PRE-BUDGET DOCUMENT 2017

PROSPERITY WITH SOCIAL JUSTICE

MINISTRY FOR FINANCE

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MINISTRY FOR FINANCE

CONTENTS

FOREWORD

For the third consecutive year, the economy and the public finances continued moving along their respective positive trends, showing beyond any doubt that the Government's stated objectives are being met as planned. What is as important is that both the human and capital investment taking place today give the required assurances that the enviable economic growth will persist for the medium term future.

All this has injected a level of confidence and optimism which the islands have not seen for many years.

The aim of this year's budget is two-fold. First to ensure that this trend is sustained and secondly that every sector of the economy and every household will benefit from this success. This would support the Government's vision and determination to achieve 'prosperity with social justice.'

Hon. Prof. Edward Scicluna
Minister for Finance

01

MACROECONOMIC CONDITIONS

01.1

INTRODUCTION

In 2015, Malta continued to be one of the top economic performers in the EU, achieving a real economic growth of 6.4 per cent, that being more than three times as much that of the EU average. While this exceptional growth seems to be moderating, Malta still expects a strong performance in 2016, with a growth rate of 5.2 per cent already recorded in the first quarter. This significant growth is being driven by domestic demand reflecting expansion in both investment and private consumption. Strong labour market developments, moderate wage appreciation and subdued inflation continue to favour growth in the economy.

While the external side acted as a drag in 2015 with imports growing at a higher rate than exports, 2016 should see a reversal of this development owing to less investment with high import content relative to 2015. This means that the external side should contribute positively to growth in 2016.

01.2

INTERNATIONAL SCENE

World GDP in 2015 grew by 3.1 per cent which was 0.3 percentage points lower than the growth recorded in 2014. This slowdown in growth came from a number of different factors, such as the deceleration in the US and China as well as the continued fall of commodity prices including the price of oil. While China still maintained its relatively high growth rates, the rebalancing in the Chinese economy helped to maintain the low commodity prices. Furthermore, a general slowdown in investment and trade coupled by non-economic, geo-politic tensions and political discord, have contributed to a climate of uncertainty.

It should be noted that while the second part of 2015 has led to a slow down from the previous year's growth, according to the IMF International Outlook, the Euro Area continued to recover, growing by 1.6 per cent in 2015 over 0.9 per cent growth in the previous period. In the meantime, the lift from cheap oil is set to gradually wane while the lagged boost from the euro's depreciation is also running its course. This means that the pace of growth in private consumption, which has been the main driver of economic growth, is expected to start to moderate and support for growth is set to mainly come from monetary policy during 2016. The ECB is committed to keep monetary policy expansionary for the time being. Meanwhile the European Commission expects a moderate fiscal expansion in the Euro Area though it is recommending a neutral fiscal policy stance in its country specific recommendations for the Euro Area.

Unemployment in the EU remained relatively high in 2015, reaching 9.4 per cent. However, the Commission's 2016 Spring Forecast shows that a reduction in this rate is expected. Nonetheless, the investment shortfall in the EU along with the high structural unemployment and the slow trend growth in productivity have reduced potential output growth. Apart from the above mentioned challenges, the EU is currently facing an influx of refugees from war zones in the Middle East. Furthermore, the uncertainty on the future economic relationship between UK and EU is also affecting the economic outlook for both UK and EU.

Table 01.1
Selected Macroeconomic and Fiscal Indicators
Data Source: Eurostat, AMECO and the European Commission Spring 2016 Forecast

		2014	2015	2016f	2017f
Real GDP Growth (%)	EU	1.4	2.0	1.8	1.9
	Euro Area	0.9	1.7	1.6	1.8
	USA	2.5	2.0	2.3	2.2
	Japan	0.0	0.5	0.8	0.4
	Malta	3.5	6.5	4.1	3.5
Inflation (%)	EU	0.5	0.0	0.3	1.5
	Euro Area	0.4	0.0	0.2	1.4
	USA	1.6	0.1	1.2	2.2
	Japan	2.7	0.8	0.0	1.5
	Malta	0.8	1.2	1.4	2.2
Unemployment (%)	EU	10.2	9.4	8.9	8.5
	Euro Area	11.6	10.9	10.3	9.9
	USA	6.2	5.3	4.8	4.5
	Japan	3.6	3.4	3.4	3.3
	Malta	5.8	5.4	5.1	5.1
Employment Growth (%)	EU	1.0	1.0	1.0	0.9
	Euro Area	0.5	0.9	1.1	1.0
	USA	1.6	1.7	2.3	1.1
	Japan	0.6	0.3	0.1	0.1
	Malta	2.9	2.2	2.9	2.7
General Government Balance (% of GDP)	EU	-3.0	-2.4	-2.1	-1.8
	Euro Area	-2.6	-2.1	-1.9	-1.6
	USA	-4.9	-4.0	-4.4	-4.4
	Japan	-6.2	-5.2	-4.5	-4.2
	Malta	-2.0	-1.5	-0.9	-0.8
General Government Debt (% of GDP)	EU	86.8	85.2	86.4	85.5
	Euro Area	92.0	90.7	92.2	91.1
	USA	104.8	105.9	107.5	107.5
	Japan	246.2	245.4	247.5	248.1
	Malta	67.1	63.9	60.9	58.3

