



Ministry for Finance

Budget Speech

2013

The Hon. Edward Scicluna
Minister for Finance Malta
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Preamble

Mr Speaker,

This evening I am presenting the first budget of this Legislature. It is being presented by a new Government about four months after it was supposed to have been approved by Parliament. Today we shall be doing what the previous Government should have put in place itself had it acted prudently.

This evening we will not waste time arguing about the past and about who was to blame for this impasse.

The people spoke clearly on the 9th of March and pronounced its judgement.

My duty and the duty of the new Government is to act competently and to see that the public finances are managed in the best possible way. Because the people have a right to expect good judgement and discretion from the Government it elected.

Whilst still in Opposition, out of prudence and with a sense of responsibility towards the country, this Government had promised to keep to the framework of this Budget even because it was understood that this Budget had been agreed with the European Commission. This decision was taken within the reality of an unapproved Budget to maintain and strengthen certainty and stability in the country. Our families and businesses needed to be assured that what had been promised in Budget 2013 would be given to them irrespective of who was in Government.

There were those who criticised this decision. Some saw a contradiction in our position as a new Government, elected on the call for a change in direction, in keeping the framework of a Budget presented by the previous Government. However, as we had then explained, a change in direction

comes through the performance of the Government, through the way things are done and through the will to act with prudence, discretion and diligence.

Another reason is that, in this same week that this Budget is being presented, the European Commission is expecting from us the framework of another Budget – for the year 2014. This will be a Budget that will better and more clearly reflect the proposals that make up the Road Map of this new Government. A programme of work which the people chose and for the implementation of which we were given a solid mandate. Today we want our economy to run smoothly and not stall in the needless uncertainty brought about by further waiting for some new Budget.

There was agreement by both sides of the House not to change anything of what was presented last November save for the introduction of a measure through which those whose only income is the minimum wage should not be liable to income tax.

We could have limited ourselves to this. However, faced by the reality of the situation and because we are responsible, we had to face various challenges and take the necessary decisions.

The first challenge my Ministry had to face was to decide which version of the 2013 Budget to adopt. We had three versions that were incompatible with each other - the one read by the Minister who preceded me, the one found in the estimates he presented, and the one that was incorporated in the Bills prepared for implementation once the Budget was approved. The discrepancies between these three versions were not insignificant. We shall amplify on this later on.

The second challenge was posed by the financial performance both during last year and also in the first three months of this year. During this period the income and expenditure of the Government took an undesired turn. This

results from the Government accounts as reported by the National Office of Statistics.

Government's Financial Situation

The Nationalist Government's original goal was to end the year 2012 with a deficit in the Consolidated Fund of €145 million. However this target was not reached. The deficit more than doubled at €342million. This reality was continually refuted by the previous Government to the extent that in November, only one month prior to the closure of the books, they still insisted that the revised deficit would only amount to €180 million.

The increase in the deficit was primarily the result of income projections that were far too optimistic and which, as we had pointed out, could not be realised. In fact, at the end of 2012, Government revenue was €245 million lower than that approved. There was a shortfall of around €150 million in revenue from excise duty, VAT, National Insurance contributions as well as from licences and other taxes. It is true that this shortfall includes around €66 million in excise duty due to Government by Enemalta Corporation. It also includes a drop in European Union Funds of around €100 million that were then balanced out in the capital expenditure account through the system of accruals.

The fact remains, however, that the shortfall in Government revenue was significant.

It is evident that in order to offset the decrease in income from Enemalta Corporation, the Nationalist Government planned to raise water and electricity rates once again after the elections.

This Government will not do this. On the contrary, we have started working on a plan that will lead to cheaper utility bills whilst strengthening the sustainability of Enemalta Corporation.

As regards expenditure, the level of spending was higher than that approved. There was a net over-expenditure of around €26 million by the various Ministries, mainly the Health and Social Security Ministries and €21 million in new payments to Enemalta Corporation.

The Government's revenue and expenditure for the year 2012 as compared to those of the previous year are illustrated in Table No.1

On the basis of the Consolidated Fund this deficit amounts to 5.1 per cent. However, this is not the figure that represents the realistic fiscal deficit of the country.

The aforementioned extraordinary transfers and changes bring down the deficit when measured on the basis of General Government through the accruals system of accounts. Even so however, the deficit is far in excess of what was planned in the Budget for the year 2012. In a nutshell, we ended the year 2012 with a General Government deficit of 3.3 per cent.

Technically this could force us back into the procedure known as the Excessive Deficit Procedure (EDP).

