



A **BETTER**
QUALITY
OF **LIFE**

2006-2010
PRE-BUDGET
DOCUMENT

“We want to discuss with you the decisions that will guarantee a future of excellence for you and your children”

FOREWORD

My Government believes in our country’s potential to secure for itself a future of excellence. We believe in this potential; we are determined to achieve it.

Excellence must permeate the essence of what we do across every sector of our life. We must seek to be the best in what we do and take pride in doing so. This attitude towards work and life is the guarantee of Malta’s success in front of the challenges that lie ahead of us.



In the 2005 Budget, my Government established the Economy, the Environment and Education as the three pillars of its activity. We are now taking stock of the first two quarters of this year in the process of preparing the 2006 Budget. And we want to involve you in this process. We started this consultation in the dialogue meetings I held over the past three months. And we want this process to continue. It is for this reason that my Government has decided to publish this Pre-Budget Consultation Document in the belief that your contribution will help us prepare a better budget.

The yearly Budget process is not solely a decision on how your taxes are spent, what proportion goes to Health, Social Security, Education, Environment, Security, Infrastructure, Government Administration, and other important sectors. The Budget enables a country to take important strategic decisions that will reap fruits in the years ahead. And we want to discuss with you the decisions that will guarantee a future of excellence for you and your children.

On behalf of my Government, I am inviting you to help us prepare the 2006 Budget by participating in the Pre-Budget Consultation process. Your contribution will build a stronger alliance for excellence.

My Government is determined to deliver. Your commitment is decisive for Malta to excel.

A handwritten signature in dark ink, which appears to read "Lawrence Gonzi". The signature is fluid and cursive, with a long, sweeping tail on the letter 'z'.

Lawrence Gonzi
Prime Minister and Minister of Finance

30th July 2005

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A Vision in the Making

CHAPTER 01

01.1 A future of excellence for you and your children

Government's vision for Malta is that of a dynamic, high-value-added economy founded on competence, skills and excellence and capable of sustaining a high standard of living for its entire people. Our mission is clear: to ensure that each and everyone, whatever the talent, can contribute to economic growth thus securing a future of excellence for you and your children.

To realise this vision and mission requires a programme of action. Such a programme necessitates a number of choices and has to take account of our actual strengths, circumstances and the challenges we face as a nation. The choices it involves include those between popular quick fixes as against long-term solutions, security versus adaptability, embracing the need for change versus shying away from it.

In taking such decisions, disagreements and controversy may emerge; nevertheless, such a process cannot be avoided. Our country need not fear change. Our intention as Government is to manage change by preparing the ground for creative enterprise, fruitful investment opportunities and more and better jobs for a trained workforce.

The previous Nationalist government has already managed a successful radical transition that opened up new political and economic horizons for Malta. We have transformed this nation from an undemocratic government-controlled economy with limited educational opportunities, poor infrastructure and inadequate services into a democratic society with a liberalised open economy driven by private initiative and boasting far better educational opportunities, health services, and solidarity structures. This transformation places our nation on an equal footing with other European countries.

Malta is once again at a crossroads. Fundamental changes are taking place in the international economic environment that go beyond the normal economic cycle.

The old formulae for economic development in Malta, valid though they were in their day, are losing their relevance today and will be completely obsolete tomorrow. As a nation, we must adapt to new economic realities and must improve our economic productivity to hold our own in the changing world economy. This is a challenge we must recognise and address resolutely. Failing this, an increasingly mammoth question mark will be placed against our ability to maintain our current standards of living, let alone to sustain the gradual improvement to which we have become accustomed over the years.

It is important to develop a measure of national consensus with regard to the challenges that we face and the way to address them. If the changes are backed by national resolve they are much more likely to succeed. This consultation document is intended as a step forward in the road towards attaining such an end. It outlines the challenges we face and sets out the options open to Government in order to improve national competitiveness, thus consolidating Malta's progress towards renewed economic growth and prosperity. It will hopefully inaugurate a national dialogue in which all sectors of society - political parties, constituted bodies, other non-governmental organisations and, most important, the general public itself - will be able to participate.

Nevertheless, after this dialogue, decisions need to be taken. And we want to ensure that the decisions taken are the best decisions to secure economic growth and social development for Malta.

01.2 The rationale for this document

This consultation document, intended as a precursor to the 2006 budget, takes as the basis of its vision a five-year timeframe (2006-10).

It has become a well-established practice for Maltese governments to publish White Papers as a basis for public consultation on major policy proposals and key items of legislation. Indeed it is fair to say that the publication of a White Paper on a particular policy initiative marks out that initiative as one to which Government attaches particular importance.

Government's annual Budget merits similar treatment. The annual Budget is not merely an accounting statement or a cashflow

forecast; rather, it is an authoritative statement of Government's priorities as represented in the most tangible possible manner by the funds allocated for their fulfilment. As such, it is one of the most significant documents a government can publish. Moreover, the Budget is an important economic and social policy tool and a key instrument through which the challenges facing Malta should be addressed.

While it would be counterproductive to announce certain fiscal measures in advance, the Budget as a whole need not and should not be shrouded in secrecy. Henceforth, Government will set out its views and options regarding the budgetary priorities for public scrutiny and consultation well before the Budget is formally presented to Parliament - such is the purpose of this document. It also constitutes one of three key strategic documents setting out Government's agenda for the coming years, the other two being:

- the National Reform Programme, which is intended to address Malta's competitiveness in terms of the EU's Lisbon Agenda;
- the National Strategic Reference Programme, which will outline the strategic priorities for Objective 1 structural funds from the EU for the period 2007-13.

01.3 The focus of this document

Already in the past, Government has engaged in pre-budgetary consultation reports as a basis for discussion. This document builds upon this experience. It is also intended to widen the consultation process in two ways.

Firstly, the consultation process is being extended to engage all our society, social partners, civil society and the general public in addition to the Malta Council for Economic and Social Development (MCESD). For the first time, ordinary citizens can see for themselves what Government is proposing by way of priorities and can express their views on whether those priorities are the right ones or whether there are other, more important issues which have been omitted. To facilitate the reconsideration of proposals, the consultation process is being initiated earlier in the year than was previously the case. The consultation period will extend to 30 September 2005. Any views or comments may be sent to the Prime Minister's Secretariat using the contact details given below.

Secondly, the scope of the consultation document itself is being widened. It is not limited to macroeconomic analysis or fiscal and economic measures as traditionally understood. It reflects the breadth of the changes which are necessary across most of the spectrum of public policy to address the challenges Malta faces and to improve its competitiveness. It focuses on priorities for action leading to specific proposals for the period to 2010 (although these cannot be couched in very detailed terms at this stage).

01.4 The budgetary planning period

A risk attached to annual budgeting is that it may foster a short-term mentality whereby decision-makers do not consider the long-term implications of their decisions. Indeed, each year's Budget becomes simply a copy of the previous year's with minor adjustments.

Of course, it is unrealistic to think that those preparing the Budget for a given year can start with a clean sheet. Most of the expenditure incurred by Government goes to meet legal obligations, to fund longstanding policy programmes, or to complete projects begun in previous years. In any single year, truly discretionary expenditure - that is to say, funds which can be shifted to different priorities as Government deems fit - actually represents a fairly small proportion of the Budget. This reality will not be the case were one to take a period of several years, provided that each year's Budget is drawn up to a consistent vision. Hence, the importance of placing the annual Budget firmly within the context of a longer-term programme. Likewise, it is hoped that submissions from the public concerning the priorities set out by this document will be made with the longer term view at their centre.

The five-year time period spanned by this document also represents a move towards inter-generational budgeting, whereby the impact on future generations of decisions taken now is kept in mind. A healthy, stable economy requires financial sustainability. This sustainability, in turn, requires that each generation should live within its means and should not pass on its costs as a burden on future generations. Nevertheless, investments that will yield their benefits over more than one generation may require the sharing of the financial outlay with future generations.

In the past, Government has already set out its intention to arrive at financial sustainability within the period covered by this document. This target remains imperative from the point of view of economic competitiveness. Here, too, it is hoped that submissions will keep this aspect firmly in view: realistic budgeting is about making choices, and suggestions to increase spending in one particular area will surely carry more weight if they are accompanied by indications as to where offsetting reductions can be made.

01.5 The way ahead

Planning for the medium to long term must be a recurring exercise. The priorities established now must be set according to the best possible assessment of trends to 2010, but it is not realistic to expect these priorities to remain valid throughout the whole period in their entirety as circumstances may change in a manner impossible to predict now. It is therefore the intention to revisit the established priorities each year and to prepare a document such as this one (albeit with refinements in the light of experience) as a basis for public consultation in advance of each year's Budget.

Submissions on this document should be sent by 30 September 2005 to:

Hon. Tonio Fenech
Chair
The Budget 2006 Planning Team
Prime Minister's Secretariat
Office of the Prime Minister
Valletta CMR 02

Email: budget2006@gov.mt



The Challenges Facing Malta

CHAPTER 02

AN OVERVIEW OF THE INTERNATIONAL ECONOMIC SITUATION

An extensive review of the international economic situation is beyond the scope of this document. However, given the openness of the Maltese economy, it is pertinent to provide a general overview of the international economic situation in order to place local developments within an appropriate international context.

After averaging about 6.0 per cent in late 2003 and early 2004, global economic growth moderated, accompanied by a significant slowdown in industrial production and global trade, reflecting a return to a more sustainable pace of expansion coupled with the adverse impact of higher oil prices. Global GDP growth is projected to be in the region of 4.3 per cent in 2005 or 0.8 percentage points lower than in 2004 and, to remain at about that level during 2006. After growing at 9.4 per cent in 2004, world trade growth is expected to slow down to 7.4 per cent this year.

At 3.6 per cent, economic growth in the USA this year is likely to be stronger than expected, largely driven by domestic demand. Asian growth, especially in China, is expected to remain solid. Over the past few years, the East Asian economies have provided a strong impetus to world trade.

In Europe, after an encouraging upswing during the first half of 2004, growth weakened in the second half of last year, in parallel with falling consumer and business confidence. Although on the surface recorded growth picked up somewhat in early 2005, it has slowed down again and no decisive upturn is expected before later on this year. In the euro area, real GDP growth is expected to be in the region of 1.2 per cent this year as against 1.8 per cent recorded in the course of last year. Box 1 provides an overview of the current projections in respect of the world economy in 2005 and 2006.

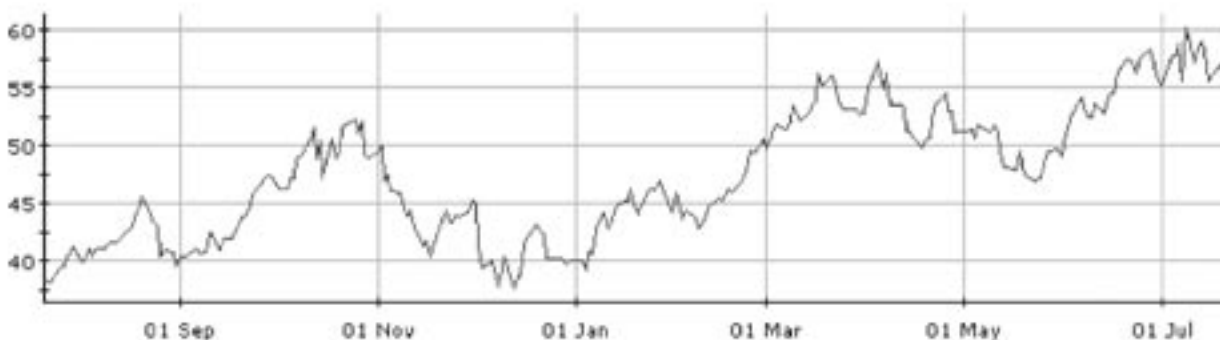
The risks to the international economy are still very tangible. Globally, investment expectations are deteriorating. In addition, the high prices for energy resulting from the ever increasing oil prices – recently exceeding \$61 per barrel – are placing increased pressures on the already vulnerable international economic situation. Oil prices are expected to remain high in the near future and therefore continue to pose risks to international economic growth and inflation.

Key Economic Indicators: summary projections

Real GDP growth	2004	2005	2006
USA	4.4	3.6	3.3
Japan	2.6	1.5	1.7
Euro area	1.8	1.2	2.0
OECD	3.4	2.6	2.8
Inflation	2004	2005	2006
USA	2.1	2.4	2.2
Japan	-1.2	-0.9	0.0
Euro area	1.9	1.5	1.7
OECD	2.0	1.9	1.9
Unemployment rate	2004	2005	2006
USA	5.5	5.1	4.8
Japan	4.7	4.4	4.1
Euro area	8.9	9.0	8.7
OECD	6.7	6.7	6.4
World trade growth	9.4	7.4	9.4

Source: OECD (May 2005) Economic Outlook

Chart 1. Price movements for Brent Crude Oil (12-month period to 21 July 2005)



THE IMPACT OF OIL PRICES ON THE ECONOMY

According to various analysts increasing oil prices will lead to slower global economic growth in 2005 and beyond but not necessarily to a substantial downturn in economic activity or recession.

Oil prices tend to be volatile for various reasons. Since oil is indispensable for many economic activities, the price elasticity of global oil demand is low. In addition to this, the income elasticity of the demand for oil is high as a result of the close relationship between the level of economic activity and the demand for energy. Moreover, as a result of the general investment and market conditions in the oil market, the price elasticity of oil supply is low.

Global oil demand is determined primarily by the strength of global economic activity and is influenced only marginally by fluctuations in oil prices, particularly in the short to medium term. Therefore, small changes in the balance between global oil demand and supply are likely to cause large fluctuations in oil prices.

At an international level, higher oil prices result in a transfer of income from the oil-importing to the oil-exporting countries. At a national level, increasing oil prices result in a transfer of income from the consumers to the energy providers. Such shifts result in lower demand for other goods and services both at an international and local economy level, thereby resulting in a decline in world and national aggregate demand especially in the short run.

As a result of higher oil prices production costs increase in almost all industries, but particularly in energy intensive sectors such as transport. To the greatest extent possible, businesses will normally try to pass on their resulting higher costs onto their customers. Therefore, increasing oil prices are likely to lead to higher inflation. In turn, this might lead to demands for wage increases in order to compensate for losses in purchasing power. Where businesses are unable to pass on the impact of higher oil prices onto their customers, drops in profit margins and in returns on capital ensue. Apart from the consequences on investment, such an eventuality might result in a lower demand for labour.

Various multilateral institutions carried out simulation exercises on the impact of higher oil prices on inflation and output. A recent International Energy Agency (IEA) report entitled "Analysis of the impact of higher oil prices on the global economy" maintains that a sustained \$10 per barrel increase in oil prices would result in a drop of 0.5 and 0.4 per cent respectively in world and OECD GDP in the first two years of higher prices. Within the OECD, inflation would rise by 0.5 per cent. Unemployment would also increase. Euro-zone countries would see their GDP dropping by 0.5 per cent and inflation rising by 0.5 per cent in the first year. However, oil-importing developing countries would be most adversely affected. The IEA estimates that the loss of GDP would be 0.8 per cent in Asia, 1.6 per cent in poor, highly indebted countries, and 3 per cent in Sub-Saharan Africa.

The Maltese economy is exclusively dependent on oil for its energy requirements. Therefore, rising oil prices have impacted negatively on local output and inflation. The impact of such rising prices on the various economic sectors within the Maltese economy are reckoned to have depressed Maltese GDP growth by an estimated 2.0 per cent in nominal terms and 1.9 per cent in real terms in the first quarter this year.

02.1 An overview of the Maltese economy

Our economic performance over the past few years has been highly influenced by domestic and international economic and political conditions. The uncertainties created on the domestic front by the intense debate on EU membership, as well as by the unstable international economic and political conditions that resulted in periods of relative economic slack for many national economies, influenced our economy. The Maltese economy may be said to have held its ground even in the context of such an adverse international environment.

In the past few years, local real economic growth has hovered between 1.0 and 2.0 per cent. Subsequent to registering a 1.0 per cent increase in real terms in 2002, our Gross Domestic Product dropped by 1.9 per cent in 2003 and grew again by 1.0 per cent in 2004. Such rates of growth were comparable with those recorded at European level.

In the past five years, real private household consumption expenditure registered positive growth rates, with the exception of 2002. In the course of last year, real private household consumption expenditure grew by 0.8 per cent over the previous year.

Real government final consumption expenditure registered positive growth rates, growing by 0.6 per cent to Lm348.8 million in 2004. Real growth in government consumption expenditure resulted mainly from increased outlays on health and education, amongst others.

Table 1. Expenditure components of Malta's GDP

	2000	2001	2002	2003	2004
	Lm thousands				
Constant 2000 prices					
Household final consumption	1,047,544	1,050,220	1,039,122	1,059,604	1,067,905
NPISH final consumption	25,816	25,314	26,589	27,434	27,023
General government final consumption	323,830	324,283	336,899	346,547	348,763
Gross capital formation	435,885	298,920	231,073	340,708	371,847
Exports of goods and services	1,572,823	1,550,472	1,595,218	1,531,991	1,581,723
Imports of goods and services	1,740,099	1,590,363	1,553,005	1,662,012	1,736,261
GROSS DOMESTIC PRODUCT (ESA 95)	1,665,799	1,658,846	1,675,896	1,644,272	1,661,000
Rate of growth		-0.4%	1.0%	-1.9%	1.0%
At market prices					
GROSS DOMESTIC PRODUCT (ESA 95)	1,665,799	1,688,960	1,740,052	1,793,278	1,847,190
Rate of growth (per cent)		1.39	3.03	3.06	3.01

NPISH stands for Non-Profit Institutions Serving Households

ESA95 refers to the European System of Accounts which is an internationally harmonised economic reporting framework.

After recording a high of Lm435.9 million in 2000, real gross capital formation declined in the following two years, to recover in 2003 and 2004. In the latter year, it grew by 9.1 per cent, to Lm371.8 million, thereby reflecting increased levels of confidence in the potential of our economy.

In terms of performance, our exports of goods and services recovered after dipping in 2001 and 2003. In the course of last year, exports of goods and services surged by 3.2 per cent in real terms over the previous year to Lm1,581.7 million. Although, in the past few years, our export sector was adversely hit by the effects of globalisation, which resulted in falling prices for some of our main export goods, Malta is still managing to export more in volume terms.

Following a period of negative growth in 2001 and 2002, real imports of goods and services experienced positive growth rates during 2003 and 2004. This increase in imports served to offset the positive impact of the increase in exports on GDP growth during the same period. The fall in import prices during 2004 served to further stimulate the growth in imports of goods and services in real terms.

ECONOMIC GROWTH: FIRST QUARTER OF 2005

In the first quarter this year, real economic growth contracted marginally when compared to the comparable quarter last year. However, many sectors in the Maltese economy experienced an improvement in their overall performance when compared to 2004. Improvements were recorded in the following sectors: Real Estate, Renting and Business Activities; Construction; Transport, Storage and Communication; and Wholesale and Retail Trade. At the same time, a decline in the gross value added of Electricity, Gas and Water Supply, as well as of the Manufacturing sector, was recorded.

The drops in the energy and water sectors resulted from the substantial costs imposed by the ever-rising price of oil. At the same time, sub-sectors within Manufacturing were hit by falling prices for their exports and temporary drops in their export levels. While the continuing rise in the international price of oil is still giving room for serious concern and may affect economic growth negatively in the coming months, indications of a pick-up in export orders are giving room for optimism with regard to the future of our export-led manufacturing sector.

Household consumption expenditure grew nominally by Lm7.0 million, or 2.7 per cent, when compared to Lm258.8 million in the first quarter of 2004. In real terms, this translates into a drop of 1.0 per cent. General government final consumption expenditure declined by Lm6.2 million as a result of Government's continuous efforts to control the fiscal deficit. In real terms, this is equivalent to a decline of 5.6 per cent. Lower expenditures on materials and supplies across Government contributed to this drop. While these drops in expenditure are giving the desired results in so far as the control of the fiscal deficit is concerned, they are leaving a negative impact on our Gross Domestic Product.

Although painful in the short term, these results are consistent with the belief that Government's relatively large presence in the economy should be reduced. They also bear out the belief that economic growth should be mainly spurred by the activities undertaken by the private sector, especially by export-oriented enterprises.

In the first quarter of 2005, outlays on gross fixed capital formation advanced from Lm86.7 million to Lm96.2 million, or 10.9 per cent. In real terms, investment expenditure increased by 8.9 per cent. This substantial increase in capital accumulation is essentially a sign of continued confidence in the prospects of the Maltese economy.

Also in the first quarter this year, real exports of goods and services dropped by 14.1 per cent, mainly due to lower export prices, while imports of goods and services also dropped by 4.1 per cent to Lm371.4 million.

02.1.1 The Balance of Payments

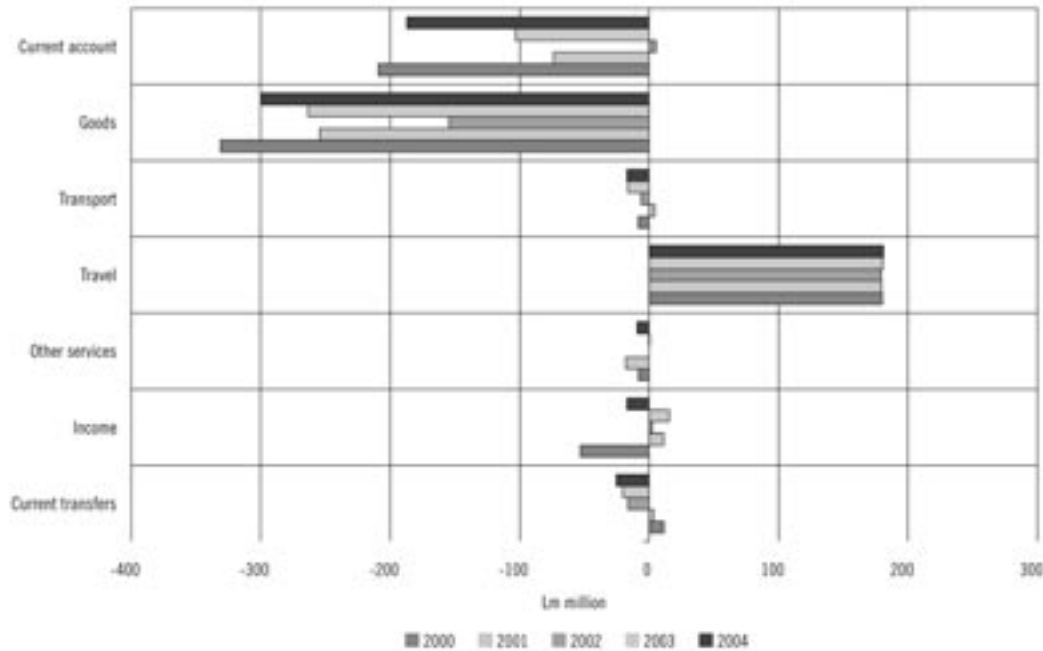
The Maltese economy, with the exception of 2002, recorded a current account deficit that varied from a high of Lm209.2 million during 2000 to a low of Lm73.6 million during 2001.

A negative trade balance in the goods account contributed to the negative trend in the current account balance. In fact, as indicated in Chart 2, the visible trade gap in the goods account ranged from Lm331.0 million during 2000 to Lm154.2 million during 2002. Indeed, the negative net balance in the goods account has been essentially affected by an increasing imports bill that was consistently higher than the declining export earnings from the export of goods. More recently, during the first quarter of 2005, the net balance in the goods account deteriorated by Lm51.4 million, from a net deficit of Lm34.7 million during the first quarter of 2004 to one of Lm86.1 million during the corresponding period in 2005.

In contrast, a positive net balance in the services account has regularly cushioned this negative effect on the current account balance. Nevertheless, the net surplus registered over the past three years in the services account went down from Lm173.2 million during 2002 to Lm154.7 million during 2004. Indeed, this declining trend seems to be resulting primarily from the transport account of the Statement. The economy is registering an increasing negative net balance that is being fed by payments for transportation services provided by foreign enterprises that are higher than the receipts from the provision of similar services to local enterprises by foreigners. Also, the net positive balance in the travel account seems to have settled at

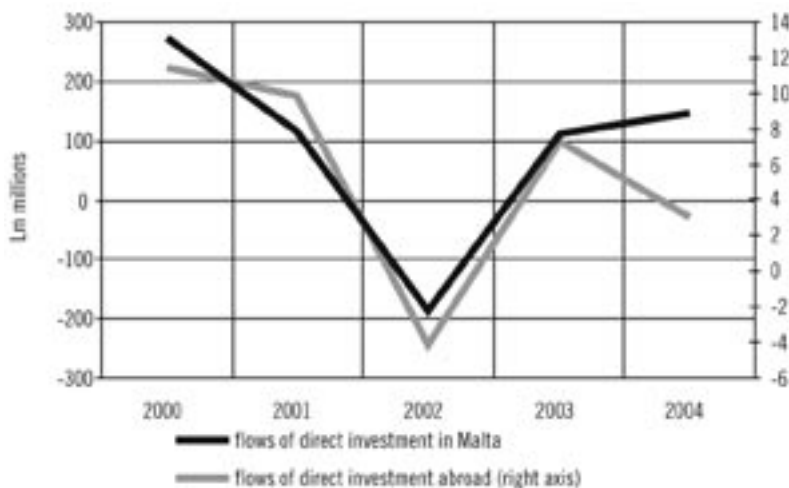
around the Lm180-million mark; consequently, this is not contributing to the reining-in of the declining trend being recorded in the services account. Additionally, during the first quarter this year, the net balance in the services account improved by Lm6.2 million, from a net surplus of Lm18.8 million during the first three months of 2004 to one of Lm25.0 million during the comparable period in 2005.

Chart 2. Current account balance 2000 - 2004



In the capital and financial part of the Statement, direct investment in Malta shifted from a rise of Lm272.6 million during 2000, to a decline of Lm184.9 million during 2002, to subsequently increase by Lm145.0 million during 2004. On the other hand, direct investment abroad was shaped by an increase of Lm11.4 million during 2000, a fall of Lm4.1 million during 2002, and an increase of Lm3.0 million during 2004. In addition, during the first quarter this year, direct investment in Malta was characterised by an increase of Lm20.0 million as opposed to an increase of Lm11.9 million during the corresponding quarter in 2004. Direct investment abroad was marked by a fall of Lm12.3 million as against a decline of Lm8.5 million during the same quarter last year. Chart 3 provides a graphic representation of the flows of direct investment during the past five years.

Chart 3. Flows of direct investment 2000 - 2004



.....
Foreign direct investment improved last year to Lm145 million. Improvements were also recorded in the first quarter this year

Foreign direct investment is a source of technology and knowledge-transfer between countries, thus contributing directly to improved competitiveness. Malta's performance in this regard is creditable and indicates that its attractiveness with regard to FDI is still high - a fact that has also been recognised by the UN's World Development Report of 2004 that lists Malta among the front-runner countries with high FDI potential and performance. This rating is particularly important, given an environment where emerging economies are proving more attractive for FDI inflows and where, as a result, the context is increasingly one of cutthroat competition.

In a reflection of the above shifts, the reserve assets of the country were marked by a drop of Lm97.6 million during 2000, an increase of Lm115.3 million during 2001, another increase of Lm121.8 million during 2002, a subsequent increase (albeit lower than the previous one) of Lm54.7 million and then a drop of Lm69.5 million during 2004. This downward trend in the reserve assets was also replicated during the first three months of 2005, as these have dropped by Lm36.4 million against a fall of Lm2.3 million in the first quarter of 2004.