01.3

LOCAL SCENE

Economic Growth

Real GDP Growth, 2014Q1-2016Q1

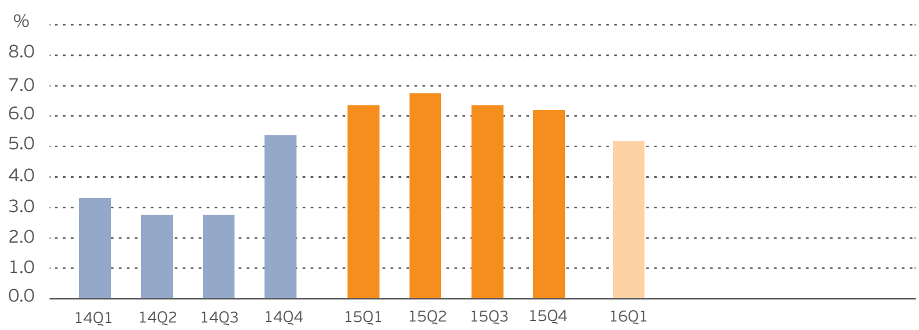


Figure 01.1
Data Source: NSO

Growth in Gross Value Added in 2016Q1

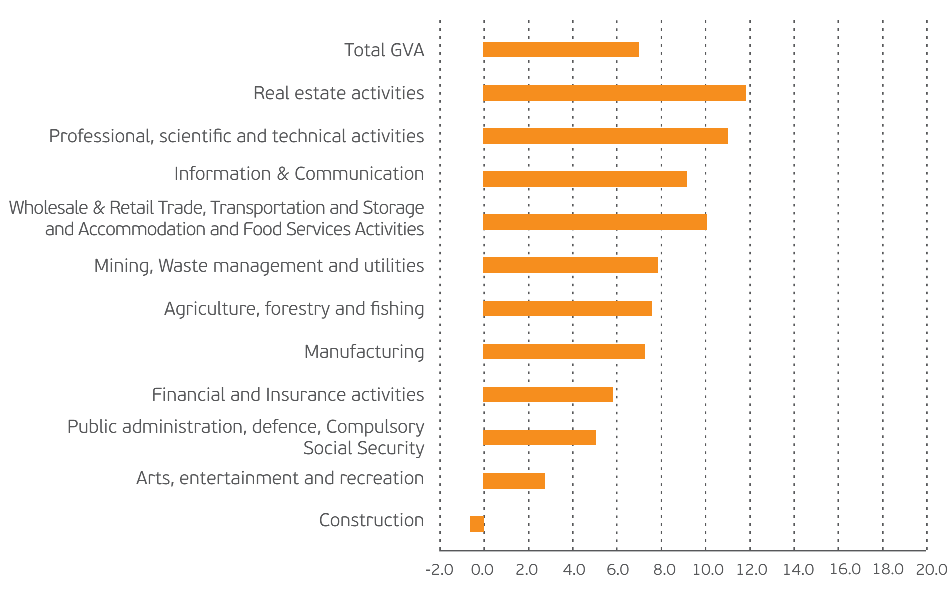


Figure 01.2
Data Source: NSO

Growth in Gross Value Added (Manufacturing) in 2016 Q1

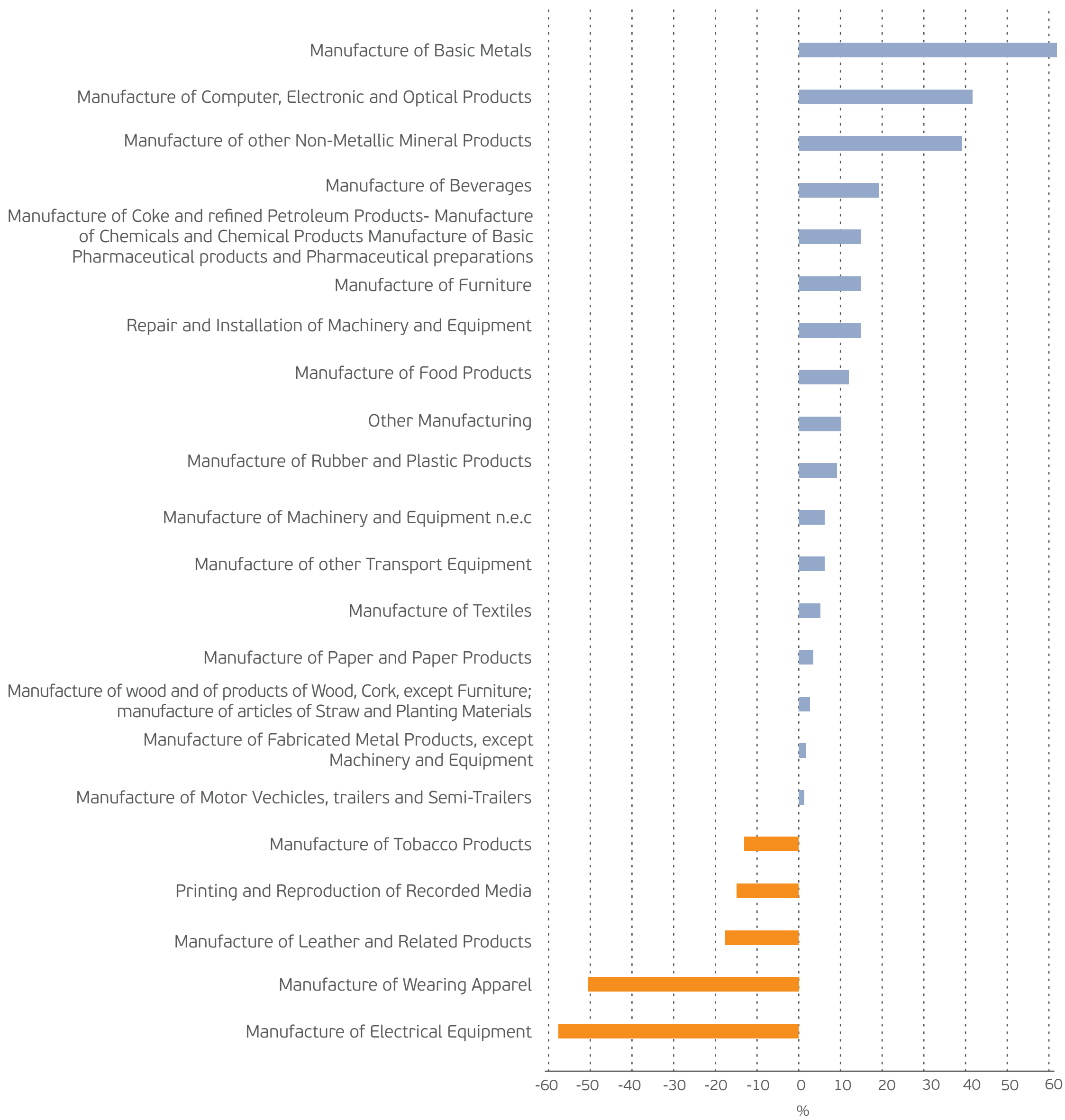


Figure 01.3
Data Source: NSO

Latest data released by the NSO confirms that in the first quarter of 2016, the Maltese economy expanded by 5.2 per cent in real terms, driven primarily by domestic demand. In nominal terms, total incomes grew by 7.6 per cent in the first quarter of 2016, driven by a positive performance in both gross operating surplus and compensation of employees, which expanded by 7.7 per cent (equivalent to €65.4 million) and 5.8 per cent (equivalent to €54.5 million), respectively. Net taxes also contributed positively to nominal growth through an increase of 13.9 per cent, or €33.6 million.

During the same period, total gross value added increased by €124.2 million, or 7.0 per cent, compared with a 7.7 per cent increase in the corresponding period of 2015. While from a sectoral perspective growth continues to be dominated by the strong performance in service activities, the manufacturing sector has also registered strong growth of 6.8 per cent.