However this is moot and on this point one has to await further developments.

Let us state things plainly. These results come as no surprise to anyone, least of all to us who last year sat on the other side of the House. At the time we had warned the Government on several occasions that the direction it

had taken and the instability it had brought about were having an adverse effect on the economic activity in the country, particularly consumption and investment, and would lead to failure in meeting the fiscal targets.

They started off with unrealistic projections, they ignored the Commission's warnings not once but three times and fell into the Excessive Deficit Procedure they had vowed to avoid. Every time we remarked that the deficit was growing, we were told to be patient, to wait and see.

Now we have waited, we have seen and we have been proved right.

Table No. 1

| FISCAL POSITION 2011 - 2012 | | | | | | |
|--|------------------|------------------|--------------------|------------------|------------------|------------------|
| | 2011 | | 2012 | | | |
| | Actual € '000 | | Approved € '000 | | Actual € '000 | |
| Consolidated Fund | | | | | | |
| Tax Revenue | 2,323,351 | | 2,541,850 | | 2,392,966 | |
| Non-Tax Revenue | 320,480 | | 419,150 | | 322,766 | |
| Total Revenue | | 2,643,831 | | 2,961,000 | | 2,715,732 |
| Recurrent Expenditure | | 2,361,284 | | 2,450,295 | | 2,488,423 |
| Capital Expenditure | | 288,695 | | 425,327 | | 343,777 |
| Primary Balance | (6,148) | | 85,378 | | (116,468) | |
| Interest Payments | | 212,462 | | 230,605 | | 225,807 |
| Recurrent Surplus / (Deficit) | 70,085 | | 280,100 | | 1,502 | |
| Consolidated Fund (Deficit) | | (218,610) | | (145,227) | | (342,275) |
| <i>Financing</i> | | | | | | |
| Direct Loan Repayments | (128,438) | | (509,702) | | (349,757) | |
| Contributions to Sinking Funds - Local | (6,744) | | (4,857) | | (4,857) | |
| Contributions to Sinking Funds - Foreign | (6,758) | | (6,716) | | (6,716) | |
| Equity Acquisition | (6,000) | | (20,100) | | (53,392) | |
| Loan Facility to the Hellenic Republic | (30,842) | | (16,575) | | - | |
| Loan Facility to Air Malta plc EFSF | (52,000) | | - | | (52,000) | |
| Credit Line Facility Repayment of | - | | (4,500) | | 0 | |
| Loans to Government Sinking | - | | 52,002 | | 52,000 | |
| Funds of Converted Loans Sale of | 9,622 | | 28,159 | | 28,425 | |
| Assets | - | | - | | - | |
| | | (221,160) | | (482,289) | | (386,297) |
| Public Sector Borrowing Requirement | | (439,770) | | (627,516) | | (728,572) |
| Foreign Loans | | - | | - | | - |
| Consolidated Fund balance as on 1 January | (125,231) | | 24,524 | | 2,797 | |
| Local Loans | 567,798 | | 700,000 | | 645,652 | |
| | | 442,567 | | 724,524 | | 648,449 |
| Consolidated Fund balance as on 31 December | | 2,797 | | 97,008 | | (80,123) |
| Consolidated Fund (Deficit) | | (218,610) | | (145,227) | | (342,275) |
| General Government Adjustments | | 35,603 | | (8,673) | | 116,421 |
| General Government (Deficit) | | (183,007) | | (153,900) | | (225,854) |
| Gross Domestic Product | | 6,556,327 | | 6,776,000 | | 6,755,851 |
| General Government (Deficit) as a % of Gross Domestic Product | | -2.8% | | -2.3% | | -3.3% |

Estimates for 2013

Mr Speaker,

I have also asked the public officers to give me a financial account for the first three months of this year. The reason was to be in a position to present more realistic estimates for 2013 in the light of the current circumstances. I wish to report that, for reasons that will be explained shortly, the revised Budget estimates envisage an increase of around €68 million in the Consolidated Fund deficit. I table the details outlining our estimates regarding this increase.

