



Research Article

The sustainable development implications of major economic changes in Malta between 2012 and 2021

L. Briguglio*¹

¹*Islands and Small States Institute, University of Malta, Msida, Malta*

Abstract. The objectives of this paper are to discuss Malta's economic performance between 2012 and 2021, and to compare such performance with the other 26 European Union (EU) member states and with the EU as a whole. The paper also considers social, environmental and political issues, again within an EU context, so as to place the economic dimension within a sustainable development context. The focus is however on economic aspects, with the other aspects being chosen mostly in view of the fact that they tend to drive, or to be driven, by economic realities. The data presented and discussed in the paper, if synthesised, would seem to indicate that between 2012 and 2021, Malta has done very well economically, less well in terms of social development and not well at all in terms of environmental and political governance. The paper argues that in matters relating to social and political governance, the situation appears to have, broadly speaking, improved since 2021. However, this is not the case in matters relating to the physical environment, and the situation would seem to have been worsening in some aspects.

1 Introduction

1.1 Objective

The objectives of this paper are to discuss Malta's economic performance during the decade 2012-2021, and to compare such performance with the other 26 European Union (EU) member states and with the EU as a whole. The paper also considers social, environmental and political issues, again within an EU context, so as to place the economic dimension within a sustainable development context. The focus is however on economic aspects, with the other aspects being chosen mostly in view of the fact that they tend to drive, or to be driven, by economic real-

ities.

1.2 Method

The approach adopted in this paper to attain the stated objective is to produce a series of graphs, derived from reputable databases¹, with an accompanying commentary, mostly covering data between 2012 and 2021, showing developments in Malta over this period, and comparing Malta's changes with those of the remaining 26 states.

As the title of this paper indicates, its wider context is sustainable development and the data therefore covers economic, social, and environmental issues, which are generally considered as the pillars of such development. It needs to be stated at the outset that it was impossible to include all indicators relating to these pillars, and only those considered by the present author to be highlight ones and suitable to capture major changes in the three dimensions under consideration are included in this study. In addition, for the sake of space and parsimony, it was not considered advantageous to clutter this chapter with indicators that convey similar or quasi-similar information as the ones selected.

With regard to the economic dimension, the highlight indicators selected for the purpose of this paper related to real GDP growth, GDP per capita in purchasing power standard and debt/GDP ratio. In terms of the social dimension, the highlight indicators are related to health, education and poverty, while for the environmental dimension the indicators are related to air and noise pollution and waste management.

In this article we added a fourth pillar of sustainable development, namely political governance, which can be considered as an over-arching requisite for sustainable development. For this reason, indicators relating to corrup-

¹The databases utilised include those administered by Eurostat, the National Statistics Office of Malta, the World Bank, UNCTAD, UNWTO, and the IMF

*Correspondence to: L. Briguglio (lino.briguglio@um.edu.mt)

tion and the rule of law are included in this analysis.

1.3 Brief Background

The Maltese economy is one of the smallest in the world in comparison with other politically independent states, and the smallest in the EU. According to Malta's National Statistics Office, in 2021, Malta's gross domestic product (GDP) at market prices amounted to approximately €15 billion, equivalent to around 0.1% of the GDP of the 27 EU member states (EU27) taken together. The population in Malta was estimated at about 519 thousand at the end of 2021. The growth rate of the population between 2012 and 2021 averaged 2.3% per annum, mostly due to inward migration, as the natural population increase in Malta was very low. The population density in Malta was about 1600 per square kilometre in 2021, the highest in Europe. The proportion of non-Maltese nationals in the total population increased steadily between 2012 and 2021, reaching about 22% in 2021.

Problems associated with Malta's small size include constraints relating to its limited ability to reap the benefits of economies of scale, its poor natural resource endowment, and its limitations on the degree of domestic competition, due to the prevalence of monopolistic and oligopolistic market structures. The country's small size also leads to a very high dependence on imports and exports, exposing the economy to external shocks. Insularity brings additional problems associated with international transport costs, which is a major concern given that Malta depends so heavily on foreign trade. These are permanent characteristics of the economy, and the best that policy-makers can do is to mitigate the disadvantages associated with these features.

1.4 Layout

The paper is organised in six sections. Section 2, which follows this introduction, deals with changes in the structure of the Maltese economy between 2012 and 2021, comparing such changes with those in the other EU member states. Section 3 describes changes in economic growth in Malta, again comparing them with those of the other EU member states. The social, economic and political dimensions are discussed in Section 4, 5 and 6. The paper concludes by deriving sustainable-development implications from the findings, identifying the main successes and failures and briefly discussing the prospects for the future.

2 Structure of the Maltese economy

2.1 Overall sectoral distribution

Between 2012 and 2021, about 9% of Malta's gross value added was generated by manufacturing, 67% by the mar-

ket services sector (including property income), 1% by agriculture and fisheries, and 4% by construction and quarrying. The remaining 19% mostly represented the share of government.² For a nation of its size, Malta's economy is relatively diversified, although there are a number of specific industries dominated by single, or a few, large firms. The other 26 EU member states had broadly similar structures, as shown in Figure 1, with services, including government, dominating the economies, averaging 72% in the EU. Three small states, namely Luxembourg, Malta and Cyprus had the most services-oriented economies. The manufacturing sector's share in the EU averaged about 16% and was the lowest in the same three small states. The agriculture/fishing sector was relatively small in all member countries, averaging 2% in the EU, with Bulgaria and Romania registering the highest share. During the period under consideration, the fastest growing activities in Malta were in the services sector, including information, communications and financial services.

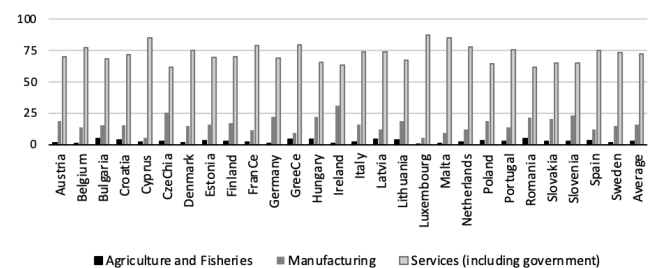


Figure 1: Structure of the EU economies (% of GDP, Average 2012-2020). Source: UNCTAD.

