



# PRE BUDGET 2011: Ideas, Vision, Discussion



Ministry of Finance,  
the Economy and Investment

July 2010

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## Foreword

This year's pre-budget document is being presented against the backdrop of a global economic recovery. With financial and real activity rebounding, the challenge for individual countries is now how to benefit from this upswing and to re-establish the long-term growth trajectory.

This strategy document aims to build on Malta's strengths and to return our economy to a renewed growth path.

Notwithstanding Malta's openness and vulnerability, the economy displayed its resilience and still managed to perform well. This did not happen by coincidence. It is the result of a concerted effort to diversify Malta's economic base, implement needed reform programmes together with the targeted support measures Government provided.

Malta managed to register positive results throughout the past year including a contained unemployment rate, a reduction in the fiscal deficit and the return of our economy to growth.

Our priority is now to consolidate our achievements and exploit upcoming opportunities. We are determined to continue with our work programme for the consolidation of our public finances. This is fundamental for our investment attractiveness and sustainability into the long-term.

We are confident of Malta's growth potential in long term as embodied by Vision 2015. This belief is now being translated into a concrete course of strategic action. The chapters on creativity and the green economy in this Document should be thus considered as two concrete contributions towards reaching our Vision 2015 targets.

Our notion of development and success extends well beyond the economic sphere. Indeed, we continue to emphasise the need for continued investment in the health and education of our people. We also make a renewed commitment to safeguard our system of solidarity in the firm belief that only a harmonious and inclusive society can sustain our long-term growth.

I do hope that this Document can serve as a basis for an informed and mature discussion in the months ahead on how we want our economy to continue developing into the future.

**Tonio Fenech**  
Minister of Finance, the Economy and Investment  
27<sup>th</sup> July 2010



**Chapter One**  
A recovering global economy

## **1.1 Background Developments**

Given the degree of openness of the Maltese economy, it is of particular importance to present a general overview of the economic developments in the international scene, together with developments in international oil and commodity prices. Furthermore, at this juncture, it is also pertinent to present recent developments in the international financial scene. The source used for the review of the international macroeconomic, as well as oil and commodity price developments was the 2010 European Commission's Spring Economic Forecast.

Developments in the world economy point towards an overall better than expected global economic recovery. The world economy is expected to register a growth rate of 4.0 per cent during both 2010 and 2011, up from a contraction of 0.9 per cent registered in 2009. Nevertheless, economic activity is recovering at varying degrees across different regions. In particular, emerging and developing economies in Asia are leading the recovery in world economic growth. Moreover, the US economy is recovering faster than Europe and Japan.

Furthermore, while the global economic recovery is gaining in strength, and financial market conditions have improved notably from the crisis levels, the risks to financial stability have not yet dissipated. In particular, one notes the heightened sovereign risk, particularly in a number of Euro Area economies and increasing concern regarding public debt and deficit levels. As a result, fiscal consolidation is expected to feature more highly in Government's economic policy agenda so as to ensure a return to sustainable public finance positions.

The US economy exited the recession in the third quarter of 2009 supported by sizeable fiscal and monetary stimulus. During this period, the inventory cycle also contributed significantly to GDP growth as the de-stocking process which was caused by the recession reversed. Additionally, final domestic demand has also increased, albeit at a slow pace, while exports and imports both rebounded strongly as of the second half of last year. The monetary stance of the US Federal Reserve remains accommodative, while fiscal stimulus is still underway as Congress is adopting additional measures to the American Recovery and Reinvestment Act (ARRA), and which had already pushed the US Government deficit to the highest levels since the Second World War. Nevertheless, the temporary positive effects of fiscal and monetary stimuli, as well as the positive contribution of the inventory cycle to GDP growth, should start to wane in the second half of 2010. On the whole, the US economy is expected to reach a growth rate of 2.8 per cent in 2010, when compared to a contraction of 2.4 per cent experienced in the previous year. For 2011, growth in the US is forecast to reach 2.5 per cent.

Following a sharp drop in GDP in the first quarter of 2009, the Japanese economy emerged from the crisis earlier with regard to other economies as quarter on quarter growth turned positive in the second quarter and continued to improve during the last quarter, supported by positive contributions from exports and consumer spending. Nevertheless, overall the Japanese economy contracted by 5.2 per cent in 2009 when compared to the previous year. Growth in 2010 is expected to reach 2.1 per cent, mainly supported by ongoing fiscal stimulus as

well as an expected increase in exports. In fact, increases in social expenditure and stimulus measures should support consumption, thus somewhat balancing out the negative effects of low savings and the gloomy outlook for household income. At the same time, exports to the rest of the Asian economies are expected to improve during the course of 2010, in line with strong growth in Asian economies to which Japan exports. In 2011, the Japanese economy is forecast to grow by 1.5 per cent in real terms.

Strong growth in the Chinese economy during 2009 was driven by domestic demand and supported by the fast implementation of fiscal stimulus as well as expansionary monetary policy. Subsequently, growth in the first months of 2010 was mainly driven by investment in fixed assets, while investment in real estate also increased. Overall, economic growth is expected to remain strong during the first half of 2010 and decline somewhat during the rest of the year as the effects of the stimulus measures start to diminish, and in response to tightening monetary policy which started early in 2010. Nevertheless, consumption is expected to remain resilient in the course of 2010, while the external environment should also benefit the Chinese export sector. China's real GDP growth in 2010 is forecast to increase to 10.3 per cent when compared to a growth rate of 8.7 per cent registered in the previous year. In 2011, the Chinese economy is expected to grow by 9.4 per cent in real terms.

Growth in the EU and the Euro Area turned positive during the third quarter of 2009, thus ending the recession. Nevertheless, growth in both areas remained subdued in the final quarter of 2009, as industrial production slowed down substantially and as the effects of the temporary stimulus measures started to gradually weaken towards the end of the year. In the first quarter of 2010, the EU and Euro Area have continued a gradual recovery, held back by fading stimulus measures and weak domestic demand. Economic growth is forecast to improve towards the end of 2010 and into 2011, in line with an expected rebound in global economic activity. Accordingly, real GDP growth in the EU and Euro Area is expected to reach 1.0 and 0.9 per cent respectively in 2010, and 1.7 and 1.5 per cent respectively in 2011.

The financial and economic crisis has led to the deterioration in fiscal positions in both the EU and Euro Area. In particular, the effects of automatic stabilizers and the fiscal stimulus measures adopted in accordance with the European Economic Recovery Plan (EERP) have borne down on deficit levels. Additionally, debt levels also increased as a result of support to the banking sector. Looking ahead, fiscal consolidation measures being taken to ensure sustainable public finance positions may weigh down on EU and Euro Area domestic demand.

Surveys and sentiment indicators provide important information for short-term economic forecasting, thus complementing the assessment of the economic climate. The Directorate-General for Economic and Financial Affairs (DG ECFIN) publishes the Business and Consumer Surveys providing an Economic Sentiment Indicator (ESI) for the EU and Euro Area. The ESI increased sharply for both Areas

in 2009 and in the first four months of 2010, on the back of improving economic expectations and as economic conditions also improved. The Purchasing Managers' Index (PMI), which is published by the Institute of Supply Management, measures economic conditions with respect to the previous month according to the responses of purchasing managers across different sectors of the US manufacturing industry. After reaching the lowest level in almost three decades during December 2008, the Purchasing Managers' Index (PMI) rebounded and increased sharply during the first half of 2009, subsequently continuing on its upward trend into the second quarter of 2010.

## Economic Forecast

Table 1.1

	Real GDP Growth			
	2008	2009	2010	2011
EU27	0.7	-4.2	1.0	1.7
Euro Area	0.6	-4.1	0.9	1.5
USA	0.4	-2.4	2.8	2.5
Japan	-1.2	-5.2	2.1	1.5

	Inflation			
	2008	2009	2010	2011
EU27	3.7	1.0	1.8	1.7
Euro Area	3.3	0.3	1.5	1.7
USA	3.8	-0.4	1.7	0.3
Japan	1.4	-1.4	-0.5	-0.4

	Unemployment			
	2008	2009	2010	2011
EU27	7.0	8.9	9.8	9.7
Euro Area	7.5	9.4	10.3	10.4
USA	5.8	9.3	9.7	9.8
Japan	4.0	5.1	5.3	5.3

	World Trade			
	2008	2009	2010	2011
World Trade Growth	2.8	-10.7	7.0	6.1

Source: European Commission Spring 2010 Economic Forecast, IMF World Economic Outlook April 2010

### 1.2 Developments in International Oil and Commodity Prices

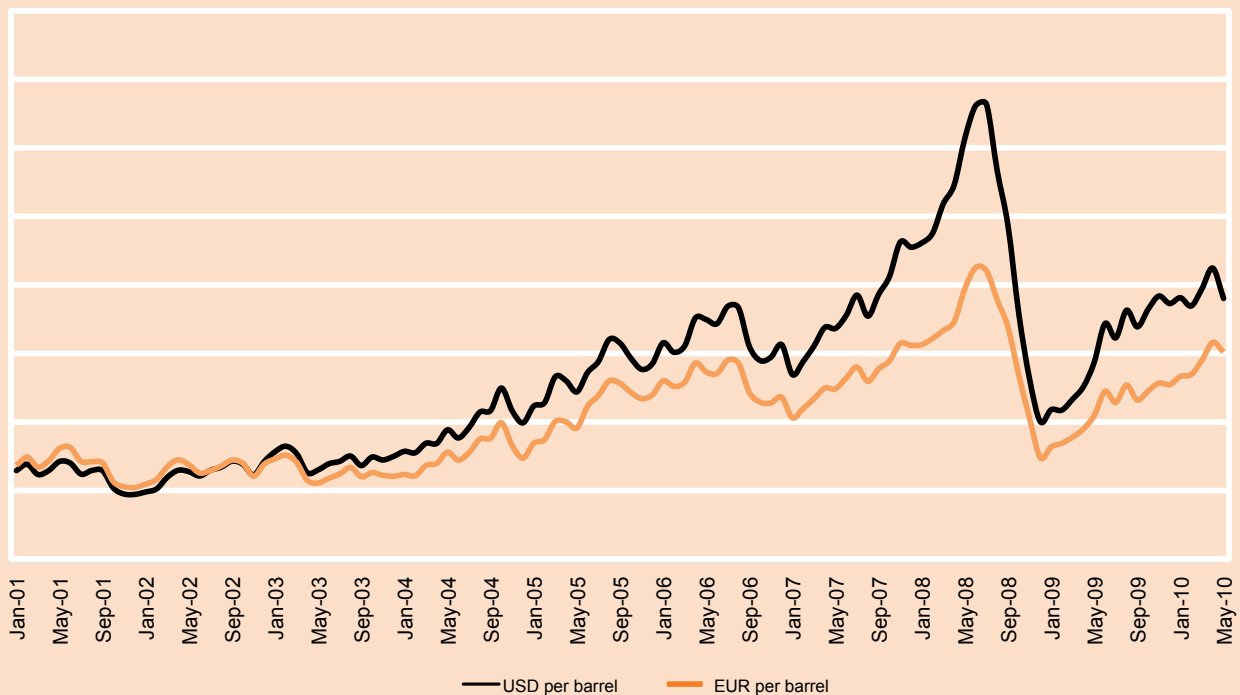
Following the rapid decline in oil prices experienced in the second half of 2008, the price of crude oil increased during the first quarter of 2009, accelerated in the subsequent quarter and, despite fluctuations, remained on a general uptrend throughout the rest of the year. Overall, the price of crude oil averaged \$61.7 per barrel in 2009, and registered an increase of 71.4 per cent throughout the year from a price of \$43.4 per barrel in January to \$74.5 per barrel recorded in December. This trend was the result of mounting perceptions of a recovering global economy. Concurrently, the strength of the euro against

the US Dollar registered during this period warranted a lower monthly average price in euro terms. In fact, the average monthly price of crude oil stood at €51 per barrel in December of 2009 when adjusted by the monthly average euro to US\$ bilateral exchange rate, and thus representing a comparatively lower increase of 55.3 per cent for the year when compared to the change in price in US\$.

The progress of the global recovery, as well as an initial spell of exceptionally cold weather, supported demand for oil in the first months of 2010. The price of crude oil kept fairly stable at around \$76 per barrel in the first quarter of 2010 before edging up in March and subsequently declining in May, thus returning to the levels recorded in early 2010. The price of crude oil in euro terms was adversely affected by the decline in strength of the euro vis-à-vis the US\$ into the second quarter of 2010. During 2010 and 2011, the price of crude oil is expected to average \$84.5 and \$89.2 per barrel respectively.

**Chart 1.1 - Brent Average Monthly Spot Price**

\$ per barrel



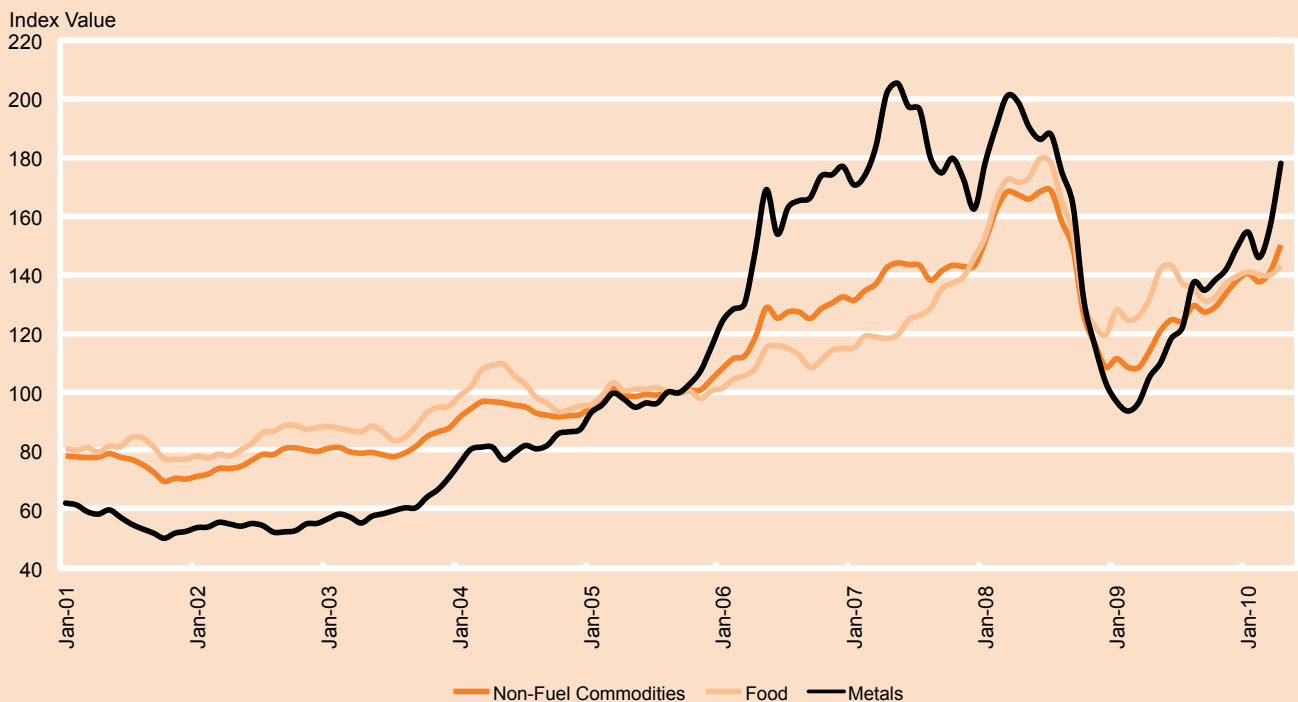
Sustained by the improving global economic and financial sentiment, commodity prices picked up during 2009, with the International Monetary Fund's (IMF) Non-Fuel Primary Commodity Index registering an increase of 23.8 per cent during January-December 2009. During the first quarter of 2010, the Index remained fairly stable, before edging up in April, representing a further increase of 6.9 per cent when compared to January of the same year. Chart 1.2 displays the developments in the IMF's Primary Commodity Indices for non-fuel commodities, food, and metals on a monthly basis.



Food prices have experienced a more moderate recovery in 2009, reflecting the fact that the decline in the second half of 2008 was less sharp than for other commodities. Overall production is increasing in response to structural increases in demand. Albeit the rising production has so far been greater than demand, thus helping attenuate increases in prices, global demand growth is likely to remain high. As a result, the food commodities market remains relatively tight.

During 2009, metal prices have posted the second largest price rebound after petroleum prices. In December 2009, the IMF's Metals price index was 59.5 per cent higher than the low level registered in February 2009. After declining during the first two months of 2010, the Metals index edged up again thus recording a further increase of 15.1 per cent in the period January-April. The increase in prices of metals during this period was supported by increased demand from China as well as from production cuts. Looking ahead, future metal prices will be heavily determined by demand in China, which is the world's largest metal consumer.

**Chart 1.2- IMF Primary Commodity Monthly Price Indices**

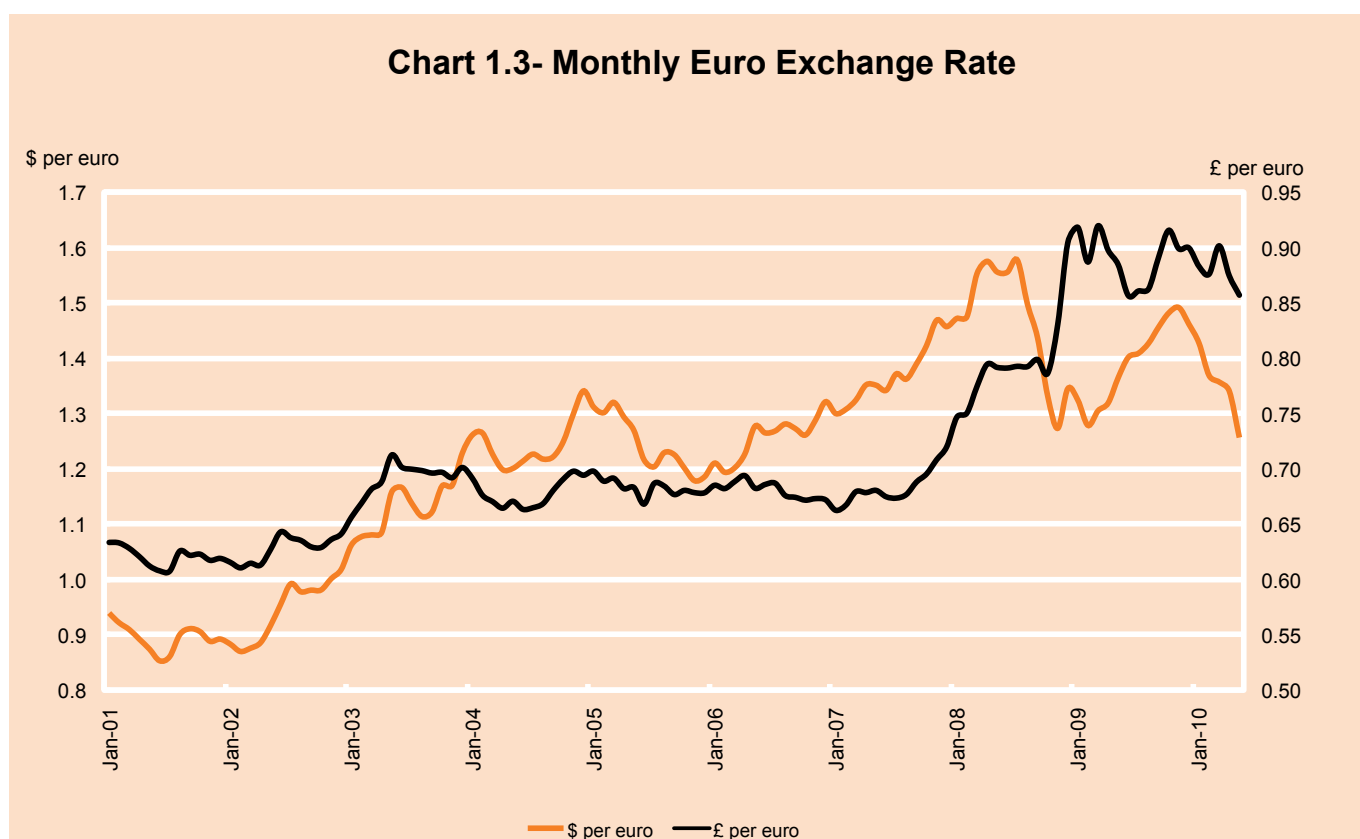


**1.3 Exchange Rates**

During the period February to November 2009, the US Dollar depreciated progressively vis-à-vis the euro, reaching a value of 1.49 US Dollars per euro in November which represented a depreciation of 16.7 per cent. Subsequently, the price of the US Dollar in terms of the euro has appreciated. In fact, the value of the US Dollar against the euro increased during the last month of 2009 and throughout the first five months of 2010, reaching a value of 1.26 US Dollars per euro and thus representing an appreciation of 15.8 per cent. Looking ahead, the

US Dollar to euro exchange rate is expected to average 1.36 and 1.35 in 2010 and 2011 respectively according to the European Commission Spring 2010 Economy Forecast.

The British Pound experienced a depreciation of 12.3 per cent in terms of the euro during the period October 2008 to January 2009, thus reaching a value of 0.918 Sterling per euro. Thereafter, the value of the Sterling vis-à-vis the euro remained broadly stable before appreciating in the second quarter of the year. In October 2009, it returned to a value comparable to that experienced in the first quarter of the year. As from March 2010, the Sterling has been appreciating in terms of the euro currency, and reached a value of 0.857 in May of 2010. Chart 1.3 portrays the average monthly value of the US Dollar as well as the British Pound Sterling against the euro currency.



#### 1.4 Developments in International Financial Markets

Governments and monetary authorities have undertaken extraordinary measures to help stabilize financial markets, restore confidence and efficiency, and stimulate economic growth. While the global economic recovery is gaining in strength, a recovery in financial asset prices, declining spreads, as well as re-emerging profitability in financial institutions are signalling a stabilization of the financial sector. Nevertheless, while many financial institutions have used this period for reinforcing their capital positions, evidence still points towards a heavy reliance on government support measures and the income from favourably sloped yield curves. Thus, while the global economy is indeed recovering, the risks to financial stability have not yet been dispelled.

### 1.4.1 The Euro Interbank Money Market

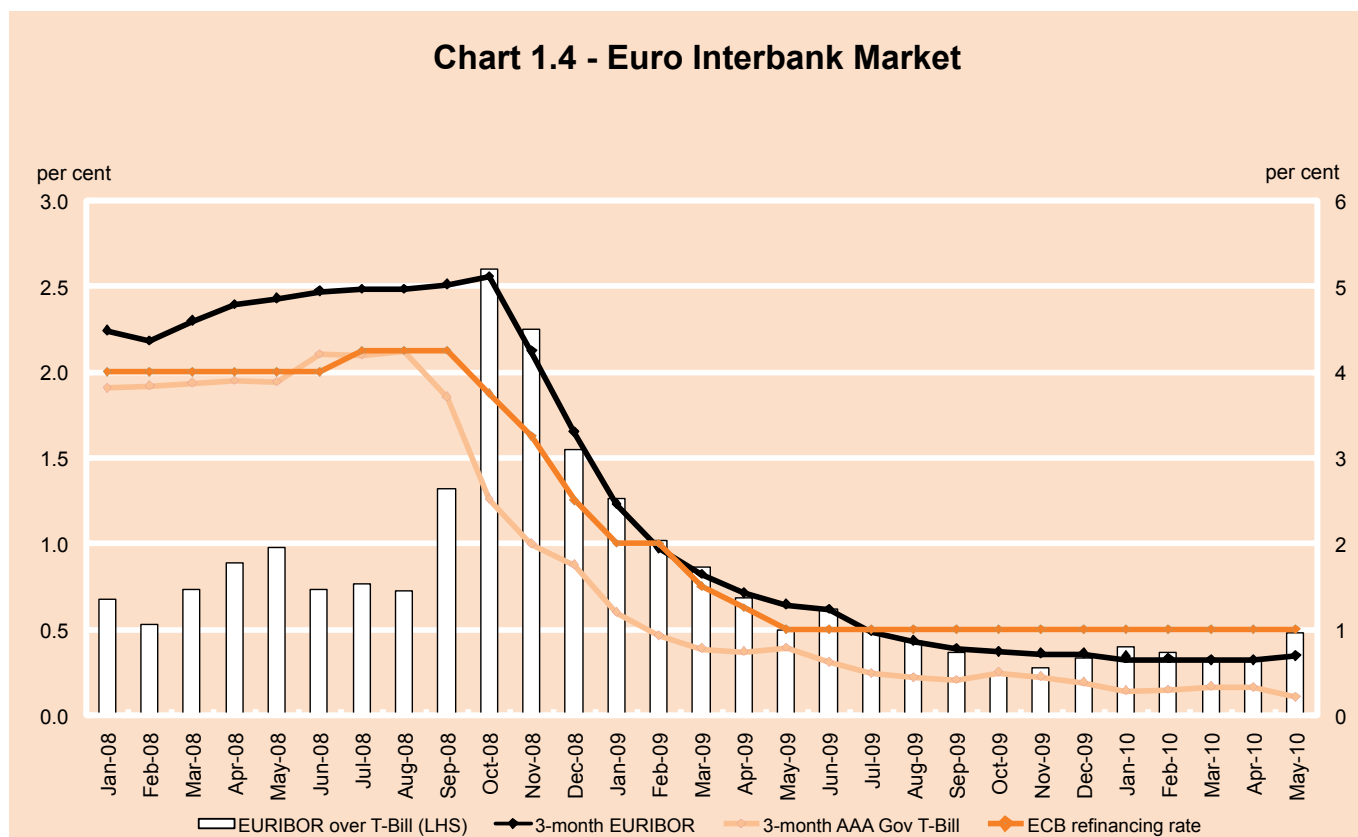
From October 2008, the European Central Bank (ECB) undertook a series of cuts in the refinancing rate which continued up to May 2009. Over this period the ECB cut its refinancing rate by a total of 325 basis points to a rate of 1.0 per cent, thus setting a record low since the inception of the Euro currency. Subsequently, the ECB has left the refinancing rate unchanged. Additionally, in order to aid the functioning of credit markets, the ECB also undertook non-standard monetary policy measures in the form of enhanced credit support.

In particular, during the initial stages of the turmoil, measures have included a fine-tuning operation on a full allotment policy in order to accommodate banks' liquidity demands, as well as the provision of unlimited liquidity through a fixed rate full allotment tender procedure. Moreover, the ECB also continued to provide additional support by widening the list of assets that could be used as collateral and by lengthening the maturities of refinancing operations, thereby resolving banks' mismatch between the investment and funding sides of their balance sheets. Additionally, while signing agreements with other central banks in several Member States guaranteeing the provision of euro liquidity to their respective banking systems, the ECB also started providing liquidity in foreign currency. In mid-2009, the ECB also commenced the purchase of Euro-denominated bonds through the Eurosystem.

Against the backdrop of lower key ECB interest rates, the Euro Interbank Offered Rates (EURIBOR) declined sharply since the final quarter of 2008. In fact, the three-month EURIBOR declined from a record high of 5.11 per cent registered in October of 2008 to 0.77 per cent by September of 2009, thus representing a decline of 434 basis points during the period. During the following months, the three-month EURIBOR rate stabilized considerably, declining only marginally to 0.64 per cent by April before posting a mild increase to 0.69 per cent in May 2010. Chart 1.4 displays main developments in the Euro interbank market.

The difference between the three-month EURIBOR and the three-month Treasury bill yield offers an indication of interbank market risk. During the months of September and October 2008, the difference between the two rates increased rapidly, reaching a high of 2.6 per cent in October as the three-month Treasury bill yield declined sharply preceding the sharp decrease in the EURIBOR. Subsequently, the spread between the two rates declined rapidly to a rate of 0.24 in October 2009 and edging up to 0.4 per cent in January 2010. Thereafter, the spread between the two rates declined only moderately up to April, before increasing to a rate of 0.47 per cent recorded in May in response to a combined mild increase in the three-month EURIBOR and decrease in the three-month Treasury bill yield.

Chart 1.4 - Euro Interbank Market



**1.4.2 Euro Area and US Stock Market Indices**

During the period February 2009 to March 2010 share prices increased by 48.3 per cent on the FTSE100, 60.1 per cent on the DAX, 47.1 per cent on the CAC40, and 59.1 per cent on the S&P500. The improvement in stock prices reflected a generally improving global economic outlook as well as the support measures provided by governments and monetary authorities to address the functioning of financial institutions. Improving activity and profitability opportunities in the financial sector have also supported the price developments in stock markets. In the second quarter of 2010, stock prices have edged downwards amidst mixed expectations regarding economic activity, and in response to negative developments in sovereign risk markets. Chart 1.5 depicts the developments in stock market indices in the UK, Germany, France, and the US, using January 2008 as a common base period. The chart illustrates the cumulative return registered by each stock market since that date.

**1.4.3 Euro Area Bond Market and Selected Euro Area 10-year Government Bonds**

During the peak of the international financial crisis, the reappraisal of risk and increase in risk aversion led to a preference towards the greater relative safety offered by sovereign bonds. In fact, sovereign bond yields decreased during the second half of 2008. Nevertheless, the crisis also bore down on public finance positions. Consequently, a reappraisal of sovereign risk started to lead to divergences in bond yields across countries as bond spreads started to increase, particularly in certain Euro Area Member States with greatest fiscal pressure. Chart 1.6 portrays the sovereign 10-year bond spreads for a number of Euro Area countries, namely, Ireland, Greece, Spain, France, Italy, and Portugal vis-à-vis the German Bund.

Chart 1.5 - Selected Stock Market Indices

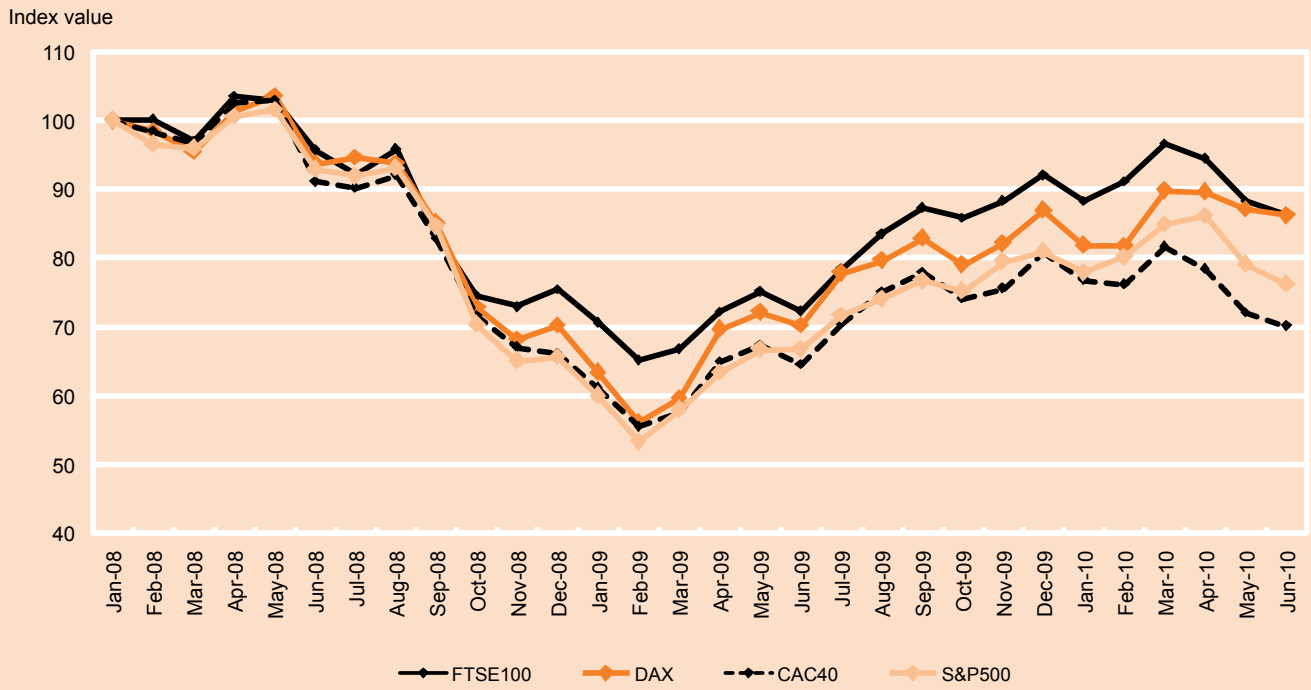
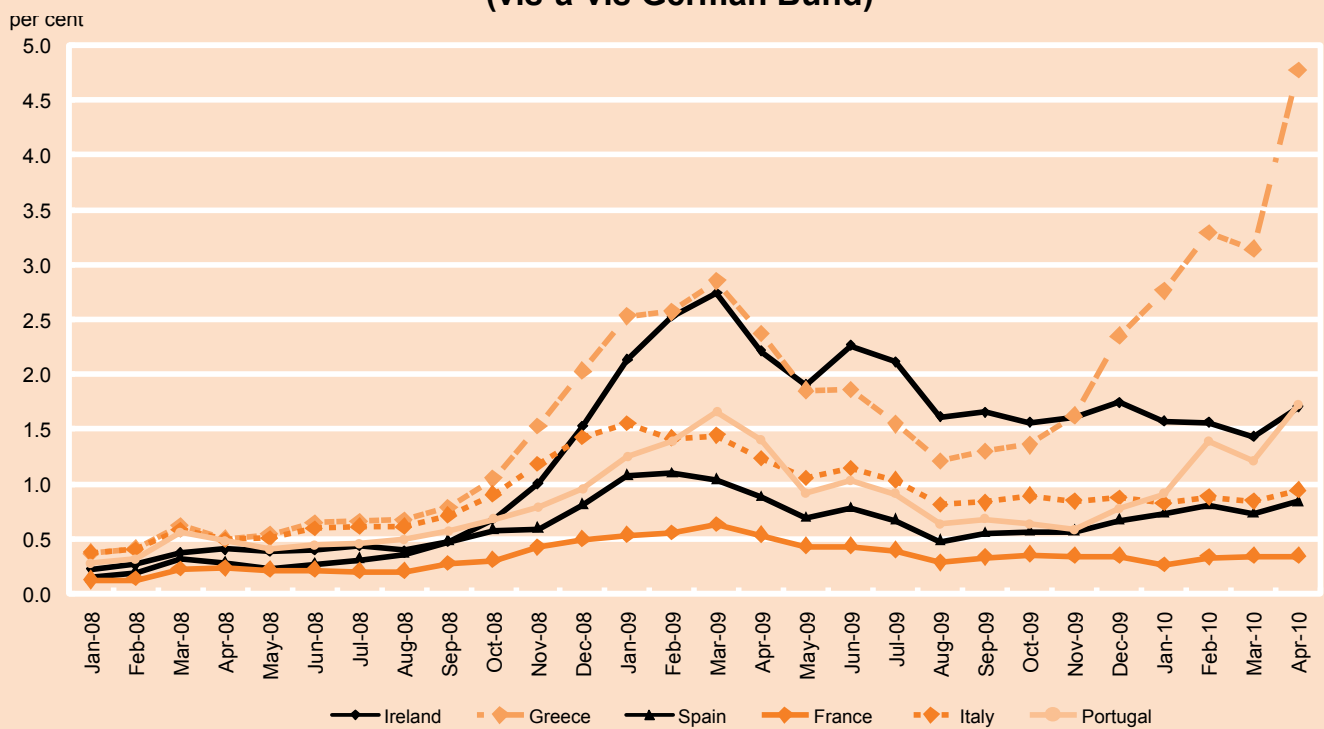


Chart 1.6 - Sovereign 10-year Bond Spreads (vis-à-vis German Bund)



While the global economic recovery has progressed, developments in sovereign bond spreads towards the end of 2009 and into the first two quarters of 2010, have been increasing reflecting the mounting pressures on fiscal positions, particularly for a number of Euro Area Member States. In this context, a comprehensive package of measures aimed at preserving financial stability in the EU has been set up, which includes a European Financial Stabilisation mechanism that will be complemented by funds from the IMF. At the same time, there is a commitment to strengthen the economic governance framework in the EU, including both fiscal and macroeconomic surveillance. A number of EU Member States have also announced the stepping up of fiscal consolidation efforts in order to improve their public finance positions.



**Chapter Two**  
Building on our strengths

**2.1 Background** This chapter outlines the main developments registered in the Maltese economy during 2009 and the first months of 2010. A review of the economic outlook for 2010 is also provided. The analysis is conducted on the basis of data available up to the 15 June 2010.

The performance of the Maltese economy during 2009 was heavily conditioned by the international and financial crisis in particular, the sharp drop in global trade and by the economic downturn in Malta's main trading partners. Real Gross Domestic Product (GDP) contracted by 1.5 per cent during 2009. On a quarterly basis, the domestic economy contracted by around 2.5 per cent in the first nine months of the year. On the other hand in line with the gradual signs of an international economic recovery, the Maltese economy showed signs of improvement in the last quarter of 2009 with a real GDP growth of 1.3 per cent. This recovery was confirmed by the national accounts data for the first quarter of 2010 which shows real GDP growth of 3.4 per cent.

The decline in real GDP during 2009 reflected a negative contribution from domestic demand, particularly due to a sharp drop of 18.8 per cent in investment expenditure. On the other hand, although a slowdown in the rate of growth of private consumption was registered, growth remained positive at 1.3 per cent. The external sector contributed positively to GDP growth as the drop in imports more than offset the decline in exports.

At a sectoral level, the manufacturing sector and the tourism industry were particularly hard hit by the international crisis. A contraction was also registered by the construction industry and the wholesale and retail trade sector during 2009. However, this negative performance was not broad based as a number of emerging service activities managed to record growth despite the adverse international economic developments.

The labour market was affected negatively by the downturn of the domestic economy, albeit with a lag. Indeed, following a relatively buoyant performance in previous years, during the twelve months to December 2009, the full-time gainfully occupied population decreased by 1.2 per cent, whilst the unemployment rate increased from 4.2 per cent to 5.1 per cent.

The inflation rate remained relatively high during the first half of 2009, but decreased gradually thereafter, with negative annual inflation rates being recorded in the last quarter. The 12-moving average HICP inflation rate stood at 1.8 per cent in December 2009, while the latest figure, that related to April 2010, stands at 0.9 per cent. The main contributors to the 12-month moving inflation up to April 2010 were restaurants and café, other services in respect of personal transport and meat.

**2.2 Aggregate Demand Conditions** Following an average growth in real GDP of around 3.8 per cent during the 2005-2007 period, as the international economic environment started to deteriorate in 2008, the domestic GDP slowed down to 1.7 per cent in 2008. Real GDP



contracted by 1.5 per cent in 2009. In both 2008 and 2009, export growth was negative whilst investment dropped sharply. In 2009, Government consumption also registered a decline, whilst private consumption expenditure slowed down markedly but growth remained positive at 1.3 per cent. During the last quarter of 2009, the first signs of recovery were evident with data showing an increase in real terms of 1.3 per cent. The recovery was confirmed by the latest data, with a growth of 3.4 per cent in real terms during the first quarter of 2010.

The domestic sector contributed negatively to growth during 2009, underpinned mainly by the sharp fall in gross fixed capital formation. On the other hand, the contribution from the external sector was positive since the decline in imports was greater than the decline in exports. In the first quarter of 2010, the domestic sector contributed positively to growth, largely reflecting the contribution of stockbuilding. Exports improved in the first quarter, and as this increase more than offset the rise in imports, the contribution of the external sector was also positive. Table 2.1 presents a detailed analysis of the main sources of growth.

### Sources of Real GDP Growth

Table 2.1

Growth	2004	2005	2006	2007	2008	2009	per cent	
							2009	2010
							Jan-March	Jan-March
Private Consumption	2.5	2.3	0.6	2.2	5.1	1.3	0.4	0.9
Government Expenditure	0.4	-0.8	5.9	0.0	12.8	-0.7	2.1	-3.6
Gross Fixed Capital Formation	-1.7	12.1	5.1	-0.6	-21.7	-18.8	-28.1	-5.0
Exports of Goods and Services	-1.1	0.6	10.5	2.7	-5.2	-4.2	-13.8	18.9
Imports of Goods and Services	0.7	3.2	9.5	0.4	-5.7	-8.5	-18.2	17.4

### Contributors to GDP Growth

Private Consumption	1.7	1.6	0.4	1.4	3.3	0.9	0.3	0.6
Government Expenditure	0.1	-0.2	1.1	0.0	2.4	-0.1	0.4	-0.8
Gross Fixed Capital Formation	-0.3	2.4	1.1	-0.1	-4.4	-3.0	-5.1	-0.7
Stock Building	1.3	2.7	0.9	0.4	-0.2	-3.4	-2.9	3.6
Exports of Goods and Services	-1.0	0.6	9.5	2.6	-5.0	-3.7	-12.2	14.6
Imports of Goods and Services	0.7	3.2	9.4	0.4	-5.7	-7.9	-17.5	13.9

GDP Growth (real)	1.0	3.9	3.6	3.8	1.7	-1.5
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Source: National Statistics Office

#### 2.2.1 Private Consumption Expenditure

Following the accentuated positive growth rates registered particularly in 2008, growth in private final consumption slowed down to a modest 1.3 per cent growth. For the first quarter of 2010, growth in private consumption remained positive, but subdued at a rate of 0.9 per cent. In nominal terms, private consumption expenditure increased by 1.8 per cent in 2009 compared with a rate of 8.3 per cent in 2008. The contribution of private consumption to real economic growth was

0.9 percentage points for 2009, while for the first quarter of 2010 the contribution of private consumption was 0.6 percentage points.

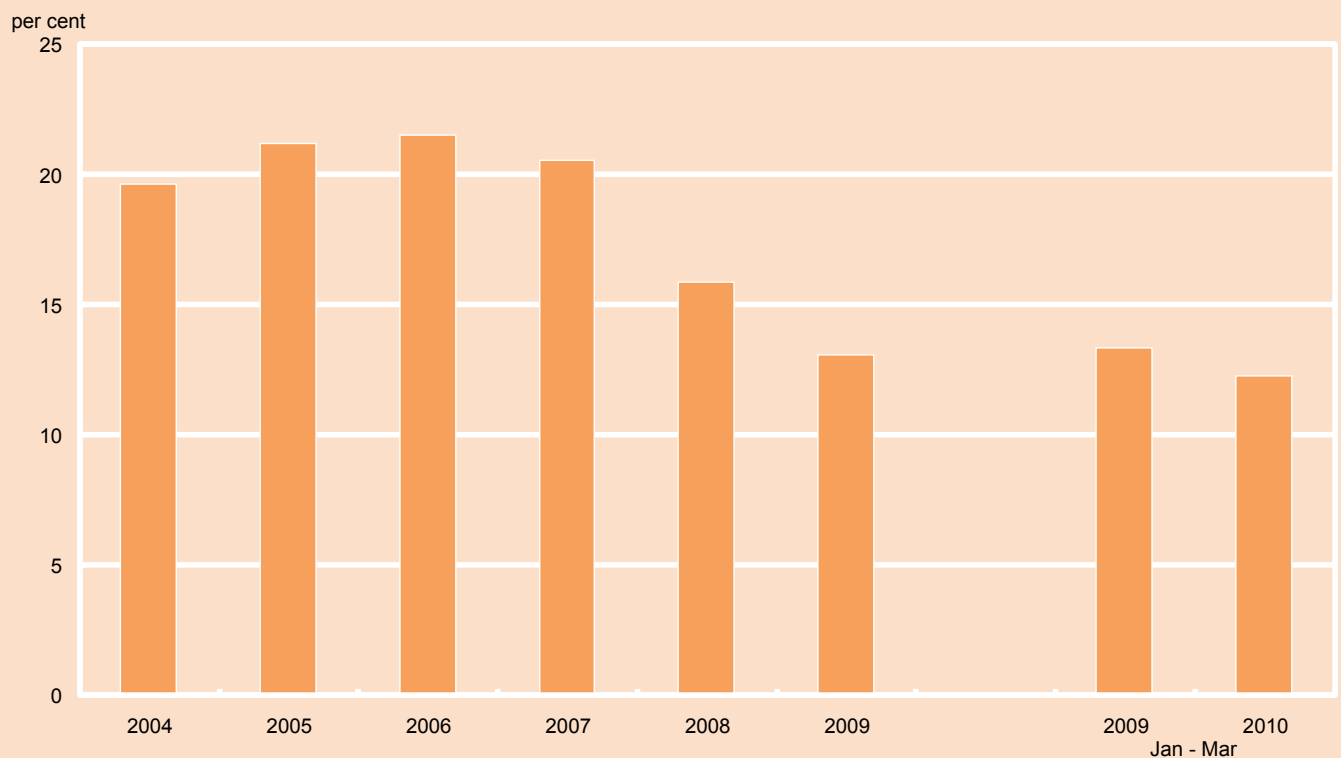
### 2.2.2 Investment Expenditure

Gross fixed capital formation declined considerably by 18.8 per cent in real terms during 2009. This followed a similar contraction of 21.7 per cent registered in the preceding year. The contribution of gross fixed capital formation to real economic growth in 2009 stood at a negative of 3.0 percentage points. These developments are reflected in a notable fall in the share of investment in real GDP from over 20 per cent in the 2005-2007 period to around 13 per cent in 2009. Chart 2.1 shows the share of investment to real GDP.

In nominal terms, the decline amounted to 13.0 per cent. Table 2.2 highlights developments from an institutional and sub-component perspective in nominal terms. The negative growth in nominal gross fixed capital formation in 2009 is attributed to declines in both Government investment and private investment. Indeed, Government investment decreased by 5.5 per cent in nominal terms while private investment declined more markedly by 14.2 per cent. During 2009, the most marked decline among the various sub-components of nominal investment expenditure was the housing construction sub-component with a drop of around one-third. The equipment sub-component contracted by 13.6 per cent.

The decline in investment persisted in the first quarter of 2010, albeit with a smaller magnitude. In nominal terms, investment fell by 1.4 per cent. This was underpinned by growth in Government outlays while private investment fell by a

**Chart 2.1 - Share of Investment in Real GDP**



further 5.0 per cent. On a sub-component level, it is noteworthy that the significant declines in housing construction persisted in the first quarter of 2010. On the other hand, a pick up in the equipment category was recorded.

### 2.2.3 Government Consumption Expenditure

In 2009, general Government expenditure declined by 0.7 per cent in real terms compared to an increase of 12.8 per cent registered in 2008. In nominal terms, general Government expenditure increased by 2.2 per cent in 2009 compared to 17.3 per cent in 2008. It is to be noted that the reclassification of Malta Shipyards Ltd within the general Government sector and the initiation of the process of liquidation of this company in 2008 affected these developments. The contribution of public consumption towards real economic growth for 2009 stood at a negative of 0.1 percentage points. Data covering the first quarter of 2010 shows that Government expenditure declined by 3.6 per cent compared to an increase of 2.1 per cent in the same quarter of 2009.