The details of the revised estimates for the year 2013 regarding revenue from taxation, recurrent expenditure, capital investment and Government debt are indicated in Tables 2 and 3, which I hereby request the House to consider as read.

| FISCAL POSITION 2011 - 2015 | | | | | | | | | | | | |
|--|-----------|------------------|-----------|------------------|---------------|------------------|------------|------------------|-----------|------------------|-----------|------------------|
| | 2011 | | 2012 | | 2013 | | | | 2014 | | 2015 | |
| | Actual | | Actual | | Estimates | | Estimates | | Estimates | | Estimates | |
| | € '000 | | € '000 | | November 2012 | | April 2013 | | € '000 | | € '000 | |
| | | | | | | | | | | | | |
| Consolidated Fund | | | | | | | | | | | | |
| Tax Revenue | 2,323,351 | | 2,392,966 | | 2,710,778 | | 2,639,678 | | 2,760,228 | | 2,871,828 | |
| Non-Tax Revenue | 320,480 | | 322,766 | | 415,436 | | 390,818 | | 432,983 | | 478,448 | |
| Total Revenue | | 2,643,831 | | 2,715,732 | | 3,126,214 | | 3,030,496 | | 3,193,211 | | 3,350,276 |
| Recurrent Expenditure | | 2,361,284 | | 2,488,423 | | 2,561,852 | | 2,572,090 | | 2,632,976 | | 2,688,603 |
| Capital Expenditure | | 288,695 | | 343,777 | | 424,480 | | 386,924 | | 466,703 | | 500,441 |
| Primary Balance | (6,148) | | (116,468) | | 139,882 | | 71,482 | | 93,532 | | 161,232 | |
| Interest Payments | | 212,462 | | 225,807 | | 235,282 | | 235,282 | | 245,532 | | 256,232 |
| Recurrent Surplus / (Deficit) | 70,085 | | 1,502 | | 329,080 | | 223,124 | | 314,703 | | 405,441 | |
| Consolidated Fund (Deficit) | | (218,610) | | (342,275) | | (95,400) | | (163,800) | | (152,000) | | (95,000) |
| <i>Financing</i> | | | | | | | | | | | | |
| Direct Loan Repayments | (128,438) | | (349,757) | | (516,783) | | (370,283) | | (511,661) | | (349,377) | |
| Contributions to Sinking Funds - Local | (6,744) | | (4,857) | | (4,059) | | (4,059) | | (3,261) | | (3,261) | |
| Contributions to Sinking Funds - Foreign | (6,758) | | (6,716) | | (6,475) | | (6,475) | | (6,465) | | (6,464) | |
| Equity Acquisition | (6,000) | | (53,392) | | (51,796) | | (51,796) | | (26,796) | | (54,796) | |
| Loan Facility to the Hellenic Republic | (30,842) | | - | | - | | - | | - | | - | |
| Loan Facility to Air Malta plc EFSF | (52,000) | | (52,000) | | - | | - | | - | | - | |
| Credit Line Facility Repayment of | - | | 0 | | (4,500) | | (4,500) | | (4,500) | | (4,500) | |
| Loans to Government Sinking | - | | 52,000 | | 2 | | 2 | | 2 | | 2 | |
| Funds of Converted Loans Sale of | 9,622 | | 28,425 | | 28,343 | | 28,343 | | - | | - | |
| Assets | - | | - | | - | | - | | - | | - | |
| | | (221,160) | | (386,297) | | (555,268) | | (408,768) | | (552,681) | | (418,396) |
| Public Sector Borrowing Requirement | | (439,770) | | (728,572) | | (650,668) | | (572,568) | | (704,681) | | (513,396) |
| Foreign Loans | | - | | - | | - | | - | | - | | - |
| Consolidated Fund balance as on 1 January | (125,231) | | 2,797 | | 82,175 | | (80,123) | | (2,691) | | (57,372) | |
| Local Loans | 567,798 | | 645,652 | | 650,000 | | 650,000 | | 650,000 | | 450,000 | |
| | | 442,567 | | 648,449 | | 732,175 | | 569,877 | | 647,309 | | 392,628 |
| Consolidated Fund balance as on 31 December | | 2,797 | | (80,123) | | 81,507 | | (2,691) | | (57,372) | | (120,768) |
| Consolidated Fund (Deficit) | | (218,610) | | (342,275) | | (95,400) | | (163,800) | | (152,000) | | (95,000) |
| General Government Adjustments | | 35,603 | | 116,421 | | (27,500) | | (27,500) | | (3,000) | | (29,000) |
| General Government (Deficit) | | (183,007) | | (225,854) | | (122,900) | | (191,300) | | (155,000) | | (124,000) |
| Gross Domestic Product | | 6,556,327 | | 6,755,851 | | 7,070,110 | | 6,978,794 | | 7,243,988 | | 7,548,236 |
| General Government (Deficit) as a % of Gross Domestic Product | | -2.8% | | -3.3% | | -1.7% | | -2.7% | | -2.1% | | -1.6% |

