

BUDGET DOCUMENT
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Executive Summary

Budget 2015 constitutes the first annual budget within the context of the independently endorsed National Medium-Term Fiscal Plan presented last April, and the recently enacted Fiscal Responsibility Act. It is also based on the Draft Budget Plan published in mid-October in line with the requirements of the Fiscal Responsibility Act.

Economic growth is projected to reach 3.0 per cent in 2014 and accelerate further to 3.5 per cent in 2015. The Maltese economy is expected to continue growing over the 2016-2017 period, rising by 3.4 per cent in 2016, and slowly converge to its potential and reach 2.9 per cent in 2017. Employment growth is expected to maintain a strong momentum and rise by an average of 2.0 per cent in 2014 and 2015. Inflation should remain relatively low during this year at an average of 0.7 per cent but is expected to increase moderately to 1.5 per cent in 2015.

After bringing the deficit down from 3.7 per cent in 2012 to 2.7 per cent of GDP in 2013. The Government is aiming to reach a deficit target of 2.1 per cent of GDP for this year, and to continue on this path of fiscal consolidation and further reduce the deficit to 1.7 per cent of GDP in 2015.

A number of structural reforms, particularly in the transport and energy sectors, are expected to exert a notable impact on public finances. On the other hand, a number of fiscal consolidation measures are envisaged in order to mitigate the impact of higher expenditure commitments. The fiscal targets in the 2015 Budget will also be supported by a range of structural economic policies as presented in this year's National Reform Programme. These include the implementation of a number of supply-side policies aimed at raising the country's potential growth whilst ensuring responsible environmental management and social cohesion.

Against this background, the Budget for 2015 is based on the strategy of making work pay. This will be achieved by ensuring that the social security system positively incentivises work effort

and discourages dependency, while introducing measures to strengthen social cohesion and reduce poverty for families on low income. Strengthening the skill and educational levels of the workforce will also be given priority.

Furthermore, the Budget for 2015 aims to enhance the competitiveness of the Maltese economy through a number of public-private partnerships, reduction in utility tariffs and other incentives to encourage entrepreneurship.

1. Macroeconomic Review and Outlook

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Amidst the fragile economic performance of most countries in the Euro Area and the uneven economic performance observed in the rest of the world, the Maltese economy continued to grow by an average rate of 3.2 per cent in real terms in the first half of 2014. A sectoral analysis of the economy shows that growth in gross value added was rather broad based, with strong increases registered primarily in the service sectors, including the professional, scientific and technical activities, the administration and support services activities, and the information and communication activities.

During the same period, compensation of employees increased by 5.6 per cent (or €93.4 million) as growth in employee compensation was recorded in all sectors of the economy, with the exception of the agriculture, forestry and fishing sector. Gross operating surplus and mixed income increased moderately by €26.7 million or 1.7 per cent during the same period. Meanwhile, taxes on production and imports increased by an average rate of 11.9 per cent, while subsidies on production and imports increased by 19.3 per cent.

Labour market developments strengthened markedly during the first half of 2014, as gains in employment were coupled with a falling unemployment rate. The Labour Force Survey (LFS) recorded an employment rate of 61.6 per cent in the second quarter of 2014, a 1.0 percentage point increase when compared to the corresponding quarter in 2013. During the same quarter, the official harmonised unemployment rate stood at 5.9 per cent which is lower than the rate prevailing in 2013 and the rates recorded in the Euro Area (11.6 per cent) and the European Union (10.3 per cent).

In addition, the twelve month moving average HICP inflation rate, which during 2013 stood at 1.0 per cent, continued in its downward trajectory during the first half of this year and stood at 0.8 per cent in the latest report. The annual HICP inflation rate was marginally lower, standing at 0.6 per cent in September 2014.

Economic Forecasts

The Maltese economy is expected to retain the positive momentum in the second half of 2014. Overall growth in 2014 is expected to reach 3.0 per cent in real terms, and will continue to be supported primarily by positive developments in the domestic sector of the economy. Indeed, private consumption is expected to increase by 2.1 per cent in real terms, sustained by robust growth in employment and real disposable income, the latter driven by an appreciation in wages, lower energy prices, and lower income tax rates.

Main Macroeconomic Indicators

Table 1.1

	2013	2014 ⁽¹⁾	2015	2016	2017
GDP growth at current market prices (%)	4.6	5.1	4.8	4.8	4.7
GDP growth at Chain Linked Volumes (2010) (%)	2.5	3.0	3.5	3.4	2.9
Expenditure Components of GDP at Chain Linked Volumes (2010) (% change)					
Private final consumption expenditure ⁽²⁾	1.7	2.1	2.1	2.1	1.4
General government final consumption expenditure	0.5	6.0	2.5	0.9	0.5
Gross fixed capital formation	2.2	14.3	4.8	6.1	5.1
Exports of goods and services	-1.6	0.7	5.9	2.9	2.0
Imports of goods and services	-1.7	1.9	5.5	2.5	1.5
Contribution to real GDP growth					
Final domestic demand	1.5	5.0	2.7	2.7	2.0
Change in inventories and net acquisition of valuables	N/A	0.0	0.0	0.0	0.0
External balance of goods and services	-0.0	-2.0	0.7	0.7	0.9
HICP Inflation rate (%)	1.0	0.7	1.5	2.1	2.0
Employment growth (%) ⁽³⁾	3.0	2.1	1.9	1.5	1.4
Harmonised Unemployment rate (%)	6.4	6.0	5.9	5.7	5.7

(1) Forecasts from 2014 onwards

(2) Includes NPISH final consumption expenditure

(3) Headcount, LFS

Government expenditure is projected to rise by 6.0 per cent in 2014, reflecting increases in compensation of employees and intermediate consumption. Gross fixed capital formation is expected to remain strong over the second half of the year and increase by 14.3 per cent in 2014, largely on the back of a large-scale project in the energy sector, the absorption of EU funds and the recovery in construction activity.

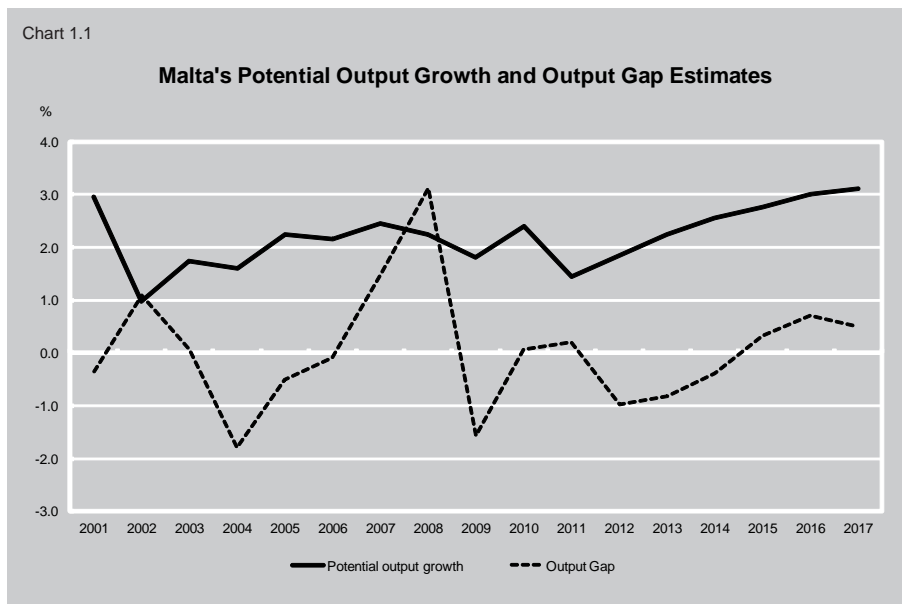
Exports are expected to grow marginally by 0.7 per cent during 2014, reflecting the subdued external demand counter-balanced by a weaker exchange rate. The strong domestic demand, particularly investment, is expected to drive up imports by 1.9 per cent, resulting in a negative net trade contribution to growth.

During 2015, economic growth is set to accelerate, growing by 3.5 per cent in real terms, with domestic demand remaining the main driver. However, the negative trade gap forecasted for 2014 is expected to be reversed, with net exports contributing positively to economic growth. Domestic demand is expected to be supported by a positive performance in both private and public consumption expenditure and gross fixed capital formation. Positive external developments are expected to be primarily underpinned by favourable exchange rates developments, whilst the foreseen recovery in imports is largely reflecting strong domestic conditions. The macroeconomic forecasts for 2015 and beyond are based on a no policy change approach.

The Maltese economy is expected to continue growing over the 2016-2017 period, rising by 3.4 per cent in 2016, whilst growth is expected to slowly converge to its potential and reach 2.9 per cent in 2017. Domestic demand is expected to remain the main driver of growth; yet the external sector is also set to contribute positively towards economic growth in both years. Private consumption is expected to remain robust in 2016 and to grow less strongly in 2017, rising by 2.1 per cent and 1.4 per cent respectively. Public consumption is set to remain positive over the forecast period, albeit at subdued growth rates in line with the Government's fiscal consolidation targets, rising by 0.9 per cent in 2016 and by 0.5 per cent in 2017. Growth in gross fixed

capital formation is set to remain steady for the outer years of the forecast period, with expected rates of 6.1 per cent and 5.1 per cent in 2016 and 2017 respectively. In addition, the positive trade gap forecasted for 2015 is expected to persist during both years as net exports are forecast to increase by an average rate of 0.4 per cent and by 0.5 per cent in real terms respectively.