MONETARY POLICY

While interest rates in Malta have in the past few years been converging to EU levels, an increase in the central intervention rate of 0.25 basis points was announced by the Central Bank of Malta in April 2005. This move came about partly because of the decline in foreign reserves.

In May 2005, Malta joined the process of ERM II (harmonisation of exchange rates eventually leading to adoption of the euro) at a central parity rate of 0.4293 Maltese lira against the euro. The commitment of the monetary authorities to maintain the lira/euro exchange rate at the central parity rate has proved to be a stabilising factor and has led to a sustained improvement in financial-market sentiment. This move has stabilised the external reserve situation at the Central Bank and enabled interest rates to be maintained at the same level.

At the same time, the higher interest rate differential in favour of the Maltese lira resulting from the removal of the sterling and the US dollar - which carried relatively high interest rates - from the currency basket upon entry to ERM II, highlighted the attractiveness of Maltese lira assets, as evidenced by the strong demand for subsequent Government bond issues.

02.1.2 Government Finance

Government's fiscal operations for 2004 resulted in an improvement in public finances over the previous year. This improvement is evident both with regard to the structural deficit (that is, the deficit of the consolidated fund of budgetary central government), and to the Maastricht deficit of the General Government¹. Indeed, as shown in Table 2, while the structural deficit improved from Lm105.4 million in 2003 to Lm94.0 million in 2004, the Maastricht deficit improved from Lm189.8 million to Lm96.7 million².

Table 2. Transition between Consolidated Fund deficit and General Government deficit

	2000	2001	2002	2003	2004 *
	Lm thousands				
Structural deficit of Consolidated Fund transactions	-94,727	-85,292	-87,675	-105,445	-94,034
Adjustments to the Consolidated Fund:					
Loans granted (+)	11,807	10,984	9,539	4,095	0 ¹
Loans repayments (-)	-1,658	-2,873	0	-153	-100 ²
Equities, acquisitions (+)	250	286	35	12	12 ³
Equities, sales (-)	0	0	0	0	0
Other financial transactions	-1,689	-769	-397	0	-1,458 ⁴
Difference interest paid (+) and interest accrued (-)	-3,941	1,447	361	-2,279	-1,545 ⁵
Other accounts receivable (+) and payable (-)	1,526	1,727	3,760	-13,100	5,085 ⁶
Net Borrowing (-) / Net Lending (+) of public entities forming part of Central Government	-17,139	-14,517	-17,798	-22,699	-5,947⁷
Other adjustments (+/-)					
Treasury Clearance Fund flows in deposits accounts	-2,045	-4,766	-127	748	-809
Treasury Clearance Fund flows in advance accounts	-11,424	-11,255	364	651	726
Treasury Clearance Fund flows in unallocated stores	9,549	0	2	106	17
Sinking Fund interests' received	-21	0	0	1,756	1,905
Loan Cancellation in Kalaxlokk Co. Ltd	0	-6,686	0	0	0
Malta International Airport special dividend	0	0	-11,287	0	0
Malta Shipyards adjustment	0	0	0	-52,933	0
Net Borrowing (-) / Net Lending (+) of Central Government (S.1311)	-109,512	-111,714	-103,223	-189,240	-96,148
Net Borrowing (-) / Net Lending (+) of Local Government (S.1313)	993	890	465	-525	-553⁸
Net Borrowing (-) / Net Lending (+) of General Government (S.13)	-108,519	-110,824	-102,758	-189,765	-96,700

1. Consolidated Fund loans to Malta Drydocks, Malta Shipbuilding and Gozo Ferries Co. Ltd. (all 100% Government owned).

2. Repayments of loans made by Malta Government Investments Ltd / Malta Development Corporation, Malpro Ltd and Water Services Corporation.

3. Acquisition of shares in Multilateral Investment Guarantee Agency (subscription shares), European Bank for Reconstruction and Development (subscriptions shares), and Malta Government Privatisation plc. (increase in shareholding).

4. Non-trading profits among Central Bank of Malta transfers to Government

5. Difference between the interest paid and accrued of the Treasury Bills, Malta Government Stocks and Foreign Loans

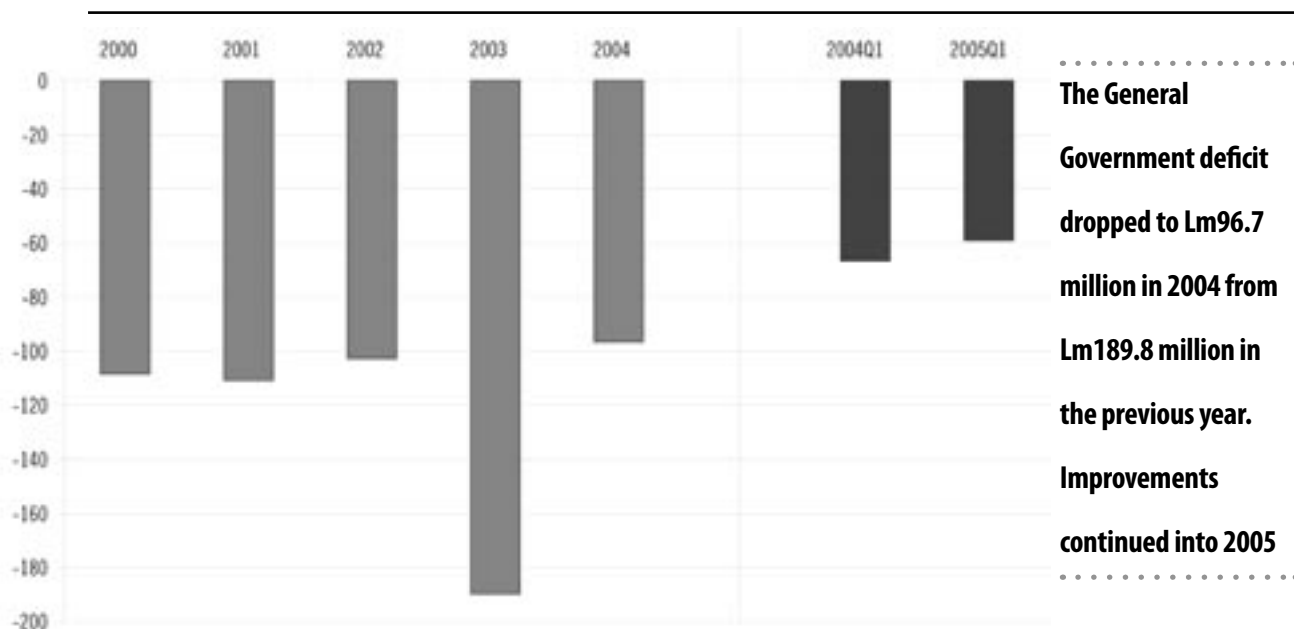
6. Accruals adjustment for the main revenue earning and spending departments.

7. The net borrowing (-) / net lending (+) of the extra budgetary units forming part of the central government sector (based on a delimitation exercise)

8. The net borrowing (-) / net lending (+) of the 68 local councils

* Provisional

Chart 4. General government deficit



In order to allow for better analysis and comparisons, even on an international basis, the data used and presented here are in ESA95 format.³

The financial data of the Extra Budgetary Units and of the Local Councils, which should be considered as provisional, are accruals-based, while the financial data of the budgetary central government are cash-based. In order to conform to ESA requirements, an accruals adjustment is made. For the time being, this adjustment is based on annual surveys among the main revenue- and expenditure-generating departments and ministries.

GOVERNMENT EXPENDITURE

Intermediate consumption, that is the value of goods and services used up by the sector during the reference period, increased by Lm12.7 million in 2004. This increase (see Table 3) was mainly brought about by an increase of more than Lm10.0 million in the Operational and Maintenance Expenditure category of the budgetary central government. This increase was mainly due to the higher amounts paid in respect of medicines and medical supplies during 2004.

On the other hand, the compensation of employees (defined as the total remuneration, in cash or in kind, payable to employees in return for work done during the accounting period), increased by Lm3.3 million or 1.2 per cent. This increase is in line with any increases resulting from the annual increments and the latest Civil Service Collective Agreement. As from January 2004, the Drainage Directorate, which in 2003 accounted for Lm3.75 million in compensation of employees, was transferred from the general government sector to the Water Services Corporation.

During 2004, general government expenditure on subsidies amounted to Lm35.5 million, representing a decline of Lm4.2 million. Compared to 2003, subsidies to the shipyards declined by Lm6.4 million while subsidies to the Water Services Corporation declined by Lm1.2 million. On the other hand, an additional Lm2.2 million was expended on food subsidies.

As far as debt-servicing expenditure is concerned (main component of property income), higher interest payments on local stocks (+Lm5.1 million), and on foreign loans (+Lm1.3 million), increased the outlay on this category by Lm6.9 million, to a total of Lm75.8 million for the whole sector.

Capital expenditure during 2004 was comparatively less, by Lm20.7 million. Accruals adjustments to both years account for Lm5.0 million of this decline, while Lm6.0 million worth of land was sold during 2004.

The second most important category of expenditure (compensation of employees is the major category) is the outlay on social security benefits (including also social transfers in kind such as provision of free medicine, free diapers, etc.). In the course of 2004, this increased by Lm9.5 million, or 3.9 per cent and amounted to Lm254.9 million. Contributory benefits accounted for Lm4.4 million of this increase.

Current and capital transfers cumulatively accounted for Lm70.7 million in 2004, from Lm90.7 in 2003. The decline was due to a decrease in capital transfers to the shipyards, although this was partly offset by the outlays of Lm14.1 million on the EU Own Resources.

In the first quarter of 2005, total expenditure for the general government sector amounted to Lm225.9 million, an increase of Lm10.1 million, or 4.7 per cent. Intermediate consumption increased by Lm4.4 million. While an additional Lm2.6 million was expended within the Operations and Maintenance Expenditure category of central government, the Extra Budgetary Units added a further Lm1.9 million to this category. Expenditure on gross fixed capital formation increased by Lm3.2 million. The Fifth Italian Protocol added Lm3.2 million and further enhancement to the maritime facilities added a further Lm1.1 million, while the outlay on the new hospital declined by Lm2.5 million.

Table 3. Components of the total expenditure incurred by the general government sector

	2000	2001	2002	2003	2004	2004Q1	2005Q1
	Lm thousands						
Intermediate consumption	76,425	69,410	76,888	84,478	97,141	23,808	19,437
Compensation of employees	221,219	257,704	265,227	277,515	280,788	70,695	70,351
Subsidies payable	22,951	27,323	37,329	39,668	35,517	6,671	9,918
Property Income	64,015	63,525	69,314	69,246	75,969	18,935	16,943
<i>.of which Interest</i>	63,641	62,883	68,970	68,922	75,818	18,893	16,801
Gross capital formation, acquisitions less disposals of non- financial non-produced assets	75,890	66,944	81,797	97,808	77,132	17,376	20,559
Social benefits other than social transfer in kind and social transfers in kind related to expenditure on products supplied to households via market procedure	208,047	222,901	232,497	245,420	254,923	64,315	67,656
Other current transfers payable	22,780	29,661	26,630	28,781	53,852	11,655	15,529
Capital transfers payable	6,445	12,146	5,607	61,948	16,850	2,394	5,535
Other	0	0	0	6	13	0	0
Total general government expenditure	697,771	749,614	795,289	904,868	892,185	215,849	225,927

Based on ESA 95 Methodology
Consolidated data
2005 Quarter 1 data is highly provisional

GOVERNMENT REVENUE

Total general government revenue during 2004 amounted to Lm795.5 million, an increase of Lm80.4 million over the revenue reported for 2003 (see Table 4).

The main sources of government revenue are the taxes on production and on imports. In 2004, this source of revenue increased by Lm42.3 million, or 17.4 per cent. Value Added Tax accounted for Lm22.8 million of this increase. Revenue from Income Tax was Lm1.0 million more than in 2003, while social security contributions⁴ increased by Lm5.0 million. Current and recurrent transfers receivable increased by Lm26.4 million to Lm37.7 million, from Lm11.3 million in the previous year. The latter increase was due to an additional Lm27.8 million in grants from the EU.

In the first quarter of 2005, total general government revenue increased by Lm16.2 million, or 10.8 per cent, and amounted to Lm166.9 million. This increase was mainly due to EU grants, which added Lm16.8 million.

Table 4: Components of the General Government Sector's Total Revenue

	2000	2001	2002	2003	2004	2004Q1	2005Q1
	Lm thousands						
Market output, output for own final use and payments for other non-market output	28,338	31,385	32,790	36,305	41,198	8,313	10,139
Taxes on Production and Imports	214,432	229,800	249,881	242,885	285,185	67,427	66,815
:of which Value Added Type Taxes	102,796	111,126	127,930	116,994	139,826	32,097	38,161
Property income receivable	43,541	46,764	43,830	49,389	49,780	16,611	14,279
Current Taxes on Income, Wealth, etc.	155,349	174,481	206,786	221,506	222,483	25,921	22,849
Social contributions receivable	128,367	146,067	146,799	150,094	155,101	29,839	32,295
:of which Actual social contributions	108,792	120,383	119,969	122,271	126,415	22,762	24,320
:of which Imputed social contributions	19,575	25,684	26,829	27,824	28,685	7,077	7,975
Other current transfers receivable	3,096	3,795	4,004	3,588	4,016	1,094	834
Capital transfers receivable	19,468	6,500	8,441	11,336	37,741	1,460	19,655
:of which Capital taxes	1,901	1,982	2,289	2,681	4,019	745	1,192
:of which Other capital transfers and investment grants	17,567	4,518	6,152	8,655	33,722	715	18,462
Total general government revenue	592,591	638,790	692,532	715,103	795,504	150,664	166,866

Based on ESA 95 Methodology
Consolidated data

GOVERNMENT DEFICIT

The general government deficit for 2004 amounted to Lm96.7 million. This was basically financed by an increase of Lm97.2 million to the total consolidated debt of the sector. The deficit for the first quarter of 2005 shows an improvement of Lm6.1 million, standing at Lm59.1 million, as shown in the Tables 5 and 6. The total consolidated debt at the end of March 2005 was provisionally estimated at Lm1,294.0 million, an increase in debt of Lm29.5 million for the first quarter. Government is basically relying on MGS issues for its financing requirement.

Table 5. General Government sector's net lending (+) / net borrowing (-)

	2000	2001	2002	2003	2004	2004Q1	2005Q1
	Lm thousands						
Total revenue	592,591	638,790	692,532	715,103	795,504	150,664	166,866
Total expenditure	697,771	749,614	795,289	904,868	892,185	215,849	225,927
Net lending (+) / Net borrowing (-)	-105,179	-110,824	-102,758	-189,765	-96,681	-65,185	-59,061

Based on ESA 95 Methodology

2004 was updated from the Excessive Deficit Notification (Mar 2005)

2005 Quarter 1 data is highly provisional

Consolidated data

Table 6: General Government Sector's Net Lending (+) / Net Borrowing (-) by sub-sector

	2000	2001	2002	2003	2004	2004Q1	2005Q1
	Lm thousands						
<i>Budgetary Central Government (S1311)</i>							
Total Revenue	577,906	627,166	677,971	699,300	771,452	145,896	159,446
Total Expenditure	670,279	724,363	763,395	865,841	861,633	207,754	223,542
Net lending (+) / Net borrowing (-)	-92,373	-97,197	-85,425	-166,541	-90,182	-61,859	-64,096
<i>Extra Budgetary Units (S.1311)</i>							
Total Revenue	48,845	52,190	61,105	71,917	81,377	18,695	23,815
Total Expenditure	62,644	66,707	78,904	94,616	87,324	21,310	18,241
Net lending (+) / Net borrowing (-)	-13,799	-14,517	-17,798	-22,699	-5,947	-2,615	5,574
<i>Local Government (S.1313)</i>							
Total Revenue	13,126	13,515	13,321	12,304	12,942	2,669	2,845
Total Expenditure	12,134	12,625	12,856	12,830	13,495	3,380	3,384
Net lending (+) / Net borrowing (-)	993	890	465	-525	-553	-711	-539
General Government Sector (S.13)							
Net Lending (+) / Net Borrowing (-)	-105,179	-110,824	-102,758	-189,765	-96,681	-65,185	-59,061

Unconsolidated data

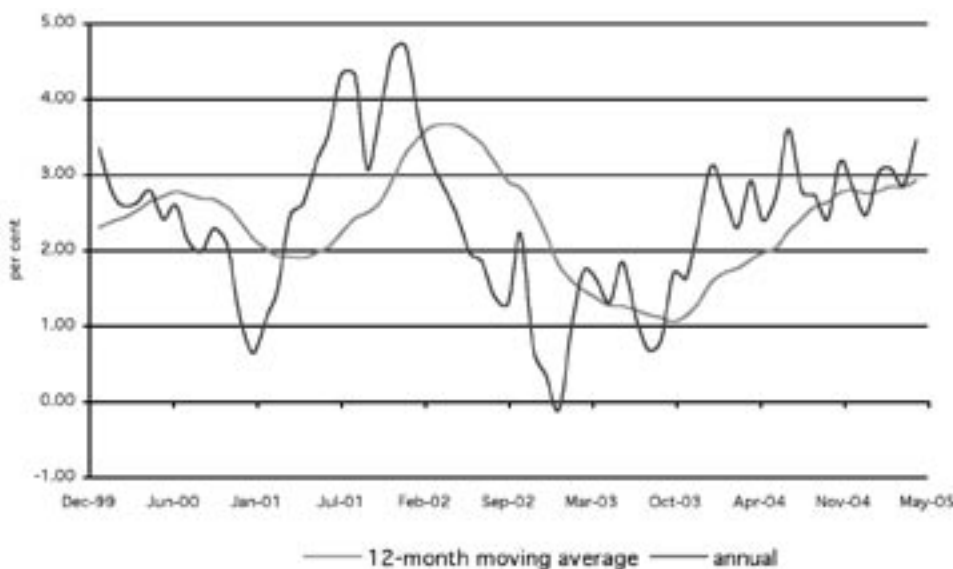
02.1.3 Consumer Prices

After declining in the latter part of 2002 and in the course of 2003, Retail Prices inflation edged up in 2004, with the twelve-month moving average rate reaching 2.92 per cent in May this year.

Although inflation has not reached the levels recorded in 2002 and earlier years, it is still a concern because it might not be consistent with the current rate of economic growth. Moreover, it contrasts with the declining trend in inflation prevalent within Malta's main trading partners. Rising inflation, in these circumstances, might indicate the existence of domestic structural-market rigidities that need addressing, not least because of the risk that they could potentially act as an additional drag on Malta's export performance.

On an annual basis, inflation in May 2005 reached 3.45 per cent. In May 2005, annual inflation in respect of Water, Electricity, Gas and Fuels reached 18.40 per cent. The rise in the price of oil is the main reason behind this increase. The other sub-indices, which exhibited substantial upward price movements, were the Food, Housing, Transport and Communication, Personal Care and Health, and Other Goods and Services with annual rates of 3.47 per cent, 6.32 per cent, 4.17 per cent, 3.87 per cent and 3.21 per cent respectively. At -0.22 per cent, the Clothing and Footwear sub-index registered a negative annual rate of growth, thereby suggesting that the market for this category of consumer goods is close to saturation point.

Chart 5. Inflation on the basis of the RPI



.....
Although still in line with
previous trends inflation is
being kept under very close
scrutiny

The rate of inflation calculated on the basis of the Harmonised Index of Consumer Prices (HICP) has broadly followed similar trends.

In May 2005, the twelve-month moving average and the annual rate stood at 2.5 per cent and 2.4 per cent respectively. Chart 6b below superimposes the twelve-month moving average rate of Malta on that of the EU25 and clearly shows that the official inflation rate of the latter is lower, at 2.2 per cent. In fact, the domestic inflation rate has been constantly higher than that of the EU25, except in the period April to November 2001 and in November 2003.

The highest annual rate was registered in the Communications sub-index at 19.9 per cent, followed by the Housing, Water, Electricity, Gas and Other Fuels sub-index at 9.3 per cent. The increase in the former sub-index is mainly attributable to the increase in the telephone tariffs introduced in June 2004, apart from the increases in taxes imposed on the services rendered in the mobile telephony sector. On the other hand, the latter sub-index manifested the same trend observed in the Retail

Prices Index for the same reason mentioned earlier. Another increase in the annual rate was registered in the Health sub-index which stood at 6.2 per cent in May 2005. Conversely, the Clothing and Footwear and the Restaurants and Hotels sub-indices exhibited negative annual rates of -0.2 per cent and -1.9 per cent respectively.

Chart 6a. Inflation on the basis of HICP

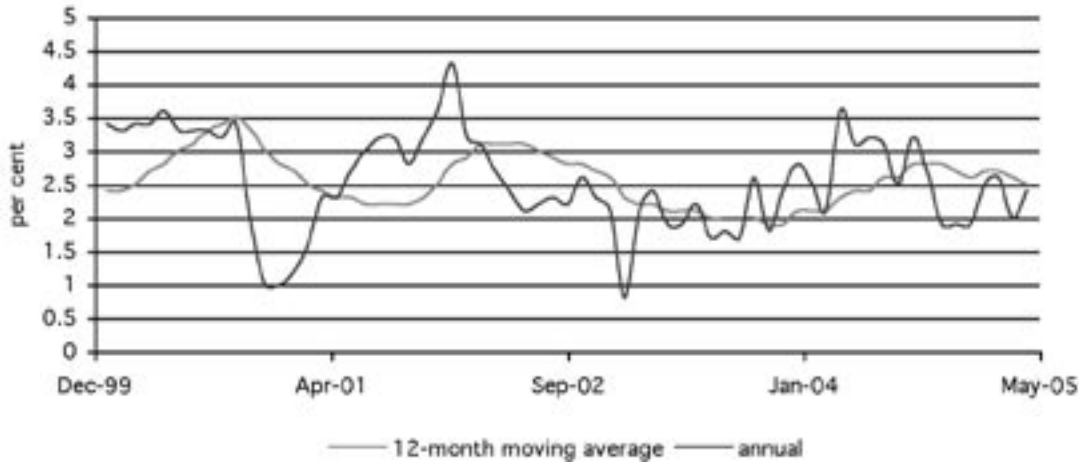
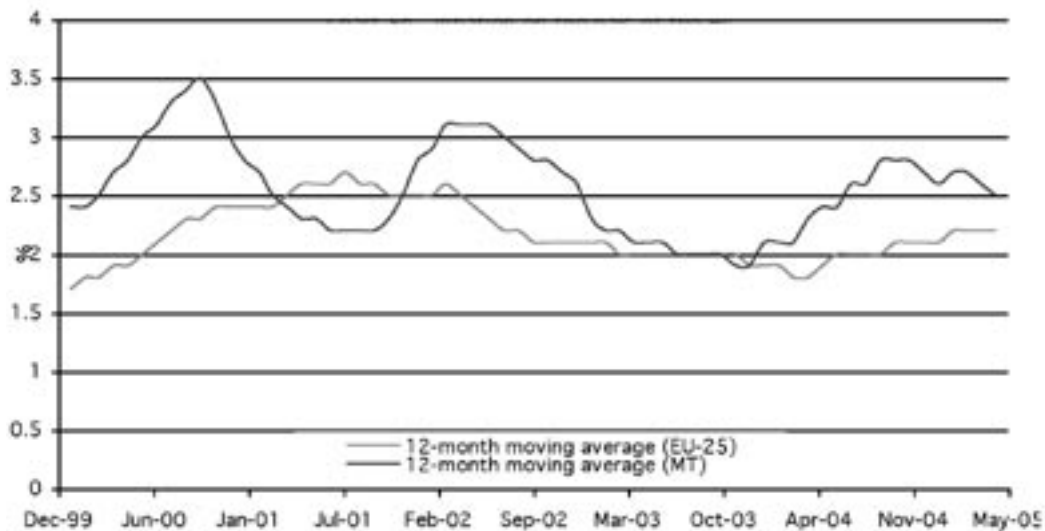


Chart 6b. Inflation on the basis of HICP



02.1.4 Labour Market

In the course of 2004, the employment situation as measured by the Labour Force Survey improved when compared to the previous year. While, at 159,138 persons, the labour supply was at the previous year's level, the number of gainfully occupied persons increased by more than 1,000, or 0.7 per cent to 148,102. As a result, between December 2003 and the following year, unemployment declined by one percentage point, to 6.9 per cent. At the same time, the long-term unemployment rate declined to 2.9 from 3.9 per cent in the previous year. The youth unemployment rate for the first quarter of 2005 stood at 15.6 per cent.

The situation in the labour market continued to improve in the first months of 2005. In the first quarter this year, the gainfully occupied population increased by 0.7 per cent over the corresponding quarter in 2004 and by 1.1 per cent over the last quarter

of that year, to 149,736. At the same time, unemployment continued to decline to 6.7 per cent of the labour force from 7.2 per cent in the first quarter last year. In the past few years, unemployment in Malta has been consistently lower than in most of the Member States of the European Union. Table 7 provides an overview of the labour market situation in the past few years.

Table 7. The labour market situation

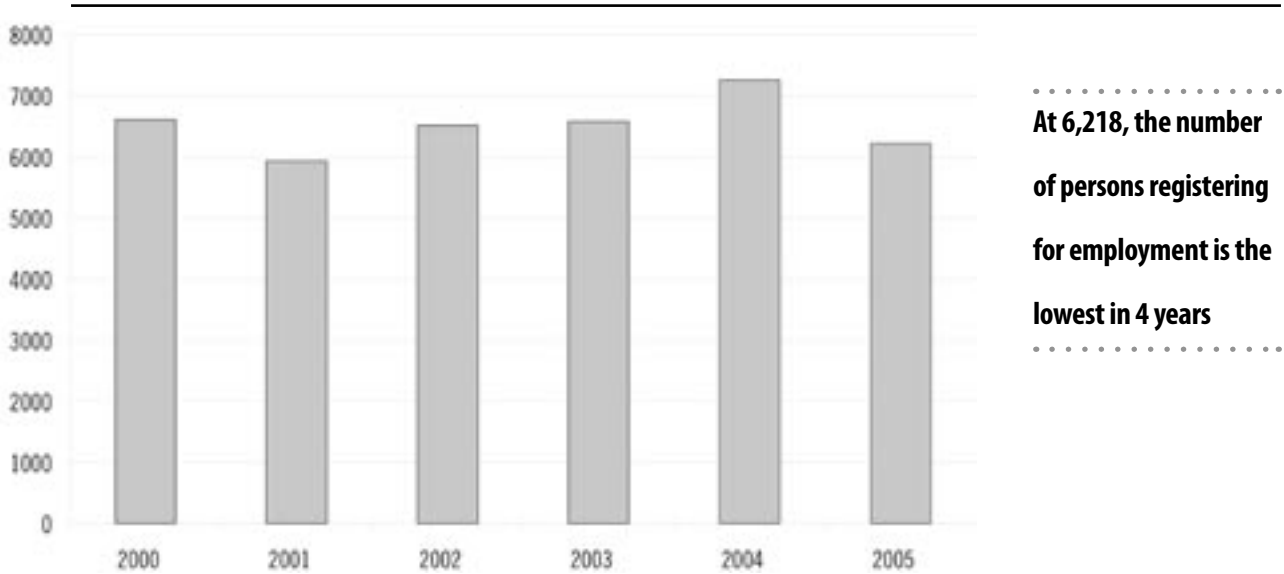
	2000	2001	2002	2003	2004	2004	2005
	December			Qtr 1			Qtr 1
Employed	145,203	145,587	148,403	147,042	148,102	148,655	149,736
Unemployed	10,151	10,164	10,875	12,596	11,036	11,528	10,838
Labour Supply	155,354	155,751	159,278	159,638	159,138	160,183	160,574
Unemployment rate	6.5	6.5	6.8	7.9	6.9	7.2	6.7
Inactive	158,995	160,044	159,744	160,976	161,863	160,440	161,699

The drops in the number of persons registering for employment are confirming the trends that were recorded by the Labour Force Survey. As at the end of June 2005, the number of persons registering for work under Part 1 of the unemployment register stood at 6,218. This is one of the lowest numbers of persons registering for work in the past 4 years, as evidenced by Table 8.