Table No. 3

STATEMENT OF PUBLIC DEBT

| | € '000 | | | | |
|--|------------------|------------------|------------------|------------------|------------------|
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| Malta Government Stocks | 4,046,345 | 4,351,639 | 4,631,371 | 4,769,710 | 4,870,333 |
| Treasury Bills | 257,148 | 154,133 | 156,701 | 211,382 | 274,778 |
| Domestic Loans with Commercial Banks | 56,379 | 56,379 | 56,379 | 56,379 | 56,379 |
| Foreign Loans | 74,581 | 61,970 | 51,028 | 40,415 | 29,802 |
| EBU's / Local Councils | 111,533 | 89,913 | 89,913 | 89,913 | 89,913 |
| Currency | 45,836 | 50,098 | 54,400 | 58,600 | 62,900 |
| EFSF (Debt Re-Routing) | 15,531 | 135,951 | 141,383 | 141,383 | 141,383 |
| General Government Public Debt | 4,607,353 | 4,900,083 | 5,181,175 | 5,367,782 | 5,525,488 |
| <i>Gross Domestic Product</i> | 6,556,327 | 6,755,851 | 6,978,794 | 7,243,988 | 7,548,236 |
| Debt as a % of Gross Domestic Product | 70.27% | 72.53% | 74.24% | 74.10% | 73.20% |

The fiscal slippage experienced in the past months will not dishearten us, nor will we use it as an excuse to go back on what we promised. We merely wanted to set the records straight and know exactly where we stand.

I wish to emphasise that we will fulfil all our proposals. As I shall shortly explain, the change in direction is intended to make such fiscal slippage part of Malta's past history. Our people are tired of the lack of transparency that shrouds Government estimates. They want to know the truth. They want fiscal estimates that are realistic. They want a clear plan of how the desired economic growth of the country will come about. They want to be sure that the national debt no longer threatens their future and the future of their children. They want the country's finances to be managed wisely and prudently.

We are already sending messages to the European Commission as well as other institutions and agencies, both European and international, that are closely watching us, that we are determined to reduce the deficit and to keep the national debt in check. We seriously want to convince that not only shall we be doing our utmost to keep the deficit for this year within the 3 per cent threshold but that we mean to work hard so that the ultimate result would be even better than what we are forecasting today.

Let us be clear – in the current economic and financial situation, both internationally and more so in the Eurozone, this is not going to be easy. But this situation strengthens our resolve and determination to achieve our goals. I assure you this new Government will work in co-ordination and with a great deal of energy to repair the damage caused to our finances and it will succeed.

Our plan is not for one year because were we to do that we would end up harming our country's economy. There is no need for austerity programmes and other shocks to redress situations of waste and inefficiency. What we need is more flexibility to change bad practices that have become ingrained in our

system and if left unchecked would lead to a deterioration of our financial situation. Our pledge for a change in direction demands that we put a stop to such practices.

For the sake of transparency, the people have a right to know what led to the necessity to revise the Budget accounts that were presented four months ago. This revision results in a larger estimated deficit.

Let us start with the first reason. From an evaluation of circumstances it results that the version of the Budget read out in Parliament by the previous Minister last November was not faithfully reflected in the estimates presented that same day. The Budget Speech contained pledges for which there was no provision in the estimates.

In other words, the Nationalist Government had mentioned these pledges in the Budget but then did not allocate enough funds for them. They were only words.

In this regard, I could mention the Youth Organisation Projects, the Out of Home Care Programme, the Residential Home for Youth, the Therapeutic Facility, the Embark for Life scheme, increases in Stipends, the After Schools Programme, Lifelong Learning and others that still need to be identified in each Ministry.

This was irresponsible.

We had to take a decision. What do we do about these programmes the Nationalist Government had promised but for which it made no provision? The easiest way out would have been to say that since no monies had been allocated then these programmes should be scrapped.

But that is not how this Government reasons.

We are committed to fulfil all that was pledged and we shall be making provision for these programmes in the revised estimates.

Since the Budget Speech was read out last November we had a long electoral campaign during which a number of Collective Agreements were signed, committing the Government to a larger expenditure in the current year. These agreements were signed with the teaching staff at MCAST, with doctors and nurses. Another agreement was entered into with the University redressing the previous cuts in allocations to this institution and because of which it could no longer operate. Another agreement was signed with pharmacists regarding the Pharmacy of Your Choice scheme. All these pre-election agreements necessitate an adjustment in the expenditure estimates.