The positive developments in the Maltese economy are expected to be sustained by a strong and resilient labour market. Growth in employment is expected to remain robust as it is set to increase by 2.1 per cent and 1.9 per cent in 2014 and 2015 respectively and by an average of 1.5 per cent thereafter. Congruently, the harmonised unemployment rate is expected to continue declining from a forecasted rate of 6.0 per cent in 2014 to 5.7 per cent by 2017. This is well below the expected EU average rate and reflects efforts in ongoing active labour market policies. The HICP inflation rate is expected to average 0.7 per cent in 2014 and it is expected to remain broadly stable at around 2.0 per cent over the 2015-2017 period.



Potential Growth and Cyclical Conditions

The average potential output growth stood at 2.1 per cent during the period 2006 to 2013. Over the forecast period 2014 to 2017, potential output growth is expected to exhibit a gradual increase. In fact, average potential growth is expected to hover around the 2.9 per cent level, mainly underpinned by positive developments in the labour market through higher participation rates, improvements in investment and improvements in the total factor productivity.

The output gap is expected to remain negative in 2014. However, in 2015 the output gap is expected to turn positive and to remain so over the forecast horizon with the Maltese economy registering a rate of economic growth that is above potential over the 2015 and 2016 period, with growth reverting to potential in 2017.

2. Fiscal Review and Outlook

2. Fiscal Review and Outlook

The fiscal deficit in 2013 was brought down from 3.7 per cent in 2012 to 2.7 per cent of GDP, well beyond the headline target recommended by the European Council of 3.4 per cent. This is 0.3 percentage points below the 3.0 per cent deficit threshold. Despite the reduction in the deficit, a strong economic recovery, and the attainment of a primary surplus, the national debt ratio increased to 69.8 per cent of GDP on account of a debt-increasing stock-flow adjustment.

The Government is committed to continue on a path of fiscal consolidation and further reduce the deficit to 2.1 per cent of GDP this year, and to 1.6 per cent of GDP in 2015. This is expected to stabilise the increase in the debt ratio in 2014, which is then expected to embark on a downward trajectory reaching 69.0 per cent of GDP in 2015.

Sustainable Public Finances

The sustainability of public finances is seen by the Government as a prerequisite for attracting investment and for supporting the Government's role in the economic, social, health and environmental dimensions. Apart from the fiscal consolidation measures detailed in Chapter 3 of this document, a process of fiscal reforms has been underway in order to enhance fiscal discipline whilst ensuring that fiscal policy is better synchronised with the economic cycle.

A number of reforms in the fiscal framework were legislated in August of this year. The Fiscal Responsibility Act has been enacted by Parliament on 8 August 2014, with the unanimous support of the Maltese Parliament. The Act delineates the main principles of fiscal responsibility and objectives of fiscal policy.

The Act establishes the fiscal rules which ensure that the main principles of fiscal responsibility are adhered to. The features of this law bind national fiscal authorities with numerical targets

to achieve a balanced structural budget or, in the absence of a balanced budget, to convergence towards a balanced structural budgetary position as Malta's Medium-Term Objective (MTO). Furthermore, the Act establishes the Fiscal Council as the main supervisory body of this Act, defines its composition, delineates its powers, and provides for its functional independence. In addition, the Act establishes the medium term budgetary framework and strengthens the budgetary process and the role of the Ministry for Finance.

Budgetary Developments and Targets

Over recent months, the Government has upheld its commitment to reach a deficit target of 2.1 per cent of GDP by the end of this year, as stated in the Update of the Stability Programme of April 2014, and the Draft Budgetary Plan of October 2014.

As part of its ongoing effort to further strengthen its fiscal framework, the Ministry for Finance has been monitoring closely on a monthly basis revenue and expenditure outcomes on a consolidated basis with the aim of identifying variances with respect to its annual targets. This has enabled the Government to take the necessary decisions in a timely fashion. Furthermore, revenue departments evaluate trends in revenue collection on a daily basis in concomitance with a regular risk assessment.

Table 2.1 contains the outcome of January to September 2014 consolidated data for Government revenue and expenditure against budget estimates for the same period. The comparison shows that on the revenue side, actual Government revenue for the period January to September 2014 was €15.6 million lower than expected. This was mainly the result of lower than expected revenue from customs and excise duties amounting to €67.4 million, on account of accrued payments of excise duty on fuel by Enemalta which are owed to Government and are expected to materialise by the end of this year.

Direct tax revenue was €69.4 million more than forecasted as a result of higher than expected revenue from both income tax

Central Government Finances

(January-September)

Table 2.1

€ thousand

	2013	2014	2014	2014
	Actual	Actual	Forecast	Variance
Recurrent Revenue	2,056,245	2,227,318	2,242,954	-15,636
Tax Revenue	1,831,532	1,950,242	1,953,047	-2,804
<i>Indirect Tax Revenue</i>	706,339	741,765	814,010	-72,244
Customs and Excise Duties	141,578	111,822	179,238	-67,415
Licenses, Taxes, and Fines	160,744	175,911	190,238	-14,327
Value Added Tax	404,017	454,031	444,533	9,498
<i>Direct Tax Revenue</i>	1,125,193	1,208,477	1,139,037	69,440
Income Tax	683,236	728,948	674,930	54,018
Social Security	441,957	479,529	464,107	15,422
Non-Tax Revenue	224,713	277,076	289,907	-12,831
Fees of Office	24,959	29,923	44,302	-14,380
Reimbursements	17,108	17,748	17,717	31
Public Corporations	0	0	539	-539
Central Bank of Malta*	42,000	44,000	44,000	0
Rents*	18,981	22,614	22,614	0
Dividends on Investments*	10,914	5,118	5,118	0
Repayment of Interest on Loans	1,408	1,120	604	516
Grants**	93,751	135,592	135,592	0
Miscellaneous	15,593	20,962	19,422	1,540
Total Expenditure	2,493,100	2,683,254	2,624,835	58,419
Recurrent Expenditure	2,070,966	2,232,043	2,173,624	58,419
Personal Emoluments	449,133	485,907	462,649	23,258
Operations and Maintenance	90,708	94,991	99,499	-4,508
Programmes and Initiatives	1,200,630	1,282,904	1,255,900	27,004
Contributions to Government Entities	165,036	196,236	183,571	12,666
Interest Payments*	165,460	172,005	172,005	0
Capital Expenditure**	256,674	279,206	279,206	0
Central Government Balance	-436,855	-455,935	-381,881	-74,054

* Values not taken into account since values are expected to be met at end-of-year

** Since revenue from grants and capital expenditure tend to cancel each other, the variance of the two is not taken into account

Source: National Statistics Office & Economic Policy Department, Ministry for Finance

and social security contributions. Indeed, income tax revenue was €54.0 million higher than projected while social security contributions were €15.4 million above the baseline. This overall positive performance in direct tax revenue reflected the impact of higher than forecasted economic and employment growth.

With regards to indirect tax revenue, lower than projected revenue of €72.2 million resulted from lower than estimated revenues from customs and excise duties and licenses, taxes and fines. In contrast, revenue from VAT was €9.5 million higher than projected, reflecting the robust growth in consumption throughout the period under review.

Non-tax revenue was €12.8 million lower than forecasted, mainly attributed to the under-performance in revenue from fees of office but this is expected to be reversed towards the end of this year. This negative variance more than offset the marginally higher than expected revenue from miscellaneous receipts of €1.5 million.

On the expenditure side, the comparative analysis shows that actual Government expenditure for the period January to September 2014 was €58.4 million higher than projected mainly stemming from higher than projected expenditure in programmes and initiatives (€27.0 million), personal emoluments (€23.3 million) and contributions to government entities (€12.7 million). On the other hand, expenditure on operations and maintenance was €4.5 million lower than projected.

As a result, for the period January to September 2014, the central Government negative balance was €74.1 million higher than the budgetary estimates. However, when accounting for the negative variance in customs and excise which is related to the payment of Enemalta arrears expected by the end of the year, the shortfall between revenue and expenditure for this period was €6.7 million. Considering a consolidated planning total of €2.7 billion, this negative variance in the consolidated balance suggests that the Government is on track in reaching the deficit target for this year. Nevertheless, the Government will continue

controlling and monitoring monthly revenue and expenditure figures to ensure that the fiscal targets continue to be attained.

