

EY Attractiveness Survey

Malta

October 2022



Building a better
working world

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Foreword

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For the past 18 years we have presented the findings from the EY Malta Attractiveness Survey, which gathers the views of foreign investors here in Malta. As you are all aware the past two surveys were presented virtually.

This was challenging not only from a communication aspect, but also due to the mere fact of simply not knowing when, or in which year, we will all get together again for such an event.

Looking back, social distancing for conferences was just a small price to pay in order to ensure the safety of our most vulnerable people in society. Modern medicine and brave medical professionals pulled us through some dark times, and we really owe them a debt of gratitude.

Malta Future Realised

So, what exactly has changed since we all met three years ago in October 2019?

For starters, the event has been re-branded to Malta Future Realised. We want this event to encompass all aspects of life in Malta and felt that the conversations emanating from the event were already doing so to a large degree.

We want to explore the economy and who it's working for, its sustainability, the impact of technology and how we can improve our lives, skills and how our educational system can excel – and so much more.

The results of the survey, which we have consistently undertaken over the last 18 years, will remain the foundation of the event and provide the key insights for our discussions.

Key results in 2022

In June 2022, the Financial Action Task Force (FATF) removed Malta from its grey list and just a few days later we began conducting this survey, as we always do at that time of year.

Removal from the grey list has helped to restore investor sentiment back to where it was before the COVID-19 pandemic, providing a significant rebound within a single year. Although back on the right path, it is worth noting that at 58% it still falls short of the extremely high confidence levels Malta was reaching a few years ago.

As in recent years, our strongpoint for foreign direct investment (FDI) remains our tax regime. Survey respondents are clearly aware of the risks of this changing. If our biggest pull factor is potentially coming to an end, what is our attractiveness offer going to be in a new global tax environment? We have a great social climate and telecommunications infrastructure, but is it going to be enough?

When we first started doing our surveys, one of our strongest points was our labor force. You will see that the scores on all criteria relating to labor have declined in 2022. The attractiveness of labor costs is now seen to be attractive for just 35% of foreign investors. Skills shortages persist, with only 34% finding the required specialized skills in the local labor market.

The natural reaction would be to look elsewhere and bring in people to plug this gap. But with the island being so small, with bottlenecks in infrastructure cropping up and virtually full employment, is that the wisest of moves? Especially if we are trying to look beyond GDP as a measure of success and instead champion a better quality of life for our inhabitants.

The stability of our political, legal and regulatory environment, once one of our strongest parameters, has also seen improvement, but is still at the bottom half of the table.

Better questions

In the build up to the publication of this survey we raised several questions.

These islands are 316km² big - or small. With around 1,600 inhabitants per square kilometer, the Maltese Islands are the 8th most densely populated country in the world, and the most densely populated country in the EU. These figures exclude people who visit during the year and recent estimates by the authorities see us reaching the 3 million tourist mark by 2030. How many people can these islands take?

The model of population growth to spur economic growth makes sense for other countries, or even islands, where space is simply not an issue. But does it make sense for us now?

Tourists who visit the island in the summer, and even the winter, probably do so in the hope of finding a relaxing, idyllic location – which, for many, we may still provide – but which if we are not vigilant, may no longer be able to.

Our survey indicates that even foreign investors on the island believe that to improve Malta's attractiveness from an FDI standpoint, the country should prioritize the quality of its built and urban environment, and the preservation of rural and natural areas.

We believe that the EY better questions look at some of the biggest challenges regarding the economy, population, property, skills, the environment, and quality of life.

We wish we had the better answers all lined up, but the reality is that a lot of debate is going to be needed. On some points, we might agree, and on others, we might disagree. This is perfectly understandable if, in the end, we are all striving for one thing: what's best for Malta, for everyone.

Analyzing our current economic model further, there is some friction starting to develop. For example, a number of surveys indicate that people are getting tired of overdevelopment and construction. Yet does our legal and tax framework prioritize property development as opposed to other activities?

Are we encouraging people to develop or hold property as opposed to other forms of entrepreneurship? Do our frameworks incentivize property hoarding? Are they conducive to young, creative Maltese entrepreneurs continuing to see Malta as their long-term home even as they look to grow beyond Malta's shores? And whilst we talk about having too many hotel beds, should we be incentivizing the re-use or re-purposing of part of the stock for other needs in a country with a growing and aging population?

Several questions are being put forward and I am confident the speakers and audience during Malta Future Realised 2022, will relish the possibility to come up with some, if not all, of the right answers. After all, finding the right answers should help us, as a nation, to construct the right policies.

Looking outwards

This year's event is also being overshadowed by a much bigger cloud. Much to the dismay of many, the war in Ukraine still rages on almost eight months since the invasion began. Of course, our thoughts are with those who are suffering, and we hope a peaceful resolution is found sooner rather than later.

The first conflict on European soil in the 21st century is having far-reaching consequences, with record inflation and recessions impacting economies all over the world. Sometimes as an island, we have a tendency to look inward, but the reality is so many of our challenges arise from the international context and geopolitical situation we find ourselves in.

This year we thought it would be appropriate to kick off with an eminent historian and speaker who can provide us with the context here and how what is happening around us has a bearing for Malta too - both in the immediate term and the longer term.

Looking forwards

Despite all this, there is also still a lot of positivity in the world and indeed in Malta. It's worth remembering our incredible achievements over the past years.

Companies today, by choice or by force, are now more tech savvy, working remotely, using digital tools and driving innovation. People have now woken up to a new flexible working reality that must be embraced, and many would even argue that it is a crucial instrument to solve our infrastructure and traffic issues.

A large majority of foreign investors still see their long-term future here on the island. Although it has dipped in recent years, the reality remains that Malta offers locals and foreigners a unique living experience, characterized by a warm sunny climate, historical sites, and some of the bluest and cleanest waters. This is what we need to protect, and I would like to believe that we are still in time to do so.

Our young people are more adventurous and pioneering too. Just look at our recent Better Working Malta Idea Challenge for students, which demonstrated just how creative and inspirational they truly are. Two 14-year-old girls from St Monica School, took home the prize for this year's award with some ingenious thinking around agritourism. Just imagine the untapped potential of our younger people all over the island. Malta's young people just need to be given a platform for positive change to continue.

Malta – facts

Area¹

316km²

Population²

516,100

Official languages

Maltese English

1964

2004

2008

Milestones

Maltese independence

EU membership

Euro
currency

Gross domestic product
(GDP), Q1 2021

10.7% 

€3,784.5m

Registering an increase of €366.7m or 10.7%, compared with Q1 2021, in volume terms, GDP rose by 7.6%.³

Unemployment rate

1.9%

September 2022⁴

Inbound tourism

260,998

Reached 89.9% of pre-COVID-19 levels. Inbound tourist trips from January to July 2022 reached a total of 1,168,741.⁵

Value-added
tax rate

18%

Imports⁶

€6,630.5m

Biggest imports

€2,536.3m

Machinery
and transport
equipment

€1,432.6m

Mineral fuels,
lubricants and
related materials

Exports

€3,559.3m

Biggest exports

€1,015.3m

Mineral fuels,
lubricants and
related materials

€854.7m

Machinery
and transport
equipment

¹ National Statistics Office (NSO),
Regional Statistics MALTA 2022.

³ NSO, News Release 095/2022.

⁵ NSO, News Release 163/2022;
NSO, News Release 019/2022.

² NSO, Regional Statistics MALTA 2022.

⁴ NSO, News Release 164/2022.

⁶ NSO, News Release 140/2022.

Figure 1: Main features of country forecast – Malta

	2020		Annual percentage change						
	Current prices (€b)	% GDP	2017	2018	2019	2020	2021	2022	2023
GDP	13.1	100.0	4.2	6.1	5.7	-8.3	5.0	6.2	4.8
Private consumption	5.8	44.1	2.3	8.8	4.6	-10.0	4.3	4.6	5.1
Public consumption	2.7	21.0	2.0	12.4	14.2	15.1	9.6	3.4	0.7
Gross fixed capital formation	2.8	21.7	5.8	4.7	8.2	-6.5	6.5	8.5	7.5
Of which: equipment	0.6	4.8	7.5	-6.9	1.0	-21.3	-	-	-
Exports (goods and services)	18.6	142.7	6.6	-0.1	5.8	-6.3	5.2	6.4	4.1
Imports (goods and services)	17.1	131.0	5.8	0.4	6.8	-2.7	2.9	5.8	3.9
Gross national income (GNI) (GDP deflator)	11.9	91.1	3.5	9.3	5.6	-9.8	4.5	7.0	4.8
Contribution to GDP growth:									
Domestic demand			3.0	6.8	6.0	-3.4	5.3	4.6	4.0
Inventories			0.1	0.1	0.1	0.6	0.0	0.0	0.0
Net exports			1.2	-0.8	-0.3	-5.5	-0.3	1.5	0.7
Employment			2.6	6.0	5.7	2.7	2.4	2.5	2.5
Unemployment rate (a)			6.3	3.7	3.6	4.3	4.0	3.8	3.7
Compensation of employees per head			3.5	3.6	3.6	-0.3	2.9	1.9	1.9
Unit labor cost, whole economy			1.9	3.5	3.5	11.7	0.4	-1.6	-0.3
Real unit labor cost			-0.4	1.2	1.1	10.2	-1.3	-3.4	-1.8
Saving rate of households (b)			-	-	-	-	-	-	-
GDP deflator			2.3	2.2	2.4	1.3	1.8	1.8	1.5
Harmonized index of consumer prices			2.0	1.7	1.5	0.8	1.1	1.6	1.5
Terms of trade goods			-0.1	4.0	0.0	0.9	0.0	0.0	0.0
Trade balance (goods) (c)			-17.2	-11.7	-11.9	-11.1	-11.7	-11.8	-11.8
Current account balance (c)			-1.3	10.7	7.7	1.6	0.4	1.8	1.9
Net lending (+) or borrowing (-) compared with rest of world (ROW) (c)			0.1	11.6	8.4	2.2	1.4	2.8	2.9
General government balance			-2.6	1.9	0.5	-9.7	-11.1	-5.8	-4.7
Cyclically adjusted budget balance (d)			-2.7	-0.6	-2.2	-6.9	-9.1	-5.0	-4.4
Structural budget balance (d)			-0.8	-0.6	-2.2	-6.9	-9.1	-5.0	-4.3
General government gross debt (c)			63.3	43.6	40.7	53.4	61.4	62.4	63.6

(a) Eurostat definition; (b) gross saving divided by adjusted gross disposable income; (c) as a percentage of GDP; (d) as a percentage of potential GDP.

Source: European Economic Forecast - Autumn 2021.

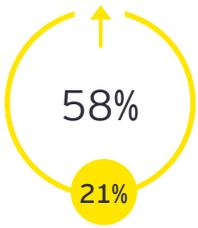
Figure 2: GDP identity from the production (output) side at market prices by period

	€000				
	2017	2018	2019	2020	2021
Gross value added (GVA) (€)	10,633,344	11,485,751	12,550,952	11,852,525	13,351,874
Agriculture, forestry and fishing	77,396	90,306	66,886	57,015	62,364
Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities	1,002,935	1,104,691	1,225,550	1,208,904	1,299,459
Construction	827,325	916,010	999,079	984,657	1,048,950
Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities	403,596	454,413	530,051	547,944	581,466
Information and communication	2,200,034	2,360,013	2,522,106	1,653,709	2,088,429
Financial and insurance activities	789,865	924,840	1,063,808	1,166,730	1,367,460
Real estate activities	925,859	1,012,663	1,076,873	1,146,636	1,217,016
Professional, scientific and technical activities; administrative and support service activities	653,614	705,423	758,787	755,774	815,610
Public administration and defense; compulsory social security; education; human health and social work activities	1,679,839	1,936,937	2,191,490	2,049,671	2,198,312
Arts, entertainment and recreation; repair of household goods and other services	1,754,994	1,904,955	2,107,602	2,167,209	2,432,944
GDP	11,940,985	12,954,812	14,047,085	13,066,004	14,684,769
Rate of growth (%)	13.1%	8.5%	8.4%	-7.0%	12.4%

Source: NSO, News Release 095/2022.

Executive summary

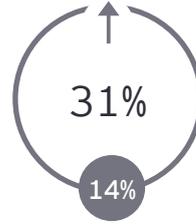
Attractiveness



Malta's FDI attractiveness index has bounced back, but it is still below pre-2020 levels.



Corporate taxation remains Malta's top parameter to attract FDI.

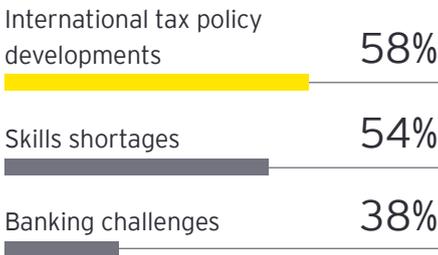


The stability and transparency of the political, legal and regulatory environment has increased 14 percentage points in one year.

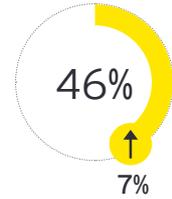


The attractiveness of labor costs saw the biggest decline.

Biggest risks



A majority of companies still believe their long-term future is in Malta but, over the last few years, the number of those that say "yes" has been slowly declining.

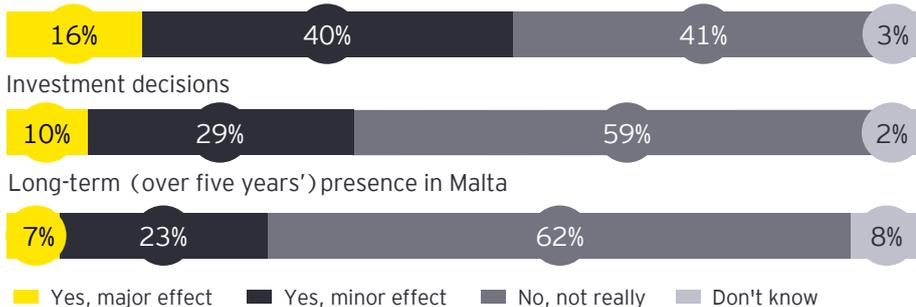


Company expansion plans are on the rise once again, with almost half planning to expand over the coming year.

FATF grey listing

For the majority of surveyed companies, the FATF grey listing had a minor or no effect on their business. Results vary by sector.

Ease of doing business in Malta for your company



decreased or significantly decreased their investment plans because of COVID-19.

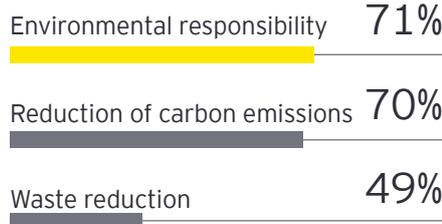


Sustainability

1/3

One-third of companies believe environmental sustainability is critical for their investment strategies.

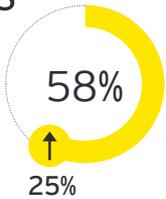
Sustainable actions in future investment projects



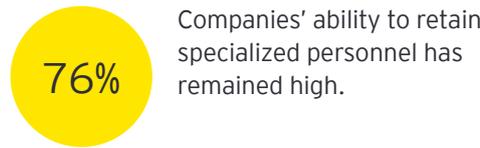
Environment and social priorities to increase investment attractiveness

- 01 Quality of built and urban environment, including recreational spaces
- 02 Preservation of rural and natural areas
- 03 Green spaces outside urban areas

Skills



Almost two-thirds of companies have increased their recruitment actions in the past year.



Although there was a slight improvement, difficulties in finding the required specialized skills persist.



A large majority believe that Malta's skills base makes the country an attractive place to invest.



Technology

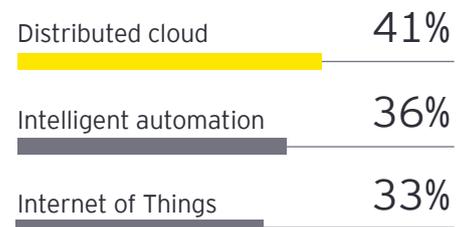


There are mixed views on whether Malta is as attractive as other European countries in terms of technology-related factors.

Most important technology-related factors

- 01 Availability of workforce
- 02 Support by government bodies
- 03 Rate of innovation

Emerging technologies being considered



Future

Leading business sectors over the next five years



Priorities to remain globally competitive

- 01 Education and skills
- 02 Ease of doing business
- 03 Development of new economic sectors

1

FDI facts at a glance

The following chapter presents FDI facts and information from several sources, including the National Statistics Office (NSO), Malta Enterprise (ME), the Malta Business Registry (MBR) and the Malta Financial Services Authority (MFSA).

Taking stock

In 2021, ME approved 29 new FDI projects and nine foreign expansions. This is expected to generate a total investment of €79.8 million and the creation of over 1,000 jobs.

ME reported that further expansions and growth were seen in digital innovation, life sciences, pharmaceuticals and medical devices. The projects originated from the UK, the US, Germany, Israel, Turkey, India and other countries.

During 2021, ME was still administering COVID-19-related aid packages: most notably, the Wage Supplement Scheme. However, toward the end of 2021, this assistance was being tapered off. Focus shifted toward regeneration and, in spring 2021, the government issued another aid package to support the regeneration of the economy, assisting businesses in their transition to digitalization and sustainability.

Figure 3: FDI projects applications approved by ME

Year	New FDI			Foreign expansions			Total new and foreign expansions		
	Projects approved	Average investment per application (€m)	Average employment per application	Projects approved	Average investment per application (€m)	Average employment per application	Projects approved	Average investment per application (€m)	Average employment per application
2012	2	1.05	19	10	2.37	22	12	€2.2	22
2013	36	1.78	33	15	2.83	22	51	€2.1	30
2014	28	1.33	37	15	3.66	39	43	€2.1	38
2015	20	0.78	29	10	2.04	24	30	€1.2	27
2016	11	12.7	48	15	3.82	41	26	€7.6	44
2017	19	2.3	24	12	8.5	62	31	€4.7	39
2018	26	2.6	37	18	3	9	44	€2.8	26
2019	32	3.2	25	17	0.9	14	49	€2.4	21
2020	39	2	22	15	1.1	8	54	€1.8	18
2021	29	0.7	20	9	6.4	55	38	€2.1	28

Source: ME, 2022.