The performance of manufacturing was supported by double digit growth in the manufacture of both traditional and emerging sectors including basic metals, computer, optical and electronic products, non-metallic minerals, beverages, pharmaceuticals, furniture and food. Growth in services was characterised by the positive performance in real estate, professional services and information and communications services.

Above average performance was also recorded in wholesale and retail activities with the accommodation and food services activities sector growing by 10.8 per cent over the comparable period last year. In the meantime, construction showed marginal negative growth in the first quarter. Net taxes also contributed positively to growth having grown by 13.9 per cent from the same period of the previous year, equivalent to €33.6 million. This was mainly due to increases in tax revenue and a decline in subsidies.

Labour Market

During 2015, labour market continued to exhibit positive results as the increase in activity rate translated into higher employment while the unemployment rate fell to a record low.

Malta continued to consolidate progress in labour market performance during 2015 with an employment growth rate of 2.4 per cent. The employment rate increased by 1.5 percentage points over 2014 rising to 63.9 per cent. This development reflected an increase in both the female and the male employment rates with the female employment rate increasing by 1.5 percentage points to 51.0 per cent. Even though males have a higher employment rate in all age groups, the female employment rate is converging to the male employment rate in reflection of the impact of various Government policies aimed to encourage female participation in the labour market and strong labour demand conditions.

The unemployment rate (defined as unemployed persons as a percentage of the labour force) has been following a sustained declining trend in recent months, decreasing from 5.8 per cent in 2014 to 5.4 per cent in 2015. Youth unemployment remained stable in 2015 reaching 11.8 per cent. Moreover, unemployment data for June of this year, released by Eurostat, showed that Malta recorded the lowest total unemployment rate at 4.0 per cent and the lowest youth unemployment rate at 6.9 per cent, amongst the 28 European Union member states.

Unemployment Rate

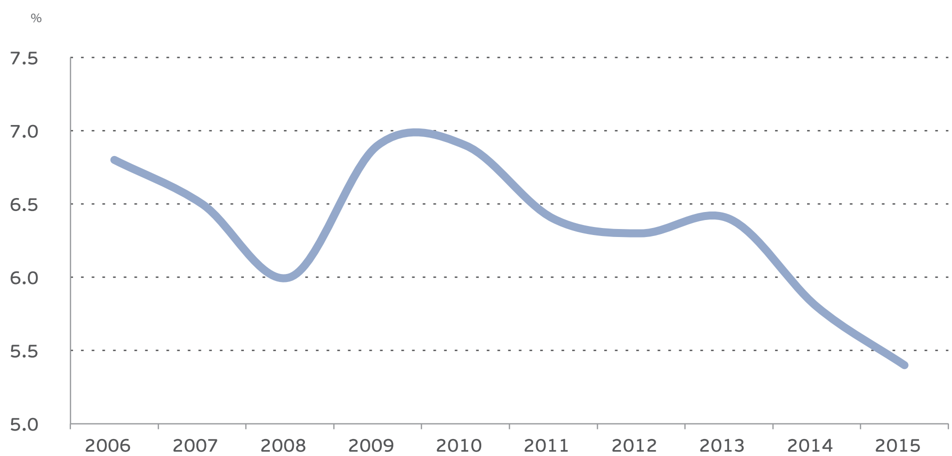


Figure 01.4
Data Source: Eurostat

These positive developments were supported by a series of reforms that encouraged greater participation in the labour market amongst all groups including females, young people, older workers and the long-term unemployed. The promotion of flexible working arrangements as well as the provision of free childcare centres, tax exemptions for females joining the labour market and the reduction in the personal income tax rate all encouraged females into getting into sustainable employment. Additionally, various measures to discourage welfare dependency and to make work pay through the tapering of social benefits, in work benefits and the youth guarantee schemes launched by the Government over these past years, also contributed towards the significant increase in the labour market participation rates.

Administrative data from ETC points towards an increased reliance on market services as the main generator of employment. The full-time gainfully occupied population increased by 7,106 to reach 173,474 at the end of December 2015. This was mainly due to an increase of 7.5 per cent in the private market services category and an increase of 0.9 per cent in the private direct production category. During December 2015, the share of the private and public sector in full-time employment remained relatively stable at 74.4 per cent and 25.6 per cent respectively.