I am not implying that these agreements should not have been entered into. On the contrary, most of them should have been signed long ago.

I assure all workers that the new Government will be honouring all these Collective Agreements. Because this is a responsible Government.

To these must be added expenses in connection with the change of administration for which provision is also being made.

Therefore the net recurrent expenditure will increase by the net amount of €10 million, whilst the net capital expenditure will rise by another €1 million over the estimates as presented last November.

In the first three months of this year, on the revenue side, Government suffered a loss in income from excise duty. This was because the increases announced in the Budget of November of last year could not come into force before the Budget was approved. This led to a loss of €3 million.

Finally, my Ministry had to revise the revenue estimates. The income estimates

for the year 2013 are being revised downwards by a net €57 million which include €14 million less in Government contributions for social security.

Budgetary Measures

Mr Speaker,

Some of the Budgetary measures have already come into force. Others are yet to be implemented.

Save for the measures that will be mentioned later, the Budgetary measures that have not yet come into force will do so with effect from 1st January 2013.

These other two measures will be implemented as follows:

Firstly, the period during which an option must be taken up as to how transfer of property is to be taxed is being extended from seven to twelve years. This measure will come into force as of today, 8th April 2013.

Secondly, the changes in the rates of Excise Duty according to the various schedules will come into force as of tomorrow, 9th April 2013.

Tax Exemption on the Minimum Wage

As promised, persons whose income tax is computed on the single rate and whose only income throughout the year is the minimum wage and the statutory bonus, will be tax exempt. This will come about through a specific adjustment whereby persons whose income derived solely from employment, including the bonus, does not exceed €8,950 during 2013 will not be liable to income tax. This will come into effect retrospectively from 1st January 2013.

Exemption from tax on transfer of residential property *causa mortis*

It is evident that on this matter there was confusion and lack of information that appears to have been intentional.

We distinctly remember the present Prime Minister asking his predecessor on live TV to clarify which property was envisaged in this measure.

The lack of a reply was indicative that the Nationalist Government wanted to give the impression that the transfer of all property would be exempt from tax, whereas the provision in the Budget did not tally with this.

During the electoral campaign, today's Opposition maintained that this tax would be removed altogether. This was an important test for today's Government. We could have allowed ourselves to be dragged into the politics of the auction house and say that we would do the same.

Instead, we chose the politics of responsibility and maintained that what the others were proposing was not doable.

Therefore, today we are presenting this proposal in a way that is realistic and which reflects what, in truth, the previous Government had stipulated in its workings of last November. This means that the transfer *causa mortis* of a residential home of the *deujus* in favour of the offspring will be exempt from transfer tax. This will be backdated to 1st January 2013.

Transfer of immovable property in favour of the children.

When a person transfers property, for one time only, by way of donation to the offspring, which property is intended to be used or developed by the same children as their sole residence, there shall be no stamp duty chargeable on

the first €250,000 of the value of the property so transferred. This measure will be backdated to 1st January 2013.

Economic Growth Rate

Mr Speaker,

One of the reasons why the country did not generate a strong enough income that would have translated into a tangible improvement in the living standard of each family or in the generation of a sizeable quantity of good quality full-time employment was the slow economic growth we have experienced since the year 2000. This was partially due to periods during which the external demand for our products and services decreased, as happened during the international recession from 2008 to date. There was also a period in 2004 when we fell in recession caused by austerity programmes resulting in high increases in taxes aimed at lowering our deficit and national debt in preparation for Malta's entry into the European Union.

However the single highest contributor to the low rate of economic growth was that Malta dropped its maximum potential for economic growth from the 4 per cent in real terms obtained in the late nineties to the less than two per cent that it is today. This means that if the European Union were to emerge from this ugly period of lack of economic growth and were to increase its demand, Malta would not have the potential to supply this increased production to experience an economic growth that exceeds two per cent.

During this legislature we shall be announcing and implementing a series of measures intended to increase the potential for economic growth beyond this rate. It is only in this way that we can ensure that our families would start feeling a tangible improvement in their standard of living rather than merely seeing it as a statistic on paper.

The first of this long list of initiatives will be announced by the Prime Minister later on this evening.

For the purposes of the Budget exercise the rate of economic growth takes on a different role. It becomes that rate on which Government projects its revenue from tax on the income of persons and companies, on consumption and other economic activities. If Government projects too optimistic a rate of growth, as often happened in the past, this would lead to estimating a high level of Government expenditure while at the same time giving the impression that Government would reach the macro-economic and fiscal targets with regards to the deficit and public debt. Year after year we have seen these targets being missed, primarily because the revenue anticipated does not materialise. As a consequence Government was not in a position to meet the estimated spending. Three different years have been pointed out as the date in which Malta would balance its budget and in every case this had to be postponed to a later date. This date became more and more elusive and distant. And as a natural consequence public debt continued to rise.