Malta continued to attract startups operating in high-growth areas such as data and cybersecurity, FinTech, MedTech, life sciences, manufacturing and drones.

According to ME, these results are based on a new strategy that targets smaller companies, requiring fewer employees but higher wages and a stronger value-added return to the economy. This includes a strong proposition for startups that are adding innovation and knowledge to the economy, resulting in new economic niches.

The Start in Malta initiative, launched during 2021 as a national platform for startups in Malta, continued to gain traction in 2022. The second startup festival, an annual regional meetup event for all startups and stakeholders, was organized in October 2022.

During 2021, Malta continued to attract startups operating in high-growth areas such as data and cybersecurity, FinTech, MedTech, life sciences, manufacturing and drones.

Moreover, ME and Residency Malta launched the Start-Up Residence Program, which aims to attract founders, co-founders and core employees of innovative startups to relocate and live in Malta.

Figure 4: High-growth startups and innovative scale-ups

Year	Projects approved		Employment (three-year forecast)		Investment (three-year forecast)	
	FDI (new and expansions)	Local (new and expansions)	FDI (new and expansions)	Local (new and expansions)	FDI (new and expansions), € million	Local (new and expansions), € million
2020	7	9	169	177	€7.4	€3.5
2021	22	7	466	58	€12.5	€1.0

Source: ME, 2022.



Malta's FDI stock position

According to the NSO, the stock position of FDI in Malta reached €204.1 billion by December 2021. The value of the stock position has increased by €7.9 billion over 2020. As

in previous years, financial services and insurance activities accounted for the greatest proportion of FDI stock in December 2021 (97.6%).

Figure 5: FDI in Malta – economic activities

	Dec 2017	Dec 2018	Dec 2019	Dec 2020	Dec 2021
	€m	€m	€m	€m	€m
Manufacturing	934,404	1,059,258	1,140,817	1,070,541	1,202,886
Transportation, accommodation and real estate activities	2,009,229	2,107,741	2,258,870	2,330,271	2,144,708
Financial and insurance activities	167,263,421	175,303,145	183,299,027	191,525,466	199,269,703
Information and communication; professional, scientific and entertainment and recreation	387,454	379,948	624,482	758,286	999,027
Other activities	406,306	430,039	466,231	477,384	492,401
Total	171,000,815	179,280,130	187,789,428	196,161,949	204,108,726

Source: NSO, News Release 174/2022, 2022.

Malta's FDI flows

During the year 2021, FDI flows increased to €3.4 billion.

As in previous years, financial and insurance activities recorded the largest contribution with 85.9% of FDI flows in Malta.

Figure 6: FDI in Malta – economic activities

	Dec 2017	Dec 2018	Dec 2019	Dec 2020	Dec 2021
	€m	€m	€m	€m	€m
Manufacturing	53,988	187,747	57,628	10,678	135,252
Transportation, accommodation and real estate activities	149,670	157,461	128,420	93,029	107,373
Financial and insurance activities	2,851,471	3,045,747	2,983,686	3,082,871	2,909,910
Information and communication; professional, scientific and technical activities; arts, entertainment and recreation	106,731	88,874	129,486	148,269	219,035
Other activities	20,782	32,840	31,114	17,007	16,115
Total	3,182,641	3,512,668	3,330,335	3,351,853	3,387,684

Source: NSO, News Release 174/2022, 2022.

iGaming

Malta was the first EU Member State to regulate the remote gaming market in 2004 and has since established itself as a significant gaming hub with global relevance. Although the industry was affected by COVID-19, the gaming sector has distinguished itself as one of the most resilient economic pillars in the course of the pandemic.

The gaming industry is estimated to have generated €1,019 million in terms of gross value added (GVA) during 2021. This represents around 7.7% of the economy's total. Gaming contributes to the generation of GVA through input-output linkages with other major sectors, including professional services, financial and ICT activities, hospitality and catering services, distributive trades and real estate. When indirect effects are taken into consideration, the contribution of the industry to the economy's GVA in 2021 is estimated at 9.9%. This amounted to around 10.2% in 2020.

Figure 7: Online gaming – distribution of licenses by category

	End 2018	End 2019	End 2020	End 2021
B2C – Gaming Service Licence	207	195	196	197
Of which are B2C – corporate licenses	6	14	24	27
B2B – Critical Gaming Supply Licence	68	92	122	144
Of which are B2B – corporate licenses	3	9	11	13

Source: Malta Gaming Authority (MGA), Annual Report 2021.

The industry value-added equivalent recorded a growth rate of 14.1 % in 2021, which is higher than the economy average of 11.4%. At the end of 2021, the number of MGA licenses for both online and land-based entities stood at 341. They held a total of 351 gaming licenses and 377 game type approvals under the B2C license.

The total employment in the gaming sector at the end of 2021 is estimated to amount to approximately 5.4% of the total workforce. A number of these are working in indirect activities, including companies that service the gaming industry.

Figure 8: Online gaming – applications and issuing of licenses



Financial services in Malta

The financial services industry's GVA has grown in recent years, increasing from €800 million in 2017 to almost €1 billion in 2020. Despite a 7% fall in the overall economy in 2020 and a decrease in company registrations, the GVA generated by the financial services industry increased by more than 5% in 2020 and by 4.3% in 2021.⁷

While the global economy has faced unprecedented challenges caused by the COVID-19 pandemic, Malta also faced various challenges because of the FATF grey listing. Employment in the financial services industry rose by 8.4% in 2020 and another 3.4% in 2021.

At the end of 2021, a total of 22 credit institutions and 52 financial institutions were licensed by the MFSA. These compare with 24 and 49 respectively at the end of 2020. In the local insurance sector, there was a total of 71 insurance undertakings, up from 68 in 2020.

Figure 9: Annual company registrations⁸

	2018	2019	2020	2021
Limited companies	5,723	4,245	3,396	3,362
European Economic Interest Grouping	1	3	0	1
Overseas companies	89	87	40	41
Partnership en nom collectif	82	75	38	54
Partnership en commandite	27	23	22	21
Statute for European companies	1	2	2	1
Investment company with variable share capital	35	37	16	24
Total	5,958	4,472	3,514	3,504

Source: MBR, Annual Report, 2021.

⁷ Source: MFSA, Annual Report 2021.

⁸ This table includes both foreign and locally owned companies.

The securities and investment services sector closed 2021 with a total of 148 licensed companies, compared with 147 at the end of 2020.⁹ Moreover, the MBR reported a total of 3,504 new commercial partnerships in 2021, made up of foreign and locally owned companies.¹⁰

The FATF, a global anti-money laundering watchdog, voted to remove Malta from its grey list in June 2022, one year after adding it. The decision to remove Malta emerged after the authorities worked on several measures and recommendations from the FATF to enhance its ability to combat tax evasion and improve the method in which authorities collect data on the ultimate beneficial ownership, and the ways that the Maltese authorities share the information acquired with local and international authorities.

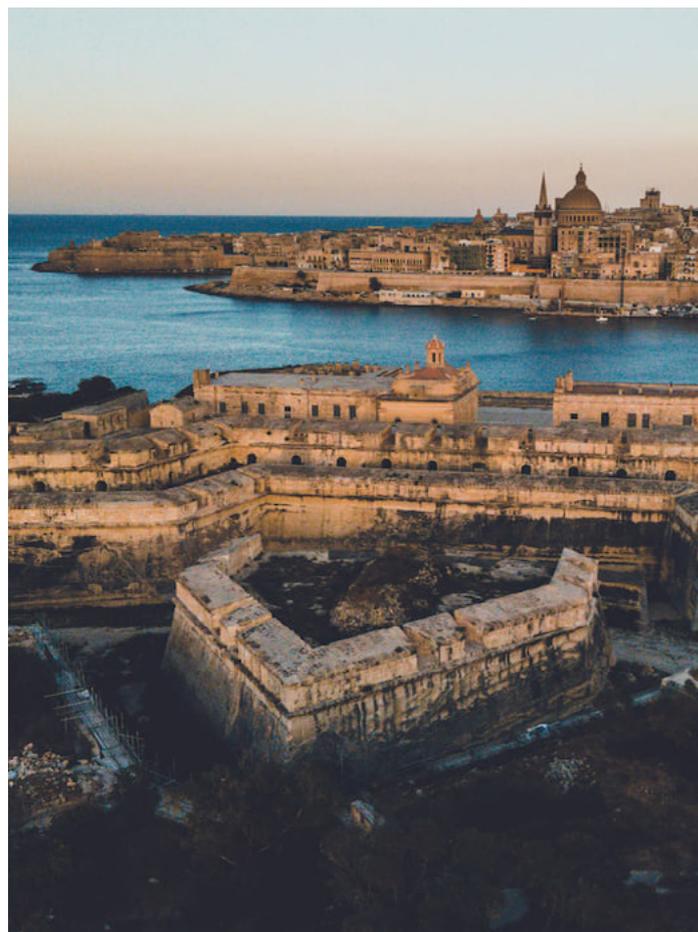


Figure 10: Investment services¹¹

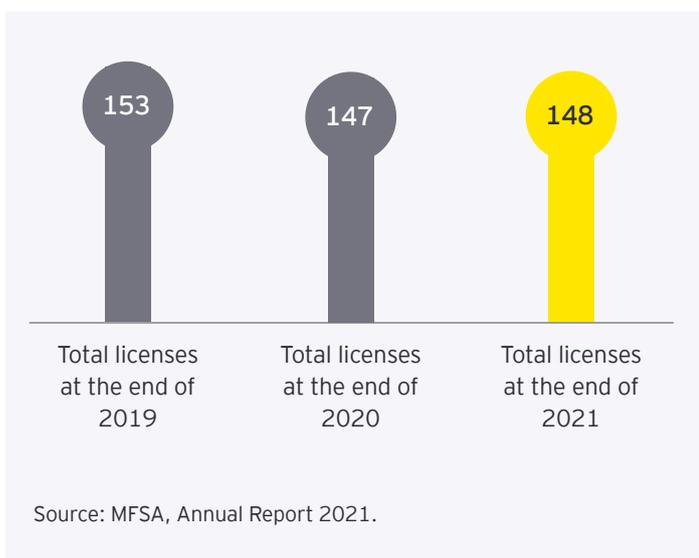
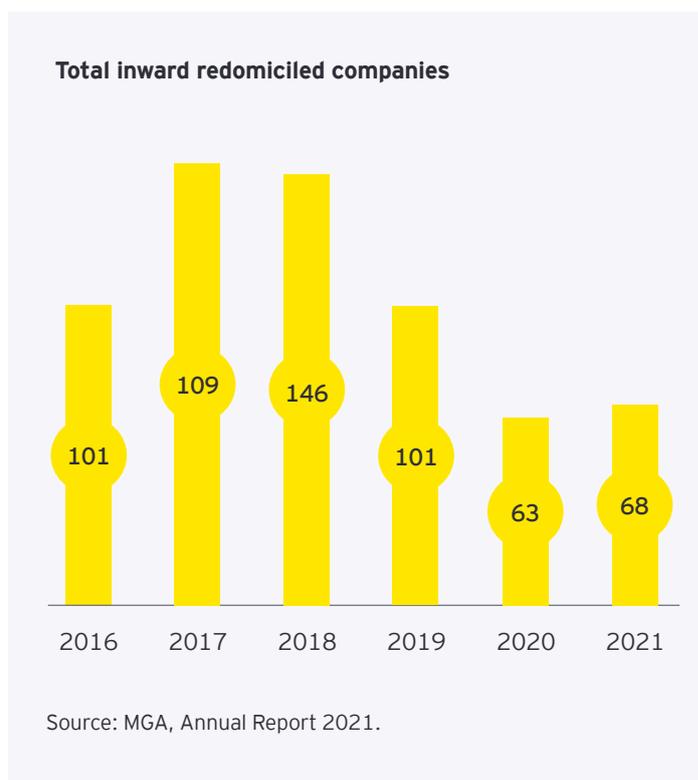


Figure 11: Redomiciliation of companies



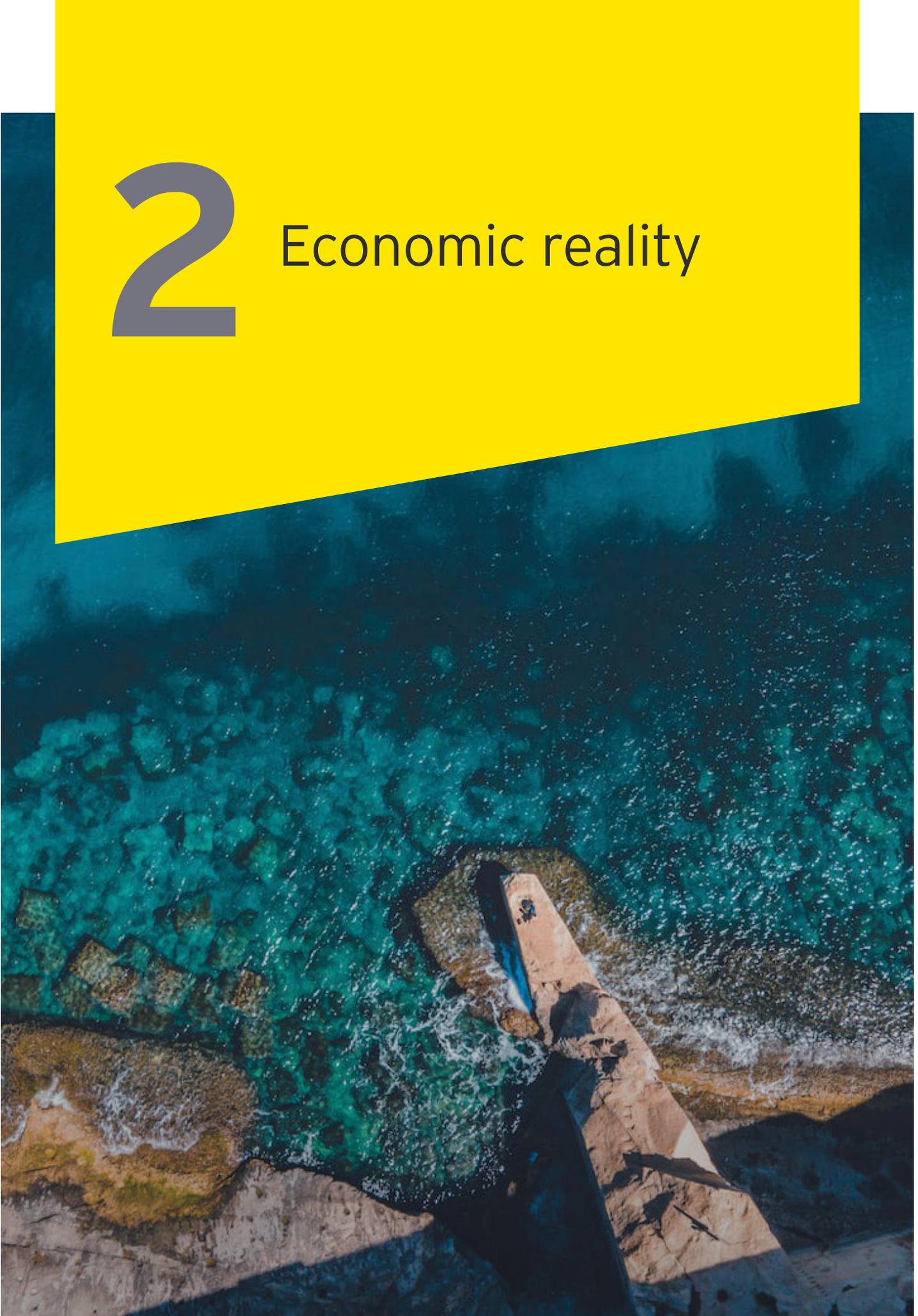
⁹ Source: MFSA, Annual Report 2021.

¹⁰ Source: MBR, Annual Report 2021

¹¹ Investment services include investment firms, UCITSmanagers, AIF managers, de minimis AIF managers, depositories and depositories lite.

2

Economic reality



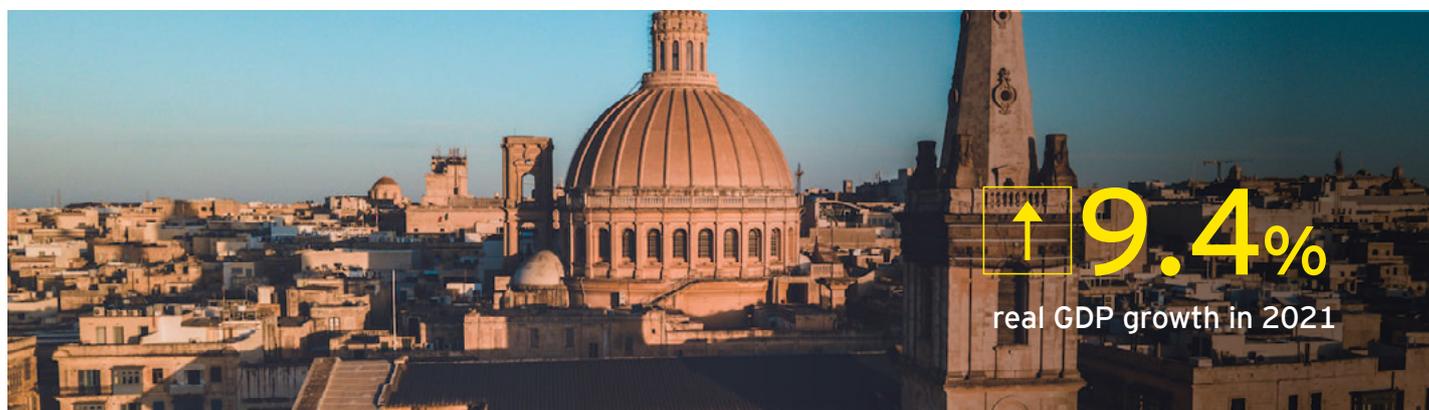
Where we came from¹²

Most economic forecasts had predicted a return to pre-COVID-19 GDP levels by the middle of 2022. The Maltese economy bounced back sooner – with national output for Malta in nominal terms reaching €14.7 billion in 2021 (+9.4% real GDP growth), surpassing the 2019 €14 billion GDP level and overturning the 8.3% decline of 2020 in just a year. This recovery was driven by improved business and consumer sentiment, and growth in investment and services exports, including tourism. Sector-wise, this sentiment was mainly experienced by information and communication, financial services and remote gaming – which performed above their 2019 levels – while agriculture, retail and catering, and professional and administrative services, remained below their pre-pandemic level.

