



GOVERNMENT OF MALTA
MINISTRY FOR FINANCE
AND EMPLOYMENT

Malta:

Draft Budgetary Plan

2023

October 2022

The following symbols have been used throughout this document:

... to indicate that data are not available;

— to indicate that the figure is negligible;

0 to indicate that the figure is zero;

- to indicate that data are not applicable or cannot be determined;

n/c to indicate that there is no change in the data.

Figures may not add up due to rounding.

This document is based on statistical information available up to the
30th of September, 2022

1. Overall Policy Framework and Objectives

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The Maltese economy has once again proved its resilience in the face of extraordinary circumstances following the economic ramifications of the disruptions to global supply chains which first emerged as a result of the pandemic and followed later by the war in Ukraine. Despite all the uncertainty, the economy has grown by 10.3 per cent in 2021 and in the first half of this year registered another strong increase of 8.5 per cent. Notwithstanding these promising results, the Government has decided to assume a cautious stance and, through this budget, is preparing for an extended period of international economic turmoil and protect Malta's growth prospects and living standards.

In this context it is pertinent to highlight that the economic situation in the last few years has greatly relied on the support of the Government. Evidence presented in the Plan indicates that this support has been instrumental in mitigating the disruptions of the COVID-19 pandemic, support the subsequent economic recovery and later minimise the dangerous impact of the global inflationary pressures on essential commodities which soared further following the war in Ukraine. The Government believes that the economic situation overseas will continue to deteriorate as the conflict in eastern Europe rages on and monetary conditions tighten as major central banks across the world try to control inflation and prevent the outburst of a wage price spiral similar to what had happened in the 70s and 80s.

The following are the main policy objectives of this Budget:

1. In the presence of grave risks and uncertainty the Government is committing itself unequivocally to support the economy. The political commitment to shelter households and firms from a temporary surge in the price of essential commodities such as energy and food remains paramount in this Draft Budget Plan. Stabilisation is presently the primary aim.
2. Secondly, this budget will aim to protect the most vulnerable. Whilst the price support measures will protect everyone, including the most vulnerable households and firms, several social support measures in the budget are aimed at specific groups of society.
3. The Government is however very conscious of the strain this will exert on public finances and this Draft Budget Plan is also committed to preserve fiscal sustainability. The increase in subsidies envisaged will be supported by expenditure consolidation measures and the growth in revenue consistent with economic growth. This will ensure that public finances remain under control and the public debt ratio remains stable and close to 60.0 per cent of Gross Domestic Product (GDP). This plan also sketches a medium-term plan targeting a reduction in the excessive deficit by 2025.
4. This budget is also committed to strengthen the potential of the economy and undertake the necessary investments and reforms necessary to ensure an adequate supply of skills, manpower, knowledge, knowhow and capital necessary for the economy to grow in a sustainable manner. Since Malta is almost completely dependent on imported energy, this objective includes the ability to procure access to an adequate and secure supply of energy at reasonable costs and thus preserve Malta's competitiveness and viability.
5. Finally, and related to the previous, is our quest to further improve the quality of life of every Maltese citizen. In particular, this budget will continue facilitating the Green Economy and Digital transitions.

1.1 Macroeconomic Scenario

The Maltese economy is expected to maintain the positive momentum in the second half of the year, albeit with slower growth. This is consistent with an assumed slowdown in the global economy, heightened uncertainty arising from the conflict in Ukraine, while high inflation is expected to start weighing on real household disposable income and on excess savings accumulated during the pandemic. However, the third quarter of 2022 represents the first summer season without a significant pandemic effect, as tourism performed better than previously anticipated. Against this background, the Maltese economy is expected to grow by 6.0 per cent in real terms during 2022.

In 2023, the Maltese economy is projected to grow by 3.5 per cent in real terms, and by 7.3 per cent in nominal terms. A tight labour market is expected to persist with employment in 2023 to grow further, albeit more moderately than this year, at almost 3.4 per cent. The unemployment rate is expected to remain stable at 3.1 per cent, standing well-below the European Union (EU) average. The continued strength of the labour market is expected to drive domestic demand which is anticipated to contribute 2.5 percentage points to growth. Nevertheless, inflationary pressures, though more moderate than this year, are expected to persist well into 2023 and weaken the purchasing power of households with consumption expected to grow by almost 4.0 per cent and slow down further in subsequent years. Despite the uncertainty private operators remain optimistic of the medium-term growth prospects. Together with the support of public investment and the boost from EU financed projects, in particular the Recovery and Resilience Funds (RRF), investment is still projected to grow by 6.4 per cent in 2023.

The external environment is expected to deteriorate significantly in 2023, as energy shortages in Europe are expected to lead to a prolonged inflationary environment, leading to tighter financial conditions which will curtail growth. This slowdown in the global economy is anticipated to result in a deceleration in exports, which are expected to grow at 2.5 per cent. Imports are projected to grow moderately by 2.1 per cent in line with a deceleration in domestic economic activity.

Estimates show that the economy will reach its potential output in 2022 but the slowdown in growth in 2023 is expected to push the economy back slightly below potential. These metrics suggest that inflation, which is expected to persist further in 2023 and reach 3.7 per cent, will be primarily driven by imported inflation.

These projections continue to be surrounded by significant uncertainty particularly in the external environment. The risk assessment consistent with the analysis of alternative model forecasts indicates that growth may surprise on the upside in both 2022 and 2023. These alternative models suggest that growth could even reach 7.2 per cent in 2022 and it could range between 4.4 per cent and 4.9 per cent in 2023. Overall, however, when considering all the risk scenarios, the risk assessment points to a marginal downside risk for 2023.

1.2 Fiscal Policy Objectives

Despite the strength of the Maltese economy, the weakness in the external conditions calls for further Government support. The support is aimed at stabilising inflation, which is impacting essential commodities like energy and food, with potentially serious repercussions on the most vulnerable. Estimates by the Economic Policy Department presented in this Plan indicate that, in the absence of the Government support, the economy would have sustained a negative shock of at least 2.3 per cent whilst inflation would have been 7.1 percentage points higher. It is pertinent to note that the Maltese economy is highly dependent on imports for both consumption and production and

especially in the case of energy where natural resources are extremely limited. Thus, in the absence of Government intervention, the inflationary impact of the present energy crisis would have been higher than in other Member States. The risk of poverty in the absence of the Government support would also have climbed by almost 1.0 percentage point. This evidence suggests that the present policy stance was essential to protect the most vulnerable, mitigate inflationary pressures and protect economic growth. The Government is committed to continue providing the necessary support for as long as it is needed.

Nevertheless, the deficit is expected to decline from 8.0 per cent of GDP in 2021 to 5.8 per cent of GDP in 2022 and further down to 5.3 per cent of GDP in 2023. The drop in the deficit reflects in part the phasing out of COVID measures in 2022 and 2023 whilst the growth in the economy is significantly bolstering Government revenue. It is pertinent to note that energy price support measures spent in 2022 are expected to exceed €390 million or 2.4 per cent of GDP. This will increase further to 3.4 per cent of GDP in 2023. The support to vulnerable households through social measures presented in the Budget for 2023 are expected to reach 0.4 per cent of GDP in 2023. The excess deficit over and above the Treaty reference value is clearly temporary and dictated by the exceptional circumstances already highlighted.

The support to the economy is further being sustained by public investment which is expected to exceed the level of 2021 and reach 4.0 per cent of GDP in 2022. This compares favourably to the average of 3.4 per cent in the decade leading to 2021, remaining well above the EU and Euro Area average. This investment is supported by the Recovery and Resilience Facility as well as projects funded from the Multiannual Financial Framework (MFF) for the period 2021-2027, which are expected to fund additional high-quality investment projects and structural reforms.

Despite the strong element of support, the Government has maintained a firm rein on public finances with a decline in the deficit expected to be achieved whilst public debt is targeted to remain close to the Treaty reference value. The debt ratio is expected to reach 59.1 per cent of GDP in 2023 and to stabilise around 60.0 per cent of GDP in the following two years. This Draft Budget Plan is thus consistent with a stable debt ratio and, by preserving the growth potential of the economy, will safeguard public finance sustainability.

Going forward, the overall fiscal policy stance will be marginally contractionary, with a targeted decline in the deficit and the structural deficit, thus ensuring that the fiscal stance does not add additional pressures on domestic price levels. Indeed, whilst the deficit is expected to fall marginally, the structural effort in 2023 is measured at 0.6 per cent of potential output. Furthermore, following the expiry of a number of discretionary revenue measures and the expenditure consolidation measures foreseen in the budget for 2023, nationally financed current expenditure is projected to grow below potential GDP growth in 2023.

1.3 Endorsement by the Malta Fiscal Advisory Council

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

2. Economic Outlook

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2.1 The Short-Term Scenario

During 2021, the Maltese economy continued its robust recovery from the COVID-19 pandemic, recording a real growth rate of 10.3 per cent. This growth figure was 5.0 percentage points higher than that of the European Union (EU), making Malta one of the quickest economies to recover from the contraction witnessed during the pandemic.

In 2022, the start of the conflict between Russia and Ukraine renewed the threat to the availability of essential supplies like energy, iron and steel, basic agricultural commodities and animal feed, whilst further unsettling transport and logistic networks. This exacerbated inflationary pressures which had already been ignited by the supply chain disruptions caused by the pandemic. As a result, monetary authorities across the globe are tightening liquidity conditions to avoid runaway inflation and reduce the risks of a wage price spiral developing. Besides, Governments across the globe have been cautious in their spending to avoid raising inflation expectations. Yet, the combination of high prices, energy supply disruptions, and global policy tightening have led to a rapid deceleration in external demand, which is being felt across Europe.

In spite of the external slowdown, the Maltese economy continued to outperform throughout the first half of 2022. Real Gross Domestic Product (GDP) grew by 8.5 per cent, while nominal GDP grew by 13.3 per cent, predominantly by domestic demand but closely followed by net exports.

From the domestic side, consumption recorded the highest growth for the first half of 2022, at 11.3 per cent, following resumed migrant flows, a robust labour market with a decelerating unemployment rate, as well as a degree of pent-up spending. Public consumption throughout the first half of the year increased by 4.9 per cent, mainly driven by compensation of employees and intermediate consumption. Gross Fixed Capital formation declined by 4.6 per cent, owing to strong base effects from the second quarter of the prior year. Domestic demand as a whole contributed 4.9 percentage points to GDP.

On the external front, despite a resurgence in virus cases during the first quarter of 2022, Malta still managed to record a net strong export contribution of 3.9 percentage points. Exports increased by 8.4 per cent, particularly driven by a stronger than anticipated recovery in tourism. Despite the decline in investment, which is relatively import-intensive in Malta, imports grew by 6.4 per cent. Inventories contributed negatively by 0.3 percentage points to growth.

During the first half of 2022, Gross Value Added (GVA) in nominal terms registered a growth of 13.6 per cent. The services sector was the predominant driver of this growth, contributing 12.5 percentage points, followed by the industrial sector (1.0 percentage point) and the primary sector (0.1 percentage point). The best performer throughout the first half of 2022 was the Wholesale and Retail Trade sector which grew by 40.4 per cent as the sector continued to recover from the decline witnessed during the pandemic, followed by the Information and Communication sector (18.5 per cent), the Arts, Entertainment and Recreational sector (14.4 per cent), the Manufacturing sector (10.7 per cent) and the Agriculture, Forestry and Fishing sector (10.7 per cent).

The factor distribution of income gains throughout the first half of 2022 tilted in the favour of corporations, as gross operating surplus grew by €527.9 million (15.9 per cent) compared to the growth of €258.9 million (8.0 per cent) in compensation of employees. This led to the share of corporate profits and mixed income in nominal GDP to increase

to 48.5 per cent compared to the 44.3 per cent share of compensation of employees. Growth in compensation of employees was broad based, with the highest growth recorded in the Information and communication sector (15.1 per cent), followed by the Wholesale and Retail Trade sector (13.4 per cent), the Financial and Insurance services sector (11.7 per cent) and the Construction sector (9.1 per cent).

The Maltese economy is expected to maintain the positive momentum in the second half of the year, albeit with slower growth. This is consistent with an assumed slowdown in the global economy, heightened uncertainty arising from the war in Ukraine, while high inflation is expected to start weighing on real household disposable income and on excess savings accumulated during the pandemic. However, the third quarter of 2022 represents the first summer season without a significant pandemic effect, as tourism performed better than previously anticipated.

Against this background, the Maltese economy is expected to grow by 6.0 per cent in real terms during 2022. Domestic demand is expected to be the main driver of economic growth, contributing 4.4 percentage points to growth, while net exports are expected to contribute 1.8 percentage points, driven by positive tourism developments. Furthermore, inventories are expected to produce a drag of 0.1 percentage points to growth.

Private consumption is projected to increase by 8.0 per cent, surpassing pre-pandemic levels. Strong employment and income growth are expected to drive the increase in consumption, further supported by the release of pent-up demand following the re-opening of consumption opportunities in contact-intensive services and strong financial position of households. However, sentiment indicators have worsened in recent months as household purchasing power is being affected by rising prices, leading to an expectation of a moderate deceleration in the second half of the year. Public consumption is expected to grow by 11.7 per cent, driven by compensation of employees and intermediate consumption.

It is worth mentioning that the inherently volatile nature of gross fixed capital formation (GFCF) makes it relatively challenging to forecast, especially in the current circumstances of high uncertainty. Hence, when forecasting investment, a relatively prudent approach is normally followed, factoring in only those projects that have a strong political commitment or a high probability of realisation, while assuming a relatively high import content. GFCF is projected to contract by 6.8 per cent in 2022, owing to high prices of capital goods and base effects from the prior year. Heightened uncertainty and tightening financial conditions are also expected to result in several projects being deferred.

Despite a deteriorating global economic outlook, the external performance of some sectors surprised on the upside during the first half of 2022. Strong external performance was exhibited in the Arts, Entertainment and Recreation sector, the Information and Communication sector and the Manufacturing sector, suggesting that Malta was able to gain market share in these sectors. This is due to the increased competitiveness of these sectors, partly because of a strong depreciation in the Euro, but also because intermediate costs did not rise as significantly as the rest of Europe as a result of the Government's commitment to contain energy price increases. Moreover, tourism numbers during the first seven months of the year reached 77.4 per cent of 2019 levels, surpassing the conservative assumption of 63.0 underpinning the forecast in the Update of Stability Programme 2022-2025 (USP). While high frequency indicators show that tourism continued to perform well in the subsequent months, tourism numbers in this forecast are expected to reach 75.0 per cent of 2019 numbers. To this end, exports are expected to increase by 5.7 per cent in 2022.

Imports are expected to grow by 4.9 per cent. This represents a slowdown from the previous year, in line with lower investment. However, import growth continues to be supported by stronger domestic demand.

In 2023, the Maltese economy is projected to grow by 3.5 per cent in real terms, and by 7.3 per cent in nominal terms. Domestic demand is anticipated to contribute 2.5 percentage points, while net exports are expected to marginally contribute 0.9 percentage points to growth, in line with the assumption of a deteriorating external environment.

In 2023, private consumption is expected to grow more moderately by 4.0 per cent, a result of a high base from the release of pent-up demand in the previous year. Such a deceleration in consumption growth is primarily due to a decline in real income, strong base effects from the prior year as well as higher interest rates on financial assets. On the other hand, continued population growth, modest employment growth and a pick-up in compensation per employee growth are expected to continue supporting consumption growth. Public consumption is expected to contract by 2.4 per cent owing to a decline in intermediate consumption. In 2023, despite a projected increase in borrowing costs,

Main Macroeconomic Indicators					
Table 2.1					
	2019	2020	2021	2022p	2023p
GDP growth at current market prices (%)	8.4	-6.9	12.3	11.3	7.3
GDP growth at Chain Linked Volumes by period (Reference year 2010) (%) ⁽¹⁾	5.9	-8.3	10.3	6.0	3.5
Expenditure Components of GDP at Current Market Prices by period (%)					
Private final consumption expenditure ⁽²⁾	6.6	-9.2	8.4	13.5	7.9
General Government final consumption expenditure	16.1	18.1	9.5	15.6	-0.2
Gross fixed capital formation	9.7	-6.9	20.7	0.9	10.3
Exports of goods and services	9.1	-3.1	11.2	10.0	5.7
Imports of goods and services	9.6	0.4	10.4	9.4	4.9
Expenditure Components of GDP at Chain Linked Volumes by period (Reference year 2010) (%)					
Private final consumption expenditure ⁽²⁾	4.6	-10.2	7.1	8.0	4.0
General Government final consumption expenditure	13.1	15.7	6.7	11.7	-2.4
Gross fixed capital formation	8.4	-7.7	17.3	-6.8	5.9
Exports of goods and services	7.0	-3.8	9.0	5.7	2.5
Imports of goods and services	7.9	-0.2	8.0	4.9	2.0
Inflation rate (%)	1.5	0.8	0.7	5.7	3.7
Employment growth (National Accounts Definition) ⁽³⁾ (%)	5.7	2.8	2.9	4.0	3.4
Unemployment rate (Harmonised definition, Eurostat) (%)	3.6	4.4	3.4	3.1	3.1
Compensation per employee (% change)	3.9	-0.7	4.8	2.9	3.1
Labour productivity (% change)	0.2	-10.8	7.2	1.9	0.0
Nominal Unit Labour Cost (% change)	3.6	11.4	-2.2	1.0	3.1
Real Unit Labour Costs (% change)	1.1	9.8	-4.1	-4.1	-0.7

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

⁽²⁾ Includes NPISH final consumption expenditure.

