

Transiting from emigration to immigration – Malta's economic post independence economic success story

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Good morning ladies and gentlemen. It is a privilege to be here to address such a distinguished audience, to which I thank my former colleague and friend Mr Alfred Mifsud for the kind invitation. Arbiters, through the judgements they deliver, play a crucial role in not only ensuring protection to consumers in their interactions with financial institutions, but are also effective in fostering greater financial literacy, which is much needed and shared objective of central banks worldwide.

In my contribution today, I will try to give a brief overview of how after becoming an independent nation state, Malta has successfully transitioned from a country characterised by mass emigration to immigration.

Before independence in 1964, Malta was an integral part of the British Empire since 1800. During this period, the Maltese economy mostly disengaged from its historic links with its Mediterranean neighbours and instead served as a node in the Imperial trade system. Thus, the islands deviated significantly from their surrounding environment and became part of the first globalisation wave. The British invested heavily in naval infrastructure and technological innovations found their way to the islands quicker than they did in the rest of the region.

However, the focus of British investment was for the purpose of the successful operation of their military and naval bases, rather than to sustain and improve the living standards of the local population. Military expenditure also was not consistent, in that it would rise significantly at times of conflict and then subside. This meant that while the Maltese population grew significantly beyond what the natural resources of the islands could sustain, periods of relative prosperity were followed by significant recessions.

For instance, Apostolides (2011)¹ notes that Malta's GDP per capita essentially remained unchanged in the interwar period as military spending fell. Not incidentally the decline in spending, following the end of the First World War, led to civil strife in Malta and demands for political autonomy. Moreover, the rise of Italy as a naval power made the British navy move its fleet temporarily from Malta, resulting in significant economic hardship. The re-militarisation efforts before World War 2 helped raise Malta's GDP per capita, but these gains were more than offset by the wholesale destruction of Malta during the second world war.

At the same time, there was great fear that thousands would be sacked from their employment with the British services, particularly the Dockyards. In this climate ² migration was seen as a safety valve. British Governor Sir Edmond Schreiber in 1945 argued that "The problem of a country with a very restricted territory and with a growing population can only be solved through emigration". Emigration started to be organised on a national basis with a target of reducing the population by some 20,000 individuals or about a fifth of the male working age population at that time. In fact, the Maltese self-government of 1947 included for the first time a minister for emigration. Registrations started of those who wanted to emigrate and at one point there were about 50,000 Maltese who registered as prospective emigrants.³

Within that first post-war administration there were however conflicts on this policy, as the deputy leader of the Labour party wanted the administration to instead focus on getting included in the Marshall Plan and build an industrial base in Malta. This eventually led to a split in the ruling party and to a series of short-lived administrations. These continued to pursue a strong pro-emigration policy.

In 1956, the Maltese Government carried out a referendum on integration with the United Kingdom. The scope of this agreement was for employment opportunities and the standard of living in Malta to gradually reach the UK level. The UK parliament after the positive result, asked for a second referendum stating that there had been too low a turnout. In reality, the Suez Crisis had marked a major failure for the British armed forces and led to a 1957 British Defence White Paper that argued for more emphasis

¹ Apostolides, A. (2011), The growth of two small economies in the Great Depression: GDP estimation for Cyprus and Malta during the interwar period (1921-1938), MPRA Paper no 30276.

² <https://maltamigration.com/history/valve/chapter1d.html>

³ Attard, L.E. (1997), The safety valve, Publishers Enterprises Group (PEG).

on nuclear weapons and missile technology, and reduced focus on traditional naval forces. Hefty British investment to improve living standards in what was soon to be an obsolete base was no longer on the cards.

The announcement of large-scale redundancies in the Dockyards led to civil unrest and the suspension of self-government. At that point, both main political parties agreed that the pursuit of independence was the only rational reaction to the end of Malta as a military base. Between 1948 and 1967 almost 90,000 Maltese emigrated, about a third of the population. In 1964, the year when Malta became independent, about 6,000 emigrated, the second highest ever amount to emigrate – the peak was nearly 11,500 in 1954.⁴ In fact, a United Nations study, led by economist Wolfgang Stolper, carried in 1964 at the behest of the Maltese Government (Stolper, Hellberg & Callender, 1964)⁵ had once again recommended mass emigration as “the only feasible solution in the long run” to address what was then described as an overpopulation problem given the lack of employment opportunities.