This recovery took place in an environment of logistical supply chain challenges, as well as capacity limitations and cost increases. In fact, in December 2021, the annual year-on-year rate of inflation had risen to 2.6% Harmonised Index of Consumer Prices (HICP) as international price pressures began to impact locally; yet the rate remained well below that in the euro area (at 5%), reflecting the cushioned domestic energy prices.

In 2021, employment continued to benefit from the ongoing normalization of economic activity, as well as COVID-19-related support measures: in particular, the Wage Supplement Scheme. The pace of job expansion also improved, and unemployment rate remained at 3.5% for 2021. A low unemployment rate also meant a tightening labor market, with a high number of vacancies, especially in certain key sectors.

In further supporting the economic recovery through extensions of COVID-19-related support measures and a strong vaccination campaign, the fiscal balance remained strongly in deficit in 2021. Similarly, the current account balance is also estimated to have remained in deficit in 2021, reflecting a significant increase in imports, although tourism-related earnings started recovering (remaining still well below pre-pandemic levels).



¹² Source: Central Bank of Malta, Annual Report 2021, 2022

Where we might be heading¹³

The pace of economic activity continued in the first quarter of 2022, followed by a further pickup in tourist arrivals, which came close to pre-pandemic levels, leading to Q2 2022 registering a higher-than-expected rate of recovery. In spite of this, the recovery path for 2022 has been tainted by uncertainty due to the war in Ukraine that erupted in February, the ensuing ripple effects on supply chains, and persistent inflationary pressures on various commodities and inputs.

The local HICP, in fact, shows a sharp pickup for 2022 (c. 5.6% to 5.9% for 2022, from 0.7% for 2021), reflecting a rise in all subcomponents except energy – and the government has continued to provide support to industry and households through subsidies on electricity prices and fossil fuels.

Government finances have relatively improved and are projected to continue being driven by the sustained recovery of economic activity and tourism, and the unwinding of COVID-19 support measures in 2022, which will partly offset outlays on inflation mitigation. Government deficit is projected at 5.6% of GDP in 2022 (from 7.9% in 2021) and the general government debt-to-GDP ratio at 57.6% (from 56.4% in December 2021).

From a labor market perspective, employment remains above pre-pandemic levels, and unemployment stands at 3.2% (below 4% recorded in 2020; expected to decline to 3.1% by the end of 2022).

Malta's removal from the FATF list of jurisdictions under increased monitoring should reduce risks of downside to economic activity. However, uncertainty remains due to the energy crisis in Europe, production and supply bottlenecks, and higher inflation (especially imported inflation) from rising commodity prices, as well as second-round effects from wages and markups. The impact of recent interest rate hikes upon real economy indicators in this inflationary era remains to be assessed. Yet additional government support to mitigate such realities, through assistance at national-entity levels as well as vulnerable consumer levels, is also likely to continue in the short to medium term.

Against this, Malta's GDP in real terms is forecast to grow by c. 4.9% to 5.2% in 2022, 4.5% in 2023 and 3.7% in 2024 – driven by net exports (mainly export of tourism services) and domestic demand.

¹³ Source: Central Bank of Malta, Outlook for the Maltese Economy 2022:3, 2022; Central Bank of Malta, Quarterly Review 2022 Vol.55 No.3, 2022; European Commission, Economic forecast for Malta, 2022; Times of Malta, Malta expected to reach its summer tourism targets, says minister, 2022

¹⁴ Source: NSO, News Release 154/2022, 2022

¹⁵ Source: NSO, News Release 163/2022, 2022

¹⁶ Source: NSO, News Release 148/2022 and News Release 143/2022, 2022

¹⁷ Source: NSO, News Release 152/2022, 2022

¹⁸ Source: DOI, PR220524en, 2022

¹⁹ Source: NSO, News Release 153/2022, 2022

²⁰ Source: NSO, News Release 173/2021 and News Release 164/2022, 2022

GDP (at market prices)¹⁴**€3,784.5m**

GDP Q1 2022

**1.5%**decrease
on previous
quarter**€4,100.4m**

GDP Q2 2022

**8.3%**increase on
previous
quarter**Inbound tourists¹⁵****260,998**

January to July 2021

1,168,741

January to July 2022

Inflation¹⁶

Retail Price Index (RPI)

1.81%

July 2021

6.82%

July 2022

HICP

0.30%

July 2021

6.80%

July 2022

Government finance¹⁷

Government deficit

€514.9m

January to July 2022

Government debt

€8,557.8m

July 2022

Wage supplement¹⁸

By May 2022,

120,000employees were
supported, costing**c. €720m****Unemployment**Registered unemployed¹⁹**1,542**

July 2021

925

July 2022

Unemployment rate²⁰**3.5%**

March to June 2021

2.9%

March to June 2021

3

Perception

This chapter presents the sentiments of existing foreign investors in Malta surveyed in July and August 2022. The respondent cohort profile is similar to previous cycles of the EY Malta Attractiveness Survey, reflecting a range of sectors and company sizes, providing the opportunity to compare results over time.

Attractiveness

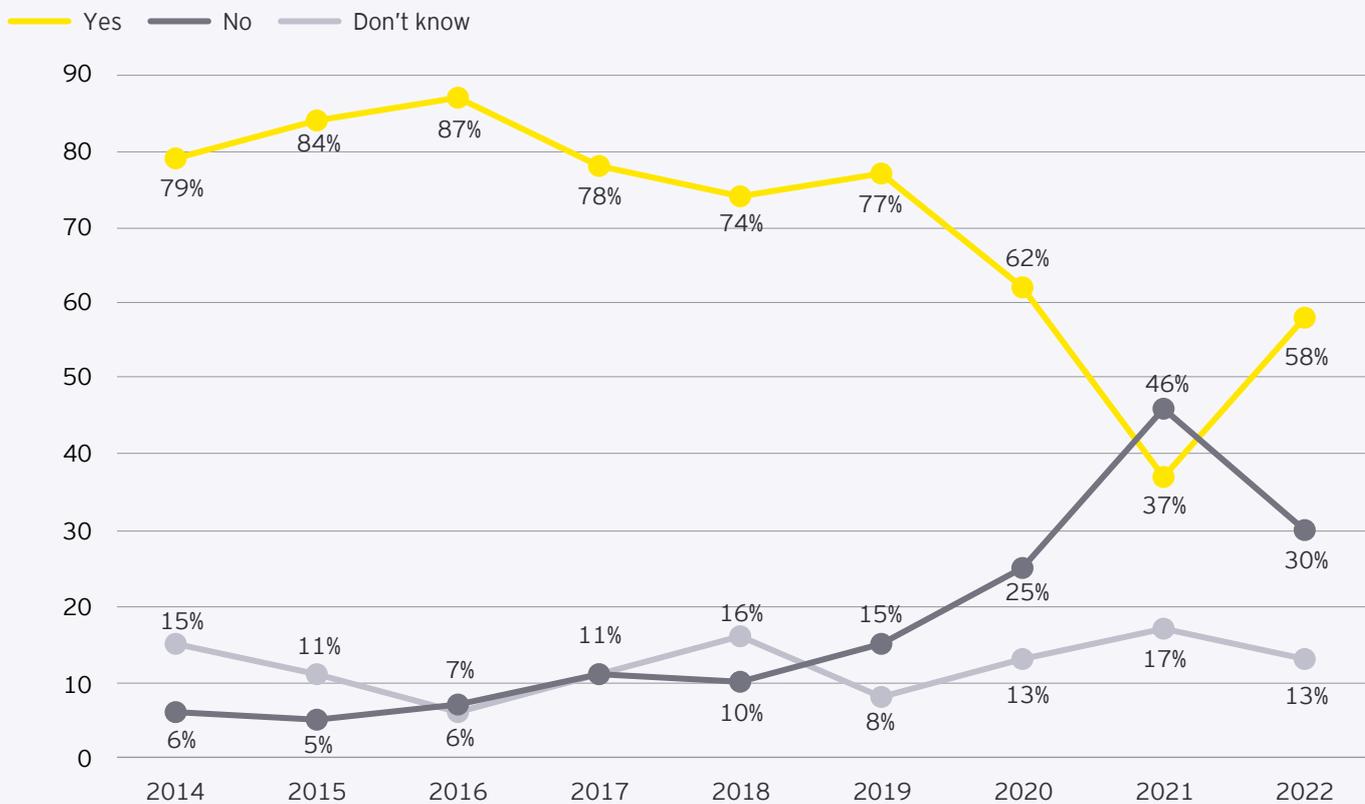
Fifty-eight percent of existing foreign investors believe that Malta is currently attractive for FDI, an increase of 21 percentage points (ppts) from the 2021 survey, although still below pre-2020 levels.

This year's Malta Attractiveness Survey was carried out just after the country was taken off the FATF grey list in June 2022. This positive news appears to have lifted investor sentiments. At 58%, the overall country FDI attractiveness rating bounced back to the results seen in 2020. There was also a corresponding improvement in the decrease in number of respondents who expressed the view that Malta is not attractive.

This year, 30% said they did not believe Malta is attractive for FDI compared with 45% in the previous year's survey. The number of respondents who remained neutral and chose not to answer this question has remained relatively constant throughout the last few years.

This bounce back in confidence should be welcomed by investors and policymakers alike but, while perceptions have improved, it is worth noting that the rating still falls short of the very high confidence levels achieved prior to 2020.

Figure 12: Attractiveness index



Source: all 2014-22 respondents.

Many investors highlighted Malta's swift removal from the grey list as a reason to be optimistic, although the overall impact may still be felt for some time. The country's favorable tax regime has been a key driver of FDI over the years and is yet again perceived to be one of the most attractive criteria. A number of investors highlighted how this parameter may well need to be re-examined in the coming years.

As in prior years, Malta's EU membership, an English-speaking workforce, a relatively comfortable standard of living and its favorable location are also noted as attributes that support FDI.

Malta, like many European countries, is experiencing a tight labor market at close to full employment. Hence, skills shortages, along with rising costs, are seen as a challenge for Malta's attractiveness.

This report explores the respondents' views on a number of external and internal factors contributing to this FDI attractiveness rating. Respondents provide insight into how Malta can increase its attractiveness for FDI and what positive features the small EU island state can boast about and should promote further.



Corporate taxation (71%) remains Malta's top parameter to attract FDI, followed by the stability of social climate (69%).

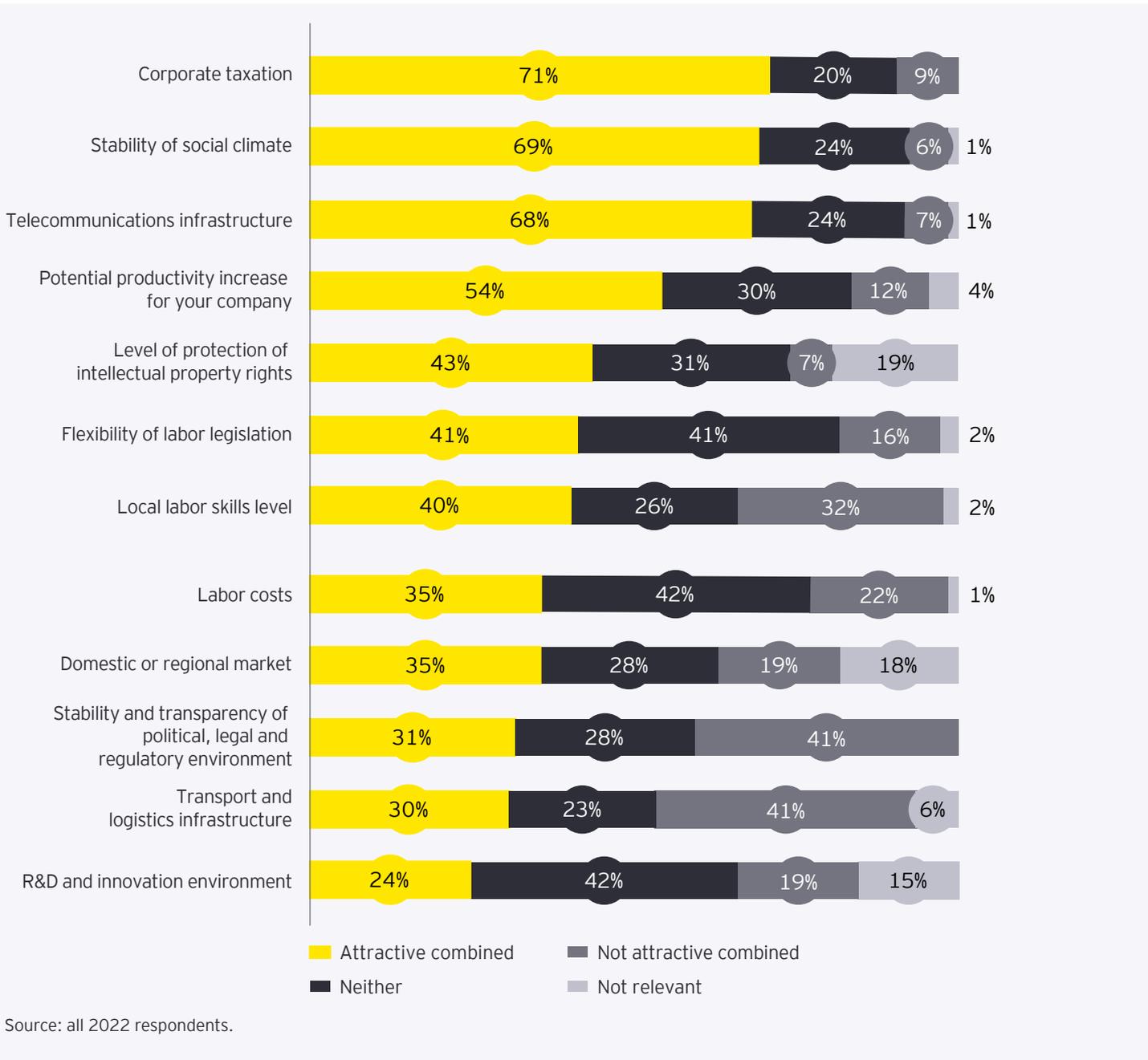
As in previous years, corporate taxation (71%) is once again viewed as the parameter that most existing foreign investors think is attractive. The second-strongest parameter is the stability of social climate (69%), an increase of 11 pts compared with 2021. Telecommunications infrastructure (68%), which has been another strong parameter over the last few years, ranks third on the scoreboard.

The stability and transparency of the political, legal and regulatory environment, a parameter that used to score highly on Malta's attractiveness scoreboard, is now seen to be attractive by 31% of respondents, up 14 pts from 2021. While 41% still state that it is not attractive, this compares with 64% in 2021, at the time of Malta's grey listing.

The three parameters that cover labor, previously ranked fourth to sixth on the attractiveness scoreboard, are now in sixth to eighth position. In 2022, they are the only parameters that have seen percentage declines over one year. The attractiveness of labor costs (35%) saw the biggest decline, with a 12-pt decrease, followed by local labor skills level (40%), which decreased by 10 pts, and flexibility of labor legislation (41%), which decreased by 4 pts.

At the bottom end of the table, transport and logistics infrastructure (30%) registered a slight 2-pt increase in attractiveness, with 41% finding this parameter not attractive. Malta's R&D and innovation environment (24%) finds itself in last place, even though it increased by 4 pts over 2021.

Figure 13: Attractiveness scoreboard – Malta’s FDI attractiveness

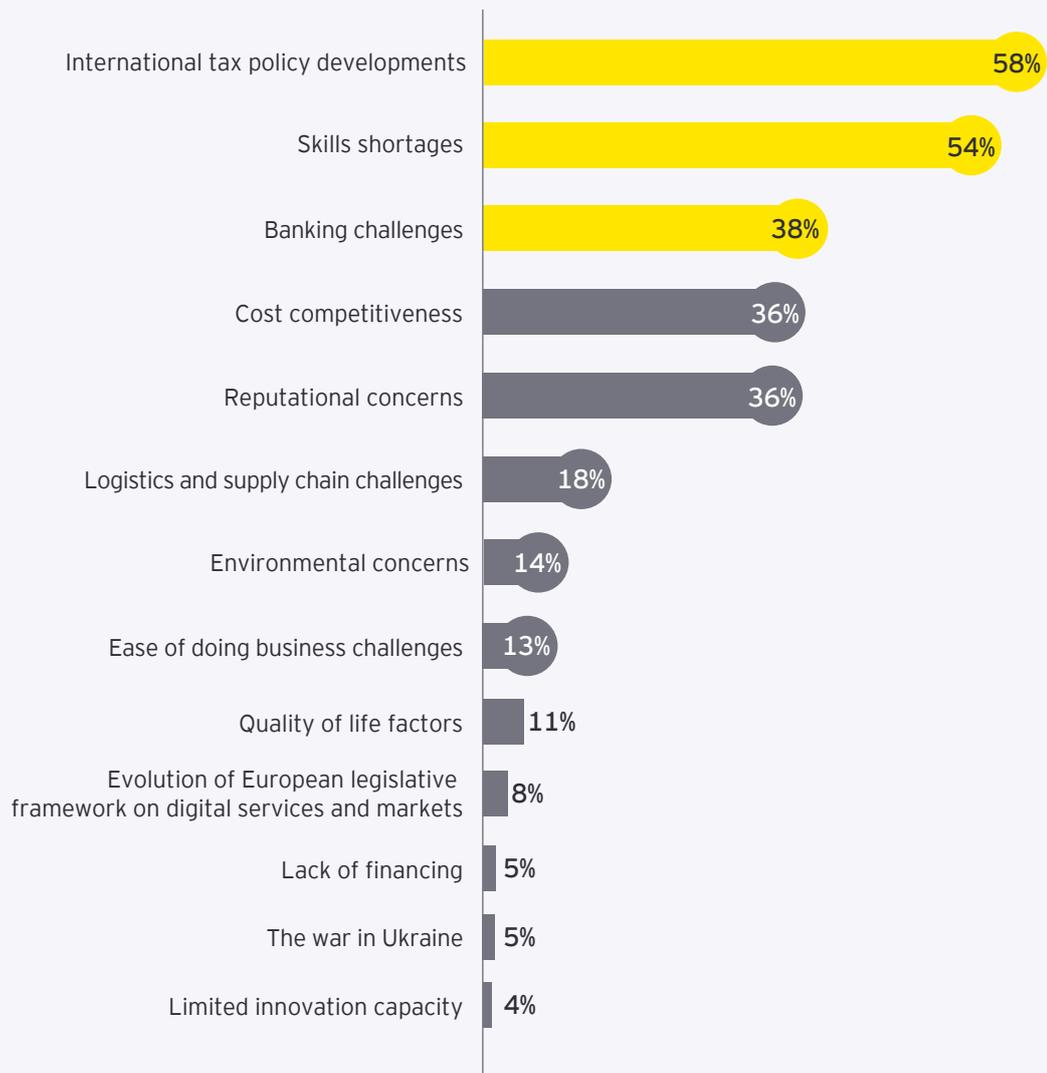


The biggest risks facing Malta's FDI attractiveness over the next three years are international tax policy developments and skills shortages. Banking challenges, cost competitiveness and reputational concerns follow.