It is therefore imperative that this projected rate of growth be both realistic and cautious. In future we need to make sure that the rate of growth projected by my Ministry would be consonant with that projected by the European Union, by the International Monetary Fund, by the credit rating agencies and by the Central Bank. The projected rate of growth for this year is 1.4 per cent in real terms and 3.3 per cent in nominal terms.

In other words we will not exaggerate in order to impress. We are being cautious. Credibility demands this of us.

The bad news is that, for the reasons explained earlier, Malta last year has once again exceeded the rate of deficit of 3 per cent.

The good news is that we were anticipating this fiscal slippage and we will be redressing it during this same year.

For this reason, I am announcing that the target for Government deficit for this year will be of 2.7 per cent of the Gross Domestic Product. Government's goal, that the deficit be reined in, is in the interest of the country and we will make sure that this happens. We intend to see that the rate of deficit is reduced by 0.6 per cent each year from this year on.

Strategy for Improving Public Finances

The new Government is committed to continue controlling the deficit in public finances with the aim of keeping it at a sustainable level according to the criteria of the European Union and the Eurozone within the **framework of the fiscal pact**. A fiscal framework will be adopted which complements the introduction of **a new clause in our Constitution regarding a balanced budget**. Government also aims to reach a balanced budget in the realistically shortest time possible.

We need to work assiduously to reduce **the burden of the national debt and the debt** accumulated by the various public corporations. Government acts as guarantor for **the debt of these public corporations**. The interest our people are having to pay on the public debt today amounts to €235 million; which is equivalent to the deficit in Government's public finances. This debt is a burden on our population and on future generations.

Improvement in public finances can only come about if, with a strong will, we bravely create an economic environment that is solid enough to give us the necessary financial flexibility to do all that is required in this sector. For this reason Government policy in this sector is founded on various pillars.

We want to make sure that our economy continues to diversify and grow

as much as possible in line with its potential. This should be propelled by productive investment and exports not by Government over-spending. If this is brought about it would create wealth and jobs and generate an increase in Government revenue whilst at the same time reducing the burdens which normally rise when the economy is in slowdown.

We want to protect our economy against every sort of financial instability. Our country has **a strong financial sector**, which is very prudent and which functions within a very strongly regulated framework that inspires confidence. We have a financial sector with very strong capital, ample liquidity and which is generating high profits. We will do everything necessary to enable this sector to continue on these lines that are strong, transparent and responsible. This is what our country deserves.

We want to examine and deeply analyze all our spending to make sure there is no unnecessary over-spending, and that we get value and a good return on each euro that is spent.

We need to make sure that everyone pays their share of taxes, because that is what justice demands. **Fiscal evasion** will not be tolerated because it creates an injustice and throws an undeserved burden on those who abide by the law. We shall therefore increase our endeavours to instil a stronger culture of fiscal morality where every citizen better understands that all taxes due need to be paid in the best interests of the whole country. We strongly believe that the more Government sends out messages of responsibility and prudence in the management of public funds the greater the probability of increased fiscal morality.

We want to ensure greater financial discipline and fiscal accountability in the public sector. Above all we insist that public entities and Local Councils guard and control their financial performance.

Moreover, Government will be publishing its reply to the Auditor General's annual report and will be outlining all the measures it intends to take to conform with the Auditor General's recommendations, together with an adequate explanation of any points of divergence.

An independent Fiscal Council will be set up with the aim of evaluating the Government's fiscal projections and to guarantee more transparency in the budget process and the targets for economic growth.

We shall be strengthening and hastening the process of consolidating the various functions of Government revenue into **one authority** in order to improve efficiency in tax collection.

Fiscal Policy

Mr Speaker,

Our policy regarding Government taxation is clear.

We aim to make sure that the tax burden, that is the amount of tax we collect as a proportion of what the country produces, does not increase. On the contrary, we want to find ways of reducing this burden within the constraints of wisdom, prudence and responsibility, not only to avoid adding new loads on families and businesses but also to alleviate as much as possible the burdens that exist today.

For this reason we need to work courageously to enhance our national wealth to the fullest extent possible to ensure adequate Government revenue. A revenue capable of maintaining an appropriate level so as to guarantee the wide spectrum of public services provided by Government such as health, education and social services for our people. An adequate revenue that must come from **economic growth** and the **control of fiscal evasion**.

