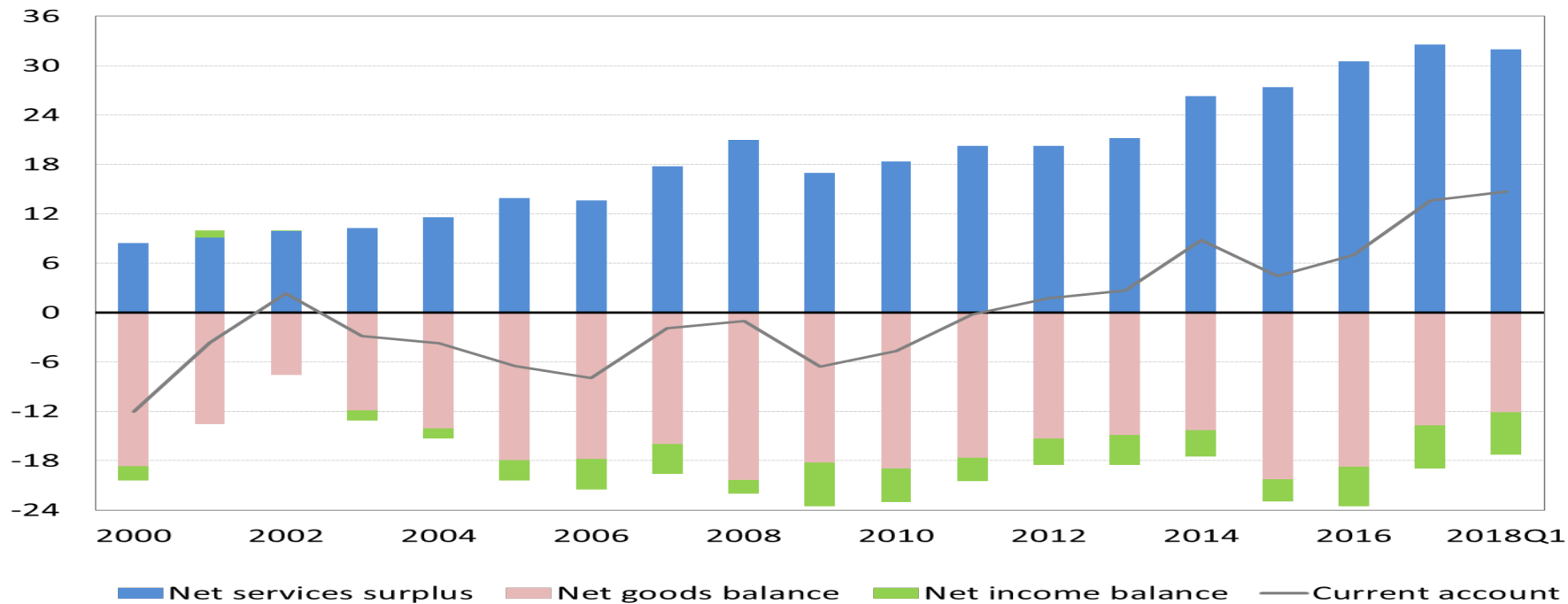


— Euro area — Fiscal Compact threshold for the structural balance ▲ Malta — EU max — EU min

