

EY Attractiveness Survey

Malta

October 2021





Foreword

Time to act



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For almost two decades now, the Malta Attractiveness Survey has gathered the views of foreign direct investment (FDI) companies with roots firmly on the island. These companies, across various sectors, are deeply invested in Malta and have an interest in its prosperity and future. Looking back, it's interesting to see how far we've come, but it's equally important to take the time to reflect on where we are today, before charting the way forward.

The COVID-19 pandemic came out of nowhere, and action was needed to safeguard people's lives as well as the economy. From a health standpoint, our ability to vaccinate almost the entire adult population in a short time frame has been commendable. Businesses have responded well to the support measures. Economically, though, these measures cannot be sustained indefinitely. Some uncertainty remains, particularly as we have seen new variants emerge. Authorities in Malta and elsewhere have a mammoth task to navigate the next phases on both the economic and health fronts.

In June, the Financial Action Task Force (FATF) put Malta on the grey list. We conducted this year's annual survey just a few weeks later.

For the first time since we have been conducting our survey, a significant part of the investors interviewed are telling us that Malta is currently unattractive for FDI. This might not be easy to digest as we are accustomed to better results. This outcome is not necessarily only due to the grey listing, but it has certainly played a big part. It would be foolish to bury our heads in the sand and not act immediately.

Other countries, most notably Iceland, have passed through the same process and come out the other side in a timely and effective fashion, and Malta can too. It is imperative, though, to look beyond short-sighted gains and shift the focus toward building a future-proof framework, legislation and enforcement to underpin long-term economic prosperity.

Eight out of 10 investors would like to remain here for the long term. This is their home too, and they want us to succeed, but what other issues are investors telling us to look at?

Our tax regime remains our most attractive feature for FDI investors, but its attractiveness has declined by 15% in one year. Developments internationally will certainly have had a bearing. The stability of the political, legal and regulatory environment has been placed last for the second year running. Some years back, this parameter was ranked at the very top. With consistent effort from all interested parties, improvements can be registered once more.

In last year's report, we asked whether this was the time to pause and reflect. We asked whether we should take the opportunity to reframe our future.

Potentially, a new economic model that is less based on numbers – be it the number of cars, tourists, permits or property sales – may be needed. One that focuses more on well-being and the quality of life of our residents. An economic model where the benefits of an attractive tax system are eclipsed by the strength of our talent pool, digital infrastructure, innovation environment, quality of life and social fabric.

In the meantime, positively, any lull due to COVID-19 has given way to increased recruitment. The flip side is that the ability to find and recruit specialized personnel has once again resurfaced. The skills required within the market are continually changing, and the skills of tomorrow won't necessarily be the skills we are teaching in schools today. Local industry and educational institutions must align to cater to each other's needs.

Linked to this is the fact that, for several years, investors have highlighted Malta's weak innovation capacity, despite thriving ICT, telecommunications and hi-tech manufacturing clusters. The growth of the tech sector throughout the pandemic proves its resilience and shines a light on where Malta should focus in the years ahead in an increasingly interconnected and digital world.

In last year's survey, we wrote that "sustainability may be a buzzword for 2020 but it is not a fad." The same can be said in 2021. Although Malta's green efforts have increased in recent years, there is still some way to go. The survey highlights how investors believe that sustainability and climate change are trends expected to continue accelerating due to COVID-19.

Furthermore, a large majority believe environmental sustainability is a critical or somewhat important part of their investment strategy. Companies are realizing the importance of meeting the needs of all their stakeholders – customers, employees, partners and society – as a critical factor to drive sustainable, long-term value creation.

If you look at our 2021 *EY Generate Youth Survey*, released during *EY's Future Realised Week*, you will see how high on the agenda sustainability issues are for both Gen Z and Millennials. They are the future of this country and 9 out of 10 believe the environment is getting worse. They also believe our biggest challenge is overdevelopment and the environment. Almost two-thirds indicated they would prefer to live and work elsewhere in Europe. It is therefore imperative that we transform our urban and social fabric, and create the type of employment opportunities that will rekindle Malta's appeal. Around 60% wish to become entrepreneurs, and I have no doubt we will be seeing many of them providing workable solutions to the challenges we face.

These are all priority areas going forward, but it's worth keeping in mind that our weaknesses are not permanent. Far from it. We have the capability and resources to turn our fortunes around and harness our strengths to compete with the very best.

Executive summary

1

FDI facts at a glance

In 2020, Malta Enterprise (ME) approved

39

greenfield projects

ME also approved

15

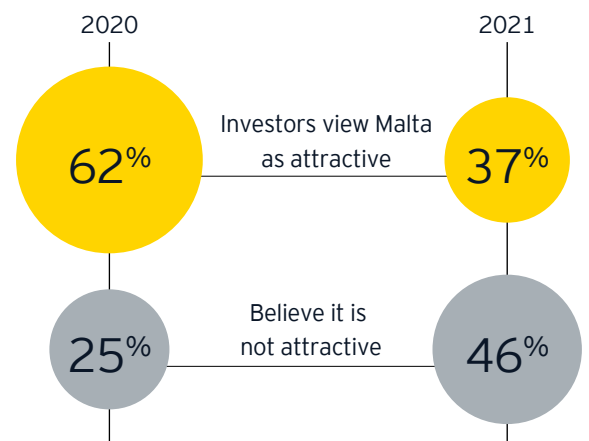
expansions by foreign companies

2

Perception

Attractiveness

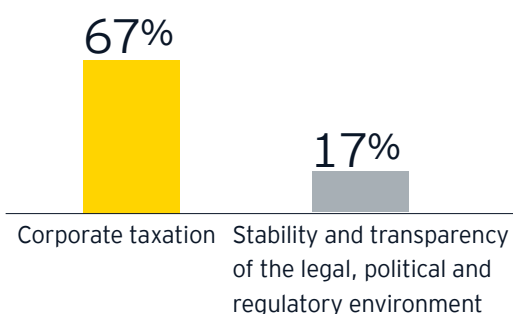
1 | Malta's FDI attractiveness index has declined.



2 | Notwithstanding the challenges ...



3 | Corporate taxation continues to top Malta's FDI attractiveness scoreboard, although it has declined. The stability and transparency of the legal, political and regulatory environment remains the least attractive FDI parameter.



4 | A large majority believe that the grey listing will lead to reputational damage, and most believe it will make doing business in Malta more difficult.



COVID-19 impact

5 | The number of companies negatively impacted by COVID-19 has decreased slightly in 2021.

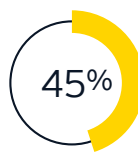


6 | Over 50% of companies expect to make a full recovery to 2019 levels in less than one year.

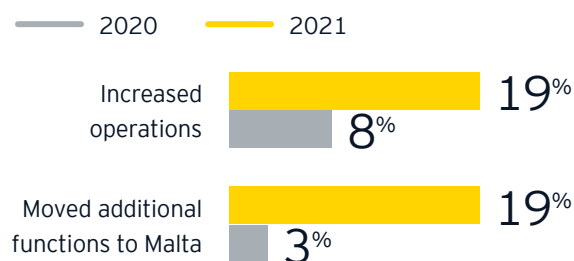


7 | With recruitment increasing, companies' challenge to find the required skills and retain specialized personnel has resurfaced.

8 | Almost half have not delayed, decreased or cut back investment plans due to the pandemic.



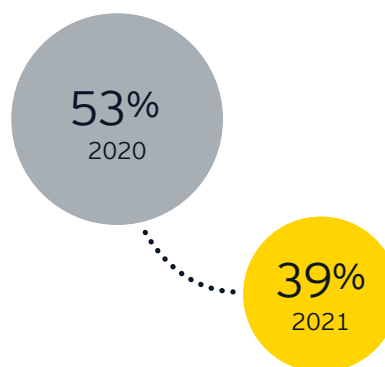
9 | An increasing number of investors have moved additional functions to Malta or increased operations.



Looking ahead

10 | To remain globally competitive, Malta's utmost priority should be a focus on reputation and brand, followed by education and skills.

11 | Nearly 4 out of 10 investors are considering expanding their operations, down from 53% in 2020.



12 | Foreign investors indicated that companies' future investment location choices are dependent on the location's availability of skills, political and regulatory stability, and the cost-competitiveness of the country.

Malta – facts

Area¹

316km²

Population²

516,100

Official languages



Maltese English

1964

2004

2008

Milestones

Maltese independence and
Commonwealth membership

EU membership

Euro
currency

Gross domestic product
(GDP) Q1 2021

1.8% 

€3,251.8m

Registering a decrease of €17.8 million, or 0.5%, compared with the same quarter of 2020. In volume terms, GDP fell by 1.8%.³

Unemployment rate

3.6%
June 2021⁴

Inbound tourism

62.3% 
70,300

Inbound tourist trips from January to December 2019 reached a total of 2.8 million, an increase of 5.9% compared with the same period in 2018.⁵

Value-added
tax rate

18%

Imports⁶

€5,380.5m

Biggest imports

€1,834.5m

Machinery
and transport
equipment

€1,229.2m

Mineral fuels,
lubricants and
related materials

Exports

€3,363.0m

Biggest exports

€928.6m

Machinery
and transport
equipment

€880.3m

Mineral fuels,
lubricants and
related materials

¹ National Statistics Office (NSO), 2019.

² NSO, news release 122/2021.

³ NSO, news release 097/2021.

⁴ NSO, news release 135/2021.

⁵ NSO, news release 141/2021.

⁶ NSO, news release 143/2021.

Figure 1: Main features of country forecast – Malta

	2019		Annual percentage change						
	Current prices (€m)	% GDP	2001-16	2017	2018	2019	2020	2021	2022
GDP	13,390.1	100	3.4	8.0	5.2	4.9	-7.3	3.0	6.2
Private consumption	6,233.1	46.6	2.1	3.4	8.5	5.2	-9.8	4.2	4.3
Public consumption	2,299.7	17.2	2.1	1.7	12.0	11.5	18.4	-0.4	4.8
Gross fixed capital formation	2,898.4	21.6	5.0	-0.7	3.1	8.8	-10.1	8.0	6.8
Of which: equipment	771.1	5.8	7.3	-34.5	-7.7	3.1	-	-	-
Exports (goods and services)	19,258.1	143.8	5.3	8.1	-0.5	6.1	-10.4	2.3	7.3
Imports (goods and services)	17,392.6	129.9	4.7	4.4	0.4	7.9	-8.4	2.4	6.6
Gross national income (GNI) (GDP deflator)	12,277.1	91.7	3.0	6.2	7.8	5.8	-7.5	3.0	6.2
Contribution to GDP growth:									
Domestic demand			2.7	1.7	6.4	6.1	-3.6	3.5	4.5
Inventories			-0.2	0.2	0.0	0.0	0.3	-0.5	0.0
Net exports			1.0	6.0	-1.2	-1.3	-4.1	0.0	1.7
Employment			2.1	8.1	6.0	5.8	-0.8	1.9	4.3
Unemployment rate (a)			6.4	4.0	3.7	3.6	5.1	4.7	4.1
Compensation of employees per head			3.7	0.1	3.7	2.8	1.0	2.0	1.1
Unit labor cost, whole economy			2.4	0.1	4.5	3.7	8.1	0.9	-0.6
Real unit labor cost			0.0	-2.1	2.5	1.5	7.5	-0.6	-2.7
Saving rate of households (b)			-	-	-	-	-	-	-
GDP deflator			2.5	2.2	2.0	2.2	0.6	1.5	2.1
Harmonized index of consumer prices			2.1	1.3	1.7	1.5	0.8	1.3	1.6
Terms of trade of goods			-0.2	2.4	3.6	0.1	-0.3	0.7	-0.2
Trade balance (goods) (c)			-17.3	-12.9	-12.2	-12.5	-6.5	-6.2	-7.3
Current account balance (c)			-2.2	11.2	11.1	4.4	0.5	0.1	1.4
Net lending (+) or borrowing (-) compared with rest of world (ROW) (c)			-0.9	11.8	12.1	5.2	1.5	1.1	2.4
General government balance (c)			-3.2	3.2	2.0	0.5	-9.4	-6.3	-3.9
Cyclically adjusted budget balance (d)			-3.2	0.9	-0.3	-1.7	-6.9	-3.7	-2.6
Structural budget balance (d)			-	1.1	-0.3	-1.7	-6.9	-3.7	-2.6
General government gross debt (c)			64.4	48.4	45.2	42.6	55.2	60.0	59.3

(a) As a % of total labor force; (b) Gross saving divided by adjusted gross disposable income; (c) As a % of GDP; (d) As a % of potential GDP.
Source: European Commission Autumn 2020 Economic Forecast.

