GOVERNMENT OF MALTA
MINISTRY FOR FINANCE
AND EMPLOYMENT

# Malta:

## Draft Budgetary Plan 2022

October 2021

The following symbols have been used throughout this document:

| | |
|---|---|
| . . . | to indicate that data are not available; |
| — | to indicate that the figure is negligible; |
| 0 | to indicate that the figure is zero; |
| - | to indicate that data are not applicable or cannot be determined; |
| n/c | to indicate that there is no change in the data. |

Figures may not add up due to rounding.

This document is based on statistical information available up to the 29th of September, 2021

# 1. Overall Policy Framework and Objectives

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As the recovery from the effects of the COVID pandemic gains momentum, the Budget for 2022 is targeting three main objectives:

- First, there is the objective to strengthen further the distributional policies enacted in recent years with the objective of enhancing social inclusion, promote social mobility and reduce poverty. To this effect, various measures are intended to supplement the income of those sections of the population which are more dependent on state support, including the elderly and also children living in low-income households. Various measures have strengthened further pension adequacy, also in recognition of the potential effects of rising inflation on those which have a higher risk of poverty. Other measures are aimed at improving housing affordability whilst social housing projects are due to be finalised.

- Secondly, the Budget also seeks to provide the conditions for the economy to recover from the impact of the COVID-19 pandemic and creating employment within the framework of inclusive economic growth. This Plan is supplemented by the National Employment Policy launched in October 2021, which aims at strengthening the human resource potential with a greater focus on education and training and that seeks to go beyond the generation of employment. The National Employment Policy document seeks to improve employment opportunities for quality jobs consistent with higher standards of living and better quality of life.

- Thirdly, the Budget is also facilitating the Green and Digital transitions. It seeks to emphasise the concept of sustainable economic development and that the greening of the economy becomes more central to future economic prosperity. Within the framework, the Government is providing an additional funding for afforestation as part of the greening of the economy while also encouraging the renovation of traditional Maltese homes through a number of grants and incentives. In this way, existing housing stock can be renovated reducing the necessity of continuing to build in green spaces. Conscious of the contribution of transport to emissions and air quality, the 2022 Budget commits to make public transport free (as from October 2022), and increases incentives for electric vehicles whilst strengthening the infrastructure necessary to achieve these environmental goals.

These are ambitious targets. However, the Government considers the long-term strategy to strengthen economic growth as essential in promoting fiscal sustainability. Having said this, the Government is conscious of the positive bearing that fiscal consolidation and sustainable debt levels have on potential growth and is already embarking on such a process as temporary support measures are replaced with more targeted measures aimed at sustaining the economic recovery and supporting potential output. Over the medium-term, the Government will continue to pursue policies aimed at achieving prudent medium-term fiscal positions with a measure of control on current spending whilst supporting investment in physical and human capital and increasing productivity.

## 1.1 Macroeconomic Scenario

Following the resurgence of infections in early 2021 and the restrictive measures put in place to contain the spread of the virus, economic activity during the first half of 2021 started to show signs of recovery as notable progress was made in vaccinations and containment measures were being gradually eased. The Government support measures proved to be effective at cushioning the impact on the labour market and this helped to mitigate the economic repercussions of the pandemic and support the recovery.

In the first half of 2021, economic activity increased by 5.6 per cent in real terms, or 6.9 per cent in nominal terms. These nominal growth rates stood slightly below the average growth rates of 7.7 per cent and 7.5 per cent recorded in the EU27 and Euro Area (EA), reflecting the lingering effect of the pandemic on tourism which is a hallmark of the Maltese economy. The Maltese economy is expected to maintain the positive momentum in the second half of the year and is expected to grow by 4.8 per cent in real terms during 2021.

In 2022, the recovery is expected to accelerate, and the Maltese economy is projected to grow by 6.5 per cent in real terms, and by 8.6 per cent in nominal terms, implying that the pre-pandemic level of output is expected to be attained by the end of 2022. Domestic demand is anticipated to contribute 4.4 percentage points, driven by strong private consumption and investment. The contribution of net exports to growth is expected to be 2.0 percentage points to growth, as external demand conditions are also expected to improve.

A gradual recovery in the output gap is expected to materialise over the forecast horizon but will remain negative over the time period covered in this Plan. Over the medium-term, potential output growth is projected to average at around 3.5 per cent. Labour is expected to be the main contributor to potential output followed by capital accumulation.

These projections continue to reflect uncertainty. The risk assessment consistent with the analysis of alternative model forecasts indicates upside risks in 2021 growth but downside risks in 2022. In particular, more persistent inflationary pressures at a global level, driven by strengthening demand and supply bottlenecks could create downside risks to the 2022 projections. In particular, Government is closely monitoring inflationary developments, particularly the rising energy prices. The uncertainties on energy prices have been taken into consideration in the Budget statement. This downside risk could be exacerbated by a slower and weaker than expected recovery in tourism. At the same time, the outlook could improve if various investment projects not included in the baseline projections materialise.

## 1.2 Fiscal Policy Objectives

The economic situation, though much improved when compared to last year, is still substantially below potential and characterised by a high level of uncertainty. Thus, while most of the fiscal support measures supporting the economy during the Pandemic will expire as planned, the budget is still expected to remain in deficit territory. This reflects the lingering effects of the pandemic on economic activity which remains substantially below its potential. Also, the recovery in tourism, one of the hallmarks of the Maltese economy will be more gradual than in other sectors. In addition, the Budget for 2022 contains measures which will support further the economic recovery, particularly an increase in public investment. As a result, the budget deficit is expected to fall significantly, from 11.1 per cent in 2021 to 5.6 per cent in 2022. The structural deficit is expected to improve by 4.1 percentage points to reach 4.5 per cent of potential Gross Domestic Product (GDP) in 2022. Based on current projections, the deficit is targeted to fall below 3 per cent of GDP by 2024, in line with the most recent targets submitted to Parliament in the Medium-Term Fiscal Plan. This is, on average, consistent with a half percentage point structural adjustment. As a result, the debt ratio will rise only modestly from 61.3 per cent of GDP in 2021 to 61.8 per cent of GDP in 2022, supported by a buoyant economic recovery. Over the medium-term, the debt ratio is expected to increase further in 2023 but will fall thereafter to 62.4 per cent in 2024, thus converging to the 60 per cent threshold.

## 1.3 Endorsement by the Malta Fiscal Advisory Council

The targets contained in this Plan fulfil the legal requirements established by virtue of the Fiscal Responsibility Act. In addition, the macroeconomic forecasts underlying this Plan has been endorsed by the Malta Fiscal Advisory Council.

# 2. Economic Outlook

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## 2.1 The Short-Term Scenario

The COVID-19 pandemic had a profound effect on the Maltese economy, in part owing to its exposure to tourism and the contact-intensive services sectors. This consequently led to an unprecedented drop in output during 2020.

In the first half of 2021, the economy started to show signs of recovery as notable progress was made in vaccination roll-outs and the containment measures were being gradually eased. The Government support measures proved to be effective at cushioning the impact in the labour market in 2020 and this helped to mitigate the economic disruptions being caused by the pandemic. While significant progress in vaccine inoculation in Malta and abroad has been made, and uncertainty related to the pandemic seems to be gradually subsiding, the economic outlook remains overshadowed with risks.

In the first half of 2021, economic activity increased by 5.6 per cent in real terms and 6.9 per cent in nominal terms. These nominal growth rates were slightly below the average growth rates of 7.7 per cent and 7.5 per cent recorded in the EU27 and Euro Area (EA), reflecting the lingering effect of the pandemic on tourism which is one of the major pillars of the Maltese economy.

The growth in the first half of 2021 was primarily driven by the domestic side of the economy, with increases in both private and public consumption, and Gross Fixed Capital Formation (GFCF). Private consumption expenditure registered an increase of 3.9 per cent, reflecting the gradual easing of restrictions in the second quarter of 2021 and the impact of pent-up consumer demand. GFCF recorded a growth rate of 7.1 per cent, as improving financing conditions and lower uncertainty relative to the previous year encouraged investment. The Government continued to support the recovery, as public consumption grew by 9.1 per cent. This increase also reflects additional healthcare expenditure undertaken to combat the virus. From an external standpoint, in the first half of 2021, Malta recorded a neutral contribution from net exports of goods and services. In the first six months of the year, imports increased by 3.3 per cent, which outweighed the 3.0 per cent increase in exports which continued to be weighed down by lower tourist inflows in the first few months of the year.

During the first half of 2021, Gross Value Added (GVA) in nominal terms registered a growth of 6.3 per cent over the same period in 2020. This growth was predominantly driven by the recovery in the Services sector, which contributed 5.5 percentage points to GVA growth, and to a lesser extent by the Industrial sector, which contributed 0.8 percentage points. The only sector that contracted during the first half of 2021 was the Wholesale and Retail Trade, Accommodation and Food services sector, declining by 2.0 per cent, as restrictions were re-introduced to contain the spread of the virus. During the second quarter of 2021, the sector recorded a 25.2 per cent growth rate, as the alleviation of restrictive measures released pent-up demand which was further supported by the Government vouchers scheme. The Arts, Entertainment and Recreation sector recorded the most growth in GVA, increasing by 16.4 per cent, followed by Mining, Quarrying, Electricity and Water (15.6 per cent), the Public Administration, Education and Human Health sector (11.7 per cent), the Information and Communication sector (7.7 per cent), Manufacturing (6.4 per cent) and Financial and Insurance activities (6.2 per cent). The sectors that contributed the most to GVA growth were the Public Administration, Education and Human Health sector, and the Arts, Entertainment and Recreation sector, at 2.1 and 1.5 percentage points respectively.

The factor distribution of income gains throughout the first half of 2021 was more balanced when compared to the previous year, albeit the increase in profits was slightly more than the increase in compensation of employees. Corporate profits and mixed income, increased by €221.8 million, while the compensation of employees increased by €168.7 million in the first half of 2021. The growth in compensation of employees was broad based, with notable growth in the Public Administration, Education and Human Health sector (9.7 per cent) and the Arts, Entertainment and Recreation sector (7.7 per cent), together with the Construction sector (7.5 per cent).

The Maltese economy is expected to maintain the positive momentum in the second half of this year, also owing to stronger base effects from a weaker end of the year in 2020 and a modest recovery in global demand. The economy is expected to grow by 4.8 per cent in real terms during 2021. Domestic demand is expected to be the main driver of economic growth, contributing 5.1 percentage points to growth. Net exports are expected to produce a drag of 0.5 percentage points on real Gross Domestic Product (GDP) growth, weighed down by weak tourism developments during the first few months of the year. Furthermore, the contribution of inventories is expected to be 0.3 percentage points.

Private consumption is projected to partially recover by 4.3 per cent. Base effects resulting from the supply restrictions imposed in 2020 combined with strong labour market performance and income growth are expected to drive the recovery in private consumption. Consumer sentiment indicators and mobility data suggest that in the third quarter of 2021, the recovery in consumption was maintained, assisted by Government support. Public consumption is expected to grow by 9.6 per cent, driven predominantly by intermediate consumption and compensation of employees.

It is worth mentioning that the inherently volatile nature of GFCF makes it relatively challenging to forecast. However, as the economy recovers and uncertainty relative to the pandemic dissipates, investment is expected to rebound. GFCF is projected to increase by 5.0 per cent in 2021.

Following a worldwide recession in 2020, global economic growth is expected to continue recovering in 2021 as further improvements in the epidemiological situation are registered and economic activity gains momentum. External assumptions on growth in Malta's main trading partners improved since the Spring forecast, while the Euro is expected to appreciate at a slower pace than that anticipated in April. This resulted in more optimistic outlook of the external performance of some sectors, particularly the Remote Gaming sector, the Chemical and Pharmaceuticals sector and the Information and Communication sector. Consequently, exports are expected to increase by 5.2 per cent in 2021.

Imports are expected to grow by 5.9 per cent in 2021. Investment activity in Malta is highly import-intensive. In fact, underlying this growth in imports is a pick-up in investment, along with higher domestic consumption growth.

In 2022, the Maltese economy is projected to grow by 6.5 per cent in real terms, and by 8.6 per cent in nominal terms, implying that the pre-pandemic level of output is expected to be attained by the end of 2022. Domestic demand is anticipated to contribute 4.4 percentage points, driven by strong private consumption and investment. The contribution of net exports to growth is expected to be 2.0 percentage points to growth.

In 2022, consumption is expected to grow more moderately by 4.0 per cent, as base effects from the recovery in pent up demand experienced during 2021 starts to dissipate. Public consumption is projected to grow by 2.7 per cent following a low base in the prior year. In 2022, investment is expected to accelerate to 8.8 per cent, as several large-scale investment projects in transport and aviation, tourism, real estate, healthcare, education, and digital sectors are expected to materialise.

From an external perspective, a continued strong recovery in Malta's main trading partners, and a further easing in travel restrictions in Malta and abroad, is anticipated to result in an increase in exports by 6.6 per cent. The improved prospects for domestic demand, coupled with an increase in investment activity, and the growth in external demand are projected to generate growth in imports of 5.5 per cent in 2022.

Table 2.1 presents the main macroeconomic indicators for the period 2018 to 2022. The figures for the period 2018 to 2020 are based on the latest data released by the National Statistics Office (NSO) under the European System of National and Regional Accounts (ESA 2010), whereas the figures presented for 2021 and 2022 are projections produced by economists within the Ministry for Finance and Employment (MFE).

**Main Macroeconomic Indicators**

Table 2.1

| | 2018 | 2019 | 2020 | 2021p | 2022p |
|---|---|---|---|---|---|
| GDP growth at current market prices (%) | 8.5 | 8.2 | -7.1 | 7.0 | 8.6 |
| GDP growth at Chain Linked Volumes by period (Reference year 2010) (%)[1] | 6.1 | 5.7 | -8.3 | 4.8 | 6.5 |
| | | | | | |
| **Expenditure Components of GDP at Current Market Prices by period (%)** | | | | | |
| Private final consumption expenditure[2] | 9.7 | 6.6 | -8.9 | 5.7 | 5.7 |
| General Government final consumption expenditure | 15.3 | 16.9 | 17.2 | 12.6 | 5.3 |
| Gross fixed capital formation | 5.7 | 9.3 | -5.7 | 6.3 | 10.2 |
| Exports of goods and services | 2.1 | 7.8 | -5.9 | 7.4 | 8.9 |
| Imports of goods and services | 1.9 | 8.4 | -2.4 | 7.9 | 7.5 |
| | | | | | |
| **Expenditure Components of GDP at Chain Linked Volumes by period (Reference year 2010) (%)** | | | | | |
| Private final consumption expenditure[2] | 8.8 | 4.6 | -10.0 | 4.3 | 4.0 |
| General Government final consumption expenditure | 12.4 | 14.2 | 15.1 | 9.6 | 2.7 |
| Gross fixed capital formation | 4.7 | 8.2 | -6.5 | 5.0 | 8.8 |
| Exports of goods and services | -0.1 | 5.8 | -6.3 | 5.2 | 6.6 |
| Imports of goods and services | 0.4 | 6.8 | -2.7 | 5.9 | 5.5 |
| | | | | | |
| Inflation rate (%) | 1.7 | 1.5 | 0.8 | 0.7 | 1.7 |
| Employment growth (Headcount) [3] (%) | 6.0 | 5.7 | 2.7 | 2.3 | 2.2 |
| Unemployment rate (Harmonised definition, Eurostat) (%) | 3.7 | 3.6 | 4.3 | 3.8 | 4.0 |
| Compensation per employee (% change) | 3.6 | 3.6 | -0.3 | 3.9 | 2.1 |
| Labour productivity (% change) | 0.1 | 0.0 | -10.7 | 2.3 | 4.2 |
| Nominal Unit Labour Cost (% change) | 3.5 | 3.5 | 11.7 | 1.6 | -2.0 |
| Real Unit Labour Costs (% change) | 1.1 | 1.0 | 10.4 | -0.6 | -4.0 |

(1) Users should note that chain-linking gives rise to components of GDP not adding up to the aggregate real GDP series. This non-additivity, similar to that in other countries' national accounts, is due to mathematical reasons and reflects the fact that chain-linked volumes are calculated by separately extrapolating both totals and their sub-components.

(2) Includes NPISH final consumption expenditure.

(3) The forecast of employment growth is based on national accounts definition

### 2.1.1 Assumptions for Projections

The macroeconomic forecasts presented in this Draft Budgetary Plan are based on the following assumptions:

1. Economic activity in Malta's main trading partners is expected to partially recover by 4.7 per cent in 2021, then to further increase by 4.3 per cent in 2022.
2. Oil prices are expected to increase, reaching an average of US $68.3 per barrel in 2021 and US $67.5 in 2022.
3. The short-term interest rate is expected to remain at the current spot rate of 0.0 per cent in both 2021 and 2022. On the other hand, the long-term interest rate is expected to average at 0.5 per cent during the forecast horizon.
4. The USD/EUR exchange rate is expected to average 1.1832 in 2021 and 1.1910 in 2022, representing an appreciation of the Euro of 2.6 per cent and 0.7 per cent in 2021 and 2022 respectively. The STG/EUR exchange rate is expected to average 0.8535 in 2021 and 0.8507 in 2022, representing a depreciation of the Euro of 5.4 per cent and of 0.3 per cent in 2021 and 2022 respectively.
5. It is assumed that, starting from the third quarter of 2021, changes in inventories will not contribute materially to GDP growth.
6. World prices, weighted by Malta's main trading partners, are assumed to increase by 5.6 per cent in 2021 and by 2.9 per cent in 2022.
7. In 2021, inbound tourism is expected to follow a monthly trend increase and reach 31.0 per cent of 2019 levels for the whole year, before reaching 75.0 per cent in 2022.

### 2.1.2 Employment Prospects

The Labour Force Survey (LFS) reported an employment rate of 74.4 per cent in the second quarter of 2021, which was 1.7 percentage points higher than the corresponding period last year. In the first half of 2021, employment growth stood at 1.4 per cent. However, due to low base effects in the second half of 2020, and a general pick-up in domestic activity, employment is expected to grow at a faster pace in the second half of the year. To this end, employment is projected to increase by 2.3 per cent in 2021 with the unemployment rate falling to 3.8 per cent. In 2022, as firms face labour supply bottlenecks and the Government measures supporting the labour market are gradually withdrawn, employment is expected to grow by 2.2 per cent, while the unemployment rate is anticipated to increase slightly to 4.0 per cent while still standing well-below the European Union (EU) average.