Source: European Commission AMECO Database

External developments - current account balance

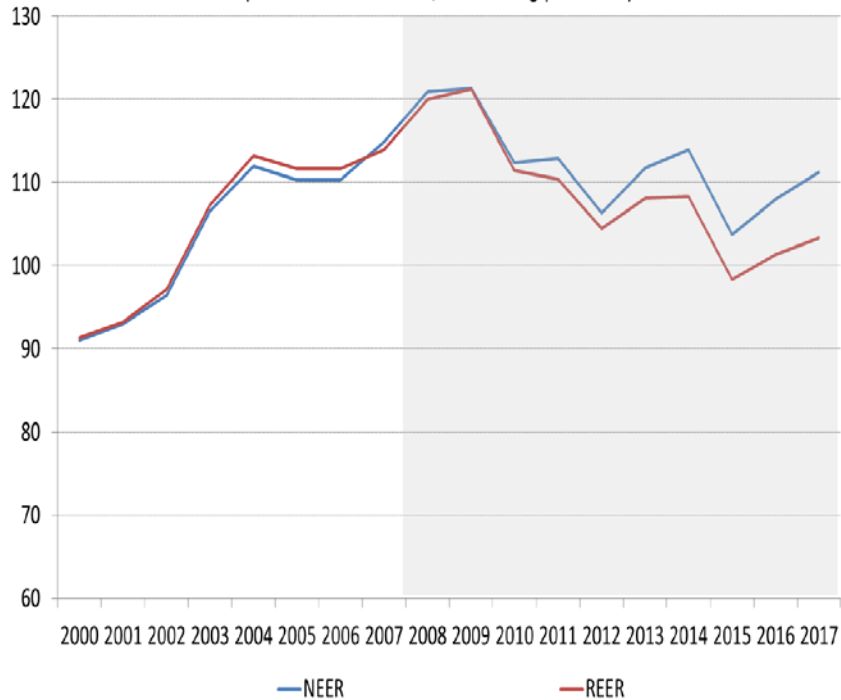
Current account balance
(percentage of GDP)



Source: NSO.

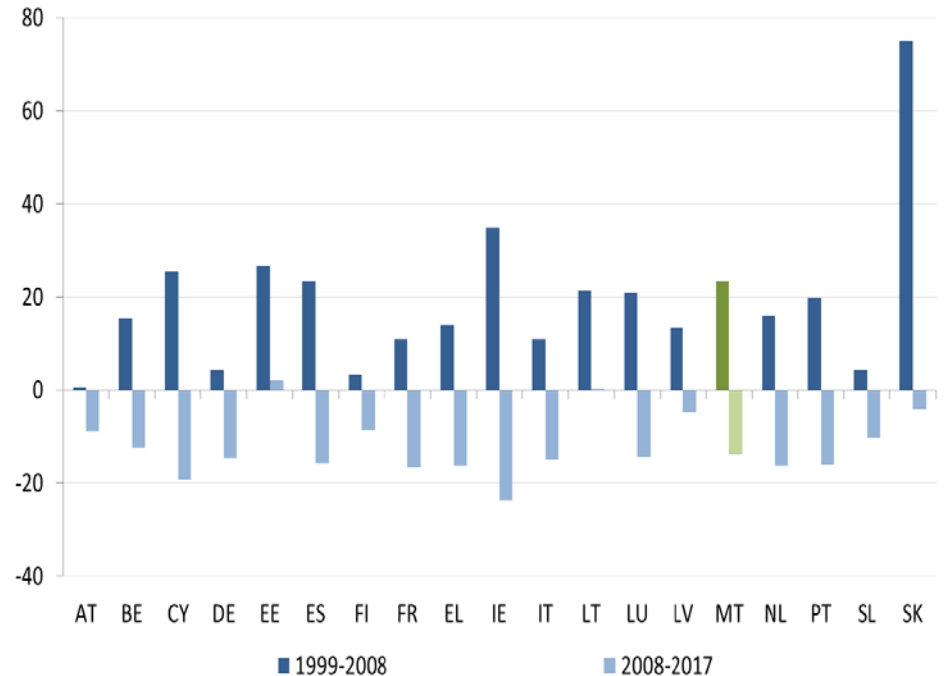
External developments – exchange rate

Nominal and real effective exchange rate
(Index 1999Q1 = 100, 38 trading partners)



Source: ECB SDW.

Real effective exchange rate: change between 1999 - 2017
(cumulative % change, 38 trading partners)



Source: ECB SDW.