Expenditure and Revenue Targets for 2015-2017

During 2015, the general Government deficit is projected to decline by a further 0.5 percentage points of GDP from 2.1 per cent to 1.6 per cent. This reduction in the deficit-to-GDP ratio will materialise as a result of the Government's commitment to fiscal consolidation, including the restraints on discretionary expenditure and increases in expenditure efficiency. Table 2.2 includes the general Government budgetary targets for the period 2014 to 2017, together with the budgetary developments

	2013	2014	2015	2016	2017
	Actual	Revised	Estimates	Estimates	Estimates
	€'000	€'000	€'000	€'000	€'000
Consolidated Fund					
Tax Revenue	2,602,507	2,962,733	3,063,650	3,179,950	3,317,723
Non-Tax Revenue	389,597	397,206	491,399	410,240	395,271
Total Revenue	2,992,104	3,359,939	3,555,049	3,590,190	3,712,994
Recurrent Expenditure	2,632,649	2,821,833	2,949,674	3,073,005	3,155,058
Capital Expenditure	354,685	382,356	513,765	411,010	397,761
Primary Balance	4,770	155,750	91,610	106,175	160,175
Interest Payments	227,905	231,224	240,220	246,000	252,000
Recurrent Surplus / (Deficit)	131,550	306,882	365,155	271,185	305,936
Consolidated Fund (Deficit)	(223,135)	(75,474)	(148,610)	(139,825)	(91,825)
Financing					
Direct Loan Repayments	(370,283)	(361,661)	(349,377)	(474,489)	(372,926)
Contributions to Sinking Funds - Local	(4,059)	(3,261)	(3,261)	(3,261)	(3,261)
Contributions to Sinking Funds - Foreign	(6,465)	(6,465)	(6,465)	(6,465)	(6,665)
Contributions to Special MGS Sinking Fund	-	(50,000)	(50,000)	(50,000)	(50,000)
Equity Acquisition	(66,534)	(28,855)	(44,159)	(12,100)	(100)
Loan Facility to the Hellenic Republic	-	-	-	-	-
Loan Facility to Air Malta plc	-	-	-	-	-
EFSF / ESM Credit Line Facility	0	(4,500)	(4,500)	(4,500)	(4,500)
Repayment of Loans to Government	30	2	40,002	12,002	2
Sinking Funds of Converted Loans	28,380	-	-	-	-
Sale of Non-Financial Assets	[1,500]	2,000	-	-	-
Sale of Assets	-	-	-	-	-
	(418,931)	(452,740)	(417,760)	(538,813)	(435,450)
Public Sector Borrowing Requirement	(642,066)	(528,214)	(566,370)	(678,638)	(527,275)
Foreign Loans	-	-	-	-	-
Consolidated Fund balance as on 1 January	(80,123)	(95,105)	25,522	(40,848)	(169,486)
Local Loans	627,084	648,841	500,000	550,000	600,000
	546,961	553,736	525,522	509,152	430,514
Consolidated Fund balance as on 31 December	(95,105)	25,522	(40,848)	(169,486)	(96,761)
Consolidated Fund (Deficit)	(223,135)	(75,474)	(148,610)	(139,825)	(91,825)
General Government Adjustments	21,180	(91,526)	18,610	52,825	52,825
General Government (Deficit)	(201,955)	(167,000)	(130,000)	(87,000)	(39,000)
Gross Domestic Product	7,510,067	7,894,929	8,275,899	8,669,205	9,079,172
General Government (Deficit) as a % of Gross Domestic Product	-2.7%	-2.1%	-1.6%	-1.0%	-0.4%

for 2013.

Debt Levels: Developments and Targets

The goal of achieving sustainable public finances hinges not only on addressing the imbalance in public finances, but also on reducing the debt-to-GDP ratio at a satisfactory pace. During 2014, the debt-to-GDP ratio is expected to increase to 70.1 per cent from a level of 69.8 per cent registered in 2013. In 2014,

General Government Debt Developments ⁽¹⁾					
Table 2.3	per cent of GDP				
	2013	2014	2015	2016	2017
Gross debt	69.8	70.1	69.0	67.0	62.7
Change in gross debt	1.9	0.3	-1.1	-2.0	-4.2
Contribution to change in gross debt					
Primary Balance	-0.3	-0.8	-1.3	-2.0	-2.4
Snowball Effect	-0.1	-0.6	-0.5	-0.3	-0.3
Interest Expenditure	2.9	2.8	2.8	2.8	2.8
Real GDP growth	-1.7	-1.0	-1.3	-2.0	-1.5
Inflation Effect	-1.3	-2.4	-2.0	-1.1	-1.5
Stock-flow adjustment	2.2	1.7	0.6	0.3	-1.5
Implicit interest rate on debt	4.5	4.2	4.1	4.2	4.3
⁽¹⁾ Developments in the debt- to-GDP ratio depend on: $\frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}} = \frac{PD_t}{Y_t} + \left(\frac{D_{t-1}}{Y_{t-1}} \frac{i - y}{1 + y} \right) + \frac{SFA}{Y_t}$					
where t denotes a time subscript, D, PD, Y and SFA are the government debt, primary deficit, nominal GDP and the stock-flow adjustment respectively, and i and y represent the average cost of debt and nominal GDP growth.					

the debt-to-GDP ratio is expected to increase on the back of a stock flow adjustment of 1.7 percentage points.

Indeed, in 2015, the debt-to-GDP ratio is expected to fall by 1.1 percentage points of GDP mainly on account of a positive primary surplus. The 'snowball effect' is also expected to contribute significantly to the reduction of the debt ratio in 2015, attributed to a debt decreasing effect exerted by real economic growth and inflationary pressures which more than offset the effect exerted by interest payments. The other factors contributing to changes in the debt-to-GDP ratio are captured by the estimated stock flow adjustment, which is estimated at 0.6 percentage points for 2015.

In the outer years of the forecast horizon, the debt-to-GDP ratio is expected to decrease to a level of 62.7 per cent by 2017. This decline is largely attributable to a considerable improvement in the primary balance, which is expected to contribute to a reduction of 2.0 and 2.4 percentage points in the debt-to-GDP during 2016 and 2017, respectively. Debt dynamics are portrayed in Table 2.3.

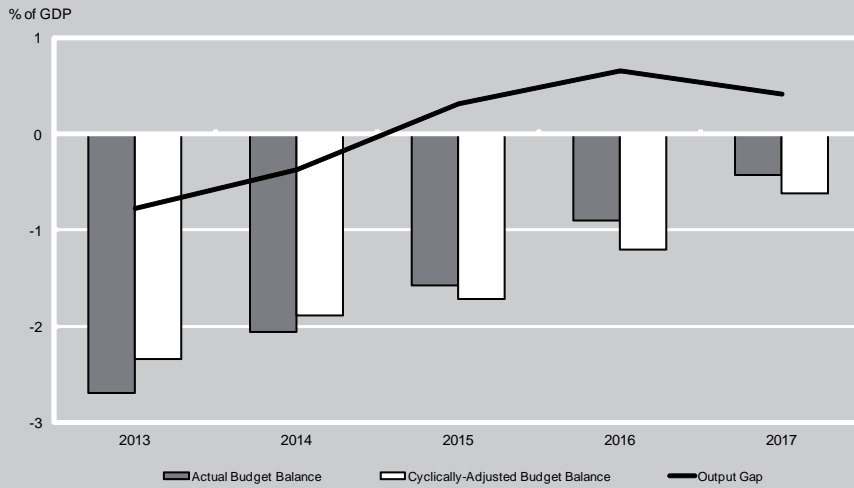
Structural Budgetary Conditions and the Medium-Term Objective

In 2014, a fiscal consolidation effort of 0.6 percentage points is supported by a structural effort of 0.3 percentage points of GDP, which target is expected to be achieved on the back of a strong performance in economic activity. It is to be noted that over the last two years, Malta has undertaken an average structural effort of 0.6 percentage points of GDP with the effort being frontloaded in 2013. Chart 2.1 depicts the actual and cyclically-adjusted budget balances over the period 2013-2017.

In 2015, the structural effort is projected to be 0.2 percentage points. It is however pertinent to note the higher equity injection in Air Malta in 2015 equivalent to 0.34 per cent of GDP. This equity injection partly offsets the fiscal consolidation measures undertaken in 2015 and thus weakens the estimated structural

Chart 2.1

Actual and Cyclically-Adjusted Budget Balances



Fiscal Consolidation

Table 2.4

per cent of GDP

	2013	2014	2015	2016	2017
General Government Balance	-2.7	-2.1	-1.6	-0.9	-0.4
One-off and other temporary measures(1)	0.1	0.2	0.2	0.1	0.1
General Government Balance net of One-offs	-2.8	-2.3	-1.8	-1.0	-0.5
Output Gap Estimates	-0.8	-0.4	0.3	0.7	0.4
Cyclically-Adjusted Budget Balance	-2.3	-1.9	-1.7	-1.2	-0.6
Structural Balance	-2.4	-2.1	-1.9	-1.3	-0.7
Structural Adjustment	1.0	0.3	0.2	0.6	0.6

⁽¹⁾ A plus sign means deficit-reducing one-off measures

effort. Nevertheless, it is worth highlighting that by its very nature, the expansionary budgetary impact of this injection is temporary and cannot be repeated in 2016. Furthermore, as shown in Table 2.4, the structural effort improves in the outer years of the forecast horizon.

A sound Fiscal Framework leading to the 2015 Budget

Expenditure Ceilings and the Medium-Term Budget Framework

The budgetary targets upon which the 2014 Budget was built upon rested on the back of a rolling three-year medium-term budgetary framework for expenditure commitments. This was first established in last year's Budget, with the Financial Estimates for 2014 as presented to Parliament determining for the first time detailed recurrent and capital spending targets for the 2014 to 2016 period. In addition, a three-year forecast of the level of revenues by classification of the main categories of revenues was also submitted to Parliament in the Financial Estimates.

The top-down approach envisaged in the establishment of spending ceilings was complemented by the Comprehensive Spending Review which is being conducted at each line Ministry level, to serve as a platform for medium-term public finance forecasts.