2.2 Agriculture and Fisheries

The agricultural sector in Malta consists principally of small holdings on terraced strips of land, and the soils tend to be shallow. In addition, there are constraints associated with limited precipitation. The most important crops are potatoes, tomatoes, onions and fruit (especially citrus fruit, stone fruit and grapes). Since the 1990s horticultural production has increased markedly.

The GDP share of the Maltese agricultural and fisheries sector averaged about 1% during the 2012-2021 period and did not exhibit a clear tendency to increase or decrease its share, in spite of competition from imported fresh products from Italy. The sector also faces serious challenges in terms of available land area due to over-development, mostly relating to construction activity. When compared to other EU member states, the share of agriculture in Malta is one of the lowest, about

²This share covers public administration and defence, compulsory social security, education, human health, and social work activities

half the share of the EU average, with the highest ratios pertaining to Eastern and Central European countries.

Fishing in Malta is mostly seasonal, as the main commercial species are migratory. Although Malta is surrounded by sea, fishing does not generate much income or employment—a situation exacerbated by the dwindling catches in the central Mediterranean. As a result, the share of GDP contributed by this sector has remained very small. Since the 1990s there has been an expansion of aquaculture, resulting in a rapid increase in the production of farmed fish, including tuna, most of which is exported.

2.3 Manufacturing

Malta's manufacturing share of GDP is one of the lowest in Europe, as shown in Figure 1. The sector contributed about 9% to Malta's GDP on average between 2012 and 2021 but exhibited a declining trend from about 12.6% in 2012 to about 7.5% in 2021. However, there are a number of successful manufacturing establishments producing high-technology products, including electronic components, which have been in Malta prior to 2012. Attempts to encourage foreign direct investment in manufacturing through schemes operated by Malta Enterprise, a government agency promoting Malta as an attractive investment site, were largely unsuccessful, probably because of economies of scale constraints associated with this sector.³

2.4 Market Services

The market services sector in Malta comprises four main sub-sectors, namely distributive trades, transport and communications, banking and finance, and personal services. During the 2000s Malta underwent a process of modernization in most services and, as a result, the sector has become increasingly efficient and export-orientated in transportation, financial services, remote gaming, and ICT-related activities. The overall GDP share of this sector between 2012 and 2021 was 66.5%, from 62.3% in 2012 to 68.8% in 2021. Compared to other EU member states, the share of Malta's market services sector was relatively high, surpassed only by Luxembourg.

An important contributor to the services sector in Malta is tourism. Malta's main tourist attractions are its climate and its sea and to a lesser extent its cultural and historical heritage. Tourism follows a seasonal pattern, with June to October being the peak season. The vast majority of incoming tourists during the period under consideration

³During the 1990s, the manufacturing sector contributed about 20% to the economy, but following the dismantling of import protection during the second half of the 1990s and early 2000s, in preparation for accession to the EU, certain manufacturing industries, including furniture, experienced difficulty in remaining in operation, primarily as a result of increased foreign competition.

were of EU origin—mostly from the UK Italy, Germany and France.

Between 2012 and 2019, the number of stayover visitors increased rapidly as can be seen in Figure 2. Due to the COVID-19 pandemic, tourism inflows decreased drastically in 2020 but recouped somewhat in 2021. Tourism density per 100 persons was very high in Malta in 2019 and was the highest in Europe, as can be seen from Figure 3.

The direct share of tourism in GDP is not known with any degree of precision⁴, given the difficulties of calculating the import content of tourist expenditure. Sacco and Cassar (2019) calculated that in 2010, tourism's direct contribution to Malta's GDP was around 6.1%. Estimates produced by the World Travel and Tourism Council ('Travel and Tourism: Economic Impact Report', 2023) indicate that in 2019, the direct, indirect and induced impacts of tourism amounted to 15%.⁵ Again, the number of persons employed in tourism activities is not known with a sufficient degree of certainty. Sacco and Cassar (2019) calculated that the tourism sector directly employed about 8% of the total gainfully occupied persons (employed or self-employed). According to WTTC, in 2019, the sector employed about 21% of the gainfully occupied population, as a result of its direct, indirect and induced effects on the economy. In recent years, a large proportion of employees in the tourist sector were non-Maltese nationals.

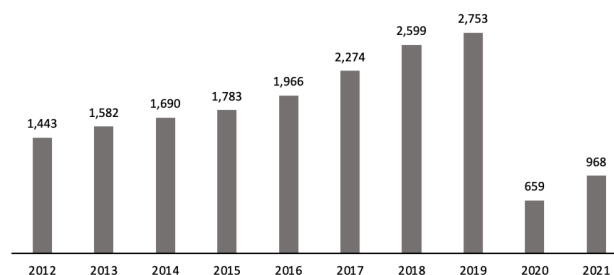


Figure 2: Tourist inflow in Malta (thousands): 2012-2021. Source: National Statistics Office, Malta.

Another important component of the services sector are financial services, which, according to NSO statistics, directly contributed around 6% of gross value added in 2019, employing about 11,000 persons on a full-time basis. However, this does not include a number of services ancillary to financial intermediation, which are growing at a relatively sustained pace.

ICT-related economic activities in Malta have gone through a period of rapid expansion. Among these are remote gaming and other online electronically based ser-

⁴On this issue, see Cassar et. al. (2016)

⁵According to the WTTC, Malta has the third-most dependence on tourism in the EU, exceeded by Croatia and Greece.

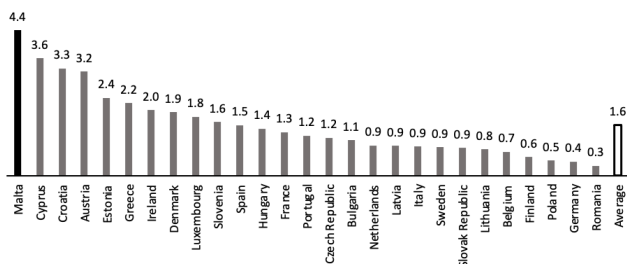


Figure 3: Tourists as a ratio of the population (2012-2021). Source: UNWTO for tourism inflows (numerator of the ratio) and World Bank for population (denominator of the ratio).

vices, which are increasing their share of Maltese exports of services.