⁽³⁾ Historical Employment based on National Accounts Definition; Forecasts based on Full Time Equivalents (FTEs).

investment is anticipated to grow by 5.9 per cent, as projects which were deferred from the prior year are expected to commence and following a low base in the prior year. Investment should be further supported by a substantial boost from EU financed projects, in particular the Recovery and Resilience Funds (RRF).

The external environment is expected to deteriorate significantly in 2023, as energy shortages in Europe are expected to lead to a prolonged inflationary environment, leading to tighter financial conditions, which will curtail growth. This slowdown in the global economy is anticipated to result in a deceleration in exports, which are expected to grow at 2.5 per cent, in part supported by a further recovery in tourism. Imports are projected to grow moderately by 2.0 per cent in line with a deceleration in domestic economic activity, albeit supported by a recovery in investment.

Table 2.1 presents the main macroeconomic indicators for the period 2019 to 2023. The figures for the period 2019 to 2021 are based on the latest data released by the National Statistics Office (NSO) under the European System of National and Regional Accounts (ESA 2010), whereas the figures presented for 2022 and 2023 are projections produced by economists within the Ministry for Finance and Employment (MFE).

2.1.1 Assumptions for Projections

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

1. Economic activity in Malta's main trading partners is expected to partially increase by 2.3 per cent in 2022, and then to remain stagnant at 0.0 per cent in 2023.
2. Oil prices are expected to increase, reaching an average of US \$101.7 in 2022, before stabilizing at US \$89.8 in 2023.
3. The short-term interest rate is expected to reach an average spot rate of 0.5 per cent in 2022 and to reach 2.0 per cent in 2023. On the other hand, the long-term interest rate is expected to rise to 3.0 per cent and 4.5 per cent in 2022 and 2023 respectively.
4. The USD/EUR exchange rate is expected to average 1.0392 in 2022 and 1.0535 in 2023, representing a depreciation of the euro of 10.6 per cent in 2022 and an appreciation of 1.4 per cent in 2023. The STG/EUR exchange rate is expected to average 0.8540 in 2022 and 0.8686 in 2023, representing an appreciation of 0.1 and 1.7 per cent of the Euro in 2022 and 2023 respectively.
5. It is assumed that, starting from the third quarter of 2020, changes in inventories will not contribute materially to GDP growth.
6. World prices, weighted by Malta's main trading partners, are assumed to increase by 22.5 per cent in 2022 and by 4.9 per cent in 2023.
7. In 2022, inbound tourism is expected to reach a conservative estimate of 75.0 per cent of 2019 levels for the whole year, before surpassing 85.0 per cent in 2023.

2.1.2 Employment Prospects

The Labour Force Survey (LFS) reported an employment rate of 77.5 per cent in the second quarter of 2022, which is 2.7 percentage points higher than the corresponding period in the previous year. In the first half of 2022, employment growth, based on national accounts definition stood at 5.2 per cent. A tight labour market with profound skills shortages is expected to cause employment to continue increasing during the second part of the year, albeit at a slower pace than the first half of the year, in line with more moderate domestic and external demand. To this end, employment is projected to increase by 4.0 per cent in 2022, with the unemployment rate reaching 3.1 per cent. In 2023, employment is expected to grow more moderately at 3.4 per cent, as labour

market shortages are assumed to persist. The unemployment rate is expected to remain stable at 3.1 per cent, standing well-below the EU average.

2.1.3 Inflation

In August 2022, Malta's 12-month moving average Harmonised Index of Consumer Prices (HICP) inflation rate was 4.3 per cent, whereas the annual rate stood at 7.0 per cent. The 12-month moving inflation rate in the Euro Area (EA) was 6.5 per cent, while the HICP in August was 9.1 per cent. By August 2022, Malta had one of the lowest inflation rates in Europe, mainly reflecting the Government's commitment to control utility prices and supporting the security of imported supplies of grain, wheat and animal fodder. This political commitment has been instrumental in containing costs for corporations, allowing the domestic economy to remain competitive and supporting consumers. In absence of this policy, Malta would be witnessing rates of inflation comparable to the rest of Europe.

Indeed, inflation has broadened across many categories, including those which are not import intensive, reflecting spill overs of high inflation from other components. In this context, inflation is expected to reach 5.7 per cent this year. Price pressures are set to be maintained in 2023, as supply side disruptions persist, particularly in energy and food, in addition to lagged inflationary effects of the Euro's depreciation and a modest pick-up in domestic labour costs. To this end, inflation is expected to reach 3.7 per cent in 2023.

2.1.4 Sectoral Balances

Appendix Table 1.d provides an overview of the projections of the goods and services balance. Current account projections will not be produced as part of this forecast round, the reason being that there is a relatively large difference between the goods and services balance in National accounts statistics vis-à-vis Balance of Payments statistics and a significant errors and omissions balance in 2021.

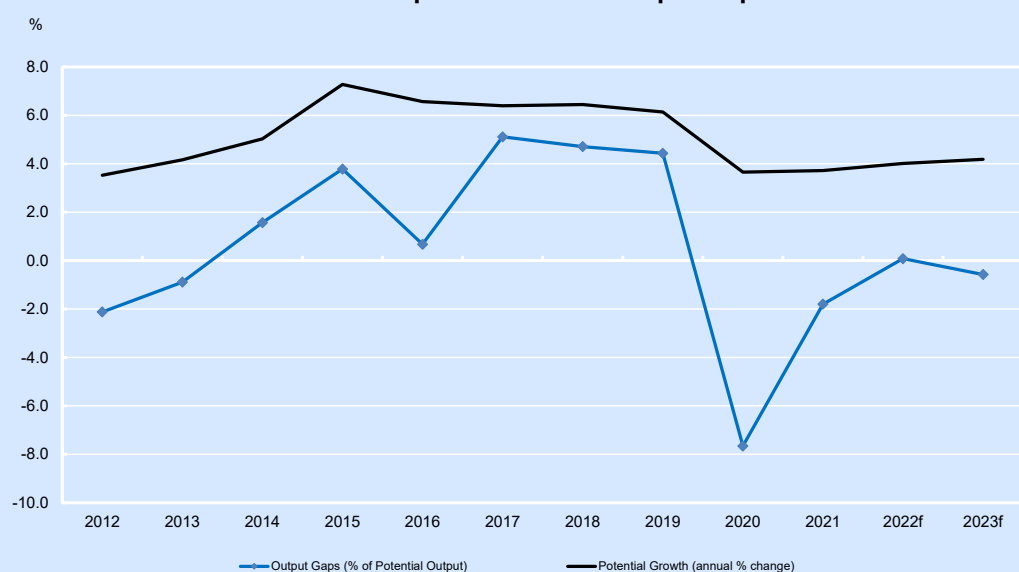
2.2 Comparison to Commission's Latest Forecast

Prior to comparing the MFE's Autumn forecasts with those published by the European Commission (EC), it is worth mentioning that the EC's forecast does not include the latest national accounts data published by the NSO, which have surprised on the upside in the second quarter of 2022, while the MFE's forecasts are based on this data. Furthermore, MFE's forecasts incorporate the latest data and forecasts in the external environment which are important for a small and open economy, especially in the current context of evolving circumstances.

The Spring forecast published by the EC projected Malta's GDP growth to stand at 4.2 per cent for 2022 and at 4.0 per cent in 2023. The EC expected domestic demand to be the main driver of the recovery in both forecasted years. The interim summer forecast by the EC suggests an upward revision to growth in 2022, with GDP increasing by 4.9 per cent, compared to MFE's projection of 6.0 per cent. In 2023, EC projects GDP to grow by 3.8 per cent, while MFE expects GDP growth to stand at 3.5 per cent. This means that MFE's forecast is 1.1 percentage points higher in 2022, and 0.3 percentage points lower in 2023.

Chart 2.1

Malta's Potential Output Growth and Output Gap Estimates



2.3 Potential Output and the Output Gap

The estimation of potential output and the output gap is based on the widely accepted Production Function methodology. Any discrepancies between the EC's and MFE's estimates are due to differences in the macroeconomic expectations.

Chart 2.1 depicts recent potential output and output gap developments, as well as projections. From 2012 to 2020, average potential output growth stood at 5.5 per cent. In 2021, potential output growth slightly increased to 3.7 per cent, as the Maltese economy continued to face ongoing challenges due to the pandemic. Correspondingly, the output gap recorded a negative value reaching 1.8 per cent of potential output in 2020. A gradual recovery is expected to materialise over the forecast horizon as the output gap is expected to close in 2022 and turn somewhat negative in 2023.

Over 2022 and 2023, potential output growth is projected to average at around 4.1 per cent. Labour is expected to be the main contributor followed by capital accumulation, while total factor productivity is expected to negatively contribute to potential output.

2.4 Comparison with the MFE Spring Forecasts

The economic outlook in this Draft Budgetary Plan has been revised upwards for 2022. This is due to a strong outturn in the first half of the year, owing to resilient domestic demand and increased competitiveness in certain key sectors of the Maltese economy, in addition to a rapid rebound in tourism exports. The contribution from the external side of the economy was revised upwards for 2022, reflecting the strong recovery in tourism. Such better than expected performance also led to positive spillover effects on other sectors of the economy, supporting employment and income growth. Consequently, household consumption was revised upwards from Spring, which was also positively affected from a more abrupt release of pent-up demand. On the other hand, investment was revised downwards due to higher uncertainty, higher prices of capital goods and tightening of financial conditions.

Growth in 2023 has been revised downwards from MFE's Spring forecasts, in view of a lower contribution of net exports to GDP growth, due to the deterioration in the external assumptions since Spring. This downward revision, is also driven by a higher growth projection in 2022, producing a higher base.

2.5 Sensitivity Analysis

The macroeconomic forecast is the economic foundation of the Government's fiscal policy targets presented in this Plan. In this context, the macroeconomic forecasts balance the need to strive for forecast accuracy with the need to maintain a measure of prudence. This is complemented by the assessment of past forecasting performance and a rigorous and scientific quantification of macroeconomic risk, based on research carried out by the Economic Policy Department (EPD) within the MFE. While the Maltese economy has proved to be very resilient to the international economic crisis, GDP forecast errors are relatively higher for Malta than those observed for larger and less open economies within the EU¹. This section provides an assessment of forecast uncertainty and the balance of risk surrounding the macroeconomic forecasts in this Programme. The analysis is in line with the requirements of Council Directive 2011/85/EU of the EU on the requirements for budgetary frameworks of the Member States.

2.5.1 The Accuracy of Past Forecasting Performance

The updated analysis shows a tendency to underestimate GDP growth and hence a downward bias in the GDP growth projections in previous years. However, this is primarily a result of significant statistical revisions in the national accounts data, and exogenous shocks that cannot be captured by the macroeconomic forecasting model. While the one-year ahead forecasts, excluding the 2020 crisis, display a root-mean squared error (RMSE) of 3.8, it is notable that the sample size employed is rather small and the earliest available forecast is that of 2004. The small sample size, the recession of 2009 and 2020, and the subsequent recoveries, in addition to the statistical revisions, play an undue influence on this evaluation and limit comparability with the forecast accuracy displayed by other economies with a longer forecast tradition.

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

2.5.2 The Balance of Risks

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

1. Improved global economic, based on the upper bound of the Consensus forecasts publication.
2. Weaker global economic, based on the lower end of the Consensus forecasts publication.
3. Higher interest rate scenario, reflecting further monetary tightening by the European Central Bank (ECB) to combat inflation. Short-term interest rates are increased more than long-term rates, flattening the yield curve, thus reflecting lower real growth and high uncertainty around the macroeconomic outlook.
4. Upside Tourism Scenario, which assumes a stronger recovery in inbound tourists in the second half of 2022, in line with recent data for the summer period.

5. Downside Tourism, which assumes a more conservative tourism projection for 2023, where higher prices and a weaker economic outlook in Malta's main sources of tourism weigh on travel demand.
6. Euro Depreciation, assuming a weaker Euro in both 2022 and 2023, reflecting lower growth prospects in the EU and accelerated monetary tightening in other developed markets.
7. Increased Competitiveness, reflecting an increase in the market share of certain energy-intensive sectors in view of the Government's commitment to prevent pass through of energy prices.
8. Higher Labour Supply Growth, which assumes labour supply growth in 2023 equal to the rates observed prior to the COVID-19 crisis. This increase in labour supply is captured in higher employment, partially mitigating labour market shortages, limiting wage pressures and leading to higher consumption.
9. International Stagflation, based on lower global economic growth from Consensus forecasts and higher world prices taken from the upper bound of Consensus forecasts.

These represent scenarios that are plausible alternatives to the baseline projections. While economic judgement influences the choice of these scenarios, this judgement is also underpinned by the constant monitoring of prevailing economic conditions and is supported by various meetings with economic stakeholders and regulators operating within the Maltese economy.

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

2.5.2.1 Improved Global Economic Growth

In this scenario, the growth rates of Malta's key trading partners, are assumed to be higher than originally anticipated in the baseline scenario, where the global growth rate, weighted by Malta's trade with partner countries, is increased by 0.4 percentage points in 2022, and by 1.4 percentage points in 2023. The relatively higher than expected economic growth in Germany, France, Italy, the UK, and the US, is based on the Consensus Forecasts September 2022, assuming the most optimistic growth figure for each trading partner for the forecasted years 2022 and 2023. The outcome of this scenario is a 0.1 percentage point upward revision in real GDP for 2022 and, and an upward revision of 1.4 percentage points in 2022. In this risk scenario, the budget balance would be relatively unaffected in 2022, and would be higher by 0.2 percentage points in 2023.

2.5.2.2 Weaker Global Economic Growth

This scenario models the downside risk of a lower assumption than that assumed in the baseline forecast for Malta's main trading partners. The relatively lower than assumed economic growth rate in Germany, France, Italy, the UK, and the US is based on the Consensus Forecasts September 2022, assuming the lowest growth figure for each trading partner for the forecast years 2022 and 2023. In this scenario, global growth, weighted by Malta's main trading partners, declines by 0.5 percentage points in 2022 and by 1.9 percentage points in 2023. The outcome of this scenario is that the Maltese economy would contract by 0.2 percentage points and by 1.4 percentage points in 2022 and 2023 respectively. The budget balance would be marginally lower by 0.1 percentage points in 2022 and would be lower by 0.3 percentage points in 2023, when compared to the baseline forecast.

2.5.2.3 Interest Rate Scenario

For this scenario, short-term rates are assumed to increase by 75.0 basis points in the fourth quarter of 2022, and by a further 100.0 basis points in 2023. Long-term rates are assumed to rise by 50.0 basis points in the last quarter of 2022, and by a further 75.0

basis points throughout 2023. Therefore, the spread between short-term and long-term rate is presumed to narrow, flattening the yield curve compared to the baseline forecast. This scenario attempts to reflect the risk of more aggressive monetary policy tightening to control rising prices, in addition to weaker growth expectations.

The effect of this increase in interest rates would be lower real investment, leading to a decline in real GDP growth of 0.1 and 0.4 percentage points in 2022 and 2023 respectively. The budget balance would deteriorate by 0.2 percentage points in both 2022 and 2023.

2.5.3 Alternative Model Forecasts

Moreover, the MFE has developed seven alternative forecasting models ranging from model-free statistical forecast (2 Holt-Winters Seasonal Smoothing Method), model-based univariate forecasts (2 ARIMA models) and model-based multivariate forecasts (3 VAR models). These models help the MFE benchmark the results inferred from the main macro-econometric model used in the baseline and can be used to generate alternative growth forecasts.

For 2022, the average of all models suggest that GDP is set to increase by approximately 7.2 per cent, while the average of VAR models produced an estimate of 5.9 per cent. For 2023, the average of all models suggests a growth rate of 4.4 per cent while the VAR model average indicates GDP growth of 4.9 per cent. Therefore, the baseline GDP forecast for 2022 is within the range produced by the alternative models, while for 2023, the alternative models are more optimistic than the baseline. However, given the prevailing risks and uncertainty, an element of prudence was used for the baseline projections. In fact, the alternative models provide a wide range within which the growth outcome for 2023 can occur.