### 2.1.3 Inflation

The Harmonised Index of Consumer Prices (HICP) inflation rate (12-month moving average) decelerated to 0.3 per cent in the first half of 2021, while the 12-month moving average Retail Price Index (RPI) increased by 0.6 per cent. The low HICP figure is a result of the revision in HICP weights to reflect changing consumer spending at the beginning of the year, as well as decreases in fuel prices announced in 2020 to support the economic recovery from the pandemic. The consumption basket of domestic consumers tends to be heavily weighted towards recreational activities such as Restaurants and Hotels, Recreation and Culture, and Transport. Consumers' inability to spend on these activities during the pandemic was reflected in the weights of the HICP. Besides, the weighting mechanism of HICP also takes into consideration tourist expenditure in Malta, which is another notable component of consumer spending. As a result, while inflation is expected to reach 0.7 per cent this year, prices are expected to accelerate to 1.7 per cent in 2022 as spending patterns revert to pre-COVID patterns and supply side bottlenecks persist as rising foreign prices feed into domestic prices.

### 2.1.4 Sectoral Balances

Appendix Table 1.d provides an overview of the current account forecast up till 2022. A lower current account deficit equivalent to 3.7 per cent of GDP is expected in 2021 when compared to 2020 due to a higher net export balance on goods and services. Meanwhile, a stronger positive goods and services balance is expected in 2022 in line with a continued strong recovery in Malta's main trading partners. This development is expected to lead to a current account surplus equal to 0.3 per cent of GDP in that year, despite the expected increase in net payments on the income account.

## 2.2 Comparison to Commission's Latest Forecast

Prior to comparing the MFE's Autumn forecasts with those published by the European Commission (EC) in Summer, it is worth mentioning that the EC's forecast does not include the latest national accounts data published by the NSO, while the MFE's forecasts are based on this data. Furthermore, MFE's forecasts incorporate the latest data and forecasts in the external environment which are important for a small and open economy.

The Spring forecast published by the EC projected Malta's GDP growth to stand at 4.6 per cent for 2021 and at 6.1 per cent in 2022. The EC expected domestic demand to be the main driver of the recovery in both forecasted years. In the interim Summer forecast, the EC suggests a stronger recovery in 2021, with GDP increasing by 5.6 per cent, when compared to MFE's projection of 4.8 per cent, which forecasts a more gradual recovery. In 2022, EC projects GDP to grow by 5.8 per cent, while MFE expects GDP growth to stand at 6.5 per cent. This means that MFE's forecast is 0.8 percentage points lower in 2021, and 0.7 percentage points higher in 2022.

## 2.3 Potential Output and the Output Gap

The estimation of potential output and the output gap is based on the commonly agreed Production Function methodology. Any differences between the EC's and MFE's estimation pertain to differences in the macroeconomic forecasts.

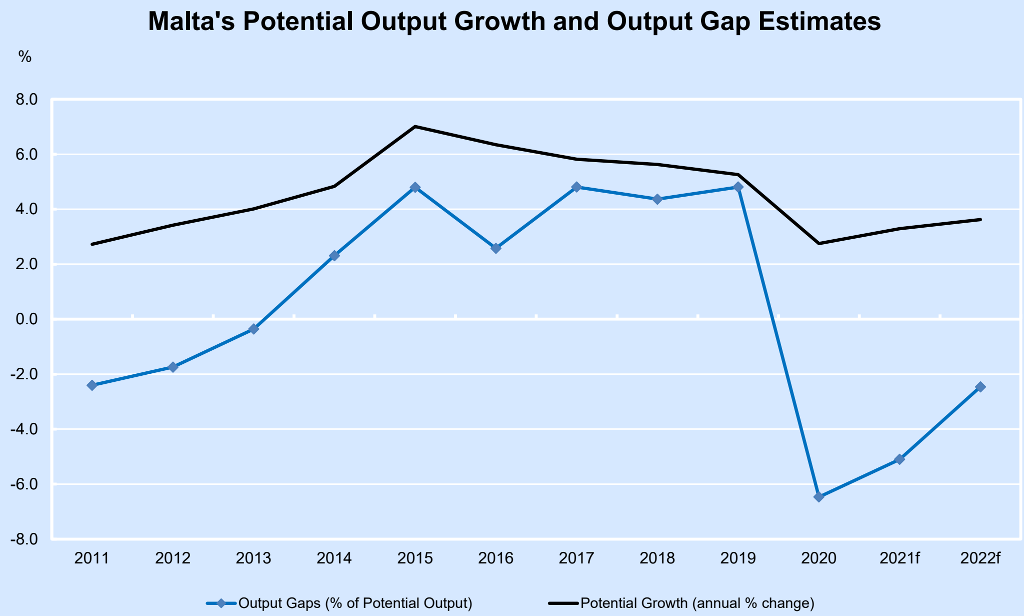
Recent potential output and output gap developments as well as projections are depicted in Chart 2.1. Average potential output growth stood at 5.0 per cent from 2011 to 2019. In 2020, potential output growth fell to 2.8 per cent, as the Maltese economy experienced a strong contraction owing to the COVID-19 pandemic. Naturally, the output gap turned negative reaching 6.5 per cent of potential output in 2020. A gradual recovery in the output gap is expected to materialise over the forecast horizon but will remain negative over the forecast covered in this Plan.

Over 2021 and 2022, potential output growth is projected to average at around 3.5 per cent. Labour is expected to be the main contributor to potential output followed by capital accumulation, while total factor productivity is expected to negatively contribute to potential output.

## 2.4 Comparison with the MFE Spring Forecasts

The economic outlook in this Draft Budgetary Plan has been revised upwards for 2021, following a stronger than anticipated first half of the year, reflecting a surge in domestic demand following the gradual alleviation of containment measures, and an improved external outlook.

Chart 2.1




The contribution from the external side of the economy was revised marginally upwards for 2021, reflecting a recovery in Malta's main trading partners and a slower anticipated appreciation of the Euro. However, the revision in the external side is affected by the assumption of higher world prices in 2021, owing to an increase in shipping costs and commodity prices, reflecting an upward revision in exports and imports in nominal terms. The contribution from domestic demand has also been revised marginally upwards, as household consumption is expected to rebound more strongly than anticipated in Spring.

Growth in 2022 has been revised marginally downwards from MFE's Spring forecasts, in view of a higher expected contribution from net exports and a larger downward revision in domestic demand. This revision, however, is driven mostly by base effects from the stronger recovery now expected in 2021. The outlook for 2022 is indeed still positive.

## 2.5 Sensitivity Analysis

The macroeconomic forecast is the economic foundation of the Government's fiscal policy targets presented in this Plan. In this context, the macroeconomic forecasts balance the need to strive for forecast accuracy with the need to maintain a measure of prudence. This is complemented by the assessment of past forecasting performance and a rigorous and scientific quantification of macroeconomic risk, based on research carried out by the Economic Policy Department (EPD) within the MFE. While the Maltese economy has proved to be very resilient to the international economic crisis, GDP forecast errors are relatively higher for Malta than those observed for larger and less open economies within the EU[1]. This section provides an assessment of forecast uncertainty and the balance of risk surrounding the macroeconomic forecasts in this Programme. The analysis is in line with the requirements of Council Directive 2011/85/EU of the EU on the requirements for budgetary frameworks of the Member States.

### 2.5.1 The Accuracy of Past Forecasting Performance

The updated analysis shows a tendency to underestimate GDP growth and hence a downward bias in the GDP growth projections in previous years. However, this is primarily a result of significant statistical revisions in the national accounts data. While the one-year ahead forecasts display a root-mean squared error (RMSE) of 3.8, it is notable that the sample size employed is rather small and the earliest available forecast is that of 2004. Given the small sample size, the recession of 2009 and 2020 and, the subsequent recoveries, statistical revisions play an undue influence on this evaluation and limit comparability with the forecast accuracy displayed by other economies with a longer forecast tradition. It is noteworthy that over successive vintages of forecasts, the RMSE has widened, primarily reflecting the relatively large forecast errors in 2014, 2015 and 2017 which are symptomatic of significant upward revisions in the national accounts data.

The evaluation of the risk and uncertainty surrounding the current macroeconomic projections underpinning this Programme is based on both an ex-ante analysis of past forecast errors which determine the level of uncertainty and an ex-post assessment of the balance of risk based on several alternative but plausible economic scenarios generated with the forecasting model used by the EPD.

### 2.5.2 The Balance of Risks

To determine the balance of risks surrounding the macroeconomic forecasts, six alternative model-based growth projections were carried out as follows:

1. Improved global economic growth based on the upper bound of the Consensus forecasts.
2. Weaker global economic growth based on the lower bound of the Consensus forecasts.
3. Higher interest rate scenario, assuming that the recovery is stronger, inflationary pressures are more persistent and the European Central Bank (ECB) starts tapering their asset purchases, which should result in a reluctance of investors to hold fixed income assets, lowering asset prices and raising yields.
4. Higher investment scenario, which assumes that investor certainty is restored in the beginning of 2022 and that projects which were originally planned for 2022 are not delayed.
5. Higher energy and world prices scenario, which assumes that the prevalent increase in energy prices is non-transitory and continues to be driven by surging global demand ensuing from the economic recovery, supply disruptions and investor speculation. Persistent supply bottlenecks in other areas, particularly in transport and semi-conductors, combined with domestic labour market shortages are also assumed to manifest into higher world prices.
6. Less optimistic tourism scenario, which assumes a more conservative tourism projection for the second half of the year. In 2022, the tourism recovery is also assumed to be more muted.

These represent scenarios that are plausible alternatives to the baseline projections. While economic judgement influences the choice of these scenarios, this judgement is also underpinned by the constant monitoring of economic conditions prevailing at the time as well as the various meetings with economic stakeholders and regulators operating within the Maltese economy, carried out in the early stages of the forecasting exercise.

Among the alternative forecasts, a more detailed description is provided for the alternative growth and interest rate scenarios as required by the Directive.

#### 2.5.2.1 Improved Global Economic Growth

In this scenario, the growth rates of Malta's key trading partners are assumed to be higher than originally anticipated in the baseline scenario, where the global growth rate is increased by 0.7 percentage points in 2021, and by 1.0 percentage point in 2022. The relatively higher than expected economic growth in Germany, France, Italy, the UK, and the US, is based on the Consensus Forecasts September 2021, assuming the most optimistic growth figure for each trading partner for the forecast years 2021 and 2022. The outcome of this scenario is a 0.2 percentage point upward revision in real GDP for both 2021 and 2022. In this risk scenario, the budget balance would be relatively unaffected in both forecast years.

#### 2.5.2.2 Weaker Global Economic Growth

This scenario models the downside risk of a lower assumption than the baseline forecast for Malta's main trading partners. The relatively lower than assumed economic growth rate in Germany, France, Italy, the UK, and the US is based on the Consensus Forecasts September 2021, assuming the lowest growth figure for each trading partner for the forecast years 2021 and 2022. In this scenario, global growth, weighted by Malta's main trading partners, declines by 0.9 percentage points in 2021 and by 1.1 percentage points in 2022. The outcome of this scenario is that the Maltese economy would decline by 0.1 percentage points and by 0.3 percentage points from the baseline in 2021 and 2022 respectively. The budget balance would be marginally lower by 0.1 percentage points in both 2021 and 2022, when compared to the baseline forecast.

#### 2.5.2.3 Interest Rate Scenario

This scenario assumes that long-term interest rates are assumed to increase by 50.0 basis points in the third quarter of 2021, thereby steepening the yield curve compared to the baseline scenario. This scenario attempts to reflect the tapering of monetary policy and a reluctance of investors to hold fixed income assets. The effect of this scenario would be lower real investment growth leading to a decline of 0.3 percentage points in real GDP in 2022. The budget balance will deteriorate by 0.1 percentage points in 2022.

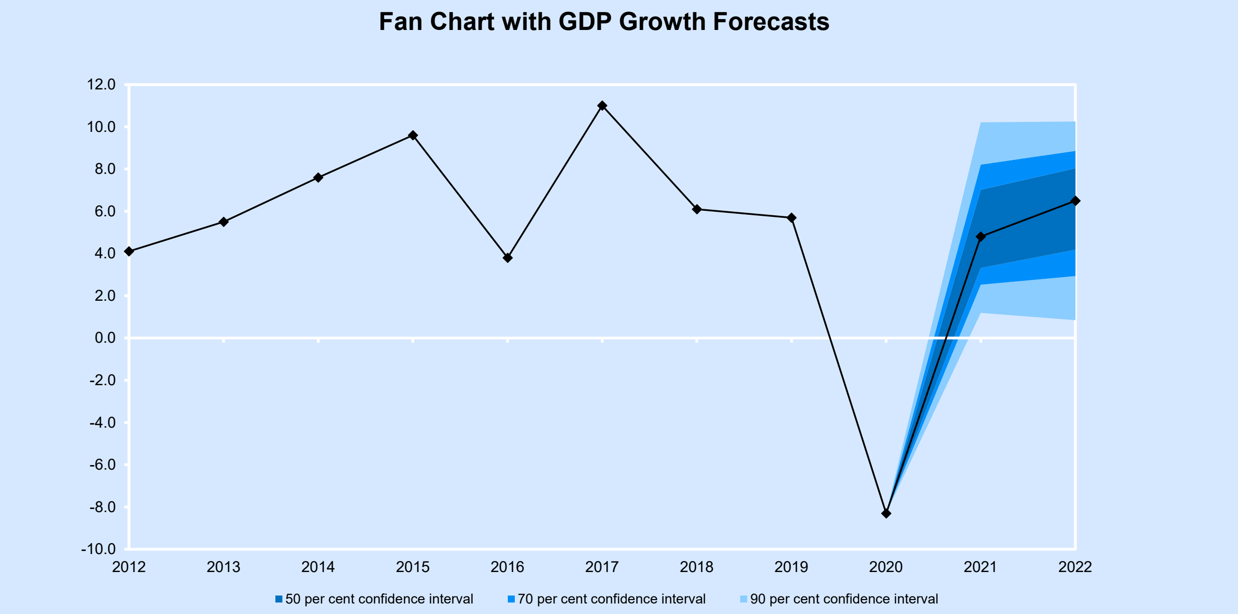
### 2.5.3 Alternative Model Forecasts

Moreover, the EPD has developed six alternative forecasting models ranging from model-free statistical forecast (Random Walk and Holt-Winters Seasonal Smoothing Method), model-based univariate forecasts (1 ARIMA model) and model-based multivariate forecasts (3 VAR models). These models help EPD benchmark the results inferred from STEMM and can be used to generate alternative growth forecasts. For 2021, the average of all models suggested GDP is set to increase by approximately 4.5 per cent, while the average of VAR models produced an estimate of 5.4 per cent. For 2022, the average of all models suggests a growth rate of 4.1 per cent while the VAR model average indicates GDP growth of 5.8 per cent.

### 2.5.4 Uncertainty and the Balance of Risk Underlying the Macroeconomic Projections

The uncertainty surrounding the macroeconomic projections is based on the past forecast error variance of GDP. This is equal to 2.8 for the current year forecast, and 2.9 for the one-year ahead forecast. The balance of risk is based on the Pearson skewness indicator of the model generating alternative forecast for GDP documented above. The indicator shows a mild upside risk for 2021, but a marginal downside risk for 2022. The result is consistent with the analysis of alternative model forecasts highlighted earlier. Chart 2.2 represents the uncertainty and the balance of risk surrounding the macroeconomic forecasts presented in this Draft Budgetary Plan.

Chart 2.2




## 2.5.5 Risks to Fiscal Targets

The alternative macroeconomic scenarios documented above, can influence the attainment of the general Government fiscal targets, thus underpinning alternative fiscal conditions. Chart 2.3 illustrates the range of possible budget balance outcomes conditional upon the realisation of these alternative scenarios. This year, the evaluation of fiscal risk conditional on macroeconomic risks also incorporates the variance resulting from the past forecast error of fiscal projections, based on a methodology similar to that used for deriving the macroeconomic risk assessment. As a result, the risk assessment is presented in the form of a probabilistic Fan Chart rather than point estimates. The

Chart 2.3

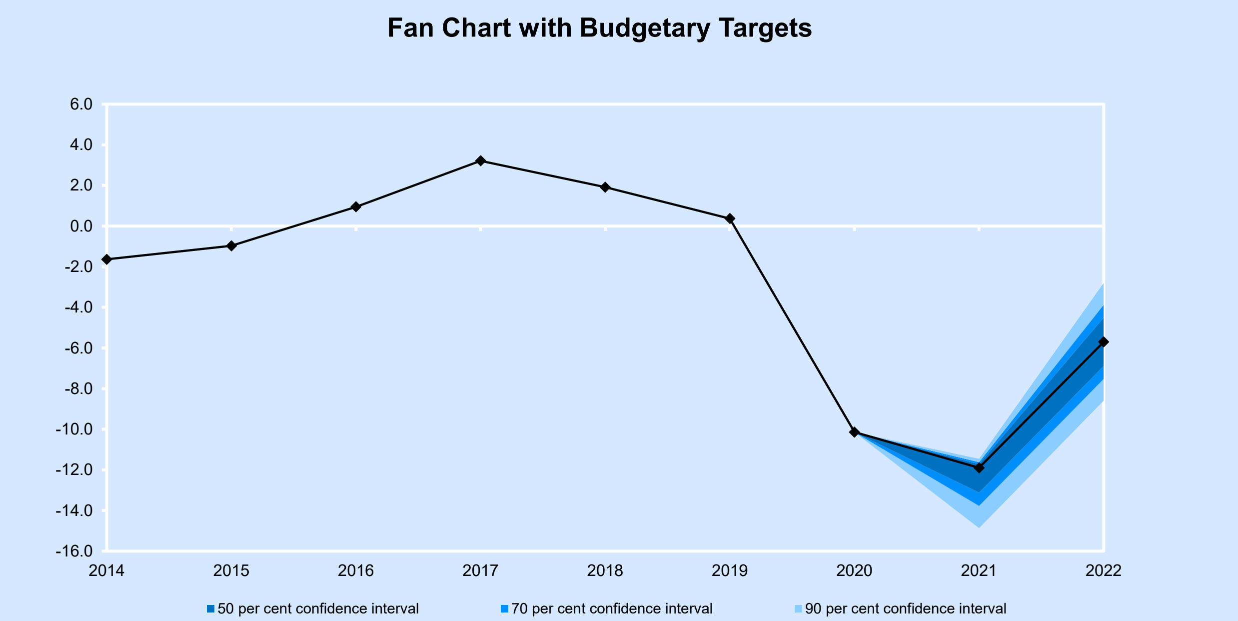
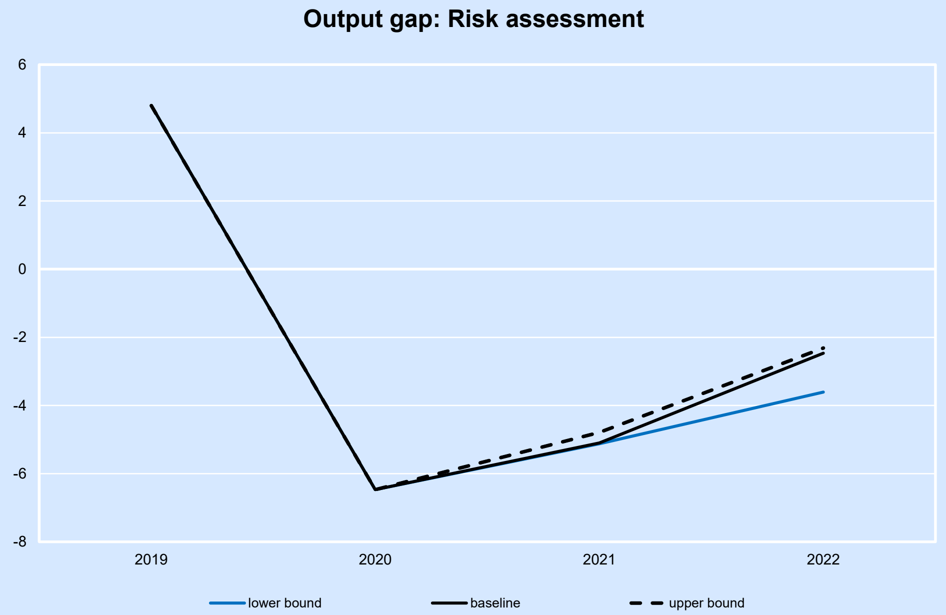


Chart 2.4




budget balance risk is skewed towards the downside in 2021 and neutral in 2022. Looking at point estimates, under all sensitivity scenarios conducted, the budget deficit should improve considerably by 2022, with the worst-case scenario suggesting a maximum 0.2 percentage point drop from the baseline.