Table 8. Registered unemployed

Month	2000	2001	2002	2003	2004	2005
	Part 1					
January	7,987	6,681	7,193	7,087	8,061	7,409
February	7,996	6,704	7,200	6,968	8,124	7,346
March	7,766	6,591	7,027	6,931	7,746	7,307
April	7,452	6,341	6,943	6,794	7,704	7,022
May	7,091	6,172	6,794	6,726	7,454	6,571
June	6,609	5,934	6,518	6,578	7,255	6,218
July	6,803	6,114	6,557	7,186	7,466	
August	6,676	6,285	6,748	7,406	7,186	
September	6,594	6,215	6,771	7,233	7,382	
October	6,438	6,375	6,906	7,590	7,367	
November	6,472	6,657	7,106	7,583	7,353	
December	6,583	6,753	6,774	7,494	7,390	

Chart 7. Annual registered unemployment - Part 1: June



The positive developments in the labour market are being registered in a situation of great economic uncertainty resulting from the substantial restructuring process that is underway in our economy and the challenges of globalisation. In this context, the many initiatives being taken by Government to improve the skills base and the employability prospects of the local workforce are leaving the desired results. In the past few years, significant substantial progress was recorded in the Government's drive to improve the skills base of our labour force. The overall proportion of persons in the 20-24 age group with at least an upper secondary level of education went up to 49.1 per cent in 2004, from 40.6 per cent in 2001. While the proportion of males with this level of education increased by around 8.0 per cent in the same period, that in respect of females went up by 9.0 per cent. Tables 9-11 illustrate further these developments:

Table 9. Total day and evening course student population in higher education

Year	1994	1996	1998	2000	2001	2002	2003	2004
Post Secondary (General)	3723	3250	5185	5191	5122	4970	5169	5339
Post Secondary (Vocational)	1748	1423	1841	2615	2801	3638	3858	4473
Tertiary (day and evening)	5177	6263	7146	6362	7493	7332	9006	9245
Total day and evening course student population	10648	10936	14172	14168	15416	15940	18033	19057

Table 10. 17 year old students participating in education (%)

Year	1999	2002	2003	2004
Total participation - age 17	43%	45%	56%	66%

Table 11. 19 year old student population rate in higher education (%)

Year	1999	2002	2003	2004
General (post-secondary)	5	1	3	4
Vocational (post-secondary)	7	11	10	17
Tertiary	19	21	24	23
Total participation	31	33	37	44
Not participating	69	67	63	56

02.1.5 Manufacturing

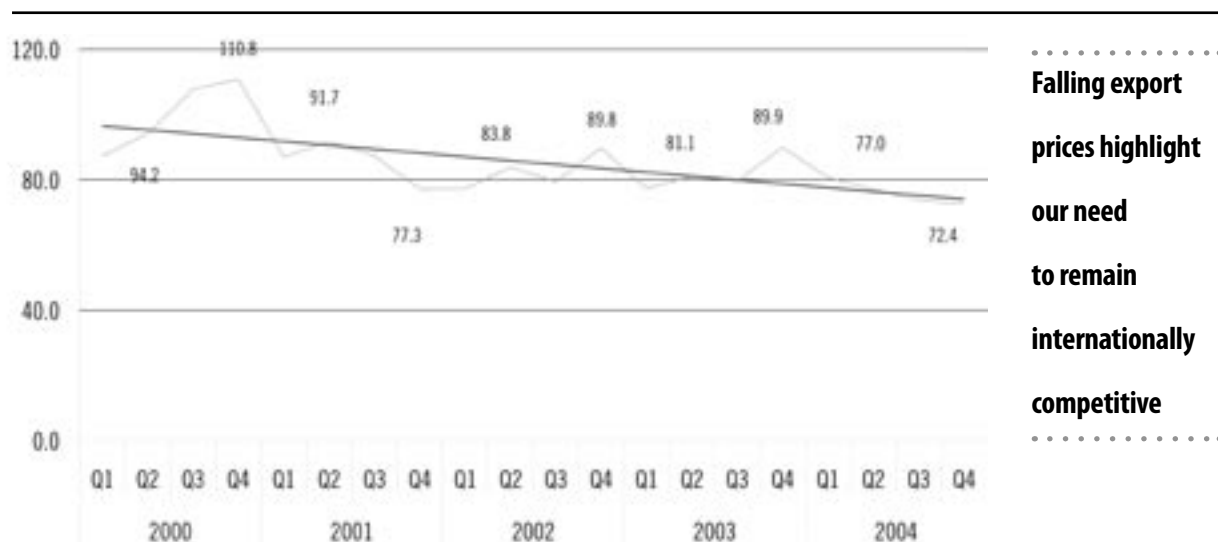
In the course of 2004, total sales by the large manufacturing enterprises reached Lm1,015.6 million. At Lm798.7 million, manufacturing export sales were marginally above the previous year's level. Manufacturing local sales reached Lm217.0 million, a drop of almost Lm13.0 million over the previous year. Table 12 provides an overview of the performance of the manufacturing sector in the past five years and in the first quarter this year.

Table 12. Manufacturing (large manufacturing enterprises)

	2000	2001	2002	2003	2004	2004 Q1	2005 Q1
Turnover (Lm millions)	1,162.2	990.6	991.7	1,028.4	1,015.6	254.8	219.2
Investment (Lm millions)	76.2	39.6	44.1	49.0	50.5	18.5	10.6
Wages/salaries (Lm millions)	118.7	115.3	118.7	123.3	120.9	30.7	30.1
Employment	22,159.0	22,516.0	21,509.0	20,149.0	19,722.0	19,730.0	19,588.0
Averages sales per employee (Lm)	52,448.2	43,995.4	46,106.3	51,039.8	51,495.8	12,914.3	11,190.5
Average earnings per employee (Lm)	5,356.7	5,120.8	5,518.6	6,119.4	6,130.2	1,556.0	1,536.7

In the course of last year, average sales of manufactured goods per employee increased by 0.9 per cent over the previous year, to Lm51,495.8 over the previous year; an increase that would have been higher were it not for the recorded drop in export prices. Indeed, our export-led manufacturing enterprises exported substantially more in volume terms than in the previous year. The drop in export prices resulted from the intense international competition in the export markets for manufactured goods. Chart 8 provides an indication of the movement of export prices for manufactured goods in the past five years.

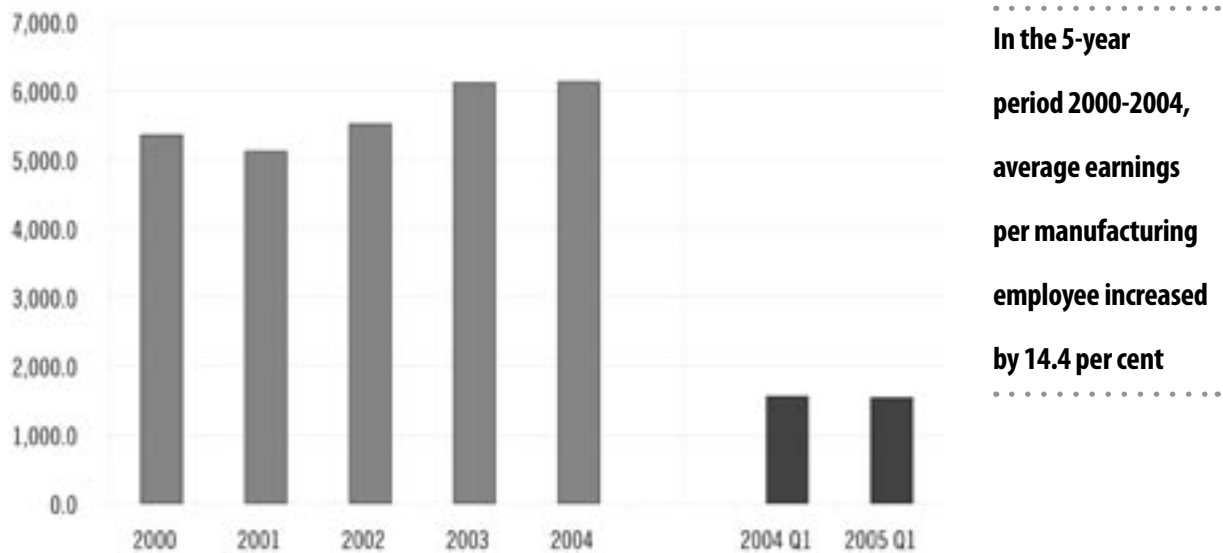
Chart 8. Export unit value (2000 = 100)



In the course of last year, manufacturing investment increased by 3.1 per cent over the previous year. Investment in these enterprises last year was the highest since 2001. Although, in the first quarter this year, manufacturing investment was lower than in the same period last year there are increasing indications that such investment will pick up in the course of this year.

In 2004, employment in the large manufacturing enterprises declined to 19,722 from 20,149 in the previous year. At the same time, the average earnings of those employed in this sector increased to Lm6,130.2.

Chart 9. Average earnings per manufacturing employee (Lm)



Some of our key exporters of manufactured goods are still being assailed by a slowdown in international demand for their products and by further drops in their export prices. As a result of a drop in export sales in the first quarter this year, the recorded turnover by the large manufacturing enterprises declined to Lm219.2 million from Lm254.8 million in the comparable quarter last year.

Although preliminary indications of growth in new export orders for the manufacturing sector give ground for renewed optimism on the growth prospects of this sector, this does not mean that the difficulties facing this sector have been overcome. Rather, these provide a new platform for more vigorous action to consolidate what has been achieved thus far and to continue attracting new manufacturing enterprises to Malta.

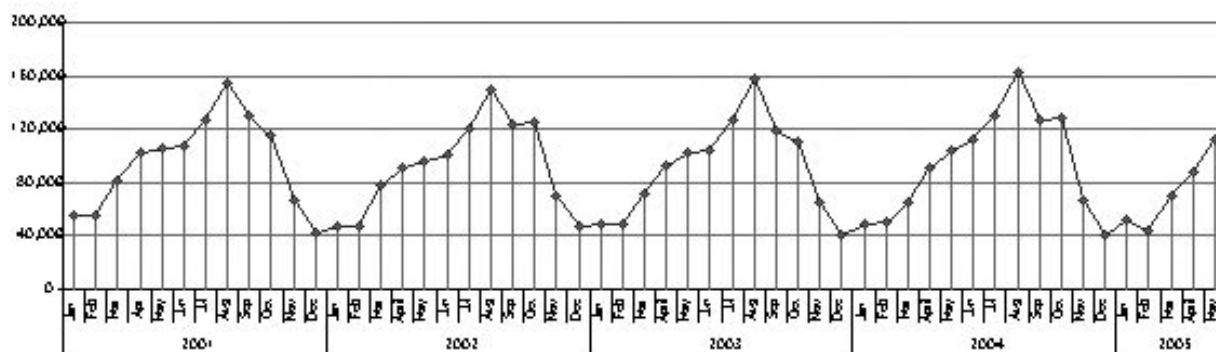
02.1.6 Tourism

After declining in 2002 and 2003, the tourism sector picked up in 2004. Further improvements in the performance of the tourism sector are being recorded in the course of the current year. Indeed, after increasing by 3.5 per cent in the course of last year, the number of tourists to Malta has already gone up by 2.1 per cent in the first five months this year when compared to the same period in 2004. Table 13 and Chart 10 provide an overview of the general performance of the tourism sector in the period 2001 to May 2005.

Table 13. Monthly air tourist departures

	2001	2002	2003	2004	2005
January	55,790	47,305	49,478	48,821	52,270
February	54,847	47,320	49,020	50,900	44,309
March	81,029	78,751	71,678	65,019	70,562
April	102,308	91,352	93,287	90,875	87,433
May	105,923	95,160	102,580	103,272	112,001
June	107,161	101,626	104,094	112,514	
July	127,519	120,828	126,043	130,202	
August	154,782	149,941	157,670	162,910	
September	130,152	122,798	118,472	126,402	
October	115,393	124,460	109,805	128,070	
November	67,432	70,283	65,781	67,434	
December	42,830	47,003	41,179	40,990	
Total	1,145,166	1,096,827	1,089,087	1,127,409	
Max (August)	154,782	149,941	157,670	162,910	
Min (December)	42,830	47,003	41,179	40,990	
Jan - May	399,897	359,888	366,043	358,887	366,575

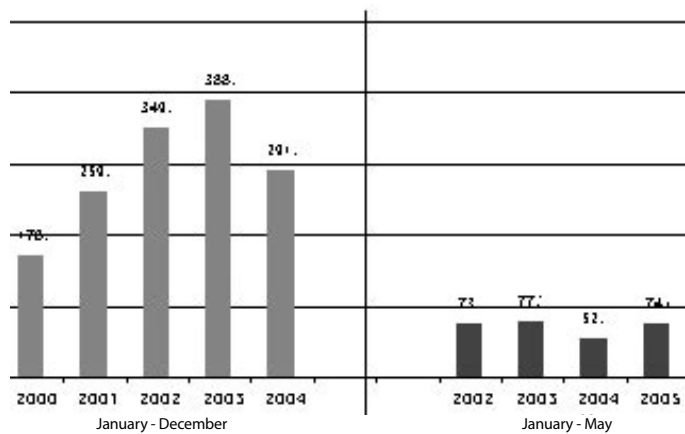
Chart 10. Monthly air tourist departures



Air tourist departures increased by over 2 per cent up to May this year

The cruise passenger market is increasingly gaining in importance as a component of our tourist industry. The substantial investment that was undertaken in the Cruise Passenger Terminal should go a long way towards establishing this developing sub-sector on a sound basis. The predicted dip in cruise passenger arrivals in 2004 has been completely reversed this year. Indeed, the results that were registered in this area in the first five months are very encouraging. During this period, the number of cruise passengers went up by 41.5 per cent over the same period last year, reaching 74,425. In the medium to long term, it is anticipated that this sector will flourish further mainly as a result of the heavy investments made and the introduction of new marketing concepts.

Chart 11. Cruise passengers visiting Malta (in thousands)



.....
Cruise passenger
arrivals went up by over
41 per cent up to May
this year

The tourism accommodation sector has and is still undergoing substantial restructuring. While the overall bed capacity is declining, the number of 5-star beds is on the increase. Five-star bed-capacity now accounts for 12.7 per cent of all bed places. On the other hand, 65.9 per cent of the total active-bed places are in the three-and four-star hotel categories.

Bed capacity is also quite relevant when considering occupancy trends. As shown in Table 14, in the first quarter this year, hotel occupancy levels increased in every one of the three months. In this regard, it is important to point out that the recorded occupancy rates take into consideration the overall demand exerted by both residents and non-residents.

Table 14. Monthly occupancy rate

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2003	35.2	43.3	53.1	54.7	56.2	58.9	83.9	81.2	62.9	60.1	43.8	38.2
2004	32.9	40.0	41.6	49.5	52.3	59.6	74.9	84.4	67.8	61.8	45.7	37.5
2005	35.7	42.9	51.5									

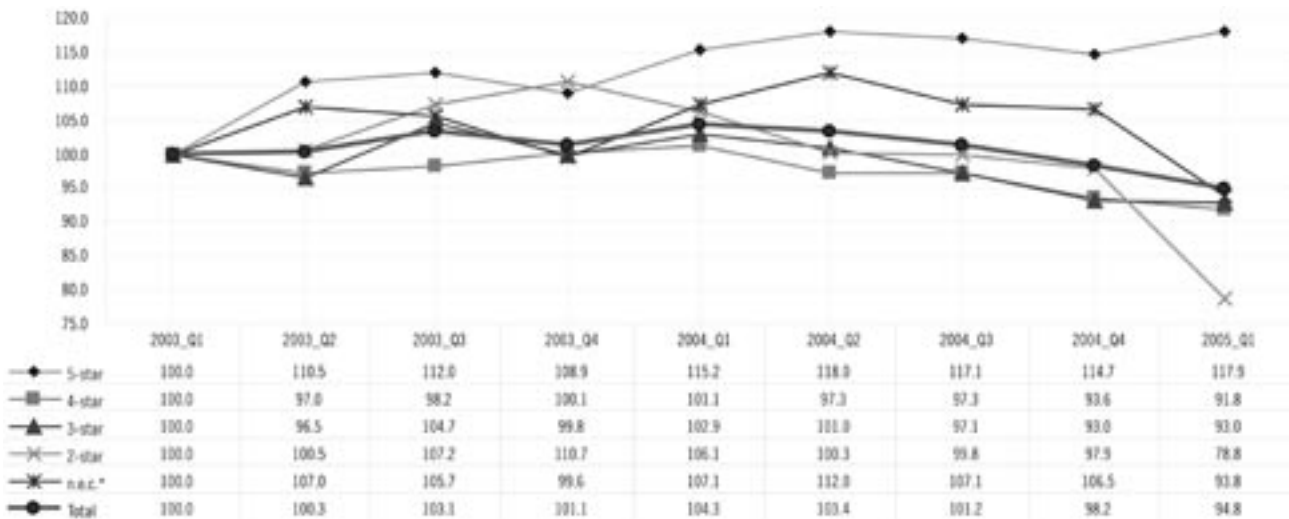
Chart 12 graphically portrays the seasonal patterns of tourism. This shows that the average all-year-round performance of the tourism sector calls for improvement. In a nutshell, more clients need to be attracted to Malta during the low and shoulder periods. Seasonal and fluctuating occupancy rates need addressing because they hinder quality improvements and may affect the long-term sustainability of the industry.

Table 15. Collective accommodation: bed places by type

Category	2003				2004				2005
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
5-star	10.2	11.2	11.1	11.0	11.2	11.6	11.8	11.9	12.7
4-star	39.8	38.5	37.9	39.4	38.6	37.5	38.3	37.9	38.5
3-star	27.9	26.9	28.3	27.5	27.5	27.3	26.8	26.4	27.4
2-star	2.8	2.8	2.9	3.0	2.8	2.7	2.7	2.8	2.3
n.e.c.*	19.4	20.6	19.8	19.1	19.9	21.0	20.5	21.0	19.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* this category includes aparthotels, guesthouses, hostels and tourist villages

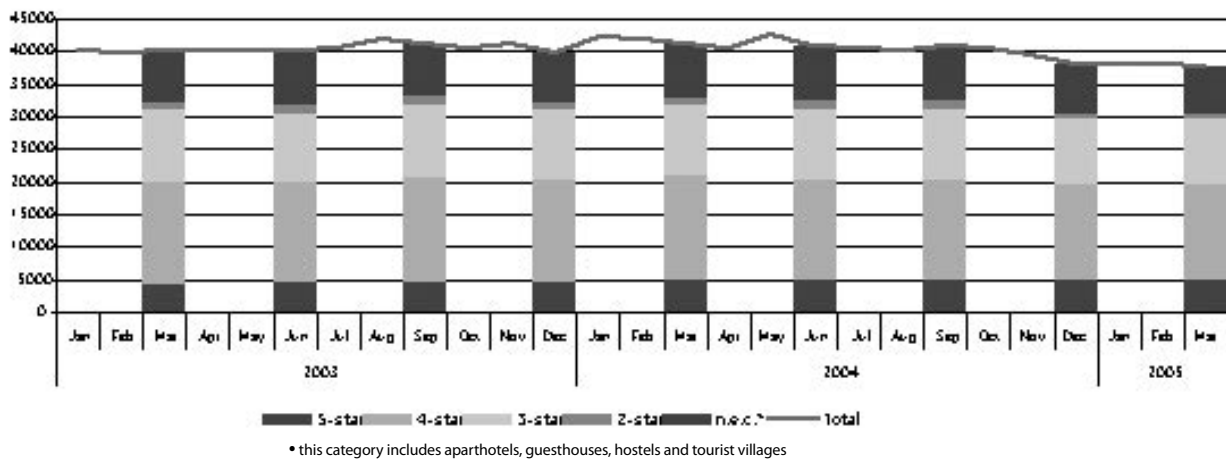
Chart 12. Active-bed places on a quarterly basis (Index 2002 Q1 = 100.0)



* this category includes apart-hotels, guesthouses, hostels and tourist villages

The number of bed places in 5-star hotels are on the increase

Chart 13. Active-bed places on a monthly basis by type



The number of nights spent by tourists in the country is an important indicator. The length of stay of tourists increased annually up to 2003 but registered a marginal drop in the subsequent year. Table 16 provides an overview of tourists' average length of stay illustrating also the prevailing market share of each hotel category and other tourist accommodation.

Table 16. Average length of stay, in terms of nights spent

	2001	2002	2003	2004	2004 Jan - May	2005
5-star	6.5	7.0	6.8	6.4	5.5	6.1
4-star	8.7	8.7	8.9	8.7	8.8	8.7
3-star	9.0	9.7	9.8	9.4	10.1	8.8
2-star	8.3	8.2	8.9	8.2	7.5	7.7
Unclassified	8.3	8.7	9.2	6.1	6.4	12.0
Hotels	8.4	8.7	8.7	8.4	8.3	8.1
Other*	10.9	11.7	13.5	13.8	14.0	14.2
Total	9.2	9.6	10.2	9.7	9.5	9.4

*Other includes apart-hotels, guesthouses, hostels, tourist villages, furnished premises and accommodation n.e.c.

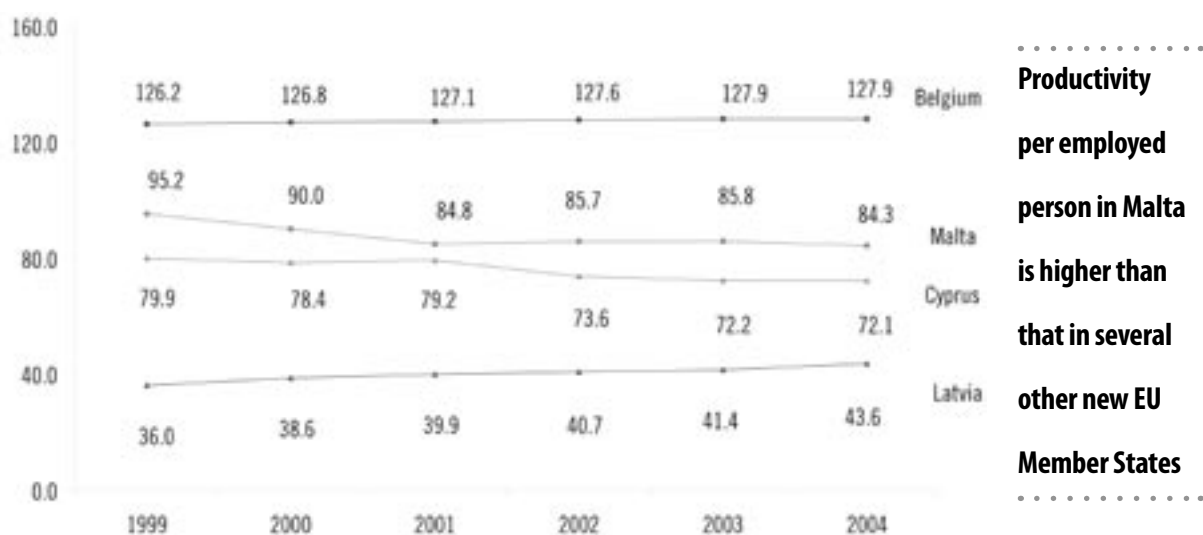
In the first five months this year, tourists spent an average of 9.4 nights in the country. The average stay of tourists using the 5-star hotel category went up to 6.1 nights from 5.5 nights in the same period last year. The average stay of tourists using 4-star hotel accommodation was at par with last year's level. The length of stay in the 3-star hotel category dropped to 8.8 nights from 10.1 nights in the same period in 2004. However, the average length of stay in non-hotel accommodation went up to 14.2 nights from 14.0 nights last year.

Government is acutely aware of the importance of the tourism industry for the Maltese economy. For this reason, Government is committed towards providing the required support in order that this industry may flourish. The measures being taken to address key environmental problems and the substantial investments being made towards the maintenance and further improvement of our public infrastructure and heritage sites attest to this commitment.

02.1.7 Wage Growth and Productivity

In 2004, average compensation per head increased marginally by 0.1 per cent. In real terms, compensation per head declined by 3.2 per cent. Meanwhile, labour productivity increased by 0.6 per cent overall. Real unit labour costs declined by 3.8 per cent. Productivity per employed person in Malta is higher than that in several other new EU Member States, but still tails the EU25 average. It is also well below that in some of the old Member States.

Chart 14. Labour productivity per person employed (EU25 = 100)



02.1.8 Information and Communication Technology

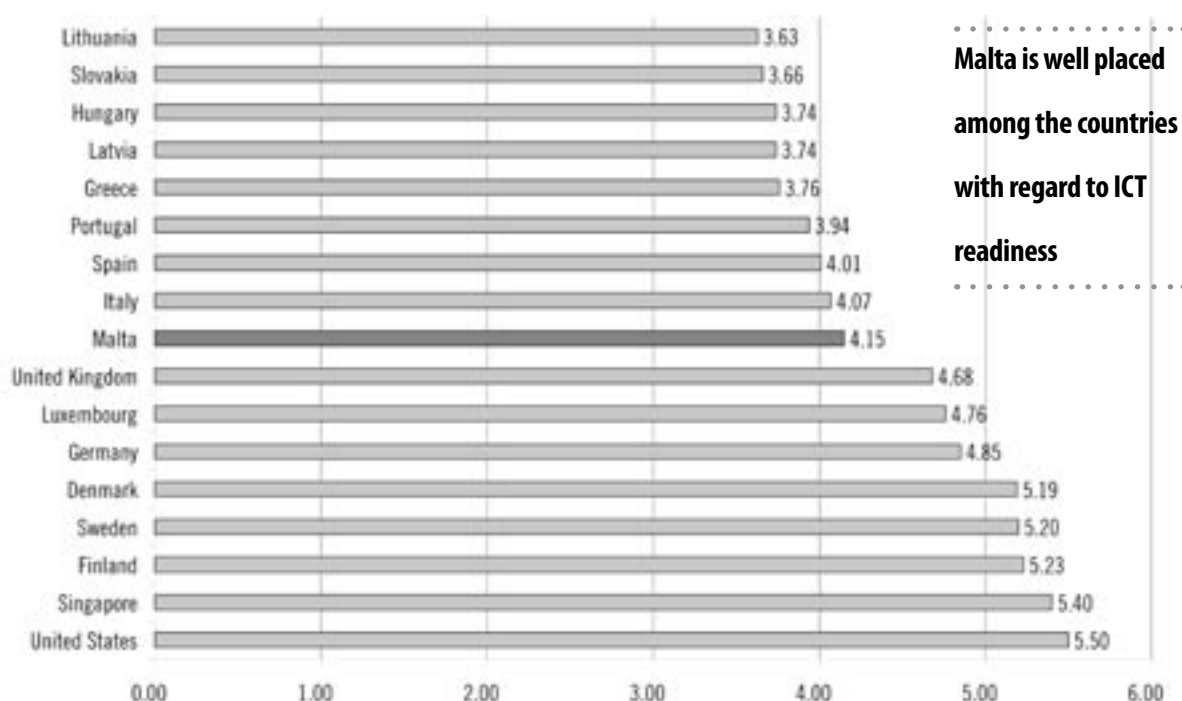
It is now recognised that information and communication technology constitutes one of the main determinants of competitiveness and is associated with a thorough re-thinking and reorganisation of business structures and processes. In this light it is important to consider data on ICT usage. The diffusion of ICT is a significant contributor to a dynamic, knowledge-based economy. It is also an effective way of responding to the effects of globalisation on the Maltese economy.

