



**SUSTAINING
INCLUSIVE GROWTH**
PRE BUDGET DOCUMENT 2020



SUSTAINING INCLUSIVE GROWTH

PRE BUDGET DOCUMENT 2020

August 2019

ISBN 978-99957-58-37-0



MINISTRY FOR FINANCE

CONTENTS

Foreword	4
Chapter 1 Macroeconomics Conditions	6
1.1 Introduction	8
1.2 Local Scene	9
1.3 Growth Prospects	16
1.4 International Scene	18
Chapter 2 Fiscal Sustainability	22
2.1 Introduction	24
2.2 Fiscal Developments in 2018	25
2.3 Fiscal Outlook in 2019	27
2.4 Debt Levels and Developments	31
2.5 Malta's Medium-Term Fiscal Strategy	33
Chapter 3 Competitiveness	36
3.1 Introduction	38
3.2 Internal Competitiveness	39
3.3 External Competitiveness	46
3.4 External Perspectives	48
3.5 Conclusion	49
Chapter 4 An Economic Framework for Sustained Inclusive Growth	50
4.1 Introduction	52
4.2 Social Protection and Redistribution	53
4.3 The Distributional Impact of Budget Measures	56
4.4 Healthcare	57
4.5 Education	59
4.6 Gender Equality	60
4.7 Conclusion	62



Chapter 5	The Budget's Priority Areas	64
5.1	Introduction	66
5.2	Reforms in the Justice System	67
5.3	Continue Strengthening the Institutions and Regulatory Authorities	68
5.4	A Hub for Innovative Technology	69
5.5	Continued Investment in Social Justice and Social Inclusion	70
5.6	Continued Investment to Maintain High Quality Standards in Health	71
5.7	Enhancing Economic Prosperity in Gozo	73
5.8	Continue Improving the Road Infrastructure and the Creation of Public Spaces	74
5.9	Sustaining the Success of the Tourism Industry	75
5.10	Equitable Quality Education for All	77
5.11	Youths and Sports	77
5.12	Sustainability in Energy and Water Management	78
5.13	Fostering Competitiveness and Sustainability	79
5.14	Protecting and Preserving the Environment	80
5.15	Strengthening National Security	81
5.16	Sustainable Agriculture and Fisheries	82
5.17	Gender Balance in Parliament	83
5.18	Culture Heritage and Responsive Local Councils	83
5.19	European Affairs; Equality; Human Rights and Social Dialogue	84
5.20	Conclusion	85

FOREWORD

Malta has now enjoyed six consecutive years of unprecedented economic growth sustaining its position amongst the best economic performers in the EU. Public finances have been put on a sound footing with healthy fiscal surpluses recorded in the last three consecutive years, while a record decrease of over twenty percentage points has been registered in the National debt. The unemployment rate is below 4 per cent, the inflation rate is stable, while take home pay continues to rise.



Economic prosperity allows us to continue to commit to policies that ensure greater social justice. Senior citizens have enjoyed additional increases in pensions, while young families have been benefitting from free child care centres, free school transport and increases in children's allowance. Working families have also seen an increase in their disposable income as a result of the in-work benefit scheme and the reductions in the income tax rate coupled with the tax refunds.

In the coming years, the Government will continue to address the new challenges brought about by the rapid economic expansion so to ensure that economic growth is sustained. The strengthening of the public institutions including the justice system, as well as sustaining the investment in the health and education sectors, will remain a priority. The upgrading of the physical and digital infrastructure will continue to feature in future budgets as well.

The Maltese economy is a success story. We will ensure that this success is well-managed so that it continues to be enjoyed by all. In this regard, inclusion and integration are key. Indeed, we will nurture a society that cares.

A handwritten signature in blue ink, appearing to be 'E. Scicluna'.

Prof. Edward Scicluna
Minister for Finance



CHAPTER 1



A vibrant street scene at dusk, likely in a European city. The street is filled with people, many of whom are seated at outdoor dining tables. The tables are set with plates, glasses, and lit candles. In the foreground, a man in a blue shirt is seated at a table, looking towards the camera. To his right, a woman in a white top is standing and talking to another man. The background is a busy street with many more people walking. The street is decorated with long, green garlands hanging from the buildings. A traffic light is visible on the right side of the street, showing a green light. The overall atmosphere is lively and festive.

MACROECONOMICS
CONDITIONS

1.1 INTRODUCTION

During 2018, the Maltese economy continued to obtain high growth rates, with all sectors of the economy recording strong growth in Gross Value Added (GVA). Overall, the Maltese economy registered a growth of 6.6 per cent in real terms in 2018. This growth figure was 4.7 percentage points higher than that of the European Union (EU), securing Malta's position as one of the fastest growing economies in the EU.

The growth rate for 2018 exceeded expectations, being higher than that projected by the Ministry for Finance, the European Commission (CION), the International Monetary Fund (IMF) and various Credit Rating Agencies.

The domestic demand component was the main driver for this robust economic activity. Net exports also contributed towards growth, while the labour market continued to be buoyant with increases in activity rates particularly those of females and older workers translating in strong employment growth and a record low unemployment rate. Inflationary developments remained within the thresholds of price stability.

Malta continued to perform positively in external trade sustaining the current account surplus recorded in recent years. These developments were mainly driven by marked increases in services exports, including in tourism and personal, cultural and recreational services. Moderate increases in goods imports especially of capital goods were also recorded.

In 2019 and 2020, Malta is expected to remain amongst the strongest economies in the EU, though its growth is expected to moderate over the medium term. Growth is expected to be primarily driven by domestic demand, underpinned by strong growth in investment, as well as sustained growth in both private and public consumption. In 2019, net trade contribution to growth is expected to be negative as the growth in imports is expected to be higher than the growth in exports, reflecting the positive developments in investment activity. Nevertheless, the net trade contribution to growth is expected to turn positive in 2020.

1.2 LOCAL SCENE

Economic Growth

During the first quarter of 2019, the Maltese economy grew by 4.9 per cent, in real terms, over the corresponding period of last year. This increase was predominantly attributed to the domestic side, particularly as a result of a pick-up in investment activity and government consumption expenditure.

In nominal terms, total income grew by 7.4 per cent, mainly reflecting the 9.4 per cent (or €125.1 million) increase in gross operating surplus and the 5.9 per cent (or €72.0 million) growth in compensation of employees.

Figure 1.1
Real GDP Growth : 2016Q1 - 2019Q1
source: NSO



Table 1.1

Main Macroeconomic Indicators	2017	2018	2019f	2020f
GDP growth at current market prices (%)	9.4	8.9	9.3	8.3
GDP growth at Chain Linked Volumes by period (Reference year 2010) (%) ¹	6.7	6.6	6.2	5.7
Expenditure Components of GDP at Chain Linked Volumes by period (Reference year 2010) (%)				
Private final consumption expenditure ²	3.6	7.3	5.8	3.9
General government final consumption expenditure	2.1	11.7	11.6	4.7
Gross fixed capital formation	-7.4	-3.7	13.7	5.4
Exports of goods and services	5.6	2.1	2.4	4.1
Imports of goods and services	0.6	1.3	3.4	3.0

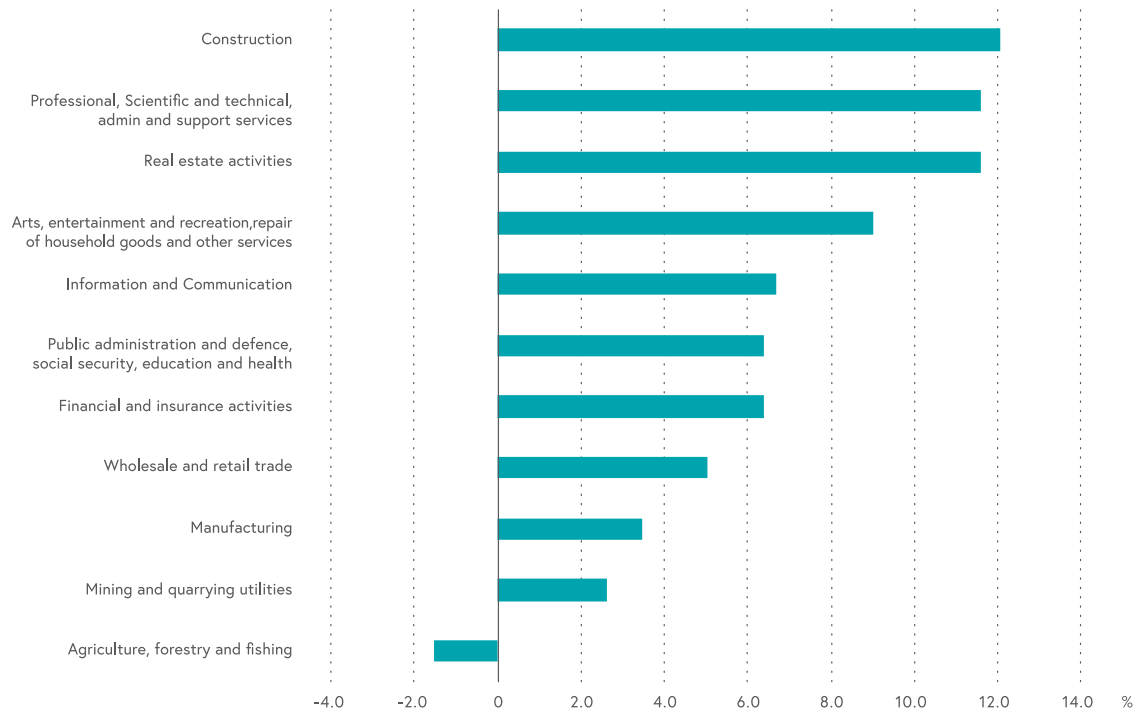
Source: NSO, MFIN

During the same period, total gross value added increased by 7.3 per cent. Economic growth continued to be broad-based as the majority of sectors recorded an increase in the gross value added. The highest growth rates were recorded in the construction sector (12.0 per cent), the professional, scientific and technical activities sector (11.6 per cent), the real estate sector (11.3 per cent) and the arts, entertainment and recreation sector (9.0 per cent). Worth noting was also the growth in the wholesale and retail trade sector which grew by 5.0 per cent and the manufacturing sector, where gross value added increased by 3.5 per cent.

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.

Figure 1.2
Growth in Gross Value Added in 2019Q1
 source: NSO



Labour Market

Throughout 2018, the labour market continued to yield positive results, as improvements in the activity rate led to an increase in employment growth and a historically low unemployment rate.

Employment growth (as per the Labour Force Survey) stood at 6.1 per cent in 2018. This positive performance reflected the buoyant state of the Maltese economy and strong labour demand conditions, supported by improved business prospects, the inflows of foreign workers, and the increasing female and older worker participation rates. Employment growth was further supported by the Government's ongoing efforts in promoting and sustaining active labour market policies, including work-life balance measures, family-friendly measures, in-work benefit and the tapering of benefits, and lower taxes on labour. These efforts also contributed to further improvements in the female participation rate, which increased by 2.9 percentage points in 2018. As a result, although males have a higher employment rate in all age groups, the discrepancy between genders is converging at a steady pace. The overall activity rate for 2018 was estimated at 74.2 per cent, with the highest rate recorded being among persons aged 25-54 (85.6 per cent). Moreover, in the first quarter of this year, Malta recorded one of the highest employment growth rates in the EU with a growth in employment of 6.6 per cent when compared to the corresponding period of last year.

The unemployment rate (based on the Harmonised definition) reached a historically low level at 3.7 per cent in 2018. The unemployment rate has consistently been below the EU 28 average. In fact, in 2018, Malta recorded one of the lowest unemployment rates at an EU level. Notable improvement was also made in reducing youth unemployment (ages 15 to 24), which declined from 8.6 per cent in 2017 to 7.3 per cent in 2018. Moreover, unemployment data covering the first three months of this year shows that Malta recorded one of the lowest total unemployment rates among European Member States, at 3.5 per cent.

Figure 1.3
Unemployment Rate
source: Eurostat

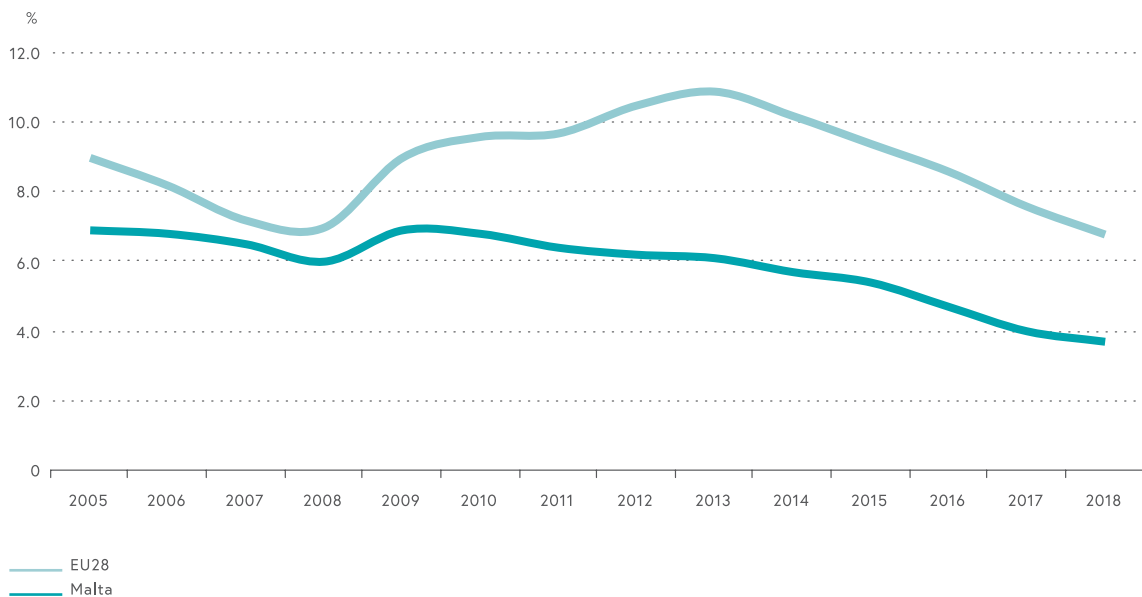


Table 1.2 presents the main labour market indicators for the years 2018 to 2020. Employment prospects are expected to remain favourable. The unemployment rate is projected to remain low at 3.8 per cent in 2019 and 3.9 per cent in 2020, suggesting that the expected expansion in labour demand will be counterbalanced by the expected increase in labour supply. Concurrently, average wages are set to continue growing, with compensation per employee forecasted to grow by 3.3 per cent in 2019 and 3.2 per cent in 2020.

Table 1.2

Labour Market Indicators	2017	2018	2019f	2020f
Employment Growth % (National Accounts Definition, Domestic Concept)	7.8	5.6	4.6	4.3
Labour Productivity (%change)	2.5	1.4	1.5	1.3
Compensation of Employees (% change)	7.6	7.2	8.1	7.7
Compensation per Employee (% change)	2.9	2.9	3.3	3.2
Unemployment rate (Harmonised definition, %)	4.0	3.7	3.8	3.9

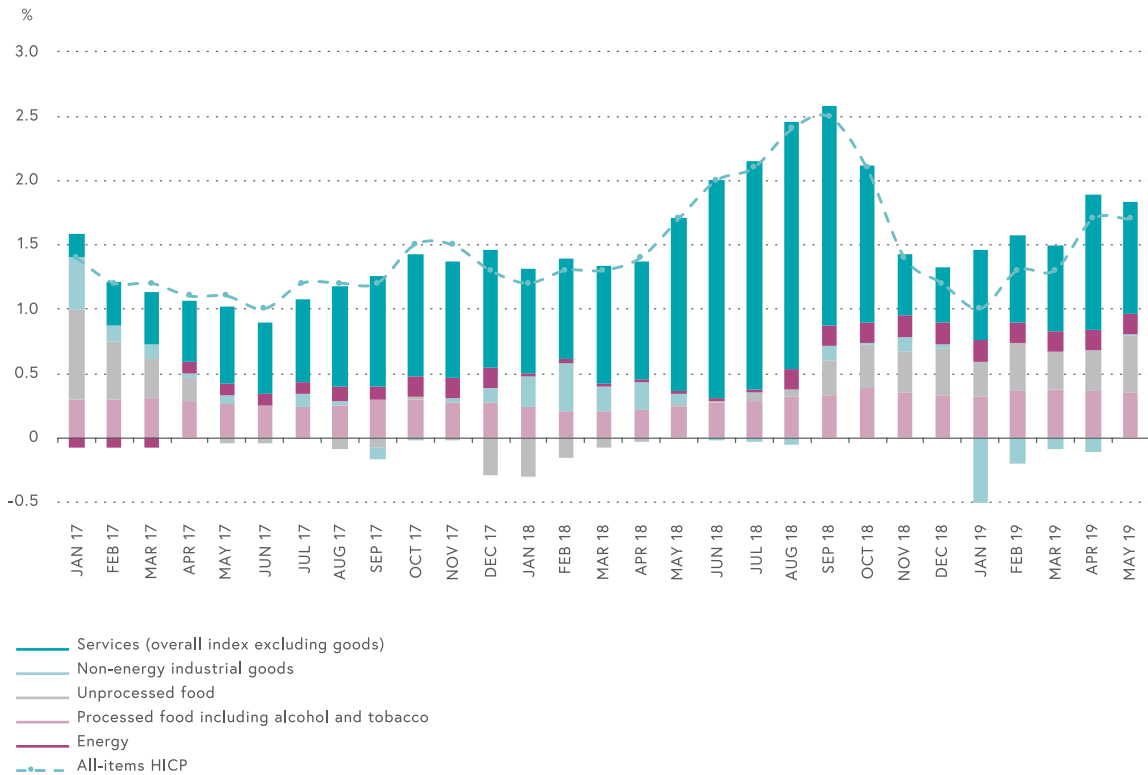
Source: NSO, MFIN

Inflation

In May 2019, the annual HICP inflation in Malta stood at 1.7 per cent.

During the first five months of 2019, HICP inflation has recorded a steady increase but remained below the 2 per cent EU threshold. This has mainly emanated from developments observed in unprocessed foods and non-energy industrial goods as illustrated in Figure 1.4. Meanwhile, the annual rate for energy remained stable during the period under review recording the rate of 2.6 per cent in May.

