EY’s attractiveness surveys

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

For more information, please visit: www.ey.com/attractiveness
CBA - Cost benefit analysis
CEO - Chief executive officer
CRD IV - Capital Requirements Directive IV
EAS - European attractiveness survey
ECB - European Central Bank
EMEIA - Europe, Middle East, India and Africa
EU - European Union
FCO - Financial controller
FDI - Foreign direct investment
GDP - Gross domestic product
ICT - Information and communications technology
IFDIS - Institute of Foreign Direct Investment Studies
IMF - International Monetary Fund
IoT - Internet of things
IP - Intellectual property
IPR - Intellectual property rights
JEREMIE - Joint European Resources for Micro to Medium Enterprises
LSP - Life Sciences Park
M&A - Mergers and acquisitions
M2M - Machine-to-machine communication
MAS - Malta attractiveness survey
MCAST - Malta College of Arts, Science and Technology
ME - Malta Enterprise
NSO - National Statistics Office
PPP - Public-private partnership
R&D - Research and development
SME - Small and medium sized-enterprise
SSA - Sub-Saharan Africa
UK - United Kingdom
US - United States
EY vision: beyond this economic horizon

We are doing quite well

In January of this year, we kicked off our second decade as members of the European Union. Away from the political white heat of a decade ago, we can now look back and dispassionately assess what has been achieved so far.

Although our economic growth rate has rollercoastered somewhat over the last decade, we have not only weathered the global financial crisis admirably but came out of it stronger than ever. Today we have a very healthy growth of close to 3.5%, while real GDP per capita has increased by 20% in the last decade. Taking a similar up-and-down path, the national debt as a percentage of the gross domestic product (GDP) has, of late, been declining year-on-year.

Our balance of payments as a percentage of the GDP went from 8.2 in the red ten years ago to 3.4 in the black this year. Closer to the very heart of this report, foreign direct investment has increased by almost 17 times in the last decade.

Between 2005 and 2014, real private consumption, rose from €3,633.4 million to €4,132.4 million. Over the same period, the number of people in employment increased by almost 30,000 while unemployment has been steadily going down since 2010. Today we have one of the very lowest unemployment rates in the European Union (EU). Over the last few years, company profits and bank deposits have been on the rise. And between 2004 and 2014 the average household disposable income rose by about 13% in real terms.

This is a quick glance at the big, decade-long economic picture which, on balance, is quite a positive one. Taking a couple of steps closer to the picture reveals other interesting trends that shed a bright light on the way forward.

Ronald Attard
Country Managing Partner, EY Malta
Over the same period, the services sector spiked from 72.7 to 82.7 as a percentage of the GDP. At the same time – and perhaps not surprisingly to most – manufacturing and industrial production lost almost 4 and 5 percentage points respectively.

Clearly, in these two areas, global and local competitiveness issues are taking their toll. Today, a handful of very large companies are responsible for most manufacturing activity on the island.

Evidently, the physiognomy of our economy is changing and all of us stakeholders, in the public and private sectors, need to change with it. Even this closer look at the economy, however, does not do justice to the real picture of the last decade.

The tourism sector has witnessed strong growth and is the largest direct contributor to Malta’s GDP. This is apart from the ripple and indirect contributions that this increase brought with it. Certain sectors – literally created from scratch through political consensus and effective legislation – have grown exponentially and taken a life of their own. The shining examples are, of course, financial services, iGaming, the film industry and the development of the maritime industry which now account for a significant amount of Malta’s GDP. Like tourism, they have a knock-on effect on many areas of the economy.

A note of caution

Clearly, all of these sectors have become integral and crucial parts of our economy. But allow me today to sound a note of caution. None of them are immune to domestic and global challenges. As we have seen, some elements of manufacturing in Malta have already succumbed to the pressures of global competitiveness. Albeit for completely different reasons and in different ways, the same might happen to financial services, iGaming and shipping.

If anything, by the very nature of these sectors and the world we live in, the challenges and threats to them might catch up with us quicker than ever before. Let me elaborate.

Cost increases are the downside of a flourishing economy. The more economically successful we become, as almost full employment becomes an economic fixture, our cost competitiveness could possibly suffer. To be clear, I am not suggesting that better pay packets and conditions must necessarily undermine competitiveness. The two are not mutually exclusive. My point is that we need to keep a careful eye on the underlying pressures which are driving costs upwards.

Respondents to this survey highlighted that the availability of skills has become an issue. We need to better understand the areas where bottlenecks in the supply side exist and undertake actions to address them. This cannot be done without the close cooperation between policy makers, the private sector and educational providers.

A vision beyond this horizon

As always, the how is the hardest question to answer. Perhaps as a general rule we should focus more sharply on increasing labor supply where it is most needed and doing so in closer alignment with the requirements of the higher valued-added and knowledge-based sectors. In addition, we should be more focused on being at the cutting edge of technological developments that enhance our competitiveness. Many women have the education to fill the skills gap. Increasing female participation rates must remain a sustained national priority. As a small country, we should be able to quickly adapt educational programs to required current and future skill profiles.

Yet our vision needs to be even wider if we are to sustain our competitiveness and make our economic well-being as future-proof as possible. This is not merely a matter of not sitting on our laurels. It is one of clarity about the potential fragility of our current economic and financial situation.

The key issue is this. Operators in the thriving sectors – from iGaming to game development to asset management, and many more – are all much more physically mobile than at any other time in our foreign investment history. As in the past, these foreign investors are here almost exclusively because we offer a better financial proposition compared with other countries.
We therefore need to strive to build a healthy and robust ecosystem for these new industries to increase their stickiness, and drive long-term attractiveness.

As our survey has confirmed, what delivers this to them is our legislation, social and political climate, stability and other factors.

Yet the operators in today’s successful sectors, unlike their ancestors in manufacturing, incur much lower costs if they have to pack up and leave for a better financial and economic climate. They just unplug their server – assuming that it is here – turn off the office lights, put their key personnel on a plane and start operating somewhere else the next day. Of course, in practice it may not be so simple but it is easier than relocating a manufacturing plant.

In this new reality, the choice to move operations is wider than ever before and it would be foolish for us to ignore it. It is true this year’s survey shows that more current investors believe that they will continue operating in Malta in the foreseeable future. Yet this confidence can evaporate unless we keep a close eye on what is happening around us.

This issue also needs to be put in the perspective of the small size of our economy. When a sector becomes successful in Malta, it quickly gains relative economic dominance. As a result, the more vulnerable that dominant sector is to continental and global market forces, the bigger is the threat to our economic and financial stability.

Furthermore, while technology and globalization have helped to liberate our country from our tiny size and geographic fate, and thereby opened up new markets for us, this is a sword that cuts both ways. Just as our opportunities in the global market have been widened, the sources of threats to our economy have also increased.

Today, our competitors for foreign investment are from near and far. From long-standing EU members, such as in certain sectors of the regulated financial services market, to late accession countries with lower labor costs but with high educational levels in other areas. When it comes to back-office operations, including regulated ones, game development, data warehousing, research functions and others, we really are in competition with the whole world.

In this light, the central double bind comes clearly into view. The more operators in the currently successful sectors such as iGaming and financial services we attract, the more vulnerable to outside market forces our economy becomes. The more we try to nurture up-and-coming knowledge-based sectors as we must, the more this vulnerability increases.

On another level, although evolving technologies and industries are opening up new markets for us, we remain an island and with the dimensions of a small, secondary mainland city. The size of our labor force, particularly those with training, has a natural ceiling. We import everything and we still have to face the fate of all those who colonized us over the last two thousand years. Malta is a great place to live in but you cannot transport beyond it on land. We are 1840km away from Brussels, 690 from Rome and 340 from Tripoli. As if these natural barriers did not make us peripheral enough, we put up unnatural bureaucratic ones. From importation and its ancillary costs, to other bureaucratic procedures. There are still a number of things that could be done for today’s and tomorrow’s investors.

**EY vision**

This is the reality we are living as the future beckons. What is to be done? As a general strategy, I propose three objectives to be pursued in tandem. First, in order to continue liberating ourselves from the limits set by size and geography we should persist in exploring new high-value added, knowledge-based sectors and niches in them. At the same time, we should seek more opportunities that arise precisely because of our size. These efforts should help us decrease our economic vulnerability and dependence on the existing small number of thriving sectors.

Secondly, we should never let up in our efforts to be at the cutting edge of technological developments. This is not simply a call to use technology to do what we already do differently and better. What I have in mind is to think of technology as a way of doing things we never did before.

Thirdly, we need to incentivize new labor supply sources in areas where there simply are not enough Maltese workers. We are already being increasingly successful in bringing more women back to the labor market. In addition, a number of schemes have been successful in attracting highly skilled workers to fledgling industries.

“This is not simply a call to use technology to do what we already do differently and better. What I have in mind is to think of technology as a way of doing things we never did before.”
“We at EY are glad to be spearheading this drive with six concrete and realistic suggestions. Our sincere hope is that we shall be joined by public and private sector stakeholders who share our vision.”

With these objectives as foundations, I wish to make six concrete suggestions for discussion and implementation:

1. Malta can take a lead in regulating online financial services (FinTech). These can take the form of crowdfunding, peer-to-peer lending and similar platforms. At present, there is no pan-European legislation on these services and Malta can do what it did with online gaming a decade ago – take a lead in regulation in Europe. If we are serious about this, we need to think and act quickly. The UK is already moving in this direction through its financial services innovation hub. There may be a small time window in which to offer an alternative regime.

2. Our country can be turned into a commodities trading hub by building on existing attractive features and making sure we are the best in the area. This may include regulating certain activities and developing a global trader type of program. Here we might want to look at what Singapore is doing.

3. Malta can truly become a logistics hub if it ensures that it has the best legal infrastructure in Europe. To get there we would need to look at duty, customs, clearance processes, costs (particularly government-induced), and ways of stimulating capacity subject to state aid rules. Rotterdam might be a model to look at.

4. Our small country can become a hub for Asian e-commerce by making it the key Mediterranean and European destination for goods sold online in Asia for distribution to businesses and end consumers all over Europe.

5. New technology is now the main driver of more efficient, comfortable and faster transport. Malta could implement, or support the implementation of, best-in-class, web-enabled solutions in parking management, transport sharing and tracking. Of course, I do realize that this is tricky because our infrastructure remains an issue and regulation alone is not enough.

6. There is one untapped source of labor that risks becoming a drain on finances when it could be contributing to further economic growth. Currently, irregular immigrants arriving on our shores are either languishing in detention centers or being employed illegally in the underground economy. Malta could take a path-breaking step by surveying their skills, imparting new ones to them and turning them into productive employees with dignity, rights and obligations. Simultaneously, the ban on irregular employment of immigrants should be strictly enforced.

Conclusion

Clearly, Malta has been doing well and there is every reason to be optimistic about the future. To keep sailing beyond the present economic horizon we need to be “open for business” in a variety of ways – new ways of doing business, new sources of investment and more innovative ways of enhancing our labor supply.

We, at EY, are glad to be spearheading this drive with six concrete and realistic suggestions. Our sincere hope is that our vision will be shared by public and private sector stakeholders alike.
There are plenty of statistics to show that the Maltese economy is performing well. Malta is at the top of the league for growth in the European Union. The economy is expanding and the unemployment figure is at a historic low, a shade over 5%. All the forecasts for the coming months are favorable.

This is good news for Malta and its people. It is also good news for investors who are looking for a place to do business.