## Sources of Growth in Nominal Investment Expenditure

Table 2.2

	2004	2005	2006	2007	2008	2009	per cent	
							2009	2010
							Jan-Mar	Jan-Mar
<b>Equipment</b>		12.7	23.8	-0.9	-13.2	-13.6	-37.74	11.2
<b>Housing Construction</b>		15.3	12.0	19.3	-24.0	-32.6	-43.07	-23.2
<b>Other Construction</b>		12.6	-6.0	-9.1	-19.5	-0.6	0.60	-0.4
<b>Other</b>		-9.5	39.2	18.7	4.7	7.8	9.18	1.4
<b>Total Nominal Investment Growth</b>		11.5	12.1	3.4	-16.1	-13.0	-26.44	-1.4
<b>Government</b>		30.7	-11.3	1.3	-34.5	-5.5	-44.73	22.0
<b>Private</b>		6.7	19.3	3.9	-12.0	-14.2	-22.49	-5.0
<b>Total Nominal Investment Growth</b>		11.5	12.1	3.4	-16.1	-13.0	-26.44	-1.4

Source: National Statistics Office

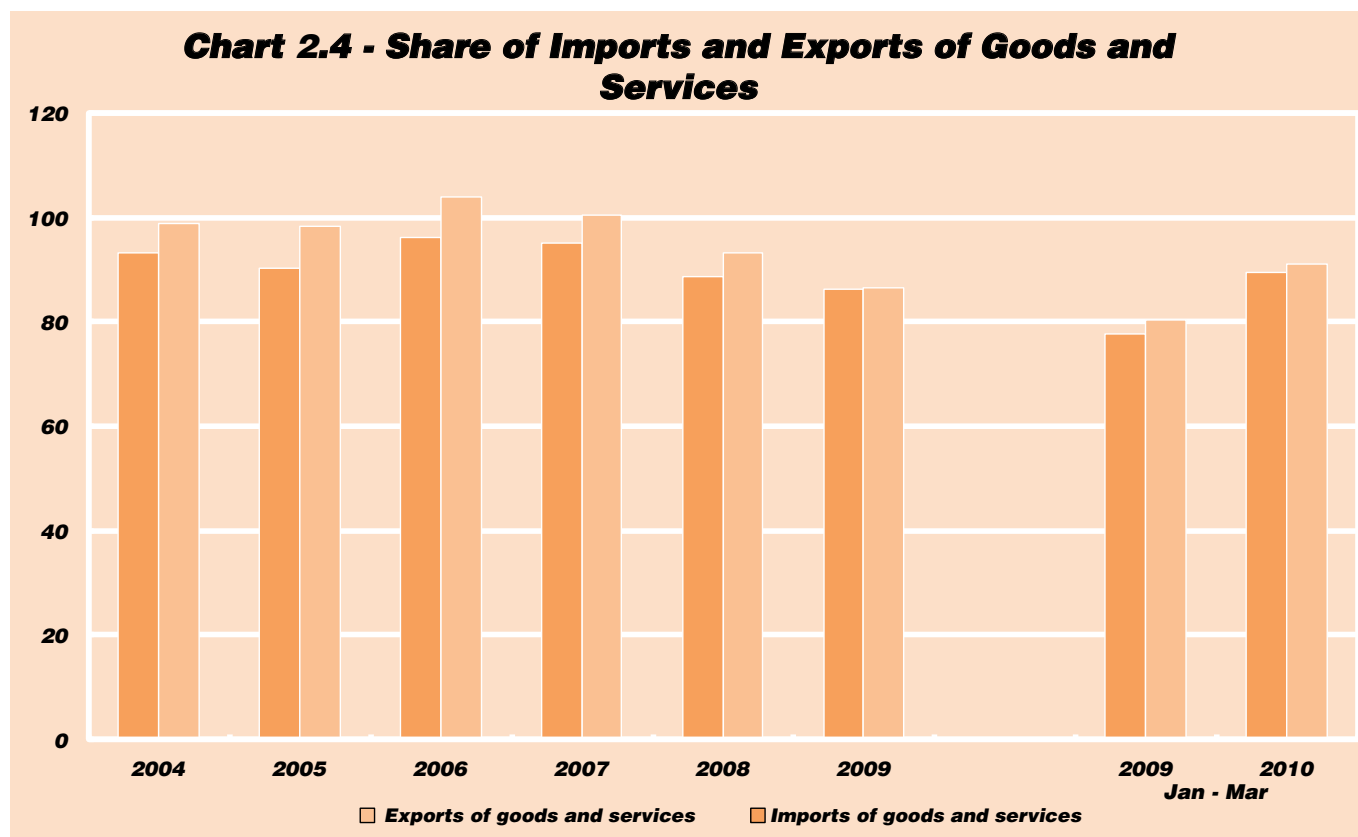
### 2.2.4 External Balance of Goods and Services<sup>1</sup>

In 2009, the external sector contributed by 4.2 percentage points to real GDP growth in contrast to a marginal positive contribution of 0.7 percentage points registered in 2008. This positive contribution by the external sector was underpinned by a decline in real imports which more than outweighed the decline in real exports of goods and services. In 2009, imports declined by 8.5 per cent in real terms while exports decreased by 4.2 per cent.

During the first quarter of 2010, the contribution of the external sector to real GDP growth remained positive at 0.7 percentage points. However, this resulted from growth in exports, which at 18.9 per cent, outweighed the increase of 17.4 per cent registered in imports. This higher export activity reflects the recovery in the international economic scenario, including Malta's main trading partners. Chart 2.2 illustrates the developments in the external balance of goods and services while Chart 2.3 shows the real growth rates of exports and imports. Chart 2.4 shows the share of both imports and exports as a percentage of GDP

<sup>1</sup> Data used in this section is based on the latest national accounts data published in June 2010.





**2.2.5 Tourism** During 2009, tourist departures decreased by 8.4 per cent over the previous comparable period. This performance is similar to that registered by other Mediterranean destinations, such as Cyprus, Spain and Portugal which registered declines in their tourist arrivals of between 8 and 11 per cent.

As shown in Table 2.3, notable drops in tourist inflows were recorded in the first two quarters of 2009. Indeed, tourist departures declined by 17.8 per cent and 11.4 per cent in the first quarter and second quarter of 2009 respectively. The declines moderated towards the end of the year with a decline of 6.3 per cent in the third quarter of 2009, whilst the number of tourist departures increased marginally by 0.4 per cent in the last quarter, reflecting a rise of 4.0 per cent in December. Reflecting the recovery in tourism worldwide, this improvement continued in the first quarter of 2010, with a rise of 7.1 per cent. Whilst these developments are encouraging, it should be noted that the tourist inflows remain below the peak levels registered in the first quarter of 2008. In April 2010, a decline of 1.0 per cent was registered, reflecting the impact of the volcanic ash cloud on European airspace.

During 2009, almost all the source markets reported negative results. Arrivals from the UK market decreased by around 8.6 per cent, while tourists from Germany declined by 18.6 per cent. Besides the negative impact of the economic crisis, the latter may be also attributable to a decline in airline capacity to the German market. The Scandinavian market also recorded a relative significant decrease of 21.0 per cent. The opening of new routes by low-cost airlines in 2008

### Quarterly Distribution of Tourist Departures

Table 2.3

	2007	2008	2009	2010
Q1	173,563	211,689	174,039	186,462
Q2	328,240	365,625	323,829	-
Q3	467,768	467,855	438,474	-
Q4	273,939	245,689	246,670	-
<b>Total</b>	<b>1,243,510</b>	<b>1,290,858</b>	<b>1,183,012</b>	<b>-</b>

### Share (per cent)

Q1	14.0	16.4	14.7	-
Q2	26.4	28.3	27.4	-
Q3	37.6	36.2	37.1	-
Q4	22.0	19.0	20.9	-

Source: National Statistics Office

had boosted growth from Ireland and Spain, but in 2009 these markets recorded a decline of 17.0 per cent and 10.0 per cent respectively. On the other hand, during 2009, tourist departures from Italy recorded an increase of 10.0 per cent. This largely reflects the introduction of new routes by low-cost airlines already operating from Malta.

During 2009 gross tourism earnings decreased by 8.9 per cent to € 588.4 million. This largely reflected the drop in tourist inflows as earnings per capita fell by a marginal 0.7 per cent. Developments in gross tourism earnings are illustrated in Table 2.4.

In 2009, cruise passenger arrivals (excluding Maltese passengers) declined by around 22 per cent. Declines in arrivals were mainly recorded from the Spanish, British and Italian markets, while a significant increase was recorded from Germany and France. On a monthly basis, declines were registered in the first ten months of the years whereas in November and December increases were recorded over the previous corresponding months. The improvement in cruise liner activity continued in the first months of 2010 with the number of cruise passengers, excluding Maltese passengers, increasing from 69,735 to 100,746 during January-April 2010 over the corresponding period of 2009.

### Earnings from tourism

Table 2.4

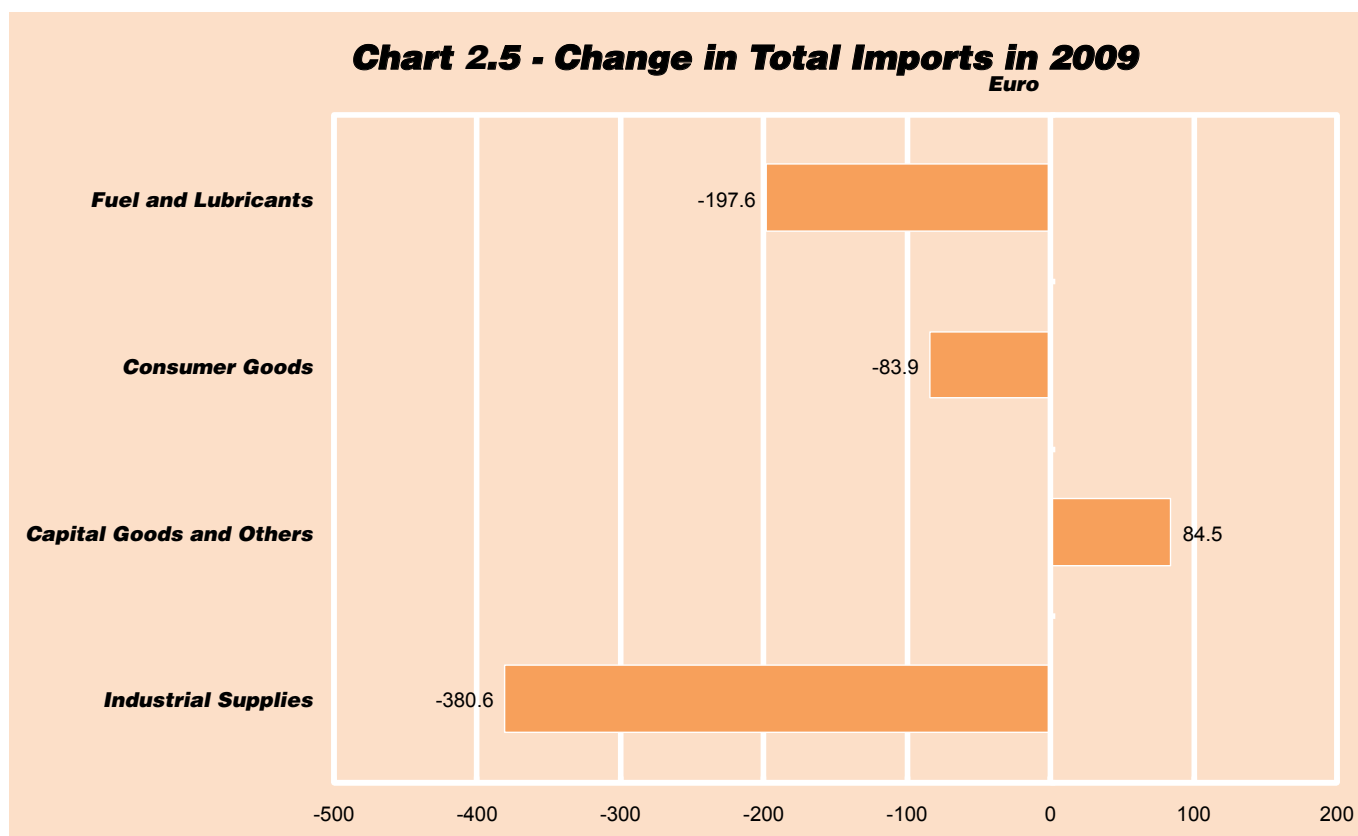
	2007	2008	2009
<b>Gross Foreign Exchange Earnings (€ million)</b>	664.2	646.2	588.4
<b>% change</b>	9.4	-2.7	-8.9
<b>Gross Tourism Earnings per capita (€)</b>	534.1	500.6	497.3

Source: National Statistics Office

**2.2.6 External Trade  
in Goods**

During 2009, the visible trade gap narrowed by € 143.5 million mainly as a result of a reduction in imports of € 577.6 million or 16.5 per cent which outpaced a reduction in exports of €434.1 million or 20.8 per cent.

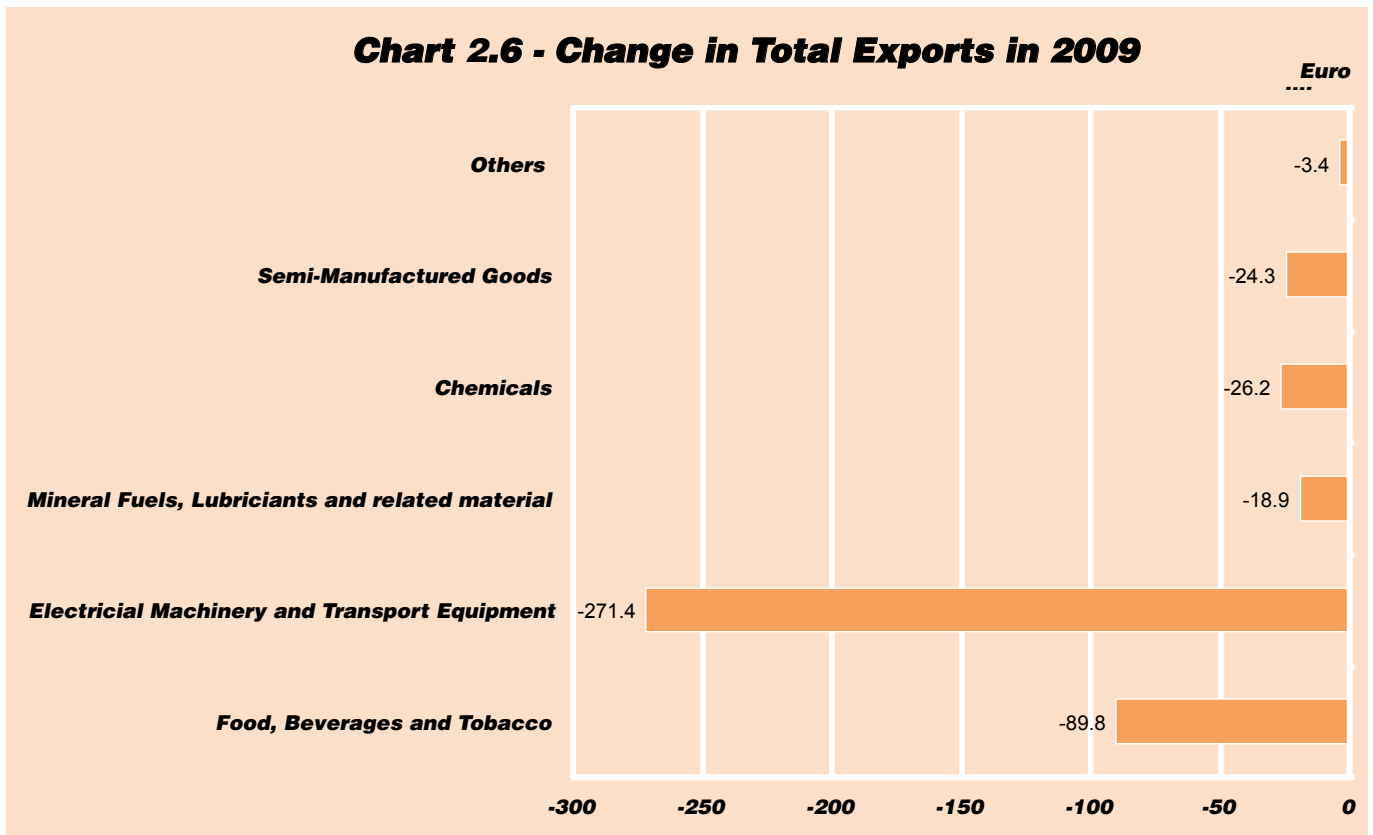
Industrial supply imports fell by € 380.6 million in 2009, largely reflecting the lower level of manufacturing exports. Fuel and lubricants imports decreased by € 197.6 million or 39.3 per cent mainly reflecting lower average international oil prices. Imports of consumer goods decreased by € 83.9 million, with a significant drop of € 60.9 million being recorded in the durable goods category. On the other hand, an increase of € 84.5 million was recorded in capital goods and other imports reflecting an exceptional increase in imports in the aircraft category. Chart 2.5 illustrates these developments.



On a geographical basis, imports have mainly decreased from Europe reflecting lower imports from the EU. Imports from Asia and Africa also decreased. On the other hand, minor increases were recorded in imports from Switzerland and imports from North and Central America.

Reflecting the downturn in the international economic environment, a negative performance was recorded by all categories of exports during 2009. A significant decline of € 271.4 million in machinery and transport equipment exports was recorded, whilst exports of food, beverages and tobacco fell by € 89.8 million. The latter was significantly affected by lower exports of fish. Exports of chemical products and exports of semi-manufactured goods decreased by € 26.2 million and € 24.3 million respectively. The performance of exports is outlined in Chart 2.6.

**Chart 2.6 - Change in Total Exports in 2009**



The three regions that contributed mostly to the decline in exports were the EU, exports to Asia and exports to North and Central America. Conversely, minor increases in exports to South America and Africa were recorded.

**2.2.6.1 Recent Developments in International Trade**

Preliminary figures for the first four months of 2010 show a further improvement in the trade balance in Malta. This reflects an increase of 34.5 per cent or € 175.8 million in exports, whilst imports decreased slightly by 0.6 per cent or € 6.3 million.

Imports of capital goods and others and imports of consumer goods decreased, outpacing increases in imports of industrial supplies and imports of fuels and lubricants. The decline in imports of capital goods largely reflects exceptional items in the aircraft and boat categories. Meanwhile, all categories of exports increased reflecting the pick-up in international economic activity. Major increases were observed in exports of machinery and transport equipment, exports of mineral fuels, lubricants and related materials (due to bunkering activities) and exports of food, beverages and tobacco particularly fish exports. Table 1.5 shows recent major developments in foreign trade.

**2.2.7 Services Account<sup>2</sup>**

A worsening in the positive services balance was recorded in 2009, as it decreased from 16.7 per cent of GDP to 15.9 per cent of GDP, as shown in Chart 2.7. Decreased tourism earnings and lower transportation receipts from abroad were mainly responsible for this decrease. These more than offset lower payments made abroad for other services.

<sup>2</sup> Sections 1.2.7 to 1.2.11 are based on the latest available Balance of Payments data issued in March 2010 and covering the period until the fourth quarter of 2009.



## An Analysis of Foreign Trade

Table 2.5

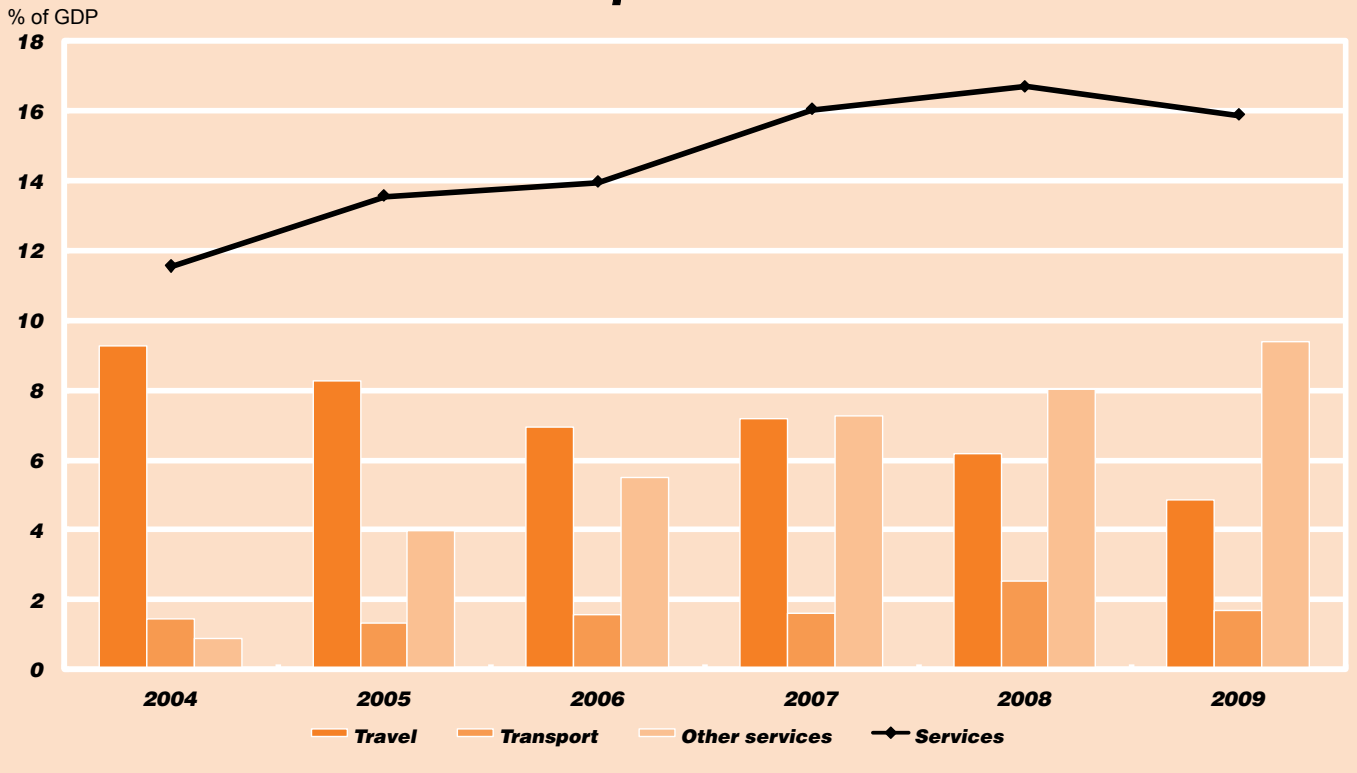
	€ Million	
	2009	2010
	Jan-Apr	Jan-Apr
<b>Imports</b>	<b>998.2</b>	<b>991.9</b>
<b>Industrial Supplies</b>	<b>339.8</b>	<b>398.1</b>
<b>Capital Goods and Others</b>	<b>307.7</b>	<b>202.3</b>
<b>Consumer Goods</b>	<b>281.2</b>	<b>267.6</b>
Food and Beverages	109.6	105.9
Durable Goods	102.2	98.5
Others	69.4	63.2
<b>Fuel and Lubricants</b>	<b>69.5</b>	<b>123.9</b>
<b>Exports</b>	<b>510.1</b>	<b>685.9</b>
Food, Beverages and Tobacco	26.5	56.8
Machinery and Transport Equipment	396.0	460.3
Mineral Fuels, Lubricants and related materials	7.5	58.7
Chemicals	51.1	67.5
Semi-Manufactured Goods	25.7	38.5
Others	3.3	4.2
<b>Visible Trade Gap</b>	<b>-488.1</b>	<b>-306.0</b>

Source: National Statistics Office

During 2009, net receipts for transportation services registered a decrease of € 48.1 million to € 95.8 million mainly due to decreased receipts from abroad of € 51.4 million. Net receipts in the travel account also decreased by € 73.6 million to € 275.8 million, reflecting both lower tourist expenditure in Malta of € 57.8 million and higher spending by Maltese travellers abroad of € 15.7 million.

Other services recorded a significant increase in net inflows of € 80.7 million to reach € 535.2 million during 2009. In particular, a substantial increase in net receipts for financial services was recorded, as net outflows of € 68.5 million in 2008 turned to net inflows of € 42.5 million. This was largely due to lower payments made abroad. Furthermore, net receipts for insurance, computer and information, royalties and license fees together rose by € 22.1 million. On the other hand, net receipts by the remaining services including other business services, personal, cultural and recreational services, communications and Government services fell by € 52.5 million.

**Chart 2.7 - Developments in the Services Account**



It is noteworthy that receipts from abroad for other services have maintained their upward trend, increasing by € 10.3 million in 2009. This indicates that certain emerging sectors of the Maltese economy showed some resilience during the international economic crisis.

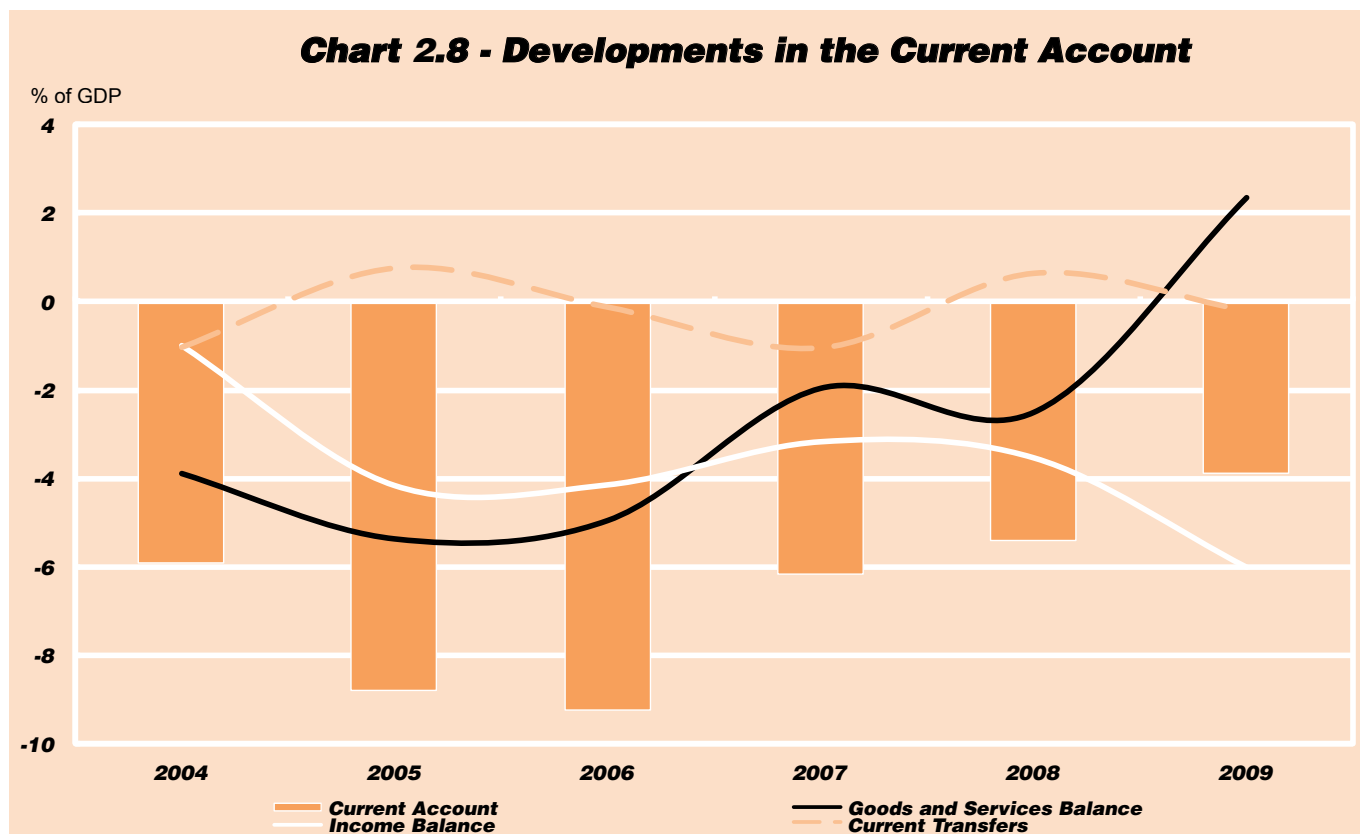
**2.2.8 Income Account** Net outflows in the income account increased to reach 6.0 per cent of GDP in 2009 from 3.5 per cent of GDP in the previous year. This worsening in the income account balance resulted from a decrease of € 539.9 million in receipts from abroad, which offset a decrease in payments made abroad of € 396.6 million.

Portfolio investment net inflows decreased by € 298.1 million to € 562.7 million in 2009, mainly in the form of income on debt. This was underpinned by lower income on bond and note holdings of banks. Direct investment net outflows increased by € 221.6 million to € 814.6 million as payments made abroad increased significantly. Net payments abroad of both dividends and reinvested earnings increased. On the other hand, other investment net outflows decreased by € 367.7 million to € 95.4 million as payments made abroad decreased, outpacing declining receipts from abroad. Banks were mainly responsible for such income flows in 2009.

**2.2.9 Current Transfers** Net current transfer inflows stood at 0.6 per cent of GDP in 2008 but turned to net outflows of 0.2 per cent of GDP in 2009. This reflected developments in Government transfers where net receipts from abroad decreased by € 53.9 million. It should be noted that timing differences between the payment of tax due and payment of tax refunds affect the level of Government transfers.

### 2.2.10 The Current Account

A narrowing goods account deficit was the main driver of the improvement in the current account deficit during 2009, from 5.4 per cent of GDP in 2008 to 3.9 per cent of GDP in 2009. This more than offset the worsening in the services surplus, higher net outflows in the income account and the deterioration in net current transfers. In absolute terms, the current account deficit declined from a level of € 307.6 million to € 222.3 million. Developments in the current account are illustrated in Chart 2.8.



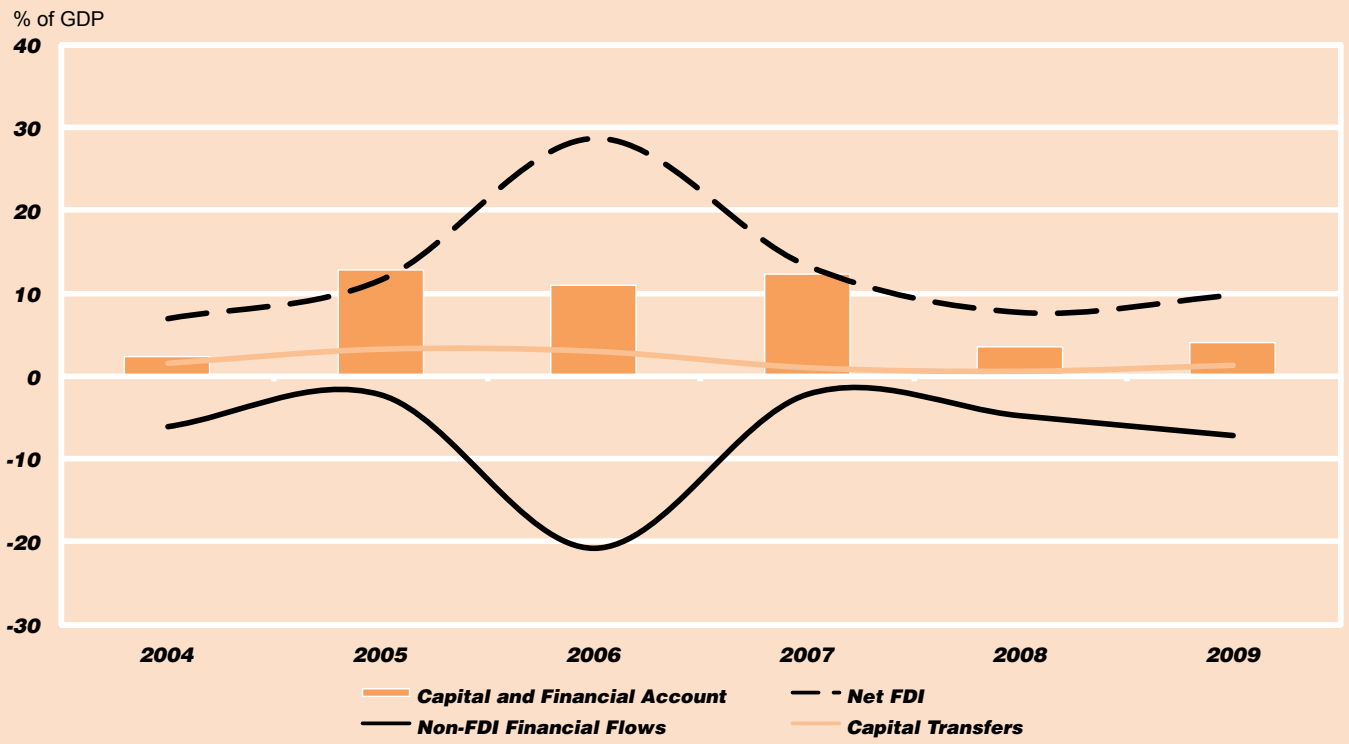
### 2.2.11 The Capital and Financial Account

Capital and financial account (including net errors and omissions and excluding reserves) net inflows increased from 3.5 per cent of GDP in 2008 to 3.9 per cent of GDP in 2009, as illustrated in Chart 2.9.

An increase in Net Foreign Direct Investment (FDI) inflows of 2.1 percentage points of GDP together with an increase in net capital transfer inflows of 0.7 percentage points of GDP more than offset an increase in net non-FDI financial outflows of 2.4 percentage points of GDP. Reserves were practically unchanged as the capital and financial account net inflows almost exactly financed the current account deficit.

The increase in net FDI inflows was mainly underpinned by € 119.2 million less direct investment made by Maltese investors abroad, which stood at € 80.0 million in 2009. FDI by foreign investors in the Maltese economy remained roughly unchanged at 11.3 per cent of GDP in 2009, as a decrease in equity capital was offset by an increase in reinvested earnings. Meanwhile, higher Government

**Chart 2.9 - The Capital and Financial Account**



capital transfer inflows under the several categories of EU Funds resulted in an improving capital account.

Portfolio investment turned to a net outflow of € 1,906.0 million in 2009 from a net inflow of € 370.9 million in 2008 as banks increased their holdings of bonds and notes and money-market instruments. Financial derivative net outflows decreased by €272.6 million while other investment turned from a net outflow position of € 227.5 million in 2008 to a net inflow position of € 1,541.3 million in 2009. Banking operations primarily reflected these financial flows. Net errors and omissions turned from a negative € 71.7 million in 2008 to a positive € 24.2 million in 2009.

## Aggregate Supply Conditions

### 2.3.1 Analysis of Gross Value Added by Sector

During 2009, the nominal gross value added (GVA) at basic prices dropped by 0.2 per cent. This development in GVA was mainly characterized by a substantial decline in the manufacturing sector and to a lesser extent in the mining, quarrying and construction sector. The manufacturing sector exerted a negative contribution of 3.2 percentage points to the change in GVA in 2009. On the other hand, positive contributions to developments in GVA were evident in the electricity and water supply sector (1.4 percentage points), the public administration, education, health and social work sector (1.9 percentage points), the services sector (0.1 percentage points) and the agriculture and fishing sector (0.1 percentage points).

In 2009, gross value added by the services sector rose by € 5.7 million owing to a rise in output which was partially offset by a rise in intermediate consumption. The main positive contributors within this sector were the financial intermediation services and the recreational, cultural and sporting services, mainly reflecting an increase in the remote gaming sub-sector. These developments were partially offset by negative contributions by the wholesale and retail trade, post and telecommunications services and hotels and restaurants.

Gross value-added in the manufacturing sector recorded a decline of € 157.4 million. This decrease reflected a considerable decline in output which was partially offset by a drop in intermediate consumption. The main contributors towards this drop were the manufacture of other transport equipment, the manufacture of radio, television and communication equipment, and the manufacture of chemicals and chemical products. In contrast, the only positive contributors to GVA within this sector were the manufacture of electrical machinery and apparatus sector and the publishing and printing sector.

Despite the decline in output of the electricity and water supply, GVA in this sector rose by € 69.3 million, as its intermediate consumption dropped by a larger extent reflecting significant lower international oil prices. Meanwhile, GVA in public administration, education, health and social work rose by € 94.3 million mainly reflecting an increase in the GVA of health and social work sub-sector. The decline in gross value added registered in the mining, quarrying and construction sector is mostly attributable to a drop of € 7.6 million in the gross value added of the construction sector as the GVA of the other sub-sector remained relatively stable. Meanwhile, the improvement in the GVA by the agriculture and fishing sector reflected increases in both sub-sectors.

### 2.3.2 The Labour Market

Before the international economic crisis, the Maltese labour market registered a buoyant performance, as reflected in the relatively high rates of employment growth and a relatively low unemployment rate. However, as domestic economic activities, particularly the manufacturing and tourism related sectors, were increasingly affected by the negative international economic environment, the labour market was also affected by these developments albeit to a lesser extent than in a number of EU Member States.

The latest revised data compiled by the Employment and Training Corporation (ETC) suggests that during the twelve months to December 2009, the labour supply registered a decrease of 0.3 per cent. Furthermore, during the same period, the full-time gainfully occupied population declined by 1.2 per cent. This significant decline was partly reflected in the number of unemployed persons which rose by 1,307 to 7,680 such that the unemployment rate increased from 4.2 per cent to 5.1 per cent at the end of December 2009. Part-time employment increased from 47,090 in December 2008 to 49,736 in December 2009, an increase of 2,646 or 5.6 per cent. The increase in part-time employment is mainly attributable to market service employment. Details on labour market trends are provided in Table 2.6.

Labour Market Indicators

Table 2.6

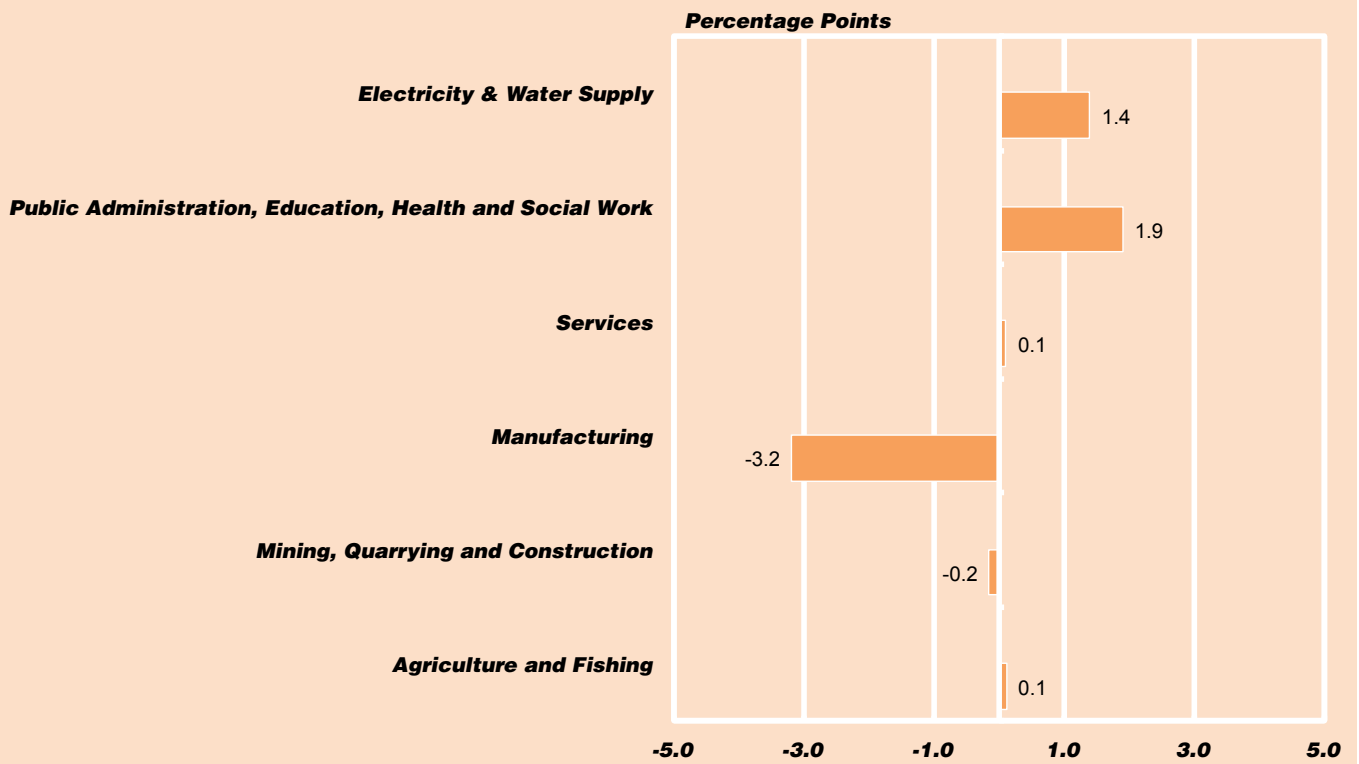
	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09
Labour Supply	146,012	147,518	149,266	151,891	151,507
Employed	138,633	140,357	143,094	145,518	143,827
Direct Production	42,309	42,636	41,792	40,456	38,330
Market Services	95,509	96,988	100,603	104,351	104,855
Temporary Employed	815	733	699	711	642
Part-Time Employment	39,263	42,115	45,235	47,090	49,736
Unemployed (part I & II)	7,379	7,161	6,172	6,373	7,680
Unemployment rate (%)	5.1	4.9	4.1	4.2	5.1

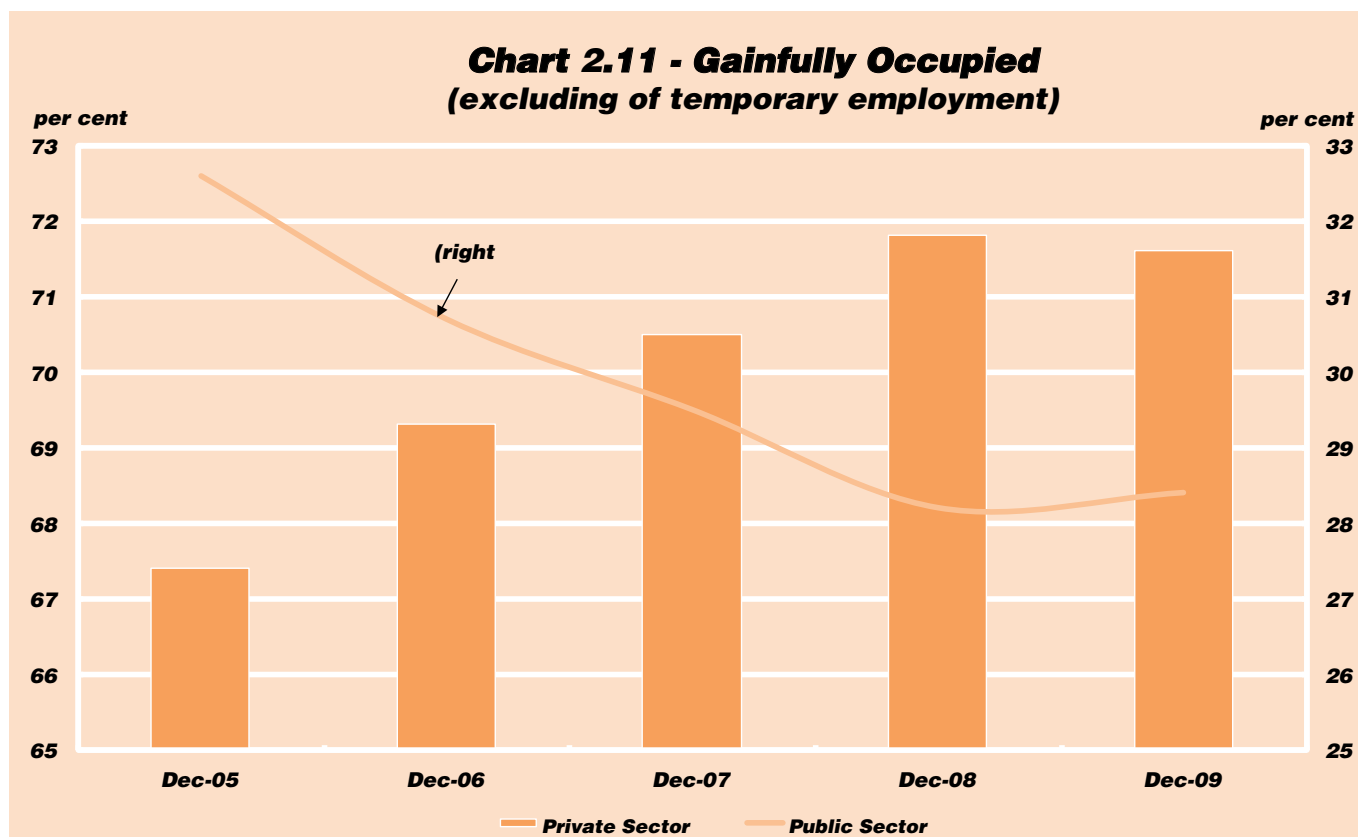
Source: National Statistics Office, ETC

The shift away from direct production towards market services employment noted in previous years persisted also during the year to December 2009. Latest data shows that full-time employment declined from 40,456 to 38,330 in direct production while an increase in employment in market services of 504 was registered.

Over the twelve month period to December 2009, developments in total direct production employment mainly reflected a decline of more than 1,270 employees in the manufacturing sector. Significant declines were particularly recorded in the manufacture of radio, television and communication equipment, manufacture

**Chart 2.10 - Contributors to Growth in Gross Value Added in 2009**





of other transport equipment, manufacture of rubber and plastic products, manufacture of furniture and the manufacture food products and beverages sub-sectors. Such drops in employment in manufacturing employment levels could have been even more marked had Government not supported actively enterprises that encountered difficulties in the course of the last two years.

During the same period, in market services, significant increases were recorded in the business activities sub-sector, health and social work, education as well as the recreational, cultural and sporting activities sub-sector. These were partly offset by declines in employment in the hotels and restaurants sector and the post and telecommunications sub-sector.

In December 2009, the share of public sector employment registered a marginal increase of 0.2 percentage points over the previous year, thus reversing the trend displayed in previous years. These increases can be mainly attributed to increases in employment in the education and healthcare sectors. Chart 2.11 displays the share of private sector employment and public sector employment in the gainfully occupied population, excluding temporarily employment.

### 2.3.2.1 Labour Force Survey

The Labour Force Survey (LFS) is a household survey carried out by the National Statistics Office (NSO) in accordance with the methodologies of the European Union’s statistical agency, Eurostat, and the International Labour Organisation. The LFS provides information regarding the labour market, salary conditions and other useful indicators. However, it is not directly comparable to statistics

emanating from the administrative records of the Employment and Training Centre (ETC) due to differences in definitions and methodology of the two datasets. Additionally, one must express caution in interpreting LFS results over time as absolute changes in employment of 1,800 or less may be the result of a sampling error.

Table 2.7 shows the recent developments in the labour market based on LFS data. The data shows an increase in the labour supply of 2.6 per cent, equivalent to 4,442 persons, in the fourth quarter of 2009. Both employment and unemployment increased by around 2,200 persons. The activity rate increased from 58.7 per cent in the last quarter of 2008 to 59.4 per cent, whilst the employment rate was practically unchanged. In both cases, an improvement was registered by females, whilst lower rates were registered for males. Meanwhile, the unemployment rate increased from 6.3 per cent to 7.4 per cent.

**2.4 Prices** Relatively high inflation rates were recorded during 2008 and the first half of 2009, with the annual inflation rate generally exceeding 5.0 per cent during the second half of 2009. Subsequently, HICP inflation rate decreased and negative annual inflation rates were recorded during October-December 2009. In December 2009, the 12 month moving average inflation rate stood at 1.8 per cent. In the first months of 2010, the inflation rate returned to positive territory. An annual inflation rate of 0.8 per cent was recorded in April 2010, with the 12-month moving average inflation rate standing at 0.9 per cent. Chart 2.12 depicts the trend in the inflation rate for the period covering January 2007 to April 2010.

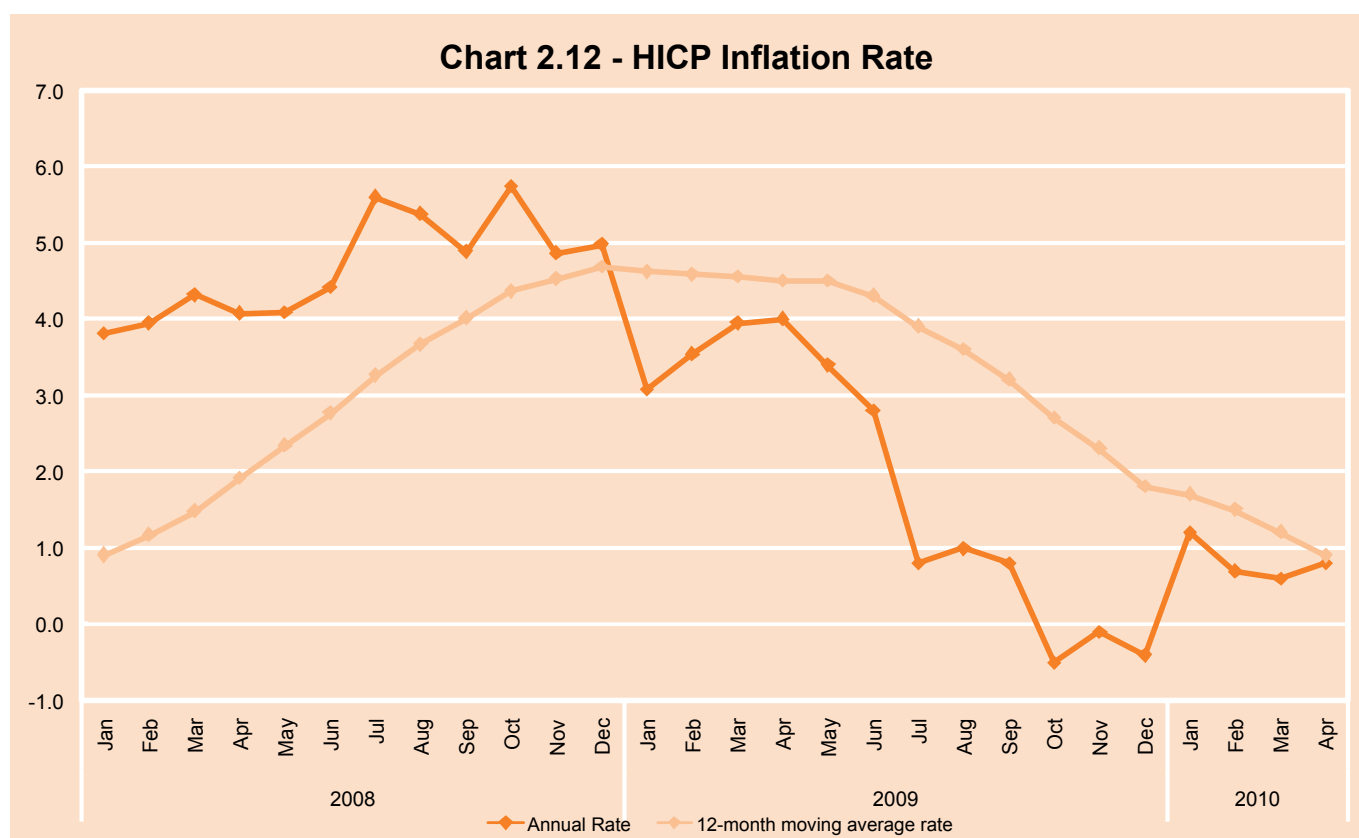
### Labour Force Survey Indicators

Table 2.7

	2008	2009
	Oct-Dec	Oct-Dec
<b>Labour Supply</b>	171,498	175,940
<b>Employment</b>	160,673	162,918
<b>Unemployment</b>	10,825	13,022
<b>Inactive</b>	175,379	175,007
<b>Activity rate (%)</b>	58.7	59.4
<b>Employment rate (%)</b>	55.0	54.9
<b>Unemployment rate (%)</b>	6.3	7.4

Source: National Statistics Office





#### Main items contributing to HICP inflation (April 2010)

Table 2.8

	Weight	12 Month Moving Average (%)	Contribution to Inflation (Percentage points)	Contribution to Inflation as % of Total Inflation
<b>All Items</b>	1000	0.94		
<b>Restaurants, cafés and the like</b>	96.22	3.17	0.30	31.91
<b>Other services in respect of personal transport equipment</b>	10.25	19.01	0.19	20.21
<b>Meat</b>	36.11	5.28	0.19	20.21
<b>Passenger transport by road</b>	18.29	6.69	0.12	12.77
<b>Education</b>	15.62	7.32	0.11	11.70
<b>Bread and cereals</b>	31.36	3.57	0.11	11.70
<b>Tobacco</b>	19.26	5.37	0.10	10.64
<b>Maintenance and repair of personal transport equipment</b>	11.23	6.89	0.08	8.51
<b>Electricity</b>	20.75	3.71	0.08	8.51
<b>Fish and seafood</b>	8.60	8.73	0.08	8.51
<b>Total Contribution to Inflation</b>			<b>1.36</b>	<b>144.68</b>

Source: National Statistics Office

The main contributors to the 12-month moving inflation in Malta for April 2010 were the Food and non-alcoholic beverages sub-index and the Housing, water, electricity, gas and other fuels sub-index. At a more disaggregated level, the major contributors to inflation were prices in Restaurants and cafés (0.30pp), Other services in respect of personal transport equipment (0.19pp), and Meat (0.19pp). Table 2.8 shows the main contributions to inflation during April 2010.