2.5 The Public Sector

According to NSO statistics relating to the composition of Gross Value Added in Malta, the government's direct contribution to GVA⁶, averaged about 18% between 2012 and 2021 and did not exhibit a marked tendency to decrease or increase. Employment in the same sector, also according to NSO statistics, averaged about 25% of the total gainfully occupied persons during the same period. Interestingly, employment in this sector increased by about 5.4% per annum between 2012 and 2021 (from about 37 thousand to about 55 thousand). During the same period, Government expenditure in nominal terms increased from about €3 billion in 2012 to €6.8 billion in 2021, averaging 9.5% per annum. According to the classification of the functions of government (COFOG), on average during this period, 58% of the expenditure was allocated on social protection, health and education and 31% on general public services and economic affairs. The remaining 11% were spent on defence, public order, environment, housing and recreation. Government revenue also increased rapidly during the same period, from €2.7 billion in 2012 to €5.8 billion in 2021, an annual increase of 8.4% in nominal terms. Such revenue consisted mainly of direct taxes (personal and corporate) and indirect taxes (including value-added and excise tax), totalling about 60% of government revenue, as well as social security contributions which provided about 22% of government revenue. The total tax burden, including direct and indirect tax and social contributions, as a percentage of GDP was about 33% during this period—not a high ratio by European standards.

⁶The relevant data covers public administration and defence; compulsory social security; education; human health and social work activities.

2.6 International trade

During the period under consideration, exports of merchandise, excluding re-exports, were dominated by electronic and electrical equipment. Other important merchandise exports include pharmaceuticals, toys and plastic products, instruments and printing, and fish/crustaceans. Most of the Maltese exports of merchandise were directed towards European countries, mostly to the UK, primarily to France, Germany, Italy and the United Kingdom. Most Maltese imports of merchandise originated principally from the EU, with the same four countries being the most important countries of origin. Trade with non-EU Mediterranean states (including North African countries) is relatively low. Exports of services are relatively diversified and consist principally of tourism, transportation, financial services, remote gaming, and information and communications technology (ICT) activities. Malta's trade in services occurs mostly with the EU.

Malta is highly trade open. Due to its small domestic market, a large proportion of goods and services are exported. In addition, Malta has few natural resources⁷, and most raw materials and industrial supplies have to be imported. A relatively large proportion of consumer goods are also imported. Figure 4 shows the extent to which Malta relies on foreign trade, with trade openness being measured as the average of exports and imports of goods and services as a ratio of GDP. It can be seen that Malta is the second-most trade-open economy in the EU, with Luxembourg topping the list.

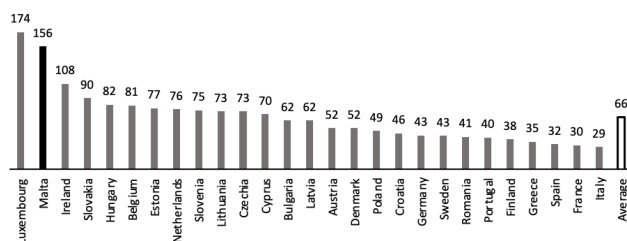


Figure 4: Trade Openness (Export+Imports)/GDP × 2 in % (Average 2012-2021). Source: Eurostat.

2.7 The Financial sector

Malta has developed its international financial centre by actively promoting competitive advantages, including its pro-business legislative framework and the benefits of EU membership. The sector is dominated by two relatively large banks, namely Bank of Valletta and a subsidiary of the UK-based HSBC group, with several smaller banks

⁷Petroleum exploration has been undertaken on several occasions, but, so far, its extraction has not been found to be commercially viable

also operating in the domestic market. In addition, there are a number of banks that operate mostly in international finance.

A major challenge that is often mentioned in IMF and EU reports about the Maltese financial sector is that bank lending is highly dependent on construction-related activities, which have grown rapidly in recent years. Additional financial risks included money-laundering, at times involving individuals holding public office, which has tarnished the reputation of Malta's financial sector, posing a threat to relations with correspondent banks, which are crucial for international business, particularly in clearing US dollar transactions.

2.8 Foreign Investment

Despite having a very small domestic market and lacking natural resources, Malta still manages to attract considerable foreign investment, mostly in the financial sector. The country's EU membership, its strategic location in the Mediterranean Sea, its English-speaking labour force and favourable tax arrangements all serve to attract investors to Malta. The tax refunds offered to investors, effectively resulting in a net tax of just 5% on profit, have been described as a fiscal trick and a harmful tax practice within the EU. However, the Maltese authorities defended this tax regime as lawful and as a generator of substantial tax revenue, which creates many job opportunities, particularly for accountants.

In 2014 Malta introduced the so-called 'Individual Investor Programme' (IIP) granting Maltese citizenship to wealthy non-EU nationals who invest substantially in the islands. The programme, which has generated considerable revenue for the Maltese Government, has come under scrutiny by the European Commission for allegedly increasing the country's vulnerability to money laundering, tax evasion and organized crime. In 2020, the government of Malta strengthened the due diligence procedure associated with the IIP.⁸

2.9 The Labour Market

The labour market is characterized by a relatively low participation rate of women when compared to other EU member states, averaging at around 61% of the female working-age population (15–64 years) between 2012 and 2021, as shown in Figure 5. However, the female participation rate increased during this period from 49% in 2012 to 73% in 2021, as younger women with a relatively high propensity to work replaced older women and as labour market policies were introduced to attract women to the workforce. The male participation rate was substantially

⁸Details relating to the due diligence process in this regard are available at: <https://www.rcint.com/insights/due-diligence-guide-for-obtaining-maltese-citizenship/>.

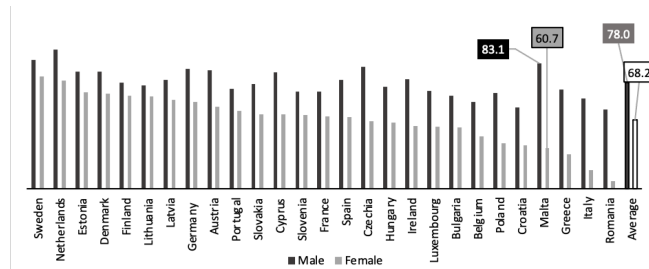


Figure 5: Male and female activity rates (% of working age population, average 2012-2021). Source: Eurostat.

higher than the female one, amounting to about 78% of the male working-age population – one of the highest in Europe.

Another characteristic of the labour market is the relatively large proportion of gainfully occupied persons in the public sector and the large proportion of foreign workers engaged in e-gaming and financial services (with relatively high wage rates) as well as in the hospitality, the food delivery and the construction industries (with relatively low wage rates, and sometimes underpaid).