Figure 2: GDP identity from production (output) side by period

	2016	2017	2018	2019	2020
Gross value added (GVA) (€)	9,403,822	10,395,852	11,118,378	12,096,065	11,570,910
Agriculture, forestry and fishing	101,030	79,760	94,160	96,756	83,020
Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities	967,194	1,014,195	1,117,102	1,195,516	1,188,391
Construction	337,026	397,001	442,166	512,736	534,986
Wholesale and retail trade; transportation and storage; accommodation and food service activities	1,943,733	2,133,924	2,279,477	2,429,984	1,627,402
Information and communication	669,645	764,011	851,949	960,006	1,106,794
Financial and insurance activities	789,374	827,144	876,926	954,287	1,001,227
Real estate activities	582,117	632,514	692,904	755,214	748,364
Professional, scientific and technical activities; administrative and support service activities	1,346,303	1,662,296	1,906,628	2,139,087	2,051,345
Public administration and defense; compulsory social security; education; human health and social work activities	1,607,953	1,724,516	1,855,585	2,024,687	2,102,821
Arts, entertainment and recreation; repair of household goods and other services	1,059,447	1,160,491	1,001,482	1,027,791	1,126,560
GDP	10,589,223	11,703,493	12,587,439	13,592,198	12,823,785
Rate of growth (%)	5.9%	10.5%	7.6%	8.0%	-5.7%

Source: NSO, news release 040/2021.

FDI facts at a glance

The following chapter presents FDI facts and information from 2020 (therefore, during the COVID-19 crisis). This information remains relevant as a snapshot of where the country found itself from an FDI standpoint during the pandemic compared with previous years.



Taking stock

In 2020, Malta Enterprise (ME) has reported 39 new FDI projects were approved. This is expected to create 866 new jobs with a total investment of €77.2 million. ME reported that further expansions and growth were seen in sectors such as digital innovation, life sciences, pharmaceuticals and medical devices. These projects originated from the UK, Israel, Italy, Canada, India, the US, Turkey, Germany and others. Data presented in the table below captures ME's information on new FDI projects and foreign expansions from January 2020 to December 2020.

Over the last year, COVID-19-related aid packages, most notably the Wage Supplement Scheme, have directly impacted half of the labor force. Additional local schemes cover electricity and rent refunds, teleworking expenses, quarantine leave and other equity measures. In Spring 2021, the Government issued another aid package to support the regeneration of the economy, assisting businesses in making their transformation to digitization and sustainability.

In March 2021, the Start in Malta initiative was launched, providing a national platform for start-ups in Malta. The country is already hosting several tech-based, innovative start-ups, ranging from cybersecurity, FinTech and MedTech to manufacturing and drones.

Figure 3: FDI projects applications approved by ME

Year	New FDI			Foreign expansions		
	Projects approved	Average investment per application (€m)	Average employment per application	Projects approved	Average investment per application (€m)	Average employment per application
2007	25	1.84	39	11	1.00	31
2008	13	1.67	40	9	0.83	16
2009	12	4.79	54	6	4.48	50
2010	2	0.16	58	2	4.10	73
2011	9	14.43	44	6	3.48	43
2012	2	1.05	19	10	2.37	22
2013	36	1.78	33	15	2.83	22
2014	28	1.33	37	15	3.66	39
2015	20	0.78	29	10	2.04	24
2016	11	12.7	48	15	3.82	41
2017	19	2.3	24	12	8.50	62
2018	26	2.6	37	18	3.0	9
2019	32	3.2	25	17	0.9	14
2020	39	2.0	22	15	1.1	8

Source: ME, 2020.

Malta's stock position

The National Statistics Office (NSO) reports that the stock position of FDI in Malta in June 2020 amounted to €196.1 billion, an increase of €9.0 billion over the corresponding month in 2019. As in previous years, financial and insurance activities recorded the largest share at 97.7% of FDI stocks in June 2020.

Figure 4: FDI in Malta – economic activities

	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020
	€m	€m	€m	€m	€m
Manufacturing	817,848	924,272	1,083,270	1,095,658	991,536
Transportation, accommodation and real estate activities	1,810,361	1,992,535	2,083,395	2,297,299	2,321,381
Financial and insurance activities	158,959,978	167,263,431	175,303,155	183,299,037	191,525,466
Information and communication; professional, scientific and technical activities; arts, entertainment and recreation	317,496	436,327	504,449	674,826	758,286
Other activities	392,561	420,168	456,252	493,276	571,643
Total	162,352,245	171,036,733	179,430,521	187,842,097	196,168,313

Source: NSO, news release 178/2021.

Malta's FDI flows

Malta's FDI flows were estimated to be €1.7 billion during the first six months of 2020. This shows an increase of €72.4 million over the corresponding period in 2019. Financial and insurance activities accounted for 89.4% of FDI flows in Malta.

Figure 5: FDI flows in Malta by period and economic activity

	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020
	€m	€m	€m	€m	€m
Manufacturing	5,804	49,327	183,444	66,842	13,495
Transportation, accommodation and real estate activities	136,110	117,724	135,756	188,571	129,134
Financial and insurance activities	3,235,833	2,851,471	3,045,747	2,983,686	3,085,583
Information and communication; professional, scientific and technical activities; arts, entertainment and recreation	195,842	107,467	81,933	121,493	145,576
Other activities	99,570	26,705	35,038	37,240	34,649
Total	3,673,160	3,152,693	3,483,926	3,397,832	3,408,436

Source: NSO, news release 178/2021.

iGaming

Malta was the first EU Member State to regulate the remote gaming market in 2004 and has since established itself as a significant gaming hub with global relevance. Although the industry has been, and will continue to be, affected by COVID-19, the gaming sector has distinguished itself as one of the economic pillars with the most resilience against the changes brought about by the pandemic.

The gaming industry is estimated to have generated €924 million in terms of gross value added (GVA) during 2020. This represents around 8% of the economy's total. Gaming contributes to the generation of GVA through input-output linkages to other major sectors, including professional services, financial and ICT activities, hospitality and catering services, distributive trades and real estate. When indirect effects are taken into consideration, the contribution of the industry to the economy's GVA in 2020 is estimated at 10.2%.

Figure 6: Online gaming – distribution of licences by category

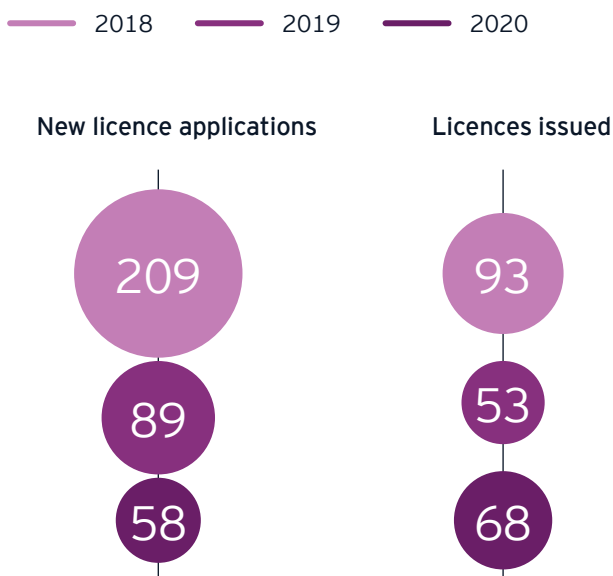
	End-2018	End-2019	End-2020
B2C - Gaming Service Licence	207	195	196
Of which are B2C - Corporate Licences	6	14	24
B2B - Critical Gaming Supply Licence	68	92	122
Of which are B2B - Corporate Licences	3	9	11

Source: MGA, Annual Report, 2020.

The industry employment rate recorded a growth rate of almost 12% in 2020.

A benchmark revision in the national accounts data carried out by the NSO in 2020 resulted in revised GVA estimates. While these no longer place the gaming sector in the top three contributors to the economy's value added, it is important to note that during an exceptional year where the total economy's value added fell by 4.3%, the gaming industry recorded one of the highest growth rates in value added relative to other sectors, equivalent to 15.3%.

Figure 7: Online gaming – applications and issuing of licences



Source: MGA, Annual Report, 2020.

Financial services in Malta

A slight decrease was recorded within the financial services sector real GVA growth rate, from 5.7% in 2019 to 5.5% in 2020. However, despite the adverse circumstances generated by the pandemic, the Maltese financial services sector generated an aggregate GVA of €1.028 billion in 2020, up from €971 million in 2019. Employment in the sector also grew from an average of 11,292 in 2019 to 12,233 by October 2020 - increasing by 7.6%.⁷

At the end of 2020, a total of 24 credit institutions and 49 financial institutions were licenced by the Malta Financial Services Authority (MFSA). These compare with 25 and 52 respectively at the end of 2019. In the local insurance sector there was a total of 68 insurance undertakings, down from 70 in 2019.

Figure 8: Annual company registrations⁸

	2018	2019	2020
Limited companies	5,723	4,245	3,396
European Economic Interest Grouping	1	3	0
Overseas companies	89	87	40
Partnership en nom collectif	82	75	38
Partnership en commandite	27	23	22
Statute for European companies	1	2	2
Investment company with variable share capital	35	37	16
Total	5,958	4,472	3,514

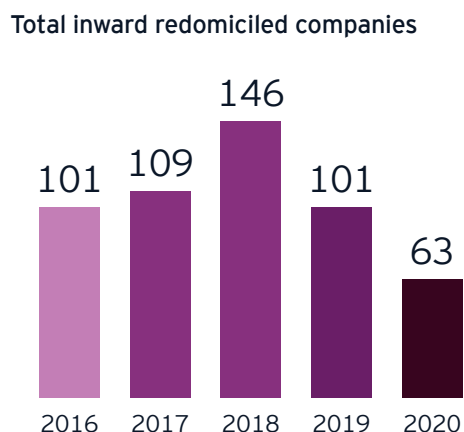
Source: MBR, Annual Report, 2020.

⁷ Source: Malta Financial Services Authority (MFSA), Annual Report, 2020.

⁸ This table includes both foreign and locally owned companies.

The securities and investment services sector closed 2020 with a total of 150 licenced companies, compared with 153 at the end of 2019. The 2020 total includes nine newly licenced companies.⁹ Moreover, the Malta Business Registry (MBR) reported a total of 3,514 new commercial partnerships in 2020, made up of foreign and locally owned companies.¹⁰ In June 2021, members of the FATF, a global anti-money laundering watchdog, voted to add Malta to its grey list, placing the country under increased monitoring and supervision. The Maltese Government has agreed with the FATF on a series of measures and an action plan involving various stakeholders, with the aim of trying to have this decision reversed as quickly as possible.

Figure 9: Redomiciliation of companies



Source: MBR, Annual Report, 2020.

⁹ Source: MFSA, Annual Report, 2020.

¹⁰ Source: MBR, Annual Report, 2020.

New economic reality



Where we came from

The COVID-19 pandemic brought about newfound stress to the global economy, as well as the local economy. Malta's GDP contracted by 8.3% in 2020.¹¹ Restrictions needed to be put in place, acting as a further brake on the economy, until the health crisis gave signs of subsiding. Government surplus funds served to partly cushion the immediate negative impacts via increased health expenditure and support to the business community - with the total cost for pandemic response actions and measures reaching €874 million. The services sector was badly hit, followed by transport and travel exports. On the other hand, remote gaming, information and communication, pharmaceuticals, electronics, and construction and real estate proved to be relatively resilient to the effects of the pandemic and helped cushion a more significant decline in GDP.¹² In the absence of government support, counterfactual analysis suggests that the economy could have lost around 16% of its output. During the second quarter of 2020, as restrictions started to ease, the Maltese economy registered an increase of 13.4% in GDP (in real terms) compared with the corresponding period last year. This signaled a road toward recovery mainly driven by domestic demand (consumption and investment) as COVID-19 cases remained subdued and the vaccination program progressed. Exports also increased by 10.7% and imports by 10.3%¹³ in the same period. The highest sectoral growth in the period was recorded by the wholesale and retail trade sector (25.5%), followed by the arts, entertainment and recreation sector (22.5%), industrial (16.5%) and manufacturing (15.4%).¹⁴

¹¹ Source: Ministry for Finance and Employment (MFE), Pre-Budget 2022, 2021

¹² Source: MFE, 2021.

¹³ Source: MFE, 2021.

¹⁴ Source: MFE, 2021.

Where we might be heading

Following the vaccine rollout, prospects of economic recovery have become more realistic, yet there remains an element of uncertainty about what the upcoming months look like.

