THE MALTESE ECONOMY SINCE 1960

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THE purpose of this paper is to give a brief account of the most important changes in the Maltese economy between 1960 and 1984. It will be shown that during this period, major structural changes have taken place and these were mostly related to the expansion of the manufacturing sector and the phasing out of the British forces bases in Malta. It will be shown also the Maltese Gross Domestic Product and other important macro-economic variables have followed a cyclical pattern of change.

Development Planning in Malta – A Brief Outline

Until the fifties, the livelihood of the Maltese people depended to a very large extent on revenues derived from the servicing of the British military, naval and air force establishments.[1] In some ways this was to Malta's advantage, because it enabled the Maltese people to improve their standard of living and to enhance the quality of the labour force via the acquisition of industrial and clerical skills.

The major drawback was of course that the Maltese economic structure was grossly unbalanced, with excessive reliance on a source of income and employment tied to the defence needs of a foreign country. The growing awareness that Malta's strategic importance in the British defence requirements was due to decline sooner or later, led to attempts by successive Maltese governments to create new forms of economic activity.

During the second half of the fifties, it was obvious that changes in the British defence policies were going to result in massive rundowns of the British presence in Malta and the need was felt to implement a coordinated development plan to diversify Malta's economy.

The first development plan for Malta, covering the years 1959 to 1964 was based on a Lm29 million contribution by the British government. The

1. This had been considered to be a major weakness in the Maltese economy. On this question see for example the Report of the Royal Commission (1912) para. 74. See also Balogh and Seers (1955) para. 22–41 and Bowen Jones et al. (1959), chapters 5 and 6.

plan had full employment as its major objective, and for this reason assigned a leading role to industrial production, including ship repair,[2] and to tourism. Because of the smallness of the local market, industrial development was to be geared largely to the export market. The plan acknowledged that Malta's industrialization required overseas investment and knowhow, and this in turn called for a system of investment inducements,[3] the provision of adequate infrustructural facilities and a suitable legal framework.

The performance of the Maltese economy during the first plan period was not very encouraging. There was a measure of success in attracting new industries, in developing infrustructural facilities and in laying out the foundations of a tourist industry, but the growth objectives were not met. The economy could not expand enough to take the slack created by the rundown of the British defence establishments.[4] By 1964 an atmosphere of pessimism prevailed, particularly following the report of a United Nations Mission in Malta[5] which suggested that emigration would have to be stepped up, per capita income would have to fall, and that Malta's absorbtive capacity could not expand further.

The second five year plan, launched in 1964 – the year of Malta's independence from Britain[6] – had as an overriding objective the containment of the adverse effects associated with the rundown of the British military services. The future looked bleak at the time, and it was expected that emigration and unemployment were to remain at very high levels, and the number of gainfully unemployed was to decrease.

The strategy adopted in the second 5 year plan was by and large similar to that of the first, relying heavily on the performance of export oriented industries, on tourism and on agricultural development. However population

2. The highest priority as regards investment was assigned to the conversion of the Naval dockyard into a commercial ship repair yard. See para. 10 of the plan.
3. See Busuttil (1970) for a discussion on the incentive scheme associated with the industrial policy of the plan.
4. Refer to "The Next Five Years – Statement on Defence 1962", which spelled out the British defence policies. These changes adversely affected not only those employed with the British defence establishments, but also those whose livelihood depended on spending by British servicemen and their families in Malta.
5. The Stolper Report (1964) was the document containing the findings and proposals of a United Nations mission sent to Malta at the request of the Government, to study the economic problems of Malta and to help in the formation of a second five year plan.
6. Malta has had an eventful constitutional history under British rule which commenced in 1802. See Cremona (1964) and Blouet (1967).

policy was given more importance, and emigration was singled out as a tool of policy in this respect.[7] The objective was not to achieve growth, but just to keep the economy going during a period of transition from dependence on British expenditure to reliance on export earnings.