My government has been in office for only two and a half years but in that time we have carried out fundamental reforms to encourage enterprise and prosperity. A shake-up in the energy sector has meant a 25% cut in electricity tariffs for businesses this year, which has improved the bottom line of all companies. Free child care has allowed companies to retain talented female staff and we are fading out welfare dependency in favor of personal enterprise and reward. Ours is a dynamic can-do society.

We are always looking to do better. We want to open up new sectors in addition to nurturing what we have. We are cutting red tape and offering incentives to people to come to Malta to do business. And we listen to what business says, so that we can react to their concerns and needs.

I would encourage anybody thinking of investing in Malta to talk to those who have traveled the road before you. No doubt they will have experienced some frustrations along the way but they are our best salespeople, telling the story of why Malta is the place where businesses succeed.

Every time I attend the opening of a new business, or the expansion of an existing one, it gives me great pride. I look forward to attending many more.
Top executives from existing FDI companies in Malta were requested to respond to various national and country-specific FDI-related questions for EY’s Malta attractiveness survey (MAS).

Malta’s attractiveness for FDI

Eighty-four percent of executives surveyed think that Malta is attractive for FDI. This is an increase of five points over the findings from our 2014 survey. Respondents from the financial service sectors tend to be more optimistic about Malta’s current attractiveness, with manufacturing respondents having the lowest rating among different sectors.

Various attractive features

Stability of social climate and stability and transparency of the political, legal and regulatory environment are the top two ranked Malta FDI parameters for respondents. Transport and logistics infrastructure, domestic or regional market and R&D and innovation environment are considered to be the least attractive FDI parameters in Malta.

Malta’s most attractive FDI parameters

<table>
<thead>
<tr>
<th>Feature</th>
<th>Very attractive</th>
<th>Attractive</th>
<th>Not attractive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stability of social climate</td>
<td>20%</td>
<td>70%</td>
<td>90%</td>
</tr>
<tr>
<td>Stability and transparency of political,</td>
<td>22%</td>
<td>63%</td>
<td>85%</td>
</tr>
<tr>
<td>legal and regulatory environment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate taxation</td>
<td>32%</td>
<td>43%</td>
<td>75%</td>
</tr>
</tbody>
</table>

Source: all MAS 2015 respondents.

Points for improvement

<table>
<thead>
<tr>
<th>Feature</th>
<th>Very attractive</th>
<th>Attractive</th>
<th>Not attractive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport and logistics infrastructure</td>
<td>24%</td>
<td>8%</td>
<td>32%</td>
</tr>
<tr>
<td>R&amp;D and innovation environment</td>
<td>19%</td>
<td>2%</td>
<td>21%</td>
</tr>
<tr>
<td>Domestic or regional market</td>
<td>17%</td>
<td>4%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Source: all MAS 2015 respondents.
The most important FDI parameters: MAS vs EAS

Fifty-nine percent of respondents ranked the stability and transparency of the legal, political and regulatory environment as one of the top three parameters their companies took into account when deciding on a location in which to establish operations. This was followed by corporate taxation (50%) and local labor skill levels (48%).

The flexibility of labor legislation and the level of protection of intellectual property rights (IPR) were among the least important factors that decision-makers considered.

Respondents to EY’s European attractiveness survey seek transparency of the legal, political and regulatory environment (46%) and the country’s or region’s domestic market (37%). The quality of transportation and logistics infrastructure has become the third most important factor in choosing a location (30%), up five points and two places in the ranking.

Driving Malta’s growth in the future

Fifty-five percent of companies surveyed have some form of expansion plans in Malta over the next year.

iGaming into the future

Sixty percent believe that iGaming will be the business sector driving Malta’s growth in the next five years. This was followed by the fund administration and asset management sectors (at 43% and 41%).

Presence in 10 years’ time

The number of companies that intend to be present in Malta in 10 years’ time has risen by 12% from 2014 to 71%.

Source: all MAS and EAS 2015 respondents.

Source: all MAS 2015 respondents.

Note: does not add up to 100% due to rounding.
Malta: open for business

The entities that are considered to be most open to business include the central government (65%) as well as the regulatory authorities (61%). The country’s legislative framework is also looked at relatively positively from this point of view.

Openness for business

<table>
<thead>
<tr>
<th>Entity</th>
<th>Open</th>
<th>Very open</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central government</td>
<td>15%</td>
<td>50%</td>
</tr>
<tr>
<td>Regulatory authorities</td>
<td>4%</td>
<td>50%</td>
</tr>
<tr>
<td>Legislative framework</td>
<td>4%</td>
<td>49%</td>
</tr>
<tr>
<td>General public</td>
<td>2%</td>
<td>40%</td>
</tr>
<tr>
<td>Local authorities</td>
<td>2%</td>
<td>25%</td>
</tr>
<tr>
<td>Civil service</td>
<td>13%</td>
<td>11%</td>
</tr>
<tr>
<td>Court</td>
<td>11%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Source: all MAS 2015 respondents.

Improving local labor market’s skills

Companies are investing in knowledge transfer through experience, training or both. Eighty-two percent of the companies surveyed are willing to invest in training to develop skills, needed either through offering internships and vocational training or through financial help and sponsorship. It seems that the demand for skilled labor is outstripping supply. Forty-seven percent of the companies surveyed report that they are able to find the required specialized skills in the local labor market. Filling these skills gaps is a necessary prerequisite for around 52% of those considering expansion plans.

<table>
<thead>
<tr>
<th>Availability of specialized skills</th>
<th>Managing to retain specialized personnel</th>
<th>Willingness to invest in training</th>
</tr>
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<tbody>
<tr>
<td>47%</td>
<td>85%</td>
<td>82%</td>
</tr>
<tr>
<td>53%</td>
<td>15%</td>
<td>7%</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Other</td>
<td>Other</td>
<td>Other</td>
</tr>
</tbody>
</table>

Source: all MAS 2015 respondents.

Malta’s legislative framework offers an international competitive advantage

It is reassuring to note that the Maltese legislative framework is seen to create a strong competitive advantage in both the European and global markets, with this proportion increasing by a full 8% to 59% in this survey. However, it must be noted that the “no” replies also increased by 3% to 32%.

Malta’s legislative framework offers an international competitive advantage

<table>
<thead>
<tr>
<th>Malta's legislative framework offers an international competitive advantage</th>
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<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
</tbody>
</table>

Source: all MAS 2015 respondents.
**Innovation**

The reforms required for sectors to become leaders in innovation included reducing bureaucracy (67%), improving education and training in new technologies (49%) and the development of a culture of innovation and creativity (47%).

**Malta’s standing as a regional hub**

Respondents were asked if Malta’s standing as a regional hub is being affected by developments in the Mediterranean basin. Twenty-eight percent believe that Malta’s standing as a regional hub in their sectors is gaining ground by ongoing developments; nearly 17% believe that it is losing ground and just under 40% believe that it is staying the same.

**Areas of action**

1. Staying in the race and winning
2. Focus on learning
3. Manufacturing is not dead
4. Exploiting our geographic location
5. Defying geography digitally
6. Plugging the infrastructure gap – physically and digitally
7. Open for business – really
EY’s 2015 European attractiveness survey: comeback time

EY’s European attractiveness survey measures FDI in terms of projects initiated and jobs created, and reveals the perceptions of more than 800 decision-makers across Europe.

Europe revives as global FDI falters

Global FDI flows fell by 8% in 2014 with the fragility of the global economy, policy uncertainty and geographical risks being the factors that held back a worldwide investment recovery. Flows to transitional economies including Brazil and Russia more than halved.

Flows into developing economies reached a new high point of US$704 billion, up 4%, as increases in Asia made up for decreases in Africa, Latin America and the Caribbean. The 19% surge in cross-border M&A shows strength in business confidence.

Meanwhile, Europe bucked the trend, with strong FDI inflows

FDI inflows into Europe (excluding Russia) rose by 36% in 2014, the biggest spike among significant regions. Europe’s US$305 billion of investments accounted for 24% of global FDI, 7% more than in 2013. Inflows to the EU rose by 13% but remained at only a third of their 2007 peak level.

By country, China came out as the world’s principal FDI recipient, driving the US into second place.

<table>
<thead>
<tr>
<th>Percentage change in 2014 from 2013 FDI (US$b)</th>
<th>Share of FDI (US$b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>24%</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>15%</td>
</tr>
<tr>
<td>EU</td>
<td>13%</td>
</tr>
<tr>
<td>North America</td>
<td>-54%</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>-51%</td>
</tr>
<tr>
<td>Transition economies</td>
<td>-19%</td>
</tr>
<tr>
<td>Africa</td>
<td>-3%</td>
</tr>
</tbody>
</table>

Sources: UNCTAD, Global Investment Trend Monitor, January 2015.
North America becomes Europe’s challenger

For the second time, Western Europe (50%) was ranked as the world’s most attractive FDI destination. The region’s attractiveness for investors has gone up by five points since 2014 and by 17 points since 2008, and is now posting three years of sustained improvement. Western Europe is on course to regain its 55% pre-crisis level of attractiveness.

Europe as a whole is seen as increasingly attractive as investors transfer their preference from China and Russia. China is rebalancing its economy from investment to consumption, a move that is accompanied by a managed slowdown. Investors who ranked China as the most attractive destination for establishing operations in 2012 and 2013 rank it third in 2015, with 38% of the responses.

North America is the new challenger for investors’ attention, as it makes use of cheap energy that is contributing to a growing economic recovery and a more bullish business outlook.

Investors see a brighter future

This year, 59% of the investors believe that Europe’s attractiveness will improve in the next three years. This is five points more than in 2014 and 21 points more since 2012.

The attractiveness of Northern Europe has risen by five points since 2014, and by three points for Western Europe. On the other hand, the appeal of Central and Eastern Europe, at 28%, has gone down by 14 points since 2008.

North America has gone up one place, relegating China to second place in the FDI attractiveness ratings. Its attractiveness reached its pre-crisis peak of 38% this year, after reaching a low of 21% in 2012.

Since 2014, China’s attractiveness has fallen six points to 38%, as international businesses incur higher operational expenses due to wage increases. India (18%) and Brazil (14%) are resilient and each registered a one percentage improvement in attractiveness as opposed to 2014.

Investors established in Europe rank Western Europe (55%) as the most preferred destination to set up operations, followed by China (37%). But investors not present in Europe prefer North America (52%) and China (40%) to Western Europe (30%).

The most attractive regions to establish operations

Investors within and outside Europe have different opinions

Source: EY’s 2015 European attractiveness survey (total respondents: 808; established in Europe: 638; not established in Europe: 170).
The stability and transparency of the political, legal and regulatory environment have become an overriding priority for companies weighing where to invest.

Risk aversion benefits Europe

Geopolitical events across the globe have raised investors' concerns. The stability and transparency of the political, legal and regulatory environment have become an even more overriding priority for companies weighing where to invest, rising three points to 46% this year. Accessing markets, pointed out by 37% of investors, is also crucial.

Europe’s strengths match the qualities investors seek. The region is known to have improved the stability and predictability of its business environment (49%, +5 points). Attractive investment opportunities for businesses are put forward by its big market (31%) and purchasing power (19%). According to 31% of respondents, the sixth most important factor in investment location labor skills is Europe’s fourth most attractive feature. Investors already set up in Europe appreciate its skills more highly than those who lack European experience. For investors not established in Europe, its market (32%) and high purchasing power (25%) are more attractive than Europe’s labor force (24%).