### 2.5.6 Alternative Output Gap projections and risks to Structural Fiscal Targets

This assessment has been extended to cover risks to the output gap projections and hence the structural commitments presented in this Programme. Accordingly, alternative output gap projections consistent with the above economic scenarios have been carried out.

Compared to the baseline scenario, as shown in Chart 2.4, alternative output gap projections range from -5.1 per cent of potential output up to -4.8 per cent in 2021 and from -3.6 per cent of potential output up to -2.3 per cent in 2022.

*Footnote:*

[1] Camilleri, G., and Vella, K. (2015). “Interpolating Forecast Errors for Assessing Uncertainty in Macroeconomic Forecasts: An Analysis for Malta.” EPD Working Paper Series, No. 1/2015, March 2015. http://mfin.gov.mt/en/epd/Documents/Working_Papers/Working_Paper_Full.pdf

## Macroeconomic forecasts
(Basic assumptions)

Appendix Table 0.i

| | Data Source | 2020 | 2021p | 2022p |
|---|---|---|---|---|
| **Short-term interest rate (annual average)** | **ECB** | 0.0 | 0.0 | 0.0 |
| **Long-term interest rate (annual average)** | **ECB** | 0.5 | 0.5 | 0.5 |
| **USD/€ exchange rate (annual average)** | **ECB + Consensus Economics (September 2021)** | 1.153 | 1.183 | 1.191 |
| **STG/€ exchange rate (annual average)** | **ECB + Consensus Economics (September 2021)** | 0.903 | 0.854 | 0.851 |
| **Real GDP Growth of main trading partners** | **Eurostat + Consensus Economics (September 2021)** | -6.3 | 4.7 | 4.3 |
| **Nominal GDP Growth of main trading partners** | **Eurostat + Consensus Economics (September 2021)** | -5.0 | 6.8 | 6.0 |
| **Oil prices (Brent, USD/barrel)** | **US Energy Information Administration (EIA) + Consensus Economics (September 2021)** | 41.80 | 68.30 | 67.50 |

## Macroeconomic forecasts

(Macroeconomic prospects)

Appendix Table 1.a

| | ESA Code | € million *CLV 2010 Prices* 2020 | rate of change 2020 | 2021p | 2022p |
|---|---|---|---|---|---|
| **1. Real GDP**[1] | B1*g | 11,849.8 | -8.3 | 4.8 | 6.5 |
| **2. Potential GDP** | | | 2.8 | 3.3 | 3.6 |
| contributions: | | | | | |
| - labour | | | 2.5 | 2.5 | 2.3 |
| - capital | | | 1.5 | 1.5 | 1.7 |
| - total factor productivity | | | -1.2 | -0.7 | -0.3 |
| **3. Nominal GDP** | B1*g | 13,054.9 | -7.1 | 7.0 | 8.6 |
| **Components of real GDP** | | | | | |
| **4. Private final consumption expenditure**[2] | P.3 | 5,438.2 | -10.0 | 4.3 | 4.0 |
| **5. Government final consumption expenditure** | P.3 | 2,456.6 | 15.1 | 9.6 | 2.7 |
| **6. Gross fixed capital formation** | P.51 | 2,710.5 | -6.5 | 5.0 | 8.8 |
| **7. Changes in inventories and net acquisition of valuables (% of GDP)** | P.52 + P.53 | | 1.5 | 1.7 | 1.6 |
| **8. Exports of goods and services** | P.6 | 17,229.7 | -6.3 | 5.2 | 6.6 |
| **9. Imports of goods and services** | P.7 | 16,182.3 | -2.7 | 5.9 | 5.5 |
| **Contributions to real GDP growth** | | | | | |
| **10. Final domestic demand** | | 10,605.3 | -3.4 | 5.1 | 4.4 |
| **11. Changes in inventories and net acquisition of valuables** | P.52 + P.53 | 197.1 | 0.6 | 0.3 | 0.0 |
| **12. External demand** | B.11 | 1,047.5 | -5.5 | -0.5 | 2.1 |

[1] Users should note that chain-linking gives rise to components of GDP not adding up to the aggregate real GDP series. This non-additivity, similar to that in other countries' national accounts, is due to mathematical reasons and reflects the fact that chain-linked volumes are calculated by separately extrapolating both totals and their sub-components.

[2] Includes NPISH final consumption expenditure.

## Macroeconomic forecasts
(Price developments)

Appendix Table 1.b

| | ESA Code | Index[1] 2020 | rate of change 2020 | 2021p | 2022p |
|---|---|---|---|---|---|
| **1. GDP deflator** | | 124.1 | 1.2 | 2.2 | 2.1 |
| **2. Private consumption deflator** | | 115.4 | 1.1 | 1.2 | 1.6 |
| 3. HICP | | 106.4 | 0.8 | 0.7 | 1.7 |
| 4. Public consumption deflator | | 124.5 | 2.1 | 2.7 | 2.5 |
| 5. Investment deflator | | 113.5 | 0.8 | 1.3 | 1.2 |
| **6. Export price deflator (goods and services)** | | 121.4 | 0.4 | 2.1 | 2.1 |
| **7. Import price deflator (goods and services)** | | 116.2 | 0.3 | 1.8 | 1.9 |

[1] Index (base 2010 unless otherwise indicated)

## Macroeconomic forecasts
(Labour market developments)

Appendix Table 1.c

| | ESA Code | €000s 2020 | rate of change 2020 | 2021f | 2022f |
|---|---|---|---|---|---|
| **1. Employment, persons**[1] | | 259.0 | 2.7 | 2.3 | 2.2 |
| 2. Employment, hours worked[2] | | 478,123.1 | 2.7 | 2.3 | 2.2 |
| **3. Unemployment rate (%)**[3] | | | 4.3 | 3.8 | 4.0 |
| **4. Labour productivity, persons**[4] | | 45.8 | -10.7 | 2.3 | 4.2 |
| 5. Labour productivity, hours worked [5] | | | -10.7 | 2.3 | 4.2 |
| **6. Compensation of employees** | D.1 | 6,089.5 | 2.1 | 6.4 | 4.3 |
| **7. Compensation per employee** | | 27.0 | -0.3 | 3.9 | 2.1 |

[1] Forecasts based on national accounts definition

[2] Forecasts based on national accounts definition.

[3] Harmonised definition, Eurostat; levels.

[4] Real GDP per person employed (Forecasts based on national accounts definition)

[5] Real GDP per hour worked (Forecasts based on national accounts definition)

| Macroeconomic forecasts (Sectoral balances) | | | | |
|---|---|---|---|---|
| Appendix Table 1.d | | | | % GDP |
| | | | | |
| Percentages of GDP | ESA Code | **2020** | **2021** | **2022** |
| | | | | |
| **1. Net lending/ borrowing** | | -3.4 | -3.1 | 1.0 |
| *vis-à-vis the rest of the world* | B.9 | | | |
| of which: | | | | |
| Balance on goods and services | | 6.8 | 7.3 | 12.8 |
| Balance of primary incomes and transfers | | -10.8 | -11.0 | -12.5 |
| Capital account | | 0.6 | 0.6 | 0.7 |
| | | | | |
| **2. Net lending/ borrowing of the private sector** | B.9 | 5.0 | 6.4 | 5.2 |
| 3. Net lending/ borrowing of general Government | EDP B.9 | -9.7 | -11.1 | -5.6 |
| 4. Statistical discrepancy | | 1.4 | 1.5 | 1.4 |
| | | | | |
| Current Account | | -4.0 | -3.7 | 0.3 |

# 3. General Government Budgetary Developments

# 3. General Government Budgetary Developments

Malta's public finance sustainability has continued to improve in recent years, backed by a prudent approach to fiscal policy, strong economic growth, and favourable financing conditions. Against the background of the unprecedented and extraordinary circumstances surrounding the COVID-19 situation, backed by a solid financial position, the Maltese Government immediately launched a series of financial packages to address the health emergency needs, ease liquidity pressures on businesses while seeking to protect jobs and household incomes. Discretionary policies have complemented the full operation of automatic fiscal stabilisers, as a result of which the general Government balance turned negative. The severe economic situation and the large fiscal policy response resulted in a budget deficit of close to 10 per cent of Gross Domestic Product (GDP) in 2020, while the general Government debt increased by almost 13 percentage points to 53.4 per cent of GDP. It is important to note, that although the fiscal support measures in Malta were among the strongest in the European Union (EU), such that the deficit recorded in 2020 was one of the highest in the EU, the impact on the debt ratio has been lower than for other Member States.

In spite of the resurgence of infections early in 2021, which required renewed restrictions in an attempt to control the virus, the rapid rollout of effective vaccines allowed the easing of public health restrictions and permitted a rebound in consumption and output through this year, partially supported by the release of extra savings built up by households during the pandemic. As the positive momentum in the Maltese economy is expected to be sustained in the second half of the year and the pre-pandemic levels of output are expected to be met by the end of 2022, the 2022 Budget builds on this recovery and seeks to ensure that the path of economic growth witnessed in recent years is sustained into the near future, whilst ensuring that economic growth translates into a higher quality of life for all citizens. Indeed, the Budget for 2022 aims to strengthen further the distributional policies enacted in recent years with the objective of continuing to improve further policies directed at social inclusion, promote social mobility and reduce poverty. In addition, the Budget continues to provide the conditions for the economy to recover from the impact of COVID-19 and also facilitate the twin Green and Digital transitions.

With a view to sustaining the recovery, the Maltese Government is set to maintain a supportive budgetary policy in 2022, allowing for the impact of the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. The assumed economic recovery is expected to boost taxation receipts over the course of the next year and by end of 2022, tax revenue is estimated to exceed the level that was recorded prior to the pandemic. The general Government expenditure is estimated to decline in 2022, as the temporary support is expected to be phased out, in line with the Government's commitment to contain expenditure as the public health situation improves and the economy recovers. As a result, the Government deficit is projected to stand at 5.6 per cent in 2022 while the debt-to-GDP ratio is expected to reach 61.8 per cent.

This Chapter provides an analysis of planned developments in revenue, expenditure and debt during 2022, including details of the main discretionary measures underpinning the expenditure and revenue targets for 2022, and is based on the European System of Accounts (ESA 2010) methodology. Indeed, data provided in this Chapter covers the general Government sector, which is composed of the central and local Government subsectors. In turn, the central Government subsector comprises the operations of Government Ministries and Departments and of Extra Budgetary Units (EBUs). Appendix Table 6.b provides a list of established EBUs as of 31 December 2020.

## 3.1 Budgetary targets

The final outcome in 2020, the evaluation of the general Government budgetary developments during the current year, as well as the revised macroeconomic projections, constitute the basis for the revised projections. Additional revisions also reflect the extension of some pandemic-related fiscal policy measures beyond their original deadline, and other additional measures for the current year, as well as the fiscal impact of the measures underlying the 2022 Draft Budget.

As of 2021, the general Government gross debt is expected to increase by 7.9 percentage points to 61.3 per cent reflecting the impact of the COVID-19 pandemic. The debt-to-GDP ratio is expected to increase by a further 0.5 percentage points in 2022 to reach 61.8 per cent, such that in both years the ratio is expected to surpass the Stability and Growth Pact's 60 per cent threshold. Developments in gross Government debt and the contributors to developments in the debt-to GDP ratio are presented in Table 2.b. The expected increase in the debt-to-GDP ratio in 2021 is mainly on the back of the negative primary balance together with an expansionary contribution stemming from the stock-flow adjustment (SFA) which is mainly due to the contribution to the Malta Government Stock sinking fund. The recovery in the economy and the low interest rate environment will help to contain a further growth in the debt-to-GDP ratio in 2022.

### 3.1.1 Updated budgetary plans for 2021

During 2021, the general Government deficit was revised upwards by €753 million, compared to the estimated deficit of €792.5 million outlined in the 2021 Draft Budget Plan. These developments mainly reflected higher than anticipated expenditure outlays and, to a lesser extent, lower than anticipated revenue

The revenue variance reflects a more subdued than anticipated revenue outcome in 2020 (-€22 million), a more subdued macro-economic developments in 2021 (-€56 million), lower revenues estimated from the expected behavioural responses in respect to the relative tax bases, as well as the revised fiscal impact of fiscal policy measures (-€65 million). The principal revision in the general Government revenue compared to the estimates outlined in the 2021 Draft Budget Plan relates to taxes on production and

**Budgetary Targets**
General Government debt developments

Table 2.b — % GDP

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| **1. Gross debt** [1] | 53.4 | 61.3 | 61.8 | 62.7 | 62.4 |
| **2. Change in gross debt ratio** | 12.7 | 7.9 | 0.5 | 0.9 | -0.4 |
| **Contributions to changes in gross debt** | | | | | |
| **3. Primary balance** | 8.4 | 9.9 | 4.5 | 3.3 | 1.8 |
| **4. Interest expenditure** | 1.3 | 1.1 | 1.1 | 1.1 | 1.1 |
| **5. Stock-flow adjustment** | -0.1 | 0.3 | -0.3 | 0.3 | 0.4 |
| **p.m.: Implicit interest rate on debt** [2] | 3.0 | 2.3 | 1.9 | 1.9 | 1.9 |

[1] As defined in Regulation 479/2009.

[2] Proxied by interest expenditure divided by the debt level of the previous year.

imports (-€158 million), in particular revenue from Value Added Tax (VAT) (-€83 million), due to more subdued estimated macro-economic developments in 2021. Other less significant revisions to revenue components included a €16 million downward revision to revenue from taxes on income in 2021 reflecting the legacy of a lower outturn in 2020 when compared to the levels estimated in Autumn 2020.

Meanwhile, higher than targeted expenditure compared to the estimates outlined in the 2021 Draft Budget Plan of €609 million is mainly attributable to subsidies, intermediate consumption, and compensation of employees. Higher than estimated expenses primarily relate to outlays on the COVID-19 Business Assistance Programme, the financial assistance to the national airline, and added outlays towards the health sector

**General Government Budgetary Execution and Prospects**

Table 3.1 — € millions

| | ESA Code | 2021 | | | 2022 | |
|---|---|---|---|---|---|---|
| | | **USP 2020-2021** | **DBP 2021** | **DBP 2022** | **USP 2021-2024** | **DBP 2022** |
| | | **Forecast** | **Forecast** | **Forecast** | **Forecast** | **Forecast** |
| **Net lending (+)/net borrowing (-)** | | | | | | |
| 1. **General Government** | S.13 | **-485.6** | **-792.5** | **-1,545.0** | **-826.1** | **-850.7** |
| 2. Central Government | S.1311 | -484.4 | -791.3 | -1,543.8 | -824.9 | -849.5 |
| 3. State Government | S.1312 | - | - | - | - | - |
| 4. Local Government | S.1313 | -1.2 | -1.2 | -1.2 | -1.2 | -1.2 |
| 5. Social Security funds | S.1314 | - | - | - | - | - |
| **For the General Government** | | | | | | |
| 6. **Total Revenue** | TR | **5,237.9** | **5,201.5** | **5,057.7** | **5,422.3** | **5,611.3** |
| Of which | | | | | | |
| Taxes on Production and Imports | D.2 | 1,592.1 | 1,663.3 | 1,505.0 | 1,689.5 | 1,862.3 |
| Current Taxes on Income, Wealth, etc. | D.5 | 1,928.6 | 1,857.5 | 1,841.3 | 1,920.2 | 1,995.5 |
| Capital Taxes | D.91 | 19.0 | 24.4 | 18.6 | 25.6 | 25.8 |
| Social Contributions | D.61 | 828.4 | 819.4 | 866.7 | 912.5 | 912.2 |
| Property Income | D.4 | 64.5 | 82.9 | 80.2 | 84.3 | 71.0 |
| Other [(a)] | | 805.3 | 754.0 | 745.9 | 790.3 | 744.5 |
| 7. **Total Expenditure** | TE | **5,723.6** | **5,994.0** | **6,602.7** | **6,248.4** | **6,462.0** |
| Of which | | | | | | |
| Compensation of employees | D.1 | 1,619.3 | 1,667.7 | 1,766.4 | 1,782.0 | 1,855.7 |
| Intermediate Consumption | P.2 | 1,220.8 | 1,220.8 | 1,338.9 | 1,265.2 | 1,421.6 |
| Social Payments | D.6 | 1,386.8 | 1,387.6 | 1,434.3 | 1,448.7 | 1,521.3 |
| Interest Expenditure | D.41 | 186.9 | 157.0 | 160.2 | 163.4 | 166.1 |
| Subsidies | D.3 | 203.7 | 405.4 | 626.2 | 236.2 | 254.8 |
| Gross Fixed Capital Formation | P.51 | 664.5 | 676.5 | 660.7 | 690.4 | 742.4 |
| Capital Transfers | D.9 | 133.4 | 115.3 | 167.5 | 297.2 | 162.1 |
| Other [(b)] | | 308.3 | 363.7 | 448.5 | 365.3 | 338.0 |
| 8. **Gross Debt** [(c)] | | **7,484.8** | **7,825.5** | **8,562.4** | **9,731.9** | **9,373.7** |

**Notes:**

[(a)] P.11 + P.12 + P.131 + D.39rec + D.7rec + D.9rec (other than D.91rec).

