

## No shelter from the crisis



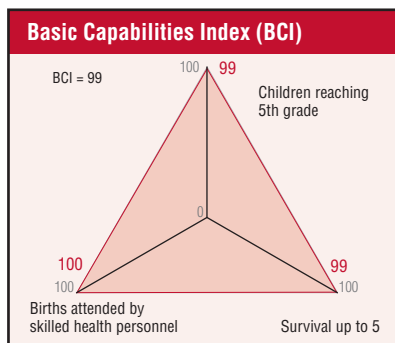
Although the Maltese economy seemed at first to be shielded from the global economic crisis, the effects are starting to be felt. Tourism is declining, and food and utilities have become more expensive. Opinion polls show that the Maltese are not confident of the immediate future, expecting deteriorating quality of life in 2009. The number of asylum seekers grows daily, and their plight tends to get worse.

Kopin Malta  
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At the end of 2008, most developed countries were in recession and the world economy was in a steep downturn. During the year's first two quarters, the Maltese economy seemed largely sheltered from the effects of the financial crisis. Growth continued to be driven by domestic demand, primarily in the form of higher consumption expenditure and a sharp accumulation of inventories.<sup>1</sup> Conditions in the labour market remained favourable, with the private sector continuing to fuel job creation. There was a slight increase in employment (1.3%), while the unemployment rate remained stable at a relatively low 6%. However, net exports contributed negatively to growth for the third and fourth quarters.

The rise in international food and fuel prices resulted in higher consumer prices and inflation. Malta's inflation rate was 4.7% – the highest rate in the euro area in 2008.<sup>2</sup> Moreover, recent international developments pose increasing risks to growth. Malta's export market was the worst affected in the whole of the EU in 2008: there was a fall of 14%, compared with an average rise of 6.2%. The Spring report of the European Commission Economic and Financial Affairs forecasts 0.7% GDP growth, 1.9% inflation, 7.4% unemployment, a negative balance of 2.6% in the budgetary deficit's proportion of GDP and a lowering of the current account balance by -7.0%.<sup>3</sup>

Maltese banks remain sufficiently liquid and well capitalized to cover credit and operational and market risks. They are well regulated to protect clients, although one of the most important banks suffered a 60% decrease in its annual profits for 2008 due to the collapse of an international bank. The Government guaranteed bank deposits up to EUR 100,000 (USD 132,000).



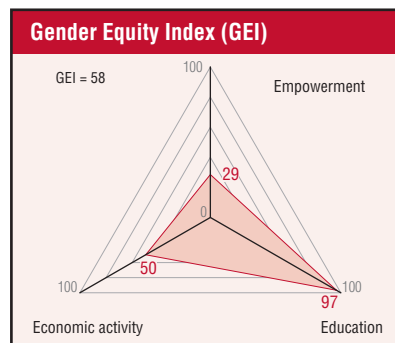
Inflation put some strain on household finances, particularly those in the lower income bracket. Residents' deposits with Maltese banks increased, though their annual growth rate declined, while credit to residents continued to expand. Average bank rates dropped by 102 basis points between September and November as banks passed on part of the reduction in official interests rates to customers. Meanwhile, yields on Government securities declined while equity prices continued to fall.<sup>4</sup>

### Food and energy

Malta imports most of its food. Eurostat reports show that the country experienced a rise in food prices between April 2007 and April 2008 of 9.7%. This figure amounts to twice the yearly inflation rate and significantly affected consumers' disposable income. A handful of importers dominate the market and hinder competition: the Eurostat's report recognises that Malta suffers from lack of competition, while the rise in prices probably is also associated with the change over to the euro. The Maltese Office of Fair Competition should analyse and investigate this situation.

The dramatic rise in 2008 of the world market price of oil (USD 147/bbl) was reflected in higher prices of fuel, electricity and especially water, as Malta generates a substantial amount of this using reverse osmosis plants. In October 2008, utility costs for consumers almost doubled, with small households that do not fall under the eco-reduction scheme – which stimulates voluntary energy savings through tariff reductions – especially hard hit.