The actual outcome did not however bear out these dismal projections, since by 1969, output per capita and employment had expanded rapidly, and emigration and unemployment were much lower than had been envisaged. This was indeed remarkable, considering that in 1967 there was an unforeseen setback due to a second rundown of the British services.[8]

The rapid expansion of the construction industry, brought about by an increased demand for public housing, private dwellings and hotels, played an important role in the unexpected economic recovery after 1964. The construction industry generated its own employment, and that of related industries, particularly quarrying. Considerable expansion was also registered in the manufacturing sector largely owing to the fact that the policy of attracting export oriented industries started to bear fruit. The tourist industry also experienced expansion following a programme of hotel building and a sustained advertising campaign.

The third development plan for the Maltese Islands, covering the years 1969–1974, broadly speaking pursued the same objectives and adopted the same strategies as the previous ones, namely the promotion of full employment via industrial and touristic development. The plan also laid stress on the benefits of joining the European Economic Community[9] as a result of reduced tariffs and quota restrictions on Maltese exports to Western Europe. The plan was however abandoned, when in 1971 there was a change of government.

During the sixties, the Nationalist government did not, as a matter of

7. The Stolper report, which formed the basis of the second development plan considered emigration to be indispensable for improving living standards and reducing unemployment. Such a position was also taken in the Woods Report (1946), and the Schuster Report (1950).
8. As a result of the 1967 rundown of the British forces stationed in Malta an Anglo-Maltese joint mission, headed by Lord Robens, was appointed to report on how the Malta's industrial base could be strengthened to absorb additional jobs. The Robens Report (1967) amounted to a revision of the second development plan.
9. The EEC association agreement came into effect in April 1971. To all intents and purposes, this agreement amounted to a preferential trade agreement favouring Malta. The agreement was to be effective for a period of five years, with provisions for extention, the ultimate aim being the formation of a customs union between Malta and the EEC. See Apap Bologna (1977) and Causon (1972).

policy, involve itself directly in the productive sector of the economy, limiting its intervention to a backing role. The Labour government, elected in 1971, on the other hand made it manifestly clear that it was not going to adopt a passive stance, and placed greater emphasis than its predecessor on participating in directly productive activities, even in areas which were previously regarded as the domain of the private sector. A new plan was drawn up for the years 1973–1979 based on this philosophy. The plan, like its predecessors, was geared to industrial, agricultural and touristic growth and development, but much more emphasis was laid on the relationship between Malta's political and economic objectives.[10]

The seven year period covered by the plan coincided with a new agreement with Britain, whereby the British government bound itself to make annual rental payment of about Lm14 million a year up to March 1979, by which date the British military presence in Malta was to be completely phased out. The Labour government revised the E.E.C. agreement entered into by the previous government, arguing that the arrangement was not to Malta's favour,[11] and introduced a new package of investment incentives, arguing that the previous package relied to much on financial gifts and therefore tended to attract "lame ducks".

The targets set by the fourth plan regarding aggregate employment and output were reached. However the manufacturing sector, which was given a very important role in the plan, did not absorb as much labour as was forecast, and to offset this shortfall, the government had to resort to employment in labour corps.[12] On the other hand, the market services sector, particularly tourism, performed much better than was envisaged. As planned, the British services sector was completely phased out by 1979.

The fifth development plan for the Maltese Islands covered the years 1980 to 1985. The major economic objectives of the plan were twofold, namely full-employment and a healthy balance of payments. Like its predecessors, the plan acknowledged that economic growth must be largely

10. During the seventies the labour government pursued a policy of what it called active neutrality, involving a commitment to non-alignment, and the dismantling of superpower affiliations. The agreement with Britain in 1972, providing for a phased withdrawal of British forces, and the development plan launched after this agreement, were described as forming part of this political objective.
11. The labour government's views on this question are expressed in the 1973–1979 Development Plan pp. 11–12, and the 1980–1985 Development Plan pp. 72–75.
12. The number of persons engaged in the labour corps averaged around 4,000 between 1972 and 1974.

export-led. As in the fourth plan, political objectives were given considerable importance, and the overall aim of the plan was to increase self-reliance, and the strengthening of the Maltese economy was seen as a safeguard against Malta's erosion of self-reliance. The plan also emphasised the need to restructure the economy so as to reduce the excessive dependence on the clothing industry and on tourism, on the need to boost productivity and competitivity via technological advance. After the experiences of the seventies, the need to curb inflation was also stressed.