During April 2009, the EU27 12 month moving average inflation rate stood at 1.1 per cent while the rate in the Euro Area stood at 0.4 per cent. Chart 2.13 shows the development of the 12-month moving average inflation rate in Malta, the EU and the Euro-Area. It can be observed that during the first half of 2008, the inflation rate in Malta was below that prevailing in both the EU and the Euro-Area. Subsequently, the gap gradually closed down and Malta's inflation rate surpassed both benchmarks in August thereafter remaining higher till March 2010. Whilst the inflation rate registered in April 2010 was slightly lower than the average of the EU, it remained above the rate registered in the Euro-Area.

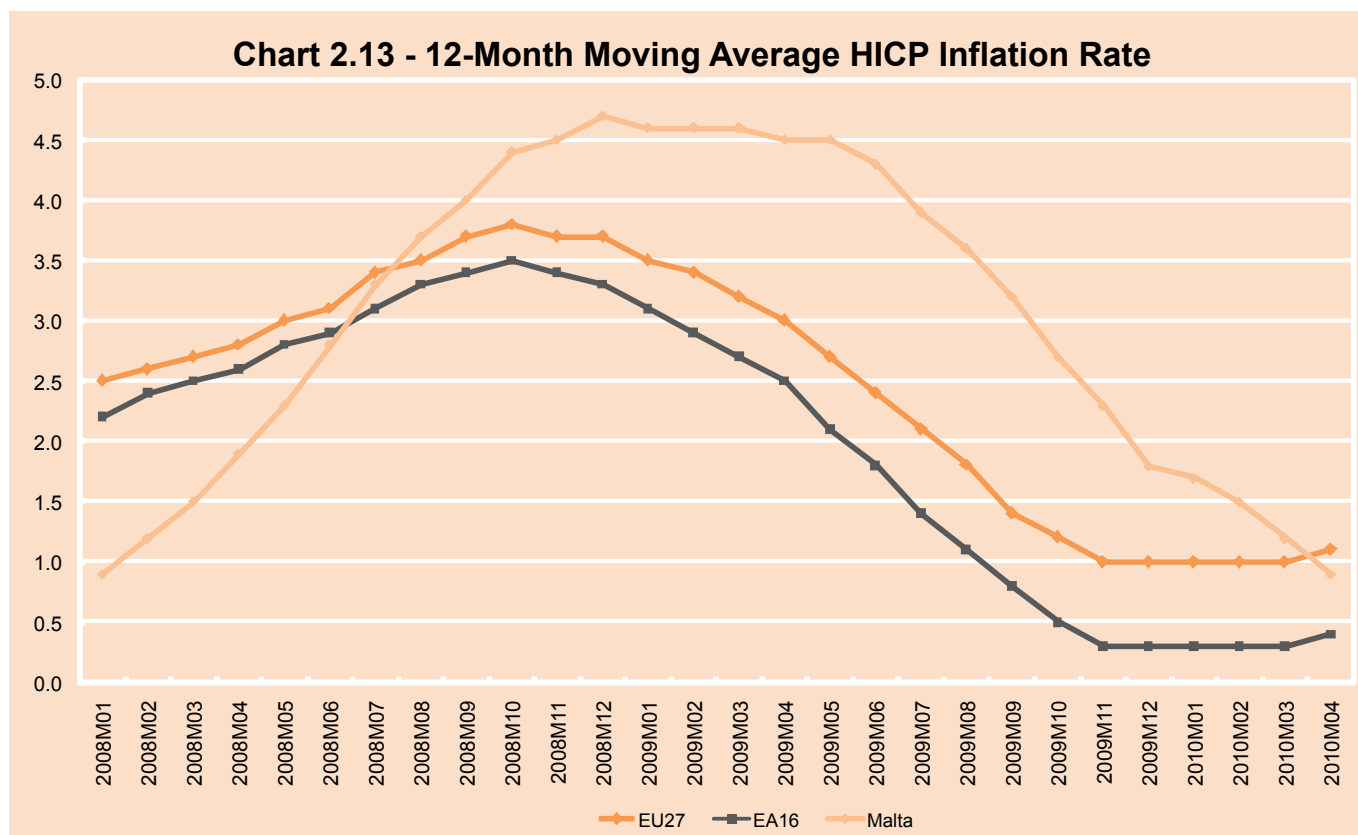
At a sub-index level, notable disparities emerge between the inflation rates in Malta and those prevailing in the EU. While in the Euro-area, the food and non-alcoholic beverages sub-index and the housing, water, electricity, gas and other fuels sub-index were negative, in Malta these items increased by 2.5 per cent and 5.2 per cent respectively. Health and education also registered heavy price increases in Malta compared to those in the EU. On the other hand, substantial decreases were registered in Malta in items falling under transport sub-index and the communication sub-index. Table 2.9 compares the main sub-indices with the EU and Euro-Area.

#### 12-Months Moving Average HICP inflation (April 2010)

Table 2.9

	EU27	EA16	Malta
<b>All-items HICP</b>	1.1	0.4	0.9
<b>Food and non-alcoholic beverages</b>	-0.1	-0.9	2.5
<b>Alcoholic beverages, tobacco and narcotics</b>	6.0	4.3	3.5
<b>Clothing and footwear</b>	-0.8	0.2	-1.1
<b>Housing, water, electricity, gas and other fuels</b>	0.4	-0.5	5.2
<b>Furnishings, household equipment and routine maintenance of the house</b>	1.6	1.3	1.3
<b>Health</b>	1.7	1.1	4.3
<b>Transport</b>	1.1	0.1	-3.1
<b>Communications</b>	-0.1	-0.6	-3.5
<b>Recreation and culture</b>	0.7	0.1	-0.7
<b>Education</b>	2.9	1.2	7.3
<b>Restaurants and hotels</b>	1.7	1.4	0.6
<b>Miscellaneous goods and services</b>	2.3	2.1	2.6

Source: Eurostat



### 2.5 Prospects for 2010

Following the heavy upheaval in the financial markets in 2008 and the resulting severely unfavourable macroeconomic conditions prevailing for most of 2008 and 2009, a gradual recovery is increasingly becoming more evident. The latest economic developments in the European economies and the US indicate that most advanced economies have moved back into positive territory with positive rates registered in the last quarter of 2009 and the first months of 2010. The European economy is expected to expand by 1.0 per cent in 2010 and by a further 1.7 per cent in 2011. This recovery is expected to be underpinned by various factors primarily among them the exceptional demand-supporting policy measures taken in 2009 and the favourable growth in emerging and developing economies.

Despite the favourable developments, major challenges are still present. The eventual withdrawal of temporary fiscal support measures coupled with the urgent need for further fiscal consolidation, following recent developments in sovereign markets, could dampen demand conditions.

Against this background, the domestic economy is expected to continue with its gradual export-driven recovery with a pick-up in exports feeding through the investment. This in turn is expected to stimulate employment, albeit with a lag, and consumption expenditure.

Consumption growth is expected to slightly decelerate during this year reflecting developments in real household disposable income. Nonetheless,

private consumption is expected to expand in 2011 reflecting increased consumer confidence and increased disposable income, as the labour market improves.

Following the sharp declines in investment during the previous two years, a strong rebound is expected for 2010 as firms are likely to respond to higher external demand. Public investment is also forecasted to contribute positively to economic growth.

In the external sector, positive contributions are expected in the coming period. Indeed, following the recovery in Malta's main trading partners, exports are expected to increase steadily during 2010. Given, the high import content of Malta's exports, developments in imports are expected to broadly mirror those in exports.

While GDP growth is foreseen to continue its recovery during 2010, the labour market will be affected with a lag and employment is expected to remain rather subdued during the year. Inflationary pressures are also expected to be rather modest in view of the spare capacity that currently characterise major economies. Indeed, the 12-month moving average inflation is expected to increase slightly during the 2010 and to remain stable in 2011.

The overall outlook for the economy is subject to a certain degree of uncertainty. On the positive side, the GDP growth registered in the last quarter of 2009 and the first quarter of 2010 surprised on the upside. This, together with the available indicators for exports and tourism numbers for the first months of 2010 are encouraging. On the other hand, the international economic scenario, particularly economic conditions in Malta's main trading partners, remain subject to certain downside risks. In particular, the increasing focus of policy makers on fiscal sustainability could constrain foreign demand for domestically produced goods and services.



**Chapter Three** ,  
Securing sustainable public finances

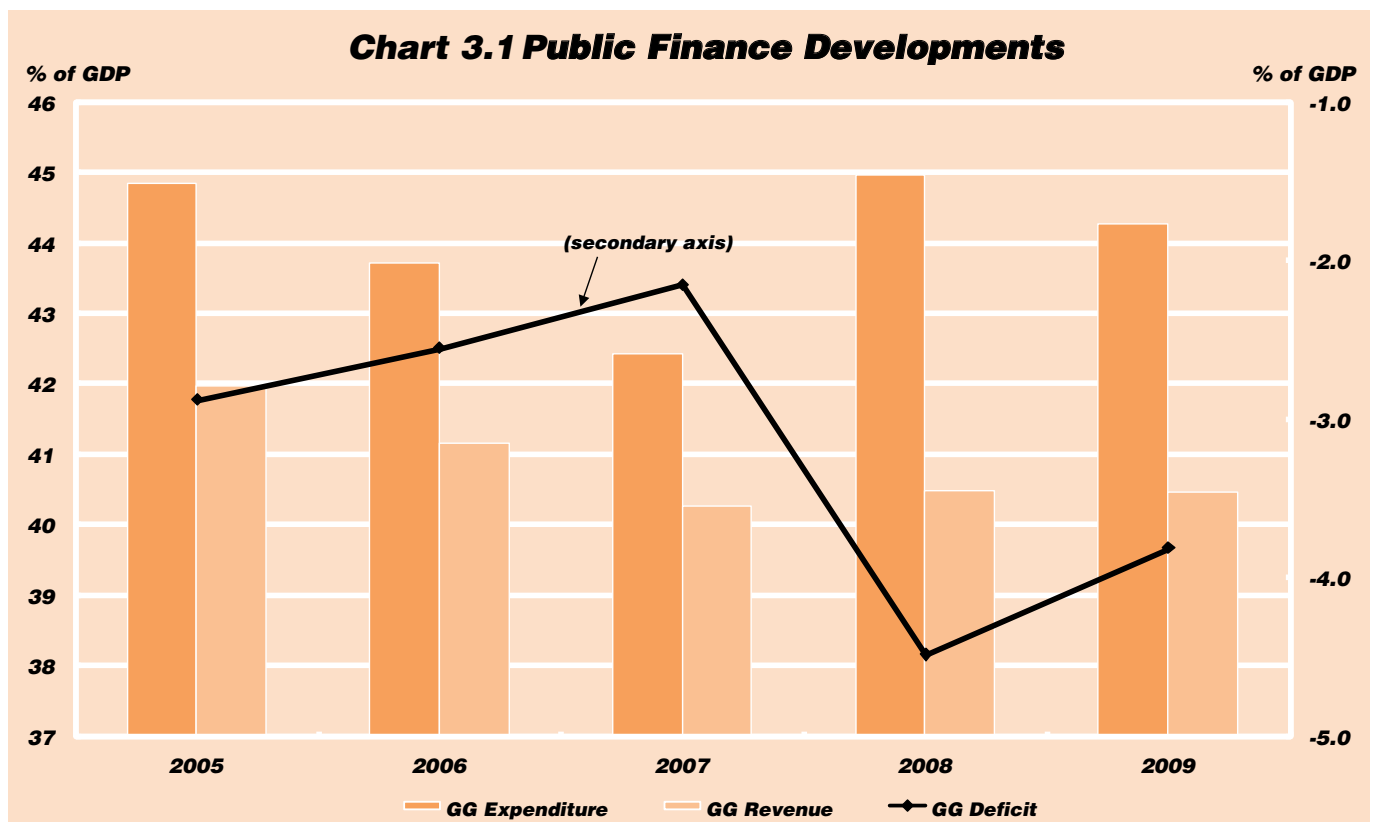
### 3.1 Background

While the economy shows signs of gradual recovery, in the context of recent developments in sovereign bond markets, it is becoming increasingly important to return to a sustainable fiscal stance. This will ensure that the increase in deficit and debt resulting from the crisis, mostly from the loss of output and revenues, does not lead to fiscal sustainability problems. In the meantime, it is Government's immediate priority to ensure that policy actions do not undermine the recovery but encourage investment and job creation.

### 3.2 Fiscal Developments in 2009

Over the 2004-2007 period, the fiscal deficit followed a downward trend. Subsequently, against the backdrop of exceptional expenditure outlays towards the shipyards and utilities sector the deficit ratio increased in 2008. As Government adopted a less restrictive fiscal stance in response to the challenging economic environment, the general Government deficit ratio remained above the 3 per cent benchmark also in 2009. In fact, Government adopted a proactive fiscal policy to finance and encourage investment activity and support job retention efforts by the private sector. Besides, the contraction in domestic economic activity also exerted negative repercussions on the public finance position, mainly through declines in certain revenue streams.

As illustrated in Chart 3.1, according to data based on the European System of Accounts (ESA95) methodology, the general Government deficit-to-GDP ratio declined from 4.5 per cent in 2008 to 3.8 per cent in 2009, mainly attributable to a lower expenditure ratio. This largely reflects the non-recurrence in 2009 of the exceptional expenditure items incurred in 2008. Developments in the general Government budgetary components as a ratio of GDP are presented in Table 1.



## General Government Budgetary Components

Table 3.1

% of GDP

	2005	2006	2007	2008	2009
<b>Revenue</b>	42.0	41.2	40.3	40.5	40.4

## Components of Revenue

<b>Market Output</b>	2.0	1.9	2.0	2.7	2.0
<b>Taxes on Production &amp; Imports</b>	15.0	14.8	14.7	14.6	14.2
<b>Property Income</b>	1.5	1.2	1.3	1.2	1.2
<b>Current Taxes on Income &amp; Wealth</b>	11.7	11.9	13.3	13.1	13.9
<b>Social Contributions</b>	7.9	7.6	7.3	7.6	7.6
<b>Current and Capital Transfers</b>	3.9	3.7	1.7	1.2	1.5

<b>Expenditure</b>	44.8	43.7	42.4	45.0	44.3
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## Components of Expenditure

<b>Compensation of Employees</b>	14.0	13.3	12.9	14.7	14.5
<b>Intermediate Consumption</b>	5.0	5.6	5.4	6.8	6.3
<b>Property Income</b>	3.7	3.5	3.3	3.3	3.4
<b>Gross Capital Formation</b>	4.8	4.0	3.8	2.4	2.0
<b>Social Benefits &amp; Social Transfers in Kind</b>	13.4	13.0	13.2	13.3	14.1
<b>Other</b>	3.9	4.2	3.8	4.5	3.9

<b>Deficit</b>	-2.9	-2.6	-2.2	-4.5	-3.8
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Source: National Statistics Office

**3.2.1 Revenue** The revenue ratio declined marginally from 40.5 per cent in 2008 to 40.4 per cent in 2009, as higher proceeds from current taxes on income and wealth and capital transfers were offset by lower revenue from taxes on production and imports and market output. The ratio of current taxes on income and wealth increased by 0.8 percentage point of GDP, mainly reflecting higher revenue from the annual circulation tax as well as proceeds from income tax. The latter included revenue from a scheme which provided for the waiving off of fines and penalties accruing in relation to income tax due. Moreover, the ratio of capital transfers increased by 0.4 percentage point, mainly reflecting higher funds forthcoming under the EU Structural and Cohesion Funds 2007-2013 Programme. On the other hand, the ratio of market output declined by 0.7 percentage point of GDP, largely reflecting lower output by Malta Shipyards Ltd. Moreover, a lower ratio of taxes on production and imports was also recorded, reflecting subdued consumption as well as lower tax receipts on property transactions due to weak activity in the local property market. Meanwhile, the ratios of property income and social contributions remained unchanged.

**3.2.2 Expenditure** The expenditure ratio declined from 45.0 per cent in 2008 to 44.3 per cent in 2009, mainly reflecting lower ratios of intermediate consumption, the 'other' expenditure category and gross capital formation, in part offset by a higher ratio of social payments. The decline of 0.5 percentage point in the intermediate consumption ratio mainly reflected the assimilation of Malta Shipyards Ltd within the general Government sector in 2008 and the process leading to its liquidation. This development also affected the ratio of 'other' expenditure to GDP. Meanwhile, the decline in the ratio of the 'other' component of expenditure, which mainly includes subsidies payable and current and capital transfers, was also underpinned by a significantly lower subsidies ratio, partly offset by increases in the current and capital transfers ratios. Indeed, the subsidies ratio declined by 1.0 percentage point to 1.1 per cent of GDP in 2009, mainly on account of the phasing out of financial support to the utilities sector following the introduction of a new tariff structure in October 2008. Meanwhile, the increase in the ratios of current and capital transfers mainly reflected enhanced support to the tourism industry during the current unfavourable international economic environment as well as the implementation of projects financed from EU funds under the 2007-2013 Financial Framework. A decline of 0.4 percentage point in gross capital formation was mainly attributable to a decline in inventories of Malta Shipyards Ltd, as the ratio of gross fixed capital formation to GDP remained broadly stable in 2009. On the other hand, expenditure on social benefits and social transfers in kind as a per cent of GDP increased by 0.8 percentage point, mainly reflecting higher outlays on retirement pensions and pharmaceutical products.

**3.2.3 Debt** The fiscal imbalance recorded in 2009 was reflected in a higher level of government debt. Coupled with a weak economic environment, this led to an increase in the ratio of public debt-to-GDP from 63.9 per cent in 2008 to 69.0 per cent in 2009. As in recent years, general Government debt is mainly made up of Malta Government Stocks, with a stronger focus on debt of a long-term maturity. Indeed, long-term debt accounted for around 87 per cent of total Government debt in 2009.

**3.3 Latest Fiscal Developments Jan-May 2010** This section is based on the latest published fiscal data as classified in the statement of the Consolidated Fund pertaining to the January-May 2010 period. Such data is defined on a cash basis rather than on an accruals basis and therefore should be interpreted with caution. During the first five months of 2010, the shortfall between recurrent revenue and total expenditure improved by €6.2 million to €288.2 million reflecting an increase in recurrent revenue which was partly offset by higher total expenditure.

During the period January-May 2010, recurrent revenue increased by €37.9 million, mainly on account of higher proceeds from taxation which more than outweighed declines registered in non-tax revenue. Higher tax revenue was attributable to increases in receipts from income tax, value added tax and customs and excise duties, which were partly offset by lower proceeds from social security contributions and licences, taxes and fines. It is pertinent to note that higher receipts from income tax captured a revenue stream generated by



a scheme which provided for the waiving off of fines and penalties accruing in relation to income tax due. Meanwhile, non-tax revenue declined, mainly due to lower proceeds from grants, fees of office and reimbursements.

During the same period, total expenditure increased by €31.7 million to €1,137.4 million, on account of higher outlays on capital and recurrent expenditure. Higher capital expenditure registered in the first five months of 2010 reflects higher infrastructure and social capital expenditure of €33.1 million and €3.3 million respectively. These were mainly brought about by an increase of €9.2 million in the EU Cohesion Fund 2007-2013 relating to the Malta South Sewage Treatment Infrastructure, as well as an increase of €3.5 million in capital expenditure related to road construction improvement and €3.4 million related to the EU Agriculture Guarantee Fund. These were partly offset by lower productive investment mainly due to the reclassification of €13.0 million in expenditure by the Malta Tourism Authority from a capital to a recurrent nature.

During the first five months of 2010, recurrent expenditure increased by €22.1 million to €938.5 million. Increases recorded in expenditure on Personal Emoluments and Contribution to Government Entities were in part offset by lower expenditure on Programmes and Initiatives. Indeed, despite an increase in expenditure on social security benefits of €26.3 million, expenditure on Programmes and Initiatives declined by €7.6 million, mainly underpinned by lower spending on the shipyards' voluntary retirement schemes and medicines and surgical materials. Operational and Maintenance Expenditure also contributed to the decline in recurrent expenditure by €6.1 million. Meanwhile, interest payments remained relatively stable.

### 3.4 Malta's Excessive Deficit Procedure

In July 2009, the Ecofin Council decided that an excessive deficit exists in Malta and recommended correction of the excessive deficit by 2010 at the latest. Subsequently, in February 2010, the Council adopted a revised recommendation providing for an extension of one year, to 2011, in the period within which the correction of the excessive deficit is to take place. The Council set the deadline of 16 August 2010 for the Maltese Government to take effective action to achieve the 2010 deficit target and to outline the measures that will be necessary to progress towards the correction of the excessive deficit.

Moreover, according to the Council Opinion on the updated Stability Programme for Malta adopted in April 2010, the Maltese authorities should:

- achieve the 2010 deficit target set in the budget if necessary by adopting additional consolidation measures;
- back up the strategy to bring the deficit below 3 per cent of GDP in 2011 with concrete measures while stand ready to adopt further consolidation measures, in case macro economic risks materialize;
- strengthen considerably the strategy for 2012 to ensure an adjustment towards the Medium Term Objective in line with the requirements of the Stability and Growth Pact;
- seize any opportunity beyond the fiscal effort, including better economic

conditions, to accelerate the reduction of the gross debt ratio back towards to 60 per cent of GDP reference value;

- strengthen the binding nature of its medium-term budgetary framework and improve the monitoring of budget execution throughout the year; and
- improve the long-term sustainability of public finances by implementing further reforms of the social security system.

### 3.5 Recent Conclusions of the Ecofin Council

In October 2009, EU Finance Ministers agreed that substantial fiscal consolidation is required beyond the withdrawal of the stimulus measures of the European Economic Recovery Programme in order to halt and eventually reverse the increase in debt and restore sound fiscal positions.

Subsequently, following market tensions in sovereign debt markets, in May 2010, the Ecofin Council agreed that plans for fiscal consolidation and structural reforms will be accelerated and frontloaded in a number of Member States in order to avoid adverse debt dynamics, also taking into account macro-financial stability considerations. In particular, for some countries in the Excessive Deficit Procedure (EDP), the structural adjustment would have to be stepped up to fulfil the requirements under the EDP.

The Council highlighted discrepancies between the Commission services' forecasts and the Programme targets. In particular, the Commission forecasts a deficit well above the programmes' targets reflecting that the adjustments were in many cases not fully underpinned by sufficiently specified measures especially as from 2011. In addition, Programmes were in many cases based on more favourable economic growth assumptions than the Commission services' forecast.

The Council emphasised that additional measures might be necessary to ensure the achievement of the budgetary targets for 2010 and beyond, while further target revisions should be considered in Member States where fiscal and macro-financial risks are high. This should allow for a rapid return to deficit levels compatible with a durable reduction in the government debt level in all Member States.

Moreover, the credibility of fiscal consolidation should be enhanced through the permanent nature of the measures adopted and their being embedded in a comprehensive strategy of structural reform. In addition, consolidation measures should be supportive of the economic recovery and focus on expenditure adjustment to the extent possible.

Moreover, given the inevitably long horizon for the correction of excessive deficits, it was also agreed by Finance Ministers that the consolidation effort should be supported by reform measures notably in the area of pensions, the labour market, product markets and the services sector. In particular, the economic and budgetary effects of ageing populations illustrate the need for Member States to ensure that they reach their MTOs within a reasonable timeframe. Furthermore,

Finance Ministers commit to strengthen national budgetary frameworks. The Council, which will be following up this issue closely, called for further action in this area.

### 3.6 Additional fiscal policy measures announced by various EU Member States

As a reaction to the recent agreement at the Ecofin Council, a number of EU Member States including Spain, Portugal, Italy, Greece, UK, Germany, Ireland and Romania announced significant additional measures and more ambitious budget targets for 2010 and 2011. The frontloading of fiscal consolidation and early decision of additional concrete measures and structural reforms will contribute towards bolstering confidence in these countries, both domestically and in financial markets, in the ability to reverse the adverse debt dynamics.

#### 3.6.1 Consolidation measures

In May, the Spanish and Portuguese authorities announced a number of consolidation measures, which are expected to yield a deficit reduction of 0.5 per cent and 1.2 per cent of GDP in 2010 and 1.5 per cent and 2.2 per cent of GDP in 2011 (in cumulative terms) respectively, in comparison with the plans outlined in the 2010 Stability Programme. Similarly, the UK announced a cut in spending of £6bn or around 0.5 per cent of GDP in 2010 and 2011 spread throughout various governmental departments while the Italian government approved austerity measures worth €24bn or 1.6 per cent of GDP for the same period. An aggressive fiscal stance was also adopted by Greece whereby the general Government deficit is projected to fall below the 3 per cent of GDP threshold by 2014, starting with 13.6 per cent of GDP in 2009 and following a front-loaded fiscal adjustment programme that reduces the deficit by more than 5.5 percentage points in 2010.

On the expenditure side, governments are striving to increase savings by reducing waste spending as well as through aggressive cost cutting measures. As a result, cost cuts are being envisaged in areas of investment expenditure, public administration, social security, as well as compensations of employees. In fact, the UK, Greece, Portugal, and Spain are envisaging reductions in public investment expenditure. Additionally, in the UK, savings derived from investment expenditure will also be used to improve the country's growth potential. As regards to social security services, a postponement in retirement windows is envisaged in Greece and Italy. Moreover, in Greece, a more drastic measure, namely a pension cut of 9 per cent, has been announced in addition to a freeze in pensions for at least 3 years. Additional cuts in social security expenditure include reductions in social and solidarity benefits in Greece, Portugal, Spain and the UK. Further cuts in government expenditure were adopted by various Member States and relate to public administration expenses and compensation of employees, whereby employment and wage freezes as well as wage cuts are being envisaged.

On the revenue side, measures involve increases in both direct and indirect taxation, as well as an increased effort in the fight against tax evasion. In particular, Portugal announced an increase in personal income taxes of up to 1.5 percentage points on existing tax brackets, and the introduction of an additional personal income tax bracket, which will be taxed at a higher rate. Furthermore, Portugal is also resorting to an increase in corporate income tax on higher profits. In terms

of indirect taxation, increases in value added tax (VAT) have been announced by both Portugal and Greece. Additional measures also include the introduction of a capital gains tax and a tax on credit for consumption by Portugal, and increases in taxes on stock options in Italy. Italy will also be applying a new tax system for incentivising business start-ups in the South.

The Romanian government is also considering adoption of austerity measures including reduction in salaries in the public sector by 25 per cent and reduction in pensions and unemployment benefits by 15 per cent. In the beginning of June, the German government has also proposed plans to cut the budget deficit by €80bn or 3 per cent of GDP by 2014. The plans include a reduction in social welfare, significant government job cuts over four years, higher taxes on nuclear power, introduce an environmental charge on passengers flying from German airports and the postponement of the rebuilding of a major infrastructural project.

### **3.6.2 Strengthening of national budgetary frameworks**

Moreover, a number of countries announced further efforts to strengthen their national budgetary frameworks in order to underpin the credibility of the budgetary targets. In particular, while in 2009 Greece, Hungary and Slovenia indicated that they will/had set up a new fiscal institution, during 2010, several other countries including France, Romania and Slovakia announced that they are considering the adoption of an independent fiscal institution. More recently, the UK announced the establishment of a new independent Office for Budget Responsibility entrusted with the provision of an independent assessment of the state of finances and to make independent forecasts for the economy and public finances.

### **3.7 The Medium-Term Fiscal Framework Presented in the 2010 Stability Programme**

Against the backdrop of a still uncertain and hesitant economic recovery, the Maltese Government is not losing sight of the need to provide a stable macro environment but at the same time it is planning for a protracted fiscal consolidation over the short term, such that the deficit ratio for 2010 will remain broadly unchanged from the 2009 level. The 2010 Budget announced various support measures targeted at encouraging investment and supporting the labour market, as well as fiscal consolidation measures which were designed so as not to impact unduly on economic activity. As the economic recovery gains momentum, fiscal consolidation will be resumed in 2011, with the deficit ratio expected to decline to 2.9 per cent in 2011 and to 2.8 per cent in 2012.

As illustrated in Table 3.2, when one excludes one-off revenue measures, the general Government budget deficit is expected to reach 4.1 per cent of GDP in 2010 and then recover gradually, reaching a deficit of 2.8 per cent of GDP in 2012. Most of the adjustment is expected to take place in 2011 when the deficit (net of one-offs) is expected to decline by 1 percentage point of GDP.

Overall, when one excludes one-off deficit reducing measures and the estimated cyclical component, the structural budget deficit is expected to remain relatively stable at 3.3 per cent of GDP between 2009 and 2012. In line with the revised EDP recommendation, the structural balance is set to improve by 0.7 percentage

## Fiscal Consolidation

Table 3.2

Percentage of GDP	2009	2010	2011	2012
General Government Balance	-3.8	-3.9	-2.9	-2.8
General Government Balance net of One-offs	-3.8	-4.1	-3.0	-2.8
Cyclically-Adjusted Budget Balance	-3.2	-3.4	-2.8	-3.3
Structural Balance	-3.3	-3.6	-2.9	-3.3
Structural Adjustment	2.1	-0.3	0.7	-0.5

Source: Malta: Update of the Stability Programme 2009-2012

points of GDP in 2011. However, the structural balance is projected to worsen again in 2012 by 0.5 percentage points of GDP.

## Long-term Sustainability

### 3.8 Demographic Development

Ageing populations are expected to lead to an increased pressure for additional public spending on pensions and health care. The combination of a lower birth rate, longer life expectancy and the entry into retirement of the 'baby-boom' generation is likely to pose major economic, budgetary and social challenges. These changes are expected to have a significant impact on growth and lead to significant pressures to increase public spending, representing a central issue in the endeavour of long-term fiscal sustainability. According to the budgetary projections presented by the Economic Policy Committee (EPC) based on a no-policy scenario, pension expenditure as a per cent of nominal GDP in Malta is projected to increase from 7.2 per cent in 2007 to 9.3 per cent in 2020. In addition, health care expenditure as a per cent of GDP is projected to record an increase of 0.9 percentage points while long-term care as a per cent of GDP is projected to record an increase of 0.2 percentage points during the period 2007-2020.

#### 3.8.1 Debt Sustainability

Recent increasing pressure on debt sustainability calls for more focus on the debt dynamics. In particular, it is of significant importance to identify the magnitude of the fiscal adjustment necessary to achieve a debt ratio that is declining at a satisfactory pace.

When one considers a scenario whereby 5 per cent annual nominal growth rate in GDP is assumed coupled with an implicit interest that increases from around 5 per cent to around 6.5 per cent, the debt ratio is estimated to increase from 70.2 per cent in 2010 to 72.9 per cent in 2020 if Government's revenue-expenditure pattern remains unchanged. Furthermore, if the annual nominal GDP growth rate is assumed at a lower rate such as 4 per cent, the debt ratio would increase to around 78.6 per cent by 2020. This accentuates the need to address the fiscal imbalance as soon as possible if the requirement of achieving a declining debt ratio is to be achieved.

It has also been estimated that if a gradual decline in the debt-to-GDP ratio to the 60 per cent level required by the Maastricht Criteria by 2020 is to be achieved, an immediate reduction in the deficit ratio of around 1.7 percentage points is necessary. Unless this level of fiscal consolidation is achieved by 2011, the degree of fiscal consolidation needed would be greater in each subsequent year. It is also pertinent to note that when taking into account the additional expenditure related to Malta's ageing population (including pensions, health and long-term care), the fiscal consolidation necessary to bring the debt ratio down to 60 per cent require an additional 1.9 per cent of GDP reduction in the deficit ratio.

Against this background, Government remains committed to adopt the restrictive fiscal stance necessary to achieve a sustainable debt level. This may require the adoption of difficult decisions by Government if these are necessary to attain its fiscal consolidation objectives. Nevertheless, in doing so, Government action will be informed by the core values of responsibility and equity.

Contingent liabilities are another aspect of debt sustainability. As regards, pension expenditure, during 2008, the Pensions Working Group has been re-constituted with the aim of ascertaining the contribution of funded second and third pensions in Malta towards enhancing the system's adequacy aspects, while strengthening its financial sustainability. Against the background of the recent developments in financial markets and the impact on pension systems which rely heavily on defined contribution schemes, a healthy balance should be achieved between the respective roles of governments and of financial markets in pension systems.

Meanwhile, Government is committed to limit or reduce the current stock of government guaranteed liabilities. Government's policy has been to limit the use of such instruments. In this context, in the past few months, requests for the provision of such guarantees have been resisted.

### **3.9 The Short and Medium-Term Fiscal Adjustment Strategy**

Recent financial market developments have increased the focus on fiscal sustainability concerns. Against this background, as well as the Ecofin Council recommendations for Malta and also the more recent Council conclusions on fiscal consolidation in EU Member States, Government reiterates its commitment to achieve its budgetary targets for 2010. This section, reviews the measures being taken to ensure that this target is achieved. Furthermore, this section also outlines Government's medium-term fiscal strategy, specifically the measures to ensure that in 2011, the deficit falls below the 3 per cent of GDP threshold, as outlined in the Stability Programme.

#### **3.9.1 A strict implementation of budgetary plans for 2010**

The 2010 Budget announced both revenue reducing and revenue increasing measures, but overall the measures impacting on revenue are expected to contribute positively to the fiscal outcome. The revenue reducing measures announced in the 2010 Budget comprise the removal of the levy on credit cards, amendments to the eco-contribution system, as well as the introduction

of incentives for small and medium enterprises (SMEs) and creative economic sectors, which are expected to encourage investment. These are expected to exert a 0.1 percentage point negative contribution in the deficit-to-GDP ratio. The revenue increasing measures, which include the revision in the excise duties on cigarettes and other tobacco products, the reform of the registration tax and licensing of commercial vehicles and the strengthening of enforcement against the evasion of excise levy on petroleum, are expected to improve the deficit by 0.25 percentage point of GDP in 2010. As a result, the main revenue measures of the 2010 Budget are expected to have a positive net effect on the deficit ratio of 0.15 percentage points of GDP.

Efforts have been intensified further against tax avoidance and evasion and fraud related to abuses from social benefits, contributing towards a fairer fiscal system and towards a social assistance network that is effectively targeting those who are most in need. Close monitoring of important sources of government revenue has been reinforced through the strengthening and enhanced coordination of the relevant tax structures. Furthermore, Government's policy to collect tax dues is marked by the renewed vigour with which the collection of revenue arrears is being pursued.

Simultaneously, support measures are targeted at encouraging investment and supporting the labour market. In this regard, the budgetary provisions for 2010 represent Government's enhanced efforts in areas that will improve the economy's productive capacity. These fiscal measures focus on the creation of new jobs, the upgrading of the skills of the workforce, and the provision of support to small and medium enterprises by facilitating investment and encouraging creativity, innovation and entrepreneurship. Furthermore, a number of initiatives are also earmarked towards investment in education, health and a social welfare system that ensures an all-inclusive and caring society. A number of measures aim at a sustained improvement in the environment.

Meanwhile, the 2010 Budget announced a number of fiscal consolidation measures amounting to around 0.5 per cent of GDP designed so as not to impact unduly on economic activity. Government's policy is for entities having the potential to generate revenue from the sector in which they operate to become independent of Government subventions. A case in point is the new tariff structure for permits issued by the Malta Environment and Planning Authority. This policy complements other implemented structural reforms with a view to reduce subsidies and other loss-making activities. In this context, Government's policy regarding utility tariffs is that these should reflect the respective costs of production, which are heavily influenced by international market prices. Government support is being targeted with assistance being provided to low income households.

As regards the control of expenditure related to compensation of employees, Government's policy is two-fold. Recruitment in non-essential categories in the public sector is being restricted by only partly replacing vacancies that materialise

due to workers leaving the public service either due to resignations or because they have reached retirement age. Furthermore, caution is being exercised in the award of compensation packages, where possible strengthening the link between compensation of employees in the public sector and productivity levels, to limit any potential negative spillovers that may impact on overall national competitiveness.

In addition, in a bid to reduce public expenditure, the financial allocations to the various Ministries and Departments for 2010 were either retained at the same level as in 2009, or were reduced.

The 2010 Budget announced a number of initiatives to improve the control and effectiveness of the fiscal framework. These include the introduction of a new accounting system for Government. Furthermore, in relation to Government's priority of increasing control of the budgetary framework, the reporting, monitoring and evaluation functions within the Ministry of Finance are being strengthened and improved by the introduction of a new accounting system for Government.

Malta is thus moving ahead with working towards achieving its general Government deficit target of 3.9% of Gross Domestic Product. Revenues and expenditures continue to be monitored on a monthly basis. In fact, amongst other action taken, 2010 has already seen a series of budget reductions which have been effected across line Ministries, with a view towards putting into effect certain adjustments considered necessary, for attainment of the deficit objective.

**3.9.2 Fiscal consolidation strategy to ensure the achievement of the medium-term budgetary targets**

As the economic recovery is expected to gain momentum, fiscal consolidation will be resumed in 2011. The deficit ratio is expected to decline by 1 percentage point of GDP to 2.9 per cent. In 2012, the fiscal balance is projected to improve slightly to 2.8 per cent.

There are a number of general principles that should be considered when designing the measures underpinning fiscal consolidation. Concerning the composition of adjustment, there are policy trade-offs that need to be taken into consideration in the choice of spending components and sources of taxation to achieve consolidation. While both expenditure and revenue measures have the same impact on short-term fiscal consolidation, experience of other countries shows that expenditure cuts are more effective in a medium-term perspective than revenue increases. This is of particular validity for countries that need to recover competitiveness, as revenue increases will directly or indirectly add to production costs. Furthermore, fiscal consolidation should focus on instruments that minimise its adverse impact on economic growth. In particular, expenditure-based fiscal retrenchment should preserve pro-growth programmes. This includes productive outlays, such as on education, R&D and infrastructure, which are expected to be growth-enhancing in the longer term.

In this context, Government considers that its medium-term fiscal consolidation strategy should be largely expenditure based, rather than on tax measures.



Indeed, fiscal projections show that in 2011 and 2012, the tax revenue ratio-to-GDP will follow a gradually declining trend. The developments in tax revenue mainly reflect macroeconomic developments as well as Government's ongoing efforts to curb tax evasion. On the expenditure side, in 2011 and 2012, the ratio of general Government expenditure to GDP is projected to follow a downward trend reflecting lower expenditure ratios mainly for all components of expenditure, but in particular compensation of employees and intermediate consumption. During the fiscal retrenchment process, Government reiterates its commitment to safeguard outlays related to education, health and the social welfare regime. Nevertheless, even in these sectors, efforts may be intensified further to tackle any possible waste and fraud.

The decline of 1 percentage point of GDP in the deficit to GDP ratio in 2011 will largely reflect the phasing out of stimulus measures, the impact of the economic recovery and consolidation on the expenditure side. The ratio of total revenue to GDP is expected to decline by 0.5 percentage points of GDP in 2011 while the expenditure ratio is projected to decline by 1.4 percentage points of GDP. Around 60 per cent of the support measures impacting on the 2010 deficit were of a temporary nature. The withdrawal of these stimulus measures accounts for 0.4 percentage points of the fiscal consolidation in 2011. Government's fiscal consolidation strategy for 2011 outlined in the Stability Programme is characterised by restraint of the general Government wage bill as well as expenditure restraint as regards intermediate consumption.

Government will be pursuing its expenditure-based fiscal consolidation programme, by following a number of principles, including aiming to achieve improved efficiency in public spending, reducing waste and ensuring value for money. In this context, Government will be considering various measures to achieve these broad objectives.

Specifically, all public sector expenditure programmes will be critically scrutinised with a view to increase efficiency and value for money. In this regard, all departments and other public sector entities will be required to assess their operations and to present an action plan on how they intend to improve their operational efficiency and reduce their recurrent expenditure to reach predefined targets. Furthermore, Government is considering placing further emphasis on increased value for money in public procurement procedures. In this regard, alternative procurement policies and strategies may be explored.

Government is placing further emphasis on the distinct need for departments and other public sector entities to operate within their allocated budget. In particular, Government may consider a critical assessment of the current practice allowing the presentation of Supplementary Estimates to Parliament towards the end of each financial year. Whilst such practice provides a degree of flexibility and latitude for action, it may be responsible for increased moral hazard resulting in different behaviour than if the department or public sector entity were fully exposed to the reality of a fixed budget allocation.

Meanwhile, Government may consider strengthening further the financial management functions of Ministries, line departments and other public sector entities. Further to the provision of adequate resources and training, Government may also revisit the reporting relationships between the Ministry of Finance and the Directors of Corporate Services of the various Ministries.



## Chapter Four

A competitive economy creates jobs

**4.1 Background** In an increasingly globalised world, with rapid technological change, shrinking economic distance and significant liberalisation, governments all over the world are increasingly concerned about competitiveness. From a national perspective, competitiveness is a measure of a country's advantage or disadvantage in selling its products and services on the international market. Hence, being competitive is particularly important for small open economies such as that of Malta which typically rely on foreign direct investment and export-led growth to provide the necessary scale of productivity increases needed to improve the country's standard of living. In fact, the notion of Malta's ability to stay ahead of lower wage entrants and challenging mature industrial countries in the production of high value added activities is a recurring theme in local public fora.

From a purely macroeconomic perspective, the lack of competitiveness is a real exchange rate problem, referring to a country running a persistent current account deficit which would in due course require adjustment, usually via a mixture of deflation and depreciation if structural factors (such as productivity and skills) are presumed to be constant. In contrast, most analysts of competitiveness tend to focus more on a country's "performance" in terms of structural factors which affect both current and long-term macroeconomic performance and are thus concerned with productivity, skills, participation rates and R&D amongst others. The interrelatedness of the two (varying) approaches makes it feasible to analyse both in order to offer a relatively complete picture of competitiveness challenges facing the Maltese economy.

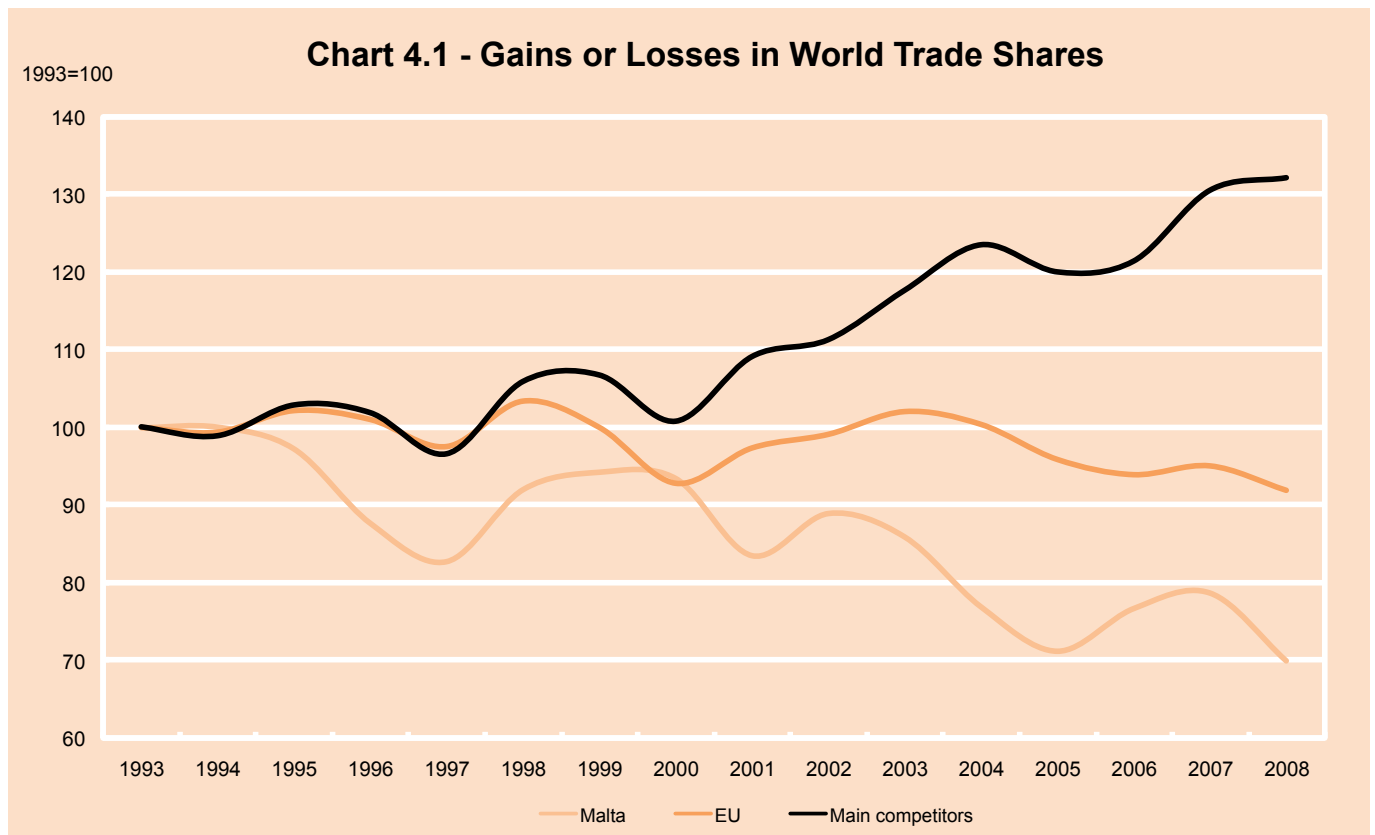
The lack of convergence to the EU-27 GDP per capita level in purchasing power standards, typically one indicator of a country's standard of living, adds to the importance of analysing Malta's ability to compete its way up the value added ladder. Within this context, the first part of this chapter analyses Malta's recent record in the international market by analysing Malta's trade share in the world economy and the direct impact of these developments on the country's current account. The second part of the chapter then analyses the supply side of the Maltese economy, typically an indicator of the economy's long run potential growth. These are then complemented by a review of cost competitive factors, with special reference to price and wage flexibility as crucial determinants of the Maltese economy's ability to adjust to the ongoing developments in the international arena.

Throughout most of the chapter the analysis draws on comparisons with the EU-27 and a set of EU countries with a broadly similar level of development to that of Malta, henceforth referred to as Malta's main/major competitors<sup>1</sup>. While the exercise has been limited to EU countries for reasons of clarity and ease of exposition, this provides a means to benchmark the performance of the Maltese economy against the performance of some of Malta's foremost competitors. However, these countries need not necessarily be Malta's main competitors for all sectors of the economy.

<sup>1</sup>These include Cyprus, Slovenia, Greece, Portugal and the Czech Republic, which like Malta are small and open economies.

