COMMISSION OF THE EUROPEAN COMMUNITIES

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Draft
DECISION OF THE ASSOCIATION COUNCIL

defining the guidelines for cooperation between the Community and Malta

(submitted to the Council by the Commission)

COM(77) 547 final

COMMISSION COMMUNICATION TO THE COUNCIL

At the second meeting of the EEC-Malta Association Council held on 24 March 1977, the Community stated its readiness to undertake, with Malta's collaboration, the preparatory work for the implementation of the cooperation provided for in the Protocol laying down certain provisions relating to the EEC-Malta Association Agreement.

At the request of the Maltese Government, the Community also gave its agreement to work beginning, in the context of technical and financial cooperation, on the appraisal of projects so that, where appropriate, decisions could be taken as soon as the Protocol entered into force. The Community stated its readiness to help the Maltese Government to establish a team of industrial specialists which would have the task of preparing an industry-based economic development strategy, of identifying projects and encouraging initiatives from European entrepreneurs for their implementation.

Pursuant to the decision of the Association Council, the Commission is putting forward in this communication proposals for the position to be adopted by the Community.

The preparatory work to be undertaken jointly by the Community and Malta with regard to economic, technical and financial cooperation will have to be carried out on the basis of the guidelines adopted by the Community. It will then be necessary to have those guidelines approved by the two parties at a forthcoming meeting of the Association Council.

The conclusions of the report prepared by the team of industrial specialists referred to above will make it possible at a later stage to set out in practical terms how the Community aid is to be used under the guidelines adopted by the Association Council.

The Commission has attached a memo on the economic and financial situation in Malta, most of the data for which were collected during the fact-finding mission carried out in March by representatives of the Commission and the European Investment Bank. The Bank has also collaborated closely in drawing up the annexed proposals concerning the implementation of technical and financial cooperation.

Decision of the Association Council defining the guidelines for cooperation between the Community and Malta.

Having regard to the Protocol laying down certain provisions relating to the Agreement establishing an association between the European Economic Community and Malta, and in particular Articles 18 and 21(1) and Article 9(1) of the Financial Protocol,

Whereas Article 18 provides for the institution of cooperation with the aim of contributing to the development of Malta by efforts complementary to those made by Malta itself and of strengthening existing economic links on as broad a basis as possible for the mutual benefit of both parties;

Whereas, in accordance with Article 21(1) of the Protocol and Article 9(1) of the Financial Protocol, it is necessary to define the general guidelines for this cooperation and the specific objectives of financial and technical cooperation,

HAS DECIDED AS FOLLOWS:

Article 1

The following objectives shall be taken as general guidelines for the cooperation to be established between the Community and Malta for the mutual benefit of both parties:

(i) The development and modernization of Maltese industry in order to help create employment, increase industrial productivity and contribute to balance of payments equilibrium;

(ii) The development of basic infrastructure and of projects for vocationa training and research, these being crucial for the attainment of the above objectives;

(iii) The strengthening of cooperation between European and Maltese firms in the industrial field to facilitate the transfer of technology and the inflow of capital.

Article 2

Technical and financial cooperation will be put into effect in accordance with the following principles:

(i) An effort will be made to use Community aid to support the economic cooperation schemes to be implemented under Article 20 of the Protocol.

(ii) Special attention will be paid to operations which would permit the simultaneous use of different forms of aid, in particular to operations likely to attract technology, capital and other benefits resulting from the implementation of the above mentioned Article 20.

(iii) Community aid measures will be designed to encourage, if possible, other suppliers of funds to give aid, in particular in the context of triangular cooperation.

Article 3

On the basis of the principles set out in Article 1 and in the light of the objectives of Malta's development plan, the aid specified in Article 2 of the Financial Protocol will be used in accordance with the provisions of that Protocol to finance or part-finance projects and measures which correspond to the following economic priorities:

I. TECHNICAL ASSISTANCE IN TRAINING

(i) Technical assistance for the preparation of a development strategy and to ensure the effectiveness of the process of selecting, preparing, executing and administering projects;

(ii) Technical assistance for the development of export markets (surveys, trade relations, trade networks).

II. DEVELOPMENT OF PRODUCTION

Industry

(i) Establishment of infrastructure necessary for industrial development (such as industrial estates or projects for the production of certain primary products);

(ii) Development of industries which create stable employment, in particular those requiring a highly skilled workforce;

(iii) Development of industries that can use the production or repair equipment left on military bases;

(iv) Projects which make use of Malta's geographical position and existing infrastructure (service and supply bases).

Agriculture

Development and modernization of agriculture and fisheries.

III. TOURISM

Improvement of the potential for tourism and diversification of reception capacity, in particular tourism infrastructure projects.

IV. SCIENTIFIC COOPERATION

Cooperation activities in the scientific, technological and environmental protection fields, particularly in certain areas of research on solar energy, water and air pollution, standards, reference materials and measurements, and data-processing services.

M A L T A

ECONOMIC AND FINANCIAL SITUATION

II

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EXCHANGE RATES

	1 u.a. = in Maltese pounds (£M)	£M 1 = in US$	= in u.a.
End 1973	0.47	2.59	2.15
End 1974	0.47	2.66	2.12
End 1975	0.47	2.48	2.13
End 1976	0.48	2.34	2.07

SUMMARY AND CONCLUSIONS

The Republic of Malta has a population of 320 000 on a land area of 320 km.[2] It comprises four islands. Approximately 90% of the population lives on the island of Malta, where population density is in excess of 1 000 inhab./km.[2] The islands have an uneven relief but are of low altitude. The strategic position of the archipelago, at the centre of the Mediterranean, its climate and role as a place of tourism are Malta's only natural advantages. The shortage of water restricts the agricultural possiblilities and the industrial sector is handicapped by the small size of the local market. The economic and social infrastructure is well-developed, and with a per capita GNP of US $ 1 700, Malta is in a similar position to Portugal.

Despite the efforts at restructuring undertaken by the Government in the past, the Maltese economy is still largely dependent on the British military bases. The agreement setting 1979 as the date for their definitive closure will therefore have considerable economic repercussions; it is obliging the country to extend its restructuring effort in order to counter-balance the loss of revenue and employment brought about by the progressive withdrawal of the British troops. This effort is at the basis of the revised 1973-80 Plan, which envisages investments totalling £M 240 million during the period 1977-79 in order to create 23 7000 new jobs[1] and reach a GDP growth rate of 7.5% per annum.[2]

During the first four years of the Plan, economic growth exceeded the set objectives. GDP increased at an average annual rate of 16%. This favourable trend is due essentially to the development of industrial exports (ready-made clothing, foodstuffs) and of tourism. Manufacturing industry now accounts for a third of GDP compared with only a quarter in 1972. It provides jobs for approximately 25% of the working population. Services remain, however, the mainstay of the Maltese economy (52% of GSP).

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(1) The investments cost per new job seems relatively low (approximately 21 000 u.a.); however, all, or at least the vast majority, of the investment operations necessary to create approximately 12 000 jobs have already been carried out. Lastly, most of the new investment operations envisaged are in light industry.

(2) Unless otherwise stated, all growth rates express increases in real terms.

After a fairly sharp drop between 1967 and 1972 caused by a property crisis and budgetary restrictions, the level of gross fixed capital formation picked up rapidly, increasing from 17% of GDP in 1973 to 27% in 1976 (compared with the target of 25% laid down in the Plan). This recovery was principally due to public investment, the volume of which increased appreciably mainly as a result of direct State participation in industrial projects. In 1975 and 1976, more than 50% of the volume of investment was financed by domestic savings, compared with only 8% in 1972. If one takes into account the increase in net revenue, transfers from abroad (transfers from emigrant workers, the rents for the bases, subsidies from the United Kingdom) and of the loans obtained on favourable terms, the resources available for financing are at present well in excess of the total investments.

