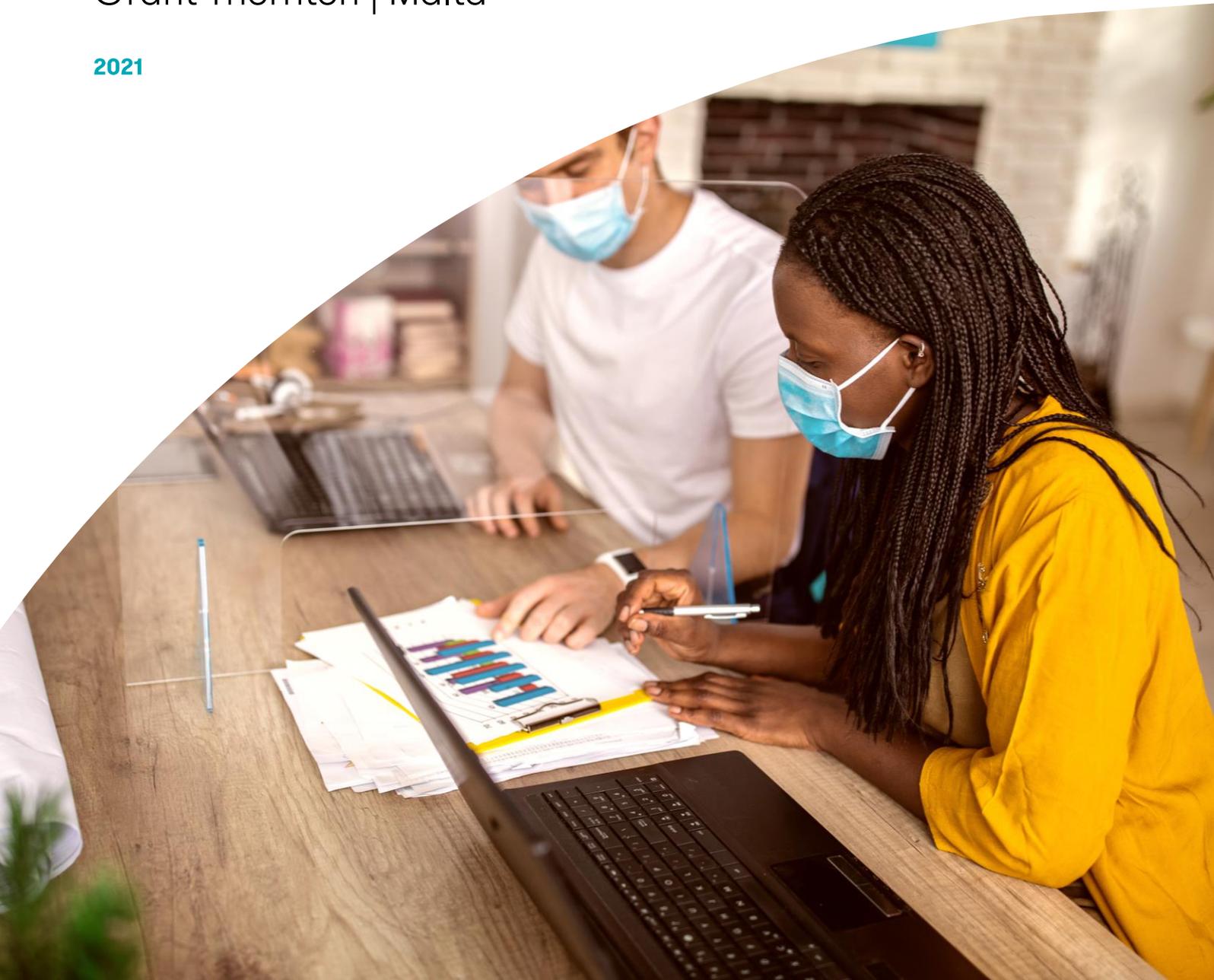


Shaping Malta's Future 2021

Financing during and post Covid-19

Grant Thornton | Malta

2021



Contents

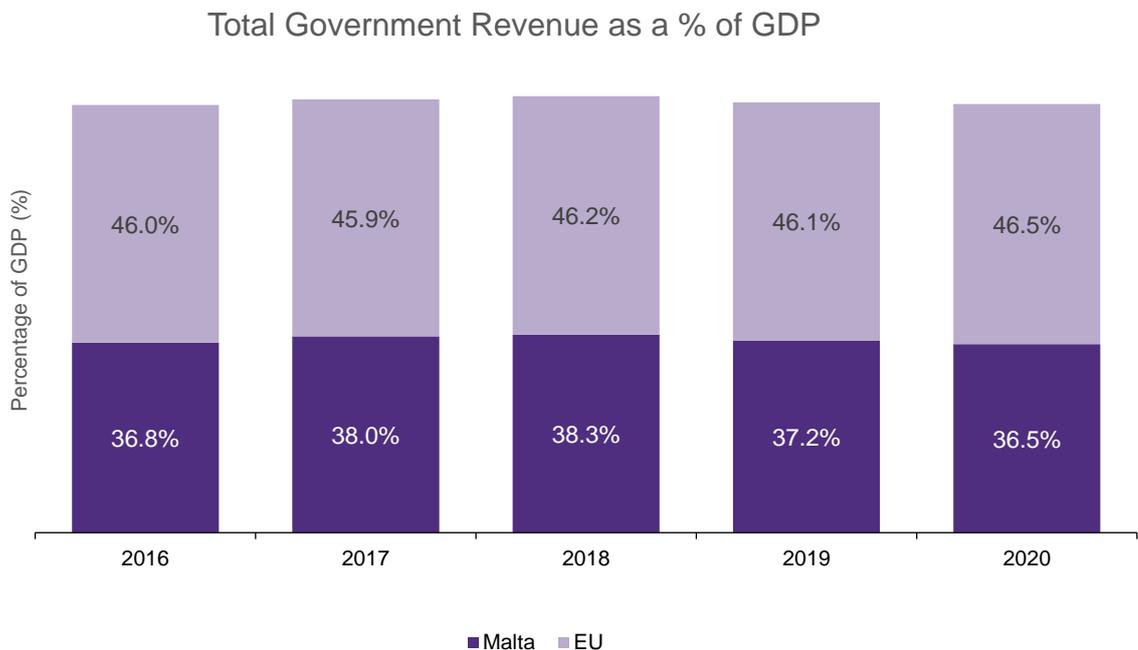
Section	Page
Financing during and post Covid-19	4
Grant Thornton International	8
Grant Thornton Malta	9
Our service lines	10
Contacts	11



Financing during and post Covid-19

The COVID-19 pandemic in conjunction with the social and economic crisis it triggered has not only caused immeasurable suffering in the past year and a half but could also derail global efforts to achieve the 2030 Agenda for Sustainable Development. In some parts of the world, the pandemic has fast turned into a humanitarian crisis, threatening to push millions into a state of acute food deprivation and poverty, endangering the lives of millions.

As the economy kickstarts, fears of lingering economic damage that came about due to Covid-19 has resulted in business uncertainty. Most of the concern centres on small businesses. Even though many local schemes and measures are introduced by entities such as Malta Enterprise, capital cushions in small businesses tend to be thin and alternative sources of financing are limited. In fact, bankruptcies have risen dramatically, though not as severely as many predicted, at least not yet. These business failures will weigh against a full economic recovery. On the corporate side of the business equation, however, finances remain in remarkably good shape, despite any damage done by the lockdowns and quarantines



From a local perspective, the total governmental revenue has suffered year on year decreases from 2018 to 2020, as depicted in the chart above. Up until 2018, total revenue seemed to be on the gradual increase due to economic growth in the country. In line with the economic downfall caused by the pandemic, Malta's governmental revenue in 2020 dropped to 36.5% of the country's GDP. This is mainly due to a decrease in consumer spending and an increase in unemployment which increased from 3.6% in 2019 to 4.3% in 2020. As a result, Government had to increase his efforts and further invest to safeguard jobs, organisational sustainability, and the economy in general.