From a labor market perspective, the unemployment rate started to decrease in 2021, successfully falling below the 2018 level to 3.3% in July 2021.¹⁵ This was mainly due to the COVID-19 pandemic financial packages provided by the Government (which also contributed to the regularization of the labor market) helping to contain any increase in unemployment. Total government expenditure related to COVID-19 measures is estimated to amount to €660.4 million in 2021.¹⁶ Between January and March 2021, the current account registered a deficit of €42.6 million compared with a surplus of €29.8 million in the same quarter of 2020.¹⁷ The Harmonised Index of Consumer Prices (HICP) is forecasted to be 1.1% in 2021, driven mainly by the increase in energy and imported goods prices and a recovery in the tourism and hospitality sectors, declining to an average of 0.6% in 2022.¹⁸

Uncertainty also remains due to Malta's FATF grey listing. The Government is currently addressing the three recommendations flagged by the FATF, as well as tackling ML/TF risks.¹⁹

Considering the above, the Government is forecasting that the economy will return to 2019 levels by 2022; specifically, a gradual recovery after the third quarter of 2021 and a stronger recovery in 2022. GDP growth forecasts (in real terms) are set at 3.8% for 2021 and 6.8% for 2022.²⁰

¹⁵ Source: MFE, 2021.

¹⁶ Source: MFE, 2021.

¹⁷ Source: Central Bank of Malta (CBM) Quarterly Review 221 Vol. 54, No. 3, 2021.

¹⁸ Source: European Commission, Summer 2021 Economic Forecast, 2021.

¹⁹ Source: MFE, 2021.

²⁰ Source: MFE, 2021.

GDP²¹

€3,360.9m

GDP Q1 2021



0.2%

decrease
on previous
quarter

€3,475.3m

GDP Q2 2021



14.9%

increase on
previous
quarterInbound tourists²²

9,151

February 2021



93.7%

year-on-year

121,311

July 2021



148.9%

year-on-year

Wage supplement²³

By 2020

100,000

employees were
supported

€373.2m

Cost

Government deficit²⁴

€753.2m

January to August 2021

Registered unemployed²⁵

3,672

August 2020

1,442

August 2021

²¹ Source: NSO, 2021.²² Source: NSO, 2021.²³ Source: MFE, 2021.²⁴ Source: NSO, 2021.²⁵ Source: NSO, 2021.

Perception

The following chapter presents the sentiments of 110 existing FDI investors in Malta interviewed in July and August 2021. The respondent cohort profile is similar to previous EY Malta Attractiveness Surveys, reflecting a range of sectors and sizes, providing the opportunity to compare results over time. This year's survey responses were captured through virtual one-to-one interviews between representatives of EY Malta's management and top executives from FDI companies in Malta.



Attractiveness

The percentage of respondents viewing Malta as attractive has declined for a second year in a row. Malta is now viewed as attractive for FDI by 37% of investors, while 46% believe it is not attractive.

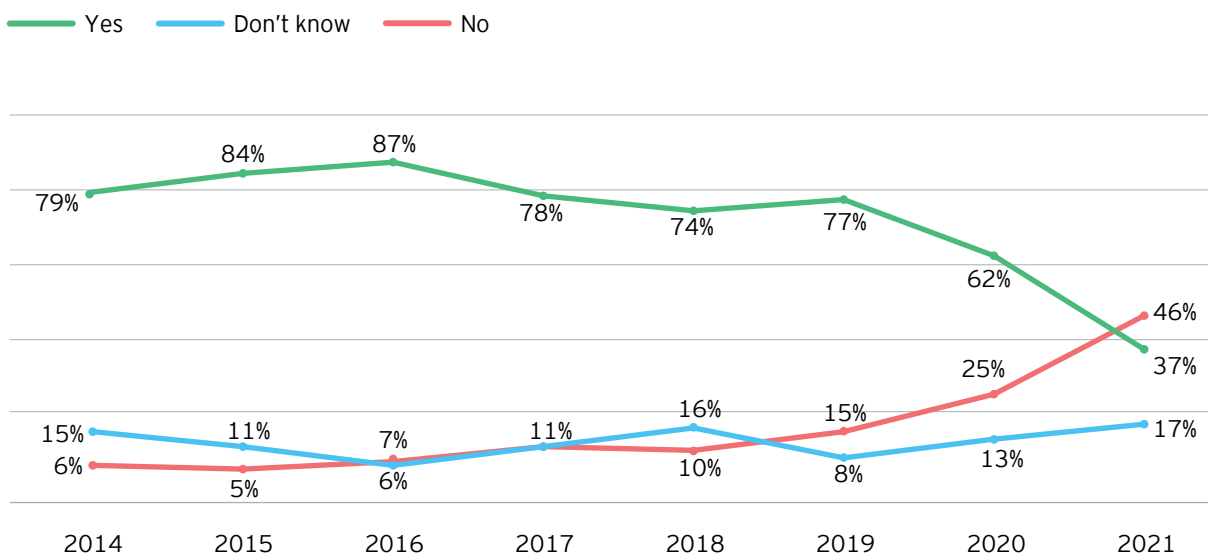
This year's Malta Attractiveness Survey was carried out just after the country was put on the FATF grey list of jurisdictions under increased monitoring and many respondents highlighted this as a major concern.

For the first time ever, more foreign investors consider Malta to be currently unattractive for FDI (46%) than attractive for FDI (37%).

This decline in FDI attractiveness means that over the last two years, 40% of respondents shifted from the "yes" replies to the "no" or "don't know."

Respondents provide insight into how Malta can increase its attractiveness for FDI, with many mentioning reputation, governance, improving the skills base and tackling the grey listing as soon as possible. Positives for Malta as an FDI destination continue to include an attractive corporate tax regime, an English-speaking workforce and competitive labor costs.

Figure 10: Attractiveness index



Source: all 2014-21 respondents.

Corporate taxation continues to top Malta's scoreboard of parameters that are attractive for FDI, while the stability and transparency of the legal, political and regulatory environment is the least attractive FDI parameter.

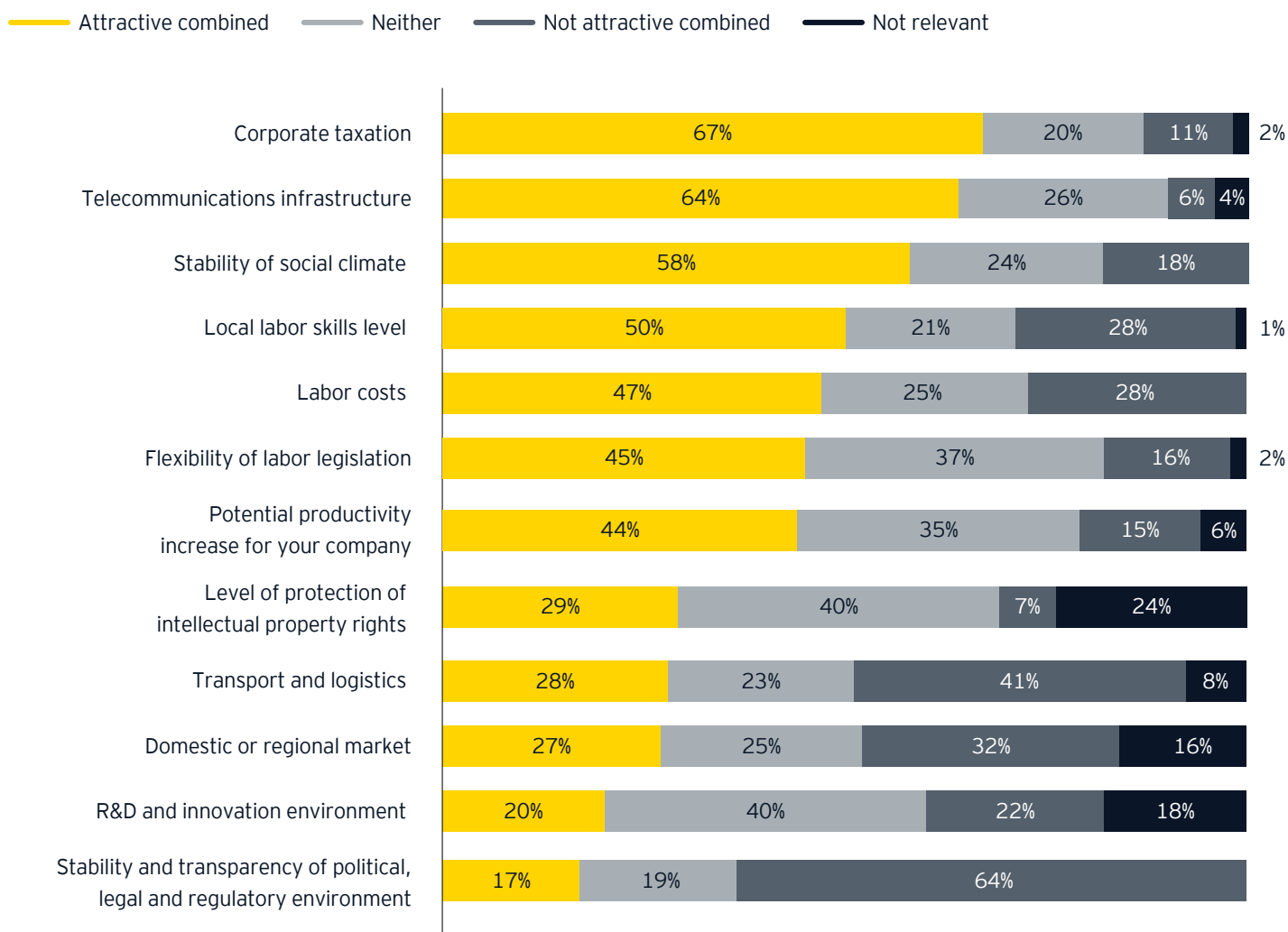
When compared with previous years' scoreboards, with a few exceptions, Malta has faced a general reduction in attractiveness across all FDI parameters.

As in previous years, corporate taxation remained top of the attractiveness scoreboard; however, it has witnessed a 15% decline in one year.

The attractiveness of Malta's stability of social climate (58%) has decreased by 6% and remains in third place, while the telecommunications infrastructure (64%) has retained second place.

For the second year running, the stability and transparency of the legal, political and regulatory environment is in last place on the FDI attractiveness scoreboard, with only 17% of current foreign investors deeming this parameter to be currently attractive and 64% not attractive. Perception of Malta's transport and logistics attractiveness, previously considered Malta's least attractive FDI parameter, has again improved slightly, and is now seen as attractive by 28% of investors.

Figure 11: Attractiveness scoreboard – Malta's FDI attractiveness



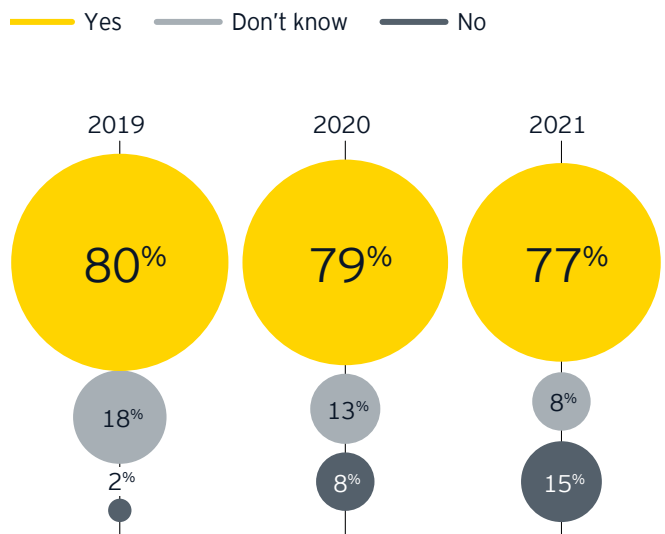
Source: all 2021 respondents.



Notwithstanding the challenges, 77% of companies still believe their long-term future is in Malta, although there is an increase in “no” responses.

A positive sign for the country is that, even with all the challenges being faced, an overwhelming majority of existing FDI companies surveyed still believe their future is here in Malta. The last two years have seen only a marginal decline in positive responses. On the other hand, the number of “no” responses has increased, corresponding with a decrease in survey respondents who were uncertain.

Figure 12: Presence in Malta in 10 years’ time



Source: all 2019-21 respondents.



The clearest impact of the grey listing will be on Malta’s ability to be seen as a reputable destination to conduct business.