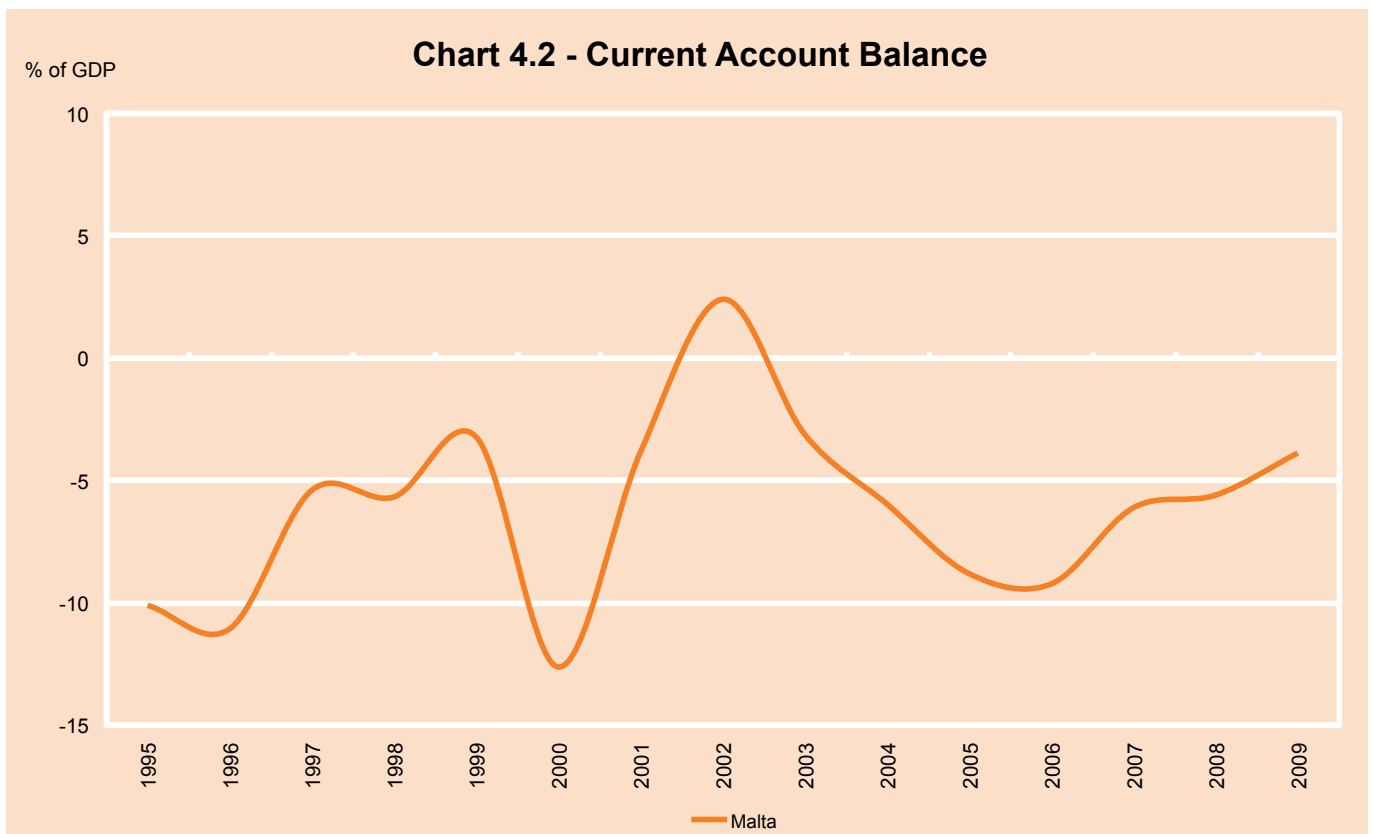
#### 4.2 Malta's Export Performance

In recent years, the growth rate of exported goods and services produced in Malta has been relatively volatile, varying from a positive 10.5 per cent in 2006 to a negative 5.2 per cent in 2008. This has been directly reflected in Malta's world trade share which is illustrated in Chart 4.1. It shows that, with the exception of the 1998-99 period, Malta has gradually lost its export market shares in total world trade between 1994 and 2001, contrasting heavily with developments in the world trade shares of Malta's main European competitors. This negative trend in general persisted until 2005. However, as export growth increased significantly in 2006 so did Malta's share in world trade albeit remaining well below that of the country's main competitors.



These developments have a significant impact on the current account balance which is mainly composed of the sum of exports minus imports. As shown in Chart 4.2, Malta's current account deficit has improved markedly in recent years, largely reflecting an increase in services surplus which almost doubled from 8.2 per cent of GDP in 1995 to 15.8 per cent in 2009. At the same time, the share of exports of goods in total exports has declined progressively over the years from around 65 per cent to 42 per cent, reflecting significant declines in the manufacturing production as a share of the country's total output albeit the attraction of new high value added manufacturing activities such as pharmaceuticals and aircraft maintenance. Conversely, during the same period, exports of services grew by an average 8 per cent, mainly reflecting developments in ICT, financial services and online gaming. This apparent diversification in the export sector is key for enhancing the Maltese economy's resilience to external shocks as evidenced by

the role played by these new service activities in cushioning the impact of the global economic crisis. In fact, exports as a per cent of GDP increased markedly during this period, from around 80 per cent in the 2003-05 period to almost 90 per cent in the 2006-07 period. The significant decline in this ratio in 2008 and 2009 is probably cyclical, reflecting the crisis. It is important that the export-orientedness of the economy increases again once the international economic environment recovers. Furthermore, the persistency in Malta's current account deficit could signal structural weaknesses in the ability of the economy to increase its production capacity and to export its output in competitive foreign markets.



In fact, the external sector has been only a minor contributor to GDP growth in recent years (see Table 1.1) with the exception of 2007 and 2009. However, the notable improvement in the current account balance registered in 2009 is in large part the result of declining demand for imports, which during the recession, more than offset the decline in exports. Such narrowing of the current account deficit suggests that the correction in the current account deficit in 2009 is in large part cyclical and that Malta's current account balance is likely to widen again as the world economy recovers. Nonetheless, while recurring current account deficits are a sign of a country that is spending more than the income it is generating, this need not necessarily be undesirable if it remains at a sustainable level and if it reflects productive investment expenditure rather recurrent consumption expenditure.

Since the current account is in deficit, the financing of this excess spending takes the form of foreign capital. As long as this is used to finance investment

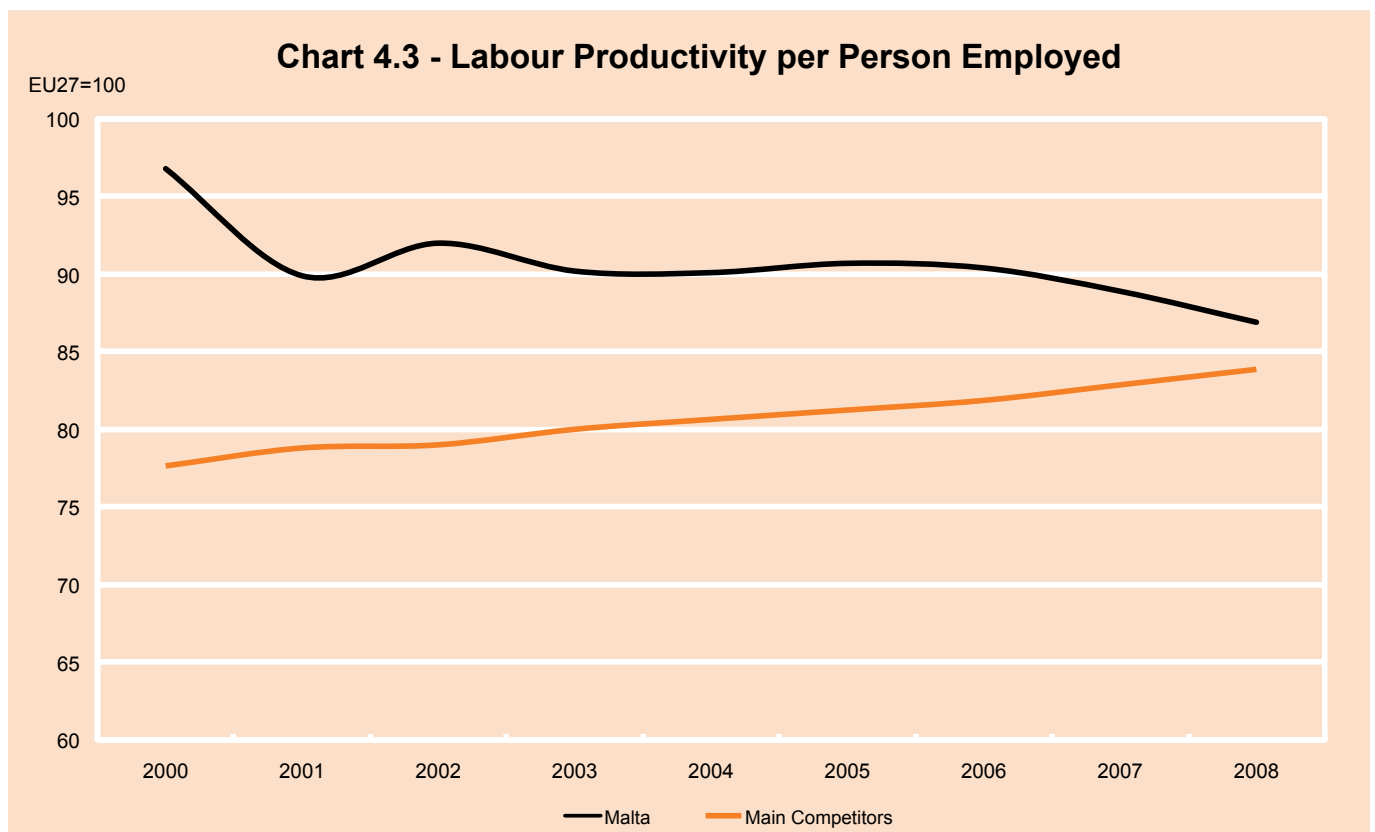
expenditure whose returns are “adequately” high in the future, which in turn contributes to the country’s economic growth, the system may be sustainable. Nonetheless, the degree of persistency noted throughout the years points to the need of adjustment, facilitated by addressing the structural challenges underlying long-term export performance, specifically the downward trend in Malta’s world export market shares.

### 4.3 Production Capacity

As pointed out in the previous section, the country’s excess spending would be sustainable only if it reflects productive investment expenditure which enhances the Maltese economy’s production capacity and consequently its ability to export. However, analysis revealed that the country’s potential capacity growth is significantly lower than that for Malta’s major European competitors, mainly reflecting developments in labour and capital (investment) markets.

#### 4.3.1 Labour Market

Labour productivity – a measure of the average amount of output that an employee can produce – is thought to be the primary indicator of a country’s potential total economic output. Chart 4.3 shows that Malta has relatively high productivity when compared to its major European competitors albeit lower than that of the EU-27. Nonetheless, Malta’s labour productivity is noted to have followed a gradual downward trend from 96.8 per cent of the EU-27 average in 2000 to 86.9 per cent in 2008, while the country’s major competitors standing relative to the EU-27 average improved. This is indicative of further effort needed in this regard which is only possible if investment is directed towards higher value added activities which may, in turn, depend on the degree of skillfulness the country’s labour force.



In this context, it is important to continue investing in education and training, including reforming compulsory education while at the same time investing heavily in vocational and higher education levels, as the nourishment of skills is a critical vehicle towards increasing productivity and competitiveness.

Despite the significant improvements in education levels recorded in recent years (see Pre-Budget 2010, 2009), Malta's education attainment level (measured as the percentage of the population aged between 25 and 64 having completed at least upper secondary education) remains significantly below that of the EU-27 average. In fact, Malta's education attainment level stood at 27.5 per cent in 2008, some 40 percentage points below the average of our major European competitors. Similarly, at 39 per cent, early school leavers in Malta account for a larger share of the population aged between 18 and 24 years more than that in any of our main competitor countries. While in terms of younger graduates, vocational training and life-long learning, Malta still fares better, significant improvements are still required in order to enable the Maltese economy to climb the value added ladder. In spite of these, Malta's productivity level remains above that of its major European competitors, albeit the seemingly narrowing gap. Hence, further investment in education to increase the supply of highly educated workers is warranted, while at the same time seek to attract high-value added foreign direct investment that demands the skills of highly educated workers to generate the relevant employment opportunities.

#### Education Indicators (2008)

**Table 4.1**

	EU-27	Malta	Main Competitors
Early School Leavers	14.9	39.0	14.9
Education Attainment (25-64years)	71.5	27.5	67.1
Graduates per 1000 of corresponding population age (20-29years)*	:	36.2	35.3
Life-long learning	9.6	6.2	7.7

\*Relates to 2007

Source: Eurostat

The anomaly in the country's relatively low standard of living and relatively high labour productivity is largely the result of low participation rates in the labour market as well as an ageing population. In terms of labour force participation (the sum of those persons in employment and those unemployed but ready to work as a percent of total working age population), Malta registered only marginal progress in recent years, moving from 58.2 per cent in 2000 to 59.1 per cent in 2009, the lowest amongst its main European competitors and well below the EU-27 average of 71.1 per cent. Whilst the female activity rate increased by 5 percentage points to 40.8 per cent in 2009, this was countered by the deterioration in the male activity rate from 80.3 per cent in 2000 to 76.6 per cent in 2009. Despite the improvement in the female activity rate, it remains some 23.5 percentage points below that of the EU-27 average. Low participation rates



are also noted for older workers, improving only marginally since 2000 to stand at 29.8 per cent in 2009 compared to 49.1 per cent for the EU-27 and to 48.6 per cent in Malta's main competitor countries.

### Activity Rates (2009)

Table 4.2

	EU-27	Malta	Main Competitors
<b>Total</b>	71.1	59.1	73.7
Males	77.8	76.6	78.5
Females	64.3	40.8	69.0

Source: Eurostat

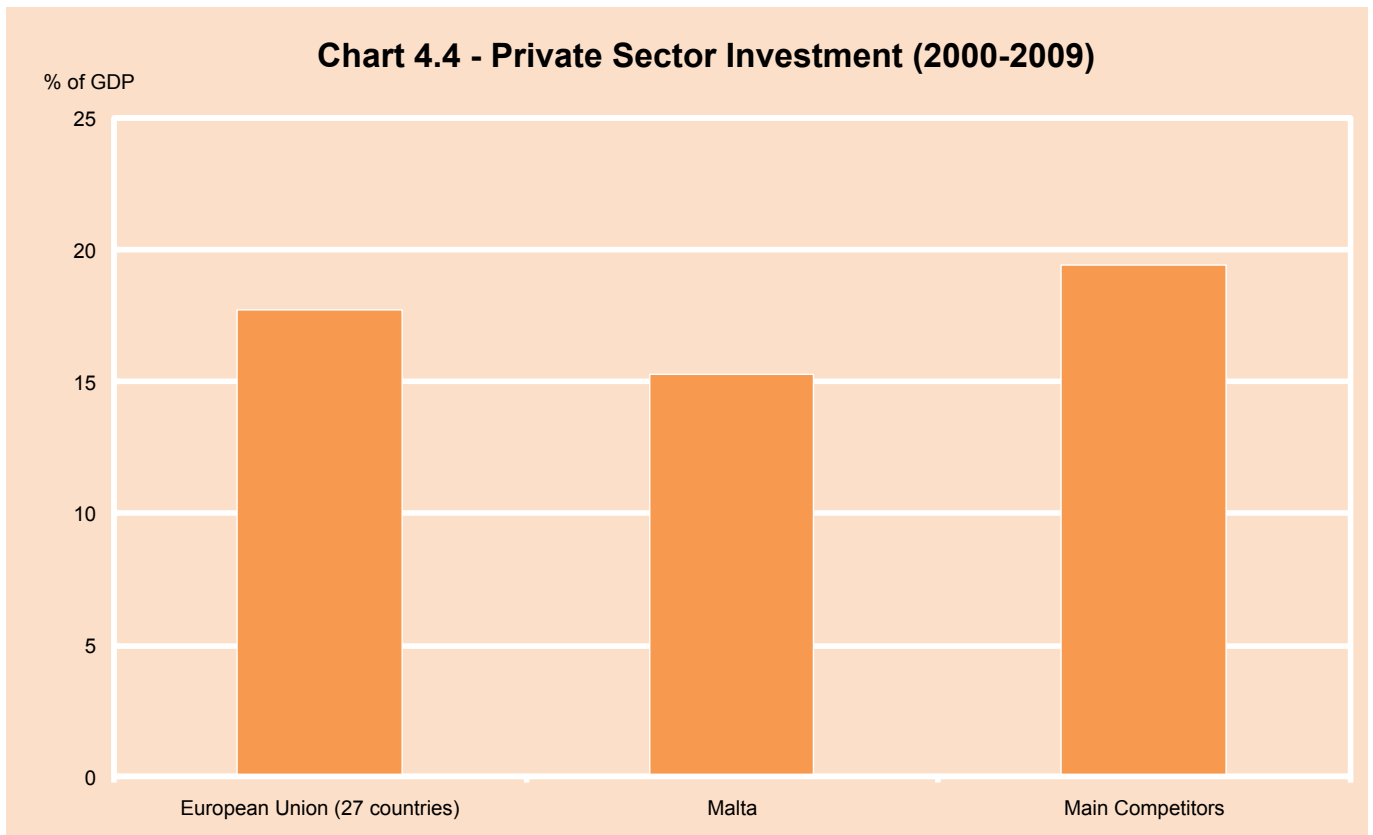
In addition, demographic projections indicate that Malta's working age population will be declining in the future unless there are higher immigration flows. In fact, the support ratio (the proportion of the population economically dependent on the working population) is expected to decline from around 4.7 in 2010 to 3.2 in 2020. This means that while in 2010 there are around five persons of working age for every person that reached pension age, by 2020 this ratio will decrease to around two persons of working age for every person that reached pension age. Whilst similar traits are notable in all of Malta's major European competitors, this will have an impact on the size of the country's workforce and, in turn, on the country's production capacity. In this context, higher participation rates in the labour market would be even more important to counter the impact of demographic developments on the labour supply.

#### 4.3.2 Investment

Investment, typically referring to the value of machinery, plants and buildings that are bought by firms for production purposes, plays an important macroeconomic role. While it contributes to the current demand of capital goods, its most important impacts relate to the supply side of the economy. Specifically, investment enlarges the country's production base, often modernising the production process and potentially producing higher productivity, thereby improving competitiveness.

Chart 4.4 shows that investment by the private sector in Malta averaged some 15.3 per cent of GDP during the 2000-2009 period, the lowest when compared to the country's main EU competitors. This level is low even when compared to the EU average of 17.7 per cent, suggesting that a higher level of investment is needed for the Maltese economy to grow at the pace of EU countries. Specifically, the level of investment as a per cent of GDP would have to increase by around 4 percentage points to reach the level of investment by the country's main EU competitors. The negative implications on the economy's productive capacity are exacerbated by the fact that around 20 per cent of investment is directed at housing construction. The improvement in productive investment can either be domestic-led or foreign-led or both.

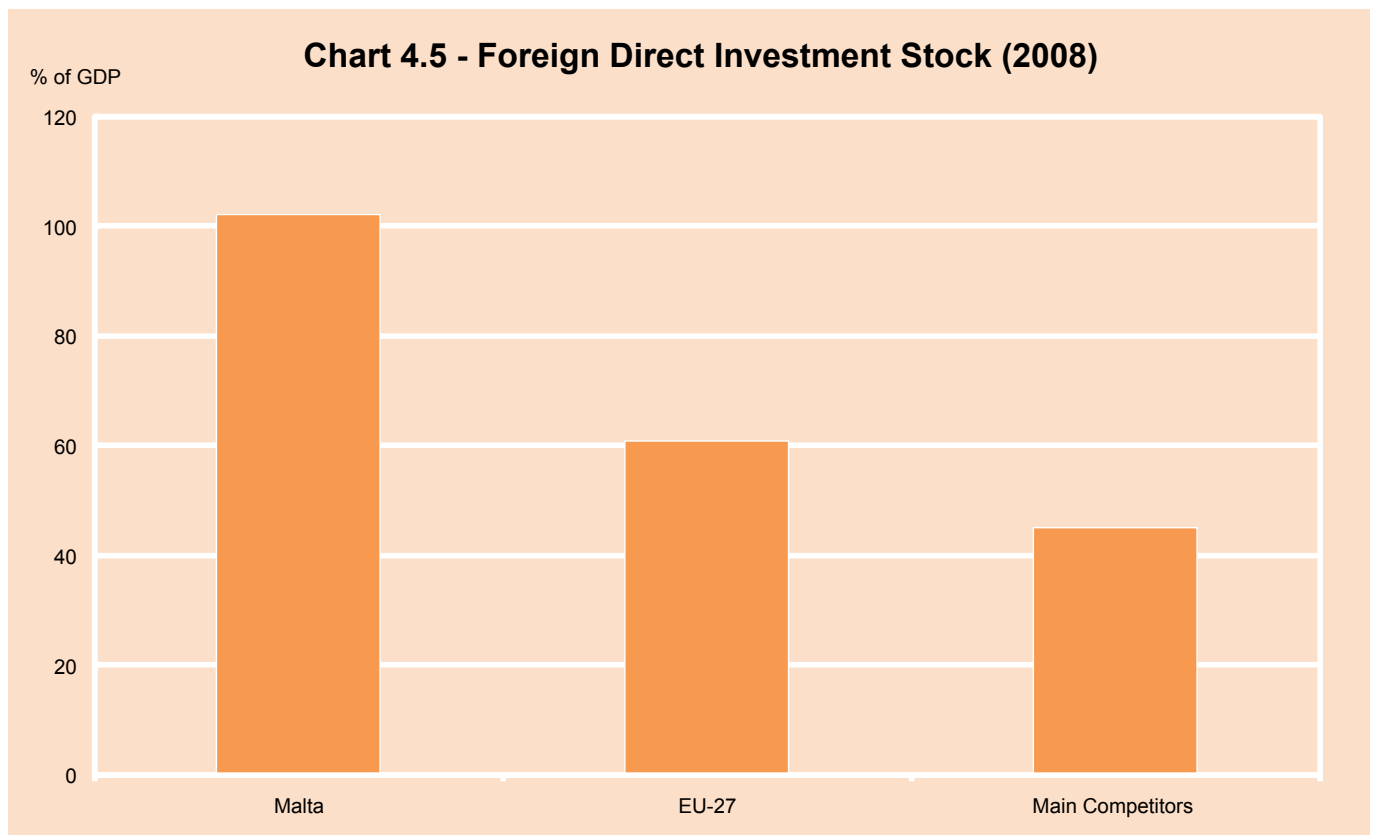
Varying between 11 to 16 per cent of GDP, the level of domestic savings (typically used as an indicator of the level of domestic investment) has been relatively low when compared to that of the EU-27. However, it is close to the average of the level of Malta's main competitor countries. On the other hand, at 102.1 per cent of GDP



in 2008, the stock of foreign direct investment in the Maltese economy is by far the highest when compared to that in Malta's major EU competitors and some 40 percentage points higher than the EU-27 average. Since firms' choices of location for their foreign direct investments reflect locational competitiveness, FDI inflows are a valuable indicator of relative attractiveness of the host country's economy for potential FDI investors. Chart 4.5 suggests that, in this sense, Malta would outplay most European countries.

However, around 60 per cent of the stock of foreign direct investment in Malta takes the form of capital inflows in the financial sector. This suggests that a significant share of capital investment did not finance the purchase of new machinery or other equipment. Indeed, a significant share of foreign direct investment pertains to banking institutions which do not operate in the local market. In this context, it is important to assess the nature of foreign direct investment flows in Malta, and specifically whether such flows relate to balance sheet transactions of a financial nature, or inflows which are more directly related to productive investment in the domestic economy.

In addition, Table 4.3 shows that the level of investment in Research and Development (R&D) in Malta has also been low compared to the EU-27 average. When compared to its major European competitors, Malta fares only better than Cyprus, possibly reflecting the fact that both countries have significantly large services sector. Notably, business' expenditure on R&D as a per cent of GDP lags behind that of the EU-27 average by around 0.8 percentage points, while



the government and higher education sectors lag the EU-27 average by 0.2 percentage points. Nonetheless, at 44 per cent, high-tech exports as a per cent of Malta's total exports is significantly higher than the 12 per cent of the EU-27 and the 9.5 per cent average of the country's main competitors. However, this result is very much influenced by the performance of one large company operating in the electronics-telecommunications sector of the Maltese economy.

#### R&D Expenditure (2004-2008)

Table 4.3

	per cent of GDP		
	EU-27	Malta	Main Competitors
<b>Total</b>	1.8	0.6	1.0
Business	1.2	0.4	0.5
Government & Higher Education	0.6	0.2	0.5

Source: Eurostat

**4.4 Adjustment** In an increasingly globalised world economy, as a price taker on the international market, Malta ought to develop a two-pronged strategy aimed at ensuring that domestic costs of production are internationally competitive whilst at the same time adopting labour and product market flexibility to allow the economy to restructure towards the production of higher value added activities.

Developments in both dimensions are analysed below.

**4.4.1 Cost/Price Levels** Business costs can be mainly categorised into three, namely, labour costs, taxation and costs related to intermediate consumption. Labour costs typically represent the single largest location-sensitive cost factor, representing 46 to 60 per cent of total location sensitive costs for manufacturing operations and some 74 to 85 per cent of non-manufacturing operations (KPMG, 2010). Data for average annual compensation for employees (which includes wages and salaries as well as social security contributions) suggests that overall labour costs in Malta appear to be competitive when compared the country's main competitors, where only the Czech Republic is identified to have an annual average compensation per employee lower than that in Malta. This is particularly significant considering that in Section 4.3.1 it was noted that Malta's labour productivity is higher than that in its major EU competitors. At this point, it should be highlighted that this analysis is based on the average for the whole economy, whereas the situation could be different when a sectoral analysis is carried out.

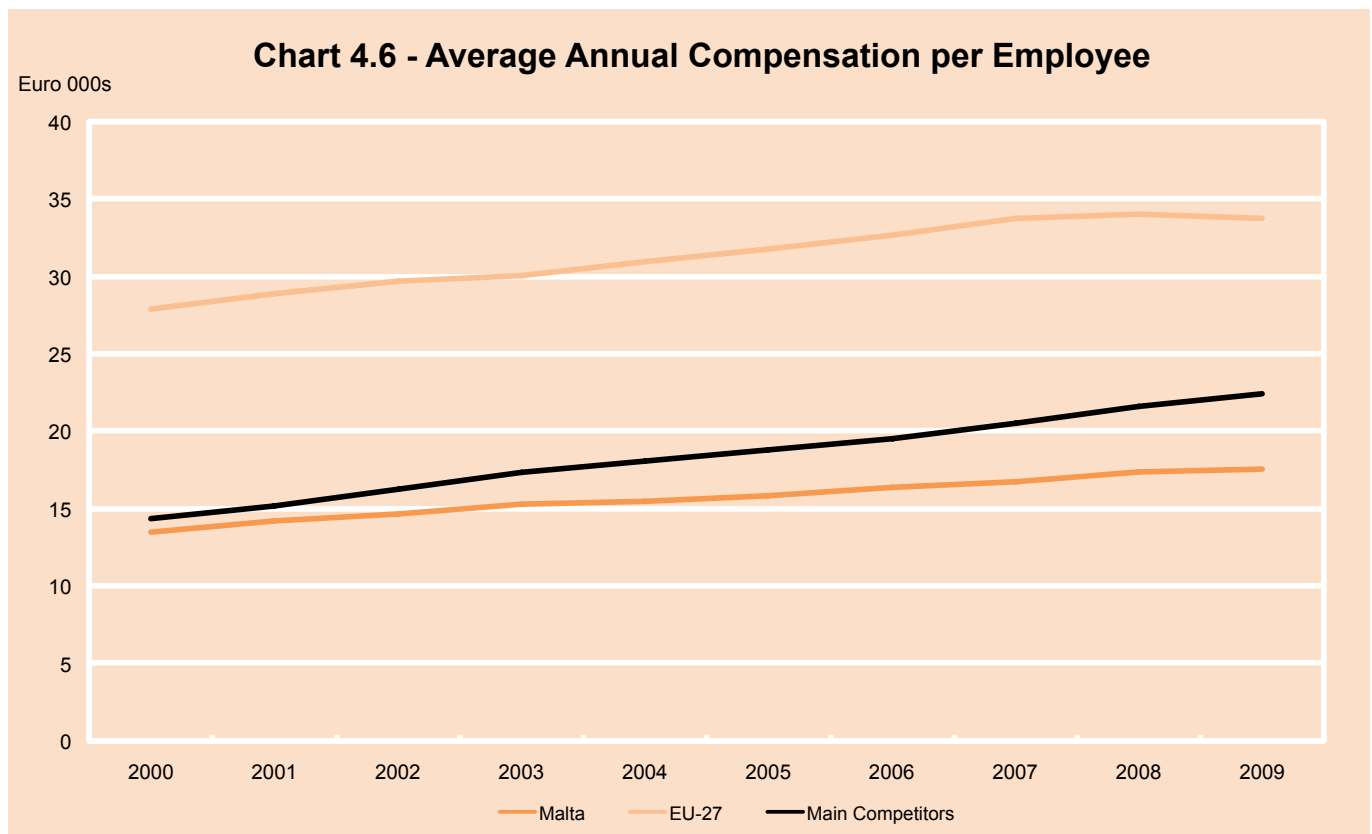


Chart 4.6 shows that Malta's wage per employee has been on the increase during the 2000-09 period, a necessary condition if Malta is to converge to the GDP per capita level of the EU-27. Data suggests that the increase in Malta's average wages was lower than that in its main competitors, which should impact positively on competitiveness. However, the gradual decline in relative productivity suggests that Malta's competitive advantage is gradually declining. Within this context, Malta ought to increase its productivity levels by investing in the production of higher value added activities that can justify the increasing wages. This requires improving the skill level of its human resources. In addition, data shows that the wage share in some

low-growth sectors of the Maltese economy is higher than that in the same sectors of Malta's main competitors, whilst that in Malta's high growth sectors is significantly lower, particularly in the manufacture of chemicals and chemical products and other services sectors (which includes gaming). This points to the need for increased productivity levels in low growth sectors and an increase in wages in high growth sectors.

The tax burden on the Maltese economy in 2008 stood at 35.9 per cent of GDP, more than a percentage point lower than that for the country's main competitors and around 4.5 percentage points lower than that of the EU-27. While taxes on income and wealth are relatively higher than those in the country's main competitors, Malta compares favourably in terms of employer's social security contributions. In fact, taxes on income and wealth amount to 13 per cent of GDP, equal to the ratio recorded by the EU-27 but some 3.4 percentage points higher than that of Malta's major competitors. On the other hand, at 2.8 per cent of GDP, that part of social security contribution paid by the employer is significantly lower than the 7.3 per cent recorded for the EU-27 and the average 6.8 per cent recorded by Malta's main EU competitors.

Other running costs typically incurred in the daily operations of business activities include facilities, utilities and transportation costs amongst others. Eurostat price level indices in purchasing power standards for 2008 indicate that the cost of doing business in Malta generally compares favourably to that of the EU-27 and to Malta's main EU competitors. Exceptions relate to transport costs and software prices, whereby prices are in excess of both the EU-27 average and that of the country's main competitors. In other areas sensitive to most businesses' intermediate consumption expenditure such as the price of non-residential building, Malta appears to compare favourably.

#### 4.4.2 Ability to Adjust

A more dynamic view of labour and product markets suggests that many other factors influence a country's competitiveness. For countries like Malta which are members in a common monetary union, the loss of independent monetary policy and exchange rate targeting as two policy instruments puts greater emphasis on the country's ability to adjust through labour and product markets when facing adverse external shocks and/or competitiveness pressures.

One factor relating to the labour market which has become increasingly relevant amid the ongoing international economic slowdown is wage flexibility as demand for a company's output falls. Internal workings show that as world demand collapsed in 2009, the annual percentage change in the aggregate compensation per employee followed a downward trend to stand at a negative 0.2 per cent by the last quarter of 2009. The relatively low decline in employee compensation at the aggregate level is probably related to the significant 30 per cent share of public sector employees in the country's total employment. In fact, the compensation per employee appeared to be more responsive in sectors which were hit hardest by the international recession and in which the share of public sector employment was low, including the manufacturing sector, the transport, storage and communication sector and in the construction sector.

Another aspect of labour market flexibility is adjustment in hours worked. This was a key response during the crisis, especially in certain manufacturing sectors. The increase in parttime employment registered over recent years also suggests additional flexibility in the Maltese labour market. This form of employment also facilitates an increase in the female participation rate as, in the context of significant cultural traits, it enables a better balance between work and family commitments. Nonetheless, this must not occur at the cost of deteriorating working conditions. Also notable is the ability of the Maltese labour force to meet the demand of some emerging sectors in the economy, particularly, with the opening of tailor made courses at MCAST.

As regards price flexibility, since July 2008, Malta displayed a persistent inflation differential with the Euro Area<sup>2</sup>, largely reflecting diverging trends in food and energy prices. Any market imperfections which may be underpinning this outcome should be addressed to avoid a loss in international competitiveness.

#### 4.5 Conclusion

The gradual loss of export market shares in world trade highlights the importance of analysing the country's competitiveness. In fact, Malta's current account has been in deficit almost consistently since 1995, signalling structural weaknesses in the ability of the economy to increase its production capacity and to export its output in competitive foreign markets. The surpluses registered by the services sector were partly offset by the disappointing performance of the manufacturing sector albeit investment in new high value added activities such as pharmaceuticals and aircraft maintenance. The narrowing gap observed in 2009 is largely of a cyclical nature, and the gap with the EU current account balance is likely to widen again as world economies recover.

Nonetheless, at the aggregate level the Maltese economy appears to be relatively productive when compared to its main European competitors, despite lagging significantly behind the EU-27 and registering significantly low education attainment levels. On the other hand, relatively positive outcomes relate to the number of young graduates, vocational training and life-long learning. Additional constraints to Malta's productive capacity relate to low activity rates, specifically those of females and older workers.

Being the lowest compared to the country's main EU competitors, the level of private investment presents a major cause of concern, particularly since one-fifth of this investment is directed at the housing sector. In terms of attracting FDI, Malta compares well to its major competitors and the EU as a whole. However, the fact that 60 per cent of the stock of foreign direct investment in Malta takes the form of capital inflows in the financial sector suggests that a significant share of capital investment relates to balance sheet transactions of a financial nature rather than investment in plants and machinery which enhance productivity. In addition, investment directed towards R&D, typically an indicator of the willingness to forgo current operations or profit to improve future performance or returns, is low relative to both the EU-27 and the country's main competitors, whereby a gap is particularly noticeable for the business sector.

<sup>2</sup>This refers to the twelve month moving average inflation rate.

Competitiveness in terms of cost and price levels is perhaps the greatest incentive for entrepreneur investment in the economy. In terms of wages, Malta is very much competitive when compared to its main competitors and the EU-27 with the exception of Eastern European countries. However, two points are worth noting. First, is the loss in competitiveness due to the simultaneous increase in wages and the relative loss in productivity. And second, the wage share in some low-growth sectors of the Maltese economy is higher than that in the same sectors of Malta's main competitors, whilst that in Malta's high growth sectors is significantly lower, particularly in the manufacture of chemicals and chemical products and other services sectors (which include gaming). This highlights the need for increased productivity levels in low growth sectors and an increase in wages in high growth sectors. In terms of price levels, software and transport products/services appear to be problematic in contrast with non-residential buildings in which Malta appears to have an advantage.

Wages in exporting sectors appeared to be responsive to the recent international economic slow down. On the other hand, inflation for some products, such as food and energy prices, portrayed a persistent inflation differential to the EU-27 and its main competitors, possibly impacting negatively on prices paid by businesses for intermediate consumption as well as wages.

#### **4.6 Policy Recommendations**

The bottom line is the need to enhance the country's productivity such that we can produce more goods and services at a lower cost per unit, increase total output from our scarce resources and achieve faster economic growth. As businesses face lower costs, they are able to develop (or protect) a competitive advantage in markets where there is intense price and non-price competition from overseas suppliers. Ultimately this would translate into higher profits for Maltese businessmen and higher wages for Maltese employees.

On the basis of the conclusions drawn from the analysis of competitiveness of the Maltese economy in this Chapter, this section presents policy recommendations aimed at restructuring and improving the productive ability of the Maltese economy. These include:

##### **4.6.1 Ensuring Competitive Markets**

Competitiveness is desirable only if it is a means to enhance the welfare of Maltese households. Indeed, convergence to the standard of living of the EU requires higher wages and prices in the medium-to-long term, whereby increases in prices and wages can only be sustainable if backed by productivity gains. However, excessive inflation and possible market imperfections which reduce price flexibility have been identified as a major shortcoming facing the Maltese economy, particularly, the cost of software, transport services and electricity.

##### **4.6.2 Ensuring Labour Market Flexibility**

In addition to ensuring wage and labour market flexibility, productivity increases should be sought to justify high wage shares in low growth sectors. On the other hand, employers should ensure that increases in productivity are matched with increases in wages. The enhancement of the country's standard of living would also benefit from a continuation of the shift from public sector employment to private sector employment by increasing the country's production capacity.

#### **4.6.3 Continued Investment in Education and training**

Participation in education should be encouraged in order to close the technical skills gap and to restructure the economy towards higher value added activities. Within this context, the dialogue between policy makers, industry, university and other training centres is of utmost importance. At the same time, the attainment of this goal would be facilitated if employers invest further in their human resources.

#### **4.6.4 Incentivise and Facilitate Labour Market Participation**

Participation of females and older workers in the labour market should be encouraged, especially due to the country's ageing population. Tax credits for women returning to work, pension for workers whose age is in excess of the retirement age and child care centres are steps in the right direction. However, adjusting to ageing may also require raising the effective retirement ages and addressing Malta's low fertility rate.

#### **4.6.5 Improve Infrastructure**

Continued investment in infrastructure is warranted, particularly in energy generation capabilities and the transport sector. Specifically, in light of country's limitations related to its size and insulation, there is a need for faster and more efficient freight transport infrastructure with the aim of facilitating and reducing the cost of imports (which feed into prices for consumers and industry) and exports.

#### **4.6.6 Increase Domestic and Foreign Direct Investment**

Higher private investment by Maltese entrepreneurs in productive and exporting sectors of the economy is a crucial determinant for the future performance of the economy. In this sense, investment aimed at triggering export-led growth should be encouraged, particularly by seeking to attract productive, high value added and sustainable foreign direct investment in Malta in order to enhance the country's exporting capacity. This can be facilitated if the necessary legislative framework to protect intellectual property rights is in place. In addition, businesses should be more pro-active at investing in R&D to close the gap with Malta's main competitors.

#### **4.6.7 Diversifying the Maltese Economy**

Continue diversifying the Maltese economy, particularly by addressing the declining contribution of the manufacturing sector since (unlike its competitors) Malta has not managed to attract enough growth companies in this sector to replace declining companies.

Overall, the persistency in Malta's current account deficit and loss in export market shares points to the need of addressing the structural challenges underlying the country's export market performance, with the ultimate aim of enhancing productivity and the standard of living of living of Maltese citizens. According to the analysis in this Chapter, the Maltese economy can either adjust to the current situation by reducing consumption and possibly wages and prices, or by enhancing the industry's productive ability. The above policy recommendations point to both.

Building on its past successes, Malta has to continue attracting high value added manufacturing companies. Over the past few years successful clusters in niche sectors such as pharmaceutical's, precision engineering and aircraft maintenance services were established in Malta creating thousands of jobs. With Malta remaining an investment attractive location, diversifying Malta's industrial base remains a key priority.





**Chapter Five**  
Creating careers

**5.1 Background** Europe is facing major structural challenges as a result of globalisation, climate change, and an ageing population. These factors, together with the economic downturn experienced globally, have brought about barriers which require immediate and long-term solutions. For recovery to be possible and for societies to experience smart, sustainable and inclusive growth, Member States are called upon to transform policies and measures to address current obstacles and find concrete solutions.

The Lisbon Strategy, the EU 2020 Strategy and the Vision 2015 all aim to stimulate growth and create opportunities for more and better jobs through an economy which is more responsive to economic and social needs. In the decades to come, the ratio of people in employment to people in retirement will decrease significantly. Therefore, as the 'baby-boomer' generation starts to retire in the coming years, societies need to be equipped to deal with a shrinking labour force which could further reduce the level of growth. This demographic reality entails that societies have an inclusive labour market with an action-oriented framework which addresses obstacles, attracts people to the labour market and retains the workforce by providing the necessary conditions. For this to be effective, countries need to adopt a comprehensive approach to development, strengthening the links between employment and economic priorities to education, welfare and quality systems.

The Lisbon Strategy has helped to create more than 18 million new jobs. Yet, with the recession hitting the market, it is difficult to aim for a linear increase in the employment rate. This crisis calls for recovery plans which provide accelerated interventions, and which give security to the people and to society for the years ahead. The need is felt to invest in people and to protect them against the obstacles that are being encountered worldwide. Lifelong learning and flexible measures are also pivotal to react to the bottlenecks being faced, and to adapt to the changes which require structural reforms.

**5.2 Objectives** With a national employment rate of 54.9 per cent (71.5 per cent - males, 37.7 per cent - females) compared to 64.6 per cent (70.7 per cent - males, 58.6 per cent - females) of the EU 27<sup>1</sup>, it is important that the necessary policy measures be taken by Malta to address those factors which are hindering people from entering or remaining in the workforce. Given demographic developments, an increase in the employment rate is required to ensure economic sustainability and GDP growth. Therefore, it is important that employment and social inclusion strategies be set in the context of a coherent framework which focuses on employment and economic growth, the impact of the labour rate on GDP growth, social protection, educational attainment and innovation plans.

**5.2.1 Inclusive Labour Markets** The growth potential of societies depends on the opportunities that are offered to the individuals who should be endowed with active citizenship rights. Labour markets, both on an international and a national scale, need a workforce that is mutually dynamic and diverse. The economic world is a microcosm of society and

<sup>1</sup>Eurostat 2010 Data

therefore requires the skills and aptitudes of all individuals. This entails involving all those who are of working age to participate actively in the labour market, and attracting those who are inactive to contribute to the well-being of society.

Employment and social inclusion are closely inter-related; although they are not synonymous, they are reciprocally reinforcing. Research indicates that those households which are jobless, in which all working-age members of the household are not in the labour market, are more prone to be at-risk-of-poverty and materially deprived. This entails providing more opportunities to people to enter the labour market and stay there. As is often the case, persons who become dependent on the welfare state end up trapped in such a system.

It is the responsibility of the State, as well as of individual society members, that a culture of contribution rather than dependability is instilled. The involvement of all participants in the labour market is conducive towards a better redistribution of income. Furthermore, the inclusion in the labour market and the contribution towards the State are two factors that lead to an increased social bond. National policies and reform programmes should therefore endorse the notion that minimum income schemes, participation, lifelong learning, and training are all central elements to the sustainability of society.

### **5.2.2 Favourable Framework Conditions for an Adaptable Workforce**

In his Vision 2015 speech, the Prime Minister of Malta, Dr Lawrence Gonzi stated that 'In such a globalised and volatile world economy, flexibility and resilience are key issues. It is our ability to respond to new realities that will allow us to transform threats into opportunities.' As these words imply, a competitive and dynamic economy cannot afford to have a workforce which is static. It is therefore essential that every effort be made to have an economy founded on key competences, skills and excellence, promoting individuals as the main assets of society, and managing better the economic transitions afflicting societies.

These demands necessitate an increased cooperation between education, training and social welfare, where a contributory culture, rather than one rooted in dependability, is enhanced. Coordination among these different sectors can deliver significant results if it is strengthened. Consequently, this entails that, in both public and private sectors, the workforce adapts to changing demands through continuous training. The knowledge-based society has transformed the mechanical concept of work into an open method, where employees interact with one another and with the outer world, exchanging the skills learnt and utilising them in the environment they are immersed in.

For an effective and adaptable workforce, as well as for productive results, it is important that societies set long-term goals and anticipate future needs. Better matching between labour supply and labour demand, and investing the appropriate financial support, are central to raising the activity rate and keeping the required momentum. Therefore, it is important that policies and action plans respond in a flexible way to the priorities and the identified needs of the diverse labour markets.

Increasing investment in skills and human capital is particularly important at a time when societies are going through an economic downturn. This crisis, which has accentuated structural problems, has called for reforms which safeguard individuals and protect their employability. This entails restricting the rise in unemployment and inactivity and securing the market, while guaranteeing automatic stabilisers that help cushion the negative effects experienced by some households due to financial difficulties.

### **5.2.3 Reconciliation of Family and Work**

Restoring sustainable growth and strengthening social cohesion demand that a balance be struck between economic policies and social policies. If we are to achieve the objective of increasing the economy's resilience and reinforcing social structures, we need to invest in measures that promote the reconciliation among family, work and continuous education. Succeeding in these three areas is a win-win situation, yet it involves effort and will.

Eurostat figures show that the total inactive population in 2008 in the EU27 stood at 29.1 per cent. The high incidence of inactivity indicates that Member States need to take more measures to increase the labour supply in the working-age population. Addressing this challenge is one of the priorities towards ensuring sustainability of the European welfare states. Across Europe, gender differences are very pronounced in the inactivity rate, and Malta is no exception. Research shows that familial responsibilities are the main cause of the inactivity of women in the work force. The peak of the working age is between 25 and 54 years, which is also the age when families are established and children raised.

Addressing inactivity in the labour market is therefore strongly correlated with reconciling family and working life, through measures which safeguard the family and that give space for the individual to develop in the career path. Fiscal measures, family-friendly measures and the provision of childcare are pivotal in attracting and retaining women in the labour market. The latest statistics issued by the National Statistics Office on the participation of women indicate that the employment rate of women increased from 33.6 per cent in 2003 to 37.4 per cent in 2008, whereas the unemployment rate decreased from 8.8 per cent in 2003 to 6.9 per cent in 2008 and the inactivity rate, from 63.2 per cent in 2003 to 59.9 per cent in 2008. The myriad range of family-friendly measures that have been introduced by Government in the last years have certainly contributed towards these results.

It is to be acknowledged that the participation of both men and women in the labour market is an important contribution to economic growth and social cohesion. Investing in measures which safeguard the reconciliation between family and work responsibilities is beneficial not only in terms of equity, but also in terms of higher employment rates, more contribution to the GDP, an increase in tax revenues, and a reinforcement of the social structures.

### **5.3 Proposals**

A number of challenges in Malta are currently deterring the local employment rate from growing at the desired pace. These include the traditional segregated

roles of men and women; inactivity rates, in particular among young mothers and carers of children and the elderly; a tendency among older women to be less receptive to incentives to join the labour market; the difficulty of making 'work pay' in the context of a strong welfare state with substantial benefits; the high incidence of undeclared work which is a predominant problem across Southern European countries; the decreasing share of male older workers in the working-age population; an increasingly ageing population; and an observed trend of resistance to childcare services, with young mothers preferring to stay at home or to entrust children to grandparents during working hours.

For these challenges to be addressed and ultimately eradicated, concerted and coordinated policy action needs to be taken. As President Barroso stated in his EU 2020 Strategy speech, Member States need to tackle their weaknesses and exploit their many strengths. The EU 2020 Strategy is about 'more jobs and better lives. It shows how Europe has the capability to deliver smart, sustainable and inclusive growth, to find the path to create new jobs and to offer a sense of direction to our societies.'

### **5.3.1 Attracting and Retaining More People in Employment**

For the country to deal with the economic downturn experienced on a global level, it is necessary to boost the overall employment rate through active labour market initiatives that match labour supply with labour demand, and which focus on the needs of individuals, society and the labour market. Therefore, to experience a positive skew in employment growth, it is necessary that bottlenecks be addressed systematically. The Maltese Government, in collaboration with the Public Employment Service and the social partners, should invest in programmes and measures that attract people to work, improve their skills, and train them towards reaching the quality standards required in a competitive and dynamic market. These provisions are all essential towards accentuating the recovery.

People are attracted to the labour market if we make work pay. At present, tax and benefit schemes are insufficient to make employment pay. Therefore, while guaranteeing quality social protection services, it is also emphasised that all beneficiaries are responsible towards the welfare of the State, and should hence contribute towards ending their dependence on the services. Persons living with a minimum income and limited prospects for development are vulnerable to social exclusion and at-risk-of-poverty. Therefore, their dependence on social protection should be tied to education, training or entrepreneurship programmes, either in the community or in partnership with public and private organisations.

From a young age, individuals should be guided towards profiling tools and skills matching techniques. This is already being done by the Employment and Training Corporation, but needs to be strengthened further. Entrepreneurship skills should be invested in, through educational services, apprenticeships, and on-the-job training. The 12-week Work Trial Scheme under the auspices of the Employment and Training Corporation will contribute towards the enhancement of the basic skills and qualifications of jobseekers, by providing opportunities to build on their knowledge, skills and competences through work experience and

on-the-job training. The Work Trial Scheme will also support the introduction of a job rotation system.