The unemployment rate in Malta, during the same period, measured as a proportion of the labour force, averaged 4.4%, one of the lowest in Europe, as shown in Figure 6, with a tendency to decline from 6.1% in 2012 to 3.4% in 2021. This low rate of unemployment, resulted mostly from the rapid rate of economic growth which outstripped the growth in the labour force, including migrants, leading to shortage of labour in some sectors. According to Maltese employers' associations, labour shortage was exacerbated by employment of workers in the public sector.⁹

3 Highlight Economic Indicators

3.1 Economic growth

Economic success of a country is often measured in terms of its real GDP growth rate. The Maltese economy grew rapidly during the decade under consideration, as shown in Figure 7. The average growth rate was about 6% per annum, the second highest in the EU as can be seen in Figure 8.

3.2 Income per capita

Income per capita in Malta also increased, although at a lower rate than GDP. This is due to the fact that the

⁹In 2021, five organisations representing employers and businesses, namely the Malta Employers' Association, the Malta Chamber of Commerce Enterprise and Industry, the Malta Chamber of SMEs, the Malta Hotels and Restaurants Association and the Gozo Business Chamber called on the government "to put an immediate halt on the drain of human resources from the private sector, to be employed in the public sector including state appointed bodies."

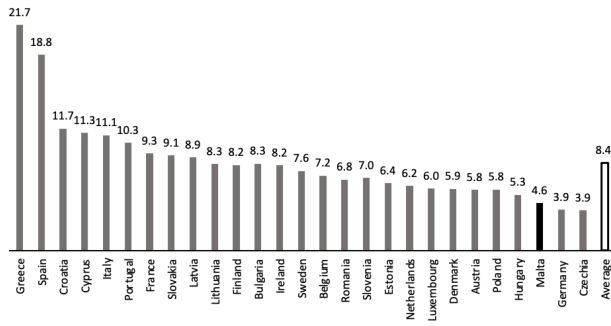


Figure 6: Unemployment rate (% of the labour force, average 2012-2021). Source: Eurostat.

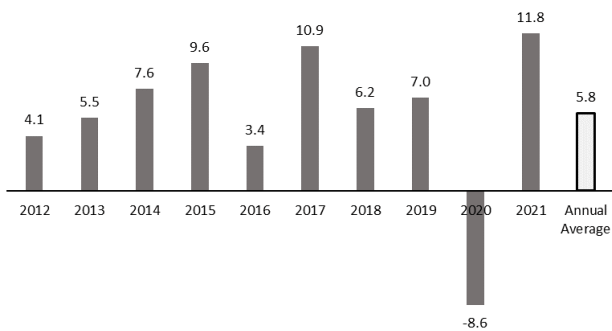


Figure 7: Malta GDP annual growth rates at constant prices (%). Source: IMF and NSO.

denominator of the ratio, namely population, also grew rapidly during the same period.

Figure 9 shows income per capita, measured in Purchasing Power Standard (PPS).¹⁰ During the decade under consideration Malta ranked in the 12th place, lower than the EU average. As expected, the countries with the lower end of the ranking are mostly Southern, Eastern and Central European countries.

3.3 The debt/GDP ratio

An indicator often referred to when assessing the economic sustainability of a country is its government debt in relation to GDP. The Malta government debt, in nominal terms increased steadily during this period, at an average rate of 6.3% per annum, from about €4.9 billion in 2012 to about €8.3 billion in 2021, however due to the fact that the GDP increased at a faster rate in nominal terms than gross debt, the ratio debt/GDP remained under 60%

¹⁰PPS stands for Purchasing Power Standard which is used as an adjustment for differences of price levels between countries, so that a given unit buys the same volume of goods and services in all the countries covered.

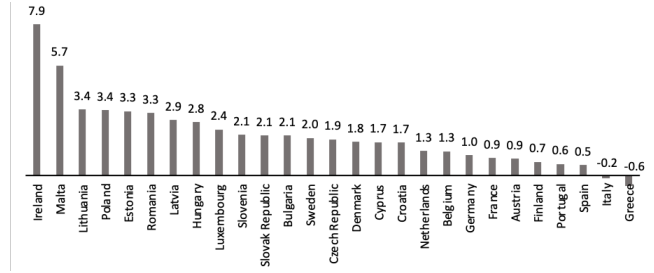


Figure 8: GDP real growth rates in the EU (% average 2012-2021). Source: IMF.

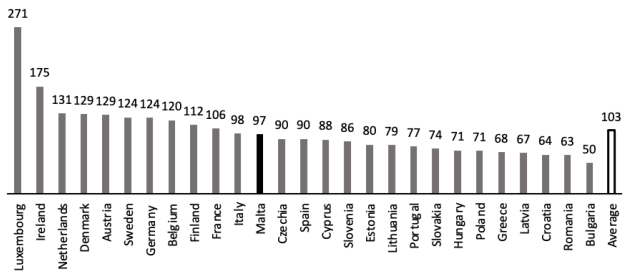


Figure 9: Income per capita PPS (Average 2012-2021). Source: Eurostat.

in all years¹¹, tending to decrease up to 2019 and to rise after that year, as can be seen in Figure 10.¹²

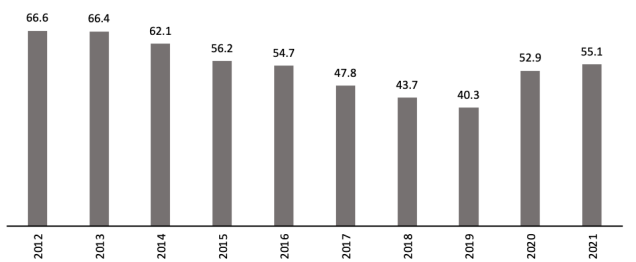


Figure 10: Malta's gross debt/GDP ratio (%). Source: Eurostat.

Figure 11 shows Malta's gross debt ratio in comparison with the other EU member states. It can be seen that Malta's ratio was not on the high side when compared to most other EU member states.

4 Highlight Social Indicators

This section covers a number of social indicators, which are often associated with economic realities, focussing on

¹¹The EU Stability and Growth Pact required each Member State to adopt a fiscal policy aiming for a debt limit of 60% of GDP.