The overall targets set by the fifth plan, especially those related to employment, output and foreign trade have not been met. In particular the labour force and gainfully employed figures in 1985 were widely off the mark set by the plan. The reasons for this were various, and probably related to the international recession, to Malta's overvalued domestic currency, and to Malta's inability to attract enough foreign productive investment. The attempts to restructure the economy by and large also failed, because by 1985 Malta still depended to a large extent on the clothing industry, and the contraction of the relative importance of the tourist industry occurred as a result of lack of demand and not as a result of a diversification policy.

A General Overview of the Development Strategy

Although Malta had different governments since 1960, the basic objective of successive plans was essentially the same, namely that of making Malta a viable economic unit, which by its own efforts would provide jobs for those who sought them. To achieve this objective, measures were taken to diversify the economy away from defence bases towards industrial production, tourism and agriculture. Since Malta's internal market was and still is very small, industrial expansion had to be sustained via increase reliance on the export market, and therefore the importance of competitiveness for attaining the plan objectives, was always stressed. All plans insisted on the need for adaptation of attitudes and of methods of production to the changing structure of the Maltese economy.

The major differences between the planning approaches of the Nationalist and Labour administration were related to the role of the state in directly productive activities[13] and to the role of emigration in reducing unemployment.[14]

13. See the 1980–1985 Development Plan, pp. 60–61.
14. Unlike the position held by Stolper, Balogh and Seers (1955) considered emigration to be a waste of skills and this line of thought has, by and large, been that held by the labour government during the seventies.

The planning process in Malta has been beset by a series of difficulties not of Malta's own making. These included the successive and sometimes unexpected decreases in the British defence expenditure during the sixties, the international energy crisis and unprecedented inflationery pressures during the seventies, and the international recession during the early eighties. The planning exercise has however achieved a satisfactory measure of success, as evidenced by the growth of the number of the gainfully occupied, the expansion of the manufacturing sector, the rise in national income and the decreased reliance on British military expenditure. Whether self-reliance – a major objective in all development plans – has been achieved is a matter of debate. It remains to be seen whether Malta can completely fend for itself without direct financial aid from foreign governments.

Structural Changes in the Maltese Economy

This section examines briefly how the structure of the Maltese economy changed in terms of output and employment. The data used are annual observations from officially published statistics.[15] The period covered is 1960 to 1984. This twenty-five year period is divided into five equal sub-periods, which broadly correspond to different time-spans during which the development plans were operative. These sub-divisions also happen to approximately coincide with the pattern of fluctuations of some important labour market variables.

Table 1

GDP at Factor Cost, Employment and Unemployment in 1960 and at the end of each sub-period.

	1960	1964	1969	1974	1979	1984
GDP (Lm Million)	43.5	43.5	70.8	118.6	293.7	421.4
Employment (persons)	88690	86530	100460	102310	119262	111314
Unemployed (persons)	3772	7645	3813	6285	3294	10448
Labour Force (persons)	92462	94175	104273	108595	12256	121762
Unemployment Rate (%)	4.1	8.1	3.7	5.8	2.7	8.6

Sources: National Accounts and Annual Abstract of Statistics.

Table 1 gives the actual magnitudes of the Maltese Gross Domestic Product, of employment and of unemployment in 1960 and at the end of

15. The data were obtained from various issues of the National Accounts of the Maltese Islands, and the Annual Abstract of Statistics.

each of the five sub-periods under consideration.

The figures in table 1 do not adequately describe the changes that have occurred during the past twenty-five years, and they are mainly useful as reference for the growth rates to be presented below. However a look at the employment statistics given in this table would indicate that the last years of the sixties and of the seventies were characterized by high employment levels and low unemployment rates.