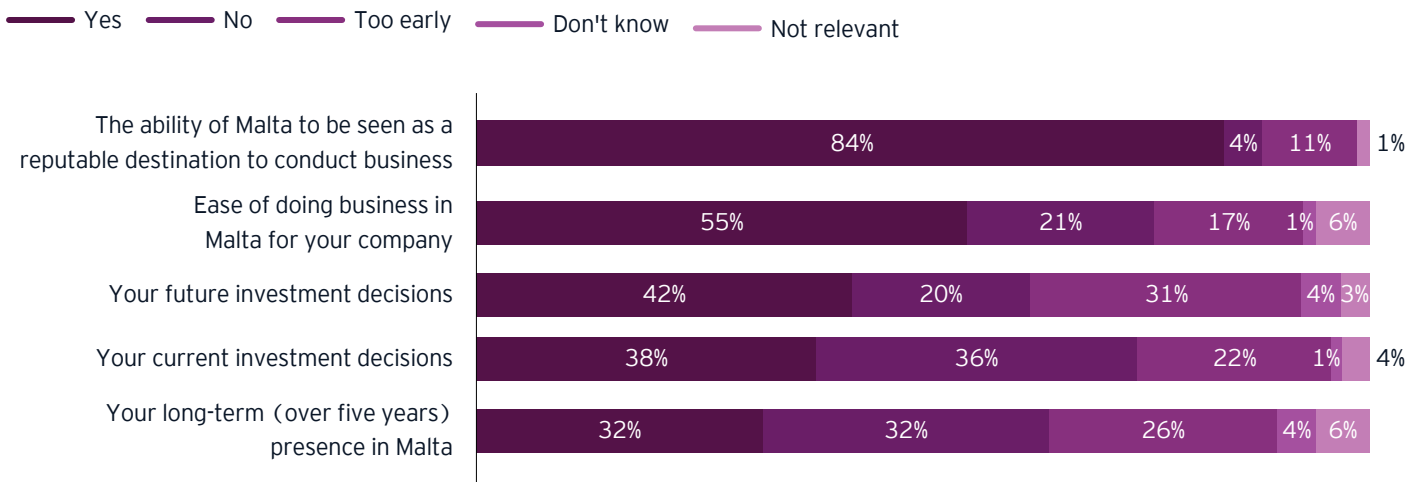


A large majority believe grey listing will mainly lead to reputational damage, and most believe it will make doing business in Malta more difficult.

The clearest impact of the grey listing, according to respondents, will be on Malta’s ability to be seen as a reputable destination to conduct business (84%). This is followed by the ease of doing business in Malta for their companies (55%) and their future investment decisions (42%).

A lot of respondents still believe it is too early to judge the FATF’s impact across the different areas surveyed and are hopeful that a swift turnaround is possible with the right and timely action. The grey listing may also impact investors’ long-term presence in Malta if it creates a challenging business environment to operate from.

Figure 13: Impact of the recent FATF grey listing



Source: all 2021 respondents.

COVID-19 recovery

The number of companies negatively impacted by COVID-19 has decreased slightly in 2021 ...

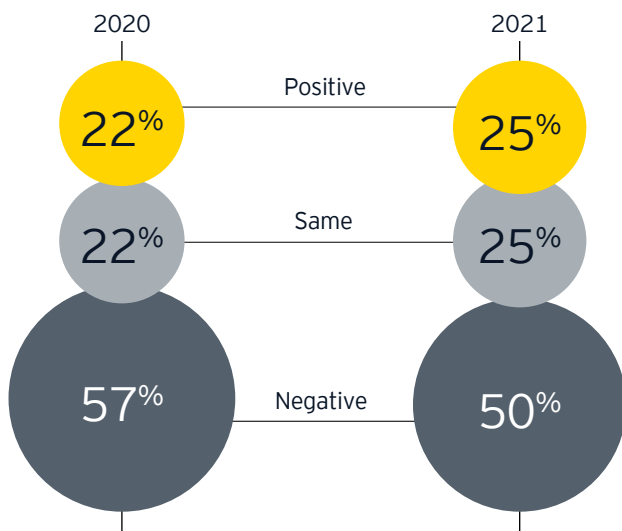
In 2021, 50% of the respondents replied that the financial impact of COVID-19 on their companies has been either positive or neutral, an increase from 2020 when it was 44%. The sectors that saw the highest positive impact include ICT and telecommunications, and other financial services. The sectors hardest hit by the pandemic include manufacturing and hospitality. Overall, the financial impact of COVID-19 in 2021 was less negative than in 2020.

... with over half of companies expecting to make a full recovery to 2019 levels in less than one year.

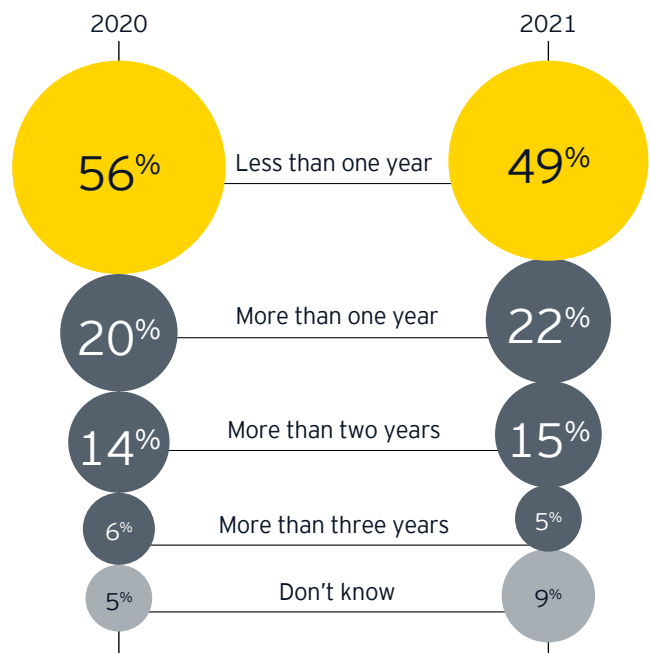
Half of companies estimate returning to 2019 levels in one year or less. Forty-two percent believe the recovery process will take more than one, two or three years. Sector responses vary, but hospitality respondents are the least confident sector overall and believe it will take longest to recover and return to pre-COVID-19 levels.

Figure 14: Financial impact of COVID-19 on Malta-based companies

Figure 15: Estimate when company will make a full recovery and return to 2019 levels



Source: all 2020-21 respondents.



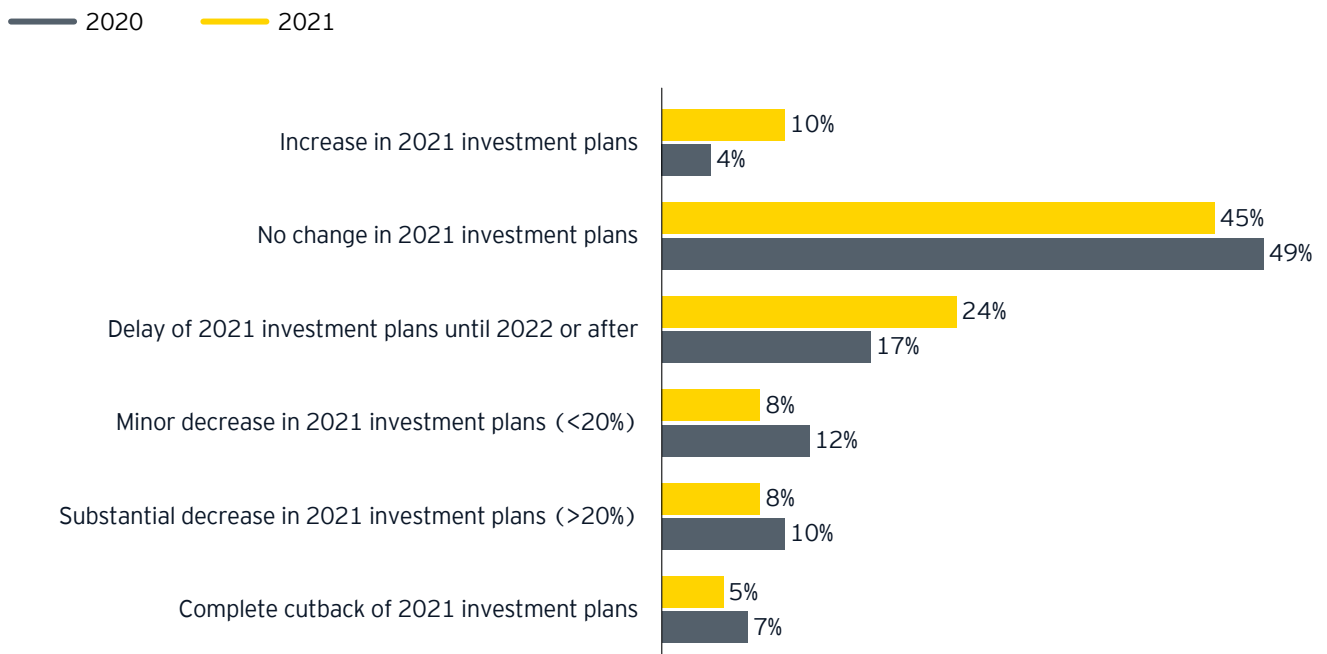
Source: all 2020-21 respondents.

Almost half of companies have not delayed, decreased or cut back investment plans ...

There has been a slight improvement in 2021 investment plans compared with the previous survey. The number of companies increasing their investment plans in 2021 has risen to 10% from 4% in 2020, while 45% will not change their investment plans. The hospitality sector recorded the highest percentage of delays, decreases or cutbacks, followed by manufacturing.

On the other hand, banking (80%) and other financial services (75%) have increased or not changed their investment plans.

Figure 16: Change in 2021 and 2020 investment plans



Source: all 2020-21 respondents.

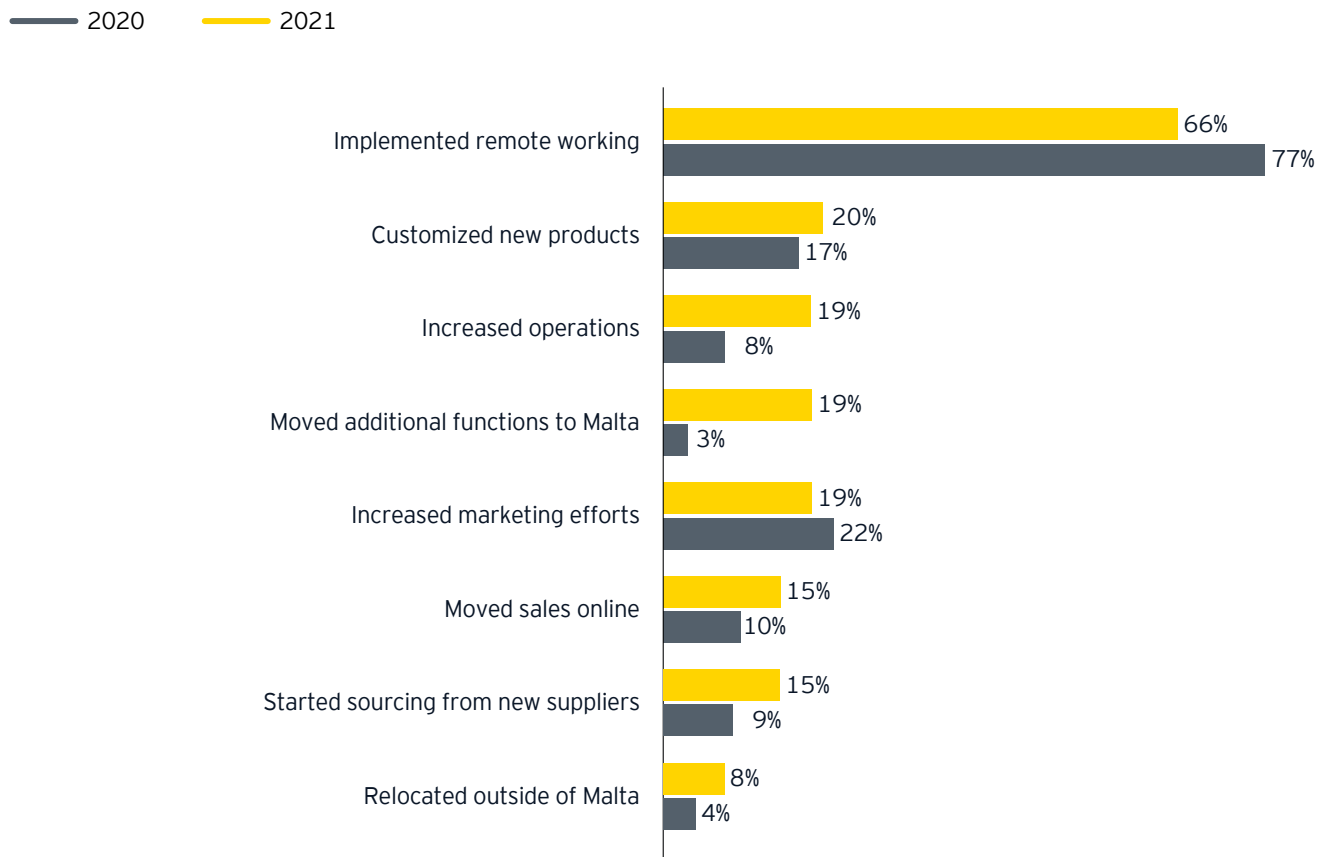
... and an increasing number have moved additional functions to Malta or increased operations.