Furthermore the Employment Aid Programme is, through a wage subsidy initiative, contributing towards the integration of vulnerable groups in the labour market. This scheme was launched in February 2009 and is expected to be completed by September 2013. Such initiatives incentivise the private sector to integrate vulnerable groups into the labour market. In addition, it is proposed that an employment and training mentoring scheme for young people who are in or leaving institutional care be set up.

The elimination of segregation from the labour market is central to policy making. The gaps which exist between men and women and the low employability of people coming from different backgrounds should be addressed by mainstreaming such concepts into all policies and programmes. The reconciliation of family-friendly measures is pivotal to the transformation of the employment status in Malta, and therefore calls for more investment and programmes that meet society's needs. Therefore, it is envisaged that Government should further incentivise the private sector to introduce family-friendly measures. Furthermore, it should be guaranteed that child-care centres and day care centres for the elderly are of the required standards, and are affordable. In order to instil public trust in such centres, it is essential that beneficiaries are provided with such guarantees. Social partners should be further involved in policy formulation and implementation, in particular with reference to flexicurity policies. Moreover, policy-makers need to incentivise people who are exiting the labour market at an early stage, to keep on working. Active ageing policies need to be mainstreamed and the low employment rate of older workers addressed.

The fiscal measures offered by Government, as well as the measures embarked upon, are contributing to an increase in the employment rate and a reduction in inactivity. Yet undeclared work still prevails in Malta. Therefore, it is important that undeclared work is turned into legal employment. The Community Work Scheme which will be provided to long-term unemployed persons is targeted to those who have been unemployed for over five years. Through this scheme, participants are given the opportunity to increase their income up to 75 per cent of the minimum wage. Participation is mandatory, and those who refuse to work without providing a valid reason will be struck off the unemployment register, consequently losing their benefits. Participants will need to work for 30 hours a week, with a total of 780 hours for each participant. It is proposed that such an initiative be extended to all persons who have been registering for more than six months, with participants' skills being matched with the community work or training selected for them. To address further the issue of undeclared work, more effort needs to go into law enforcement. Government's policy should regulate abuse, and should preclude any person who refuses an employment or training opportunity from being on the unemployment register. Inspections and court actions against employers and jobseekers abusing from the registration system should be further enforced, so that infringements are curtailed.

### **5.3.2 Improving the Adaptability of the Workforce**

Having an adaptable workforce that can cope with the rising demands caused by the rapid pace of changing societies is essential for the labour market to remain competitive and sustainable. Lifelong learning, vocational training, creativity and innovation are pillars in these spheres, and organisations need to be equipped with the ability to juggle with the constantly changing demands and the incessant drive of technology.

As global changes are happening at a pace which is difficult to manage, organisational leaders are endowed with a dual responsibility. They must be ready to address demands and deal with them in an effective manner, while making sure that the issues surrounding the workforce are not neglected. Demographic changes, including inter-generational relations, globalisation, economic demands, and increased competition have all put a strain on the ability of employers and policy-makers to adapt in the most cost-efficient and effective manner. These changes have highlighted the need to have a workforce that is well-trained and well-versed in the dynamics of the labour market. Having an adaptable workforce therefore requires more on-the-job training and opportunities for development through continuous learning and interaction with other markets on an international scale.

Hence, it is proposed that an analysis of employment licences, with a view to deriving the type of skills or labour shortages these represent, be conducted, while developing traineeships and training schemes accordingly. The importance of having a responsive workforce cannot be overstated. Both employed and unemployed individuals should be given the opportunity to increase their competences and practise experiential learning, which should help them understand the skills that are needed and the aptitudes that need to be developed.

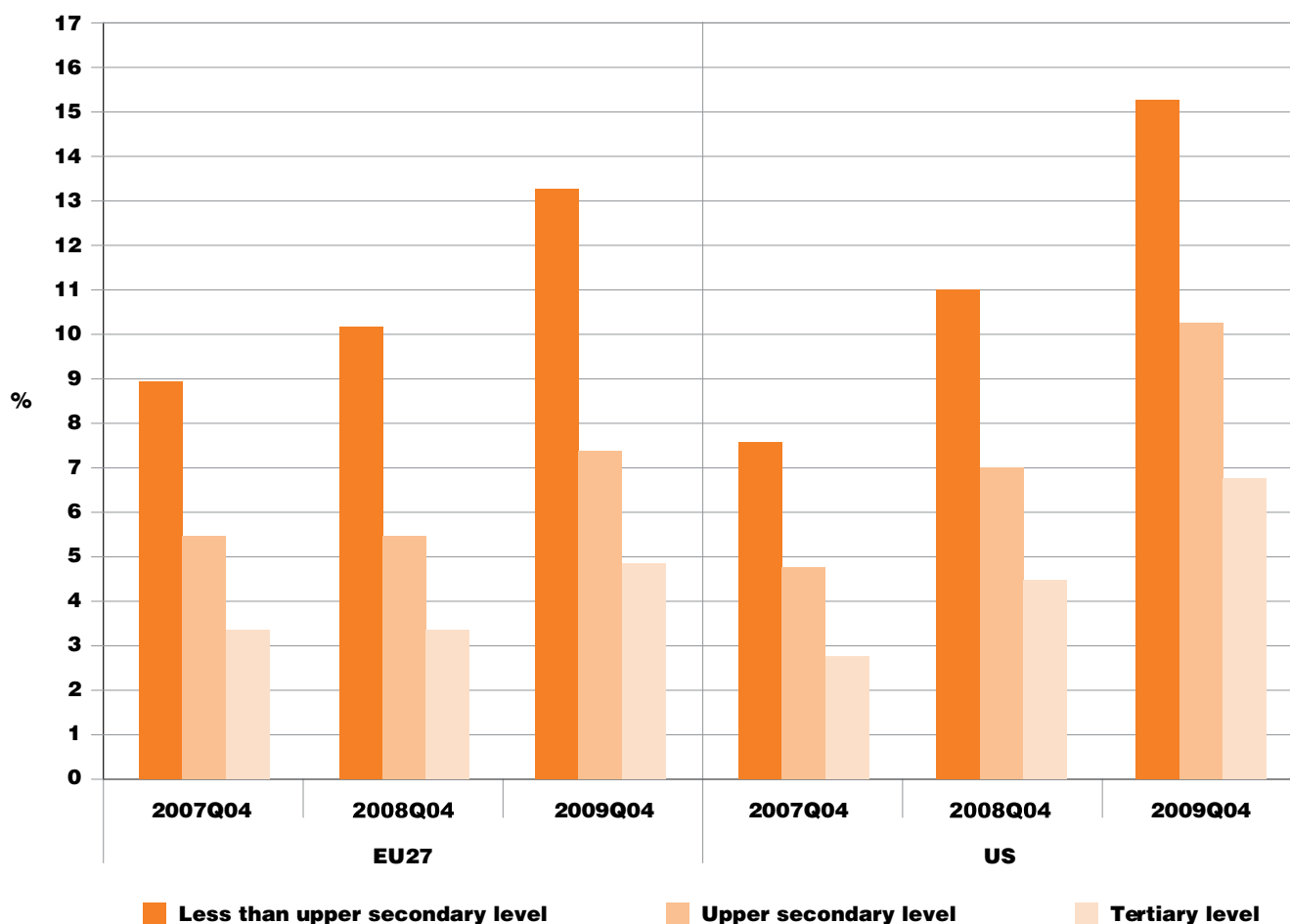
Policy-makers, in collaboration with employers and social partners, need to be adept in forecasting future skills requirements, while also focusing on the abilities of their employees and strengthening them. Reforms that include flexicurity, which purports to improve the flexibility and security of employees by providing them with extensive training and education facilities, are also called for. Additionally, this entails bridging the existing gaps between emerging demands and available skills, while also promoting job mobility. Through these measures, the labour market will be more resilient to shifts as they occur, and more receptive to meeting the demands imposed by the market.

### **5.3.3 Increasing Investment in Human Capital through Education and Training**

Comprehensive and lifelong education policies are interlinked with employment, the economy and the labour market. Educational attainment and continuous training are two elements that are fundamental to the employability rate. As the figures imply, high education reduces the risks of unemployment. Research in fact indicates that unemployment rates rose mostly for those with low educational attainment. In the EU27, the rate increased by 4.3 per cent between 2007 and 2009 in respect of those individuals whose educational attainment was lower than upper secondary level. For persons with a tertiary level of education, it rose by 1.4 per cent.

Chart 5.1

**Unemployment rates in the EU27 and the US by educational level (25 years and over)**



Unemployment rates in the EU27 and the US by educational level (25 years and over) Source: Eurostat Newsletter 67/2010 – 11 May 2010

Malta is already structuring adult learning with the objective of promoting employability through the adequate supply of skills to match demand in the labour market, by means of a combination of key competences acquired through basic education and second-chance opportunities. Further investment needs to be made, while collaboration between educational institutions, local councils and employers needs to be strengthened and incentivised.

Furthermore, public and private organisations need to be attracted towards offering their workforce training opportunities through scholarships, adult training programmes, and other educational openings. Labour market needs and lacunae in skills lead to skills mismatch and unemployment, and current educational and training systems should further respond to them by means of active programmes that reveal the requirements of the labour market.

**5.4 Concluding Remarks**

The national labour market needs to adjust to changing realities and reverse the crisis by renewing policies which are more sustainable, and which can successfully respond to the changing dimensions experienced by societies the world over. Holistic active inclusion policies, together with a reconciliation



of familial and work responsibilities and an investment in flexicurity, are the best approach towards modernising the labour market, steering it towards a successful accommodation of shifts in demands and ensuring a feasible and effective recovery.



Correct

0 even 1 odd 2 even 3 odd 4 even 5 odd 6 even 7 odd 8 even 9 odd

6-11-09

HW  
6 Read Religion pg 17-20 and  
Religion wksh pg 9. (20mins)  
7 Maths wksh pg 24 and  
handout (20mins)

Visitors to the class  
When we have visitors in the class  
1. We can think the visitors sound  
2. We can welcome them warmly  
3. We can do some extra work  
4. We can think of a job for them  
5. We can make the visitors feel  
6. We can show our class's spirit  
7. We can give them a tour of our class

No, I don't

Yes, I do.

Numbers 1 - 100

2	3	4	5	6	7	8	9	10
12	13	14	15	16	17	18	19	20
22	23	24	25	26	27	28	29	30
32	33	34	35	36	37	38	39	40
42	43	44	45	46	47	48	49	50
52	53	54	55	56	57	58	59	60
62	63	64	65	66	67	68	69	70
72	73	74	75	76	77	78	79	80
82	83	84	85	86	87	88	89	90
92	93	94	95	96	97	98	99	100

10 11 12 13 14 15

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Chapter Six  
Education. Investing in your potential

**6.1 Background** Education and training are imperative instruments needed to address the needs being faced both by Europe and the individual members, through socio-economic, demographic, environmental and technological challenges which are characterising societies, and reformulating existing structures. Education policies and action plans should be geared towards addressing present needs and forecasting future challenges. In all areas of development, the need is felt to address such requirements through continuous education and training.

Both on a national and an international level, focus is being placed on the significance of having people who are equipped with skills which cater for the demands. For markets to remain competitive and for individuals to be able to acquire the competencies needed, people will have to update continuously their expertise and knowledge. This entails adopting an approach which fosters lifelong learning and second-chance education where possible. The promotion of formal, non-formal and informal learning should also be pivotal in Government's investment.

**6.2 Objectives** The objectives for the development of education in Malta shall be aimed at having an educational sector of excellence, in line with the strategic frameworks of the renewed Lisbon Agenda, the EU 2020 Strategy, and Government's Vision 2015 which focus include having a knowledge-based society, reducing the number of early school-leavers and equipping citizens with the key competences needed, and increasing the number of people with higher educational qualifications. This entails making lifelong learning a concrete reality through coherent and comprehensive strategies.

**6.2.1 Education for All** The right of education is a universally recognised right, and has been enshrined in several conventions, national constitutions, and action plans. It is recognised that education is also an enabling right, because through the access of education, individuals can develop the skills and competences needed to secure other rights, and to participate actively in society.

The concepts of equity, creativity and innovation, entrepreneurship skills, vocational training and active citizenship are some of the notions which Member States are focusing on, in particular to address the needs which globalisation, the recession and the technological advancements have brought about in society. Individuals at all levels of their life should be given the opportunity to acquire, update and develop both the key competences needed to actively engage in society, and the job-specific skills required by the changing world of work.

Member States therefore have an obligation to invest in the education system and to promote inclusive education, by providing learners a quality education, through a concept of lifelong learning and where appropriate second-chance education. All learners, including those who have disadvantaged backgrounds should be given the required means to achieve the skills needed. This entails investing in structures and creating programmes which safeguard these basic needs.

### 6.2.2 Improving the Quality of Efficiency of Education and Training

Government acknowledges that human resources are society's main asset. They are a determining factor for the transmission of knowledge, and a central element in society's potential for sustainable growth and innovation, thus a prerequisite for the achievement of broader economic and social goals. For this to be a tangible reality, however Government must invest to reduce the warning lights which Malta is presently facing. These include the need to reduce the drop-out rate, addressing the mismatches between education supply and labour market demand, and attracting more individuals to pursue higher education.

To improve the quality and efficiency of education and training, it is therefore necessary to have a fully-functioning knowledge triangle, which includes education, research and innovation, to strengthen the capacity for anticipating labour markets needs, and to have a strong partnership between the world of education, training and work. This entails having a close cooperation between the fields of education, vocational training and the labour market, involving both the public and the private dimension. It is also important that through this cooperation, opportunities of mobility for learners are expanded through effective training programmes and experiences, which endow individuals with the competences and qualifications needed in a knowledge-based society.

### 6.2.3 Quality Lifelong Learning

Lifelong learning is the guiding principle which should direct policy-makers towards concrete action for the achievement of excellent education and training measures. Efforts should focus on creating learning environments which are open, attractive and accessible to all individuals, equipping all citizens with the skills needed to take an active role in social and economic life, targeting efforts at people who are not currently taking the full benefits from the education systems, thus putting them more at-risk of being socially excluded, and increasing mobility by removing obstacles and promoting experiential learning and active inclusion. The rapidity in which societies are changing and the impacts derived from other variables demand that a cross-curricular approach towards learning is adopted. The acquisition of key aptitudes and entrepreneurial skills are central for individuals' personal fulfilment and society's development. In this context, ICT-related training services should be further included in all spheres of the education system and beyond. Educational institutions and training systems should be more responsive to the needs of societies, both nationally and globally, in order to offer programmes and learning pathways which reflect the changes occurring around the world. Therefore, governments should be committed to provide individuals with the acquisition of lifelong learning attitudes and skills, and chances whereby the balance of learning and work becomes possible through flexible and diverse learning opportunities, and career pathways.

Special focus should be put on all those individuals who for one reason or another feel that they are socially excluded. These people may include those who are inactive from the labour market and dependant on the welfare state, those who have low levels of literacy or qualifications, people with learning difficulties and older workers. These individuals are very often comparatively not acquainted with the advantages of updating their skills and with the opportunities that continuous

education and training provide. Therefore, it is essential that education policies are thoroughly linked with social policies.

**6.3 Proposals** The following proposals reflect the level of commitment needed to have an excellent education system which caters for the needs of the individual, the well-being of society at large, and the prerequisites needed to remain competitive in the international sphere. For these objectives to be viable coordination must be on a cross-sectoral policy making basis, where measures are owned at all levels of Government.

### **6.3.1 Quality Education Systems**

For people to be endowed with quality education systems there needs to be continuous investment to upgrade the present services and to forecast future needs. Education systems need to be modernised, and educational programmes made more attractive.

Social science indicates that education attainments increase the growth in productivity, and unemployment rates are reduced with higher levels of education. As an outcome, economic and social costs are decreased. Eurostat Publication 'Key Data on Education in Europe 2009' points out that the level of qualifications held by individuals is a determining factor in securing a job. In fact results show that the employment rate for people with tertiary education (ISCED 5-6) was much higher than for people with lower qualifications (ISCED 0-2). The employment rate for people aged between 25 and 39 years, who possess a higher education qualification was around 20 percentage points higher than that for individuals in the same age group who were less qualified. This study states that this correlation between the employment rate and levels of qualification is a characteristic in the EU 27 and is more pronounced in some Member States, including Malta, where the employment rate of people under 40 years of age reached 92.9 per cent compared to 87.6 per cent of EU 27. In the 40-64 age group the employment rate of individuals for Malta is 81.2 per cent compared to 83.2 per cent of EU 27. This result may be due to several factors, mainly the large proportion of women who choose to abandon the labour market to bear and rear children.

In higher education, Malta needs to invest more in order for the National Commission for Higher Education to consolidate its structures and work with the aim of collaborating with the relevant institutions to ensure an education of a high level within international standards. Other measures which need to be adopted include working with student organisations to enhance the student experience in higher education, collecting and disseminating data on participation in higher education, further analyse the skills needs in the labour market and how higher education can help to bridge the gap between higher education qualifications and skills needs in Malta, and carrying out research on quality assurance to be able to propose a framework for its possible implementation in Malta.

While Malta seems to be faring among the best in Europe where the National Qualifications Framework is concerned, in higher education Malta still suffers from a big lack in internal quality assurance processes within higher education

institutions, as well as not having an external quality assurance agency. Malta is one of the last Bologna Process countries which does not have a quality assurance agency, and this needs to be remedied, not only for the improvement of quality within higher education institutions, but also for the eventual accreditation and licensing of higher education institutions and their qualifications. This will serve to legitimise the private higher education sector in Malta and will enable accredited and licensed providers to offer home-grown degrees which will be duly recognised in Malta and abroad.

Furthermore, in many foreign countries, lower education levels are often split, in terms of both policy and legislation, from further and higher education. This is beneficial to the further and higher and education sector both in conceptual and organisational terms. The Ministry of Education, Employment and the Family is currently drafting a law on further and higher education, in order to differentiate this sector from lower levels of education, and to realise the full potential of upper secondary education, tertiary education, lifelong learning programmes and all areas of education that are non-compulsory.

Malta needs to have coherent measures which incentivise individuals to pursue their education studies, and to continue to update and develop their skills. Dependency on the state should not be an exit strategy from the education system, and instead all individuals on social protection benefits should be offered opportunities to develop their skills through personalised programmes, apprenticeships and vocational training. Furthermore, people who are inactive from the labour market should be offered incentives to undergo further training, thus becoming actively participant in social life. For this to be possible there needs to be a concerted effort between educational institutions, the Public Employment Service, private enterprises and the Department for Social Security.

Furthermore, it is essential that Government invests in training the adult educators, who at the moment have not received the pedagogy and androgogy needed to teach the adult students. This is fundamental in ensuring quality teaching in adult learning courses. During the course of this year, professional development courses for adult educators teaching functional literacy and functional numeracy were started. Moreover, it is important that there is investment in the learning environments of the schools, so that they become more accessible and attractive to students.

### **6.3.2 Improving Mobility in Education and Training**

Mobility in education and training can be achieved by removing obstacles which are currently preventing people from participating actively in programmes and initiatives offered to develop their knowledge and skills. This requires that other areas of action act in synergy with education and training through the provision of services, partnerships, and opportunities where people can gain experience and develop their skills through interaction and experimentation.

These areas should include employment, social inclusion, research, creativity and innovation, entrepreneurship, vocational training, and information society. This

means providing incentives for individuals and companies to enter into an effective partnership whereby educational institutions, enterprises, the community and the labour market both in the public and the private sector interact and participate through well-developed programmes. Government therefore should be committed to engage into an agreement whereby participating individuals on the one end and companies, entities or institutions on the other end are given an incentive, and are helped to achieve this goal.

The present scholarships schemes which have been awarded to several students need to be further strengthened and developed, so that more individuals further their education in their area of expertise. The STEPS scheme was launched in January 2009. The closing date for the fourth call was 15 June 2010. During the first three calls, 269 scholarships were awarded with an investment of € 4.1 million. For this fourth call, a total fund of € 3 million is available in scholarships. The fifth call will be launched in November 2010.

During 2009, under the MGSS post-graduate scheme, 28 scholarships leading to Masters and 36 scholarships leading to Doctoral were awarded. It is important to recall that for the first time, adults wishing to follow doctoral programmes of studies on part-time basis were made eligible. Another measure introduced was the removal of age limit to qualify for a scholarship. These measures were intended to promote in a tangible way the concept of lifelong learning and to increase the availability and employment of high-level graduates in the priority sectors of the knowledge-based economy.

In 2009, 113 undergraduate courses were awarded under the MGSS undergraduate scheme. The MGSS post-graduate scheme is expected to be issued on June 16, 2010. The MGSS undergraduate scheme will be launched in August 2010.

During 2010, it is expected that Government awards a record number of 430 scholarships (including STEPS, MGSS PG & UG and Malta Arts Scholarships). For the third call of STEPS which closed on 15 January 2010, a total of 91 scholarships are already awarded.

As from 2011, the STEPS scheme will not offer any more scholarships leading to doctoral degrees or qualifications of masters by distance learning, because of the timeframe of ESF projects that has to come to an end by December 2013. Therefore, in order to keep the momentum of high level graduates reached by this scheme, it is important that Government invests more funds in the Malta Government Scholarship Scheme. Furthermore, the need is felt to invest in scholarships intended for Post-Doctoral which are specifically in research, which is one of the priority areas for the economy.

### **6.3.3 Increasing Investment in Knowledge and Skills**

Investment in the knowledge-based society includes the implementation of lifelong learning strategies which include all members of society. Malta's early school-leavers rate when compared to the rest of the EU27 means that the Government needs to invest more in the education system in order to achieve

the targets agreed upon on an EU level, and for Malta to remain at par with the rest of the EU. Eurostat research indicates that the percentage of the population in Malta aged 18 to 24 with at most lower secondary education and not in further education or training is 39.0 per cent (36.1 per cent of females and 41.7 per cent of males) compared to 14.9 per cent of EU 27. The EU 2020 strategy highlights that by the year 2020, 16 million more jobs will require high qualifications, while the demand for low skills will drop by 12 million jobs. Eurostat publication (Statistics in Focus 44/2009) states that "Nearly two thirds of the population do not participate in formal or non-formal education and training. More than 70 per cent of people with low education as well as those in low-skilled blue collar professions do not participate in formal or non-formal education and training. The two most important obstacles to participation in education and training are work schedules and family responsibilities. There are however major gender differences in obstacles to participation." This entails working closely with the social inclusion and employment sectors so that obstacles are identified and measures are taken to address the issues faced.

Achieving longer working lives will also require the possibility to acquire and develop new skills throughout the lifetime. Therefore, as both the EU 2020 Strategy and the Vision 2015 underline, the way forward to meet the demands is to continue to invest in education and training.

This requires a policy change scenario with additional policy measures and an increased investment, whereby students are encouraged to continue their educational studies through the establishment of more flexible learning pathways, and better transitions between education and vocational training. It is important that the present Directorate for Lifelong Learning continues to lift the barriers for participation, so that the overall volume of participation in adult learning is increased and the imbalances in participation are addressed in order to achieve more equity. Efforts need to be enhanced to promote adult learning and improve guidance to students opting to move out of the educational institutions. Moreover, a closer cooperation should be established between key partners, including educational institutions, the business sector, and the social partners, so that individuals are motivated to further their studies. During the 2009-2010 the number of adults attending courses offered by the Directorate for Lifelong Learning increased by 32 per cent. 9890 adults were attending the courses, 70 per cent of which were women. 445 courses were offered. The positive results achieved through the last year need to be repeated and developed.

It is further proposed that with regards to adult learning courses, more investment is put to offer courses which focus on the key competences. These courses are mostly targeted for adult learners, who are given a second chance opportunity to regain the education and training which they have missed during their formal years of learning. Moreover, it is suggested that after the validation process of the courses offered by the Schools of Arts, Drama, Music and at the Lifelong Learning Centre, the process on validation on the Malta Qualifications Framework on all the courses offered which do not lead to formal certification is started.



In order to reach those who are most vulnerable in society, it is proposed that the Directorate for Lifelong Learning goes into the community, through a partnership with the local councils. Such scheme would require further investment, so that more people are attracted towards continuous education. A number of countries are organising courses which involve retired persons, whilst also focusing on lifelong guidance. On these lines, the collaboration between the Lifelong Learning Directorate and the local councils will offer subjects which include amongst others Studying Skills, Greener Living, Energy Savings and Alternatives, Consumer Rights, Healthy Ageing, Health and Well-Being, and Pension and Retirement Planning.

#### 6.4 Concluding Remarks

The European Union's focus towards adult learning is felt through the measures being taken across board. One measure which is being taken in most countries is that some basic courses are provided at the place of work with the approval of the management. This initiative calls for a partnership between the Directorate for Lifelong Learning and the business community, towards the realisation of a workforce which is more skilled and which has the key competences needed to address the challenges and needs faced by society.

Investing in the human capital through education should not be seen as a cost to society, but rather as a way forward towards the creation of a society which is more skilled to adapt to changing needs and to new forms of challenges through the sustainable development of individuals who can actively participate and contribute to social demands. This necessitates a flexible approach with a high level of public investment and a contribution from the private sector, towards the creation of an effective partnership. Incentive measures are therefore needed to encourage the private sector to contribute towards ensuring continuous education and training, and hence to meet the demands of a knowledge-based society.



**Chapter Seven**  
Solidarity with those in need

**7.1 Background** The economic crisis which has hit the world has left an impact on the social fabric of societies, compelling welfare systems to adopt adequate protective measures while remaining efficient. The economic downturn meant that some countries had to contain the rise in public spending, with limited financial means to meet the demands of the population. This has resulted in some countries having to deal with large gaps in the safety net. However, to mitigate the social impact arising from the economic crisis, countries cannot plan cuts in the social protection system, since the people who will be affected most by such reductions are those who are already below the poverty threshold, and at risk of being socially excluded. Rather, as amply practiced by Government in the last two years, the best strategy is to support enterprise in order to minimise job losses and to actively support the unemployed and the inactive to find their rightful place in the labour market.

Therefore, countries need to defend the role of social protection and social inclusion by mainstreaming social objectives in all policies and programmes, and protecting those who are most vulnerable. This implies more effective and efficient social inclusion and social protection, in line with the fundamental principles of equity for all, access, adequacy and sustainability. The multidimensionality of social protection and inclusion suggests that action plans reflect the needs of individuals through cross-sectoral interventions which link different areas, including economy, education and employment. However, measures should reflect the social guideline without focusing solely on employment, since a job does not always prevent an individual from being poor. In fact, research indicates that the rate of people in the category of working poor is increasing, with 8 per cent of workers in the European Union and 5 per cent in Malta falling within this group.

The starting position in policy-making is the welfare of the individual and the well-being of society at large. Therefore, societies are committed to reverse growing inequalities by redistributing income and protecting the most vulnerable through more effective measures. Analysing the impact of globalisation, changing family structures, and increased expectations are all crucial to addressing the relativity of social inclusion.

**7.2 Objectives** The loss of human capital is a human cost to society, and should therefore be addressed through integrated strategies which focus on the individual as the main asset of society. The objective of national policies is hence to lift people out of the situation of social vulnerability by giving them the opportunities needed to improve their position, and by protecting them through the social safety net. People who are socially excluded are often, although not exclusively, facing common problems, such as joblessness, lack of educational attainment, housing problems, and financial strains. The support mechanisms adopted by our Government should therefore be geared towards addressing the particular needs of the individual, without instilling a culture of dependability on social services. It follows then that the challenge is to identify the complexity of individual needs, while having adequate and efficient social services and promoting contribution to, rather than dependability on, the welfare state.

### 7.2.1 Adequate Minimum Income

The global recession has called on countries to adopt a strong policy intervention and be equipped with social security systems in order to mitigate effectively the social consequences of the crisis. This means that adequate income support is provided to those households which are marginalised and which need support from the State. Minimum income is designed to guarantee an adequate standard of living for all people, and to address social exclusion and poverty, by the provision of social assistance to specifically target those people who need to be integrated back in the social sphere.

The State recognises that every person should be entitled to protection. Furthermore, all individuals should have the resources and the adequate means needed to lead a life that is compatible with human dignity. The well-being of the person as an individual with fundamental rights is pivotal to the welfare of society, and it is therefore the main objective of the State to offer measures which strengthen the integration of all individuals back in society. Assisting the beneficiaries and guaranteeing them sufficient coverage does not mean that the State does not bind such services with responsibilities.

Recommendation 92/441/EEC states that, in order for countries to combat poverty and social exclusion, it is to be acknowledged that the provision of sufficient resources and assistance should be safeguarded. In reality, minimum income schemes should be a last-resort mechanism for a country to redistribute income among its members. Yet there are a number of households which are still dependent on such services, due to their inability to be re-activated back in society. Minimum income schemes are designed to cover the basic needs of the individual. However, the ultimate objective of society is to have these people re-integrated back in society without the need to rely on the State for social transfers.

Social protection systems need to be periodically reviewed, in order to be aligned with changing needs. Demographic changes, transitions in family structures and an increase in unemployment rates have led to more recipients requiring minimum income schemes. Lifting people out of the threshold of poverty is an indicator of the effectiveness of social transfers. Eurostat research in a comparative study between the at-risk-of-poverty rate before and after social transfers has indicated that the impact is quite substantial, with a reduction of 36 per cent from the at-risk-of-poverty threshold in Malta, compared to 35 per cent in EU27. These figures attest to the effectiveness of social protection measures, yet policy-makers are aware that the solution to having an active population lies in providing opportunities for an improvement in the beneficiaries' lives through competences, skills, guidance and training measures.

Social and economic integration in society is therefore a necessity both for society itself and for the well-being of the individual member, who should be a full participant in social life. Within an active inclusion framework, it is therefore imperative that there are effective implementation measures which promote the integration of the social capital, not only through re-integration in the labour

market, which is fundamental, but also beyond. People should be protected at all stages of their lives, so that they may have a quality living standard that is relatively comparable to the other members of the very society in which such individuals are interacting.

**7.2.2 Inclusive Societies** Active Inclusion is the most effective measure which can be adopted by societies to combat social exclusion and poverty. Policy-makers need to distinguish between active inclusion and activation. While the former speaks about the participation of people in all strands of society, the latter is focused on the integration of people who are farthest away from the labour market. Therefore, active inclusion is activation and more.

The measures to be taken to include people in society refer to social participation as a pillar in social policy. There are two dimensions that need to be explored. On the one hand, there are people who feel excluded both from the labour market and from society at large. These people need to be re-integrated into society through specific mechanisms which target educational attainment, training and employment opportunities. Policy coordination among the different social partners, local community, as well as governmental and non-governmental entities is essential. On the other hand, there are people who are integrated in the labour market, but who feel marginalised because of other variables; these may include a disability, or a background which does not comply with the traditional norm, an addiction, or a breakdown in the structures familiar to this individual. To target these individuals and help them back into society, Government needs to invest in quality services which provide them with support structures. These entities play a crucial role in helping people to be injected back into society.

In order that national policies may be able to prevent people from dropping out, and in order that those persons who have been marginalised may be re-integrated, a comprehensive approach is needed between education and training and social assistance. Mainstreaming inclusion into all policies and actions ultimately means that people are empowered to be active participants in society, human capital is prioritised, and skills are maximised.

**7.2.3 Quality Social Protection and Social Services** For a truly effective social system, it is fundamental that everyone be given access to services and opportunities. It is acknowledged that people have different starting positions in life. However, this should not deter anyone from moving forward. Policy mechanisms should therefore be in place to ensure that access and opportunities are available to all people, and that vulnerable individuals are assisted through tactics which help them be fully re-integrated in society.

Active social and economic inclusion policies are a multi-dimensional and horizontal priority. The provision of childcare services, family-friendly measures, social assistance schemes and appropriate social support through access to quality services are all pivotal to a society which fosters the well-being of the individual. The State should therefore protect its citizens, while endowing them with responsibilities, in order to curb abuse and contain costs. The sustainability

of social systems depends on the individuals themselves, who should contribute towards the effectiveness of society by taking an active part in it.

It is therefore central that the multiple needs of individuals are met through personalised approaches which target their specific needs. Respect for the rights of all people must be ensured. This entails finding a balance between the requirements of society and the needs of the people. For a system to be sustainable and effective, relevant national provisions need to be tailored to users' diverse needs, while putting in place a regulatory and monitoring framework which prevents them from falling in the social safety net for a long period.

**7.3 Proposals** The measures being proposed aim to sustain the social sector by reducing the weaknesses that exist and strengthening the social support mechanisms which need to be available to people, that they may be included in the social sphere. The provisions outlined here aim to combat social exclusion by putting the person at the forefront and by adhering to the concepts of rights, equity and fairness.

### **7.3.1 Provision of Social Protection and Adequacy of Social Systems**

Currently in Malta, 13 per cent of the total population are materially deprived, among whom are 16 per cent of the population under 18 years. With regard to the age group of 65 and over, this figure stands at 14 per cent. In addition, statistics indicate that 14.7 per cent of the total population is at-risk-of-poverty, with 20 per cent of children (under 18) and 22 per cent of persons aged 65 and over. Furthermore, 3.8 per cent of the total population is both at-risk-of poverty and materially deprived. With 17 per cent of the total EU27 population materially deprived and 17 per cent at-risk-of-poverty, Malta is in a better starting position, comparatively speaking, both as regards material deprivation and at-risk-of-poverty. These figures are indicative for countries to set national targets and policy measures aimed at lifting people out of the poverty threshold and at a better re-distribution of income.

Policy instruments need to be strengthened to address the complexity of multiple vulnerabilities which are hindering people from taking an active role in society. With 6.7 per cent of working-age adults in households that are jobless in Malta, it is important that integrated policies be formulated to attract people to the world of work. In 2007 the European Commission, in response to a request by the European Council, issued a Communication entitled 'Towards Common Principles of Flexicurity: More and Better Jobs through Flexibility and Security'. The Communication discussed how globalisation, new technologies, demographic ageing and labour market segmentation are giving rise to the need for new forms of flexibility and security. As a job for life becomes increasingly less common, individual security is now found in stronger employability. As the demands of competitiveness make it more important for companies to respond rapidly, companies should be able to adapt their workforce accordingly and to find suitably skilled and productive staff. In view of this, flexicurity encompasses mutually reinforcing measures across four policy components:

- Flexible and reliable contractual agreements;
- Comprehensive lifelong learning strategies;

- Effective active labour market measures; and
- Modern social security systems.

The flexicurity approach adopted by Government facilitates the activation and mobility of people and is a step in the right direction towards a sustainable development strategy.

In addition to the flexicurity approach which needs to be reinforced in the local context, various measures need to be adopted to enhance the sustainability of the social protection system. Changing demographics are generating pressure on the effectiveness and adequacy of benefits and, more specifically, on the pensions of future beneficiaries. Therefore, it is proposed that former budgetary measures are reviewed and strengthened in accordance with changing dynamics. It is to be ensured that social security provisions enhance the social protection and prospects of persons, where financial, social and health conditions expose them to the risk of poverty and social exclusion. In safeguarding the interests of the most vulnerable, the Social Security system shall ensure that its provisions encourage increased labour force participation and does not discriminate on a gender basis. Social protection provisions shall also complement other support systems and address the priority needs dictated by emerging social patterns and demographic realities, while ensuring a fair and just distribution of resources.

Social protection needs to be optimised to cover the basic needs of those who are marginalised from society, while the social and economic integration of beneficiaries needs to be worked on through specific programmes and initiatives that focus on the societal reinstatement of the individual. More initiatives need to be adopted towards enabling more persons of retirement age to remain active in the labour market and in the community, without losing their pension.

A number of reforms to strengthen the social sector are further proposed:

#### **7.3.1.1 The Pension Reform**

In August 2008 the former Minister for Social Policy re-convened the Pensions Working Group with the brief to undertake the necessary preparatory work for the introduction of a Second Pillar and Third Pillar Pension, as proposed in the Final Report tabled in the House of Representatives in October 2005. The Pensions Working Group has to date worked as a coordinating body with different Government entities on the elements required for a Second and Third Pillar Pensions framework. The Pensions Working Group is expected to present its recommendations to the Minister for Education, Employment and the Family by the end of this year, subsequent to which Government will announce its decisions in this regard.

#### **7.3.1.2 Service Pensions**

It is being proposed that the measure to waive off part of the 'service pension' from the calculation of the social security pension be continued.

#### **7.3.1.3 Single Means Testing Mechanism**

In order to streamline eligibility to means-tested benefits and services across Government and to ensure that welfare benefits are not abused, Government

had appointed a working group; its objective was to make recommendations on a system aimed towards promoting transparency and ensuring that the general public is better informed about personal entitlement to all benefits and services, thus enhancing customer service while securing better regulation. This working group is in the final phases of its work, and hence it is proposed that the exercise regarding the single means testing mechanism be taken a step further with the preparation of the establishment of a Single Means Testing Unit. Its specific function would be to check on the veracity of claims made by people seeking means tested benefits or services from across Government.

This new unit would effectively rationalise all the means testing functions across different departments and provide for a controlled and professionally-developed system of means testing. Although different departments would retain their autonomy in deciding entitlement to services, they would all use the certification issued by the Means Testing Unit.

#### **7.3.1.4 Reform of the Non-contributory Disability Pension System**

Although it is acknowledged that this pension is essential for providing an income to severely disabled persons, some forms of disability are not provided for. Moreover, the disability pension is mainly concerned with providing financial assistance, rather than with promoting the independence of the beneficiary.

It is being proposed that this system be reviewed with the primary aim of providing a social benefit that would help a disabled person lead an independent life to the largest possible extent. This can be achieved by encouraging, where possible, more labour market participation. Where this is not possible, an adequate standard of living for such persons should be ensured.

Current entitlement criteria places too much emphasis on the medical condition itself rather than the functional impairments of the disabled person. Eligibility should be determined by a multidisciplinary team so as to ensure a comprehensive assessment of the disability and the resulting functional impairment, rather than focus solely on the medical perspective of disability.

#### **7.3.1.5 Strengthening Social Security Entitlements to Single Parents**

A number of key challenges for Malta are:

- addressing the dependency ratio by increasing the birth rate at a time when the population is ageing;
- attracting increased female labour force participation;
- providing affordable childcare for children of pre-school age;
- high rate of early school leavers; and
- low participation rates in upper secondary and tertiary education, and in continuous education, training and re-training.

At this point in time, with respect to welfare assistance payable to single mothers, Malta's focus should be on encouraging single parents to combine work with family life. However, our system may not be helping these persons sufficiently to encourage them to work or train themselves for suitable employment.



It is therefore being proposed that Malta's social security entitlements for single parents be reviewed and carefully analysed. This analysis should also keep in view the Maltese socio-economic realities.

For this purpose, an intra-ministerial working group shall be set up to carry out an in-depth analysis, primarily in terms of social changes, demographic projections and socio-economic and financial implications. Its objective would be to advise on the necessary changes to the current system.

**7.3.1.6 Pro-rata  
Contribution for Certain  
Categories of the  
Self-employed**

Social security provisions for the self-employed may be seen to exclude those persons working in limited, irregular and low-paid jobs such as domestic workers and carers, for whom the minimum national insurance payable may be seen as a deterrent.

Prior to 2007, any part-time employed person earning the National Minimum Wage was obliged to pay a minimum contribution of 10 per cent of the National Minimum Wage, even when the income from employment was less than this wage. In 2007 Government, acknowledging the importance of part-time employment in the emerging Maltese economy, decided to introduce the pro-rata contribution in respect of part-time employed persons earning less than the National Minimum Wage. Through this measure, part-time employed persons can pay a pro-rata contribution equivalent to 10 per cent of their actual basic earnings instead of the minimum contribution based on the National Minimum Wage.

It is being proposed that this pro-rata contribution system be extended to cover certain categories of self-employed persons such as students, who may carry out some self-employment activities during their studies, and pensioners.

In the 2007 reform of the Invalidity Pensions system, a positive measure was the introduction of a set of Impairment Tables which provides the country with a yardstick in the assessment of work-related incapacity. This reform has essentially provided for a more transparent and effective system of boarding out.

It is felt that, as a result of the positive experience gained through this reform, efforts in this area need to be improved in order to render the system more proactive, by early identification of cases of work-related incapacity. This would enable the provision of adequate assistance and advice to persons who are either seeking employment or are on long-sickness benefit entitlement, invalidity pension or disability pension.

This calls for setting up a process that would essentially help such beneficiaries re-integrate into the labour market according to their capacity and skills. This would require an adequate system of programmes, (benefits and training) which need to be designed to meet the needs of our labour market.

**7.3.1.7 Encourage the  
Care of Elderly People  
by their Families**

One of the main objectives of Government is to promote the care of older persons within their own family. Although the absolute majority of older persons would prefer to remain in their own home for as long as possible, most of them do not

want to exert pressure on their relatives. Similarly, notwithstanding the willingness of the family to care for its older members, there are instances when the family is unable to cope with the real needs of the elderly.

Against this background, it is important that we recognise the priority needs of older persons and provide benefits and services that render effective support to them while, at the same time, enable families to cope with informal care demands. An effective continuum of health and social care within the community should thus help to avert or delay the need for long-term institutional care. The main challenge lies in securing a proper balance between formal care and the informal assistance provided by the family.

From the inception of the Secretariat for the Care for the Elderly in 1987, Government's intention has always been to provide: (i) adequate services for older persons to maintain them for as long as possible within their own community; (ii) financial assistance under the Social Security Act to carers; (iii) geriatric rehabilitation services to restore older persons' maximum level of independence; and (iv) residential care for those older persons who, in spite of community and family support, still require long-term stay services.

Malta now needs to take stock of all the initiatives that have been embarked upon throughout the years, in order to consolidate its policies in the light of the current socio-economic challenges resulting from demographic transitions, changing lifestyles and the emergence of a range of needs of the elderly and their carers.

Therefore, during 2010, an intra-ministerial working group will be tasked with assessing the effectiveness of the current initiatives in order to make concrete proposals on measures that would ensure the continued effective support of the elderly within the family environment.

### **7.3.2 Active Inclusion**

Effective social policies require the inclusion of all members of society. Countries are therefore encouraged to guide young people to appreciate a culture of contributions to, rather than dependability on, the State. This calls for adequate schemes which help the young to participate actively in society by acquiring the competences and skills needed. The abilities of people must be matched with their skills in an attempt to maximise the resources of all members of society. It therefore follows that central to development is an investment in educational and employment institutions to achieve new skills and to match such skills with employment opportunities.

People who are unemployed should be assisted to re-integrate themselves into the labour market through temporary and subsidised work with the aim that, following the termination of such a scheme, the individual finds a regular job. At the same time, these individuals should be given the opportunity to further their education and training in order to be able to learn new skills.

However, the promotion of social participation and social inclusion should go further than the labour market. Effective instruments which should receive more

investment are rehabilitation programmes, therapeutic sessions, community projects, and social support mechanisms which help the individual re-integrate into the mainstream of society. Additionally, it is proposed that more is done to foster the participation of children, by creating programmes for those children who need care by giving them access to social and cultural activities and offering them support through several personalised initiatives. A coordinated approach on the part of professionals and government agencies would help to better identify problems from an early stage, and to address them in a holistic manner.

#### 7.4 Concluding Remarks

Social protection is a horizontal priority for all governments. Although its extent and characteristics vary across countries, the protection of individual members of society is central to all policies and plans of action. In fact, expenditure in social protection as a percentage of GDP constitutes 19.0 per cent for Malta. This does not include all the benefits which are provided to members of society in kind, which include education and health among others.

Adequate social protection and effective social inclusion are key elements for a truly sustainable and socially just society. Based on the important concept of the individual as a valuable asset to the welfare of society, national policies should acknowledge that the most effective way to deal with a crisis is to focus on the persons, and to provide them with the necessary means to be able to participate in all areas of society. Such means would include adequate services and accessibility to social services and social support mechanisms.



**Chapter Eight**  
Your health. We care

## The Health Sector

Government’s commitment to position Malta as a regional hub of medical excellence by the year 2015 continues to be a key determinant of our plans for public health and healthcare in Malta for the coming years. This will primarily be achieved through the provision of quality preventive and restorative health care services, where investment in health is viewed by Government as a generator of wealth and not a financial burden upon society, and where the placing of health at the centre of all public policy and initiatives is seen as our collective responsibility. Hence, the strategic objectives of enhancing access to care, promoting quality and safeguarding sustainability remain at the forefront of national health policy.

- 8.1 Challenges** Our health system is currently experiencing the following challenges:
- The effect of an ageing population;
  - The increasing gap between demand and supply for services;
  - Human resource and financial constraints; and
  - The need to ensure present and future sustainability of our healthcare system.

With regard to its ageing population, Malta is clearly demonstrating a similar, if not more pronounced, demographic trend in comparison with other Western and European countries. This phenomenon will shape and dictate the type and level of health services that are currently necessary in Malta, as well as those services that will be required over the next 30 years. It will continue to put pressure upon our already stretched healthcare system to provide a dignified and quality level of care for our elderly population.

Chart 8.1 clearly shows the ageing phenomenon in Malta.



While our services continue to expand and our activity continues to increase on a yearly basis, the rate of growth is still not enough to meet and curb the rising demand on our healthcare services, especially in certain key sectors such as specific acute care interventions, long-term care and community services. Immediate and medium-term strategies are required to successfully address this phenomenon.

These two scenarios imply a renewed demand on our resources, both human and other, yet the opposite is in fact the reality. While the Ministry has been provided with more finances to recruit more healthcare staff, it is proving increasingly difficult to recruit and retain staff. Recruitment drives have been put into place, both locally and abroad, and the next few months should prove decisive in this regard.

This state of affairs presents unique challenges to balance the books in the medium and long term. This can only be achieved through long-term and sometimes radical changes to the policies and procedures currently in place. The proposals outlined in this chapter will continue to build upon the work carried out in this area to ensure the future sustainability of our healthcare system.

## Proposals

### **8.2.1 Structural Changes to Align with Modern Needs**

The Ministry for Health is in a continuous quest to renew itself and reform its structures to be in a better position to carry out its vocation in the modern world. Many structural, administrative and legal changes have already been made. The year 2011 will see the development of these reforms, aimed at creating a more robust management structure and consolidating its financial and HR governance functions.

The main thrust in 2011 will focus on consolidating our financial and management accounting systems, in order to be able to manage our finances in a timely and accurate fashion. This will also include an overhaul of the methods by which the payroll is managed, with the introduction of robust, standardised protocols across the Ministry. Our HR function is also to be critically appraised, with the aim of sustaining and developing the largest workforce in Malta.

Further changes to the core Ministry Divisions will also take place, where these will continue to develop in carrying out their proper functions. The regulatory function will continue to be strengthened and be discrete from the central ministry, in order to retain its autonomy and credibility with all stakeholders. Service provision will continue to be devolved down to entity level to the largest possible extent, by starting the creation of specific agencies under the Public Administration Act. The Ministry will then develop its commissioning and purchasing function where it 'buys' and contracts out services to the public sector, as well as the private and NGO sectors. The core functions will be retained at Ministry level and these pertain to policy and strategy, entitlement and care package, EU and International Affairs, financial and HR management.

### 8.2.2 Preventive and Public Health Measures

Prevention and health education are the mainstays of public health action. These initiatives not only have an impact on the current and future health of the nation, but also contribute towards the sustainable development of healthcare. Several initiatives and programmes have been planned or are being developed, targeting mostly those diseases and conditions that are most prevalent and have the greatest morbidity and mortality burden in Malta.

Many health promotion and disease prevention initiatives have been successfully undertaken. These will continue to be strengthened through more focus upon health promotion and disease prevention in school curricula, by targeting children and young people and by using the results of the Health Interview Surveys and the future Health Examination Survey for the direct planning of health promotion activities.

A number of national public health strategies have been launched or are in the process of being finalised. The early part of 2010 has already seen the launch of the Non-Communicable Disease Strategy, which will serve as the cornerstone of many of our public health initiatives. Linked to this is the forthcoming Obesity Strategy; this will outline Malta's response to this national challenge which is characterised by epidemic proportions. For the first time in Malta, funds have already been allotted specifically to combat obesity, and it is expected that this will continue through sustained funding in the coming years. Government feels that investing in the prevention and cure of obesity does not only benefit the health of the nation, but would also improve the financial sustainability of the Maltese healthcare system.

The National Cancer Strategy is due to be launched in the coming months. The overarching aim is to step up the fight against cancer in order to achieve a reduction in the age standardised incidence and increases in the overall five-year survival. The major initiatives revolve around screening programmes, stepping up the anti-tobacco health promotion initiatives that will target young women, investment in new cancer diagnostic and treatment facilities and equipment such as in the initiation of the building of the new cancer facility. Other initiatives include: replacement of linear accelerator machines, the introduction of a PET scanner service, in collaboration with the private sector, and the eventual procurement of a PET scanner, and evaluation towards the introduction of modern chemotherapy agents in the government formulary list.

Another policy that is due to be launched is the long-awaited sexual health policy which will provide the main thrust towards the prevention and treatment of sexually-transmitted infections. This will additionally target issues related to sexual health in the areas of sexual healthcare, crisis interventions and research and monitoring. The policy will be supported by an action plan which outlines the actions required in each area.