A Comprehensive Spending Review

The Comprehensive Spending Review (CSR) is part of the Government's medium-term framework. The CSR methodology of zero budgets, line-by-line analysis, and connecting outputs to expenditure inputs have been introduced within all spending ministries in 2014. Since then, leadership of the CSR methodology has been the responsibility of the Ministry for Finance.

The CSR should ensure that spending is under continuous

scrutiny and reflects changing priorities and changing needs. In 2014, the CSR focused on programmes and initiatives in all Ministries so that by the end of 2014, the Ministry for Finance will have line-by-line expenditure inputs and also outputs for the respective line items. Under such an approach, the Government is moving towards a unit cost approach in the analysis of lines of expenditure, whereby Ministries will be able to improve their decisions in re-prioritising between line items.

An in-depth CSR was also established at the Ministry for the Family and Social Solidarity (MFSS). In terms of expenditure, the MFSS is the largest Ministry with a total spending of €1.1 billion in 2013, of which €814.5 million were related to social security benefits. The CSR within the MFSS involved a series of hearings with various stakeholders and eventually culminated in a report which was submitted to the Ministry for Finance. The reforms in the social security system which will be announced in this Budget reflect the outcomes of this in-depth CSR analysis.

In 2015, the CSR will be introducing the concept of establishing an output for a line of expenditure. Therefore, all lines of spending under Programmes and Initiatives will have a corresponding output pertaining to that line of expenditure. The output will reflect the result of a benchmarking exercise whereby each line item will be assessed in terms of its contribution in promoting the public interest and the well-being for Malta. It is important to note that the CSR is an evolving exercise, and therefore outputs will improve each year.

A National Medium-Term Fiscal Plan

The three-year budgetary framework presented in the 2014 Budget was the basis for the completion of the Stability Programme submitted to the European Council and the Commission at the end of April 2014. Revenue targets were updated with the latest macroeconomic projections carried out by the Economic Policy Department within the Ministry for Finance. The macroeconomic projections underpinning the 2014 Update of the Stability Programme were submitted for the

scrutiny of the National Audit Office (NAO).

The Stability Programme was also, for the first time, submitted to the NAO for scrutiny in line with Article 13 of Regulation (EU) No. 473/2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the Euro Area. In this context, the 2014 Stability Programme represented a higher degree of commitment than earlier Programmes presented by Malta. The endorsement of the Stability Programme by an independent body elevated it to the status of Malta's National Medium-Term Fiscal Plan, which ultimately forms the basis of this year's Budget.

The October 2014 Draft Budgetary Plan for 2015

In accordance with the requirements of Article 16 of the Fiscal Responsibility Act and the aforementioned Regulation (EU) No. 473/2013, Malta published its Draft Budgetary Plan for 2015 on 15th October 2014. The assumptions and the macroeconomic and fiscal projections underpinning the Draft Budgetary Plan were updated to reflect the latest macroeconomic and fiscal outcomes.

In the absence of the establishment of a Fiscal Council, the macroeconomic and fiscal projections underpinning the Draft Budgetary Plan for 2015 were submitted for the scrutiny of the NAO. The NAO Report was published in September 2014.

Government has taken note of the NAO Report and will be considering the recommendations presented in the same report whilst monitoring closely the risk factors identified.

Updates of the 3-year Medium-Term Fiscal Plan to the 2015 Budget

The 2015 budgetary targets are built upon the rolling three-year medium-term budgetary framework for expenditure commitments and revenue targets, together with a spending total target in compliance with the operative fiscal rules.

While the general Government targets for the 2015 Budget reflect those which were presented in the 2014 Budget and the National Medium-Term Fiscal Plan published in April 2014, the macroeconomic and fiscal projections were revised to reflect the new information and data available together with new expenditure commitments. Accordingly, further discretionary measures are being announced in this Budget to ensure that Government keeps its commitment to achieving the budgetary targets.

Moreover in 2015, in accordance with Article 31 of the Fiscal Responsibility Act, a contingency reserve fund of €8.3 million will be phased in to ensure that unforeseen expenditure or revenue slippages do not jeopardise the compliance with the fiscal rules.

3. Main Budget 2015 Measures

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1.0 Revenue Measures

Revision in Excise Taxes

The rate of excise tax on cigarettes and tobacco, fuel and cement will be revised upwards, however the price of fuel will still decrease due to better negotiations by Enemed on behalf of the Government. There will also be a revision of excise tax on mobile phone lines and an excise tax on wine. The Government will replace the eco-contribution on tyres, ammunition and petroleum oils with excise tax.

Revision in Stamp Duties

Stamp duty on insurance documents and services will be revised. No changes will be made to stamp duties on life insurance policies.

Revision in Licences

Licences on cars that pollute by more than 100g/km of Co2 will be reviewed, while those with Co2 emission rates by not more than 100g/km and registered after 2009 will not be affected. There will also be a revision in licences of swimming pools.

Revision in Fees of Office

There will be marginal upward revisions in fees of office charged by Government departments.

2.0 Fiscal Incentives to Make Work Pay

Reduction in Income Tax

The rate of personal income tax of 29.0 per cent applicable to those who earn sixty thousand Euro or less will be reduced to 25.0 per cent. This will apply to every computation: single, married and parental. Income from dividends received by

individuals will remain taxable at the same rate.

Cost of Living Adjustment

The Cost of Living Adjustment (COLA) as calculated by the established mechanism agreed between the Social Partners resulted in compensation of €0.58. Furthermore, for the coming year, the full amount of COLA will be granted to pensioners.

One-Time Additional Bonus

Against a backdrop of low inflation, the COLA for 2015 amounted to €0.58 per week. The Government, conscious of its social obligation towards certain categories of households, will give a one-time additional annual bonus of €35 to all persons in receipt of social security benefits, all low income earners, and all those income tax payers working full-time not benefitting from the 2015 income tax reductions. It will also be given on a pro-rata basis to students and part-time workers.

Relief from Income Tax on Minimum Wage and for Pensioners

This Government is committed not to tax minimum wage earners. Thus, the present tax ceiling will be raised to take COLA into consideration. Furthermore, pensioners whose pension does not exceed the minimum wage will also be exempted from paying income tax.

In-Work Benefit

The Government will continue strengthening the concept that of 'making work pay' by introducing an *in-work benefit scheme*. This benefit will be paid to those low-to-medium income families where both spouses are in employment and have dependent children up to 23 years of age. This benefit will also apply to single parents in employment.

Extension of Free Childcare Service

The introduction of free childcare centres succeeded in improving the work-family balance, leading to an increase in female participation in the labour force. Given the success of this initiative, the Government is committed to maintain and expand this service.

3.0 Creating Opportunities not Dependency

Benefits for Single Parents - Tapering

Single parents on social assistance can at present retain their benefits if they are earning less than €56.94 a week. This is leading to some abuse and also precarious employment. Therefore, as from the 1st January 2015, this clause will be replaced with tapering of benefits. Single parents who become employed will retain 65.0 per cent of social assistance for the first year, 45.0 per cent for the second year and 25.0 per cent on the third year. Their employers will also benefit from 25.0 per cent of the benefit for the first three years. This means that single parents will be able to substantially improve their income if they enter employment.

Youth Guarantee

This Government remains committed to ensure that all young people between 16 and 23 years of age enter employment, education, or training. The Youth Guarantee, funded through the European Social Fund, will be strengthened. New claimants for social assistance benefits, under the age of 23, will be placed on Youth Guarantee. Existing claimants, under the age of 23 years, will be given a time window of four months to enter Youth Guarantee. Single parents will be exempted until their youngest child is one year old. For 2015, 700 Traineeships and 200 Work Trials will be financed.

Tapering of Social Benefits after Marriage

From the start of next year, a person who is receiving social benefits and gets married, or forms a civil union, with a person in employment will no longer lose entitlement to social benefits immediately after the union. Instead, the social assistance will be reduced gradually over a period of three years.

Regularisation of Benefits Entitlement

Those persons on social benefits will have up to February 2015 to regularise their position. Thereafter, in case of abuse, a penalty will apply.

4.0 Improving the Competitiveness of the Maltese Economy

Reforming Eco-Contribution

The Government, is committed to reform the eco-contribution mechanism so that local businesses compete on a level playing field with foreign ones. The first phase of the reform will entail eliminating eco-contribution on electronic and white goods classified as WEEE items, by September 2015.

Seed Investment Programme

Income tax law will be amended to provide tax credits equivalent to investment made in start-ups, up to a maximum of €250,000 per year.

Implementation of the Family Business Act

The Family Business Act will be introduced next year. The act will provide a clear definition of what constitutes a family business and will facilitate and incentivise the transfer of business between members of the same family. A set of incentives linked to this act will be launched.

Benefits for those who provide Employment and offer Training to their Employees

The European Social Fund will be re-launched. Through this scheme, employers will be able to access the fund when they employ disadvantaged persons or provide training for their employees.

Data regarding the Labour Market

Now that agreement has been reached regarding the legal notice regulating the exchange of student data, the Employment and Training Corporation (ETC) is expected to work on an Employability Index. The ETC will also be working on an Occupational Handbook.