Looking at the pandemic from an operational standpoint, remote working is still highly popular, with 66% implementing it in 2021. A boost to the country is that 19% have reported moving additional functions to Malta, up from just 3% in 2020. Nineteen percent have also increased operations, up from 8% in 2020. Those indicating a willingness to relocate outside of Malta due to COVID-19 have decreased from 8% to 4%.



Remote working is still highly popular in 2021.

Figure 17: Impact of COVID-19 on companies in Malta



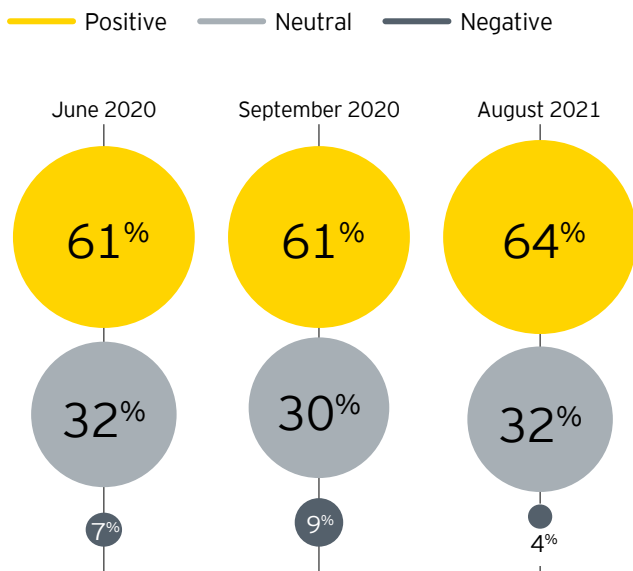
Source: all 2020-21 respondents.

Society

The views for the Government's COVID-19 support measures has remained constant throughout the pandemic ...

Two-thirds of companies consider the Maltese Government's COVID-19 support measures as positive, while one-third are neutral, with only 4% dissatisfied. These results remained constant throughout the last three survey cycles, carried out in June 2020, September 2020 and August 2021.

Figure 18: COVID-19 support measures announced by the Government

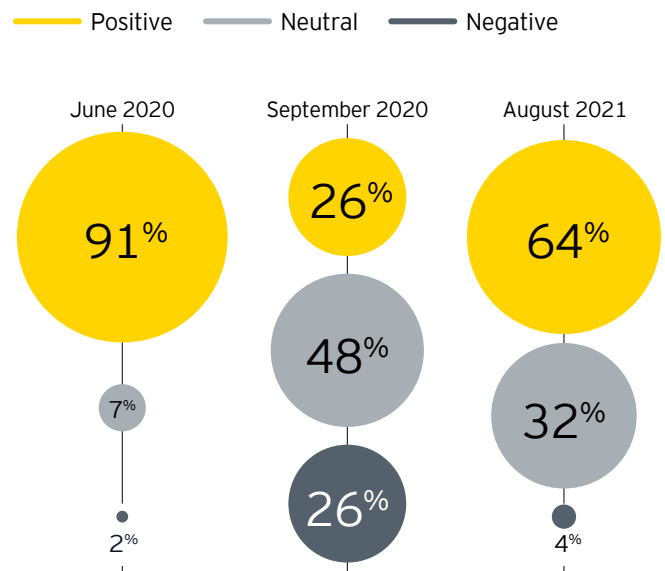


Source: all 2010-21 respondents.

... while the response to the health care crisis has fluctuated and reflected the different stages of the pandemic in Malta.

Currently, 64% of investors believe the authorities' response to the health care crisis was positive. In June 2020, this was much higher, at 91%, and it has rebounded significantly since September 2020, when it stood at 26%. The fluctuating survey results are linked to the different stages of the pandemic, as higher or lower COVID-19 case numbers were reflected in respondents' perceptions of the authorities' response to the health care crisis.

Figure 19: Government response to the public health care crisis



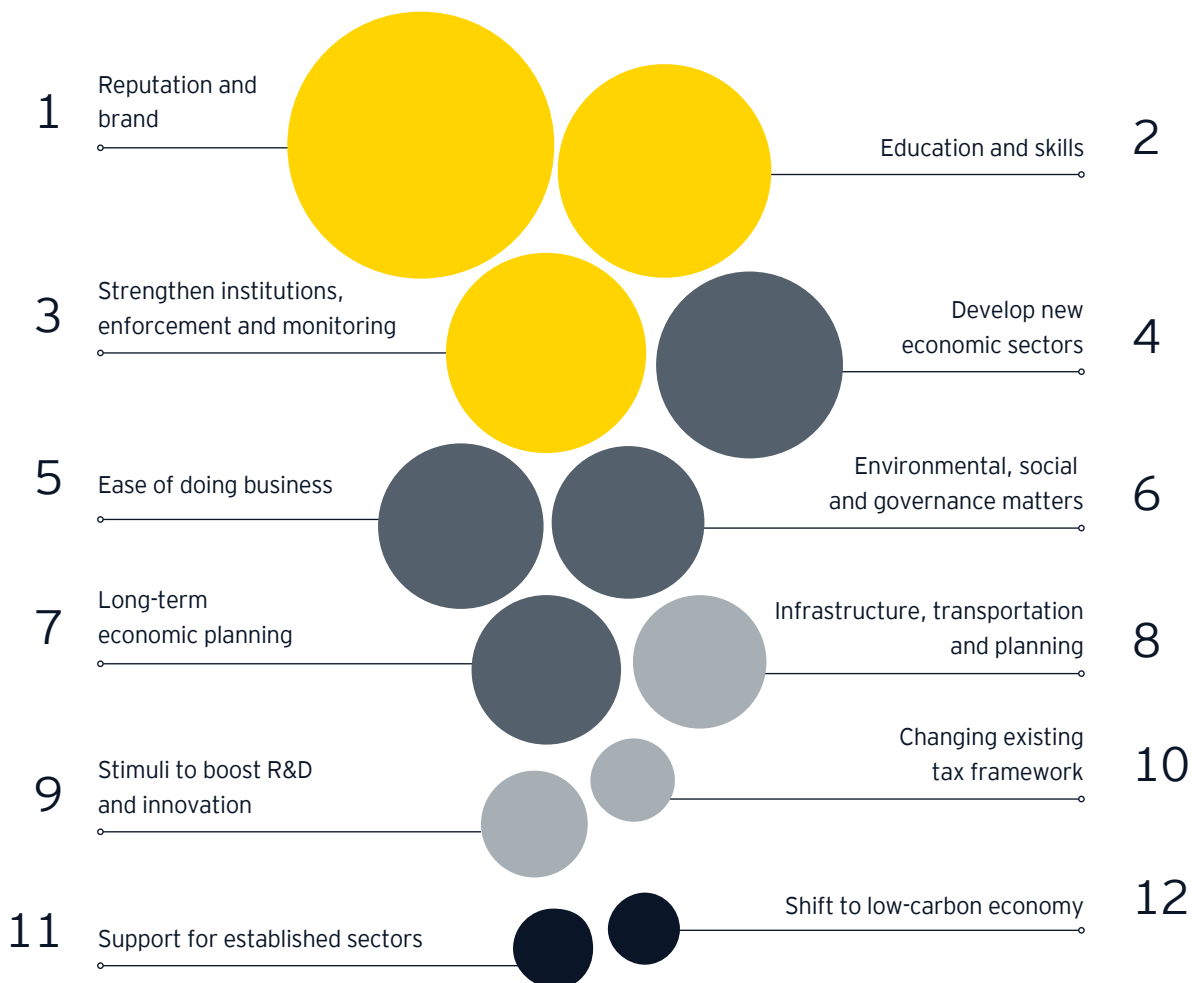
Source: all 2020-21 respondents.

A strong message to prioritize Malta's reputation and brand to remain globally competitive ...

Similarly to previous years' results, respondents continue to believe overwhelmingly that, to remain globally competitive, Malta's utmost priority should be a focus on reputation and brand, as well as education and skills.

The strengthening of the country's institutions, enforcement and monitoring is also important for many respondents, ranking in third place, followed closely by the development of new economic sectors.

Figure 20: Priorities to remain globally competitive



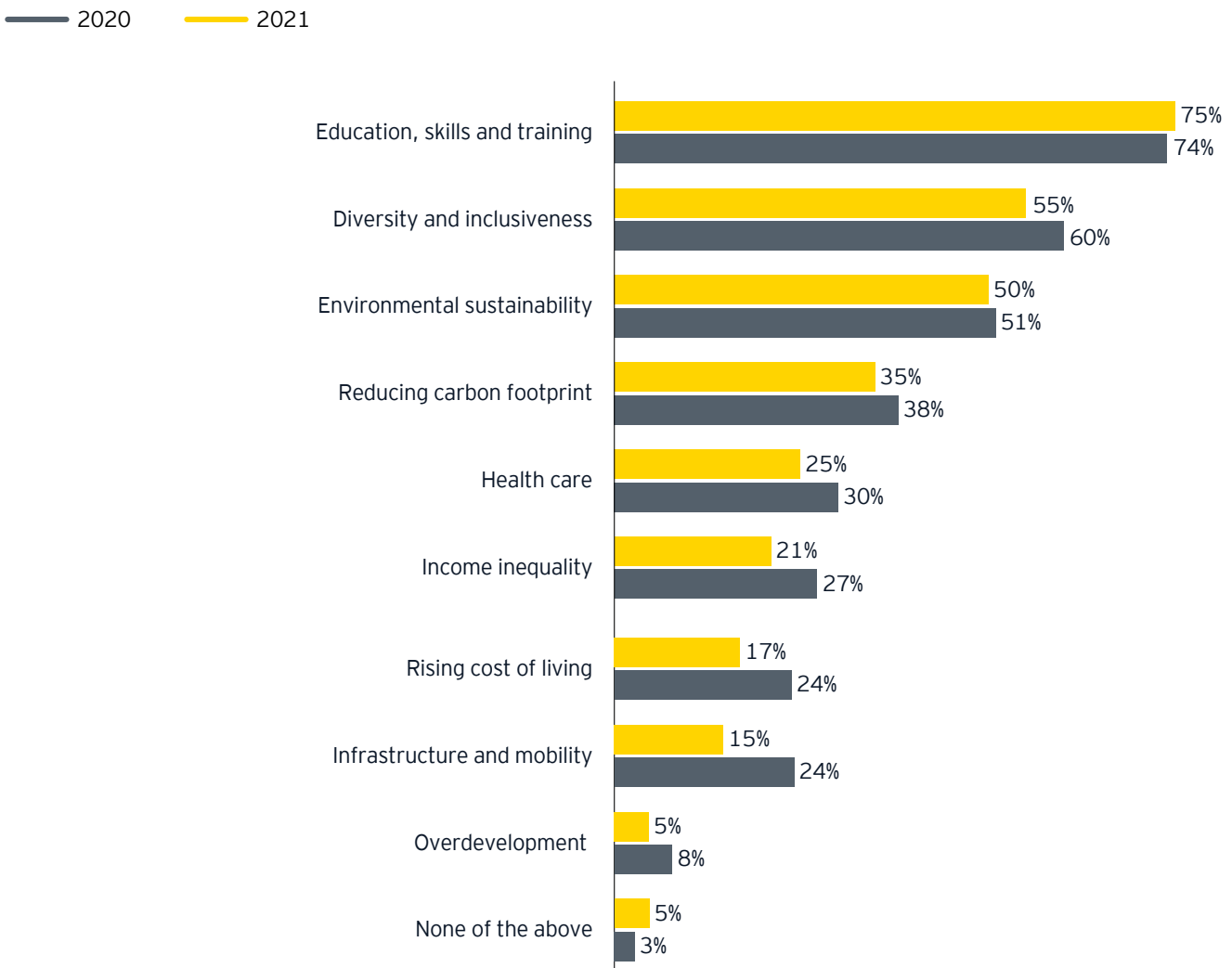
Source: all 2021 respondents.

... along with education, skills and training, which is an issue companies are trying to tackle themselves.

Investors today increasingly believe that societal issues must be addressed by their own companies. Their top three priorities over the last couple of years have remained unchanged.