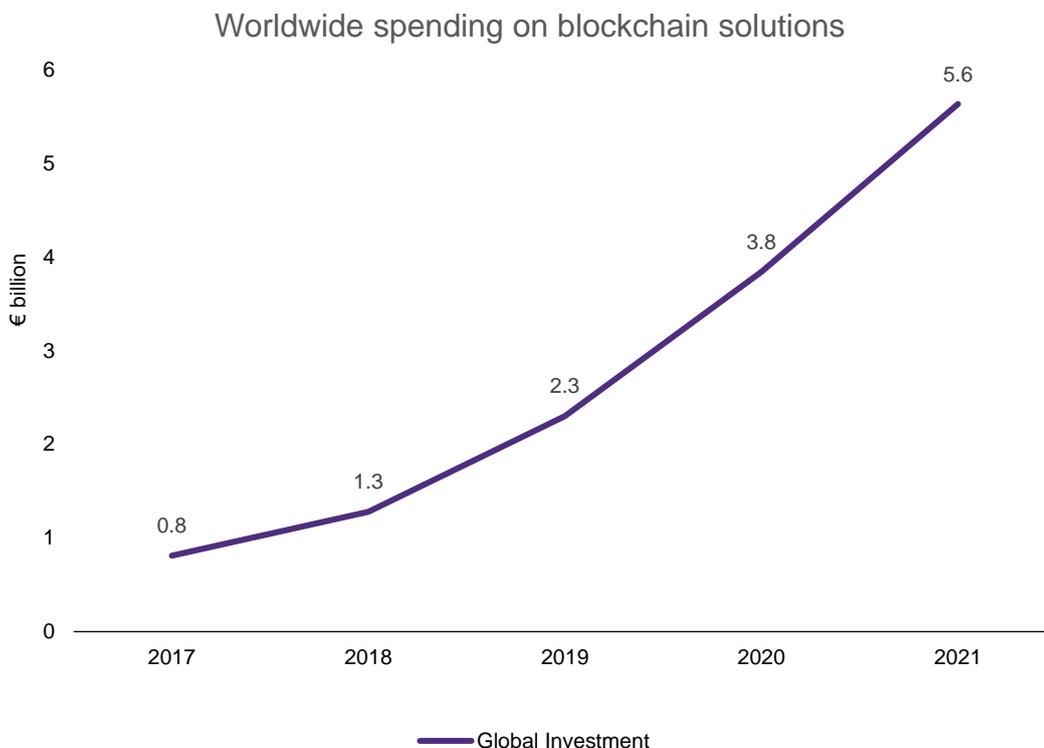
Investment was injected through several schemes, in conjunction with the Malta Enterprise. Such schemes included the Covid-19 Wage Supplement scheme and Government vouchers for the public to be spent in the local economy, the 'Restart Incentive Scheme 2021' and the 'Smart and Sustainable Investment Scheme 2021'. Government expenditure has increased, reaching €6 million in 2020, an increase of 10% from the previous year.

The ripple effect of the pandemic signalled other downfalls within the wider economy, with the capital markets being one of the main sectors effected. The widening gap in performance and the valuation surge among a few elite companies demonstrate the pandemic-induced acceleration or deceleration of trends. The aviation, retail, hospitality, financial services, real estate, and automotive industries have taken the hardest hits during the pandemic. On the other hand, some sectors like technology, healthcare and the pharmaceuticals industries have flourished.

Interestingly, despite the global pandemic, one 'newer' type of industry seems to have gained substantial growth rates both in terms of users and in terms of organisations offering such services. Here we are referring to the phenomenon of the 'Distributed Ledger Technology (DLT)' industry.



A list of evolving records that use cryptography to link back to each other and contain transactional data has led to the introduction of blockchain which has taken the business world by storm. Blockchain data is meant to be resistant to modification and acts as a secure record of transaction. The intricacies of the technology itself may be hard to grasp even for tech enthusiasts, but the growing popularity and prevalence of the technology are clear for all to see. Blockchain technologies can be used as public means of transactions as well as private ledgers for inter-company transactions and record keeping. The improved visibility and efficiency, as a result, can help organizations overcome the challenges posed by the COVID-19 pandemic.



As depicted in the chart above, the global spending in blockchain markets between 2017 and 2021, increased from €0.81 billion to €5.63 billion respectively, signalling an increase of a compound average growth rate of 47%. Despite the challenges faced by the pandemic, companies around the world are still investing heavily.



The local financial services industry expressed a collective interest in virtual currency and the methods in which such money can be developed. At the base of the virtual money stands the distributed ledger technology phenomenon and all kinds of innovations which are part of the banking system in Malta. Investing in blockchains for business security in Malta is on the list of investors worldwide who can set up companies in this field. Malta is currently investing in DLT through two main ways:

- 1) Commercial Bank Blockchains – These are banks who use blockchain to store transaction history across many controlled-access computers that is virtually impossible to delete or change.
- 2) Peer-to-peer applications – These are methods which can be used by businesses to safeguard their clients' data. As a result, activities such as car sharing, hotel reservations and business meetings can be done in a more convenient and encrypted way.

As a result, such blockchain investments in line with other Foreign Direct Investment can help a country like Malta, which relies heavily on foreign investment, move out of the negative economic downfall caused by the pandemic, and start focusing on kickstarting economic growth, competitiveness, and innovation.

This means that changing rates on capital markets and the influence of foreign industries investing in Malta are crucial to the growth of the economy. Various institutions of the capital market, like nonbank financial intermediaries, allocate resources rationally in accordance with the development needs of the country. This results in the expansion of trade and industry in both public and private sectors, thus promoting economic growth in the country.

In conclusion, the pandemic has shown that certain industries can be materially impacted with significant pressures on the financial situation of a company. As such, proper assessment of the financial soundness of a company and adequate diversification is of paramount importance for foreign investors. Since the Maltese economy will remain very much dependent on financial services, real estate, and hospitality, one must be aware of the change in capital markets and their effect on such industries to react, plan and adapt for the future.