Lessons learned



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Lessons learned

- The road to the euro benefited from clear target dates and a shared vision between the government and the monetary authorities.
- A long history of trade links with the euro area, a track record with a fixed exchange rate and a high degree of real economic convergence enabled a smooth transition.
- The single currency carries with it growth opportunities (integration in a larger market, transfer of capital and knowledge, enhanced surveillance, stronger institutions).
- However, economic performance is largely shaped by properly-paced and complementary reforms.
- Deeper external linkages increase interdependence, but can also be growth-enabling.



Lessons learned

- Income and price convergence in Malta progressed after euro adoption.
- Inflation and long-term interest rates developed in line with convergence criteria.
- The fiscal balance and the current account balance swung to a surplus.
- Wage growth has become somewhat more aligned with productivity growth.
- Sustaining the recent positive economic performance in the long-run requires:
 - wage awards that mirror more closely productivity developments
 - lending terms that are commensurate with those faced by NFCs with an equivalent level of risk in trading partners
 - fiscal measures that provide additional fiscal space ahead of the eventual normalisation of monetary policy and a possible decrease in IIP revenue.



THANK YOU



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RESERVE SLIDE



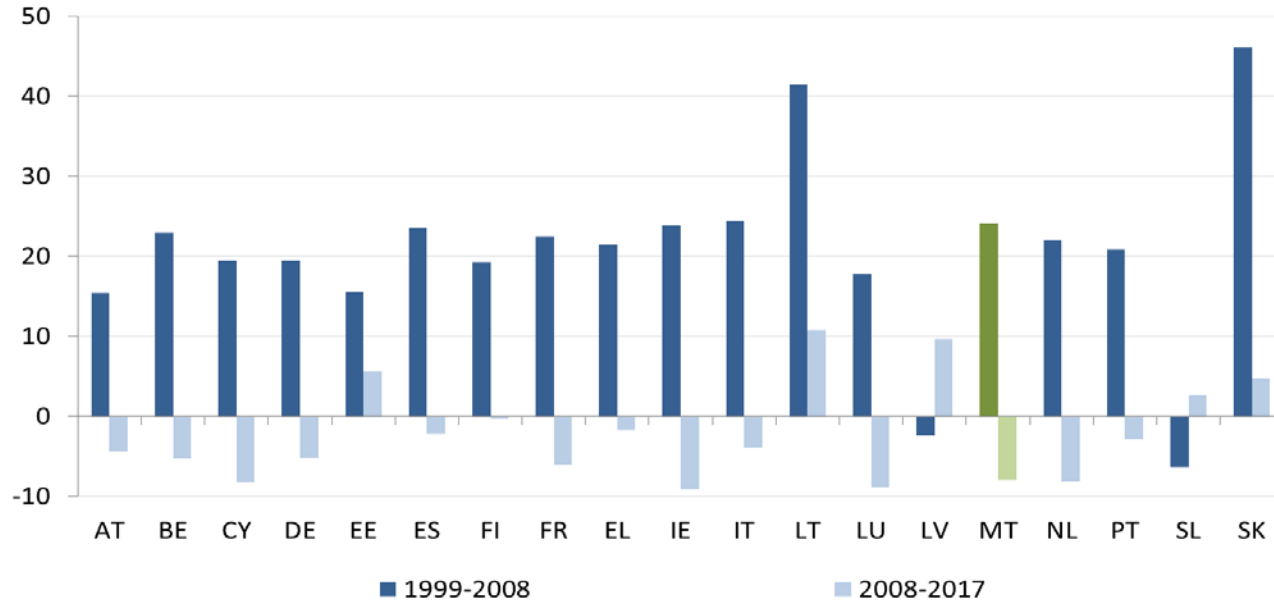
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External developments – exchange rate

Nominal effective exchange rate: change between 1999 - 2017
(cumulative % change, 38 trading partners)



Source: ECB SDW.



CBM official interest rate in the run up to euro adoption