Yet the exact opposite happened in the following years. The UN’s Population Prospects database suggests that the net migration rate averaged 17.8 per 1,000 each year between 1950 and 1965, the sixth highest net emigration rate in the world before dropping to 7.3 per 1,000 between 1965 and 1975.⁶ Findlay & Wellisz (1993)⁷ report that “contrary to the dire predictions of the experts” who had drafted the Stolper report there was instead considerable success in developing alternative sources of employment to reliance on the British naval base, which before its dismantling had accounted for over a quarter of total employment.

Post-independence Malta has been a veritable economic success story. In the first three decades after independence, Alesina & Spolaore (2003) notes that Malta was

⁴ UN Statistical Commission and UN Economic Commission for Europe (2003), Migration results from the 1995 Malta population and housing census, Working Paper No.8, Joint ECE-Eurostat work Session on Migration Statistics.

⁵ Stolper, W., Hellberg, R., and Callender, S. 1964. ‘Economic Adaptation and Development in Malta’, Report prepared for the Government of Malta under the United Nations Programme of Technical and Assistance of the Department of Economic and Social Affairs.

⁶ Grech, A.G. (2017), Did Malta’s accession to the EU raise its potential growth? A focus on the foreign workforce, *Journal of Economic Integration*, 32(4): 873-890.

⁷ Findlay R. & Wellisz, S. (1993), The political economy of poverty, equity and growth: Five small open economies, World Bank.

among only six countries in the world (the others being the Asian tigers and Botswana) to achieve an annual average growth rate higher than 5%.⁸

A precise analysis of the Maltese economy's evolution since independence is hampered by the lack of consistent time series for most economic variables. Though Malta's official statistics predate independence by about a hundred years, since EU accession there have been very significant changes in statistical methodologies which have caused considerable breaks in series. The Central Bank of Malta has over the last ten years remedied this by publishing online a database that provides consistent information starting from the immediate post-war period.

The Bank's database reveals that real GDP per capita in Malta has improved by 17 times since 1960, from just over €2,000 to just under €35,000 in 2025. Other indicators confirm the increased affluence of the Maltese. For instance, home ownership which stood at 32% in 1967 had risen to 82% by 2024. Bank deposits of the non-bank public rose in nominal terms from €0.4 billion in 1970 to €24.9 billion in 2025, or by nearly twelve times after taking into account inflation.

The improvement in Malta's real GDP per capita was quite consistent, with very few declines over this sixty-five-year period. During the late 1960s and 1970s growth averaged 10%, before slowing down to 1% in the early 1980s. It then recovered to 5% between the late 1980s and 2000, before dropping to 0.4% during the pre-EU accession restructuring years. In the first decade after accession, GDP per capita growth recovered to 2.9%, rising to 3.6% over the last decade. When the country was in its initial development stage, the economic cycle was very pronounced and long. In the 1990s the economy tended to operate at full capacity, while in the 2000s it was quite volatile, before the great recession.

From a country with net emigration, Malta has become the recipient of a growing number of migrants. Whereas in 1995 less than 2% of the population residing in Malta were foreign citizens, thirty years later this proportion had risen to nearly 30%. While changes in migration flows have played a central role in determining population dynamics, there have been other forces at play.

⁸ Alesina, A & Spoloare E. (2003), The size of nations, The MIT Press.

The proportion of the young population has been dropping consistently, driven downwards by the inexorable fall in the birth rate, today standing at around 1.0. Whereas at independence there were five and a half times more young people than elderly persons, since the start of the 2010s the elderly now outstrip the young in Malta. However, while the decline in the young population will undoubtedly affect economic growth negatively in the future, at present Malta has one of the highest proportions of the working age population in its history. This renewed demographic dividend, driven by migration, underpins the cycle of economic growth in Malta.

Besides the demographic dividend, the Maltese labour market was also affected by a transformation in the role of women in society and lower dependence on benefits among men. There were four main reforms that targeted the working age population; namely the introduction of free childcare for working parents, incentives to limit take-up of early pensions, the tapering of social security benefits, and the adoption of in-work benefit.

In 2014, a nation-wide universal free childcare scheme for children aged 3 months to 3 years was introduced for parents in employment or in education. Eurostat data indicate that in 2013, there was an employment gap of 33.4 percentage points between fathers and mothers in one-child families, as against a gender gap of 10.6 percentage points in couples with no children. The gender employment gap went up to 49.8 percentage points for families with three children or more. By 2025, the difference in employment behaviour between the father and the mother in Maltese families with children had more than halved to 15.4 percentage points for one-child families and to 27.5 percentage points for three-or-more-child families. The gender employment gaps between Maltese fathers and mothers became noticeably less than those observed in the EU.