The rents paid for the military bases are of immense importance to public finances. Thanks to these payments, the current net budgetary position covers approximately two-thirds of public capital expenditure. For some years now, the State has been playing an active part in setting up new industrial activities, in particular by developing industrial zones or itself launching new undertakings. This has significantly increased public capital expenditure and has given rise to a considerable budget deficit (1976: £M 12.5 million = 15% of budget revenue and 6% of GDP). Most of this deficit has been financed by grants and loans on favourable terms obtained mainly from the United Kingdom, the People's Republic of China and a number of Arab States.

The scarcity of natural resources and the small area of the country oblige Malta to import most of what it needs. The trade balance is traditionally in deficit and even the very favourable trend of exports, based essentially on textiles, was unable after 1974 to prevent an increase in this deficit, which in 1976 reached $ 200 million. However, despite the large amounts obtained in revenue from tourism and transfers from emigrant workers, the transfers connected with the activities of the military bases are necessary to maintain a positive balance of current payments. Thanks to the net inflow of long-term capital, the gold and foreign exchange reserves have regularly increased and totalled $ 620 million at the end of 1976 (17 months' imports).

Most of the foreign aid received by Malta is in the form of grants or loans on favourable terms. The public external debt has therefore remained relatively low (\$ 40 million = 8% of GDP) and its servicing absorbs less than 1% of the exports of goods and non-factor services.

The apparent improvement in the economic situation in recent years cannot, however, conceal the problems facing Malta in the medium term:

1. Since 1975, the traditional emigratory movement of Maltese workers has been reversed and over the last two years, the number of workers returning has exceeded the number departing by 2 700. This phenomenon and the arrival of a large number of young people on the labour market, the reduction in the number of workers employed on the military bases and redundancies in certain industries have led to a considerable increase in the numbers seeking employment. To avoid an increase in the unemployment rate, the Government has set up special corps of workers (Pioneer Corps) paid from the State budget and generally employed on major infrastructure works; it has thus been possible to keep the level of unemployment down to approximately 4% of the working population. If an increase in the number of jobless is to be avoided, the reabsorption of the workers from the special corps, the foreseeable increase in the working population and the evacuation of the military bases will require the creation of 23 700 new jobs between now and 1979. According to the Maltese Government, approximately half these jobs are virtually guaranteed by projects in the process of implementation (tourism, infrastructure, shipyards, industrial projects). To provide the total of 23 700 jobs, a further 12 000 will have to be created and an amount of approximately £M 240 million will have to be invested between 1977 and 1979. These two objectives seem very ambitious when one considers that their attainment would involve the number of jobs created increasing from the level of 1 400 per annum recorded over the period 1971-75 to 5 800 per annum over the period 1977-79 and would also involve the annual volume of investment being on average 44% greater than the volume recorded in 1976. Such a jump would seem difficult to make, especially as the restricted nature of the domestic market obliges Malta to develop industries geared almost entirely to export markets. The implementation of viable projects of this type may well take longer than anticipated, especially as the international economic climate is at present unfavourable. It is therefore to be feared that the employment objectives will not be attained and that the level of unemployment will increase well beyond the present level.

2. As from 1979 the revenue derived from the presence of the military bases, which accounts for approximately 14% pf GDP, 20% of budget revenue and between 25% and 30% of foreign exchange revenue, will no longer be forthcoming and the economy will therefore need to be adapted to new resources. The passage through this delicate period will be facilitated, however, by the use for a number of years of abundant foreign exchange reserves (US $ 620 million = 17 months' imports).

To establish the basis for a balanced economic development no longer dependent on the activities of the military bases, Malta doubtless has a number of advantages, notably skilled labour, relatively low wages, tourism. However, restructuring on this scale seems to be beyond the country's capacities and will be impossible without external aid. This is required essentially in the form of technical assistance and economic cooperation. Its main contribution could be towards:

1. The establishment of an industrial development strategy, including the identification and preparation of specific projects. Given the restricted nature of the local market and the danger of heavy dependence on export markets, the selection of the branches whose activities could be developed is a particularly delicate matter in Malta's case. It will require a very sound assessment of potential outlets on the export markets.

2. The promotion of projects to be carried out with the help of foreign investors.

3. The preparation of markets, the establishment of trade relations and trade links.

In more general terms, it is apparent that Malta's economic future is essentially dependent on the extent to which new industries can be established by foreign entrepreneurs over the next few years. It is not certain, however, that the comparative advantages enjoyed by the country are sufficiently attractive in themselves to bring about automatically the creation of industrial activities on an adequate scale. The effectiveness of the Community aid will have to be assessed, in the final analysis, in terms of its contribution towards that objective.

1. GENERAL INTRODUCTION

Situated between Libya and Sicily, the Maltese Archipelago commands the passage from the Western to the Eastern Mediterranean. Because of its strategic position, Malta has been conquered on numerous occasions and suffered severe damage during the Second World War. The country has been independent since 1964 and, under an agreement concluded in 1972, the military bases occupied by the British Admiralty and NATO will be finally vacated as from 1979.

The Republic of Malta covers barely 320 km^2 and comprises four islands, of which only Malta and Gozo are inhabited. The island's only natural wealth is in the form of quarry stone, and the search for oil undertaken off the coast has so far proved fruitless. The Mediterranean climate allows the cultivation of cereals, vegetables and flowers, plus a little arboriculture, but the shortage of water resources restricts the potential of the agricultural sector.

The country has a transport infrastructure which is generally considered adequate. The road network links all the inhabited areas. The airport, which is of crucial importance for the development of tourism, is situated at Luqa and the runway has recently been extended to take all types of long-range aircraft. A national shipping company and a national airline were established in 1973 and 1974 respectively.

2. POPULATION AND EMPLOYMENT

The population of Malta has remained constant around the 320 000 mark for more than ten years. The population density is extremely high (1 000 inhab./km^2) and 90% of the population lives on the main island. The capital, Valletta, has only 14 000 inhabitants.

The traditional trend of emigration, which reached a peak in 1974 (net emigration of 3 700) was suddenly reversed in 1975 and over the last two years the number of people returning has been 2 700 greater than the number of departures. This phenomenon and the arrival of large numbers of yound people on the labour market have contributed to the net increase in the labour supply, which totalled 115 000 in 1976 compared with 100 000 in 1969[1]. Thanks mainly to the creation as from 1972 of special corps of workers (Pioneer Corps) paid from the State budget and generally employed on major infrastructure works (approximately 8 000 people), the number of persons in employment increased from 95 000 in 1969 to 110 000 in 1976; this measure and the raising of the school-leaving age explain the apparently low rate of unemployment - 3.3% of the working population in 1976.

The breakdown of the working population by sector has undergone a profound change since 1969 (see Annex 1), mainly in favour of manufacturing industry (25%), in which the 10 000 new jobs have partially compensated for the reduction in the numbers employed on the British military bases (7 800 in 1969, 3 300 in 1976) and for the redundancies in the building sector following the boom in the late sixties. The position of private services remains fairly constant with approximately 30% of the employed working population, while the number employed directly in tourism is constantly increasing (3 800 in 1975, 3.4% of the employed working population).

3. ECONOMIC OBJECTIVES OF THE PLAN

Up to the end of the fifties, the Maltese economy was geared entirely to the needs of the British military bases. These accounted for approximately 50% of the island's GNP and provided jobs for almost 25% of the working population. The Government has since been endeavouring to restructure the Maltese economy in order to make up for the loss of revenue and employment brought about by the progressive withdrawal of the British troops. All the plans drawn up since 1959 set out to develop highly labour-intensive manufacturing industries, to extend tourism and strengthen agriculture.

In the most recent plan covering the period 1973-80, the planners' objective was to create 20 600 new jobs in order to compensate for the effects of the shutdown of the military bases in 1979. The faster than anticipated increase in the working population (115 300 in 1976 compared with the 111 800 forecast) and the redundancies brought about (approximately 1,000) or envisaged (particularly in the textile factories) as a result of the crisis in international trade have obliged the State to revise its objectives

(1) On the basis of the number of persons over sixteen years of age who have a job or are in search of a job.