The actual rates of change of these aggregate variables are given in table 2.

Table 2

Annual Rates of Change (per cent) of GDP, Employment and Unemployment Rates. Averages for five-yearly sub-periods.

	1960–64	1965–69	1970–74	1975–79	1980–84
GDP in real terms.	-1.1	8.2	6.9	11.8	1.3
Employment (Persons).	−0.8	3.2	0.2*	2.4	−1.9
Employment (Manhours).	−0.8	2.5	−1.0	0.7	−1.9
Unemployment Rate.	19.7	−22.0	9.5	−10.9	25.3

* shows that the estimate was not different from zero at the 95 per cent level of statistical significance.

The first row of table 2 gives the percentage rates of growth of GDP, measured in real terms[16] so as to remove the effect of price changes. It can be seen that the only period of contraction as far as GDP is concerned was the 1960–1964 sub-period, which as noted earlier was characterized by a severe rundown of the British Military expenditure. The decline of GDP during this sub-period would have been much greater had it not been for the rapid increase in investment between 1960 and 1964 as part of the

16. The term "real" here means that the current money value of the variable, whose rate of change is being estimated, was deflated by an appropriate price index in order to remove changes due to prices alone. The deflators used were obtained from Waldorf (1969) for the years 1960–1966 and for the "National Accounts. . . ." for the other years.
The rate of change of the variables were estimated by applying the Ordinary Least Squares method of regression to the equation $Y = e^{rt}$ where Y is the variable in question and r is its rate of change. The statistical significance of the estimated rate of change was determined on the basis of the "t" distribution.

development strategy.

It can be seen from the second and third rows of table 2 that this period was also characterized by a decline in employment and a very rapid increase in unemployment rates. The increases in the rate of unemployment would have been much higher had emigration not been resorted to.

The 1970 – 1974 sub-period cannot be, strictly speaking, described as a period of contraction, since GDP continued to grow at an average of 6.9 per cent per annum, but there was a decline in the rate of growth compared with the 8.6 per cent of the previous sub-period. One reason for this slow-down in the rate of increase could have been that investment in construction had decreased between 1970 and 1974.[17]

Of interest is that, although between 1970 and 1974 GDP tended to grow, the number of persons employed did not grow significantly, and had employment not been artificially created by the government in labour corps, the number of persons employed would have possibly decreased.

Of interest is that employment measured in manhours has decreased during the 1970 – 1974 sub-period. Manhours are measured by multiplying the number of persons employed by the number of average yearly hours worked. During the 25-year period under consideration, average hours of work tended to decrease from about 47 hours per week in 1960 to 40 hours per week in 1977. The fact that between 1970 and 1974 employment in manhours decreased suggests that had working hours not been reduced during this sub-period, employment of persons would have possibly decreased.

During this sub-period the rate of unemployment (and of emigration) tended to increase, again reflecting the relatively bad performance of the economy during this sub-period.

The 1980 – 1984 sub-period is perhaps the worst one as far as employment is concerned. The rate of growth of GDP averaged about 3 per cent per annum. Employment decreased at a very rapid rate – the fastest decline when all sub-periods are considered. Unemployment, on the other hand increased at a very fast rate, and had the number of people willing to work not decreased, the unemployment figures would have been much higher.[18]

17. Construction expenditure in Malta was much lower during the first half of the seventies than during the second half of the sixties.
18. The labour force decreased from 123,651 in 1980 to 121,762 in 1984. This was probably partly caused by members of the working age population opting out of the labour force due to the reduced chance of finding a job.

The other sub-periods, namely 1965–69 and 1975–79 were characterized by fast growth rates of GDP and employment, and by fast decreases in the rate of unemployment. The most rapid increase in GDP occurred between 1975 and 1979 and the fastest increase in employment occurred between 1965 and 1969. Probably the most important factors which accounted for the good performance of the Maltese economy during these sub-periods, were the construction boom during the second half of the sixties, and the tourist boom of the seventies, both of which have given rise to expenditures with relatively high multiplier effects.[19]

The information in table 2 therefore suggests that the Maltese economy experienced a cyclical pattern of growth, with downswings during the early sixties, the early seventies and the early eighties and upswings during the second half of the sixties and of the seventies.