¹²Malta was placed by the EU Commission under the so-called excessive deficit procedure for two years in view of its high debt and deficit ratios. However, since 2013 the budget deficit has been gradually reduced, and in 2017 and 2019 some years a budget surplus was recorded.

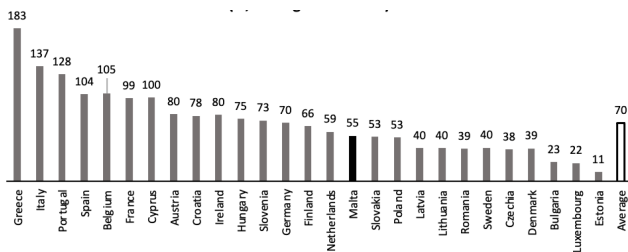


Figure 11: Gross government debt/GDP ratio in the EU (% average 2012-2021). Source: Eurostat.

education, health, and presence of poverty, which are considered to be major pillars of social development.¹³

4.1 Health

An indicator often used to capture the overall health situation in a country is life expectancy, Figure 12 shows that life expectancy in Malta was the highest in Europe during the decade under consideration. This could be partly due to the Malta’s climate, but Malta’s satisfactory public health care, as evidenced in various health statistics, including the self-reported unmet needs for medical examination and care¹⁴ which in Malta is relatively low compared to the other EU member states, as can be seen in Figure 13.

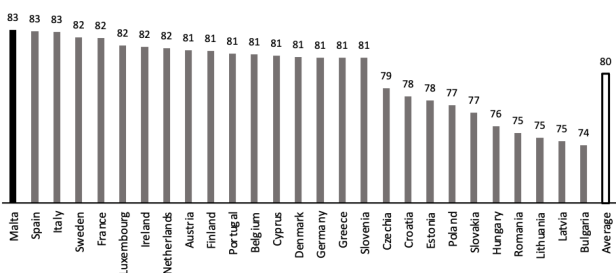


Figure 12: Life expectancy (Years, average 2012-2021). Source: Eurostat.

However, not all is rosy in matters relating to health in Malta. A worrying tendency in this regard is the rate of obesity, with about 28% of the population being obese, the highest in the EU.¹⁵ Other worrying tendencies in Malta in this regard is the relatively high prevalence of diabetes and high blood pressure, associated with eating

¹³For example, the United Nations Development Programme (UNDP) includes health and education, in addition to income per capita, to construct its reputable Human Development Index

¹⁴Self-reported unmet needs for medical care concern a person’s own assessment of whether that person needed examination or treatment for a specific type of health care but did not have it or did not seek it because of the following three reasons: ‘financial reasons’, ‘waiting list’, and ‘too far to travel’.

¹⁵https://ec.europa.eu/eurostat/databrowser/view/hlth_ehis_bm1e/default/table?lang=en

habits and the loss of the Mediterranean diet.

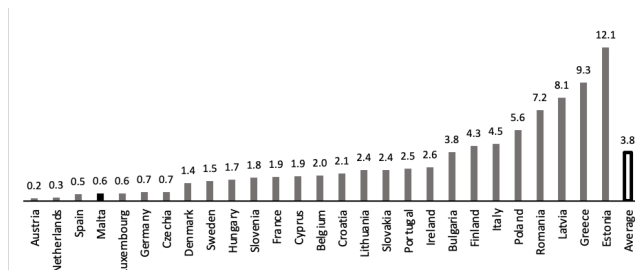


Figure 13: Percentage of persons aged 16 years or over in relation to the population, with unmet health needs (% average 2012-2021). Source: Eurostat.

4.2 Education

Malta faces major challenges relating to education, one of which is the rate of early school leavers. Figure 14 shows that between 2012 and 2021 Malta had the highest percentage of early school-leavers (18-24 years)¹⁶, compared to that of other EU member states. On a positive note, however, the percentage tended to decrease from 27.2% in 2012 to 16.7% in 2020, with the 2020 rate still relatively high.

During the same period, tertiary education attainment in Malta was low compared to other EU member states, as shown in Figure 15, which measures the share of the population aged 25-34 who have successfully completed tertiary studies (e.g., university, higher technical institution, and others). Again here, the percentage has decreased over the decade under consideration with an increase in tertiary education enrolment. In addition, funded tertiary educational opportunities have increased significantly, as the University of Malta (UM) and the Malta College of Arts, Science and Technology (MCAST) have expanded the number of courses they offer.

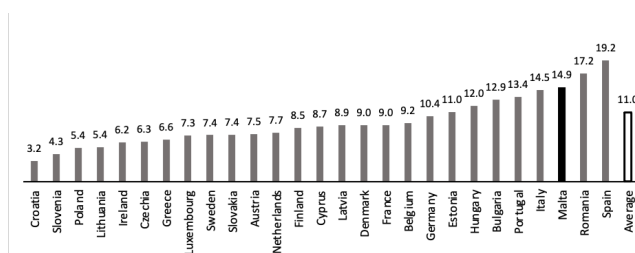


Figure 14: Percentage of early school leavers in relation to the population aged between 18 and 24 (average 2012-2021). Source: Eurostat.

¹⁶Early leavers from education and training denotes those aged 18 to 24 having attained at most, lower secondary education and not being involved in further education or training.

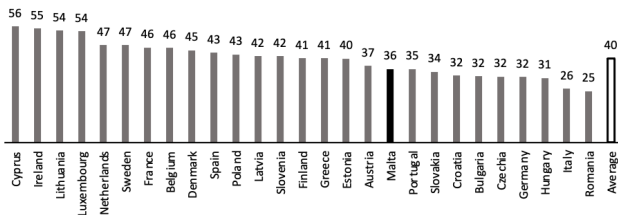


Figure 15: Percentage of population aged between 25 and 44 who have successfully completed tertiary studies (average 2012-2021). Source: Eurostat.

4.3 Poverty

Poverty in Malta is not a major social problem when compared to the rest of the EU member states. This can be noted in Figure 16 which measures the percentage of persons at risk of poverty¹⁷ indicating that on average, over the decade under consideration, the rate was lower than the EU average. As expected, most countries with a very high risk are those in Eastern, Central and Southern Europe. Over the decade the ratio in Malta hovered around 16.5%.