TABLE 1 : AVERAGE ANNUAL GROWTH AND SECTORAL DISTRIBUTION OF GDP ENVISAGED BY THE 1973-80 PLAN (original version)

(in %, on basis of 1972 prices)

	Anticipated annual average growth	Sectoral distribution	
		1972	1979
Agriculture and fisheries	4.0	7.5	6.7
Industry (including shipyards)	11.6	24.6	36.3
Public undertakings	5.5	4.9	4.9
Construction and quarrying	0.0	4.9	3.4
Tourism and private services	12.4	5.9	9.2
Provision of services for the military bases	-31.4	6.3	0.3
Public administration	3.2	16.1	13.7
Other services	3.2	29.8	25.5
GDP at factor cost	5.5	100.0	100.0

Source: Office of the Prime Minister: Outline of development plan for Malta 1973-1980 (August 1973) for the latter years of the Plan, with the result that for the period 1977-79 a total of 23 700 new jobs will have to be created to avoid an increase in the current level of unemployment. To attain this objective, Malta will have to invest £M 240 million over this three year period, approximately one half of which will be payable in foreign currency. This additional effort should make it possible to increase GDP by 7.50% per annum, most of which will be accounted for by manufacturing industries (added value of the sector: + 19.5% per annum) geared towards exports (total volume of exports: + 26% per annum) in order also to achieve equilibrium in the balance of current payments as from 1980.

4. RECENT TREND OF THE ECONOMIC SITUATION

(a) Growth and origin of the national product

In 1976 Malta's GNP was the equivalent of $ 530 million. Per capita GNP for the same year was therefore approximately $ 1 700, a figure comparable to that recorded in Portugal, for example.

Since the early sixties, the Maltese economy has experienced alternating periods of stagnation and rapid growth:

Table 2: Annual average growth of GNP (in real terms)

1960-65:	0.3%
1965-70:	10.3%
1970-72:	4.2%
1972-76:(1)	15.5%

(1)For 1976, on the basis of the rate of GDP growth

After a severe economic crisis provoked by the reduction in the British military presence beginning in 1959, the introduction of investment subsidies and of tax exemptions facilitated the development as from 1975 of manufacturing industry (+16% per annum between 1965 and 1970), while the extension of the tourist sector (revenue: +36% per annum) brought about a similar expansion in the building and services sectors. The reduction in the number of tourists in 1970, the collapse of property speculation and lastly the provisional abolition in 1971 of the tax advantages for new undertakings combined to put a brake on the growth of economic activity up to 1972.

[1]For 1976, on the basis of the rate of GDP growth.

TABLE 3 : STRUCTURE OF GDP BY SECTOR OF ORIGIN

(in %, on basis of current prices)

	1965	1969	1972	1975	1976[1]
Agriculture and fisheries	7.5	7.4	7.5	6.0	5.4
Manufacturing industry[2]	19.3	22.4	24.6	30.5	33.1
Construction and quarrying	5.5	6.8	4.9	6.0	5.8
Public undertakings	3.9	4.6	4.5	3.9	3.4
Transport and communications	4.6	3.8	3.3	4.4	4.6
Public administration	13.3	13.8	16.1	14.6	14.4
Provision of services for the military bases	11.8	7.7	6.2	4.2	3.2
Other services	34.1	33.5	32.9	30.4	30.1
GDP at factor cost	100.0	100.0	100.0	100.0	100.0

[1] Provisional data
[2] Including shipyards

Source: Central Office of Statistics

The growth rate did not start recovering until 1973 (GDP: +10%) thanks to acceleration of the State investment programme and the development of exports of goods and services (+29% in 1973, +20% on average between 1973 and 1976), these exports consisting mainly of processed agricultural products, ready-made clothing and tourism. The objectives of the Plan for 1973-80 have therefore been exceeded comfortably for the first four years, since the annual average growth of GDP has been 16% compared with the initial target of 5.5%. As shown in Table 3, this acceleration is due essentially to manufacturing industry, which now accounts for a third of GDP compared with only a quarter in 1972. Services remain, however, the principal sector of the Maltese economy (52% of GDP in 1976) despite the progressive reduction in thh services provided for the military bases (3% of GDP in 1976 compared with 12% in 1965).

(b) Consumption, savings and investment

After rising rapidly between 1965 and 1970, private consumption increased only modestly between 1971 and 1973 (2.3% per annum), suffering the repercussions of the slowing-down of economic activity and the temporary freezing of the level of civil servants' salaries decided by the State in 1972. Over the last three years, in contrast, private consumption has increased by an average of 8.7% per annum; this level remains well below that of the extremely rapid growth in national income (see Table 4). Since public consumption had followed approximately the same trend, domestic savings - the volume of which continued to decline until 1972 (then representing less than 2% of GNP) - were re-established at a more satisfactory level after 1974 and represented 17% of GDP in 1976. They covered approximately 43% of the amount of investments in 1975 and 59% in 1976 compared with only 8% in 1972. Allowing for the increase in the net income from capital invested abroad, for transfers[1] and capital inflows, resources available for financing were well in excess of the amount of investment expenditure (see Table 5).

After a fairly sharp drop between 1969 and 1972 (-30%) caused by the property crisis and the budget restrictions, the level of gross fixed capital formation picked up again rapidly, increasing from 19% of GDP in 1973 to 27% in 1976 (compared with the 25% target set by the Plan). This recovery is mainly due to public investment, the volume of which increased appreciably,

[1]Transfers from emigrant workers, rents for the military bases and subsidies from the United Kingdom.

TABLE 4: STRUCTURE OF RESOURCES AND EMPLOYMENT

	£M '000 at current prices					Structure in %		
	1965	1969	1972	1975	1976[1]	1965	1972	1976
Consumption	48 283	77 650	100 193	149 183	169 000	91.6	98.1	83.0
- private	(39 217)	(63 986)	(60 407)	(118 660)	(135 200)	(74.4)	(78.7)	(68.4)
- public	(9 066)	(13 664)	(19 786)	(30 523)	(33 800)	(17.2)	(19.4)	(16.6)
Gross fixed capital formation	11 784	25 456	22 533	37 482	54 800	22.3	22.0	26.9
- private	(7 687)	(18 356)	(16 255)	(19 500)	n.a.	(14.6)	(15.9)	-
- public	(4 097)	(7 100)	(6 278)	(17 982)	n.a.	(7.7)	(6.1)	-
Variation in stocks	1 683	1 348	2 967	1 475	3 900	3.2	2.9	1.9
Gross domestic expenditure	61 750	104 454	125 693	188 140	227 700	117.1	123.0	111.8
Exports of goods and non-factor services	28 377	46 584	53 460	137 327	171 700	53.8	52.3	84.3
Imports of boods and non-factor services	37 392	69 042	76 948	159 710	195 800	-70.9	-75.3	-96.1
Resources deficit (-)	-9 015	-22 458	-23 488	-22 383	-24 100	-17.1	-23.0	-11.8
Gross domestic product	52 735	81 996	102 205	165 757	203 600	100.0	100.0	100.0
External revenue of factors	4 261	9 949	12 448	23 880	19 200	8.1	12.2	9.4
External expenditure of factors		-3 423	-4 119	-5 623			-4.0	
Gross national product	56 996	88 522	110 534	184 014	222 800	108.1	108.2	109.4

[1] Provisional estimates

Sources: - Central Office of Statistics, Malta: Annual abstract of Statistics 1975
- Data for 1976 supplied by the Maltese administration