The Composition of Gross Domestic Product

The pattern of change shown in table 2 have been accompanied by changes

Table 3
Net Output of Broad Economic Sectors as a Percentage of GDP at Factor Cost. Averages for 1960–1984 and for five-yearly sub-periods.

	1960–64	1965–69	1970–74	1975–79	1980–84	1960–84
Manufacturing and Drydocks	16.5	20.8	24.3	32.7	30.5	24.9
Construction and Quarrying	4.4	4.4	4.2	2.9	5.0	4.2
Market Services	33.6	33.3	30.4	30.9	34.3	32.5
Agriculture and Fishing	7.3	7.2	7.2	5.3	4.1	6.2
Public Admin. and Enterprise	17.8	19.8	21.8	19.8	18.7	19.6
British Forces	15.0	9.5	6.3	2.3	–	6.7
Property Income	5.4	5.0	5.8	6.1	7.4	7.4

Source: National Accounts.

19. Construction expenditure in Malta tends to have a high multiplier effect mostly because it has a relatively low import content, and tends to generate employment in a number of other industries, notably quarrying, woodwork and non-metallic minerals. Tourist expenditure also tends to have a high multiplier effect due to relatively low import content, and tends to generate employment throughout the services sector. On the question of multipliers in the Maltese economy, see Briguglio (1987), Metwally (1977) and Waldorf (1969).

in the composition of GDP. Table 3 presents data on the contribution of major sectors during the sub-periods under consideration.

It can be seen from table 3 that the fastest growing sector was manufacturing, which accounted for just 17 per cent in the early sixties, and increased to about 33 per cent during the late seventies. There was a small decline in the percentage share of this sector during the first half of the eighties. A further breakdown of this sector would indicate that the manufacturing itself experienced structural changes during the past twenty-five years, with the textile, clothing and machinery industries expanding their relative shares.

The British military establishments on the other hand, reduced their share of GDP from an average of 15 per cent in the early sixties to zero during the eighties. As already explained this was in line with the development strategy adopted in the Maltese development plans.

The changes in the shares of other sectors were not as dramatic as those pertaining to manufacturing and the British bases. Construction and

Table 4

Employment by Broad Economic Sectors and by Sex as a Percentage of Total Gainful Employment. Averages for 1960–1984 and for five-yearly sub-periods.

	1960–64	1965–69	1970–74	1975–79	1980–84	1960–84
Manufacturing and Drydocks	18.2	21.3	27.0	31.3	31.8	25.9
Construction and Quarrying	8.6	10.7	8.0	4.2	5.8	7.5
Market Services	28.4	29.8	30.4	30.8	32.7	30.3
Agriculture and Fishing	8.9	7.3	6.3	6.4	6.4	7.1
Public Admin. and Enterprise	19.6	20.6	22.9	25.2	24.6	22.5
British Forces	16.2	10.3	5.3	2.1	–	6.7
Total	100	100	100	100	100	100
Male	81.8	79.6	76.0	74.0	75.0	77.3
Female	18.2	20.4	24.0	26.0	25.0	22.7

Source: Annual Abstract of Statistics.

quarrying have contributed an average of 4.2 per cent, market services[20] an average of 32.5 per cent and the government sector an average of 19.6 per cent of GDP. The share of agriculture and fishing has averaged around 6.2 per cent but has tended to decrease during the 25-year period.

It should be recalled here that these are average changes, and do not adequately describe year to year fluctuations of these shares.

Table 4 shows the changing pattern of the distribution of employment in different sectors, brought about by changes in the structure of GDP.

In general, the changes in employment reflected the changes in the shares of GDP. For example, the increasing share of the manufacturing output has increased employment in manufacturing from just over 18 per cent of the gainfully occupied in the first half of the sixties to about 32 per cent in the eighties.