Investor perceptions mirror reality

The number of projects attracted to London in 2014 grew, albeit modestly, to 383. Greater London still draws many more projects than Greater Paris, its closest challenger. In terms of jobs, the region of Catalonia was an easy winner, pulling in a number of big projects that will employ a total of 7,089 workers.

The largest increase in number of projects between 2013 and 2014 occurred in Berlin.

Top 10 urban areas by projects

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Greater London</td>
<td>UK</td>
<td>380</td>
<td>383</td>
<td>9%</td>
<td>1%</td>
<td>3,470</td>
<td>43%</td>
</tr>
<tr>
<td>Greater Paris</td>
<td>France</td>
<td>173</td>
<td>159</td>
<td>4%</td>
<td>-8%</td>
<td>1,200</td>
<td>26%</td>
</tr>
<tr>
<td>Darmstadt (Frankfurt)</td>
<td>Germany</td>
<td>94</td>
<td>124</td>
<td>3%</td>
<td>32%</td>
<td>1,316</td>
<td>16%</td>
</tr>
<tr>
<td>Catalonia (Barcelona)</td>
<td>Spain</td>
<td>85</td>
<td>108</td>
<td>2%</td>
<td>27%</td>
<td>7,089</td>
<td>47%</td>
</tr>
<tr>
<td>Düsseldorf</td>
<td>Germany</td>
<td>105</td>
<td>86</td>
<td>2%</td>
<td>-18%</td>
<td>1,649</td>
<td>11%</td>
</tr>
<tr>
<td>Rhone-Alpes (Greater Lyon)</td>
<td>France</td>
<td>56</td>
<td>83</td>
<td>2%</td>
<td>48%</td>
<td>1,592</td>
<td>14%</td>
</tr>
<tr>
<td>Uusimaa (Helsinki)</td>
<td>Finland</td>
<td>89</td>
<td>83</td>
<td>2%</td>
<td>-7%</td>
<td>197</td>
<td>85%</td>
</tr>
<tr>
<td>Berlin</td>
<td>Germany</td>
<td>25</td>
<td>80</td>
<td>2%</td>
<td>220%</td>
<td>1,595</td>
<td>10%</td>
</tr>
<tr>
<td>Stuttgart</td>
<td>Germany</td>
<td>80</td>
<td>74</td>
<td>2%</td>
<td>-8%</td>
<td>982</td>
<td>10%</td>
</tr>
<tr>
<td>Freiburg</td>
<td>Germany</td>
<td>79</td>
<td>68</td>
<td>2%</td>
<td>-14%</td>
<td>268</td>
<td>9%</td>
</tr>
<tr>
<td>Others</td>
<td>-</td>
<td>2,791</td>
<td>3,093</td>
<td>71%</td>
<td>11%</td>
<td>166,225</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>-</td>
<td>3,957</td>
<td>4,341</td>
<td>100%</td>
<td>10%</td>
<td>185,583</td>
<td>-</td>
</tr>
</tbody>
</table>

“Eighty-five percent are confident of Europe’s ability to return to sustainable economic growth.”

Outlook: unleashing confidence

Fifty-nine percent of investors are confident about Europe’s prospects in the upcoming three years. Indeed, 85% of those interviewed consider that Europe will be back to sustainable economic growth, evidence of investors’ confidence. Only 32% of investors have plans to establish or expand operations in Europe over the next year, while 64% do not.

Foreign investors see bureaucracy (20%) and slow economic growth (17%) as the biggest flaws in Europe's attractiveness, overshadowing the geopolitical unrest at Europe's frontiers (11%) and big deficits (10%). The big trends that business leaders believe will drive European renewal — the digital, health care and energy transformations — take decades to build momentum, but nonetheless, they want to catch those waves.

Powering growth: how to get there

Implementation of business-friendly reforms in competition, tax and labor markets in the EU are called for by almost half of the total respondents. They also wish for a lighter regulatory burden.

Established investors, who face red tape on a daily basis, are especially keen on business-friendly reforms, while non-established investors require closer EU political integration. This is a secondary issue for those investors already present on the continent.
Malta in context

The Maltese archipelago, made up of Malta, Gozo and Comino, covers a total area of 316km$^2$. Located 93km off the southern coast of Sicily and 290km north of the shores of North Africa, the country has a shoreline of 200km. Malta is the largest island and has a population of 425,484 inhabitants. The sister island, Gozo, is home to approximately 31,000 inhabitants while Comino is largely uninhabited.

Maltese and English are the national and official languages. Most Maltese speak both languages fluently and a substantial number also speak Italian. Since Malta joined the EU in 2004, its laws and regulations have been gradually aligned to reflect the EU’s legislation and directives. Consequently, in addition to having a legislative structure that facilitates the conduct of business in, or from, Malta, it provides foreign investors with the assurance of the quality, security and consistency synonymous with the EU. As a result of reductions in transaction costs and international trade barriers and the adoption of the euro in 2008, Malta became even more attractive to foreign investors. Malta joined the Schengen Area in 2007.

Investing in Malta

The island offers international investors a highly advanced telecommunications network, a pool of skilled professionals and a strategic location at the heart of the Euromed region in the middle of the Mediterranean Sea, between large European and North African markets. Compared with other Western European countries, Malta provides better cost advantages and easier access to national and local authorities due to the size of the local market. The favorable investment climate is second to none, with business-friendly legal structures, access to European markets and good opportunities for networking. The potential recovery of North African economies in the near future, coupled with various reforms in the major sectors, will certainly continue to boost market opportunities for companies operating from Malta.

Undoubtedly, Malta is passing through a period of well-earned economic stability and the Malta Chamber of Commerce, Enterprise and Industry is actively promoting the idea of investing the proceeds of this relative prosperity into ascertaining future competitiveness. Cognizant of the rapidly and constantly changing world, the Malta Chamber is actively working toward the fruition of its 52 concrete recommendations listed in its Economic Vision 2014-20. The measures address what the country needs to make the quality leap forward, crucially staying ahead of the curve, and to ensure that it is open for business. To this end, the Malta Chamber is privileged and honored to have collaborated with EY for several years in its annual conference on the Malta attractiveness survey, as it considers the survey and the conference as important tools for designing Malta’s future economic growth.
“The island offers international investors a highly advanced telecommunications network, a pool of skilled professionals and a strategic location at the heart of the Euromed region.”

**Today and tomorrow**

The European Commission’s spring economic forecast indicates that the “main drivers of projected growth over 2015 and 2016, similar to 2014, are projected to be investment, benefiting from a number of large-scale construction and energy projects, EU fund absorption (mostly in 2015), and private consumption, on the back of increasing disposable incomes and favorable consumer sentiment.”

The June 2015 issue of the EY Eurozone Outlook for Malta, published on a quarterly basis in collaboration with Oxford Economics, highlights that the Maltese economy is expected to grow by 3% in 2015. This is significantly higher than the Eurozone average (projected at 1.6%).

The report also indicates that this rate is driven mainly by robust consumer spending, buoyant tourism, large-scale investment in energy infrastructure and a pickup in goods exports. The combination of low unemployment combined with strong revenue growth enabled consumer spending to rise by 3.2% in 2014, the fastest pace in more than 10 years. Furthermore, the report highlights that private spending is expected to grow by a solid 2.5% during 2015.

These positive findings were also backed up by the International Monetary Fund (IMF) following its Article IV consultation with Malta in February 2015. The IMF outlines that: “Malta’s economy continues to weather the global crisis well. Spillovers from turmoil in international financial markets have been contained due to low reliance on external financing by the government and banks. Real GDP growth has been one of the highest in the Eurozone since the beginning of the crisis, supported by relatively diversified exports, a recent recovery in domestic demand, and a stable banking sector.” On the other hand, the IMF sounds a note of caution by saying that although “the economic outlook is robust, challenges remain, and policies should aim to strengthen fiscal sustainability further, maintain financial stability and enhance competitiveness.”

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**Viewpoint**

Dr. Simon Busuttil
Leader of the Nationalist Party of Malta

The EY Malta attractiveness survey is an important stocktaking exercise. For Malta to be open for business, we need good governance and a long-term vision for high value-added sectors. And while it is good to grow our economy, the higher objective must be an economy for the people, to build a fairer society.
The EY Eurozone Forecast indicates that in the first quarter of 2015, tourist arrivals rose by 7.7% on the previous year. This growth in the tourism sector has led to a turnaround in the current account balance, from a recurring deficit up to year 2011 to a surplus of 8% of GDP in 2014. Furthermore, the report highlights that visitor numbers are expected to grow robustly during the year. The strong tourism flows will continue to support the household sector in Malta, mainly in terms of employment, wages and consumer spending. The report highlights that goods and services exports will grow by close to 4% in 2015 – following a 0.2% drop last year – reflecting the weaker euro and successful recent efforts by authorities to diversify the goods export base.

Other sources, such as the Central Bank of Malta, suggest that private investment, aside from expenditure on energy-related investments, is anticipated to be broadly stable in 2015 and to accelerate in 2016 when underlying investment in machinery is expected to pick up.3

Although government revenues have risen strongly in recent years, the EY report calls for more reforms to ensure the financial viability of public finances. In fact, in July 2014, Malta adopted a National Health Systems Strategy plan that will run to 2020. The key aim is to improve the efficiency and long-term sustainability of public health spending.

It also suggests that greater competitiveness in services, mainly in tourism and financial services, is required to maintain competitiveness and sustain steady long-term growth. The higher demand in the Eurozone, together with lower oil prices and lower interest rates, will boost consumer spending power and business confidence. This may ultimately lead to higher prospects than forecasted.

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“Growth in the tourism sector has led to a turnaround in the current account balance, from a recurring deficit up to 2011 to a surplus of 8% of GDP in 2014.”
FDI trends in recent years

p.24  FDI momentum sustained ...
p.25  Malta’s stock position
p.26  FDI flows
p.26  FDI in Malta and abroad
FDI momentum sustained ...

This section outlines the main developments in Malta in 2014 from an FDI perspective. The two main information sources are Malta Enterprise (ME), Malta’s national investment agency, and the National Statistics Office (NSO).

ME 2014 data includes only project proposals in respect of which the corporation’s board approved a package of incentives under the Business Promotion and Malta Enterprise Acts. Projects that fall outside of the scope of these two laws do not, as yet, feature in ME’s published statistics, even though ME may have had a leading role in making them happen.

A case in point is the Barts and The London School of Medicine and Dentistry project. This was the first of what is expected to be a series of ME’s initiatives aimed at attracting to Malta world standard teaching and research institutes seeking a presence in the region. Other ongoing initiatives that commenced in 2014 include projects in the field of medical and health tourism.

It must be borne in mind that “projects” represent only part of ME’s work. New projects and expansions require supporting initiatives that are hardly ever reported. During 2014, for example, ME worked very closely with MCAST to establish a Composition Materials Workshop. This specialized workshop is now fully operational and is addressing the training requirements associated with composite materials that are typically used in the aviation services sector.

2014 was a critical year for the Life Sciences Park (LSP). Projects to be located at the LSP, and so far approved, will however feature in 2015 data.

Also during 2014, ME and MCAST cooperated to ensure a supply of qualified human resources for Malta’s digital games industry (not to be confused with iGaming). ME is also playing a key role in planning the institutional and infrastructural conditions of an integrated logistics system.