[(b)] D.29 + D.4pay (other than D.41pay) + D.5pay + D.7pay + P.5M + NP + D.8.

[(c)] As defined in Council Regulation (EC) No 479/2009 (OJ L 145, 10.6.2009, p. 1).

beyond what was envisaged in Autumn 2020. Developments in the general Government budgetary execution in 2021, between subsequent forecasts, are outlined in Table 3.1.

On account of these revisions, while the revenue to GDP ratio is expected to remain relatively unchanged in 2021, the expenditure ratio to GDP is expected to increase further, such that the general Government balance is expected to worsen to -11.1 per cent of GDP. Total revenue is expected to remain unchanged at 36.2 per cent of GDP in 2021, while ratio of general Government expenditure to GDP is expected to increase by 1.3 percentage points to 47.3 per cent in 2021.

## 3.2 Budgetary plans for 2022

Provided that the macroeconomic projections underlying this Plan materialise, the budget balance is expected to improve to a deficit of 5.6 per cent of GDP in 2022. In structural terms, the general Government deficit is expected to improve from -8.6 per cent in 2021 to -4.5 per cent in 2022. General Government budgetary targets are outlined in Table 2.a. Table 7 compares the budgetary targets and projections at unchanged policies in the Draft Budget Plan with those of the latest Update of the Stability Programme.

The general Government balance for 2022 was revised upwards by €25 million, compared to the estimated deficit of €826.1 million outlined in the 2021 Update of the Stability

**Budgetary Targets**
General Government budgetary targets broken down by subsector

Table 2.a — % GDP

| | ESA Code | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|
| **Net lending (+) / net borrowing (-) by sub-sector** [1] | B.9 | | | | | |
| **1. General Government** | S.13 | -9.7 | -11.1 | -5.6 | -4.4 | -2.9 |
| **2. Central Government** | S.1311 | -9.7 | -11.1 | -5.6 | -4.4 | -2.9 |
| **3. State Government** | S.1312 | - | - | - | - | - |
| **4. Local Government** | S.1313 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 |
| **5. Social security funds** | S.1314 | - | - | - | - | - |
| **6. Interest expenditure** | D.41 | 1.3 | 1.1 | 1.1 | 1.1 | 1.1 |
| **7. Primary balance** [2] | | -8.4 | -9.9 | -4.5 | -3.3 | -1.8 |
| **8. One-off and other temporary measures** [3] | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **8.a Of which one-offs on the revenue side: general Government** | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **8.b Of which one-offs on the expenditure side: general Government** | | -0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **9. Real GDP growth (%) (=1 in Table 1.a)** | | -8.3 | 4.8 | 6.5 | 4.7 | 4.5 |
| **10. Potential GDP growth (%) (=2 in Table 1.a)** | | 2.8 | 3.3 | 3.6 | 3.0 | 3.0 |
| **11. Output gap (% of potential GDP)** | | -6.5 | -5.1 | -2.5 | -0.9 | 0.4 |
| **12. Cyclical budgetary component (% of potential GDP)** | | -3.1 | -2.4 | -1.2 | -0.4 | 0.6 |
| **13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)** | | -6.6 | -8.6 | -4.4 | -4.0 | -3.5 |
| **14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)** | | -5.3 | -7.5 | -3.3 | -2.9 | -2.4 |
| **15. Structural balance (13 - 8) (% of potential GDP)** | | -6.6 | -8.6 | -4.5 | -4.0 | -3.6 |

[1] TR-TE= B.9.

[2] The primary balance is calculated as (B.9) plus (D.41, item 6).

[3] A plus sign means deficit-reducing one-off measures.

**Divergence from latest SP**

| Table 7 | | | | | | % GDP |
|---|---|---|---|---|---|---|
| | ESA Code | 2020 | 2021 | 2022 | 2023 | 2024 |
| **Real GDP growth** | | | | | | |
| **Stability Programme** | | -7.1 | 3.8 | 6.9 | 4.5 | 4.0 |
| **Draft Budgetary Plan** | | -8.3 | 4.8 | 6.5 | 4.7 | 4.5 |
| **Difference** | | -1.2 | 1.0 | -0.4 | 0.2 | 0.5 |
| **General Government net lending/ net borrowing** | EDP B.9 | | | | | |
| **Stability Programme** | | -10.1 | -12.0 | -5.6 | -3.9 | -2.9 |
| **Draft Budgetary Plan** | | -9.7 | -11.1 | -5.6 | -4.4 | -2.9 |
| **Difference** | | 0.4 | 0.9 | -0.0 | -0.5 | 0.0 |
| **General Government net lending projection at un-changed policies** | EDP B.9 | | | | | |
| **Stability Programme** | | -10.1 | -12.0 | -6.8 | -4.1 | -3.1 |
| **Draft Budgetary Plan** | | -9.7 | -11.1 | -5.5 | - | - |
| **Difference** [1] | | 0.4 | 0.9 | 1.3 | - | - |
| **Total Revenue** | TR | | | | | |
| **Stability Programme** | | 36.5 | 36.7 | 36.6 | 36.2 | 35.7 |
| **Draft Budgetary Plan** | | 36.2 | 36.2 | 37.0 | 37.0 | 36.4 |
| **Difference** | | -0.2 | -0.5 | 0.4 | 0.8 | 0.7 |
| **Total Expenditure** | TE | | | | | |
| **Stability Programme** | | 46.6 | 48.7 | 42.2 | 40.1 | 38.6 |
| **Draft Budgetary Plan** | | 45.9 | 47.3 | 42.6 | 41.4 | 39.3 |
| **Difference** | | -0.7 | -1.4 | 0.4 | 1.3 | 0.7 |
| **General Government gross debt** | | | | | | |
| **Stability Programme** | | 54.3 | 65.0 | 65.8 | 66.0 | 65.6 |
| **Draft Budgetary Plan** | | 53.4 | 61.3 | 61.8 | 62.7 | 62.4 |
| **Difference** | | -0.8 | -3.7 | -3.9 | -3.3 | -3.2 |

[1] This difference refer to both deviations stemming from changes in the macroeconomic scenario and those stemming from the effect of policy measures taken between the submission of the SP and the submission of the DBP. Differences are also due to the fact that the no-policy change scenario is defined differently for the purpose of this Code of Conduct with respect to the Stability Programme.

Programme (USP). These developments reflect higher estimated revenue in 2022 (€189 million), which is more than offset by an upward revision in general Government expenditure of €214 million, when compared to the projections outlined in the 2021 USP. A more buoyant than anticipated revenue outcome in 2021 (€211 million when compared to the USP projections), and higher revenue from the expected behavioural responses in respect to the relative tax bases and the revised fiscal impact of fiscal policy measures (€94 million), are expected to be in part offset by more subdued estimated macro-economic developments in 2022 (-€116 million). The main revision in general Government revenue compared to the estimates outlined in the 2021 USP relates to taxes on production and imports (€173 million), in particular revenue from VAT (€122 million). Other less significant revisions to revenue components include a €75 million upward revision to revenue from taxes on income in 2022. Meanwhile, higher than targeted expenditure compared to the estimates outlined in the 2021 USP of €214 million is mainly attributable to intermediate consumption (€156 million), compensation of employees (€74 million), and social payments (€73 million). These are in part offset by a downward revision in capital transfers of €135 million, as financial assistance to the national airline is no longer envisaged for 2022. Table 3.1a distinguishes the changes to the

**General Government Budgetary Developments in 2022**
Divergence from previous forecasts

Table 3.1a — € millions

| | ESA Code | USP 2021 compared to DBP 2022: Divergence due to expected out-turn in *t-1* | Divergence due to updated macroeconomic projections | Other revisions | **Total forecast revision** |
|---|---|---|---|---|---|
| **Net lending (+)/net borrowing (-)** | | | | | |
| 1. **General Government** | S.13 | **211** | **-134** | **-101** | **-25** |
| 2. Central Government | S.1311 | 211 | -134 | -101 | -25 |
| 3. State Government | S.1312 | - | - | - | - |
| 4. Local Government | S.1313 | 0 | 0 | 0 | 0 |
| 5. Social Security funds | S.1314 | - | - | - | - |
| | | | | | |
| **For the General Government** | | | | | |
| | | | | | |
| 6. **Total Revenue** | TR | **211** | **-116** | **94** | **189** |
| Of which | | | | | |
| Taxes on Production and Imports | D.2 | 67 | 2 | 104 | 173 |
| Of which | | | | | |
| Value Added Type Taxes (VAT) | D.211 | 51 | -8 | 79 | 122 |
| Taxes on Financial and Capital Transactions | D.214C | -4 | 4 | 1 | 1 |
| Current Taxes on Income, Wealth, etc. | D.5 | 141 | -104 | 38 | 75 |
| Of which | | | | | |
| Taxes on Individual or Household Income | D.51M | 17 | -33 | 39 | 22 |
| Taxes on the income or profits of Corporations | D.51O | 126 | -71 | 0 | 55 |
| Capital Taxes | D.91 | -5 | 0 | 5 | 0 |
| Social Contributions | D.61 | 8 | -14 | 6 | -0 |
| Of which | | | | | |
| Employers' Actual Pension Contributions | D.611 | -7 | -6 | 11 | -1 |
| Households' actual social contributions | D.613 | 14 | -9 | -5 | 1 |
| Property Income | D.4 | | | -13 | -13 |
| Other [(a)] | | | | -46 | -46 |
| | | | | | |
| 7. **Total Expenditure** | TE | **0** | **18** | **195** | **214** |
| Of which | | | | | |
| Compensation of employees | D.1 | | | 74 | 74 |
| Intermediate Consumption | P.2 | | | 156 | 156 |
| Social Payments | D.6 | | 18 | 54 | 73 |
| Of which | | | | | |
| Unemployment expenditure | | | 18 | 0 | 18 |
| Interest Expenditure | D.41 | | | 3 | 3 |
| Subsidies | D.3 | | | 19 | 19 |
| Gross Fixed Capital Formation | P.51 | | | 52 | 52 |
| Capital Transfers | D.9 | | | -135 | -135 |
| Other [(b)] | | | | -27 | -27 |

**Notes:**

[(a)] P.11 + P.12 + P.131 + D.39rec + D.7rec + D.9rec (other than D.91rec).

[(b)] D.29 + D.4pay (other than D.41pay) + D.5pay + D.7pay + P.5M + NP + D.8.

| Contingent Liabilities | | |
|---|---|---|
| Table 2.c | | % of GDP |
| | **2021** | **2022** |
| **Public guarantees** | 9.4 | 8.4 |

2022 forecasts between successive reports due to the impact of the estimated outturn in 2021 (base effect), macroeconomic determinants, and other changes.

The general Government gross debt ratio is expected to increase by 0.5 percentage points to 61.8 per cent of GDP in 2022, remaining above the 60 per cent Maastricht Treaty threshold. The upward pressure emanating from the projected primary deficit and interest payments are expected to offset the positive impact of nominal GDP growth. Developments in general Government debt are presented in Table 2.b. Debt developments data, consistent with the detailed budgetary targets and macroeconomic forecasts, is complemented with data on contingent liabilities in Table 2.c and Table 2.c.i. A detailed account of the Stock-Flow adjustments can be found in Appendix Table 7.

| Stock of guarantees adopted/announced at June 2021 according to the Plan | | | |
|---|---|---|---|
| Table 2.c.i | | | % of GDP |
| | **Measure** | **Maximum amount of contingent liabilities (% of GDP)** | **Estimated take-up (% of GDP)** |
| **In response to COVID-19** | Malta Development Bank - COVID-19 Guarantee Scheme | 2.5 | 1.2 |
| | EU SURE loan instrument | 0.2 | 0.2 |
| | **Subtotal** | **2.7** | **1.3** |
| **Others** | Non-financial corporations | 7.2 | 5.4 |
| | Financial corporations | 3.4 | 1.7 |
| | Households and NPISHs | 0.1 | 0.1 |
| | **Subtotal** | **10.6** | **7.2** |
| | **Total** | **13.3** | **8.5** |

## 3.2.1 Discretionary measures

A list of the main discretionary measures included in the Draft Budget Plan and underpinning the expenditure and revenue targets for 2022 is presented in Table 5.a. The net impact on the budget balance of temporary and permanent discretionary revenue measures for 2022 (including those implemented in previous budgets but which will still have an impact in 2022) is estimated at 0.12 per cent of GDP. Meanwhile, incremental discretionary expenditure measures (including those implemented in previous budgets but which will still have an impact in 2022), are expected to improve the budget balance of 2022 by 3.5 per cent of GDP.

The 2022 Budget aims to strengthen further the distributional policies enacted in recent years with the objective of strengthening social inclusion, promote social mobility and reduce poverty while providing the conditions for the economy to recover from the impact of COVID-19 and creating employment within the framework of inclusive economic growth, whilst facilitating the twin Green and Digital transitions.

The Budget for 2022 will continue to enhance the disposable income of low and middle-income earners and incentivise people to work by extending and increasing measures

**Description of discretionary measures included in the Draft Budget Plan[1]**
Discretionary measures taken by General Government

Table 5.a

| | Measures | ESA Code (Expenditure / Revenue component) | Date of adoption | Budgetary Impact (% of GDP) | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | 2020 | 2021 | 2022 | 2023 | 2024 |
| Temporary measures[2] | Reduced tax on the transfer of immovable property | D2, D5 - R | 2014 - 2024 | -0.42 | -0.01 | 0.39 | 0.20 | 0.00 |
| | Reduced Excise Duty | D2 - R | 2020 | -0.06 | 0.06 | 0.00 | 0.00 | 0.00 |
| | Budget measures enabling business activity | D2 - R | 2019 - 2021 | 0.00 | -0.06 | 0.00 | 0.00 | 0.00 |
| | Fiscal incentives for private pensions | D5 - R | 2019 - 2021 | -0.00 | -0.03 | 0.00 | 0.00 | 0.00 |
| | Various medical supplies and equipment in relation to COVID-19 | P2 - E | 2020 - 2021 | -0.57 | 0.21 | 0.36 | 0.00 | 0.00 |
| | Cargo Transportation and Repatriation | P2 - E | 2020 | -0.38 | 0.38 | 0.00 | 0.00 | 0.00 |
| | Tourism Regeneration Plan | D3 - E | 2021 | 0.00 | -0.14 | 0.14 | 0.00 | 0.00 |
| | Short Term Social Measures | D6 - E | 2020 | -0.11 | 0.10 | 0.02 | 0.00 | 0.00 |
| | COVID-19 Business Assistance Programme and the Economic Regeneration Voucher Scheme | D3 - E | 2020 - 2021 | -3.64 | 0.84 | 2.80 | 0.00 | 0.00 |
| | **Subtotal** | | | -5.18 | 1.34 | 3.71 | 0.20 | 0.00 |
| Non-temporary measures[2] | Revenue from the Individual Investor Programme | P10 - R | 2014 | -0.20 | -0.29 | -0.28 | -0.02 | -0.01 |
| | Provision for unrecoverable deferred taxes and a revision in the applicable interest rates and penalties due on unsettled tax balances | D2, D5, D61 - R | 2022 | -0.06 | -0.05 | 0.14 | -0.00 | -0.00 |
| | Revision to personal income tax rates and thresholds applicable on pension income, income from overtime and from part-time employment | D5 - R | 2022 - 2024 | -0.04 | 0.01 | -0.10 | 0.01 | 0.01 |
| | Government-guaranteed loans schemes | D3 - E | 2020 | -0.01 | -0.08 | 0.02 | 0.07 | 0.00 |
| | Housing Programmes | D6 - E | 2020 | -0.12 | -0.01 | -0.05 | -0.01 | -0.00 |
| | Measures to address housing affordability, pension adequacy and the integration of vulnerable individuals in society; cash payments by Government to households | D6 - E | 2016 - 2024 | -0.45 | -0.10 | -0.20 | -0.00 | 0.06 |
| | Financial support to the national airline | D9 - E | 2021 | 0.00 | -0.21 | 0.21 | 0.00 | 0.00 |
| | Other revenue measures, including measures legislated in previous budgets | | | 0.01 | -0.01 | -0.03 | -0.03 | -0.03 |
| | Other expenditure measures, including measures legislated in previous budgets and projects financed from the National Development and Social Fund | | | -0.17 | -0.24 | 0.18 | 0.03 | 0.02 |
| | **Subtotal** | | | -1.03 | -1.00 | -0.10 | 0.05 | 0.05 |
| | **Total** | | | **-6.21** | **0.35** | **3.61** | **0.25** | **0.05** |

[1] Excluding those measures that are planned to be financed by grants under the RRF.

[2] For the purpose of this table, temporary measures refer to those discretionary measures that have no budgetary impact beyond 2022, which corresponds to the end of the Commission spring 2021 forecast horizon. By contrast, those measures adopted or announced for 2020, 2021 or 2022 that continue to have a fiscal effect of 0.1% of GDP or greater until at least 2023 are considered as 'non-temporary' for the purpose of this table.

which are aimed at making work pay. Such measures include the In-Work Benefit Scheme, the taper of benefits and the reduction of tax burden on workers, through tax rebates and lower tax on part-time and overtime work. Free childcare services will be extended to evenings and weekends for people working shifts to ease labour supply shortages in specific sectors.

The 2022 Budget includes a number of measures aimed at financially enhancing the pensioners' and elderly's income and also supporting the provision of informal long-term care. Most pensions, both contributory and non-contributory pensions will increase in excess of the customary cost of living adjustment (COLA). The taxable ceiling on pensions will also be raised. Other measures include the support to households that hire private help at home.

By means of the forthcoming year's Budget, the Government will continue to support incomes through income supplements and bonuses linked to childbirth or adoption, with a specific focus on low-income households. The Government will also be increasing the stipend allowance provided to students by 10 per cent.

Several policy measures which had been put in place in previous years, intended to ensure affordable housing availability, were extended and widened in scope, while the temporary measures introduced to support the property market during the pandemic were not renewed.