Another reason why employment rates in Malta were so low was that most workers were able to access pensions at age 61, rather than the standard pension age, if they had enough contributions. As a result in 2016, about 25% of persons aged 61 were opting to leave the workforce. In response, Government introduced a deferral system that rewards those continuing to work by boosting their pension when they eventually retire. The size of this top-up can go up to 29% of the annual pension entitlement of the individual and is retained throughout retirement and is passed on to one's surviving

spouse. A decade after the introduction of the deferral scheme, the proportion of those still opting for an early pension had fallen to 15%.⁹

Another social security reform that boosted the labour force supply in Malta was the introduction of the tapering of benefits scheme. Through this reform it now takes 3 years for someone on benefits who started working to lose all their previous social benefit entitlement. Sant (2023)¹⁰ shows that the scheme doubled the probability of finding employment for someone after a benefit spell. The number of persons on social assistance are now almost a third of the amount in 2014.

In recent years, industry's relative importance has steadily declined, particularly after the surge in services activity that followed EU accession. For instance, whereas in the early 1980s those employed in the manufacture of clothing and footwear constituted 17% of all industrial workers, in recent years their share has fallen to just 4%.

Malta has traditionally had a large services sector, as the presence of the British naval base necessitated several ancillary services and resulted in a very good infrastructure particularly for transshipment and trade. Since EU accession, most economic growth was determined by export-oriented services. Besides tourism, the Maltese services sector has expanded to include higher value-added activities generated by the financial services sector, specialised forms of tourism – such as language schools and dive centres, maritime activity, professional services, back-office administration, information technology and gaming. The new services sectors are changing the Maltese economy in many ways. Malta has moved from being a deficit country to being a surplus country in the Balance of Payments, that is a net exporter. In fact, computer programming, professional services and administrative support, remote gaming and financial services accounted for over half of the increase in value-added since EU accession.

The picture that emerges from the data is one of a nation that has benefitted from an extraordinary rate of economic growth, and which over time has seen a significant reduction in economic volatility that contrasts with what one would expect of a small economy increasingly exposed to international trade. The Maltese economy has

⁹ Grech, A.G. (2025), Did the early pension deferral scheme lengthen careers in Malta, Central Bank of Malta Policy Note 4/2025.

¹⁰ Sant, K. (2023), The impact of Malta's tapering of benefit scheme on employment, Central Bank of Malta Working Paper 7/2023.

matured exceedingly rapidly, with cycles of inflation and unemployment becoming much less pronounced and with a consistent underlying downward trend. The structure of the economy has shifted strongly towards services, which has led to an increased demand for labour that has accommodated the secular rise in female participation in formal labour market activity. From a fortress economy that depended crucially on the UK's military budget, Malta's economic structure has transformed into a much-diversified set of industries.

The increased internationalisation of the Maltese economy has been a great boon, but it also means that the operators in this country need to focus greatly on retaining their competitiveness. This will potentially necessitate significant changes in labour market practices, particularly in view of the ageing transition which will be affecting substantially the supply of labour. Employers will need to provide ever more flexible arrangements to retain and attract staff, while attitudes towards training and employing older workers will have to change radically. Similar considerations apply to migration. A service economy needs workers, and while the planners of the post-war period deemed emigration inevitable, the policymakers of coming years will need to look into adopting a holistic approach towards migration if the pace of growth of the high value-added activities is to continue unabated.

At the same time, investment in education and training, together with providing necessary infrastructure – especially in new areas such as digital networks, will remain of key importance. The financial sector will need to continue to evolve rapidly to ensure that the large savings of the Baby Boom generation are utilised in the most effective way to finance the digital and green investments the country needs to make.

While these challenges are significant, the prospects for the Maltese economy remain much better than those of neighbouring countries, as it has evolved into a strong and stable framework that has withstood significant challenges. Maintaining a positive and dynamic approach will remain key to sustain the Maltese economy's next stage of development.

From an overpopulation problem stemming from very limited employment opportunities in the 1950s and 60s, today Malta, with its highly limited land area of just over 300 sq km, is facing the challenges of various forms of congestion arising from strong labour demand created by growing business opportunities. In the face of such

reality, this now requires a policy shift in achieving future economic growth by re-directing incentives towards raising skill levels of workers and investment in cutting-edge technology to address labour shortages arising from demographic realities and complement labour resources to boost total factor productivity.

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