Work Programme

This Government strongly believes in the role of the private sector in the Maltese economy. We will be introducing the concept of the Work Programme, an initiative very similar to that utilised in the United Kingdom. The private sector together with the ETC will be working together to help persons who have been unemployed or inactive for long periods to re-enter the labour market.

Changes to the ETC Register

Through the use of new IT tools, a Virtual Labour Market will be created where employers and those seeking employment will have a virtual meeting place. Matching will no longer be done solely on the basis of individual preferences but will start to take into consideration individual skills and aptitudes.

Social Enterprise

The Government will offer the possibility for those on the Community Work Scheme to participate in a social enterprise. This enterprise will be managed independently and will be giving services to schools and local councils.

Skills Card – Construction Industry

The Building Industry Consultative Council, in collaboration with MCAST and the ETC, is expected to submit a plan for the introduction of skill cards in the construction industry. The purpose of the skill card is to have skills of construction workers certified and recognised.

Better Regulation of the Estate Agent Sector

During the coming months, the Government will be issuing a White Paper to allow for consultation on regulating real estate agents and property agents and consultants.

Special Unit for Local Businesses

To ensure fair competition and a more level playing field, a special unit will be introduced on the same lines as that of the Border Agency in UK.

United Nations Pension Programme

The Government will launch a United Nations Pension Programme, which is a scheme designed to attract foreign pensioners retiring from international organisations, like the United Nations, to reside in Malta.

Public-Private Initiatives - Projects Malta

In 2014, the Government set up the company Projects Malta and, since it started operating in July, the company has been working on identifying a number of public-private initiatives. In the coming months, Project Malta will be launching a number of projects across various sectors, including health, commerce, tourism, and sports.

PPP for Enlarging Sandy Beaches

The Government will be introducing the concept of the Private Public Partnership, or PPP, in coastal, rural and urban works through a number of programmes and initiatives which will

include access for divers, creation of artificial reefs through scuttling of vessels, enlargement of sandy beaches and better access to rocky shores. There will also be additional work on aspects of country walks, work with environmental NGOs, and management of sites financed through ERDF, funds as well as upgrades of touristic zones. This development will be carried out in a sustainable manner which respects the environment.

PPP for the Construction of a Breakwater between Valletta and Sliema

Projects Malta, together with the private sector, is looking at the possibility of building a breakwater between Valletta and Sliema. Among other benefits, this will facilitate the development of yacht marinas in the area.

PPP for a Hotel at Bighi

The Ministry for Tourism has identified the tourism potential that Bighi can offer. Together with the National Centre for Science and the private sector, the Government is studying the possibilities of developing the area into a major Mediterranean tourist centre.

PPP for a Health Centre in Cospicua

This administration continues to give priority to primary health care. A pilot project with the private sector is being launched to modernise the Cospicua Health Centre, while assuring the public that the service will remain free of charge.

Incentive for Cruise Liners Overnight Stays

Through this budget, the Government will be launching a scheme whereby cruise liners can remain in Malta overnight. They will be able to open their casinos after obtaining approval from the Lotteries and Gaming Authority upon the payment of a fee. To safeguard Maltese casinos, these cruise liners will only be able to allow registered passengers to engage in such activities. In addition, and in order to promote Gozo, cruise liners which choose to remain overnight in Gozo will be exempted from

paying the fee.

Tax Refunds for Non-EU Residents

A number of countries operate various schemes whereby visitors, coming from countries outside of the European Union (EU), can obtain a refund on VAT before leaving the country. During the next year, this Administration will be introducing similar systems in Malta.

Cooperatives

The Government is committed to promoting the use of the cooperative model so that there is a level playing field for cooperatives to operate without being at a disadvantage when compared with other enterprises. The Government will work closely with the Cooperative Board to revitalise cooperatives.

Gaming Malta

The LGA, which presently is the regulatory authority, will be converted to a Malta Gaming Authority. This is a new way of repositioning the Authority in the existing industry and that of the future. Furthermore, the Gaming Academy is expected to start operating during the first quarter of next year. Gaming Malta will also promote Malta as a primary jurisdiction where the gaming industry is concerned.

Shop Opening Hours

Following a process of extensive consultation carried out last year, regulations governing shops opening days and hours will be revised.

Studies regarding Fibre Optic Cable Connection

In order to improve the adaptability and the quality of the existing international telecommunications connectivity in Malta, the Malta Communication Authority will finalise an analysis of the technical, economic and financial feasibility of a new submarine

cable between Malta and continental Europe.

"Sukuk" and Islamic Banking

Following various meetings with representatives of the banking and financial sectors, the Government feels there is space for a new commercial activity in the form of "Islamic Banking". During the coming year, the necessary legislative changes will be made to attract and facilitate financial institutions involved in this sector to start operating in Malta.

Trade Malta

Projects Malta, together with Malta Enterprise and the Ministry for the Economy, will set up Trade Malta Ltd. The aim of this joint venture between the Government, the Chamber of Commerce, Enterprise and Industry will be to see that there is a collective effort to enable Maltese enterprises to better exploit international markets.

The Valletta Monti

The Government is working hard to relocate the Valletta 'Monti' to ensure that street hawkers are able to operate in a suitable setting.

Scheme for Shops in Valletta

A scheme for retail outlets in Valletta will be set up, which includes the opportunity for owners to apply for the title of ground rent instead of a lease.

Conventions Malta

The Government will set up a foundation that promotes and encourages foreign conventions and congresses to be held in Malta.

Incentives for the Film Industry

The Government will introduce a set of incentives in connection with specialised courses for the local film industry.

Wi-Fi State

The Government is committed to make Malta and Gozo a Wi-Fi state. Currently there are 191 hot spots areas of free internet, these will be extended to cover more places.

Yachting Malta

Through Public Private Partnership, the Government is confident it can boost the tourism sector by improving the touristic product and provide additional value to the existing product. To this end, Project Malta has started working to join with the private sector to strengthen the sport sailing sector.

Marina Implementation

Earlier this year, Transport Malta issued a call for tenders for the privatisation of the Sa Maison Marina. The call attracted five bids and the evaluation process is now well under way. Once completed, this yacht marina is expected to add around 250 new berths.

National Agricultural Policy

A National Agricultural Policy will be drawn up, providing a vision for this sector.

European Funds for Fisheries

Funds from the 2007-2013 Programme will continue to be utilised during 2015. The projects and initiatives range from a new fish market to a campaign promoting the consumption of fish, as well as infrastructure improvements in ports used by fishermen.

National Quality Framework

The Government will continue working to promote quality Maltese products by enforcing the national quality framework.

Strengthening the Land Department

This Government will strengthen the Land Department with the objective of reducing the amount of time one has to wait for a decision from the said Department. By the end of the year, the Land Register will have launched an initiative which will allow the public to order site plans online and receive them by post.

Reform of Local Wardens

Following consultations carried out this year, the Government will continue with reforms of the Regional Government and local warden system.

Reform in the Police Corps Organisation

During next year, the Police Corps will be further strengthened through an internal reorganisation of the corps. A new Executive Head will be appointed as part of the reform. Now that the Police Academy Building is complete, it will function as a college with accredited courses.

National Centre for Interactive Science

Work is under way for Villa Bighi in Kalkara to be converted into a National Centre for Interactive Science.

Arbitration Act

The Government will submit a concrete plan, drawn up by a dedicated team of experts in the sector, to introduce amendments to the Arbitration Act. The Act will also introduce procedures and rules which allow international arbitration that will be completely separate and distinct from domestic arbitration, while offering a unique alternative to the rules of the Model Law for International Commercial Arbitration.

Sharing Responsibilities between the Councils, the Regions and the Central Government

The size of our country, the diversity between localities, and the resources available are proof that services like roads, road illumination, waste, enforcement and others, are a community service. While ensuring that these services are still provided and financed by the Central Government, discussions are under way to find means of sharing these responsibilities between the Councils, the Regions and Central Government.

New Methods for Strengthening Financial Assistance to Local Councils

This Administration is working to find new methods for strengthening financial assistance to those Local Councils involved in organising activities which promote local history, culture and economy.

Ideas Forum

An Ideas Forum will be launched to receive proposals in connection with sustainable development so that in collaboration with the private sector, specific projects for re-generation will be undertaken.

National Strategy for Electronic Payments

Electronic payment systems are more secure and efficient when compared to cheques and cash payments. To this end, a Working Group will be set-up to make recommendations to Government of how to widen electronic payments.

5.0 Investing in Education and Vocational Studies

Increase in Stipends Related to Cost of Living

The Government is committed to upgrade stipends with the cost of living. Therefore, in 2015 stipends will increase by the pro-rata

amount of COLA and for the first time, these will be topped up by a one-time additional pro-rata bonus per week in view of the fact that students are solely dependent on COLA as the main source of increase to their student income.

Upgrading the Stipends and Grant Systems

The Government will continue improving the student grant system, including the one-time grant at the beginning of the school year, stipends every four weeks, and the supplementary grant to students coming from low income families. In order to maximise the aid to each student, all student maintenance grant income will be tax exempt.

A Tablet for Every Student - Implementing the Next Phase

The implementation of the One Tablet Per Child initiative started in 2014 with the Pilot Project involving some 340 students in 20 State Church and Independent Schools. After March 2015, there will be a period of evaluation so that the resulting recommendations will be launched on a national level. Moreover, by October 2016, a tablet will be issued to every student starting from the 4th Year of Primary School in State, Church and Independent schools.