Another finding presented in table 4 is that female employment as a percentage of total gainful employment has increased from just over 18 per cent in the first half of the sixties to about 26 per cent in the second half of the seventies. The percentage has decreased slightly during the eighties, reflecting the fact that most of the jobs lost since 1981 related to female employment.

With respect to female employment, this has tended to increase at a faster rate than male employment between 1960 and 1980. The bulk of the increases in female employment occurred in the manufacturing sector, mostly in the clothing, textile and electrical machinery industries.

The Composition of Total Final Expenditure

The changes in the composition of GDP have been accompanied also by changes in the composition of locally produced and imported resources in the total final expenditure. Total final expenditure is the total amount of money spent on consumption, investment and exports of goods and services produced by Maltese firms. During the past 25 years, about 41.6 per cent of total final expenditure was local value added, and this constituted Malta's GDP, whereas the remaining 58.4 per cent was imported.

However, the share of imports, when measured at constant prices, have tended to increase during the sixties and to decline during the seventies and eighties. In the sixties about 46 per cent of total final expenditure was imported, and about 54 per cent were locally produced. During the eighties, the percentage of imported resources amounted to about 36 per cent and

20. Market services here include wholesale and retail trades, banking insurance and real estate, transport, communications and personal and other services.

the remaining 64 per cent was local value added. This is confirmed in table 5 below which gives the rates of change of imports and of total final expenditure, and shows that the former tended to grow at a faster rate than the latter during the sixties, and at a slower rate then the latter during the seventies and the eighties. This tendency has of course been brought about by the policy of import substitution and import controls which have been resorted to with increased intensity since the seventies.

The composition of total final expenditure has also changed in terms of the expenditures which constitute it. As already noted, there are three main expenditures, namely consumption, investment and exports. Throughout the period of this study, private consumption expenditure has averaged around 40 per cent of total final expenditure measured in real terms. The remaining 60 per cent of total final expenditure consisted of an average of 9 per cent on public current expenditure, an average of 16 per cent on gross public and private investment and an average of 35 per cent on exports of goods and services.

In general these components of total final expenditure tended to increase rapidly during the second half of the sixties and of the seventies, and to

Table 5

Annual Rates of Change (Per cent) of Total Final Expenditure and its Components Measured in Real Terms Averages for Five-Yearly Sub-Periods.

	1960−64	1965−69	1970−74	1975−79	1980−84
Private Consumption	1.9	10.2	3.3	8.2	2.7
Government Consumption	−0.2*	5.1	1.5	8.2	2.3
Construction Investment	−4.0*	16.2	−7.9	12.4	11.6
Machinery Investment	12.4	19.4	−11.8	2.4*	8.9
Exports Goods and Services	−3.2	8.7	10.9	11.4	−6.6
Total Final Expenditure	0.6*	10.2	4.1	9.7	−0.5
Imports Goods and Services	2.7	12.5	0.6*	6.6	−3.7

* shows that the estimate was not different from zero at the 95 per cent level of statistical significance.

increase slowly during the other sub-periods. The only sub-period where total final expenditure has tended to decline was between 1980 and 1984, mostly as a result of a decline in exports of goods and services. The estimated rates of change of total final expenditure are given in table 5.

Table 5 shows that in some instances, certain expenditures actually decreased. For example, exports have tended to decline in real terms between 1960 and 1964 and between 1980 and 1984, whereas investment has tended to decrease between 1970 and 1974.

The Maltese Balance of Payments

The balance of payments gives a picture of Malta's transactions with the rest of the world. It is usually divided into three parts, namely the current account, the capital account and official financing account. The current account shows the balance between exports and imports of merchandise (called the Trade Gap), the balance between exports and imports of services, the inflows and outflows of foreign exchange resulting from foreign investments, and the inflows and outflows of foreign exchange resulting from private and governmental transfers.