Firstly, companies are attempting to tackle education, skills and training. Secondly, increased diversity and inclusiveness are also being targeted. Thirdly, companies are continuing to focus efforts on environmental sustainability.

Figure 21: Societal issues being tackled by FDI companies

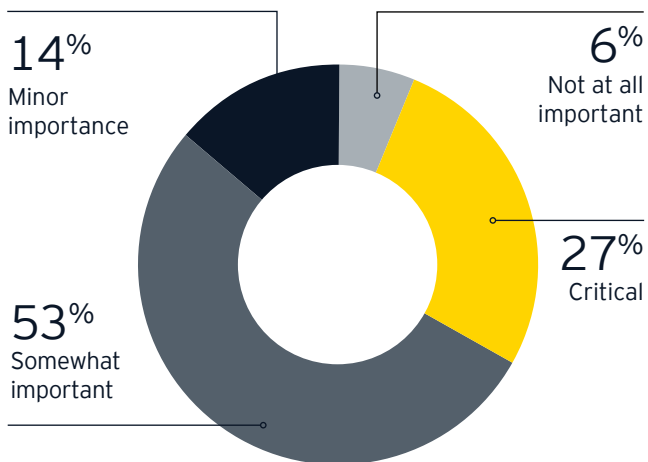


Source: all 2020-21 respondents.

A large majority (80%) believe environmental sustainability is a critical or somewhat important part of their investment strategy.

Companies are beginning to place greater emphasis on mitigating their effects on the environment, whether through environmental responsibility (70%), waste reduction (56%) or a reduction in carbon emissions (43%). Almost one-third believe that environmental sustainability is critical for their investment strategies, and half believe it is somewhat important.

Figure 22: Importance of environmental sustainability for investment strategies



Source: all 2021 respondents.

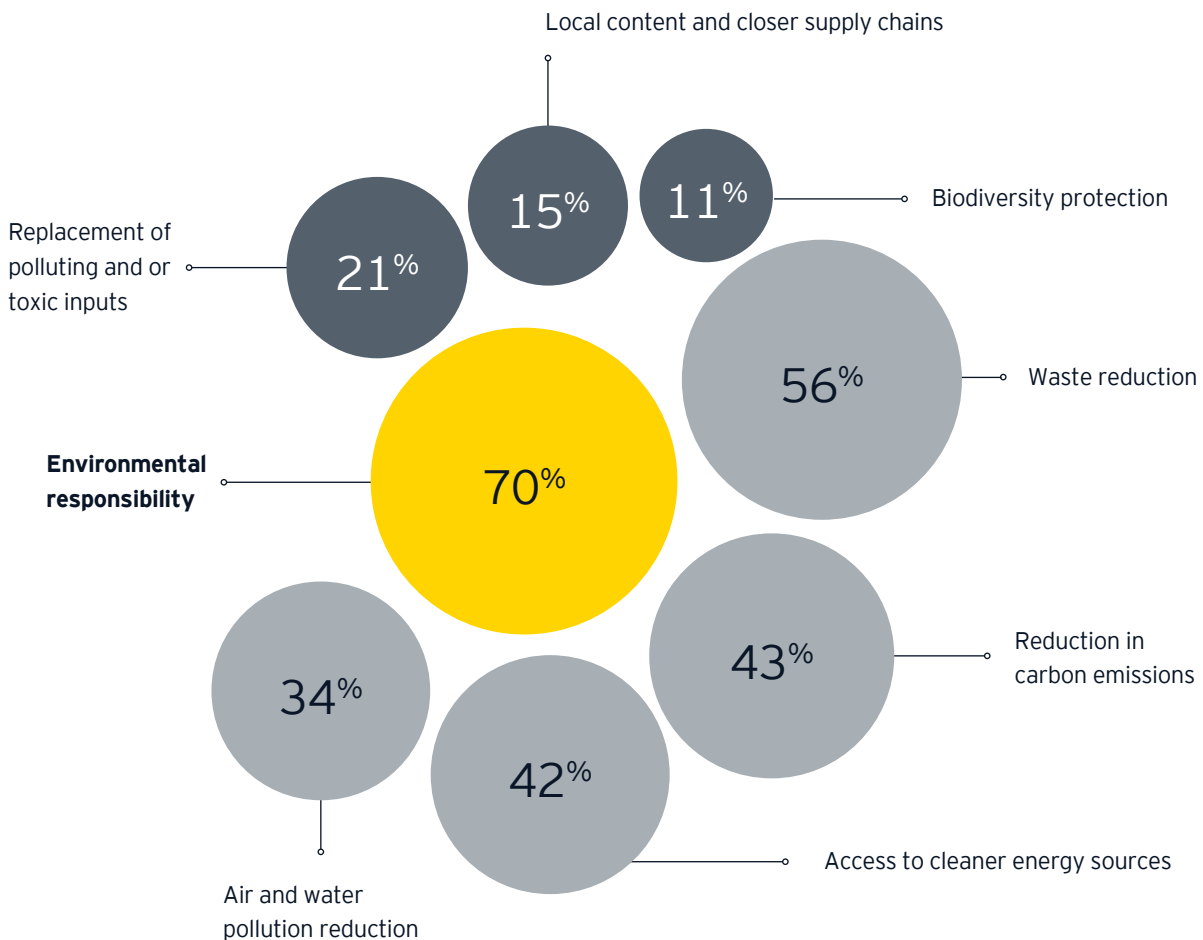


“

The majority of companies are adopting environmental responsibility in future investment projects.



Figure 23: Adopting sustainable actions in future investment projects



Source: all 2021 respondents.

People

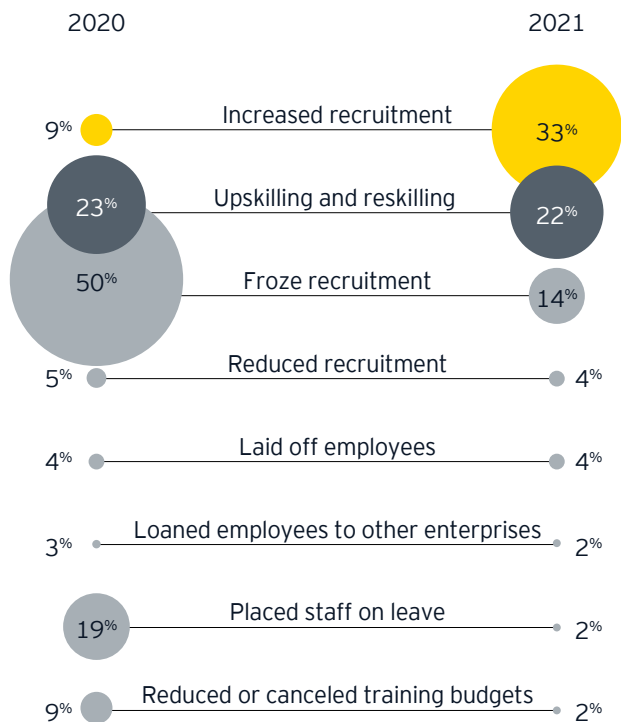
One-third of companies have increased recruitment over the last year ...

In 2020, half the companies surveyed had frozen recruitment because of the COVID-19 pandemic. This year, only 14% still have such policies in place, with 33% increasing recruitment and only 2% placing staff on leave.

... while 60% of companies are looking to recruit specialized skills.

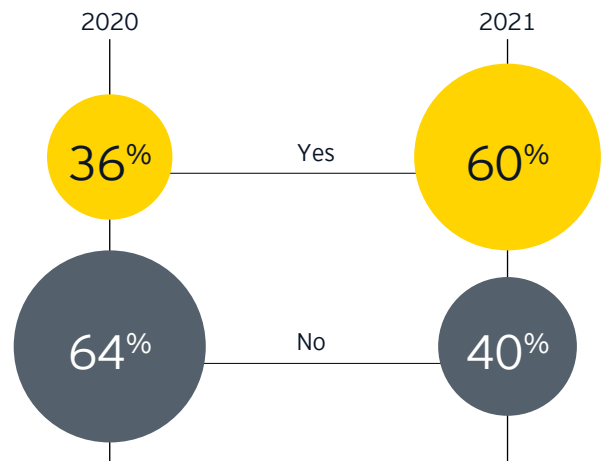
The increased levels of recruitment bode well for the country's economic recovery and align with pre-pandemic trends that the labor market was witnessing. Sixty percent of respondents are now looking for people with specialized skills, an increase of 24% over the previous year. These are positive signs for employees, as businesses are intent on resuming their operations and providing opportunities for the workforce.

Figure 24: Recruitment actions



Source: all 2020-21 respondents.

Figure 25: Looking to recruit specialized skills

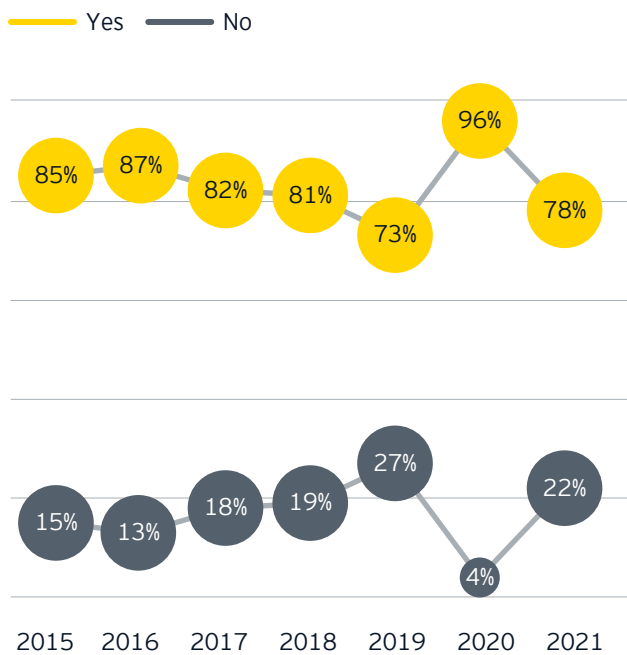


Source: all 2020-21 respondents.

The challenge to retain specialized personnel has returned to pre-pandemic levels ...

During 2020, the ability to retain specialized staff increased by 23% in one year, most likely due to employees prioritizing job security over job mobility during uncertain times. Now, in 2021, staff retention levels are reported by respondents to be back to pre-pandemic levels.

Figure 26: Retaining specialized personnel

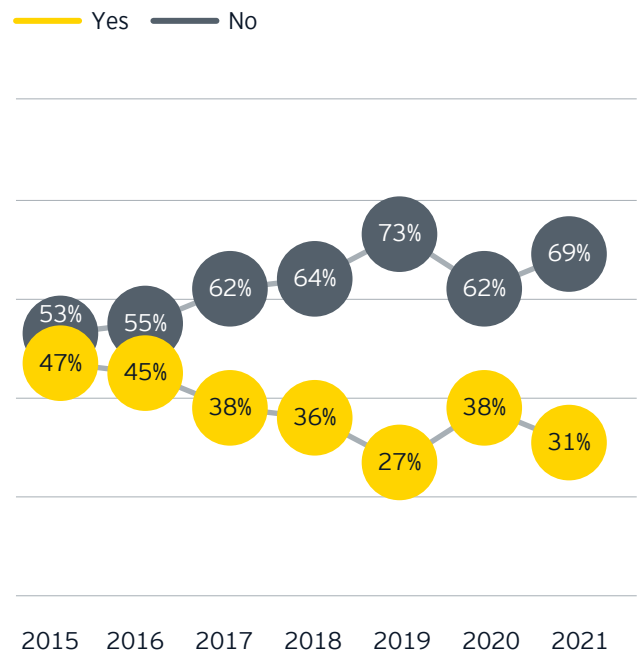


Source: all 2015-21 respondents.

... and finding the required skills in the local labor market, a perennial challenge for Malta's foreign investors, has also seen a trend reversal toward pre-pandemic levels.

In 2020, due to the pandemic, the ability of companies to find and recruit individuals with the required specialized skills finally witnessed a trend reversal as fewer respondents reported not finding such skills on the local labor market. Malta's skill shortage has been a recurrent issue, with the country's economic expansion unable to keep up with increasing demand for specialized skills. Today, 69% are reporting not finding the required specialized skills, which is almost as high as it was prior to the pandemic in 2019 (73%).

Figure 27: Finding the required specialized skills in the local labor market



Source: all 2015-21 respondents.