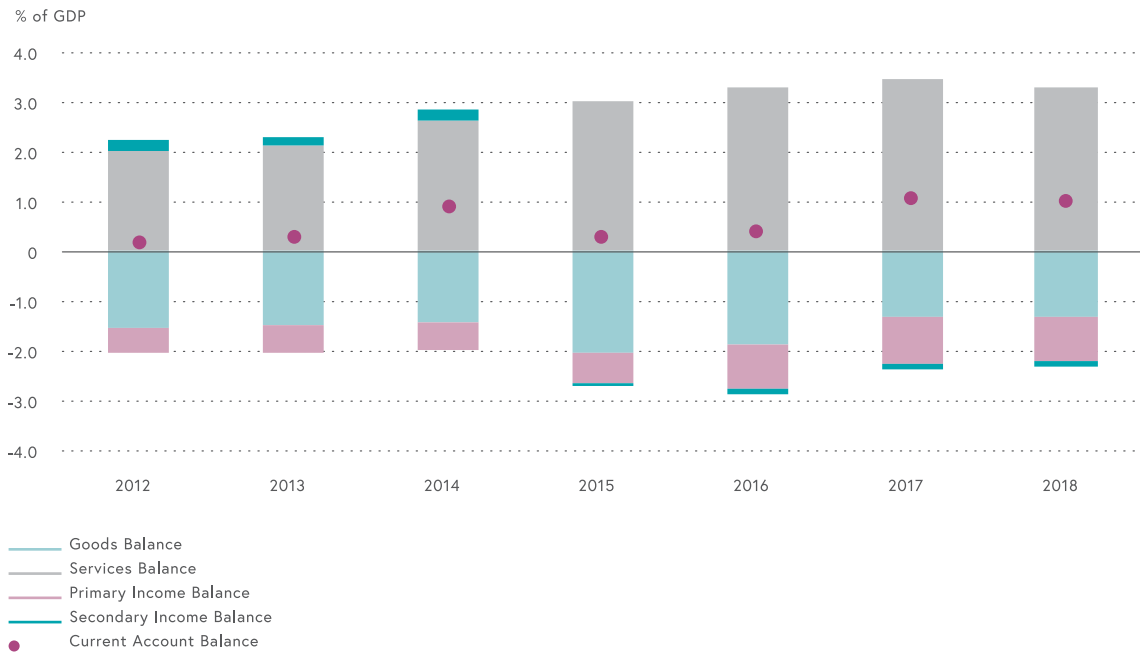
Figure 1.4
Contributions to Year-on-Year HICP Inflation
 source: NSO



Balance of Payments

The balance of payments records inflows and outflows of goods, services and financial transactions. The current account focuses on flows related to goods, services and income from Malta to the rest of the world. It has been in surplus over the past few years and reached 9.8 per cent of GDP in 2018. The main contributor of this surplus is the strong net export balance of goods and services (20.0 per cent of GDP), underlined by a services net export balance of 33.0 per cent of GDP and a goods net import balance of 13.1 per cent of GDP. The strong net export figure is driven by substantial increases in exports related to financial services, transport, tourism and the personal, cultural and recreational services.

Figure 1.5
Current Account
 source: NSO



The primary income account within the current account shows the income received on Maltese residents' foreign investments and income paid to foreigners on their investments in Malta. In 2018, Malta's primary income account had a net payment balance of 9.1 per cent of GDP meaning that income flows from Malta to foreign jurisdictions outweighed income inflows to Malta. This balance is driven by substantial direct investment liability net payments which is partially offset by net receipts with respect to portfolio investment. The secondary income account is only a minor component in the case of Malta and it shows any income transfers unrelated to any services rendered (such as pensions and remittances). In 2018, the secondary income account had a net payment balance of 1.0 per cent of GDP.

The net international investment position takes stock of the amount of foreign assets and liabilities being held in Malta. As at the end of 2018, Malta held around €247.9 bn in assets and €241.1 bn in liabilities. Most of the assets are held in the form of either portfolio or direct investments, whilst most of the liabilities are held in the form of direct investment. The overall net international investment position as at end of 2018 stood at 62.2 per cent of GDP meaning that net foreign assets continue to exceed net foreign liabilities.

Tourism

Inbound tourist trips from January to December 2018 reached nearly 2.6 million, an increase of 14.3 per cent over the same period in 2017, driven mainly by holiday travellers. Furthermore, total nights spent increased by 12.5 per cent, which reflected increases in both collective (8.8 per cent) and private accommodation (25.4 per cent). Total tourism expenditure was estimated at €2.1 billion for 2018 an increase of 8.0 per cent over 2017. Higher expenditure was recorded in package (16.2 per cent) and non-package (11.7 per cent) expenditure.

During the first four months of this year, the number of inbound tourists reached 667,905, an increase of 19,984 or 3.1 per cent when compared to the corresponding period last year. This increase was mainly driven by a higher number of tourists that visited Malta for leisure purposes. Furthermore, expenditure by tourists increased by around 3.1 per cent rising to €444.5 million. Higher expenditure was recorded in non-package and other expenditure. The nights spent have also increased by 3.7 per cent which reflects an increase of 10.4 per cent in private accommodation, while collective accommodation numbers remained relatively unchanged.

1.3 GROWTH PROSPECTS

The Maltese economy is expected to maintain its robust performance over the short-term horizon, with real GDP expected to increase by 6.2 per cent in 2019 and 5.7 per cent in 2020. Economic growth is expected to be primarily driven by domestic demand, which is projected to contribute 7.0 percentage points to growth in 2019 and 3.7 percentage points to growth in 2020, underpinned by robust growth in investment, as well as growth in both private and public consumption. Net exports are expected to contribute negatively to growth in 2019, on the back of strong growth in imports reflecting the positive developments in investment activity. However, the net trade contribution is expected to turn positive in 2020, contributing 2.1 percentage points to real GDP growth.

After registering a robust growth of 7.3 per cent in 2018, private consumption growth is expected to continue growing, although gradually moderating over the forecast horizon, on the back of a buoyant labour market coupled with moderate appreciation in wages. Indeed, private consumption is expected to grow by 5.8 per cent and 3.9 per cent in 2019 and 2020, respectively.

Real Government expenditure is forecasted to increase by 11.6 per cent in 2019, reflecting strong growth in both compensation of employees and intermediate consumption, the former as a result of increases in civil service salaries reflecting the effect of the agreed 8-year collective agreement. In 2020, Government consumption is expected to stabilise and grow by 4.7 per cent. Nominal government consumption net of IIP is expected to grow by 11.4 per cent in 2019, and 6.6 per cent in 2020.

With respect to gross fixed capital formation, investment is expected to resume its positive performance in 2019. In fact, it is projected to increase by 13.7 per cent in 2019 and 5.4 per cent in 2020, as several large-scale investment projects particularly in the transport and aviation, tourism, information technology, telecommunications, real-estate and health sectors are expected to materialise. The lower growth rate in investment projected for 2020 reflects a base effect arising from public investment in the previous year, due to the expected acceleration of EU-funded projects. It is worth mentioning that the inherent volatile nature of gross fixed capital formation makes it relatively challenging to forecast. Hence, when forecasting investment, economists within the Ministry for Finance take a relatively prudent approach, factoring in only those projects that have a strong political commitment or a high probability of realisation, while assuming a relatively high import content.

In 2019, exports are expected to increase by 2.4 per cent, thus continuing the moderate rate of expansion recorded in 2018. Imports are expected to accelerate in 2019 and increase by 3.4 per cent, the latter reflecting the substantial increase in investment activities. In 2020, on the basis of an expected recovery in global economic conditions, export growth is expected to accelerate to 4.1 per cent, outpacing import growth which is expected at around 3.0 per cent, thus widening Malta's positive external trade balance.

These macroeconomic forecasts have been recently assessed and endorsed by the Malta Fiscal Advisory Council. To assess the balance of risks over the forecast horizon, experts at the Ministry for Finance assess the likelihood and plausibility of a number of scenarios and through simulation analysis quantify the economic impact of these alternative scenarios on the Maltese economy. Further details can be found in the Medium-Term Fiscal Strategy for Malta: Update of the Stability Programme 2019-2022 published in April 2019 by the Ministry for Finance (https://mfin.gov.mt/en/epd/Documents/library/stability/Malta_Medium-Term_Fiscal_Strategy_2019.pdf).

1.4 INTERNATIONAL SCENE

Economic Growth and Growth Prospects in the Global Economy

In 2018, the European economy grew by 2.0 per cent, down from 2.5 per cent in the previous year. The slower growth, mainly observed in the second half of the year, was particularly influenced by a slow-down in the automotive industry. Short term indicators suggest that this trend will continue in 2019 but growth will rebound in 2020.

Global Gross Domestic Product (GDP) growth when excluding the EU amounted to 3.9 per cent in 2018. The European Commission Spring 2019 forecast expects global growth to decrease to 3.6 per cent in 2019, partly as a result of the carryover effect from the slowdown in late 2018. The global economy is expected to rebound towards the end of 2019 and annual GDP growth is expected to rise to 3.8 per cent in 2020. Growth in emerging countries is expected to reach 4.7 per cent. China's growth in 2018 tightened due to a combination of changes in regulation aimed to limit shadow banking and an increase in trade tensions with the United States of America (US). Elsewhere across emerging markets, policy tightening measures to reduce financial and macroeconomic imbalances negatively affected emerging markets and stalled growth whilst geopolitical tensions contributed to weaker activity in the Middle East.

The World Economic Outlook of April 2019 suggests a more subdued economic performance for 2019. These forecasts suggest that risks faced in the latter half of 2018 will carry forward in the first half of 2019. In the meantime, yield curves have flattened or in some cases turned negative, including in the US, since the early part of 2019. Nevertheless, a pickup is expected by the International Monetary Fund (IMF) in the second half of the year supported by significant monetary policy accommodation in advanced economies and a slightly more positive outlook on US-China trade tensions. However, uncertainty still remains and hence, the risk outlook is primarily tilted on the downside over the short-term.

In response to rising global risks, the US Federal Reserve has opted to pause interest rate increases and has indicated that no increases are planned for the rest of 2019. This should help the distressed emerging markets. With this development, 2020 is expected to start off on a positive note with growth levels set to rebound closer to the 2018 growth rates. Consequently, global growth is set to moderate from 3.6 percent in 2018 to 3.3 per cent in 2019, and then to return to 3.6 per cent in 2020.

Table 1.3

Real GDP Growth %	2017	2018	2019f	2020f
EU	2.5	2.0	1.4	1.6
Euro Area	2.4	1.9	1.2	1.5
USA	2.2	2.9	2.4	1.9
Japan	1.9	0.8	0.8	0.6
Malta	6.7	6.6	5.5	4.8
Inflation(%) (Consumer Prices)				
EU	1.7	1.9	1.6	1.7
Euro Area	1.5	1.8	1.4	1.4
USA	2.1	2.4	2.0	2.0
Japan	0.5	1.0	0.7	0.9
Malta	1.3	1.7	1.8	1.9
Unemployment Rate (%)				
EU	7.6	6.8	6.5	6.2
Euro Area	9.1	8.2	7.7	7.3
USA	4.4	3.9	3.8	3.7
Japan	2.8	2.4	2.3	2.2
Malta	4.0	3.7	3.8	3.9
Employment Growth (%)				
EU	1.5	1.3	0.8	0.7
Euro Area	1.6	1.5	0.9	0.8
USA	1.3	1.6	1.2	0.8
Japan	1.0	1.0	0.5	0.2
Malta	7.8	5.6	4.0	3.4

General Government Balance (%GDP)	2017	2018	2019f	2020f
EU	-1.0	-0.6	-1.0	-1.0
Euro Area	-1.0	-0.5	-0.9	-0.9
USA	-4.1	-6.4	-6.5	-6.4
Japan	-3.0	-2.9	-2.8	-2.5
Malta	3.4	2.0	1.1	0.9
General Government Debt (%GDP)				
EU	83.3	81.5	80.2	78.8
Euro Area	89.1	87.1	85.8	84.3
USA	105.2	107.4	107.8	109.0
Japan	234.8	236.1	236.1	236.3
Malta	50.2	46.0	42.8	40.2
<i>Source: Eurostat, AMECO & the European Commission Spring 2019 Forecast</i>				

Economic Growth and Growth Prospects in the EU

The European economy carried the 2017 growth momentum into the first half of 2018. Forecasts at the start of 2018 suggested that growth should have been close to 2.3 per cent and outturn data indicates that the growth in the first two quarters were in line with these expectations. However, decreasing economic confidence, growing trade tensions around the world, and major interruptions in the automotive industry resulted in weaker growth by the end of 2018. The manufacturing sector picked up slightly in the first quarter of 2019, albeit growth is yet to reach the levels of 2017. Thus in 2018, the European economy grew by 2.0 per cent.

The euro has weakened by about 2 percentage points in nominal effective terms since the beginning of 2019, reflecting weaker-than-expected growth in the Euro Area (EA) and the ensuing downward adjustment of market expectations about the European Central Bank (ECB)'s monetary policy. After appreciating by almost 5 percentage points in 2018, the euro's nominal effective exchange rate is estimated to depreciate by 1.5 percentage points by the end of 2019.

In the meantime, employment rates in the EA improved throughout 2018. Employment growth remained steady at the start of 2019 but is expected to moderate for the rest of the year. Employment growth in the EA is expected to reach 0.8 per cent by 2020. Furthermore, the unemployment rate in the EA is expected to continue in its downwards trend and should reach 7.3 per cent in the short term, below its pre-crisis levels.

The European Commission expects the EU economy to grow by 1.4 per cent and 1.6 per cent in 2019 and 2020, respectively while the EA is expected to grow by 1.2 per cent this year and 1.5 per cent in 2020.

CHAPTER 2



FISCAL
SUSTAINABILITY



2.1 INTRODUCTION

During the past six years, the Government has succeeded in turning a deficit of 3.5 per cent of GDP in 2012 into a surplus of 3.4 per cent of GDP in 2017. In 2018, the surplus had reached 2.0 per cent of GDP. This exceeded the surplus target planned in the 2018 Budget. Furthermore, the gradual but consistent fiscal effort also positively impacted the debt ratio which fell below the 60 per cent target to 46.0 per cent of GDP in 2018. Over the medium term, the debt burden is estimated to decline even further to 33 per cent of GDP by 2022.

The Government considers fiscal developments over the last four years as an important achievement, particularly the recovery of the necessary fiscal space to allow fiscal policy to act in a countercyclical manner.

The achievement of the Medium-Term Objective (MTO) was also an important step in safeguarding long-term sustainability of public finances. The budget surplus also allows more room for manoeuvre to address other structural challenges such as infrastructural bottlenecks and investments in human capital, technology and social cohesion. This reinforces potential growth and supports the process of convergence to higher living standards.

The Government's Medium-Term Fiscal Strategy is targeting a surplus of 0.9 per cent of GDP in 2019 and to remain close to 1.0 per cent of GDP over the medium term. Such targets are themselves based on prudent fiscal assumptions.

These targets are consistent with the allocation of around 3.9 per cent of GDP towards public investment programmes in 2019 and around 3.2 per cent of GDP over the medium term to address infrastructural bottlenecks. Furthermore, additional investment shall be devoted to the improvement of human capital to meet the challenges in the education sector.

2.2 FISCAL DEVELOPMENTS IN 2018

In 2018, the general Government surplus stood at 2.0 per cent of GDP. This exceeded the surplus target of 0.5 per cent of GDP planned in the 2018 Budget. The Government also succeeded in recording a general Government surplus net of proceeds from the Individual Investor Programme (IIP). Also notable was the decline in the debt ratio, which in 2018 had fallen to 46.0 per cent of GDP.

2.2.1 Budget 2018 Outcomes against Targets

During 2018, the general Government recorded a surplus of €250.8 million, compared to the target surplus of €54.0 million outlined in the 2018 Budget.

Table 2.1 displays the Government's final fiscal position for 2018 compared to the targets revised in the 2018 Medium-Term Fiscal Strategy. It is important to note that the targets for 2018, as outlined in Spring 2018, were different from those underlying the 2018 Budget presented in October 2017 due to updated fiscal information available and revised macroeconomic assumptions upon which the fiscal projections are based.

The better than expected outturn mainly reflected a stronger than anticipated revenue outcome, which turned out €128.1 million higher than expected while expenditure was only marginally higher than expected.

Revenues from taxes on production and imports were more buoyant than expected by €106.6 million, mainly reflecting a stronger performance in domestic consumption patterns and a significantly more buoyant property market. Market output also turned out €99.5 million higher than expected, while revenue from social contributions was €5.2 million higher than anticipated.

General Government expenditure was marginally higher than projected by €9.3 million. Expenditure on intermediate consumption was €26.7 million higher than targeted, mainly reflecting higher than planned expenditure towards health and residential care, operations and maintenance expenditure, capital expenditure classified under this category of expenditure, and Government entities operating in financial intelligence, water and waste water operations. Higher than planned current transfers amounting to €20.4 million were primarily related to compensation payments, public social partnerships and EU own resources.

Meanwhile, a €32.2 million lower than expected expenditure on social payments resulted from lower retirement pensions expenditure due to a lower number than estimated of beneficiaries entering into retirement.

Total capital outlays were €30.6 million lower than projected due to lower than projected expenditure in 2018 on projects financed from the National Development and Social Fund.

At 46.0 per cent of GDP, the 2018 actual ratio of general Government debt-to-GDP presented in the 2019 Stability Programme was 0.2 percentage points higher when compared to the estimate presented in the 2018 Stability Programme. These developments reflect a stronger than anticipated fiscal position, which was more than offset by a higher than expected debt-increasing stock-flow adjustment.

Table 2.1
General Government Finances, 2018

€ millions	Estimate	Actual	Difference
Revenue	4,655.2	4,783.3	128.1
Components of revenue			
Taxes on production and imports	1,484.0	1,590.6	106.6
Current taxes on income and wealth	1,743.4	1,650.4	-92.9
Social contributions	759.6	764.8	5.2
Property income	21.5	20.7	-0.8
Market Output and Output for own final use	103.4	96.0	-7.4
Other revenue	407.4	506.9	99.5
Expenditure	4,523.2	4,532.4	9.3
Components of expenditure			
Compensation of employees	1367.3	1376.1	8.8
Intermediate consumption	807.7	834.3	26.7
Social payments in cash and in kind	1207.7	1175.4	-32.3
Interest expenditure	191.1	187.7	-3.4
Subsidies	142.2	157.6	15.4
Gross fixed capital formation	358.3	370.6	12.4
Capital Transfers Payable	204.1	168.6	-35.4
Other expenditure	244.8	262.0	17.2
General Government Balance	132.0	250.8	118.8
Primary Balance	323.1	438.6	115.5

Source: NSO, MFIN

2.3 FISCAL OUTLOOK IN 2019

During the current fiscal year, developments in the revenue and expenditure ratios to GDP are expected to result in a general Government surplus of 0.9 per cent of GDP compared to the original targets of 1.3 per cent of GDP set in the Budget. This revision was affected to account for statistical reclassifications within general Government as recommended by Eurostat and pre-financed EU funded expenditure of which the national co-financing element influences the fiscal balance in 2019. The annual contribution to the 'Contingency Reserve' account is expected to increase to €12.9 million in 2019.

As indicated in Table 2.2, general Government revenue is expected to amount to 38.1 per cent of GDP in 2019.

Tax revenues, including social contributions, are expected to broadly follow economic developments in 2019 while taxes on production and imports are expected to decline to 12.4 per cent in 2019.