With corporate taxation ranked as Malta's strongest FDI parameter, the changes brought about by international tax policy developments are considered by 58% of respondents to be Malta's greatest risk for the next three years.

These are followed by skills shortages (54%), banking challenges (38%), cost competitiveness (36%) and reputational concerns (36%). Only 5% believe the war in Ukraine will affect Malta's FDI attractiveness.

Figure 14: Biggest risks facing Malta's attractiveness over the next three years

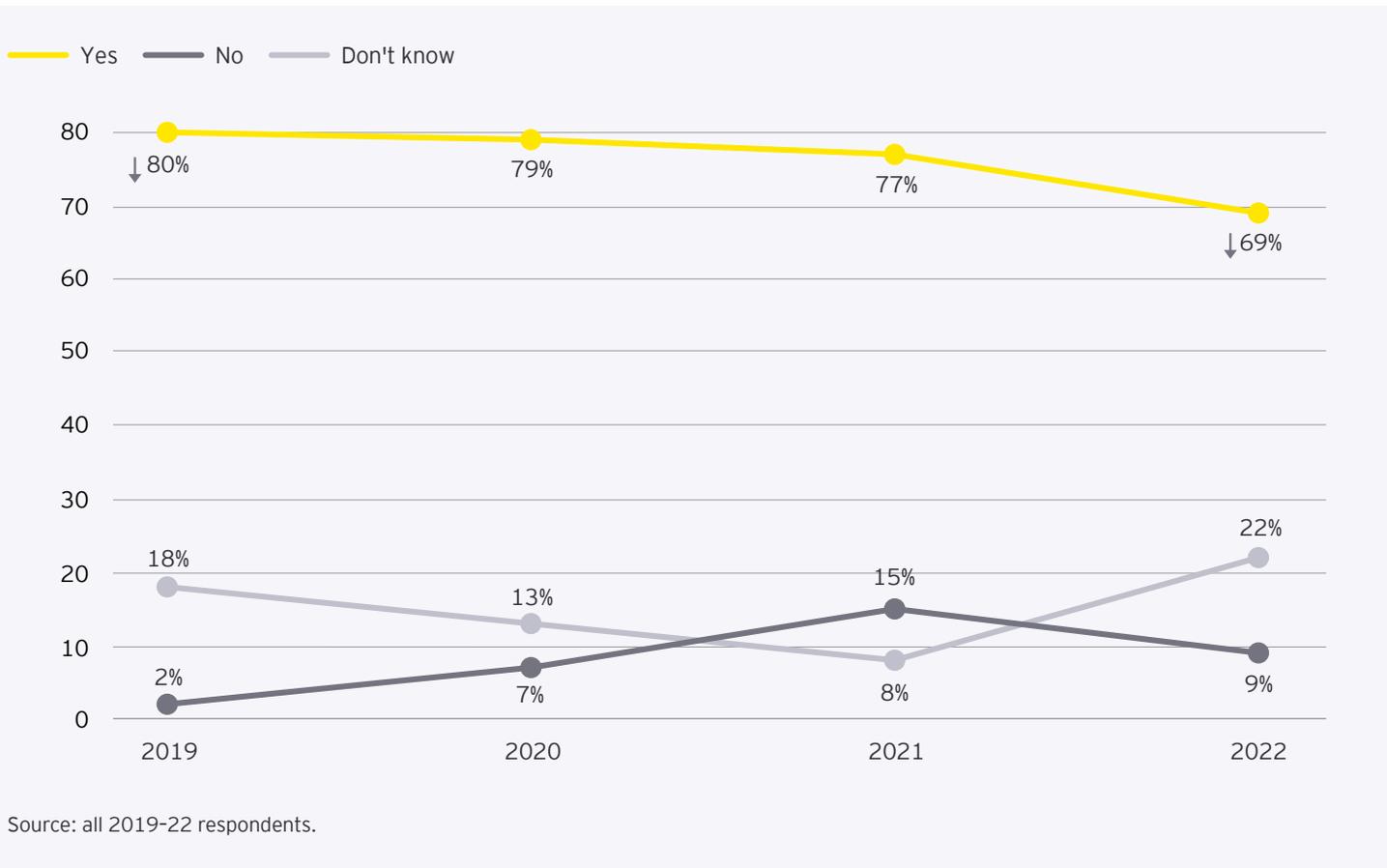


Source: all 2022 respondents.

Notwithstanding the challenges highlighted, a majority (69%) of companies still believe their long-term future is in Malta, but the number that say “yes” has also been slowly declining over the last few years.

A majority (69%) of existing FDI companies surveyed still believe their future is in Malta. While the last year has seen a decrease in “no” responses, the number of “don’t know” responses has increased, with many respondents commenting that, in today’s fast-changing economic and geopolitical environments, a 10-year prediction has become increasingly difficult to make.

Figure 15: Presence in Malta in 10 years’ time

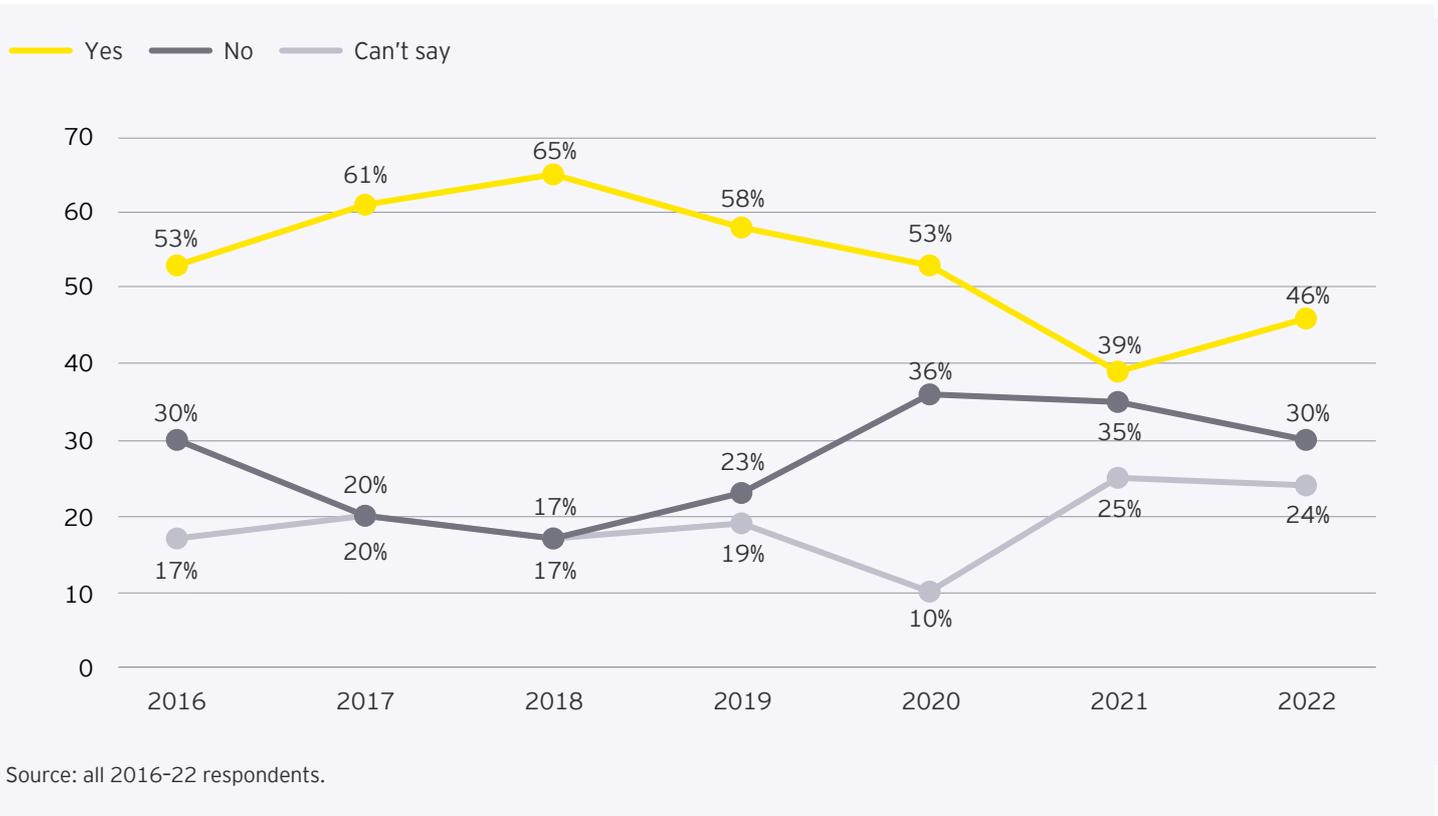


Company expansion plans are on the rise once again, with almost half planning to expand over the coming year.

Almost half of investors in Malta are planning to expand their operations in the coming year.

Following a decrease in expansion plans during the pandemic (down to 39% in 2021), investors' appetite to expand is making a resurgence. This means 46% have some form of expansion plans for the coming year.

Figure 16: Expansion plans



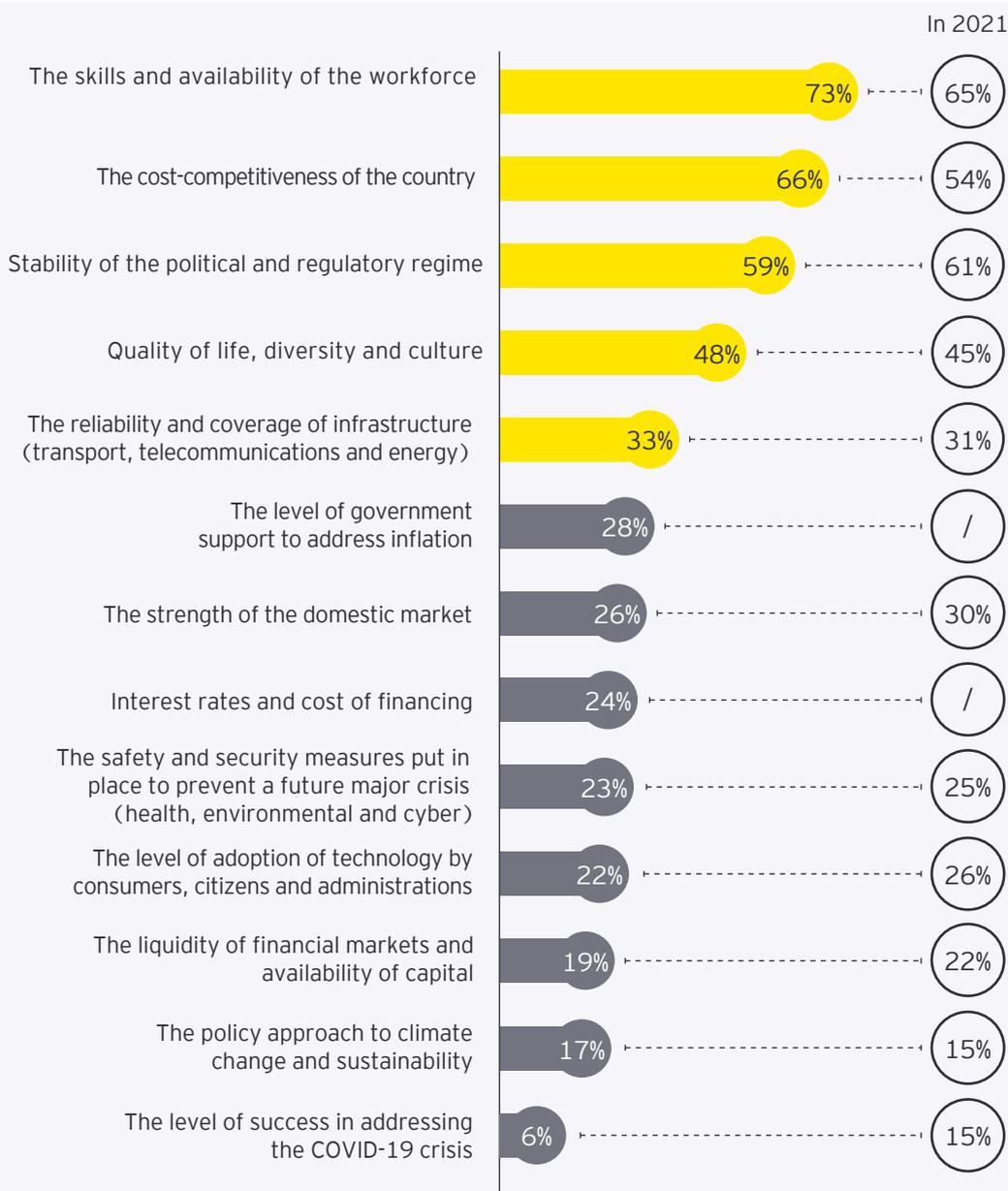
Future investment location choices are most dependent on the skills and availability of the workforce and the cost-competitiveness of the country.

When respondents reflected on the factors that would influence their future investment location choices, the skills and availability of the workforce (73%) has retained the top spot. The cost-competitiveness of the country (66%) has increased in importance by 12 ppts since last year, moving up one position.

The stability of the political and regulatory regime (59%) is now in third position.

Other important factors include quality of life, diversity and culture (48%), and the reliability and coverage of infrastructure (transport, telecommunications and energy – 33%). A new parameter included in this year’s survey – the level of government support to address inflation – was selected by 28% of respondents.

Figure 17: Factors that influence future investment location choices



Source: all 2021-22 respondents.

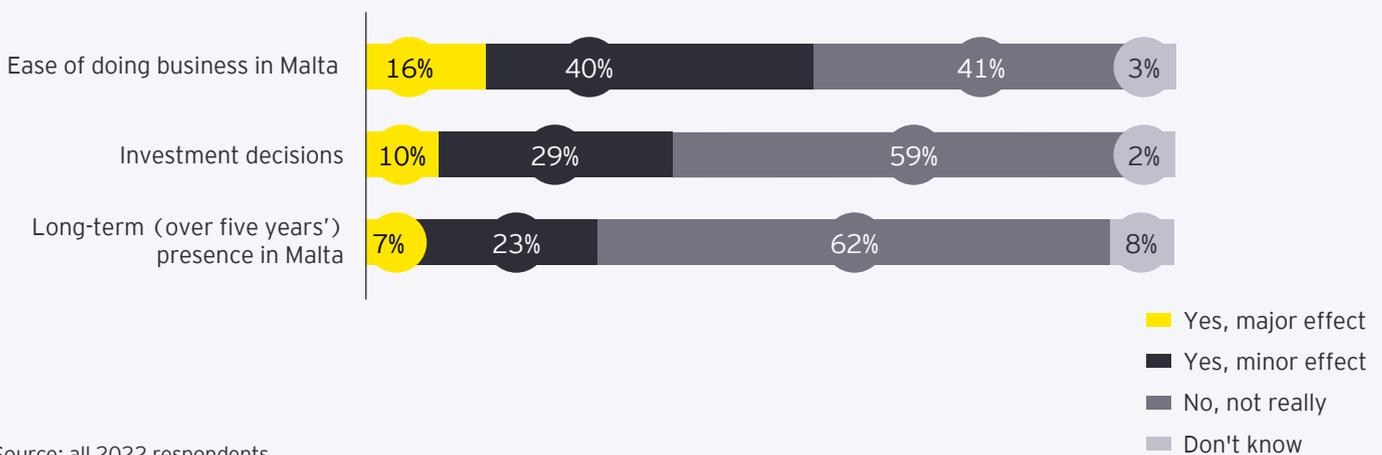


For the majority of surveyed companies, the FATF grey listing had a minor effect or no effect on their business.

Malta was removed from the FATF grey listing after one year (June 2021 to June 2022). In the previous survey, respondents highlighted the grey listing as a key factor impacting Malta’s overall FDI attractiveness rating. When asked about the actual effect of this grey listing on their businesses over its year long duration, the majority of foreign-owned companies located in Malta reported only witnessing a minor effect or no effect on their respective businesses.

Likewise, the FATF grey listing had minimal effect on respondents’ long-term presence (over five years) in Malta for 62% of respondents, their investment decisions (59%) and the ease of doing business in Malta (41%). However, 40% did report a minor effect and 16% a major effect on the ease of doing business in Malta.

Figure 18: Impact of FATF grey listing



Source: all 2022 respondents.

The external factors with the largest impact on financial performance include increased costs (excluding logistics) as a direct result of COVID-19, and increased operating costs as a result of inflation following the war in Ukraine.

Respondents were asked how their financial performance is currently being impacted by various external factors. The largest impact on financial performance was due to increased costs (excluding logistics) as a direct result of COVID-19, which impacted 66% of investors to a large or some extent.

Sixty percent were impacted as a result of increased operating costs due to inflation following the war in Ukraine. Fifty-eight percent were impacted due to increased logistic costs as a result of COVID-19 and ongoing supply chain challenges.