In addition, in terms and for the purposes of Article 31 of the Fiscal Responsibility Act, the annual contribution to the 'Contingency Reserve' account is expected to amount to €13.3 million in 2021.

## 3.3 Expenditure and Revenue Targets

General Government expenditure and revenue targets are presented in Table 4.a, while Table 4.b outlines the components necessary for the computation of the expenditure

**Expenditure and Revenue Targets**

General Government expenditure and revenue targets, broken down by main components

| Table 4.a | | | % GDP |
|---|---|---|---|
| | ESA Code | **2021** | **2022** |
| **General Government (S13)** | | | |
| **1. Total revenue target** | TR | 36.2 | 37.0 |
| **Of which** | | | |
| **1.1. Taxes on production and imports** | D.2 | 10.8 | 12.3 |
| **1.2. Current taxes on income, wealth, etc** | D.5 | 13.2 | 13.2 |
| **1.3. Capital taxes** | D.91 | 0.1 | 0.2 |
| **1.4. Social contributions** | D.61 | 6.2 | 6.0 |
| **1.5. Property income** | D.4 | 0.6 | 0.5 |
| **1.6. Other** [1] | | 5.3 | 4.9 |
| **p.m.: Tax burden** | | 30.5 | 31.8 |
| **(D.2+D.5+D.61+D.91-D.995)**[2] | | | |
| **2. Total expenditure target** | TE[3] | 47.3 | 42.6 |
| **Of which** | | | |
| **2.1. Compensation of employees** | D.1 | 12.6 | 12.2 |
| **2.2. Intermediate consumption** | P.2 | 9.6 | 9.4 |
| **2.3. Social payments** | D.6M | 10.3 | 10.0 |
| **of which Unemployment benefits** [3] | | *0.4* | *0.3* |
| **2.4. Interest expenditure (= item 6 in Table 2.a)** | D.41 | 1.1 | 1.1 |
| **2.5. Subsidies** | D.3 | 4.5 | 1.7 |
| **2.6. Gross fixed capital formation** | P.51G | 4.7 | 4.9 |
| **2.7. Capital transfers** | D.9 | 1.2 | 1.1 |
| **2.8. Other** [4] | | 3.2 | 2.2 |

[1] P.10 + D.39rec + D.7rec + D.9rec (other than D.91rec).

[2] Tax revenue, including those collected by the EU and including an adjustment for uncollected taxes and social contributions D.995), if appropriate.

[3] Includes cash benefits (D.621 and D.624) and in kind benefits (D.632) related to unemployment benefits.

[4] D.29pay + D.4pay (other than D.41pay) + D.5pay + D.7pay + P.5M + NP + D.8.

| Expenditure and Revenue Targets<br>Amounts to be excluded from the expenditure benchmark | | | | | |
|---|---|---|---|---|---|
| Table 4.b | | | | | % GDP |
| | ESA Code | **2020**<br>Level (€ millions) | **2020** | **2021** | **2022** |
| **1. Expenditure on EU programmes fully matched by EU funds revenue** | | 149.0 | 1.1 | 1.7 | 1.8 |
| **1.a of which 'Investment fully matched by EU funds revenue** | | 63.7 | 0.5 | 0.8 | 1.1 |
| **2. Cyclical unemployment benefit expenditure** [1] | | 0.0 | 0.0 | 0.0 | -0.0 |
| **3. Effect of discretionary revenue measures** [2] | | -113.1 | -0.8 | -0.4 | 0.1 |
| **4. Revenue increases mandated by law** | | - | - | - | - |

[1] The cyclical unemployment benefit expenditure is calculated by multiplying the gap between the Non-Accelerating Wage Rate of Unemployment (NAWRU) and the unemployment rate (expressed in terms of the unemployment rate) by the total unemployment benefit expenditure. Data for the NAWRU and the unemployment rate is obtained from the latest update of the AMECO Database, while data for the total unemployment benefit expenditure is as defined in COFOG under the code 10.5.

[2] Revenue increases mandated by law is not included in the effect of discretionary revenue measures: data reported in rows 3 and 4 are mutually exclusive.

benchmark. A breakdown of the general Government expenditure by function is contained in the corresponding Table 4.c.i and Table 4.c.ii.

Whilst the revenue to GDP ratio is expected to recover in 2022, the expenditure ratio to GDP is expected to decline in 2022, such that the general Government balance is expected to improve to -5.6 per cent of GDP.

Total revenue is expected to increase to 37.0 per cent of GDP in 2022, primarily reflecting an increase of 1.5 percentage points of GDP in the tax revenue ratio (excluding social contributions). Indeed, the ratio of taxes on production and imports is expected to increase by 1.5 percentage points of GDP as domestic demand conditions improve. The ratios of current taxes on income and wealth and capital taxes are expected to remain unchanged.

| General Government Expenditure by Function<br>General Government Expenditure on Education, Healthcare and Employment | | | | |
|---|---|---|---|---|
| Table 4.c.i | | | | |
| | **2021** | | **2022** | |
| | **% of GDP** | **% of gG expenditure** | **% of GDP** | **% of gG expenditure** |
| **Education** (= item 9 in table 4.c.ii) | 6.5 | 13.8 | 6.1 | 14.4 |
| **Health** (= item 7 in table 4.c.11) | 6.7 | 14.2 | 6.6 | 15.4 |
| **Employment** | n.a. | n.a. | n.a. | n.a. |

## General Government Expenditure by Function
Classification of the Functions of the Government

Table 4.c.ii

| Percentages of GDP | COFOG Code | 2021 | 2022 |
|---|---|---|---|
| 1. General public services | 1 | 6.7 | 6.0 |
| 2. Defence | 2 | 0.8 | 0.8 |
| 3. Public order and safety | 3 | 1.4 | 1.4 |
| 4. Economic affairs | 4 | 9.1 | 6.3 |
| 5. Environmental protection | 5 | 1.9 | 1.8 |
| 6. Housing and community amenities | 6 | 0.5 | 0.4 |
| 7. Health | 7 | 6.7 | 6.6 |
| 8. Recreation, culture and religion | 8 | 1.6 | 1.4 |
| 9. Education | 9 | 6.5 | 6.1 |
| 10. Social protection | 10 | 12.2 | 11.8 |
| 11. Total Expenditure (=item 2 in Table 4.a) | TE | 47.3 | 42.6 |

## Expenditure and Revenue Projections under the no-policy change scenario [1]
(General Government expenditure and revenue projections at unchanged policies broken down by main components)

Table 3 % GDP

| | ESA Code | 2021 | 2022 |
|---|---|---|---|
| **General Government (S13)** | | | |
| **1. Total revenue at unchanged policies** | TR | 36.2 | 37.4 |
| **Of which** | | | |
| **1.1. Taxes on production and imports** | D.2 | 10.8 | 12.4 |
| **1.2. Current taxes on income, wealth, etc** | D.5 | 13.2 | 13.2 |
| **1.3. Capital taxes** | D.91 | 0.1 | 0.2 |
| **1.4. Social contributions** | D.61 | 6.2 | 6.0 |
| **1.5. Property income** | D.4 | 0.6 | 0.5 |
| **1.6. Other [2]** | | 5.3 | 5.1 |
| **p.m.: Tax burden** | | 30.5 | 31.9 |
| (D.2+D.5+D.61+D.91-D.995)[3] | | | |
| **2. Total expenditure at unchanged policies** | TE | 47.3 | 42.9 |
| **Of which** | | | |
| **2.1. Compensation of employees** | D.1 | 12.6 | 12.2 |
| **2.2. Intermediate consumption** | P.2 | 9.6 | 9.4 |
| **2.3. Social payments** | D.6M | 10.3 | 10.2 |
| **of which Unemployment benefits [4]** | | 0.4 | 0.3 |
| **2.4. Interest expenditure** | D.41 | 1.1 | 1.1 |
| **2.5. Subsidies** | D.3 | 4.5 | 1.7 |
| **2.6. Gross fixed capital formation** | P.51 | 4.7 | 4.9 |
| **2.7. Capital transfers** | D.9 | 1.2 | 1.1 |
| **2.8. Other [5]** | | 3.2 | 2.2 |

[1] Data for 2018-2020 is equivalent to the data presented in Table 4.a. The no-policy change scenario for the forthcoming year (2021) onwards involves the extrapolation of revenue and expenditure trends after deducting the impact of temporary measures of the current year and before adding the impact of the measures included in the forthcoming year's budget.

[2] P.10 + D.39rec + D.7rec + D.9rec (other than D.91rec).

[3] Tax revneue, Including those collected by the EU and including an adjustment for uncollected taxes and social contributions D.995), if appropriate.

[4] Includes cash benefits (D.621 and D.624) and in kind benefits (D.632) related to unemployment benefits.

[5] D.29pay + D.4pay (other than D.41pay) + D.5pay + D.7pay + P.5M + NP + D.8.

The ratio of general Government expenditure to GDP is expected to decline by 4.7 percentage points to 42.6 per cent in 2022, largely reflecting a decline of 2.8 percentage points in the subsidies to GDP ratio as COVID-19 related measures are phased out completely by end 2021.

## 3.4 Expenditure and Revenue Targets under the No-Policy Change Assumption

In 2022, tax revenues are expected to be more buoyant than economic developments. Tax revenues are expected to grow by around 13 per cent, with an implied elasticity of tax revenue to GDP under the no-policy change scenario estimated at 1.6. As a result, on a no-policy change basis, the tax burden would increase by 1.5 percentage points to 31.9 per cent of GDP, as shown in Table 3. This development mainly reflects a higher ratio for taxes on production and imports, as the economic recovery in 2022 is expected to be tax-rich. This is primarily underpinned by the expected recovery in tourist expenditure which is expected to raise the tax base for VAT substantially in excess of GDP growth, thereby raising temporarily the implicit elasticity to GDP in 2022.

At unchanged policies, total expenditure would decline by 4.4 percentage points of GDP, mainly reflecting a lower ratio for subsidies.

## Stock Flow Adjustment Statement

| Appendix Table 7 | | | | | € million |
|---|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** | **2024** |
| **General Government balance** | **-1,267.9** | **-1,545.0** | **-850.7** | **-707.0** | **-496.0** |
| **ESA adjustments** | 201.7 | -25.1 | -113.6 | -9.1 | -4.1 |
| Contribution to Sinking Fund (Local) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Contribution to Sinking Fund (Foreign) | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 |
| Contribution to Special MGS Sinking Fund | 20.0 | 30.0 | 25.0 | 25.0 | 25.0 |
| Equity Acquisition | 37.0 | 15.0 | 5.0 | 0.5 | 0.5 |
| Courts and other deposits | -36.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Stock Premium paid to Church | 0.0 | 0.3 | 0.1 | 0.2 | 0.1 |
| Repayment of Loans to Government | -0.9 | -2.2 | -2.8 | -2.8 | -2.8 |
| Sale of Assets | -0.9 | -0.9 | -0.9 | -0.9 | -0.9 |
| Sale of Non-Financial Assets | - | - | - | - | - |
| EBUs | -5.9 | -0.5 | 0.0 | 0.0 | 0.0 |
| Currency | 1.2 | 10.0 | 5.1 | 5.7 | 6.2 |
| Movement in Bank Account | -12.5 | - | - | - | - |
| ESA Re-routed Debt | 23.5 | 12.3 | 15.0 | 5.0 | 0.0 |
| Other Statistical Discrepancies | - | - | - | - | - |
| Increase/(Decrease)in cash balance | -31.8 | 31.0 | -1.0 | -0.8 | 0.7 |
| **Increase/(Decreaese) in Non-Consolidated Debt** | **1462.5** | **1615.0** | **782.7** | **729.8** | **520.8** |
| *MGS Consolidation* | *-187.8* | *-30.1* | *28.6* | *19.2* | *35.5* |
| **Increase/(Decreaese) in Consolidated Debt** | **1274.7** | **1584.9** | **811.4** | **749.0** | **556.4** |
| **SFA** | **6.8** | **39.9** | **-39.4** | **42.0** | **60.4** |

## RRF Impact on Projections - Grants

| Table 9.a | | | | | | | | % of GDP |
|---|---|---|---|---|---|---|---|---|
| | ESA Code | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** |
| **Revenue from RRF GRANTS** | | | | | | | | |
| RRF GRANTS as included in the revenue projections | | 0.0 | 0.0 | 0.5 | 0.6 | 0.6 | 0.2 | 0.1 |
| Cash disbursements of RRF GRANTS from EU | | 0.0 | 0.3 | 0.3 | 0.4 | 0.3 | 0.3 | 0.2 |
| **Expenditure financed from RRF GRANTS** | | | | | | | | |
| Total Current Expenditure | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Capital Expenditure[1] | | 0.0 | 0.1 | 0.5 | 0.6 | 0.6 | 0.1 | 0.1 |
| *of which:* | | | | | | | | |
| Gross fixed capital formation | P.51g | 0.0 | 0.1 | 0.5 | 0.6 | 0.6 | 0.1 | 0.1 |
| Capital transfers | D.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Other costs financed by RRF GRANTS[2]** | | | | | | | | |
| Financial transactions | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *of which:* | | | | | | | | |
| Reduction in tax revenue | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other costs with impact on revenue | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

[1] Projected expenditure financed from RRF grants is incorporated on a technical basis in amounts equivalent to projected revenue as included in the revenue projections.

[2] This covers costs that are not recorded as expenditure in national accounts.

## RRF Impact on Projections - Loans

| Table 9.b | | | | | | | | % of GDP |
|---|---|---|---|---|---|---|---|---|
| | ESA Code | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** |
| **Cash flow from RRF loans projected in the programme** | | | | | | | | |
| Disbursements of RRF LOANS from EU | | - | - | - | - | - | - | - |
| Repayments of RRF LOANS to EU | | - | - | - | - | - | - | - |
| **Expenditure financed from RRF loans** | | | | | | | | |
| Total Current Expenditure | | - | - | - | - | - | - | - |
| Total Capital Expenditure | | - | - | - | - | - | - | - |
| *of which:* | | | | | | | | |
| Gross fixed capital formation | P.51g | - | - | - | - | - | - | - |
| Capital transfers | D.9 | - | - | - | - | - | - | - |
| **Other costs financed by RRF loans[1]** | | | | | | | | |
| Financial transactions | | - | - | - | - | - | - | - |
| *of which:* | | | | | | | | |
| Reduction in tax revenue | | - | - | - | - | - | - | - |
| Other costs with impact on revenue | | - | - | - | - | - | - | - |

[1] This covers costs that are not recorded as expenditure in national accounts.

Appendix Table 6.a

## Indications on how the measures in the DBP address the Recommendations

| Recommendations | List of Measures | Description of direct relevance |
|---|---|---|
| **Recommendation 1: In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.** | Supportive budgetary policy in 2022, including the impulse provided by the Recovery and Resilience Facility | With a view to sustaining the recovery, the Maltese Government is set to maintain a supportive budgetary policy in 2022, allowing for the impact of the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. The assumed economic recovery is expected to boost taxation receipts over the course of the next year and by end of 2022, tax revenue is estimated to exceed the level that was recorded prior to the pandemic. General Government expenditure is estimated to decline in 2022, as the temporary support measures are expected to be phased out, in line with Government's commitment to contain expenditure as the public health situation improves and the economy recovers. As a result, the Government deficit is projected to stand at 5.6 per cent in 2022 whilst the debt-to-GDP ratio is expected to reach 61.8 per cent. |
| | | Malta's Recovery and Resilience Plan includes an extensive set of mutually reinforcing reforms and investments that contribute to effectively addressing all or a significant subset of the relevant economic and social challenges outlined in the country-specific recommendations addressed to Malta by the Council in the European Semester in 2019 and in 2020. |
| | | • The plan includes a broad range of climate-related measures, with two components making a major and direct contribution to the green transition. Such measures include building renovations, a new ferry landing site to shift transport from road to sea, and reforms that will establish car-free spaces in urban areas and grant free access to public transport to all Maltese nationals and Maltese residents to reduce the high costs of congestion. |
| | | • The plan addresses digital-related challenges in multiple areas. Three components contribute to digital objectives, including through the digitalisation of public services and the adoption of digital technologies in companies, the health and the justice sector. |
| | | • It includes significant measures to contribute to provide students and learners with quality vocational education possibilities in the tourism sector as well as strengthen employment policy measures and support the shift towards pension sustainability. These initiatives aim to continue reduce Malta's Early School Leaving rate and to assess adequacy of unemployment benefits, whilst fostering fiscal sustainability. |
| | | • Furthermore, the RRP includes also measures targeted to strengthen the resilience of the health system through policy reforms and investments focusing on prevention measures, improving medical services and treatments and strengthening the health of the workforce. |
| | Preserve nationally-financed investment | Capital expenditure, including gross fixed capital formation and capital transfers, is expected to average 5.6 per cent of GDP between 2021 and 2024, as compared to an average of 4.4 per cent in the 10 years between 2011 and 2020. Nationally-financed investment (GFCF) is expected to register unprecedented highs of around €570 million in 2022 and 2023. This expenditure is further sustained by the Recovery and Resilience Facility, which is expected to fund additional high-quality investment projects and structural reforms, as well as projects funded from the Multiannual Financial Framework (MFF) for the period 2021-2027. |
| **Recommendation 2: When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.** | When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium-term | For next year, as economic growth is expected to recover from the exceptional impact of the pandemic, the deficit is expected to fall to 5.6%, while debt increases marginally to 61.8% of GDP. For the period beyond 2022, depending on the strength of the recovery and fiscal sustainability considerations, the Maltese Government shall consider fiscal policies that attain a prudent medium-term fiscal position. While the level of uncertainty regarding the short- and medium-term path for the economy remains significant. The targets presented already in the Medium Term Fiscal Strategy and confirmed in this Plan are consistent with a measure of control in the growth of public spending aimed at ensuring a gradual annual improvement in the structural budget balance of at least half a percentage point of GDP. In this context, cognisant of the positive bearing that fiscal consolidation and sustainable debt levels have on potential growth, the Government remains committed to gradually balance the budget over the economic cycle, when economic conditions allow. Indeed, the deficit is expected to continue to decline in the following years to 2.9% of GDP by 2024, while the debt ratio is expected to start falling in 2024 to reach 62.4% in the same year. |
| | Higher investment to boost growth potential | In recent years, Government supported a robust increase in public investment in infrastructure, which incorporates the arterial and urban roads' networks and other transportation facilities with the scope to address the infrastructural gap that emerged in the second half of the past decade. Investment in roads was also extended in residential and rural areas. The Government is committed to continue with its investment in public transportation, through an improved network, a more modern fleet and wider accessibility. To continue promoting alternative modes of transport in particular that by sea, investment in the renovation of a number of breakwaters and marine infrastructure is being planned. |