At the same time we are promising **to spend this revenue in line with our priorities**, in a way that is strategic, focused, wise and prudent. We shall ensure the best value for all we spend so there will be no need for further taxation.

The fact that we are adopting this ultimate aim as a priority in our fiscal policy should give our families and businesses the necessary peace of mind and courage. It should also serve as a good economic incentive. Our families should feel assured that **their diligence and work will be acknowledged** and rewarded since we aim to leave a greater proportion of what they earn in their pockets. Businesses can invest and feel safe because with us they know where they stand.

Economic Policy

Mr Speaker,

Government's macro-economic policy is clear.

We want to strengthen confidence and credibility in our economic and financial policy. Confidence and credibility are fostered if we are clear in our goals, if we are transparent in the means employed to achieve those goals and if we fulfil what we promise. Only in this way can we **gain the confidence of our people and of the social partners** in our country. Only in this way can we gain the confidence of the international institutions and the credit rating agencies. Only in this way can we gain the confidence of foreign markets and investors.

We also need to strive to keep **inflation** in our country under absolute control. Inflation raises prices to the detriment of the consumer and the productive sectors; it erodes the purchasing power and contributes to the decrease of our country's competitiveness in international markets.

For this reason, we must ensure that our markets operate with flexibility and transparency.

We want to enhance the **competitiveness and transparency of our products and services markets**. For the same objective we must see that our regulatory structures are functioning well and effectively to eliminate all anti-competitive practices and all other obstacles that could result in higher prices. We must also make sure that our public service does not lay unjustified **burdens** on our economy that would then result in increased labour costs and higher prices for the consumer.

We want to further strengthen **consumer protection**. With this aim in mind, we will see that all our regulatory structures are fulfilling their functions efficiently and effectively to serve as a continual shield for the consumer.

Our country must work and **export** to be viable. It must work well, prudently and within a framework of high quality in order to compete on the international markets. In this regard I must take this opportunity to emphasise the need for continual improvement in our country's **productivity**. We all have to work hard to be able to supply quality products and services at the lowest possible prices. Therefore I must emphasise the need of extreme care to avoid unjustified increases in the cost of production. Similarly, we need to invest in the quality of the products and services we offer.

We are not alone on the international markets. Competition has grown and has become very fierce. We depend on these markets for our work and livelihood. We must therefore be vigilant against anything that might threaten our country's competitiveness.

Government will do its utmost to create and maintain the best possible environment in which our economy could grow in a sustainable manner.

We shall strive to create a climate of peace of mind in which, through judiciousness and transparency, our economic operators will know where they stand. We shall see to it that pointless **bureaucracy** does not create extra costs that weigh down our enterprises and hamper economic growth.

We will be announcing measures intended to stimulate the economy towards economic growth that is closer to its potential. We want to see more investment in infrastructure and the productive capabilities of the country, in the skills of our workforce and more workers, both male and female, entering the labour market.

In this context Government will do everything necessary to promote a diversified and balanced economy.

The manufacturing sector is here to stay and it must be further strengthened even through channelling it towards the production of high value added goods. Whilst tourism already contributes substantially towards our economy, even in this sector we must open up new markets and seek new niche markets as well as strive to increase our competitiveness.

In the financial sector we will continue to insist on rigorous practices and stability through a policy of measured growth in the sector. Here, the emphasis will remain on quality rather than quantity. The same applies to i-gaming, a sector which we want to see expanding in a sustainable manner.

The creative economy, which incorporates the sectors of IT, digital gaming and the film industry among others, will be further incentivized because we believe this could grow into an important pillar that sustains our economy. We also believe that there is room for more investment and the creation of quality jobs if we sensibly develop the Green Economy.

The maritime and aviation sectors are also economic sectors capable of further

development, contributing towards the diversification of our economy and the creation of more quality jobs.

Strategy for Job Creation

Mr Speaker,

As I have already stated, economic growth, the safeguarding and the creation of jobs are absolute priorities in this Government's economic strategy.

These targets will be reached through a labour policy that rests on two pillars.

Firstly, an economic policy that is clear and effective, calculated to create work opportunities in diversified and sustainable sectors.

Secondly, a labour market policy which has as its focal point the individual and his/her need for adequate quality work capable of satisfying his/her legitimate aspirations and those of their families.

We are aiming for the consolidation and expansion of our economic sectors as well as **economic diversification**. All this comes about through the creation of a stable and transparent economic climate, a **package of incentives** that facilitate entrepreneurship and investment as well as investment in both established and new productive spheres.