At the end of the first quarter of 2005, the number of internet subscriptions reached 87,050, an increase of 8.2 per cent over the corresponding quarter in 2004. Subscriptions made during this period consisted of 40 per cent broadband and 57 per cent narrowband. Also in the first quarter, the number of mobile phone subscriptions reached 315,393, an increase of 18.7 per cent. The number of cable television subscriptions went up to 102,372, an increase of 2.7 per cent.

According to a survey carried out by the National Statistics Office, 97 per cent of all enterprises employing more than 10 persons use ICT in their business operations. Around 94 per cent use the internet for the procurement or provision of various services. The proportion of enterprises in possession of a website or homepage facilities was estimated at 73 per cent. Enterprises effected almost 18 per cent of their total purchases online while their online sales constituted 13.4 per cent of their turnover.

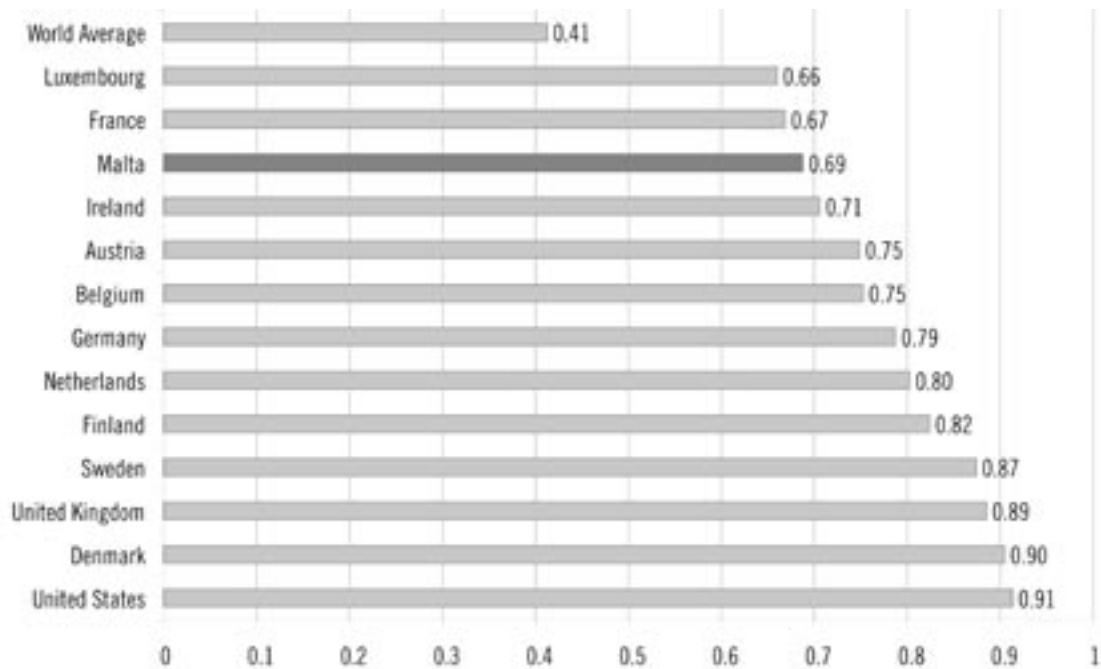
Malta placed 28th among a group of 104 countries in the Networked Readiness Index (NRI) for 2004 which was compiled by the World Economic Forum. The NRI is defined as the degree to which a country is prepared to participate in and benefit from ICT developments.

Chart 15. Networked Readiness Index: 2004



In addition, the United Nations ranked Malta 21st among 178 countries in terms of its capacity and willingness to use e-government for ICT-led development.

Chart 16. E-Government Readiness Index: 2004



CONCLUSION

Two distinct but highly related restructuring processes are affecting the Maltese economy. On an international level there is the shift in the axis of economic power in favour of a number of developing countries. These countries are increasingly exploiting their comparative advantage in the production of a range of goods and services and are thereby increasing their presence in world markets. On the domestic front, various economic sectors are undergoing substantial adjustment in order to enhance their own efficiencies and levels of productivity, thereby improving their level of competitiveness both in the domestic and international markets.

In addition to this, the Maltese economy is also being affected by the economic uncertainties assailing the world economy; the instability being created by the increasingly volatile energy markets and the threats posed by international terrorism are not and cannot be discounted. Notwithstanding this, the Maltese economy, although still suffering from a certain amount of slack, is still performing creditably. The resilience of our manufacturing enterprises, the improvements in our tourism sector, the increased momentum in construction and agriculture and the improved levels of activity in our financial and other services sectors are resulting in increasing employment opportunities and in drops in the number of unemployed persons.

This resilience gives room for optimism on our country's future. Our country is working and is managing to create wealth. On our part we intend to make it work even better in order to improve the general well-being of our people.



Competitiveness: the basis of our strategy

CHAPTER 03

This document sets out by declaring a vision in the making for our country that translates itself into a strong and powerful mission, that of securing a future of excellence for you and your children. It is a vision that invites us all to continue strengthening our efforts to achieve higher standards of living and quality of life for every single person in our community. Translating this vision into reality can only take place if we are amongst the most competitive countries in all those sectors that we identify as our areas of expertise.

The more competitive Malta is, the easier and less painful it will be to adapt to changing international economic conditions. In those areas where we are competitive, we can retain a market share in our current markets and will be better placed to seek new markets. Where we are not competitive, we will find it increasingly difficult to do both.

It is important to emphasise the social dimension of this economic reality. Improving competitiveness is vital for our economy to continue to expand and grow. And it is only through the economy's expansion and growth that we can guarantee the existing high levels of our social network over the years to come. Government strongly believes that Malta should remain a caring society in which everybody is secured an adequate standard of living. Those who find themselves unable to provide that standard for themselves should be able to call upon the support and solidarity of their fellow citizens until such a time as they are able to attain an equal level in the social and economic mainstream. The responsibility for providing support to those in need falls primarily upon Government as the expression of the collective will of citizens, and Government intends to continue discharging this responsibility properly - naturally subject to safeguards in order to ensure that unscrupulous individuals do not abuse the collective generosity of the Maltese public.

Nevertheless, it is important to bear in mind that before wealth can be redistributed, it has to be created – wealth that is generated by economic growth. Such redistribution of wealth as is necessary to ensure social justice must not take place in a way that would reduce or discourage the generation of the national wealth. In the long run, the most important means of ensuring an adequate standard of living for all is to maximise the country's productivity and, accordingly, its earning potential.

Maximising competitiveness and productivity should not translate into an inward-looking exercise of wage- and salary-cutting in an effort to reduce labour costs. Rather, it should reach outwards to increasing output and shifting to higher-value-added sectors. The cost component of productivity cannot be discounted, however, competitiveness goes far beyond that.

Ultimately, competitiveness will not be attained unless all our efforts are permeated by a can-do culture that strives to achieve excellence every day and in all it does. We must strive to develop and retain a competitive edge in those areas where we have a comparative advantage. In all that we do, we must achieve the best.

The fundamental elements of competitiveness are discussed hereunder.

03.1 Mobilising investment

Investment has a crucial role to play in improving competitiveness. This role applies to investment by both the private and the public sector, each in its respective sphere of responsibilities. Investment by private enterprises is necessary to modernise capital, improve product quality and productivity, and expand into new product lines or areas of activity. Government cannot and should not supplant private enterprises in this role or carry it out on their behalf. Nevertheless, Government has two critical roles to play.

In the first place, Government is to provide a stable macroeconomic climate that reduces political uncertainty, enabling private enterprises to make long-term investment plans, whilst ensuring that micro enterprises find the necessary stimulus to prosper gradually over the years. This climate means that, in so far as is possible, there should be no sudden policy changes. It is pertinent to point out here that one of the fundamental ingredients underpinning the success of the financial services sector has been continuity in policy.

Government finances must also be managed soundly and brought within reasonable balance. Much progress has already been achieved in this area. The public deficit is gradually being reduced and Government remains committed to its goal of bringing it to below 3 per cent of the Gross Domestic Product by 2007.

Table 17. Percentage of public deficit to the Gross Domestic Product

	2004	2005	2006	2007
Percentage of deficit to GDP	5.2	3.7	2.3	1.4
Percentage GDP increase	1.1	1.7	2.1	2.1
Estimated deficit (Lm million)	95	76	50	33

As highlighted in Government's euro-adoption strategy, Malta is also committed to maintaining a steady exchange rate against the euro through membership of the ERM II mechanism. This decision is exerting a beneficial stabilising effect on foreign market sentiment vis-à-vis the Maltese lira and on local interest rates.

Secondly, Government is to direct public investment into the infrastructure which underpins private sector activity, primarily transport and communications networks, utilities, the environment and the national heritage. It is obvious that the private sector cannot function efficiently without an infrastructure of the necessary quality. The link between private sector activity and our national heritage may not be apparent to many, but it holds particular significance for the tourism sector. With appropriate restoration and maintenance, heritage assets such as, amongst others, the fortifications, could be better harnessed to broaden and enhance Malta's appeal to tourists and to attract specialised tourism that is less season-dependent.

In recent years, Malta's communications infrastructure has been transformed out of all recognition. Today, the country boasts state-of-the-art facilities in areas such as electronic commerce, mobile communications, cable television and recently digital terrestrial communication. The main outstanding current need is the upgrading of the road network. Work is underway here with financing from the Italian protocol, and extensive EU funds are also earmarked for this area. Results are already apparent and work will continue during 2006-10.

The same applies to the national heritage, with the establishment of Heritage Malta and the restoration of key sites such as the Hypogeum and the Domus Romana. In addition, private capital has been mobilised in the restoration of our fortifications, notably Fort Manoel and the Valletta Waterfront area. It is proposed to extend and broaden the scope of these efforts during 2006-10.

03.2 Upgrading workforce skills

In today's economic environment, Malta's growth demands quality education for all. The level and standard of education of our people have an impact on the rate of growth of each and every economic activity, in any sector, however small it might be. This is much more crucial when it comes to Malta's ability to compete in the high-value-added, knowledge-intensive markets that are the key to our future prosperity and which requires a highly-skilled and adaptable workforce. A highly-skilled workforce is the product of lifelong education, starting from very early childhood, through effective primary and secondary schooling, moving on to vocational or tertiary education as appropriate, and continuing subsequently with professional training.

There is an ongoing process to improve and upgrade the quality of the educational experience of each and every child. All three-year-old children in Malta have access to kindergarten services. A new National Curriculum inspires a new vision and strategy in primary and secondary schooling. At the same time Government has embarked on a ten-year multi-million project to build the new State schools Malta needs and to modernise and refurbish all other State schools, thus transforming all State schools into 'Tomorrow's Schools'. A Vocational College, the Malta College of Arts, Science and Technology (MCAST), was established whilst a considerable increase was registered in the number of University students.

Over the past two years, the Ministry of Education, Youth and Employment embarked on a critical analysis of the whole education system. Different Working Groups, made up of practitioners and experts, have researched, consulted widely, and are now reporting and submitting recommendations to Government on the different sectors of the system as is explained later in this document. In order to transform and innovate the whole spectrum of Malta's educational services, further changes are proposed with a view to:

- ensuring focused standards setting and external quality assurance mechanisms for all levels and sectors of life-long education ;
- establishing a new network education organisation by reorganising all State schools into autonomous Colleges to achieve a holistic and continuous flow in the educational development of all students from the very early stages to the end of compulsory education;
- restructuring the Education Division in order to enable it to better fulfil its role as regulator of the quality of teaching in all schools, public and private;
- expanding science and technology education and fostering the spirit of innovation and entrepreneurship;
- putting tertiary education on a more sustainable basis, while continuing to increase student access and raising the quality and attractiveness of our University;
- expanding science and technology education;
- establishing a framework of national vocational qualifications so as to put vocational education on a sounder and better-structured footing for the benefit of both students and employers;
- fostering the knowledge and use of languages to ensure that all Maltese people are able to be fluent in Maltese, English and a third language.

In the short term, Government will continue to stress the importance of the following measures :

- Strengthening the literacy, numeracy and ICT programmes for all;
- Putting in place a new system of career guidance services that will span the compulsory education age through to adulthood ensuring coordination between the education authorities, ETC, and the Further and Higher Education Institutions;
- Putting in place effective quality control and enforcement of standards on all public and private institutions;
- Promoting specific, faster, compact vocational training linked to different sectors in the economy;
- Giving the necessary incentives to ensure more science students and to anchor them in the local market through proper links with Malta Enterprise and the private sector.

In the longer term, Government will continue to:

- Explore the introduction of Public Private Partnerships to increase efficiency and investment in the Maltese education sector;
- Develop the adult training and re-training sectors, including the private sector, by introducing systems of accreditation to ensure standards;
- Promote new forms of work organisations that are sensitive to the needs of life-long learning through adult training and re-training programmes.

03.3 Reinforcing an entrepreneurial culture

Governments do not create wealth. As mentioned earlier, governments can, at most, facilitate the creation of wealth by ensuring that the political, economic, social and physical environments are conducive to this coming about. Governments can also assist entrepreneurs to identify and take advantage of business opportunities abroad. Ultimately, however, it is up to entrepreneurs to take these opportunities and act upon them.

A concrete example is the creation of the Venture Capital Fund that should be kick-started in the coming weeks. Government can create the right fiscal incentives to attract investment into the Fund and can also provide seed capital. However, the success or otherwise of the Fund depends primarily on whether private capital is attracted and secondly if the Fund actually invests in projects requiring venture capital.

In all countries, not all entrepreneurs succeed; while some start-ups fail, others go on to become major employers, significant foreign-exchange earners, and developers of innovative products and services that create beneficial spin-off effects in the wider economy. An entrepreneurial society creates a more dynamic and flexible economy with a greater capacity to adapt to change.

Government has the potential to play a significant role in encouraging entrepreneurship, manifested through the following measures:

- removing unnecessary obstacles or costs to entrepreneurs, and ensuring that other obstacles of this kind do not emerge;
- delivering services to businesses in as efficient and streamlined a manner as possible;
- making resources for the gearing of investment available to entrepreneurs, particularly in targeted high-growth areas where the market does not supply sufficient funds on its own steam. Of course, these should be subject to appropriate conditions and safeguards;
- providing assistance to entrepreneurs who are endeavouring to make the leap from local to international markets;
- strengthening entrepreneurial ability through entrepreneurship education within schools at all levels of our education system;
- strengthening the infrastructure for services that incorporate commercial and industrial activity;
- ensuring sustainability of business with attention to fair competition.

03.4 Ensuring flexible markets

Flexible markets endow an economy with a capacity to adapt more to emerging trends and developments. Flexibility enables resources to be switched from declining to expanding sectors with minimal disruption to output and employment, thus helping the economy to sustain high rates of growth in productivity and employment. This in turn also enables the economy to invest in high-growth areas through market forces without the shackles of excessive government intervention.

There are manifold ways in which workers and firms adjust to change. For firms, adjustment may mean altering prices or changing a product line. For workers, adjustment may mean learning new skills, multi-tasking, or job mobility.

In the short term, there is a trade-off between flexibility and security of employment, and government policy has to find an equitable balance between the two. Modern economic realities indicate clearly that Government policy should aim at ensuring employability of the workforce in the face of constant challenges since the traditional policy of protecting jobs has clearly failed in all countries.

Job protectionism is a false solution; it irresponsibly breeds a false sense of security. Like a fraudulent insurance policy, it has potentially highly damaging consequences for those it means most to protect.

03.5 Boosting innovation

Innovation is one of the cornerstones of competitiveness in the area of high-value-added, technology-intensive products. In the past, the approach to economic development adopted by Malta implied that foreign-owned firms operating locally would utilise innovations developed by parent companies abroad. This approach will no longer suffice. Malta needs to identify the economic thrusts of the country and to effect strategic investment in the research, development and innovation that are tied to these.

Proposals on the lines set out here are discussed in more detail in the following chapter.



Budgetary Thrusts for 2006 in Support of a Vision of Excellence

CHAPTER 04

Government is determined to remove all barriers to economic growth and focus all public sector and public service activity on supporting and facilitating business confidence, innovation and entrepreneurship. To attain our mission to ensure a stable macro-economic environment capable of fostering sustainable economic growth, increased and better employment opportunities, and the sustainability of our social responsibilities, a number of economic and social fundamentals need to be addressed:

1. To attain a balanced position for public finances in the medium term in order to regain fiscal flexibility that would act as an economic spur to long-term economic growth and higher standards of living;
2. To re-position the capital and human resources of the public sector to efficiently and effectively contribute to better service delivery and economic growth;
3. To focus Government's role in the economy on the regulatory aspect, facilitating rather than participating as an operator in economic activities;
4. To accelerate the necessary structural reforms in the supply side of the economy by improving flexibilities in the labour, product/services and capital markets, thereby increasing productivity;
5. To guarantee quality lifelong education and training opportunities for all, leading towards the maximum possible fulfilment of the potential of every person and the fostering of a knowledge-based culture to improve our country's competitive edge for the satisfaction of the nation's needs with regard to sustainable growth and development;
6. To upgrade our Nation's environment and infrastructure in order to ensure an improved quality of life through sustainable development and the regeneration of our heritage;
7. To provide an equitable safety net that removes the risk of poverty and realises the goal of social inclusiveness with benefits paid and appropriate support provided to those who are genuinely in need.

The measures proposed below are designed to meet these fundamental economic principles.

04.1 The economy

04.1.1 Fiscal Measures

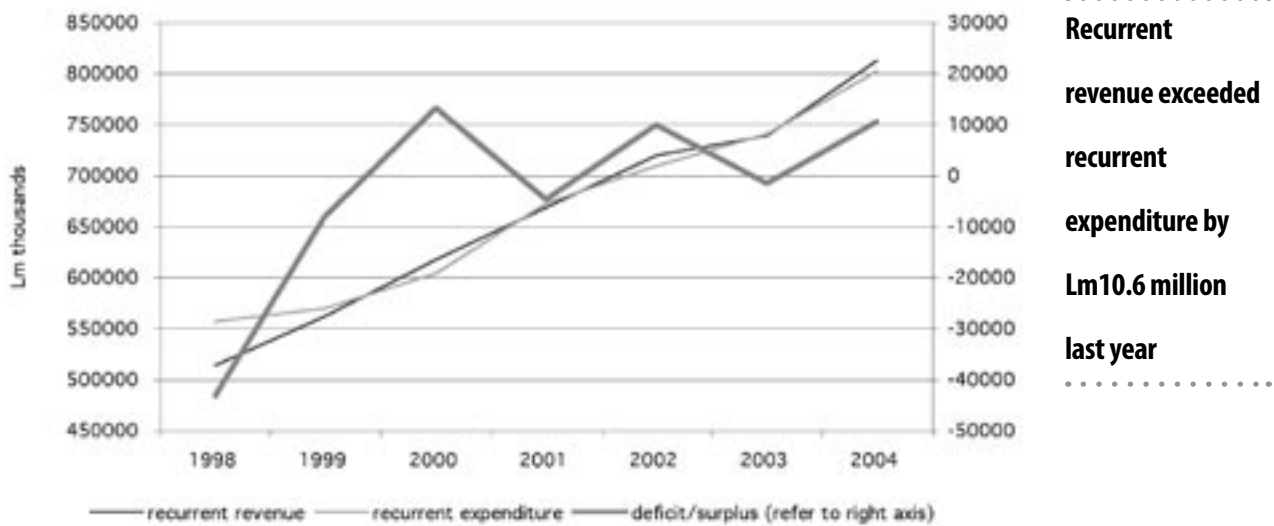
To attain a balanced position for public finances in the medium term in order to regain fiscal flexibility that would act as an economic spur to long-term economic growth and higher standards of living.

The challenge that we face is the implementation of a successful and credible fiscal consolidation process that is effective in increasing economic growth. This consolidation necessitates a balancing act between introducing policy objectives directed towards stimulating economic activity and enhancing productivity while reducing the fiscal deficit.

Table 18. Recurrent revenue and recurrent expenditure

	1998	1999	2000	2001	2002	2003	2004
Recurrent revenue	513,726	562,334	617,652	668,621	719,803	739,221	813,027
Recurrent expenditure	516,393	520,042	549,837	614,626	645,995	677,655	732,846
Interest payments	40,538	50,093	54,441	58,660	63,811	63,042	69,580
Deficit/Surplus	-43,205	-7,801	13,374	-4,665	9,997	-1,476	10,601

Chart 17. recurrent revenue vs recurrent expenditure (including interest)



Key to this challenge is the policy direction that the balancing of accounts should not be sought through an increase in the tax burden, but primarily through an increase in economic growth.

Government agrees that the emphasis of its fiscal policies in this regard must be directed towards reviewing those measures that discourage work and undermine productivity. While Government believes that during this period of fiscal consolidation it is not the right time to change the taxation framework, a process should be started wherein the taxation framework comes in for review and subsequent recommendations are made in this regard. Issues that need to be addressed include:

- i The use of tax policy to stimulate economic growth. Areas that would need to be reviewed include, for example, whether taxation on small and medium enterprises should be on a lump-sum tax basis in respect of business activity; whether a business should have an extension in the tax band linked to the number of persons employed; and whether this should be in the form of a rebate or some other form that increases the growth potential of the business. Similarly one has to look at the present tax bands affecting individuals, the rate of corporate tax as well as the capital gains tax regime and devise positive changes that will stimulate growth whilst deterring tax evasion;
- ii A shift from direct taxation to environment-related taxation. This would not be a measure intended to increase revenues but a re-engineering of direct taxation revenue streams which would introduce concepts based on the polluter-pays-principle;
- iii The introduction of tax incentives to stimulate the rental market by possibly introducing the option of a flat rate tax on rental income for residential purposes;
- iv The further simplification of tax-reporting requirements in order to mitigate the administrative burdens on both Government and the business sector, in particular small and micro businesses.

For this purpose, Government is proposing the setting up of a task force with the specific aim to review all the above and present recommendations to Government by not later than June 2006. The task force will be given detailed terms of reference by not later than the end of December 2005. It will be detailed to consult widely, to keep in view the relationship of tax revenues to Government finances and to conclude its report within the given time frame.

In view of recent developments elsewhere, wherein reductions were effected on corporate tax rates, calls are periodically made to consider the reduction of corporate tax. It is claimed that this reduction would render our local industry more competitive and would attract foreign direct investment. It is pertinent to underline, however, that there is a strong misconception on this issue. Our regime is based on a single tax system, whereby profits are taxed only once, either in the hands of the company or

in the hands of the shareholder both of which together equal to not more than 35%. This translates into a more competitive system than the dual tax systems common in other jurisdictions. In these latter systems, profits are first taxed at a company level and then are re-taxed as income in the hands of the shareholder.

The efforts of the Tax Compliance Unit to curb tax evasion will continue. Efforts to clamp down on tax evasion often give rise to claims that Government is imposing a stranglehold on the economy. However, fiscal morality is a fundamental principle of all democratic societies. It is not acceptable that people achieve a short-term gain, by failing to meet their personal fiscal obligations, at the cost of their own and the community's long-term prosperity. In this regard, Government will not neglect its responsibilities. Nevertheless, Government is aware that unrealistic tax regimes or burdensome compliance measures inevitably lead to tax leakages and consequently the right balance needs to be found between regulation and compliance with the former having to be viewed as an essential component of the latter.

04.1.2 The Public Service and the Public Sector

To re-position the capital and human resources of the public sector to efficiently and effectively contribute to better service delivery and economic growth.

Since 1990, much attention and investment have been channelled into public administration in order to render it more productive and cost-effective. Much has been attained. Yet much remains to be done.

The current year has been characterised by definitive measures to strengthen financial discipline in state institutions. Government has also adopted a process of more controlled decentralisation on Public Service departments, as well as on other State entities, through the establishment of the Financial Management Monitoring Unit. In 2006, it is intended to follow up this work with the following measures:

01. The introduction of a Public Finance Act to replace the current Financial Administration and Audit Act. Central to the new Act will be the introduction of performance management which will be premised on the principles of an output/outcome system. This introduction would have the potential to give a concrete form to the accountability relationship between Government and the executive leadership it appoints.

The notion of organisational and executive performance management will be primed by performance agreements that will be entered into between the responsible Minister and the executive leadership - this becoming the key mechanism for accountability and performance. A system of performance agreements is already in place for senior officials in the Public Service.

Organisational performance will gain additional strength and focus from the proposed new Public Finance Act and will also be extended to the top executives of public entities outside the Public Service.

02. The following measures will be taken to instil more effective management:
- Place requirements on government departments and other public entities to cut operating expenditure with no opt-out measures such as supplementary financial injections; the redirection of programme expenditure; or the increase of regulatory fees to make up for the expenditures that must be reduced;
 - Continue to restrict recruitment in the public sector. The first option will be re-deployment, re-skilling and re-training of surplus or non-productive employees;
 - Retain in place parameters aimed at ensuring a degree of parity in the conditions of employment negotiated for different public entities;
 - Undertake a comprehensive review of allowances provided by public sector entities and departments and remove those deemed excessive or outdated.
03. In 2006, Government will issue a tender for the procurement of an accrual-based financial management system that will replace the current accounting system. This exercise will also seek to introduce consolidated financial management that will span government departments *and* public sector entities. It will also ensure that Government decision-making is informed by high-quality financial management information.

Government recognises that, despite successful measures taken over the past years, the public sector continues to be over-manned in certain areas. With Government responsible for over 33% of productive employment, over-manning and under-productivity in some areas are two of the reasons why our economy is under performing. The plain truth is that Malta's efforts to attain a vibrant economy will not realise optimal success unless this matter is dealt with decisively.

Table 19. Public sector employment

	1983	1986	1987	1995	1998	2001	2004
Gainfully occupied (full time)	106,178	111,101	117,051	131,950	133,276	137,452	137,149
Public sector	38,397	40,424	45,948	50,122	49,730	48,482	45,752
of which: Government departments.	21,912	23,149	24,296	30,235	30,529	30,778	29,944
Public sector as % of gainfully occupied	36.2	36.4	39.3	38.0	37.3	35.3	33.4
Government departments as % of gainfully occupied	20.6	20.8	20.8	22.9	22.9	22.4	21.8

Effective and efficient performance in government entities will not be attained if the restructuring of these entities is based on the premise that they will continue to hold onto surplus staff. Government entities should be put on a lean-and-mean basis, with surplus staff being designated as such and placed in a surplus pool. In this regard, in 2005, Government established a Recruitment and Re-Deployment Advisory Group within the Office of the Prime Minister specifically to manage such surplus labour situations where they exist.