2.5.4 Uncertainty and the Balance of Risk Underlying the Macroeconomic Projections

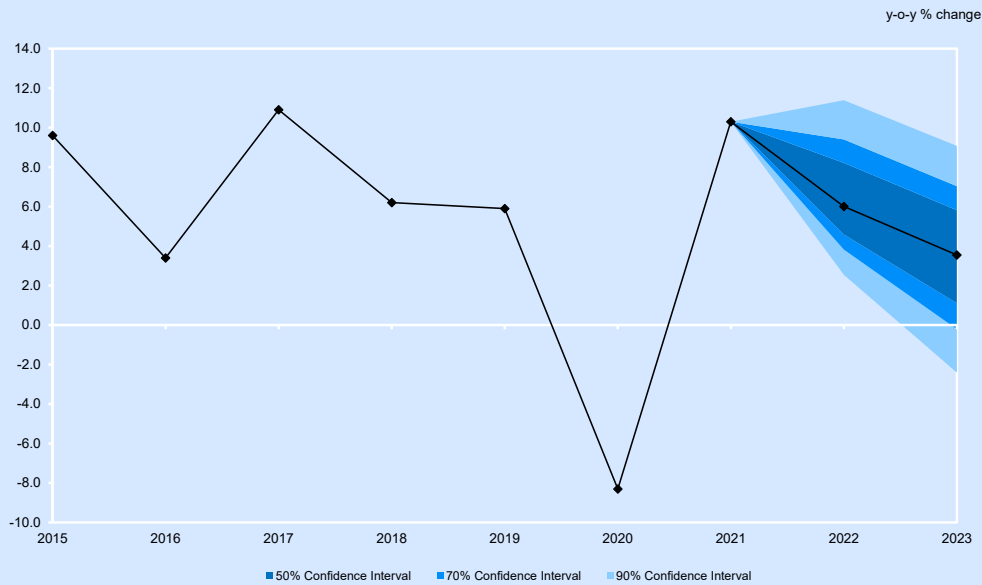
The uncertainty surrounding the macroeconomic projections is based on the past forecast error variance of GDP. This is equal to 2.7 for the current year forecast, and 3.5 for the one-year ahead forecast. The balance of risk is based on the Pearson skewness indicator of the model generating alternative forecast for GDP documented above. The indicator shows an upside risk for 2022, but a marginal downside risk for 2023. Chart 2.2 represents the uncertainty and the balance of risk surrounding the macroeconomic forecasts presented in this Draft Budgetary Plan.

2.5.5 Risks to Fiscal Targets

The alternative macroeconomic scenarios documented above, can influence the attainment of the general Government fiscal targets, thus underpinning alternative fiscal conditions. Chart 2.3 illustrates the range of possible budget balance outcomes conditional upon the realisation of these alternative scenarios. The evaluation of fiscal risk conditional on macroeconomic risks also incorporates the variance resulting from the past forecast error of fiscal projections, based on a methodology similar to that used for deriving the macroeconomic risk assessment. As a result, the risk assessment is presented in the form of a probabilistic Fan Chart rather than point estimates. The budget balance risk is skewed towards the downside in both 2022 and 2023. From the alternative scenarios produced in this chapter, the worst-case scenario suggests a downward revision of 0.1 and 0.3 percentage points in 2022 and 2023 respectively, when compared to the baseline projection.

Chart 2.2

Fan Chart with GDP Growth Forecasts



2.5.6 Alternative Output Gap projections and risks to Structural Fiscal Targets

This assessment has been extended to include risks to output gap projections and subsequently the structural commitments outlined in this Programme. Accordingly, alternative output gap forecasts corresponding with the sensitivity scenarios have been conducted.

Chart 2.3

Fan Chart with Budgetary Targets

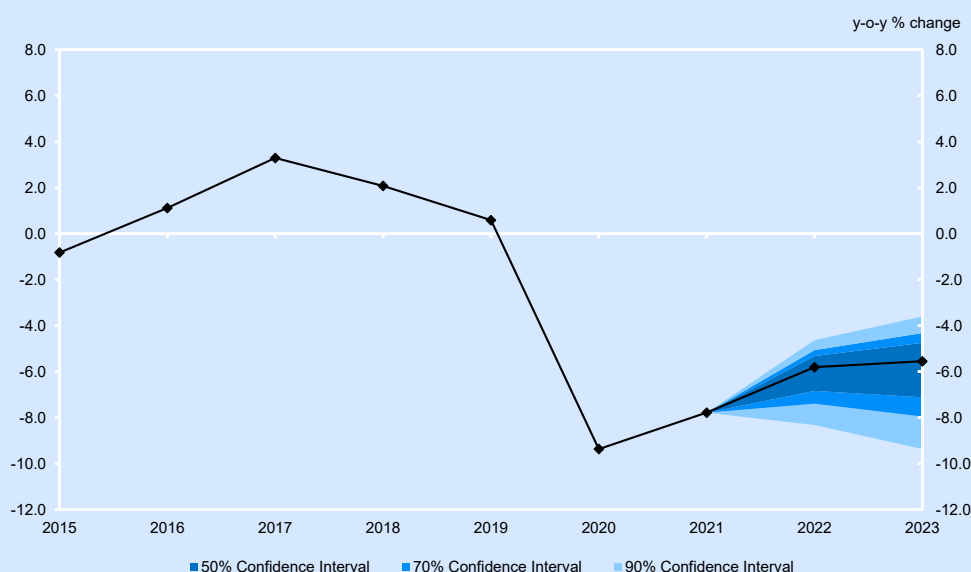
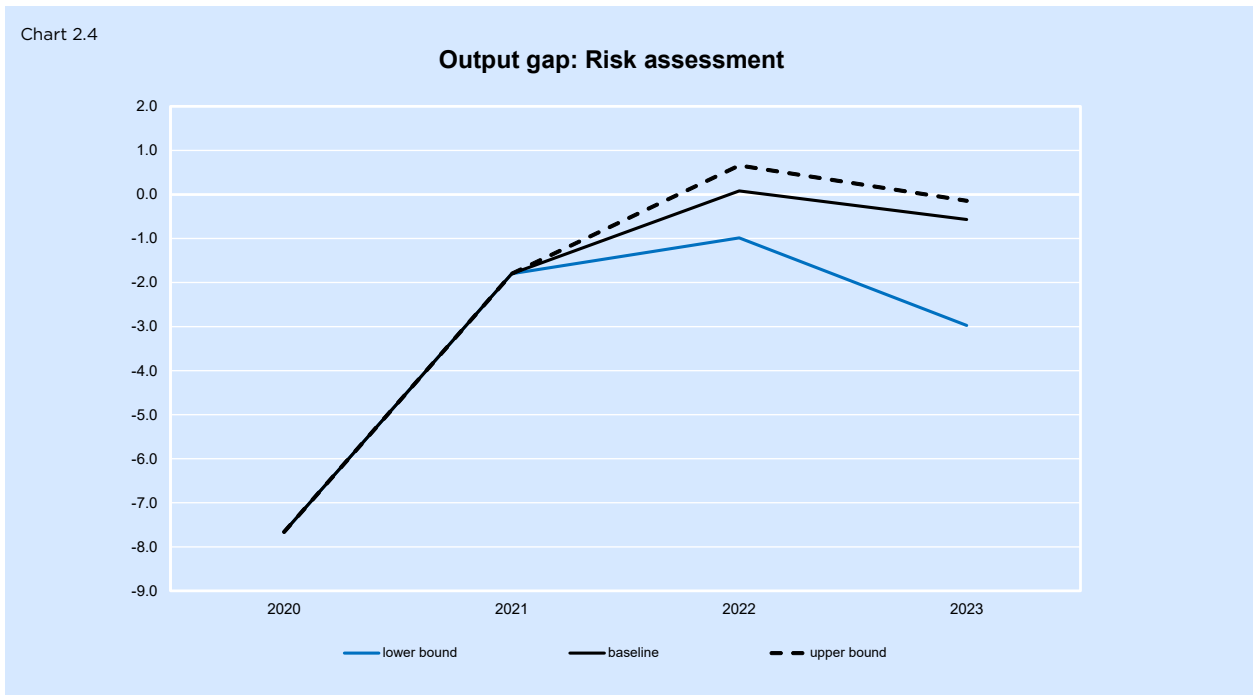


Chart 2.4



Alternative output gap forecasts range from -1.0 per cent of potential output to 0.7 per cent in 2022 and from -3.0 per cent of potential output to -0.1 per cent in 2023, as illustrated in Chart 2.4.

Footnote:

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

Macroeconomic forecasts
(Basic assumptions)

Appendix Table 0.i

	Data Source	2021	2022p	2023p
Short-term interest rate (annual average)	ECB	0.0	0.5	2.0
Long-term interest rate (annual average)	ECB	0.5	3.0	4.5
USD/€ exchange rate (annual average)	ECB + Consensus Economics (September 2022)	1.163	1.039	1.054
STG/€ exchange rate (annual average)	ECB + Consensus Economics (September 2022)	0.853	0.854	0.869
Real GDP Growth of main trading partners	Eurostat + Consensus Economics (September 2022)	4.7	2.3	0.0
Nominal GDP Growth of main trading partners	Eurostat + Consensus Economics (September 2022)	8.8	7.5	5.0
Oil prices (Brent, USD/barrel)	US Energy Information Administration (EIA) + Consensus Economics (September 2022)	70.68	101.66	89.80

Macroeconomic forecasts
(Macroeconomic prospects)

Appendix Table 1.a

		€ million CLV 2015 Prices	rate of change		
	ESA Code	2021	2021	2022p	2023p
1. Real GDP⁽¹⁾	B1*g	13,035.1	10.3	6.0	3.5
2. Potential GDP			3.7	4.0	4.2
contributions:					
- labour			1.3	2.0	2.1
- capital			1.8	1.3	1.3
- total factor productivity			0.7	0.7	0.7
3. Nominal GDP	B1*g	14,681.3	12.3	11.3	7.3
Components of real GDP					
4. Private final consumption expenditure⁽²⁾	P.3	5,841.1	7.1	8.0	4.0
5. Government final consumption expenditure	P.3	2,631.8	6.7	11.7	-2.4
6. Gross fixed capital formation	P.51	2,979.4	17.3	-6.8	5.9
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		1.0	0.8	0.8
8. Exports of goods and services	P.6	20,102.4	9.0	5.7	2.5
9. Imports of goods and services	P.7	18,668.5	8.0	4.9	2.0
Contributions to real GDP growth					
10. Final domestic demand		11,452.4	8.1	4.4	2.5
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	148.8	-0.4	-0.1	0.0
12. External demand	B.11	1,433.9	2.6	1.8	0.9

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

⁽²⁾ Includes NPISH final consumption expenditure.

Macroeconomic forecasts (Price developments)

Appendix Table 1.b

	Index ⁽¹⁾		rate of change		
	ESA Code	2021	2021	2022p	2023p
1. GDP deflator		126.9	1.8	5.0	3.8
2. Private consumption deflator		116.7	1.2	5.1	3.8
3. HICP (Index = 2015)		107.1	0.7	5.7	3.7
4. Public consumption deflator		127.9	2.6	3.4	2.3
5. Investment deflator		118.1	2.9	8.4	4.2
6. Export price deflator (goods and services)		123.6	2.0	4.1	3.2
7. Import price deflator (goods and services)		118.5	2.2	4.3	2.9

⁽¹⁾ Index (base 2010 unless otherwise indicated)

Macroeconomic forecasts (Labour market developments)

Appendix Table 1.c

	ESA Code	€000s		rate of change	
		2021	2021	2022f	2023f
1. Employment, persons¹		266.9	2.9	4.0	3.4
2. Employment, hours worked ²		495,759.1	0.6	4.0	3.4
3. Unemployment rate (%)³			3.4	3.1	3.1
4. Labour productivity, persons⁴		48.8	7.2	1.9	0.0
5. Labour productivity, hours worked ⁵			7.2	1.9	0.0
6. Compensation of employees	D.1	6,571.4	8.0	7.0	6.7
7. Compensation per employee		28.3	4.8	2.9	3.1

¹ Forecasts based on FTEs

² Forecasts based on FTEs

³ Harmonised definition, Eurostat; levels.

⁴ Real GDP per person employed (Forecasts based on FTEs)

⁵ Real GDP per hour worked (Forecasts based on FTEs)

Macroeconomic forecasts
(Sectoral balances)

Appendix Table 1.d % GDP

Percentages of GDP	ESA Code	2021	2022	2023
1. Net lending/ borrowing		-3.6	-	-
<i>vis-à-vis the rest of the world</i>	B.9			
of which:				
Balance on goods and services		4.3	8.6	15.3
Balance of primary incomes and transfers		-8.9	-	-
Capital account		1.0	-	-
2. Net lending/ borrowing of the private sector	B.9	3.3	-	-
3. Net lending/ borrowing of general Government	EDP B.9	-7.8	-	-
4. Statistical discrepancy		0.9	-	-
Current Account		-4.6	-	-

3. General Government Budgetary Developments

3. General Government Budgetary Developments

The year 2022 is marked by the escalation of conflict in Ukraine which challenged the prospects of an economic recovery across the world after the fallout from the COVID-19 pandemic. Despite these challenges, not foreseen in the Draft Budget Plan for 2022, the Government is managing to stay close to the deficit target which is expected to reach 5.8 per cent of Gross Domestic Product (GDP). In the midst of this evolving crisis, as inflationary pressures from abroad mounted, the Government adjusted its spending to support the economy and stabilise the price of basic commodities. This permitted the economy to recover completely and even register a notable rate of economic expansion. As a result, the economy is generating more revenue than anticipated, financing the additional support from public funds being provided by the Government.

The support to the economy is further being sustained by public investment which is expected to exceed the level of 2021 and reach 4.0 per cent of GDP in 2022. This compares favourably to the average of 3.4 per cent in the decade leading to 2021, remaining well above the European Union (EU) and Euro Area (EA) averages. This investment is supported by the Recovery and Resilience Facility as well as projects funded from the Multiannual Financial Framework (MFF) for the period 2021-2027, which are expected to fund additional high-quality investment projects and structural reforms.

Despite the strong element of support, the Government has maintained a firm rein on public finances with a decline in the deficit expected to be achieved. The debt ratio is expected to reach 59.1 per cent of GDP in 2023 and to stabilise around 60.0 per cent of GDP in the following two years. The strong pace of economic expansion allowed the Government to reach a debt-to-GDP ratio well below the 61.8 per cent of GDP originally targeted in the Draft Budget Plan (DBP) for 2022.

Going forward, the Government is committed to provide the necessary support to the economy in 2023 and in the process protect vulnerable households and firms. Nevertheless, the overall fiscal policy stance will be marginally contractionary, with a targeted decline in the deficit and the structural deficit, thus ensuring that the fiscal stance does not add additional pressures on domestic price levels. Energy support measures are expected to rise from 2.4 per cent of GDP this year to 3.4 per cent of GDP in 2023. This suggests that the excessive deficit is predominantly related to the temporary support measures. These extraordinary measures, predominantly made up of price-support measures, have proved beneficial in maintaining inflationary pressures in Malta relatively contained.

3.1 Budgetary targets

As of 2022, the general Government gross debt is expected to reach 57.0 per cent mainly reflecting the impact of the extended COVID-19 pandemic measures as well as the impact of the supportive budgetary measures planned to control inflationary pressures imported from abroad. Furthermore, the debt-to-GDP ratio is expected to increase by a further 2.1 percentage points in 2023 to reach 59.1 per cent. Developments in the gross Government debt and the contributors to developments in the debt-to-GDP ratio are presented in Table 2.b. The expected increase in the debt-to-GDP ratio in 2022 is mainly on the back of the negative primary balance together with an expansionary contribution stemming from the stock flow adjustment (SFA) which is mainly due to the contribution to the Malta Government Stock sinking fund.

Budgetary Targets					
General Government debt developments					
Table 2.b					% GDP
	2021	2022	2023	2024	2025
1. Gross debt ¹	56.3	57.0	59.1	60.3	60.0
2. Change in gross debt ratio	2.9	0.7	2.2	1.1	-0.2
Contributions to changes in gross debt					
3. Primary balance	6.6	4.8	4.2	2.7	1.3
4. Interest expenditure	1.1	1.0	1.3	1.6	1.6
5. Stock-flow adjustment	1.0	0.6	0.5	0.5	0.4
p.m.: Implicit interest rate on debt ²	2.4	2.0	2.4	2.8	2.7

¹ As defined in Regulation 479/2009.

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

3.1.1 Updated budgetary plans for 2022

During 2022, the general Government deficit was revised upwards by €97.3 million, compared to the estimated deficit of €850.7 million outlined in the 2022 DBP. These developments mainly reflected upward revisions in both the total revenues and the total expenditure components.

The total revenue component was revised upwards from €5,611.3 million projected in the DBP 2022 to €6,034.3 million. On the other hand, the total expenditure component was revised upwards from €6,462.0 million being reported in the DBP 2022 to €6,982.3 million.

Total revenue turned out €423.0 million more than projected a year earlier. The better-than-expected outcome in revenue mainly reflects a better-than-expected performance in tax revenue in 2021 which was not anticipated in the DBP for 2022. A stronger than anticipated growth in corporate tax revenue materialised at the end of the previous year, creating a strong base effect in 2021 on the following year. Tax revenue performance was further bolstered by the stronger than anticipated rate of economic expansion in 2021. It is worth noting that in Autumn 2021 the economy was expected to grow by 4.8 per cent, compared to the actual rate of growth of 10.3 per cent. This also translated into a stronger rate of employment growth which further increased national insurance contributions in excess of what was originally anticipated.