Representatives of 11 unions lobbied the Government on the issue of the new utility rates, writing



to the Prime Minister on 10 December 2008 about discrepancies in the way these were calculated.<sup>5</sup> They claimed that the Government was playing with figures and inflating the number of families set to benefit from eco-reductions. In January 2009, the unions directed consumers not to pay their utility bills before the end of the 45-day window allowed by the Water Services Corporation.<sup>6</sup> The employers' organisation subsequently joined in criticizing the rate structure, claiming that it discriminated against small and medium enterprises. The Chamber of Small Businesses ordered its members not to pay a proportion of their utility bills.<sup>7</sup>

The minister responsible for utilities promised in September that rates would be reduced when the international price of oil fell below USD 85/bbl. However, although oil prices dropped to half that figure (USD 37/bbl),<sup>8</sup> consumers continue to be charged the same high prices. In this regard, it should be mentioned that the Government is preparing Ene-malta, the national energy company, for privatization

1 Central Bank of Malta. *Quarterly Review 2008*, Vol. 41, No. 4. Available from: <[www.centralbankmalta.org/updates/downloads/pdfs/qtr\\_2008\\_4.pdf](http://www.centralbankmalta.org/updates/downloads/pdfs/qtr_2008_4.pdf)>.

2 Eurostat. "Euro Area External Trade Deficit 32.1 bn Euros", News Release 21/2009. 17 February 2009. Available from: <[epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/6-17022009-AP/EN/6-17022009-AP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/6-17022009-AP/EN/6-17022009-AP-EN.PDF)>.

3 European Commission Economic and Financial Affairs. "Spring Forecasts 2009–2010." 4 May 2009. Available from: <[ec.europa.eu/economy\\_finance/thematic\\_articles/article15178\\_en.htm](http://ec.europa.eu/economy_finance/thematic_articles/article15178_en.htm)>.

4 Central Bank of Malta. *Quarterly Review 2008*.

5 Malta Union of Midwives and Nurses (MUMN), Malta Union of Teachers (MUT), General Workers Union (GWU), Union of Cabin Crew, Union Haddiema Bank Centrali, Union of Technical and Clerical Workers of Malta Environment and Planning Authority (MEPA), Union Profjonisti Awtoritá għall-Ambjent u Ppjanar, University of Malta Academic Staff Association (Umasa), Airline Pilots Association, Union Periti u Inġiniera Servizz Pubbliku and Association of Airline Engineers.

6 See: <[www.di-ve.com/Default.aspx?ID=72&Action=1&NewsID=57111&newscategory=31](http://www.di-ve.com/Default.aspx?ID=72&Action=1&NewsID=57111&newscategory=31)>.

7 Sansone, K. "GRTU Has No Faith in Resources Authority". *Times of Malta*, 29 January 2009. Available from: <[www.timesofmalta.com/articles/view/20090129/local/grtu-has-no-faith-in-resources-authority](http://www.timesofmalta.com/articles/view/20090129/local/grtu-has-no-faith-in-resources-authority)>.

8 Department of Information. Press Release, No. 0164, 3 March 2009. Available from: <[www.doi.gov.mt/](http://www.doi.gov.mt/)>.

and needs to place the loss-making corporation on a sound financial footing. The issue of utility bills requires a proper socio-economic study that is based not only on global or average figures but also on budgetary surveys of different types of households, businesses and organizations. Such a study should also offer viable recommendations on sustainable energy scenarios in Malta.

## Labour

The global slowdown began to be felt at the beginning of 2009, when many manufacturing companies brought in a four-day week and others announced redundancies to reduce their work force and financial losses. Redundancies may amount to hundreds or even thousands during 2009. Tourism plays an important role in the Maltese economic and labour spheres; currently, fewer tourists are coming from Great Britain, which accounts for 33% of the market.<sup>9</sup> This will badly affect workers in this industry.