This policy has already been successfully applied in existing government entities that have undergone massive restructuring exercises. In all cases positive results have been achieved and while productivity has increased, government subsidies have decreased substantially. The experience so far is therefore positive, but it can continue to be improved. Surplus employees need to understand that re-deployment, including re-deployment with the private sector, is a necessary and unavoidable step. It is in their own interest and in the interest of their colleagues. Government intends to continue with this policy with vigour, and will insist that suitable alternative employment offered to surplus employees should not be refused unless there are valid reasons.

As from 2006, Government will undertake a further review of its workforce identifying the core competences and staff requirements in its departments and entities. This will complement the current rationalisation programme of government entities which is resulting in considerable efficiencies attained in, amongst others, the Malta Shipyards, PBS, Air Malta Co. Ltd. and Gozo Channel Co. Ltd.

It is further proposed that surplus staff be attached to a Surplus Employment Pool. A skills profile will be drawn up for the persons placed in this pool who will undertake re-training in order to fill skills gaps within both Government and private sectors. It is pertinent to underline that this measure has already been introduced in part. However, the next steps in this direction have to address the disincentives for persons to move into productive employment even when made available.

Improvements and efficiencies in public administration will also be sought by means of consolidation of entities, thereby ensuring that enforcement and back-office capacity is not fragmented and replicated, at a cost, across various entities. Where it is functionally relevant, a review of entities should also be carried out. It is Government's intention to appoint a Task Force, under the leadership of the Principal Permanent Secretary to produce regular reviews on an ongoing six month basis, with the first review report scheduled for March 2006.

Furthermore, the reforms in the Public Service proper, underway since 1990, must continue. A key means to institutionalise as well as to give further impetus to the reforms is the enactment of a Public Service Act. In 2003, Government issued a draft Act for public discussion. Discussions on the draft Act with the Unions have had to be suspended owing to negotiations over the social pact in 2004 and, subsequently, over the new collective agreement for the Public Service. Once the latter is finalised, discussions on the proposed Public Service Act will resume with a view to presenting a Bill to Parliament for legislation in 2006.

Massive investments in information technology have revolutionised Government and the way it interacts with the business sector. No doubt, this is one area where Government has excelled - at times taking the lead over the private sector. Government's focus in this regard will continue. It will also continue with the steady programme of investing in appropriate technologies and promulgating e-government to bring government services to businesses and citizens inside their premises. Nevertheless, in 2006, Government proposes to initiate four critical initiatives.

The first is a process of consolidation of the ICT infrastructure within Government. In line with best practices at the time, data centres were introduced in a decentralised manner across the breadth of government operations. The cost of technology has decreased conversely with the cost of labour and licences, which have increased. Therefore, it is now necessary to embark on the consolidation of the data centres across Government into two data centres - these will ensure business continuity as one data centre will mirror the other.

The second is the re-organisation of all the different public sector systems into a new coherent organigram that is more responsive to present needs and focuses only on the core Government requirements. A spin-off of this policy is that more work will be pushed into the private sector - ranging from desktop management to the development of high-end systems - stimulating growth and employment in the indigenous ICT sector provided that local investors are willing to take the associated risk.

The third initiative will seek to consolidate Government systems whereby one solution is usable by different entities (such as a Business Malta Portal which will electronically bring together the appropriate licences and regulatory regimes into one interface), thereby reducing development costs, cost of ownership and the response time to business. In line with this, Government will centralise decision-making for main system development in order that it ensures that those systems which are more important to business are developed first.

Finally, work will begin on the introduction of electronic procurement for Government. In 2004, electronic procurement of ICT office automation hardware was introduced as a pilot. The results have been impressive - prices reduced, full transparency, level playing field for entry into the market, et al. These results can be replicated across Government, with substantial savings

for the taxpayer. In this regard, it is pertinent to say that, in 2005, the procurement regulations were amended to allow for electronic procurement.

However, we should not lose track of the simple truth that investment in technology is a cost that can only be justified if concomitant savings are made. The drive to develop and improve systems has to be accompanied by a concomitant drive to close redundant front offices, reform back room operations and re-skill and re-deploy employees. This drive has to be the responsibility of the various Permanent Secretaries, who should also be at the forefront with suggestions of what systems need to be developed. It is Government's intention to see that these responsibilities become part of their yearly assessment.

Finally, Government is not only about efficiency, effectiveness and regulation. Government is also about trust, public interest, public accountability, responsiveness, and ensuring citizen-participation at all levels of decision-making. Over the past 18 years, the present Government has done much to introduce institutions of governance in order to achieve these goals. It has set up the Ombudsman and the Public Accounts Committee, given independence to the National Audit Office, and achieved subsidiarity in decision-making by establishing local government.

Government believes that the jigsaw comprising measures for ensuring complete accountability and transparency is still missing a piece. This concerns the ability of citizens to have access to government documents as appropriate. In 2006, Government will issue a White Paper on freedom of information.

04.1.3 The Role of Government in the Economy

To focus Government's role in the economy on the regulatory aspect, facilitating rather than participating as an operator in economic activities.

Government continues to firmly believe that its role in relation to economic activity should be as a facilitator for growth generated by the private sector and one of regulation as against that of being an active economic operator within the economy. Government should not compete with the private sector, or undertake functions that the latter is better suited to perform. Thus, efforts to reduce the size of Government will continue.

In the last year's Budget speech, Government clearly stated that during this year it would be pursuing the full or partial privatisation of Bank of Valletta plc, Maltacom plc, MIA plc, MiddleSea Insurance plc, Sea Malta Co Ltd and MDP Co Ltd. It was also stated that Government would be examining its position with respect to Tug Malta Co Ltd and Medigrain Co Ltd and that Enemalta would be moving to privatise its petroleum investments while Air Malta is to sell its non-core business. All these initiatives are well in hand.

We now believe that we need to go further.

We believe in a Government that is a regulator and a private sector that is the business mover. There will, of course, be areas that will need to be guaranteed or subsidised. The first can be done through effective regulation; the second can be achieved through payments to the operators. We need not re-invent the wheel; we need only look at our history and that of countries around us:

- Petroleum and LPG (gas cylinders) importation and distribution were in the private sector until nationalised in the early Seventies. Then it worked perfectly as it does today in most countries around the world;
- Water production through reverse osmosis was, for a good number of years, managed and run by an American company;
- The vast majority of our imports and exports, our fuel requirements, our grains, steel and other principle economic goods are all transported via private sector operators;
- In most countries around the world, electricity is supplied by privately owned companies; Governments guarantee that small, isolated communities are supplied because Government pays the company to do so;
- We have witnessed the power of proper regulation that accompanies liberalisation and privatisation in the broadcasting, telecommunications and internet fields.

When talking about "privatising", Government has already declared that this term encompasses various methodologies: outright sale, outright sale tied to a Public Service Obligation (PSO) contract, public private partnerships, lease of assets, full or partial flotation on the stock exchange as well as other forms that essentially achieve one aim, namely the transfer of the commercial risk and rewards to the private sector whilst ensuring that social needs are met through a PSO relationship which subsidises normally inefficient operations.

In 2006, steps will be taken to completely divest from MITTS Ltd. those areas of activity that are not strategic to Government - particularly the provision of ICT desktop support with a catchment of 8,000 PCs and ancillary hardware, as well as applications that are not considered to be of a strategic nature to Government. At the same time, MITTS will start restricting its development role to strategic and sensitive systems and thus outsourcing all major and minor systems development. The first such step has already been taken with the issue of the IT tender for Mater Dei Hospital.

Government believes that similar efforts are needed in the energy area. In 2006, it is proposed to initiate a process to divest the entire gas function from Enemalta Corporation whilst the divestment of the supply chain leading from the importation of fuel for the general market to its distribution to petrol stations will be concluded.

The potential advantages and disadvantages of the privatisation of the energy generation and distribution functions of Enemalta Corporation, within the current already liberalised market, will be considered by Government. Arguments in favour of privatisation include the potential to link the generation plant with an overseas plant so as to gain additional capacity to cater for peak loads or breakdowns, and the exploitation of the distribution network for ICT purposes. Arguments against privatisation relate primarily to whether, from a strategic perspective, Malta should sell part or all of its energy generation and distribution capacities. Government proposes to carry out a study on the feasibility and desirability of privatising the generation and distribution elements of energy.

A similar study will be run for both water and waste-water. There is increasing evidence to suggest that both water production as well as waste-water management would benefit, cost-wise, either if it were sub-contracted or if a public private partnership model were to be adopted. These preliminary indications will be followed up in the coming months with a view to reaching conclusions in 2006.

Government acknowledges the strategic and vital economic importance of Air Malta. In May 2004, negotiations between the Maltese government and four trade unions representing the workforce of Air Malta resulted in the Air Malta rescue plan, an agreement which aims to return the national airline to viability while guaranteeing that no jobs are lost. This step and the process of shedding off non-core activities are giving encouraging results. Whilst intending to remain the major shareholder, Government will consider making it possible for private investors to share in its success through a flotation on the stock exchange.

Government further believes that it should seek to secure private finance to manage unutilised government assets. No doubt, the rehabilitation through private capital of the Pinto Warehouses as part of an integrated cruise terminal has proved to be a success. The same can be said of the rehabilitation of Fort Manoel and Fort Tigne. During this financial year, a development brief for the rehabilitation of Dock No 1 and Pender Place/Mercury House was issued. The development briefs for the golf course, the Birzebbugia Tank Farm and the Tigne' site occupied by Holiday Inn Crowne Plaza should be issued by the end of the year.

Whilst these are initiatives that will continue to be taken depending on the sites that are available, Government is looking at the possibility of moving forward the idea of a securitisation of property. This move entails the formation of a public company owning Government property with an invitation to the public to invest in it, leaving its management, subject to tight scrutiny, in private hands. The aim is to commercially exploit to the full a major Government asset without the need to sell that asset but rather to create an investment vehicle open to the public. Government is tasking MFSA to produce a detailed study thereon and intends to take the necessary decisions by December 2005.

In 2005, formal steps have been taken to establish a Public Private Partnership Unit within the Ministry of Finance. Here too, Government strongly believes that private capital can come together with government assets - be they physical or human - to generate better value for our nation. The opportunities are endless - from the management of Blue Flag beaches to the regeneration of fortifications for tourist purposes in an initiative for the revitalisation of Valletta.

The private sector should feel encouraged to submit formal proposals to the Public Private Partnership Unit on the undertaking of additional initiatives. For this purpose, the Ministry of Finance will be publishing, by the end of this year, guidelines indicating how proposals should be submitted and how they will be evaluated in order to ensure a level playing field, consonance with Government procurement procedures and transparency. Moreover, these guidelines would ensure that anyone who comes up with first class ideas is given adequate advantage in realising that idea.

In this area, Government intends to build on the positive experience gained in the Cabinet Committee on National Projects. This Committee has in its twelve months of existence concluded a number of development briefs as well as discussed the parameters of various other projects eventually taken over by line ministries. In all cases, however, they were either Government-owned projects or projects originally kick-started by Government (eg VISET, Dock No 1, etc). We now believe that it is time to go further and adopt a system that tries to emulate that occurring in industry

An entrepreneur who has an investment idea which in some way concerns the industry, has for years been able to go to the Malta Development Corporation (now Malta Enterprise) and ask for various types of assistance and funding. The idea is dealt with in the strictest confidence, business plans are assessed and if the decision is positive, assistance will be granted. We do not have any such system where major projects are concerned. Everyone waits for Government to kick-start a process, probably because the present tendering procedures militate against being innovative and public (as it might turn against the investor). The obvious result is a limitation on what projects are undertaken.

Government is consequently delegating the Cabinet Committee on National Projects to come up with suggestions for a system of operation that will entice the submission of innovative projects and that, whilst ensuring a level playing field, consonance with Government procurement regulations and transparency, ensures that whoever comes up with first-class ideas is given adequate advantage to realise that idea.

04.1.4 Measures to Encourage Growth

To accelerate the necessary structural reforms in the supply side of the economy by improving flexibilities in the labour, product/services and capital markets, thereby increasing productivity.

IMPROVING COMPETITIVENESS AS A MATTER OF PRIORITY

The importance of improving Malta's economic competitiveness cannot be emphasised enough. The stark reality is that Malta will become richer or poorer solely on the basis of our ability to produce goods and services that we can export and to do so through better quality, added value and price efficiency than our competitors. The more entrepreneurial the country can be in identifying export markets, the more the entire country will prosper. Fostering and encouraging such entrepreneurship must be a key objective of Government policy.

Measures to improve Malta's competitiveness must work essentially along two parallel tracks:

- Costs to existing businesses have to be reduced so as to enable them to compete more effectively in local and overseas markets;
- Measures have to be taken to encourage and to facilitate the establishment of new firms, particularly in growth areas which, if successfully tapped, can make a disproportionate contribution to future economic growth. This move involves both the attraction of foreign direct investment and the encouragement of local business start-ups and expansion. It also requires the designation of target sectors and the development of suitable incentives and other measures.

Government has already taken various steps in these directions. Improving competitiveness was a key aim behind the discussions which took place in 2004 on the development of a social pact and which, unfortunately, did not come to a successful conclusion. Government has since taken steps to reduce costs to business firms by removing the extra holiday compensation that was due when a public holiday fell on a weekend. Action is also being taken to reform work practices in Maltese ports. In line with this strategy Government intends to take immediate measures to reduce port charges. Work is underway to improve efficiency in the public sector so as to provide businesses with better services and reduce government-induced costs. Here too, efforts will continue as described elsewhere in this document.

Measures have also been taken to stimulate and encourage entrepreneurship and research and development, notably through the provision of incentives in the Business Promotion Act, the establishment of a Business Incubation Centre, and the establishment of a single focal point for EU funding for research under the Fifth and Sixth Framework Programmes. This initiative should be further extended to other EU-funded programmes that can directly benefit local enterprise and industry.

While Government's proposals in relation to improving public-sector efficiency are discussed above, the proposals below relate to:

- protecting the consumer against market failures;
- regulatory reform and reduction of Government-induced costs.

PROTECTING THE CONSUMER AGAINST MARKET FAILURES

It is not Government's intended policy to seek to attain market corrections through price control regimes. Nevertheless Government will continue to invest in and strengthen its market-price-monitoring and fair-competition capabilities in order to ensure that no dominant market positions are created, as well as to dismantle cartels where these so occur and to negotiate price reductions in sectors where it is proven that prices are exhibiting inflexibility. Government is also considering to support more consumer associations where such mechanisms are not successful.

REGULATORY REFORM AND REDUCTION OF GOVERNMENT-INDUCED COSTS

Government will take all necessary measures to reduce the regulatory burden on business. It is proposed to:

- Establish a Better Regulation Unit to closely monitor all regulatory developments in order to ensure that no unnecessary added burden, financial or administrative, is imposed on business;
- Scrutinise new regulatory initiatives proposed by the European Commission from the same point of view through the Better Regulation Unit, with a view to ensuring that concerns on such grounds are put forward during negotiations in the EU Council;
- Ensure through the Unit that investments in IT systems result in effective bureaucratic changes that provide efficiency and savings and make Permanent Secretaries directly responsible for the implementation of reforms;
- Request the Unit to regularly monitor bureaucratic procedures, with an emphasis on those associated with enterprise, and submit six-monthly reports on how these procedures can be simplified, amalgamated or otherwise

- made more efficient; include therein implementation plans and timetables, savings, efficiencies expected; once approved, place the responsibility on the respective Permanent Secretary for implementation;
- Empower the Unit to review all fees that are raised by Government and to draw up regular six-monthly reports on how these may be decreased or contained in order to reduce costs to the citizen and enterprise;
 - Draw up standard procedures for the introduction of new regulations: these would cover matters such as consultation with internal and external stakeholders and the application of a "sunset clause", whereby regulations would automatically lapse after a set number of years unless renewed. Consideration will be given to enshrining these procedures in legislation.

Once up and running, it is proposed that the Better Regulation Unit serve as the "enforcer" within Government of the following measures:

First, new regulatory measures will be introduced backed by a full assessment that measures the cost of compliance. In this regard, it is proposed that new regulations will only be introduced following a review of a regulatory impact assessment by the Better Regulation Unit.

Second, regulatory bodies should control their costs as tightly as possible as opposed to passing them on to the firms and individuals subject to regulation, thus keeping fees to a minimum. The imposition of any new fees, charges or tariffs of any sort, or increases in existing fees, will be subject to the approval of the Better Regulation Unit in consultation with the Ministry of Finance.

Third, Government will request all regulatory authorities to undertake an internal exercise where they will, by June 2006, submit to the Better Regulation Unit recommendations for the consolidation, rationalisation and removal of regulations, together with the savings that these measures would be expected to yield both to the regulatory bodies themselves and to the public and the business sector. Contemporaneously, they will also be suggesting how to limit or reduce present fees within parameters that will be developed by the Ministry of Finance.

Government is aware that MEPA is a target for criticism by both the public and the business sector. It is pertinent to underline that MEPA is a necessity: development is important to sustain Malta's economy but such development must be managed. At times, the balancing act, between planning and environmental issues, is difficult to achieve, this being mainly due to Malta's size and density characteristics that make the allocation of open spaces and green areas hard to locate. However, Government recognises that the regulations and operations operated by MEPA should continue to be streamlined even more so to reflect the planning and environmental responsibilities MEPA has to shoulder. Notwithstanding, it is important for other stakeholders involved in the planning process to assume their responsibilities. Thus, whilst the concept of a one stop shop will continue to be fostered by MEPA in order to offer its clients a better service, Government departments and agencies should likewise expedite procedures in the consultation process. A defined change process is expected to be outlined in a report that Government had commissioned in respect of the rationalisation of MEPA's operations. The implementation of these recommendations are expected to commence later this year with the primary aim of making the development application process more efficient and that decisions are expedited at the expense of operational red tape. All this without any compromise to the planning process, the local environment, infrastructure, natural and cultural resources, which shall all be integrated within a framework of accountability. MEPA's ongoing review and implementation process will also continue throughout 2006 and beyond.

ATTRACTING NEW INVESTMENT AND SUPPORTING CURRENT MANUFACTURING OPERATORS

It is Government's strategic intention to sustain the current manufacturing operators and service providers within the Maltese economy and to provide appropriate support in order to facilitate their growth and expansion. This Government policy must, however, be complemented by a strategy on the part of Malta Enterprise to target both those industry sectors where we have already excelled and emerging new sectors that are compatible with our skill-sets and vision. These target sectors include:

- Health Care (including Pharmaceuticals);
- International Logistics, particularly warehousing, distribution and back office operations;
- Automotive components;
- ICT;
- Aviation;
- Oil and Gas Services;
- The film industry;
- Precision engineering;
- Marine-related industries, services and research.

whilst the following sectors will be target for clustering and internationalisation:

- food and beverages;
- publishing and printing;
- furniture.

Government is of the view that Malta Enterprise cannot be everything to everybody – we cannot try to attract what we know to be uncompetitive, too small or too big or that which does not fit in with our know-how, work force, capabilities or culture. Gone are the days of breakfast meetings or seminars where a catch-all strategy was required. Today we have to look strategically for target and niche markets. Hence we have to choose and our choice is to be based on these three basic factors:

- high added value to the economy;
- national and international fit;
- areas where Malta is and will remain competitive for a number of years.

Whilst the incentives under the Business Promotion Act will be available to all enterprise, as they were previously, the energies of Malta Enterprise in attracting Foreign Direct Investment will be concentrated in these areas. Similarly, Malta Industrial Parks will favour these enterprises in the allocation of factories.

The following measures will be taken in support of this strategic thrust:

- The current National Enterprise Strategy will be reviewed on a rolling basis in order to take into account international developments in the various sectors as well as internal developments that necessarily affect our strategy;
- A review of the incentives currently provided will be carried out by the end of 2005 to ensure that they are sufficiently flexible and able to cater for the identified growth areas whilst the following incentives will be launched in 2005:
 - Lm 1,500,000 has been approved for film production incentives, the sum being payable as a determinate % of what an approved film production spends in added value services in Malta;
 - Lm 1,000,000 is being allocated as tax incentives for investors who invest in film facilities and film services in Malta;
 - Lm 4,000,000 is being allocated as tax incentives to firms who engage in research and development;
 - Lm 1,000,000 is being allocated as tax incentives for firms and individuals who seek high certifications and diplomas, aimed at raising the skills of the local workforce;
 - Lm 500,000 is being allocated as tax incentives for entrepreneurs who invest in the warehousing and distribution business;
 - Lm 500,000 is being allocated as tax incentives for firms who set up back office operations in Malta;
 - Grants to enterprises in other areas will be targeted towards internationalisation, innovation and export-oriented restructuring;
 - Malta's existing stock of industrial areas will be rationalised and developed in accordance with the needs set out in the National Enterprise Strategy. There is sufficient land overall, but the available property inventory may not meet the needs of targeted sectors. There is a need for industrial parks consisting of smaller

premises to cater for non-manufacturing as well as manufacturing firms and that would have better-maintained public areas. Parks would be developed from existing industrial space, specifically for particular sectors, e.g., a Science and Technology Park, a Pharmaceutical/Laboratory Park, an International Trade Centre for back office work and financial services. The possibility will be explored of developing such parks through public-private partnerships with strategic partners who already have a client base in the industries at which the parks are targeted;

- The current business incubation centre will be expanded as necessary and will cater for start-ups originating both locally and abroad. Since cross-national projects are given preference in the allocation of funds, efforts will be made to form a strategic alliance with similar centres in other EU countries in order to facilitate access to research funds under the 6th/7th Framework Programme.

Having identified the strategic areas where Malta Enterprise will concentrate its efforts to identify new investment, Malta Enterprise will continue to energetically assist, advise and promote enterprises which are already established in Malta and Gozo. In this regard, Malta Enterprise will by the end of the current year review its incentives package in order to bring it in line with current requirements. This effort is in line with Government's strategic intention, already outlined above, to sustain the current manufacturing operators and service providers within the Maltese economy and to provide appropriate support in order to facilitate their growth and expansion.

SUPPORTING MICRO AND SMALL BUSINESS

Apart from the above measures which address business promotion in general the Government will be bringing forward a series of initiatives by the Parliamentary Secretariat for Small Business and the Self Employed specifically targeting micro and small business promotion. The ultimate aim is to ensure that micro and small firms find the necessary formula for growth and success. In particular the Government will be:

- providing an instructive and supportive environment to micro and small firms at start-up and during the early stages of doing business. This will be brought about through:
 - An entrepreneurial and learning environment;
 - Ready access to mentors and investors;
 - Visibility in the marketplace.
- Creating a Forum for Entrepreneurship to act as a platform for the exchange of ideas and information with commercial enterprises as well as to promote business possibilities;
- Setting up a Matching Bureau specifically targeting micro Businesses so that they be able to find suitable partners to be able to better exploit Malta's geographical position;
- Investing in utilities and will be offering the facilities, within Industrial Parks falling outside the responsibility of Malta Enterprise so that micro firms and their employees, find a healthy business environment as well as for third parties who make use of the Estate;
- Recognizing that offering added value to Maltese micro business is the key to customer retention and growth the Government will be making proper use of the strategic alliances with the different business chambers that Malta has agreement with. Opportunities exist to further promote Foreign-Maltese investment and commercial ties;
- Ensure that firms not represented within any associations will also be able to sound their concerns directly with the authorities. This will ensure that the needs of micro firms get known and the burden of any new regulations, legislations, or EU directives once implemented be as minimal as possible.

All these measures and initiatives should ultimately lead to a market which is a highly flexible combination of business development processes, infrastructure, resources and people, designed to nurture and grow new small businesses.

In particular these measures and initiatives should :

- Encourage faster growth;
- Lead to greater survival rates of new companies;
- Identify investment opportunities;
- Create jobs;
- Tackle specific urban or rural economic development problems;
- Facilitate the commercialisation of university or corporate research and new ideas.

SUPPORTING CLUSTERS

Against a background of increasingly sophisticated and intense global competition, macro-economic stability and a broadly attractive business environment are not sufficient to drive Malta's economic development. It is pertinent to note that firms compete primarily within industries, and not within nations. The productivity growth of firms and their international competitive advantage are heavily influenced by the dynamics and forces operating within each industry.

Therefore, there is a need to go beyond broad policy measures by making industry-specific interventions to support emerging clusters of firms and related suppliers, buyers and collaborators.

Clusters are defined as "geographically proximate groups of interconnected companies, suppliers, service providers and associated institutions in a particular field linked by commonalities and complementarities." A number of benefits accrue to firms that operate within clusters. These include the development of a common supplier base and labour pool, smoother production processes and faster rates of innovation and product development.

Of course, Malta's small size means that the promotion of clusters will never constitute the solution to the needs of all industries and firms. Nevertheless, we should recognise the strong international evidence that a firm's competitive advantage often lies outside the firm itself and is rooted in geographical location and local industry dynamics. In the maintenance and services sector, that includes crafts undertaken by self employed and small businesses, Government will continue with the maintenance and organisation works being carried out within various industrial zones. Government will also facilitate of new private industrial parks and ensure re-organisation at Luqa Industrial Estate. Government aims to foster a high degree of craftsmanship that exists in Malta by bringing together different craftsmen into adequate and tourist-attractive centres in Malta and Gozo.

Thus, we believe that Government and industry should jointly and proactively create the industry-specific conditions that would create an environment conducive to the development of higher-skill, knowledge-intensive activities in which Malta can be a player and wherein it has the potential to build truly distinctive competencies. In this regard, joint intervention by Government and industry could include the introduction of measures leading to:

- specialised training and infrastructure;
- formal networking and knowledge-sharing;
- sharing of key suppliers;
- formulation of high-quality labour pools to specific areas;
- shared research and development;
- joint product development;
- international marketing ventures.

The food and beverage, publishing and printing and furniture sectors are areas that enjoy a very good potential for clustering.

SUPPORTING ENTREPRENEURSHIP

Whilst FDI will remain a central tenet of Malta's economic development, indigenous business start-ups should have the

potential to become an increasingly important source of employment and productivity growth. Initiatives to build up the entrepreneurial spirit within the local culture include:

- i Investor Readiness: Training programmes should be directed towards improving the quality of applications for grants, loans and equity, thus resulting in a speedier approval for capital;
- ii Business Angels: Programmes for the identification of Business Angels to support the translation from concept into business initiatives should be introduced with regard to innovation and knowledge-based initiatives;
- iii Marketing Assistance for SMEs: Most local SMEs are failing to link their business with the advantages brought about by ICT in order to market their goods and services beyond local shores. This constitutes a barrier to the development of innovative indigenous firms past the start-up stage. Programmes on marketing, utilisation of the WWW for marketing purposes, et al should be introduced with regard to SMEs;
- iv Making Entrepreneurship Attractive to Young People: Too many young people in Malta shy away from business, pursuing a profession instead. The current structure of the Maltese educational system and the emphasis laid on courses that prepare students for a working life in the professions have resulted in a costly misallocation of talent. This needs to be addressed through the further inclusion of entrepreneurship in the second- and third-level curricula;
- v EU Funding Assistance to SMEs: Entry into the EU provides local SMEs with the opportunities for financing from the myriad of EU programme streams. Unfortunately, knowledge on how to source such funds and how to prepare briefs for submission is still lacking. Training programmes and structured streams to assist SMEs to take advantage of such opportunities are to be introduced. The Forum Malta fl-Ewropa should enhance this process;
- vi. Including entrepreneurship as an integral part of education and training in further and higher education institutions and promoting initiatives such as SCOOPS at secondary education level and Young Enterprise at post-secondary education and training level. To this effect a Steering Committee is being set up with representatives from the Ministry for Education, Youth and Employment, the Parliamentary Secretariat for Small Businesses and the Self Employed, Malta Enterprise, the Directorate for Curriculum Management and Young Enterprise (Malta) to ensure adequate implementation by 2006.