<table>
<thead>
<tr>
<th>Year</th>
<th>Projects approved</th>
<th>Average investment per application (€m)</th>
<th>Average employment per application</th>
<th>Average investment per employee (€)</th>
<th>Projects approved</th>
<th>Average investment per application (€m)</th>
<th>Average employment per application</th>
<th>Average investment per employee (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>24</td>
<td>1.19</td>
<td>51</td>
<td>23,284</td>
<td>17</td>
<td>2.43</td>
<td>43</td>
<td>56,653</td>
</tr>
<tr>
<td>2007</td>
<td>25</td>
<td>1.84</td>
<td>39</td>
<td>46,843</td>
<td>11</td>
<td>1.00</td>
<td>31</td>
<td>32,544</td>
</tr>
<tr>
<td>2008</td>
<td>13</td>
<td>1.67</td>
<td>40</td>
<td>41,892</td>
<td>9</td>
<td>0.83</td>
<td>16</td>
<td>53,571</td>
</tr>
<tr>
<td>2009</td>
<td>12</td>
<td>4.79</td>
<td>54</td>
<td>88,598</td>
<td>6</td>
<td>4.48</td>
<td>50</td>
<td>90,572</td>
</tr>
<tr>
<td>2010</td>
<td>2</td>
<td>0.16</td>
<td>58</td>
<td>2,783</td>
<td>2</td>
<td>4.10</td>
<td>73</td>
<td>56,552</td>
</tr>
<tr>
<td>2011</td>
<td>9</td>
<td>14.43</td>
<td>44</td>
<td>325,564</td>
<td>6</td>
<td>3.48</td>
<td>43</td>
<td>81,323</td>
</tr>
<tr>
<td>2012</td>
<td>2</td>
<td>1.05</td>
<td>19</td>
<td>55,263</td>
<td>10</td>
<td>2.37</td>
<td>22</td>
<td>106,757</td>
</tr>
<tr>
<td>2013</td>
<td>36</td>
<td>1.78</td>
<td>33</td>
<td>53,461</td>
<td>15</td>
<td>2.83</td>
<td>22</td>
<td>127,246</td>
</tr>
<tr>
<td>2014</td>
<td>28</td>
<td>1.33</td>
<td>37</td>
<td>35,369</td>
<td>15</td>
<td>3.66</td>
<td>39</td>
<td>92,749</td>
</tr>
</tbody>
</table>

Source: Malta Enterprise.
“Malta ranked in second place worldwide for the quality of foreign direct investment that it attracted in 2013.”

Malta Enterprise has also indicated that health-related investments were the fastest growing FDI sector over the last year. It also shows that precision engineering and niches requiring a high degree of digital creativity are considered to be “thriving.” In this respect, the largest number of investments by sector were in the areas of pharmaceutical and medical devices and professional and scientific activities. Investments in the areas of ICT, digital games, waste management, aviation and other manufacturing were also reported.

Moreover, Malta ranked in second place worldwide for the quality of FDI that it attracts by the IBM Global Location Trends Report (2014), which takes into account the FDI projects approved during 2013.

Malta’s stock position

NSO statistics show that Malta’s FDI stock position (outward FDI investments) was estimated at €141.9 billion as at December 2014. Up to 97.9% of this relates to financial and insurance activities, which also include special purpose entities.

This amounts to an increase of €8.13 billion over the corresponding period in the previous year. It should be noted that, for the first time, statistics quoted for FDI in Malta as from 2008 onward incorporate special purpose entities.

Foreign direct investment in Malta – stock position: economic activities

<table>
<thead>
<tr>
<th>Economic Activities</th>
<th>Jun-11 €m</th>
<th>Dec-11 €m</th>
<th>Jun-12 €m</th>
<th>Dec-12 €m</th>
<th>Jun-13 €m</th>
<th>Dec-13 €m</th>
<th>Jun-14 €m</th>
<th>Dec-14 €m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>832</td>
<td>894</td>
<td>809</td>
<td>800</td>
<td>861</td>
<td>889</td>
<td>985</td>
<td>878</td>
</tr>
<tr>
<td>Transportation, accommodation and real estate</td>
<td>1,032</td>
<td>1,028</td>
<td>1,040</td>
<td>1,074</td>
<td>1,102</td>
<td>1,133</td>
<td>1,159</td>
<td>1,135</td>
</tr>
<tr>
<td>Financial and insurance activities</td>
<td>106,839</td>
<td>112,711</td>
<td>118,858</td>
<td>124,037</td>
<td>128,582</td>
<td>130,965</td>
<td>133,918</td>
<td>139,096</td>
</tr>
<tr>
<td>Information and communication</td>
<td>-27</td>
<td>-35</td>
<td>35</td>
<td>34</td>
<td>21</td>
<td>28</td>
<td>25</td>
<td>34</td>
</tr>
<tr>
<td>Professional, scientific and technical</td>
<td>321</td>
<td>297</td>
<td>344</td>
<td>348</td>
<td>367</td>
<td>372</td>
<td>379</td>
<td>291</td>
</tr>
<tr>
<td>Other activities</td>
<td>282</td>
<td>301</td>
<td>280</td>
<td>258</td>
<td>292</td>
<td>332</td>
<td>338</td>
<td>489</td>
</tr>
</tbody>
</table>

Source: NSO 2015.

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4 (http://www.maltaenterprise.com/sites/default/files/doing_business_in_malta_2014.pdf) and other Malta Enterprise statistics
6 IBM Institute for Business Value (2014), Global Locations Trends 2014 annual report, pg. 5
7 Stock position refers to the balance sheet position of FDI-related items at the end of the period. The position incorporates exchange rate changes, valuation changes and other changes apart from the transactions carried out during the period
8 Special purpose entities are companies that, although set up in a specific country, have little or no operations in the country, and have no, or a small number of, employees. However, since they are registered in the country, they are regarded as resident units.
FDI flows

Foreign direct investment flows in Malta

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>138</td>
<td>-78</td>
<td>101</td>
<td>38</td>
</tr>
<tr>
<td>Transportation, accommodation and real estate activities</td>
<td>-6</td>
<td>48</td>
<td>55</td>
<td>67</td>
</tr>
<tr>
<td>Financial and insurance activities</td>
<td>11,121</td>
<td>9,580</td>
<td>7,209</td>
<td>6,883</td>
</tr>
<tr>
<td>Information and communication</td>
<td>-16</td>
<td>676</td>
<td>-8</td>
<td>9</td>
</tr>
<tr>
<td>Professional, scientific and technical activities</td>
<td>-109</td>
<td>13</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Other activities</td>
<td>36</td>
<td>-45</td>
<td>55</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>11,234</td>
<td>9,351</td>
<td>7,322</td>
<td>7,018</td>
</tr>
</tbody>
</table>

Note: figures may vary due to rounding.

FDI in Malta and abroad

The stock position of direct investment abroad by resident enterprises was estimated at €36.7 billion, as at December 2014. Both inward and outward investments stock positions have seen a constant increase over the past years.

Main FDI public announcements 2014-15

Shanghai Electric Power
A €320 million investment deal was concluded through which the Chinese energy company Shanghai Electric Power took over a 33% stake in the Maltese national energy provider (Enemalta) and a 90% stake in an existing power plant (BWSC) that will operationally be converted from heavy fuel oil to gas.

Barts and The London School of Medicine and Dentistry
Queen Mary University of London has signed an agreement with the Government for the setting up of the Barts and the London School of Medicine and Dentistry in Gozo, the first fully fledged Barts campus outside of the UK. The agreement envisages the construction of medical school facilities in Gozo to house 300 international students by year five from start-up. Barts is one of the oldest and most prestigious British medical schools. The campus will benefit from the radical upgrading of the Gozo General Hospital, close research links with ME’s Life Sciences Park and the development of an R&D biomedical cluster in Malta and Gozo.

Private hospital in Smart City (March 2015)
The Government announced that a new 200-bed private hospital will be built at Smart City by a new investment company having Maltese and Italian interest plus Johnsons and Johnsons as strategic partners. The claim is that the investment is to be a multimillion one and will operate mainly in the field of orthopaedics.

Huawei Technologies (July 2015)
On the strength of a memorandum of understanding with the Government of Malta, Huawei Technologies has committed itself to start testing 5G technologies in Malta. The testing forms part of Huawei’s five-year plan, which was started in 2013 to invest US$600 million globally in research on mobile phone networks.
Foreign direct investment continues to be central to Malta’s economic development strategy and, therefore, it continues to be critical to Malta Enterprise’s mission. Over the last year we achieved very significant successes. While we have broadened the geographic and sectorial scope of our field of operations, we have continued to refine our microtargeting methodology (no to blind blanket media campaigns, yes to approaching specific potential direct investors with specific requirements).

Of course, this approach required a radical upgrading of our ability to gather and analyze concrete and specific intelligence (as opposed to the sort of news-making but insufficiently granular data of the sort generated by global rankings – good for the media and politics but not quite what investors need).

We are now proud to have become the best in this field in Malta and certainly among the best in Europe. To underscore our commitment to serious research, later this year we will announce the setting up of Malta Enterprise’s Institute of Foreign Direct Investment Studies (IFDIS), a project that will see us partnering with important international players.

Malta Enterprise leverages Malta’s location advantages in a broad range of engineering-based niches, in the more creative niches of information and communications technology (including synergies between ICT and the life sciences), in higher education and training for regional and European markets, in innovative niches within aviation services, in the creative industries generally and the long-neglected field of international logistics in which we cannot simply be satisfied with having a vibrant marine Freeport.

To this end, Malta Enterprise is leveraging the excellent reputation we have built in the world of shipping; we are, after all, Europe’s largest flag register and one of the world’s fastest growing ones. We are also leveraging Malta’s tradition of medical excellence and its historical reputation as “the nurse of the Mediterranean” to develop it as an international medical and health care hub.

We are now proud to have become the best in this field in Malta and certainly among the best in Europe.
Stability driving confidence

p.30 Malta’s perceived FDI attractiveness on the rise

p.36 Remaining attractive in the face of global competition

p.38 Legislative framework

p.41 Focus on human capital

p.42 A competitive edge in the European and global markets

p.42 Malta’s standing as a regional hub

p.43 This year’s focus: Malta open for business

p.45 Reforms needed for Malta to become an innovation leader in different sectors
Malta’s perceived FDI attractiveness on the rise

Eighty-four percent of investors surveyed this year believe that Malta is an attractive destination for FDI, a 5% increase on the 2014 findings. Correspondingly, there was a decrease in “don’t know” and a slight decrease in the “no” responses. In the context of the continued instability in the Mediterranean region, this growing certainty is encouraging.

Investor confidence broken down by sector is also suggestive. Respondents from the financial service sectors tend to be more optimistic about Malta’s current attractiveness, with 92% of banking and all insurance respondents rating the country as attractive for FDI.

On the other hand, only two thirds of manufacturing respondents believe that Malta is currently attractive for FDI, the lowest rating among different sectors. This has been a recurrent trend in recent years.
“Fifty-six percent of respondents think that Malta will be attractive for FDI in 3 years’ time, a 4% increase on 2014.”

Data on prospective attractiveness is as significant as information on current attractiveness. Fifty-six percent of respondents think that Malta will be attractive for FDI in three years' time, a 4% increase on 2014. The number of negative respondents is fairly minimal, with just 3% believing that Malta will not be attractive in three years' time. Predictably, the highest number of outright no's came from the manufacturing industry. Of some concern is the fact that 41% of the decision-makers surveyed did not answer this question. Significantly, 61% of ICT, telecommunications and iGaming respondents, the largest sectoral cohort, did not respond.