On the other hand, 29% are experiencing a loss of revenue from source markets as a direct result of the war in Ukraine.

Figure 19: Impact of external factors on respondents' financial performance





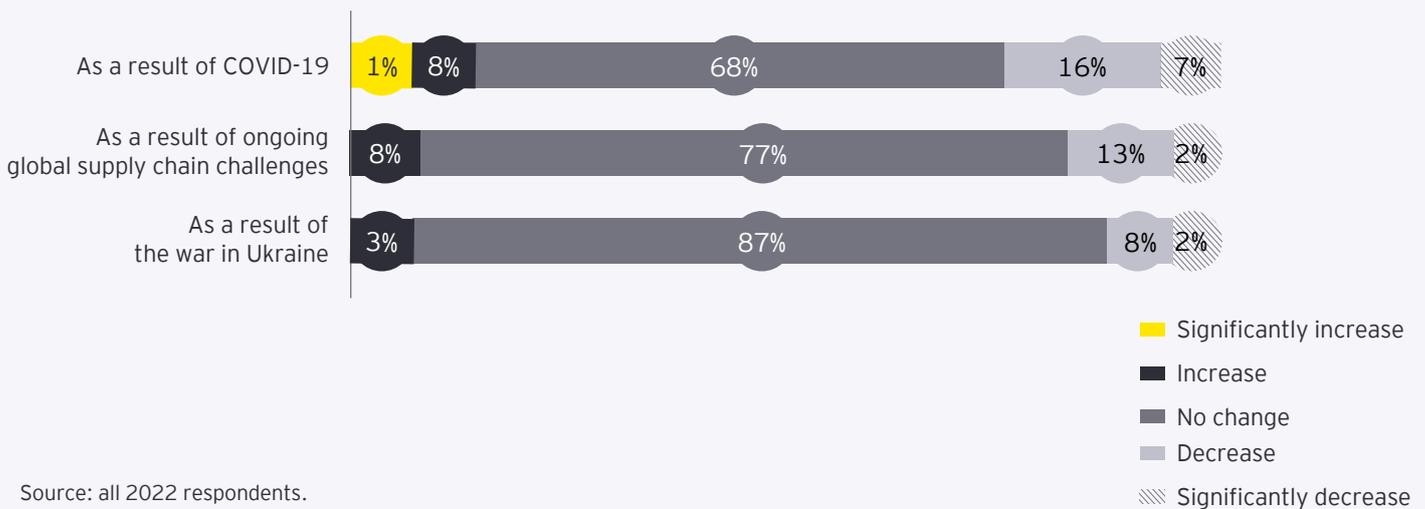
Twenty-three percent of investors indicated they have decreased or significantly decreased their investment plans as a result of COVID-19.

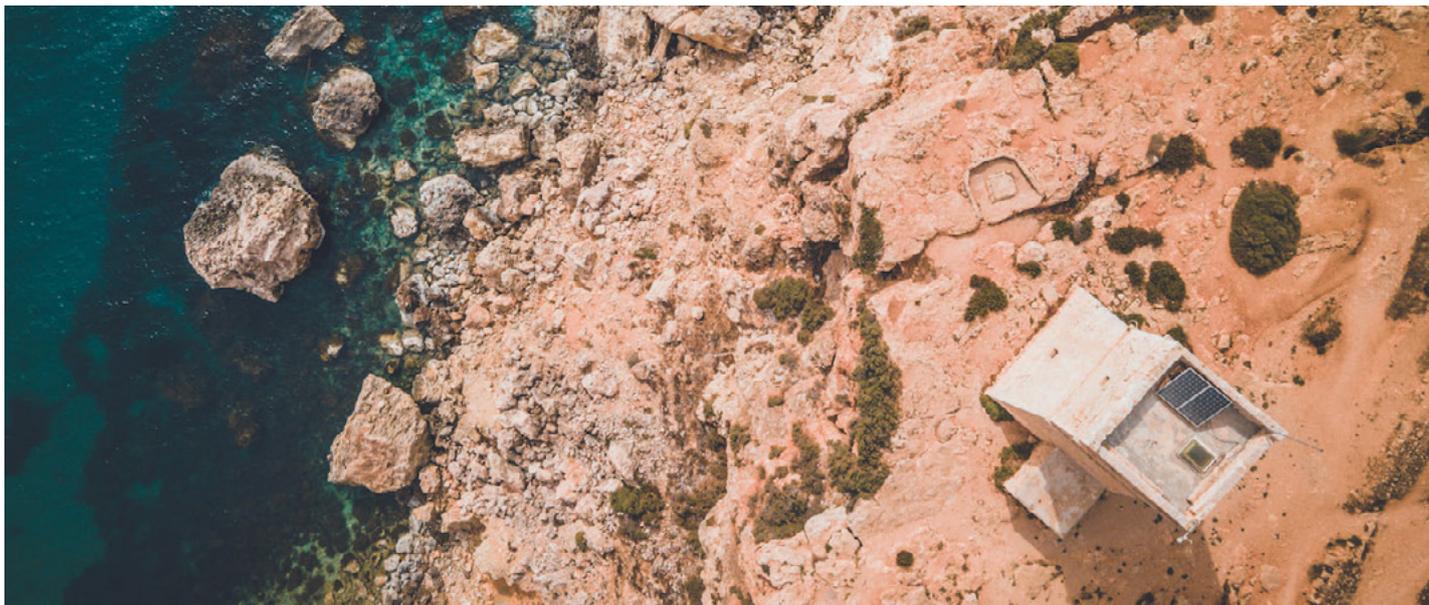
Looking at the impact of external factors on respondents' investment plans in Malta, significant majorities reported no changes, but one-fourth have decreased or significantly decreased their investment plans because of COVID-19 ...

Two years since the start of the pandemic, 23% of investors indicated they have decreased or significantly decreased their investment plans as a result of COVID-19.

Fifteen percent are decreasing as a consequence of supply chain challenges, and 10% are decreasing planned investments due to the war in Ukraine.

Figure 20: Impact of external factors on respondents' investment plans in Malta





... and COVID-19 is responsible for the largest positive and negative impacts relating to company operations or geographical footprint in Malta.

Of all the external factors affecting company operations or geographical footprint in Malta, COVID-19 is again having the largest impact, with 18% decreasing or significantly decreasing their company operations and geographical footprint in Malta due to COVID-19.

On the other hand, 14% reported increasing or significantly increasing their company operations and geographical footprint in Malta due to COVID-19.

Twelve percent are decreasing or significantly decreasing their operations or geographical footprint due to the war in Ukraine. It is of note that 9% are decreasing these parameters due to ongoing global supply chain challenges, while an additional 8% are projecting an increase.

Figure 21: Impact of external factors on company operations or geographical footprint in Malta



Source: all 2022 respondents.

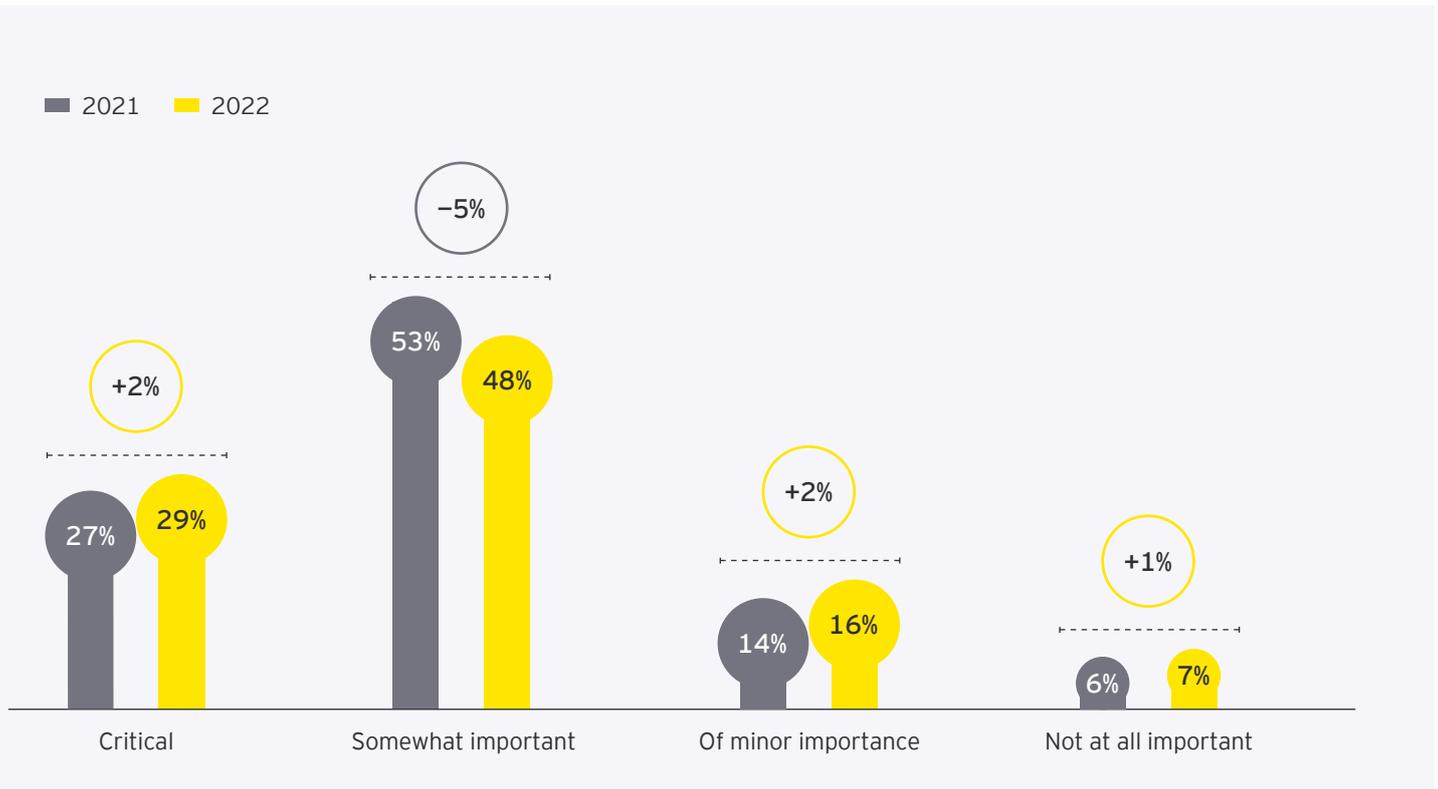


Sustainability

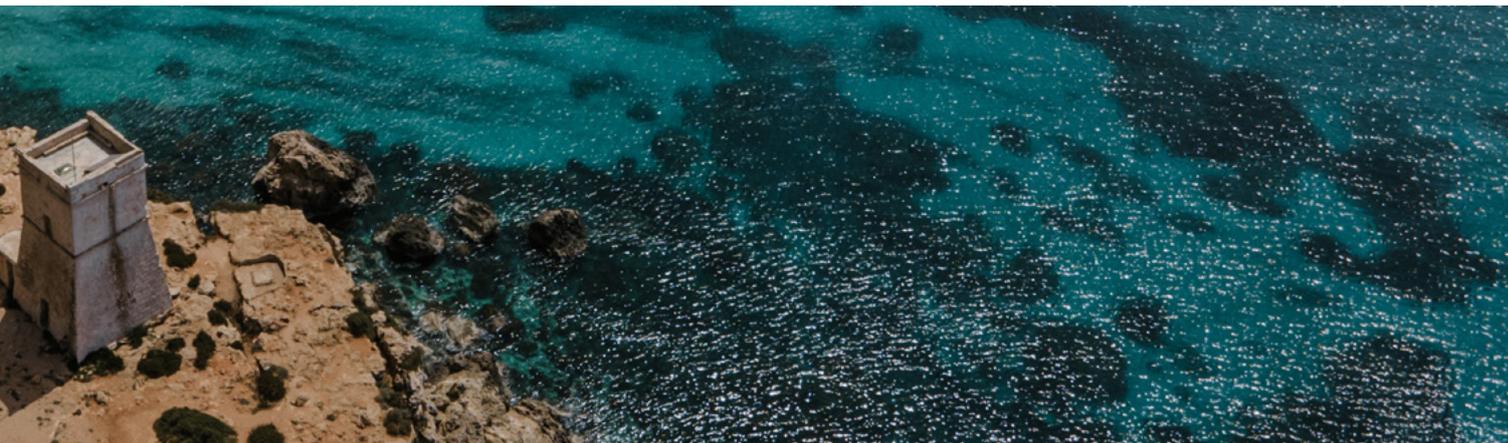
One-third of companies believe environmental sustainability is critical for their investment strategies, while half believe it is somewhat important.

Similar to the previous year, 29% believe that environmental sustainability is critical for their investment strategies, while 48% see it as somewhat important.

Figure 22: Importance of environmental sustainability for investment strategies



Source: all 2021-22 respondents.

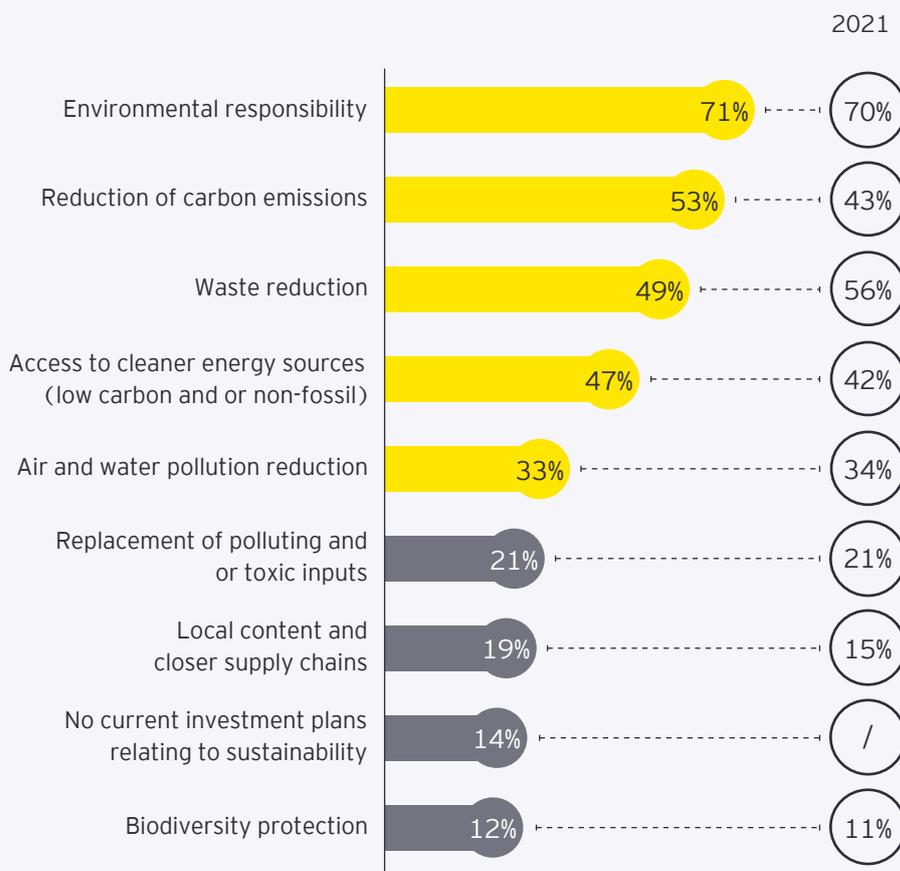


Environmental responsibility and the reduction of carbon emissions are the most common sustainability-related actions being taken in future investment projects.

Companies are continuing to place greater emphasis on mitigating their impact on the environment.

This is being done through environmental responsibility (71%), reduction of carbon emissions (53%), which increased by 10 pts, or waste reduction (49%). Fourteen percent currently have no current investment plans relating to sustainability.

Figure 23: Adopting sustainable actions in future investment projects



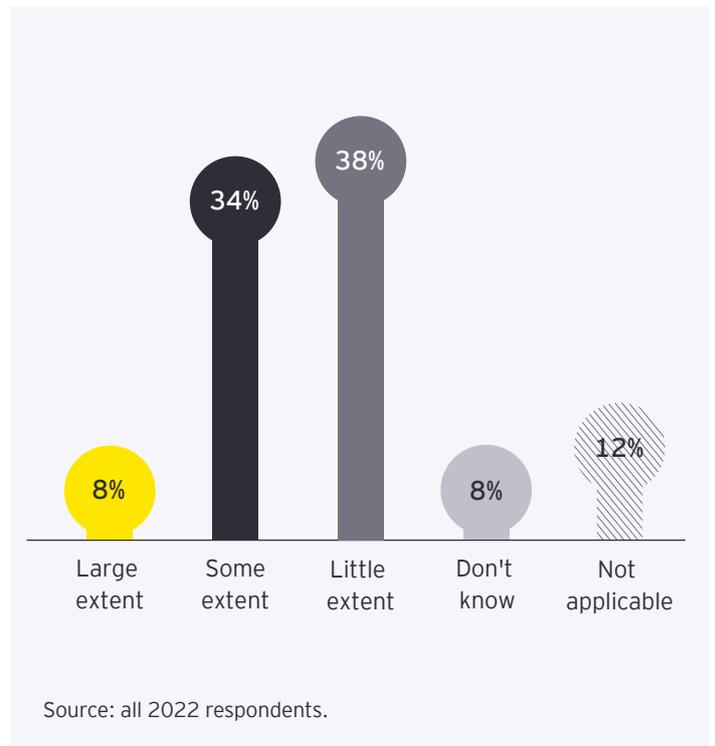
Source: all 2021-22 respondents.



A mixed response to whether Malta's ecosystem enables organizations to meet or progress on their sustainability agenda ...

Only 8% percent believe that Malta's ecosystem enables organization to meet or progress on their sustainability agenda. One-third believe that it does to some extent, and 38% say only to a little extent.