04.1.5 Gozo

Unique potential and unique issues characterise Gozo. These ask for specific initiatives as measures that apply for Malta do necessarily apply also for Gozo.

There is no doubt that Gozo's peripherality to the main commercial infrastructure comprising, for instance, the Malta International Airport, the Malta Freeport and the Grand Harbour, gives rise to what may be termed as 'double insularity'. Various issues arise from double insularity, not least constraints on the movement of persons, goods and services. These constraints are the cause of additional financial expenses and time delays for Gozitans, visitors and economic players active on the smaller island. The issue of double insularity impacts negatively on all sectors of the economy, notably tourism, manufacturing, and agriculture - as a consequence, it undermines the quality of life on the island by limiting accessibility to important services. Measures, such as that outlined below for Gozitan students in higher education services, need to be considered.

Gozo, however, has its strengths. Besides its own history, culture and archaeology, Gozo has to date avoided the scars of development that have occurred in the larger island. This strength gives it a competitive edge over Malta in terms of beauty and ambience. It is Government's intention to not only safeguard this edge but rather to undertake all the necessary and appropriate measures to build on it by, for example, exploring the introduction of particular programmes for energy from renewable and alternative sources.

Gozo also has an asset in its people, who are intrinsically creative and entrepreneurially-minded. Measures to address the issues specific to Gozo should draw upon and seek to harness Gozo's strengths.

There is no doubt that Gozo has distinctive economic activities relating to vineyards, olives-production, crafts and cultural as well as religious activities. Government believes that, furnished with appropriate investment in marketing and support, Gozo can be positioned as an agro-cultural destination of international stature that can and should compete with other such destinations in the Mediterranean and in Europe. This direction means, however, that the focus of our efforts and energies should be directed single-mindedly towards the achievement of this goal.

Through the University of Malta and MCAST, Government proposes to develop professional and vocational training in what may be termed as distinctive Gozo activities. Moreover, it is proposed that the Malta Tourism Authority set up a resource base that, together with Gozitan authorities in both public administration and the private sector, will work on establishing Gozo's international stature in this regard. The exercise to brand Gozo should entail the availability of retail outlets for distinctive Gozitan products at strategic locations, including the Malta International Airport and the Seaport, amongst others. This exercise complements the new segment-driven strategy being adopted by the Malta Tourism Authority whereby one of the segments that have been identified is precisely Gozo as a separate destination.

Furthermore, Government will continue to develop measures and incentives to develop and promote crafts centres for production, training, retailing, hands-on experience and related visitor activities in strategic locations such as the Ċittadella, ta' Dbieġi, and Għajnsielem. These measures should be supported by initiatives directed towards the provision of a crafts incubation centre and of access to capital that would assist in the establishment of craft-oriented industries. Support initiatives will include the provision of space in Gozo's industrial estates – which now need to be re-designed for smaller scale industries – at special rates to entrepreneurs who seek to invest in this area, as well as a support scheme for the upgrading and packaging of local speciality products.

The cruise industry is evolving into a major pillar of the local tourism industry. Yet, to date, Gozo is excluded from the itinerary. Government believes that the matter must be addressed. For such a development to take place, it would not be necessary to build a cruise terminal but rather, the regulated ferrying, as in some Caribbean islands, of cruise passengers from liner to land.

Government further believes that the tourist infrastructure in Gozo should be supported by the provision of a licence for the opening of one casino, as well as an additional yacht marina. This expansion should also be complemented with other tourism-related infrastructure such as the development of a golf course, conference facilities, further investment in Gozo's heritage such as the work currently underway on the rehabilitation of the Ġgantija temples.

Gozo as a designated region qualifies for specific EU funding. Government is aware, however, that Gozitan entrepreneurs have yet to mobilise their resources to take advantage of such funding. To a large extent, this lack is a result of the absence of knowledge as to where such funds are located and how to access them. Thus, in 2006, Government will ensure that the appropriate skilled resources are made available to all those who are prepared to take the initiative.

The issue of accessibility to and from Malta for Gozitan manufacturers will always remain an issue. By contrast, knowledge-based industries are not subject to this constraint. Thus, Government proposes to incrementally introduce measures to diversify Gozo's economy.

04.1.6 Sustaining the Tourism Industry

THE CONTINUING IMPORTANCE OF TOURISM

Tourism remains one of the major sources of employment in Malta and a key foreign currency earner. Tourism may be broken down into four key types:

- Mainstream tourism: the sector exploits the favourable climate, aesthetic appeal and the sea to attract tourists to visit

the island, with an obvious peak in the summer months. Mainstream tourism may need to be upgraded particularly at the infrastructural level to combat increased competition from Tunisia, Libya, Morocco, Cyprus, Turkey, Croatia and other similar destinations;

- Niche tourism: increased emphasis must be placed on developing and promoting Malta as a tourism destination for specific niche areas, particularly those with peaks in the winter months. This type of tourism draws upon specific resources, particularly Malta's cultural heritage and countryside. Such niche markets include, but are not limited to, golf course and sports tourism, cultural tourism, conference and incentive travel, religious travel, health tourism, English-language training and diving;
- Exploitation of affordable travel that will materialise through the operation of low-priced airlines to Malta;
- Exploitation of regional and sub-regional-based travel that establishes Malta as one of the stops in a tourist's holiday programme. This type of tourism is particularly relevant to the cruise-liner industry but can also provide new venues based on theme-related concepts - for example, Fortifications of the Crusades and the Knights Templar (France, Malta, the Dodecanese Islands, Rhodes); the Footsteps of St Paul; etc. This type of tourism is also relevant in including Malta as one of three or four different stops for visitors who come over from long haul destinations (such as the United States of America, China, India, etc) and who would usually prefer to visit more than one country when holidaying abroad.

Successful promotion of tourism requires the identification of specific sub-sectors (whether on a geographic or niche-market basis) and the mounting of marketing campaigns aimed specifically at these sub-sectors. The danger of this approach, however, is that the overall picture could be lost sight of. While new facilities may need to be developed in order to enhance Malta's attractiveness to particular sub-sectors, Malta's appeal to virtually all sectors of tourism will diminish if, at the same time, the country becomes overdeveloped and the countryside lost. Government will continue to seek opportunities to encourage or facilitate the development of facilities important for the tourism industry, but it will keep in mind the importance of safeguarding the preservation of Malta's natural attractions, which include seven world heritage sites. These sites should be a marketing-point in their own right.

The following measures have already been taken to improve the effectiveness of Government support for the sector:

- The Malta Tourism Authority is undergoing restructuring in favour of a leaner set-up that is better focused on its core roles, thus, enabling it to address them more effectively;
- An inter-ministerial committee has been set up under the direct chairmanship of the Prime Minister. This committee aims to address issues affecting the tourism sector but which cut across the responsibilities of different ministries;
- Six tourism zones have been identified: Valletta and the Grand Harbour area; Sliema, St Julian's and Paceville; Bugibba, Qawra, Mellieha, Golden Bay and Marfa; Mdina, Rabat, Dingli, Ta' Qali and Buskett; Gozo; coastal waters. These zones will receive priority in embellishment work with a view to addressing the perception that Malta has "five-star facilities but a two-star environment";
- Upgrading work on a number of heritage sites, notably the Domus Romana, Upper Barrakka Garden, Xarolla Heritage site, Senglea Gate fortifications etc, have already taken place. Equally important is the project to conserve and present better our megalithic sites, in particular Mnajdra and Hagar Qim, as well as Ggantija in Gozo.

In order to be competitive, today's tourism sector demands:

- Strong emphasis on the product side. Ultimately we can only be competitive by ensuring that our country is not suffering from destination fatigue and is vibrant and trendy as ever. This means developing new tourism amenities such as well-managed beaches that are designed according to the blue flag-beaches criteria. In this respect, the recent St George's Bay project must be considered as a model to be further emulated in other areas;
- High quality that includes the right and correct approach by all persons who come into contact with our visitors. We will be vigilant to make sure that the taxi drivers, cab drivers, persons in the public transport sector, employees within the hospitality industry, and all others who come in contact with our visitors provide a good quality service at the right price;
- Particular measures to ensure a clean and healthy environment;
- Regular events that promote Malta as a worthwhile experience rather than just another destination.

MARKETING

A modern brand should be developed for the country to move away from the traditional image of Malta as solely an island providing a "sun, sand and sea" destination. The climate and the sea will remain important elements of Malta's attractiveness, but should be regarded as additional bonus factors since it needs to be sufficiently appreciated that Malta is also a bustling, sophisticated metropolis with numerous possibilities for recreation and an unparalleled historical heritage.

Over the past weeks, the Malta Tourism Authority has put in motion a branding exercise with the active participation of all key stakeholders in order to have the necessary tools to compete with all other tourism destinations that have themselves gone through branding on a professional basis in order to have the right foundations for their tourism marketing and public relations exercise. In 2006, this branding exercise for tourism will be concluded and funds will be made available to reap the best possible results from this exercise.

An appropriate new brand would, on a longer term basis, facilitate marketing not only for tourism purposes, but also for the attraction of foreign direct investment, the financial services sector and the maritime sector. Hence, the new brand will apart from being essential from the tourism perspective, also needs to be developed further for use also by Malta Enterprise, the Malta Tourism Authority, the Malta Maritime Authority and the Malta Financial Services Authority.

Branding will take place at three levels. At the national level, the generic resources and competences of Malta will need to be effectively marketed. At the sectoral level, efforts will focus more on promoting sector-specific selling points and Malta's competitive advantage in that sector. At company level, exporting firms (be they in the field of tourism or unrelated sectors) will be encouraged to utilise the brand as part of their own marketing campaigns in return for a contribution to the brand fund.

In line with trends in the tourism industry, overseas marketing by the Malta Tourism Authority will shift from a geographical market approach to a segment-based one. Accordingly, the Malta Tourism Authority's overseas network will be streamlined and monthly performance targets that have already started to be set will be constantly monitored and used as benchmarks for the appraisal of the Authority's own performance as well as of its personnel.

04.1.7 Further Strengthening the Financial Services Sector

The financial services sector is one of the success stories of the Maltese economy. It has assumed growing importance over the last decade and it is now a significant contributor to Malta's economic output. Government proposes to take a number of measures to strengthen the sector and to realise its considerable potential for additional growth.

- Efforts will be made to promote the Malta Stock Exchange abroad in order to tap the market for secondary listings of international companies;
- To facilitate this aim, consideration will be given to the possibility of achieving closer interlinkages between the Malta Stock Exchange and other international exchanges through harmonisation of trading platforms and linkage with an international clearing house;
- The Malta Financial Services Authority (MFSA) is already providing training to the financial services industry in areas where skills shortages have been identified (such as actuarial skills). This initiative will be built upon with efforts to identify future skills requirements and shortfalls and the provision of further training to meet these needs;
- The MFSA will continue with its efforts to ensure that local consumers of financial services have sufficient information to enable them to make informed decisions. The MFSA has already started a campaign to encourage the financial press and industry associations to develop consumer-friendly practices whereby information about the rights and obligations of consumers is presented to them clearly. MFSA will seek further means to strengthen the influence of consumers within the industry, in the knowledge that in this as in other industries, consumers can play an important role in driving the development of competitive markets and consequently improved business performance;
- Government will present to Parliament a Securitisation Act to make possible the conversion of receivables and other

assets to securities that can be traded in the capital markets. This will represent an important addition to the tools which can be used in the structuring of new financial products;

- Efforts will be made to exploit additional opportunities in the financial services sector, such as:
 - provision of corporate services;
 - outsourcing and coordination of services such as accounting and administration, insurance management, fund administration, analytical research and electronic payment systems;
 - trusteeship and trust management;
 - marketing of financial products including pension schemes;
 - fund registration;
 - captive insurance services;
 - arbitration services;
 - asset management.

04.1.8 Employment

Government's objectives in the field of employment remain those set out in the National Action Plan for Employment, published in 2004:

- improving education and skills levels of the labour supply, especially of the lowest skilled;
- raising the employment rate, particularly for women and those above 55 years of age;
- addressing labour market distortions, including labour market mismatches and ensuring that work pays;
- deploying public-sector employees more efficiently;
- modernising the public-employment service;
- improving quality and productivity at work;
- promoting an inclusive labour market.

Much work has already been carried out in this area. Key measures have included the establishment and expansion of MCAST as the main provider of vocational education in Malta, and improvements in the services offered by ETC to unemployed persons, notably the organisation of job-search training seminars, the appointment of Employment Advisors and Personal Advisors, and the provision of training and subsidised work placement schemes. A number of schemes co-financed by the European Social Fund are intended to address the above objectives, including projects targeted at the unemployed aged 40 and over; reducing illiteracy; integrating persons with disabilities; and promoting work-life balance through childcare provision.

The following measures are proposed for the coming three years:

Improving education and skills levels of the labour supply

- the restructuring of apprenticeships to make them more flexible and more attractive to employers and to allow for shorter, more focused apprenticeships;
- the identification of critical skill shortages on a national level, and the development of training programmes aimed at filling the gaps identified;
- the provision of community-based training, in partnership with schools and local councils, whereby schools would be transformed into lifelong-learning centres for their local communities.

Raising the employment rate, particularly for women

- the continuation with the aim of attracting more women students to fields such as architecture, engineering, IT and science;
- the development of measures and incentives aimed at encouraging teleworking, flexitime and other flexible employment practices;
- the introduction of a care subsidy scheme for individuals who wish to participate in ETC courses but require childcare or other dependent care to be able to do so.

Addressing labour distortions

- the carrying out of audits, with regard to the granting of invalidity benefits, in order to ensure that these are not being abused by individuals who are capable of working;
- the development of a programme whereby long-term unemployed would be required to undertake work assignments for a number of hours equivalent to the benefits they receive;
- the improvement of both positive and punitive measures to reduce undeclared work, including promotion of the benefits of regular employment; the support of various employment forms such as cooperatives to provide a framework for the regularisation of precarious work; and enhanced enforcement capability;
- the strengthening of technical and administrative capacity with a view to continuous evaluation of labour market programmes.

Deploying public sector employees more efficiently

- to consolidate and co-ordinate better the mechanisms and procedures aimed at the best deployment possible of all public officers and all public sector employees.

Modernising the public employment services

- the development of more attractive incentives to employers to take on disabled persons;
- the provision of training targeted specifically at people in danger of social exclusion, particularly early school leavers, lone parents, persons with disability and persons seeking to overcome problems of substance abuse or to leave correctional facilities;
- the improvement of the capacity of the public employment service with respect to its brokerage role, with respect to vacancy capture and better matching of jobseekers to available vacancies;
- the facilitation of labour mobility and the effective management of economic migration;
- the improvement of levels of health and safety in the workplace;
- the promotion of conditions of employment that are conducive to both productivity and the dignity of employees.
- the carrying-out of a review of the regulatory framework to firms that provide employment services (temping) with a view to ensuring that there are no barriers to entry into employment.

04.1.9 Information and Communication Technology (ICT)

Malta has shown that it can attain successes given the right vision, leadership, commitment and investment. The progress attained in ICT is one area of success - a success that is consistently and continuously demonstrated in the ranking we achieve in international publications of the World Economic Forum and the European Union, to mention a few.

Government intends to further exploit the country's abilities in ICT, both to improve Malta's competitiveness in an increasingly knowledge-dependent world, as well as to establish ICT as a value-added contributor to our economy.

In 2004, Government launched a National Strategy and Action Plan through the Ministry for Investment, Industry and IT. The implementation of this strategy and Action Plan began in earnest in 2005, with measures launched in this year's Budget.

The year 2006 will see Government continue with the string of initiatives launched; these are mainly intended to meet the benchmarks set for the end of the said year: online connectivity for 90 per cent of the private sector; 50 per cent of the Maltese to have electronic access to public services; 60 per cent of users to have broadband connectivity..

In tandem with the above, Government will intensify its actions in the following areas of the National ICT Strategy:

I THE FIGHT AGAINST THE DIGITAL DIVIDE

The measures Government will adopt to further this prong of the Strategy will entail sustaining the work of the Community Technology and Learning Centres which have been established in most localities. Through the Foundation for IT Accessibility - a partnership between Government and the Kunsill Nazzjonali Persuni b' Diżabilità (KNPD) - Government will continue to

embark on projects and initiatives to support persons with disabilities. It will also introduce measures for the promotion of the Maltese language to encourage the creation and posting of Maltese content.

II ICT EDUCATION AND ACCESSIBILITY

The investment made to date by Government in State schools makes Malta one of the leading nations in the European Union in terms of accessibility to technology for teaching as well as for familiarisation purposes. Government intends to maintain the pace in this area, with the focus now shifting from the provision of the technology itself to the integration of ICT within the pedagogical content.

Steps will also be taken to deploy a national e-learning platform. Furthermore, through the Employment and Training Corporation, Government will finance the training of unemployed persons to obtain accreditation in IT-related skills in order to increase the employability of such persons.

Through the newly set up National Office for Research, Development and Innovation in Science and Technology, Government will work to facilitate the participation of ICT students in international competitions and to assist them in the transformation of their ICT innovations into commercial products.

III PROMOTING ICT IN SMALL AND MEDIUM ENTERPRISES

Government will continue with the implementation of the initiatives recommended in the eCommerce Framework so that the appropriate blocks for successful eBusiness take-up are in place in Malta. In tandem with this, the implementation of the 'Kick Start' programme will be completed in 2006.

IV MAKING THE INTERNET A SECURE PLACE

In 2006, Government will continue with its support of the work of the eCrime Working Group and will implement its recommendations accordingly. In this regard, Government will amend the provisions for computer crime within the Criminal Code to make the act of 'grooming' a criminal offence.

Moreover, sustained efforts will continue to be made to encourage the widespread adoption of the Trust Mark scheme by local businesses and the general public.

V INTERNATIONALISING THE MALTESE ICT INDUSTRY

Measures will continue to be taken to support local industry in establishing relationships with multi-national ICT companies such as Microsoft and Oracle - primarily by attracting such organisations to establish a base in Malta and thereby facilitating relationship-building and opportunities for working together.

Furthermore, Government will embark on a process to develop specific programmes and initiatives for local industry to work with the emerging market in North Africa as well as in small states.

Finally, Government intends to work with the private sector to set up an ICT training centre of excellence that will be focused on the regional requirements of multi-national and other industries in the Mediterranean rim.

04.1.10 Science and Technology

The review to set out a way forward for research and development in science and technology (RDIST) is undertaken within the context of two policy thrusts. The first is EU-related. At the Lisbon Council, the EU concluded that it can only grow as a competitive and knowledge-based economy if it increases its investment in RDIST. In fact, the EU set the goal that investment in research, development and innovation must reach 3 per cent of each Member State's GDP (1 per cent by Government and 2 per cent by the private sector) by 2010. In February 2005, President Barroso told the Spring European Council that:

“In advanced economies such as the EU, knowledge, meaning R&D, innovation and education, is a key driver of productive growth. Knowledge is the critical factor with which Europe can ensure competitiveness in a global world where others compete with cheap labour or primary resources.”

Subsequently, the EU requested each Member State to appoint a Lisbon Agenda owner and to draw up an action plan for the implementation of the Lisbon Agenda goals by 15th October 2005. Malta has initiated this process and its action plan should be completed by this time. Thereupon implementation will begin.

The second is Malta-related. In the 2005 Budget, Government underlined the importance of research and innovation as a critical component towards the attainment of our national competitiveness. In this regard, a number of actions need to be taken in the coming period. These include a philosophical orientation whereby state-financed RDIST should be directed towards value-added research in niche economic areas within which success can be attained. Academic research, in so far as it falls within the established strategic economic focus, should be encouraged. Otherwise, it should be excluded from such funding.

The above, however, does not negate the importance of the University of Malta in value-added research and in the provision of RDIST services through its facilities, such as the bio-tech laboratory. Its undergraduate and graduate research programmes should also seek active partnership with the private sector. In this regard, Government will make funding available to the University of Malta for the upgrading of its research facilities, subject to the condition that such research will fall within the national RDIST strategic objectives.

Thus, as an immediate step, Government will in 2006 articulate a national strategic RDIST plan within the context of its policy to channel such funding to niche economic areas.

Within the context of tying state-financed RDIST to economic growth areas. The Malta Council for Science and Technology will be reformed with the mandate to:

- a draw up a strategic RDIST plan and priorities;
- b carry out RDIST policy design, evaluation and audit;
- c manage RDIST provided by the State, EU programmes, etc to ensure that these are directed towards identified economic strategic areas;
- d assist in the incubation of higher education research projects through support for product development and marketing of successful Maltese RDIST initiatives.

The Council should also be given the mandate to drive the Environment Technologies Action Plan which is also one of the measures that contributes to the overall goals of the Lisbon Strategy. The Action Plan includes 28 actions which are intended to improve development through research and greater efforts to bring environmental technologies on the market.

A National ETAP is a task that involves a number of entities and covers a wide variety of Ministries, Authorities and Corporations. It is imperative that this is driven by one body which will also be responsible for the coordination among the various stakeholders.

MCST has been successful in obtaining EU funds for Science and Technology initiatives and has built a strong institutional memory on EU financing. This success will be built upon by assigning to the National Office for Science, Technology and Innovation the mandate to act as Government's EU-funding alert and proposal mobilisation agency.

Government further proposes to initiate an incremental approach towards meeting the State's commitment under the Lisbon Agenda criteria - with financing occurring at a slower gradient as capacity is built. The following investment cycle is proposed:

Table 20. Investment cycle for Malta

Year	GDP percentage contribution	Financial value (based on 2002 GDP market prices) Lm
2005	0.104	417,000
2006	0.150	598,000
2007	0.200	798,000

Furthermore, while Government will continue with the national RTDI programme, this will be restructured to ensure that financing is directed towards those areas identified in the national RDIST strategic plan.

Finally, Government strongly believes that a culture for RTDI in science and technology needs to be imbued in our society. This can be achieved in a number of ways. First, a culture for science and technology must be rooted from the primary years of education. In this regard, consideration will be given to the reforms required in our national curriculum towards the rooting of this culture. Second, educational and career choices are very much influenced by teachers and parents. Thus, substantial investment is needed to bring information on the increasing opportunities in the field of science and technology to teachers and parents as well as to children.

It is pertinent to underline that, in the 1980s, Malta faced a similar situation of under-investment, dearth of skills, absence of infrastructure and a poor culture in the field of information and communication technology. Over a period of 15 years, a strong vision and focused commitment has transformed what was a totally green field into one of the main strengths of our economy. There is no reason why this success, if entered into with the same level of commitment and focus, cannot be emulated in the science and technology area.

It should be noted that the building of a body of skills in new areas spans a generation. Such proved to be the case in the ICT sector. Success was only attained following the establishment of degree courses at the University of Malta, the MITTS Ltd. training centre and, more recently, the ICT institute at MCAST as well as the establishment of private-sector ICT training centres. In the interim, until the appropriate skills base and capacity was built both Government and the private sector imported skilled labour. Thus, Government is ready to positively consider the importation of science and technology expertise in order to allow the country to bridge the skills gap while this important economic activity is built up in Malta.

The following additional measures are proposed with a view to developing a legislative framework that encourages research and development:

- A review of current legislation on patents will be carried out with a view to identifying opportunities to make the registration of patents in Malta more attractive, while safeguarding existing industrial activities;
- A suitable intellectual property regime covering research by University staff will be developed with a view to encouraging collaboration between industry and the University;
- A programme of scholarships for students embarking on postgraduate studies in specific areas related to science and technology will be established. Beneficiaries would be required to work in Malta for a specific period upon completion of their studies.

04.2 Education

To provide quality lifelong education for all, leading towards the maximum possible fulfilment of the potential of every person and the fostering of a knowledge-based culture to improve our country's competitive edge, for the satisfaction of the nation's needs with regards to sustainable growth and development.

Measures introduced in the field of education over the past decade have been far-reaching - ranging from the increased participation of students in tertiary education and the creation of MCAST, the development of the local examination system (MATSEC), to the entrenchment of ICT in education, and the introduction of a new National Curriculum that demands a paradigm shift in the way our society looks at education. Government intends to accelerate the pace it has set in this important policy area. In fact, during the past two years the Ministry of Education, Youth and Employment has been through one of its most intense periods of policy review and reform implementation, across all major areas of the education sector.

The successes secured in the education sector present new challenges that the Government is determined to face and to lead all stakeholders and institutions to overcome and to transform into valuable opportunities for growth.

04.2.1 Compulsory Education

The main challenge here is to ensure quality education for all through a) better standards setting and quality assurance, and b) through the effective and efficient operation of the different educational entities spanning State, Church and private-sector educational institutions. The myriad of educational institutions now in operation demands a more timely and effective delivery of support and services, clarity in the process of accountability, better information, communication, ongoing dialogue, planning and more consistent direction, both on a horizontal and vertical basis, than that in place today. In this regard, the Government has recently published its plans for the educational reforms of the compulsory education system in the strategy document titled 'For All Children to Succeed'. In essence, the Government's thrust will be directed towards:

- a) Networking all State primary and secondary schools into a number of autonomous Colleges catering for all levels of education, from early childhood through primary to secondary, to allow for an improved and seamless educational service, with external evaluation to ensure quality;
- b) Providing unified regulation for the whole of the education system - that is State, Church and private schools right up to the compulsory school-leaving age - including that relating to curriculum policies, auditing and quality assurance;
- c) Ensuring the effective and timely delivery of the necessary pedagogical, management, operations, and ancillary support, planning and resource allocation; lifelong learning services; and student services;
- d) Providing, within the context of policy parameters set centrally, a framework for agreed decentralisation to State schools within a networked school environment through the new Colleges.

Another major challenge is the building of new State schools and the upgrading and refurbishment of the current State school building stock. It is pertinent to underline that, apart from the building of schools in the late 1950s and throughout the 1960s, hardly any State schools have been built. Many State schools are housed in schools built in the first part of the last century or in ex-British military services buildings. Government has now aggressively committed itself to a ten-year multi-million project to satisfy the needs in this area and has set up the Foundation for Tomorrow's Schools which has adopted an impressive pace of rehabilitation of existing stock as well as of building new schools. Government will accelerate the pace into 2006.

04.2.2 Further and Higher Education

The institutional platform of further and higher education has widened substantially in the past few years - embracing not only the University of Malta, but MCAST, post-secondary and higher secondary levels, and international higher education institutions very often undertaken through local agents. While it is recognised that further and higher education institutions - be they financed privately or through public funds - must retain academic and operational autonomy, Government has a responsibility to ensure that, among other matters :

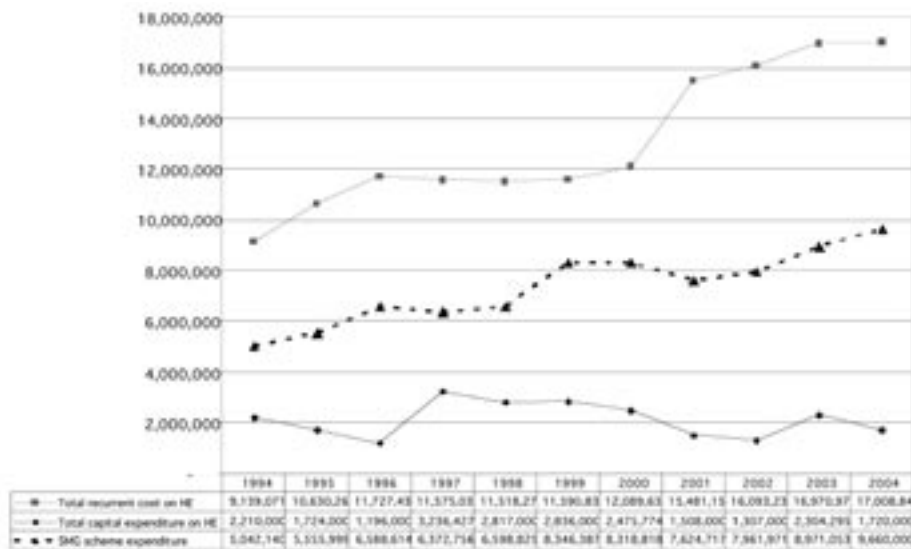
- a) higher education institutions adhere to recognised standards through proper accreditation and licensing;
- b) public funds, where provided, are well spent and yield quality human capital;
- c) further and higher education institutions have strong relationships with and respond to industry needs and to the economy.