Table 6 gives a summary of the main balances in the current account during the period of our study. Briefly, Malta has always experienced a relatively large deficit in its merchandise trade, as shown by the trade gap in the table, and a positive, but smaller surplus in its services trade. Thus the resource gap (the balance between exports of goods and services) was negative during all sub-periods.[21]

The bulk of merchandise exports consisted of clothing and textiles, and in recent years electrical machinery has had a major share also. As regards services, the most important sources were expenditures connected with the British forces bases during the sixties, but with the development of the tourist and manufacturing industries, foreign travel and transportation have accounted for a large proportion of foreign exchange inflows from exported services.

The deficits which Malta experienced on trade in goods and services tended to be partially offset by investment income from abroad, the net

21. The deficit in the resource balance would have been wiped out had import prices not risen at a faster rate than export prices during the past years. For example, in 1984, exports measured at constant 1973 prices amounted to about Lm150 million whereas imports, also measured at 1973 prices amounted to about Lm145.

inflows from which are given in table 6.

Table 6

Some Statistics Pertaining to the Maltese Balance of Payments Averages for Five-Yearly Sub-Periods.
Lm Million

	1960–64	1965–69	1970–74	1975–79	1980–84
Merchandise Trade (Trade Gap)	−22.9	−27.1	−42.9	−61.4	−116.5
Services Trade	16.6	13.3	15.9	37.8	62.2
Merchandise + Services (Resource Gap)	−6.3	−13.8	−27.0	−23.6	−54.3
Net Investment Income From Abroad	3.7	5.2	8.6	17.1	41.4
Transfers (grants and remittances)	4.2	11.2	24.6	30.6	28.8
Balance on Current A/C (Surplus)	2.8	2.6	6.1	24.1	16.1
Balance on Capital A/C (Surplus)	−1.9	3.7	8.8	18.0	18.6
Average Yearly Increase of Official External Reserves	0.9	6.3	14.9	42.1	34.7
Total Official External Reserves at the End of Sub-period	27.7	59.5	134.2	344.7	518.3

Source: National Accounts of the Maltese Islands.

Another source of foreign exchange on current account are transfers which consist of remittances and pensions to households and foreign exchange grants to the Maltese government. Considering all these inflows and outflows of foreign exchange, the overall balance on Current Account was generally a surplus, as shown in table 6.[22]

The capital account of the balance of payments consists of inflows and outflows of foreign exchange for investment purposes. Excluding foreign exchange outflows of the Monetary Authorities (the Central Bank), except for the first sub-period, the capital account has tended to be in surplus,

22. Since 1960, a balance of payments deficit on current account was registered during all year with the exception of 1964, 1969 and 1983.

indicating that on average capital inflows from abroad have tended to offset capital outflows to foreign countries. It should be noted here that capital inflows include government loans from other governments and institutions, but the outflows do not include those of the Monetary Authorities.

If we add the net surpluses of foreign exchange from the current account to the net surplus in the capital account we obtain the total net surplus in the balance of payments. This surplus represents a residual which is computed after all foreign exchange transactions have been considered, with the exception of foreign exchange outflows of the Monetary Authorities.

During any one year, this residual constitutes the net additions of foreign exchange and in practice it approximately amounts to the additions of official external reserves of the Monetary Authorities for that year. It can be seen from table 6 that foreign reserves held by the Monetary Authorities have tended to grow rapidly during the seventies. It should be noted in this context that the size of this residual depends to a large extent on the restrictions imposed by exchange control legislation which limit the private sector's freedom of holding foreign exchange and on import controls, which constrain the private sector's freedom to buy foreign goods and services. As is well known, during the seventies and the eighties, the labour administration has imposed strict foreign exchange controls (according to the 1972 Act) and strict import controls, by means of licencing.

It can be concluded from table 6 therefore that Malta has in general enjoyed an overall surplus of foreign exchange inflows. A closer look at the balance of payments statistics would indicate that, in many years, this surplus would not have been possible without official transfers (grants) and borrowing from abroad by the government. This notwithstanding, Malta's external debt is not excessive by international standards. On the other hand, Malta's official external reserves are rather high when compared with those of other countries.[23]

Major Problems of the Maltese Economy

An important conclusion that emerges from this study is that attempts by

23. The Maltese Official External reserves for 1984 amounted to about 16 months worth of imports. This is much more than the amount kept by most countries (see International Financial Statistics, IMF.)