TABLE 5 : FINANCING OF INVESTMENT

	In M '000 at current prices				Structure in %			
	1965	1969	1972	1975	1963 Estimate	1965	1972	1976
(-) Investment	13 467	26 804	25 000	38 957	58 700	100.0	100.0	100.0
of which:								
- Gross fixed capital formation	11 784	25 456	22 533	37 482	54 800	87.5	88.4	93.4
- private	(7 687	(18 356)	(16 255)	(19 500)	(25 200)	(57.1)	(63.7)	(42.9)
- public	(4 097)	(7 100)	(6 278)	(17 982)	(29 600)	(30.4)	(24.6)	(50.4)
- variation in stocks	1 683	1 348	2 967	1 475	3 900	12.5	11.6	6.6
(+) National savings :	8 719	10 872	10 341	34 831	54 800	64.7	40.6	91.6
of which :								
Domestic savings	4 452	4 346	2 012	16 374	34 600	33.1	7.9	58.9
- private	n.a.	(2 371)	(1 817)	(14 622)	n.a.	-	(7.1)	-
- public	n.a.	(1 975)	(195)	(1 952)	n.a.	-	(0.8)	-
Net revenue from abroad	4 261	6 526	8 329	18 257	19 200	31.6	32.7	32.7
Resources deficit (-) or surplus (+)	-4 754	-15 932	-15 159	-4 126	-4 900	-35.3	-59.5	-8.3
External Financing								
Net transfers[1]	6 303	10 268	24 787	29 178	31 900	46.8	97.8	54.3
of which, transfers from emigrant Maltese workers	(913)	(5 433)	(5 244)	(6 275)	(10 400)	(6.8)	(21.1)	(17.7)
Net capital inflow	716	-2 341	19 612	14 401	n.a.	5.3	76.9	-
Variation in external assets (Increase : - ; decrease : +)[2]	-2 265	+8 005	-29 240	-39 453	n.a.	-16.8	-114.7	-

(1) Including rent for the military bases after 1972.

(2) Including balance of payments errors and omissions

Sources: - Central Office of Statistics, Malta : Annual abstract of Statistics, 1975.
- Data supplied by the Maltese administration.

mainly as a result of direct State participation in industrial projects. Private sector investment, however, declined by 12% in real value terms between 1973 and 1975 as a result of the international economic climate and despite the introduction of favourable tax measures for firms in the industrial and tourist sectors. This trend seems to have been reversed in 1976 (+29% at current prices) to judge by the considerable volume of capital goods imported to start up new factories. In 1976, however, private investment accounted for only 46% of gross fixed capital formation compared with 72% in 1969 and 1972.

(c) Public finance (see Table 6)

Since 1969, Government revenue has increased much more rapidly than the national income (33% of GNP in 1969, 49% in 1975), but this more than proportional increase is due essentially to the payment of the rent for the British military bases and to the accompanying grants from other NATO countries (10% of GNP).

As regards other items of revenue, there has been a marked reduction in the proportion represented by customs duties (47% in 1969, 21% in 1975), no doubt connected with the tariff reductions granted to the EEC countries since 1971. The recent increase in the profits earned by the Central Bank on its financial investments abroad (6% of current revenue in 1969, 18% in 1975) may, however, be considered a temporary phenomenon insofar as it is linked to the accumulation of surpluses, particularly in foreign currency, derived from the rent for the bases.

The current expenditure entered in the State budget has increased on average at the same rate as GNP since 1969. The increase in the price of raw materials on the international market caused the Government to triple the amount of the subsidies on essential products[1] between 1973 and 1975. These subsidies (9% of current expenditure) are to be progressively abolished.

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(1) Food oils, condensed milk, flour, pasta and bread, sugar.

TABLE 6 : GENERAL STATE BUDGET - (1969-76)

Period from 1 April to 31 March	In M'000				As % of revenue		
	budgets implemented			budget voted	1969/70	1975/76	1976/77 proposed budget
	1969/70	1972/73	1975/76	1876/77			
Revenue	24.0	47.8	81.6	83.9	100.0	100.0	100.0
of which :							
Rent for the military bases	(-)	(13.5)	(13.5)	(13.5)	(-)	(16.5)	(16.1)
Profits of the Central Bank	(1.5)	(2.4)	(15.1)	(15.0)	(6.3)	(18.5)	(17.9)
Tax on incomes and estate duty	(3.3)	(8.5)	(14.4)	(15.4)	(13.8)	(17.7)	(13.4)
Customs duties	(11.4)	(12.8)	(17.1)	(17.2)	(47.5)	(21.0)	(20.5)
Current expenditure	23.7	33.4	57.6	63.3	98.8	70.6	75.5
of which :							
Subsidies on essential foodstuffs	(1.4)	(1.6)	(7.1)	(6.6)	(5.8)	(8.7)	(7.9)
Balance	0.3	14.4	24.0	20.6	1.2	29.4	24.5
(Balance, excluding the rent for the bases)	(0.3)	(0.9)	(10.5)	(7.1)	(1.2)	(12.9)	(8.5)
Capital expenditure	9.8	8.8	36.5	32.8	40.8	44.7	39.1
of which:							
Repayment of debt	(0.3)	(0.5)	(0.3)	(0.3)	(1.3)	(0.4)	(0.3)
Investment	(9.5)	(8.3)	(36.2)	(32.5)	(39.5)	(44.3)	(38.7)
Overall balance	-9.5	5.6	-12.5	-12.2	-39.6	-15.3	-14.6
Local borrowing	9.5	-	-	-	39.6	-	-
External grants and loans	-	2.1	6.7	5.7	-	8.2	6.8
Variation in Treasury assets		+7.7	-5.8	-6.5	-	-7.1	-7.8

Source: Ministry of Finance : The Malta Financial Report
Data supplied by the Maltese authorities

Most of the State's capital expenditure takes the form of fixed investments; according to the 1975-76 budget, almost 60% of the total aid to the acquisition of holdings in productive investments (shipyards, industry, tourism) and 25% is for infrastructure works. The State takes an active part in getting new industrial activities under way, in particular by establishing industrial zones equipped with the necessary infrastructure, and sometimes even with factory buildings, or by itself launching new undertakings (in the textile industry for example). This approach is continued in the 1976-77 budget, which will probably devote M 5 million to shipbuilding and M 10 million to industrial projects.

The rent paid for use of the military bases provides a current net budgetary position which covers approximately two-thirds of capital expenditure, but the rapid increase in the latter (M 14 million in 1974/75 and then M 30 million in the following two years) has given rise to a considerable overall deficit (% of GNP in 1976). The grants and loans obtained by Malta on very favourable terms have not been sufficient to finance this deficit, with the result that the State has had to draw on the reserves accumulated previously with the Central Bank.

(d) Currency, credit and the banking system

The characteristic feature of the trend of Malta's currency situation is a steady increase in net foreign assets, which is the main cause of the expanision in the money supply (see Table 7). Approximately 37% of this is held in the form of notes and coin and more than 50% is held in the form of deposit and savings accounts at 3% or 5% per annum. The inflow of budget revenue from the rent for the military bases explains the low level of claims on the Treasury. The amount of credit to the private sector, which quadrupled between 1966 and 1972 mainly as a result of the construction boom, has since stabilized. Up to 1967 the external assets were held mainly by the commerical banks, which have since been obliged by the Government to repatriate their financial assets, with the result that the Central Bank now holds 85% of them.

TABLE 7 : MONEY SUPPLY AND MAIN COUNTERPARTS
(1969 - 1976)

	In M million (end of period)					As % of total money supply	
	1969	1972	1974	1975	1976	1969	1976
Money	56.4	76.5	93.1	117.1	144.5	41.7	45.0
of which notes and coin	(40.9)	(62.4)	(79.5)	(98.8)	(119.6)	(30.2)	(37.3)
Quasi-money	78.8	114.9	127.2	148.0	176.4	58.3	55.0
Total money supply	135.2	197.4	220.5	265.1	320.9	100.0	100.0
External assets (net)	100.3	132.9	174.5	228.6	286.6	74.2	89.3
of which: held by the Central Bank	(58.5)	(103.4)	(130.7)	(183.4)	(237.8)	(43.3)	(74.1)
Claims on the Treasury (net)	6.8	14.6	12.9	12.9	22.1	5.0	6.9
Claims on the private sector	38.2	54.7	55.9	53.1	56.5	28.3	17.6
Other items (net)	-10.1	-10.8	-23.0	-29.5	-44.2	-7.5	-13.8
Total counterparts	135.2	191.4	220.3	265.1	320.9	100.0	100.0

Source : Central Bank of Malta : Quarterly Review, March 1977.

On the other hand, the commercial banks hold considerable liquid assets given the low level of demand for credit in Malta, with the result that their average liquidity ratio is around 50% to 55% even though the legal minimum is only 25%.