Meanwhile, higher than targeted expenditure compared to the estimates outlined in the 2022 DBP of €520.3 million is mainly attributable to higher than anticipated subsidies. It is pertinent to note that energy price support measures spent in 2022 are expected to exceed €390 million or 2.4 per cent of GDP. These higher outlays were partly compensated by lower than projected outlays on public investment, social payments and intermediate consumption. Developments in the general Government budgetary execution in 2022, between subsequent forecasts, are outlined in Table 3.1.

General Government Budgetary Execution and Prospects

Table 3.1

€ millions

	ESA Code	2022			2023	
		USP 2021-2024	DBP 2022	DBP 2023	USP 2022-2025	DBP 2023
		Forecast	Forecast	Forecast	Forecast	Forecast
Net lending (+)/net borrowing (-)						
1. General Government	S.13	-826.1	-850.7	-948.0	-759.0	-972.0
2. Central Government	S.1311	-824.9	-849.5	-946.8	-757.8	-970.8
3. State Government	S.1312	-	-	-	-	-
4. Local Government	S.1313	-1.2	-1.2	-1.2	-1.2	-1.2
5. Social Security funds	S.1314	-	-	-	-	-
For the General Government						
6. Total Revenue	TR	5,422.3	5,611.3	6,034.3	6,288.0	6,475.8
Of which						
Taxes on Production and Imports	D.2	1,689.5	1,862.3	1,831.2	1,967.4	1,985.7
Current Taxes on Income, Wealth, etc.	D.5	1,920.2	1,995.5	2,326.4	2,383.4	2,423.1
Capital Taxes	D.91	25.6	25.8	23.8	24.4	25.8
Social Contributions	D.61	912.5	912.2	969.5	991.4	1,021.8
Property Income	D.4	84.3	71.0	137.1	79.1	84.2
Other ^(a)		790.3	744.5	746.3	842.3	935.2
7. Total Expenditure	TE	6,248.4	6,462.0	6,982.3	7,047.0	7,447.8
Of which						
Compensation of employees	D.1	1,782.0	1,855.7	1,862.4	2,006.6	1,952.1
Intermediate Consumption	P.2	1,265.2	1,421.6	1,407.1	1,529.1	1,408.8
Social Payments	D.6	1,448.7	1,521.3	1,483.5	1,580.9	1,621.5
Interest Expenditure	D.41	163.4	166.1	163.8	174.7	227.1
Subsidies	D.3	236.2	254.8	766.2	478.7	859.1
Gross Fixed Capital Formation	P.51	690.4	742.4	647.7	693.6	681.6
Capital Transfers	D.9	297.2	162.1	178.9	199.7	198.3
Other ^(b)		365.2	338.0	472.7	383.7	499.3
8. Gross Debt ^(c)		9,731.9	9,373.7	10,122.8	9,812.9	10,372.3
Notes:						
^(a) P.11 + P.12 + P.131 + D.39rec + D.7rec + D.9rec (other than D.91rec).						
^(b) D.29 + D.41pay (other than D.41pay) + D.5pay + D.7pay + P.5M + NP + D.8.						
^(c) As defined in Council Regulation (EC) No 479/2009 (OJ L 145, 10.6.2009, p. 1).						

3.2 Budgetary plans for 2023

Provided that the macroeconomic projections underlying this Plan materialise, the budget balance is expected to improve to a deficit of 5.5 per cent of GDP in 2023. In structural terms, the general Government deficit is expected to improve from 5.9 per cent in 2022 to 5.3 per cent in 2023. The general Government budgetary targets are outlined in Table 2.a. Table 7 compares the budgetary targets and projections at unchanged policies in the Draft Budget Plan with those of the latest Update of the Stability Programme.

The general Government balance for 2023 was revised upwards by €213 million, compared to the estimated deficit of €759.0 million outlined in the 2022 Update of the Stability

Budgetary Targets						
General Government budgetary targets broken down by subsector						
Table 2.a		% GDP				
	ESA Code	2021	2022	2023	2024	2025
Net lending (+) / net borrowing (-) by sub-sector¹	B.9					
1. General Government	S.13	-7.8	-5.8	-5.5	-4.2	-2.8
2. Central Government	S.1311	-7.8	-5.8	-5.5	-4.2	-2.8
3. State Government	S.1312	-	-	-	-	-
4. Local Government	S.1313	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S.1314	-	-	-	-	-
6. Interest expenditure	D.41	1.1	1.0	1.3	1.6	1.6
7. Primary balance ²		-6.6	-4.8	-4.2	-2.7	-1.3
8. One-off and other temporary measures ³		0.0	0.0	0.0	0.0	0.0
8.a Of which one-offs on the revenue side: general Government		0.1	0.0	0.0	0.0	0.0
8.b Of which one-offs on the expenditure side: general Government		0.0	0.0	0.0	0.0	0.0
9. Real GDP growth (%) (=1 in Table 1.a)		10.3	6.0	3.5	3.7	3.5
10. Potential GDP growth (%) (=2 in Table 1.a)		3.7	4.0	4.2	3.2	3.3
11. Output gap (% of potential GDP)		-1.8	0.1	-0.6	-0.2	-0.3
12. Cyclical budgetary component (% of potential GDP)		-0.9	0.0	-0.3	-0.1	-0.1
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		-6.9	-5.8	-5.3	-4.1	-2.7
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		-5.8	-4.8	-4.0	-2.6	-1.2
15. Structural balance (13 - 8) (% of potential GDP)		-7.0	-5.9	-5.3	-4.2	-2.7

¹ TR-TE= B.9.

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

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

Programme (USP). These developments reflect higher estimated revenue in 2023 (€187.8 million), which is more than offset by an upward revision in the general Government expenditure of €400.8 million, when compared to the projections outlined in the 2022 USP. The main revision in the general Government revenue compared to the estimates outlined in the 2022 USP relates to taxes on the income or profit on corporations (€118 million). The upward revision in tax revenue is primarily devoted to base effects, reflecting the better than anticipated tax revenue expected this year, primarily from corporate income tax and social contributions. This is being offset by the downward revision in economic growth prospects now anticipated for 2023 as economic conditions abroad continue to deteriorate following the conflict in Eastern Europe.

Meanwhile, higher than targeted expenditure compared to the estimates outlined in the 2022 USP is mainly attributable to upward revision in subsidies (€380 million), pertaining to energy measures in view of predicted inflationary developments during the coming year. These are in part offset by a downward revision in intermediate consumption of €120 million and compensation of employees of €55 million, reflecting the comprehensive spending review undertaken by the Ministry for Finance and Employment meant to control the deficit. Table 3.1a distinguishes the changes to the 2023 forecasts between successive reports due to the impact of the estimated outturn in 2022 (base effect), changes in macroeconomic forecasts, and other changes.

Divergence from latest SP						
Table 7						% GDP
	ESA Code	2021	2022	2023	2024	2025
Real GDP growth						
Stability Programme		9.5	4.4	3.9	3.7	3.5
Draft Budgetary Plan		10.3	6.0	3.5	3.7	3.5
Difference		0.8	1.6	-0.4	0.0	0.0
General Government net lending/ net borrowing EDP B.9						
Stability Programme		-8.0	-5.4	-4.6	-2.8	-2.4
Draft Budgetary Plan		-7.8	-5.8	-5.5	-4.2	-2.8
Difference		0.2	-0.4	-0.9	-1.5	-0.5
General Government net lending projection at unchanged policies EDP B.9						
Stability Programme		-8.0	-7.0	-6.8	-3.5	-3.0
Draft Budgetary Plan		-7.8	-5.8	-1.2	-1.1	-0.5
Difference ¹		0.2	1.2	5.6	2.5	2.5
Total Revenue TR						
Stability Programme		37.5	38.1	38.1	37.6	36.9
Draft Budgetary Plan		37.0	36.9	36.9	35.4	35.3
Difference		-0.4	-1.2	-1.1	-2.1	-1.6
Total Expenditure TE						
Stability Programme		45.5	43.6	42.7	40.3	39.3
Draft Budgetary Plan		44.8	42.7	42.5	39.7	38.1
Difference		-0.7	-0.8	-0.2	-0.7	-1.1
General Government gross debt						
Stability Programme		57.0	58.6	59.4	58.6	57.2
Draft Budgetary Plan		56.3	57.0	59.1	60.3	60.0
Difference		-0.7	-1.6	-0.3	1.7	2.8

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

Developments in the general Government debt are presented in Table 2.b. Debt developments data, consistent with the detailed budgetary targets and macroeconomic forecasts, is complemented with data on contingent liabilities in Table 2.c and Table 2.c.i. A detailed account of the Stock-Flow adjustments can be found in Appendix Table 7.

3.2.1 Discretionary Measures

A list of the main discretionary measures included in the DBP and underpinning the expenditure and revenue targets for 2023 is presented in Table 5.a. The net incremental impact on the budget balance of temporary and permanent discretionary revenue measures for 2023 (including those implemented in previous budgets but which will still have an impact in 2023) is estimated at 1.4 per cent of GDP. This reflects the expiry of a number of tax measures implemented during previous years targeted to support households to buy their own property in response to the COVID-19 crisis. Meanwhile,

incremental discretionary expenditure measures (including those implemented in previous budgets but which will still have an impact in 2022), are expected to worsen the budget balance of 2023 by 0.7 per cent of GDP. This is mainly related to the increase in subsidies to sustain the price support measures which will be only partly offset by

General Government Budgetary Developments in 2023					
Divergence from previous forecasts					
Table 3.1a					€ millions
USP 2022 compared to DBP 2023					
	ESA Code	Divergence due to expected outturn in t-1	Divergence due to updated macro-economic projections	Other revisions	Total forecast revision
Net lending (+)/net borrowing (-)					
1. General Government	S.13	208	-95	-326	-213
2. Central Government	S.1311	208	-95	-326	-213
3. State Government	S.1312	-	-	-	-
4. Local Government	S.1313	0	0	0	0
5. Social Security funds	S.1314	-	-	-	-
For the General Government					
6. Total Revenue	TR	208	-95	75	188
Of which					
Taxes on Production and Imports	D.2	-39	-44	101	18
Of which					
Value Added Type Taxes (VAT)	D.211	5	6	49	60
Taxes on Financial and Capital Transactions	D.214C	-38	-53	67	-23
Current Taxes on Income, Wealth, etc.	D.5	81	-64	23	40
Of which					
Taxes on Individual or Household Income	D.51M	-106	7	18	-81
Taxes on the income or profits of Corporations	D.51O	190	-71	0	118
Capital Taxes	D.91	1	0	1	1
Social Contributions	D.61	165	13	-148	30
Of which					
Employers' Actual Pension Contributions	D.611	5	6	-1	10
Households' actual social contributions	D.613	11	7	0	18
Property Income	D.4	0	0	5	5
Other ^(a)		0	0	93	93
7. Total Expenditure	TE	0	0	401	401
Of which					
Compensation of employees	D.1	0	0	-55	-55
Intermediate Consumption	P.2	0	0	-120	-120
Social Payments	D.6	0	0	41	41
Of which					
Unemployment expenditure		0	0	0	0
Interest Expenditure	D.41	0	0	52	52
Subsidies	D.3	0	0	380	380
Gross Fixed Capital Formation	P.51	0	0	-12	-12
Capital Transfers	D.9	0	0	-1	-1
Other ^(b)		0	0	116	116
Notes:					
^(a) P.11 + P.12 + P.131 + D.39rec + D.7rec + D.9rec (other than D.91rec).					
^(b) D.29 + D.4pay (other than D.41pay) + D.5pay + D.7pay + P.5M + NP + D.8.					

Contingent Liabilities		
Table 2.c	% of GDP	
	2022	2023
Public guarantees	7.6	7.3

lower subsidies from the expiry of the wage supplement initiative implemented during the COVID-19 crisis up to the first few months of 2022.

In addition, the Budget for 2023 will provide various support measures for vulnerable households which will raise social expenditure by 0.4 per cent of GDP. The 2023 Budget aims to strengthen further the distributional policies

enacted in recent years with the objective of strengthening social inclusion, promoting social mobility, reducing poverty, and creating employment within the framework of inclusive economic growth, whilst facilitating the twin Green and Digital transitions. Furthermore, during the 2023 Budget the Government is committed to continue providing supportive budgetary policy in view of the indirect consequences of the Russia-Ukraine conflict. In this regard, the Maltese authorities have intervened and will continue

Stock of guarantees adopted/announced at June 2022 according to the Plan			
Table 2.c.i			% of GDP
Measure		Maximum amount of contingent liabilities (% of GDP)	Estimated take-up (% of GDP)
In response to COVID-19	Malta Development Bank - COVID-19 Guarantee Scheme	2.1	1.1
	EU SURE loan instrument	0.1	0.1
	Subtotal	2.3	1.2
Others	Non-financial corporations	6.5	4.4
	Financial corporations	3.2	1.5
	Households and NPISHs	0.1	0.0
	Subtotal	10.6	6.0
Total		12.9	7.2

to shield households and businesses from the increases in the international price of oil which affects both the cost of energy as well as fuel for transportations purposes. In addition, the Government intervened to ensure stability in the price of cereals (including wheat) as well as security of supply.

3.2.2 The Economic Impact of the Government support measures on the Maltese Economy

The Russia-Ukraine conflict together with the two-year COVID-19 pandemic have created worldwide price instability especially in food and energy prices. Over the past months, the Maltese Government has been absorbing part of these price increases, shifting the burden away from Maltese households and businesses. This section presents the simulated economic impacts of the Government's price support measures on electricity, fuel prices, and food prices. The results present the impact against a counterfactual with no Government support. This exercise was conducted using the Economic Policy Department's Structural Annualised Econometric Model for Malta (SAMM).

Description of discretionary measures included in the Draft Budget
(Discretionary measures taken by General Government)

Table 5.a

List of measures	Detailed Description	ESA Code (Expenditure / Revenue component)	Accounting principle	Adoption Status	Introduced in Budget for ...	Incremental Budgetary Impact				
						2021	2022	2023	2024	2025
Property-related taxation	Reduced tax on the transfer of immovable property	D2, D5 - R	Accruals	Temporary & Adopted	2014-2024	-0.93	0.70	1.11	0.00	0.00
Post COVID-19 Economic Regeneration Plan	Reduced Excise Duty	D2 - R	Accruals	Temporary & Adopted	June 2020 Economic Regeneration Plan	-0.06	0.01	0.10	0.00	0.00
Excise duty	Budget measures enabling business activity	D2 - R	Accruals	Permanent & Adopted	2017 - 2021	-0.06	0.00	0.00	0.00	0.00
	Minimum excise duty applicable on petroleum products as from 9/11/2021	D2 - R	Accruals	Permanent & Adopted	2021	-0.03	-0.17	0.20	0.00	0.00
Efficiency in Revenue Collection	Revision in interest and penalties due on outstanding tax balances	D2, D5 - R	Accruals	Permanent & Adopted	2022	0.00	0.13	-0.01	-0.01	-0.01
Personal income tax	Fiscal incentives for private pensions	D5 - R	Accruals	Permanent & Adopted	2019 - 2021	-0.03	0.00	0.00	0.00	0.00
	Reduced tax rates on income from overtime work and part-time employment	D5 - R	Accruals	Permanent & Adopted	2022	0.00	-0.03	0.00	0.00	0.00
Tax deferrals	Assumption of 5% unrecoverable deferred tax	D2, D5, D6 - R	Accruals	Permanent & Adopted	2020-2022	-0.03	0.01	0.00	0.00	0.00
Individual Investor Programme	Revenue from the Individual Investor Programme	P10 - R	Accruals	Permanent & Adopted	2014	-0.32	-0.45	0.22	-0.07	-0.01
	Other revenue measures, including measures legislated in previous budgets		Accruals	Permanent & Adopted		-0.05	-0.06	-0.02	-0.02	-0.01
COVID-19 Support Measure	Various medical supplies and equipment in relation to COVID-19	P2 - E	Accruals	Temporary & Adopted	2020	0.09	0.29	0.18	0.06	0.03
COVID-19 Support Measure	Cargo Transportation and Repatriation	P2 - E	Accruals	Temporary & Adopted	2020	0.38	0.00	0.00	0.00	0.00
COVID-19 Support Measure and Post Covid-19 Economic Regeneration Plan	COVID-19 Business Assistance Programme and the Economic Regeneration Voucher Scheme	D3 - E	Accruals	Temporary & Adopted	2020	0.80	2.14	0.70	0.00	0.00
COVID-19 Support Measure	Government-guaranteed loans schemes	D3 - E	Accruals	Temporary & Adopted	2020	-0.06	-0.01	0.08	0.00	0.00
COVID-19 Support Measure	Support to the agricultural sector	D3 - E	Accruals	Temporary & Adopted	2021	-0.03	0.01	0.03	0.00	0.00
Price stabilisation support	Energy support measures and commodity price and supply security measures		Accruals	Temporary & Adopted	2020	-0.19	-2.24	-0.92	0.75	0.84
COVID-19 Support Measure	Short Term Social Measures	D6 - E	Accruals	Temporary & Adopted	2020	0.11	0.00	0.00	0.00	0.00
	Housing Programmes	D6 - E	Accruals	Permanent & Adopted	2020	-0.01	-0.05	-0.01	-0.00	0.01
Re-distribution measures	Measures to address housing affordability, pension adequacy and the integration of vulnerable individuals in society; cash payments by Government to households	D6 - E	Accruals	Permanent & Adopted	2016 - 2024	0.14	-0.29	-0.42	0.07	0.09
Budget 2023 Measures	Social Support Measures	D6 - E	Accruals	Permanent & Adopted	2023	0.00	0.00	-0.39	0.02	0.02
AirMalta restructuring plan	Financial support to the national airline	D9 - E	Accruals	Temporary & Adopted	2021	0.00	-0.32	-0.07	0.39	0.00
COVID-19 Support Measure	Tourism Support Schemes	D9 - E	Accruals	Temporary & Adopted	2021 & 2022	-0.09	0.05	0.04	0.00	0.00
	Other expenditure measures, including measures legislated in previous budgets and projects financed from the National Development and Social Fund		Accruals	Permanent & Adopted		-0.25	0.10	0.29	0.09	-0.02
Total Incremental Impact of Discretionary Measures						-0.61	-0.18	1.13	1.30	0.94

The impact is recorded in incremental terms - as opposed to levels - compared to the previous year's baseline projection. The total figure is the Total impact on the budget balance, as a revenue increasing measure is listed as positive, while an expenditure decreasing measure is also positive. The contrary applies for negative figures, such that a revenue decreasing measure is negative and an expenditure increasing measure is also negative. Simple permanent measures are recorded as having an effect of +/- X in the year(s) they are introduced and zero otherwise (the overall impact on the level of revenues or expenditures does not cancel out). If the impact of a measure varies over time, only the incremental impact is recorded in the table. By their nature, one-off measures are recorded as having an effect of +/- X in the year of the first budgetary impact and -/+ X in the following year, i.e. the overall impact on the level of revenues or expenditures in two consecutive years is zero. The measures may not add up to the total due to the marginal impact of measures legislated in previous years Budget, but which might nonetheless have a marginal impact on the budget balance.