The ratio of general Government expenditure to GDP is expected to increase marginally by 0.4 percentage points, from 36.8 per cent in 2018 to 37.2 per cent in 2019. The increase in the expenditure-to-GDP ratio is mainly set to come from a higher ratio of capital expenditure, in part offset by lower ratios for most current expenditure components. Increases in capital expenditure will be devoted to roads, the environment, health and education and include higher infrastructure expenditure financed from both the EU and local funds. These also include an element of pre-financed expenditure of €100.6 million in 2018 which is accrued to 2019.

A lower ratio to GDP is expected for most components of current expenditure, in particular 'other expenditure', interest payments, as well as expenditure on subsidies and on compensation of employees as a share of GDP, while the growth in social benefits expenditure is expected to broadly follow GDP growth. Meanwhile, the ratio to GDP of intermediate consumption is expected to increase marginally from 6.8 per cent to 7.0 per cent of GDP, mainly on account of higher anticipated expenditure by Extra Budgetary Units (EBUs) and by Central Government for residential homes in the social sector, medicines and surgical materials as well as landscaping in urban areas.

Table 2.2

General Government Finances, 2017-2019

% of GDP	2017	2018	2019
Revenue	39.2	38.8	38.1
Components of revenue			
Taxes on production and imports	12.4	12.9	12.4
Current taxes on income and wealth	13.9	13.4	13.3
Social contributions	6.2	6.2	6.1
Property income	0.8	0.8	0.5
Market Output and Output for own final use	4.6	4.1	3.3
Current transfers	0.4	0.3	0.3
Capital transfers	0.8	1.1	2.1
Expenditure	35.7	36.8	37.2
Components of expenditure			
Compensation of employees	11.2	11.2	11.1
Intermediate consumption	6.4	6.8	7.0
Social benefits and social transfers in kind	10.0	9.5	9.5
Interest expenditure	1.8	1.5	1.4
Subsidies	1.2	1.3	1.2
Gross fixed capital formation	2.3	3.0	3.9
Capital Transfers Payable	0.9	1.4	1.3
Current Transfers Payable	1.8	2.2	1.8
Other expenditure	0.0	0.0	0.0
General Government Balance	3.4	2.0	0.9
Primary Balance	5.2	3.6	2.3

Source: NSO, MFIN

2.3.1 Developments during January – June 2019

Table 2.3 displays the consolidated central Government revenue and expenditure as reported for the first six months of the year for 2018 and 2019. Actual values are compared to the estimated monthly figures consistent with the Autumn annual budgetary targets using a set of monthly seasonal indices. The resulting variance is presented in the last column.

It should be noted that non-tax revenues from the Central Bank of Malta, rents, dividends on investment and interest payment will be accrued at end-of-year and hence the variance is set to zero. Also, since revenue from grants and foreign financed capital expenditure tend to cancel each other by the year end, the variance of the two is not taken into account.

It is also worth highlighting that this exercise is based on cash data such that the in-year budgetary performance is not symmetrical throughout the year. Seasonal patterns may also vary from one year to the next due to the timing of payments and receipts. Therefore, in-year budgetary data as a measure of in-year budgetary performance should be read with caution.

The variance for the central Government balance for the first six months of 2019 was €44.9 million better than the target as recurrent revenue was higher than forecasted while total expenditure was lower than estimated.

Indeed, during the first six months of 2019, recurrent revenue registered a positive variance of €31.5 million. Revenue from taxes registered a positive variance of €6.8 million mainly due to higher than expected revenue from Value Added Tax, Licences, Taxes and Fines and Social Security. Revenue from non-tax components was €24.7 million higher than expected, with revenue from Fees of Office being the main contributor. Revenue from Miscellaneous receipts and Reimbursements also registered a positive variance.

Expenditure was €13.4 million lower than estimated, as recurrent expenditure exceeded targets by €15.4 million while domestically financed capital expenditure was lower than estimated by €28.9 million. Programmes and Initiatives exceeded targets by €30.8 million mainly due to higher EU Own Resources (€29.2 million) and the state contribution (€18.3 million, that also features as revenue), while Operations and Maintenance exceeded targets by €1.3 million. Meanwhile, expenditure on Contributions to Government Entities and Personal Emoluments were lower than target by €10.9 and €5.7 million respectively.

Table 2.3

Central Government Finances, January-June 2018-2019

Consolidated Fund Data € millions	2018 Actual	2019 Actual	2019 Estimate	Variance
Recurrent Revenue	1,898.3	2,164.5	2,133.0	31.5
Customs and Excise Duties	146.2	153.5	155.4	-1.9
Licenses, Taxes, and Fines	186.5	202.2	194.0	8.1
Value Added Tax	391.2	448.1	433.0	15.1
Income Tax	594.3	685.2	702.3	-17.2
Social Security	423.6	470.6	468.1	2.6
Fees of Office	36.6	40.3	29.4	10.8
Reimbursements	19.0	22.5	16.4	6.1
Central Bank of Malta	28.0	20.0	20.0	0.0
Rents	13.1	23.3	23.3	0.0
Dividends on Investments	20.6	8.6	8.6	0.0
Repayment of Interest on Loans	0.03	0.04	0.18	-0.14
Grants	27.2	71.5	71.5	0.0
Miscellaneous	11.9	18.7	10.7	7.9
Total Expenditure	2,040.2	2,320.7	2,334.1	-13.4
Personal Emoluments	407.0	441.6	447.3	-5.7
Operations and Maintenance	91.4	104.8	103.5	1.3
Programmes and Initiatives	1,096.4	1,237.6	1,206.8	30.8
Contributions to Government Entities	201.8	222.9	233.8	-10.9
Interest Payments	101.0	94.2	94.2	0.0
Capital Expenditure	142.7	219.5	248.4	-28.9
Foreign	22.0	66.2	66.2	0.0
Domestic	120.7	153.3	182.2	-28.9
General Government Balance	-141.9	-156.2	-201.1	44.9

Source: NSO, MFIN

2.4 DEBT LEVELS AND DEVELOPMENTS

Government debt has declined below the 60 per cent Treaty requirements in 2015 and further declined to a debt-to-GDP ratio of 46.0 per cent in 2018. The decline of 4.2 percentage points of GDP over 2017 is mainly attributable to the strong GDP growth and the prudent management of public finances.

In 2019, the debt-to-GDP ratio is expected to decline further by 3.2 percentage points to 42.7 per cent of GDP. All this is supported by the contractionary effect of the primary surpluses on the debt ratio complimented by the contribution of real GDP growth and inflationary pressures.

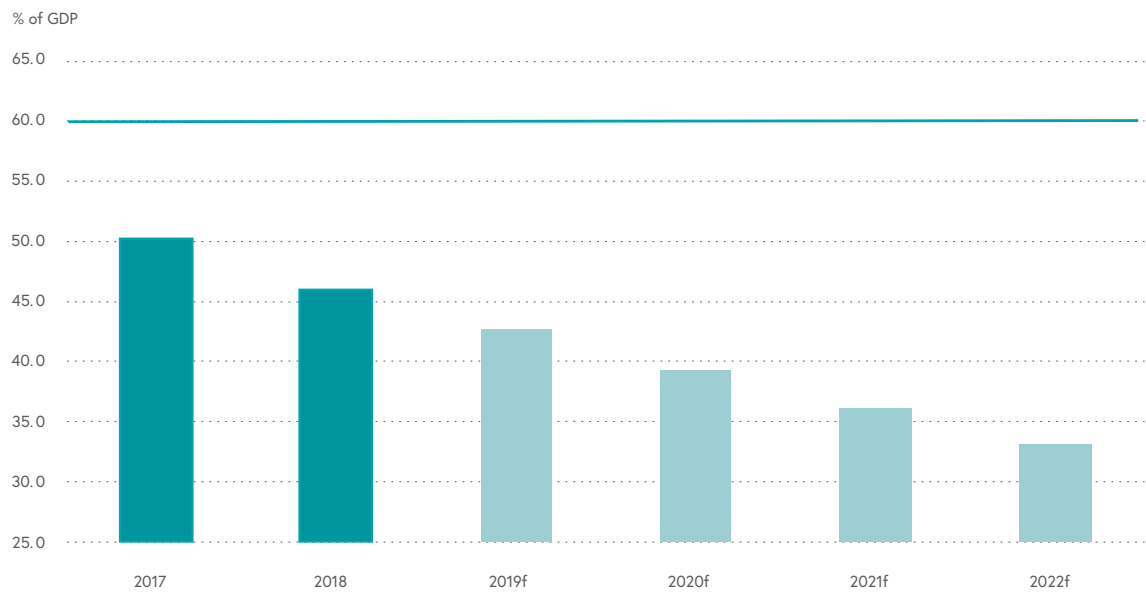
Over the medium term, further improvements in the underlying debt dynamics are expected as the debt-to-GDP ratio is expected to decrease further to 33.1 per cent of GDP in 2022. Over the medium-term horizon, the projected reduction in the gross debt ratio is mainly driven by the positive primary surpluses and the nominal growth trajectory. The contractionary impact of the primary balance and the 'snowball effect' will more than offset the expansionary impact of the stock flow adjustment (SFA) on the debt-to-GDP ratio foreseen thorough the forecast horizon.

Meanwhile, in 2018, the stock flow adjustment is estimated to have resulted in a 1.9 percentage point increase in the debt-to-GDP ratio. This was however mainly underpinned by the adjustments made to the deficit in ESA10 and equity acquisition. In 2019, stock flow transactions are expected to have a positive impact on the debt ratio while over the medium term, stock flow transactions are expected to have a marginal impact on debt ratio. Additionally, growth prospects, sustained investor confidence, and an efficient and effective debt management system will also assist the downward trajectory of the debt-to-GDP ratio.

Figure 2.1
General Government Balance, 2017-2022
source: NSO, MFIN



Figure 2.2
General Government Debt, 2017-2022
source: NSO, MFIN



2.5 MALTA'S MEDIUM-TERM FISCAL STRATEGY

Malta's medium-term fiscal strategy envisaged for the 2019-2022 period reflects the baseline macroeconomic projections outlined in the 2019 Medium-Term Fiscal Strategy. Over the medium term, the robust performance of the Maltese economy is expected to be sustained, though growth is expected to moderate compared to rates recorded in recent years. The rate of growth of potential output is also expected to moderate over the medium term, and the output gap is expected to turn slightly negative as from next year.

Based on the outlined macroeconomic projections and estimates of the business cycle, the Maltese Government is committed to continue to ensure compliance with the MTO. In addition, ensuring that expenditure growth does not exceed the economy's growth potential remains an intermediate target over the medium term. Indeed, the general Government balance is expected to increase marginally to 1.1 per cent of GDP over the medium-term forecast horizon. The outlined trajectory is translated into a structural balance of 0.7 per cent of potential GDP in 2019 increasing gradually to 1.4 per cent of potential GDP by 2022.

Against the background of the medium-term macroeconomic forecasts and plausible elasticity assumptions, the total revenue ratio is expected to decline to 35.2 per cent of GDP by 2022. Tax receipts are expected to decline by 2.1 percentage points of GDP to 30.7 per cent of GDP by the end of the forecasting period, partly driven by a slower growth in the indirect tax base than nominal GDP. Proceeds from 'other revenue' are expected to increase marginally by 0.2 percentage points to 5.6 per cent of GDP in 2019, before declining to 4.0 per cent of GDP in 2022 as capital transfers related to investment grants are expected to moderate.

Meanwhile, while the ratio of current expenditure-to-GDP is expected to decline over the medium term by 2.6 percentage points to 29.8 per cent, capital expenditure is forecast to increase from 4.4 per cent of GDP in 2018 to an average of 4.6 per cent of GDP between 2019 and 2022. Indeed, by means of the planned capital programme, the Maltese Government will give precedence to Malta's infrastructure needs over the forecast horizon, together with the national economic and social priorities.

2.5.1 Evaluation and Endorsement of Macroeconomic and Fiscal Forecasts

The macroeconomic and fiscal forecasts underlying the Medium-Term Fiscal Strategy for Malta (Update of the Stability Programme 2019-2022) were submitted to the Malta Fiscal Advisory Council (MFAC) for evaluation and endorsement in line with the requirements of the Fiscal Responsibility Act.

The MFAC considered the macroeconomic projections underlying the Medium-Term Fiscal Strategy to be within their endorsable range. In addition, the MFAC carried out comparisons with the forecasts prepared by other independent institutions, particularly the CBM, the EC and the IMF, and such comparisons indicated broad similarity with the official forecasts.

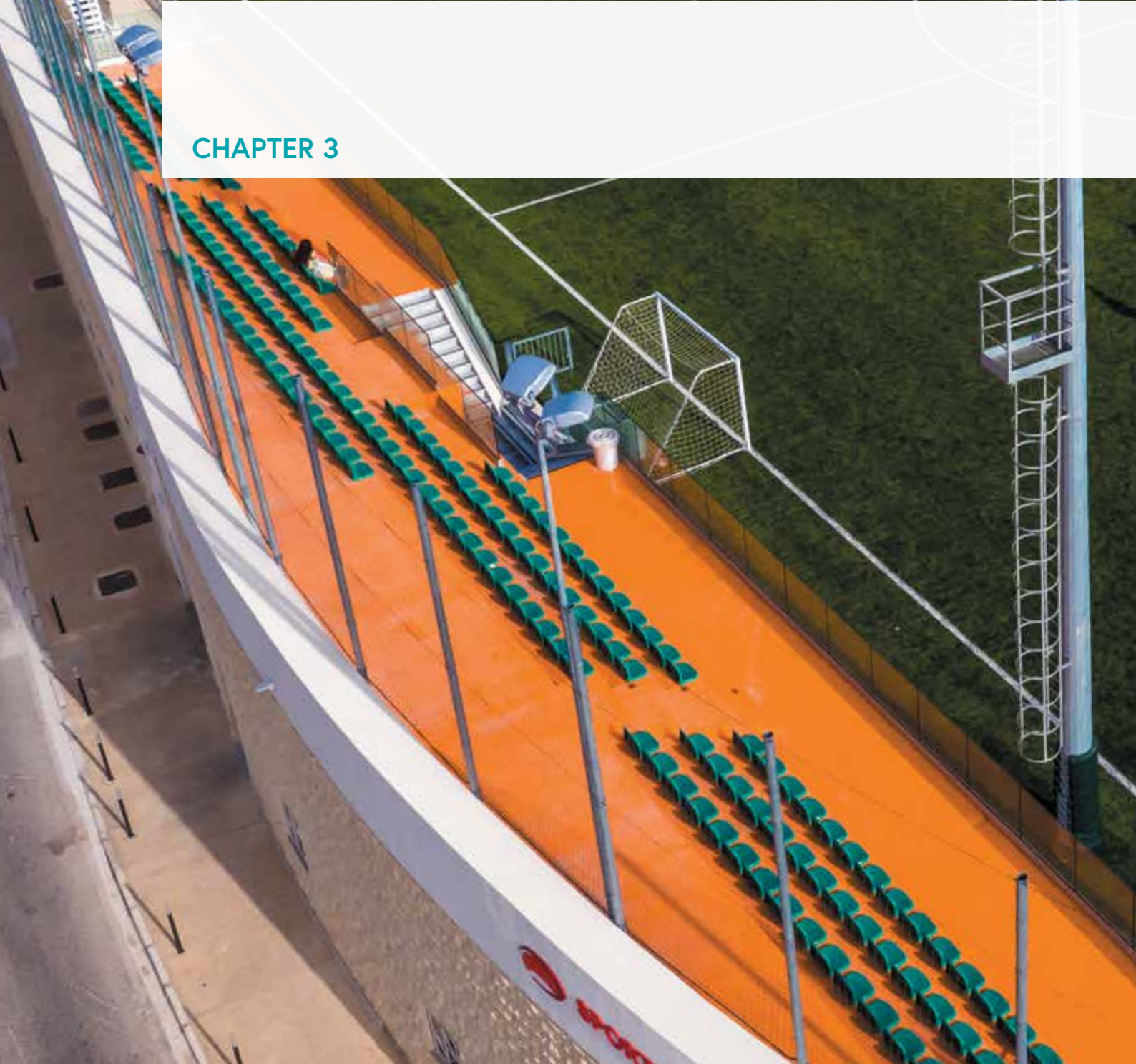
On the basis of the assessment carried out on the individual GDP expenditure components, the MFAC considers there is 'a broadly neutral risk outlook vis-à-vis real GDP growth throughout the period 2019 to 2022. This is the net result of opposing upside and downside risks to some of the components, which tend to compensate for each other.'

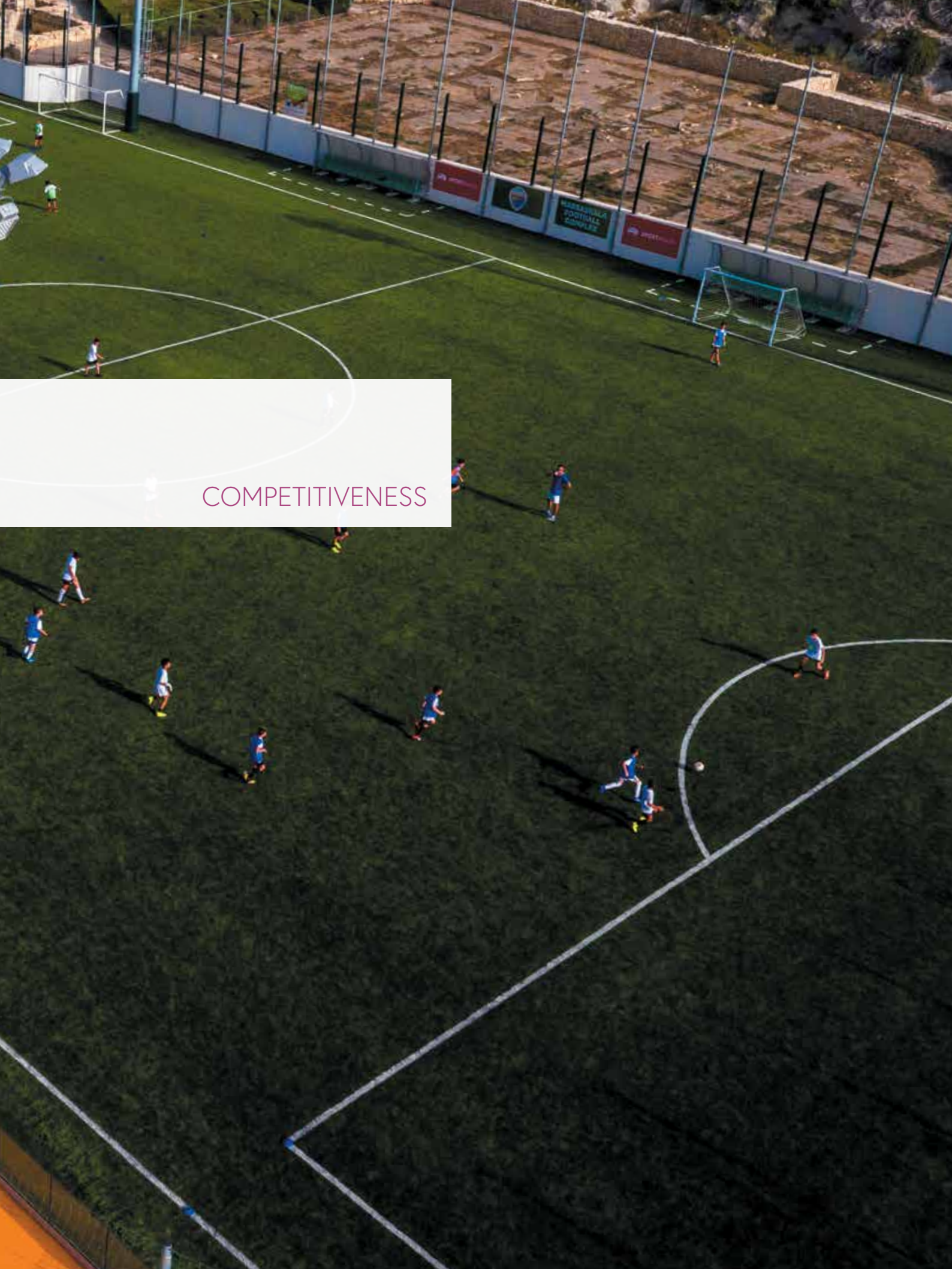
With regards to the fiscal projections underlying the Medium-Term Fiscal Strategy, the MFAC considered the planned stream of fiscal surpluses within its endorsable range, such that the anticipated steady decline in the debt-to-GDP ratio is deemed to be plausible.