These figures might be reflecting current trends in the Maltese economy. In particular, although both financial services and iGaming continue to perform strongly, there are increasing concerns that the advantages offered by Malta in certain sectors are being eroded. This could be due to a number of factors including increased competition from other European and non-European jurisdictions, local market supply limitations (for instance, a steady pipeline of the right human resources) and an increasing cost base and regulatory structure.

Nevertheless, respondents are generally upbeat about Malta’s stable political, economic and regulatory institutions, its social climate and corporate taxation regime. The reasons that have traditionally attracted investment to Malta, including these as well as others such as ease of access to key decision-makers, English being a national language and cost competitiveness in various areas, continue to remain pluses for existing investors.
Our economy was capable of sustaining the upturns and downturns that were experienced globally over the last few years. Testimony to this is Malta’s success in maintaining a high level of employment and economic growth, both of which are the envy of other European countries.

The banking sector in Malta is a main contributor to this success, supporting the country’s main economic sectors through the responsible granting of credit.

The Maltese banking sector’s conservative approach in the undertaking of business turned out to be one of the crucial factors enabling the country to emerge practically unscathed from the financial turmoil that severely tried most European countries.

The current international economic scenario places even more pressure on key players to meet, or rather anticipate, market expectations. Bank of Valletta’s corporate governance and its prudent approach to the bank’s balance sheet have always been strategic priorities. This has proved fruitful, as we reported a common equity Tier 1 ratio, calculated on a CRD IV basis, at 11.8% and its total capital ratio at 14.3%, and loan-to-deposit ratio of 52%.

For Bank of Valletta, the customer remains the fulcrum of operations, harnessing technology and expertise, while branching out into new areas such as investments, wealth management, trade finance and self-service banking. Positioning itself as the bank of choice for SMEs, the BOV JEREMIE financing package was the first initiative enabling SMEs to benefit from EU-funded guarantees. To date, it remains a best practice example of how to implement an EU-funded financial instrument.

Charles Borg
CEO, Bank of Valletta plc

The Maltese banking sector’s conservative approach in the undertaking of business turned out to be one of the crucial factors enabling the country to emerge practically unscathed from the financial turmoil that severely tried most European countries.

Conscious of our responsibility to support the Maltese economy, we shall continue to embrace corporate governance and innovation as the two main pillars of the management of our business. Building on such solid foundations, we shall remain leaders in supporting the sustained and sustainable growth of the Maltese economy. We urge all key local stakeholders to do likewise.
This positive outlook is reflected in the attractiveness scoreboard. Modeled on the one used for EY’s European attractiveness survey, this scoreboard gauges confidence across a number of key investment parameters among investors wishing to expand, develop or retain their investment in any jurisdiction.

### Attractiveness scoreboard – Malta’s FDI attractiveness

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Very attractive and attractive</th>
<th>Neither attractive nor not attractive</th>
<th>Not attractive and not attractive at all</th>
<th>Not relevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stability of social climate</td>
<td>90%</td>
<td>7%</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>Stability and transparency of political, legal and regulatory environment</td>
<td>85%</td>
<td>10%</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>Corporate taxation</td>
<td>75%</td>
<td>14%</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>Potential productivity increase for your company</td>
<td>66%</td>
<td>27%</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>Local labor skills level</td>
<td>66%</td>
<td>20%</td>
<td>13%</td>
<td>1%</td>
</tr>
<tr>
<td>Telecommunications infrastructure</td>
<td>65%</td>
<td>20%</td>
<td>11%</td>
<td>4%</td>
</tr>
<tr>
<td>Labor costs</td>
<td>58%</td>
<td>32%</td>
<td>9%</td>
<td>1%</td>
</tr>
<tr>
<td>Flexibility of labor legislation</td>
<td>44%</td>
<td>36%</td>
<td>19%</td>
<td>1%</td>
</tr>
<tr>
<td>Level of protection for intellectual property rights</td>
<td>39%</td>
<td>35%</td>
<td>11%</td>
<td>15%</td>
</tr>
<tr>
<td>R&amp;D and innovation environment</td>
<td>28%</td>
<td>36%</td>
<td>21%</td>
<td>15%</td>
</tr>
<tr>
<td>Transport and logistics infrastructure</td>
<td>27%</td>
<td>29%</td>
<td>32%</td>
<td>12%</td>
</tr>
<tr>
<td>Domestic or regional market</td>
<td>26%</td>
<td>32%</td>
<td>21%</td>
<td>21%</td>
</tr>
</tbody>
</table>

- Very attractive and attractive
- Neither attractive nor not attractive
- Not attractive and not attractive at all
- Not relevant

Source: all MAS 2015 respondents.
There continues to be a good fit between what foreign investors see as attractive to them and what they see as the features that make the country attractive for investment.

Geopolitical events across the globe have raised investors’ concerns. It is therefore encouraging to see that Malta consistently garners high scores on the stability stakes, year after year. The stability of social climate is once again the FDI parameter that most respondents find attractive in Malta, rising 5% from 2014 to 90%. The stability and transparency of the political, legal and regulatory environment moved up to second place, with 8% more respondents deeming this factor to be attractive (85%) than last year (77%). It is worthwhile to note that 75% consider taxation to be an attractive parameter, down by 9% from 2014.

On the other hand, 32% of respondents believe that Malta’s transport and logistics infrastructure is not attractive. In the same vein, 21% believe that the domestic market and the R&D and innovation environment are not attractive FDI parameters. It is important to point out that a number of respondents feel that these parameters were not relevant to them (at 12%, 20% and 15% respectively). This could infer that other FDI parameters have brought and kept them here. The scoreboard closely mirrors the results obtained in 2014.
“Efforts to maintain a fair, firm and friendly regulatory regime will complement the drive to maintain and improve Malta’s FDI attractiveness.”

Respondents were also asked to rate the attractiveness parameters in order of importance to their own company. Stability and transparency of the political, legal and regulatory environment ranked at the top, with corporate taxation coming in second. This matches two of the parameters that respondents find attractive in Malta from an FDI perspective. Hence there continues to be a good fit between what foreign investors see as attractive to them and what they see as the features that make the country attractive for investment. This is an important and positive result for Maltese policy-makers.

On the other hand, the stability of the social climate – the parameter that most respondents deemed to be attractive – was one of the least important factors they considered in rating Malta’s FDI investment offer. In the EAS, stability and transparency of the political, legal and regulatory environment (46%) and the country’s or region’s domestic market (37%) are what most investors want.

In their qualitative responses, respondents indicated that efforts to maintain a fair, firm and friendly regulatory regime will complement the drive to maintain and improve Malta’s FDI attractiveness.

<table>
<thead>
<tr>
<th>FDI parameter importance to company in investment decision</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Stability and transparency of political, legal and regulatory environment</td>
<td>31%</td>
</tr>
<tr>
<td>Corporate taxation</td>
<td>20%</td>
</tr>
<tr>
<td>Local labor skills level</td>
<td>6%</td>
</tr>
<tr>
<td>Labor costs</td>
<td>8%</td>
</tr>
<tr>
<td>Potential productivity increase for your company</td>
<td>11%</td>
</tr>
<tr>
<td>Telecommunications infrastructure</td>
<td>8%</td>
</tr>
<tr>
<td>Transport and logistics infrastructure</td>
<td>4%</td>
</tr>
<tr>
<td>Stability of social climate</td>
<td>2%</td>
</tr>
<tr>
<td>Domestic or regional market</td>
<td>7%</td>
</tr>
<tr>
<td>R&amp;D and innovation environment</td>
<td>3%</td>
</tr>
<tr>
<td>Flexibility of labor legislation</td>
<td>2%</td>
</tr>
<tr>
<td>Level of protection of intellectual property rights</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: all MAS 2015 respondents.
“For a country with a small and open economy it is important to focus on the areas that will sustain and boost attractiveness in this evolving global scenario.”

Remaining attractive in the face of global competition

Increasing global competition has been a reality for a number of years now. For a country with a small and open economy it is important to focus on the areas that will sustain and boost attractiveness in this evolving global scenario.

In this light, it is pertinent to note that 64% and 52% of respondents respectively say that the development of education and skills, and increasing incentives for FDI investors, are seen as such focus areas. Investing in major infrastructure and supporting high-tech industries and innovation are also considered highly. These came jointly third with 49% of respondents including them on their priority list.

Focus areas to remain globally competitive

- Develop education and skills: 64%
- Increase incentives for FDI investors: 52%
- Invest in major infrastructure and urban projects: 49%
- Support high-tech industries and innovation: 49%
- Support small and medium-sized enterprises: 47%
- Improve the quality of products and the value-added of services: 39%
- Reduce taxation: 36%
- Facilitate access to credit: 26%

Source: all MAS 2015 respondents.
Note: respondents could choose more than one area, total number of mentions: 431.
“The need for more support to SMEs was selected by more respondents in 2014 than in 2015.”

The 2015 survey reveals an increasing need for Malta to improve the quality of its products and the value-added of its services. Just under 40% included it in their list of areas that Malta needs to concentrate on to remain globally competitive. This is a significant spike from the 27% registered in 2014.

In this context, it is pertinent to note that the need for more support to SMEs was selected by more respondents in 2014 (54%) than in 2015 (47%).

Focus areas to maintain global competitiveness – 2014 and 2015 replies

- Develop education and skills: 64% (2014) vs 63% (2015)
- Increase incentives for FDI investors: 52% (2014) vs 50% (2015)
- Invest in major infrastructure and urban projects: 49% (2014) vs 41% (2015)
- Support high-tech industries and innovation: 49% (2014) vs 50% (2015)
- Support small and medium-sized enterprises: 47% (2014) vs 54% (2015)
- Improve the quality of value-added status of products and services: 39% (2014) vs 27% (2015)
- Reduce taxation: 36% (2014) vs 31% (2015)
- Facilitate access to credit: 26% (2014) vs 29% (2015)
- Encourage environmental policies and attitudes: 23% (2014) vs 21% (2015)
- Reduce labor costs: 16% (2014) vs 20% (2015)
- Increase level of protection of intellectual property rights: 10% (2014) vs 9% (2015)
- Support struggling industries: 9% (2014) vs 5% (2015)
- Relax competition rules: 2% (2014) vs 6% (2015)

Source: all MAS 2014 and 2015 respondents.
Note: respondents could choose more than one area.
Legislative framework

Malta’s legislative framework is held in high regard. Seventy-one percent of respondents believe that this framework encourages key players to set up shop in Malta. Although this is down by 7% from 2014, this shift is accounted for primarily by a decrease in the “don’t know” camp. The number of those who responded “no” actually decreased marginally.

Policy-makers would do well to analyze the relative increase in the level of uncertainty and be able to adopt countermeasures. Overall, the insurance and banking sectors remain the most upbeat about the legislative framework as a whole.

Most respondents think that both the local and European legislative frameworks make Malta attractive. However, some clear sectoral differences are apparent. Whereas 44% of ICT, telecoms and iGaming respondents believe that it is a result of the local legislative framework, 60% of insurance and 67% of banking respondents believe it is a combination of both legislative frameworks.
The results of this year’s EY Malta attractiveness survey make encouraging reading. The outlook is certainly positive, especially in the insurance, logistics and iGaming sectors. Malta remains an attractive location for inward investment and GO is committed to sustain its efforts to ensure that this remains the case.

The growth sectors in Malta’s economy, including those just referred to, depend on communications. This includes the ability to transfer and manage large volumes of data rapidly and securely. A robust and reliable communications infrastructure is, in fact, as important a consideration for businesses as the many other benefits Malta offers. On this front, GO is the only provider able to offer the range and quality of services across fixed and mobile telephony, internet and data management that a modern business expects.