Without the Government assistance, it is estimated that the cost of diesel would have climbed by 47.9 per cent, the cost of petrol would have increased by 33.6 per cent, the cost of LPG (liquified petroleum gas) would have increased by 55.0 per cent, and the cost of electricity would have increased by 130.2 per cent. It is estimated that in the absence of the Government support to maintain price stability for grains and cereals

food inflation would have increased by 1.5 per cent. The in-house SAMM model was used to simulate a counterfactual scenario of what might happen to the Maltese economy if domestic enterprises and households were forced to absorb these price increases. These price shocks were assumed to persist throughout 2022. Table 2.1 below summarises the main results.

Higher food and energy costs have the most direct impact on headline inflation, which would be expected to rise by 7.1 percentage points over and above baseline growth (assuming fixed weights in the consumption basket). A significantly higher inflation rate would negatively impact aggregate demand, resulting in a 2.3 percentage points decline in real GDP compared to baseline growth.

Nominal wages would rise by 4.4 percentage points above baseline growth. as the model projection indicates that nominal wages are “sticky” in the short-run, such that wages would not rise as fast as inflation, which is in line with what one would expect in the absence of a wage-price spiral. As a result, households’ purchasing power would be expected to record a 1.6 percentage points decline relative to baseline growth. The decline in real disposable income also reflects an expected decline in distributed earnings and slower growth in employment (0.3 percentage points lower than baseline growth).

Electricity demand would nevertheless decrease by 16.1 percentage points to reflect a significant shock to electricity prices of 130.2 per cent. The demand for fuel consumption is also price inelastic. However, since the shock in fuel prices is relatively smaller, the impact on operation of personal transport equipment is less significant at 3.2 percentage points.

In contrast, food consumption would increase marginally (0.9 percentage points), as the relative price of food declines despite the increase in price of food products. This suggests that there is a shift in consumption towards buying food as opposed to other goods and services such as eating out.

Demand for a number of non-energy products would fall. In particular, the demand for water services, which is often a complement to electricity consumption, would decline by 3.9 percentage points relative to baseline growth. Households would also reduce their consumption of non-essential products, particularly accommodation services (6.5 percentage points) and restaurants (2.0 percentage points), as general

Main aggregate impacts in 2022 (percentage point change from baseline growth)	
Table 2.1	
HICP	7.1
GDP	-2.3
Wages	4.4
Real household disposable income	-1.6
Household consumption expenditure	-0.2
Employment	-0.3
Profits	-2.1
Investment	-1.1

affordability would deteriorate and prices for these products would rise. Overall, the erosion of household purchasing power would result in a 0.2 percentage point decrease in household consumption spending relative to the baseline.

Beyond lower consumer spending, higher fuel and electricity prices are a headwind for the broader economy as they entail an increase in the production costs of all sectors. Moreover, a higher cost of fuel, especially diesel, would mean that anything transported via land or water transport would be adversely affected. Over and above these effects, businesses would endure cost pressures owing to higher wages, higher intermediate prices, and an incomplete pass-through to final product prices. This would see aggregate profits decline by 2.1 per cent and aggregate investment spending drop by 1.1 per cent relative to baseline growth.

In terms of nominal value added, manufacturing industries would be severely hit, especially Rubber and plastics (16.9 percentage points); Machinery and transport equipment (18.0 percentage points); Chemicals and chemical related products (10.3 percentage points); Furniture (10.2 percentage points); and Computer, electronic and

Expenditure and Revenue Targets					
General Government expenditure and revenue targets, broken down by main components					
Table 4.a					% GDP
	ESA Code	2022	2023	2024	2025
General Government (S13)					
1. Total revenue target	TR	36.9	36.9	35.4	35.3
Of which					
1.1. Taxes on production and imports	D.2	11.2	11.3	11.3	11.3
1.2. Current taxes on income, wealth, etc	D.5	14.2	13.8	13.5	13.4
1.3. Capital taxes	D.91	0.1	0.1	0.1	0.1
1.4. Social contributions	D.61	5.9	5.8	5.8	5.7
1.5. Property income	D.4	0.8	0.5	0.4	0.4
1.6. Other ¹		4.6	5.3	4.3	4.3
p.m.: Tax burden		31.7	31.2	30.8	30.7
(D.2+D.5+D.61+D.91-D.995)²					
2. Total expenditure target	TE ³	42.7	42.5	39.7	38.1
Of which					
2.1. Compensation of employees	D.1	11.4	11.1	10.9	10.8
2.2. Intermediate consumption	P.2	8.6	8.0	7.6	7.5
2.3. Social payments	D.6M	9.1	9.2	9.0	8.9
of which Unemployment benefits ³		0.2	0.2	0.2	0.2
2.4. Interest expenditure (= item 6 in Table 2.a)	D.41	1.0	1.3	1.6	1.6
2.5. Subsidies	D.3	4.7	4.9	4.0	3.2
2.6. Gross fixed capital formation	P.51G	4.0	3.9	3.0	2.9
2.7. Capital transfers	D.9	1.1	1.1	0.7	0.7
2.8. Other ⁴		2.9	2.8	2.7	2.6

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

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

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

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

Expenditure and Revenue Targets							
Amounts to be excluded from the expenditure benchmark							
Table 4.b	% GDP						
ESA Code	2021	2021	2022	2023	2024	2025	
	Level (€ millions)						
1. Expenditure on EU programmes fully matched by EU funds revenue	127.4	0.9	1.5	1.8	0.9	1.0	
1.a of which 'Investment fully matched by EU funds revenue	36.3	0.2	0.7	0.8	0.5	0.5	
2. Cyclical unemployment benefit expenditure ¹	-7.4	-0.1	-0.1	-0.1	0.0	0.0	
3. Effect of discretionary revenue measures ²	-213.4	-1.5	0.1	1.6	-0.1	0	
4. Revenue increases mandated by law	-	-	-	-	-	-	

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

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

optical products (7.0 percentage points). Transport industries would also be severely impacted: Water transport (42.7 percentage points); Air transport (27.1 percentage points); Land transport, post, and courier services (9.7 percentage points). Other critically affected industries would include Water, sewerage, and waste (31.7 percentage points); Fishing (14.8 percentage points), Food services activities (13.8 percentage points), Sporting services and amusement and recreation services (10.6 percentage points), and Repair and installation (8.3 percentage points).

3.3 Expenditure and Revenue Targets

The general Government expenditure and revenue targets are presented in Table 4.a, while Table 4.b outlines the components necessary for the computation of the expenditure benchmark. A breakdown of the general Government expenditure by function is contained in the corresponding Table 4.c.i and Table 4.c.ii. Whilst the revenue to GDP ratio is expected to remain unchanged at 36.9 per cent of GDP in 2023, the expenditure ratio to GDP is expected to decline by 0.2 percentage points, such that the general Government deficit is expected to improve from 5.8 per cent of GDP to 5.5 per cent of GDP.

General Government Expenditure by Function				
General Government Expenditure on Education, Healthcare and Employment				
Table 4.c.i	2022		2023	
	% of GDP	% of gG expenditure	% of GDP	% of gG expenditure
Education (= item 9 in table 4.c.ii)	6.2	13.8	6.1	13.5
Health (= item 7 in table 4.c.11)	6.3	14.1	6.1	13.6
Employment	n.a.	n.a.	n.a.	n.a.

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

Table 4.c.ii

Percentages of GDP		COFOG Code	2022	2023
1.	General public services	1	6.2	6.5
2.	Defence	2	0.8	0.7
3.	Public order and safety	3	1.4	1.3
4.	Economic affairs	4	8.9	9.2
5.	Environmental protection	5	1.8	1.7
6.	Housing and community amenities	6	0.4	0.4
7.	Health	7	6.3	6.1
8.	Recreation, culture and religion	8	1.5	1.5
9.	Education	9	6.2	6.1
10.	Social protection	10	11.3	11.5
11.	Total Expenditure (=item 2 in Table 4.a)	TE	44.7	44.9

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

Table 3

% GDP

	ESA Code	2022	2023	2024	2025
General Government (S13)					
1. Total revenue at unchanged policies	TR	36.9	36.7	35.3	35.2
Of which					
1.1. Taxes on production and imports	D.2	11.2	11.3	11.3	11.3
1.2. Current taxes on income, wealth, etc	D.5	14.2	13.8	13.5	13.4
1.3. Capital taxes	D.91	0.1	0.1	0.1	0.1
1.4. Social contributions	D.61	5.9	5.8	5.8	5.7
1.5. Property income	D.4	0.8	0.5	0.4	0.4
1.6. Other ²		4.6	5.1	4.1	4.2
p.m.: Tax burden		31.7	31.2	30.8	30.7
(D.2+D.5+D.61+D.91-D.995)³					
2. Total expenditure at unchanged policies	TE	42.7	37.9	36.3	35.7
Of which					
2.1. Compensation of employees	D.1	11.4	11.1	10.9	10.8
2.2. Intermediate consumption	P.2	8.6	7.9	7.6	7.5
2.3. Social payments	D.6M	9.1	8.8	8.6	8.5
of which Unemployment benefits ⁴		0.2	0.2	0.2	0.2
2.4. Interest expenditure	D.41	1.0	1.3	1.6	1.6
2.5. Subsidies	D.3	4.7	1.4	1.3	1.2
2.6. Gross fixed capital formation	P.51	4.0	3.8	3.0	2.9
2.7. Capital transfers	D.9	1.1	0.8	0.7	0.7
2.8. Other ⁵		2.9	2.7	2.7	2.5

¹ Data for 2022 is equivalent to the data presented in Table 4.a. The no-policy change scenario for the forthcoming year (2023) onwards involves the extrapolation of revenue and expenditure trends after deducting the impact of temporary measures of the current year and before adding the impact of the measures included in the forthcoming year's budget.

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

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

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

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

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

In 2023, tax revenues are expected to be less buoyant than economic developments. Tax revenues are expected to grow by 6.8 per cent, with an implied elasticity of tax revenue to GDP under the no-policy change scenario estimated at a prudent 0.9. As a result, on a no-policy change basis, the tax burden would decline by 0.5 percentage points to 31.2 per cent of GDP, as shown in Table 3. The relatively lower than unitary elasticity reflects expected developments in the respective tax basis of the different revenue categories. At unchanged policies, total expenditure would decline by 4.8 percentage points of GDP, mainly reflecting a lower ratio for subsidies in the absence of price support measures.

Stock Flow Adjustment Statement

Appendix Table 7

€ million

	2021	2022	2023	2024	2025
General Government deficit (-) / surplus (+) (ESA10)	-1,142.8	-948.0	-972.0	-793.0	-564.0
ESA Adjustments	90.9	6.6	4.9	11.4	25.2
Contribution to Sinking Fund (Local)	0.0	0.0	0.0	0.0	0.0
Contribution to Sinking Fund (Foreign)	0.1	0.1	0.1	0.0	0.0
Contribution to Special MGS Sinking Fund	30.0	25.0	30.0	30.0	30.0
Equity Acquisition	34.5	45.0	12.5	0.1	0.1
EFSF/ESM Credit Line Facility	-	-	-	-	-
Courts and other deposits	-0.4	-	-	-	-
Stock Premium paid to Church	0.3	0.1	0.2	0.1	0.2
Advances made by Government	-	-	-	-	-
Repayment of Loans to Government	-2.2	-2.8	-2.8	-2.8	-2.8
Sale of Assets	-0.9	-0.9	-0.9	-0.9	-0.9
Sale of Non-Financial Assets	-	-	-	-	-
EBUs	-11.0	0.0	0.0	0.0	0.0
Currency	3.1	12.5	6.1	6.7	7.4
Movement in Bank Account	118.0	-	-	-	-
ESA Rerouted Debt	9.8	18.1	20.0	20.0	5.0
Increase/(Decrease) in cash balance	-54.7	-5.4	1.4	1.9	1.8
Increase/(Decrease) in Non-Consolidated Debt	1360.4	1046.3	1043.5	859.6	630.1
<i>Total Consolidation</i>	-53.5	-7.4	22.2	32.6	8.5
Increase/(Decrease) in Consolidated Debt	1306.9	1038.9	1065.7	892.1	638.6
SFA	164.1	90.9	93.7	99.1	74.6

RRF Impact on Projections - Grants

Table 9.a

% of GDP

ESA Code	2020	2021	2022	2023	2024	2025	2026
Revenue from RRF GRANTS							
RRF GRANTS as included in the revenue projections	0.0	0.0	0.3	0.5	0.5	0.3	0.0
Cash disbursements of RRF GRANTS from EU ¹	0.0	0.3	0.3	0.4	0.1	0.0	0.0
Expenditure financed from RRF GRANTS							
Total Current Expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Capital Expenditure	0.0	0.0	0.3	0.5	0.5	0.3	0.0
<i>of which:</i>							
Gross fixed capital formation	P.51g	0.0	0.0	0.3	0.5	0.5	0.3
Capital transfers	D.9	0.0	0.0	0.0	0.0	0.0	0.0
Other costs financed by RRF GRANTS²							
Financial transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>of which:</i>							
Reduction in tax revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other costs with impact on revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0

¹ As per MT RRP.