Of interest in this respect is that during the sixties, when official foreign reserves were being accumulated at a slow rate, investment in machinery increased at a very rapid rate. On the other hand, during the seventies, when the accumulation of official foreign reserves was proceeding at a very fast rate, investment in machinery increased at a relatively slow rate.

successive Maltese governments to expand local production and phase out the traditional dependence on British military expenditure were by and large successful.

As was noted, this has resulted, amongst other things, in the expansion of an export oriented manufacturing sector and a relatively large tourist industry. During the process of expansion and diversification, a process of import substitution was taking place, and local production has increased its share at the expense of imports in the total available resources.

However, there were and there still are problems inherent in the Maltese economy. One disturbing feature of the Maltese economy is its size. It is very small, and it has to rely on exports to produce on a sufficiently large scale, and on imports to make up for its lack of natural resources. The smallness of Malta's economy, therefore, renders it completely exposed to what happens abroad. This is why the international recession during the early eighties has had a major impact on the Maltese economy.[24]

Another weakness of the Maltese economy is that import requirements tend to be too high particularly in export oriented industries. This reflects the low degree of inter-industry dependence.[25] The result of this has been chronic deficits in Malta's trade gap, as indicated above. The severity of this problem would be reduced if inter-industry linkages are improved by for example, setting up enterprises which provide inputs for others. This would give rise to an increase in the share of Malta's value added in total available resources.

An area of concern is that an excessively high percentage of exported goods consist of textiles and clothing, and that exported goods in general are almost exclusively directed towards the EEC particularly to the United Kingdom and West Germany. It would seem that the dangers of putting too many eggs in one basket is at present being taken very seriously and efforts are being made to diversify the structure and direction of Malta's exports.[26]

24. Malta is one of the most "open" economies in the world. For example in 1979 exports of goods and services amounted to about 99 per cent of GDP at factor cost and the Imports of Goods and Services to about 105 per cent of GDP at factor cost (i.e. the total final expenditure consisted of 51 per cent imports and 49 per cent GDP). This is a high percentage when compared to other countries. See World Bank Report.
25. Metwally (1977) analysing the input–output matrix for the Maltese economy, concluded that the total intermediate output is less than one third of Malta's input requirements (op. cit., p. 16). Malta's export oriented industries are characterised by a low degree of linkages, and this gives rise to a high import content, and relatively low multiplier effects.
26. See for example the 1980–1985 development plan p. 66, p. 109 and p. 121.

Tourism has had an important beneficial effect in terms of foreign exchange earnings and employment, but excessive reliance on tourism present a danger in that the tourist industry tends to be quite volatile, depending as it does on the whims and fancies of foreign travellers and the successes or failures of competing tourist resorts.[27]

As regards foreign trade in general, the major recurrent problem is the maintenance of competitivity vis-à-vis foreign countries. As is well known, a policy of tying the Maltese lira to relatively strong foreign currencies was adopted during the seventies and first half of the eighties. The effect of such a policy on Malta's competitiveness has been the subject of serious empirical research, which in general indicated that the high value of the Maltese lira during the eighties has done more harm than good to the Maltese economy.[28]

As for the future, the most pressing problem would seem to be that of maintaining and possibly increasing the degree of self-reliance that has been achieved in the past. The developments during the past 25 years, discussed in this study, would seem to indicate that Malta, though poorly endowed as far as natural resources are concerned, and faced with the additional problem of a small domestic market, has shown itself capable of expanding with increased reliance on its own initiatives.

27. Malta has suffered from the volatile nature of the tourist industry. For example the lifting of the £50 stg. limit on British tourists outside the sterling area in the early seventies, had an adverse effect on Malta's tourist inflows. Similarly the political climate in Spain, the performance of the British economy, and political attitudes of the British press towards Malta have all had important impacts on Maltese incoming tourism.

28. See Scicluna (1984).

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