Reduction in VAT when Buying Digital Books

This Government will be introducing a reduced VAT rate on e-books.

Construction and Modernisation of Schools

The Government is continuing work on the Skola Sports project in Pembroke and the construction of new schools in Rabat, Malta, Naxxar and Rabat, Gozo. As from next year, work will start on building two new schools in Dingli and Kirkop.

White Paper on School Opening Hours

With the aim of reducing traffic congestion and within the framework of other measures to be announced in this budget, the Government will be launching a White Paper to initiate a process of consultation with regard to the transport of children and school opening hours.

New Academic and Vocational Subjects

The Ministry of Education will be launching a pilot project of five vocational subjects with local programmes which will form part of the examination for the Secondary School Certificate (SEC).

Research in University

For the year 2015, given that 80.0 per cent of research in Malta is carried out by the University of Malta, the University will be aiming to increase its research activity through funds provided both by the Government as well as the EU.

6.0 Enhancing the Environment

Expression of Interest on Recycling Plastic Waste

An expression of interest will be issued to introduce recycling of plastic waste.

Green Recreation Areas

A study will be undertaken to evaluate the possibility of creating greenbelts around building zones. Where possible, this initiative will be undertaken in collaboration with the private sector.

Environmental Taxes

The amount of feed used in fish farms has a negative environmental impact. Based on a polluter pays principle, a tax will be applied on these products.

Finalisation of the Separation of MEPA Responsibilities

As from next year, the environmental protection function will be split from MEPA.

Wasteserve

Projects expected to be concluded next year include the Mechanical Biological Treatment Plant at Għallis, and the Waste Transfer Station in Gozo. An application will also be submitted to start preliminary work on the rehabilitation of the old landfill site at Wied Fulija.

Wied Blandun

A study will be undertaken with the aim of rehabilitating Wied Blandun.

Green Public Procurement

Work is also ongoing in the field of green public procurement so that the goods and services purchased by the Government will be of a high environmental standard.

Parks and Afforestation

In 2015, there will be a national afforestation plan for Malta that will conform with the Government overall biodiversity strategy.

Animal Rights

For next year, the Government is committed to continue implementing measures that strengthen animal rights. There will be the opening of an animal cemetery, and the launch of a national fund for animal protection. The renewal and installation of shelters for 'karozzini' horses will continue.

7.0 Reforms in Priority Sectors

Energy

Reduction in Utility Rates for Industry

As promised, in 2015, utility rates for the industry will be reduced.

Energy Audits for SMEs

Presently, only large enterprises have the capacity to benefit from executing proper energy audits. The aim for 2015 is to extend these audits to SMEs.

Solar Farm Policy

In collaboration with the Planning Authority, a solar farm policy will be announced to regulate sizeable installations of solar panels with the aim of minimising any negative impact on the environment.

Renewable Energy

The Government will continue incentivising investment in renewable energy and efficiency improvement in the use of energy. The Malta Resources Authority will launch additional schemes for the installation of photovoltaic panels and solar water heaters, as well as initiatives to encourage efficient use of energy.

Customer Service Charter for Enemalta

The Government has requested Enemalta to conclude work on a Customer Service Charter which lists in a transparent way the rights and obligations of the clients of this company.

Health

PPP in the Health Sector

The Government has set up a company which entered into an arrangement with Orthopaedic Specialists at Mater Dei Hospital.

The parties are committed to increase the number of operations carried out during their normal working day and continue with a number of operations in their spare time including weekends. The aim is to reduce the waiting list substantially. This pilot project aims to maximise the use of operating theatres as well as the equipment at Mater Dei Hospital.

Screening for Cervical Cancer

In line with the National Cancer Plan, the Government intends to introduce a scheme for cervical cancer screening during 2015. In this regard, the necessary investment in equipment and training by foreign experts was intensified to compliment the investment in the Oncology Centre.

Measures against Ebola

The Government has made all the necessary investment in Mater Dei hospital so that the hospital is in readiness in the event that a person arrives in Malta infected with Ebola. The Ministry for Health has also sought and received the full cooperation of other Ministers within the Government in order to compliment and support the services given by the hospital.

Changes to the POYC System

The Pharmacy of Your Choice (POYC) system continued to increase the number of beneficiaries by 43,000 persons so that the total number of beneficiaries now exceeds 128,000. The POYC IT system has been further extended so that it now includes medicines issued on the pink and grey cards. For the year 2015, the Government plans to import new medicines for the treatment of diabetes and review the entitlement criteria for various medicines.

PPP for Work on the Old St Luke's Hospital

Once the plans for St Luke's are completed, the Government will issue a call for expressions of interest so that this site is developed in a way that will benefit the needs of the Maltese

and Gozitan people.

Neuro Myelitis Optica Added to the Social Benefit Schedule

Currently, persons who suffer from Neuro Myelitis Optica, which is a disease similar to ALS, are not covered medically and legally to become eligible for a Disability Pension. Therefore, as from next year, the Government will include this condition in the list of disabilities which may entitle a person to the Disability Pension.

Launch of a White Paper on Organ Donation

This Government is working on a White Paper which should lead to the first Act which regulates donation of organs in Malta. With the help of this Act, this Government intends to decrease the waiting list for transplants and also provide adequate security in this sector.

Consultations on the National Diabetes Strategy

The consultation on the National Diabetes Strategy will be completed during 2015, so that the services given to diabetic patients are placed on a sound and modern basis.

Transport

Implementation of the New Public Transport System

At the beginning of next year, the new operator will take over the public transport system. The new public transport system will see more routes introduced and an overall improvement in the service of public transport.

Ex-Gratia Payment on Registration Tax

The Government will continue fulfilling its pledge of refunding the tax paid on vehicle registration. Hence, as from 2015, those who registered a vehicle for personal use between the 1st May

and the 31st December 2004 will receive a refund. In this way, by next year, those who had registered a vehicle in 2004 would be reimbursed in full.

Elimination of Registration Tax on Vintage Motorcycles

This Government will be eliminating the existing anomaly whereby no registration tax is paid on new motorcycles with a cylinder capacity of 250cc or less, while a registration tax of 11.0 per cent is payable on motorcycles considered 'old'. Therefore, the Government will going to remove the registration tax on motorcycles classified as 'vintage'.

Reduction in Registration Tax on Quad Bikes

In order to promote the use of vehicles with small engines that pollute less, the registration tax on ATVs or quad bikes will be reduced.

Incentive for Parents to use School or Scheduled Transport

The Government wants to incentivise the use of school and scheduled transport by parents whose children attend private schools. These parents will be eligible for a tax credit on part of transport charges, up to a maximum of €150 if they use school or scheduled transport.

Pedelec Bicycles

The Government will continue to incentivise the use of alternative transport. Another means of transport is the use of mechanised bicycles, better known as pedelec bicycles. As a first step, Government will grant a sum equivalent to 15.25 per cent of the cost of this category of bicycles during 2015.

Car Pooling

The Government will be launching an incentive for people who are willing to start travelling together by opening bus lanes to those cars which are carrying three or more passengers.

Traffic Management Systems using Cameras

The Government will be investing in a system called the Intelligent Traffic Management System. Through strategically placed cameras and messages displayed on screens, drivers will be better guided on how to avoid traffic holdups. The system will also be able to adjust traffic lights automatically according to the volumes of traffic.

Pilot Project to Promote Greater Use of Bicycles

Another Government initiative is a pilot project intended to promote greater use of bicycles. Therefore, a number of bicycle racks will be installed around Valletta to promote 'green transport' in the City.

Government Grants on Purchase of Environmentally-Friendly Vehicles

For next year, the scheme for scrapping old and polluting vehicles will continue. Other schemes relating to Autogas and electric vehicles will also be renewed.

Permits for Construction Equipment

Traffic congestion can arise due to vehicles or equipment used for construction such as cranes and scaffolding, which although needed, can generate traffic problems by causing lengthy road closures. To address this issue, the Government will be revising the rates paid on cranes and other equipment used for construction in order to incentivise users to use such equipment for the minimum possible time. These revisions, which will come into effect on 1st January 2015, will also ensure that all local councils charge uniform rates.

Infrastructure

National Flood Relief Project (NFRP)

It is expected that by mid-2015, work will be completed on the project for flood relief which starts from Wied Incita in Attard and Mosta, and ends at Ta' Xbiex. Work will also commence on culverts and other works in the Marsa area. Furthermore, the Government plans to establish premises in Mosta for co-ordinating the operations of the team responsible for the management of the National Flood Relief Project.

Development of a National Water Management Plan

A National Water Management Plan is being developed in consultation with stakeholders. The aim is to have this plan ready and adopted by next year.

Setting Up of a PPP to Direct Underground and Sea Transport in Valletta

Projects Malta is studying the feasibility of alternative forms of transport including sea transport and underground tunnels which will help to solve part of the existing traffic problem.

A PPP to Construct Parking Facilities in the Vittoriosa and Cospicua Areas

Another project is the construction of a parking facility that caters for around 370 cars at Santa Margherita, Cospicua. The project also includes sporting and commercial facilities.

Infrastructural Projects: The Kappara Flyover

The Government is investing in building the Kappara Flyover. This project will also invest in improving various roads in the area which will be serving as alternative routes when work on the junction is initiated.