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| | | In the coming years, in order to attract digital and renewable energy investments into Malta, fiscal incentives will continue to support innovative, green and digital investments by businesses. Through schemes such as Change to Grow and Smart & Sustainable Investment, financial aid is provided to drive the transformation towards more sustainable and digitised operations.<br><br>Carbon neutrality is an integral part of Malta's economic vision. The Government will accelerate the ongoing efforts towards increasing energy-efficiency in buildings. The Low Carbon Development Strategy proposes incentives for greener buildings, through a significant increase in budgets for green planning. Various projects of urban greening will be undertaken. The consolidation and upgrading of the national waste infrastructure, the largest investment undertaken in Waste Management in Malta, will allow Malta to move to a circular economy.<br><br>Over the past decade, electricity demand has been progressively increasing in reflection of growth in the economy and the population size and is set to continue increasing. A second electricity interconnector cable between Malta and Italy will add a 200MW source of electricity. It will also deliver a more resilient electricity grid that accommodates large-scale renewable energy generation, mainly offshore. The Government will continue to pursue the hydrogen-ready pipeline project, which has now been secured as an EU Project of Common Interest. The plan will continue to provide schemes to incentivise the use of renewable energy sources in households.<br><br>The Maltese economy's dependence on tourism was highlighted during the COVID-19 pandemic. Following a significant global tourism crisis, the Maltese Government is committed to enhance investment and promotion towards 'safe tourism', in order to position Malta as a safe destination, maximising inbound tourism. |
| **Recommendation 3: Pay particular attention to the composition of public finances, both on the revenue and expenditure sides of the budget, and to the quality of budgetary measures, to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, notably supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including by** | The composition of public finances, both on the revenue and expenditure sides of the budget | In recent years, reforms have focused on shifting the tax burden away from labour, widening tax bases whilst tackling environmental concerns, further simplifying the tax system, and combatting tax evasion and avoidance. Extensive investment is being pursued for investigation purposes, along with professional training programme offered by international experts for relevant personnel. The Government's taxation strategy seeks to ensure that revenue streams from taxation are sustainable and supportive to the attainment of its fiscal, economic and welfare goals.<br><br>The continuous strengthening of the institutional capacity of Malta's fiscal framework sustained the consistent improvement in the Government's fiscal position in recent years. Comprehensive spending reviews reinforced the Maltese Government's strategy to ensure the achievement of a more efficient and effective approach to public spending, improving on the policy process while also ensuring that public spending is reflective of changing priorities and changing social needs. |
| | Budget 2022 measures for a sustainable and inclusive recovery | The 2022 Budget aims to strengthen further the distributional policies enacted in recent years with the objective of strengthening social inclusion, promote social mobility and reduce poverty while providing the conditions for the economy to recover from the impact of Covid-19 and creating employment within the framework of inclusive economic growth, whilst facilitating the twin Green and Digital transitions.<br><br>The Budget for 2022 will continue to enhance the disposable income of low and middle-income earners and incentivise people to work by extending and increasing measures which are aimed at making work pay. Such measures include the In-Work Benefit Scheme, the taper of benefits and the reduction of tax burden on workers, through tax rebates and lower tax on part-time and overtime work. Free childcare services will be extended to evenings and weekends for people working shifts to ease labour supply shortages in specific sectors.<br><br>The 2022 Budget includes a number of measures aimed at financially enhancing the pensioners' and elderly's income and also supporting the provision of informal long-term care. Most pensions, both contributory and non-contributory pension will increase in excess of the customary cost of living adjustment. The taxable ceiling on pensions was also raised. Other measures were introduced to strength the support to households that hire private help at home. |

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| **strengthening the coverage, adequacy, and sustainability of health and social protection systems for all.** | | By means of the forthcoming year's Budget, the Government will continue to support incomes through income supplements and bonuses linked to childbirth or adoption, with a specific focus on low-income households. The Government will also be increasing the stipend allowance provided to students by 10 per cent.<br><br>Several policy measures which had been put in place in previous years, intended to ensure affordable housing availability, were extended and widened in scope, while the temporary measures introduced to support the property market during the pandemic were not renewed. |
| | Sustainable and growth-enhancing investment, notably supporting the green and digital transition. | Following the launch of the Green List market in 2020, the Malta Stock Exchange continues to promote green bonds while also contributing to the discussions at national and regulatory level around **sustainable finance**. The Malta Stock Exchange also maintains a fee structure adopted in 2020 that promotes green bonds through the provision of reduced fees that were also implemented for issuers and investors.<br><br>As part of the MFSA Corporate Governance Code, the Authority will be proposing a Principle embedding both Corporate Social Responsibility ('CSR') and Environment Social Governance ('ESG') aspects. The aim of this is to encourage entity's boards to endeavour to embrace ESG and CSR principles in the entity's strategy, leading to an enhanced focus on sustainable finance activities and projects and long-term value creation for all stakeholders.<br><br>Also, the MFSA is expected to address prudential and financial stability risks associated with climate change, conduct risks in ensuring that the right information is provided to clients and ensuring that the financial sector plays an effective role in delivering sustainable finance as part of the wider economy in achieving sustainable goals. In this respect, the setup of an internal Sustainable Finance Working Group ('SFWG') over the past months has helped to address the immediate implementation needs in the Sustainable Finance regulatory approach. The Authority has recently resolved to establish a Sustainable Finance office – with the aim of supplementing the work of the SFWG, enhancing further the technical expertise in this key area, as well as implementing MFSA's strategy for the integration of sustainable finance regulation across the Authority and the industry.<br><br>In addition, the Budget for 2022 announced the launch of an initiative whereby Maltese enterprises shall be assisted in evaluating the ESG impact of investment projects whilst also providing an incentive to integrate the ESG criteria in their investment plans.<br><br>The RRP plan sets out investments that will contribute towards the **green transition**, through renovation, greening and deep retrofitting of public and privates sector buildings. It includes the construction of a near-carbon-neutral school to serve as a model for the future. The Government will also be investing in two projects related to the storage of renewable energy, whilst continuing to investing in PV panels on its buildings. Renewable energy investments in footpaths, roads and public spaces will also contribute towards the green transition. The Government is committed to reduce the national GHG emissions and to move towards a cleaner, and more sustainable mobility, with grant schemes to enhance the uptake of new electric vehicles, investments to promote alternative modes of transport and investments to decarbonise the public service fleet. A scheme to encourage the installation of PVs on vehicles will also be launched. Furthermore, all Maltese citizens will be provided with free access to scheduled road public transport services, in order to encourage collective and multi-modal transport.<br><br>In addition, Malta is aiming to promote the introduction of green infrastructure by providing a financial incentive in the form of a grant scheme with an allocated budget of €2 million. Infrastructure such as green facades, green walls and the retrofitting of front gardens in private properties, located outside Urban Conservation Areas or villa/bungalow sites within Residential Priority Areas, will be eligible. There are also plans to extend such scheme to cover restoration, maintenance and reuse of heritage buildings within all Urban Conservation Areas (UCA) in Malta and Gozo. Other schemes, which include financial assistance, for a number of proposals include physical interventions on public spaces and properties in urban areas which are intended to support activities which benefit the wider communities. The main beneficiaries of these schemes are Local Councils and non-governmental organisations. Apart from the development of various green areas, in the Budget 2022 a number of schemes and initiatives were also launched in order to encourages businesses to invest in sustainable projects and include environmental, social and governance (ESG) criteria in their investment decisions. |

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| | | As part of the green transition and to meet the forecasted increase in the island's electricity demand because of economic growth and the electrification of road transport, a second electrical interconnection between Malta and Sicily is planned, so as to increase the electricity interconnectivity with the European electricity network. Moreover, Malta shall conduct further studies on the Melita TransGas Pipeline (MTGP) Project of Common Interest (PCI 5.19) during the period November 2021-December 2022 so as to redesign the pipeline infrastructure in order to also allow hydrogen transportation.<br><br>Schemes to address the efficient production and use of energy, aiming at reducing the commercial use of fossil-fuel-based energy, continued to be available to enterprises. The 'Promotion of Energy Audits in Small and Medium Enterprises' encourages SMEs to carry out an energy audit in order to identify actions within the enterprise's operation that can lead to energy improvement. Malta Enterprise supports undertakings in carrying out investments leading to improved energy efficiency through various schemes such as the 'Investment Aid for Energy Efficiency Projects' and the 'Leading sport organisations to higher energy efficiency' scheme.<br><br>Currently in terms of measures related to renewables there are five PV schemes in place to promote the use of renewable energy through enhanced grants. The schemes now support the use of battery storage systems, which will ensure that the energy generated through the PV panels during the day, can be stored in a battery and used later when needed. The PV schemes are complemented by the feed-in tariffs scheme, which further encourages the use of renewable energy. During 2020, a PV scheme for Voluntary Organisations funded through national funds was also launched to encourage the use of renewable energy equipment on their premises. Additionally, the Government is also providing support schemes for medium and large-scale renewable energy installations through a competitive process, whereby investors are invited to bid for support. Allocation of capacity is based on the bid price. During 2021, a new investment opportunity has been launched for prospective bidders, with bids are currently being received.<br><br>Other schemes encouraging the reduction of consumption of energy include the Roof Insulation and Double-Glazing scheme, the schemes related to solar water heaters and heat pumps and the Domestic Cistern Restoration Scheme, which encourages the harvesting and use of rainwater in the domestic sector by covering costs related to the repairs of cisterns and installation of second-class water systems. The Government has also renewed the scheme for the purchase or upgrading of one's reverse osmosis.<br><br>The Government's effort to greening of the tourism industry through awards and through the operation of the Eco-certification scheme. Government is also embarking on a 'Toward Net-Zero Tourism Accommodation' project, which will result in the development of a long-term plan aimed at the decarbonisation of the tourism sector. It aims to inject and leverage substantial investment in the tourism accommodation sector to move to net zero operations while developing new technological infrastructure for the Government to obtain data on the consumption in this sector.<br><br>An initiative implemented by the Market Surveillance Directorate (MSD) within the Malta Competition and Consumer Affairs Authority (MCCAA) includes the participation in an EU funded surveillance project to address Eco Labelling and Eco Design, which supports the improved energy efficiency of household and professional refrigeration. Through cooperation with other EU Member States, the project has generated significant benefits for both the environment and the consumers. Joint actions taken as part of this project resulted in the estimated saving of primary energy loss of 80 GWh per year for the period 2020-2030, which translates into substantial energy-related cost savings.<br><br>The National Waste Management Plan (WMP) 2021-2030, which is due to be adopted shortly, comprises of Malta's policy measures to move towards meeting its 2030 obligations when it comes to recycling and diversion of waste from landfills, as well as supporting the transition to a more circular and resource-efficient economy. The Waste to Energy incinerator plant, together with the other investments forming part of the EcoHive initiative, will ensure a better management of waste in Malta. In collaboration with local councils, the Government will also be providing smart bins for businesses to encourage further recycling. |

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| | | The Government has also launched the “Reuse Centres” and will soon be launching the “Repair Centre”, with the aim to further lengthen the lifetime of products. The Strategy on Single-Use Plastics (SUP) which aims to ensure the protection of the environment and human health from plastic pollution, by reducing the consumption of single-use plastic products and increasing the quality and quantities of single-use plastic waste collected for recycling, is being finalised following a public consultation exercise.<br><br>Conscious that the **digitalisation** of the economy is instrumental to enhance potential growth, the Maltese Government plans to facilitate further digitalisation of services in public administration, as well as supporting business to invest in digitalisation. These include investment grants to intensify the digitalisation of the private sector. The plan also envisages to strengthen the resiliency, security and efficiency of the Government digital infrastructure, enabling the Government to provide proactive action, secure services and streamlined operations to citizens and the business sector. The Government has also announced investments in the digitalization of the Merchant Shipping Directorate within Transport Malta, thus providing a more efficient regulatory service to operators in this important economic activity. Further digitalization and modernisation of the public administration is planned, including public and intra-facing services.<br><br>The continuation of the digitalisation of the law courts, intended to improve the efficiency and efficacy of the Maltese justice system will also be financed through the RRP. The development of the first Digital Justice Strategy for Malta will act as a blueprint for the digital initiatives to be undertaken in the Maltese justice sector and further promote the synergy of the initiatives across all the relevant sectors.<br><br>The Malta Diġitali Strategy has been drafted following numerous inter-Ministerial consultations. The Strategy is in the final phase is expected to be launched by end of 2021.<br><br>Various digitalisation initiatives have been undertaken in the recent years. These include the digitising of the FIAU’s core communication tools, digitalisation of the Skills register, as well as the automation of data collection processes and data quality at the National Statistics office. The Agricultural Research and Innovation Hub (AGRIHUB) was also launch and will be supporting innovative agriculture applicative research and implement pilot projects using the latest technology to provide support to farmers to help with their decision. Furthermore, as part of the Pitkalija central vegetable market reform, a new IT system is being implemented which will lead to reduced food wastage by processing food along with helping people in need with food which is not sold during market days.<br><br>Work is underway on the development of the National **R&I** Strategic Plan post-2020 and the preparation of the Smart Specialisation Strategy (RIS3) 2021-2027.<br><br>With regard to Horizon 2020, by September 2021, 250 Maltese entities participated/or were participating in a total of 186 projects and received €36,715,580 million in EU net funding with participants ranging from higher education, public and private as well as non-profit research organisations. Other investment projects to improve R&I in Malta have also been implemented by the MCST.<br><br>Moreover, the Internationalisation and Partnership Award Scheme (IPAS+) is a scheme dedicated to forming international collaborations, with 87 projects having been awarded. Further to the above and in response to the COVID-19 pandemic, the COVID-19 R&D fund was issued in 2020 to fund projects that could provide innovative solutions to the pandemic. This was a combined effort between the MCST and Malta Enterprise. 36 applications were received, with 4 being awarded, totalling €3.54 million in grant funding.<br><br>MCST runs annual bilateral and multilateral international funding programmes that support the internationalisation of R&I. The PRIMA programme (Partnership for Research and Innovation in the Mediterranean Area), supports transnational R&I projects in the fields of agriculture, food and water management. Furthermore, a new joint initiative, the MCST-TÜBITAK Joint Call for R&I Proposals, was launched in Q1 2021 to fund R&I projects that are jointly undertaken by Maltese and Turkish entities. MCST put |

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| | | forward a call budget of €200,000 to support 2 bilateral projects that shall provide innovative solutions for water management and the agriculture and food sectors. Call outcomes shall be made available in Q4 2021.<br><br>Furthermore, SINO-MALTA Fund, which is a collaboration between MCST and the Ministry of Science and Technology of the People's Republic of China (MOST) aims to support bilateral R&I in several thematic areas including aquaculture, transport, digital technologies as well as innovations in health and green transitions. For 2021, MCST launched its annual call in Q2 2021, with a national budget of €600,000. The outcomes of the call shall be made available by end 2021.<br><br>MCST is also engaged in the preparatory processes for the eventual participation in three of the proposed European Partnerships under Horizon Europe (2021-2027). European Partnerships will bring together private and public partners together with the European Commission, to address some of Europe's most pressing challenges through research and innovation. Participation is being foreseen in the Clean Energy Transition Partnership, the Sustainable Blue Economy Partnership and the Transforming Health and Care Systems Partnership with an available national budget of €10.5 million over the lifetime of these Partnerships.<br><br>Malta is also recognising the enabling role of Research and Innovation (R&I) in providing much-needed innovative and green policies, services and products, thus pushing forward the green transition in the sectors of energy and water which face country-specific challenges, exacerbated by population growth and climate change. For this reason, a National Strategy for R&I in Energy and Water (2021-2030) was developed by the Energy and Water Agency, under the Ministry for Energy, Enterprise and Sustainable Development, to provide a support framework with the aim of financing R&I projects that are tailored to local specificities and national priorities. In this regard, at the start of 2021, five projects led by local researchers and industries were awarded a research grant following a competitive Call for Proposals in 2020. The second call for projects under the Support Scheme for R&I Projects in the field of energy was launched in March 2021 and applications are under review. The Go to Market programme, aiming at addressing advanced technology will also be launched. Through the Horizon Support Measures scheme, the Government will also encourage the further uptake of this fund by local entities and researchers.<br><br>Following the launch of the National AI Strategy, which received huge interest both locally and internationally, the Malta Digital Innovation Authority (MDIA) published for consultation the AI Innovative Technology Arrangements (ITA) Guidelines, the AI System Auditor Control Objectives, the AI ITA Nomenclature and the AI ITA Blueprint Guidelines. The six pilot projects established in Malta's National AI Strategy have been initiated with the respective entities, of which the majority are in an ongoing stage. Through Artificial Intelligence, these pilot projects aim to enhance various sections at different levels within the public sector in Malta. |
| | Strengthening the coverage, adequacy, and sustainability of health and social protection systems | A sharp rise in **health** expenditure was inevitable during 2020 due to the COVID-19 pandemic. The initial policy response sought to lower the number of infections, to avoid an overloading of the acute healthcare system and to limit the number of casualty admissions. In addition, further healthcare funding was necessary to address hospital capacity, procure medical equipment and protective clothing. As the impact of the COVID-19 pandemic is gradually becoming more manageable, fiscal sustainability challenges in the national health system persist.<br><br>The health system remains increasingly challenged by an ageing population, a fast-growing expat population, rising cost of medicines, as well as increasingly innovative and expensive new drugs. Access to expensive medicines is particularly limited for Malta, where the relatively small quantities required put Malta at a disadvantage when it comes to price negotiations. This, as well as reducing the price inequality, is high on the agenda of the Valletta Technical Committee.<br><br>The Government Formulary List has been extended to include medicines for cancer, osteoporosis, fibromyalgia, circulatory conditions, inflammatory conditions, rare diseases, IVF patients and certain rare and extreme allergies. |