The Central Bank of Malta, in addition to its rôle as bank of issue, controls currency movements and supervises the activities of the other banks; it is the Government's financial agent. The banking system also comprises three commercial banks, two savings banks, three long-term financing institutions[1] and lastly two bodies to manage the funds of foreign residents.

(e) Prices and wages

The only index recording price variations is for retail prices; it shows a relatively modest increase in prices since 1960 with the exception of the period 1973-75, when there were sharp increases in the prices of imported products. However, this index is of little significance given that the State was maintaining a system of subsidies for essential products. Their progressive abolition will probably bring about an increase in the cost of living of at least 3%.

TABLE 8 : ANNUAL INCREASE IN THE RETAIL PRICE INDEX
(in %, base 1960 until 1974, base 1974 thereafter)

1969	1970	1971	1972	1973	1974	1975	1976
2.4	3.7	2.5	3.2	7.8	7.3	8.8	0.6

Between 1969 and 1976 the minimum wage in the public sector more than doubled. Since April 1976 it has been the equivalent of approximately 145 u.a. In the private sector, wage increases follow more or less those obtained in the civil service. The minimum wage is 125 u.a. per month. The legal minimum wages seem to have increased more rapidly than the average wage.

[1] See page 24.

(f) External trade and the balance of payments

The scarcity of natural resources and the size of the country oblige Malta to import most of what it needs. Even as production increases, the proportion of imports tends to rise and imports of goods and services, which accounted for only 61% of gross domestic expenditure in 1970, accounted for 85% of that expenditure in 1975.

The trade balance is traditionally in deficit. This deficit began to narrow as from 1970. Whereas throughout the sixties exports covered only about one-quarter of imports, this ratio increased to 29% in 1971, 47% in 1972 and 51% in 1973. The increase in the price of raw materials and above all the recession beginning in 1974 on the main export markets brought about an increase in that year of 60% in the trade deficit (at current prices); this deficit increased further in 1976 to reach the equivalent of US $ 200 million.

The structure of imports (see Annex 3) broken down by products has changed appreciably in favour of semi-finished products, textile fibres in particular, relecting the growing importance in the economy of export-oriented processing industries. Semi-finished products thus accounted for 31% of imports compared with 21% in 1967.

The structure of exports (see Annex 4) still reflects the predominance of textile products (20% of exports in 1962 and 62% in 1975), but within that category, yarn and woven fabrics now represent only 7% of exports compared with 55% for made-up articles. Other exports consist of Malta's main items of agricultural production and goods from the newly established industries (plastic articles, toys, electronic components, rubber goods, pasta). Exports of finished products now account for 76% of the total compared with only 33% in 1967.

The breakdown of trade by country of origin and destination shows the preponderance of the countries of the European Community (65% of imports and 68% of exports). The loosening of the links with the United Kingdom is reflected in a reduction in that country's share of Malta's overall external trade (see Annexes 3 and 4).

TABLE 9 - TREND OF THE BALANCE OF PAYMENTS (1970-76)

(In M'000)

	1970	1971	1972	1973	1974	1975	Jan.-Sept.
- Exports (fob)[1]	17 103	19 089	28 414	40 275	59 723	69 199	79 900
- Imports (fob)	59 931	58 252	59 852	78 886	121 937	129 521	112 600
Trade Balance	- 42 828	- 39 163	- 31 438	- 38 611	- 62 214	- 60 322	- 32 700
- Travel, tourism (net)	7 769	8 308	5 874	13 139	18 853	23 491	17 500
- Transport	- 4 957	- 5 253	- 6 036	- 7 203	- 7 606	- 2 042	- 1 600
- Investment income	7 278	7 498	8 329	7 507	12 465	18 257	16 300
- Government revenue[2]	13 190	12 751	8 990	11 656	14 146	18 859	10 200
- Other services	- 1 592	- 1 841	- 878	- 1 691	- 1 202	- 2 369	- 3 000
- Private transfers[3]	11 526	10 446	8 569	10 332	10 282	11 534	8 500
- Public transfers[4]	7 314	9 661	16 218	18 128	20 341	17 644	13 600
Balance on invisibles	40 528	41 570	41 066	51 868	67 280	85 374	61 500
Balance of payments on current account	- 2 300	2 407	9 628	13 257	5 066	25 052	28 800
- Net capital inflow	6 373	1 204	18 905	- 1 306	6 648	14 401	7 000[5]
- SDR allocation	700	713	707	-	-	-	
- Errors and omissions	2 868	3 494	- 1 067	2 610	4 531	4 352	
Net variation on reserves (increase: -; decrease: +)	- 7 641	- 7 818	- 28 173	- 14 561	- 16 245	- 43 805	-35 800

Including shipbuilding and ship repair work and re-exports (fuel for ships, oil exploration equipment stored on a temporary basis).

Rent for the military bases, sales of goods and services to the bases and to those serving on them, wages of Maltese working on the bases.

Mainly transfers from emigrant Maltese workers.

Mainly subsidies from the United Kingdom for the creation of new firms.

Estimates.

Source: Central Office of Statistics, Malta: Annual Abstract of Statistics (1975) and data supplied by the Maltese authorities.

The scale of the transfers and the development of tourism have made it possible to maintain a positive balance of payments on current account since 1971. 'he (net) revenue from tourism is sufficient in sufficient in itself to cover approximately one-third of the trade deficit (M 12.6 million in 1976), this revenue having trebled between 1970 and 1975. The main source of invisible earnings is still the direct revenue (rent of approximately M 14 million since 1972) resulting from the British military presence, to which can be added the wages of the workers employed on the bases and the services supplied to the Admiralty. This source of revenue id due to disappear completely in 1979, which explains the Maltese authorities' priority concern to develop other sources of foreign currency earnings.

Net private investment has followed an irregular trend since 1970, amounting to M 5.8 million in that year and M 13.7 million in 1975. The other capital transactions consist of State borrowing, generally on very favourable terms, and of short- or medium-term loans made abroad by the commercial banks, the two items approximately cancelling each other out.

The positive balance of payments on current amount and the net inflow of long-term capital has brought about a regular increase since 1970 in Malta's gold and currency reserves, which stood at $ 500 million at the end of 1975 and $ 620 million in December 1976. These reserves should facilitate the transition period following the loss in 1979 of the revenue from the bases and will make it possible to cope for a number of years with the balance of payments deficit on current account which will result.

(g) External debt

Malta's external public debt has remained relatively low since independence. In March 1976 it totalled US $ 40 million.

TABLE 10 : PUBLIC EXTERNAL DEBT (PART PAID) AS A PERCENTAGE OF THE GDP[1] FOR THE YEAR IN QUESTION (AS AT 31 MARCH OF EACH YEAR):

1970	1971	1972	1973	1974	1975	1976
11.4	13.3	6.9	7.7	7.1	6.3	8.1

[1] At market prices.

The debt to the People's Republic of China accounts for approximately a qurter of the total. The other main creditors are the United Kingdom (15%), Saudi Arabia (13%), Italy (10%), Germany (7%) and Libya (7%).

Malta generally obtains very favourable terms from its creditors. The concessional element of the loans and grants obtained between 1971 and 1974 averaged 94%. At the end of 1974, 45% of the total debt had maturity dates more than ten years off. Malta has thus been able to keep the cost of servicing its external debt at an extremely low level.

TABLE 11 : DEBT SERVICING AS A PERCENTAGE OF EXPORTS OF GOODS AND NON-FACTOR SERVICES

	1967	1968	1969	1970	1971	1972	1973	1974	1975
%	1.3	1.4	1.7	2.0	12.4[1]	0.7	0.5	0.8	0.7[2]

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[1] Due to an early repayment.

[2] Estimate.

5. SITUATION IN THE MAIN SECTORS

(a) Agriculture and fisheries

Agriculture employs only just over 6% of the working population, more than half of the farmers being over 50 years old. The small area available, the arid nature of the soil and shortage of rainfall explain the limited role of this sector in the national economy. Domestic agricultural production accounts for only around 5% of GDP and supplies only about a quarter of the country's food requirements.