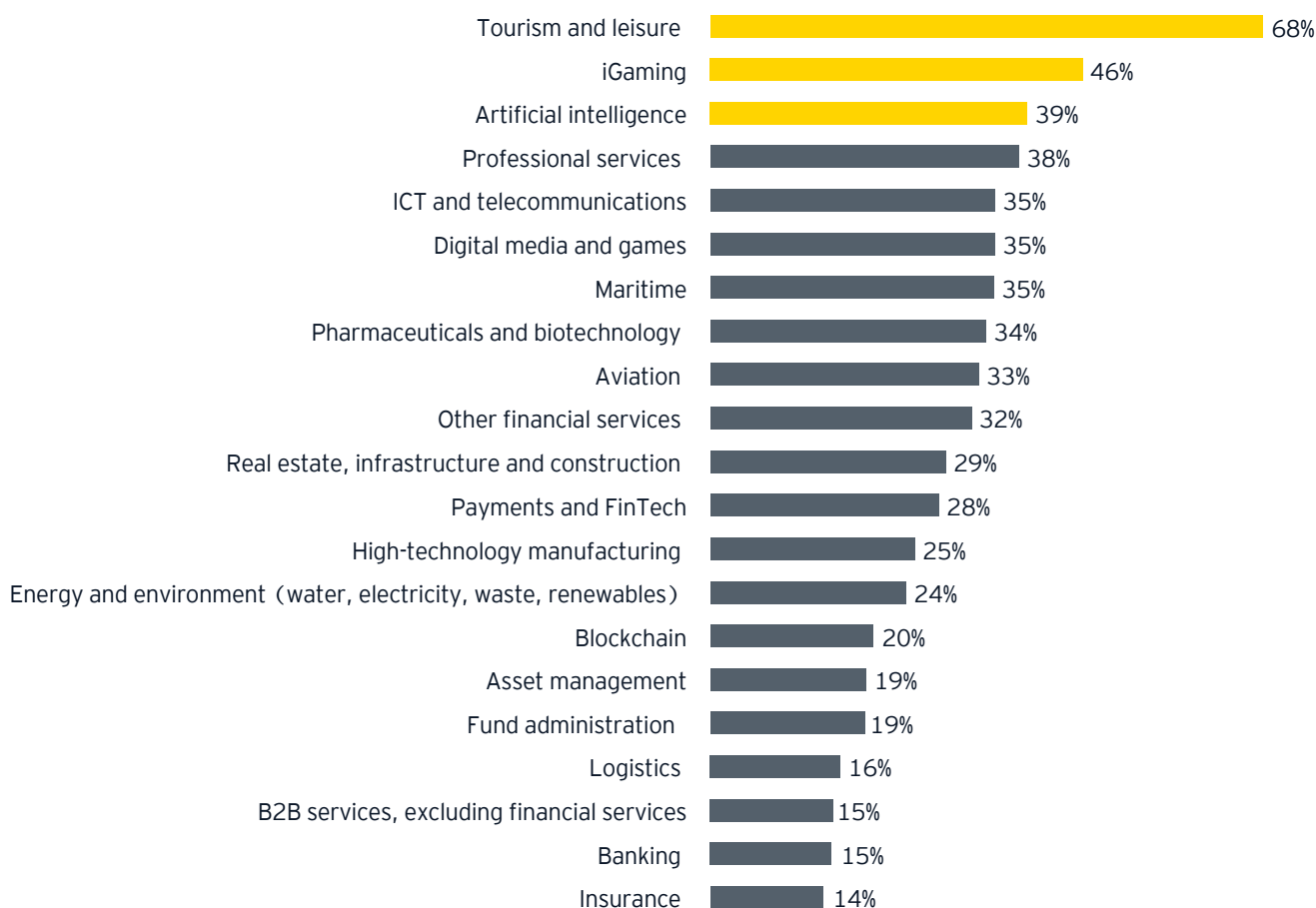
Future

The leading business sectors over the next five years remain the same as in previous years, with tourism and leisure in first place, followed by iGaming ...

Even with the pandemic drastically affecting the tourism and leisure industry, investors still believe it will be Malta's leading business sector (68%) over the next five years. iGaming, which ranked first in 2019, remains in second place for a second year running, but has seen a decline of 10% in one year.

Artificial intelligence is now third, chosen by 39% of respondents. The remaining sectors are an affirmation of already well-established industries such as professional services (38%), ICT and telecommunications (35%), digital media and games (35%) and maritime (35%). Energy and environment (24%) has increased in importance over the last couple of years by 10%.

Figure 28: Leading business sectors over the next five years



Source: all 2020-21 respondents.

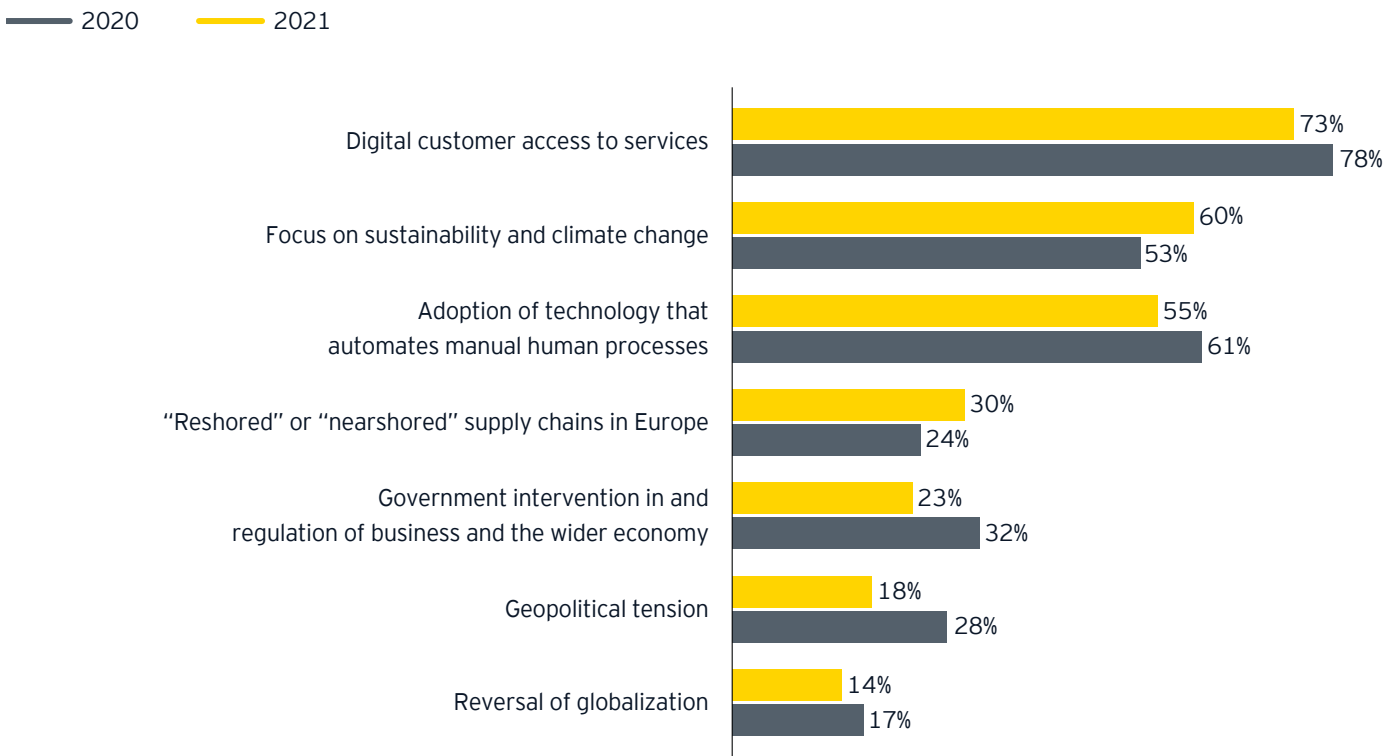
... with a greater focus on digital, tech and sustainability to rise above the challenges.

The top three predicted trends expected to accelerate most because of COVID-19 are similar to last year's results. Digital customer access to services (73%) remains at the top, followed by a focus on sustainability and climate change (60%), which moves up one position with an increase of 7%. In third place is the adoption of technology that automates manual human processes (55%).

73%

Digital customer access to services remains the top trend in 2021.

Figure 29: Trends expected to accelerate most because of COVID-19

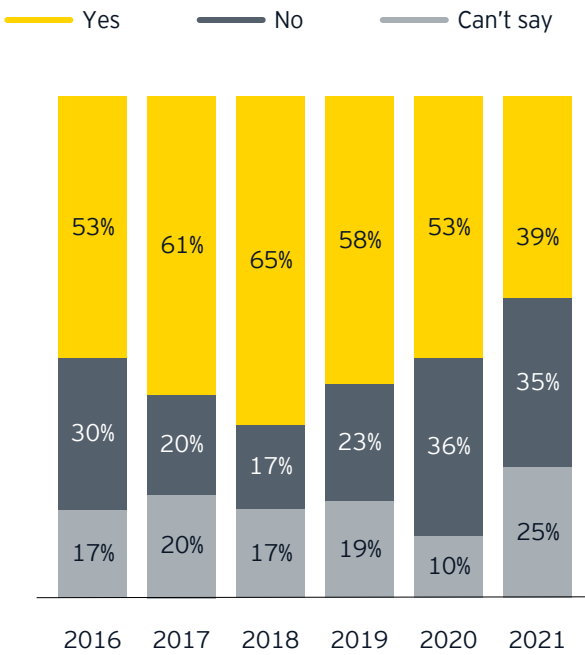


Source: all 2020-21 respondents.

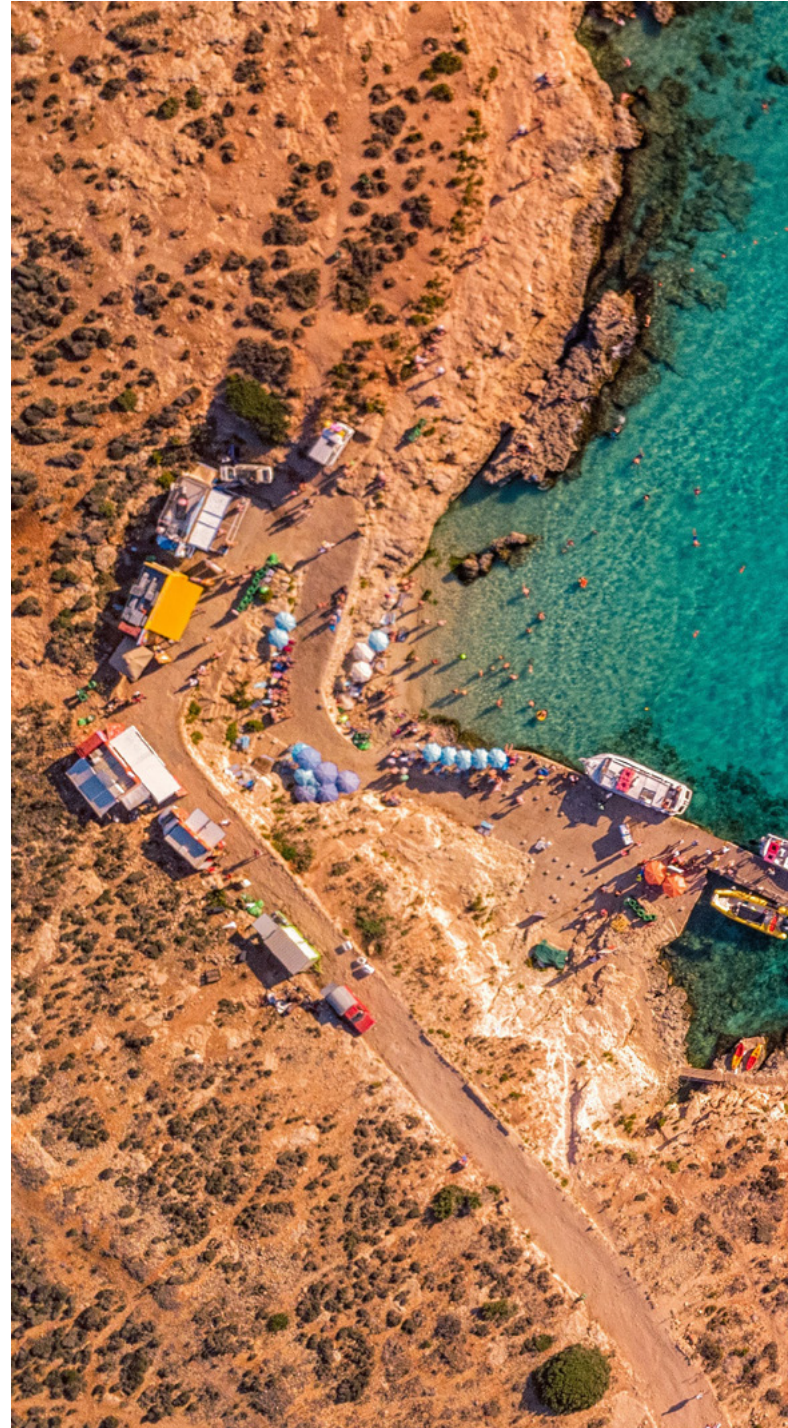
Nearly 4 in 10 investors are considering expanding their operations, down from 53% in 2020 ...