Table 01.2 represents the main labour market indicators for the years 2015 to 2017. Employment is expected to continue growing in 2016 and 2017 albeit at a more moderate pace. The unemployment rate is projected to remain below historical averages at around 5.3 per cent. Meanwhile, average wages are set to continue growing, with compensation per employee forecasted to grow by 2.8 per cent in 2016 and by 2.4 per cent in 2017.

Labour Market Indicators	2015	2016[f]	2017[f]
Employment Growth % (National Accounts Definition, Domestic Concept)	3.2	2.7	2.7
Labour Productivity (% change)	3.1	1.5	0.4
Compensation of Employees (% change)	5.3	5.6	5.2
Compensation per Employee (% change)	2.0	2.8	2.4
Unemployment rate (Harmonized definition, %)	5.4	5.3	5.3

Table 01.2
Data Source: National Accounts and Update of the Stability programme 2016-2019

Prices

After showing a declining trend between April 2015 and February 2016, RPI inflation picked up slightly, reaching 0.7 per cent in May 2016. During the same period, HICP annual inflation reached the rate of 1.6 per cent in September 2015 from 1.9 per cent in April 2015. Subsequently, it decreased to 1.0 per cent in May 2016. Low inflation is mainly attributable to the decline in energy prices whilst the prices in services, particularly in the catering sector, are the principal contributors to inflation.

Inflation Rates in Malta (Retail Price Index)