Arable land covers two-thirds of the country, but the area under cultivation is constantly declining (-15% between 1968 and 1975), mainly as a result of the extension of urban areas. The area under cultivation covers 12 000 ha or a little less than 40% of the country's total area. Only 600 ha are irrigated. The farms are too small, 90% of them consisting of less than 3 ha; the national average is 1.1 ha, a figure that is still tending to decline. More than two-thirds of the farms are tenant farms, the State and the Church each owning approximately a quarter of the arable land.

Since independence, the main objective of the State's agricultural policy has been to limit the number of farmers leaving the land so as not to accentuate the problem of employment at national level. The State has tried to extend the area that can be cultivated by means of dams and water distribution schemes. In April 1976 a major project was launched to recover abandoned arable land and establish model farms. The price of seed, fertilizers, pesticides and fodder, as well as the operating costs of the irrigation installations, are subsidized. A large amount of aid and interest rate subsidies are granted for the irrigation work and the agricultural equipment.

As a result of this encouragement, the added value of the sector has increased by an average of 11% per annum at current prices (compared with 13% for GDP as a whole over the last ten years). This overall growth has been accompanied by a marked increase in agricultural productivity as a result of the development of crops requiring a greater degree of expertise. Despite this restructuring work, the agricultural trade balance remains heavily in deficit and exports cover only 32% of imports. The Government controls external agricultural trade and is trying out numerous promotional activites. It also regulates purchasing operations, particularly of cereals and fodder.

The fisheries sector is still on a very small scale; there are approximately 500 fishermen on the island providing approximately three-quarters of fish supplies. The annual catch does not exceed 1 500 t.

(b) Manufacturing industry (not including shipyards)

Maltese industry is heavily dependent on selling on foreign markets. In 1976, 58% of total production was exported, and 80% of textiles and made-up clothing. Manufacturing industry has grown very rapidly over the last ten years, at around 9.5% per annum in real terms[1]. In 1976 this sector accounted for 29% of GDP compared with 18% in 1964. Manufacturing industry employs 28 000 people, i.e., 25% of the employed working population compared with 17% in 1964. The establishment of new firms, generally financed by foreign capital, is largely responsible for this rapid development.

The most important branches are those which provide proportionally the greatest added value and use a lot of labour. The industries producing foodstuffs, textiles and especially made-up garments (mainly jeans and babies' clothes) employ more than half of the population working in industry and account for 56% of industrial added value. The metal construction industry (cranes, drydocks) and the other metal processing and assembly activities also provide more than 20% of industrial added value.

The size of firms is still generally modest. The ten largest firms employ an average of six hundred people but almost three-quarters of the firms have five or fewer workers.

Table 12: Breakdown of industrial firms by numbers employed in 1975[2]

Number of paid workers:	between 1 and 49	between 50 and 99	between 100 and 299	More than 300	TOTAL
Number of firms:	2 499	54	47	10	2 606

[1]Based on the production indices - see Annex 7.

[2]Source: communicated by the Maltese authorities.

Foreign firms are attracted to Malta by numerous tax incentives introduced as early as 1959[1]. Foreign firms enjoy accelerated amortization arrangements, tax exemptions on re-invested profits and low-rent industrial premises. The relatively low level of wages - probably lower than those in Spain or even in Greece - a good level of skills acquired on the military bases and a social consenus based on an agreement between the Government and the General Workers' Union are further incentives for the decentralization of European units of production.

The Malta Development Corportion (MDC), which was established in 1967, is responsible for implementing the Government's industrial policy. The MDC, which has a capital of M 1 million, is wholly owned by the State. It assesses the applications from new firms and decides on the tax benefits they are to enjoy, it provides them with technical assistance and with the auxilliary services they require. It can also run the firms controlled by the State (the State has a 100% capital holding in ten or so companies and a majority shareholding in some twenty others) or can acquire holdings directly (the MDC has a majority holding in ten joint ventures and a minority holding in ten or so others).

Three other bodies set up more recently are also responsible for assisting the establishment of new industrial firms. These are:

(a) the Investment Finance Bank, set up by the State in 1976 with the participation of Libyan and Italian capital, which grants loans at interest rates not exceeding 8% per annum;

(b) the Small Scale Industries Development Centre, the task of which is to assist firms with a staff of less than fifty;

(c) The Libyan Arab-Maltese Holding Company Ltd., which, with a capital of M 3 million provided by the Maltese and Libyan Governments, is intended to promote the industrialization of the two countries, and of Malta in particular.

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[1]There are at present about one hundred foreign firms.

[2]15% tax on profits instead of 32.5%

In 1974 and 1975 the rate of establishment of new firms seems to have slowed down, a number of large factories reduced their staff and others avoided this thanks only to the aid supplied by the State in exchange for the preservation of jobs. The export markets picked up again in 1976 and thus led to a recovery in industrial activity. However, the number of jobs created is still insufficient, particularly in view of the new data on the working population (see page 5). Accordingly, the State amended the initial forecasts of the Plan and establised the objectives of creating 12 000 additional jobs[1] in industry during the period 1977 to 1979. It will be difficult to achieve this extremely ambitious objective, since the number of jobs created since 1971 by new industries has averaged 1 400 per annum.

(c) Shipyards

Grouped together in the Malta Drydocks Corporation, the shipyards employ 5 200 people, that is 5% of the labour force in employment, their added value accounts for 4% of GDP and they provide approximately 20% of total exports.

The shipyards were nationalized in 1959 by the British Government and were thereafter gradually converted for non-military use. The Maltese Government took control of this industry after 1970 but it is now self-managing.

Although work for the British Admiralty still accounted for 44% of turnover in 1964, this work practically dried up after 1970. The shipyards also suffered greatly from the repercussions of the closing of the Suez Canal (non-military sales: down 30% in 1968 compared with 1967), and their operations remained in deficit until 1974. With the aid of the People's Republic of China and Saudi Arabia, the Government has undertaken the construction of two new docks[2]. However, the serious crisis currently affecting shipyards, particularly in Europe, seems to restrict the possibilities for extending the Malta Drydocks Corporation.

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1 Not including those resulting from the entry into service of factories already under construction.

2 One for the repair of ships of up to 300 000 t and the other for the construction of ships of up to 120 000 t.

(d) Water and energy

Malta's water supply possibilities are limited and urgan and industrial development are making it necessary to draw increasingly on the underground water reserves which supply almost 90% of the water consumed. Furthermore, the degree of salinity of that water is increasing beyond the normalbeyond the normal level, at least as far as the main island is concerned. There is a sea water desalination plant on each of the two inhabited islands. These provide 10% of the water consumed. The requirements dictated by the objectives of industrial growth reduce the possibilities for developing irrigation and agriculture in general and make it necessary to strengthen the measures to limit domestic consumtion.

Malta has no source of energy. Oil exploration has been undertaken off the coast but has not yet been successful. Imports of oil and coal cost approximately M 14.2 million in 1976, that is approximately 8% of the total import bill or 6% of GNP. Libya grants a reduction on oil products of approximately a quarter of their value. It is proposed to make use of solar energy.

The electricity produced by the thermal power station of the Malta Electricity Board amounts to 350 million kWh or approximately 1 150 kWh per inhabitant[1]. Industrial consumtion did not increase between 1972 and 1975 and accounts for approximately 34% of total consumtion.

(e) Transport and communications

The road network totals approximately 1 200 km, of which 90% is surfaced; the network links all the inhabited parts of the island and appears to be adequately developed. Buses provide a satisfactory service between town.

The airport at Luqa is being extend to take large-capacity aircraft. The number of incoming passengers in 1975 was 376 000, that is 95% of the arrivals on the island. Air Malta, which was set up in 1974 by the Government and foreign shareholders, carried 230 000 passengers in 1976.

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[1]Compared with a per capita figure of 3 850 kWh in the EEC in 1974.