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

RRF Impact on Projections - Loans

Table 9.b

% of GDP

ESA Code	2020	2021	2022	2023	2024	2025	2026
Cash flow from RRF loans projected in the programme							
Disbursements of RRF LOANS from EU	-	-	-	-	-	-	-
Repayments of RRF LOANS to EU	-	-	-	-	-	-	-
Expenditure financed from RRF loans							
Total Current Expenditure	-	-	-	-	-	-	-
Total Capital Expenditure	-	-	-	-	-	-	-
<i>of which:</i>							
Gross fixed capital formation	P.51g	-	-	-	-	-	-
Capital transfers	D.9	-	-	-	-	-	-
Other costs financed by RRF loans¹							
Financial transactions	-	-	-	-	-	-	-
<i>of which:</i>							
Reduction in tax revenue	-	-	-	-	-	-	-
Other costs with impact on revenue	-	-	-	-	-	-	-

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

Recommendations	List of Measures	Description of direct relevance
<p>In 2023, ensure that the growth of nationally financed current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine.</p> <p>Stand ready to adjust current spending to the evolving situation.</p> <p>Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions.</p>	<p>In 2023, ensure that the growth of nationally financed current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine.</p> <p>Stand ready to adjust current spending to the evolving situation.</p> <p>Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds.</p>	<p>The Maltese Government is set to ensure policy continuity towards fiscal responsibility and economic sustainability, by supporting and sheltering households and businesses from commodity price hikes, while reducing its deficit. In fact, the structural budget deficit is planned to decline from 5.8 per cent in 2022, to 5.3 per cent in 2023. The overall fiscal policy stance will be marginally contractionary, with a targeted decline in the deficit and the structural deficit, thus ensuring that the fiscal stance does not add additional pressures on domestic price levels. Indeed, the structural effort in 2023 is measured at 0.6 per cent of potential output. Following the expiry of a number of discretionary revenue measures and the expenditure consolidation measures foreseen in the budget for 2023, nationally financed current expenditure is expected to grow below potential GDP growth in 2023. Meanwhile, public debt is expected to remain below 60 per cent of GDP in 2023.</p> <p>Therefore, fiscal policy will be contractionary in 2023, as policy measures to counter energy price hikes will be supported by expenditure consolidation measures. Furthermore, support towards households and businesses will help the Maltese economy to continue growing in 2023, despite worsening economic outlook, thus boosting taxation receipts over the course of next year. Whilst the price support measures will protect everyone, including the most vulnerable households and firms, several social support measures in the budget are targeted at specific groups of society.</p> <p>Despite the strength of the Maltese economy, the weakness in the external conditions calls for further Government support. The support is aimed at stabilising inflation, which is impacting essential commodities like energy and food, with potentially serious repercussions on the most vulnerable. Results from simulations presented in this Plan indicate that, in the absence of Government support, the economy would have sustained a negative shock of at least 2.3 per cent whilst inflation would have been 7.1 percentage points higher.</p> <p>It is pertinent to note that the Maltese economy is highly dependent on imports for both consumption and production and especially in the case of energy where natural resources are extremely limited. Thus, in the absence of Government intervention, the inflationary impact of the present energy crisis would have been higher than in other Member States. This evidence suggests that the present policy stance was essential to protect the most vulnerable, mitigate inflationary pressures and protect economic growth, and therefore the Government will continue to adjust current spending according to the necessary needs.</p> <p>Public investment is expected to reach 3.9 per cent of GDP in 2023. This compares favourably to an average of 3.4 per cent in the decade leading to 2021, remaining well above the EU and EA average. This investment is further sustained by the Recovery and Resilience Facility, which is expected to fund additional high-quality investment projects and structural reforms, as well as projects funded from the Multiannual Financial Framework (MFF) for the period 2021-2027.</p> <p>Malta's Recovery and Resilience Plan (RRP) includes a broad range of climate-related measures, including building renovations, a new ferry landing site to shift transport from road to sea, reforms establishing car-free spaces, and free access to public transport to all Maltese nationals and residents to reduce congestions costs. Moreover, the RRP will continue to finance the renovation of public schools to increase energy efficiency and the building of a pilot near-carbon-neutral school. The plan also contributes towards digital objectives, including public services digitalisation and adoption of digital technologies in companies, and the health and justice sectors.</p> <p>The Government is committed to attain the GHG 2030 target, first and foremost with investment towards the decarbonisation of transport. It will also focus on waste management and achieving recycling targets and increasing energy efficiency in buildings. To this end, central for the Government's long-term vision is upgrading Malta's waste management facilities and improving its waste management performance with the largest ever investment in Malta's waste management infrastructure, partially supported through EU funding.</p>

¹ Details on the implementation of reforms and investments under the Maltese Recovery and Resilience Plan can be found in the national RRP report.

		<p>Investments will continue to decarbonise the ports as much as possible. In the coming year, EU funds will continue to be used in support of environmental investment by providing shore-to-ship electricity infrastructure to cruise liners, container and cargo ships. The electrification of the Maltese fleet is an absolute priority in the next ten years in order to continue reducing emissions. The target as established in Malta's Low Carbon Development Strategy is to reach over 10% of the fleet electrified by 2030.</p> <p>Discussions on the implementation of the REPower EU are still ongoing. Nonetheless, investments within REPower EU are expected to further contribute towards the green transition. At a time of a global energy crisis, the Government is seeking ways to deliver its climate-neutral vision by encouraging and supporting private investments whilst decreasing its dependency on others. To achieve this, Malta is working on its energy connectivity and diversification of energy sources, supporting sustainable investment in Maltese enterprises and committing to green transport and infrastructure, while investment in Malta's energy connectivity will enhance further the development of large-scale renewables and venture into innovative markets for the deployment of offshore renewable energy technologies and cleaner energy markets.</p>
	<p>For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions.</p>	<p>For the period beyond 2023, the Maltese Government will implement fiscal policies that attain a prudent medium-term fiscal position, while acknowledging that the level of uncertainty surrounding the economy remains significant. The fiscal targets are consistent with a measure of control in growth of public spending aimed at ensuring a gradual annual improvement in the structural budget balance, cognizant of the positive bearing that fiscal sustainability has on potential growth. In fact, the structural deficit is planned to decline from 5.3 per cent in 2023, to 4.1 and 2.8 per cent in 2024 and 2025 respectively. The debt-to-GDP ratio is planned to remain stable at around 60 per cent for the period beyond 2023.</p> <p>The implementation of the Recovery and Resilience plan has proceeded and is on track in line with the milestones and targets included in the Council Implementing Decisions of 5 October 2021. Reporting on FENIX is underway and follows reporting requirements, updated biannually. All of the milestones and targets due for 2021 that formed the basis of the first payment request have been met, with the payment request aiming to be made by mid-autumn.</p> <p>Work is well underway on the milestones and targets due in 2022, with the second payment request planned to be submitted by the end of quarter two of 2023.</p> <p>Malta and the Commission have agreed on operational arrangements of a technical nature, detailing aspects of the implementation with respect to timelines, indicators for the milestones and targets, and access to supporting documentation.</p> <p>The European Commission approved Malta's Partnership Agreement in September 2022 with reference to the Cohesion Policy Framework from the Cohesion Policy Agreement outlines the strategic direction for investments made during the Multiannual Financial Cohesion Policy programs had been formally submitted for negotiations with the Commission services as of the end of July 2022, with a view to adopt of the programmes before the end of the year.</p> <p>Malta will benefit from €817 million in Cohesion Policy funding in 2021-2027 to support the sustainable development of the economy. EU funds will support green transition and energy security and digital transformation. Along with fostering the development of a sustainable blue economy and enhancing the resilience of the fishing industry, the funding will also help individuals obtain additional skills, employment opportunities, and social inclusion. An important share of the funds will be invested in ensuring energy efficiency and energy storage capacity through the development of a second electricity interconnector. Moreover, funding from the Just Transition Fund will be invested in electricity power supplies to help decarbonising the Grand Harbour and Malta Freeport.</p>
<p>Recommendation 2: Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 5 October 2021. Submit the 2021-2027 cohesion policy programming documents with a view to finalising their negotiations with the Commission and subsequently starting their implementation.</p>		

<p>Recommendation 3: Take action to effectively address features of the tax system that may facilitate aggressive tax planning by individuals and multinationals</p> <p>Recommendation 3: Take action to effectively address features of the tax system that may facilitate aggressive tax planning by individuals and multinationals, including by ensuring sufficient taxation of outbound payments of interests, royalties, and dividends, and amending the rules for non-domiciled companies.</p>	<p>Take action to effectively address features of the tax system that may facilitate aggressive tax planning by individuals and multinationals</p>	<p>Through the Memorandum of Understanding, the Community Malta Agency, which is responsible for administering all Maltese citizenship-related matters, will be assisting the Office of the Commissioner for Revenue in meeting its international obligations regarding Spontaneous Exchange of Information in relation to Residence by Investment (RBI)/Citizenship by Investment (CBI).</p> <p>Towards the end of 2021, Malta entered into a competent authority agreement with the United States wherein both jurisdictions confirmed their understanding of the meaning of the term "pension fund" for the purposes of the US-MT income tax treaty. This agreement was entered into to address tax avoidance for US taxpayers from personal retirement schemes established in Malta.</p> <p>The Budget Measures Implementation Act has introduced limitations to the participation exemption with respect to certain inbound payments from bodies of persons resident in jurisdictions included in the EU list of non-cooperative jurisdictions for a period of at least three months.</p> <p>As from 1 January 2024, Malta plans on introducing a transfer price legislation. A draft Legal Notice was issued to the public for consultation on 22 December 2021 for a consultation period up till 28 February 2022.</p> <p>Malta has issued a revised corporate tax return which has been amended to collect information on dividends that are derived from bodies of persons resident in those jurisdictions that fall within the Code of Conduct Group list of non-cooperative jurisdictions. Furthermore, Malta has assigned dedicated staff to scrutinise taxpayers that emanate from the Code of Conduct Group list of non-cooperative jurisdictions. Additionally, information is being gathered on non-domiciled companies with a view of conducting an internal review.</p> <p>In line with Malta's RRP, the Ministry for Finance and Employment has also commissioned a study concerning measures relating to inbound and outbound dividend, interest and royalty payments.</p>
<p>Recommendation 4: Reduce overall reliance on fossil fuels by accelerating the deployment of renewables, promoting and enabling investments in wind and solar energy, including in floating offshore energy, further upgrading Malta's electricity transmission and distribution grids, and creating incentives for electricity storage to supply firm, flexible and fast-responding energy. Reduce energy demand through improved energy efficiency, particularly in residential buildings. Reduce emissions from road transport by addressing traffic congestion through improved service quality in public transport, intelligent transport systems and</p>	<p>Reduction of overall reliance on fossil fuels by accelerating the deployment of renewables, promoting and enabling investments in wind and solar energy, including in floating offshore energy, further upgrading Malta's electricity transmission and distribution grids, and creating incentives for electricity storage to supply firm, flexible and fast-responding energy.</p> <p>Reduce energy demand through improved energy efficiency, particularly in residential buildings.</p>	<p>There are a number of grant schemes in place for households promoting the use of renewable energy, mainly the use of photovoltaic (PV) panels, as well as the use of battery storage systems. These schemes are complemented by a number of feed-in tariff schemes such as that available for PV systems with a capacity of less than 40kWp. Additionally, the Government is also providing support schemes for medium- and large-scale renewable energy installations through a competitive bidding process. Ten calls have been launched since June 2021 while another similar invitation to bid (ITB) scheme was launched in August 2022 consisting of ten calls scheduled to be held by the end of 2023.</p> <p>The Energy Efficiency and Renewable Energy (EERE) Malta Financial Instrument is being implemented under the Cohesion Policy programme 2014-2021. Several NGOs have also benefitted from ERDF funding under the 2014-2020 Programme for the installation of PV panels on their respective buildings. In February 2022, a scheme to promote the installation of PV panels on Government buildings was and is currently receiving expressions of interest from Ministries, departments, and public entities.</p> <p>A second electrical cable interconnection between Malta and Sicily is planned to be commissioned by the end of 2025 in order to cater for the increased demand in electricity resulting from the electrification of the road transport and economic growth. This second cable link will not only double the electrical connectivity capacity with the EU, but it will also increase the uptake of indigenous and large-scale renewable energy generation. Finally, during 2022, Malta shall conduct further studies on the Malta TransGas hydrogen-ready Pipeline Project of Common Interest (PCI 5.19) to upgrade the design of the pipeline infrastructure to accommodate pure hydrogen.</p> <p>The Government has launched several schemes aimed at increasing energy efficiency for both households and enterprises, such as the relaunch of the roof insulation and double-glazing scheme in mid-2022. Approximately 700 inefficient appliances have been replaced following house visits targeting low income and vulnerable household which are also aimed at providing advice on reducing consumption of water and electricity.</p> <p>The Promotion of Energy Audits in Small and Medium Enterprises scheme encourages small and medium enterprises (SMEs) to register for energy audits to identify actions within the enterprise's operation that can lead to energy efficiency improvement. Malta</p>

<p>investing in soft mobility infrastructure.</p>	<p>Enterprise, through the Investment Aid for Energy Efficiency Projects scheme, has facilitated investments in technological solutions that provide improved energy efficiency and contribute directly towards a reduction in the energy requirements of the beneficiaries.</p> <p>The "Irrinova Darek" scheme, launched by the Building and Construction Authority (BCA) goes beyond adopting renewable energy sources but focuses primarily on the Energy Efficiency First principles. It enables the renovation of dwellings to reach the dual aims of saving energy in homes and turning these into cost-effective units to be sustained by families.</p> <p>A number of public buildings have also benefitted from ERDF funding under the 2014-2020 Programme for the installation of different energy efficiency measures aimed at reducing dependence on fossil fuels for the use of the said buildings. Moreover, the scheme to Sustain Energy and Water Efficiency within Voluntary Organisations has been launched earlier in 2022.</p> <p>National Strategy for R&I in Energy and Water (2021-2030) was developed by the Energy and Water Agency (EWA), to provide a support framework with the aim of financing R&I projects that are tailored to local specificities and national priorities. The first and second calls for proposals in 2020 and 2021 have received great success and the EWA R&I Scheme has also published another call in 2022.</p> <p>A number of other measures are currently in place with the aim of increasing energy efficiency and renewable energy uptake. Such investments include: the upgrading of the primary water network with transfer energy efficiency gains and enhanced blending capacity of the distribution network with the aim of completion by Q4 2023, the installation of more energy-efficient process aeration equipment on the Ta' Barkat Urban Wastewater Treatment Plant to be completed by Q1 2024 and installation of PV panels on over 20,000 square meters of available roof space at the Water Services Corporation (WSC), by Q4 2023.</p> <p>With reference to Malta's Recovery and Resilience Plan, the objective of the first component is addressing climate neutrality through enhanced energy efficiency, clean energy and a circular economy. Relevant reforms included the setting up of the Building and Construction Authority and the training of professionals in the industry to contribute towards achieving the decarbonisation of the building stock by 2050. A number of investments are also in place to complement these reforms.</p> <p>Investment C1-11 will aim towards reducing the reliance and demand on fossil fuels through the renovation and greening of public and private sector non-residential buildings, including deep retrofitting through energy and resource efficiency measures. The public buildings to be renovated have been selected and works are expected to be completed by 31 December 2025. The Scheme for private non-residential buildings was launched in June 2022. While the investment in RES is not supported, the renovation shall achieve a reduction of primary energy demand (PED) of at least 30%. It is expected that 40,605m² of private non-residential property will be renovated by 31 December 2025. Investment C1-12 also provides for the deep retrofitting of at least 9,167m² of Mount Carmel Hospital. Works are underway with an expected completion date by 31 March 2026. Investment C1-13 aims at the renovation, deep retrofitting and renewable energy in two public schools, increasing the use of renewable energy in these schools by 31 December 2023. Investment C1-14 relates to the construction of a carbon neutral school, namely St. Theresa College Msida Primary School, that shall also include the use of renewable energy systems. Works are well underway with a view to its completion by 31 December 2023.</p> <p>Investment C1-15 will result in the installation of photovoltaic infrastructure in roads and public spaces with implementation foreseen by 30 June 2024.</p>	<p>Reduce emissions from road transport by addressing traffic congestion through improved service quality in public transport, intelligent transport systems and</p>
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investing in soft mobility infrastructure.

Through the SMITHS project, the Government shall facilitate intramodality and address cleaner air through the introduction of various intermodal choices particularly by upgrading the inner-harbour ferry network (Bormla, Silema, Marsamxett, Valletta) and promoting walking and cycling as a clean and sustainable mode for commuting, through the introduction of segregated cycling lanes (Buqana Road, Triq Bormla, Central Link) and pedestrian paths along the road network (Blata l-Bajda Bridge, MCAST Bridge, Luqa Bridge).

Following the introduction of the fast ferry between Malta and Gozo, works will continue to increase the number of quays so that other coastal connections can be created, thus reducing dependence on private vehicles through new ferry services in Bugibba/St. Paul's Bay. Complementing this investment, a bus feeder service has been put in place using the existing bus network in order to increase its practicability and efficiency. The reconstruction of the Bugibba breakwater is estimated to commence in Q4 2022, with completion foreseen for end 2024. An integrated Intelligent Transport System (ITS) services platform is also in place and addresses public bus transport and traffic efficiency indirectly by providing close to real-time traffic data and travel information.

To address congestion and pollution, the Government has committed an investment of €700 million over 7 years to upgrade the road network, starting in 2019. By 2021, more than €400 million worth of works have been completed. The works related to Santa Lucija underpass, Marsa-Hamrun Bypass, Luqa Road and Central Link Project contracts are all complete. Additionally, a study on the traffic and effects of the projects will be held to assess the results of the investment. Road infrastructure works continued at the Airport Intersection and Luqa Junction Projects and on the Miriehel Underpass project (Node WA7). In order to contribute towards the finalisation of the TEN-T network and to ensure safe, climate-resilient roads, TEN-T road investments are also foreseen as part of potential investment under the Cohesion Policy for the 2021-2027 programming period.

Through €12.4 million in incentive grants in 2021, the Government strengthened its efforts to reduce the transport sector's carbon footprint via the electrification of vehicles. Furthermore, a Financial Instrument (EERE) is also being financed under the 2014-2021 Cohesion Policy Programme, offering a capped guarantee as well as subsidised interest rates in case of loans for the purchase of EVs. The Government has continued to offer grants on the purchasing of bicycles/pedelecs. As a result, by the end of September 2022, there were 2,646 electric cars, 2,721 Plugin Hybrid Cars, a mix of 591 Electric/Plugin Hybrid Goods-carrying vehicles and Passenger Transport Vehicles and 4,027 pedelecs/motorcycles registered.