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| | | An integral part of the Government's plans to address a sustainable healthcare system is the investment in primary care, both in terms of the health workforce (especially in tertiary healthcare level), with a focus on specialised clinics, and also new infrastructure. The HR Directorate within the Ministry for Health is working with the World Health Organisation to draw up a Health Workforce plan, which will guide capacity building over the coming years. The recruitment of specialists in primary care has been ongoing, in line with Government's plan to shift from outpatients to primary care. The healthcare workforce in primary care has played, and continues to play, an instrumental role in the management of the COVID-19 pandemic – both in terms of care and follow-up of COVID-19 patients, as well as in the vaccination campaign.<br><br>The COVID pandemic has created unprecedented challenges for the national health system. Whilst the COVID-related costs incurred by the health system have been extensive, investing in widespread availability of testing and in public health services, has helped Malta avoid a situation wherein the hospital would not have coped with the surge in severe cases requiring care.<br><br>As part of its pandemic management strategy, Malta prioritised the continuity of its preventive, elective and emergency health services. In fact, the suspension of elective healthcare services was limited to a period of around 6 weeks in 2020.<br><br>COVID-19 will be leaving long lasting effects on patients suffering from chronic diseases and on mental health. Despite the pandemic management strategy described above, chronic disease sufferers may have missed preventive appointments at outpatient or primary care due to fear of infection, thereby increasing the risk of more expensive complications. A similar phenomenon is being observed in the case of mental health.<br><br>The network infrastructure at MDH, is currently being updated in order to keep abreast with the ever-increasing ICT requirements. Furthermore, ICT systems will be enhanced further, through the refurbishment of the e-Health infrastructure allowing quicker access and response to systems, via mobile devices. Upgrading the network infrastructure, ensures that the access and input of data at point of care is effective in real time, facilitating digital systems use in health information systems viewable and accessible to citizens on Myhealth system.<br><br>In the coming year the Ministry for Health will be investing in the full deployment and utilisation of the National Electronic Health Record and the Electronic Patient Record, in order to create a patient-centric ecosystem where data may be collated, correlated, and analysed in a central repository. A more efficient network infrastructure is likely to facilitate this further.<br><br>This will facilitate predictive and preventive reporting mechanisms, through the use of AI and BI solutions, in the medium- to long-term.<br><br>In keeping with an IT-assisted health care delivery, for the first time within the national health care system, the Primary HealthCare introduced a nationwide Telemedicine 24/7 Client Support Service. Telemedicine services utilises IT as a social enabler, to provide timely health care. The ongoing COVID-19 pandemic has highlighted the usefulness of telemedicine services in providing a means to connect patients to their health professionals, especially in cases when a consultation in person is not advisable or simply not possible.<br><br>The remote patient monitoring programme for Type 1 diabetics will also be extended, to cover all those aged between 17 and 21.<br><br>Recognising the importance of such a service, the Primary HealthCare was proactive in introducing a telemedicine service right at the beginning of the pandemic. The multidisciplinary Team at this Centre gives medical advice to patients; provide reassurance for patient symptomatology; attend clients on quarantine protocols; guide patients to access all services currently available in our community; and vet domiciliary visits by liaising with the Health Centre doctors. From inception till date, the Telemedicine Client Support 24/7 Centre received around 790,000 calls from clients and patients requiring the various services in offer. |

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| | | Over recent years, the Government has introduced numerous measures intended to lengthen the duration of working lives. The **pension** age has been gradually increased and will reach 65 years by 2027 while the contributory period has also been lengthened from 30 years to 41 years. In addition, the Government has also introduced stricter rules on the access to the ‘early exit’ option by capping the number of credited contributions for persons born on or after 1969. Individuals beyond the retirement age who choose to continue working can do so without forfeiting their pension while in employment. Incentives to defer early retirement and lengthen working careers were also implemented, whereby persons who are eligible for retirement at the age of 61 years, are awarded a financial incentive for each additional year that they choose to continue working up to the age of 65 years. This incentive mechanism was initially intended for private sector employees but has now been extended also to those in the public sector. Preliminary analysis using administrative data has already shown that this measure has been effective in encouraging deferred retirement.<br><br>New tax parameters were introduced for pensioners over the age of 61 years where any income from pension up to the maximum rate of contributory pension is not taxable. New rebates were also introduced for pensioners over the age of 61 years where income is derived from more than one pension, which is over the maximum rate of the contributory pension. There was also an increase in contributory and non-contributory pensions which is over and above the yearly cost of living adjustment increase.<br><br>Labour market statistics clearly show the impact of these reforms. Indeed, the duration of working life in Malta has increased by 6.6 years during the period 2010 to 2020 confirming the largest increase in the EU. As a result, in 2020 the duration of working life in Malta exceeded the EU average by 1.2 years. In addition, the employment rate of older workers (55-64 years) has improved, increasing by around 21 percentage points during the period 2010 to 2020, the third highest increase in Europe. These developments must also be contextualised in the reality that spending on pensions in Malta remains below the EU average.<br><br>In addition, as outlined in the RRP, Government intends to publish an Action Plan outlining proposals, including legislative changes where relevant, as a follow-up to the Report of the Pensions Strategy Group and the post-consultation feedback.<br><br>The Government’s policy efforts have also focused on **diversifying retirement income** and reducing the sole dependency on state pensions.<br><br>Over the past four years, tax incentives were introduced for individuals who invest in the Third Pillar Pension Scheme and for employers who offer their employees a Voluntary Occupational pension scheme. In the 2020 and 2021 Budgets, the tax benefits for the Third Pillar Pension Scheme were strengthened. As a result, there are now several providers offering personal pension plans.<br><br>These tax credits were also made available for employers implementing a voluntary occupational pensions scheme. In 2020, the tax credit was increased from 15 per cent (up to a maximum of €150) to 25 per cent (up to a maximum of €500). In 2021, the maximum threshold was increased further to €750. By the end of 2020, a total of 9,387 taxpayers were enrolled in a personal retirement scheme and during 2020, there were 1,045 employees whose contribution to a Voluntary Occupational Pension Scheme (VOPS) was paid for by their employer whilst 1,045 employees contributed to a VOPS.<br><br>In 2019, the Government launched the Home Equity Release which is a voluntary scheme that allows home-owner pensioners to raise their annual financial income and improve their standard of living by accessing the equity tied to their home. This will serve as a financial supplement together with the pension they receive, by allowing pensioners to convert a part of their residential value into a stream of income. The Malta Financial Services Authority (MFSA) is currently in the process of evaluating proposed Home Equity Release products.<br><br>The Malta Stock Exchange (MSE) Institute, a subsidiary of the Malta Stock Exchange, continued its fourth year of operations of offering short courses to financial services practitioners, stakeholders and the retail market. The Institute is licenced by the Malta Further and Higher Education Authority (MFHEA) and runs over sixty affordable courses on various aspects of financial services. |

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| | | In 2020, over 1,120 persons attended the 80 courses held, and in 2021, as at end of September, 765 persons attended the 52 courses held. All courses were offered online and will continue to do so for the foreseeable future. From 2022, the institute plans to run courses in a classroom environment as well as retaining the current online option which has proved to be popular. The Institute is also the lead coordinator and partner in two Erasmus Plus projects – 'I Don't Know' is aimed at increasing financial literacy and 'Transition' is aimed at developing training tools for entrepreneurs in the use of blockchain technology.<br><br>In addition, as announced in the RRP, Government shall publish a study assessing unemployment benefits in Malta. The study shall assess the situation and make concrete and detailed recommendations to the Government on how to improve effective coverage and achieve better adequacy of benefits, both in terms of duration and effective access, whilst enhancing the incentive to work. |

## Extra Budgetary Units as at 31 December 2020

Appendix Table 6.b

| | NACE CODE | | NACE CODE |
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| Arts Council Malta | 90 | Malta Government Technology Investments Ltd | 84 |
| Agency for Infrastructure Malta | 84 | Malta Individual and Investor Programme Agency | 84 |
| Bord tal-Koperattivi | 84 | Malta Information Technology Agency | 63 |
| Broadcasting Authority | 84 | Malta Investment Management Co. Ltd | 84 |
| Business First Ltd | 84 | Malta Philharmonic Orchestra | 90 |
| Commonwealth Trade Finance Facility Ltd | 64 | Malta Residency and Visa Programme Agency | 84 |
| Court Services Agency | 84 | Malta Resources Authority | 84 |
| Correctional Services Agency | 84 | Malta Statistics Authority | 84 |
| Depositor Compensation Scheme | 64 | Malta Tourism Authority | 84 |
| Environment and Resources Authority | 84 | Manoel Theatre Management Committee | 90 |
| Environment Protection Fund | 84 | Medicines Authority | 84 |
| Film Finance Malta Ltd | 84 | Mental Health Services | 87 |
| Fort Secuirty Services Ltd | 84 | MSE (Holdings) Ltd | 64 |
| Foundation for Educational Services | 84 | National Audit Office | 84 |
| Foundation for Medical Services | 84 | National Commission Persons with Disability | 84 |
| Foundation for Social Welfare Services | 88 | National Development and Social Fund | 84 |
| Foundation for Tomorrow's Schools | 84 | Occupational Health and Safety Authority | 84 |
| Gozo Channel (Holdings) Co. Ltd | 77 | Office of the Ombudsman | 84 |
| Grand Harbour Regeneration Corporation | 71 | Planning Authority | 84 |
| Heritage Malta | 91 | Projects Malta Ltd | 84 |
| House Maintenance and Embellishment Co. Ltd | 41 | Projects Plus Ltd | 84 |
| Housing Authority | 84 | Property Management Services | 84 |
| Identity Malta | 84 | Protection and Compensation Fund | 64 |
| Infrastructure Malta | 71 | Regulator for Energy and Water Services | 84 |
| International Institute on Ageing | 85 | Resources Support and Services Ltd | 78 |
| Investor Compensation Scheme | 64 | Safe City Malta Ltd | 84 |
| Jobsplus | 78 | Sapport | 88 |
| Lands Authority | 84 | Selmun Palace Hotel | 84 |
| Libyan Arab Maltese Holdings Ltd | 64 | SportMalta | 93 |
| Malta College of Arts, Science and Technology | 85 | St James Cavalier Creativity Centre | 90 |
| Malta Communications Authority | 84 | Superintendence of Cultural Heritage | 84 |
| Malta Competition and Consumer Affairs Authority | 84 | The Rehabilitation Hospital Karin Grech | 86 |
| Malta Council for Economic and Social Development | 84 | Trade Malta Ltd | 73 |
| Malta Council for Science and Technology | 84 | University of Malta | 85 |
| Malta Enterprise Corporation | 84 | Valletta Cultural Agency | 91 |
| Malta Gaming Authority | 84 | WasteServ Malta Ltd | 38 |
| Malta Government Investments Ltd | 84 | Yachting Malta Ltd | 73 |

Notes:

1. This list does not include entities which are already accounted for within the Departmental Accounting System (DAS) of Central Government.
2. General Classification of economic activities within the European communities. Industries are grouped into 64 categories (A64) based on NACE Rev 2.

# 4. Distributional Implications of Budget Measures

# 4. Distributional Implications of Budget Measures

It is not inevitable that economic growth will result in the sustained improvement in the well-being for all members of society. It is the willingness of Government to establish policy initiatives that ensure an equitable and inclusive society. One of the key priorities in the Government's agenda is to address social imbalances, enhance social justice and make society more inclusive. In seeking to achieve these policy objectives, the Government continues to calibrate the tax and benefit policy framework to ensure that the generated economic prosperity is distributed fairly across individuals and social groups. Over the years, the Government has implemented a series of measures including the reduction in direct taxes, the in-work benefit scheme, the provision of free childcare and the tapering of benefits that were directed to incentivise more individuals to join the labour market while discouraging the unnecessary dependence on social benefits.

With the aim to strengthening household incomes and achieve a more equitable income distribution, the Government has increased pensions and provided tax incentives that benefit those on low incomes, while also introducing measures that would allow for older persons to remain active in the labour market and defer retirement. The Government also increased the allowance and widened the eligibility criteria of the carers benefits and introduced a new grant for parents that leave employment to take care of a disabled child. In addition, it has increased benefits for those with disability while increasing their opportunity to enter the labour market. Finally, the Government also provided increases in the rates for supplementary assistance, extended housing benefit and increased children allowance.

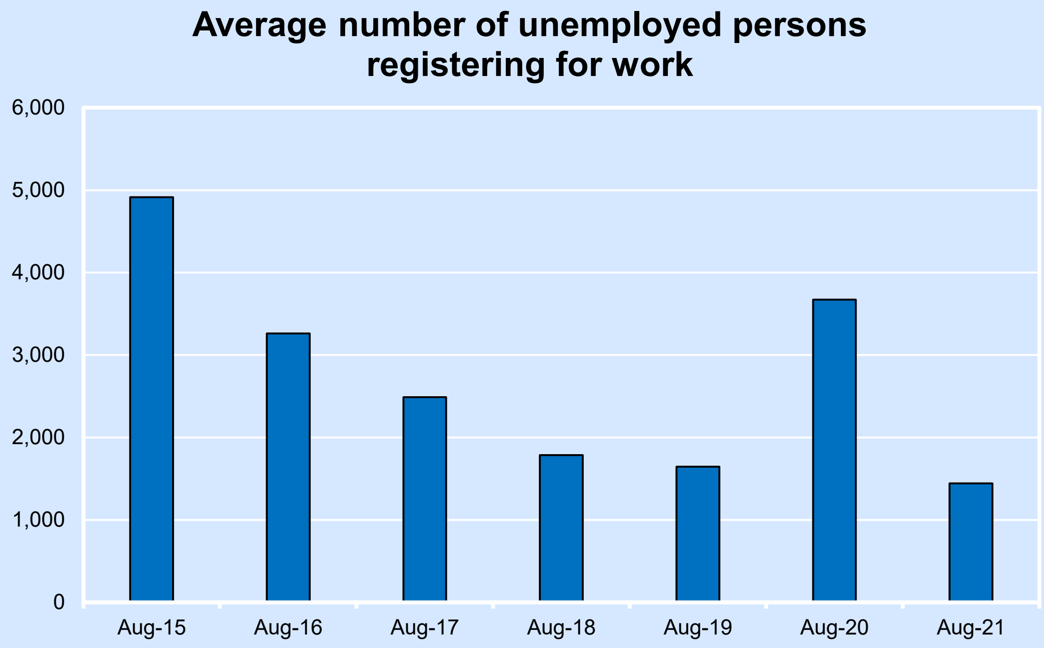
The COVID-19 pandemic created a series of challenges that disrupted both the economy and society at large; amongst others in employment, schooling and health. In this regard, the Government in the 2021 Budget focused on implementing and extending the social and economic support measures targeted to households and businesses, with the aim of sustaining economic capabilities, safeguarding jobs and easing liquidity pressures on businesses. The Budget for 2022 will seek to sustain the recovery from the pandemic whereby, through the Recovery and Resilience Facility, the Government will fund additional high-quality investment projects and structural reforms.

## 4.1 Government Initiatives in the Employment Field

One of the objectives of several policy reforms in recent years has been to strengthen the labour force and to encourage vulnerable groups in society to participate in the labour market. The policy framework has provided incentives that encourage older workers to remain in the labour force, as well as policies to help workers strike a better balance between work and family life. As a result, higher employment rates were observed with notable increases in the participation of females, older workers and persons with disability. Nevertheless, the economic growth experienced in the past few years and the COVID-19 pandemic brought to the fore labour market challenges such as skills and labour shortages. In this regard, the Government in October 2021 launched the National Employment Policy targeting these challenges to move towards a more resilient and sustainable labour market.

In response to the COVID-19 pandemic, the Government launched several rounds of assistance measures to protect employment with the principal measure being the wage supplement scheme. Such assistance measures, alongside the resilience of the Maltese labour market itself, ensured that high levels of employment were preserved. As a result, Malta has managed to maintain an unemployment rate which is one of the lowest among its European peers. In July 2021, Malta's unemployment rate stood

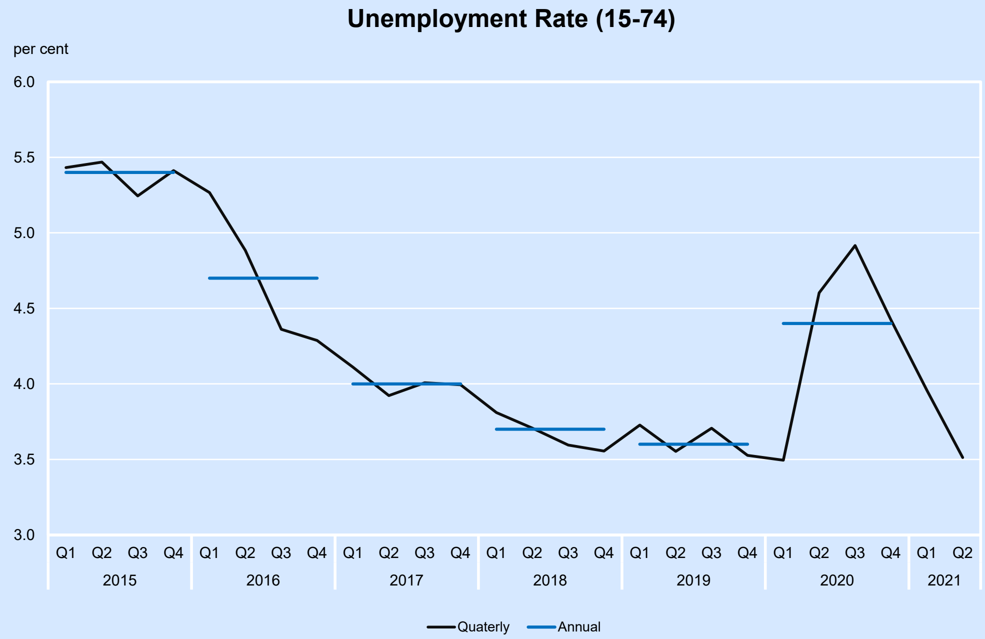
Chart 4.1




*Source: National Statistics Office based on Jobsplus database*

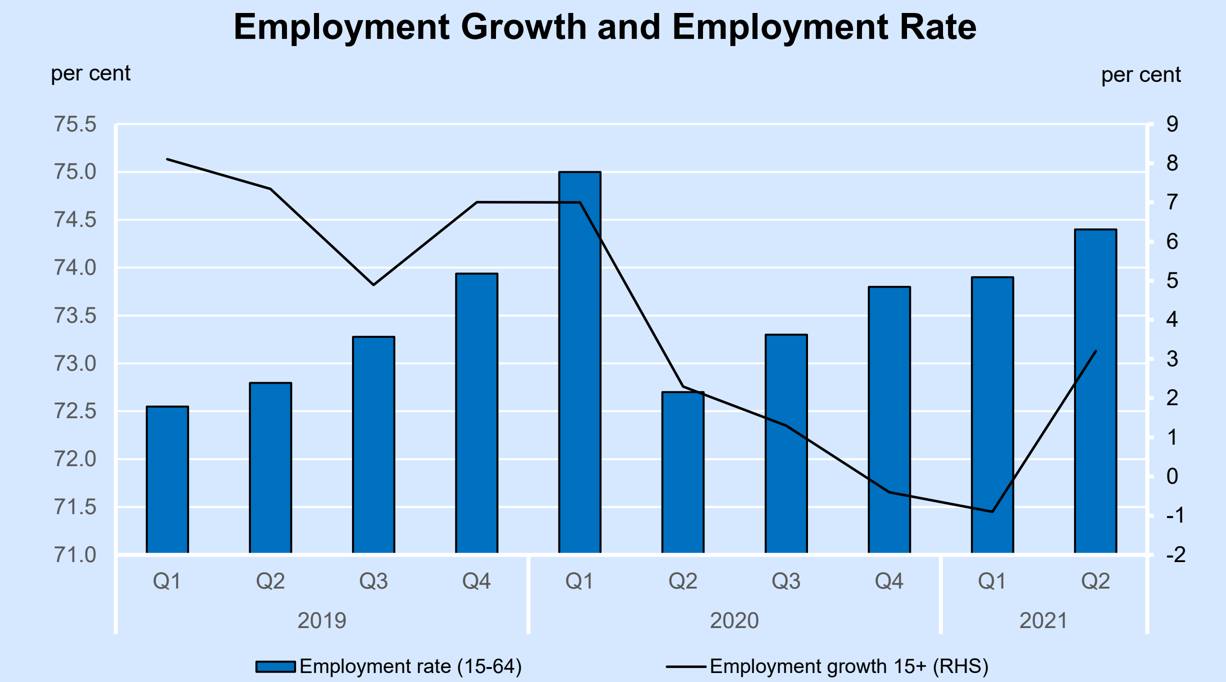
at 3.3 per cent, well below the European Union (EU) average of 6.8 per cent. Data provided by Jobsplus for August 2021 continues to show that the number of persons registering for work is decreasing, recording a decline of 2,230 persons when compared to the corresponding month in 2020. Registered unemployment levels decreased for all age groups for both males and females. Although in 2020 there was an increase in