Port traffic, mainly through Valetta, is fairly intense; in 1975, imports totalled almost 5 million t. Sea Malta, established in 1973, has five cargo ships, and carried 130 000 of goods in 1976. It links a number of European ports and is trying to specialize in the transhipment of goods intended for other particularly congested Mediterranean ports. The transport infrastructure projects envisaged by the Government include the construction of a second major international port in the south of the island. This port would specialize to some extent in the transhipment of containers.

Since 1975 telecommunications have been run by the Telemalta Corporation, which is currently beginning a vast extension programme whose total cost is estimated at M 13 million over three years.

(f) Tourism

This sector employs almost 4 000 people directly. Although it contributes between 7% and 8% of GDP, gross foreign currency earnings in 1976 were M 28.6 million or the equivalent of 36% of merchandise exports. The number of tourists visiting Malta was 340 000 in 1976 compared with only 76 000 in 1966.

Since 1959 the State has offered hoteliers numerous advantages. For the construction of hotels of at least eighty beds the State supplies capital in the form of subsidies representing on average 28% of the construction costs and offers tax exemption on the income for ten years. As a result of these measures, hotel capacity increased from 1 900 beds in 1959 to 6 300 in 1968 and 9 800 in 1976.

The State is trying to encourage diversification of the tourist clientele and extend the tourist season. It has encouraged cruise tourism and the organization of international conferences. The hotel occupancy rates are considered satisfactory. However, 40% of the visitors still stay in Malta during the three summer months, a percentage that has not changed in ten years.

6. SHORT- AND MEDIUM-TERM PROSPECTS

The directives of the Plan, as revised at the beginning of 1977 (see page 6), set as their priority objective the creation of 23 700 new jobs during the period 1977-79, this being simply to avoid an increase in the rate of unemployment (at present approximately 4% of the working population).

According to the Government, half these jobs are virtually guaranteed:

(a) the growth in tourism will create the need for approximately 700 new jobs;

(b) the new infrastructure projects will employ 2 500 workers (probably: programme to extend the land under agriculture, construction of a new port, etc.);

(c) the two new drydocks of the Malta Drydocks Corporation should provide employment for 1 500 workers;

(d) the increase in the production of industrial firms that have not yet reached full output will create 3 000 jobs, while the factories currently being fitted out will employed 2 400 workers.

To reach the figure of 23 700 jobs, a further 12 000 will have to be created between now and 1979, probably entirely in the industrial sector.

Generally speaking, these objectives appear very optimistic; firstly, because the extended shipyards will encounter an extremely unfavourable international market situation, and secondly, because the present international trade situation is hardly conclusive to the decentralization of industrial capacity from Europe or North America with the intention of exporting goods back to those same regions, and lastly because investment decisions and their practical implementation generally take too long for there to be any chance of 12 000 new jobs being created in three years (between 1971 and 1975 the number of new jobs created in industry averaged 1 400 per annum, whereas the Government projects as a whole appear to presuppose the creation of 5 800 jobs per annum in the industrial sector between 1977 and 1979). Thus the employment objectives will probably not be achieved and the rate of unemployment will doubtless rise above the present level; it could be as high as 10% to 15% of the working population in 1980.

As far as gross fixed capital formation is concerned, the State estimates the volume of investment needed at M 240 million[1] between 1977 and 1979, given the number of jobs it is hoped to create. As an annual average, this is 44% higher than the figure achieved in 1976. Since this is mainly industrial investment, it is not certain that Malta has the necessary design and organization capacity to implement rapidly a sufficient number of viable new projects. On the other hand, the amount of foreign currency needed to purchase capital goods should not raise any problems since, up to 1979, the State will have the exception revenue from the rent for the military bases and the connected revenue derive therefrom.

After 1980 Malta will be faced simultaneously with two problems: firstly, a rate of unemployment probably far higher than that at present anticipated, and secondly, a large budget and balance of current payments deficit, since investment will have to be continued well beyond the date when Malta ceases to have the revenue from the military bases. The passage through this difficult transitional period should, however, be facilitated by the possibility of drawing for a number of years on the abundant foreign currency reserves: US $ 620 million at the end of 1976, that is the equivalent of seventeen months' imports. Furthermore, Malta has a number of advantages to help it construct the basis for a balanced economic development no longer dependent on military bases. These include:

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[1]The investment cost per new job seems relatively low (approximately 21 000 u.a.); however, all, or at least the vast majority, of the investment operations necessary to create approximately 12 000 jobs have already been carried out. Lastly, most of the new investment operations envisaged are in light industry.

i. a labour force that is skilled (particularly in mechanical engineering) and relatively cheap;

ii. a favourable geographical location on the route from Gibraltar to the Suez Canal;

iii. a climate that is favourable for the development of tourism.

The success of this changeover will also depend to a very large extent on the re-establishment of a more favourable international economic climate. It will also depend on the extent to which Malta can obtain effective assistance in implementing its industrial strategy, particularly for:

i. the selection of export-based inudstries and the identification and preparation of projects;

ii. the promotion of projects selected with potential foreign investors;

iii. the establishment of trade relations and trade links.

S T A T I S T I C A L   A N N E X E S

ANNEX 1 : SECTORIAL BREAKDOWN OF WORKERS IN EMPLOYMENT

	Number		%	
	1969	1976	1969	1976
Agriculture and Fisheries	6.280	7.210	6.3	6.5
Manufacturing Industry	17.590	27.960	17.5	25.3
Shipyards	5.200	5.400	5.2	4.9
Buildings, construction and quarrying	12.370	4.700	12.3	4.3
Wholesale and retail trade	12.530	11.880	12.5	10.8
Other private sector services	18.360	20.450	18.3	18.5
Gas, electricity	920	660	0.9	0.6
Central administration	19.430	20.940	19.3	19.0
British military bases	7.780	3.330	7.7	3.0
Pioneer Corps, "Izza u Rabbi", etc..	(1)	7.880	-	7.1
	100.460	110.410	100.0	100.0

(1) The first special groups set up to provide work for unemployed were established in 1972

Source : - Central Office of Statistics, Annual Abstract of Statistics
- Office of the Pirme Minister, Economic Survey (1976)

ANNEX 2 : SECTORIAL BREAKDOWN OF GROSS FIXED CAPITAL FORMATION

	In £ M 000 at current prices						Structure in %	
	1970	1971	1972	1973	1974	1975	1970	1975
Agriculture and fisheries	292	270	255	529	480	468	1.1	1.3
Manufacturing industry	4.918	3.907	3.601	4.402	4.517	7.664	17.7	20.5
Construction and quarrying	1.182	946	822	1.108	1.701	1.472	4.3	3.9
Transport and communications	3.617	3.369	2.226	2.459	3.062	3.545	13.0	9.5
Houzing	4.578	6.335	7.431	5.280	4.096	3.305	16.5	8.8
Hotel trade	1.282	861	544	621	923	947	4.6	2.5
Other services	1.870	976	1.376	2.264	2.623	2.099	6.7	5.6
Total private sector	17.737	16.664	16.254	16.663	17.401	19.500	63.8	52.0
Total public sector [1]	10.076	8.857	6.279	5.590	13.795	17.982	36.2	48.0
Grand total	27.813	25.521	22.533	22.251	31.196	37.482	100.0	100.0

1 The sectoral breakdown of public investment is not known

Source : Central Office of Statistics, Malta : National accounts of the Maltese Islands 1966-1975