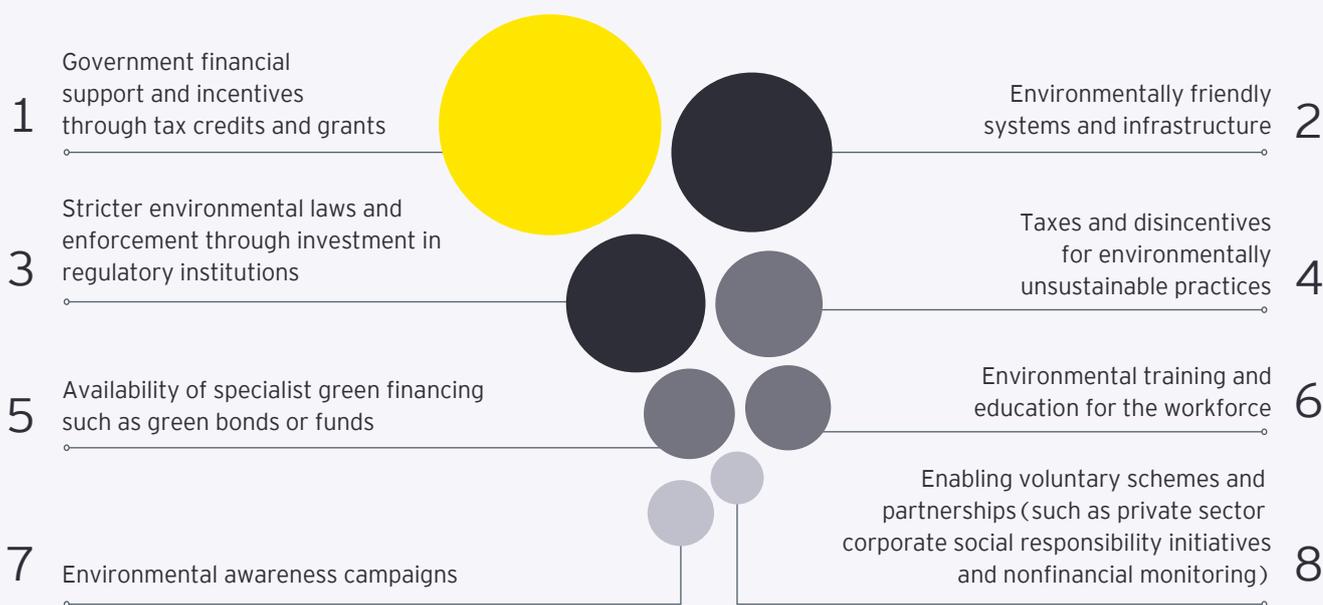
Figure 24: Malta's ecosystem enables organizations to meet or progress on their sustainability agenda



... with the focus areas to enhance the sustainability ecosystem, including government financial support and incentives through tax credits and grants, along with environmentally friendly systems and infrastructure, and stricter environmental laws and enforcement.

Respondents ranked the areas Malta should focus on to enhance the sustainability ecosystem for investment purposes. Topping the list was government financial support and incentives through tax credits and grants.

Figure 25: Focus areas to enhance sustainability ecosystem for investment purposes



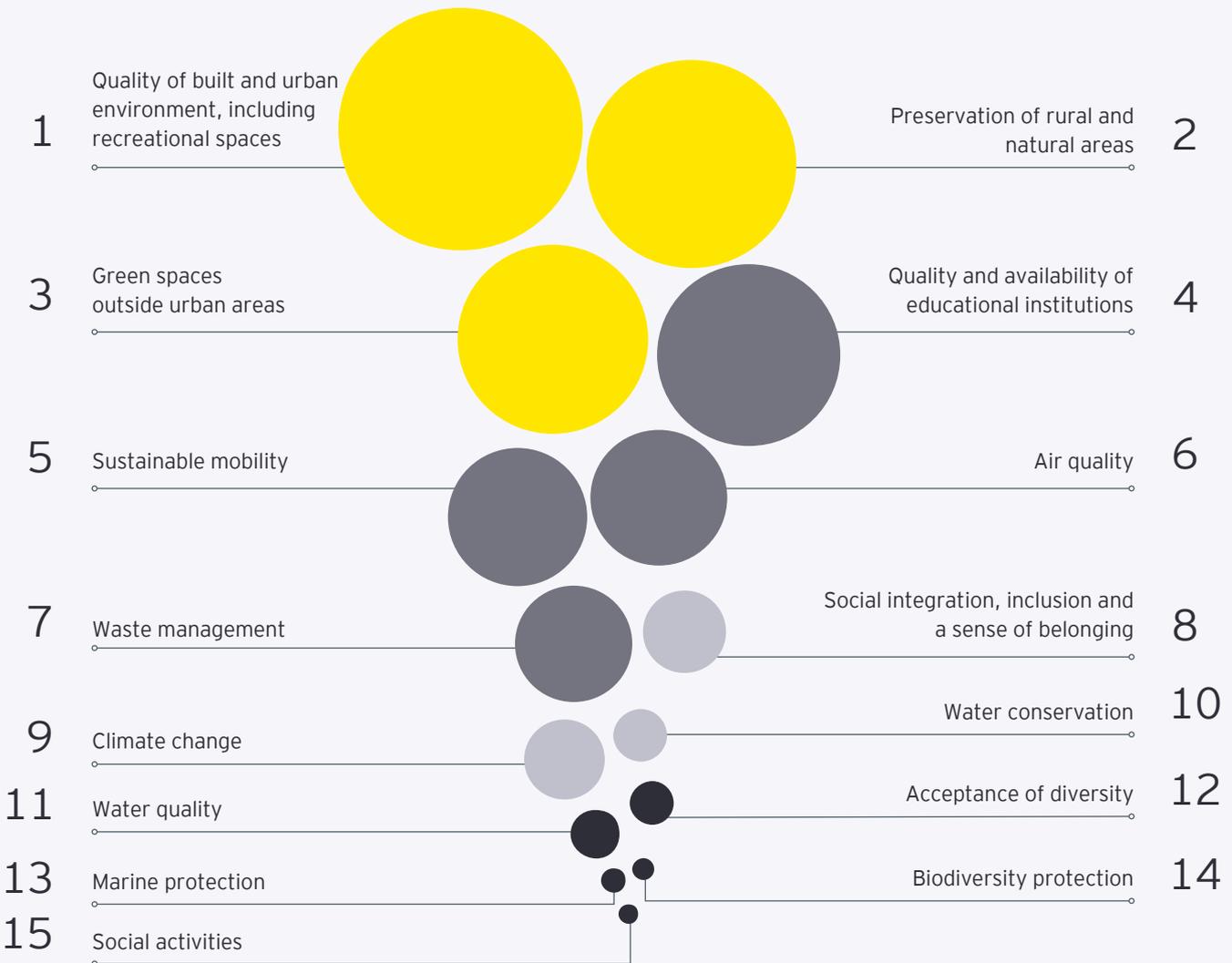
Source: all 2022 respondents.

The top environmental and social factor that Malta should prioritize to increase investment attractiveness is the quality of built and urban environment, including recreational spaces, followed by the preservation of rural and natural areas and, finally, green spaces outside urban areas.

The highest-ranked parameters relate to the built environment, including recreational spaces, the preservation of rural and natural areas, and green spaces outside urban areas. The quality and availability of educational institutions also scored highly, placing just outside the top three.

A new question looked at what environmental and social factors foreign investors believe Malta should prioritize to increase investment attractiveness.

Figure 26: Environment and social factors that Malta should prioritize to increase investment attractiveness



Source: all 2022 respondents.

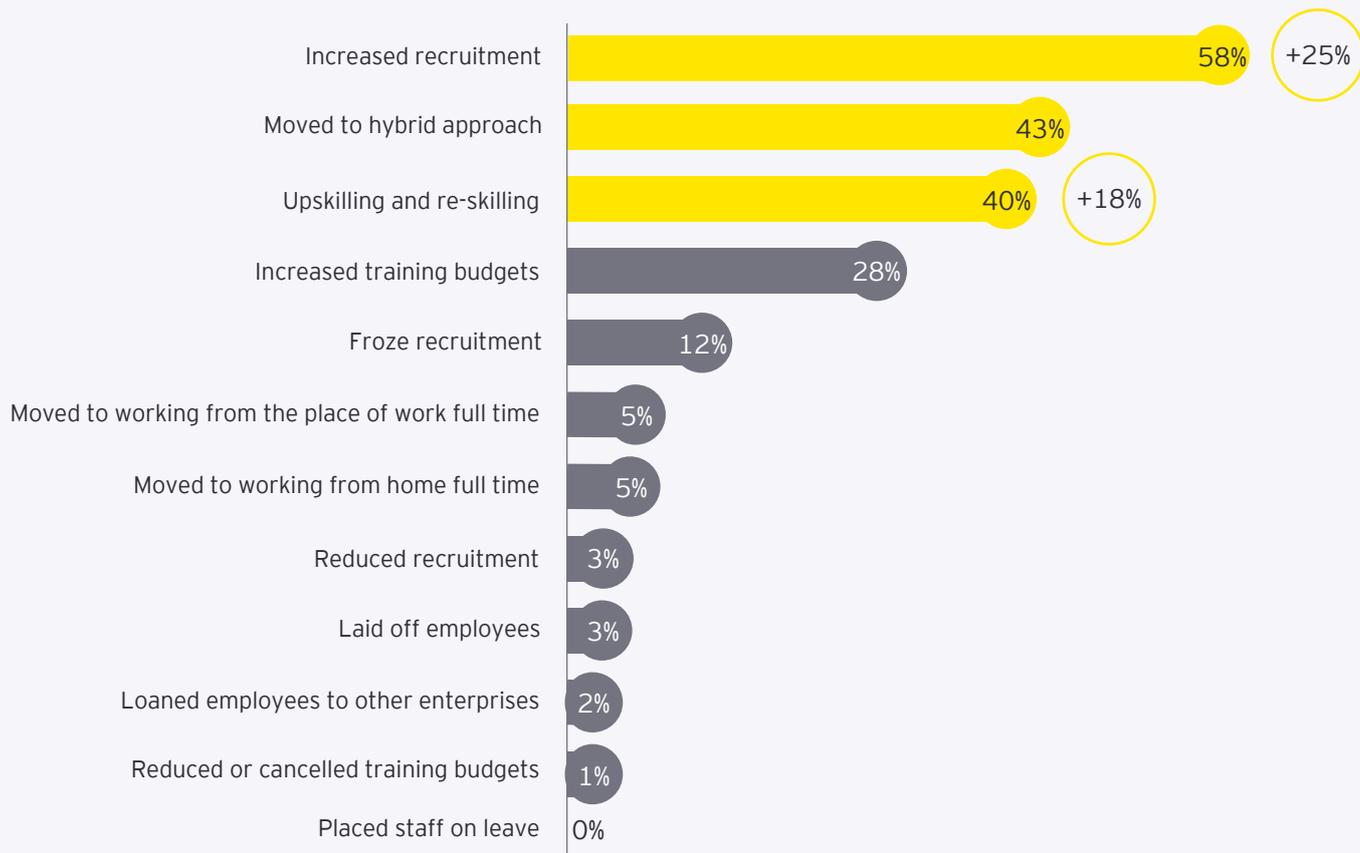
Skills

Almost two-thirds of companies have increased recruitment actions in the past year, up 25 pts since 2021 and 49 pts since 2020.

Two years after the start of the COVID-19 pandemic, companies have returned to high levels of increased recruitment (58%). In 2020, half the companies surveyed had frozen recruitment because of the pandemic.

This year, only 12% still have such policies in place. Forty-three percent have moved to a hybrid approach. Upskilling and re-skilling (40%) has doubled in a single year, scoring 22% in 2021.

Figure 27: People and recruitment actions

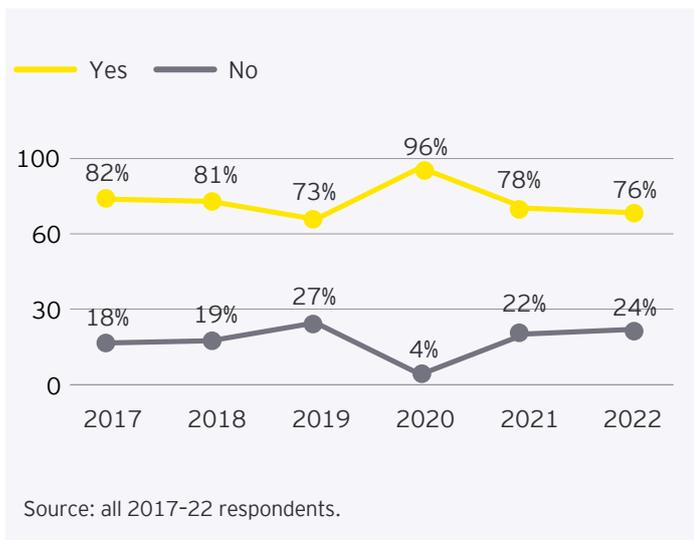


Source: all 2022 respondents.

Companies' ability to retain specialized personnel has remained high and in line with the last year and pre-pandemic levels.

Apart from a sharp increase in 2020, which saw employees prioritizing job security during the pandemic, the ability of companies to retain specialized personnel has remained relatively constant. Seventy-six percent are managing to retain specialized personnel in 2022.

Figure 28: Retaining specialized personnel



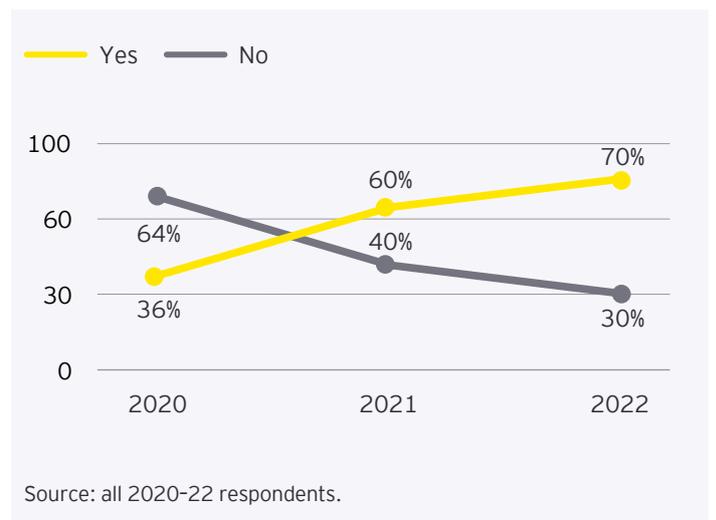
70%

of companies report being in the market for people with specialized skills.

Companies looking to recruit people with specialized skills has increased by 10 pts in a single year ...

As recruitment actions increased over the last couple of years, so has the need for companies to recruit people with specialized skills. Seventy percent of companies report being in the market for people with specialized skills.

Figure 29: Recruiting people with specialized skills

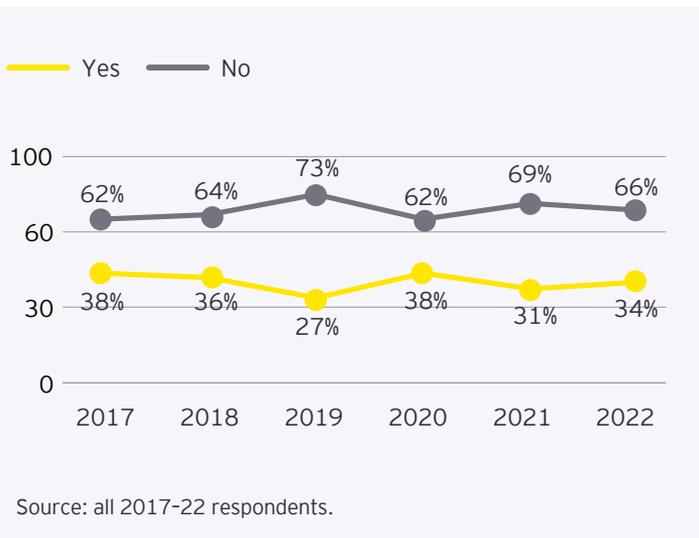


... and although there was a slight improvement, difficulties to find the required specialized skills persist.

Skills shortages are a perennial problem for most European countries and, over the last few years, Malta has been no exception. In 2020, due to the pandemic, the ability of companies to find and recruit individuals with the required specialized skills witnessed a trend reversal, as fewer respondents reported not finding such skills on the local labor market.

However, because of the country’s economic expansion, Malta’s skill supply has been unable to keep up with increasing demand for specialized skills. In 2022, 66% reported not being able to find the required specialized skills in the local labor market. However, this is a slight improvement on the last year, which indicates that the challenge is being tackled on several fronts and, positively, not worsening further.

Figure 30: Finding the required specialized skills in the local labor market

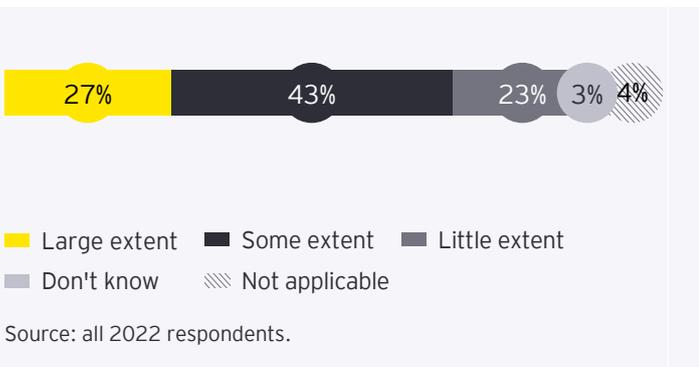




Even with skills shortages, a large majority of investors believe that, to a large or some extent, Malta's skills base makes the country an attractive place to invest ...

Twenty-seven percent of investors believe Malta's skills base makes the country an attractive place to invest, and 43% say it does to some extent. A further 23% of respondents indicated it does to a little extent.