The MFAC stated that there may be possible upside risks for the fiscal balance in 2019, and neutral risks for the period 2020 to 2022.



CHAPTER 3





COMPETITIVENESS

3.1 INTRODUCTION

Malta's continued economic prosperity depends on the country's ability to compete in a changing global economy. Competitiveness is becoming a key word in economic analysis and it is still a complex concept which is not easily measured using one single indicator. This concept can be analysed in two different dimensions, namely domestic and external competitiveness.

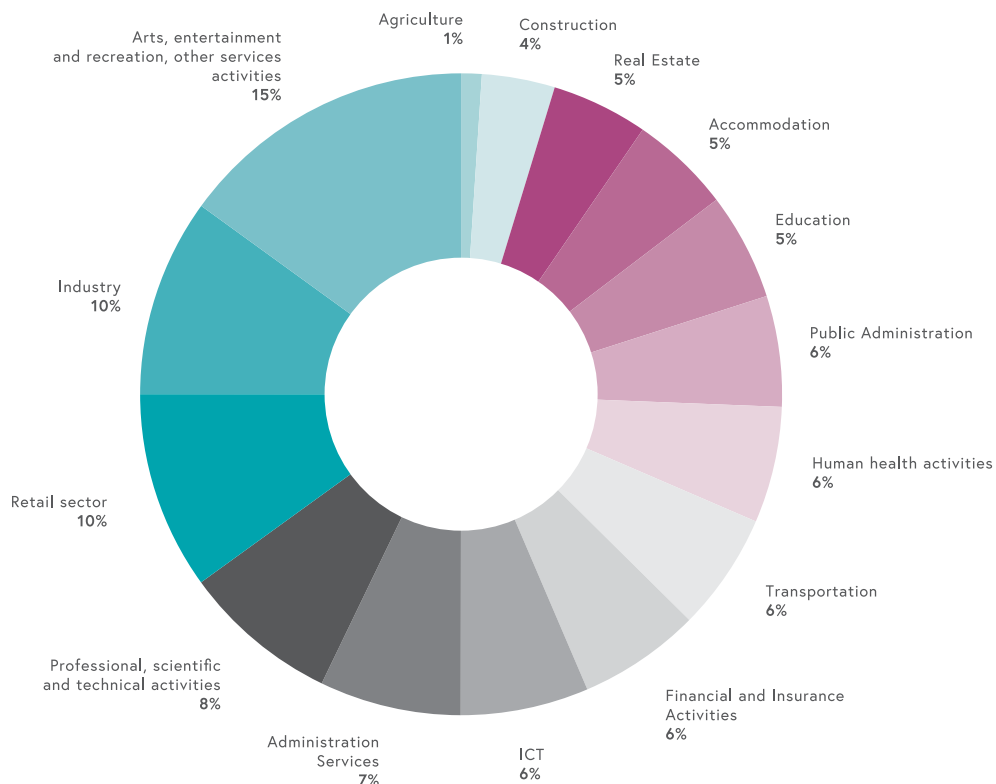
While domestic competitiveness shows the efficiency with which production adjusts to a changing market environment, external competitiveness analyses a country's attractiveness relative to other competitor countries. Competitiveness ties in with domestic economic performance, which necessitates some understanding of the structure of the Maltese economy and the main drivers of economic growth.

3.2 INTERNAL COMPETITIVENESS

Sectoral GVA

The services industry has been a main driver of the significant sectoral growth rates achieved over the past few years in Malta. This sector has its roots in both the domestic and the external economy and is well diversified. The Gross Value Added (GVA) by sector in Malta is depicted in Figure 3.1, where economic diversification is evident. In addition to the arts, entertainment and recreational sector, other important sectors include the manufacturing, the retail, the professional, scientific and technical activities and administration services, the financial services, the ICT and the transportation sectors, which account for a substantial share of Malta's GVA.

Figure 3.1
Share in GVA 2018
source: NSO, EPD



Labour market

The significant drop in Malta's unemployment rate, from 6.2 per cent in 2012 to 3.7 per cent in 2018, is indicative of a strong and growing economy.

In terms of labour participation rates, Figures 3.2 to 3.4 show the evolution of Malta's participation rate by gender. Noteworthy is the fact that in 2018, for the first time, Malta's overall participation rate (74.2 per cent) exceeded that of the EU average (73.7 per cent). Furthermore, though the female participation rate is still below the EU average, it has experienced major improvements over the past few years. In fact, in 2012 the female participation rate was just at 48.9 per cent, while in 2018 it stood at 63.1 per cent. The male participation rate exceeded the EU average by 5.3 percentage points in 2018.

Figure 32
Participation Rate - Total
 source: Eurostat

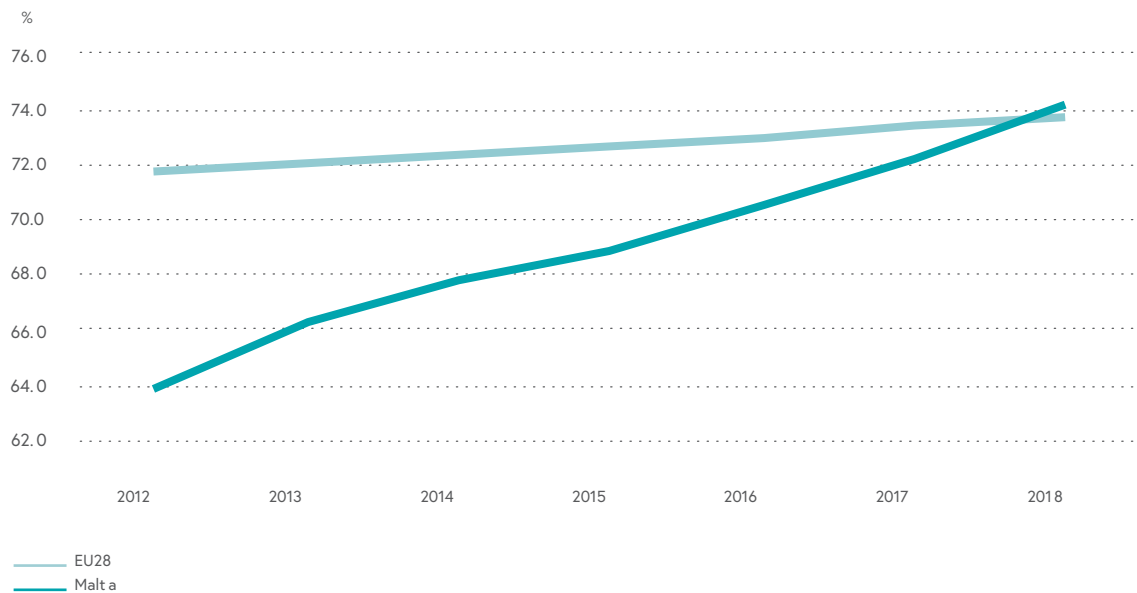


Figure 3.3
Participation Rate - Females
source: Eurostat

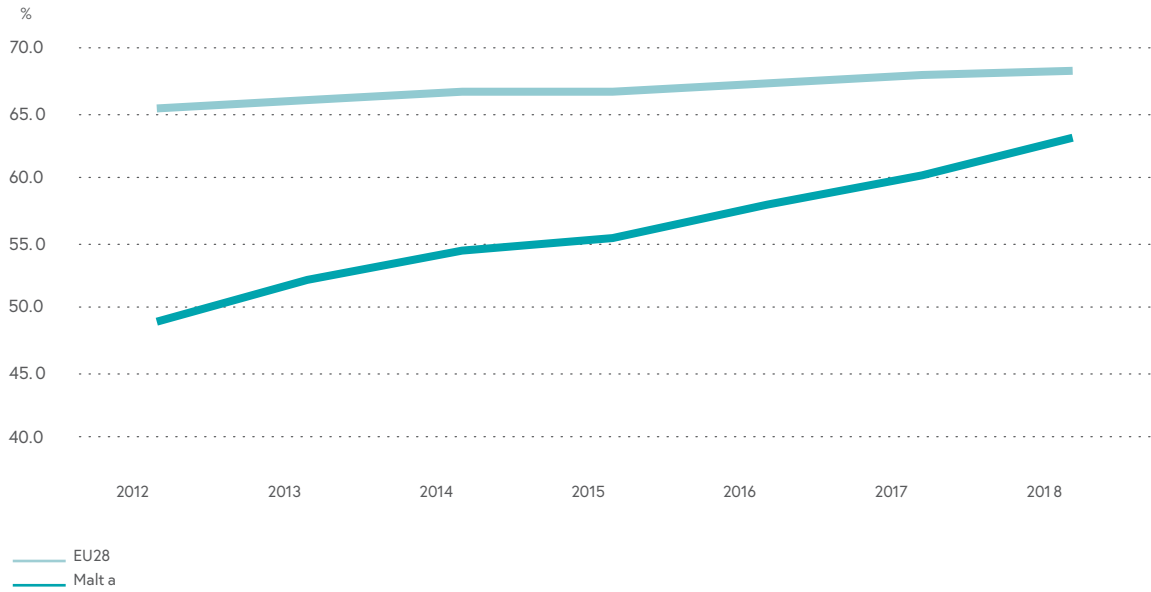
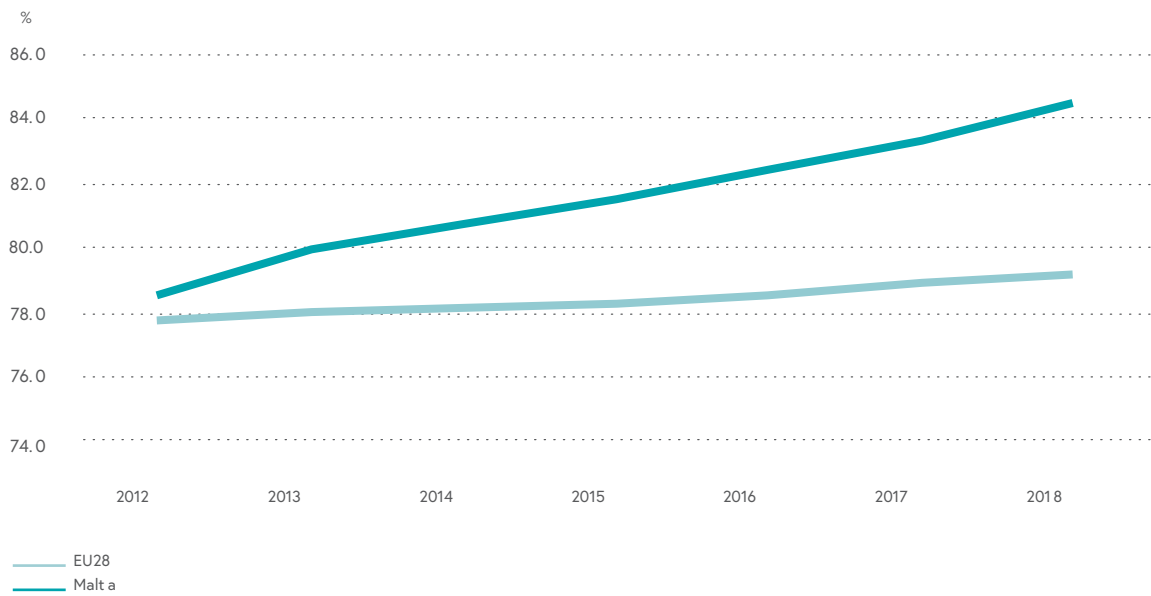


Figure 3.4
Participation Rate - Males
source: Eurostat



Competitiveness in the labour market refers to the efficiency with which labour inputs produce the necessary output and the cost to employ such labour. In terms of productivity, the real labour productivity per hour worked shows the ratio of output (proxied by real GDP) to the total number of hours worked. Figure 3.5 shows an increase in labour productivity per hour worked.

It is evident that post-2013, there was a significant increase in productivity per person employed which surpassed the EU 28 average trend. A similar observation can be made with respect to real unit labour cost index. Real unit labour costs (RULC) measures the average cost of labour per unit of output and is calculated as the ratio of compensation of employees to actual units of production. Figure 3.6 shows an index of this indicator to facilitate comparisons between Malta and the EU28.

A downward trajectory for both trends can be observed, with Malta's RULC dipping below that of the EU28. Both developments point towards improvements in competitiveness, in terms of both output and cost.

Figure 3.5
Real Labour Productivity per hour worked (2010 =100)
 source: Eurostat

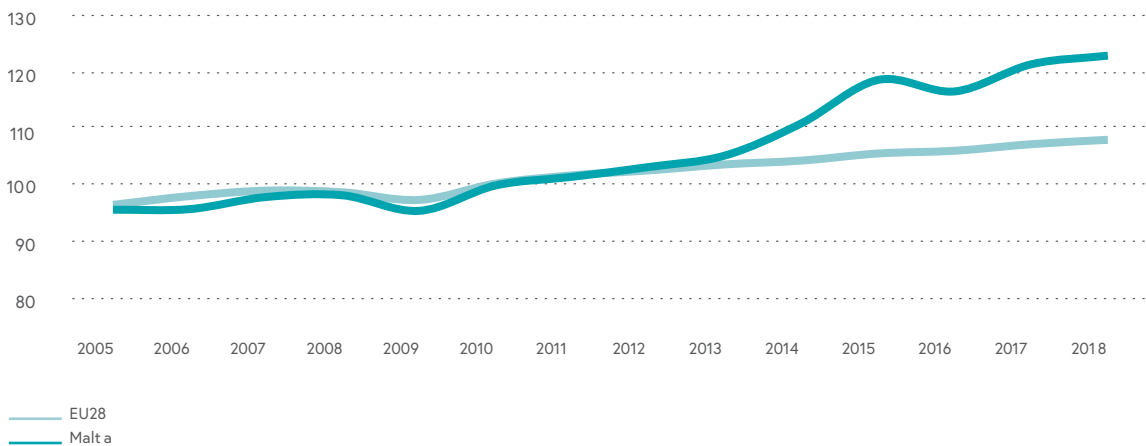
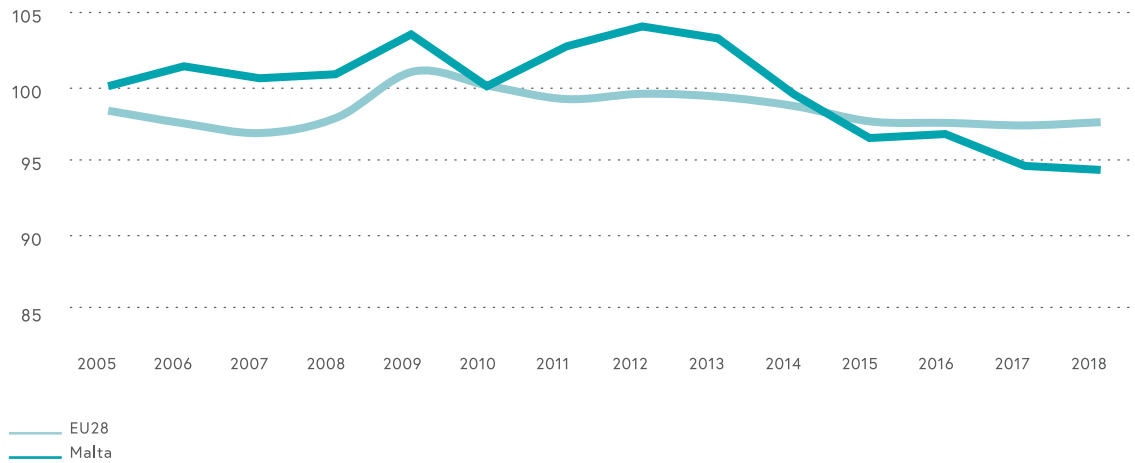


Figure 3.6
Real Unit Labour Costs (2010=100)
 source: Eurostat



Output gap and potential output

Figure 3.7 shows a sustained increase in potential output in the last six years. To explain this trend, Figure 3.8 shows different factors which have contributed to the increase in potential output over the 2013-2018 period. It is evident that most of the increases in potential output can be attributed to capital accumulation, labour hours and labour contributions. Labour inputs have been instrumental in increasing potential output through several factors including:

1. The growth in the working age population;
2. The growth in the participation rate;
3. A drop in the natural rate of unemployment (NAIRU); and
4. The increase in investment.

