

## Benefits of the euro for Malta

*The euro will strengthen macroeconomic stability in Malta, ensuring low inflation and low interest rates that are a pre-condition for long-term economic prosperity. The single currency brings stable prices for citizens and more opportunities for businesses. Moreover, being part of the single currency and the euro area also engenders further trade opportunities in the global economy and attracts foreign investment.*

- **Low interest rates**

By adopting the single currency, Malta will benefit from the historically low interest rates currently enjoyed by euro area members. In 2001, Malta had the lowest long-term interest rate among the new Member States, declining by about 190 basis points since then to 4.3% in December 2006. This brings very practical benefits, allowing Maltese citizens and businesses to borrow money cheaply and with enhanced security. For example, a Maltese who took out a mortgage for Lm50,000 with a maturity of 15 years in 2001 would have paid some Lm450 each month compared to Lm400 in for a loan taken in 2006, saving around Lm3,000 during these 5 years. Membership of the euro area will safeguard these gains and will help shield Malta against economic turbulences and significant interest increases.

- **Price stability**

By adopting the single currency, Malta joins an economic and monetary union with a proven track record of low inflation and price stability. After averaging around 4% in the mid-1990s, inflation declined thereafter moving closer towards euro area levels. Malta's adoption of the euro would ensure that this process of convergence to low inflation will be anchored in a sustainable manner by further supporting the maintenance of price stability.

- **Job creation**

Being part of the economic and monetary union means a stable economy that fosters certainty for business activities, boosts trade, provides sustainable low interest rates, particularly long-term interest rates and strengthens investors' confidence. This should translate in higher



economic growth and the creation of more jobs. In the euro area, unemployment is currently at its lowest since 1993 and job creation has been significantly higher since the introduction of the euro. In Malta, employment increased annually on average by 0.8% over the last 10 years, as the Maltese economy has become increasingly integrated with that of the EU. Employment is predicted to rise by the same rate over the period 2007-2008.

- **Reduced costs for travellers**

With the disappearance of exchange rate costs, Malta's attractiveness as a tourist destination will increase. Maltese citizens travelling abroad will also benefit from the reduced costs. Travellers will not only be relieved from the annoyance of exchanging money at borders but can expect to make considerable savings; 2 Maltese euros will be a straight swap for, say, 2 German euros! The famous example of the tourist travelling in the EU in the 1990s best illustrates the savings brought about by the single currency. With DM 1,000 in his pocket and changing money in each country, the traveller would be left with DM 500 on returning home – without having made a single purchase!

- **Lower costs for businesses**

The euro saves money for Maltese enterprises and supports a dynamic business environment. In the European Union, businesses have been relieved of an estimated €20-25 billion in costs following the introduction of the euro and disappearance of exchange rate charges. With the introduction of the euro, Maltese businesses will face lower costs related to invoicing, such as the updating of price lists. In addition, businesses operating in Malta will have access to a large and liquid market in a currency which would then be used domestically. This should also lead to a reduction in borrowing and hence operating costs, allowing Maltese companies to become more competitive.

- **Increased trade**

The euro facilitates trade by eliminating transaction costs and exchange rate risks, making Malta a more attractive trading partner. It is estimated that the euro has already increased trade within the euro zone by 4-10% since its launch. For Malta, this represents a significant advantage as the Malta economy relies heavily on imports and exports. External merchandise trade represents some 105% of GDP and slightly more than half of Maltese trade is with euro area members. Trade in services with the euro area accounts for around two-fifths of the total.



- **A strong and attractive international currency**

As a euro area member, Malta can boast a currency with a global position comparable to the US dollar. The role of the euro in international trade, foreign exchange markets and reserves has increased substantially and continues to grow in importance, overtaking the dollar in certain sectors. The high attractiveness of the euro as a world currency means that tourists can increasingly travel all over the world with euros in their pockets while businesses are more and more able to trade in euros beyond the borders of the euro area.

**How can Malta maximise the benefits of the euro?**

- Although euro adoption is conducive to faster economic growth, an appropriate policy framework is needed to ensure that the benefits accruing from participating in the single currency area are fully realised. Specifically, pursuing prudent public finances and implementing the necessary structural reforms that ensure flexible product, capital and labour markets will help the Maltese economy respond to external shocks, while maintaining price stability and bolster international competitiveness and growth.

