A Mediterranean Success Story: Malta's EU Integration

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Within the space of a few weeks earlier this year, the Mediterranean island nation of Malta further advanced its integration into European Union institutions by adopting the euro currency and joining the Schengen zone.[*] Malta has the distinction of being the first and only EU member state to adopt the euro and join Schengen at the same time. This achievement is even more impressive when you consider the fact that Malta joined the European Union less than four years earlier, in May 2004.

Malta's success in planning for and implementing these changes can serve as a model for other EU member states who have yet to adopt the common currency or accede to the Schengen visa regime. Despite its small size and population, Malta has effectively and rapidly met the requirements for full integration into the eurozone and Schengen area, and in doing so, has stepped confidently onto the European stage and bolstered its relationship with Brussels.

Malta's location at the heart of the Mediterranean has long made it an important port of call along the trade routes that connect Europe, North Africa, and the Middle East. This strategic location has enabled Malta to assume an outsized geopolitical and economic importance that would otherwise not correspond to a country of its small physical size and population.

If you spend any time in Malta, you will soon discover that its people are accustomed to thinking beyond their own borders. History has shown time and again that the Maltese people are gifted at establishing mutually beneficial economic and political relationships with their larger neighbors. It is little wonder, then, that Malta made joining the eurozone a top priority after becoming a member of the European Union.

Since it gained independence in 1964, Malta's economic development strategy has been driven by the need to compensate for the country's lack of natural resources and its small size. The chosen path of diversification into manufacturing and services, particularly tourism and, more recently financial services, has consequently had to depend heavily on inflows of foreign direct investment and on securing access to larger overseas markets. Economic openness and small size also entail exposure to external shocks, a characteristic shared by other small economies.

In recent years, local and international developments diminished the relevance of the Maltese lira currency. The formation of a European currency bloc, which culminated in

[*] *Editor's Note: According to The World Factbook (2008), the Schengen zone, established by the Schengen Convention signed in June 1990 and effective in March 1995, allows for free movement within an area without internal border controls. With Malta's accession, there are now 24 members of the Schengen zone.*

the creation of the euro in 1999, highlighted the unattractiveness of small currencies. At the same time, Malta was not only becoming increasingly engaged in international business activities with the European Union, but its economy also was restructuring away from basic cost-centered activities towards higher value-added ones.

As Malta became an EU member with a view to adopt the euro currency in order to fully benefit from its participation in the Single Market, the Maltese lira became an increasingly redundant feature of the economy. Having witnessed the success of other eurozone economies, Malta determined that it could benefit greatly by adopting the euro.

Malta's economists believed that the adoption of the single currency would provide many benefits, including a reduction in foreign exchange risks, lower transaction costs, greater price transparency, and improved access to European financial markets. In the long term, eurozone membership could enhance the country's reputation as a safe investment location and deliver greater economic efficiency and competitiveness, better employment prospects, and sustained economic growth.

With so much to gain from the adoption of the single currency and adherence to the broader European Monetary Union framework, the government resolved to replace the lira with the euro at the earliest available opportunity. In May 2005—only one year after Malta entered the European Union—the Central Bank of Malta fixed the value of the Maltese lira to the euro.

This participation in the EU's exchange rate mechanism, known as ERM II, fulfilled an essential prerequisite towards the eventual adoption of the euro currency. It also reassured financial markets about Malta's resolve to meet the requisite conditions for eurozone membership.

As the government's economists worked to ensure that Malta would meet technical criteria for monetary union, the National Euro Changeover Committee (NECC) was established to garner public support for the eventual currency swap and ensure that members of the public and businesses alike were prepared for the changeover. The NECC embarked on a mass media campaign to inform the public about the euro currency, and promoted dual display of prices a full year before the changeover was anticipated to take place.

In February 2007, Malta made a formal request to the European Commission and the European Central Bank (ECB) to evaluate Malta's progress toward economic and monetary union. Three months later, the ECB issued a report that applauded many of Malta's efforts to meet eurozone requirements and recommended that Malta adopt the euro as its currency on January 1, 2008.

Following this decision, the National Euro Changeover Committee stepped up its efforts and began a media blitz that encompassed over 20,000 radio spots, around 1,500 newspaper and magazine advertisements, and nearly 5,000 television commercials. As the changeover neared, the NECC opened information offices in every locality in Malta and set up a national hotline to answer questions related to the adoption of the euro. Retailers were supplied new price guns, training, dual panel currency converters and conversion charts, while banks were encouraged to extend their hours in the weeks before and after the changeover.

As a result of years of careful preparation, Malta's "E-day"—the day it adopted the euro as its official currency—went off without a hitch. Statistics from the European Commission indicate that Malta's changeover was the second fastest transition in the history of the euro: within five days, 73 percent of Maltese were making all of their cash payments in euros only. Within two weeks, the figure rose to 90 percent.

These numbers confirm the success of Malta's entry into the eurozone and serve as a testament to the extensive efforts behind the adoption of the single currency. In this regard, Malta's experience can serve as a model for other EU member states planning their own "E-day."

Malta's successful euro changeover is even more remarkable when you consider that the country entered another major EU institution, the Schengen area, less than two weeks earlier. On December 21, 2007, Malta and eight other EU member states opened their land and sea borders to members of the Schengen area. This expanded to include airports on March 30, 2008.

In order to accede to the Schengen Agreement, Malta had first to bring its identity documents and the physical setup of its ports of entry in line with Schengen standards. This process, much like the euro changeover, required the participation of several government departments. Malta worked closely with existing Schengen members to ensure that it could comply with various Schengen criteria, and entered into consular cooperation agreements with Austria and Italy to expand Malta's consular representation around the world.

As with the adoption of the euro, Malta wasted no time after EU accession in setting Schengen membership as a priority and making determined progress toward that goal. In fact, Malta began issuing Schengen-compliant visa stickers and adopted a uniform visa application form the very same month that it joined the European Union. Malta also embarked on capital projects to bring the country's international airport and seaport into compliance with Schengen mandates, and upgraded a number of computerized immigration and police databases to ensure interoperability with other Schengen states.

Following an extensive review of Malta's preparedness to meet the Schengen criteria for border security, visa policy, police cooperation, and personal data protection, the EU's Justice and Home Affairs Council approved Malta's entry into Schengen in November 2007.

Within four years of joining the European Union, Malta has rapidly advanced its integration into the organization through its impressive efforts to join the eurozone and the Schengen area. The remarkable amount of political will and technical expertise that was committed to this effort underscores Malta's understanding of the importance of full participation in EU institutions.

In terms of both size and population, Malta is the smallest of the EU member states, but its adoption of the euro currency and its entry into the Schengen area have removed both economic and physical barriers to European integration. These moves have shifted Malta significantly closer to Europe's geopolitical center than its physical location at Europe's southern periphery would otherwise allow.