Schreiber Ground

Schreiber ground will be transformed into a community complex inclusive of underground parking, commercial space and sports facilities.

Pilot Projects in Particular Valleys

The Government intends to apply for EU funding for the implementation of a number of pilot projects, in particular valleys, during 2015. It is planning to continue the programme of works on valleys at Ta' Slampa in Wied il-Qlejgħa, ir-Rabat, Wied il-Ġnejna, l-Imġarr, Wied Ħarq Ħamiem, Pembroke and, Wied Mofru and Wied il-Fiddien at Rabat. Furthermore, the rock passage at Wied iż-Żurrieq will be rebuilt, while repairs on a number of coastal structures will be completed.

Renovation of Castille and Other Public Locations

In 2015, the Government is planning to finalise the City Gate and New Parliament projects.

Change of use of a number of Halls and Rooms in the Grand Master's Palace in Valletta

The Government, together with the Parliamentary Secretary for the 2017 Presidency, will begin to alter the uses of a number of halls and rooms in the Grand Master's Palace in Valletta in preparation to the EU Presidency.

Parking in Valletta

Parking in Valletta is also a priority and, therefore, part of the Valletta Ditch will be utilised as a parking area.

Master Plan for Beltissebħ and Kordin

The Government is working on the preparation of a Master Plan for Beltissebħ, in particular the area planned for demolition, to allow the construction of a new building for various users, amongst them the Departments of Finance. It is also working

with various entities on the preparation of a master Plan for the development of the land known as the 'Schreiber Ground' in Kordin.

Studies on Facilitating Public Pedestrian Access to Valletta

Various methods for facilitating public pedestrian access to Valletta are being studied. These include the opening of existing passages in Valletta and Floriana.

Restoration of Wignacourt Tower and the Wignacourt Fountain

Work will commence on the restoration of the Wignacourt Tower near Sarria and the Wignacourt Fountain found in San Filippu Garden.

Works in Valletta

In Valletta, paving works have been carried out in Ordinance Street while a series of bronze monuments have been restored. In 2015, work is planned for Mikiel Anton Vassalli Street, Treasury Street, and Strait Street. Furthermore, work on the restoration of the Triton Fountain will be completed by early 2017. Work will also start on the embellishment and rehabilitation in the area around the Triton Fountain and Castile Square.

Works in Cottonera

In Cottonera, embellishment works at Xatt ir-Rizq were completed and work is under way to open underground passages to the public. During the coming weeks, restoration and embellishment work will commence on the church of Santa Tereza in Cospicua. In addition, the extensive damage to the War Memorial in Senglea will be repaired, and the present fibreglass monument will be replaced by a bronze one.

Works in Imdina

In Imdina, work on the renewal of paving will be carried out near the Cathedral, and the management of the ditch will continue. A plan is being drawn up to explore various cultural routes in the city as well as measures to mitigate the impact of tourism on the residents. Work has started for Imdina to be recognised by UNESCO as a World Heritage site.

The Microwave Link Project and Construction of the New Armed Forces Maritime Headquarters

The microwave link project and the construction of the new Armed Forces Maritime Headquarters will be completed.

Enlargement of the Corrective Facility for Youths at Imtaħleb

Next year, work should also start on the enlargement of the corrective facility for youths at Imtaħleb.

Kennedy Grove and a New Park at Ħaż-Żabbar

New children's play equipment and garden furniture will be installed at Kennedy Grove. New public pathways will also be developed at Żabbar Grove.

Judicial and Constitutional Reforms

Implementation of a Judicial System Reform

The year 2015 will be an exciting year in the justice sector where, after continuing to give new rights both to arrested persons as well as victims in the penal sector, the Ministry for Justice, Culture and Local Government will start to implement reforms in the civil sector.

Constitutional Convention

In 2015, this Government is committed to continue the process of the Constitutional Convention. Hence, the Government

will move onto the next phase by initiating a consultation process with the relevant stakeholders in order to obtain their recommendations on changes which they would like to be included in the Constitution.

Unit on Major Crimes

The final report on the Holistic Justice Reform recommended the freezing of all assets belonging to persons accused or convicted of major crimes. In order for this unit to have the necessary strength and autonomy, the Government is considering the possibility of converting the present unit into one operated between the Government and the private sector.

Legal Assistance Agency

New structures, such as the Drugs Court and the Legal Aid Agency, will also be set-up.

Administrative Autonomy for the Maltese Parliament

Legal and administrative steps will be taken to strengthen the operational framework of the Maltese Parliament.

8.0 Gozo

Studies for the construction of an airstrip in Gozo

This Government intends to boost to the physical accessibility of Gozo. Studies are underway regarding a project for a rural airfield in Gozo.

Tender for a Cruise Liner Terminal as well as a Marina in Gozo

Following the conclusion of the Request for Proposals, the Government will be evaluating the proposal submitted by the selected consortium.

Cruise Liner Mooring Buoy in Gozo

The present buoy in Xlendi is not suitable to the use of the industry. A new one will be constructed to moor off Xlendi, which will provide adequate facility where cruise liners can moor to disembark quality tourists in Gozo.

Programme for Employment in Gozo

Gozo will be given priority in the employment sector through a renewal of the Employment Aid Programme with an investment of an additional two million Euros.

Implementation of a Study on a Fibre Optic Link to Gozo

A study of the technical and financial feasibility of a submarine fibre optic cable between Malta and Gozo will be completed in the coming months.

Digital Hub in Gozo

Work will continue on the setting up of a Digital Hub.

Development of the Former MDP site in Gozo

Preparations will be undertaken to develop the former MDP site in Xewkija to attract investment and continue to create high quality employment.

Setting Up of an SME Park in Gozo

The Xewkija Industrial Zone will be expanded through the creation of space for an SME Park.

MEUSAC will again Open a Representative Office in Gozo

MEUSAC will open its representative office in Gozo. This will serve as a first contact point with individual, enterprises, NGOs and local councils.

Embellishment Work in Marsalforn and Xlendi

Embellishment work will continue in Marsalforn and Xlendi and various squares in Gozo, among them those at Għajnsielem, Xagħra and also Xewkija.

New Public Bay in Gozo

As part of its plan to improve the touristic product, work will start on a plan which, together with the private sector, will see the necessary investment in the creation of a new public bays that will ensure the respect the natural environment.

Embellishment Programme under way in the Cittadella.

This historic jewel at the centre of our island is being given the attention it deserves and restoration work should be completed by the middle of 2015, bringing Cittadella to its former glory.

New Court of Law in Gozo

A public consultation is under way with the aim of launching the project of a new Court of law to be built in Gozo, which will eventually replace the current building located in the Cittadella.

Medical Hub in Gozo

Work will continue in connection with the development of the medical hub in Gozo.

Home for the Elderly in Gozo

Following the issuing of MEPA permits, preparations will start so that the home for the elderly in Gozo will be set up and operated in the best way. This home, providing space for around seventy rooms, will ensure the dignity of Gozitan senior citizens.

9.0 Promoting Sport and Culture

Commonwealth Summit

In November of next year, Malta will host the Commonwealth Heads of Government Meeting (CHOGM). This is an important event which is expected to raise our country's profile. Next year will also see the Convention of Maltese Living Abroad.

Preparations for the EU Presidency

The Government structures will be further strengthened to continue to fulfil their role as the central focal point for the preparations for Malta's Presidency of the EU Council.

Youth Village in former Umberto Colosso School

Major investment is being made in the former Umberto Colosso school, as this school will be converted to a Youth Village. This centre will welcome all the services offered by the Aġenzija Żgħażaġh as well as a number of other services for youths.

Project V18

The restructuring programme of the Maltese Arts Council will be implemented. There will also be an increase in financial allocations to public cultural entities so that they will be able to continue working on new cultural projects. The Government will launch a new programme for musical training through the Musical Academy within the National Philharmonic Orchestra of Malta. Together with the Malta Arts Council, Government will set up a financial programme to assist in the exportation of creative work and for artistic mobility. Work is also ongoing on infrastructural programmes among them the development of creative clusters. Studies on the development of the Malta International Contemporary Arts Space (MiCAS), the Carnival Village, and the Valletta Market are in an advanced stage.

PSO for Cultural Programmes on Private TV Stations

A new financing programme will be set up so that private television stations can strengthen their cultural content.

The Valletta Market

Following a call for proposals for the development and regeneration of the old Market in Merchants Street, work on the Old Market will start about the middle of next year.

Training for Administrators Working in the Local Sport Sector

The Government, through the Maltese Council for Sports and with the assistance of European funds, will be investing in the training of administrators working in the local sport sector.

Income Tax Rebate Extended from Football Players to Water Polo Players

Following the measure announced in the Budget for 2014 of giving a tax rebate to professional football players, this scheme is being extended to include water polo players.

PPP for the Marsa Racecourse

An expression of interest will be issued for private investors to join in the management of Marsa Racecourse.

Expression of Interest for a Motorsport Racetrack

An expression of interest will be issued to identify private investors interested in developing and managing a motorsport racetrack.

Implementation of a Shooting Range

The Government will be working with the private sector and with associations in this sector to develop a shooting range capable

of hosting international events.