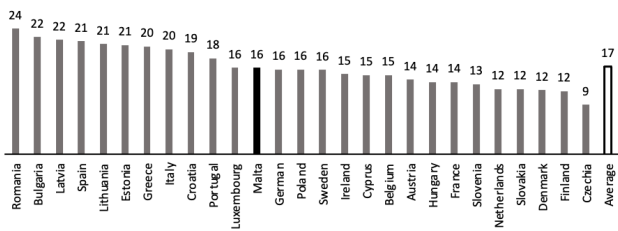


Figure 16: Percentage of the population at risk of poverty (average 2012-2021). Source: Eurostat.

Eurostat measures the inequality of income distribution by calculating the ratio of total income received by the 20% of the population with the highest income (the top quintile) to that received by the 20% of the population with the lowest income (the bottom quintile). It can be seen from Figure 17 that Malta was on the lower side on this index indicating a relatively even distribution of income when compared to other EU member states. Although in Malta the distribution is not overly uneven, it has tended to increase steadily in its unevenness during the decade under consideration from 3.9% in 2012 to 5% in 2021.

¹⁷This indicator relates to the share of people with an equivalised disposable income (after social transfer) below the at-risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income after social transfers. A similar pattern emerges from data relating to "At risk of poverty and social exclusion" where the rate hovered around 20%.

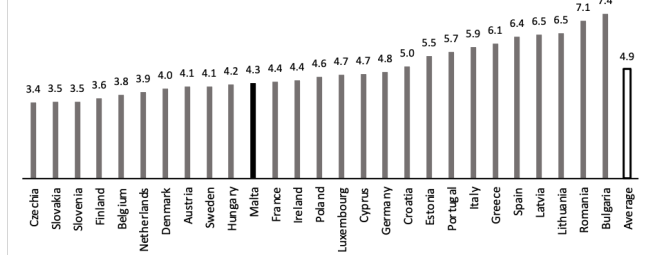


Figure 17: Income distribution: ratio of income received by the top population quintile to that by the bottom quintile (average 2012-2021). Source: Eurostat.

5 Highlight Environmental Indicators

Malta fares very badly with regard to various environmental indicators. Figure 18, based on the Eurostat SILC-survey, shows the percentage of the population aged 16 and over who reported that they face the problem of pollution, grime or other environmental problems in the local area such as smoke, dust, unpleasant smells or polluted water. Malta has the highest percentage, which is more than twice the EU average. The Malta percentage in this regard decreased from 40% to 27% between 2012 and 2015 but hovered around 32% since then.

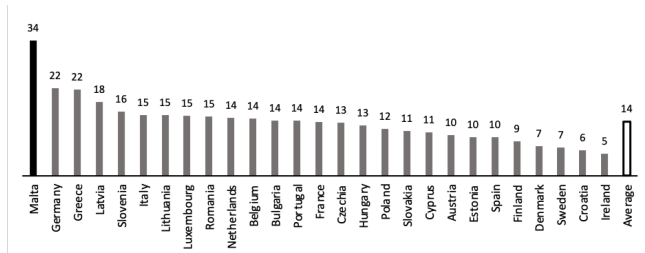


Figure 18: Percentage of the population aged 16 and over reporting pollution, grime or other environmental problems (average 2012-2020). Source: Eurostat.

As regards, noise pollution, the self-reported perception data again indicates a very bad performance for Malta, when compared to other EU member states, as shown in Figure 19. The indicator measures the proportion of the population who declare that they are affected either by noise from neighbours or from the street. There was no clear tendency that this problem increased or decreased markedly during the period under consideration.

Figure 20 shows the tonnage recycled from municipal waste divided by the total municipal waste arising. Again, in this case, Malta comes last in the list, suggesting poor environmental governance, when compared to other EU member states. A more detailed analysis of this variable indicates that between 2012 and 2020, Malta's ranking within the EU has tended to fall.

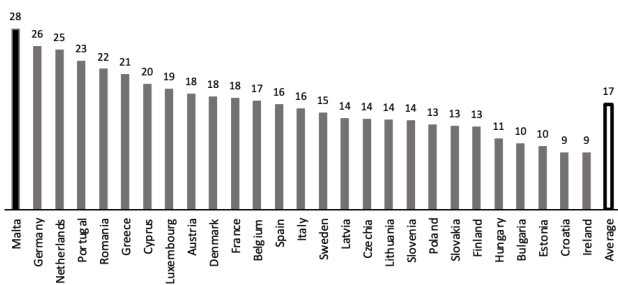


Figure 19: Percentage of the population living in households considering that they suffer from noise (average 2012-2020). Source: Eurostat.

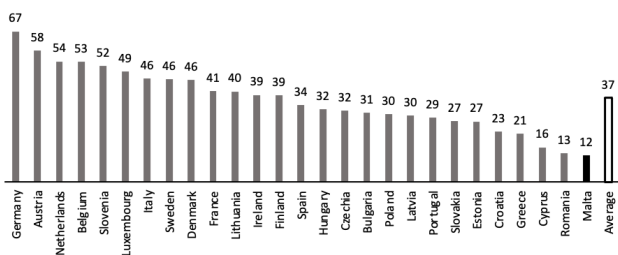


Figure 20: Percentage rate of municipal waste recycling (tonnage recycled from municipal waste divided by the total municipal waste arising, average 2012-2020). Source: Eurostat.

6 Political governance Indicators

Although the pillars of sustainable development are generally associated with economic, social and environmental issues, good political governance could be considered as an overarching requirement. Political governance relates to decision-making in policy formulation and the development of institutions to implement it. Various indicators have been proposed to measure good political governance, but two factors are often considered as undermining good governance, namely corruption and disregard of the rule of law, with the former being considered as one of the most significant barriers to effective rule of law (Kaufmann, 2015).

In the Corruption Perception index¹⁸ (Figure 21), Malta was ranked 19th among the EU 27 member states during the period under consideration, with an average score of 55, in a range with a maximum of 100 which signifies absence of corruption. This means that only 8 countries were considered to be more corrupt than Malta.

¹⁸The indicator is based on a combination of surveys and assessments of corruption and ranks countries based on how corrupt a country's public sector is perceived to be, with a score of 0 representing a very high level of corruption and a score of 100 representing a very clean country. The CPI is published by Transparency International.

According to the World Bank Rule of Law indicator¹⁹, Malta ranked 13th among the EU27 (Figure 22). Although the two indices do not exactly tally, they both indicate that Malta is not considered to be one of the best politically governed EU member states.