The Government is also supporting the shift towards decarbonisation of the transport sector by committing towards the gradual introduction of charging pillars, including investments co-funded under the Cohesion Policy 2014-2022. By the end of September 2022, 168 charging pillars are available to the general public.

As part of its budget measures for 2022, the Government has extended the measures relating to the purchase of EVs including relief from registration tax and exemption from the annual road licence fee for a period of five years from the date of first registration, for EVs and electric plug-in vehicles. In addition, the shift towards EVs is also being incentivised through lower cost per unit of electricity consumed for owners of electric cars during off-peak hours. Furthermore, as from 2023, plug-in hybrid vehicles with battery autonomy of 50 kilometers will be eligible for registration tax relief, an increase from the present electric autonomy of 30 kilometers.

A new grant has also been launched for the installation of PV panels on minibuses, coaches, and trucks. An additional two new schemes encourage the operators of these vehicles to reduce exhaust from their vehicles through the installation of diesel particulate filters (DPF) and selective catalytic reduction (SCR) systems, whilst another scheme promotes the repowering of vehicles with an electric drive train.

The Government is in the process of acquiring a new ferry to permanently join the current fleet which operate the Malta-Gozo Channel, using cleaner energy. Moreover, through the Grand Harbour Clean Air Project, the Government is also committed to provide shore supply in the Grand Harbour to enable berthed vessels to switch off their gas- or heavy-fuel-oil-fired engines and

plug in to shore side electricity to power their on-board systems. The first phase of the project is currently expected to be completed by end 2023.

Component 2 of Malta's Recovery and Resilience Plan includes a number of reforms aiming at addressing carbon-neutrality by reducing traffic and decarbonising transport through awareness-raising, free public transport for all holders of personalised Tal-Linja cards, implementing a Sustainable Urban Mobility Plan (SUMP) for the Valletta Region, creating more car free spaces, promoting remote working in the public service and enhancing mobility management in the Public Service. These reforms are complemented by investments focusing on the replacement of fuel-dependent vehicles with zero emission vehicles, in the public service, private sector and public transport.

Investment C2-I2 will enhance the uptake of electric vehicles and bicycles in the private sector, through a grant scheme which was launched in March 2022 and aims to fund 5,600 vehicles/bicycles by Q4 2024. Investment C2-I3 will decarbonize the public sector fleet, by investing in the purchase of electric vehicles for the public service, with an aim to achieve 38% by Q3 2025. Investment C2-I4 will partly replace the Public Transport Fleet, funding the purchase of 102 fully electric buses by Malta Public Transport by Q2 2025.

Extra Budgetary Units as at 31 December 2021

Appendix Table 6.b

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

Notes:

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

4. Distributional Implications of Budget Measures

4. Distributional Implications of Budget Measures

Maintaining a sustainable rate of economic growth is essential in providing continuous increases in living standards but also to ensure that the benefits of such economic growth are reaped by all members of society especially, vulnerable households. It is the willingness of the Government to establish policy initiatives that ensure an equitable and inclusive society. In this regard, one of the Government's priorities is to address social imbalances, enhance social justice and make society more inclusive. Each year, the Government continues to calibrate the tax and benefit policy framework by enhancing current policies and introducing new measures to ensure that the generated wealth is distributed fairly across individuals and social groups. In the past few years, the Government has implemented a series of measures including the reduction in direct taxes, the extension of the in-work benefit scheme, the provision of free childcare and the tapering of benefits that were directed to incentivise more individuals to join the labour market while discouraging unnecessary dependences on the social protection system.

In the commitment to create a more inclusive society, the Government has continued to increase pensions and provide tax incentives that benefit those on low incomes. It supported the provision of informal long-term care by increasing the allowance of the carers benefits and reformed the means tested criteria to enhance eligibility of free prescriptions drugs and other medical treatment. In addition, it has increased benefits for those with disability while increasing their opportunity to enter the labour market. Finally, the Government also increased the benefit rates of supplementary assistance, extended housing benefit, increased stipends and enhanced children allowance.

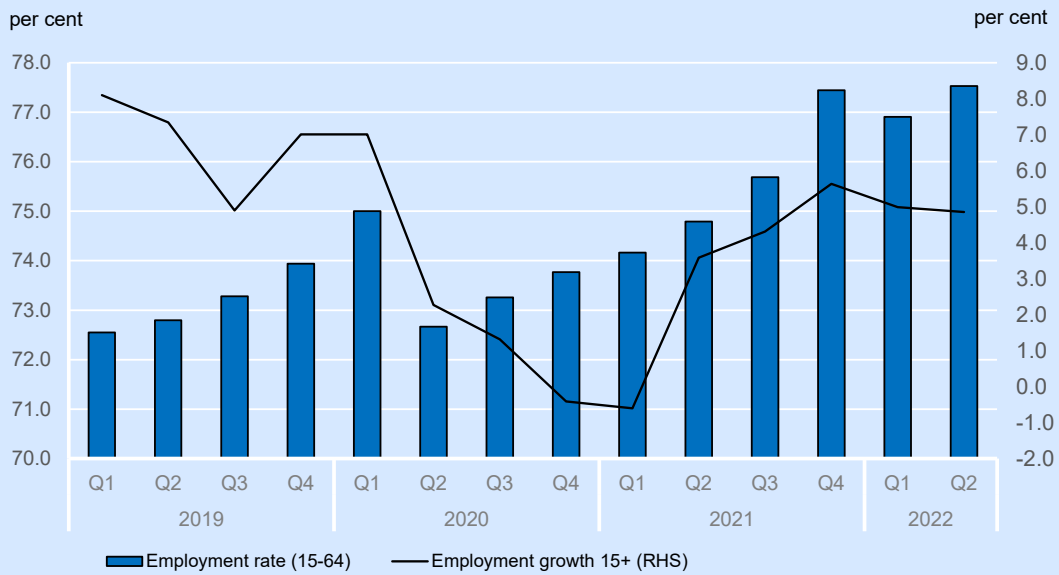
Furthermore, the COVID-19 pandemic and the conflict in Ukraine has led to increased pressures on prices of energy and food that disrupted both the economy and society at large. In this regard, the Government has introduced several policy measures to minimise the impact of inflation. With regards to energy, the Government, intervened through the reduction of excise tax on fuel and energy subsidies which have kept prices of gas, fuel and electricity stable. The Government also launched a temporary price stabilisation subsidy scheme on imports of cereal, flour and animal feed with the objective to provide food security and mitigate the increase in prices of food products triggered by the disruption of the global commodity market. In addition, the Government is also providing additional storage space to grain importers, which allows importers to buy the staple food in bulk to off-set rising international prices. The storage silos provide importers the ability to store 88,000 tons of grain. The Budget for 2023 will seek to continue sustaining the recovery from the COVID-19 pandemic as well as minimising the impact of the inflation whereby, through the Recovery and Resilience Facility, the Government will fund additional high-quality investment projects and implement structural reforms.

4.1 Government Initiatives in the Employment Field

Year after year, the objective of the Government is to strengthen the labour force and encourage more vulnerable groups to participate in the labour market. Regardless of the challenges brought about by the COVID-19 pandemic, in the second quarter of 2022 post-pandemic, the Labour Force Survey (LFS) registered an increase in the overall activity rate for the 15-64 years age bracket of 2.4 percentage points when compared to the corresponding quarter of 2021, standing at 79.9 per cent. During the same period of analysis, the total activity rate for males has increased by 1.0 percentage point (standing at 86.5 percent in second quarter of 2022) whilst the total activity rate for females increased by 3.9 percentage points (reporting a rate of 72.3 per cent in the second quarter of 2022). This is the result of several rounds of assistance measures to

Chart 4.1

Employment Growth and Employment Rate



Source: National Statistics Office based on Jobsplus database

protect employment during the pandemic, particularly the Wage Supplement Scheme, and several other incentives applied in recent years to strengthen the labour force and encourage a better work-life balance.

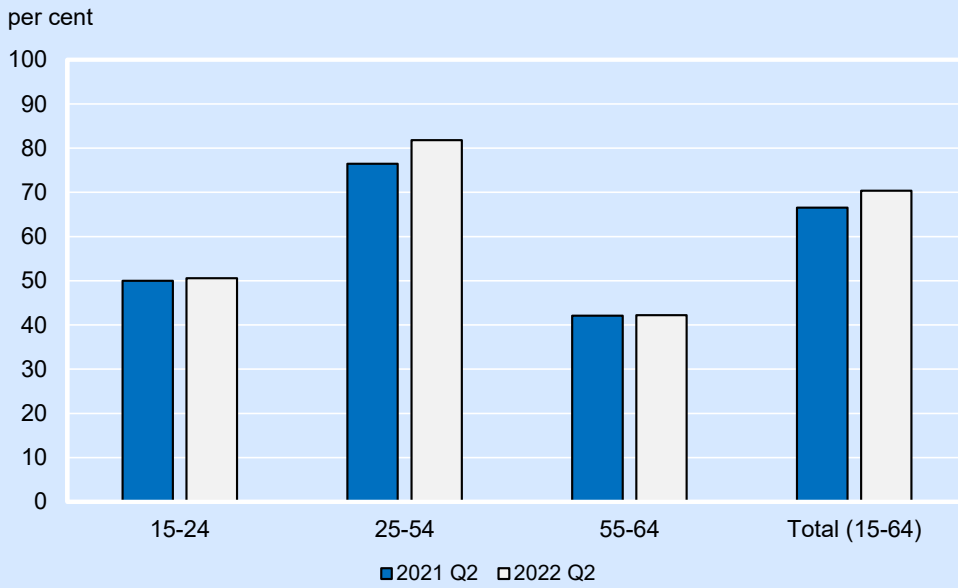
Given the perceived recovery period from the experienced repercussions of the COVID-19 pandemic, during the second quarter of 2022, the number of employed persons increased by 12,980 which is equivalent to a growth rate of 4.9 per cent when compared to same period of 2021, standing at a total of 280,469. This increase could be partially attributed towards both the extension of the COVID-19 Wage Supplement Scheme as well as the pent-up demand for tourism and consumer services. As illustrated in Chart 4.1, the employment rate improved significantly in the second quarter of 2022, rising from 74.8 per cent to 77.5 per cent when compared to the same period in 2021.

According to the labour force survey, in the second quarter of 2022, the number of employed persons aged between 15 and 64 in Malta as a proportion of the total individuals in this age group, retains a relatively high-ranking position when compared to other European countries. Breaking down the total employment rate by age, the highest employment rate recorded was among people aged 25-54, whereby out of every 100 individuals, around 88 individuals were in employment, indicating a quarter-on-quarter improvement of 2.9 percentage points when compared to the same period of 2021. The largest increase was registered by the 15-24 age bracket, reporting an increase of 5.7 percentage points. On the contrary, the employment rate for persons forming part of the 55-64 age group decreased by 1.9 percentage points, standing at 52.9 per cent.

As can be indicated in Chart 4.2, female employment rate in the 55-64 age group reported a small increase of 0.1 percentage points. The corresponding male employment rate in the same age group declined by 3.5 percentage points, standing at 63.2 per cent as indicated in Chart 4.3. The 15-24 age group’s reported increase is majorly driven by a sharp rise in the male employment rate, with female employment reporting a minimal increase. Furthermore, the opposite has occurred for the 25-54 age bracket, with the

Chart 4.2

Employment Rates, Females



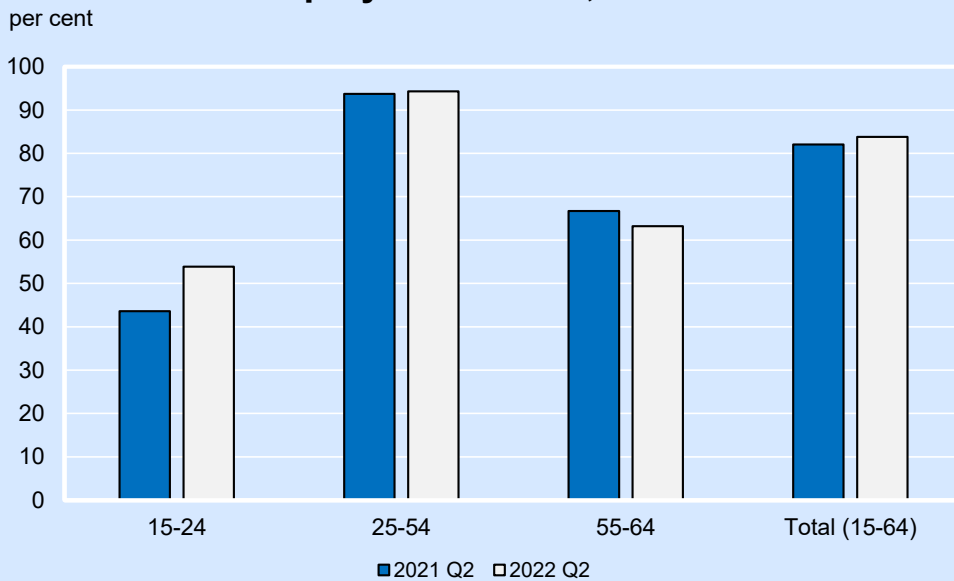
Source: National Statistics Office

largest increase sourcing out from an improved female employment rate, shifting from 76.5 to 81.8 per cent.

Despite the persistent labour market issues sourcing out from the COVID-19 crisis, the unemployment rate has returned to its declining trend, registering one of the lowest

Chart 4.3

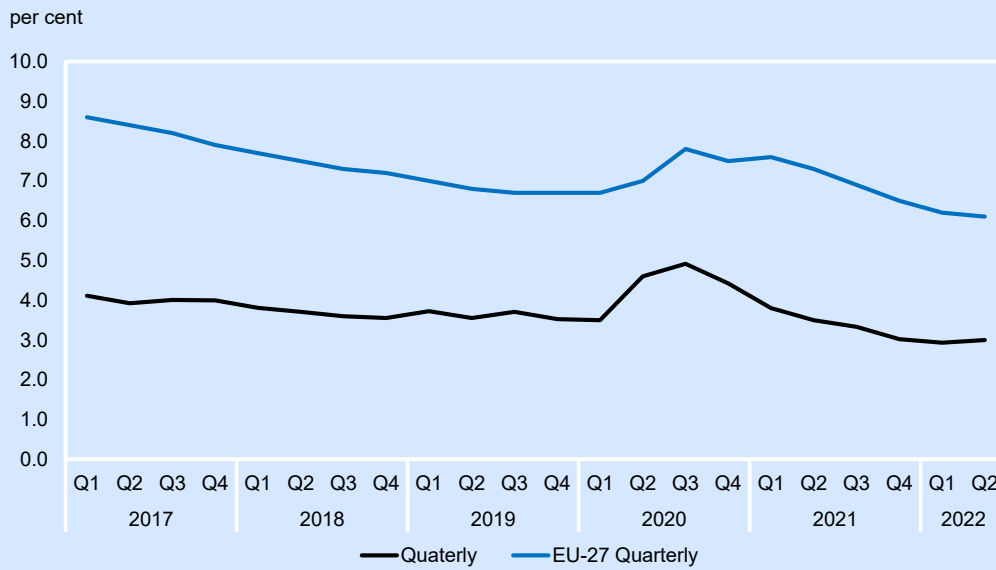
Employment Rates, Males



Source: National Statistics Office

Chart 4.4

Unemployment Rate (15-74)

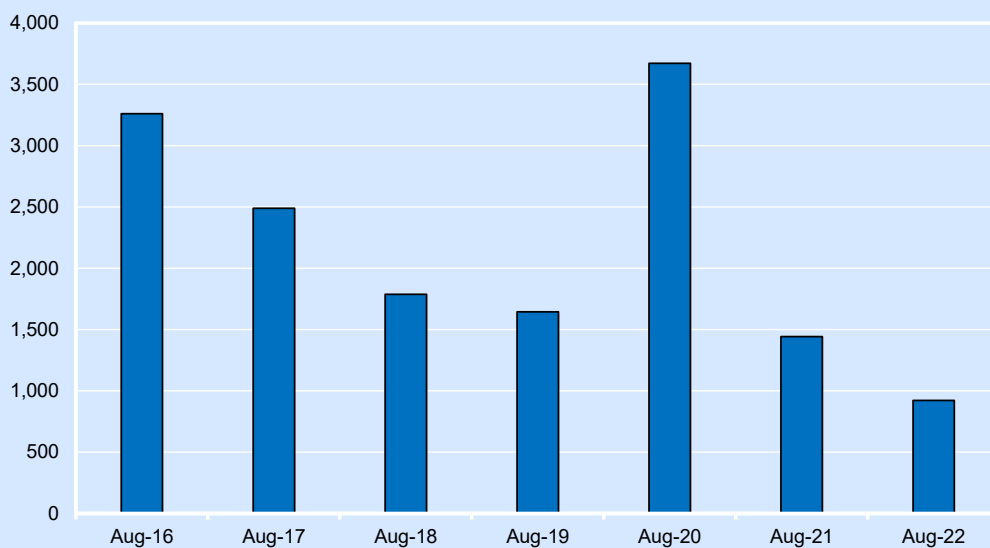


Source: National Statistics Office

rates amongst its European peers. As indicated in Charts 4.4, Malta’s unemployment rate continued falling even further below pre-pandemic levels, reflecting the observed average trend amongst EU-27 countries. Chart 4.5 shows that the number of unemployed persons registering for work in August 2022 amounted to 922, a decrease of 520 individuals from the same month of the previous year.