Malta remains an attractive location for inward investment.

GO’s unique position has come about firstly thanks to a strategic investment program of €100 million that has delivered an advanced fixed line, mobile and internet infrastructure. Secondly, GO has invested heavily in its back-end operations and human resources, becoming more efficient and customer-focused. Thirdly, through BMIT, businesses operating in Malta can make use of international, award winning, secure and scalable cloud-based data services.

The level of investment is by no means slowing down. A further €50 million has been committed to bringing true fiber connections directly to customers’ homes and offices. GO is also rolling out a nationwide fiber-connected 4G mobile network, further enhancing our seamless, high-quality and high-speed service. GO is, in fact, future-proofing Malta’s communications infrastructure until the time arrives when even personal gigabit internet connections, driven by the internet of things, become a reality.

GO’s investments and our ability to offer state of the art services, including true fiber connections, will continue to be an important factor in attracting inward investment.
Some time ago we received confirmation that our capital plan for fiscal year 2016 amounting to US$1.9m had been approved in its entirety. Year after year, without fail, Cardinal Health’s shareholders have invested an average of US$1m annually in local operations. What triggers this sustained optimism in the local business scenario?

Many exponents of this subject normally cite various reasons for Malta’s attractiveness to FDI, the most salient being macroeconomic factors and social stability, the telecommunications and transport infrastructure, legal and tax frameworks and local labor skills. However, there is also an array of latent factors that attract and retain FDI in Malta that are often not given their due importance, if not completely disregarded.

On many occasions, we have been commended by our corporate colleagues that — when a project is in the pipeline — our dynamic workforce always adopts a “we can do it” approach.” While other internal and external competing companies request more resources to implement a project, our local facility attacks the status quo and streamlines procedures in order to be able to embark on projects with minimal additional resources. This is only made possible by the flexibility of our workforce.

Our deep commitment to a lean approach, coupled with dynamism and the urge to learn of our local workforce, has made us more attractive than other foreign competitors.

We have also embraced a total quality management concept that has made the Malta facility synonymous with a high-quality manufacturing process and product. This has given us the competitive edge over companies operating in much larger countries, such as China.

The openness, can-do attitude and rapid adaptability of the local workforce to different cultures has instilled in our foreign colleagues the desire to continue doing business here.

The reduction in government-induced costs such as utility tariffs and the various capital incentives to industry administered by the local government and by national agencies such as Malta Enterprise serve two purposes. Apart from giving financial assistance to companies, they also serve to convey a message of renewed commitment by government to foreign investment in Malta.

It is absolutely imperative that these crucial attributes of the local business scenario are marketed in the right way, both to potential and existing foreign investors.

The openness, can-do attitude and rapid adaptability of the local workforce to different cultures has instilled in our foreign colleagues the desire to continue doing business here.
Focus on human capital

The cost of labor remains an important FDI parameter for Malta, ranking 4th in the list of parameters that respondent companies take into account when deciding on an investment location. Fifty-eight percent of existing investors indicate that Malta is attractive in this area. However, there seems to be an increase in relative importance given by existing investors to other parameters besides costs. Significantly, they now rate the availability of skills to be more important than the cost of labor. Potentially, this mirrors Malta’s recent shifting economic and industrial focus.

The long-term indirect impact of FDI on the rest of the economy is dramatically illustrated by the skill sets it injected in the local market. Eighty-four percent of respondents say that FDI helped to either acquire new skills, or to develop existing ones, with only 6% saying it had not.

Over the years, many FDI companies have been forging closer ties with educational providers and training institutes to build human resources pipelines in possession of the right skills. This has resulted in the introduction of courses aimed at both present and future requirements. Companies are also investing in knowledge transfer through experience, training or both. It is encouraging that 82% of the companies surveyed are willing to invest in training to develop skills, either by offering internships and vocational training or financial help and sponsorship.

Despite progress, demand for skilled labor is outstripping supply. Malta has the second-lowest unemployment in the EU, standing at 5.4% in June 2015.¹ Less than half (47%) of the companies surveyed report that they are able to find the required specialized skills locally, down from 57% in 2014.

Moreover, 52% of the companies facing skills shortages say that their expansion plans are dependent or linked to filling these gaps.

Asked to cite the educational levels they require, 56% say university. Significantly, only 19% mention secondary or higher secondary levels of education.

Companies may increasingly be able to plug these labor shortages in the short term with workers from other EU countries. However, in view of high relocation costs and higher churn rates as employees return to their country of origin, alternative and more long-term solutions must be found. Frameworks that assist these companies to hire, train and retain workers are likely to be welcomed by industry. Many respondents highlight the need for Malta to increase its branding and marketing efforts to increase FDI. It is highly likely that such efforts would also assist in drawing new talent to the island.

It is encouraging to note that 85% of the surveyed companies are managing to retain their specialized personnel. This is similar with the 2014 survey results (87%). ICT, iGaming and telecommunications were the sectors with the lowest skilled worker retention rates (72%). In comparison, all insurance respondents indicated being able to retain their specialized personnel with manufacturing respondents (93%) reporting the second highest retention levels.

Various respondents placed an emphasis on the need for experience, especially in the ICT and banking sectors. A number of companies also claimed to be unable to compete with certain companies, vis-à-vis wages, especially in the iGaming sector.

¹ Eurostat 2015.
“The Maltese legislative framework is seen to create a strong competitive advantage in both the European and global markets.”

A competitive edge in the European and global markets

It is reassuring to note that the Maltese legislative framework is seen to create a strong competitive advantage in both the European and global markets, with this proportion increasing by a full 8% to 59% in this survey from 2014. However, it must be noted that the “no” replies also increased by 3% (to 32%).

Malta’s standing as a regional hub

The survey also sought to gather information on whether Malta’s efforts to become a regional trading and business hub in the Mediterranean for both European and non-European shores, is being affected by geopolitical developments around the whole region.

The results are mixed. Whereas 28% of respondents believe that Malta as a regional hub in their sectors is gaining ground, nearly 17% believe that it is losing ground and just under 40% believe that it is staying the same.

Once again, strong sectoral differences feature prominently. Ninety percent of iGaming respondents believe that Malta’s legislative framework does so. However, this figure declines to 43% of manufacturing respondents, with 50% of investors from this sector outlining that it does not create any sort of competitive advantage. An analysis of responses by size of company and by number of employees reveals a general trend: the smaller the company, the higher the percentage believing that the Maltese legislative framework offers them a European and global competitive advantage. Hence, whereas up to 81% of companies employing less than 10 believe so, this figure plummets down to 43% for companies employing more than one hundred. Indirectly, this might be a result of smaller companies’ increased reliance on the local legislative framework (support frameworks) when compared with their larger counterparts, which can rely on other sources of support and assistance or technical expertise (including internal ones). The latter might also take such a legislative framework for granted compared with the smaller companies that will need these to look at expanding their markets abroad.
“Central government and regulatory authorities are widely perceived to be open for business.”

This year’s focus: Malta open for business

Investors often seek out investment destinations that adopt an “open for business” approach. Respondents were asked to rate the openness to business of a number of entities – different levels of government, regulatory authorities, the civil service, the general public and the courts.

Most investors think that the national government (65%) and the regulatory authorities (61%) are open for business. Besides giving a strong global competitive advantage, the country’s legislative framework is also considered to be open for business by the majority of respondents (53%). On the other hand, investors sent a clear message that the civil service and the law courts need to adopt a more business-friendly approach, with under 15% considering them to be open for business. These ratings require follow up actions by policy makers.

Entities’ openness for business

Source: all MAS 2015 respondents.
Few people beyond Malta’s shore realize that it has one of the busiest ports in the Mediterranean. With expansion plans in the pipeline, it could be the third-biggest port. More importantly, Malta is only six miles offshore from the world’s busiest trade routes, connecting China and the Middle East to Europe and North Africa through the Suez Canal. Clearly, this fortunate geographical fate has fueled the country’s economy for centuries.

The same fate is key to our own strategy in Malta. It is important for us to continue to understand how best to leverage it, how we can strengthen, build and sponsor warehousing and distribution from Malta and how we connect the port more closely with the airport to drive more trade traffic. In this sense, EY’s excellent Malta attractiveness survey is one of our main benchmarks for helping us to reach these targets.

Our €75 million Malta Trade for Growth Fund plays an important part in realizing this strategy by connecting customers with international opportunities, to assist the local economy to flourish.

Just as connectivity is an important aspect of trade and logistics, so is having a bank that connects customers to important market nodes around the world. HSBC is in a unique position to do so, to provide local insight through people on the ground, and offer the financial support for businesses to expand globally.

Furthermore, we have unveiled business tools such as the ‘Why Malta?’ film in five international languages as well as a comprehensive Doing Business in Malta guide.

As the first Logistics Managers and Practitioners Forum in June 2015 helped us realize, there are great opportunities for Malta to become a regional hub for transport and logistics. The key is to upgrade human resources and training, along with other elements such as investment in equipment and technology and adherence to high standards.

Looking at the latest HSBC Global Research forecast, world merchandise trade should increase by circa 8% a year from 2017.

It is in Malta’s interest to be ready for this sea of opportunities and if the prevailing sense of optimism among businesses is anything to go by, they are likely to bring a new wave of trade and logistics opportunities for Malta.

The key is to upgrade human resources and training, along with other elements such as investment in equipment and technology and adherence to high standards.
Reforms needed for Malta to become an innovation leader in different sectors

Looking forward, a reduction in bureaucracy (18% of total mentions, 67% of all respondents), improvement in education and training in new technologies (13% of total mentions, 49% of all respondents) and the development of a culture of innovation and creativity (13% of total mentions, 47% of all respondents) are the reforms respondents believe Malta should implement to make it a market leader in innovation in their respective sector. These are practically the same figures as those of 2014.

Reforms needed to become sectoral innovation leaders

<table>
<thead>
<tr>
<th>Reform</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce bureaucracy</td>
<td>67%</td>
</tr>
<tr>
<td>Improve education and training in new technologies</td>
<td>49%</td>
</tr>
<tr>
<td>Develop a culture of innovation and creativity</td>
<td>47%</td>
</tr>
<tr>
<td>Increase tax incentives for innovative companies</td>
<td>45%</td>
</tr>
<tr>
<td>Reduce taxes</td>
<td>28%</td>
</tr>
<tr>
<td>Develop venture capital and other financial tools</td>
<td>22%</td>
</tr>
<tr>
<td>Develop joint research programs at European level</td>
<td>21%</td>
</tr>
<tr>
<td>Support micro, small and medium enterprises</td>
<td>20%</td>
</tr>
<tr>
<td>Develop entrepreneurship</td>
<td>17%</td>
</tr>
<tr>
<td>Focus investment on sector-based hub and cluster concepts</td>
<td>15%</td>
</tr>
<tr>
<td>Reform labor laws</td>
<td>15%</td>
</tr>
<tr>
<td>Develop incubator and accelerator programs</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: all MAS 2015 respondents.
Note: respondents were provided a list of reforms to choose from.
Future

In it for the long run

p.48 Future expansion plans

p.49 Key sectors to drive Malta’s growth – iGaming leads the way

p.50 The next generation in gaming regulation
In it for the long run

Clearly, by retaining and, more so, by expanding its presence in a country, a firm is expressing a vote of confidence and an increased commitment to it.

The number of companies indicating some form of plans to expand operations in Malta remains stable in this year’s survey (55%).

