

Greylisting: what lies ahead for business in Malta?

How will Malta's recent grey list classification impact the economy and businesses? **Jo Caruana** speaks to five experts to assess the outlook for 2022 – and to gain their insight on what needs to be done to forge the best route forward for business and the wider economy.

THE DUST HAS STARTED TO SETTLE ON THE FINANCIAL ACTION TASK FORCE'S (FATF) June decision to add Malta to its grey list of untrustworthy jurisdictions. Nevertheless, the shockwaves it sent are still being felt, as stakeholders grapple with serious fears over the impact on foreign direct investment, money transactions and banking activity. While Government has committed to intense efforts to enact the reforms necessary for the decision to be reversed, the outlook for businesses and the economy remains in question.

Admittedly, optimism appears low among many businesses. A recent survey by the Malta Employers Association found that 71 per cent of businesses across the board felt they would be negatively impacted by the greylisting, with that figure shooting up to nearly nine in 10 of those in the gaming, financial, insurance and professional

services sectors. Nealytal said they believed the negative impacts would begin to be felt before the year's up.

"Our assessment is that all sectors of the economy will, directly or indirectly, be impacted by Malta's greylisting," says Marc Alden, Datoile Malta CEO. "An economy is like an ecosystem. Each part plays a role and nothing operates in a silo, ring-fenced from the rest. The impact of Malta's greylisting will extend to all sectors of the economy and public administration generally. We must understand that this is a national issue and getting Malta off the grey list must be a national priority for the benefit of all."

On a broad level, Mr Alden says greylisting could have an impact on local investment, jobs and consumer spending, as well as the ability for businesses and consumers to access services and carry out certain activities. He reads,

"The most dangerous thing for us would be to look at this as a **public relations exercise** or something that requires a **quick fix**."

Marc Alden



however, that the overall impact – and therefore the outlook for businesses and the economy – will be determined as much by the country's response as by the event itself. If tackled in the manner it requires, some good could still come of the experience.

"The most dangerous thing for us would be to look at this as a public relations exercise or something that requires a quick fix," he stresses. "What we should really do is take a long, hard look at ourselves, identify what has got us to where we are and take the steps necessary to fix the problems – not because we have to or because somebody is watching us, but because we recognise the value of effectively fighting financial crime and because we believe that our country as a whole would be better off for it. The rest will follow once we have got the fundamentals right."

JP Fabri, an economist and co-Founding Partner of Seed, points out that the long process of rectifying the situation had already begun before the FATF decision in June. For instance, several reforms, guidelines and new requirements came into effect in the months prior, and the positive Moneyval assessment earlier in the year showed that Malta was making good progress towards improving its legal and governance structures.

"Malta continues to operate in an **extremely competitive environment**. Our focus must be on our complete ecosystem: banking relationships, efficient regulatory processes, and a positive customer journey."

JP Fabri



"Though the Maltese economy has always been **vulnerable to shocks**, it has historically shown itself to be **resilient**."

Marie Biguglio

Mr Fabri believes it is still too early to quantify the effects greylisting may have, with much depending on the stance foreign banks take with respect to doing business and processing payments originating or terminating in Malta. "This could be the biggest tangible effect: the difficulty in effecting payments, especially dollar ones," he says. "Prior to greylisting, Malta had already suffered the brunt of global de-risking by correspondent banks, and this may well be exacerbated by greylisting. But only time will tell how banks react."

Recent reports of companies surrendering their licences to operate in Malta, Mr Fabri says, are not solely the result of greylisting but symptoms of a "weakened, fragmented" financial services ecosystem. "Looking ahead, Malta continues to operate in an extremely competitive environment and that is why the focus needs to be on the complete ecosystem, including banking relationships, efficient regulatory processes, positive customer journey, and experience together with the right talent," he says.

"The continuation of the reforms and of strengthening Malta's governance system and structure is a priority. Momentum and focus must remain unabated, yet I believe reforms need to have a degree of proportionality and attention must be given to implementation and maintenance. Here, the key is digital transformation, and regulatory and compliance processes need to be automated to ensure that they do not burden operators unnecessarily. Further focus on ensuring that ecosystems are truly working and not fragmented will also be central to support Malta's relaunch," Mr Fabri says.

For economist Marie Biguglio, the outlook for 2022 appears challenging on several counts, with the FATF judgement sitting alongside post-pandemic recovery, a general election and the challenges of meeting EU goals in climate and budgetary domains. On the other hand,

she points to the gradual recovery of the tourism sector and fresh impetus to private and public investment as reasons for optimism. "Though the Maltese economy has always been vulnerable to shocks, it has historically shown itself to be resilient," she says.

Dr Biguglio warns that greylisting is likely to indirectly impact all sectors of the economy once some sectors begin to shrink and a cycle of contraction begins, with those closer to foreign direct investment, banking and finance feeling the impact sooner and to a greater extent. For the public, she says, this could manifest itself in lengthier and costlier bank transactions, more checks on depositors' accounts, and loss of sources of income as the economy shrinks.