The financial sustainability of the further and higher education system is indeed a major consideration and Government needs to address the dilemma that is created by the fact that we need to encourage more students to take up further, higher, and tertiary education. While student population in these areas increased by 67 per cent over the ten years between 1994 and 2004, the financial allocations extended to the institutions have not necessarily kept up with the growing student populations, resulting in a striking imbalance in the proportion of funds directed towards student financing.

Table 21. Projected student population in University & MCAST till 2010

	Actual 2004	Forecast 2006	2007	2008	2009	2010	
Population cohort:							
(16-17)	10,847	11,117	10,952	10,670	10,776	10,621	
(18-21)	21,897	21,560	21,522	21,676	21,799	21,787	
Participation rate:							
Post-secondary (vocational)	54%	36%	37%	38%	41%	44%	46%
Post-secondary (general)	46%	30%	31%	32%	34%	36%	39%
Post-secondary (total)		66%	68%	70%	75%	80%	85%
Tertiary		23%	25%	27%	28%	29%	30%
Student population by age cohort:							
Post-secondary (vocational)	3,895	4,113	4,172	4,354	4,691	4,912	
Post-secondary (general)	3,264	3,446	3,495	3,648	3,930	4,116	
Post-secondary (16-17 in all institutions)	7,159	7,560	7,666	8,003	8,621	9,028	
Tertiary (18-21)	5,036	5,390	5,811	6,069	6,322	6,536	
Growth rate by main age cohorts (basis 2004):							
Post-secondary (vocational)		6%	7%	12%	20%	26%	
Post-secondary (general)		6%	7%	12%	20%	26%	
Post-secondary (16-17 in all institutions)		6%	7%	12%	20%	26%	
Tertiary (18-21)		7%	15%	21%	26%	30%	
Student population forecast (all ages, full-time only)							
Post-secondary (vocational)	5,339	5,638	5,717	5,968	6,429	6,733	
Post-secondary (general)	4,473	4,723	4,790	5,000	5,386	5,641	
Post-secondary (all institutions)	9,812	10,361	10,507	10,968	11,815	12,373	
Tertiary	7,248	7,757	8,363	8,735	9,098	9,406	

Chart 18. Expenditure on higher education 1994-2004



In fact, the Chalmers report on Higher Education holds that “The principal finding in our review is that the key institutions are facing severe financial difficulties. Paradoxically, these difficulties have been brought about not by policy failure, but by policy success,” naming the stipend and the recognition by Maltese society of the benefits of higher education as two key reasons for the increase in student population.

Government acknowledges the importance of the Chalmers report and the challenges it has highlighted. The Ministry for Education, Youth and Employment has studied the Chalmers Report on higher education funding and consultations has been carried out with University students’ representatives during the first part of this year, and a number of recommendations were considered. Government considers the following underlying principles should guide the next steps:

- A firm conviction and commitment towards higher participation rates and continued investment in the sector;
- Preservation of the principle of equal access opportunities with the guaranteed provision of a safety net based on specified socio-economic criteria;
- A shift in treating student support which is not directed towards the institutions as a social policy instrument rather than one of education;
- A firm commitment towards the provision of quality to the highest degree possible, both in administrative and academic terms;
- The recognition of autonomy coupled with the necessity for stronger accountability and the necessary reforms and funding for this process to become feasible;
- The broadening of the term accountability to include not only regularity of financial procedure (ie. audit reports) but a thorough analysis of the efficiency, relevance and value of such expenditure.

04.2.3 Government commits itself to sustaining the overall participation rates in higher education

- The target of 65% of 22 year olds having at least upper secondary qualifications as declared in the NAP employment of 2004 is achievable as measured through current participation rates of 17 year olds across all institutions;
- If 2015 targets move towards 85% participation, capacity for 1,500 more students must be provided across all years of post-secondary institutions including the Junior College, the Higher Secondary schools, MCAST and ITS;
- A further increase in participation at a tertiary level from 23% towards 30% by 2010, implies an increase of 2000 students attending the University of Malta.

Government is committed to increasing the resources necessary to sustain the institutions in providing more and better educational services to achieve its objective of higher participation rates.

Government is also ready to reform student support mechanisms to ensure that more students can access higher levels of education, to create effective incentive schemes, and to guarantee the sustainability of the overall funding equation for this sector.

This is a conscious strategic decision that Government is taking – Government is prepared to divert our limited resources to education rather than other sectors, because the success of the other sectors depends on the success of our education system. However, as with all investments, this investment must give the country maximum return.

Therefore Government is committed to:

1. Maintain the current student support schemes for all students in the post secondary sector: Junior College, Private Sixth Forms, Higher Secondary School, MCAST and ITS;
2. Maintain the current basic student maintenance grants scheme for all University of Malta student, who in June 2005 were benefiting from such schemes under the present regulations;
3. Introduce a number of reforms in student support schemes for the new students in the tertiary sector, with the aim of:
 - a. Improving access:
 - i. Differentiated support for courses that require higher indirect education expenditure, increasing the card scheme grants for those attending courses requiring high equipment costs, and reducing these grants for those who in effect do not have the same share of private expenditure on indirect education expenses;
 - ii. Increased financial incentives for those relying heavily on supplementary grants;
 - iii. A special supplementary scheme for students from Gozo to ensure that they are fully encouraged to further their studies and training in higher education institutions in Malta.
 - b. Improving quality and choice:
 - i. Increasing institutional funding for sustained improvement in capacity of institutions and quality of their educational services;
 - ii. Gradually shifting the basis of finance from the institution to the student, attracting investment in the sector and providing students with choice.

Students' financial support will follow students depending on which institution they choose to attend, thereby introducing a measure of pressure on the institution to attract them on the basis of its ability and quality - this, in turn, would result in improved performance, choice and efficiency benefits across the higher education sector.

Moreover, this will encourage the growth of a domestic market for private investors to seriously consider developing centres of excellence in various niches - thereby providing the spur for Malta to participate in what is an exploding global higher education sector the potential of which has yet to be explored and exploited in Malta.

- c. Motivating effectively:
 - i. Guide students into new areas of research, ensuring higher returns to education, through better funded guidance activity;
 - ii. Reward excellence through the setting up of the Government of Malta Scholarship Fund which finances those with outstanding abilities to pursue post-graduate studies in identified sectors that will contribute in a significant manner to the country's needs;
 - iii. Invest heavily in the links between innovation, research and various economic sectors by developing knowledge transfer programmes. Such programmes create the space for graduates to develop knowledge-based entrepreneurial activity, acting as an anchor for talent retention and eventually a pipeline for innovative business development and investment attractiveness.

While Government is committed to support all first degree students by means of a basic maintenance grant, the Youth Specialisation Scheme, so far available only for students in foreign higher education institutions, will be modified to cover also higher education courses in Malta.

The reforms want to ensure that the system truly addresses the underlying drivers of participation i.e. affordability, liquidity (where attending university is not a case of affordability), incentive to achieve and perform, and incentive to move to new areas of research, and finally to have effective choice and the best possible quality.

04.2.4 Adult Education and Training

It is necessary to put in place measures to significantly increase the number of mature students. Demographic changes mean that the number of school leavers will decline over the coming years and that the number of elderly workers will increase. This demographic shift, combined with the relentless transformative pressures being exerted on industry by global competition and technological change, means that up-skilling by workers through part-time education must assume a greater role than before. A key development required in this regard is the introduction of a national vocational qualification framework. A national vocational qualification framework would bring increased clarity to the meaning of different types of qualifications and would allow qualifications to be compared easily. Together with the associated policies on access, transfer and progression, the introduction of such a framework would allow for wider access to awards, creating additional opportunities for transfer to different programmes and encouraging learners to progress to tertiary education.

04.2.5 The spoken and written English

We need to retain the strength arising from our command of English and the strong element of multi-lingualism residing with most knowledge-based workers - this provides us with a major advantage over our competitors. While the newly legislated National Council for the Maltese Language shall enhance our efforts to maintain and improve the strength of our National Language, Government demands that educational institutions at all levels effectively commit themselves to aim at and attain an excellent quality in spoken and written English by all. Thus, the necessary measures are to be adopted to ensure that Malta retains and builds upon this competitive advantage throughout the reference period of this document.

04.2.6 Education is the key

Sustained investment in our human capital will determine our knowledge and skills, our productivity, our innovative and entrepreneurial abilities, our competitiveness and ultimately our sustained and improved standards of living.

In the context of the various challenges our society and economy faces, education is increasingly the key to long-term sustainable change and development. In this open global economy, knowledge and skills become the primary factor of competitive success and prosperity.

04.3 Towards an improved environment and infrastructure

To upgrade our Nation's environment and infrastructure in order to ensure an improved quality of life through sustainable development and the regeneration of our heritage.

There is no doubt that the quality of life of our citizens is intertwined with the quality of our environment. What is important in this regard is that the national consciousness for the need to protect our environment is increasingly becoming an intrinsic part of our behaviour. This is also reflected in the prioritisation that Government is establishing for securing and improving our environment. In fact, it has been this administration's priority, as declared in the 2005 Budget, to step up, through financing

and other resources, the necessary programmes across the whole spectrum of the environmental polity in order to attain the desired goals.

Amongst the myriad of initiatives underway, the following are considered to be key.

04.3.1 Parks and open spaces

Malta is a country where land resources are very limited and pressures for development are very high due to the increasing population density. Large areas of woodland in Malta have been cleared to make way for agriculture and other forms of land development and thus the extent of vegetation cover and natural habitats in the Maltese Islands has been drastically reduced over the years. Government is aware that there is an increasing recognition of the need to conserve and propagate native woodlands, other habitats and related fauna as well as to offer recreational and educational facilities for the public.

Last year Government developed a series of afforestation projects together with the development of national and regional parks across the Maltese Islands as a long term objective. A number of prospective sites have been identified for afforestation in the short term and these include:

Delimara
Xrobb I-Għajin
Ta' Qali National Park
Salina
Mellieħa

Each of these sites includes more than one project and during the past year much progress has been recorded. Approximately 5000 trees have been planted and preparatory works for further tree planting has been carried out throughout the year on the other sites. The five sites have been prioritised from the wider national list of sites that will also be tackled in subsequent stages of afforestation and park development in the future.

Government's strategy aims to continue to develop various sites around Malta and Gozo as typical Maltese woodlands. The afforestation sites are integrated and positioned strategically in combination with the locations of National and Regional Parks. The strategy includes the coordinated development of large open areas with recreational facilities of a particular theme. The various initiatives seek to engage partners including local councils, NGOs, schools and the private sector in sponsoring and assisting in the long term management of the sites.

Government's long term strategic vision ensures that the whole initiative is of benefit to future generations. The aim is to foster the Maltese landscape, including its cultural, ecological and aesthetic values, for future generations through the development of various sites around Malta and Gozo as typical Maltese woodlands.

04.3.2 Valleys and storm watercourse rehabilitation

Government will continue with its efforts to rehabilitate Malta's valleys and to maintain them in a state that, as well as safeguarding their natural and ecological importance, will prevent flooding of surrounding urban and rural areas due to the blockage of natural watercourses. In addition, efforts will be made to solve flooding problems in areas where natural drainage routes have been lost due to urban development.

During 2006, Government will continue to invest towards the completion of:

- the Qormi-Marsa Jetties Wharf watercourse project;
- the project to rehabilitate and recreate the Burmarrad/Salini watercourse;
- the Attard-Wied Incita Valley rehabilitation project.

Government also proposes to:

- study the feasibility of developing a storm-water retention and disposal system in Birkirkara/Msida. This would rely on underground tunnels to be dug at a depth which would not interfere with normal above-ground development and the provision of infrastructural services;
- centralise ongoing valley rehabilitation and cleaning work in a single unit within the Works Division which would carry out such work more systematically and efficiently.

04.3.3 Energy

Energy efficiency has long been a policy issue in many countries, driven by the need to reduce the use of fossil fuels to mitigate the impact of their rising prices on the national economy and of the resultant emissions on climate change. In Malta, it is now increasingly being pushed up in the list of national priorities.

The desired reduction in fossil fuel consumption can be achieved by the implementation of an energy efficiency programme and by the introduction of renewable energy exploitation, both of which are being considered by Government.

Energy efficiency measures aim to reduce energy consumption while maintaining or increasing the level of output and delivered outcomes. They are likely to be more rewarding than the introduction of renewable energy sources in reaching the national objective of reducing fossil fuel consumption. Many countries have been adopting policies and measures aimed at improving their use of energy with considerable success. Therefore, apart from the Government, the pursuit of energy efficiency should also be in the interest of our economic operators, individual consumers and households.

Government will, by June 2006, enquire into and report on the economic and environmental potential offered by energy efficiency measures and improvements and on the cost-effectiveness of such improvements for Government, enterprises, individual consumers and households. Government will also come up with different short- and medium-term policy options, strategies and instruments with a view to achieving visible improvements in the use of our energy resources. Moreover, Government will also examine and report on the broader economic and environmental costs and benefits arising from energy efficiency improvements in the public and private sectors and at the individual and household level.

In dealing with the issue of energy from renewable sources, it is pertinent to point out that most renewable energy sources that can be introduced in Malta such as wind and solar require financial support at today's fuel prices. Energy from waste, however, occurs as a consequence of utilising a waste treatment technology that not only reduces the need for landfilling but recovers the embedded energy in waste in an environmentally acceptable manner. Government is presently updating its Solid Waste Management Strategy to reflect developments in this field. The following actions relative to sustainable renewable energy exploitation in Malta are being undertaken:

- Government is close to finalising the national target for the consumption of electricity in terms of total consumption for 2010. This follows the analysis of renewable energy potential for the Maltese Islands and of the issues that constrain the harnessing of this potential. Preliminary indications point towards targets in the order of 0.5% to 1% for wind and solar sources and 3% from waste by 2010 (depending on final decisions by Government on the adoption of possible technologies);
- The issue of large wind farms is being studied in depth. The following are provisional conclusions without prejudice to the accepted formal planning processes:
 - Land-based wind-generated electricity is the cheapest technology; however, farms have very high visual and other "cumulative" impacts due to the small size of the island Government has decided that it will not offer public land for large scale wind farm development;
 - Offshore Wind is the next-best technology in terms of price. A preliminary inter-Government agency consultation process highlighted the constraints against wind farm development on reefs, which constraints range from interference with navigation, radar and air operations to ecological (marine and bird) to commercial and industrial (bunkering, tourism, etc). Reefs are generally 20 metres deep, which is the limit of

- current proven wind farm technology and are considered to be of extremely high ecological value for the marine environment;
- Government has instructed the competent agency to undertake further investigations into offshore possibilities down to 50 metres depth. The success or otherwise of this depends on the balance of risks associated with technology development, costs and environmental impacts. This study is ongoing and the report will be completed by the end of August 2005.
 - Government will shortly put forward improved schemes with appropriate penetration targets for the generation of photo voltaic electricity and electricity from wind from medium sized turbines.

Government is extremely concerned about the increasing costs of oil. In addition to taking actions towards the most efficient and effective use of the available energy resources, Government will not neglect its responsibility to take whatever actions it might deem necessary and feasible in order to mitigate and cushion the impact of an accelerated increase in the international price of oil on the country.

04.3.4 Waste Management

The budget allocation for waste management for this current year reflected the priority of this Government to safeguard against resorting to the bad practices of the past. The dumping of waste at the Magħtab and Qortin dump sites ceased and the gradual development of engineered facilities started to come on line. As a consequence of the Lm7.4 million allocated from national budget for 2005 and the co-financing secured as a result of Malta's accession into the European Union, a series of opportunities arose to upgrade the present infrastructure for waste on the Maltese Islands. This was pursued to safeguard the health and environment of our own generation and of those to come.

The first initiative that permitted the closure of the Magħtab dump was the rehabilitation of disused quarries with inert material. To sustain this initiative, Government gradually phased out all subsidies for the disposal of this material. As from January this year, all subsidies were removed with approximately Lm1.2 million of savings made. An added benefit of the removal of this subsidy is that projections for this year indicate that the amount of inert waste deposited in the facilities operated by WasteServ Malta Ltd will be reduced to 1 million tonnes as compared to the 2.4 million tonnes deposited in 2004. This is a clear indication that private initiative to reduce and manage this waste stream is on the increase.

The new engineered facility at Żwejra continued receiving waste as it extended into its third phase. During this year the capping of the first phase commenced and the first traces of methane gas were detected. Adequate pipework and ancillary engineering for the collection of this gas is gradually being developed. Following an application made late last year, the Żwejra Facility is now a permanent facility having been issued with an environmental permit from MEPA.

Waste separation from schools and households continued to increase with recovered fractions amounting to a record high of over 170 tonnes of separated fractions per month. Increased facilities and greater exposure to waste management has, in June this year, resulted in an increase of separated fractions of 52% for plastic, 45% for paper, 45% for metal and 32% for glass. These figures are obtained when compared with tonnages collected in June 2004. The 4.2 million euros earmarked from Structural Funds to be spent up until 2007 will continue to put these waste separation initiatives on sure ground.

Eco-contribution has also resulted in a series of positive results registered during this year. For the first time ever, Malta has managed to curb the increase of plastic bags. During the first 3 months of this year, some 5 million bags less were put on the market when compared to the same 3 months of 2004. Projections indicate that some 20 million plastic bags will be removed from circulation during 2005. Additionally, Malta is exporting its first consignment of spent batteries to France for treatment. About 50 tonnes of spent batteries, collected from around Malta and Gozo, will be exported by a private contractor. Some 1.5 tonnes of batteries are collected per month from various outlets such as local councils, schools and commercial outlets. Most importantly, however, is the fact that with the introduction of eco-contribution industry has realised the potential economic activity that sound waste management practices generate. The interest that exists by the private sector in the setting up of authorised schemes to recover and recycle used products from the market is surety that the intentions of eco-contribution are being met.

During 2005, five offers for an aerial emissions control programme for the disused dumps of Magħtab, Qortin and Wied Fulija were received. A contract is anticipated to be signed during the last quarter of 2005 with works starting soon after. This project, worth 8.4 million euros, is funded from Structural Funds.

During 2005, the debate on the upgrading of St Antnin ensued. The second draft of the Environmental Impact Assessment is now in circulation for consultation. Once the planning process is over and the site is permitted and the tender documents for this upgrading will soon be issued. During this coming year, it is planned that a preferred bidder to undertake the 16.4 million euros investment, partly financed by the EU will be selected following a public call. Preliminary development works will also be initiated once the permit is issued. The project aims to treat 35,000 tonnes of organic waste and 36,000 tonnes of dry recyclables in fully enclosed and controlled conditions. The treatment of the organic fraction will also recover biogas sufficient to supply 1400 homes with electricity all the year round.

During the coming year, it is projected that work on the development of the long term landfill facility at Għallis will be initiated. This project will also include the development of a hazardous waste treatment facility for the pre-treatment of hazardous waste prior to export. Work on the EIA of these facilities is nearing completion. Concurrently, the facility of Żwejra will be permanently sealed off and rehabilitated. This facility will be landscaped with a vegetative cover for aesthetical and technical reasons. All gases will be collected. The setting up of these facilities is essential for local industry wishing to safeguard their environmental responsibility whilst at the same time providing a sufficient support infrastructure for new industry to set up in Malta.

Work on the rehabilitation of Magħtab, Qortin and Wied Fulija will persevere, particularly with the initiation of the aerial emissions control works planned for these sites. During the coming year, work to capture and treat the gases emanating from these disused dumps will be initiated to minimise their impact these gases now have on the environment. The monitoring programme will also be intensified as per contract requirements. This is of particular relevance to the Magħtab dump since any mitigation of nuisances in one of Malta's prime touristic sites will be of benefit to the industry itself.

On a local level, during the coming year, waste separation will be facilitated through the provision of additional facilities such as Bring-in Sites and Civic Amenity Sites. The former, of which it is planned to have approximately 1 site for every 300 homes, are used to recover light packaging whereas the latter, of which it is planned to have 5 sites across Malta and Gozo, will be developed by the end of 2007. These sites will be used to recover bulky refuse in separated fractions.

Other initiatives such as the collection of used cooking oils will also be extended to safeguard our environmental interests as well as to offer priming support to waste recycling activities. New projects, possibly with the collaboration of the private sector, will also be launched.

Finally, to reflect the progress that this Government has achieved in this sector and to take on board developments in waste treatment technologies, earlier on this year Government had appointed two technical committees. One technical committee will review the current status of energy from waste. Findings made will be incorporated in the work of the second technical committee responsible for updating the Solid Waste management Strategy of 2001. Government will not spare any effort in ensuring that space for landfilling in Malta will be consumed at the slowest possible rate whilst at the same time creating a sufficient infrastructure to support the needs of Malta's industry and its people. The updated Strategy will soon be issued for public consultation and the comments that ensue will be reviewed by the committee itself.

04.3.5 Littering

In order to inculcate a national consciousness and discipline towards cleanliness, Government will, as already announced, bring into force stiff regulations on littering in January 2006. This will be complemented by the introduction of Green Wardens.

04.3.6 Conservation of Resources

Incentives will be developed to encourage the greater utilisation of non-conventional sources of water, namely, treated sewage effluent and surface water run-off, in place of more costly drinking water for uses that do not involve human consumption.

Feasibility studies will investigate the possibility of distributing treated sewage effluent from the three sewage treatment plants under development to rural areas for use in irrigation.

A strategy will be drawn up to identify mechanisms for the achievement of greater energy efficiency on a national scale and to set appropriate targets to 2010. It is expected that the strategy will cover energy efficiency in buildings and energy-using products (particularly lighting and heating).

A strategy will also be drawn up to identify and encourage the use of suitable sources of renewable energy. The strategy will cover the development of support mechanisms and structures to back the use of renewable energy, such as tax incentives, investment grants and tariffs payable for the feeding of power to the national grid.

Measures will be identified and adopted to encourage the use of alternative energy sources in cars, particularly biofuels.

04.3.7 Public Service as a Green Leader

Government will continue with its efforts to inculcate environmental awareness in policy design and administrative practices in the Public Service through the network of Green Leaders which has been established in ministries and departments.

04.3.8 Rural Development

Efforts in the field of agriculture will focus on building up the capacity of the Ministry for Rural Affairs and the Environment to fulfil its regulatory responsibilities and to provide advice and assistance to farmers, particularly in accessing the EU resources that are currently available to them. Work will also proceed on the development of proposals for EU funding during the period 2007-13. During 2006, Government will actively seek EU-funding approval for a number of initiatives. These initiatives will include measures to:

- support the establishment of producer organisations;
- encourage agri-environmental commitments by farmers;
- assist less favoured areas;
- provide funds for investment in agricultural holdings;
- improve marketing and processing activities;
- support young farmers;
- provide advisory services.

04.3.9 Improving the Road Network

While considerable improvements in the road infrastructure have already been attained, it is intended to continue the programme to reconstruct many of our key roads over the period 2006-2013. This will considerably improve the quality and efficiency of transport and the urban and rural landscape. The enormous investment which is being put into the road network calls for the sustained management of these resources. These assets will start being managed for the whole of their design life. Maintenance and upkeep programmes will be introduced with regards to the roads in question. This has been estimated at 1.5 per cent of the construction cost so as to ensure that the roads retain the necessary standards and specifications. The programme of upgrading of the road network will address the whole network, that is arterial, distributor and residential roads, so that within a period of sustained investment, the whole network will be brought to the standards expected of a developed

country. It is estimated that within the short term, say by 2008, we can complete all the works relating to unsurfaced roads in towns and villages. This part of the network upgrading will be given particular importance because it has a direct bearing on the quality of life of the residents affected. In this context, existing road networks shall be constantly maintained and embellished in all aspects. This applies to major road arteries as well as to country roads.

Over the last years, landscaping works have been undertaken with very positive results. Nevertheless, it is time to go one step further: we are to ensure that landscaping and related amenities (eg water storage for irrigation purposes) are intimately integrated within the road design.

In parallel with the road network upgrade, other projects which will increase the amenities of this network will be undertaken. These projects will seek to improve accessibility to the towns with the greatest activities. The Park and Ride scheme to facilitate entry into Valletta while relieving traffic congestion in the capital city will be pursued and completed.

The upgrading of the road network on its own will not suffice in the long term to alleviate traffic congestion on our roads. In the coming years the public transport will be another sector where major reforms have to be implemented in order that public transport becomes truly modern, attractive and sustainable.

04.3.10 Infrastructural Improvement

Malta's future prosperity also depends on adequate investment in public infrastructure, which has to be of sufficient quality as to enhance Malta's investment climate and to create a better environment for its citizens.

Government will continue to assign high priority to projects aimed at developing the Grand Harbour region for the purposes of tourism (particularly cruise liners) and yachting, while respecting and indeed enhancing the unique historical ambience of this port. In this regard, MIMCOL has been engaged to draw up a holistic master plan of all the Grand Harbour. Intrinsically tied to this are the improvements either underway or planned within Valletta and Cottonera.

The regeneration projects within Valletta, Cottonera and the Sliema area call for a holistic strategy whereby these projects are particularly integrated with transport projects which seek to aim at introducing rapid and innovative transport systems.

04.3.11 Preserving and Upgrading Malta's Cultural Heritage

Malta's fortifications constitute a huge potential resource for tourism purposes. This remains an area that has to be tapped wholeheartedly. Much has already been done in this area, notably the ongoing work to restore Fort St Angelo as part of the Cottonera project and the restoration work undertaken on a number of sites by Din l-Art Helwa and Fondazzjoni Wirt Artna, as well as the various works already implemented the Restoration Unit of the Works Department.

However, a good part of Malta's fortifications continue to present a picture of neglect to visitors, while some continue to be used for inappropriate purposes. The involvement of the private sector and NGOs in the restoration of Malta's fortifications indicates the way forward. That said, overall responsibility for and ownership of the fortifications must rest with the State.

Government proposes to adopt a two-pronged approach to the fortifications. The first priority concerns maintenance and preservation. To this end, a digital fortifications database is already being developed incorporating information about all significant fortifications and their condition. On this basis, priorities for continuing conservation work will be determined. The database will be regularly updated through the monitoring of the physical condition of the fortifications. Restoration work will include clearing the fortifications proper and their outerworks of unauthorised developments. On this particular prong, Government has already made detailed submissions to the European Commission for funding.