Analyzing the data by company size, it transpires that the proportion of the smallest companies (less than 10 employees) having some expansion plans stands at 61%. This figure amounts to 50% for companies employing 50 and more.

Moreover, companies with smaller operations in Malta tend to prefer back-office expansion (39%) compared with those employing over 50 persons (25%).


Presence in Malta in 10 years’ time

One of the most positive indicators of the 2015 survey is the increase in the number of firms predicting to still be present in Malta in 10 year’s time. This figure has increased from 59% in 2014 to 71% in 2015.

“iGaming, fund administration and asset management are considered to be the key sectors to drive Malta's growth in the next five years.”

**Key sectors to drive Malta's growth — iGaming leads the way**

iGaming (60% of respondents), fund administration (43%) and asset management (41%) are considered to be the key sectors to drive Malta's growth in the next five years. These figures show little change over 2014.

There was a slight increase in those selecting the iGaming sector compared with 2014, a decline in those including digital media and games in their list, with a counterpart increase in responses for the construction industry.

A significant increase was also registered in the logistics sector (from 10% to 16%). Potentially, this could be a reflection of public policy, which has indirectly contributed to the promotion of these two sectors.

When asked which business functions will draw the most investment in the next five years, back-office operations (63%) and headquarters (40%) remain the most cited functions. Logistics centers are the business functions that have seen the largest increase over the previous year, with 30% (up 12%) now including it in their list of areas.

**Business functions drawing most investment in next five years**

<table>
<thead>
<tr>
<th>Function</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Back office</td>
<td>63%</td>
</tr>
<tr>
<td>Headquarters</td>
<td>40%</td>
</tr>
<tr>
<td>Research and development</td>
<td>33%</td>
</tr>
<tr>
<td>Logistics center</td>
<td>30%</td>
</tr>
<tr>
<td>Sales and marketing office</td>
<td>19%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: all MAS 2015 respondents.

Note: respondents could choose more than 1 sector. Total number of mentions 563.
The global gaming sector, and the remote gaming sector in particular, is as dynamic as they come. Product innovation, cost-effectiveness and market access are the names of the game, as it were.

Gaming is highly regulated in most jurisdictions. Specific regulation of remote gaming is evolving over time and Malta has been at the forefront of its development with the promulgation of the Remote Gaming Regulations in 2004. Malta is often grouped with the so-called “offshore jurisdictions” owing to the isolated, limited domestic market features that are more cost-effective homes to gaming operators faced with increased regulatory burdens. These burdens result from the state-by-state, silo approach to regulation which, if they continue to go forth unchecked, threaten the sustainability of regulated markets.

Malta’s primary jurisdiction status in the global gaming landscape is rooted in many key features which, taken together, make it a gaming operator’s natural home. Offshoring is not one of these features. Rather, it was, and remains, the jurisdiction of choice in Europe to shore up the otherwise unregulated gaming offers. It is the jurisdiction of primary establishment for many first-tier operators holding licenses from Malta and a multitude of other jurisdictions. The remote gaming industry today, more than ever, understands that it needs to be ashore of a well-regulated jurisdiction to mitigate its inherent and adjacent risks and flourish commercially without incurring avoidable regulatory and other costs, hence releasing valuable energy and impetus for innovation.

Malta’s attractiveness and enviable competitive position in the evolving gaming world are attributed to many factors that make its full spectrum ecosystem of support services and infrastructure unique.

Furthermore, its regulatory structure is moving to its next generation – a regulatory framework that is conceptually designed to harbor an industry that is keen to grow within logical, well-thought-out, evidence and risk-based parameters. This is not to say that risks have remained static over the years. Indeed, as technology and markets converge, exposure to certain risks shifts and even becomes more complex. Gaming regulation needs to be technology and game neutral, but not risk neutral. While the objectives of regulation remain the same, that is to protect consumers and guarantee integrity, their attainment, and therefore the success of regulation, cannot be measured by the degree of compliance of the operator base but by the performance of the measures employed. Regulatory and monitoring tools must be sharpened, modified, even totally replaced to ensure timely effectiveness in the business model and jurisdictional context in which they are applied.

The allegations made by the Italian authorities, that led to the arrest in Malta of six persons involved in three gaming companies in July of this year, strengthened our conviction that regulatory mechanisms and tools have a very short shelf life. Compliance is simply not sufficient. Measures and evidence of effectiveness are as important. The next generation of gaming regulation Malta is giving life to will be taking these factors, and many others, into account. The proposal for the new Gaming Act expected to be launched by the end of November is a widely scoped framework that will empower the responsible minister and the authority to implement tailored measures under one consolidated regime.

My vision and the brief I have given is a clear one: future-proofing our laws and opening up to innovation with smart and technology neutral regulation.
Maintaining attractiveness

p.54 Staying in the race and winning

p.55 Focusing on learning

p.56 Manufacturing is not dead

p.57 Exploiting our geographic location

p.58 Defying geography digitally

p.59 Plugging the infrastructure gap – physically and digitally

p.60 Open for business – really
Staying in the race and winning

Competition to attract FDI is fierce, as countries around the globe try to outdo each other with new and innovative measures to attract more. At a deeper level, profound economic changes highlight the need for renewed positioning strategies. Consequently, Malta needs to continue to hone its strategy to target sectors with high future potential, clearly differentiating itself as a front-running FDI destination with a clear roadmap rather than a scattergun approach. This approach has already delivered the goods. Today, Malta’s iGaming, asset management and insurance sector offers are recognized as leaders in the international market. Malta can replicate these results in new sectors, thereby attracting a major brand or company to anchor and drive the sector forward.

Government

EY’s Location Advisory Teams provide assistance to governments across the world to develop new market sectors. Our assistance includes cutting-edge analysis of the locations market, competitive benchmarking, scenario development, identification of target sectors and assistance with strategy development and implementation. Our Policy professionals provide independent and deep insights into the consequences of regulatory and funding initiatives. We also act as investment delivery partners, assisting government to bring in new investors by opening up new markets through our unparalleled global reach. Our attractiveness surveys are widely viewed as a benchmark source of information and analysis on FDI.

Private sector

Our multidisciplinary teams help companies cover every angle of setting up in Malta. We have an unparalleled track record in strategic planning and financial modeling for complex investments. EY Malta’s professionals are also plugged into a vast international network of relationships with government bodies, local suppliers and service providers.
2 Focusing on learning

The increasingly sophisticated requirements of existing and potential investors inevitably call for an evermore specialized workforce. As this study shows, sectors projecting future growth can reach their destination only if pools of skills are available to take them there. How can Malta do this? Firstly, the country needs to continue to invest and support educational and training programs to satisfy current and future market demands. In doing so, it should encourage closer cooperation between educational providers and industry to ensure that the right skill sets are nurtured as well as to promote internships and apprenticeships. With many companies’ expansion plans linked to the current availability of specialized labor and unemployment at record lows, Malta should also focus on facilitating the inflow of international talent from the EU and other countries. In doing so, local workers will benefit from knowledge transfer, creating a ripple effect across the economy.

Government

EY’s professionals can provide deep market studies to outline current and future skill needs. We also assist governments in designing effective cofinancing frameworks for companies to invest in skills training. Our Policy professionals support schemes to increase female and aging workforce participation. We can provide support in attracting new private educational providers to the country utilizing our strong global networks.

Private sector

Our Advisory professionals support companies to identify the right incentive frameworks to support their training needs. They have extensive experience on a range of local and European cofinancing programs and can support the process life cycle from preparation, submission and management of appropriate schemes.
Manufacturing has been the backbone of Malta’s economy for decades, gradually evolving from low to higher value-added industries. Recent developments suggest a global trend toward reshoring into Europe, driven by concerns around IP protection due to weak regulation and enforcement, rising labor and shipping costs, risk of supply chain disruption due to geopolitical tensions, speed of delivery and ease of doing business.

This new trend provides Malta with a golden opportunity to improve the sector’s attractiveness from an FDI perspective. Manufacturing brings high-skill, high-quality jobs. It creates novel opportunities in supply chains, drives innovation and creates positive cluster effects, particularly around research and development and the skills base.

In order for this opportunity to be taken, government must put in place the proper framework for the advantages of moving production to Malta to be realized. Some specific measures include the widening of R&D and IP incentives, support for apprenticeships, access to finance schemes and incentives to support capital expenditure. It is also imperative to keep constantly in touch with existing and prospective investors and develop niche services to meet investors’ needs as these evolve.

**Government**

EY’s highly experienced Tax Policy experts can help government to navigate through the complexities of investment incentives and implement policy initiatives. Our Attractiveness Team does market studies and benchmarking analyses of the potential attractiveness of proposed incentives. Our Business Modeling and Economic Advisory Teams provide decision-making support through the development of models that generate dynamic projections of the impact of proposed incentives.

**Private sector**

EY’s Business Modeling Teams use macroeconomic techniques to identify where the lucrative reshoring opportunities exist. Our Strategy Team advises on the costs and benefits of each of these using their deep industry knowledge, functional expertise and financial modeling ability. Our Incentive Advisory Team assists companies to review and tap all forms of aid and incentive schemes. In turn, the attractiveness team supports the whole relocation process, including licensing and setup. We also provide international Tax Advisory services to determine how a reshoring decision might affect business today and how regulatory change might do so tomorrow.
For centuries, Malta’s strategic location in the center of the Mediterranean has driven various sectors of the economy. Today, as an independent state and an EU member, more foresight, planning and investment are required to take full advantage of existing and future opportunities.

Embarking on an upgrade of the key logistics infrastructure, as well as the development of new transportation corridors, can act as the major catalysts to shift up economic activity to a new gear. This investment must be coupled with business-friendly measures such as cargo preclearance and flexible bonded warehouse regulations to reduce transit times. Doing so would enhance the country’s position as an ideal trading and distribution hub for Asian companies looking to service the EuroMed region — an opportunity that remains largely untapped.

Malta also offers an oasis of stability in a region plagued with geopolitical troubles. The country should continue to enact innovative legislation that addresses the practical needs and objectives of businesses and workforces in these geopolitical hotspots, offering a safe haven for headquarters, expensive capital equipment and promising start-ups.

Government

EY’s Lead Advisory Teams can expertly drive economic feasibility assessments for logistics infrastructure, including delivery model analysis, CBA and private-public comparator models. Such analyses give policy-makers a clear picture of the net economic benefits of proposed projects. EY also offers a range of services that help bring external stakeholders on board, from assistance to develop strategic business cases to capital project management to ensure accountability and transparency among investors and citizens. Our Location Advisory and Policy Teams can also assist with the formulation of innovative policy measures.

Private sector

EY’s Tax professionals can assist in managing compliance and risks associated with the import and export of goods and respective excise and duty costs, drive improvements to supply chain cash flow, increase the velocity of goods moving through the supply chain and minimize international tax exposure. Our Human Capital Teams provides solutions across the global mobility spectrum, to help clients understand how best to manage and utilize international assignees. We focus on the delivery of tangible solutions that best fit our clients’ strategic needs, optimize cost efficiencies and minimize the risks associated with international assignees.
Defying geography digitally

Malta’s attractiveness is undoubtedly hampered by the size of its local market and its natural isolation as an island state. The borderless world of the digital economy presents investors with boundless opportunities to tap into and counteract these geographic realities. In today’s world, companies across the globe can be serviced remotely by organizations and digital nomads based in other locations. And Malta could provide the perfect base. Malta offers a beautiful Mediterranean location and excellent climate, a rich cultural history dating back thousands of years, a low cost base, a skilled English-speaking workforce and an efficient technology infrastructure.