Furthermore, during the period under consideration, the rule of law was recorded as having deteriorated by the World Bank index, with a score that decreased from 1.34 in 1912 to a score of 0.86 in 2021 as shown in Figure 23. A deteriorating trend was also reported in the Corruption Perception Index from a score of 57 in 2012 to a score of 54 in 2021.

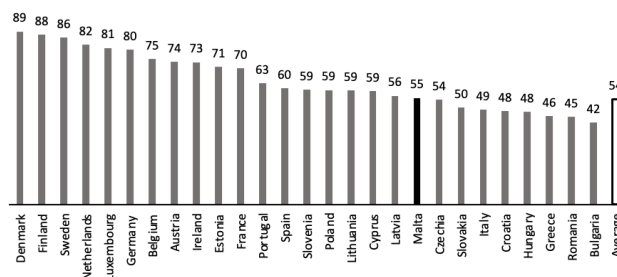


Figure 21: Corruption perception Index – maximum of 100 signifies absence of corruption (average 2012-2021). Source: Eurostat, based on Transparency International data.

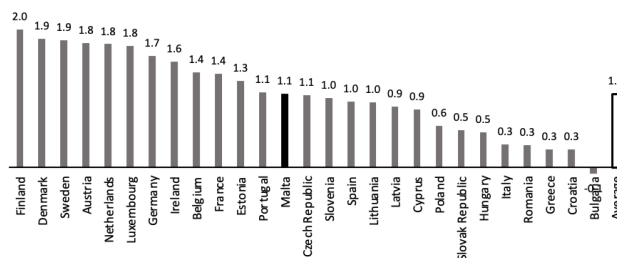


Figure 22: Rule of Law in the EU Member states (average 2012-2021). Source: World Bank (2022).

7 Summary and Prospects

7.1 What the data shows and does not show

The data presented and discussed above, if synthesised, would seem to indicate that between 2012 and 2021, Malta has, overall, done very well economically, less well in terms of social development and not well at all in terms of environmental and political governance.

¹⁹The indicator contains estimates of governance. with scores ranging from approximately -2.5 (weak) to 2.5 (strong) governance performance. The indicator reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

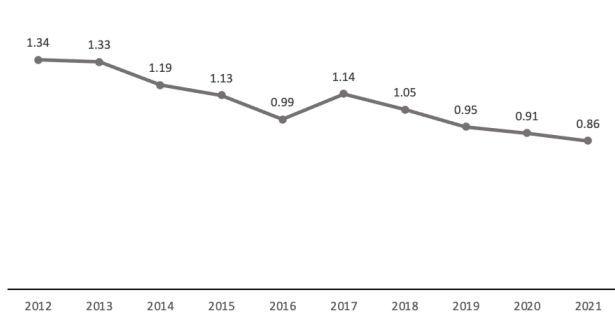


Figure 23: Percentage rate of municipal waste recycling (tonnage recycled from municipal waste divided by the total municipal waste arising, average 2012-2020). *Source: World Bank (2022).*

The economic growth in Malta during the period under consideration has been impressive, sustaining a very respectable per capita income and a low unemployment rate, compared to other EU countries. However, the statistics do not show a number of policy-induced shortcomings, including the absence of pension reform in view of the unsustainability of the current pension pay-as-you go system and weak financial oversight, which led Malta to be grey-listed by the Financial Action Task Force (FATF) in 2021 due to deficiencies in the fight against tax evasion and money laundering.

It needs also to be said that many economic problems faced by the Maltese economy are not policy induced and relate to the very small size of the country, limiting its diversification possibilities and imposing economies of scale constraints—physical characteristics that will remain regardless of economic policy.

In terms of the social indicators, Malta registered high health scores but low education scores, when compared to other EU member states. In the social component of this paper, we also included the “at risk of poverty index” and an income distribution index. These are often viewed as economic variables, but they have major social implications. In both indices, Malta finds itself somewhat in the middle of the range among the EU member states, but in the case of income distribution, there was a tendency for increasing unevenness. Again, here, the statistics do not show all that needs to be shown to describe social governance, given that this is a complex condition and relates to changes which are difficult to measure. For example, the health indicators presented above did not cover the health risks and social discomfort caused by high population density, and the social threats resulting from corruption, including the negative effects on ethical values. Likewise, the education statistics did not deal with its quality, which could be one reason why Maltese students tend to attain low scores in the Programme for

International Student Assessment (PISA).²⁰

Malta has not performed well at all in terms of the environmental dimension, as indicated by the pollution and waste management indicators. As in the case of economic and social statistics presented here, the environmental statistics do not capture fully the factors that lead to environmental degradation or otherwise, such as for example the biodiversity loss and deforestation caused by construction and tourism.

The dismal picture shown in the three environmental indicators are probably mostly due to weak environmental governance. For example, in the case of recycling, government did not assign major importance to the circular economy. The construction industry is very weakly regulated, and as a result often generates air and noise pollution and destabilises whole neighbourhoods. This situation is exacerbated by lack of environmental awareness among the population. However, the high population density of Malta may also have played a part in this matter, particularly with regard to waste generation and traffic pollution.

In terms of political governance, Malta ranked somewhere in the middle of the range of country scores, but there was a tendency of a deterioration in the rule of law and corruption indices.²¹ In spite of this, however, Malta is still considered as a free country, especially with regard to civil liberties (Freedom House, 2023). Again here, the political governance statistics considered in the present study do not reflect all political realities, including the high degree of clientelism and patronage prevalent in Maltese politics.

7.2 Is Malta following the path of sustainable development?

The indicators presented above beg the question as to whether Malta was following the path of sustainable development during the period under consideration. One cannot give a straight-forward answer to this question, as, going by the data presented above, Malta did well in some pillars of sustainable development, and not so well in others. Thus, Malta’s economic success, during the decade under study was accompanied by weak political and environmental governance.

Does it therefore follow that such governance weaknesses enabled economic growth? Some authors discuss this issue, exploring, for example, whether corruption greases the wheels of economic growth (Briguglio et al., 2019; Kelsall, 2014; Méon & Weill, 2010; Rodrik, 2008)

²⁰The index is derived from a triennial survey of 15-year-old students, assessing the extent to which they have acquired the key knowledge and skills essential for full participation in society, focusing on proficiency in reading, mathematics and science.