Figure 31: Malta's skills base makes the country an attractive place to invest

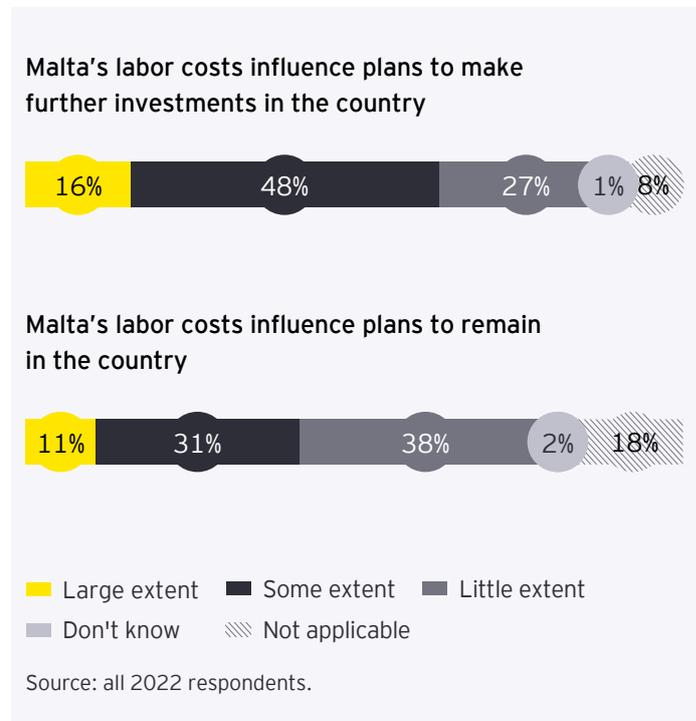


... but rising labor costs may influence their plans to make further investments in the country.

When asked if Malta's labor costs influence their plans to make further investments in the country, 16% said it does to a large extent and half said it does to some extent. One-fourth said only to a little extent.

Looking at the impact of labor costs on investors' plans to remain in the country, 11% of respondents said rising labor costs impacted these plans to a large extent, while an additional 31% believed these affected their plans to some extent. A further 38% believe that labor costs have little influence on their plans to maintain their operations in Malta.

Figure 32: Malta's human resources cost

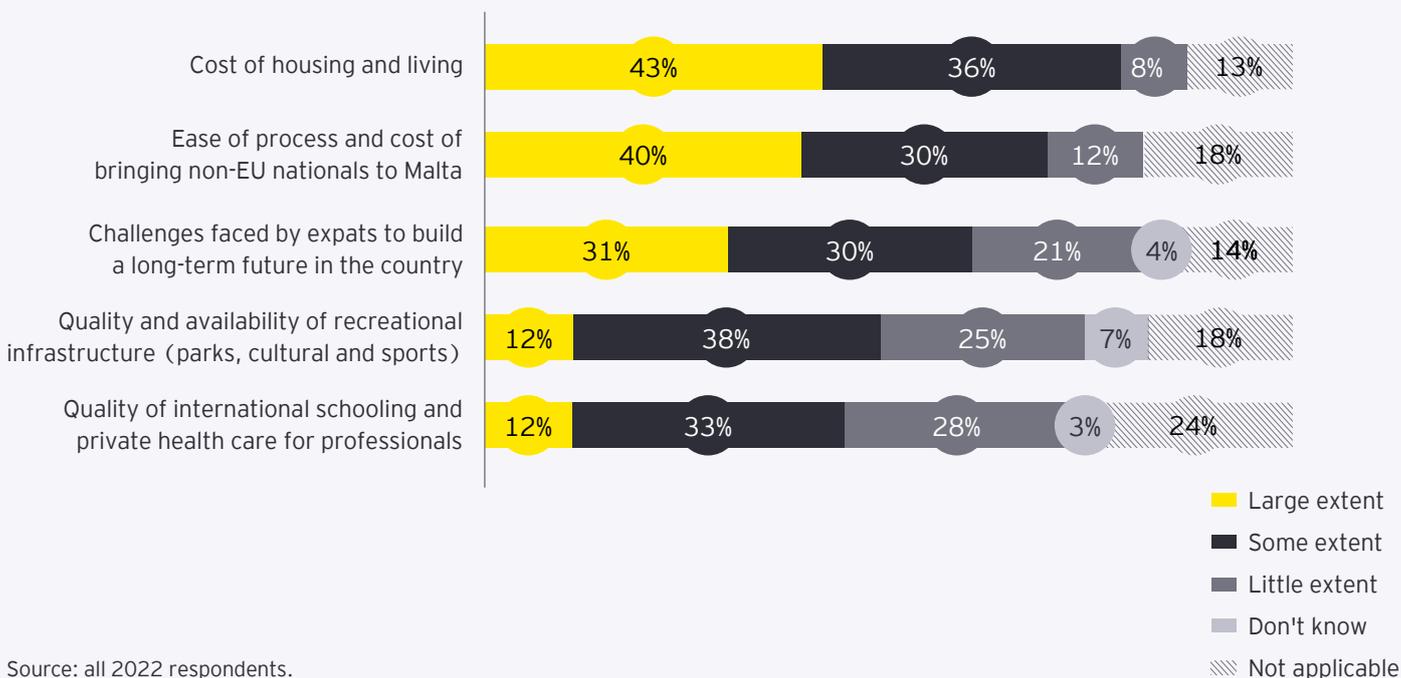


Cost of housing and living is the number one factor impacting the ability to recruit and retain talent from overseas, followed by ease of process and cost of bringing non-EU nationals to Malta.

To overcome the skills shortages being faced, investors believe that the cost of housing and living is a big factor impacting their ability to recruit and retain talent from overseas, with nearly half, at 43%, stating this is affected to a large extent. An additional 36% believe this has had an influence to some extent.

Ease of process and cost of bringing non-EU nationals to Malta has a large impact, according to 40%, and some impact for 30%. Another important factor is the challenge being faced by expatriates to build a long-term future in the country, with 31% of respondents believing this is a large challenge for their businesses.

Figure 33: Factors impacting ability to recruit and retain talent from overseas



The top priorities to enhance the ability to recruit and retain talent from overseas include more efficient work permit and residence entry procedures, and faster and simpler work permit renewal procedures.

More efficient work permits and faster renewals are the top priorities for current investors to support them in recruiting and retaining talent from overseas. Many respondents mentioned witnessing improvements over the last few years in these areas, which is also helping them to address some of these challenges.

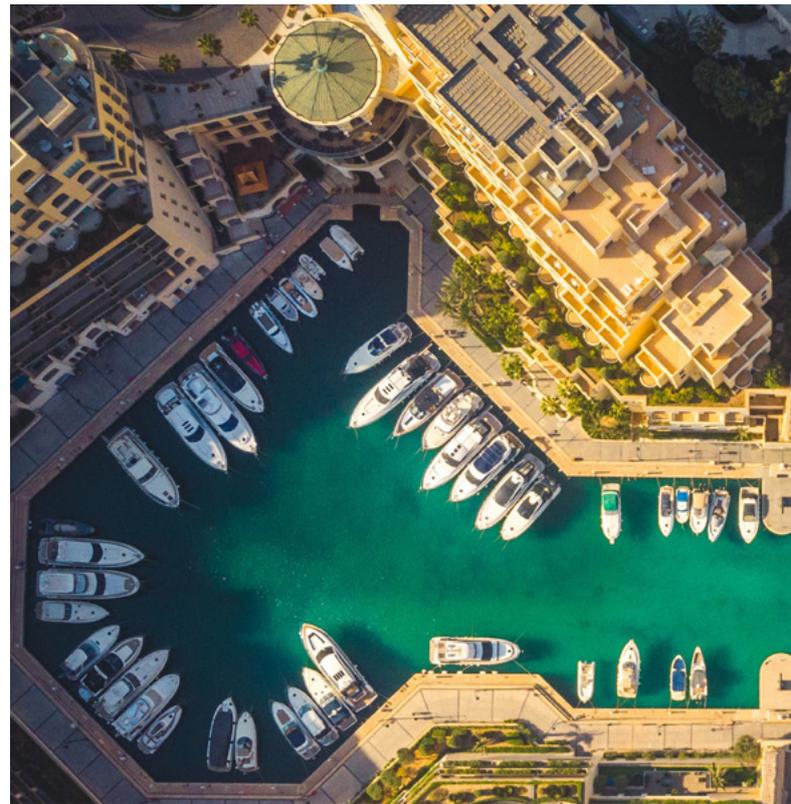
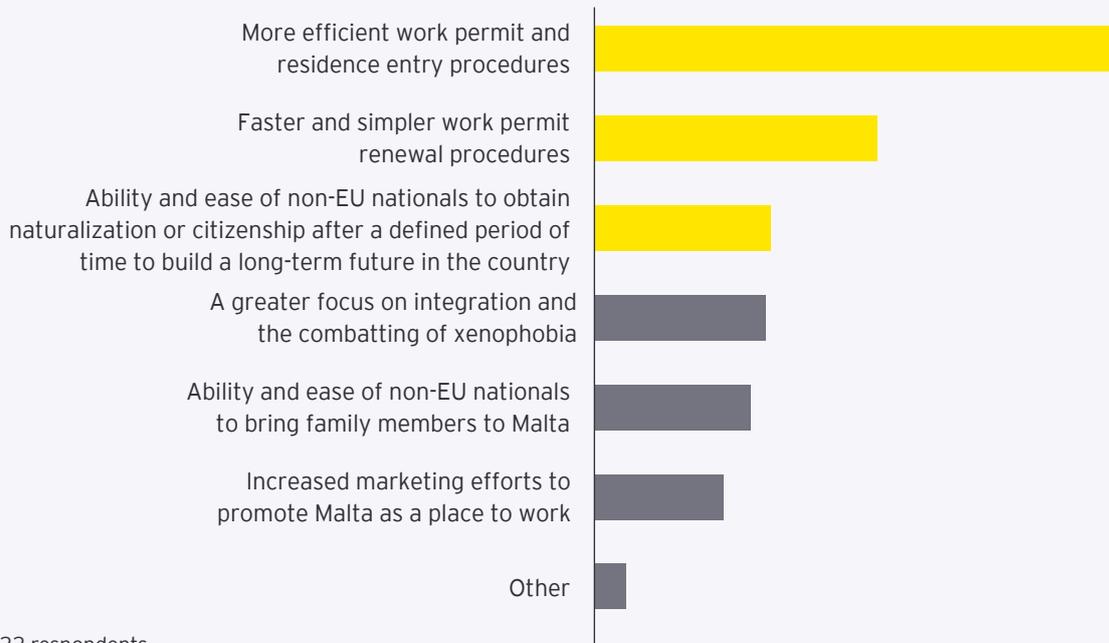


Figure 34: Priorities to enhance ability to recruit and retain talent from overseas



Source: all 2022 respondents.

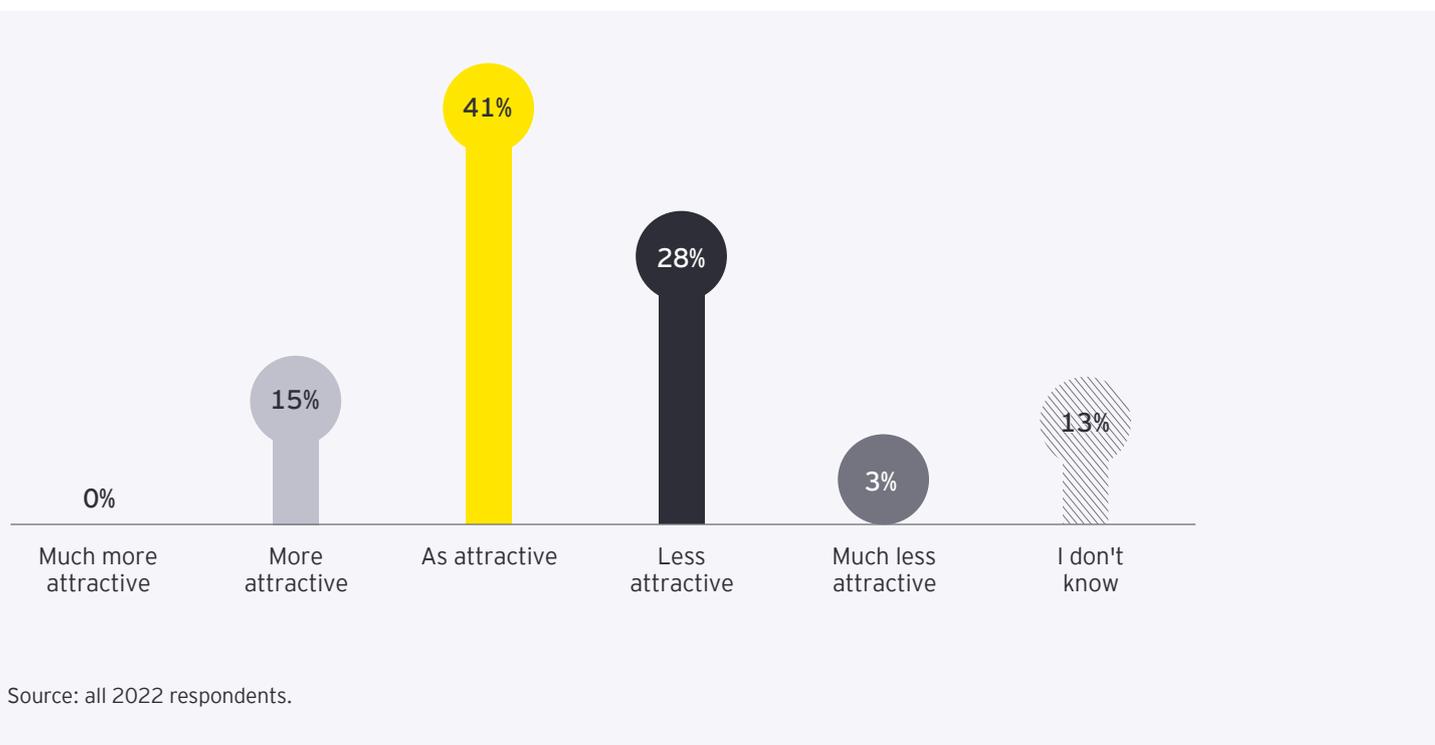


Technology

Investors have mixed views on whether Malta is as attractive as other European countries in terms of technology-related factors, with 41% believing it is at par.

Notwithstanding its small size, 41% believe Malta is as attractive as other European countries in terms of technology-related factors that influence investment. Twenty-eight percent said it is less attractive and only 3% said it is much less attractive, while on the other hand, 15% of respondents think it is more attractive.

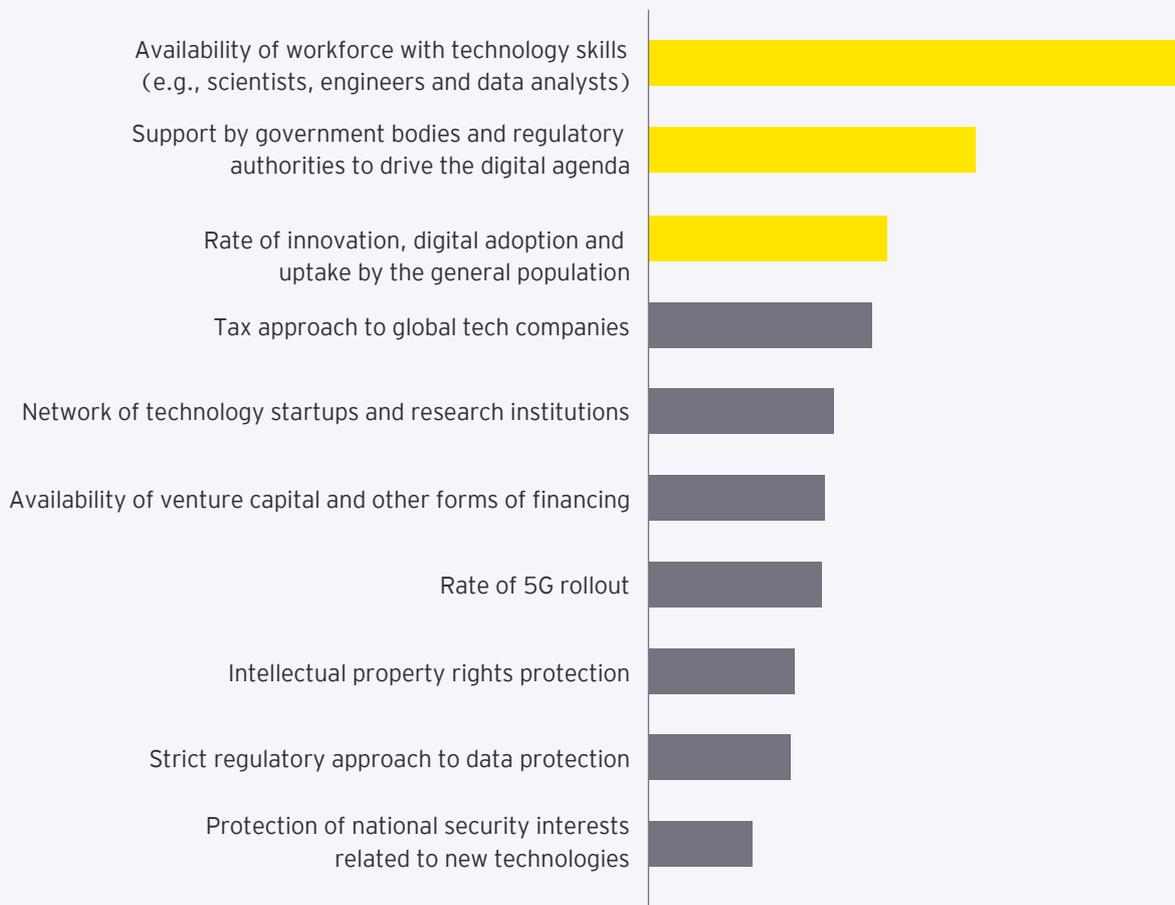
Figure 35: Malta’s technology-related attractiveness compared with other European countries



The most important technology-related factors when choosing a country to invest in are the availability of workforce with technology skills, and the support by government bodies and regulatory authorities to drive the digital agenda.

With regard to technology-related factors, the availability of a technologically skilled workforce is considered by respondents to be the most important factor when choosing a country to invest in. This parameter outranked, in terms of importance, the second-placed parameter, which was the importance of support by government bodies and regulatory authorities, by a significant percentage.

