

Resilience, creativity and progress

INTERVIEW WITH TONIO FENECH

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TONIO FENECH graduated as Bachelor of Commerce from the University of Malta, majoring in accountancy and management, and received his BA Hons in accountancy. Before his appointment to public office, he was a Senior Management Consultant with PricewaterhouseCoopers. He was appointed Parliamentary Secretary in the Ministry of Finance and in 2008, he was appointed as Minister of Finance, the Economy and Investment.

How is the Maltese economy dealing with a surrounding environment of relative instability – with the eurozone crisis on one side of the Mediterranean and the Arab Spring on the other?

In the past four years the Maltese economy has proved to be exceptionally resilient. That is not to say that we were wholly immune. But the financial crisis did not really affect us directly because we did not have the exposure to the type of investments that created the crisis and our financial sector did not invest in what we call 'bad assets'. So we had a strong financial sector which remained stable and ensured that liquidity was still available. So the lack of trust that you would have seen in the cross-banking activity within the European Union did not apply to us. Liquidity was still flowing in our economy. We intervened very quickly with our industry when the manufacturing sector was first hit. I remember across Europe, the automobile industry in particular was hit very badly with closures and downsizing. This had an impact on Malta because we do have companies that supply components to this industry. So they faced severe difficulties. But as a government we engaged with them. Actually this is the beauty of being small; the ability of the minister to sit down with key industrialists in Malta and together find a solution and cushion a period which we know was going to be difficult. So this close relationship helped us withstand a major economic crisis. We then came to the sovereign crisis which was the more difficult one, in my opinion, because it created instability throughout the eurozone.

The risk with that is that Malta could be simply have been brushed aside together with the rest of the EU economies. We needed to send an international message that Malta was different and that our public finances were strong and stable. We managed to achieve that because we have consistently met our deficit targets and managed to raise the capital that we required internally (some €100 million which is significant for a country our size). The financial sector particularly flourished and saw a noticeable inflow of funds from overseas, which in turn stabilised the business community.

What characteristics do you think define a small island economy as opposed to a bigger economy? How can other such islands – not just in the Mediterranean but elsewhere – learn from your success and experience?

I believe Malta is quite unique in this sense. I remember when we had the Commonwealth Summit in Malta, and we met heads of state coming from many islands in the Commonwealth. I was always amazed how when we discussed their economy, they would say 'our economy is dependent on bananas' or 'our economy is dependent on just tourism.' Traditionally islands seem to be strong in one sector and lack diversity. The difference with Malta is that we have this diversity. Malta is strong in tourism, it has a strong financial service sector, it has a good solid manufacturing base and we have new industries emerging like the ICT and online gaming sectors. We also have shipping and transportation. So it



A bedrock of stability.

Investment decisions are risky matters. Stability secures investment yields over time, at minimal risk. Reputation, efficiency and reliability will allow you peace of mind even in times of turmoil.

Since independence in 1964, Malta has enjoyed political, economic and social stability. Fully integrated in the European single market, it is not only a reputable financial jurisdiction, but a well performing economy with sound fundamentals.

is exceptionally diverse, even within sectors themselves. Within manufacturing, for example, we have the semiconductor industry, car components, pharmaceuticals and printing. And with a small economy it is this diversity that gives us the strength. I remember after 9/11, all the tourism economies suffered tremendously. The tourism flow dropped due to the fear of flying. It obviously affected Malta, but in relation to our GDP, tourism's direct contribution is about 12 per cent. So although it did have other ripple effects in other sectors of the economy, with the growth of those other sectors we were able to compensate. Like with a car that has four tyres and a flat tyre, it doesn't mean it can't go forward. It has difficulty going at speed but it will still move forward. So this I think is what has managed to give us this stability when compared to other islands' economies.

How are you using creativity to boost your economy?

First of all I think Malta has a strong economy because of its creativity. Just think about it – a 100 square kilometre piece of land in the middle of the Mediterranean with such a vibrant economy, when you have bigger pieces of land as islands that are not even inhabited. So clearly for this nation to have lived and its people to have actually created something, there has needed to be a lot of entrepreneurial spirit and innovation. Not necessarily in the scientific sense but in terms of how you approach business and opportunities you look for given your limited position. The only thing we have is ourselves – we have no oil and no other natural resources. So from nothing we not only exist but thrive. The only key element which sustains our economy is our people. So we invest in our people, nurture this creativity so that we are able to continue sustaining Malta as a relevant economic player in the region. This is why business people should come to Malta. Indeed, this is something which investors already appreciate a

lot when they come. Those countries capable of developing and supporting an environment where the creative talent of the population is brought forth and prospers are the countries most capable of supporting their economic and social development. To harness this creative talent we have formed a Creative Economy Working Group. Further details of this can be found at www.creativemalta.gov.mt.

To what extent has your location served as an advantage to your economy in recent years?

Our location is always critical to the economic relevance of our island. From the period of the Phoenicians, the only reason why Malta had relevance then was because it became a trading hub. The Grand Harbour was one of the largest and safest ports in the Mediterranean so many ships would visit the island. That created the first economic activity on the island, because culturally Malta was very difficult to work in and indeed there were periods historically when Malta was not inhabited at all. Agriculture was not sufficient to sustain the economy and so people seldom settled. But trade and shipping started to make Malta relevant. Our strategic location meant that we became a very important military base positioned right in the middle of the Mediterranean. But although today these may not remain main key factors (although shipping is still an important component in our economy). Today it is the geo-political friendships we have, both with Europe and with North Africa which will help continue to sustain the interest in Malta. There is a lot of interest in investing in North Africa, at the moment, but few people want to go and live necessarily in the regions they want to invest in. Malta plays an important role because you can set up your company here, your family can come here, it has close proximity to attractive but volatile markets. Even as the region begins to democratise and open up, Malta will stand to benefit. P

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a strong
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The only
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ourselves**



A determination for success.

Ideas do not grow on trees and before you know it someone else might do it. So if you want to discuss business, you want to do it fast.

With a single point of contact for investors, easy access to decision makers, readily available human resources and an attractive operational cost structure, Malta is poised to be nimble. Doing business in Malta gives you an edge.

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