²¹This has led Economist Intelligence Unit (2023) to label Malta as a “flawed democracy”.

and whether environmental protection raises production costs and hampers free enterprise (Gray, 2015). In such discussions the issue of short-term gains as against long term losses often arises. In the context of sustainable development, however, economic growth is considered as only one aspect of such development with social and environmental concerns given equal importance as that given to economic matters. In addition, the EU assigns major importance to political governance in the pursuit of sustainable development (Niestroy et al., 2019) arguing that such development depends highly on policy coordination.

A case in point where economic activity in Malta clashes with the quest for sustainable development relates to construction, to which reference has been made many times in the present paper. In terms of government policy, this sector has been aided and abetted by different administrations in Malta.²² The sector has major negative social and environmental impacts, adversely affecting the quality of life of a large number of the Maltese population (Zammit, 2022). In addition, construction depends on land availability, which is in very short supply in Malta, posing further questions as the sustainability of this sector. Another economic activity in Malta, again aided and abetted by consecutive governments, is tourism, practically disregarding the fact that it causes social discomfort in high tourist-density localities and generates negative environmental effects (Briguglio et al., 2019; Dodds, 2007). In both types of economic activity, government policy assigned primary, if not exclusive, importance to their economic benefits to spur Malta's economic growth.²³ It should be recalled that sustainable environmental policies can be considered as fostering weak or strong sustainability, relating to the extent to which natural capital, when degraded or destroyed, can be replaced by other forms of man-made capital. Weak sustainability implies that natural capital is substitutable, whereas strong sustainability implies that natural capital is not. The case of construction in Malta is a classic case of the latter stance, given that the mushrooming building activity has led to depletion of environmental assets, which will be lost forever.

7.3 Prospects

This paper was written in early 2023, when there were already signs of improvement in some areas which looked

²²It is well known that construction developers are financial donors to the two main political parties in Malta and this could be one reason why different administration have tended to support and, even worse, tolerate malpractice in this sector.

²³These two economic sectors have many things in common. Major operators in construction and tourism have been associated with state capture and corruption. They both depend highly on imported labour, which, as already indicated, has led to a major increase in the population – again leading to further adverse social and environmental effects.

gloomy during the 2012–2021 period covered by the paper. For example, progress was achieved with regard to financial oversight, leading the FATF to officially confirm that Malta had been taken off the grey list in 2022. In the educational sphere many improvements were registered, including that the rate of early school leavers was drastically reduced, and the proportion of persons educated to tertiary level increased markedly.

However, in matters relating to the physical environment, the situation did not seem to improve all, and may be worsening. For example, the frequent sale of government land to private entities, has resulted, and is likely to continue resulting, in further environmental degradation. The Environment and Resources Authority, which has the remit of safeguarding the environment, is practically toothless and the Planning Authority, with the mission of making the Maltese Islands a more pleasant and desirable place to live in, is doing exactly the opposite.

As regards political governance, the situation would seem to have been improved somewhat since 2021, in that there seems to be better checks and balances relating to corruption, but, at least for the coming years, the large parliamentary majority enjoyed by one political party²⁴ would enable the government, if it wants to, to appoint accommodating persons in charge of the regulatory institutions. Optimistically, Malta's membership in the European Union, where sustainable development and democracy are assigned major importance, should dissuade maladministration excesses, and restrain the country from being an "elective dictatorship".²⁵

References

- Briguglio, L. P., Vella, M., & Moncada, S. (2019). Economic growth and the concept of diminishing marginal governance effect. *Journal of Economic Studies*, 46(4), 888–901.
- Cassar, I. P., Vella, K. J., & Buttigieg, S. (2016). Understanding the economic contribution of tourism in Malta: A literature review. *Mediterranean Journal of Social Sciences*, 6, 49–59.
- Dodds, R. (2007). Malta's tourism policy: Standing still or advancing towards sustainability? *Island Studies Journal*, 2(1), 47–66.

²⁴Some commentators are of the view that the 2017 and 2022 consecutive electoral victories of the Labour Party, where due mostly due to its economic policies and its progressive civil liberties when in government (Galea, 2023). Others attribute this to a weak political opposition (Said, 2021) and to the populist stances of the party in government (Schembri, 2023).

²⁵This term refers to a situation where parliament is excessively dominated by the government of the day. It is often associated with "First Pass the Post" electoral system but it can also happen proportional representation systems. The term is attributed to Lord Hailsham, in a Richard Dimbleby Lecture at the BBC in 1976.

- Economist Intelligence Unit. (2023). Democracy index 2022.
- European Commission. (2022). *Sustainable development in the European Union monitoring report on progress towards the SDGs in an EU context*.
- Freedom House. (2023). Freedom of the world, 2023.
- Galea, A. (2023). The 10 defining points of Labour's 10 years in government.
- Gray, W. B. (2015). Environmental regulations and business decisions. *IZA World of Labor*.
- Joshi, S., Krishnan, R., & Lave, L. (2001). Estimating the hidden costs of environmental regulation. *The Accounting Review*, 76(2), 171–198.
- Kaufmann, D. (2015). Corruption matters. *Finance & Development*, 52(3), 20–23.
- Kelsall. (2014). Authoritarianism, democracy and development. *Developmental Leadership Program, University of Birmingham, UK*.
- Lafortune, G., Fuller, G., Bermont Diaz, L., Kloke-Lesch, A., Koundouri, P., & Riccaboni, A. (2022). *Achieving the SDGs: Europe's compass in a multipolar world*. *Europe sustainable development report 2022*. Paris SDSN.
- Méon, P.-G., & Weill, L. (2010). Is corruption an efficient grease? *World development*, 38(3), 244–259.
- Niestroy, I., Hege, E., Dirth, E., & Zondervan, R. (2019). Europe's approach to implementing the sustainable development goals: Good practices and the way forward.
- Rodrik, D. (2008). Second best institutions. *American Economic Review*, 98(2), 100–104.
- Sacco, B., & Cassar, I. (2019). Measuring the economic impact of tourism in Malta using the tourism satellite account. *European Journal of Tourism Research*, 23, 86–111.
- Said, M. (2021). Needed: A strong opposition. *Malta Independent*.
- Schembri, C. (2023). Stretching populism to extremes. *Travel and tourism: Economic impact report*. (2023). World Travel and Tourism Council.
- Worldwide governance indicators. (2022). *World Bank*.
- Zammit, L. (2022). Construction: Negative externalities. *Times of Malta*.