Figure 37
Potential Output

source: Eurostat, EPD Workings

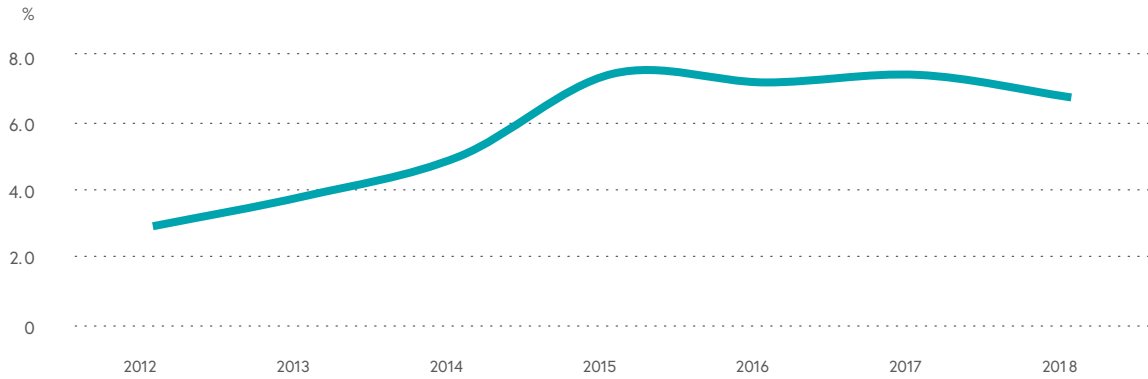
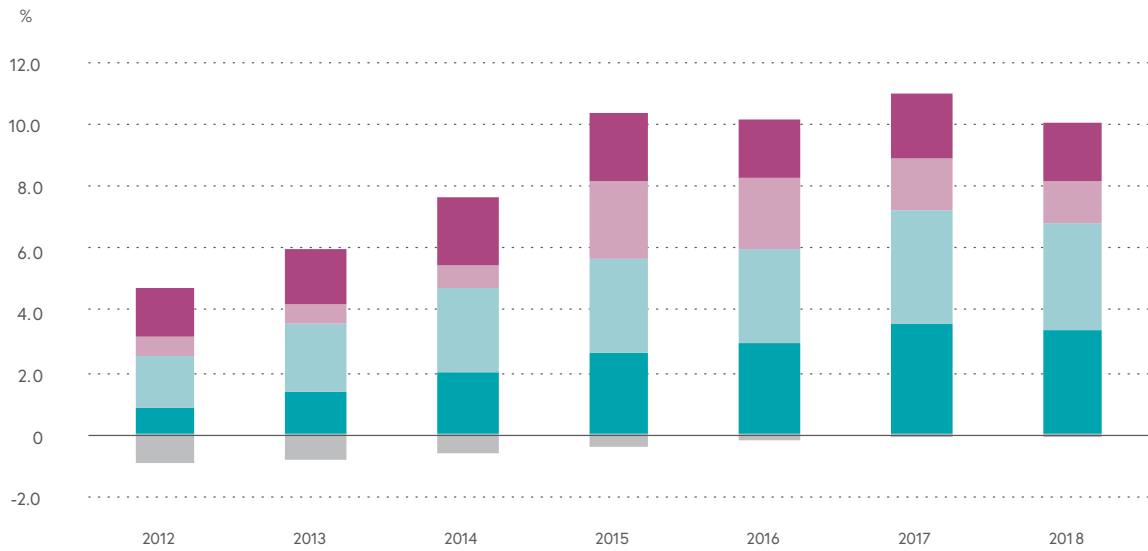


Figure 38
Contributions to Potential Output

source: Eurostat, EPD Workings



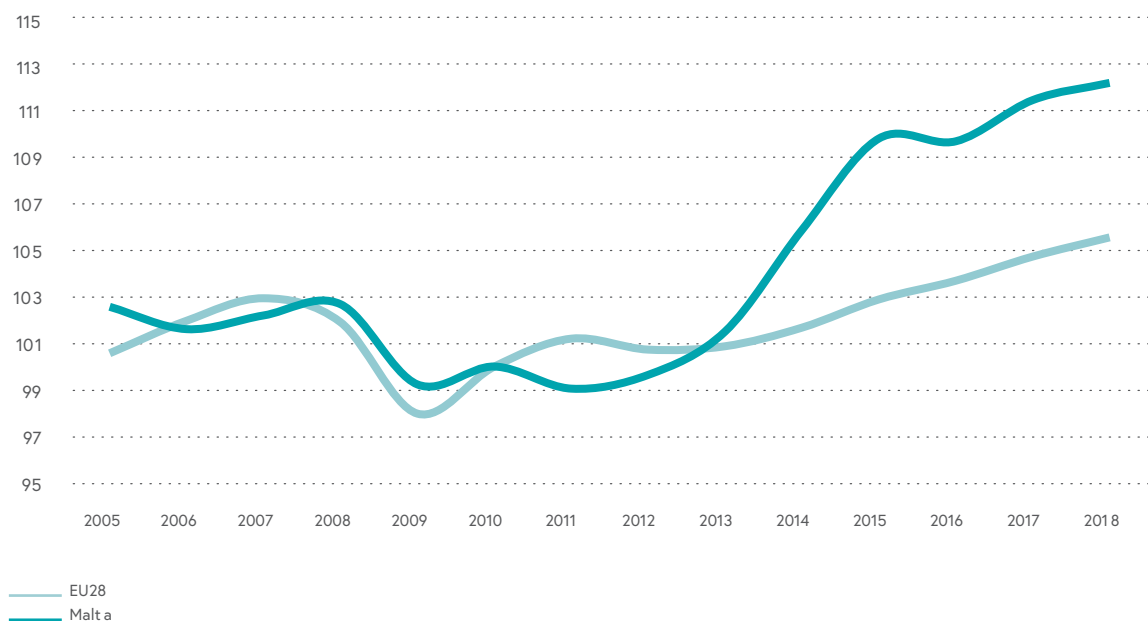
- Labour hours
- Labour contributions
- Changes in hours
- Capital accumulation
- TFP

Total Factor Productivity and Human Capital

Malta's Total Factor Productivity (TFP) has been on a similar trajectory to that of the EU 28 until the pre-crisis period. From then onwards, developments in TFP for Malta took an upward turn and significantly surpassed that of the EU average.

Total Factor Productivity (TFP) captures output gains within an economy which are unrelated to capital and labour inputs. TFP is essentially the residual value of productivity gains after accounting for labour and capital inputs and is normally associated with the contribution of technology to economic growth. Figure 3.9 shows a simple time series evolution of TFP index for Malta and the EU.

Figure 3.9
Total Factor Productivity Index (2010=100)
source: Eurostat



Another factor determining potential growth is the evolution of skills. Cognisant of this, the Government has prioritised investment in human capital development. Indeed, important reforms in education were implemented while various initiatives were launched in order to ensure better educational outcomes. As a result, although still below the EU average, Malta's early school leaving rate decreased steadily in the last four years from 20.9 per cent in 2014 to 17.5 per cent in 2018. Furthermore, the rate for the completion of tertiary education stood at 33.9 per cent in 2018, thus superseding the national target for 2020.

3.3 EXTERNAL COMPETITIVENESS

Being a small open economy, Malta is susceptible to external shocks, thus the importance of maintaining a healthy and competitive economy vis-à-vis other competitor countries cannot be overstated. An important part of maintaining competitiveness with other competitive countries does not lie solely in increased productivity but also in relative prices.

Exchange rates and export market shares

Exchange rate valuations often determine the extent to which a country is competitive in terms of the pricing of its exports and imports, relative to other countries. The Real effective exchange rate (REER) is a weighted average of a country's exchange rate vis-à-vis that of its main competitors (the main 42 competitor countries in this case). The higher the REER value indicates an appreciation of the domestic currency relative to that of competitor countries.

The REER based on the CPI and that based on unit labour cost declined sharply after 2013 indicating competitiveness gains in terms of the local exchange rate (Figure 3.10). Over the last few years the REER appreciated slightly, meaning that Malta's currency appreciated relative to its main trading partners. The REER has one important limitation however, in that weights are computed using solely trade in goods. This is especially an issue for Malta given the importance of the services industry.

This warrants the use of other indicators, such as export market shares which indicate the degree of importance of a country's exports when compared to the rest of the world. A higher share would indicate a higher proportion of Maltese exports vis-à-vis the rest of the world.

Figure 3.10
REER

source: Eurostat

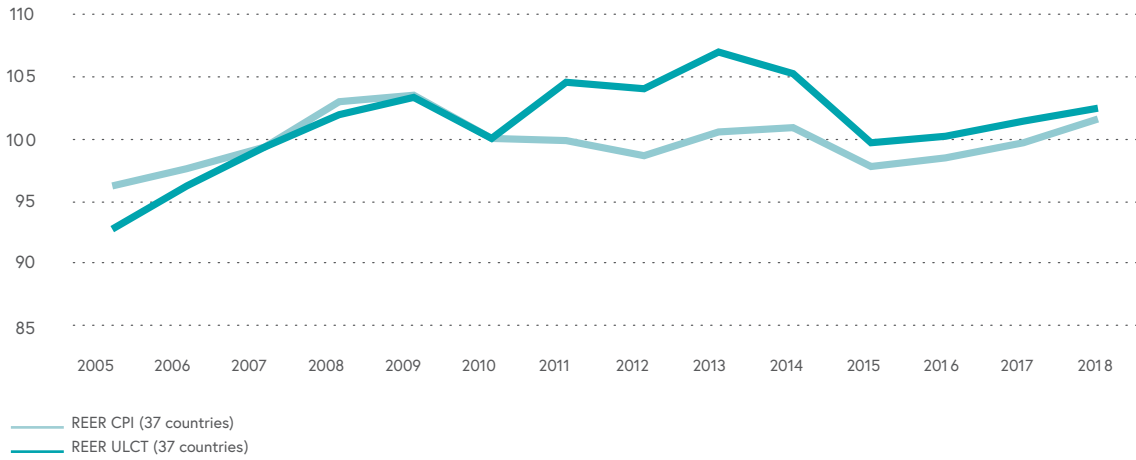
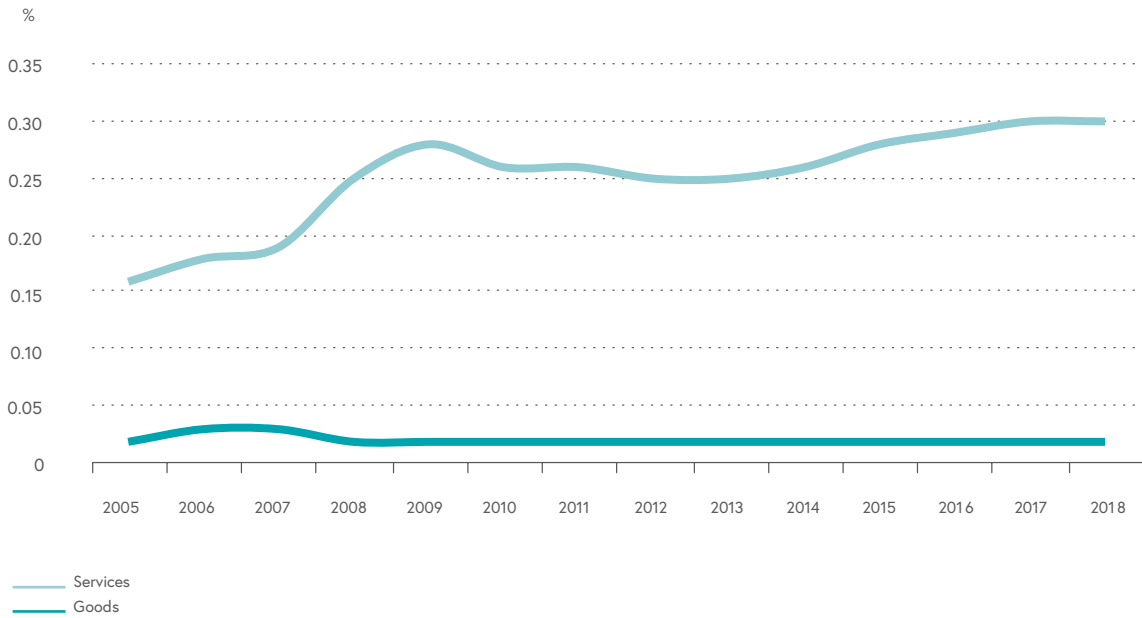


Figure 3.11
Export Market shares

source: Eurostat



Malta's export market share is driven by the increase in services exports (Figure 3.11). The EMS for goods remained relatively unchanged at around 0.02 per cent since 2005, whilst that of services increased from 0.16 per cent in 2005 up to 0.30 per cent in 2018.

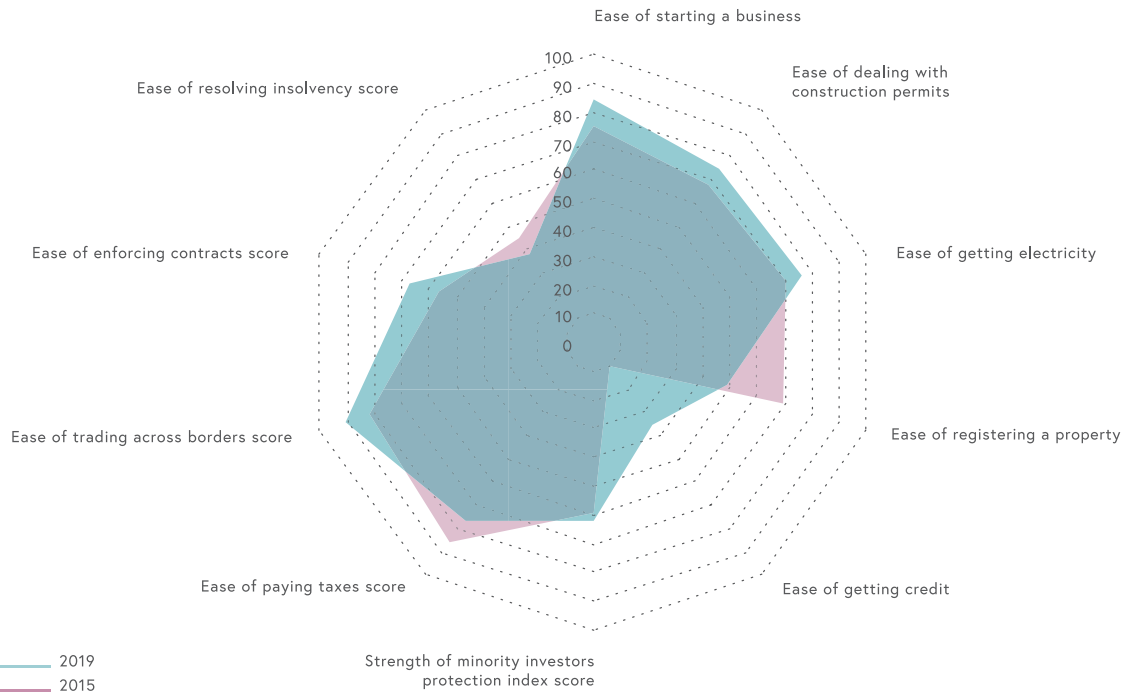
3.4 EXTERNAL PERSPECTIVES

World Bank Doing Business Report

Malta ranked 84th out of 190 countries in the 2019 report, an improvement of 10 places when compared to the report of 2015. Malta made improvements in most of the categories being examined, most notably with respect to the ease of trading across borders, the ease of enforcing contacts, the ease of getting credit and the ease of starting a business (Figure 3.12).

The World Bank Doing Business report seeks to analyse the ease with which business in general can start to operate within a particular jurisdiction. This study is based on survey data and looks at several indicators related to the business environment. From the surveys conducted, scores are then given to the respective countries and a distance to frontier approach is adopted to be able to create effective cross-country comparisons. The closer the score is to 100, the closer would that country be to the best performing country in a given indicator.

Figure 3.12
Ease of Doing Business Score
 source: World Bank



Global Competitiveness report

Given that in 2018, there was a change in methodology when it comes to the Global competitiveness index, time series comparisons are somewhat harder to perform. To partially bypass this problem, comparisons are drawn using Malta's rank in the 2015 and 2018 reports. Malta's improvements were made in strengthening institutions, macroeconomic stability, labour market and innovation. Malta's rankings in these areas have improved during this period. In macroeconomic stability, Malta came first with a score of 100 due to low levels of recorded inflation and stable debt dynamics. Malta also performs well when it comes to healthcare given its high life expectancy which is the main determinant of this indicator.

In areas such as infrastructure, product market and business dynamism, Malta saw a decrease in the rankings. The Government is cognisant of these challenges and is currently addressing them. Indeed, it is channelling a record amount of capital expenditure towards a 7-year infrastructural project to upgrade Malta's road infrastructure. Additionally, it is implementing various measures to nurture a business-friendly environment including the launching of five 'one-stop-shops', or information hubs, for all Government services under the organisation of servizz.gov, the Business First which offers services, information and assistance to potential entrepreneurs and SMEs interested in setting-up their own business and the Start-Up Malta Foundation (SUM) to establish a better and more efficient support system for young and maturing start-ups.

3.5 CONCLUSION

Malta's progress in converging towards the European standard of living can be attributed to the buoyant economic performance and in particular growth in its economic potential. Indeed, the rising economic potential is in itself reflective of the growth in the working age population, rising participation and employment rates, decreasing NAIU and rising investment. Furthermore, another important contributor to potential output growth is Total Factor Productivity which in recent years was quite robust and exceeded gains in the EU average. In the labour market, the unemployment rate is at an all-time low whilst the participation rate particularly amongst women is increasing. Net exports in the services industry in general have also seen substantial increases since 2012, mostly owing to personal, cultural and recreational services sector, the tourism sector, financial services and the transport sector. This affirms Malta's diverse economic structure and is reflected in the significant current account surplus recorded in recent years.

The Government will ensure that the factors determining competitiveness are supported and that the progress recorded in recent years is sustained over the longer term.

CHAPTER 4



AN ECONOMIC
FRAMEWORK FOR SUSTAINED
INCLUSIVE GROWTH



4.1 INTRODUCTION

The review of recent economic literature emphasises the importance of achieving sustained inclusive growth, where economic gains are distributed fairly whilst maintaining equality of opportunity, to address income inequality. Inclusive growth is a multidimensional concept which does not exclusively refer to monetary gains but also to healthcare, education and social protection and redistribution of income.

Redistributive policies are essential in ensuring sustained inclusive growth. Technological change, the automation of jobs, climate change and changes in the demographic structures of the population all point towards the need to sustain structural reform efforts. Of importance is the need to increase productivity by fostering innovation through higher investment in human capital and research and development.

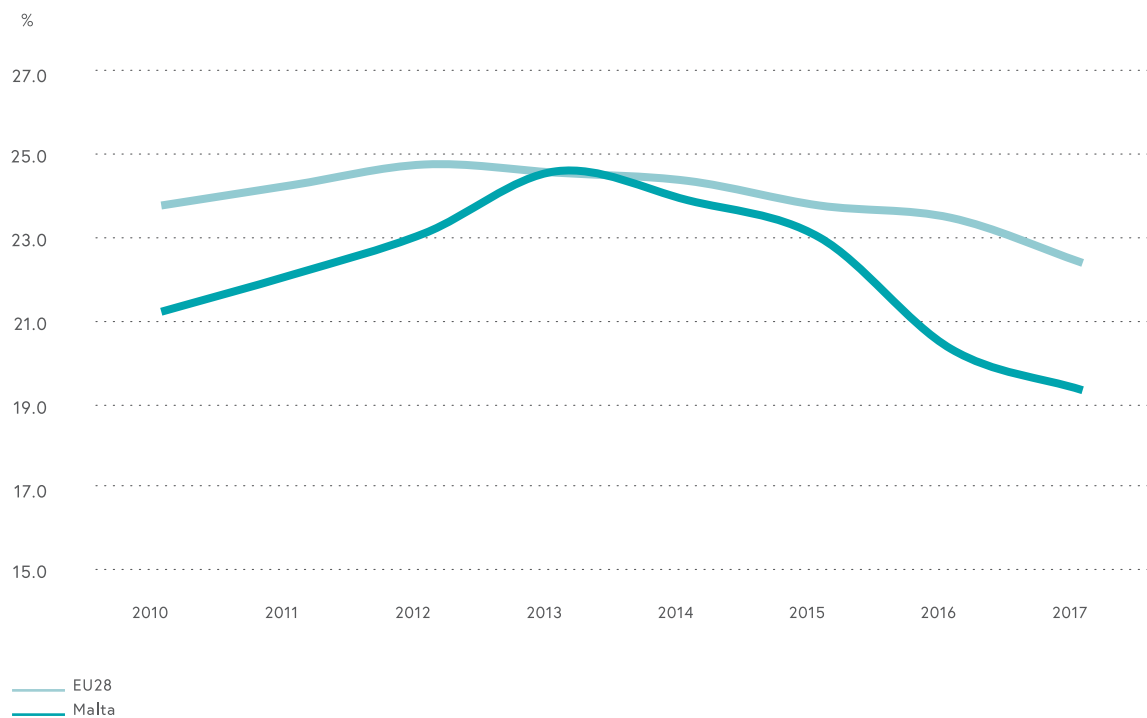
The framework relied upon to benchmark Malta's performance, is the Economy of Well-Being, which looks at the long-term impacts of growth on sustainability. The focus shall be on a number of policy areas that are crucial for both well-being and economic growth namely:

1. Social protection and redistribution;
2. healthcare;
3. education; and
4. gender equality.

4.2 SOCIAL PROTECTION AND REDISTRIBUTION

Redistributive policies cover a range of tax-benefit policies and typically address income inequality. At the same time, changes in the tax-benefit system may affect the incentive to work and issues related to the poverty trap.