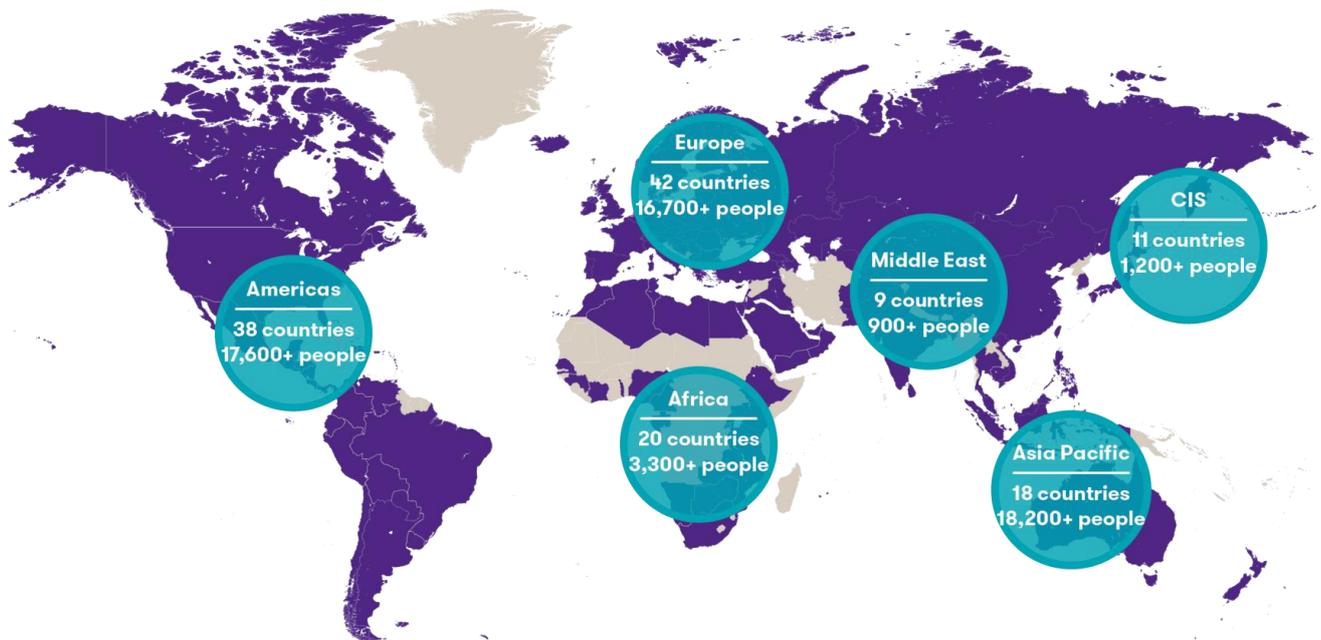
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Our distinctive client experience sets us apart



USD5.76bn
(2020 revenue)



58,000+
people



750+
offices



138
countries

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- financial statement reviews
- financial statement compilations
- reporting on controls at a service organisation
- IFRS
- audit quality monitoring
- global audit technology
- systems and risk assurance

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- governance and risk management
- regulatory services
- risk modelling services
- forensic and investigation

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- change and program management
- business intelligence and analytics
- business valuation and litigation support
- business process outsourcing and consulting

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- mergers and acquisitions
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- project financing
- due diligence
- valuations
- foreign direct investment

Recovery and reorganisation

- operational and financial restructuring and reorganisation
- recovery

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- IT business consultancy
- technology implementation
- blockchain technology
- fintech consultancy
- cyber security consultancy

Tax and regulatory

- direct international tax
- global mobility services
- indirect tax advisory
- transfer pricing
- estate planning
- wealth advisory
- FATCA/CRS advisory and compliance
- IRS qualified intermediary advisory and compliance
- regulatory and legal
- corporate services
- ship and aircraft registration
- company formation
- financial regulatory services
- trust and fiduciary services

Outsourcing

- bookkeeping and financial accounting
- payroll and personnel administration
- direct and indirect tax compliance
- human resources
- compilation of financial statements
- business process outsourcing including back office and secretarial
- consulting and processing engagements
- family business consulting

Economic advisory services

- economic impact assessments
- cost-benefit analyses
- cost effectiveness analyses
- value for money analyses
- public private partnership advisory
- public procurement advisory
- advocacy reporting
- evaluations of projects, policies and programmes
- strategy development
- product development costing and determination of pricing strategies
- market research
- survey design, collection and analyses
- ad-hoc engagements

Quantitative risk advisory

- ICAAP & ILAAP
- capital requirements
- ALM & Actuarial ALM
- stress testing (BASEL III / SOLVENCY II)
- independence reviews
- credit risk
- interest rate risk
- price risk (hedging)
- foreign exchange risk
- data mining
- data science
- Tableau dashboard
- data management
- statistics and data analytics
- remediation and anti-money laundering
- tool kit using research techniques

Other services

- assistance with EU and local funding
- marketing and communications consultancy
- brand development
- human resource consultancy

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