Malta Shipyards used to be the bulwark of the Maltese workforce, employing 5,000–6,000 workers as recently as the 1990s. In 2008, privatization was set in motion and employees were offered early retirement and voluntary resignation schemes. Out of 1,626 employees, only 59 workers did not apply for any of the schemes and remained on the company's books, while another 679 who had applied for early retirement have stayed on to complete remaining contracts before the company is wound down. There were 14 interested bidders for the shipyard, but a local paper revealed that none of the offers met the Government's expectations. The failure to clinch an acceptable deal is a severe blow to the administration. In an interview to *Time of Malta* in 2008, EU Competition Commissioner Neelie Kroes criticized the privatization strategy, stating that the Government's intention to write off EUR 100 million (USD 132 million) in losses before the shipyard is privatized is not acceptable under EU law.

## Development aid

The Government's published Overseas Development Policy (October 2007) identified five priority countries for Maltese development aid, four of which are in central and eastern Africa: Somalia, Sudan, Eritrea and Ethiopia.<sup>10</sup> Maltese NGOs believe this is a political choice since most immigrants come from these countries.<sup>11</sup>

The lack of transparency and of timely and independent evaluations of official Maltese aid compromises NGOs' engagement on development cooperation issues. The Government has promised NGOs a

clear analysis of figures in reporting on official development assistance (ODA), but this has yet to happen. The Government has also indicated that more aid funds will be allocated for technical assistance and that information and communications technologies (ICTs) will be a priority. NGOs are concerned that technical assistance does not generally respond to the real needs of developing countries and suffers from low accountability, while ICTs usually do not match the principle of country ownership.

Although in 2007 Malta continued to have the highest ratio of ODA to GNI (0.15%) in the EU, NGOs are concerned that a substantial share of reported ODA was spent on housing asylum seekers in their first year in the country. In practice, this means that aid money is being spent on detention centres. NGOs are also worried that aid is inflated by the inclusion of imputed student costs.

## Migration and asylum-seekers

The situation of migrants and asylum seekers has not improved and, in some respects, has worsened due to the record number of boat people arriving in 2008 and in the first two months of 2009. A United Nations Working Group on Arbitrary Detention visited Malta in January 2009. Although the Working Group noted many positive points, it said that the detention of asylum seekers was not consistent with international human rights law and described the conditions at the Safi and Lyster Barracks camps as "appalling".<sup>12</sup> According to the Working Group, the conditions in the camps affect the physical and mental health of detainees to such a degree that they are unable to understand their rights or follow up the legal process that would lead, for better or worse, to a change in their status.

Asylum applications take an inordinate amount of time to be processed: after six months in Malta some migrants are still waiting just to be interviewed. The so-called "fast track" system is not much better. Although intended for the most vulnerable people – for example, pregnant women and people with disabilities – it takes up to three months to secure their release from detention centres. An Eritrean migrant filed a constitutional case against the Principal Immigration Officer and the Justice and Home Affairs Minister in May 2007, claiming a violation of his human rights due to the lengthy procedures for asylum and inhumane conditions of detention; a verdict is still awaited.<sup>13</sup>

The Government affirms that it has to achieve a balance between security and humanitarian concerns, and that efforts are ceaselessly undertaken to improve conditions, but the system is currently overwhelmed: in 2008 it had to cope with 2,775 new arrivals, compared to 1,702 the previous year. Finally, whilst appreciating the United Nations Group's comments that illegal immigration is a problem that

should be shared by the world as a whole, it is worth noting that such appeals have already been made in the past, to little effect.<sup>14</sup>