Figure 36: Most important technology-related factors when choosing a country to invest in

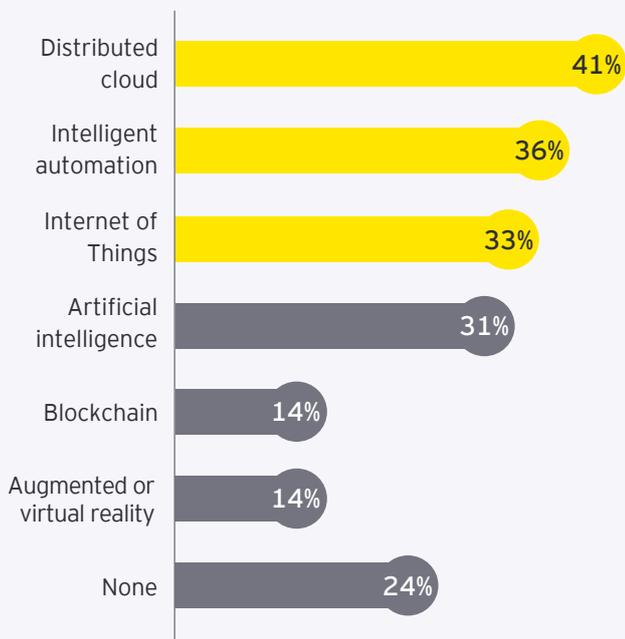


Source: all 2022 respondents.

Distributed cloud, intelligent automation and the Internet of Things (IoT) are the top three emerging technologies being considered for investment.

Respondents were asked which three emerging technologies they are considering investing in. Distributed cloud (41%) emerged on top, followed by intelligent automation (36%) and the Internet of Things (33%), artificial intelligence (31%), blockchain (14%) and augmented or virtual reality (14%).

Figure 37: Emerging technologies being considered for investment

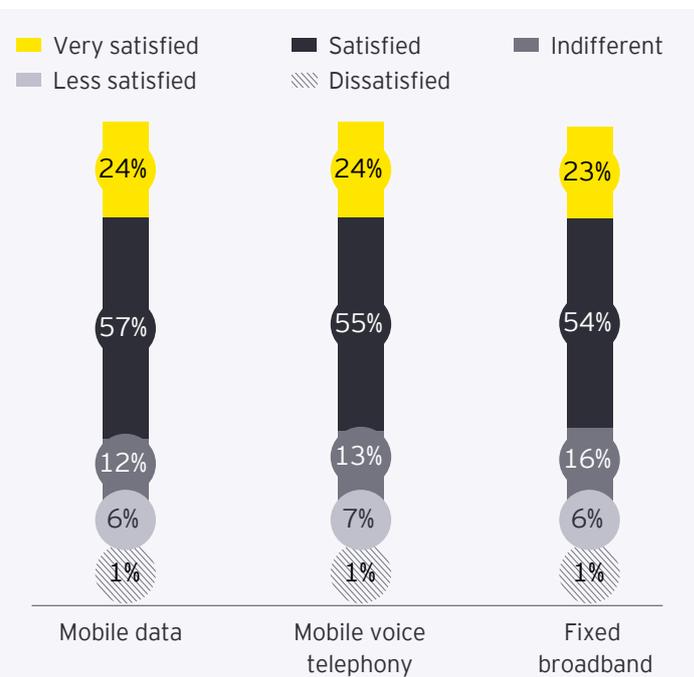


Source: all 2022 respondents.

There are high levels of satisfaction for telecommunication services.

As in previous years, satisfaction levels are consistently high across the three surveyed telecommunications services provided in Malta. The highest overall satisfaction level registered was for mobile data services (81%), followed by mobile voice telephony services (79%) and fixed broadband services (77%).

Figure 38: Level of satisfaction with telecommunications services



Source: all 2022 respondents.

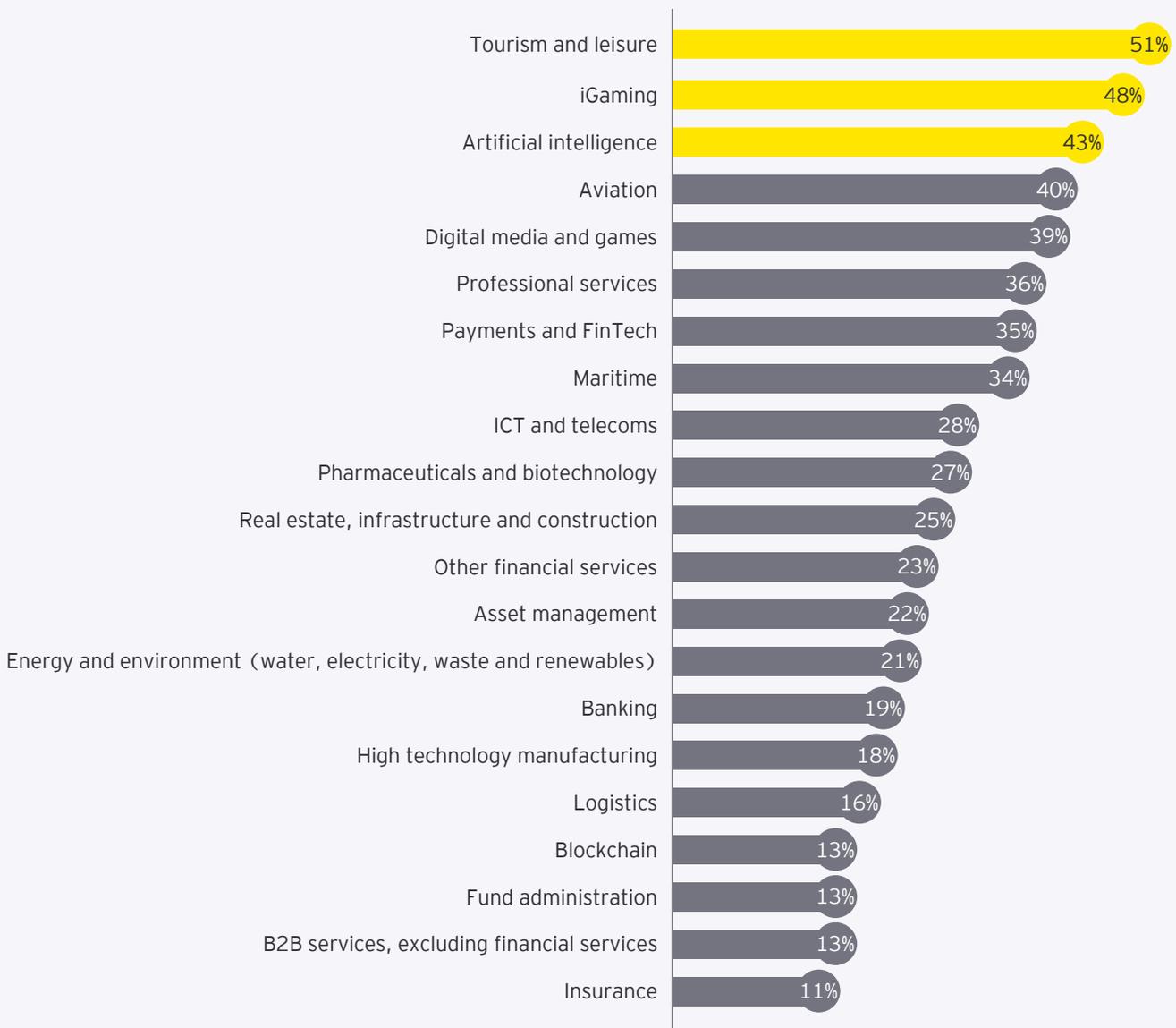
Future

Over the next five years, investors believe the leading business sectors will be tourism and leisure, iGaming and artificial intelligence.

The top three business sectors that respondents believe will drive Malta's growth over the next five years have remained unchanged since last year.

Tourism and leisure (51%), while still in first place, has declined 17 pts in one year. The next most cited sectors were iGaming (48%) and artificial intelligence (43%). Aviation has increased by seven pts and moved up five positions in the table, now finding itself in fourth place. Digital media and games, previously sixth, is now in fifth place with 39%.

Figure 39: Leading business sectors over the next five years



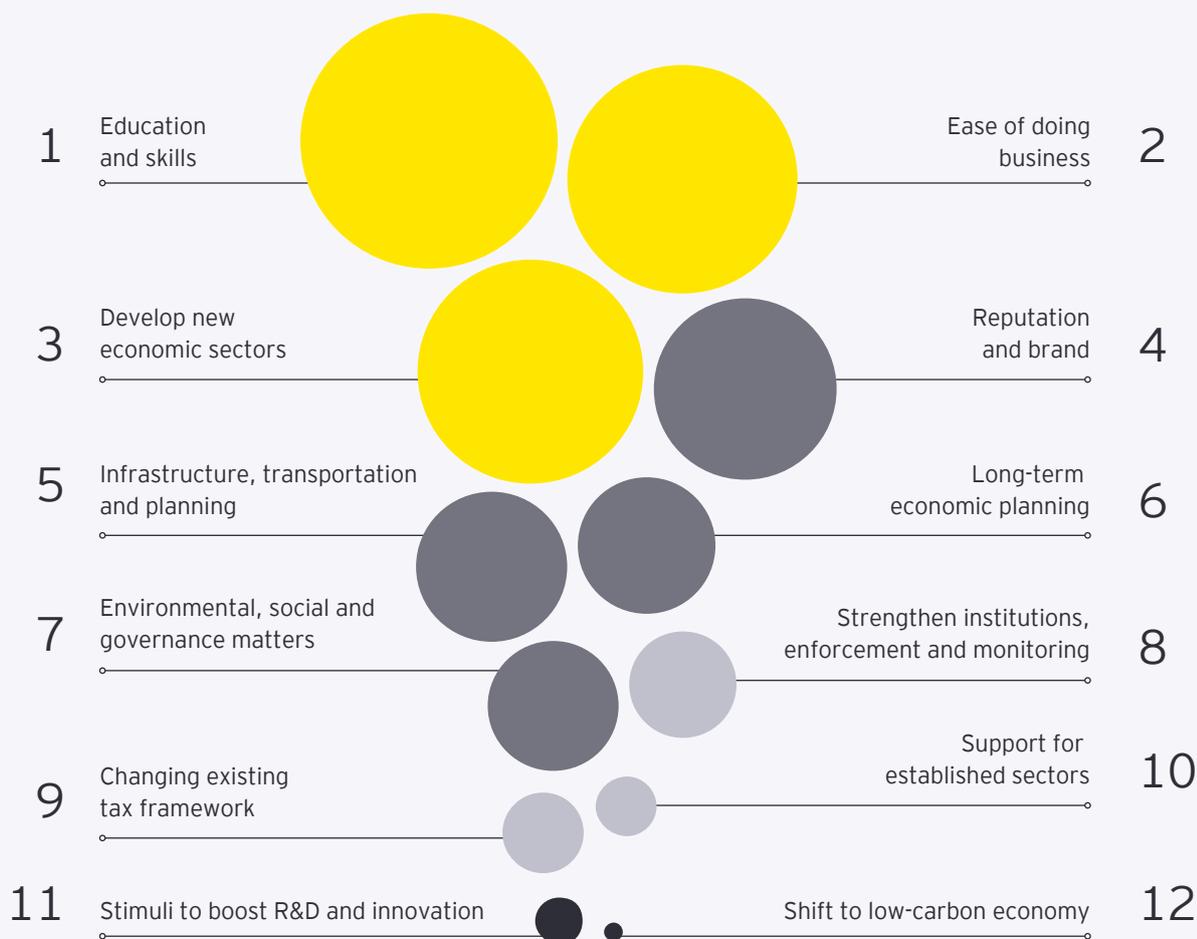
Source: all 2022 respondents.

The top priority to remain globally competitive is education and skills, followed by ease of doing business and developing new economic sectors.

In 2021, respondents believed reputation and brand, education and skills, and strengthening institutions were Malta's top three priorities to remain globally competitive. Following the country's removal from the FATF grey list, investors believe education and skills is the current top priority for the country to remain globally competitive.

Ease of doing business and developing new economic sectors are now in second and third position, up from fifth and fourth respectively in last year's survey. Reputation and brand has moved into fourth place from last year's first position, and strengthening institutions, enforcement and monitoring is now in eighth position from third.

Figure 40: Priorities to remain globally competitive



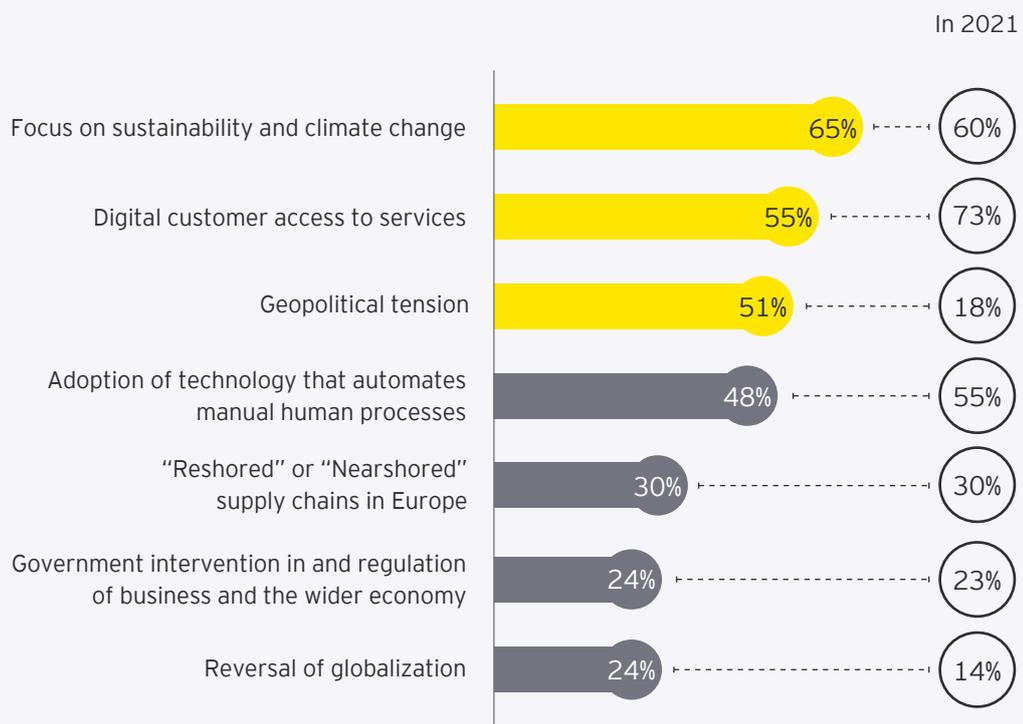
Source: all 2022 respondents.



A focus on sustainability and climate change is expected to accelerate most in the next three years, followed by digital customer access to services. Geopolitical tension has almost tripled in a single year.

The top trend expected to accelerate in the next three years is now a focus on sustainability and climate change (65%), taking the top spot from digital customer access to services (55%), which is down 18 pts. Geopolitical tension (51%) has increased by 33 pts since last year and is now in the top three.

Figure 41: Trends expected to accelerate most in the next three years

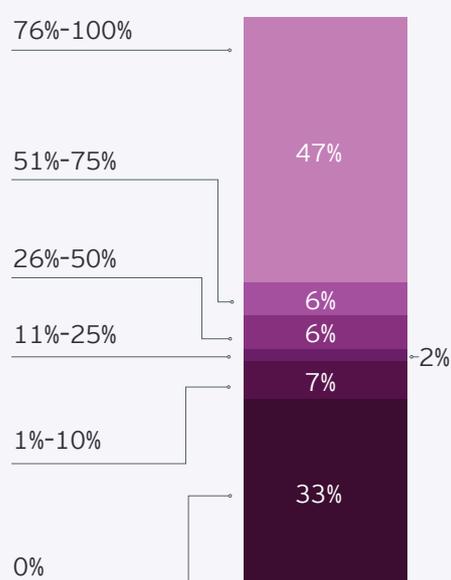


Source: all 2021-22 respondents.

Methodology

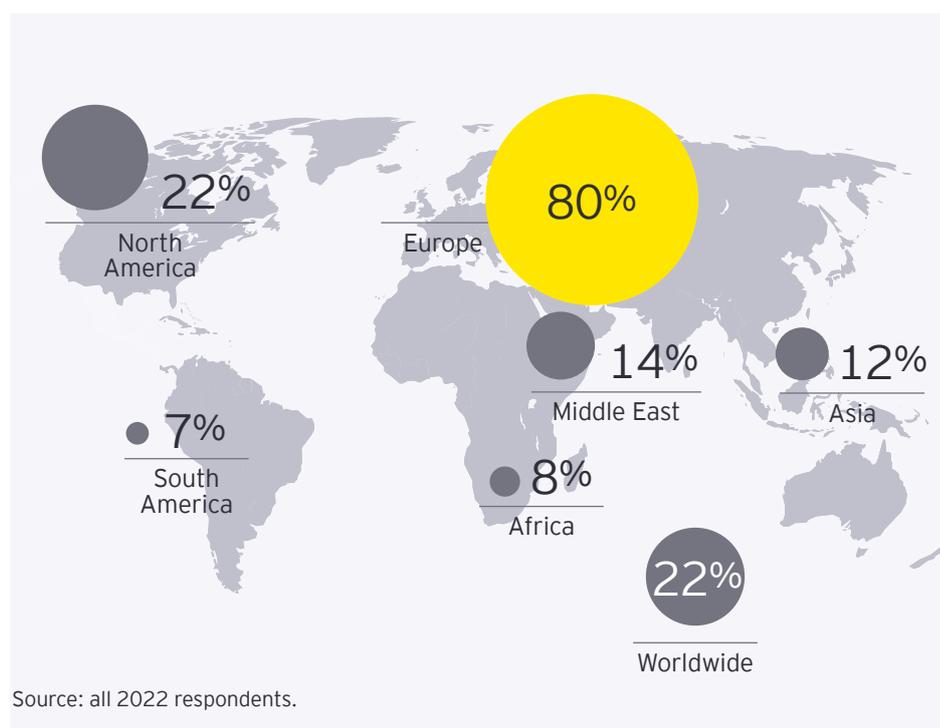
A total of 120 existing FDI companies of investors responded to the EY survey, conducted in July and August 2022.

Figure 42: Percentage of revenue exported



Source: all 2022 respondents.

Figure 43: Key target markets



Source: all 2022 respondents.

About the EY Attractiveness program

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

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

For more information, please visit:

ey.com/attractiveness #EYAttract

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