Figure 4.1
At-Risk-Of-Poverty or Social Exclusion Rate
source: Eurostat



An alternative measure to inequality is the at risk of poverty or social exclusion (AROPE) rate together with its subcomponents, namely: the at-risk-of-poverty rate, the material deprivation rate and the work intensity indicator. The AROPE for Malta has been on a constant decline since 2013 dipping well below that of the EU average, where the former reached a rate of 19.0 per cent in 2018, whilst the latter reached 22.4 per cent in 2017 (latest available data for the EU average).

The drop in the AROPE is driven by the material deprivation rate which dropped sharply from 29.4 per cent in 2014 to 12.1 per cent in 2018. The material deprivation rate is based on a survey which asks respondents whether they can afford certain basic items. If the respondents cannot afford of the items listed, they are considered to be materially deprived.

In this aspect, Malta's strong performance reflects the various budget measures implemented to lift individuals out of absolute poverty.

Malta's position is better than that of the EU average when it comes to inequality and at-risk-of-poverty indicators, however the long-term sustainability of Malta's welfare model remains contingent on a balancing act between pressures for greater generosity and broader budgetary pressures in light of ageing. The Government continues to sustain its policies aimed at addressing the four main at-risk-of-poverty inducing factors: unemployment, low income, old age and illness or disability.

The free childcare scheme, targeting parents or guardians having children aged between 3 months and 3 years, (who are in employment or pursuing further education) continues. Furthermore, the Government continues to support the Klabb 3-16 scheme that runs after school programmes during the scholastic year while offering its services during school holidays. These ongoing measures, together with the promotion of flexible working arrangements, are intended to encourage more women to enter the labour market. Additionally, women in employment and self-employment are benefiting from eighteen weeks' maternity leave while adoption leave has been aligned with maternity leave. Unemployed persons, in receipt of social benefits and who returned or joined the workforce, benefitted from the tapering of benefits scheme.

The In-Work Benefit scheme has been further extended applying to couples where only one member is in gainful employment. The extension increases the rate of this benefit (from €350 to €450 per child) payable to couples where only one person is in employment. The extension of the In-Work Benefit scheme continues to encourage more persons to enter the labour force while also increasing the income of working families in particular to those at the lower income scale. The reductions in income tax together with the increases in the children's allowance have also boosted the income of the working families. Moreover, the first-time and second-time buyer schemes and the introduction of the affordable housing benefit together with the provision of new social housing units are addressing the challenges faced by low to middle income families in the property and private rental market.

The Government has introduced a number of measures intended to increase the income of pensioners and the elderly. Indeed, it increased pensions by €4.50 per week including the cost of living adjustment, whilst also raising the ceiling on which income from pensions is exempt from income tax. It is providing an annual grant for the elderly who have paid some contributions but not enough to be eligible for minimum pensions. In addition, it has also introduced the 62+ Government Saving Bond with an attractive interest rate higher than the market rate, to provide an alternative method for senior citizens to supplement their income.

The Government has also focused on diversifying retirement income and reducing the sole dependency on state pensions. The Malta Stock Exchange has taken an increasingly active role in increasing the level of financial literacy.

Important policy initiatives are underway in the field of financial literacy, such as the implementation of the Strategy on Retirement and Financial Capability. Personal private pension schemes were launched in 2015 and tax benefits for such products were also introduced.

Accordingly, there are now a number of providers offering personal pension plans. The Government also strengthened the incentives for both the Third Pillar Pension Scheme as well as the Voluntary Occupational Pension Scheme, with a view to encourage further take-up of such products. Accordingly, in 2019, the amount of tax-exempt annual financial investment was raised to a maximum of €2,000 each year. Furthermore, in 2019, the reduction in taxes was increased from 15 per cent to 25 per cent.

Moreover, the Government is giving an annual grant to the elderly living at home while paying a portion of the wage of a private carer employed by the elderly. It has also enhanced the Increased Carers and the Carers Allowances. Recently, the Government launched the Home Equity Release. By converting part of the residential house value into a stream of income, this voluntary scheme allows elderly home-owners to supplement their annual financial income and improve their standard of living.

Various measures were implemented to enhance the income of disabled persons and increase their labour market opportunities including the enforcement of the law in favour of the employment of persons with disability, substantial improvements in disability pensions, the building of homes for independent living and the establishment of a Disability Trust Fund. Moreover, the medical assistance allowances were enhanced and the number of free medicines were increased for persons suffering from chronic illnesses.

4.3 THE EFFECTIVENESS OF BUDGET MEASURES IN REDUCING THE RISK OF POVERTY

Four chosen measures in the budget for 2019 were simulated using the EUROMOD model, in order to quantify their effectiveness in reducing the risk of poverty.

The increase of €2.17 for every pensioner (over and above COLA)

To address the adequacy of pensions and improve the distribution of wealth, the Government increased pensions by €2.17 per week. This measure is expected to have a positive impact with respect to the overall at-risk-of poverty rate, which is estimated to decline by around 0.16 percentage points. There is a positive distributional impact on all income brackets. However, the families benefitting the most from this reform are those at the bottom of the income ladder.

The income tax 'refund' for persons in employment

With the aim of strengthening the incentive to work and addressing in-work poverty, the tax refund measure applicable to all those earning less than €60,000 per annum was repeated. The tax rebate, which is progressive and varies between €40 and €68, should bring about a drop of around 0.12 percentage points in the at-risk-of-poverty rate, apart from yielding an increase in disposable income for all groups.

The increase in children's allowance

The increase in the children's allowance for families with a gross income lower than €20,000 per year, suggests that the overall at-risk-of-poverty rate is expected to decrease by around 0.07 percentage points. Once again, the measure should bring about a positive distributional impact on all income brackets.

The Affordable Housing benefit

The distributional impact of the new housing benefit intended to enhance the affordability of private sector rentals is expected to translate in a decline of 0.06 percentage points in the overall at-risk-of-poverty rate. The highest rise in disposable income should be enjoyed by families with the lowest income, thus resulting in an improvement in the Gini coefficient as was the case of the previous three measures considered. This implies that the four measures also mitigate income inequality.

4.4 HEALTHCARE

Apart from enabling individuals to live a good life, health has a bearing on people's economic standing as it can propel labour force participation and productivity thus leading to higher GDP per capita in the long-run. Normally the effectiveness of a health system is assessed by means of life quantity and life quality indicators. The former is normally measured by means of life expectancy statistics whereas the latter hinges on mental and physical health outcomes.

Figure 4.2
Life Expectancy 2017 - age < 1yr
source: Eurostat

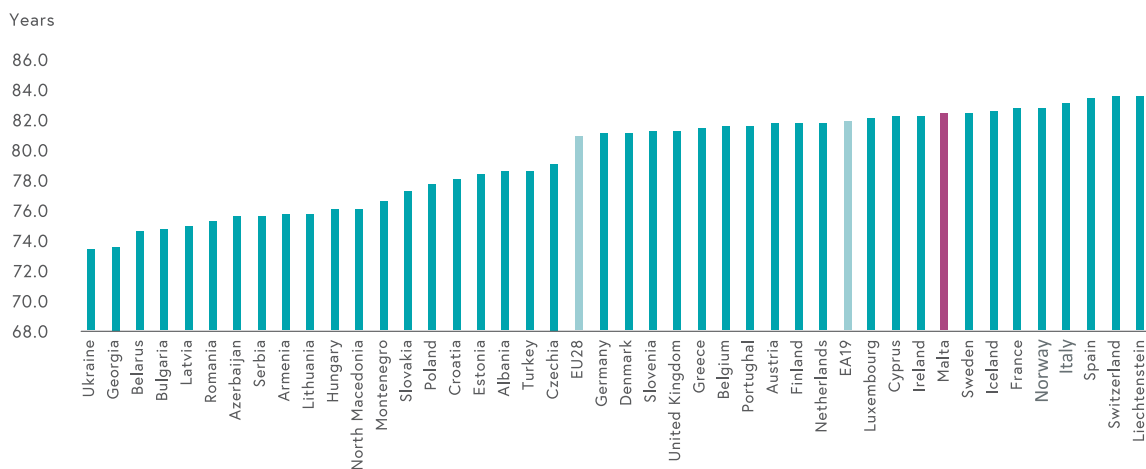
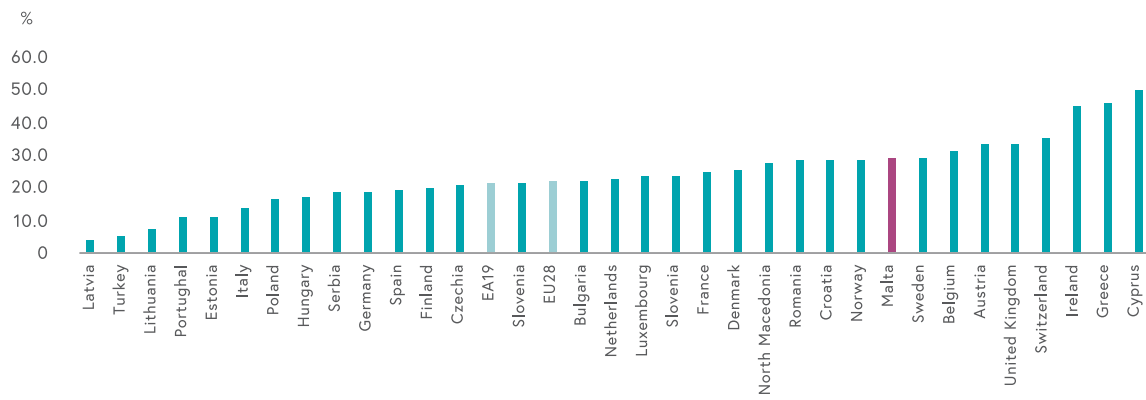
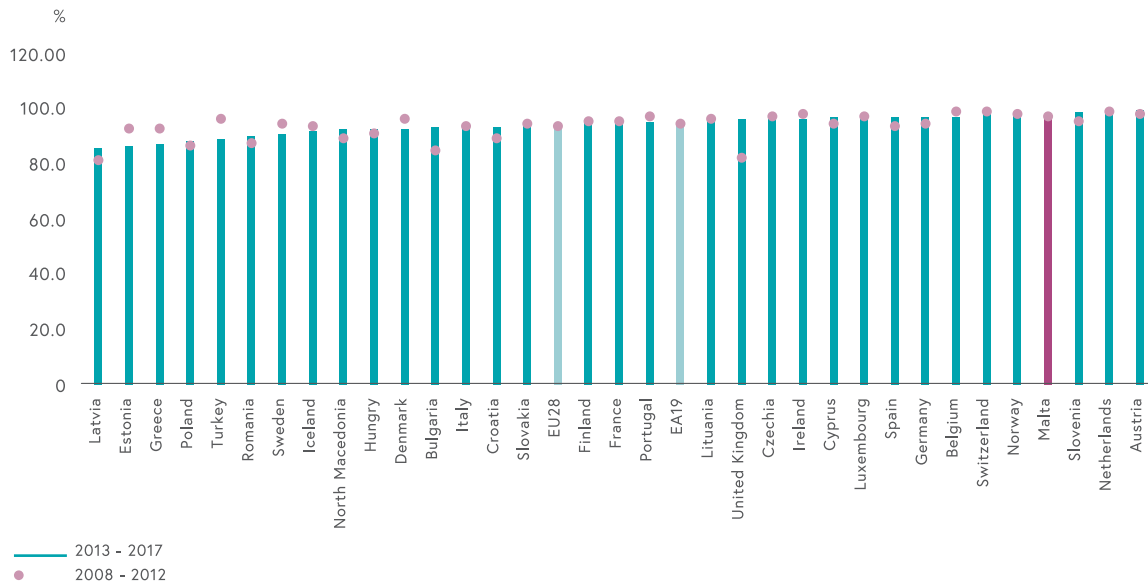


Figure 4.3
Self-perceived Health 2017
source: Eurostat



In terms of life expectancy, Malta recorded the 7th highest figure in the EU. Between 2008 and 2017, the average life expectancy increased by 2.7 years, with the life expectancy of females increasing from 82.2 years to 84.6 years whereas that of males increased from 77.5 years to 80.2 years. When it comes to assess the health outcomes with respect to the self-perceived health module in the SILC survey, Malta ranks 8th in the EU. These results bear witness to the expenditure levels on health and the fact that Malta's health care system is free of charge, thus making it accessible to the most vulnerable sections of society.

Figure 4.3
Self-Reported Unmet Needs: 5-year Average
- No unmet needs to declare
 source: Eurostat



Taking the 5-year average of the self-reported unmet needs during the period 2013 to 2017, from all the options available to respondents, which included 'too expensive' and 'waiting list' in the list of reasons for unmet needs, at 98 per cent Malta registered the 4th highest percentage of respondents that had no unmet needs to declare. The rate was 1.5 percentage points higher than the average rate recorded during the period 2008 and 2012.

Looking at the risks from a micro perspective is also beneficial to identify that challenges which need to be addressed. A survey conducted in 2014, showed that the percentage of respondents with depressive symptoms stood at 5.7 per cent, 1 percentage point lower than the EU average. Looking at the body-mass index, Malta recorded the highest percentage of obese people in the EU. Having a high percentage of overweight individuals impinges on health care budgets due to the high cost of treating patients with chronic diseases normally associated with obesity, such as diabetes and some cancers.

In order to address these challenges, the National Health System Strategy (NHSS) was launched with the recognition that health promotion and disease prevention initiatives are key to improving population health and maintaining the sustainability of the health care system in the long-term. A number of sectoral strategies have been launched since 2014, including: the Mental Health Strategy (2020-2030); the National Cancer Plan (2017-2021); the Diabetes strategy (2015-2020); the Hepatitis strategy (2018-2025); the National Breastfeeding Policy (2015-2020); the Food and Nutrition Policy and Action Plan (2015-2020); and the Healthy Lifestyle in Schools: Healthy Eating and Physical Activity Policy (2015) among others.

Other initiatives expected to improve the outcomes in the healthcare sector include, the setting up of a Southern Regional Hub which is expected to be operational by 2023 and the introduction of an Electronic Patient Record system by 2020 to replace the current paper-based methodology. The measure is expected to translate to efficiency gains.

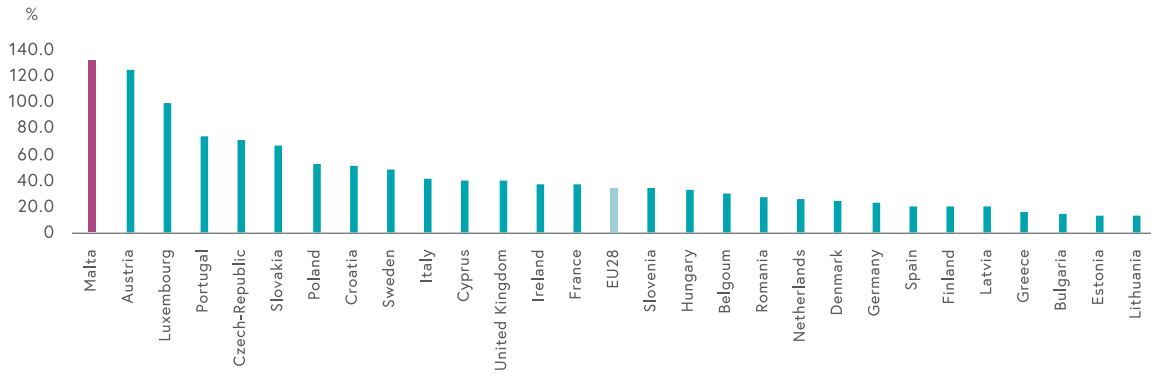
Having an accessible and sustainable health care system is another form of investment in human capital, which in turn is a precursor for inclusive growth.

4.5 EDUCATION

The quality of education in a country has positive spill overs on other aspects of well-being. Education quantity is also an important outcome when benchmarking well-being. A highly educated individual tends to: live longer, experience higher employment rates and lower market insecurity, and be more health conscious. Although Malta's educational outcomes are still lower than the EU average, it is making great strides, having the highest percentage increase in the number of employees who completed tertiary education (ISCED levels 5 - 8) over the past 10 years (2018Q3 on 2008Q3). In fact, Malta registered an increase of 132 per cent during the period under review.

The Government recognises that skill shortages can dent the country's ability to sustain economic growth in the future. In this context, it is prioritising investment in the educational system to ensure that everyone can realise his/her full potential and develop the skills necessary for the high value-added sectors.

Figure 4.4
Percentage increase in the number of employees
completing tertiary education in past 10 years
 source: Eurostat



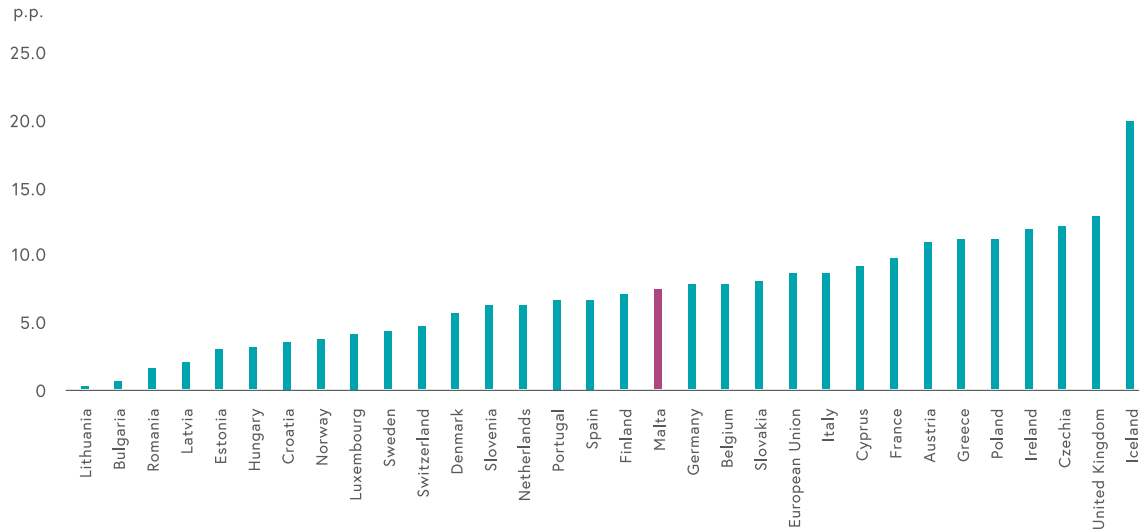
4.6 GENDER EQUALITY

Another key factor conducive to inclusive growth is gender equality. Higher female engagement in the labour market both in terms of the number of employed persons and the number of hours worked, can improve productivity and sustain economic growth.