## The financial crisis and public opinion

The autumn 2008 *Eurobarometer*<sup>15</sup> indicates that the Maltese are becoming increasingly pessimistic about the economy; trust in the political establishment is dwindling and expectations for an improvement in the quality of life are going down.<sup>16</sup> A decisive majority (57%) gave the economy a negative assessment, while only 39% perceived it to be in good shape and 45% expect it to deteriorate further during 2009 – a hefty 25% increase in economic pessimism than that registered a year earlier. Thirty-two per cent stated that employment would worsen, while only 23% thought that the situation would improve and a further 27% did not expect the situation to change in the coming 12 months. Sixty-five per cent of those surveyed said they had difficulty paying their bills at the end of the month, while only 28% reported they had no such trouble. Fifty-six per cent believed that Malta has become more economically stable thanks to the adoption of the euro, while 33% disagreed. Maltese confidence in the euro outstrips that expressed by other euro zone members, where some 48% of respondents agreed that the euro has helped stabilize their economies and 42% disagreed.

In the political sphere, 51% of Maltese expressed dissatisfaction with their political parties, while only 34% expressed confidence. This was reflected in the March 2008 parliamentary elections, where voter turnout was slightly lower than usual. On the flip-side, 59% of Maltese said they trusted the European Commission, while just 13% did not. The European Parliament is the most trusted institution among Maltese respondents, with 64% saying they trust it as opposed to 14% who said they do not. A lower proportion (57%) tends to trust the Maltese parliament, though this is a 15-point increase over last year; 50% trusted the Government as an institution – a 5 percent points increase – and 37% did not.

The issues of inequality and poverty in Malta, it is hard to quantify since statistics are not easily available. The growing number of migrants settling in distinct areas is creating the phenomenon of "ghettoization". These ghettos are surely poverty traps and breeding grounds of future social tensions. When one takes into consideration the effects of the economic slowdown, the higher food and utility prices, the four-day week, redundancies, and pensioners who survive on a pension ceiling set 30 years ago, it is safe to predict that more people in 2009 will fall into the category of "have-nots". ■

9 National Statistics Office. "Departing Tourists: December 2008". News release 015/2009. 27 January 2009. Available from: <[www.nso.gov.mt/statdoc/document\\_file.aspx?id=2413](http://www.nso.gov.mt/statdoc/document_file.aspx?id=2413)>.

10 See: <[www.doi.gov.mt/en/press\\_releases/2007/10/pr1620.asp](http://www.doi.gov.mt/en/press_releases/2007/10/pr1620.asp)>.

11 Concord. *No Time to Waste: European Governments Behind Schedule on Aid Quantity and Quality*. Brussels: Concord, 2008. Available from: <[www.concordeurope.org/Files/media/extranetdocumentsENG/NavigationSecondaire/WorkingGroups/Aidwatch/Aidwatch2008/Light-Full-report.pdf](http://www.concordeurope.org/Files/media/extranetdocumentsENG/NavigationSecondaire/WorkingGroups/Aidwatch/Aidwatch2008/Light-Full-report.pdf)>.

12 United Nations. "Annex to Press Release: UN Working Group on Arbitrary Detention Concludes Visit to Malta". 26 January 2009. Available from: <[www.unhcr.ch/hurricane/hurricane.nsf/view01/125F21AAD7DCBD1AC125754A0057F318?openDocument](http://www.unhcr.ch/hurricane/hurricane.nsf/view01/125F21AAD7DCBD1AC125754A0057F318?openDocument)>.

13 See: <[docs.justice.gov.mt/SENTENZA2000\\_PDF/MALTA/CIVILI PRIM AWLA \(SEDE KOSTITUZZJONALI\)/20](http://docs.justice.gov.mt/SENTENZA2000_PDF/MALTA/CIVILI PRIM AWLA (SEDE KOSTITUZZJONALI)/20)>.

14 See: <[www.doi.gov.mt/EN/press\\_releases/2009/01/pr0102.asp](http://www.doi.gov.mt/EN/press_releases/2009/01/pr0102.asp)>.

15 See: <[ec.europa.eu/public\\_opinion/index\\_en.htm](http://ec.europa.eu/public_opinion/index_en.htm)>.

16 See: <[ec.europa.eu/public\\_opinion/index\\_en.htm](http://ec.europa.eu/public_opinion/index_en.htm)>.