10.0 Creating a Fair and Just Society

Buying-Back National Insurance Contributions

A number of persons born between 1950 and 1956, and who are currently employment but by the time they reach their retirement age would not have made enough contributions to reach the National minimum pension, will now be given the opportunity to pay back a maximum of five years of contributions so that they will qualify for a minimum pensions once they retire.

Compensation for Paid National Insurance Contributions

Presently, there are a substantial number of people who worked for a number of years paid their contributions for the period in which they were working, but they received nothing back because they do not qualify for the minimum pension. Therefore, as of next year, the Government will launch a scheme whereby these people will be given a yearly lump sum of money. This means that persons born between 1941 to 1953, will receive an annual fixed amount of €100 if they had paid contributions for one year or more, but less than 5 years and €200 if they had paid contributions for five years or more.

Revision of the Method of Funding Maternity Leave

A special fund will be set up, to which all private enterprises will contribute according to the number of employees. This fund will finance maternity leave. By doing so, maternity leave in the private sector will not be paid directly by their respective employers but instead will be paid through this fund. This measure should further help employment in the private sector more gender neutral.

Raising the Maternity Leave Benefit Rate

At present, women in employment benefit from the Maternity Leave Benefit, which covers from the 15th to the 18th week of their maternity leave. As from the 1st of January 2015 onwards, the rate of this benefit will be increased and paid at a rate equivalent to the National Minimum Wage.

Raising the Maternity Leave for Self-Employed

Women in self-employment will have their maternity benefit rate increased to the minimum wage for their 14 weeks of maternity leave.

Leave Benefit Due in Cases of Adoption of Children

This Government firmly believes in family-friendly policies. Therefore, it will be extending the leave benefit given in cases of adoption of children to reflect that in the case of maternity leave.

Agreements with Third Party Countries regarding Adoptions of Children

With regards to adoption from third party countries, the Government will work to extend the agreements currently in place with Albania and Slovakia to other countries.

Eliminating Pensions Anomalies

This Government will eliminate pensions anomalies including those in service pensions and pensions of ex-Drydocks workers.

Donations to Malta Community Chest Fund

Companies donating not less than €2,000 to Malta Community Chest Fund, will get 50.0 per cent of the amount of donation deducted from their 2015 taxable income.

Finding a Solution for the Maltacom Employees Foundation

The Government is working with the Maltacom Employees Foundation to address the financial problems of this foundation, and to put the said foundation in a sustainable financial position.

Pensions after 25 Years of Service for CPD Employees

Following a number of meetings with the Association, which represents CPD employees, and also consultations within Government, a process has been launched through which every CPD employee will be able to benefit from a retirement pension on reaching 25 years of service.

Revision of Employment Legislation

The process of revising and updating the employment legislation will continue so that the workers' rights will be improved and, where necessary, clarified. This will be done in partnership with the social partners through focussed discussion within the Industrial Relations board.

New Regulations within the Public Service to Address Precarious Employment

As from next year, the Government will take another important step in addressing precarious employment by stipulating that wages of employees working for contractors on Government contracts will be paid at the same basic rate as that paid by Government in the absence of contractors.

Strategy Against Poverty and Social Exclusion

The recommendations resulting from the strategy against poverty and social exclusion will be implemented over the next ten years.

Home for Disabled Persons

The Government will commence the development of the first 10 residential homes in the community for disabled persons. Furthermore, it will also improve respite services in specialised residential centres or with families ready to provide this service on a basis similar to that of fostering. In addition, the services provided by the day care centres will also be extended.

Disabled Person in the Labour Market

This budget will introduce fiscal incentives for employers employing disabled persons. More specifically, an employer who employs a disabled person will be exempt from paying social security contributions for such employee, and he can also be eligible to claim a tax deduction on profits equivalent to the disabled person's wage. The maximum credit cannot exceed €4,500 for each disabled employee.

Full Disability Pension

The Government is committed to upgrade social benefits for disabled persons. Therefore, this Government will make it easier for disabled persons in employment earning more than a minimum wage to get the full disability pension.

Fiscal Incentives for Trusts and Foundations set up to Help Disabled Persons

A number of fiscal incentives for Trusts and Foundations will be introduced, with the aim of helping disabled persons. Some of these incentives will include exemption of capital gains taxes well as the elimination of stamp duty on documents and transfer of residential property which is the residence of the parents and is transferred to the Trust or Foundation initially for disabled children, and which is then inherited by siblings or heirs on the decease of the disabled person.

Immigrants who are Minors will not be kept in Detention Centres

It is the Government's declared policy that immigrants who are minors, whether they are accompanied or whether they have travelled alone, will not be put in detention centres on their arrival in Malta.

Compensation for Employees of Disciplined Corps who Suffer a Disability caused through Work

As pledged by the Government, next year employees of Disciplined Corps will be granted compensation if they suffer from a disability caused through work.

Reform of Drug Laws

Over the summer, this Government launched a full consultation on the reforms of present drug laws. In addition, it intends to intensify the war on drug traffickers through the setting up of an Asset Management Bureau that will focus on the confiscation of assets acquired through 'dirty' criminal money.

Consultation on Co-Habitation

Work on the drafting of a bill regarding co-habitation is ongoing.

Social Dialogue

For next year, Government will be improving and strengthening access to information through amendments to the Freedom of Information Act. This will facilitate access to documents for Government, while the presence of this Act online will make it easier for the public to request and have access to documents.

Setting Up of a Commission for Human Rights and Equality

At the beginning of this year, the Government launched a preliminary public consultation with the aim of setting up a

Commission for Human Rights and Equality. This commission will replace the existing Commission for the Promotion of Equality (NCPE).

White Paper to serve as a basis for setting up the Commission for Human Rights and Equality

The Government will be launching a White Paper to serve as a basis for setting up the Commission for Human Rights and Equality.

Directorate for Integration also to be set up

A Directorate for Integration will also be set up to develop strategies and programmes that reach Government targets with regard to civil liberties, equality, anti-discrimination and integration of immigrants.

National Organisation for Voluntary Work

A new site for voluntary organisations will be undertaken. This project will improve the efficiency of the Commissioner; reduce bureaucracy in accordance with government policy of creating greater transparency where, through an NGO Hub, voluntary organisations will be better served.

11.0 Dealing with Tax Evasion and Improving Tax Efficiency

Final Withholding Tax

With effect from the 1st January 2015, the 35.0 per cent Capital Gain Tax will be replaced by an 8.0 per cent Final Withholding Tax (FWT), applicable to traders and non-traders alike. However, in case of non-traders, property acquired before 2004, the applicable FWT rate will be 10.0 per cent, while for property acquired less than 5 year period before the transfer of title, the FWT rate will be 5.0 per cent. This change will improve revenue tax as well as reduce the bureaucratic procedure.

Reducing Tax Evasion

The Government is committed to continue reducing tax evasion. As from next year, whoever carries out any type of commercial activity has to be registered with the VAT Department, irrespective of the amount of sales per year. Those who do not exceed a certain amount of sales per year will not be obliged to submit a return to the Department but will still be obliged to register. A pilot project will be launched through which the Tax Department will be able to gather, analyse data and utilise such data for investigative purposes.

A Study on Limiting the Amount of Cash in Transactions

In conformity with EU Regulations, there is a need to limit the amount of cash in a single transaction. A study will be undertaken to address this.

12.0 Family and Housing

Child Supplement

To address poverty and social exclusion, the Government will be introducing a Child Supplement of €400 for every child until the third child, and €200 from the fourth child onwards, to families whose household income is less than €11,900. The supplement will be tied to school attendance, regular medical check-ups and the child's participation in sport and cultural activities, with the aim of improving the children's education and psychosocial health. It is estimated that 22,000 children in 9,000 families will benefit from this measure.

Exemption on Purchase of First Property

The last budget introduced a one-time concession for those individuals who had never owned immovable property and who purchased property as a residence during 2014. This measure will now be extended to 30th June 2015.

Lower Prices for Gas, Petrol and Diesel

Price of gas will remain stable at €18 until April 2015. Price of unleaded petrol will go down by €0.02 and that of diesel will go down by €0.01 as from 1st January 2015.

Tax Exemption on property divided between Co-Owners

In cases of contracts for the division of immovable property where the owner acquires a share which has the same value as when it was undivided, no tax will be payable. This measure will give owners the chance to divide their property between them without having to pay excessive taxes. Co-owners will have the facility of not selling their share.

Exemption from Capital Gains Tax

The Budget will introduce a tax exemption on capital gains and stamp duty on property, whose transfer of title occurred from one of the owners to the other, and was acquired by two individuals with the aim of residing in it or building their main residence there on.

Choice of Main Residence for Tax Purposes

The Government will continue to simplify and strengthen the tax system in order to reduce abuse of the tax exemption in the context of the sale of property which was their main residence for more than three years. For this aim, a system will be introduced where individuals would be required to state their main residence according to transparent rules and conditions.

Programme for Garages in Housing Estates

The Housing Authority will give tenants of Government-owned garages the opportunity to purchase the garage or garage space they are already occupying.

Maintenance and Embellishment Projects in Housing Estates

In partnership with the Ministry of Transport and Infrastructure, the Housing Authority will be carrying out repair works in housing estates as well as improvements and maintenance in residential property rented by the Government or the Authority. In addition, the programme of lift installation in Government-owned blocks will be resumed.