Second, is the development of alternative uses of the fortifications which respect their character and which contribute to

the tourism industry, such as the establishment of museums or visitor centres and other appropriate uses. These uses will be instrumental in making the fortifications accessible to the public. Unless the restored fortifications are put to use, their state will once again degenerate and the restoration work would simply need to be repeated in a few years' time. Government therefore proposes to seek further involvement of Heritage Malta together with the private sector in the management and utilisation of the fortifications. Priority will be given to the rehabilitation of Fort St Elmo and its ancillary buildings - a tarnished diamond that must once again be allowed to shine in order to give added value to Malta. In this respect, the lines of fortifications known as the Victoria and Dwejra lines are also being considered as potential candidates for PPP projects.

Work will continue on the upgrading of other heritage sites, amongst which are the EU-structural-fund project of Haġar Qim/Mnajdra, the National Museum of Archaeology, the Palace Armoury, the Malta Maritime Museum, and the Inquisitor's Palace. After absorbing the Malta Centre for Restoration within its remit, Heritage Malta will continue to evolve as an entity that is promoting the highest possible standards in the preservation, rehabilitation as well as presentation of our rich cultural heritage.

EU funds will be sought for the preservation and enhancement of Ġgantija, Citadella as well as for the fortifications.

In this regard, works will also include the continuous upgrading and maintenance of promenades, upgrading and rehabilitation of village and town centres/cores, such as the works carried out at Mdina as well as the construction of recreational parks possibly with NGO's participation.

0.4.3.12 The Arts

Apart from taking care of our cultural heritage that has been handed down to us through the generations, Malta needs equally to promote the contemporary arts (visual and performing) as part of its rich present day vibrant experience. Clearly activity in this regard in well on the increase and the country is after acceding the European Union going through a renaissance as Maltese artists are organising more events that highlight our own identity.

Visual arts as well as drama, choreography, music and other performing arts will be given the widest possible assistance and encouragement to develop further.

In particular, the Ministry for Tourism and Culture is now working on is the setting up of National Academy of Music.

The mission of the Academy of Music is to develop excellence in music performance and understanding, creating a platform for current and future artists; to stimulate society by increasing appreciation and knowledge, as well as encourage participation in music while increasing opportunities for Maltese citizens to take up careers in the music profession and promoting life-long education.

The Academy should serve current musicians, including those playing in the National Orchestra, to further develop their talent in the professional teaching of music, while attracting young musicians in order to follow a course in music performance. The Academy should provide tuition for all forms of music. Research on different forms of music should also be carried out and will be incorporated in the curriculum. The curriculum will also encourage creativity.

The Academy will also strive to increase the standards of musicians playing in village bands by ensuring that teachers have the adequate standards and qualifications. Malta's geographical position, a small archipelago influenced by the cultures and traditions of three different continents, encourages the idea of reinforcing our country as a bridge between different and contrasting cultures (unity in diversity) while helping in strengthening the building of a local identity.

In view of all that, the Academy will establish itself as a centre for excellence, focusing on Mediterranean music and working in order to give it an international dimension. This should also be integrated into Malta's position within the wider role played by the country as a Mediterranean Member State of the European Union.

Part of the Academy's role will be to stimulate society towards further appreciation and knowledge of music. This could be done by a) constantly providing higher standards of music performances on a national level; b) assisting primary and secondary schools to develop music appreciation and music learning among their students; c) create intersections between artists and the local community in order to increase awareness of the art of music amongst the local population.

The Academy should also have a communication role, promoting attendance for music performances while encouraging young and new artists to participate in music activities and to follow courses at the academy in order to improve their talent.

It is crucial that the Academy tackles in a holistic manner the potential to communicate to society at large by making full use of existing media. This includes effective and significant presence on broadcasting media, including concerts on local TV channels, radio, and other media.

The Academy would also develop a strategy for the creation of job opportunities for artists in the music industry, and in particular for artists who would have followed courses at the Academy.

The Academy will also take a 'regulatory' role with regards to standards of music teaching at a national level, in order to ensure the existing widespread interest in private music lessons (especially piano, violin and brass instruments teaching) is strengthened and a minimum quality standard is guaranteed. Teaching should be performance-oriented so that students could further develop their talent at the Academy. The Academy will provide for further development in this area and will see to the improvement of quality in music performance by encouraging a shift from examination-oriented music instruction to a more versatile music teaching approach.

04.3.13 Urban Embellishment

Works will be carried out in the tourism priority zones mentioned above, dealing with areas such as cleanliness, road signage, accessibility, on-site information and the condition of roads and pavements.

Work will also continue on the upgrading and rehabilitation of important sites, such as town centres and public gardens (including the rehabilitation project currently underway in Hastings Garden, Valletta).

04.4 Social welfare

To provide an equitable safety net that removes the risk of poverty and realises the goal of social inclusiveness with benefits paid and appropriate support provided to those who are genuinely in need.

04.4.1 Health

There is no doubt that the health policy sector must continue to be a focus of Government's attention. Its goals will continue to be the enhancement of the quality of life of Maltese citizens by ensuring equity and access for all to excellent quality health services, while directing its efforts to increasing life expectancy and reducing premature deaths. Government invites the private sector to partner in its efforts.

It is pertinent to underline that, in the health sector, we will continue to face challenges that are primarily accelerated by an ageing population and the continuous increase in the cost of emerging treatment modalities, including pharmaceuticals.

While Government will strive to safeguard the gains attained in the health sector it must, nevertheless, undertake initiatives to continue to improve the delivery of health services and to ensure the sustainability of the sector.

In this regard, a number of institutional and structural reforms will be introduced in 2006. Considerable work has already been carried out on these in the current year.

First, the existing legislative framework for the management of the health sector, introduced in the 1930s, is not adequate for today's needs. In 2006, Government will introduce a new Health Services Act to separate the regulatory from the operational and service-delivery functions of the Health Division. The Ministry will retain responsibility for public health and the regulation of State, private sector, and NGO health-service provision.

Second, a major investment has been made in the building of a new acute hospital – Mater Dei Hospital. It is pertinent to underline that, in the preparatory work leading to the opening of the new hospital, the validity of inherited work practices is being reviewed. Government's thinking in this regard has already been made available to the Unions and discussions are underway. In 2006, Government will seek to conclude these discussions and initiate the appropriate reforms.

The Gozo General Hospital should be better integrated into the national health service. It should act not only as a regional hospital, but also as a spill-over hospital where Maltese patients on a waiting list are provided with the option to receive care in a shorter period of time.

Good-quality health care, however, is not only about institutional health care. Rather, it is about a balance between primary health care and institutional health care. Government believes that the current primary health care provision needs to be reviewed. In 2006, the necessary analysis will be completed and, if appropriate, pilot reforms will be embarked upon.

The increasing prices of pharmaceuticals is a concern. Given the current rate of price increases coupled with the reality of an ageing population, the danger that health care risks becoming unsustainable cannot be discounted. Government thus believes that conclusive reform is required in this area. To address this matter, extensive reviews have been carried out in the current year of both the policies and the operational issues involved in ensuring that pharmaceuticals are procured for the State health sector at the best possible prices.

In 2005, Government has initiated the pilot of a pricing policy that establishes reference pricing for the procurement of pharmaceuticals. The reference pricing system is based on a register of prices of a select number of EU countries. Government is considering that, by 2006, all pharmaceuticals will be procured in this manner. Where the local pharmaceutical supplier fails to meet the established reference price, Government will take alternative action to procure the said pharmaceuticals primarily through parallel importation.

Furthermore, both the national formulary for pharmaceuticals, as well as prescribing protocols need to be reviewed. Here too, work is underway and Government should be in a position to implement the necessary reforms in 2006. Finally, the manner in which pharmaceuticals are stored, stocked, and distributed will continue to be reviewed. The gradual introduction of the best inventory management practices, both within the central procurement arm as well at ward level, must continue.

Government has decided to introduce the Health Fund with no cross-subsidisation from national insurance contributions. This implies that the current scenario, with the 3 per cent contribution of VAT, taxes on alcohol, tobacco and other products detrimental to health and current health service fees, will result in a health fund deficit of approximately Lm20 million as highlighted in the table below.

Table 21. Health fund: estimated flows

Revenue		2004 Lm thousands	2005 Lm thousands
VAT 3%		23,417	27,901
Certain taxes	- Excise duties		
	- Cigarettes	26,500	29,500
	- Beer	400	400
	- Spirits	4,400	4,200
	- Tobacco	590	590
		31,890	34,690
Health fees	- Refunds of ambulances	11	5
	- Sale of medicines	64	64
	- Hospital fees	260	300
		335	369
Total revenue		55,642	62,960
Expenditure			
Recurrent cost		71,931	79,128
Capital provision		5,000	3,200
Total expenditure		76,931	82,328
Deficit		(21,289)	(19,368)

04.4.2 Pensions

During the presentation of the Budget in November 2004, Government tabled the report of the Pensions Working Group at the House of Representatives. This had been commissioned by Government earlier that year as a White Paper. In doing so, the Government initiated a sustained national discussion and consultation process which was concluded in April this year.

It is pertinent to say that Government's position firmly underlines that:

- a a reform to the pensions systems is a necessity so that adequacy and sustainability are secured;
- b the introduction of the Second Pillar pension scheme to complement the Two-Thirds pension is a necessity in order to allow people to save for their retirement outside of the State pension;
- c the process of reform should be gradual and implemented in phases, with measures introduced targeting different age cohorts. This should be characterised by ongoing structured reviews to ensure that the pensions system is managed strategically over time.

The Pensions Working Group presented its final report to Government on 1st July. Government will, in the near future, be placing the final report in the public domain.

04.4.3 Social Security

There is no doubt that, as a nation, it is our mission to sustain social solidarity. As shown in table 18, Government spent around Lm335.0 million or around 46 per cent of its budget on ensuring a social safety-net for those in need. Malta's level of expenditure on social security benefits compares quite favourably internationally.

Table 22. Government expenditure on social security benefits, treasury pensions and health

		2000	2001	2002	2003	Lm000 2004
1.0	Contributory Benefits	123,263	133,450	138,770	146,838	151,268
1.1	Retirement Pensions	71,692	78,467	80,887	84,132	86,447
1.2	Invalidity Pensions	9,936	10,607	12,073	14,196	15,426
1.3	Widows' Pensions	27,495	30,134	30,611	32,453	33,245
1.4	Bonus	9,860	9,945	10,126	10,733	11,200
1.5	Others	4,279	4,297	5,073	5,324	4,950
2.0	Non-Contributory Benefits	52,621	50,997	51,979	54,083	56,191
2.1	Children's Allowance	18,430	15,851	15,850	14,859	14,285
2.2	Social Assistance	15,446	15,719	17,210	18,949	20,769
2.3	Bonus	2,803	2,879	2,940	3,049	3,175
2.4	Others	15,941	16,548	15,978	17,226	17,961
3.0	Health Recurrent Expenditure	73,925	79,898	82,201	88,868	98,627
3.1	Hospitalisation and Community Care	63,793	67,660	69,477	75,307	83,903
3.2	Elderly and Special Needs	10,133	12,238	12,724	13,561	14,724
4.0	Treasury Pensions	19,575	25,684	26,829	27,824	28,685
5.0	Total (1 + 2 + 3 + 4)	269,383	290,029	299,779	317,613	334,771
	Total Government Recurrent Expenditure	549,837	614,626	645,995	677,655	732,840
	GDP at current market prices	1,665,800	1,688,960	1,740,054	1,793,277	1,847,191
	Total (5) as a percentage of Government Recurrent Expenditure	49.0	47.2	46.4	46.9	45.7
	Total (5) as a percentage of GDP	16.2	17.2	17.2	17.7	18.1

In this regard, Government will continue to provide an equitable safety net that prevents the risk of poverty and realises the goal of social inclusiveness.

Nevertheless, in order to attain this, it is imperative to ensure that social protection measures are directed towards persons who require assistance and that abuse by free riders is curtailed.

In this regard, Government's efforts should be two-pronged. The first is the introduction of poverty lines with respect to different socio-economic groups of the population. These will allow for a unified and coherent single means-testing instrument that determines whether an individual qualifies for a particular social protection instrument (health, education, housing, social policy or other areas). In tandem with this measure is the thrust to streamline the provision of social assistance from the present structure fragmented across a host of different ministries and departments, into a consolidated social service provision where the Department for Social Security acts as the financier and the other departments as the providers.

The second is the need to increase our anti-fraud efforts primarily by introducing a strong information and audit basis that will allow Government to determine whether a person legitimately qualifies for the benefits he or she is receiving. In this regard, the necessary work is to be taken on board in order to extend the investigatory capacity already introduced with regard to tax compliance in the social benefits area.

Moreover, it is necessary to consider whether the social programmes in place today continue to be adequate in the light of changing needs. For example, in the reality of an aging population and falling birth rates, has the time come to review the children's allowance mechanism in order to render this a more effective family support measure?

In 2006, Government will instruct all its entities to analyse and review the myriad of social programmes currently in operation and remove, rationalise or consolidate those activities that no longer have a context in today's social-political environment.

04.4.4 Social Housing

As amply demonstrated over the years, Government believes that our families should live in decent and affordable housing. The large number of residential units that were allocated and the various housing schemes introduced by the Housing Authority to assist those in need of decent and affordable accommodation has gone a long way towards addressing a range of problems in the field of social housing. The impact of these policies and actions are real and visible. However, in this important policy area and within the context of available resources, Government is now looking at any extant and emerging problems facing those in need and is resolved to come up with new and feasible options and solutions to address them. Therefore, while recognising the inherent difficulties in this policy area, in the year ahead, Government will:

- Continue with its plans to construct new residential units through the good services of the Housing Authority for sale at subsidised rates or rent to those in need for decent and affordable housing;
- Consider the construction of more sheltered housing units for the elderly and disabled persons after the positive experience gained from similar past actions in this area;
- Further develop the policy of renting out blocks of flats from the private sector and allocate them for social housing purposes;
- Actively encourage clients to participate in shared-ownership housing schemes whereby those who cannot afford the full acquisition of their residence, will be given the opportunity of its part-ownership;
- Improve the management of Government-owned residential units in order to ensure their efficient and equitable allocation among those in need of social housing;
- Strengthen schemes for the renovation of substandard vacant housing.

The construction of new residential units for sale at subsidised rates or rent to those in need of decent and affordable housing will continue. The Housing Authority is at present engaged in the construction of 307 units and is planning to construct 1,050 units, in Malta and Gozo, over the next five years, 601 of which will be ready during the next two years.

04.5 Housing and property

Government is concerned about the current rapid growth in the price of housing. It is thus proposed that the Malta Financial Services Authority look closely at the lending terms that are being offered by lending institutions today and evaluate whether it is appropriate to issue regulations that will demand a more prudent terms. In 2006, Government will take an in-depth look at this issue and consider the options available to it.

With respect to the reform the rent laws, it must be noted that Government did in fact change the rent laws in 1995. Nevertheless, despite the legislative changes, the rental market has remained dormant; Government decided to use the data that will be carried during next November's Census of Population and Housing to carry out a social and economic impact assessment on the various options available in rental legislation reform. Moreover, there is more than enough evidence to suggest that merely repealing the 1939 laws will not, of itself, stimulate the rental market. Since the problems seem to be coming from the supply side, Government is considering the establishment of an advantageous final withholding tax regime for rental income of for residences in order to incentivise the inclusion of additional housing in the rental market. Government also favours a constitutional amendment to entrench in the Constitution of Malta the removal of the requisition order, which removal was enacted by the Nationalist Government of 1995.

Government is also considering the introduction of a regulated housing market for properties developed by the Housing Authority. Under this scheme, individuals who buy housing units provided by the Housing Authority would, if they wish to sell their properties, be required to sell to the Authority at a price which would be indexed to the rate of inflation. This would ensure the affordability of that housing stock.

One further area that requires attention is Government property. Land, one can say, is one of the few natural resources available to Malta. Government owns a large proportion of the land and intends to strategically manage this asset.

04.6 Security and rule of law

The phenomenon of illegal trafficking - be it in drugs, contraband or illegal immigrants - has affected most countries. Malta has not been exempted, particularly given its strategic location in the Mediterranean.

Over the past years, Government has invested considerably in the strengthening of its ability to fight illicit dealings in drugs and contraband. The success enjoyed by the Malta Police Force or the Customs Division in stopping drugs from entering Malta or fake goods being trans-shipped to other nations is a significant signal of the progress we have attained in either regard. Progress and positive accolades from international bodies does not, however, mean that we should rest on our laurels. This success must be followed up by further investment that will allow us to step up our activities in this regard.

The complexities of human trafficking are ones we are starting to grapple with. Our experience has to date been limited, yet it is growing exponentially. Human trafficking as a "new" crime is demanding from us responses on various fronts and the assumption of new responsibilities on many aspects.

There are various approaches being adopted by Government. First, on the international front, Malta has worked with Italy so that the European Union starts discussions with Libya. Our efforts have been successful as, despite initial hesitation, the European Union has formally acknowledged the need to focus on human trafficking within the Mediterranean region.

Second, we are working with the European Union so that Malta becomes a regional base for the newly-set-up EU border control and surveillance organisation. Success here will allow Malta to access control and command information and resources that will allow us to prepare better for the fight against human trafficking.

Third, is the need for us to acknowledge that one of the key strategic vulnerabilities of Malta is border control. This necessitates our asking fundamental questions on the role of the Armed Forces of Malta. To what extent should we channel investment, resources and training towards securing our borders? We believe that such a question needs to be answered in the near future.

Fourth, human trafficking is not solely about prevention. Human trafficking is also about dealing with the tragedies that arise when an individual attempts to seek a better life. Increasingly, every summer brings to our shores boatloads of men, women, and children. This is becoming a way of life for us. These are human tragedies from which we cannot and must not shy away. Thus, we must ensure that we establish the appropriate structures and processes to allow these persons to live in dignity pending the decision to repatriate or provide protection. Once protection is provided, we must ensure that these persons are welcomed.

No doubt, the issue of human trafficking places us under pressure. We are a small nation with a high population density. Space and funds are limited. Nevertheless, in keeping with the tradition of a humane and caring society of which we are proud, we must find the right balance between providing an appropriate measure of dignity to the persons caught up in human trafficking and all other related constraints. In this regard, we will continue to exert pressure within the European Union so that Malta's constraints are recognised and so that the appropriate support, financial and otherwise, is provided to us.

The necessary reforms in the legal process should be pursued. Changing the present legal culture ensures simpler, speedier and less time-consuming court procedures. A better legal system which protects private enterprises and on the other hand guarantees a more just balance between creditors' rights and debtors' assets should be encouraged.

Alternative dispute resolution, present and functioning within the Malta Arbitration Centre and now in the Malta Mediation Centre, should be strengthened in order to grant effective remedies that are not detrimental to our economy.

Our judicial system in its daily work should and must always keep in mind that it has a direct bearing on our competitiveness.



**A Government that delivers,
a Nation that excels**

CHAPTER 05

05.0 A Government that delivers

The challenges ahead of us are substantial but definitely not disheartening or insurmountable. We firmly believe that our country is well positioned to meet these challenges and to succeed. As a country and as a Government, we have met similar challenges before; we have surmounted and made success stories out of them. On its part, Government has taken and will continue to take active measures to make a success of this country in order to improve the overall well-being of our people.

Our strategic orientation and focused attention will continue to emphasise coordinated action and improved productivity all round in order to boost our public sector delivery levels. Government has already shown that it can deliver. The myriad reforms, initiatives and projects undertaken by this Government since elected to office have made a real and distinctively positive difference to our people's way of life. All acknowledge this. We have:

- Overhauled our inward-looking economic system and given our people the necessary economic freedom that has radically changed the economic make-up of our country;
- Taken concrete actions to secure and ensure the fundamental socio-economic and political rights of our citizens;
- Taken tangible, visible and positive actions that ensure real and effective gender equality within our society and which provide equal opportunities for disabled people and other minority groups;
- Recognised the needs of children and worked towards safeguarding their rights in an authentic and concrete manner;
- Decentralised decision-making processes and structures by the introduction of Local Councils. Ten years on, these do not only constitute a success story, but have become integrated into the Maltese social fabric;
- Re-thought and re-engineered our basic infrastructure services including the supply of water and electricity;
- Introduced state-of-the-art telecommunications and IT infrastructures that have positioned Malta at the forefront of the knowledge society. This development has been crucial to the emergence of the knowledge-worker sector, a sector wherein Malta has the potential to truly provide services of quality;
- Developed our health services and introduced new and improved ones that accord due dignity and respect to our elderly;
- Developed further our social-welfare infrastructure and services in order to give personalised assistance to those who are in real need of it, thereby reducing the risks of poverty and social exclusion;
- Invested heavily in our educational system, in the firm belief that the future prosperity of our people depends on improved educational and skills levels;
- Invested and revamped our public administration system in order to make it increasingly responsive to the needs of the country and its people;
- Developed the financial infrastructure within the country and encouraged the establishment of new and lucrative economic sectors;
- Created new and better employment opportunities for our people and made very substantial investments in boosting the overall employability of those willing to participate actively in the economy;
- Raised awareness throughout the country of the need for sustainable development, and taken concrete and visible measures to safeguard the environment;

- Increased opportunities for lifelong training and created new learning possibilities and capacities for our workforce;
- Encouraged and supported local enterprise to grasp and partake of the benefits to be achieved from a liberalised economy and to contribute further to Maltese economic development;
- Taken steps for the preservation of our historical heritage in order to prove worthy custodians of the rich inheritance passed on to us by our forefathers. We are also utilising our heritage fruitfully in the belief that it can be a lucrative source of revenue for several aspects of our economy.

To date, we have delivered tangibly and visibly, as we also promise to do in the future. The challenges that lie ahead will only spur us on to work harder and smarter in order to achieve and deliver more. Hence:

- We are determined to leave no stone unturned to achieve economic growth in spite of the limitations imposed upon us by the difficult economic climate worldwide and the soaring oil prices;
- Our resolute action to address the imbalances in our public finances. Here, we are delivering what we promised, in order to ensure long-term sustainability. In this important area, we are attaining our targets without weakening or reducing the delivery of services to our country;
- Our relatively successful drive to attract new foreign direct investment to the country - investment that is opening up new work opportunities for our people, as well as enhancing existing ones;
- The very substantial private sector investments in new and improved hotels and other tourist-industry infrastructures - an example is the Cruise Passengers Terminal. This is a concrete demonstration of the belief in the viability of our economy held by the persons and enterprises behind these ventures;
- The increased level of activity within our tourism and manufacturing sectors;
- The renewed confidence in the viability of the agricultural sector - a viability that is being cemented by the substantial investments in the technology being employed and the product mix being effected therein;
- The increase in the number of gainfully occupied persons and the low levels of registered unemployed being recorded - we are managing this at a time of substantial private and public sector restructuring. Indeed, we are managing to create new productive private-sector employment while effectively downsizing our public sector;
- Our continuous efforts to improve the general state of our environment - apart from the widespread infrastructural works, we have solved many of the problems that were being created by our unregulated landfills. For the first time, we have introduced an effective waste management and containment action plan for our country;
- The considerable body of road works that is being undertaken in our country - in this regard, we are well on track to giving our people a road network that befits an organised and forward-looking nation;
- The huge investments in the educational infrastructure of our country - new and refurbished schools are creating the appropriate environment and complementing the ever widening educational opportunities, as well as the introduction of strategic reforms, towards a quality education for our children;
- The state-of-the-art Mater Dei Hospital - by July 2007, this will constitute a quantum leap in the quality of health services in our country;
- Our successful public sector restructuring programmes - these have ushered in a host of new efficiencies and given a new lease of life to enterprises like the Malta Shipyards, Air Malta, Gozo Channel Co. Ltd., Enemalta, Water Services Corporation and Public Broadcasting Services;

- Our privatisation programmes - these are placing enterprises like the Malta Freeport on more sustainable foundations, in the process introducing newer technologies and improved management practices into the country;
- Our assertive and successful participation in the structures of the European Union - these are yielding and will continue to yield substantial new opportunities and benefits for the country and its people.

We have achieved all this much and more because we have worked assiduously in a strategic, coordinated and focused direction with the clear and distinct objective of being of service to our people, and in the full confidence and knowledge that we can deliver on our promises.

05.1 A nation that excels

Excellence must permeate the essence of what we do across the value chain of any economic activity. We must not satisfy ourselves by aiming towards the fifty-on-hundred target, many times falling short of it, and being satisfied with both scores. We must seek to be the best in what we do and take pride in doing so, always in the full knowledge that this work and life attitude is vitally linked to economic excellence.

This determination is a fundamental matter. To excel means that we must raise our standards beyond those of our competitors. Let us juxtapose excellence across the tourism value chain. Our competitive edge must start beyond our shores. It means that players within the tourist industry must seek to promote Malta and their services by exploiting the use of ICT by means of high-quality interactive web sites, networking with foreign players and so on.

Excellence demands that, upon reaching our shores, tourists are met by service providers who are smart, educated, warm, and hospitable. They must be met by taxi drivers who are well dressed, who are able to speak the language of our main-market tourists, and who charge legitimate fares; by police officers who are ready to help in the language of the tourist; by bus drivers, waiters, hotel attendants and other players right down the tourist value chain, who not only understand what service means, but who exude a service culture.

Excellence demands an environment that is clean - ideally, cleanliness should stem primarily from our desire to have it. In the absence of such a desire, however, tight and enforceable regulation should ensure that one changes one's behaviour. Buses, heavy transport, and all other road vehicles should not be allowed to exude poisonous emissions onto our roads and environment.

Excellence demands that construction sites are managed within the norms of international site management with a well-regulated environment that manages nuisance and other forms of pollution related to construction, as well as the hazards prevailing in and around construction sites.

Excellence demands that our beaches are clean and well-manged and that beach cleaners reflect the image of cleanliness - the *raison d'être* for their employment. Excellence demands the upkeep and cleanliness of our roads, cities, fortifications, and historical monuments.

Excellence demands that all those involved in the delivery of our health and social services value their employment as a unique opportunity to serve Maltese people and to participate in our national project to become a centre of regional excellence in medical technology and social solidarity.

Excellence demands that we continue learning from the cradle to the grave, that we foster the languages we speak, that we value and promote and join all our resources to thrive on innovation and creativity.

Excellence demands that we, the stake holders, unite our intentions and aspirations in order to strive to meet high standards

and to continuously push ourselves to achieve yet higher ones - so that we will always stand out with the best, if not be the best, in all the initiatives and ventures we undertake.

Excellence will make life better for us and our children.

FOOTNOTES

1. The General Government sector in Malta is made up of the Budgetary Central Government, Extra Budgetary Units, and Local Councils.
2. The 2003 figures included the restructuring exercise of the shipyard sector which accounted for Lm57.9 million deficit and for Lm41.9 million debt.
3. Final data are consolidated within general government such that transfers within the sector are not taken into account.
4. This category includes the imputed social contributions, which are essentially equal to the 'Treasury Pensions'.
5. So far the Ministry responsible for education has published the following : Chalmers, Roderick et al, (2004), State Higher Education Funding; Spiteri, Lino et al, (2005) Inclusive and Special Education Review; and Ministry of Education, Youth and Employment (2005) , For All Children to Succeed – A new network organisation for quality education in Malta. In the coming months other policy review reports are expected to be published in the fields of Early Childhood Education, School Attendance and Absenteeism, Matriculation and Secondary Education Certificate (MATSEC), Adult Basic Skills, Career Guidance, Higher Education Governance, and Lifelong Learning.
6. Ministry of Education, Youth and Employment, (June, 2005), For All Children to Succeed – A new network organisation for quality education in Malta.
7. Chalmers, Roderick et al, (2004), State Higher Education Funding, Report of the State Higher Education Funding Working group to the Minister of Education, Youth and Employment.
8. See Chalmer's report page 14.