Chart 4.5

Average number of unemployed persons registering for work



Source: National Statistics Office

Over the years, budget measures have continued to improve the financial situation for low-income earners while contributing to an increase in the labour supply. Reforms in the social security system, aimed at making work pay, have encouraged increases in the participation rates for both males and females. Between 2016 and 2021, persons applying for social assistance and social assistance for single parents decreased by 2,754 reaching a total of 7,041 beneficiaries in 2021. Furthermore, measures that reduced households' expenses and enhanced employment income including the reduction in utility tariffs, the provision of free childcare, free school transport and public transport, the maternity leave fund and parental benefits, the reductions in the income tax rates, the increase in the tax rebate for employees, the widening of the non-taxable income tax bracket and the extension of the in-work benefit.

4.2 Indicators measuring Poverty, Social Exclusion and Inequality

The indicators considered in this section are derived from the European Union Statistics on Income and Living Conditions (EU-SILC¹) survey. The latest data available is the EU-SILC 2021 thus, the indicators relating to the AROP and income distribution, Gini coefficient and S80/S20 indicators include the impact of the pandemic as they are based on income reference year 2020. The at-risk-of-poverty-or-social-exclusion (AROPE²) rate is the main indicator that monitors the EU 2030 target on poverty and social exclusion. It captures the share of the total population which is considered to be at risk of poverty or at risk of social exclusion.

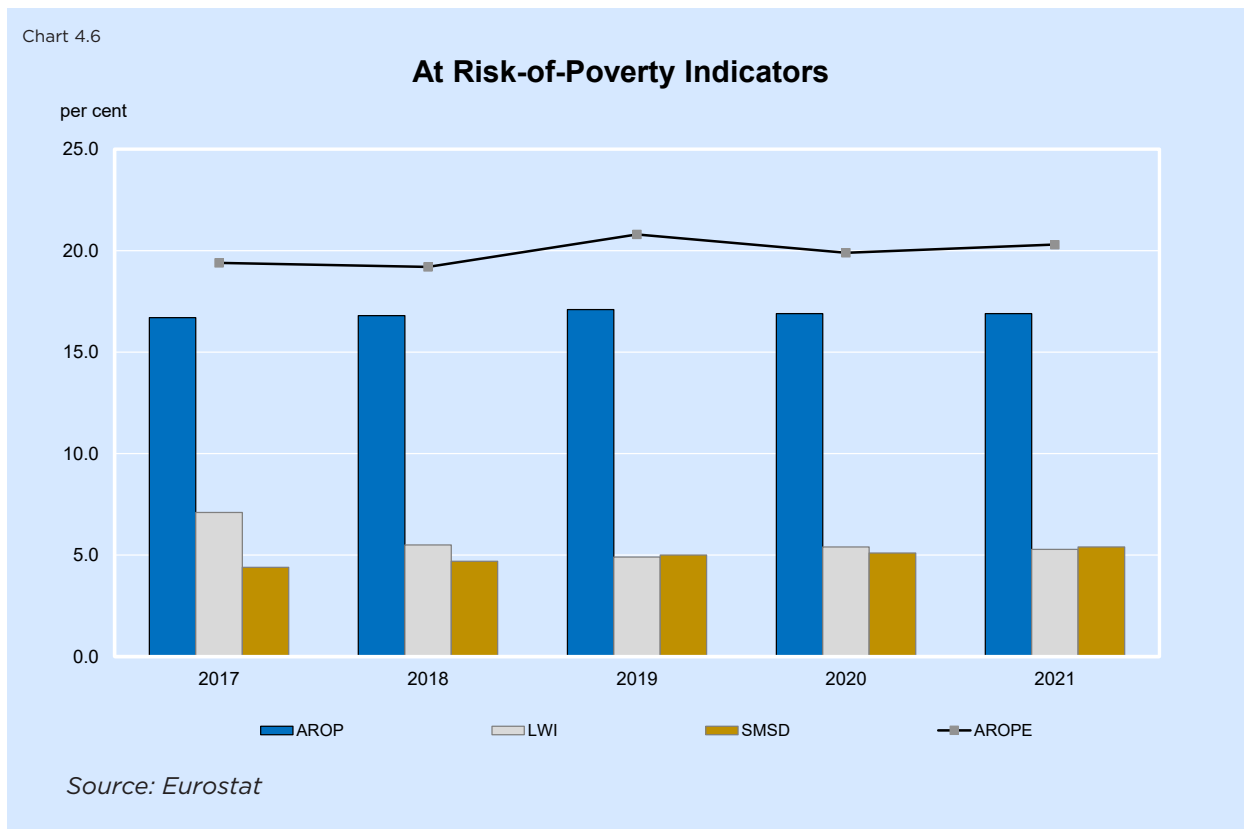
The AROPE can be decomposed into three main indicators namely:

1. The at-risk-of poverty rate (AROP): shows the number of households falling below a threshold set at 60 per cent of median household disposable income .
2. Severe material and social deprivation (SMSD): shows the number of households unable to afford certain basic necessities from an established list of goods and services.
3. Low Work Intensity (LWI): shows the degree of households' work intensity in terms of hours worked per week

As shown in Chart 4.6, the AROPE indicator for Malta stood at 20.3 per cent in 2021, which is 0.4 percentage points higher when compared to 2020 and 0.9 percentage points higher than the rate recorded for 2017. When compared to the EU average, Malta's AROPE was 1.7 percentage points lower in 2020, with the EU average standing at 21.6 per cent.

The AROP rate before social transfers for Malta stood at 36.2 per cent in 2021, whilst in the EU, the rate was 43.3 per cent in 2020, 8.2 percentage points higher compared to Malta's rate. After the inclusion of social transfers, the AROP rate for Malta, dropped by 19.3 percentage points to a rate of 16.9 per cent in 2021. A similar drop was also noted at the EU level, with a drop of 26.6 percentage points in 2020.

Malta's AROP rate after the inclusion of social transfer has been, on average, fluctuating over the same rate in past few years, increasing from 16.7 per cent in 2017 to 17.1 per cent in 2019 and decreasing to 16.9 per cent in 2021. Nevertheless, it should be noted that the AROP thresholds, also known as the poverty line, for both single person households and households comprising two adults with two children younger than 14 years, increased by 17.3 per cent over the five-year period under review, reflecting the increase in the median equivalised income³. This increase is mainly driven by employment income, as the growth in this source of income was at a higher rate than the increase in social benefits



and other income. As a result, this may exacerbate the AROP rate as the increase in the poverty line alone captures more household below the threshold.

Chart 4.6 also shows the trend of the two other components of the AROPE rate; the SMSD and the LWI. In 2021, the SMSD rate among persons living in households was equal to 5.4 per cent which is equivalent to around 27,334 individuals. The rate increased slightly by 0.3 percentage points when compared to 5.1 per cent recorded in the previous year. Nevertheless, based on the 2020 data, when compared to the EU average, the rate for Malta is 1.7 percentage points lower. With regards to the share of person residing in a household with LWI, the rate amounted to 5.3 per cent in 2021, 0.1 percentage point lower than the rate recorded in 2020 and 1.8 percentage points lower than the rate recorded in 2017. Moreover, in 2020 the share of person residing in a household with LWI is 2.9 percentage points lower in Malta, when compared to the EU level.

Two methods are used to analyse Malta's income distribution; the income quintile share ratio and the Gini coefficient. The income quintile share ratio compares households' income in the 80th percentile with those in the 20th percentile (S_{80}/S_{20}) by dividing the former with the latter. This indicator has slightly increased in the past year, from 4.7 in 2020 to 5.0 in 2021. This indicates that for 2021 those in the top 20th percentile in terms of income earn on average 5.0 times more than those in the 80th percentile. Decomposing this increase to reflect those above the age of 65 and those below, one can note that the aforementioned increase is primarily led by those aged less than 65. In fact, the ratio for the cohort of persons aged less than 65 years increased by 0.4 (or 5.2 times) in 2021. Meanwhile the ratio for persons aged 65 and over, decreased, resulting in a ratio of just 3.4 during the same year. The discrepancy among the ratio between the cohorts is mainly driven by employment income as the difference in the employment income earned by households is much larger than pensions.

Income Distribution

Table 4.1

	EU27	Malta	
	2020	2021	2022
S80/S20 ratio	4.9	4.7	5.0
<i>Less than 65 years</i>	5.1	4.8	5.2
<i>65 years or over</i>	4.2	3.5	3.4
Gini-coefficient	30.0	29.9	31.2

Source: Eurostat

The Gini coefficient after social transfers, also increased in the past year, from a ratio of 29.9 in 2020 to 31.2 in 2021, suggesting higher income inequality. These figures and the ones for the S80/S20 ratio are slightly lower than the EU average in 2020 especially among the elderly cohort. This may be an indication that income inequality is less pronounced in Malta than in other EU countries.

4.3 Distributional Impact of Higher Inflation from Energy and Food on Households

As previously mentioned, the Government has introduced several policy measures to minimise the impact of inflation due to the increase in energy and food prices. The following analysis illustrates the distributional impact of the expected increase in prices of energy (including gas, diesel, petrol and electricity) and food on households had the Government not intervened. The analysis is modelled using EUROMOD⁴, which is a static tax and benefit micro-simulation model using the 2020 EU- SILC microdata.

Methodology

The EU-SILC data does not include information on household consumption patterns, so the distributional impact of the expected increase in food and energy prices (in relation to gas, diesel, petrol, electricity and food) cannot be analysed. To overcome this limitation, the following approach was adopted:

- The estimated percentage increase in the prices of food, gas, diesel, petrol and electricity was calculated (Table 4.2) and based on the average household expenditure data of these categories⁵ (data from the Household Budgetary Survey (HBS)), the estimated increase in price by income distribution in the SILC data was imputed. Thus, the increase in price was treated as a negative income shock which was deducted from the simulated disposable income.
- The revised disposable income was estimated using EUROMOD through the 2019 tax and benefit system for Malta.

The policy scenarios considered include:

- **‘Baseline’ Scenario** which represents the status quo based on the 2019 tax and benefits policy rules.
- **‘Energy’ Scenario** which captures the expected increase in household expenditure following an increase in gas, diesel, petrol and electricity prices.

Estimated Increase in Energy and Fuel Prices without Government Intervention

Table 4.2

Categories:	Estimated Price Increase (%)	
Energy Prices	Gas	55.3%
	Diesel	47.9%
	Petrol	33.6%
	Electricity	130.2%
General Food Prices	1.5%	

Source: Data from Energy Operators and MFE Own Calculations

- **'Food' Scenario** which captures the expected increase in household expenditure following a 1.5 per cent increase in food prices.
- **'Total' Scenario** which captures the expected increase in household expenditure following an increase in energy and food prices.

Impact on Poverty and Income Inequality

Table 4.3 illustrates the estimated impact on the AROP rate for different sub-groups of the population for each scenario, if the Government did not intervene. The results also illustrate the change in the poverty line (60 per cent of median equivalised disposable income) and the Gini Coefficient, which is a measure of income inequality.

Without the mentioned Government intervention, the overall increase in prices for gas, diesel, petrol and electricity and food prices when compared to the 'Baseline', would have increased the poverty rate from 15.35 per cent to 16.34 per cent (0.99 percentage points). The highest increase in poverty would be experienced by the elderly cohort with an increase of 2.62 percentage points. The Gini coefficient would have increased by 0.75 percentage points. Moreover, the poverty line also would have decreased from €9,883 to €9,496. This anticipated increase in expenditure on energy and food prices will affect all households. The highest increase in poverty is driven by the expected increase in

Main Poverty Indicators

Table 4.3

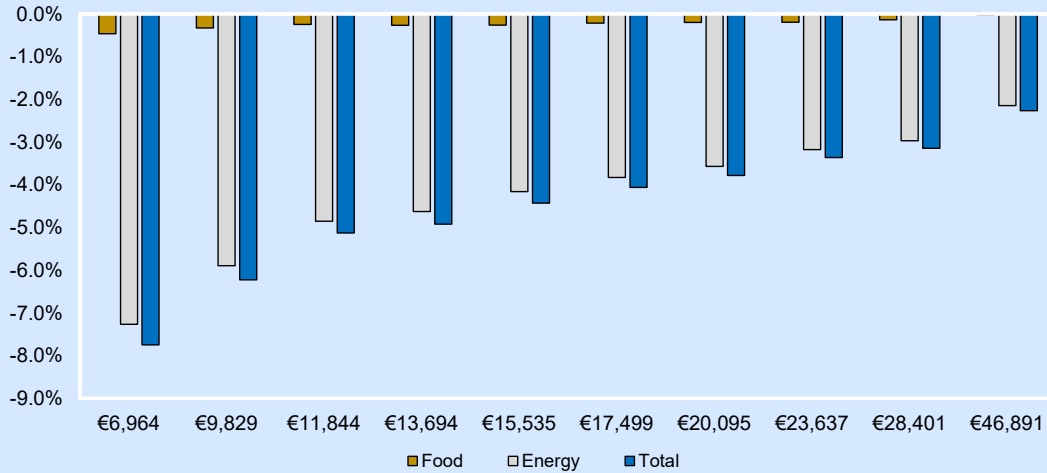
Indicator	Baseline	Energy	Food	Total
Overall Poverty Rate (AROP):	15.35%	16.31%	15.40%	16.34%
Children	15.19%	15.53%	15.19%	15.53%
Working age	11.74%	12.46%	11.77%	12.46%
Working age and economically active	6.52%	7.02%	6.53%	7.02%
Elderly	28.82%	31.24%	29.01%	31.44%
Gini coefficient	0.299	0.306	0.300	0.307
60% of Median Equivalised Income	€ 9,883	€ 9,520	€ 9,860	€ 9,496

Source: MFE Own Calculations

Chart 4.7

Change in the household equivalised disposable income by decile

percentage change relative to baseline scenario



Source: MFE Own Calculations

energy prices, which increase amounts to 0.96 percentage points. Whereas the expected increase in food prices, increased the overall poverty rate by 0.05 percentage points.

Chart 4.7 illustrates, the percentage change of equivalised household disposable income from the 'Baseline', to determine which households benefit the most by the mentioned Government measures. In all scenarios if the Government would have not intervened, the highest decrease in disposable income is expected to be incurred in the bottom deciles. The total increase in energy and food prices is expected to decrease the equivalised disposable income by 7.7 per cent for the first decile and 6.2 per cent for the second decile. The decline in disposable income is mainly driven by the expected increase in energy prices, a decline of 7.3 per cent in the first decile, whereas the expected increase in food prices decreased disposable income by 0.5 per cent in the same cohort. Thus,

Expected decrease in household income for each household by family type without Government Intervention

Table 4.4

Single person	€ 747
Couple, both working	€ 1,425
Single parent with one child	€ 1,074
Couple, one working, with two children	€ 1,553
Couple, both working, with two children	€ 1,671
Elderly, couple, both more than 65 years old	€ 993

Source: MFE Own Calculations

the mentioned Government initiatives were effective in protecting households, especially low-income households.

In addition, to illustrate the effectiveness of the mentioned Government measures using data from HBS on the consumption patterns of energy and food by household type, the expected decrease in household disposable income was estimated by family type. The results are shown in Table 4.4.

4.4 2023 Budget Measures

In 2023 the Budget aims to continue supporting the economy by insulating it from the rise in energy prices and the increase in price of basic commodities. This is expected to foster a relatively lower inflation environment, continue to sustain the growth potential of the economy and support households and companies. Further social support measures are also envisaged aimed at supporting vulnerable households in times of higher inflationary pressures.

Footnotes:

¹ The aim of the EU-SILC is to collect timely and comparable cross-sectional and longitudinal multidimensional microdata on income, poverty, social exclusion and living conditions of households. The non-income components reported in the EU- SILC such as material deprivation and work intensity are based on the reporting year (t) while the income statistics refer to the previous year (t-1).

² The AROPE indicator for the EU 2030 target is slightly different than the indicator used for the EU 2020 strategy. The SMSD indicator replaced the severe material deprivation (SMD) indicator whereby it now captures the proportion of the population experiencing an enforced lack of at least 7 out of 13 material and social deprivation items. The other difference relates to the extension of the age bracket of the LWI indicator from 0 to 59 years to 0 to 64 years. Further detail: Glossary: At risk of poverty or social exclusion (AROPE) - Statistics Explained (europa.eu).

³ AROP threshold is defined as 60 per cent of the median national equivalised income.

⁴ EUROMOD is a tax-benefit microsimulation model for the EU that enables researchers and policy analysts to calculate, in a comparable manner, the effect of taxes and benefits on household incomes and work incentives for the population of each country and for the EU. The simulations are based on the 2019 tax and benefit system of Malta using EUROMOD version I4.0.

⁵ Data is obtained from the Household Budgetary Survey (HBS) of 2015 updated with HICP to represent 2019 prices.