The National Dementia Strategy is also being drafted and will be launched in 2011, given the increasing incidence and prevalence of dementia among our

elderly population, especially in the 75+ age group. This condition places a heavy burden upon both family and State since dementia sufferers require special attention and treatment.

### **8.2.3 Closing the Gap between Supply and Demand for Services**

The demand on the health service in general and on our acute hospital services in particular is a recognised reality. The demand upon Mater Dei Hospital and long-term care facilities has increased substantially over the past few years. Coupled with this greater demand are demographic realities, comprising the ageing population, increased longevity and greater expectations.

On the other hand, activity and service provision in general has been on the increase, with most departments and services registering a 10-15 per cent growth in activity each year. This impetus needs to be sustained and improved in order to prune our waiting lists and waiting times to an acceptable level. This objective is a priority for Government which will continue with its efforts to build on existing successes in tackling this sensitive and important issue.

The methodology employed by the Ministry in dealing with this phenomenon has been multi-pronged, by increasing the supply of its services, spreading demand more evenly across the health system spectrum, and curtailing overuse and abuse of the current system. This approach will be sustained and will continue to be strengthened in 2011.

In 2010, € 4 million was allocated for the first time to address the specific issue of waiting lists. An extensive three-year programme has been put in place with the agreement of all the clinical staff and unions. For the first time in many years, a downward trend in waiting lists across a few specialities has started to be observed. This attests to the commitment and efforts Government is undertaking to reach its objectives. This will continue in 2011.

In line with Government's electoral promise of cooperating and partnering with the private sector, and in its continuous drive to introduce innovative services in key areas, Government signed an agreement with a private service provider for the provision of PET scanning services for State patients. We are also exploring further cooperation with the private sector in treating pre-emergency patients who are not seriously ill. More PPPs may be explored for the provision of services to the elderly, especially as regards long-term care and for certain services in the community.

The new rehabilitation site at Karen Grech Hospital has been opened after an extensive refurbishment programme. This will increase our capacity to deal with the demand for acute services since it will free up acute beds earlier, thus increasing our throughput.

### **8.2.4 Primary Care and Community Services**

In early 2010, Government launched an extensive national consultation process as a first step towards a full reform in primary care. It is currently analysing all feedback and will present a renewed report following Government endorsement.



Government maintains its strong intention to develop this sector into a fully functioning and robust service for the general population. This is essential to meet tomorrow's demand and expectations, as well as to ensure the future sustainability of our health service.

Community services will continue to be strengthened. A pilot community-based project will be launched later this year and, if successful, will be extended to other areas. The services provided through Commcare will also be consolidated in line with the real needs of our clients in the community. Furthermore, the very successful sectorisation project in community mental health will be promulgated in other sectors up to the point of its firm establishment across Malta in the next few years.

**8.2.5 Capital Projects** Following the substantial investment in the construction and commissioning of Mater Dei Hospital, Government will continue to upgrade and invest in its infrastructure, in order to be in a position to meet the demands of the future and to ensure that the best quality healthcare will continue to be given to the population.

One of the major projects that Government has embarked on is the construction of the new Oncology (Cancer) Centre in the grounds of Mater Dei Hospital. This state-of-the-art facility will transport Malta into the 21st Century as regards the treatment of cancer patients. New innovative treatment modalities will be introduced, requiring a major investment in new equipment. There is also a robust Human Resource development plan which is inclusive of training in Malta and abroad. Apart from the training component, this centre is to cost over €50 million and is to be part-financed by the European Union.

Rehabilitation of patients remains a cornerstone of the spectrum of care provided to patients requiring hospitalisation. Following investment in Karen Grech Hospital as a temporary site for rehabilitation, Government is proposing the construction of a new rehabilitation centre comprising all disciplines.

Malta requires a new Blood and Tissue/Cells Bank. For the present, a site near Mount Carmel Hospital in Attard has been earmarked for the purpose.

As part of its commitment to reform the primary healthcare sector, Government is planning an ambitious programme for the refurbishment of existing health centres or, where necessary, the construction of completely new centres. These will be based upon the concept launched in the consultation process of the reform, relating to three to four regional hubs, as well as smaller satellite health centres. To this end, Government is already exploring the possibility of replacing the Gzira Health Centre in the coming years. Furthermore, plans are in hand for the refurbishment of the Mosta and Rabat Health Centres. There is also scope for developing a new site in Paola.

**8.2.6 E-Health** In line with its strategy to connect all primary care providers and enable the flow of medical information through electronic means between the primary

and secondary care sectors, Government is planning to extend the current IT modalities (X-Rays and Laboratory results) to all family doctors who wish to participate in this network. This will subsequently pave the way for further communication possibilities, such as online ordering and e-prescribing.

The second phase of the national Health Information System should also be effected over the next few years.

### **8.2.7 Long-Term Sustainability and Affordability – An Investment in Health and Wealth**

Investing in the health of our population is now being viewed as an investment in wealth and productivity, leading to improved socio-economic conditions and sustainable growth. This reasoning underpins Government's continuous investment in healthcare this past decade, a strategy that includes the improvement and expansion of preventive and curative services. However, there is also the realisation that the increasing demands associated with acute and long-term care, in terms of the increase in the number of persons requiring care as well as of the demand for more expensive new medicines and technologies, require a modern system that ensures a consistent and adequate funding stream for existing and new initiatives. Furthermore, the fiscal impact of ageing is projected to be substantial in Malta, similar to almost all EU Member States. This is already becoming apparent and will be even more so in the course of the next decade.

In order to contain public expenditure in times of economic recession and drastic fiscal measures, policy initiatives that reduce morbidity and premature mortality, shift care from expensive acute settings to community and rehabilitative settings, and consolidate our entitlement and financial policies, are being put in place to cushion the effects of tightening budgets.

Government intends to create the necessary legal and administrative framework that provides clarity for all current and prospective residents with regard to their healthcare coverage and entitlement benefits. Government is taking steps to provide clear information about patients' rights and entitlement to cross-border care, after political consensus for a new European Directive on cross-border care has been reached at the Council of Ministers. There is also the need to provide clarity for all beneficiaries on the package of healthcare services that one is entitled to under the statutory healthcare system. Work on the cataloguing of all existent services being provided is complete, and will form the basis for Malta's healthcare package.

A modern, transparent and sustainable system to regulate entitlement to medicines under the statutory health system is also necessary. Such a system would take into account the advances in medicine and therapeutics that nowadays make it possible to treat illnesses that were untreatable in the past, and would widen the scope of the medicines entitlement scheme. The system has to ensure that the high-cost new medicines that are not affordable for individuals and families can be covered through the public health mechanism. This will be achieved through a thorough review of the Government formulary for medicines.

In carrying out this formulary renewal exercise, Government will be guided by the principles of both necessity and effectiveness of treatment and affordability, in determining whether the treatment should form part of the statutory system, and the level of coverage to be given.

In the area of medicines, Government will also be exploring innovative methods for procurement, storage and distribution of medicines, especially after the continued roll-out of the Pharmacy-of-your-Choice Scheme throughout Malta and Gozo. This will be linked to a pricing policy for all new and possibly existing medicines that are included under the statutory entitlement scheme. This reference price, together with new systems for price negotiation, will contribute to keep upward expenditure on medicines under control, with Government working in full partnership with stakeholders.

Finally, the introduction of new services and technologies is undergoing mini Health Technology Assessments based on findings from the literature from other countries and on clear scientific evidence and cost-benefit considerations. This shows that, even in economically difficult times, Government is still highly committed to the further development of the health system. It has however introduced stringent procedures to ensure that the services introduced are sustainable, feasible and effective both from the operative and the cost point of view.

**8.3 Conclusion** The next budget will flag the path to be taken in the development of Malta's next National Reform Programme, where health and long-term care will be prominent features of Malta's planned development for the next few years. The health system is undergoing continual innovation and improvements, bringing about change in a discreet yet definite way. Government is a leader in bringing about improvements and change, and will continue to work with stakeholders in order to ensure that patients get the service they truly deserve.



**Chapter Nine**  
Creativity works

### 9.1 Background

Creativity is a shared experience among those who manifest it and those who experience it. It is a process which celebrates our cultural identity and which provides an extensive platform for innovation and change. It can excite, challenge, entertain, shock and enlighten, but it can also employ and generate wealth. It is intrinsically an industry that capitalises on intellectual property and which has its origin in individual creativity, talent and skill.

Creativity is ultimately a source of prosperity in both economic and social terms. Creativity can increase our standard of living, regenerate our towns and villages, enhance our environment, explore our educational needs, improve our health, generate tourism, promote our country on the world stage and attract new investments. It is for all these reasons that creativity works.

Ultimately, it can offer young, ambitious and creative individuals more jobs and opportunities in one of the fastest growing industries in Europe. The knowledge-based economy relies on creative individuals to be its prime source for economic, technological and artistic innovation.

Malta is indeed a talented nation. From advertising to architecture, graphic design to fashion, crafts to the performing arts and from the film servicing industry to published literary works, thousands of individuals are capitalising on their ideas and skills to produce a variety of creative experiences, goods and services. Creative workers are at the heart of the cultural and creative industries, yet they require the right economic, social and cultural environment to thrive and develop.

Talent itself is a great asset; however, we must go beyond that to develop a sustainable sector. Our future creative entrepreneurs need the necessary educational structures, legal systems and investments to professionalise their sectors. The current limitations of the local creative scene, often leading to a brain drain of young creative talent, need to be transformed into new opportunities for access to local and international markets.

Government surely cannot take on the role of a creative worker but, through strategies, investment and initiatives, Government is committed to championing the creative economy.

The Maltese economy increasingly depends on its ability to diversify its economy towards high value-added industries that can generate a higher rate of return than other industries. The Culture and Creative Industries (CCIs) offer great opportunities in this respect. However, this requires a shift to quality in order to obtain the highest possible value-added from the CCIs.

Economic indicators reveal that the cultural and creative industries (CCI) in Malta contribute to around 4% of GDP with an annual growth of almost 3% between 2001 and 2007. Around 4000 enterprises are operating in these sectors with 4% of the labour force, equivalent to 7000 individuals, registered as professionals in the CCIs.

All data presented in this section is derived from the first comprehensive study of creative industries that is being carried out in Malta. The mapping of this sector through statistical data is still an ongoing process and the figures should be treated with caution and considered as indicative only at this stage. Statistical data is being compiled and new indicators emerging, with partial analysis of the sector being possible up till now. However the positive indicators which have emerged do give scope for further investigation in the strategic development of the sector as part of Vision 2015.

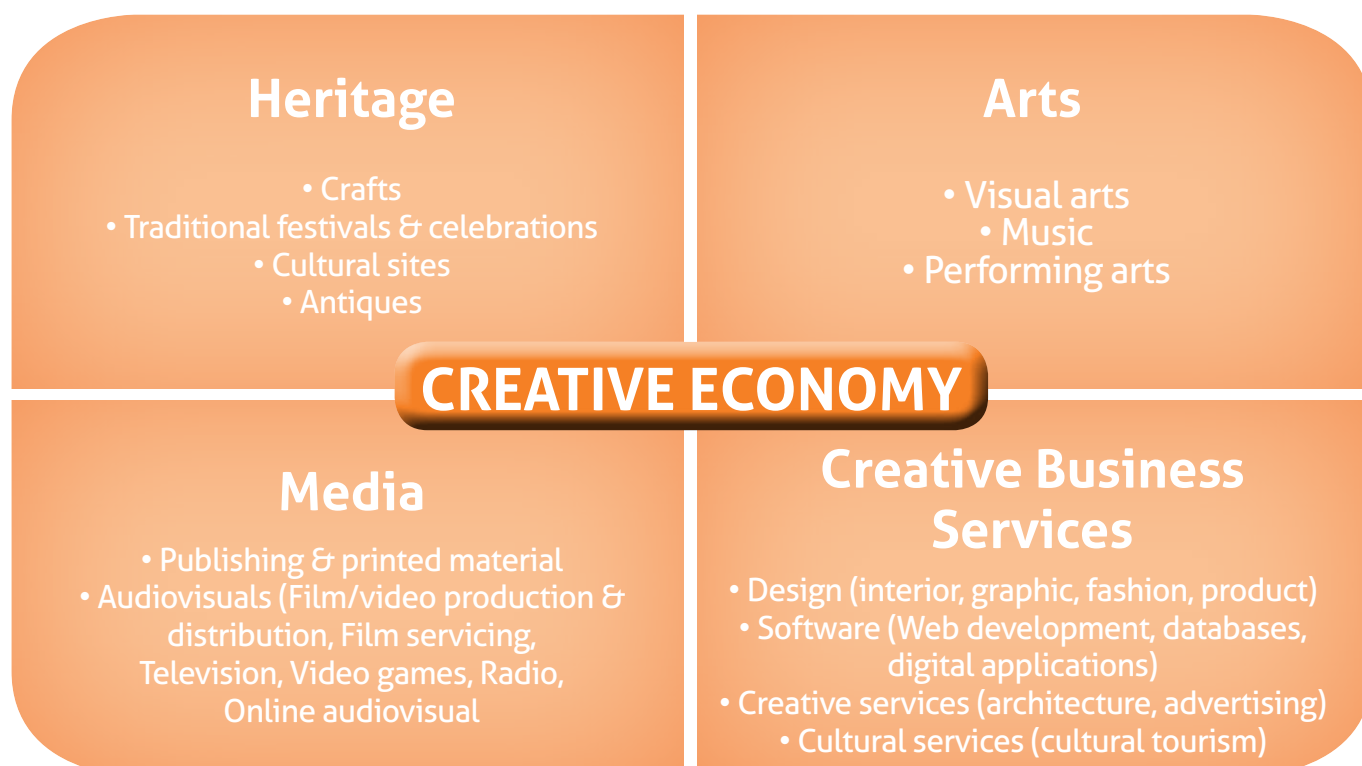
## 9.2 Creative Malta Strategy

In January 2010, the Ministry of Finance, the Economy and Investment established a working group to conduct extensive research on the Cultural and Creative Industries in Malta, with the remit of developing a strategy for the creative economy.

Creative workers and cultural assets are the heart of the CCIs. Through talent, skill, entrepreneurship and IPR, the creative worker can generate new jobs and companies and can also help mature industries re-tool for the future.

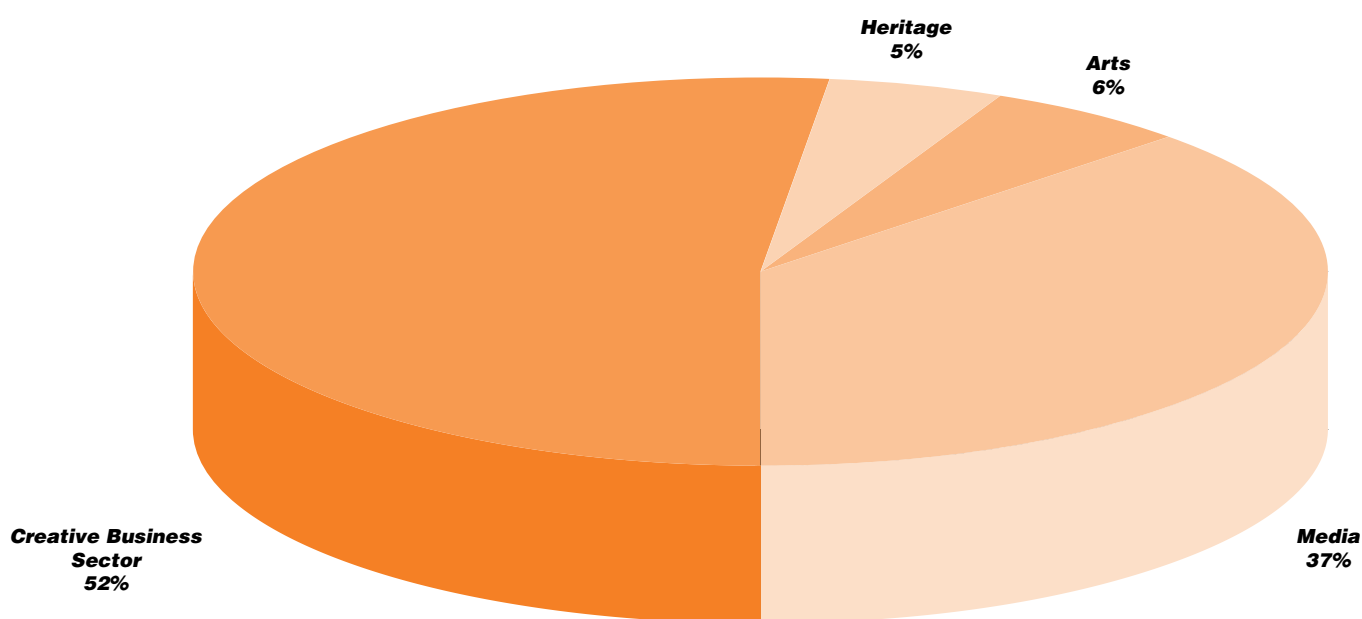
The working group defines the creative economy as a set of knowledge-based economic activities (creativity and intellectual capital) that encompass the cycles of creation, production and distribution of creative goods and services and which have the potential to generate economic growth, employment and development (social and cultural).

The pillars of the creative economy are the Cultural and Creative Industries: Heritage (crafts, antiques, cultural sites, traditional festivals and celebrations); Arts (visual arts, music and performing arts); Media (publishing and audiovisuals); and Creative business Services (design, software, architecture, advertising and cultural services).



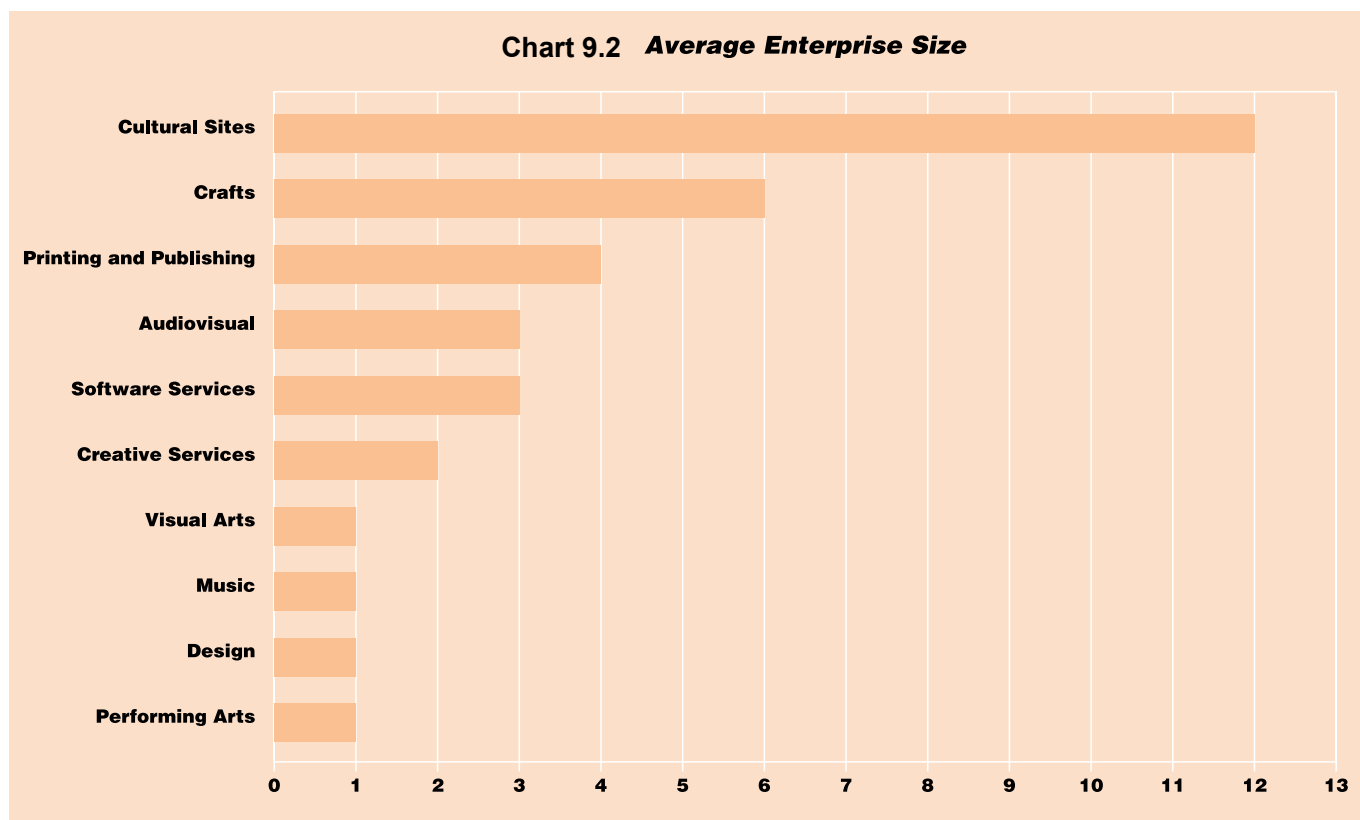
The Culture and Creative industry is primarily made up of the creative business services sector, which accounts for more than half of the whole industry. This reflects the importance to the Maltese economy of the sub-sectors within the creative business services throughout the years since 2005. The media sector also has a significant share of around 37 per cent. The remainder includes a 5 per cent share of the Heritage sector and a 6 per cent share of the Arts sector\*.

Chart 9.1 **Composition of the Core Cultural and Creative Economy (shares of Value Added in the Core CCI)**



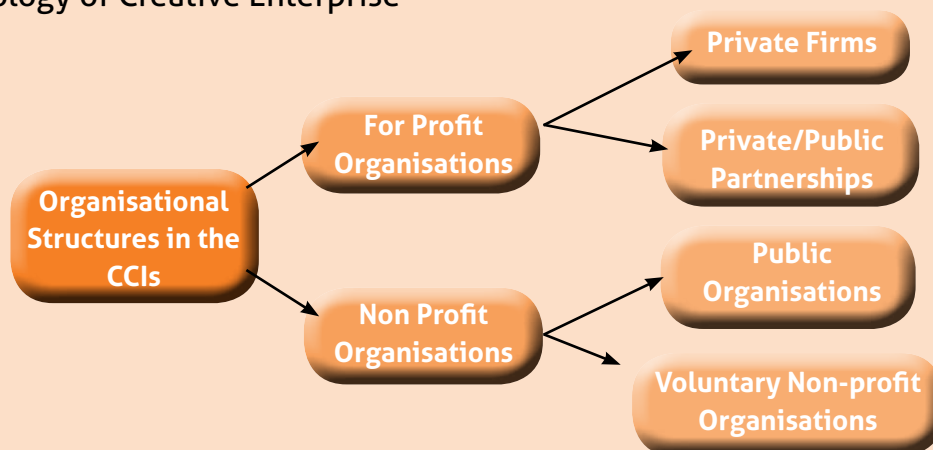
As illustrated in Chart 9.2, in the Maltese scenario most enterprises operating in this sector are SMEs, typically micro enterprises. This is similar to employment trends in other European countries which indicate that 70-80 per cent of all CCI businesses in Europe operate on an individual basis or share their activities with no more than one person. The entrepreneurial individual no longer fits into previously typical patterns of full-time professions. Creative entrepreneurs are far more likely to hold non-conventional forms of employment such as freelance work, short-term contracts and commissions, than the workforce in general. In the CCIs, full-time workers receiving regular pay are in a minority, whereas multiple-job holding is normal.

\*Data is provisional



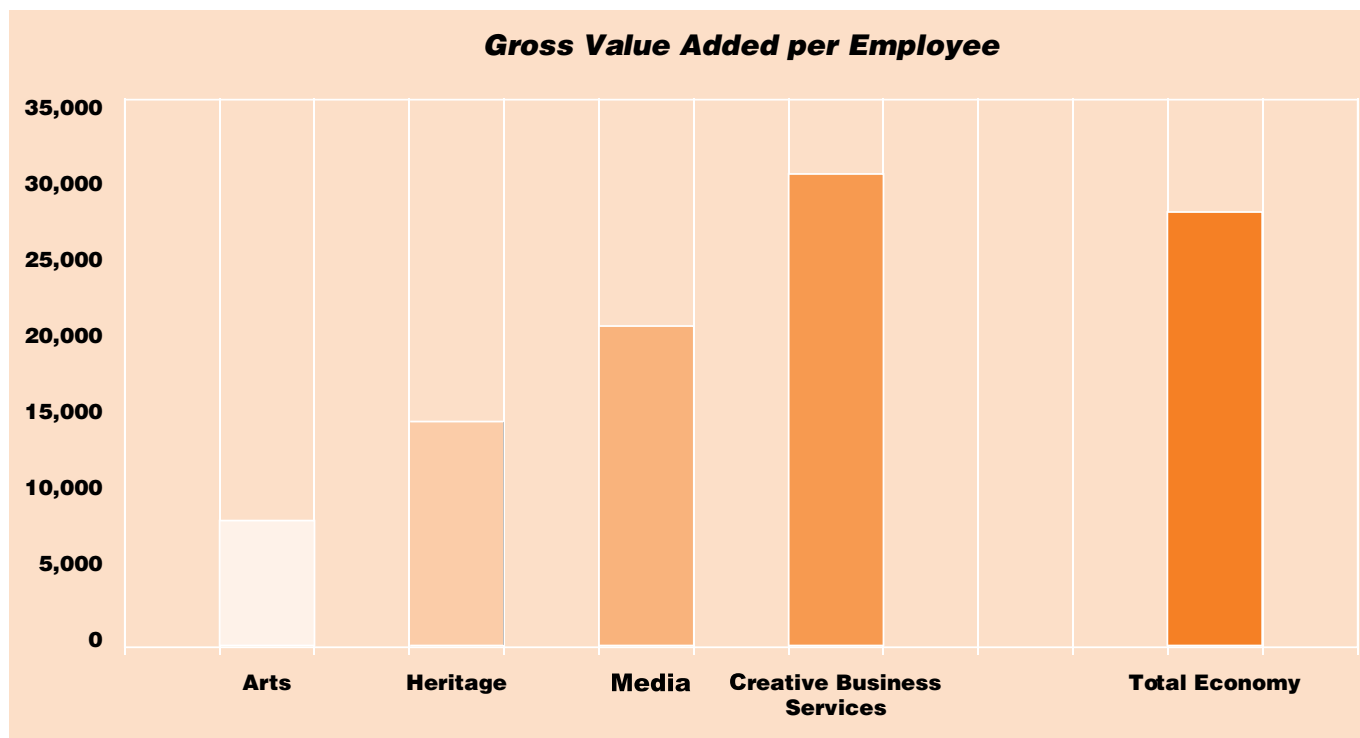
Based on the nature of their activities, creative enterprises operate within profit or non-profit structures. These can be further sub-divided into four main types of organisational structures: private- for-profit firms, private/public partnerships, public organisations and voluntary non-profit organisations, as shown in Chart 9.3. Enterprises in heritage, arts, media and creative business services fluctuate in the balance between profit and non-profit structures. In developing the appropriate strategy for the route to market for this non-homogeneous industry, it is of the utmost importance to take into account the different needs of the four different types of organisational structures, since all of these contribute to the value-added of a healthy, creative ecosystem.

**Chart 9.3 Typology of Creative Enterprise**





An interesting comparison of the value-added generated by each individual (a proxy measure for labour productivity) working in the CCIs in 2007 is provided in Chart 9.4\*. This could be indicative of the organisational structure likely to be prevalent in the different sectors, with low-productivity sectors typically associated with non-profit organisations.



In level terms, the creative business services constitute the best performer, surpassing the average productivity level generated in the Maltese economy by more than 8 per cent in 2007. This performance is totally related to the high productivity measured in the software services. The media sector is the second-best performer, although productivity in 2007 was 30 per cent less than the average of the economy. These two sectors have the potential to generate profits and can therefore function as private organisations. Where public intervention is necessary to achieve public policy objectives, this need not be at the expense of private initiative.

Productivity in the arts and heritage sector is much lower than the average of the economy. This is likely to be partly a reflection of the part-time nature of the work undertaken in these industries. Unfortunately, the data do not yet allow us to evaluate the extent to which the low productivity levels of this sector can be attributed to part-time employment, since employment statistics available do not distinguish between hours worked. This is especially relevant in the arts sector. On the other hand, the performance in the heritage sector is probably less related to the part-time issue. Nevertheless, the labour productivity generated is very low. This is indicative of the organisational structures which are likely to be prevalent in these two sectors, i.e., public or voluntary non-profit organisation. This does not exclude the potential for more private-sector involvement in these

\*Data is provisional

sectors to generate more profits and to operate in a more cost efficient manner. However, the strong element of 'public goods' and 'positive externalities' characteristic of these two sectors means that the profit motive should not be an end in itself.

In close collaboration with a consultative body, four expert groups and eight think-tanks, the creative economy working group is currently designing a bold strategy based on four strategic paths:

1. Shaping talent into professions
2. Assisting creative businesses to find route to market
3. Promoting Malta as a hub of creative activity
4. Championing the sector through cohesive governance structures.

### 9.2.1 Shaping Talent into Professions

Production in the CCIs is often considered as labour intensive. The creation process which involves the generation of new ideas and the execution of the idea into a tangible good or service is often the product of labour. In view of the centrality of labour to the creation process, human resource development is central to the production process in these industries. Therefore, education and training are important to ensure that there are enough resources to meet the growing demand in this industry. Moreover, a quality-driven sector obtains the maximum value-added from the CCIs. This in turn requires investment in the quality of the human resource input and an emphasis on professionalisation in the sector.

During the past decade, Malta has invested heavily in educational infrastructure. A parallel effort was, and continues to be made, in reviewing the operations and quality deliverables by schools, mainly effected through the setting-up of school networks, or colleges, and the review of the National Minimum Curriculum, amongst other areas. Additional developments in the tertiary sector have also contributed to the provision of a wider range of opportunities for students to train and specialise. All these initiatives lie at the foundation of Malta's vision for establishing a vibrant creative economy. The Creative Economy Working Group, building on what the Draft National Culture Policy already states, and echoing the emphasis on investment in human capital made in the Vision 2015 Market Assessment Report, is stressing the need for continued and more focused efforts in bringing the educational sector to respond more effectively to the needs of the creative economy. Excellence in the final creative product should be the key success criterion of educational institutions, as the opportunities provided to students shall feed back to Maltese society and the international community through future audiences, creative workers, volunteers, donors and investors.

Since 2000, Malta has seen very high growth rates in the completion of both secondary (+8.4 per cent) and tertiary education (+7.4 per cent)<sup>1</sup>. The student population at the Institute for Art and Design (MCAST) has increased from 178 in 2001 to 562 in 2009-2010, covering 34 different courses. Publicly-funded LifeLong Learning institutions that provide training in the arts, crafts, drama

<sup>1</sup><http://vision2015.gov.mt/library/vision-2015-and-beyond-a-path-to-a-knowledge-based-economy-report-2>

and music had 3,413 students registered during 2008-2009. An indicator of the commitment by the private sector to arts education is shown by the fact that 4,279 students were registered with dance schools (NSO, 2008). The Creative Economy Working Group is collaborating with the education and statistics authorities to gather additional data relative to the completion rates and levels of qualification in the fields leading to professions in the creative industries.

Malta needs to ensure that, while progress is being made in the educational field in general, the requirements for the formation of a creative workforce are matched by renewed efforts to provide excellence and quality in creative educational provision, from pre-school to university. A national collaborative effort is being spearheaded by the Creative Economy Working Group, bringing together contributors and stakeholders from the various fields of education in order to ensure that the nurturing of a creative workforce is addressed holistically and in response to the needs of the sector. The key contributors and stakeholders are the Ministry responsible for Education, the Colleges, the non-governmental teaching institutions, MCAST, the University of Malta, other tertiary education institutions, and the Lifelong Learning entities dedicated to culture and the arts.

Students should find within their educational environment opportunities to investigate and expose themselves to the creative ecosystem which creative operators and industries function in. Dynamism, technology and human creativity, the recognition and refinement of talent, and the tools and opportunities to develop further and contribute significantly to an open, competitive and international milieu, are all an integral part of this ecosystem. Effort is being directed towards strengthening the synergies within the relevant academic curricula among creativity, technology and business. Investing in the creative disciplines needs to be coupled with training in entrepreneurship, in order to provide the necessary enabling tools to future contributors to the creative economy.

Growth in the creative sector is directly linked to the quality offer in professional training. Government is committed to ensuring that the different service providers coordinate their efforts in arts training (visual arts, performing arts, creative writing, digital arts); heritage (cultural heritage management, conservation and restoration); film and audiovisual development and production, including video games; and the creative business services.

The development of film requires a coordinated approach, bringing together the University of Malta, MCAST's Art and Design Institute, existing and new private training providers, and the Malta Film Commission. The need for a strategic educational framework for audiovisuals is already enshrined in the current Malta Film Commission Act. This now needs to be implemented concretely, keeping in mind the important inputs that the Public Broadcasting Services can provide in the development of this sector.

In terms of the Performing Arts, a holistic approach bolstered by the necessary human resources will combine investments in primary and secondary schools,

following the launch of the reviewed National Minimum Curriculum. The experience gained by children at school shall be complemented and followed up by specialised courses at the Drama Centres in Malta and Gozo, and the University. Coordination with the privately-run training providers in theatre, dance and music shall ensure a full range of options which must nevertheless be quality assured and academically certified. The role of an accreditation structure in this field is urgently required to ensure quality levels are maintained, while an evaluation of the full range of training options available on the market needs to feed into the plans for devising publicly-run training facilities in these disciplines.

Government is committed to build on the successes achieved by MCAST in academic and practice-based education in the arts, design and digital media. The joint or collaborative training programmes which can be developed among these fields and other technical and artistic disciplines shall complement investments in incubation centres that provide openings for promising creative individuals during their initial entrepreneurial sorties. International good practices in maintaining such incubation centres within physical and institutional range of the relevant academies are being explored, and the creation of such clusters shall be implemented within the context of the drive towards culture-led regeneration. In this context also, the elaboration of crafts and design clusters is also being investigated.

The task of professionalising the creative sector requires equal commitment by both Government and the CCIs. The formation of professionals' or practitioners' associations is a critical first step towards the full recognition of these professions. Such associations are a reference point for new entrants in the various disciplines, and provide opportunities for continuous professional development, the establishment of occupational standards, an occasion for international networking and affiliations, and the formation of national lobbying and consultation platforms. This evolution in the structural make-up of civil society shall be supported by Government through work towards defining industry-recommended criteria that establish the professional status of the various relevant categories. Art historians, curators, restorers and conservators, as well as professionals in the creative business services such as design and advertising, are among these categories. This work shall be carried out in parallel with the streamlining of procedures that facilitate the public and official recognition of cultural workers by the employment, social security and fiscal institutions within Government.

### **9.2.2 Assisting Creative Businesses to find Route to Market**

Creative entrepreneurs are the drivers to and key assets of the future creative economy in Malta. However, entrepreneurs in the cultural and creative sector require specific attention within the economic fabric of the Maltese society, due to the specific characteristics of the CCIs.

Gross value-added in the CCIs during 2005-2007 increased at an annual average growth of 3 per cent\*. This is slightly less than the 3.8 per cent annual average growth in gross value-added in all sectors of the economy over the same period. The growth in gross value-added over this period has been relatively volatile.

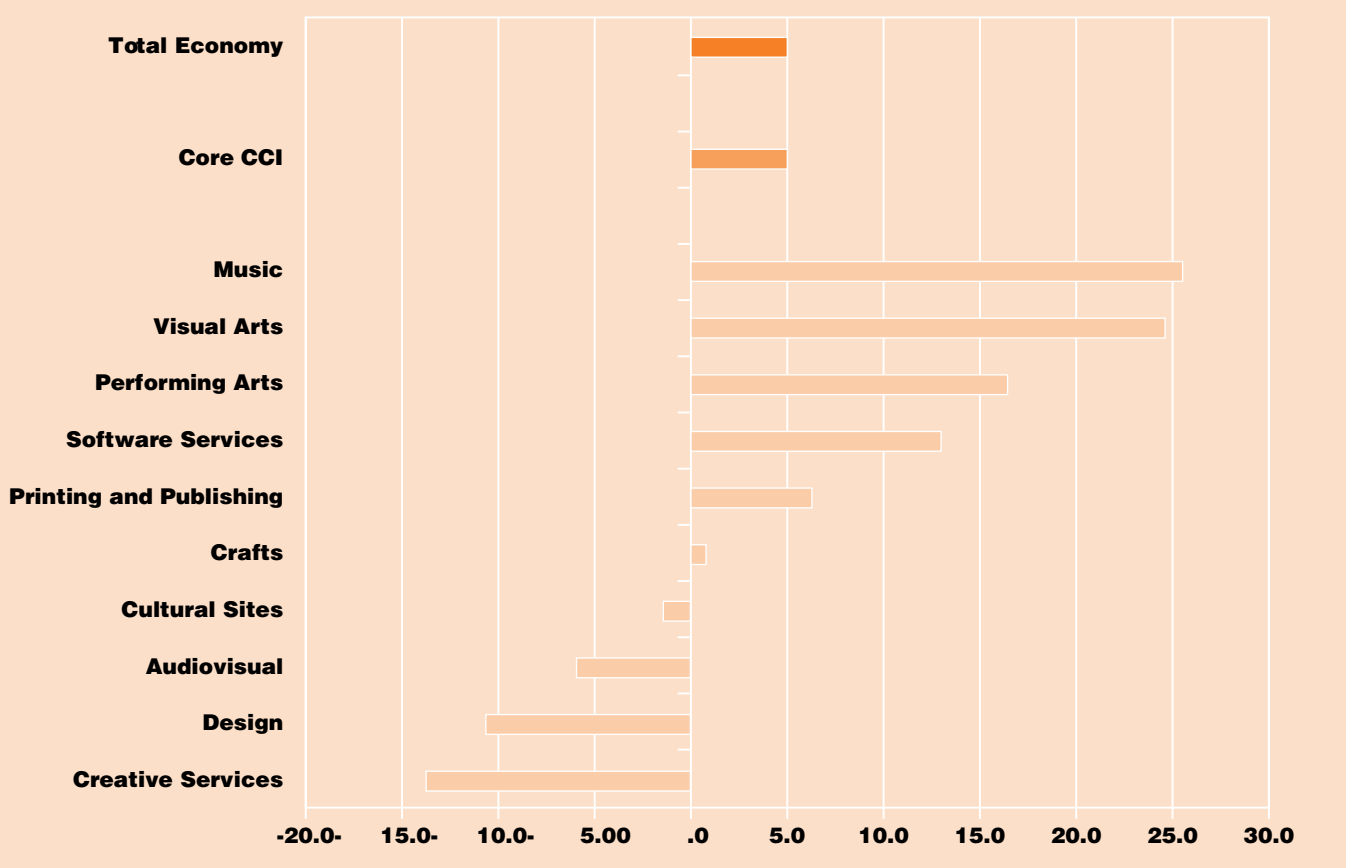
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\*Data is provisional

The productivity of the CCIs can be measured through gross value-added generated by each employee<sup>1</sup>. The annual average growth rate of productivity in the years between 2005 and 2007 in the CCIs stood at 5.3 per cent, in line with the annual average growth in productivity of the total Maltese economy.

The best performers during this period appear to be music, visual arts, performing arts and IT services, which registered annual average growth in excess of 10 per cent. The printing and publishing industry performance was also commendable at an annual average growth rate of more than 6 per cent per annum. the productivity in the craft sector has grown at a relatively low rate. At the other end of the scale, one finds creative services, design, audiovisual and cultural sites sector.

**Chart 9.5 Average Annual Growth in Gross Value Added per Employee (2005/07)**



Whilst labour productivity in the arts and heritage sector is very low compared to the average in the Maltese economy, this does not preclude the possibility that a better performance is possible in the arts and heritage sub-sectors. Indeed, the spectacular growth in the arts sector is already an indication of the growth potential that exists. Although productivity performance in the heritage sector was lacking between 2005 and 2007, it is worth noting that in 2004 it managed to produce almost EUR 17,000 per person employed\*. This in itself suggests that there is a potential for recovery in this sector.

<sup>1</sup>The employment figures used are from Structural Business Statistics (NSO) and include full-time and part-time employment. As the data did not allow a distinction to be made between full-time and part-time employment, figures should be treated with caution and interpretation of the figures needs to account for this deficiency.

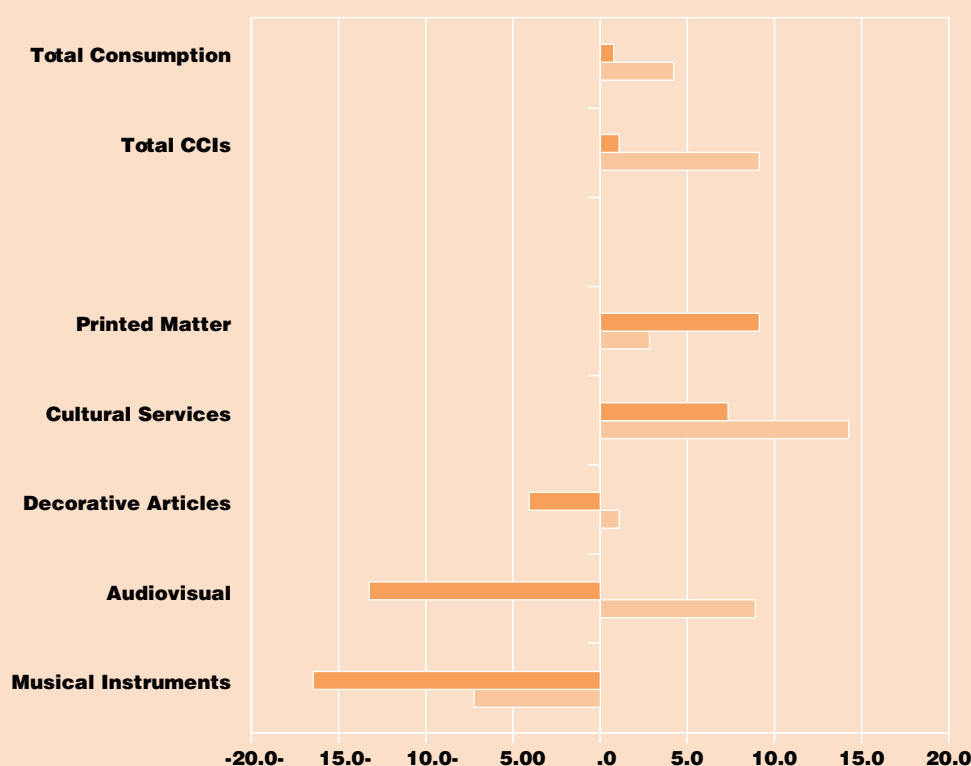
\*Data is provisional

The decline in productivity in the media sector is also worth investigating further. This is entirely due to the audiovisual sector, which used to generate around EUR 17,000 per person employed before 2004\*. By 2007 this had declined to less than EUR 12,000 per person employed.

Observing patterns of consumption in the domestic market may provide indications of the demand side of this industry and its potential. The share of consumption in the culture and creative industry in total household consumption has increased gradually throughout the five years to 2008, reaching 7.4 per cent from 6.1 per cent in 2004. This is indicative of the domestic demand potential of the industry. Further indications suggest that in the first half of 2009, the share of consumption in the culture and creative sector continued to grow over the comparative period in 2007 and 2008. This could be indicative of the resilience of demand for the industry during the economic recession of 2009.

Between 2005 and 2008, demand in the domestic market has increased by an estimated annual average rate of 9 per cent in real terms. This is a further indication of the potential growth of demand for the sector. The fastest-growing sectors during this period were the cultural services and audiovisual equipment. Demand for printed matter (books, newspapers and magazines) has been growing in real terms by almost 3 per cent per annum between 2005 and 2008, while demand for glassware increased by around 1 per cent per annum in real terms. On the other hand, the demand for musical instruments declined by around 7 per cent per annum in real terms during this period.

**Chart 9.6 Average Annual Growth in Private Consumption of CCI Goods and Services**



\*Data is provisional

During the 2009 recession, figures for the first half of the year suggest that cultural services and books, newspapers and magazines proved to be the more resilient. Significant declines in demand were observed for musical instruments and audiovisual equipment. Demand for glassware also declined in the first half of 2009.

An important distinguishing feature related to the demand for the arts and culture sector within the CCIs is that this is often an acquired demand. The appreciation for arts and culture is strongly linked to education not just from a production perspective, but also from a demand perspective. Economic literature supported by empirical evidence suggests that exposure to arts and culture and education is an important determinant of demand for arts and culture goods and services. This is probably the main feature which indicates the likely evolution of this market: the more educated and exposed society is to arts and culture, the greater the market for arts and culture goods and services, and the greater the potential for high value-added generation.

An equally important aspect in the quest for higher productivity is the improvement in the quality of the final product. The better the quality of a creative good or service and the higher its prestige, the stronger the ability of the creative industry to fetch a better price and therefore generate high value-added. Thus the drive towards quality and professionalisation of the sector is also important in assisting creative businesses to find their route to market.

This economic analysis highlights the importance of this strategic path to address the barriers that are currently hindering creative businesses in finding their route to market. We will address this through the development of creative clusters and mechanisms for access to finance.

#### 9.2.2.1 Creative Clusters

The strategy will address the development of creative clusters as zones for creative entrepreneurs. Creative clusters are physical spaces for creative entrepreneurs, non-profit enterprises and cultural institutions which, together with other businesses, higher education institutions and through technological infrastructures, create a vibrant and creative ecosystem across various sectors of the CCIs. Clusters are spaces with distinctive identities that thrive on multi-cultural urban settings, and which generate the necessary buzz for contemporary creation and social interaction. Ultimately, people want to live in cities which are exciting and active, and which thrive on difference. Numerous cities have regenerated through the creative industries and such spaces are well known to transform zones into vibrant, creative, culturally rich, entrepreneurial and technologically savvy communities.

It is only when creative ideas, people and activities inhabit newly-restored buildings, abandoned industrial zones or newly-built high-tech centres, can urban regeneration be meaningful to its community.

Following these principles, creative clusters will be identified and developed strategically to reflect the potential strength of these sectors, but also to

address the urgent need for incubation spaces and studios for young creative entrepreneurs. Such spaces often serve as ideal platforms for young graduates from various creative sectors to enter the business world through the provision of space, support and training programmes focusing on creative excellence and entrepreneurship. The success of these clusters is highly dependent on the entrepreneurial commitment of the cluster community which has to be nurtured as part of the start-up process. Clusters also provide children and young people with an active environment that inspires their future career and a hands-on experience in creative entrepreneurship.

In addition, creative clusters bring together a number of creative entrepreneurs from a variety of creative sectors. This cross fertilisation of creative work leads to stronger cooperation, creative entrepreneurship and creative development. For example, innovative Maltese products can only develop within an ecosystem where craftsmen and designers can co-exist. Similarly, the development of digital games requires a balanced contribution from software developers and film makers.

Such clusters also serve as spaces of exchange. From retail spaces, to showcasing and networking opportunities, creative clusters offer a physical space for economic transactions, cultural exchange and encounter. They also facilitate access to international markets through shared expertise, research and development. As the leading export potential of CCIs, tourism can be a major contributor to the transformation of creative clusters into zones of direct economic activity and assets to the tourism product.

Creative clusters thrive on the strong research base created through links with universities, businesses and policy makers. Research in creative clusters can manifest itself on three levels:

- Policy research – the concentration of creative enterprises in creative clusters facilitates a micro-environment for policy research through data gathering and analysis, leading to future creative industry strategies.
- Creative research – Research and development in the creative industries is the only way forward for creative enterprise. With creative research as the kudos of the clusters, the industry can ensure sustainable development and higher value added.
- Academic research – As a relatively new industry, the creative sectors rely on quantitative and qualitative research methods that monitor its development and that can assist creative clusters to re-shape in the future. In addition, clusters facilitate strong relationships with higher education institutions in developing new effective training programmes that transform talent into jobs.

Within specific sectors such as crafts, creative clusters also facilitate ethnographic research and knowledge transfer.



### 9.2.2.2 Access to Finance

Access to finance for the CCIs is a major obstacle for creative entrepreneurs and a major challenge for our developing sector. In itself, this is a source of market failure which leads to underinvestment in the sector, below the optimal levels required by the economy. It is also a constraint which often afflicts SME's and micro enterprises which are prevalent in the CCI's in Malta and abroad.

Although generic investment schemes may offer financing to creative entrepreneurs, the specific conditions of the creative worker as explained above and the emerging financing models in Europe, express the need for specialised financial mechanisms and guarantees, micro loans and venture capital funds.

The initiatives launched in past years reflect government's ambitious vision to affirm through concrete action its incentives towards these sectors. New measures included the reduction of VAT to 5 per cent on entrance tickets for museums, art exhibitions, concerts and theatres, whereas all accredited arts training is now exempt from VAT. Measures are also in place for companies that sponsor heritage and the arts, or that offer scholarships to Maltese artists, to deduct these grants from their taxable income. The successful Malta Arts Fund launched last year is providing a structured and professional funding programme to artists and arts organisations, whereas the Malta Film Fund was launched to address the development of the Maltese film industry.