ANNEX 3 : BREAKDOWN OF CIF IMPORTS BY PRODUCT AND MAIN COUNTRIES OF ORIGIN

in £ M 000, at current prices

	1967	1972	1974	1975	9 months 1975	9 months 1976	Average annual incolase 1967-1975 %	Structure in % 1967	Structure in % 1975
Foodstuffs	12.709	18.513	35.720	37.332	25.068	28.265	14.4	31.4	25.8
Cereals	2.878	3.834	10.564	11.487	n.a.	n.a.	18.9	7.1	8.0
live animals and meat	2.444	3.408	4.050	4.715	"	"	8.6	6.0	3.3
fruit and vegetables	1.680	2.219	3.176	3.645	"	"	10.2	4.2	2.5
dairy produce, eggs	1.350	2.409	3.199	3.371	"	"	12.1	3.3	2.3
sugar	736	1.424	4.709	3.228	"	"	20.3	1.8	2.2
Raw materials and energy	4.752	7.422	20.757	17.432	13.074	14.547	17.6	11.7	12.1
oil and derivatives	2.442	4.996	15.558	13.643	10.369	11.442	24.0	6.0	9.4
vegetable and animal oils	331	516	1.542	1.069	744	723	15.8	0.8	0.7
Semi finished products	8.455	19.041	41.172	44.050	31.240	40.922	22.9	20.9	30.5
textiles	2.958	9.397	20.487	20.755	n.a.	n.a.	27.6	7.3	14.4
chemicals	2.683	4.890	9.121	8.474	6.352	8.264	15.5	6.6	5.9
Other finished products	11.436	16.517	30.523	35.745	24.130	36.144	15.3	28.2	24.7
machines	4.727	7.264	14.857	18.165	15.791	26.026	18.3	11.7	12.6
transport equipment	2.241	2.846	5.372	5.943			13.0	5.5	4.1
made up garments and footwear	1.514	2.169	3.362	3.364	n.a.	n.a.	10.5	3.7	2.3
Other	475	827	1.675	1.425	1.187	905	14.6	1.2	1.0
total	40.510	67.210	138.969	144.448	100.992	129.049	17.2	100.0	100.0
Main countries of origin									
United Kingdom	15.803	21.231	34.148	38.386	27.811	32.046	11.7	39.0	26.6
Germany	1.524	4.090	11.592	13.213	8.007	13.522	31.0	3.8	9.2
Italy	6.411	12.556	23.940	26.100	18.486	22.564	19.2	15.8	18.1
Benelux	8.223	n.a.	13.798	11.802	8.744	9.162	4.6	20.3	8.2
France	1.288	3.144	6.298	6.606	4.855	6.933	22.7	3.2	4.6
EEC of nine	27.720	n.a.	91.046	97.423	67.749	85.502	17.0	68.4	67.5
United States	1.293	3.818	8.143	11.540	n.a.	n.a.	31.5	3.2	8.0

Sources : Central Office of Statistics, Malta : Annual abstract of Statistics 1975
Data supplied by the Maltese authorities

ANNEX 4 : BREAKDOWN OF EXPORTS (1) BY PRODUCT AND MAIN COUNTRIES OF DESTINATION (FOB)

IN £ M 000 at current prices

	1967	1972	1974	1975	9 months 1975	9 months 1976	Average annual incolase 1967-1975 %	Structure in % 1967	Structure in % 1975
Foodstuffs	1.519	1.784	4.453	4.928	3.686	6.311	15.8	21.2	9.8
potatoes	376	475	365	547	-	-	4.8	5.3	1.1
flowers, seed	303	229	223	226	180	249	- 3.6	4.2	0.5
tobacco	200	54	1.045	1.930	1.390	1.680	32.8	2.8	3.8
processed agricultural products	162	532	2.409	1.957	-	-	36.5	2.3	3.9
Raw materials	329	435	926	528	561	781	6.1	4.6	1.1
serag	283	430	781	464	338	452	5.4	4.0	0.9
Semi finished products	2.973	5.140	8.224	6.444	4.774	6.117	10.1	41.6	12.8
textiles (yarns and fabrics)	2.390	2.735	4.506	3.585	2.579	1.460	5.2	33.4	7.1
rubber products	542	1.913	3.136	2.180	1.704	1.460	19.0	7.6	4.3
Finished products	2.333	14.209	28.950	38.435	27.395	44.088	41.9	32.6	76.3
made up foods	1.474	7.968	19.256	27.688	20.031	29.063	44.3	20.6	66.0
sanitary equipment	-	1.439	2.245	1.939	-	-	-	-	3.9
plastic foods	120	641	1.419	1.331	977	1.199	35.1	1.7	2.6
toys	85	281	2.886	3.560	498	1.613	59.5	1.2	7.1
electronic	-	435	419	635	-	-	-	-	1.3
Total	7.159	21.568	42.633	50.336	36.123	57.302	27.5	100.0	100.0
Breakdown by country of destination									
United Kingdom	2.739	8.236	13.777	13.400	9.880	11.452	22.0	38.3	26.6
Germany	131	3.670	4.901	12.294	9.069	16.112	76.4	1.8	24.4
Benelux	386	2.525	5.429	6.495	4.222	5.927	39.4	5.4	10.9
EEC	-	-	31.466	36.954	27.007	39.615	-	-	73.4
Lybia (2)	600	815	2.533	3.987	3.133	6.477	26.7	8.4	7.9
Other Arab countries (2)	95	347	1.451	2.264	-	-	-	1.3	4.5

Sources : Central Office of statistics, Malta : Annual Abstract of Statistics 1975
Data supplied by the Maltese authorities

(1) excluding agrair work
(2) estimates

ANNEX 5 : GOLD AND FOREIGN CURRENCY RESERVES

(end of period)

year	in US $ million	In number of month's imports for the year in question
1969	139.2	11.3
1970	157.9	11.8
1971	198.1	14.8
1972	275.1	18.8
1973	325.2	16.3
1974	401.9	13.4
1975	500.3	15.9
1976	622.2	17.3

Source : IMF, International Financial Statistics, February 1977

ANNEX 6 : BREAKDOWN OF THE VALUE OF AGRICULTURAL PRODUCTION

	in £ M 000			as % of the total		Production (in'000 t)	
	Average 1968-1971	Average 1972-1975	1975	Average 1968-1971	Average 1972-1975	Average 1972-1975	1975
Cereals, fooder etc..	642	976	1.381	21.5	22.2	25.4	26.2
wheat	73	174	327	2.4	4.0	2.1	2.3
varley	48	95	137	1.6	2.1	1.8	2.0
fodder	392	564	752	13.1	12.8	19.2	19.9
Vegetables	1.782	2.785	3.911	69.7	63.4	60.4	60.6
potatoes	691	893	1.225	23.1	20.3	20.1	18.3
onions	126	149	171	4.2	3.4	4.3	4.5
tomatoes	298	760	1.162	10.0	17.3	14.3	15.6
melons	62	106	145	2.1	2.4	1.4	1.1
Fruit (1)	298	353	419	10.0	8.0	4.1	4.3
citrus fruit	61	68	81	2.0	1.5	0.6	0.8
strawberries	-	30	44	-	0.7	-	-
Flowers nad seed	263	279	280	8.8	6.4	-	-
total (1) excluding stockfatming	2.985	4.393	5.991	100.0	100.0	89.9	91.1
Bovine animals ('000 head)						10.5	11.2
Sheep ('000 head)						7.3	8.0

(1) excluding grape production

Source : Central Office of statistics, Malta : Annual abstract of Statistics 1975

ANNEXE 7 : GROWTH OF MANUFACTURING INDUSTRY AND BREAKDOWN OF ITS ADDED VALUE (%)

	Average annual growth on the basis of production indices		Structure of added value[(1)] on the basis of current prices	
	1964-1969	1969-1974	1969	1975
Foodstuffs	4.7	4.8	9.6	8.6
Beverage and tobacco	7.7	11.6	14.9	11.8
Textiles, made up articles, hides, leather and footwear	19.1	12.3	24.2	37.9
Wood and furnishings	12.8	1.8	5.6	6.3
Printing	16.7	5.4	6.0	5.5
Chemicals and plastics (2)	14.3	12.1	6.2	3.8
Non metallic mineral products	19.4	- 1.6	4.7	2.9
Machinery	12.6	16.4	4.3	7.0
Transport vehicles	6.4	7.9	16.1	7.4
Other metal processing	16.9	13.5	4.2	6.1
Other manufacturing industry	12.3	- 1.3	4.2	2.7
Manufacturing industry as a whole (3)	10.1	9.0	100.0	100.0

(1) at factor cost

(2) rubber products are grouped together with chemicals to calculate the production indices and with transport vehicles to calculate the added value

(3) excluding the shipyards