Women's participation rates increased significantly in recent years, but they are still more likely to be engaged in the labour market on a part-time basis (6.5 per cent of the population for males and 23.0 per cent of the population for females in 2018 in Malta) and less likely to occupy managerial positions (70 per cent of managerial positions held by males in 2018 in Malta).

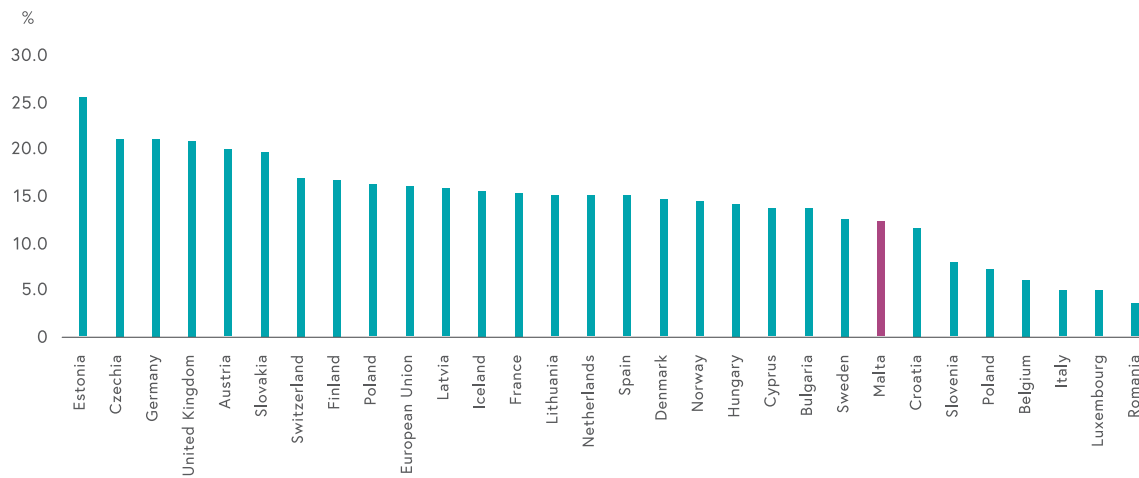
Men are also more likely to work long hours in paid work as shown in Figure 4.8, which represents the discrepancy between males and females in terms of working long hours during 2018. In Malta, the difference is lower than the EU average with 11.4 per cent of males working long hours and 4.0 per cent of females working long hours, with a gap of 7.4 percentage points. This gap at EU level stood at 8.5 percentage points.

Figure 4.5
Difference between long hours worked by males and females
 source: Eurostat



In 2017, the gender pay gap was relatively low as indicated in Figure 4.9. The gender pay gap in Malta stood at 12.2 per cent, 3.8 percentage points lower than the average recorded at EU level.

Figure 4.6
Gender Pay Gap in 2017
 source: Eurostat



4.7 CONCLUSION

The benchmarking exercise comparing the results across the EU in the social protection and health care spheres, shows that Malta is well placed. The analysis undertaken in this chapter demonstrated the effectiveness of social transfers in reducing the income inequality and the significant decline in the AROPE rate recorded in recent years as a result of the Government growth-enhancing social Budget measures. Malta also boasts one of the lowest labour tax wedges in EU (measuring the tax paid on average by workers).

Free health care services are ensuring that essential services that have a direct bearing on the well-being of individuals are accessible by everyone. These are important milestones as well-designed welfare systems are precursors for inclusive growth.

The outcomes of Malta's educational system are gradually improving over time, but the Government is making a concerted effort to catch-up with respect to EU peers, conscious that investment in human capital is key to the creation of a strong social fabric. The educational system has a strong bearing on the persons' ability to realise their full potential and develop the skills necessary for high value-added sectors to thrive.

Malta has made significant strides forward when it comes to female participation in the labour market. This achievement resonates even more against the backdrop of: the eighth lowest gender pay gaps in the EU; and lower differences between males and females in terms of working long hours in relation to the EU and Euro Area averages. In this regard, the Government remains committed to continue achieving gender equality and equality at all levels of society.



CHAPTER 5





THE BUDGET'S
PRIORITY AREAS

5.1 INTRODUCTION

Economic prosperity coupled with sound public finances have enabled the Government to increase investment in priority sectors and address the challenges brought by the increased level of economic activity. In the coming years, policies will be directed towards achieving an equilibrium between environmental protection and economic development, whilst also ensuring that future development is sustainable.

The Government will continue ensuring higher quality in healthcare services, while prioritising investment in education to sustain the improvements being achieved so far. It will also continue with its drive to strengthen the regulatory and supervisory institutions while focusing on making Malta a leading player in technological innovation as well as raising the quality of Malta's tourism product offer.

Ensuring inclusive growth will be pivotal in the forthcoming Budget so that Malta's success is indeed felt and enjoyed by all.

5.2 REFORMS IN THE JUSTICE SYSTEM

The year 2020 should see the implementation of the separation of functions of the Office of the Attorney General through the establishment of the Office of State Advocate which will act as legal advisor to the Government. The legislation to set-up the new Prosecution Unit has been passed through Parliament.

The development will also involve additional prosecutorial functions being assumed gradually by the Office of the Attorney General in coordination with the Police both for separating the investigative and the prosecution functions and for giving an additional role to the Office of the Attorney General in charging decisions and in the prosecution of cases before the Court of Magistrates.

At the same time, the Government is intent on implementing further aspects mentioned in the Venice Commission report on Malta, particularly those related to an improved system of Judicial appointments which requires the support of a two thirds majority in the House and the other subjects on which there has already been a first reading in Parliament. These, in all, cater for one third of all the Venice Commission proposals.

Efficiency in the judicial procedure will remain a priority. The newly set-up Court Services Agency is another milestone in the Justice Reform ensuring more autonomy to the Court. Further initiatives will be taken to promote Mediation as an alternative dispute resolution with the aim of reducing the backlog of court cases.

Malta has registered substantial efforts in the execution of asset recovery practices, both locally and in cross-border cooperation. The Asset Recovery Bureau will be working on legislation aimed at having an effective identification, freezing, confiscation and disposal of criminal assets. Complementary to this, there shall be the construction of a secure and specialised premises, equipped with the latest technology to host asset tracing laboratory and adequate space for the preservation of seized assets.

5.3 CONTINUE STRENGTHENING THE INSTITUTIONS AND REGULATORY AUTHORITIES

Apart from the enactment of legislation to transpose the fifth Anti-Money Laundering Directive, more initiatives will come into force from other regulations against fiscal evasion, such as the Base Erosion Profit Shifting Directive (BEPS).

The Government will also continue with its drive to strengthen its regulatory and supervisory institutions. These institutions have been engaged in implementing a substantial number of initiatives, which emerge from the detailed Strategic Action Plans drafted by the same institutions and endorsed by the international organisations. The international institutions are recognising the efforts and endorsing the improvements being made in this regard.

The strengthening of the process of prosecution, where cases of money-laundering and tax evasion arise, will continue, with the setting-up of a specialised Financial Organised Crime Agency. The National Coordination Committee will spearhead further initiatives to be taken to ensure closer collaboration and sharing of information between the institutions.

The Investigative Arm of the Joint Enforcement Unit, operating from the Office of the Commissioner for Revenue, in conjunction with the Customs Department, will continue to build on the success it has been registering in these last couple of years. It will continue with its drive against smuggling, illicit trade, organised crime and terrorism, to promote a level playing field in the commercial sector and safeguard Government's revenue.

The Revenue authorities will continue with the revision of their processes to reduce the bureaucratic obstacles and facilitate access to its services by promoting the use of online technology and modernise practices.

The Malta Stock Exchange will continue with its modernisation, expansion and internalisation to further stimulate alternative competitive financing routes for the benefit of the Maltese economic activities.

5.4 A HUB FOR INNOVATIVE TECHNOLOGY

The last two years saw Malta positioning itself as one of the most innovating jurisdictions in terms of technology. The legal framework enacted during the summer of 2018 that regulated distributed ledger technology was a first in the world. From a country that used to be a follower, Malta started to lead. Nowadays several countries, both European counterparts as well as globally, are looking actively towards Malta and try to replicate its success in this area.

The first licensed operators in virtual financial assets will soon start operating. This will encourage further private investment in Malta, in turn creating not only high skilled employment but also bringing knowledge and other related positive externalities.

Artificial Intelligence (AI) will complement blockchain. It can be developed into a new economic niche. Currently, the Government is working on assessing how regulatory and fiscal measures can be used to strengthen Malta's appeal as a hub for foreign investment in this sector, while identifying the underlying skill base and infrastructure needed to support AI.

The Government's efforts of making Malta a leading player in technological innovation does not stop at blockchain or artificial intelligence. The space sector holds various opportunities and investing in this area provides national and commercial interests. The Government's aim is to create a regulatory framework and incentives which improves Malta's attractiveness and capability to capitalise upon commercial activities related to the outer space. This should position Malta as a place where companies operating in the space industry can operate from, generating jobs and promoting the investment. The Government is committed to develop tailor made incentives for the establishment of space start-ups and satellite communication companies to register their operations in Malta.

The Government will continue investing in the Online Gaming sector which has successfully become a thriving sector in Malta. Indeed, during the coming months the development of E-Sports will be intense as this sector can offer Malta the opportunity to develop niche tourism segments with global exposure opportunities.

The financial services remain a priority for the Maltese Government. It remains a dynamic and ever-changing environment, now more than ever before due to new products and services driven by technology.

The heavy adoption of technology by the financial services provides significant benefits. Indeed, recent technological advancements such as artificial intelligence, distributed ledger technology, the internet of things and cloud technologies, are rapidly transforming the way customers access financial services and engage with financial products providers.

The financial regulator will continue to lead in this area with the aim to enhance consumer protection, augment the integrity and stability of the local financial market.

Besides the role of the regulator, market practitioners and services providers should remain at the centres of this industry. Through a consultative body, their views and expertise knowledge will be taken on board to keep the national legal framework as competitive as possible.

All this necessitates a skilled workforce. The Government is committed to continue investing into its educational institutions to provide students and the current workforce with the best tools to take the maximum advantage of innovative technology.

5.5 CONTINUED INVESTMENT IN SOCIAL JUSTICE AND SOCIAL INCLUSION

The Government will continue to use the underlying strength and resilience of Malta's economic success to improve the quality of life for the people and protect the most vulnerable in society. It has worked hard to strengthen the middle class, which is the backbone of any society. One of our most successful measures has been the In-Work Benefit scheme. Making Work Pay, together with tapering of social benefits during employment, is indeed making it worthwhile for people, especially women, to join the labour force and actively contribute to the economic progress of the country. The majority of those enrolled in the tapering scheme were still working after three years and were weaned off benefits.

This is also evident from the continuing decrease in the number of persons on social welfare, which has gone down by 4,000 in six years to around 6,600. There was also a sharp drop in the number of people receiving unemployment assistance.

These and many other measures contributed to a reduction in the persons at risk of poverty from 102,000 in 2013 to 87,500 in 2017, whereas the rate of persons in severe material deprivation has been cut down from 10 per cent or 44,000 persons in 2013 to 3 per cent or 14,000 in 2018. This means that, 2 of every 3 persons who were living in poverty in 2013, were lifted out of poverty by 2018.

For the fourth year running, pensions were increased, with around 92,000 enjoying their first non-COLA increases in 25 years. Furthermore, persons in receipt of retirement or widows' pension, some 65,000 of them, benefited from additional increases in their pensions to account for improvements in collective agreements in their former workplaces.

The Government fully intends to make certain that senior citizens who have worked hard their entire lives enjoy a secure and dignified retirement, free of financial worries. Helping the elderly and vulnerable remains a priority, especially certain pockets of poverty and deprivation which inevitably occur. These tend to be elderly people, mostly single who are over 65 years old, and who have low pensions. Women who have had limited working lives and therefore fail to qualify for a pension are also negatively affected.

The Government will continue helping those elderly who wants to continue to live in the community, as is the desire of their close family and friends, and for those who care for them.

After assisting first-time buyers, the Government is now working on increasing the supply of social housing as this is the most effective way of addressing affordability in the long run for people who are on a low income. The initial 500-unit project was doubled to 1,000 units to be built on non-ODZ land in 22 sites in various localities in Malta.

This project will complement other initiatives like equity sharing, housing benefits for those renting private properties, shared ownership between the Government and individuals or married couples, and social bank loans.

5.6 CONTINUED INVESTMENT TO MAINTAIN HIGH QUALITY STANDARDS IN HEALTH

The Government will continue investing in the national healthcare system to ensure that the high-quality healthcare services being given to Maltese and Gozitan citizens is maintained. Indeed, further investment will be made to upgrade and enhance the health infrastructure. Among such investments, there is planned the development of a new Outpatients block at Mater Dei Hospital. Moreover, the Government is at an advanced stage in the purchasing of the state-of-the-art equipment intended to perform robotic surgery in those cases of major surgery that require precision, such as in the oncology field.

The Maltese and Gozitan patients will start benefitting from treatment in reference centres across Europe, after Mater Dei Hospital has been accepted as a centre authorised to use European Reference Networks.

In the coming year, there will be a drive to improve the primary healthcare facilities to offer a number of specialised services in a more efficient and effective way. Apart from continuing the construction of the Regional centre in the South of Malta, the Government will continue with the refurbishing and upgrading existing centres in Malta as well as the Primary Healthcare Centre in Gozo. The investment will not solely be infrastructural but will also involve the purchasing of new medical equipment. These Regional Health Centres will complement the existing Primary Health Care Centres.

To improve the national mental health care services, there will be the continuation to upgrade the facilities at Mount Carmel Hospital.

The Government is also committed to invest in the Health Standards Department, while introducing new medicines to the National Formulary to increase the availability of free medicine treating a wider range of diseases. In particular, it will continue investing in cancer care, particularly in services that addresses the needs of those who are struggling with this disease, so that these individuals can, as much as possible, live a normal life while minimising the pain of those patients who, unfortunately, are losing the battle with cancer. Work will continue on the Clinical Risk Management Unit to improve the quality of services being given in the field of oncology.

Meanwhile, the Government will continue focusing on prevention policies in the healthcare sector by investing in specialised research as well as more general research, such as the European Health Interview Survey. Existing educational and preventive campaigns will be continued and expanded. After introducing the robotics system to enhance the distribution of medicines at Mater Dei, the Government is now focusing on innovating the POYC system to improve the distribution of medicine, both for the patients and the medical personnel who issue the prescriptions.

The Government will also invest in an electronic cards system which is expected to increase the efficiency in the administration of the health care system while being more convenient to the patients themselves.

5.7 ENHANCING ECONOMIC PROSPERITY IN GOZO

It is the Government's mission to optimize Gozo's potential to ensure more prosperity, economic growth and qualitative job creation that match the aspirations of the Gozitans. Towards this end, the long-term strategy which will be implemented by the Gozo Regional Development Authority will ensure an innovative, rejuvenated and connected island that delivers social and economic prosperity whilst conserving Gozo's unique rural, cultural, and natural characteristics.

Connectivity is still high on the agenda. With the introduction of the fourth ferry and the scheduled helicopter service, the Government aims to enhance economic growth from increased business and tourism activity.

Virtual connectivity through the implementation of the second Fibre Optic cable will provide a reliable and secure connection 365 days a year to both locals and businesses and will therefore attract value added business to Gozo.

Under the redefined EcoGozo Strategy, there will be the continuation of the major projects including the regeneration of the village cores to offer more space to the public; the regeneration of the valleys and rubble walls and the restoration works on landmark sites, amongst other projects.

The "Project Gozo" initiative includes an unprecedented road building programme is being carried out. This road works programme will be continued to improve the much-needed infrastructure of the Gozitan road network. This infrastructure works programme, together with the Mgarr Harbour re-organisation project, the permanent link and the ongoing re-structuring of Gozo Channel will also boost economic growth in Gozo while curbing the negative effects and impacts of double insularity.

The budget measure launched in 2017 and which was renewed last year, whereby a rebate of the employee's salary (up to €6,000 for 3 years), has proved to be successful in attracting new business and the creation of new job opportunities. The drive to attract quality and value-added employment in Gozo, will continue.

The needs of the elderly will be catered for through the completion and commissioning of "Dar San Ġuzepp" Home for the Elderly. New services will also be introduced to cater for the needs of the elderly, such as Dementia.

Social Cohesion will continue to be addressed through services and empowerment of persons with disability, upgrade of sports facilities and the delivery of the Gozo Aquatic Centre, besides the upgrading of other sports facilities around Gozo.

Tourism is the backbone of Gozo's economy. A master plan for both Marsalforn and Xlendi were drawn-up and are being implemented. Both Comino and Ramla will have their own masterplans as well as Imġarr ix-Xini. All masterplans will focus on maximising the potential of these important touristic areas with special attention to the sensibility of the environment which plays a major role in Gozo's distinct character.

The Government will continue to build on Gozo's rich cultural calendar by investing in various thematic festivals centred on Gozo's unique culture directed to build a richer cultural context not only for Gozitans but also for Maltese and foreign tourists.

5.8 CONTINUE IMPROVING THE ROAD INFRASTRUCTURE AND THE CREATION OF PUBLIC SPACES

Throughout the forthcoming financial year, the Government's focus shall remain steadfast on improving Malta's road infrastructure. This includes increased accessibility and flood relief interventions, enhancing public spaces which can be enjoyed by the community, introducing further measures to provide more accessible and sustainable transport whilst putting unprecedented emphasis on road safety.

The Government's aim is to contribute towards sustainable development, to continue to revolutionise the country's infrastructure, by implementing innovative holistic projects in conjunction with local authorities, furthermore, it will establish clearer and updated legislation and frameworks that can guide the Building and Construction Industry, including through the establishment of an Authority dedicated specifically to this function.

Formidable, accessible and enabling infrastructure is vital for the economy. Infrastructure Malta shall continue with its unprecedented investment of €700 million in road infrastructure over a 7-year period, working in tandem with Transport Malta to ensure that the roads are more open to alternative modes of travel, including cycling and foot paths. Roads, in particular country roads, which were previously abandoned or which, over time, increased in usage but were never given appropriate attention, will now be surfaced.