As digital technologies transform Europe’s economy and society, demand for talent will increase further. Malta needs to strive hard to create a burgeoning digital cluster that attracts talent from all over the world. The country needs to be attractive to start-ups and companies of the future through frameworks that support innovation and investment. It also needs to work hard to promote the “product” it offers in all corners across the globe through effective marketing strategies. Continued investment in e-government services, improving education and training in new technologies and increasing access to finance are central to achieving this aim.

Government

EY is a leading consultancy for digital government. From creating public digital strategy to implementation, we put our rich expertise at the disposal of strategy development, target group identification and expectation gathering, blueprint creation, process re-engineering, information technology development and audit and implementation. Our Digital Teams can provide government with social media listening services, delivering critical insights that can be acted upon to make Malta more attractive for FDI. EY also provides support in developing attractive entrepreneurial ecosystems to help drive investment.

Private sector

EY is the market leader in advising high-growth companies. Our teams provide a broad range of services to entrepreneurs including feasibility studies and market research; product development costing; business plan support; valuation and business modeling; tax, legal and ownership structuring; assistance with capital raising, mergers and acquisitions and much more. We’ve also developed the EY 7 Drivers of Growth to help companies align their capabilities with their growth strategy to accelerate it. Finally, EY’s Entrepreneur of the Year awards help uncover exceptional new entrepreneurs.
Malta’s aging infrastructure across a number of sectors is viewed by some investors as a potential deterrent for FDI. Infrastructure for roads, urban transport, education, waste management and renewables requires potentially significant capital investment, partly as a result of an existing backlog in their development and maintenance. Boosting networks and internet architectures in emerging areas such as machine-to-machine communication (M2M) and the Internet of Things (IoT) will also require sustained investment in digital infrastructure. The extent of the investment needed to upgrade and renew Malta’s infrastructure – together with its use and operations – could stimulate the drive of significant amounts of foreign investment to the island. Combining private and public sector resources into infrastructure projects can also help leverage efficient resource use to enable project execution and delivery. Whether this takes the form of a management contract, public-private partnership (PPP), or a concession will depend on what is appropriate in the context of a project. However, the central element is that both the private and public sectors can come together and work effectively, as experience across the globe shows.

**Government**

EY is regularly named financial advisor of the year by the world’s top think tanks, and places first among international financial advisors by number of completed projects. EY’s Infrastructure Advisory professionals have a strong track record in providing advice across the infrastructure life cycle. This includes option appraisals, risk identification and management, development of financial models, funding options, and assistance in presenting projects to the market. Our global team works together to offer skills, knowledge and access to networks and we bring the required drive, focus, commitment and innovation to help bring about sustainable change.

**Private sector**

We provide support from the earliest stages of analysis and project evaluation, through to procurement, financial close, construction and operations. We assist clients in devising and comparing financial plans and delivery approaches for projects involving public or private financing, project revenues and grants, as well as support plan implementation. Our Infrastructure Advisory professionals also provide structuring assistance for transactions, advising on the appropriate form and balance of debt and equity. Our professionals also assist in clients’ efforts to raise debt and equity directly from providers.
It is clear that policymakers need to work hard to remove obstacles to business efficiency. Measures and reforms to facilitate business, enhance labor market flexibility, cut red tape in state entities, simplify regulations and speed up judicial proceedings are needed to improve Malta’s attractiveness for FDI further and to make it a leader in various sectors. Although these measures have been high on the agenda of successive governments, and Malta has worked hard to drive e-government services, debilitating bottlenecks still exist in a number of key national processes.

A successful way forward requires careful planning to ensure that goals are realistic, achievable and measurable. However, planning alone is not sufficient. Effective stakeholder buy-in is required. Doing so requires effective change management to move stakeholders up the commitment curve, committing them to the success of the program to alter their behavior and embrace new ways of working. Open communication plays a vital role in this respect.

**Government**

EY is helping governments across the world to deliver effective and efficient services, which better serve the public and industry by cutting red tape. Our teams have extensive project and change management expertise and use proven methodologies. We provide tailored solutions, practical insights and industry experience to help our clients achieve improvements in service delivery and operational performance that drive results. Our teams help build accountability and transparency into the process through the design of effective metrics to measure results. We also develop and implement stringent risk-management protocols to protect information-technology infrastructure from a range of threats.

**Private sector**

EY’s Advisory services help execute enterprise-wide performance transformation initiatives. From supply chain and operational efficiency improvements, customer acquisition and retention strategies to finance transformation strategies, we help turn strategy into reality. EY also provides a robust set of services to make your business strategy work in the digital world. Our teams leverage deep industry experience of innovation, analytics, risk and cybersecurity, customer experience, strategy, operations, technology, finance and tax, to drive digital transformation.
A total of over 100 decision-makers from existing FDI investors in Malta answered the dedicated e-questionnaire up to the end of July 2015. The respondents sector and sizes both globally and locally vary. The spread of respondents is very similar to the 2014 and 2013 cohort, and this further facilitates comparison of this year’s results with those of previous years wherever the same questions were asked.

### Surveyed companies by turnover

- 22% More than €35 million
- 17% Between €12 and €35 million
- 23% Between €2 and €12 million
- 18% Between €1 and €2 million
- 22% Less than €1 million

### Percentage of revenue exported

- 21% 76%-100%
- 53% 51%-75%
- 12% 26%-50%
- 5% 11%-25%
- 4% 1%-10%
- 6% 0%

Note: does not add up to 100% due to rounding.

### Full-time employees: global

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<tr>
<td>Between 50 and 100</td>
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<td>Between 10 and 50</td>
<td>20%</td>
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<tr>
<td>Less than 10</td>
<td>14%</td>
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### Full-time employees: Malta

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Malta Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 100</td>
<td>27%</td>
</tr>
<tr>
<td>Between 50 and 100</td>
<td>12%</td>
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<tr>
<td>Between 10 and 50</td>
<td>30%</td>
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<td>Less than 10</td>
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</table>
About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY in Malta

EY Malta forms part of the EMEIA Area, combining 98 country practices into a single operating unit, which now embraces over 80,000 people and over 4,000 partners, working across 12 regions. This structure enables us to move quickly and bring together the best teams to serve our clients wherever they are.

EY has been operating in Malta since the late 1990s. The firm has been growing rapidly and now employs over 200 people locally. We provide assistance to a wide range of clients that range from private individuals and entrepreneurial businesses to major public companies and large multinationals. We help them to anticipate, define and deal with issues that are critical to their success.

Effectively, EY Malta has four services lines – Assurance, Tax, Transaction Advisory Services and Advisory, comprising 19 business units, each with their own head who supports the local partners. These business units encompass:

Assurance
- Asset Management
- Banking
- Industrial and Commercial
- Insurance

Tax
- International Tax Services
- Accounting, Compliance and Reporting
- Business Tax Compliance

Transaction Advisory Services
- Mergers and Acquisitions
- Project Finance and Infrastructure
- Transaction Support Services
- Valuation, Business Modeling and Economic Advisory

Advisory
- Asset Management Advisory
- Banking Advisory
- EU Advisory
- Financial Crime Advisory
- Insurance Advisory
- Internal Audit
- IT Risk and Assurance
- Risk Advisory

We work closely with our clients in a collaborative style, gaining a clear understanding of your organization and striving to identify issues before they become problems. And with our global focus on 14 global industry sectors, backed up by leading practices, our clients benefit from a market-leading response to their specific needs.
EY European attractiveness survey: comeback time

There is a breath of spring in this year’s European attractiveness survey. After much anticipation, investors seem convinced that Europe has at last broken free from recession and is finding a path to sustainable growth. Though accelerating recovery and cheap shale gas triggered a re-rating of the US, Western Europe convinced even more investors that it is now the place to be. And 59% of them believe that Europe’s attractiveness will improve still further during the next five years. To make the best out of Europe’s comeback, both in terms of economic growth and as a leading destination for FDI, and sustain these trends in the upcoming years, policy-makers should continue to remove obstacles to business efficiency.

UK attractiveness survey 2015: another great year – but time to reflect on how the UK can stay ahead of the pack

The UK put in another strong performance in FDI in 2014. The UK economy continues to grow, strengthen and evolve. The survey’s results signal rising global confidence both in the long-term outlook for the UK, and in the country’s positive environment for businesses, innovators and entrepreneurs. EY’s research into the perceptions of the UK among overseas investors produces some equally encouraging results. Companies surveyed ranked the UK fourth in the world and number one in Europe as the most attractive destination for FDI projects over the coming three years.

EY Eurozone Forecast

The EY Eurozone Forecast is a quarterly overview of developments across the Eurozone and the 18 individual Member States. The forecast uses the European Central Bank (ECB) model and governmental statistics to offer insight into the issues that affect the region’s governments and businesses. The forecast tracks developments across the Eurozone in order to help high-level executives make informed business decisions. A quarterly report on each of the 18 countries in focus is also prepared, which includes a report on Malta.

EY Eurozone Forecast: outlook for financial services

The EY Eurozone: outlook for financial services uses this macroeconomic overview to provide a comprehensive forecast for the regions, banks, asset managers and insurers. Both forecasts are produced in cooperation with Oxford Economics, a leading independent forecasting and research institute.

The forecasts track developments across the Eurozone in order to help high-level executives make informed business decisions.
Malta Overview 2015 Gaming

Malta is recognized as a global player in the remote gaming industry. The inception of this industry took place in 2004 when Malta launched its own remote gaming regulations. Since then, large international companies have established themselves in Malta with the result that 10 years later, the gaming industry makes a significant contribution to Malta’s GDP.

Malta’s regulatory framework is globally recognized as being one of the most efficient, fair and transparent with a high level of protection of minors and vulnerable persons, anti-money laundering and game integrity when compared with other regulatory frameworks within and outside the EU. Malta enjoyed the first mover advantage as a result of its remote gaming regulations and today, Malta has some significant strength to offer the industry.

Netherlands attractiveness survey 2015: from confidence to investment

The confidence foreign investors have in the Netherlands is in line with their confidence in Europe. International firms have had a lot of confidence in the Dutch business climate for years, but it has never been as high as this year. For instance, 32% of the senior executives interviewed plan to expand or make new investments in the Netherlands in 2015. Eighty-five percent also expect that the Dutch business climate will (greatly) improve in the next three years, while 73% are confident that the Netherlands will maintain its attractive fiscal climate, which includes the participation exemption, ruling practice as well as the large number of tax treaties.

BaroMed 2015: the next opportunity

EY’s BaroMed attractiveness survey assesses how the Mediterranean region is perceived and identifies future challenges raised by the community of foreign investors. The survey aims to address the growing needs, questions and concerns of clients about an area covering countries around the Mediterranean and in the Gulf region while they expand their manufacturing and services operations.

EY’s attractiveness survey Africa 2015: making choices

In the past year, Africa has experienced stronger headwinds than in recent times. Economic expansion this year is likely to be at its slowest in five years, dragged down by the impact of lower oil prices on the Nigerian and Angolan economies, as well as South Africa’s sluggish growth. The survey reveals that investor sentiment has softened somewhat, and that FDI projects are down for a second consecutive year.

Yet economic growth across the continent remains resilient. Despite the headwinds, growth in sub-Saharan Africa (SSA) will beat the emerging markets average, and be outstripped only by developing Asia. Ethiopia, Kenya, Tanzania, Mozambique, Zambia and Cote d’Ivoire are among 22 economies in SSA that are expected to grow by more than 5% this year.
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