All this, together with the investment Government intends to make in the fields of education and training, in health and social welfare to ensure that no one is emarginated or left to lag behind, should continue to encourage and stimulate local and foreign investment in our economy for the creation of jobs for all who wish to enter the labour market. **Well-paid and quality work**. Work that is not precarious and that affords dignity and satisfaction to whoever performs it.

With this aim in mind, we want to ensure that our workers are well prepared to enter the labour market. We want to ensure and emphasise **lifelong training**. We must see that all those who lose their jobs find the necessary help and means to reintegrate themselves in the workforce. We want to see **more women retaining their jobs or re-entering the workforce** once they have fulfilled the needs of their families.

The Public Service

The Public Service is the backbone and the motor which on a daily basis must drive and spur the country forward through the implementation of Government strategies and policies. The Public Service is there to facilitate governance, to serve and help the people in fulfilling and achieving their aspirations for a better life. Consequently, Government cannot but give utmost importance to the Public Service and its operations.

We cannot achieve what we desire for our country and our people if we do not have a Public Service that functions properly. We cannot reach our targets if our public service is not vigilant and constantly aware of the economic and social developments taking place both locally and abroad. For this reason we insist on a dynamic public sector, a public sector that is judicious, attentive and which responds quickly and efficiently to current and future challenges. We shall insist on the need to have an efficient and effective public service that gives value for money. Therefore, Government departments and entities must:

- understand that they are there to serve the public and the business community in our country;

- be aware that they are there to help the country to function better and more effectively;

- have a clearer picture of their *raison d'être* and what they should pay back to the country which invests in them;
- propose expenditure leading to clear and positive results for the public and the business community;
- give more importance to the country's need to get value for money through their operations.

Above all, we shall insist on the need of a public administration that is efficient, transparent and which responds to the needs of the people and the country rapidly and promptly. We want to be very clear about this. There is no place for a heavy bureaucracy and undue delays in a modern economy that must compete in international markets.

We shall therefore see to it that **administrative procedures** are simplified. We shall seek to lighten up the bureaucratic procedures currently in place. We shall look into our commercial legislation with a view to eliminating those parts that are no longer necessary and merely hamper enterprise. We shall seek to apply the principle of “one in, one out” with reference to new commercial legislation so that for each new law that comes into force another obsolete one is abrogated. We shall introduce the concept of the “sunset clause” so that certain laws cease to apply after a certain date, unless otherwise specified.

This will avert unnecessary bureaucracy and the added costs it entails. We shall seek to introduce the concept of one licence granted within a specified time by a **single authority** for the start-up of a business in our country. We shall do all this and more to lighten the burden, to remove all obstacles currently faced by businesses in our country and to reduce the cost of production as much as possible.

Conclusion

Mr Speaker,

For reasons known to all, the Budget for this year is being moved for the approval of the House by the new Government although it did not conceive it. The nature of this Budget is likely to disappoint many who expected new measures. But everyone must understand that the sole aim of this Budget is to take stock of the financial situation of the country, to update it and to approve in the shortest possible time those measures promised last year and which should have come into force at the beginning of the current year. But as we say – better late than never.

A new Budget will be presented by this new Government next November. coming and work on it started on our very first day in office.

However, this extraordinary Budget is at the same time giving us the opportunity to look into a number of principles relating to the improvement in public finances which are the norm in today's modern world and which the new Government will not only embrace but also implement. A Budget that is giving us the opportunity to send the right messages to the people so early in the life of this Parliament.

Firstly, we want to send out the message of stability. Economic and financial stability that is the foundation on which we will build the future of our country. An attractive future that should stir the aspirations of our families for a better life.

Secondly, we want to pass on a message of hope and courage to our people. All of us, together, one Government after another, we have all given our input in building a successful country. A small country that we have transformed

from a colony into a proud nation. A small country which through our efforts no longer depends on a foreign military base for its survival and for which we have built a solid and diversified economy. A small country that has enhanced the living standards of its people through the wisdom of its leaders and the extensive and determined effort of the whole population.

Together we built a successful country that is a success. Together we shall continue to work and build this country. Together, with courage and confidence, we shall continue to look ahead. We shall continue in our efforts to overcome the challenges that confront us and to create work. Together we shall continue to create a country that is caring and inclusive and where no one feels left out.

Together we shall continue our endeavours to turn Malta into a country that is more modern, more beautiful and much stronger. A Malta for us all.