The creative economy strategy will address the professional needs of creative workers through an appropriate legal framework that offers recognition, status and accreditation to professionals in the cultural and creative sectors and, where necessary, improving social security measures and taxation.

As part of the extensive mapping exercise, the Creative Economy Working Group is assessing the success rate of fiscal incentives for the sector which were announced in previous budgets. The working group is also following up measures which require further legal clarifications and is reviewing the processes of direct government funding.

Specific strategies for funding programmes and investment schemes must reflect the operational business models of the various types of organisations that operate within the CCIs.

At one end it is possible to find sub-sectors where the profit-making capacity is severely constrained. As a result, in the absence of public intervention either through voluntary donations or direct public investment, the sector cannot survive. Therefore, at one end of the organisational spectrum, one finds voluntary non-profit organisations or public entities operating. Market imperfections justify investment in these sectors even if they are not viable from the narrow viewpoint of a private-for-profit organisation's interests. It is worth emphasising that the survival of such organisations can be justified from an economic point of view, even in the absence of a profit-generating capacity.

This creates various pressures because, in the absence of the profit motive and competition, the ability of these industries to reach high quality and efficiency levels can be difficult to attain. In itself this could undermine overall economic efficiency, lead to increased reliance on subsidies and could thus act as a drag on other sectors of the economy. Therefore, a delicate balance is required. Public intervention is needed to ensure overall economic efficiency. However, it is necessary to recognise that public intervention could distort the incentive structure and could jeopardise the attainment of quality and efficiency objectives. Therefore, setting up the right governance infrastructure is essential to attaining the objectives of quality and economic efficiency.

At the other end of the organisational spectrum, one finds sectors where the profit motive can easily be married to public policy objectives as well as the wider economic efficiency objective. In these sectors, intervention to improve access to finance can be less direct and could involve the improvement of information related to the sector, the standardisation and regulation of the sector, and the enforcement of property rights, particularly in the area of intellectual property. All this can help the creative economy to improve its access to finance and ensure optimal investment levels from an economic point of view.

### 9.2.3 Promoting Malta as a Hub of Creative Activity

Malta has been projecting itself internationally as a trade, commerce and ICT hub for a number of years. In economic as well as in cultural and social terms, the dynamism of creative activity in Malta can be favourably and gainfully compared to that present in international hubs and cities. This is also reflected in the benchmark countries selected for comparative purposes in the Vision 2015 Report, where Luxembourg and Singapore feature as countries with comparable city-state characteristics. While Malta's current demographic, geographic and economic structures approach those of European medium-sized cities, Government's commitment towards the creative economy is underpinned by an understanding of higher than average value-added generated by this activity.

On the international level, the economy of cities has come to be predominantly characterised by the service sector. As shown in surveys of European cities, in the five largest urban labour markets in the EU27 - London, Paris, Berlin, Madrid and Rome - service sector employment accounts for over 80 per cent of all employment. In Malta, employment in services has risen from 69 per cent in 2005 to 73 per cent in 2009. It is significant to note that the economic performance of cities is based on a number of benchmarks directly linked to the performance of the creative sector, namely: GDP per capita; labour productivity; employment rate; rates of long-term/youth/senior unemployed; and participation rates in higher education. The same studies have shown that when it comes to the economic performance of cities in Europe, the relation between these indicators and city size no longer exists, meaning that high performance can be expected from both smaller and larger cities. The significance of this for Malta in general, and for the Creative Economy in particular, is that structural demographic and geographic limitations need not limit the sector's growth and development, especially in view of enabling technologies allow that for active direct participation in the global area.

The continued investments and promotional activity carried out in the tourism sector have already placed Malta on the international circuit as a visitor destination of international repute. This same effort has more recently been applied in the ICT sector, the pharmaceutical sector and other areas where Malta's strengths could be maximised while contributing directly to the quality of life. Malta's typology as a city economy is therefore already geared towards focusing on poles of specialisation, and Government's intention expressed in the last budget is grounded in the belief that this same focus and success can be achieved in the creative sector. For Malta's aspiration to become a centre of excellence in creativity, resources shall be directed towards knowledge-based creative activities that characterise international hubs and which have an international appeal for investors and creative entities or persons. This needs to be implemented in conjunction with industry, business and financial services, with full appreciation of the role played by talent (and the resources that need to be dedicated to foster it), and by building on the already excellent connections to the globalised knowledge and business networks.

A vision for Malta as a creative city entails a number of strategic choices. The creative city is a juxtaposition of stimulating creative opportunities, a secure and healthy environment, a vibrant economic hub and a well-connected international platform where local and international creative entities or persons develop, produce and launch services which have regional, European and global significance.

The pivotal role of the University and MCAST has already been highlighted. The attractiveness of the media servicing industry, coupled with the required investments in the development of an indigenous film industry is already being complemented with investments in market research and niche potential for Malta in the digital games industry. Similar developments in the performing arts need to take into account the possible fruitful interlinkages with technology-based applications, including copyrightable material. The interlinkages that can be developed in the crafts sector, not just with the ethnographic roots of endangered practices, but also with the high value-added industries such as design and fashion, are still under-exploited, though initial attempts by the Gozo School of Art have already shown the potential for success.

In all of these factors, Government has a pivotal contribution in terms of catalysing the adoption of creative services both within its own operations as well as stimulating take-up and interlinkages among the various economic sectors. The synergies between areas of high-capital investment such as tourism and the high value-added provided by design shall be explored and maximised in view of the benefits these can generate in terms of the stimulus of local talent, the attraction value for international talent and investment, and the effect on improved marketability of the various aspects of our tourism product. A sustained vibrancy by all the creative arts has an equally significant impact on other sectors of the economy, well beyond its immediate impact on the tourism offer.

Within the context of Malta's preparations for hosting, through one of its localities, the European Capital of Culture event in 2018, an assessment of the state of Malta's cultural infrastructure is very much in order. Four main areas of investment, which can transform themselves and their localised urban environment into creative hubs with an international resonance are: the creation of dedicated, technologically-advanced and physically versatile spaces for the performance of music (concert, choral, operatic) and the production of theatrical performances that reflect contemporary versatility in terms of set design and audience-spectator relations; the development of libraries and archives, including audiovisual material, into centres that branch out through social, educational, cultural and economic connections both nationally and internationally, and which adopt all the dissemination tools that the connected digital world can offer; the establishment of a museum for modern and contemporary art, with links to the design and architectural output of Maltese origin of the last century which positions Malta unequivocally but critically in the art historical trajectory; and, finally, rethought presentation of our immense cultural heritage that can impact on audiences of all ages and social backgrounds in an engaging, interactive, and refreshing manner.

Stimulating activity through such creative nerve centres impacts heavily on the governance structures that Malta wants to have for the European Capital of Culture and beyond, structures that shall be the driving force in harnessing the creative and economic energy of the sector. It is upon such infrastructural capacity and the organisational framework that sustains it, that the cultural programming of Malta can develop and provide a quality and professionally driven economic contribution. This also contributes to a more holistic unfolding of a creative clusters strategy which channels expertise and finances from academic, business and technology partners, and redistributes them to highly-talented and motivated start-up operators, new graduates from creative disciplines and research-based creative companies investigating inter-sectoral partnerships with high value-added potential.

Exporting Malta's creative product requires synergies among the key entities providing exposure to the international market. Between 2000 and 2005, trade generated by the creative industries grew internationally at an annual average rate of 8.7 per cent, accounting for 3.4 per cent of global world trade. On the other hand, not all countries have managed so far to harness their creative capacity and to tap into the benefits of this activity. Each social, cultural and economic reality needs to find its own model, based on its positioning in the global trade circuit, and influenced by its characteristic cultural output. Malta has been consistent with European and international developments in this sector, by placing the creative worker at the heart of the creative industries and as the starting point of the path leading to internationalisation.

Thus, as a first level of support, financial and fiscal incentives aimed at enabling creative producers to internationalise their products and services through their own contacts and capabilities shall be strengthened to enable direct access to

international markets that is robustly supported by networking technologies. This entails sustained support for investments in e-commerce, international co-productions, marketing and promotion in international fairs and festival circuits, and other relevant initiatives. Further to this, government support through international relations, enterprise incentives, and cultural diplomacy shall be streamlined through the appropriate governance structures in order to fully utilise the existing international networks and support mechanisms, with a view to maximising exposure and exports of Maltese creative output. Such a drive should also feed back into the local scenario through the attraction of international talent and investment, analogous to the existing high profile and high yielding activity in the film servicing industry.

It is known that the main asset for companies, whether they are large multinational firms, microenterprises, or self-employed workers active at local levels, is the creativity of the workforce. Without creative activity, cultural enterprises perish. Intellectual property rights (IPRs) are the tool used by creative workers to generate income from intellectual capital. Intellectual Property Rights therefore constitute one of the core ingredients of the Creative Economy.

The recognition of the importance of intellectual property is reflected in the shift by large corporations to include IPR and brand value on their balance sheets and to present them as a core component of company valuations. Royalty payments and licence fees are associated with the use of intellectual property for production and consumption of goods and services, for instance, licensing services for the right to use entertainment, computer software, or other non-financial intangible assets.

In order to achieve this, there exists first and foremost the need to improve awareness of the rights and more importantly, awareness of the ways of using IPRs in order to create a profit – via licensing, transfers, assignments and other commercialisation ventures.

From an examination of international reports prepared by the European Commission, UNCTAD, and the World Intellectual Property Organisation (WIPO), it clearly results that there is a lack of statistical data being collected on a worldwide level for the impact of intellectual property on the economy. The World Intellectual Property Organisation is therefore seeking to establish a methodology to assess the economic impact of copyright industries with its "Guide on Surveying Copyright Industries". The WIPO methodology is already being widely used in the US.

**Table 9.1 Annual new filings 2001-2010**

IPRs	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Totals
Trademarks	2,840	2,226	3,643	1,573	1,681	1,306	1,248	1,268	922	410	17,117
Patents	144	175	257	473	669	810	182	37	30	8	2,785
Designs	11	17	13	34	21	15	40	2	5	1	159
<b>Total</b>	<b>2,995</b>	<b>2,418</b>	<b>3,913</b>	<b>2,080</b>	<b>2,371</b>	<b>2,131</b>	<b>1,470</b>	<b>1,307</b>	<b>957</b>	<b>419</b>	<b>20,061</b>

Table 9.1 presents statistics by the Maltese IP Directorate. The data are only available in respect of trademarks, patents and designs since copyright does not require the element of registration – it is an automatic right.

These on the registration in Malta of IPRs show some slim numbers. However, it is interesting that since 2007, Malta has been a party to the European Patent Convention (a union of European countries with the aim of facilitating patent registration in the different member countries) and to the Patent Cooperation Treaty (an international union for assistance in patent registration in different countries). This may explain the decrease in patent applications with the Maltese Directorate – since people may choose to apply initially with the European Patent Office (EPO) for example, and only after examination of the patent is carried out by the EPO will it also be registered in the Maltese register. This process is very lengthy and may take a couple of years to complete. On an international scale, for 2009, 12 Maltese patent applications were filed with the EPO. This may be compared to the number of patents singular companies, such as Philips and Apple, who have filed with the EPO for the same year. Philips is first in the list with 2,556 patent applications, while Apple “only” filed 160 applications. With regard to trademarks, the EU’s Office for Harmonisation in the Internal Market (OHIM) in the period 1996- 2009 received 515 trade mark applications from Malta, of which 289 were registered.

The successful use of copyright is seen in the amount of transfers, licences and transactions which are carried out on the copyrighted work. Therefore, if the work is a piece of music, there are licences collected by a collecting society so that radio stations may play the music or so that it may be played at a live event. The same piece may be licensed out to a production company wanting to use the music in a film or television programme, or to an advertiser wishing to use the music on an advert. There are also concerts, record deals and record sales. All this activity, and more, is generated by the creation of this piece of music.

However, since we are dealing with intangible assets, it is harder to track their movement, sale and licensing than with physical goods. What many regard as the core of creative activity – the creation of intellectual property rights – is not directly measured for the simple reason that IPRs are increasingly disembedded from material products. Moreover, the system of collection of IPRs and royalties is dependent upon a range of local particularities, concerning collecting societies as well as national signing up to conventions. This system also depends on where an artist has registered his/her rights, and whether the artist’s income flows from that place and is identified as such.

As highlighted by UNCTAD, the functioning of intellectual property markets, both nationally and internationally, depends on the existence of effective copyright regimes in the countries involved, allowing efficient collection and equitable distribution of copyright payments. Poor or irregular distribution of IPR earnings, due mainly to institutional inadequacies, undermines the legitimacy of an IPR legal regime.

The problem existing with the present collecting rights society for music in Malta has often been highlighted. The law regulating this is unclear on certain issues which must be addressed, such as the procedure for the renewal of the licence to operate as a collecting society, and the operation and implementation of the licensee's right. Moreover, there is a lacuna when it comes to collecting societies for mechanical royalties, performers, theatre and literature.

The Creative Economy Working Group is examining the role of the Copyright Board, whose task it is to issue the licence to operate as a collecting society and which also has the role of regulating and monitoring such licences in Malta.

The Working Group plans also to develop a strategy to promote Malta as a hub of copyright activity. While Government has already set the ball rolling insofar as income tax deductions for patent registrations are concerned, the Working Group is drawing up some proposals for the exploitation of copyright, and the royalties and earnings arising therefrom.

A reference has already been made to the income tax deductions for patent registrations just announced by Government. The focus, while remaining on encouraging Maltese businesses to register their IPRs, now turns to the successful commercialisation of the patent.

It is noted that, in practice, the Creative Industries thrive to a greater extent on the commercialisation of design rights and of copyright, rather than patents. This therefore means that more promotion will be given to the awareness of these rights, together with the development of new incentives aimed at encouraging creative workers to continue creating, and at the same time successfully making a living, out of the fruit of their creative efforts.

The success of the Creative Economy strategy for intellectual property rests on ably assisting creative workers to turn their talent into profit.

#### **9.2.4 Championing the Sector through Cohesive Governance Structures.**

We will devise a national strategy for a creative economy which looks at the creative ecosystem from an economic perspective, but which also reflects the individual needs of each sector addressed in our cultural policy.

As the links between the various sectors of the cultural and creative industries become evidently more interconnected and in the wake of the creative economy as a pillar of Vision 2015, we require an immediate response mechanism for governance structures which acts as our champion for all the CCIs.

The various areas of the CCIs cannot operate in isolation from one other and they definitely cannot afford not to coexist with other sectors. Following the same principle, ministries, departments or public agencies that are directly involved in policies and strategies for any area of the creative economy will assess an effective and efficient model to reduce our current fragmented governance structures.

Over the past five years, average government expenditure, excluding cultural and creative education, stood at €17.8 million. This amounts to around 0.7 per cent of total government expenditure and to €43 per capita. In relation to governance, the creative economy strategy will not only assess the level of government expenditure, but also the effectiveness of this investment in achieving common aims.

The public role of governance for the CCIs does not however undermine the fundamental role played by enterprise, NGOs and civil society in providing self-regulatory governance structures for the sector. These organisations need to rise to the occasion in championing their sector and in offering professional representation and support for the CCIs.





**Chapter Ten**  
Greening our economy

## 10.1 Background

The term 'green economy' is today very much embedded in economic and business jargon, although what such a term actually entails varies according to who is using it and for what purposes.

At its broadest level the term 'green economy' can be defined as an economic development model aimed at addressing the depletive relationship between human economic activity and the natural ecosystem in which this activity takes place. At such a breadth, the green economy would include:

- green (as opposed to 'black') energy generation based on renewable energy sources to substitute for fossil fuels;
- energy conservation for efficient energy use in transport, the residential and the commercial sectors;
- pollution abatement programmes;
- economic activity that results in less or no adverse effects on air quality;
- more efficient usage of land;
- more efficient sourcing, distribution and usage of water; and
- preservation of biodiversity and other existing natural assets.

At its narrowest level, the green economy is defined purely in terms of the relationship between energy, what can be done with that energy and the emissions generated by the production of that energy. This therefore boils down to clean generation, conservation and reduced emission levels.

The United Nations Environment Programme (UNEP) brings to the table the additional concept of intergenerational justice and defines the green economy as a system of economic activities related to the production, distribution and consumption of goods and services that result in improved human well-being over the long term, while not exposing future generations to significant environmental risks or ecological scarcities.

In any case almost all definitions of the green economy have one thing in common: the green economy is considered as being able to create green jobs or transform existing jobs into green ones, ensure real, sustainable economic growth, prevent environmental pollution and contribute towards the reduction of global warming, resource depletion, and environmental degradation. The current economic crisis has brought an even sharper focus on the economic potential of the green economy, in particular the potential to create jobs. International literature relating to this aspect is already quite considerable even if the conclusions of major studies are not always in concordance as to the actual potential of net job creation by the greening of the economy.

In discussing the ways and means of stimulating and developing further the green economy, we clearly need to look at how we can increase investments which are environmentally positive (green investments), increase the quantity and quality of related jobs (green collar jobs) in the so-called

green sectors (renewable energy, energy efficiency, waste management, low carbon transport, etc.) as well as the share of these green sectors in the domestic makeup of GDP. On the other hand, we must seek to reduce the amount of energy required for each unit of production, decrease the amount of CO<sub>2</sub> emissions, PM<sub>2</sub> and related pollutants while also reducing wasteful consumption.

We need to do this not only for the sake of compliance with EU legislation on air quality and greenhouse gas emissions, but also for the sake of our quality of life and that of our children.

## 10.2 The Green Economy in Malta

Although to date there is no formal recognition of a green economy in Malta, this does not imply that its basis does not already exist. Membership of the EU and a heightened awareness of the importance of our natural environment have provided the basis for the first business start-ups aimed directly at providing 'green' products and services (e.g. waste management companies, importers of alternative energy and energy-conserving products, etc). In addition to these start-ups one must also consider green activities carried out by companies whose core line of business is elsewhere but who provide 'incidental' and/or low specialisation environment products and services .

In this milieu, there have been a number of initiatives and studies that have paved the way for such initiatives that have taken place in the last decade.

The Malta Council For Science & Technology (MCST), through its December 2005 National ETAP Roadmap document had, for instance, called for the development of a system aiming to improve testing, performance verification and standardisation of environmental technologies.

Various initiatives have also been undertaken by the Malta Standards Authority (MSA). These, as summarised on [www.msa.org.mt/environment](http://www.msa.org.mt/environment) , include Eco-Management and Audit Scheme (EMAS) Certification, eco-label and other eco-certification and the setting-up and management of various committees.

A National Energy Policy and a Water Policy have been devised by the MRA and are currently being acted upon to promote sustainability in our economic activities, whereas Government has announced a series of incentives to promote the use of renewable energies at the household and commercial levels; these include grants, fee waivers and biodiesel excise duty exemption.

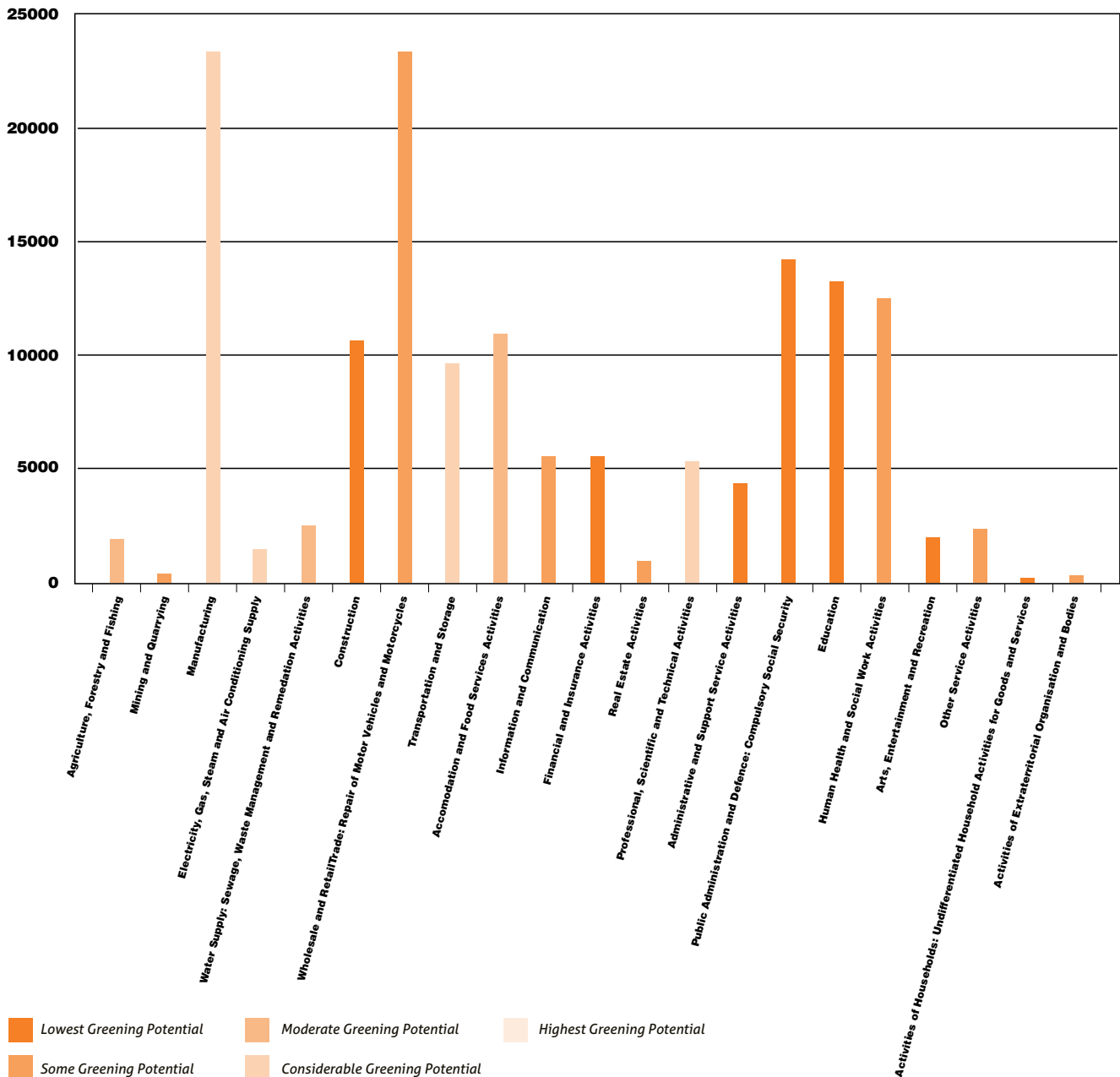
A formal effort at defining the green economy in Malta and its potential for job creation has been undertaken by the Employment and Training Corporation (ETC) through a study carried out in December 2007 . This study delineates three areas of economic activity to broadly define the green economy in Malta. These are:

1. pollution management – e.g. waste management, air pollution control, remediation and clean-up of soil, surface water and groundwater;
2. cleaner technologies and products – e.g. importation and installation of

- solar panels, energy efficient materials, production of biofuels; and
- 3. resource management – e.g. production of recycled materials, water supply, and nature protection.

This study concluded that the green economy (as defined in the same study) in 2007<sup>1</sup> was already employing an estimated 4,152 people with an annual

**Chart 10.1 Sectoral Employment And Its Green Potential**



(Sources: NSO, IPCC, UNEP; Some data were under-sampled in the NSO sample on which these data are based)

<sup>1</sup>Employment in the environmental goods and services industry in Malta, ETC, December 2007.

turnover of approximately € 191 million and an added value of € 91 million. This translates itself into a 2 per cent contribution towards Malta's GDP while providing employment for approximately 3 per cent of the labour force. These figures already compare favourably with EU averages whereby the green economy is estimated to provide 2.2 per cent of EU GDP whilst employing 1.3 per cent of the EU labour force.

Jobs may be created either directly – as a direct consequence of an initiative – or indirectly – in a way that is more difficult to attribute to the initiative.

Most of the employment emanating from the green economy is in a certain sense embedded in new and existing industries such as vehicle manufacturing, manufacturing of clean energy generation equipment, construction, electronics, appliances, lighting, heating and cooling equipment, and so on. Since Malta does not have many of the foregoing industries, and since it has been slow in adapting to them, Malta's gains in terms of direct employment from the Green Economy will tend to be in areas that require the direct procurement of services domestically, as in retrofitting processes requiring green designers, architects, energy auditors, engineers, estimators, project managers, pipe fitters, sheet metal workers, lighting consultants and installers, and builders. The manufacturing of the equipment to be installed will tend to be absorbed by countries with a track record of early adoption of these technologies such as Germany and Taiwan.

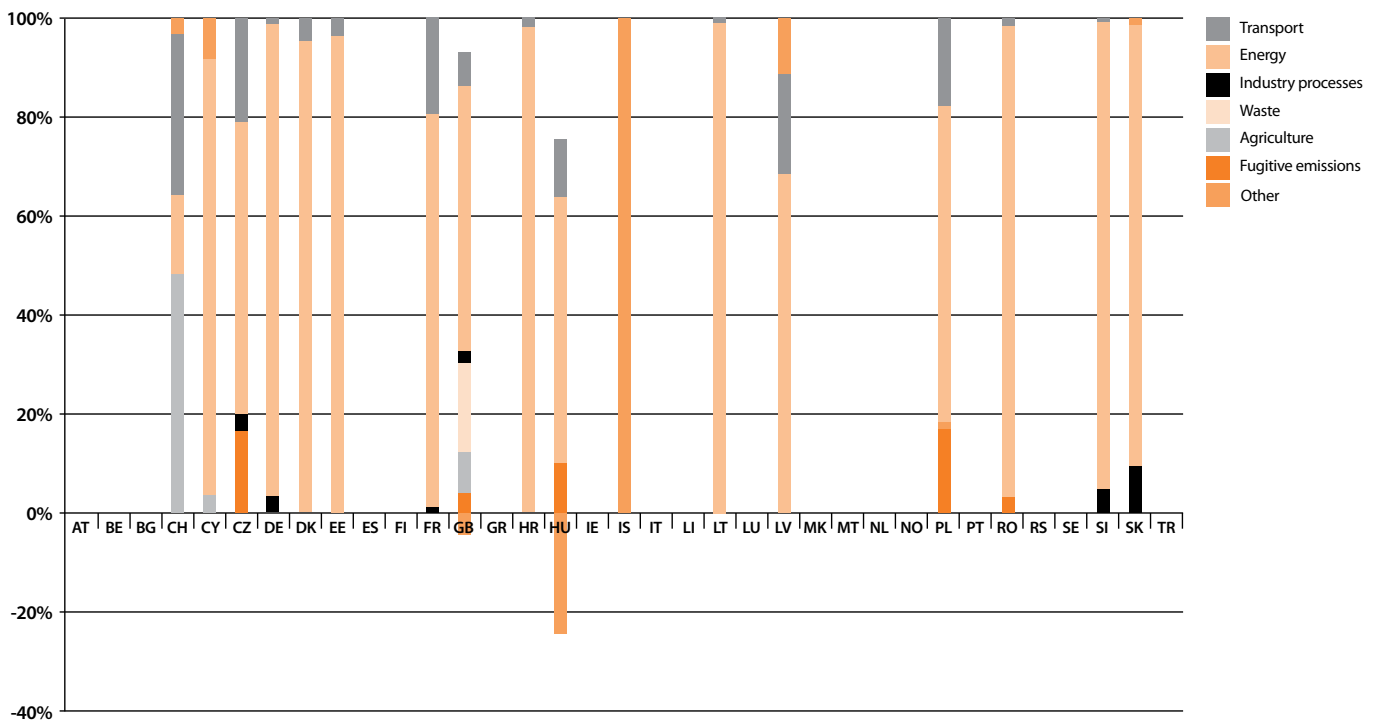
Such localised employment as exemplified by the jobs required by retrofitting processes have a propensity to being created during the initial investment periods and are likely to be local jobs, which is especially beneficial for developing regions and areas of high unemployment. Other jobs, such as in the retail sales of hybrid cars, will merely replace existing ones but will, at the same time, be geared towards a more sustainable service.

Induced employment, this time of the indirect type, will also be created through demand for products that Malta produces and that will be demanded for the manufacturing of clean-energy-generating equipment and, through a different channel, that would see money which would otherwise have been spent on procuring energy supplies (coal and oil) being re-spent back into the community. The latter effect has the potential of being larger than the direct generation of green jobs themselves, particularly where the preponderance of energy-generating material is imported, as is the case in Malta. Sectors such as manufacturing catering for domestic end-use, construction, education and agriculture stand to benefit from the domestic retention of money associated with energy efficiency.

It is however also important to safeguard existing jobs, and the initiatives that will be undertaken by Government will also be aimed at safeguarding existing jobs in an indirect, but nevertheless important, manner. Indeed, by undertaking initiatives that cut carbon and slash the prevalence of particulate matter, we

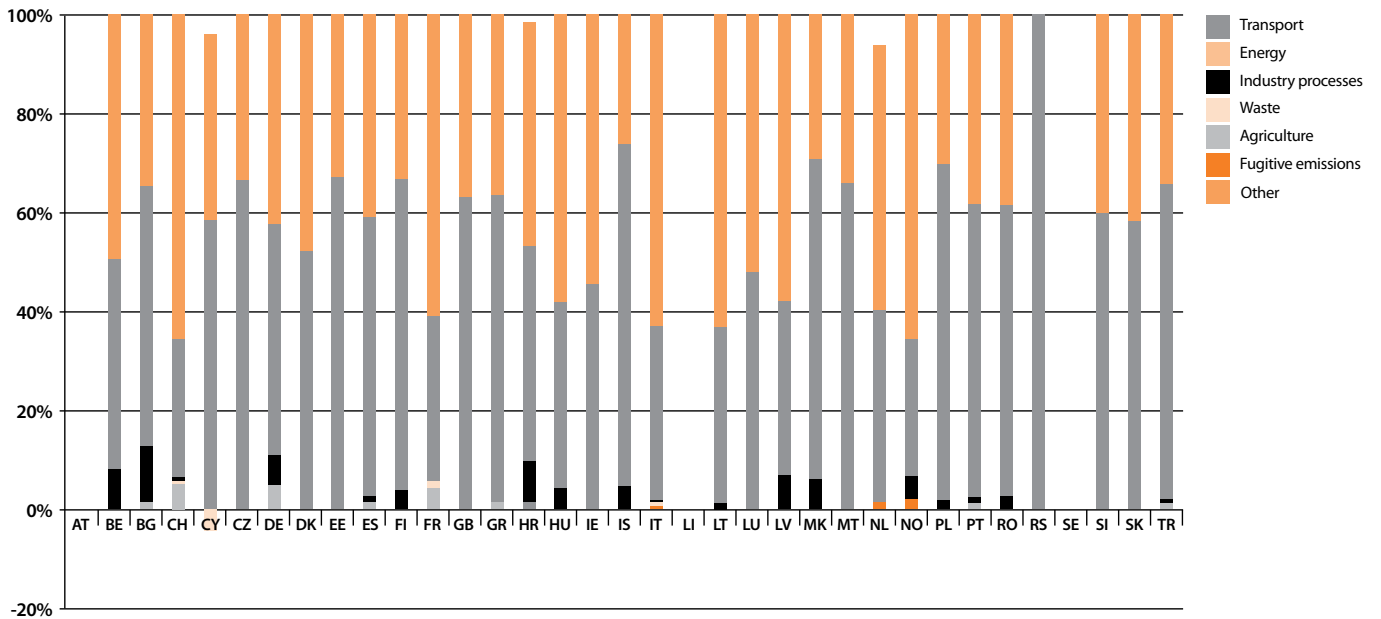
would be reducing the risks of multiple infringement proceedings and fines from the EU that would otherwise either have to be paid by Government, thereby reducing its spending power on other employment-creating initiatives in Malta, or that would require the levying of funds through additional taxation on the private sector, thereby decreasing its employment potential. The same line of argumentation can be extended to the reduction of the health care bill through the abatement of air pollution which should result in a direct impact on the prevalence of certain respiratory diseases over time.

**Chart 10.2 2007 Emissions Per Capita By Sector [benzo(a)]**



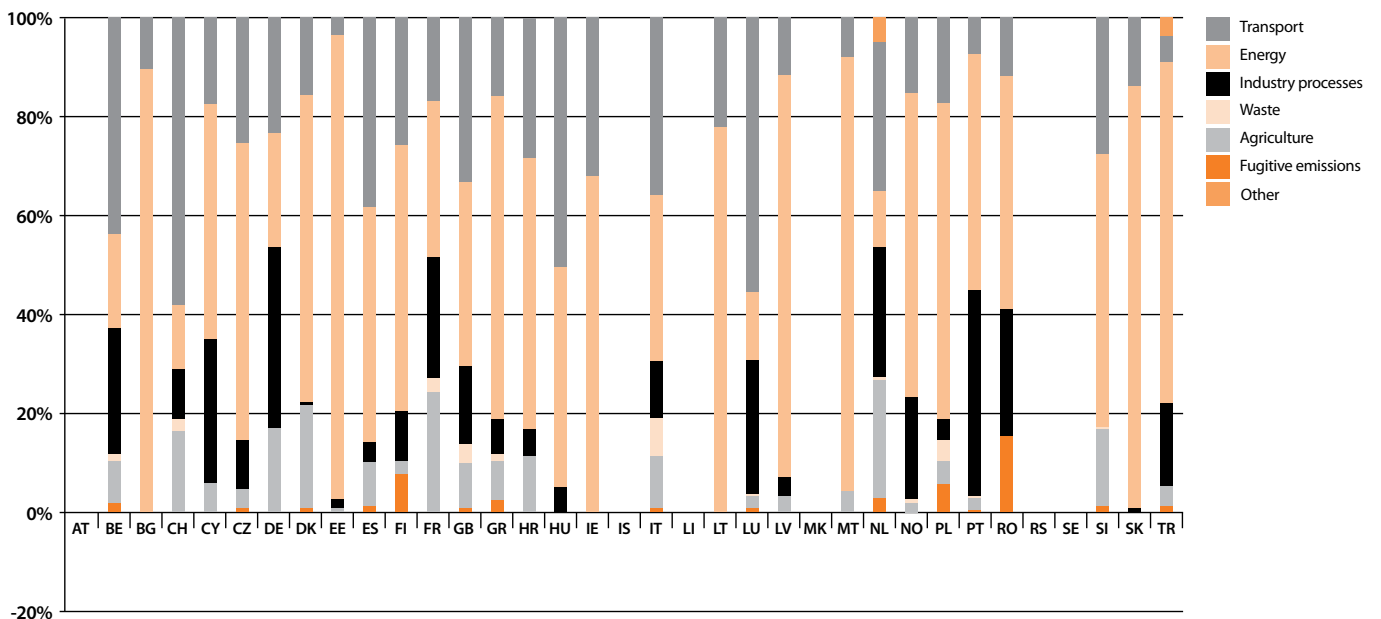
(Source: The European Topic Centre on Air and Climate Change; Units Mg)

**Chart 10.3 2007 Emissions Per Capita By Sector [Nox]**



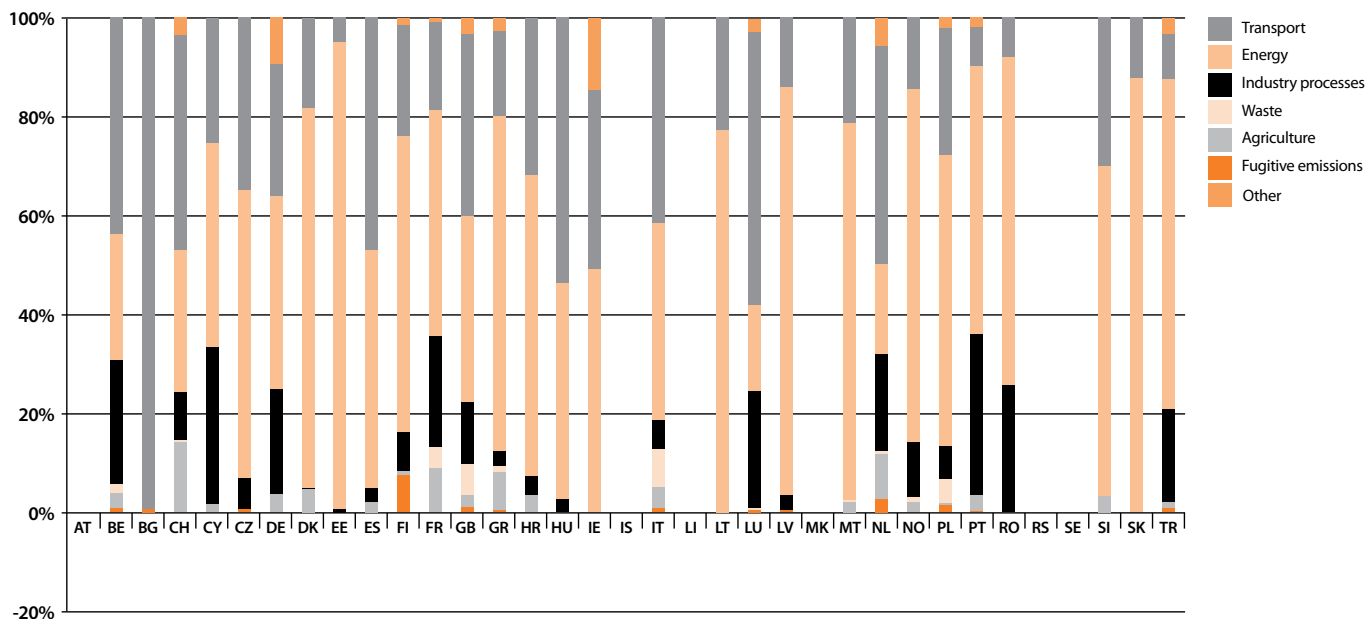
(Source: The European Topic Centre on Air and Climate Change; Units Mg)

**Chart 10.4 2007 Emissions Per Capita By Sector [PM10]**



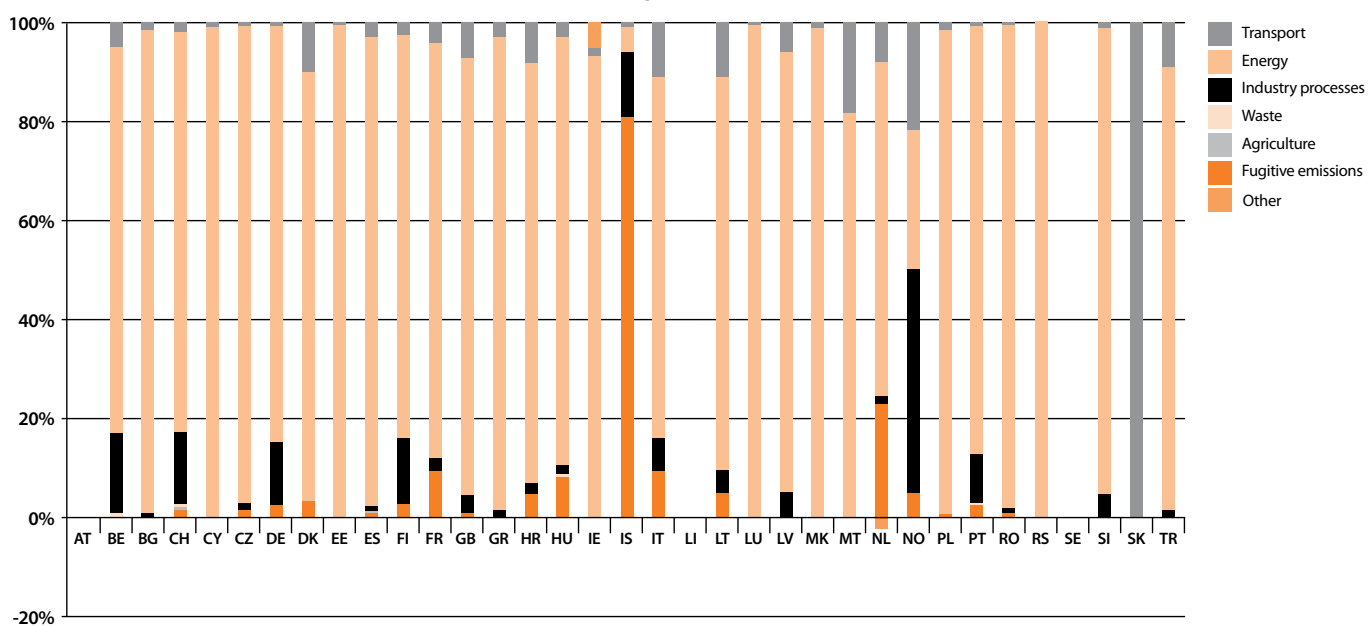
(Source: The European Topic Centre on Air and Climate Change; Units Mg)

Chart 10.5 2007 Emissions Per Capita By Sector [2.5]



(Source: The European Topic Centre on Air and Climate Change; Units Mg)

Chart 10.6 2007 Emissions Per Capita By Sector [SOx]



(Source: The European Topic Centre on Air and Climate Change; Units Mg)

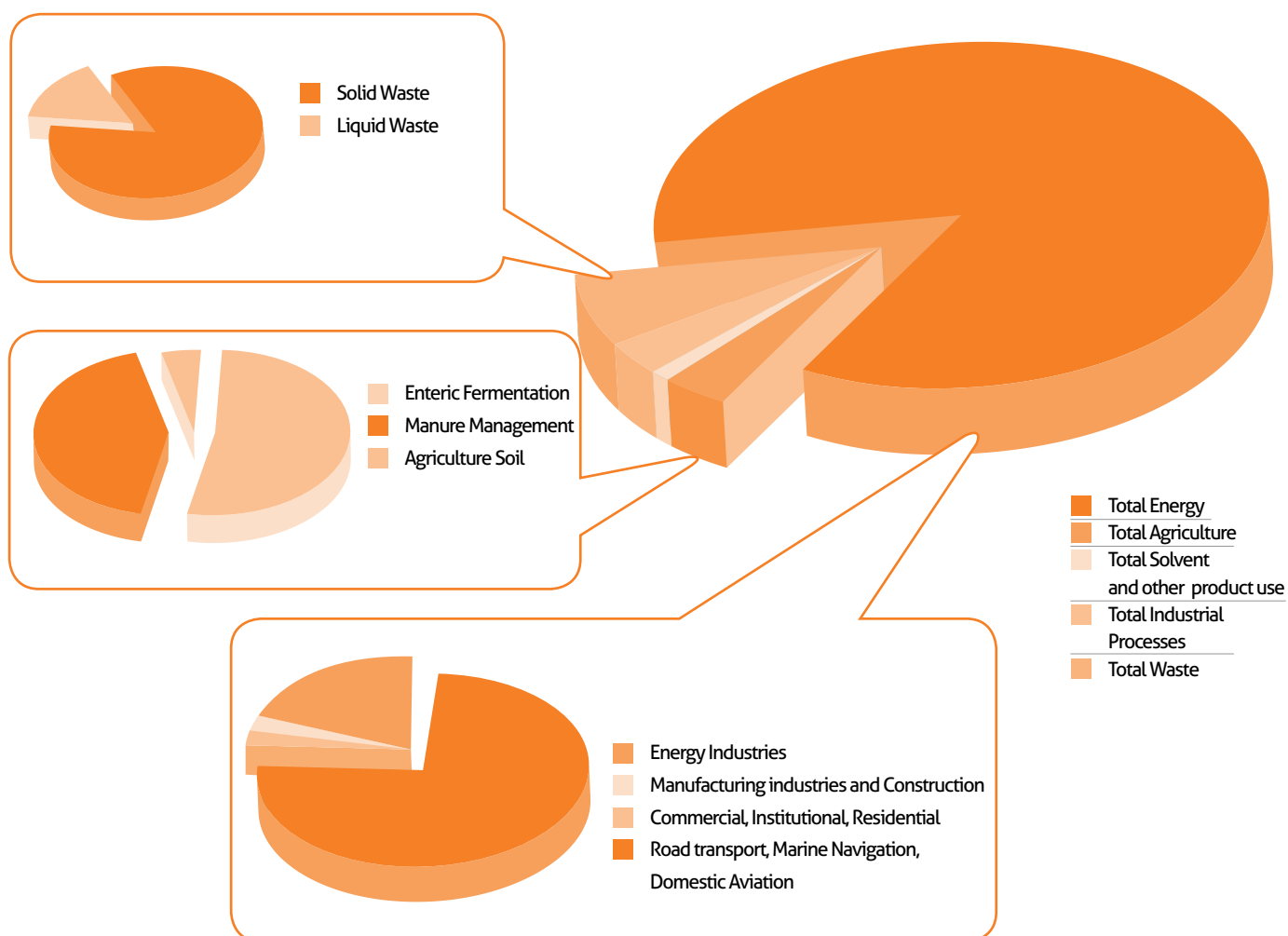


### 10.3 Government and the Green Economy

It is Government's declared intention to provide the necessary framework for the green economy to realise its potential not only in terms of employment, but also in terms of generating more economic activity and reaping the necessary environmental benefits. This will be achieved through the implementation of a policy regime that puts the environment at the heart of the everyday actions and initiatives that will be undertaken by Government, as well as incentivisation and disincentivisation instruments which will be rolled out over the short to medium term (2011-2015).

At the outset, it is worth noting, with respect to emissions, that energy and transport are locally responsible for about 90 per cent of the CO<sub>2</sub> emitted into the atmosphere every year. If we are to limit emissions to a level consistent with EU mandatory thresholds (with special reference to how the European Union Emission Trading System is likely to work), what is required over the next few

**Chart 10.7 Local sources of Greenhouse gas and Greenhouse-gas equivalent emissions**



Sources of Greenhouse Gas-Equivalent emissions in Malta for 2007, the latest year for which data is available (Source: The European Topic Centre on Air and Climate Change)

years and decades is nothing less than a complete rethink and restructuring of our energy and transport set-up: this includes changing the fuels we use, how we generate, distribute and consume electricity, how we power and use our transportation, how appliances respond to different grid loads and the way we use our home appliances, our consumption habits (especially the way we cool our homes and offices), the way we use our water and the vegetation we grow, how we treat our waste and the way we run our factories and manufacturing plants. The challenge is to achieve all this without jeopardizing the standard of living that we have acquired over time and the need to keep our economy growing.

It is clear that, as we change the way we carry out business and the demand for new products and services continues to increase, traditional businesses and related jobs will have to be transformed. This will not only lead to changing existing job profiles, but also to creating new, greener jobs and occupations that require new skills which are, at the moment, very lacking even in countries such as Germany. This is where the importance of the emergence of the green economy and the required public policy measures come in.

New jobs will continue to be created through the restructuring of key economic sectors such as energy, construction, transport, agriculture and energy-intensive industries. Some green jobs will focus on delivering green goods and services and might entail totally new qualifications due to the introduction of new technologies. For example more specialised technicians will be required to meet the current and future demand for the installation and maintenance of clean energy products such as solar panels, while construction workers with skills related to the installation and retrofitting of energy-efficient materials will increasingly be required as the demand for energy-efficient buildings continues to grow. Others will require skill adjustment to improve energy and resource efficiency. Furthermore, indirect jobs from supplier industries are likely to experience growth, as even new industries such as solar power generation and waste water management use the same supply chains as traditional industries.

The emergence of a strong green economy in Malta will need to be characterised by increased investments in economic sectors that build on the natural resources we possess (sun, wind and sea) and/or reduce ecological scarcities and environmental risks. Most of these sectors have already started to take root in Malta but will need a priority-focused added stimulus to develop further. It is envisaged that such sectors will include renewable energy, the provision of cleaner (increasingly energy conserving) technologies, low-carbon- and low-particulate- emitting transport, energy-efficient buildings, improved waste management, improved freshwater provision and water management.

If we are to make real headway in the development of the green economy, it will be indispensable for Government to adopt forward-thinking public policies aimed at facilitating and guiding the process of greening business.

Government will be setting out a clear and far-reaching policy framework to support and reward sustainable economic activity. At the same time, it wants to signal its readiness to confront those whose business practices continue to pose a serious threat to a sustainable future.

#### 10.4 Initiatives

##### 10.4.1 Setting Up of The Green Economy Working Group and Launching of a Roadmap

Government recognises that such investments will need to be driven or supported by national policy measures and fiscal incentives and disincentives (fiscal tools). These policy measures and fiscal tools will provide the necessary mechanisms for the reconfiguration of businesses, infrastructure and institutions, and the adoption of sustainable consumption and production processes. It is expected that such reconfiguration will lead to a higher share of the green economy contributing to increased GDP levels, more green jobs, lower energy and resource-intensive production processes, lower waste and pollution, significantly lower greenhouse gas and particulate matter emissions and natural asset contamination and, ultimately, to an increased quality of life.

The overall strategy for the growth of the green economy in Malta will be presented by the final document produced by the Green Economy Working Group. Government might however already be putting forward a number of initiatives in its 2011 budget. The following are some proposals which are being contemplated by Government and which it would like to include in its pre-budget consultations with the social partners and the public in general.

Policy measures that will be drawn up to support the stronger emergence of the green economy will by necessity adopt an integrated approach which will encompass key policy strands such as economic policy, industrial policy, energy policy, waste management policy and employment policy.