Thirty-nine percent of investors are considering expanding their operations over the next 12 months, a decrease of 14% compared with 2020. The number of respondents stating that they don't know grew from 10% to 25%, whereas the "no" responses remained constant over the same period.

Figure 30: Expansion plans



Source: all 2016-21 respondents.

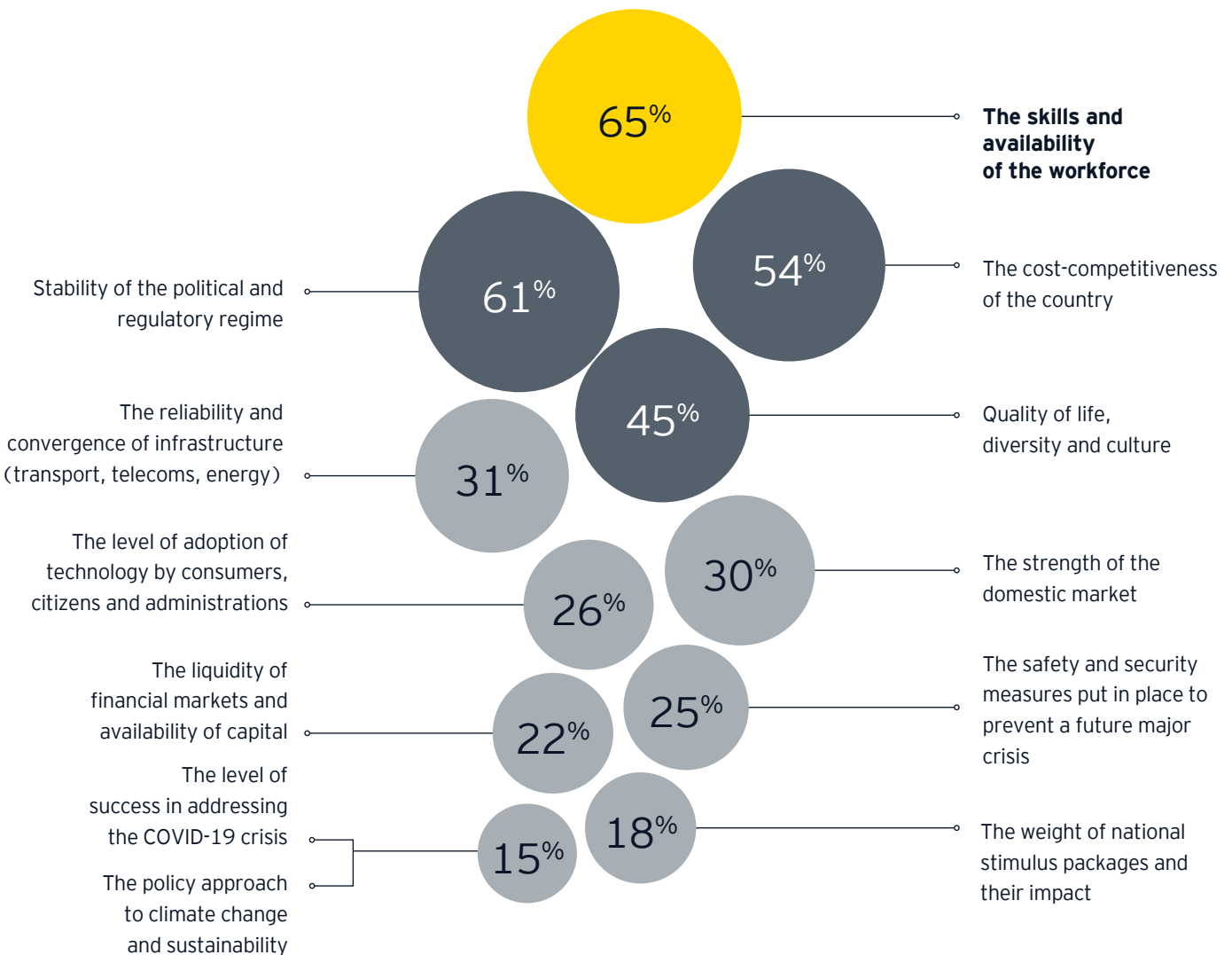


... and future investment location choices depend on the country they may invest in: availability of skills, political and regulatory stability, and cost-competitiveness.

When reflecting on the factors that would influence any future investment location choices, respondents once again highlighted the importance of skills for their businesses. Two-thirds of respondents consider workforce skills and availability to be a key factor.

Other key areas for further investment include the stability of the political and regulatory regime (61%) and its cost-competitiveness (54%). The weight of national stimulus packages and their impact is important for 18%, while the level of success in addressing the COVID-19 crisis is an important factor for 15%.

Figure 31: Factors that influence future investment location choices



Source: all 2020 respondents.

Technology

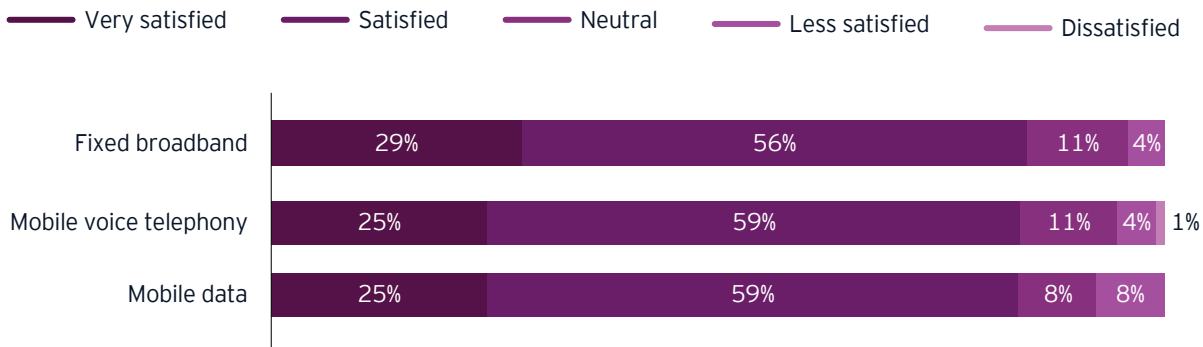
High levels of satisfaction for telecommunication services

Similarly to last year, satisfaction levels are consistently high across the three surveyed telecommunications services, with the highest satisfaction level registered among Malta's FDI community for fixed broadband (85%) followed by mobile voice telephony (84%) and mobile data (84%).

The number of dissatisfied respondents is very low across all telecommunications services, while around 1 in 10 are neutral.

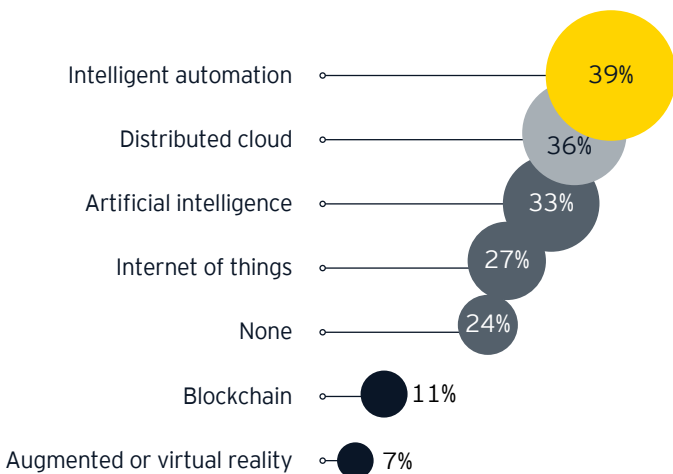
The most cited emerging technologies where companies are considering investments are intelligent automation (39%), distributed cloud (36%) and artificial intelligence (33%).

Figure 32: Level of satisfaction with telecommunication services



Source: all 2021 respondents.

Figure 33: Emerging technologies companies are considering investing in

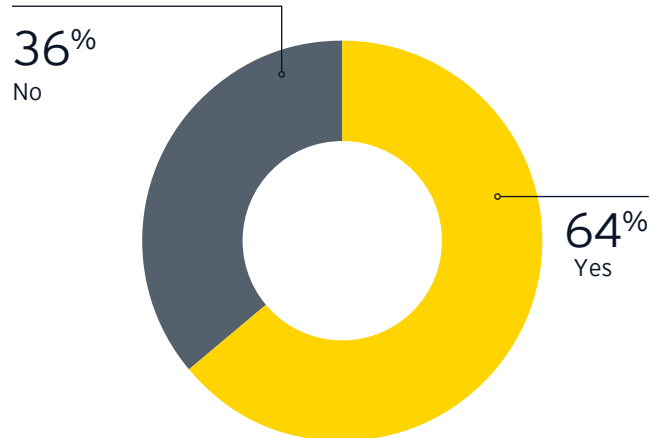


Source: all 2021 respondents.

Environment

When asked whether the external environment within an industrial estate is conducive to operations in their dealings with investors, clients, suppliers and other stakeholders, 64% replied in the affirmative.

Figure 34: The external environment within an industrial estate is conducive to operations



Source: all 2021 industrial estate-based respondents.



Methodology

A total of 110 existing FDI companies of investors responded to EY’s survey, conducted through virtual interviews in July and August 2021.

Figure 35: Percentage of revenue exported

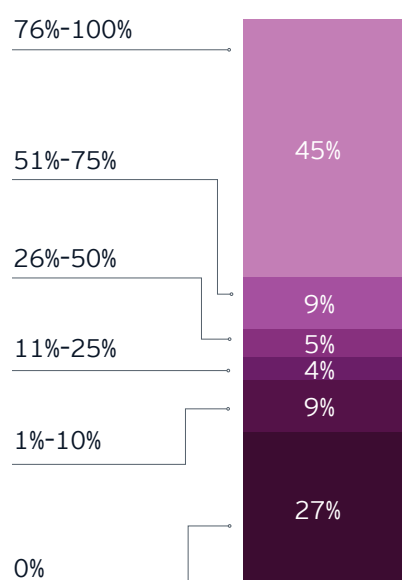
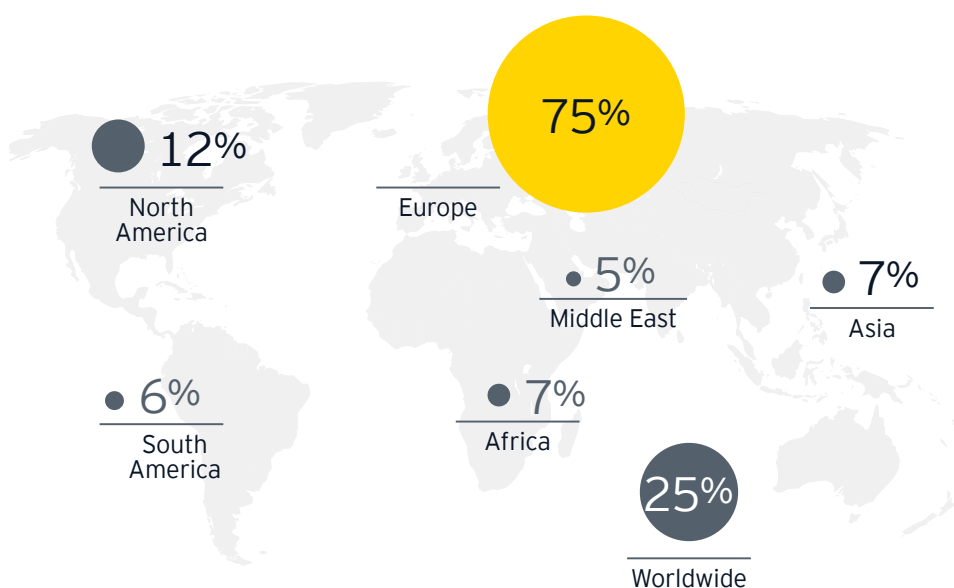


Figure 36: Key target markets



Source: all 2020 respondents.

About the EY Attractiveness program

EY Attractiveness Surveys are widely recognized by clients, media, governments and major public stakeholders as a key source of insight into FDI. Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses make investment decisions and governments remove barriers to growth. A two-step methodology analyzes both the reality and perception of FDI in the country or region. Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

The program has a 20-year legacy and has produced in-depth studies for Europe, a large number of European countries, Africa, the Mediterranean region, India, Japan, South America, Turkey and Kazakhstan.

For more information, please visit:

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