The Government will continue to promote the use of energy efficient and alternative transport through a variety of initiatives to support the shift towards non-internal combustion engine vehicles and buses and the introduction of safe cycle routes and footpaths.

It will also be inaugurating a fully equipped National Control Centre which will improve traffic management and enforcement in real time, house 112 emergency service and the ambulance dispatch.

When it comes to planning and the property market, the Planning Authority will continue to support and promote open spaces and sustainable urban development as well as the restoration of buildings particularly in village cores.

The Lands Authority, while continuing with its project to simplify its processes through digitalisation and introduce more online services, will be revisiting its practices and introducing self-imposed deadlines to increase efficiency in the processing of all applications it handles.

The Government will embark on projects that will contribute towards liveable communities within the built environment, focus on coastal zone management and continue implementing the various projects under the Arts in Public Spaces initiative. These projects are all intended to make Maltese localities more liveable by promoting safer accessibility, better infrastructure and enhancing the enjoyment of Malta's landscapes.

5.9 SUSTAINING THE SUCCESS OF THE TOURISM INDUSTRY

Tourism remains an important mainstay of the Maltese economy. 2018 was another year of records with tourist arrivals reaching the 2.6 million mark. Significant increases were also registered in terms of total nights spent and tourist expenditure. Besides growing in volume and in value, tourism has also grown in seasonal spread and geographical diversity. During the last two years, the growth rates recorded in the number of inbound tourists in the off-peak periods, between January and June, have significantly surpassed those recorded between July and September. The continued success in this sector, also reflects the strategic efforts to expand year-round air connectivity.

An important contributor to these achievements, remains Air Malta. Through the implementation of the business plan adopted in 2017, a number of accomplishments have been registered in the past months. These include the company's registering of a profit after 18 years in the red, the addition of 21 new routes and increased frequencies on certain routes, an increase in passenger numbers and an increase in the fleet size.

These results are attributed to the decisions made by the company, including better aircraft utilisation, the implementation of a new sales strategy, investments in IT technology, the negotiation of more favourable terms with the airline's suppliers and a number of improved or new services for the airlines' customers.

This growth strategy shall be pursued in the coming months through operational and customer improvements and improved connectivity. The recent setting up of Malta Air – Ryanair's Malta-based airline, shall further contribute to Government's vision to develop Malta into an aviation hub whilst further contributing to Malta's connectivity.

The Government's strategy for tourism in 2020, shall be guided by the drive to improve quality, competitiveness and innovation in the sector thus ensuring a continued sustainable contribution to the economy and society in general.

A concerted effort with all stakeholders to make a significant leap forward in the quality of our tourism product offer, shall also be undertaken. This will include improving the infrastructure of tourist areas through several ongoing and new projects in a number of localities all over Malta. Cognisant of the importance of the cruise-line industry for Malta, the Government shall also be working on providing better and safer infrastructure in the Grand Harbour. More efforts and resources will be dedicated to improving general cleanliness and upkeep of public facilities such as beaches, promenades and other public places. The intention is also to look further into the use of technology, IT and Artificial Intelligence and work with stakeholder in the industry, to improve the product offer and the management of tourism in a sustainable manner.

A vital aspect of the Government's strategy shall continue to be the expansion of our events calendar with world class events which would attract different niches and ages of tourists, year-round. A number of such events are also being planned for the coming months.

The element of hospitality and the quality of this intangible but important element are central to the further successful development of Maltese tourism. The notion of Quality is therefore, not limited to aspects of the physical offer. Employees working in the tourism industry are critical brand communicators and through their skills and aptitudes they contribute to communicate an effective message and image about Malta and Gozo. In this regard, the Government shall continue working with stakeholders in the industry and through institutions such as ITS on educational, capacity building and training to improve quality as well as improving attractiveness of a career in the tourism industry.

These efforts shall be accompanied by the continued work to strengthen brand Malta in origin markets overseas, the adoption of an improved legislative framework to cater for an evolving industry as well as ensuring compliance to standards and quality.

5.10 EQUITABLE QUALITY EDUCATION FOR ALL

Throughout this legislature, positive developments and statistical improvements in the provision of high quality, equitable and inclusive education and employment, have been registered. The Government will continue investing in these two main economic pillars to sustain economic growth.

The Government's goals are aligned to international benchmarks in order to propel Malta forward and smooth its transitions to successive targets. The Government has been mindful and will continue working towards reducing the early school leaving (ESL) rate which has been decreasing steadily annually, from 20.8 per cent in 2013 to 17.5 per cent in 2018. It is working to increase performance in literacy, mathematics and science, digital education, comprehensive adult learning, improve attainment in tertiary education, ensure an inclusive school environment and upskill the work force to cater for the skills gap.

The next scholastic year will see the introduction of 'Myjourney: Achieving through difference paths', a reform at secondary level which will retain the benefits of the current schooling system whilst replacing the current one-size-fits-all model with personalised, relevant and quality education for all students.

The Government has enhanced its relationship with the industry by way of improving labour market relevance of education and training to address skills mismatching and tweaking the education system to cater for the economy in a more tenable way. This includes investment in research, which is crucial for innovation and development, and integration of disadvantaged groups.

It will continue to improve the well-being and professional development of teachers as well as the school environment to make it safer and more pleasant to work in.

5.11 YOUTHS AND SPORTS

Significant investment is being channelled to upgrade the infrastructure of education and training institutions, sports facilities, and youth and voluntary organisations hubs to provide optimal learning environments. New curricula, certifications and workshops were developed to provide a tailor-made solution to the students. There is parity of esteem between vocational applied and academic subjects.

Efforts in the youth sector will also continue to intensify. Youth activism help instil democratic values and promotes development in young citizens. The youth programmes are beacon for the MEDE's aspirations to bring the youth's voice to the fore and strengthen their participation. The new voluntary organisations strategy was launched to strengthen such a crucial democratic arm. The strategy in question helps to eradicate abuse, systematise the sector's administration and promote it within the education institutions.

The Government has made clear its intention of prioritising sports to achieve the desired results in this field. In this regard, a new sports strategy has been launched for the next decade. Investment and preparations, both infrastructural as well as in athletes, for the 2023 GSSE games will be part of next years' priorities.

5.12 SUSTAINABILITY IN ENERGY AND WATER MANAGEMENT

The Government will continue to address the sustainability of the energy and water sectors by developing national policies and programmes which will seek to address the challenges the country is facing nowadays and improve the Maltese citizens' quality of life.

In this regard, it will look at programmes and educational campaigns to raise awareness on eco-friendly, energy-efficiency and water conservation measures.

In line with Malta's 2030 National Energy and Climate Plan, there will be the continuing support for energy efficiency and renewable energy for the installation of new solar water heaters and the replacement of older units which are reaching their end of life. Continuing support will also be provided for the deployment of solar PV and integrated battery storage, as well as energy efficiency measures in the industry, the services sector as well as in vulnerable households and sports organisations.

The impetus to continue to improve the quality of tap water, increase efficiencies and safeguard Malta's groundwater resources, will be maintained.

The Government will continue to address the partial treatment of farm liquid waste to be in a situation to discharge such water into the water infrastructure network.

5.13 FOSTERING COMPETITIVENESS AND SUSTAINABILITY

Malta Enterprise, in line with its vision, will continue to actively promote the attraction of high-quality foreign investment whilst at the same time ensuring the consolidation of the already present business community and supporting growth in indigenous enterprises.

It will implement this vision through its extensive offering of support measures, which will be enhanced with additional support focusing on start-ups, export oriented indigenous enterprises, business development and family-friendly measures for employees living in Gozo.

Malta Industrial Park's efforts towards supporting investment will continue through the continuous development and management of qualitative and sustainable industrial property solutions. Another priority is that of Green Infrastructure.

The aviation sector will be given its importance by looking at future proofing the industry whilst ensuring that the upgrading of facilities is set as a priority upon the completion of the strategic aviation cluster related master plan.

MIMCOL will strengthen its traditional role of providing management and financial consultancy to Government and Government related entities and agencies evolving as a key partner to these entities. It will also increase its focus on start-ups and the creation of a sound start-up ecosystem. Similarly, more work will be devoted towards facilitating the collaboration between investors and start-ups through the Investor Connect program.

The Malta Government Investments will be working on the modernisation of Government owned companies.

The Co-Operatives Board will continue with the updating and revision of the Co-operative Societies Act 2001. New co-operatives will be supported in the registration process as necessary and provide technical assistance to co-operatives.

The Family Business Office will be working to address the needs of the sector and ensuring that family businesses become even more robust than they are and continue to act as the driving force and backbone of Malta's and Gozo's economy.

In response to Malta's shortage in labour supply and the ever-growing demand for foreign workers, Identity Malta Agency has embarked on revisiting its existing procedures to increase its efficiency in the delivery of the relative services without compromising due diligence checks.

The Malta Competition and Consumer Affairs Authority will focus on strengthening its market oversight to cater for the increased economic growth and an increase in online cross border sales. The Authority's laboratories will continue to invest to provide state of the art testing services that are accredited and that meet high quality assurance standards.

The Malta Medicines Authority (MMA) will set-up an Academia to build scientific capacity and technical resource, offer its services to support other educational institutions, public and private entities, and enhance research and development, with emphasis for the promotion of innovation. It will be working to promote research and development with respect to the field of regulatory sciences, through innovative initiatives at local and international scientific fora. The Authority will evolve the field of cannabis for medicinal use, with the objective to enhance the position of the Authority on the international sphere.

5.14 PROTECTING AND PRESERVING THE ENVIRONMENT

Economic growth, environmental protection and social cohesion must move forward in a mutually reinforcing manner. For this to happen, the Government needs to instil and enforce a paradigm shift in its approach. A shift towards a green and inclusive economy, achieving equilibrium between environmental protection and economic development, whilst also ensuring that future development is socially sustainable.

Malta's Sustainable Development Vision for 2050 is based on these pillars. Achieving the necessary targets will require the support and engagement of all sectors of society. Ultimately, sustainable development is everyone's responsibility, be it Government at its various levels, private sector, civil society together with all Maltese citizens. In the coming months and for the near future, the Government is committing itself to actively lead in achieving higher and better environmental standards.

The realisation of projects will contribute into better environment and open spaces for all the Maltese and Gozitan citizens to make use of and enjoy. These projects will be based and/or incorporated with other eco-incentives, which will create Green Growth, where concurrently the focus is set on the change from the old ways of planning and realisation of initiatives, into new sustainable environmentally-friendly methods.

The Government is committed to invest in the Waste Management Sector, whilst prioritising its efforts to install a Waste to Energy plant that will complement the investment in this sphere. Apart from the Beverage Container Recycling Scheme, one should also look at other materials whereby similar recycling schemes can be applied, thereby consolidating the process to establish the circular economy. Waste should not only be perceived as waste but as a resource.

Malta's Natural Capital needs not only to be protected but valorised with investments that are essential to its upkeep and monitoring. The rehabilitation of valleys and the various urban and rural greening projects will continue to create public green spaces so that the residents living in traffic congested and built up areas can recreate themselves in a safe environment that is free from traffic pollution.

5.15 STRENGTHENING NATIONAL SECURITY

The Government remains committed to ensure the safety and security of all citizens as well as reducing criminality. It will also ensure that it meets international obligations in so far as migration is concerned. There is a balance to be respected between the humanitarian aspect and national security. To achieve these and to go that extra mile to achieve excellence, various initiatives are planned for 2020 and beyond.

The Maltese Government will continue to persist in ensuring that Malta's concerns with respect to migration and security are voiced at the European and international level. It will continue promoting the implementation of the principle of solidarity in the context of migration and asylum to ensure that no Member State is left alone in the event of disproportionate pressure. The creation of an efficient and predictable solidarity mechanism, that is, one that requires mandatory participation of all EU Member States at least in crises, is what the Government has repeatedly called for at the EU level. Measures intended to counter migrant smuggling and human trafficking to prevent loss of life and abuse will also continue to be prioritised.

The Armed Forces of Malta will continue to improve its land, air and sea assets to meet its operational targets and for it to remain relevant in the 21st century to ensure the safety and the sovereignty of the Maltese islands.

As the main law enforcement player on the island, the Malta Police Force (MPF) deserves to be well-equipped for the effective execution of its duties thus contributing toward an orderly, democratic society. Lower rates of crime reported for 2018 encourages the MPF to strive to achieve levels of excellence to protect its peoples. A series of initiatives to be undertaken this coming year, will contribute to achieving higher standards of police protection, the strengthening of investigation of economic crimes, ensure the greater presence of police on the roads, assist in the quicker solving of crime through digital technology and having more secure and robust IT infrastructure.

In the field of Civil Protection, there will be the continuation of fleet replacement and the procurement of fire engines. Training is pivotal and the development of Hal Far grounds into a Training Centre will increase the level of professionalism of the Force. The furtherance of educational campaigns in schools is to continue to increase the level of awareness and preparedness in all families. It is imperative that courses are devised to train fire inspectors, fire engineers and risk evaluators to be in line with the new legal responsibilities concerning the Fire Safety Act and Public Safety in Public Events.

To have an efficient and effective emergency services, Emergency Management Solutions have become a critical tool in assisting and providing information on a 24/7 basis for emergency response teams. Such integrated technologies, using the same standards and protocols and real time interoperability between all stakeholders, ensure that mission critical timeframes are reduced drastically thus saving lives or reducing risks.

Following the finalisation of the commissioned Prison's Project Brief, the authorities will be looking into how best the recommendations are implemented. In the coming financial year, emphasis will be on enhanced rehabilitation, in collaboration with NGOs. The mediation service between victims of criminality and their perpetrators, launched two years ago, will be further strengthened and its services extended to reach more individuals.

5.16 SUSTAINABLE AGRICULTURE AND FISHERIES

The Agricultural and Aqua cultural sectors have an economic importance for the country's economy and it is in the country's best interest to strengthen and work towards the sustainability of these sectors so as for Malta not to be totally dependent on imports.

The Government will continue to restructure the sector to ensure that regulatory obligations are carried out in the most effective and efficient way; have in place the needed quality assurance facilities to assist at all stages of the processing chain. This will ensure that the local producer produces high quality products, thereby ensuring greater safety in the food consumed. The sustainability of these sectors depends also on having the support of a Research and Innovation centre.

The Government will be looking at initiatives to support and attract the younger generations to take up this economic activity and for the small operators to expand further their operations. Animal Rights and their Welfare will continue to be on the agenda of this Government.

5.17 GENDER BALANCE IN PARLIAMENT

After a ten-week public consultation on legislative proposals aimed to foster a gender-sensitive Parliament, the Technical Committee set up to spearhead this initiative, will continue to engage with stakeholders and the media in public awareness campaigns to explain the rationale behind positive measures. The logistical support from relevant international organisations, will be sought, to ensure a solid legislation that will help strengthen democracy.

5.18 CULTURE HERITAGE AND RESPONSIVE LOCAL COUNCILS

A second National Cultural Policy will be launched. The new policy will seek diversification of community-led cultural participation and investigate the preservation and management of tangible and intangible cultural heritage. It will seek to encourage tools to sustain innovation in cultural and creative practices and suggests ways how to open more international opportunities since this presents artists and cultural professionals with diverse creative opportunities that impact their practice. It also ensures that culture is equitable and inclusive and propose new frameworks to support stronger collaborations in cultural planning by regions and local councils.

The Government will continue to provide opportunities for the Maltese artist to gain exposure abroad and to promote the Maltese talent residency overseas. The recently-established Valletta Cultural Agency will continue sustaining the economic and social fabric of Valletta by bringing communities together, creating a platform for civic participation, attracting thousands of tourists. Heritage Malta will continue with its mission to protect and restore precious cultural resources, including the underwater cultural heritage, which will thus create new prehistoric sites around the Maltese islands, whilst enhancing the tourism package and exposure of the Maltese Islands globally.

In the context of the Local Government Reform, Local and Regional Councils will be incentivised to take initiatives that would sustain economic growth and tackle locally-specific social issues, that include also the issue of social integration. Local and Regional Councils, through educational, sports and other activities, will be able to improve the well-being of their respective communities.

5.19 EUROPEAN AFFAIRS; EQUALITY; HUMAN RIGHTS AND SOCIAL DIALOGUE

As the Multiannual Financial Framework (MFF) negotiations are becoming more intense, the Government will be safeguarding Malta's interest at EU negotiations and seeks to strike a fair deal for Malta and Gozo. This would not only sustain Malta's unprecedented economic progress but would translate into successful projects on a local and regional level.

MEUSAC will continue with its drive to reconnect the EU with our citizens, both through citizens' consultation as well as guiding a wide spectrum of entities to tap into EU funding opportunities which are all geared towards improving one's quality of life.

Equality, Human Rights, and integration are at the forefront of this Government's agenda. The Government is fully committed to continue to mitigate the gender pay gap which has resulted from the unprecedented surge of women in the labour market, by addressing discrepancies and have in place cross-sectorial benchmarks for the labour market, as well as addressing other inequalities. Work will continue on the implementation of the EU-funded project, "Prepare the Ground for Economic Independence". The Government will continue to work in the field of Equality and Human Rights and to provide equal opportunities to migrants who are legally residing and working in Malta. The 'I Belong' EU-funded programme, through which it provides cultural orientation and language classes to migrants, will continue.

Constructive social dialogue, through MCESD, has been the backbone of this Government's economic and social progress. Following the historic minimum wage tripartite agreement between Government, workers' and employers' representatives, no worker can remain on the minimum wage bracket for more than one year.

The Government will continue to oversee that employment regulations are adhered to by all employers to safeguard fundamental principles for employees, such as that of equal pay for work of equal value and increase enforcement to mitigate abuse at the place of work and further decrease occupational injuries and deaths.

The Vote16 reform formula, which has been a successful and a historic milestone for Malta's democracy, will be adopted in the introduction of other reforms to achieve similar results.

The Government will continue strengthening the fight against human trafficking and addressing different forms of exploitation, such as prostitution. This drive will now move to the implementation phase, complemented with a national educational campaign aimed at informing and educating the public on human trafficking. In the case of prostitution, there will be the drafting of legal amendments which are meant to make the country's prostitution and anti-trafficking laws more effective in terms of victim protection. The newly-introduced Dar Hosea exit programme, helping those caught in the clutches of prostitution to help them start a new life after being released from prison, will continue to be monitored to make sure that such a programme will function successfully and effectively.

5.20 CONCLUSION

Malta's economic success is resulting in a better quality of life for families including the elderly and the most vulnerable. Whilst the Government has worked hard towards strengthening the middle class which is considered as the backbone of society, measures that have been adopted throughout the years have in fact, contributed towards a fall in the number of people dependent on welfare.

Achieving sustained inclusive growth will be a top priority in the forthcoming Budget. In this regard, the Government intends to keep on introducing measures that ensure a fair judicial system, accessible and inclusive health care and education systems, greater social protection and integration and sustainable economic development.