The eight main areas on which government policy will focus over the next five years will be as follows:

1. the continued development of the energy and renewable energy sectors, leading to a reduction in emissions both on an absolute level basis as well as on a per capita basis;
2. the reform of the transport sector, leading to a reduction in emissions;
3. the promotion and requirement of more energy-efficient buildings;
4. increased participation of the private sector in the area of waste management;
5. improved management and conservation of water resources;
6. provision of training and qualifications for the skills that are and will be required by the creation of new green jobs;
7. exclusive support for tourism development that can prove to be sustainable and environmentally friendly; and
8. continued support for small-scale sustainable agriculture.

Government has set up a Green Economy Working Group. This working group is made up of professionals from various sectors in the private as well as the public sector. Its remit is to provide, by the end of 2010, a discussion paper that will propose a strategy for the accelerated growth of the green economy in Malta, as

well as a number of initiatives in the area that could be implemented over the short to medium term (2011-2015). The discussion paper will then be open for a period of consultation with key stakeholders and interested parties, following which it will be formally adopted by Government as its official roadmap on the topic.

#### **10.4.2 Provision of a Holistic Approach to Green Policy**

A number of bodies, committees and policy structures currently exist to deal with the environment and the green economic sector. These bodies, committees and policy structures have been set up over the years, most often in response to specific needs at particular times. Owing to the incrementalist way in which they were set up over time, these structures are fragmented and in some cases, lack the powers to enable them to see their job through. Accordingly, there is a strong need for these structures to be defragmented and to be given the powers at law that will enable them to serve their function(s) as well as the resources to be able to enforce such laws.

Partly as a consequence of this, green economic and public policy has, in the past, been undertaken through a piecemeal approach that has sometimes offset the intended outcomes of other green policies. For this reason, as well as to ensure that the environment continues to be a top priority in policies, Government might consider the setting up of a Green Economy Policy Unit with the intent of ensuring that Government's policy process, is consistent with the green policy criteria that this unit will be entrusted to establish and safeguard. As well as having a remit given to it by the law, it is being proposed that this unit be adequately resourced and that it should be empowered to bring together existing structures under an encompassing umbrella. It is being proposed that any policies that will not give the environment its due priority should be subject to review and modification by this policy unit prior to implementation.

The pace of change in the fields of energy conservation and clean energy generation has recently been taking place at breakneck speed and, unless human and financial resources are fully dedicated to monitoring such developments, we will always lag behind developments in the market. To mitigate this, and to ensure that our policies reflect developments in the market, the Green Economic Policy Unit should also have within its remit the monitoring of market developments in renewables. This unit would advise the relevant government agencies and ministries and once the requisite capacity is built, it would also provide information and data to the private sector (households and businesses).

#### **10.4.3 Government Leading by Example**

Government's commitment to the green economy should not stop at the setting up of policy units. It is therefore being proposed that all government contracts should include, among their eligibility criteria, minimum energy-efficiency thresholds that the tendering entities should abide by. Audits on winning bidders should be carried out to verify adherence to such criteria.

Government should also be taking the lead in conserving energy in government buildings, both when it comes to lighting (through LEDs), as regards thermal efficiency (through retrofitting insulation in building and fittings; the

incorporation of insulation in new developments), the assurance of in-building air quality (through the likes of medical-grade ionisers), and in government-owned outside infrastructure (mainly – but not exclusively – street lighting sensor-based switching, dimming and energy efficient installations of luminaires).

Government will also be leading the way as an exemplar in the area of clean energy generation through the continuation of the installation of alternative energy infrastructure such as photovoltaic and wind energy infrastructure where deemed feasible.

#### **10.4.4 Platform for Government Agencies, Private Companies and Public-Private Partnerships to Launch Pilot Projects and Share Ideas and Agendas**

Government believes that, in order to make the most of the existing opportunities, Public-Private Partnerships (PPPs) need to be established in the diverse areas that constitute the green economy. The existing platform for the establishment of PPPs will therefore be capitalised on with a view to getting ideas from the private sector and partner with the private sector in order to launch pilot and full-blown projects and to share ideas and agendas through such partnerships. A showcase for innovative technologies is also being proposed in collaboration with the private sector and the Institute for Energy Technology of the University of Malta and possibly other foreign institutions with similar interests. Such a showcase would serve four principal functions, namely to:

1. raise awareness about the existence of such technologies;
2. generate data in relation to the technologies deployed that could then be made publicly available for the private sector so that the private sector can make informed decisions on the basis of these data;
3. provide Government itself with data that can then be used to incentivise the uptake of specific technologies; and
4. re-dimension the scale of technologies where the minimum-efficient scale is currently too big for Malta while endeavouring to keep the efficiency ratios of large scale deployments.

#### **10.4.5 Identification of EU Funds and Initiatives**

Since joining the EU, Government has been and remains committed to seeking opportunities at the EU level to make the most out of the green economy itself and to give opportunities to the private sector. Government will maintain this level of commitment and its efforts to continue to make the most of such initiatives.

#### **10.4.6 Public Education and Information Dissemination Campaign**

Central Government and various government bodies have already made great strides in raising awareness about energy efficiency. Keeping this up will, however, no longer be enough. We are now at a stage where we must encourage the private sector to take a more active role. Accordingly, Government must now start to shift its effort from public education campaigns to information dissemination campaigns. Some energy-conservation technologies have evolved in such a way that they are economical even from a purely private perspective, without accounting for the negative externalities that failure to use such technologies gives rise to. Notwithstanding this, because of market inertia and because of lack of specific (as opposed to generic) knowledge, these technologies repeatedly fail to be adopted. A stark example of this is LED

technology which, despite having huge cost-saving potential, a payback period of between 5 to 11 months and a much more favourable return on investment as against comparable substitute products, is still lagging in terms of uptake.

The time has therefore come to start disclosing well-studied information on attainable savings, payback periods and things to watch out for in respect of certain categories of products and for the private and social costs of standby equipment consumption. This information will be compiled by the Green Economy Policy Unit and will utilise data collected from the showcase for innovative technologies. The message that Government intends to pass on in this respect is that, in this, Government stands four-square with the business community and the citizen; Government will help in the decision-making process by providing accurate information on the private savings that citizens and businesses may make if they adopt different categories of technologies.

### **10.5 Measures of Incentivisation and Disincentivisation**

Enemalta has launched the smart metering and the water probe pilot projects last year. Through these exercises, Government wants to be able to collect real-time data in relation to water consumption and energy usage.

#### **10.5.1 Smart Metering and Differential Time-Band Pricing**

Government wants to introduce differential rates for electricity consumption on the basis of the time of the day. This measure is intended to distribute electricity consumption more evenly throughout the day, with a view to keeping our more efficient turbines in continuous operation and our less efficient ones out of operation in a measure that is also intended to reflect different costs by Enemalta. We are announcing this measure now so that private sector stakeholders can gear up to giving us feedback about the details of this initiative. Furthermore, these stakeholders can become aware of the potential savings to be made by using household and manufacturing appliances/machinery at times of the day that are different from those they are using today and can keep this in mind when investing in new appliances/machinery with a view to embed cost-efficiency considerations in their decisions.

#### **10.5.2 Tax Shifting**

Taxes necessarily distort market incentives: the more heavily a product or service is taxed, the stronger the disincentive to utilise that product or service and everything else being equal, the stronger the incentive to use substitute products or services.

Given the foregoing axiom, we are proposing to shift taxes from economic "goods" to economic "bads". In order to incentivise the creation of work by making labour less costly, we are proposing the lowering of government-induced employee costs as well as corporate and income taxation. In order to disincentivise the use of pollutants and to further incentivise energy-saving and clean energy-generating measures, Government might wish to move in the direction of shifting effective taxation to fuels and commercial electricity. This measure is in line with the Polluter Pays Principle which is being embraced by Government across all horizontal policies.

In this respect, it must be remembered that a carbon tax has many more general advantages as a fiscal tool. It would be simpler to administer and enforce and

would be more predictable than a system of tax breaks, trading schemes and purchasing obligations such as is the case with several systems in place in some EU countries that are even now looking into replacing these with the same carbon taxation. The Polluter Pays Principle is also easily grasped, and it is ethically more attractive to tax “bads” such as pollution, rather than “goods” such as work and entrepreneurship. In addition, by establishing a reliable price for carbon, the business community could be given the certainty it needs to invest in greener technologies.

We are, in the light of the above, proposing the careful assessment of the different options of how taxes can be shifted from income and profits to economic “bads” and their impact on different sectors, so that we can discuss these measures with the key stakeholders with a view to ensuring that our economy can benefit from the ‘double dividend’ (increased employment and decreased emissions) that such a measure would bring about after implementation.

### 10.5.3 Green-Collar Jobs and Exports

The green economy will continue to gain importance in the coming decade. Given the potential of this sector to generate green-collar jobs that are likely to withstand the onslaught of even the most intense of economic depressions, Government might consider producing a dedicated budget to the formation of this sector in Malta.

This proposed measure will be capped in terms of available funding and will include:

- the provision of grants;
- the provision of loans; and
- the provision of venture capital or the incentivisation of the private sector to do so itself.

It shall be technology-neutral and shall cover the research and development, manufacturing and service provision in the areas of:

- clean energy generation;
  - Wind Power
  - Solar Power
  - Photovoltaic
  - Solar Geothermal Power
  - Biomass
  - Cellulosic And Next Generation Biofuels
  - Upheaving An Ageing Transmission Grid
  - Innovative Batteries
- cleaner transport;
  - Electric Transport
  - Hybrid Transport
  - Biofuels
  - LPG
  - Other areas arising out of promising new technological developments
- energy conservation;

- Lighting
- Appliances
- Manufacturing Processes
- Infrastructure
  - Building
  - Insulation
  - Retrofitting
  - New buildings – standards and enforcement
  - Rehabilitation, Upgrading and Retrofitting
  - Maintenance
- water desalinisation methods;
- waste reduction and management; and
- other areas that may arise with new technological advancements.

Government will also seek to provide specific legal frameworks for niche areas (as it did in the pharmaceutical sector and the financial services sector). The development of such legislative frameworks will have to be followed up by a branding exercise. Having a top-notch investment-friendly legal structure will serve no purpose if there is no international awareness of its existence.

A starting point for such an exercise could be the provision of a legal and ethical framework for geoengineering that could put Malta on the radar for foreign investment in research projects in the same area, while turning Malta into a centre of excellence in the green economy area of geoengineering.

In this respect, geoengineering is the notion of applying climate engineering to counter the effects of anthropogenic climate change. There is an interest by geoengineers to carry out preliminary experiments, and they wish to do so in a regulatory and ethical framework that clearly states what is and what is not allowed. The first country to come up with such a framework stands poised to garner a considerable share of the business for itself.

The possibility of developing other similar legislative niches will be explored by Government in conjunction with the relevant stakeholders over the first six months of 2011.

Moreover, Government will be endeavouring to attract to Malta businesses through the different areas that might contribute to the creation of green jobs in the same way that it had done with i-gaming, pharmaceuticals and finance. The list of incentives that Government might provide in this area is currently being studied.

#### **10.5.4 Improving Air Quality**

Government is committed to ameliorate air quality. This is not being done only to comply with EU air quality regulations but also because Government genuinely believes that the quality of the air we breathe can make a difference in the quality of life of Maltese citizens.



However as previously stated, by undertaking initiatives that cut carbon and slash the prevalence of particulate matter, we would be cutting down the risks of infringement proceedings and fines from the EU that would otherwise either have to be paid by Government, thereby reducing its spending power on other employment-creating initiatives in Malta, or by the private sector through taxes that will have to be levied in order to finance such infringements.

The same line of argumentation may be extended to the reduction of the health care bill through the abatement of air pollution which will have a direct impact on the prevalence of respiratory diseases.

Private vehicles are one of the primary causes of deterioration in air quality. Efforts are being made by Government to clamp down on those vehicles guilty of excessive pollution levels, although more needs to be done in this area. At the same time Government is embarking on a wide-ranging reform of the public transport system in Malta which is expected to not only halt the drop in the number of people using the public transport system but actually to reverse the trend and start increasing its custom.

Concurrently Government wants to encourage the use of cleaner private transport vehicles the use of which has not been prolific enough. The reasons for such a poor take-up are currently being assessed and Government will be seeking to address them in the forthcoming budget.

A better traffic distribution programme is also being proposed for implementation with the intention of distributing, and thus curbing, traffic more evenly throughout the day which should therefore result in less congested peak times.

It is a very well-observed fact that traffic patterns change by the hour of the day and according to the season. For example, during the summer recess period of school, traffic in the morning hours decreases considerably. During the school season, on the other hand, traffic varies according to the hour of the day, with 7.15 AM to 9 AM being peak traffic hours. A similar situation occurs with the start of half-days in the public sector.

If emissions due to excessive traffic are to be slashed, Government will, in consultation with all the relevant stakeholders, be studying ways and means of improving the traffic situation by means of regulating opening and closing times of schools as well as offices. Before any such actions are implemented, Government wants to study and understand, together with the main stakeholders, the full social and economic impacts of any suggested changes. The proposed study and consultation will be undertaken and concluded during the first half of 2011 for changes (if any) to be implemented by the end of 2011 or the beginning of 2012.

A revamp of the emissions alert system is being proposed. All SMSs sent will be reverse-charged to Government and enforcement will become stricter. Polluting car owners will be more heavily fined and given a time window

within which to rectify the situation, following which the car owners will be called in for another inspection with further fines being imposed in the case of non-compliance until compliance is achieved. Once the situation is rectified, mobile number owners reporting polluting cars will be informed by SMS that the emission levels of the reported car are now in line with emissions regulations. All classes of vehicles (including public transport and commercial vehicles) will be covered by the alert system.

Vehicle-related pollution can also be significantly impacted by requiring that engines are switched off while waiting and by readjusting speed camera settings. With this in mind, a fine is being proposed for car owners that keep their engines running while waiting. Speed camera limits in non-residential zones are being proposed for an increase to 80 km/h so as to result in higher fuel efficiency and thus lower emissions in non-residential areas where speed cameras are currently installed.

#### 10.5.5 Building Regulations

Efficiency measures in buildings include the assurance of green measures in buildings through the system of permit issuance, retrofitting and the improvement in efficiency of individual building components like electronic appliances, water heaters, luminaires, cooking equipment, domestic appliances, heating and air conditioning systems and the like.

One of the biggest problems we currently face in building's natural resource utilisation is the principal-agent problem whereby in most cases, those who build our building stock are not those who end up buying the stock and living in it. The incentive that this promulgates is for building project managers to do their best to cut their costs (including those that would have been directed towards embedding resource efficient utilisation) and thereby maximise profits. Tenants, who are usually not very well informed about energy-efficiency, then end up footing the bills for the lack of resource-usage efficiency and face higher costs to retrofit than would otherwise have been the case had such items been embedded during the undertaking of the construction project. This is an area that Government would like to tackle.

Accordingly, Government will be investing in much stronger enforcement of the current regulations concerning the minimum energy-efficiency and resource utilisation efficiency criteria in new developments. Concurrently we are proposing that as from 1 January 2011, all new residential and industrial developments must include the mandatory inclusion of a water reservoir of a capacity that is proportionate with the physical area of the building in question. Such infrastructure must be accompanied by the required infrastructure that will ensure the optimal usage of such a resource. While the legislation for this measure already exists it has, so far, been largely ignored. This situation will not be allowed to continue and the executive powers to enforce such legislation will be vested in the appropriate government entity.

Better insulation regulations and regulations for usage of rooftops so as to ensure that all tenants can partake in the generation of clean energy will also be introduced.

### 10.5.6 Helping Malta Match Cash Outflows with Cash Savings – a Resolution Mechanism for the Cash Timing Problem

One of the problems that make the markets for green technologies more inert is that many of these technologies require a substantial cash outflow to install and between 5 months and 8 years to pay back. Many technologies available at present represent low-hanging fruit in that they require little capital in absolute terms and pay back their initial costs relatively quickly. Nevertheless, given the certainty of the cash outflow and the uncertainty of the real value of the cash saving, uptake is made to be more inert than it would otherwise be. This clearly represents a market failure and our proposal here is for Government to intervene and to make good for this market failure.

There are several methods of doing this. Subsidising a part of the cost is one of the ways that have been most utilised in the recent past. Another and perhaps better way of achieving this objective would be for Government to provide a percentage of the cost of such technologies and to recoup these costs plus the interest rate it incurs through monthly instalments that could be included in the electricity bill over the estimated payback period of the technology. End-users can then see a palpable monthly saving on their electricity bill without having to fork out huge amounts of capital beforehand. This initiative could be funded through an EIB loan the interest on which could be passed on to beneficiaries, EU funds or a combination of both, and the funds should be available universally. The system for applying for these funds should also be as fully-automated and as straightforward as possible in order to ensure maximal take-up by end users, so that the existing market inertia in this regard may be undermined to the greatest extent possible.

Government will look into the available options as to how such a system could best be implemented.

### 10.5.7 Training Incentives for the Green Technology Sector

A country survey carried out by the United Nations Environment Programme (UNEP) concludes that Germany's renewables industry is suffering from a shortage of qualified employees, especially those needed in knowledge-intensive positions. Moreover, the Confederation of British Industry has expressed concern that sectors going green are struggling to find technical specialists, designers, engineers, and electricians whereas in the United States, the National Renewable Energy Laboratory has identified a shortage of skills and training as a leading barrier to renewable energy and energy-efficiency growth. Similar shortages are also occurring in Australia, China and Brazil. It is therefore no surprise that we are already experiencing the same problem locally.

In order to mitigate these shortages we will need to quickly and constantly adapt our training programmes for new entrants into the labour force, to enable them to be updated with the latest technologies. We also need to increase our retraining efforts for those workers who make the transition from older, more-polluting industries to new, less-polluting ones.

In doing this it is going to be essential to direct financial resources towards the setting-up and maintenance of a constantly-updated syllabus that is directly

relevant to the world of work. The burden incurred by this cannot be expected to fall squarely on academics. In order to accomplish this in a manner that is congenial to industry, Government requires the constant input and feedback of industry.

#### **10.5.8 Gearing Up for a Wider Use of Gas**

Gas represents one of the cleanest, most easily-available natural resources.

If we are to shift towards more energy-efficient modes of transport (which might include gas-powered private vehicles as well as hybrid and electricity-powered vehicles) and make access to gas easier in domestic and commercial environments, we need to start thinking of the infrastructural upgrades that this will require.

Accordingly, Government is proposing the mandating of a centralised gas deposit and the installation of safe gas-supplying pipes in all major developments (such as gated communities) in the Island. In parallel, Government has now launched the necessary legislation for all petrol stations to provide gas for the powering of private vehicles. In line with this, a review of the relevant development requirements will be carried out with a view to reducing the lead time required to obtain the necessary permits for the development of required infrastructure.

#### **10.5.9 Gearing Up for a Wider Use of Treated Wastewater**

Over the coming year Government will be taking active steps to make more use of treated wastewater than is currently taking place. Infrastructure will be put in place in specific agricultural areas to enable the use of treated water by farmers for the irrigation of crops. Additional infrastructure will also be put in place to direct treated wastewater towards the replenishment of the water table. Both these initiatives are expected to help alleviate the current pressures on the water table, and to rectify the current situation whereby water is being extracted at unsustainable levels. In the meantime technological breakthroughs in the area need to be carefully examined.

#### **10.5.10 Waste as a Means of Generating Energy**

Waste creates a problem in the environment because it takes up space and because it can contaminate. In the context of spatial and geographical limitations, it is even more urgent that we continue to give full attention to the disposal of waste. Government's initiatives in this sector have been successful and we now need to continue to build on these successes.

Waste, therefore, has to be managed in the best possible way. The aim of Government is to manage waste while also creating energy. An in-depth study of the various options available to Malta in terms of waste to energy was carried out in 2006 by the Ministry for Resources and Rural Affairs<sup>2</sup>. One of the main technologies identified was the setting-up of a mechanical biological treatment plant (MBT). Government has already commissioned the setting-up of one such plant in the North of Malta.

<sup>2</sup>"Assessing the Feasibility of Waste to Energy technologies in Malta," Waste to Energy working group, MRRRA

**10.5.11 Other  
Initiatives and Incentive  
Mechanisms currently  
being Explored**

Other initiatives and incentive mechanisms that are currently being explored include:

- systems to ensure quality of power standards;
- mandatory energy audits for buildings on sale;
- assessing the consequences of mandatory carbon reporting; and
- best ways of making use of biomass energy.



**Chapter Eleven**  
Sustainable localities. Healthy communities

### 11.1 Background

Central Government's goal in achieving sustainable development across all levels includes also all levels pertaining to Government. In this respect, the vision of sustainable towns and villages was first put forward in the Pre-Budget Document for 2008, wherein it was stated that: "Local Councils provide a good vehicle of implementing sustainability development at a local level." Government's Budget for 2009 included concrete measures aimed at achieving local sustainable development.

In addition, during 2009, other grant schemes were introduced that had the objective of increasing Local Government's active involvement and contribution towards achieving local sustainable development. The Pre-Budget Document for 2009 introduced for the first time the concept of "Sustainable Localities".

At present, localities are facing challenges arising from size, demographic, economic, environmental and social realities, and may include issues such as suitable/affordable housing, social exclusion, structural and demographic change, ageing and mobility.

The adoption of a strategy for Local Sustainable Development should cover policy areas that include energy, the environment, transport, culture, the economy, social inclusion, urban conservation and regeneration, and waste management. Such a strategy should be informed by locality knowledge and constituent needs. However, local plans should support and complement national policies and strategies.

Throughout the formulation of a tangible and realistic local sustainable development strategy, the main focus should be on the importance of ensuring that all decisions and actions are incorporated in a local plan that forms part of the national plan. Local Councils, apart from striving for the betterment of their local territory, should also incorporate the social aspect which includes social values, customs and traditions that shape the local identity. The success of Local Councils' achievements should be measured in terms of their ability to positively influence the everyday life of the residents in their localities.

Owing to the fact that Local Councils are the level of governance closest to the people, they play a vital role in educating, mobilising and responding to the public to promote sustainable development.

In 2009, the concept of Sustainable Localities was further developed in line with the citizens' legitimate expectations emanating from a nationwide consultation process that involved all strata of our society. The Local Government Reform consultation process led to the introduction of several grant schemes for Local Councils, aimed at assisting them to engage in more initiatives that supported the Sustainable Localities vision. This was made possible through an increase in Local Councils' financial allocation of € 4 million.

The schemes introduced during 2009 included:

- an incentive scheme for further investment by small enterprises in localities;
- the launch of a one-time special scheme for the restoration of facades of residential buildings constructed prior to 1950;
- the launch of three pilot projects for the drawing-up of sustainable development strategies at local level;
- the Local Council Green Challenge Award;
- the Local Enterprise Support Award Scheme;
- Cultural Activities Scheme;
- Energy Saving Scheme;
- Accessibility Scheme;
- Special Fund for Localities with Special Needs; and
- another scheme on Special Funds.

In 2010, Government increased further its financial assistance to Local Councils to embark on projects and initiatives that translate into concrete measures the implementation of Sustainable Localities. For 2010, Local Councils have again benefitted from an additional € 3 million in direct allocation for 24 grant schemes notified at the end of 2009, and launched during the first quarter of 2010. The grant schemes issued during 2010 included:

- Grant Scheme for Events;
- Grant Scheme for Sport Activities for All;
- Co-Financing Grant Scheme for EU Projects;
- Grant Scheme for Accessibility for all in public places;
- Grant Scheme for Clean Energy Initiatives;
- Grant Scheme for three Pilot Projects for the Construction of Locality Streets;
- Grant Scheme for Public-Private Partnerships on Street Construction and Maintenance;
- Grant Scheme for Special Projects in Small Localities;
- Grant Scheme for Localities with Special Needs;
- Libraries Fund;
- assistance in planting of trees;
- Green Challenge Award Scheme;
- Enterprise Award Scheme; and
- Grant Scheme to assist in the organisation of international conferences in Malta.

Central Government's commitment in assisting Local Councils to embark on projects in line with the concept of Sustainable Localities is, therefore, evident and indisputable. Local Government is an important pillar in our country's public administration, and its contribution to achieving the 2015 Vision of Excellence in the Delivery of Public Service is indispensable. In this respect, Government intends to continue to support, encourage and facilitate Local Government's functions and operations within the framework of the Sustainable Localities concept.



### 11.2 Way Forward: the Local Councils Reform

Through the implementation of the Local Councils Reform, Local Councils are being invited to focus their functions and operability on decisions that take into consideration the citizens, whereby attention is given to the identification of actions at community level in the light of possibilities available at national, regional and locality level.

Furthermore, Government intends to offer incentives to Local Councils to adopt and contribute towards national strategies, employ efficient energy use, waste management, and the creation of educational programmes to promote the participation of the community and schools in environmental, social and cultural issues.

The reform process and the Policy for Local Government are geared towards increasing the accountability of localities, providing a more robust framework for local councils to work collaboratively together while making joint decisions, increasing local councillors' capacity to deal with their locality-related issues, and directing such issues in the light of decisions that ought to be taken for the sustainability of the whole nation. Moreover, this policy document identifies the responsibility of both Central and Local Government to enable such processes, in order to effectively bring about benefits for present and future generations.

### 11.3 Strengthening the Local Enforcement System (LES)

During the reform process, Government has highly recommended that the Local Enforcement System be strengthened, guided by Government's vision for nurturing better citizenship through education. Central to this process remain the original principles of LES: mutual respect, education, equity, the rule of law, and ultimately, the continuing development of a better society. Similarly, the proposed improvement rests on the principle of delegation to the Local Councils of the enforcement responsibilities for the range of offences covered.

A renewed focus on education is being expected (the common long-term goal among stakeholders). In its turn, this would lead to increased compliance, thus reducing the need for direct and indirect enforcement intervention and ultimately resulting in the improvement of quality of life for local communities. In short: More Compliance, Less Fines, Better Citizens.

Coupled with these core principles, any strategy needs to take into account the various driving factors, trends and developments, while addressing problem areas. The key factors driving the future development of LES are summarised below:

- Government's continued belief in the Local Councils and implementation of the Local Councils reform;
- the increased importance of ensuring good governance in all aspects of the wider public administration;
- the need to extract better value from expended public funds – more efficiency gains, better quality – and to consider the longer-term sustainability of Government initiatives;
- the contribution of such systems and of the Local Councils to economic growth and jobs;

- the cognizance that education is the long-term solution to ensuring good citizenship across the board;
- increasing-savvy citizens, greater expectations of fairness, a proportionate treatment, and customer care;
- the importance of safety within the Local Councils, on roads as well as to wardens;
- advances in information technology which can bring about better quality, efficiency gains, improved customer service and transparency;
- the need to adapt legal instruments to reflect societal developments;
- the importance of the environment and cleaner localities; and
- mechanisms to strengthen operations, controls and overall management of LES for the greater benefit of citizens.

**11.4 Future Plans** The Policy for Local Government has been drafted in line with the Report which has been prepared on the basis of the outcome of the wide consultation undertaken for the Local Councils Reform.

The implementation process of this Policy is highly based on the recommendations featured in the Reform Report, which highlights, among others, the following themes:

- the need to enhance the current responsibilities of Local Council members;
- the need for better coordination among Local Councils through the utilisation of the Regional Committees;
- better utilisation of Local Council employees;
- development of the Public-Private Partnership Scheme, mainly through the Local Action Groups;
- establishment of an EU Funding Unit within MEUSAC to assist Councils with the drafting of project proposals and with completing the relevant application forms;
- the need to follow the newly-established Town Twinning Policy, as well as other subsidiary policies in the pipeline;
- setting up a Monitoring Department within the Department of Local Government to ensure its administrative effectiveness and of the Local Councils that fall within its remit;
- initiatives which ensure sustainable development within localities on issues relating to social, environmental and cultural aspects;
- lifelong learning;
- one-stop shop for the provision of better customer care;
- management of traffic in localities; and
- Quality Service Charters.

Through the various schemes, Central Government is inviting Local Councils in Malta and Gozo to address the needs of the community in a sustainable manner, by bringing about socio-economic development. Moreover, in a linear approach, Local Councils need to focus their efforts on leading and building up culturally sustainable and economically viable localities.

The schemes provide the right framework for the achievement of goals and for the overall improvement of people's quality of life. The framework is a guide towards ensuring that Local Councils are outward-looking, are interested in leading by example, are concerned to maintain their localities' structure, and are willing to contribute to challenging issues and objectives on a national basis.

This ongoing exercise ensures that all actions being implemented at present and in the future have a sustainable approach. Government wants to ensure that the success being currently achieved through the implementation of a number of initiatives at locality level, keeps pace with present and future challenges. In this way, the fruits reaped during past years will extend to various other initiatives that are planned to be undertaken on an annual basis.

Some of the planned ongoing initiatives are:

- a scheme to encourage the undertaking of cultural activities within localities, which would assist in offering a more diversified and authentic product offer to visitors at large;
- a scheme to promote and encourage the development of increased participation in sport in localities;
- a scheme for the Local Councils to encourage take-up of clean energy initiatives;
- a scheme to encourage Local Councils to ensure that their offices and other public spaces are accessible to all;
- Co-financing Fund to encourage and financially assist Local Councils in applying for more EU-funded projects;
- the co-financing of pilot projects, namely Madliena, Mqabba and Kirkop, to undertake roadworks to be completed by the end of the current year;
- Public-Private Partnership scheme to encourage Local Councils to undertake residential roadworks with private partners;
- special projects in small localities aimed at assisting them to overcome their financial limitations due to size, by undertaking a number of initiatives within their localities;
- financial allocation to assist particular localities with special needs, such as those that offer services that are over and above their daily service provisions;
- the Local Council Green Challenge Award for those Local Councils which undertake initiatives for the upgrading of the local environment;
- the Local Council Enterprise Support Award Scheme for those Local Councils which undertake initiatives to assist and incentivise businesses in their localities;
- Playing Fields Risk Assessment so as to ensure a safer environment for residents;
- Local Sustainable Development Strategy – financial grant support for a number of pilot projects to draw up sustainable development strategies at a local level; Local Councils are being given the opportunity to come up with plans that address energy efficiency, climate change and waste management;
- a scheme to assist Local Councils in providing further financial support to their regional and local public libraries;

- a scheme to assist Local Councils in providing lifelong-learning courses within their communities;
- Co-financing Fund to encourage and financially support NGOs in applying for EU- funded projects;
- a scheme for a greener environment within our localities, with the planting of a number of trees in residential areas;
- financial assistance for the restoration of small historic buildings and monuments;
- a Structural Funds Scheme to assist with the restoration, embellishment and promotion of authentic village cores within residential areas; and
- a scheme to assist Local Councils with financial commitments which need to be entered into with regard to the implementation of embellishment projects in preparation of national activities.



**Chapter Twelve**  
Eco Gozo. A better Gozo

### 12.1 Background

Following Malta's accession to the European Union, Government stepped up its efforts to commission a number of economic studies and strategy plans for Gozo, in order to position Malta's sister island as part of the ambitious 'Vision 2015 for the Maltese Islands'. This vision clearly outlines Government's goal to transform the country to a centre of excellence in a number of high value-added activities, such as ICT, financial intermediation, tourism, aeronautical engineering, renewable energy and healthcare, to mention a few. This vision builds on recent developments, with the local economy currently operating in a fully globalised and liberalised environment, rendering imperative specialisation in those areas where the country is deemed to have its greatest comparative advantage.

A series of consultation meetings were held between different stakeholders, in order to come up with a number of policy papers that would determine the economic opportunities and strengths, together with the weaknesses and challenges, characterising Gozo as a distinct region. The main conclusions and recommendations were all targeted and harmonised towards an important and holistic goal: to transform Gozo into an eco-island by the end of this decade. This vision is evidencing a wider and deeper commitment by Government to achieve a long-term sustainable development plan where the actions to be taken should be based on sensible choices, without impairing the relatively unspoilt state of the environment in Gozo. The latter is a fundamental factor in Gozo's distinctiveness from Malta; the Gozitan environment makes the sister island unique and should therefore be considered as a priceless asset to be assiduously preserved, towards the goal of attracting local and foreign visitors to the island.

### 12.2 Shaping the Gozitan Economy

Recently published regional statistics show that officially-registered unemployment in Gozo stood at 778 persons in March 2010. However, regional disparity is clearly evident when the unemployment rate is used as a performance benchmark. The annual average unemployment rate for Gozo hovers around 7 per cent of the labour supply, against the Maltese counterpart of 4 per cent. In other words, Gozo's unemployment rate is almost double that being reported in Malta. The share of unemployment levels by age reveals another significant characteristic. Gozo is continuously reporting relatively higher unemployment levels in age groups 20-24 and 25-29. In contrast, a lower share of unemployment for the under 20s and for persons aged 45 and over is being reported for Gozo. These figures clearly point to the lack of employment opportunities in Gozo that appeal to the younger generation when compared to those created in Malta.

The most recent data on the gainfully occupied population show that the sectors contributing to the highest share of Gozitan employment are: Wholesale and Retail (13.7 per cent); Education (11 per cent); Construction (10.8 per cent); Manufacturing (10.2 per cent); Public Administration (9.4 per cent); Health (8.4 per cent); and Hotels and Restaurants (7.7 per cent). Although employment in agriculture, fishing and quarrying is not among the highest contributors in Gozo, the agricultural sector in particular still plays a relatively significant role, and is earmarked as a prime-potential area in the forthcoming years. The primary sector in Gozo employs 6.2 per cent of the gainfully occupied, in contrast to Malta's share of 1.6 per cent. On the other hand, more effort is

required to address the difficulties facing Gozo, in order to enable the island to keep up with the pace of progress being achieved by Malta in the creation of employment opportunities in value-added services, such as financial intermediation and ICT.

Equally significant economic characteristics can be derived from the national accounts framework. During the past five years, sectoral contribution to the total gross domestic product estimated for Gozo put service activities (30.4 per cent), tourism-related activities (26 per cent) and financial intermediation (22.4 per cent) as the sectors yielding the highest value-added in Gozo. Furthermore, total value-added estimated for the Gozitan economy accounts for 6 per cent of the national GDP. Agriculture and fishing registered the best performance in terms of the largest share to the national total among all sectors. In 2007, the share of agriculture and fishing in Gozo contributed to 11 per cent of the total national output in respect of this sector. This grew in 2008, with Gozo's proportion of agricultural and fishing output estimated to constitute 16 per cent of the national total - a clear indication of further consolidation reported in the primary sector. Nevertheless, another major challenge for Gozo is the relatively weak level of economic productivity attained, measured in per capita GDP, standing at 76 per cent compared to that for Malta.

### 12.3 Barriers and Enablers for Gozo

A number of policy papers commissioned by Government, including various pre-budget documents and budget speeches, action plans, such as 'Eco-Gozo – A better Gozo', as well as a Regional Development Programme commissioned with the participation of the Gozo Action Group, all made reference to the need for creating incentives and drafting tailor-made policies to address Gozo's specific and particular needs. Gozo's physical detachment from Malta makes it different on a number of counts namely, the state of the environment, the structure and dynamics of the economy, the social fabric, and its unique heritage, culture and arts. These dimensions are the cornerstones of the island's identity. This reality poses barriers and enablers that are distinct from the ones experienced in Malta; it then follows that a different economic strategy, specifically formulated for Gozo, is called for.

The dominant 'barriers' marking the Gozitan economy can be summarised as follows:

- Gozo's very small geographical size;
- the Island's geographical position on the periphery;
- the issue of double insularity;
- the relatively high transportation costs;
- the absence of economies of scale (to be reaped by industry);
- the seasonal variation issue (in particular within the tourism sector);
- capacity constraints in tertiary education;
- existing skills mismatches in meeting labour market demands (partly explained with the brain-drain process); and
- demographic challenges.

#### 12.3.1 Barriers

These barriers are commonly referred to as determining factors that hamper the island's progress towards reaping full economic potential. Furthermore, Gozo's high dependency on government-related services, which include administration, education and health, featured among the major threats to the Gozitan economy.

### 12.3.2 Enablers

On the other hand, Gozo's unique and distinctive characteristics were clearly outlined as 'enablers' for its economy, that may transform themselves into viable opportunities. Amongst these one can mention:

- the Island's attractive topography;
- the relatively unspoilt environment;
- tranquillity and ambience;
- a non-densely populated area;
- long stretches of coastline rendering well-known diving sites;
- a diligent and flexible workforce;
- an Island considered rich in culture;
- priceless heritage and precious arts; and
- buildings with great architectonic value.

The above enablers are all considered as key factors that place Gozo in an ideal position to adopt distinctive branding for various tourism niches. Furthermore, good air quality, fertile agricultural landscape and adequate water supply offer the island with great potential for agro-tourism, health tourism and sport-related tourism. Last but not least, the satisfactory track record held by Gozitan university students, in successfully completing their tertiary education offers potential for Gozo to play a part in the country's road to achieving a knowledge-based economy.

### 12.4 The Task Ahead – A 'Sustainable Model' for Gozo

The list of barriers and enablers outlined in connection with the Gozitan economy were part of the foundations underlying a 'sustainable model' that had one prime objective – the creation of sustainable employment opportunities in Gozo during the coming years. The identification of priorities, together with a sharp, focused and compatible vision with the milestones achieved to date, are the main underlying components of this model.

The holistic strategy of transforming Gozo into an eco-island lies at the heart of the proposed way forward, where all the actions needed to stimulate long-term economic activity converge towards this ambitious goal. Every decision and action will be evaluated within the ambit of four main priority areas: the economy; the environment; Gozitan society; and Gozo's identity. This necessitates a challenging commitment, aimed at striking a balance between economic development and preserving the state of Gozo's environment for future generations.

### 12.5 Outlining the Main Factors of Production

Similar to every corporate strategy, the 'sustainable model' outlines the main factors of production available for Gozo, before any aspirations and subsequently plans for which type of output to concentrate one can be formulated. The combination of factor inputs, after undergoing some form of organisational processing, is essential to produce any type of output that can be either a good or a service activity. Although the discovery of viable oil deposits still forms part of the wish list generally expressed by Gozitans and Maltese alike, there are other natural resources considered to be enablers towards fostering sustainable economic activity in Gozo. These natural endowments are generally easily observed; however, their economic potential is usually underestimated. Such attitudes should change towards the accord of due importance to these natural resources. The following chart outlines a list of resources synonymous with Gozo:



# Strategic Vision: ECO-GOZO

## Resources:

- Topography/unspoilt environment
- Fertile agricultural landscape
  - Sea / potable water
    - Sun
    - Wind
- Globigerina limestone
  - Cultural & Arts
  - Heritage
- Diligent and Creative workers

## Governance Tools:

- Investment promotion
  - One-stop shop  
(Administrative/regulatory office)
- Regional Policy for Gozo
- Gozo Tourism Promotion
- Agricultural Promotion

## Gozo's Main Potential Areas

### Agro-Cultural

- Agro-industrial activities
- Crafts and handmade products

### Tourism

- Agro
- Cultural
- Religious
- Diving
- Health
- B&B's
- Boutique Hotels Concept**

### Knowledge-based Industry

- Science and technology
- Business incubator units
  - Clusters
- Renewable Energy
  - ICT

**Innovation and R&D**  
Transition from 'made in Gozo' to 'created in Gozo'

**Sustainable Economic Growth and Employment Creation**

- the relatively unspoilt environment;
- fertile agricultural landscape;
- sea and potable water;
- the sun and sunlight for approximately 12 hours a day;
- wind, quite a common natural element throughout all seasons of the year;
- globigerina limestone giving identity to the surrounding buildings, especially village cores;
- culture and Arts;
- heritage, with historic temples featuring as UNESCO's World Heritage Sites; and
- diligent, skilled and flexible workers.

### 12.6 Identification of Gozo's Main Priority Areas

To this end, the present resources available in Gozo, coupled with the effective administrative tools necessary for ideas and initiatives to be implemented, were closely evaluated to identify Gozo's main priority areas. Specialisation is a fundamental component in today's corporate strategic planning process, and is a crucial factor to the proposed way forward for Gozo. A 'kitchen sink' approach – where all the ideas floated are mixed together awaiting their turn to be implemented, irrespective of their direction – should be discarded. The 'sustainable model' identifies three priority areas on which collective efforts need to be focused, in particular where Gozo enjoys the greatest comparative advantage. These areas are determined to be:

- Agro-cultural sector;
- domestic and foreign tourism; and
- the knowledge-based industry.

These sectors are intended to be the main economic pillars for the generation of sustainable economic growth and long-term employment in Gozo. Such priority areas have been spurred by the eco-Gozo vision, since investment to build and expand on these sectors blends well with the holistic vision for the Island. Moreover, the success in attaining this vision will reinforce the strengths and opportunities present in Gozo; in turn, stronger value-added activities in the earmarked sectors will be amplified by a chain of interrelated activities.

The economic activity expected from these potential sectors should not be evaluated in isolation from a fast-changing and increasingly competitive world. Operating within a globalised environment, the role of tertiary and vocational education, lifelong learning and the need to equip the Gozitan labour force with relevant skills, have become even more pronounced in stimulating innovation and supporting productivity. In this respect, the Gozo University Centre has a major role to play. Research and development (R&D) - related activities are nowadays characterised by large outlays on efficient capital and technology. These trends call for the creation of schemes to attract R&D activities to those key areas that were identified as potential reapers of the greatest comparative advantage to the Island. The latter makes it possible to establish networks between research agencies and industry. Innovation and technology-transfer mechanisms can facilitate the transition to a knowledge-based economy, and

this process creates jobs. The private sector will be sought as a major partner and player to support a transition from 'made in Gozo' to 'created in Gozo'.

### 12.7 Agro-Cultural Industry

For years, agriculture has been an important socio-economic activity for the Island. Gozo's physical characteristics make it suitable to sustain this vitally important sector. The fertile agricultural landscape, the sun, a proper infrastructure to store rainwater to be used for irrigation, the traditional techniques and the refined practices inherited from various generations are all considered as diamond factors for competitive advantage in the agricultural sector. The positive and persistent performance reported since EU membership is a tangible proof that, with the help of adequate funds, the Island offers great potential in this sector. In addition to the present cultivation of tomatoes for a major agro-industrial enterprise in Gozo, the same concept could be extended to the cultivation of vineyards and olive groves. To this effect, the setting-up of an Institute of Agriculture is proposed for Gozo, and its objective will be twofold. The first objective would be to train farmers to produce good-quality agricultural produce. Secondly, the Institute would act as an innovation centre for research on innovative irrigation techniques; to make the most efficient use of water (e.g. drip irrigation); to develop computer-assisted environment and temperature control systems in greenhouses for the cultivation of suitable crops; to study practices related to making sensible use of fertilisers and pesticides; and to conduct research on potential substitutes. Following several tests and quality checks, such innovative ideas and techniques could be exported and exploited by the industry itself. Government's aim to transform the experimental farm in Gozo into a centre for Mediterranean research, development and innovation in the area of agriculture, traditional products, the protection of the local species, and as an agro-touristic attraction will provide the necessary impetus in this direction.

The promotion of Gozitan crafts and hand-made products, in particular lace-making, carpet-weaving, filigree work and carved stone, will be incorporated in the art and culture of producing traditional foods such as sundried tomatoes, Gozo cheese, wine, honey, lemoncello, bigilla, nougat, and so on. The technique employed is an integral component of Gozo's identity and renders such traditional products and delicacies unique, suggesting a considerable potential for the export of Gozitan products.

### 12.8 Tourism

Tourism and related activities feature among the strongest sectors in Gozo, both in terms of value-added being generated and employment opportunities created. The proposed way forward is to build on the successful efforts made so far to promote Gozo internationally as a distinct tourist destination and to create various niche activities so as to mitigate the seasonality factor. The drive to meet these objectives will be definitely enhanced by the setting-up of a Directorate for Tourism within the Ministry for Gozo which will particularly aim specifically to sustain this vital industry by attracting more foreigners and Maltese to visit the Island, and additionally by increasing Gozo's share of repeat tourism. Fiscal incentives such as tax credits, to encourage ongoing private investment

compatible with the eco-vision, are necessary to feature in the Regional Policy for Gozo, towards ensuring that high-quality standards are met, both in terms of accommodation facilities and the level of service offered to the Maltese and foreign tourists.

The introduction of a relatively novel concept in Gozo, that of offering exclusive farmhouses as an accommodation option for local and foreign tourists, could be developed further. This innovative concept can be extended by creating incentives to host families to offer part of their residence, which will be required to meet certain standards issued by the Gozo Tourism Association (GTA), to visitors on a 'B&B' basis (bed and breakfast). Traditional farmhouses and typical country homes make a stay in Gozo a definitely memorable and different experience for all those who visit the Island. Moreover, the idea of boutique hotels needs to be further evaluated. These concepts are being proposed as an integral strategy to carry on with the expansion of Gozo's tourism potential, without impairing or causing irrevocable harm to the Island's drive to preserve the current state of the environment. Moreover, schemes should be designed with the aim of attracting additional tourists to Gozo during the winter and lean months, in order to minimise the seasonal nature of tourist inflows.

Efforts should be made to provide the necessary support to the industry, to internationalise incentives that proved to be successful locally, including a number of festivals which revolved around the production of particular agricultural products such as cheese festivals, and Notte Gozitana. Events like these are ideal venues for tempting visitors with a variety of local traditional gastronomy. The same strategy should be adopted to attract foreigners to Gozo's fully-fledged form of agro-related tourism, such as the production of wine, olive oil, honey, milk and other produce of the local agro-industry. Efforts should also be made to make Gozo a centre for quality recreation and for cultural activities targeted towards Maltese tourists. Other tourism-related areas which require particular attention to fully exploit their potential are activities organised by religious entities, sport-related tourism such as training camps and diving activities, and retirement homes for non-Maltese residents who may decide to retire permanently in Gozo due to its particular characteristics. Last but certainly not least, the need to professionally restore and manage a number of heritage sites is paramount to the country's drive to foster culture tourism in Gozo.

### 12.9 Knowledge-based Industry

The prime objective of the European Union is to improve the quality of life of its citizens and to foster a cutting-edge infrastructure to enhance business activity, with minimum intermediation and at an affordable cost. Since the early 1990s, businesses and individuals alike have had to be responsive to this 'Information Age' in order to remain relevant in today's economic realities. Modern technology and different modes of communication are no longer considered as symbols of luxury and status, but are seen to be basic tools needed by everyone to grasp opportunities and address challenges in a 'Knowledge Society'. Gozo is no exception. Firms are at the heart of innovation, but they do not operate in isolation. The drive to foster a knowledge-based industry in Gozo should be

included as part of the proposed Regional Policy aimed at promoting national innovation in areas of competence.

Policy measures are needed to integrate science and technology with innovation. Encouraging and supporting the formation of clusters in Gozo, which are commonly known as concentrations of firms and institutions that are interconnected and where geographic proximity facilitates this interaction, could contribute to the attainment of such an objective. Furthermore, the financing of collaborative research in Gozo through incubator units, involving networks with industry and links with commercialisation, is another potential enabler for Gozo to create employment opportunities. Knowledge will be created, diffused and subsequently adopted, and in addition, an economic activity will be generated during the process in the production of know-how. Potential opportunities are envisaged along these lines in ICT, the development of renewable energy, and pharmaceutical products.

The provision of the necessary assistance to encourage young people with entrepreneurial ability and ICT skills to set up their own business in ICT-based services is being proposed to reduce the number of jobs which depend on seasonal factors. Higher education needs to engage with regional clusters, and the Gozo University Centre has a major role to play in this regard. In fact, a dual activity will be created both in business-related services and educational facilities.

The eco-Gozo vision needs to be translated into an immediate action for a gradual substitution to environmental-friendly energy sources as alternatives to fossil fuels. The Island's natural characteristics and elements render Gozo an 'open-air laboratory' to research, develop and implement various forms of renewable energy. These green sources may include wind turbines, solar and photovoltaic energy, together with biomass energy from waste generation. Furthermore, researching innovative ideas on better cost-effective techniques and on ways in which sustainable production of potable water for Malta could be achieved, is another strategy for the creation of green jobs in the Island. Knowledge can be subsequently exported to other countries that have the same climatic conditions, especially where rainwater tends to be a scarce resource. Desalination plants operating with cleaner energy and R&D initiatives connected to pharmaceutical products, to be undertaken by reputable international companies, may be additionally tapped as part of Gozo's efforts to create sustainable employment opportunities in the coming years.

**12.10 Conclusions** The 'sustainable model' proposes three key priority areas for Gozo, which offer great potential to create employment opportunities. These areas were identified as the agro-cultural sector, tourism, and the knowledge-based industry. The maximisation of Gozo's potential will be obtained by the interrelation of the identified sectors with regional innovation and R&D activities. The private sector will be the main player to support the transition from 'made in Gozo' to 'created in Gozo', clearly portrayed by the proposed 'sustainable model' for Malta's

sister island. This model has as its centrifugal point the eco-Gozo vision, and the task ahead is to apply a project management approach in order to foster an environment that is conducive to the implementation of the recommendations outlined in this chapter.