Chart 4.2




*Source: National Statistics Office*

Chart 4.3



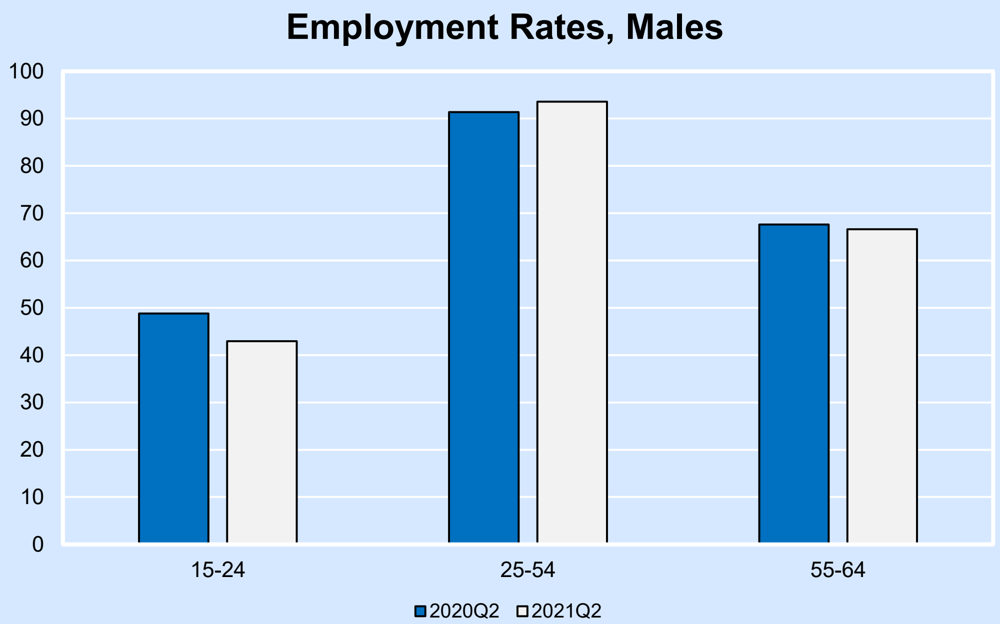

*Source: National Statistics Office*

the registered unemployment due to the COVID-19 pandemic, the number of persons registering for work has declined by 3,472 since 2015. The effect on unemployment is further corroborated with data from the Labour Force Survey, which shows a downward trend in the unemployment rates since 2015, excluding the increase in 2020 due to the COVID-19 pandemic.

According to the Labour Force Survey, during the second quarter of 2021, despite of the COVID-19 pandemic and restrictions imposed by the Government to combat the spreading of the virus, the number of employed persons increased by 8,317 individuals over the same period in 2020, reaching a total of 266,553 persons in employment. The number of employed persons aged between 15 and 64 increased by 1.8 percentage points relative to the same period in the previous year, standing at 74.4 per cent. The highest employment rates were recorded for people aged 25-54 whereby out of every 100 individuals, around 85 individuals were in employment, an improvement of 1.7 percentage points when compared to the previous year. On the other hand, the employment rate for persons in the age group of 15-24 declined. Although the employment rate for males in this age group declined by 5.8 percentage points, the employment rate for females in the age group 15-24 continued to improve, increasing by 3.7 percentage points from 2020. Similarly, a decrease of 1.0 percentage point in the employment rate was observed for males in the 55-64 age group while that of females improved by 4.5 percentage points, reaching to 41.8 per cent.

Over the years, budget measures have continued to improve the financial situation for low-income earners while contributing to an increase in the labour supply. Reforms in the social security system, aimed at making work pay, have encouraged increases in the participation rates for both males and females. Between 2015 and 2020, persons applying for social assistance decreased by 2,374 reaching a total of 4,598 in 2020. Single parents on social assistance are also decreasing year in year out, declining by 1,390

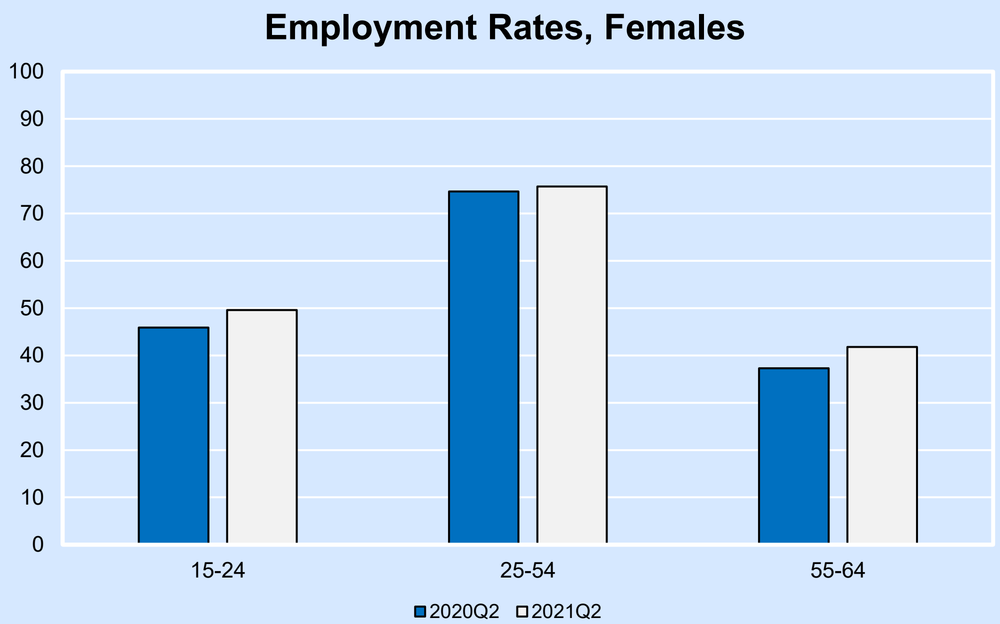
Chart 4.4




*Source: National Statistics Office*

persons in 2020 when compared to figures in 2015. Furthermore, measures that reduced households' expenses and enhanced employment income including the reduction in utility tariffs, the provision of free childcare, free school transport, the breakfast club, the maternity leave fund, the reductions in the income tax rates, the increase in the

Chart 4.5




*Source: National Statistics Office*

tax rebate for employees, the widening of the non-taxable income tax bracket and the extension of the in-work benefit have continued to make employment more attractive.

Furthermore, during 2021, employees continued to benefit from the April 2017 National Agreement between the trade unions and employers on the Minimum Wage. As stipulated in the agreement, employees are benefitting from increases in their minimum wage upon completion of the first year of employment with the same employer. Employees are entitled to mandatory increases of €3.00 per week during the second year of employment, and an additional €3.00 per week in the third year of employment.

## 4.2 Indicators measuring Poverty, Social Exclusion and Inequality

The indicators described in the following section are derived from the European Union Statistics on Income and Living Conditions (EU-SILC) survey. The EU-SILC aims at collecting timely and comparable cross-sectional and longitudinal multidimensional microdata on income, poverty, social exclusion and living conditions of households. The non-income components reported in the EU- SILC such as material deprivation and work intensity are based on the reporting year (t) while the income statistics refer to the previous year (t-1). Thus, the indicators of the at-risk-of-poverty (AROP) rate and income distribution, Gini-coefficient and S80/S20 indicators, for 2020 do not include the impact of the pandemic as they are based on income reference year 2019.

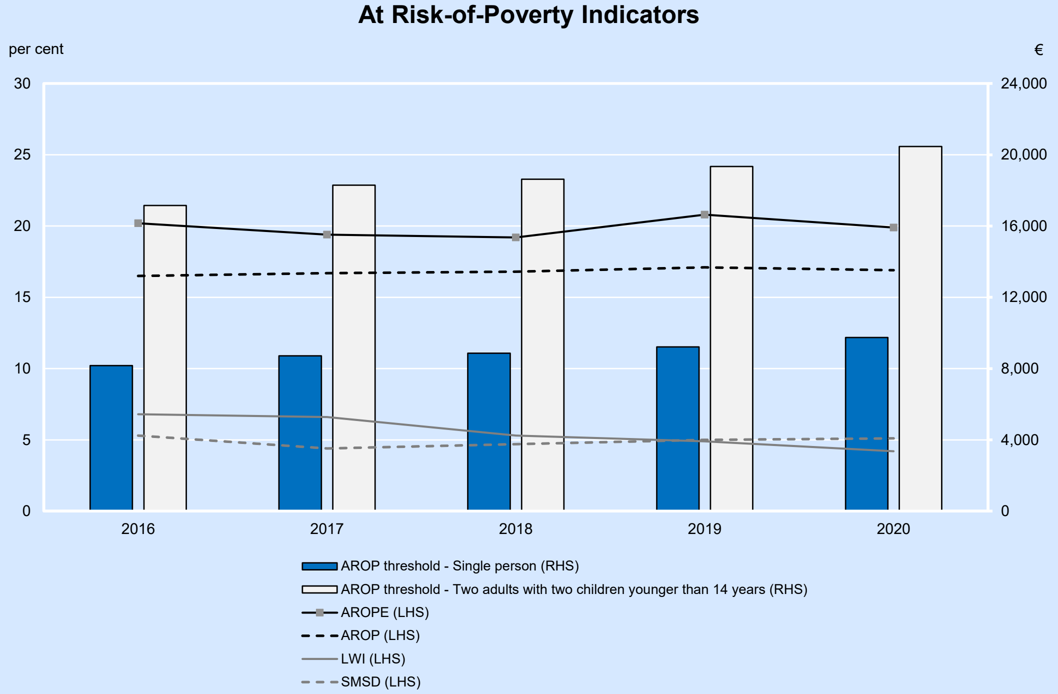
The main indicator to monitor the EU 2030 target on poverty and social exclusion, is the at-risk-of-poverty-or-social-exclusion (AROPE[1]) rate, which captures the share of the total population which is at risk of poverty or severely and socially materially deprived or living in households with very low work intensity. As illustrated in Chart 4.6, the indicator for Malta stood at 19.9 per cent in 2020, which is 0.9 percentage points lower when compared to 2019 and 0.3 percentage points lower than the rate recorded for 2016. According to the latest data available, in 2019, Malta's AROPE was 0.3 percentage points lower than the rate recorded at EU level.

The AROP rate before social transfers for Malta stood at 35.1 per cent in 2020. In the EU, the rate was 43.0 per cent in 2019, which was 6.2 percentage points higher when compared to Malta's corresponding rate for the same year. After the inclusion of social transfers, the AROP rate for Malta, which is one of the components of the AROPE, dropped by 18.2 percentage points to a rate of 16.9 per cent in 2020. A similar though weightier drop was also noted at the EU level, with a drop of 26.5 percentage points in 2019.

The AROP after the inclusion of social transfer for Malta has been, on average, fluctuating over the same rate in past few years, increasing from 16.5 per cent in 2016 to 17.1 per cent in 2019 and decreasing to 16.9 per cent in 2020. Nevertheless, it should be noted that the AROP thresholds, also known as the poverty line, for both single person households and households comprising two adults with two children younger than 14 years, increased by 19.3 per cent over the five-year period under review, reflecting the increase in the average equivalised income[2]. This may exacerbate the AROP rate as the increase in the poverty line alone captures more households below the threshold.

Chart 4.6 also illustrates the pattern of the two other components of the AROPE, including: severe material and social deprivation (SMSD) and low work intensity (LWI). In 2020, SMSD rate among persons living in households was equal to 5.1 per cent, 0.2 percentage points lower than the rate recorded in 2016. Additionally, when compared to the EU average based on 2019 data, the rate for Malta is 1.6 percentage points lower.

Chart 4.6




*Source: Eurostat*

With regards to the share of persons residing in a household with LWI, this declined from 6.8 per cent in 2016 to 4.2 per cent in 2020. Compared to data as at 2019, the share of persons residing in a household with LWI is 3.2 percentage points lower than the rate recorded at EU level.

The income quintile share ratio (S80/S20) has increased in the past year, from a rate of 4.2 in 2019 to 4.7 in 2020. This indicate,s that for 2020, the income of the wealthiest 20 per cent of the population is on average 4.7 times higher than the income of the bottom quintile. The gap decreases to 3.5 times for persons aged 65 and over.

For the period 2019 to 2020, the Gini-coefficient after social transfers, increased from a ratio of 28.0 in 2019 to 29.9 in 2020. However, as indicated in Table 4.1, both the S80/S20 ratio and the Gini-coefficient are higher at EU level which confirms that in relative terms, income inequality is less pronounced in Malta. The gap between the values of EU27 and Malta, have also slightly increased during 2019, suggesting a further relative improvement for Malta. This suggests that in spite of increases in market income brought about by the rapid rate of economic growth, the Maltese Government was successful in sustaining improvements in distributional outcomes.

## 4.3 Measures targeting inclusive growth in 2022 Budget

The aims of the Budget for 2022 are threefold. First, there is the objective to strengthen further the distributional policies enacted in recent years with the objective of creating greater social inclusion, promote social mobility and reduce poverty. Secondly, the Budget also seeks to provide the conditions for the economy to recover from the impact of the COVID-19 pandemic and creating employment within the framework of inclusive

## Income Distribution

Table 4.1

| | EU27 | Malta | |
|---|---|---|---|
| | 2019 | 2019 | 2020 |
| S80/S20 ratio | 5.0 | 4.2 | 4.7 |
| *Less than 65 years* | 5.2 | 4.3 | 4.8 |
| *65 years or over* | 4.2 | 3.1 | 3.5 |
| Gini-coefficient | 30.2 | 28.0 | 29.9 |

*Source: Eurostat*

economic growth. Thirdly, the Budget is also facilitating the Green Economy and Digital transitions.

### Making Work Pay

The Government will continue to support measures which enhance the disposable income of low and middle-income earners and incentivises people to work by extending and increasing measures which are aimed at making work pay. Such measures include the in-work benefit scheme, the tapering of benefits and the reduction of tax burden on workers, through tax rebates and lower tax on part-time and overtime work. Free childcare services will be extended to evenings and weekends for people working shifts to ease labour supply shortages in specific sectors. The Government will also be consulting with stakeholders to increase the minimum wage while preserving competitiveness and with regards to the creation of a new mechanism independent of the Cost-of-Living Adjustment (COLA) that targets vulnerable households, in particular low-income families with the scope of addressing high inflation.

### The Elderly

In 2020 there were around 25,700 individuals above the age of 65 who were considered to be at risk of poverty. Conscious of this reality, the Government will continue to adopt measures intended to reduce the risk of poverty amongst the elderly and this budget seeks to positively target pensioners. The 2022 Budget includes a number of measures aimed at financially enhancing the pensioners' and the elderly's income and also supporting the provision of informal long-term care. Most pensions, both contributory and non-contributory pension will increase in excess of the customary COLA. The taxable ceiling on pensions was also raised. The 2022 Budget also recognises the potential of active ageing and the contribution of the elderly to the labour market and has committed to exempt tax on income of working pensioners in five years' time. Other measures were introduced to strength the support to households that hire private help at home. Such measures ensure that elderly persons are better placed to remain living in the community as opposed to institutionalisation in long-term care facilities.

### Supporting Families

The Government will continue to ensure that families with children on low income are shielded from the risk of poverty and social exclusion. In this regard, the Government will continue to support incomes through income supplements and bonuses linked to childbirth or adoption, with a specific focus on low-income households. The Government will also be increasing the stipend allowance provided to students by 10.0 per cent.

Furthermore, the Government will continue building on measures introduced in previous years, the support to disabled persons and their families will be increasing further. Allowances for children with a physical or mental disability will rise. Parents who quit work to take care of their disabled children will also be supported further whilst the carer at home benefit will also increase. Other related subsidies and benefits have also been increased, including those intended to support mobility.

## Housing

The Government is also continuing with its work in the area of affordable homes and social housing through extension of various affordable housing budget measures which were introduced in previous budgets such as housing benefit and Equity Sharing Plus Scheme, while the First-Time Buyer Scheme will be enhanced. New measures included intergenerational housing project and the introduction of a care plan for clients to support social mobility.

*Footnotes:*

[1] The AROPE indicator for the EU 2030 target is made up of three components: at-risk-of-poverty (AROP) rate, severe material and social deprivation (SMSD) and low work intensity (LWI). The definition of this indictor is slightly different than the indicator used for the EU 2020 strategy. The SMSD indicator replaced the severe material deprivation (SMD) indicator whereby it now captures the proportion of the population experiencing an enforced lack of at least 7 out of 13 material and social deprivation items. The other difference relates to the extension of the age bracket of the LWI indicator from 0 to 59 years to 0 to 64 years. Further detail: Glossary:At risk of poverty or social exclusion (AROPE) - Statistics Explained (europa.eu).

[2] AROP threshold is defined as 60 per cent of median national equivalised income.