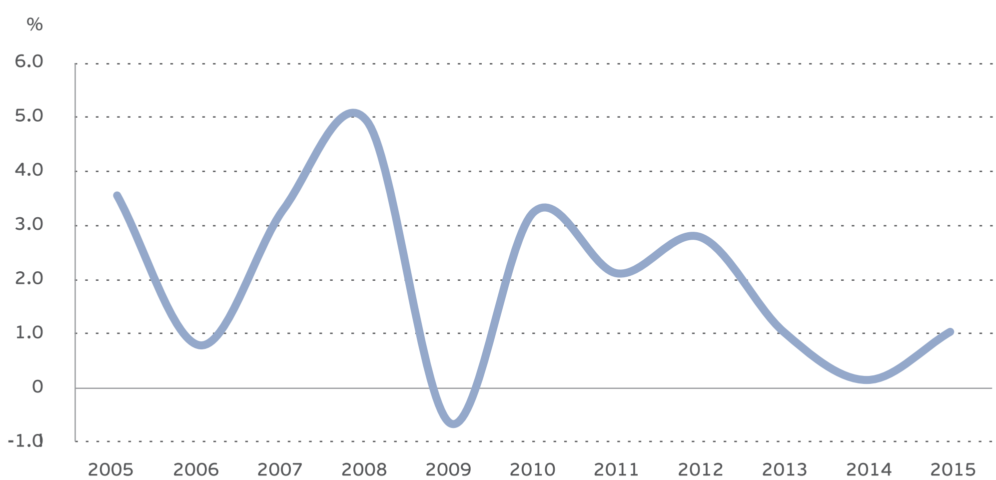


Figure 01.5
Data Source: NSO

HICP Inflation Components in Malta

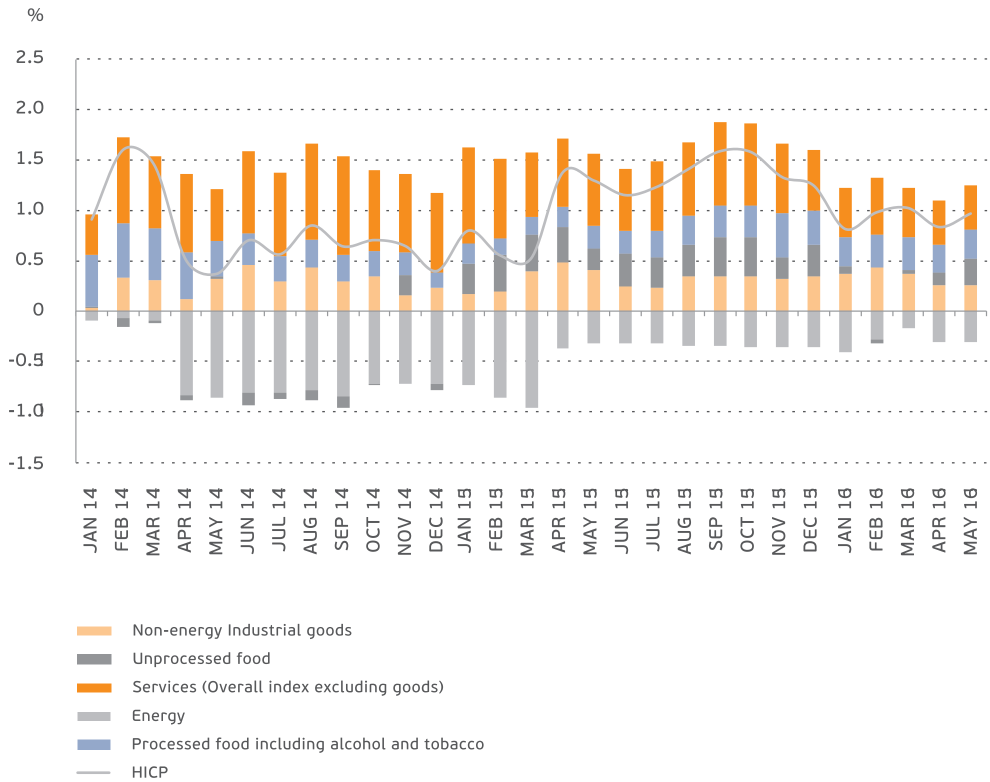


Figure 01.6
Data Source: NSO

International Trade

The current account balance for Malta has continued to record consistent surpluses mainly driven by the consistent growth in net exports related to services activity, and the constant decline in the negative primary income account balance. As at the first quarter of 2016, the current account balance stood at 1.8 per cent of GDP while in 2015 this balance stood at 2.6 per cent. In both instances, the surplus was driven by the goods and services balance and the secondary income account.

In 2015, the goods and services balance decreased by 57 per cent but remained positive. This substantial decrease was mainly driven by an increase in goods imports of around 19 per cent over the previous period. Services net exports, on the other hand, increased by 15 per cent due to higher export figures. The increases in services net exports were driven by higher net exports in personal, cultural, recreational and travel services.

In the tourism sector, expenditure by tourists in the period January to April 2016 increased by around 7 per cent over the corresponding period in 2015 rising to €332.5 million. Furthermore, the number of inbound tourists increased by around 11 per cent while the average length of stay decreased slightly from 7.1 nights to 7 nights over the January to April period. The total number of nights spent by inbound tourists has also increased by 9.3 per cent.

The Primary income account has registered consistent net payments over the past few years, although these net payments have been on the decrease. Consistent net payments suggest that the payments made to investors abroad outweigh the payments made to investors in Malta.

The Secondary income account shows current transfers between residents and non-residents. The secondary income account balance has been positive over the last eight years and has been consistently following an increasing trend. This means that secondary income inflows to Malta have outweighed secondary income outflows from Malta.

01.4

GROWTH PROSPECTS AND THE BALANCE OF RISKS

The Maltese economy is expected to continue gaining tailwinds and to grow albeit at a more moderate pace over the short-term horizon. Real GDP is forecasted to grow by 4.2 per cent in 2016 and by 3.1 per cent in 2017. Economic growth is expected to be primarily supported by domestic demand fuelled mainly by gross fixed capital formation and by private consumption. After registering a robust growth of 5.5 per cent, private consumption is expected to remain moderate over the short-term on the back of strong labour market developments and moderate growth in disposable income. With respect to gross fixed capital formation, after the sharp rise seen in 2015 which was the result of a number of large scale projects, including the large capital outlays in the energy sector as well as other private investments, investment is still expected to remain positive in 2016. Indeed, it is expected to increase by 9.2 per cent in 2017 as a number of projects in the investment pipeline are expected to commence in 2017.

In 2015, growth in Government final consumption expenditure increased by 5.0 per cent following a 7.2 per cent increase registered a year earlier. Over the outer years, government final consumption expenditure is expected to moderate further and grow by an average of 3.7 per cent over the 2016-2017 period, reflecting Government's efforts towards further fiscal consolidation.

For 2016 and 2017, exports in real terms are forecasted to increase by 3.4 per cent and by 3.0 per cent, while the import-intensive domestic demand activity is expected to drive up real imports growth to 2.4 per cent and 3.9 per cent. Concomitantly, the current account balance is expected to retain consistent surpluses over the forecast horizon on the back of services exports and improved income balance.

The tourism sector is expected to continue growing at moderate rates, supported by the relatively weaker Euro exchange rate as well as the increase in airline and cruise ship seat capacity and the numerous investments in hotels.

Brexit may have an impact on the tourism sector in Malta given that the UK accounts for around 30 per cent of incoming tourists. However, increased accessibility has allowed Malta's tourism product to become more diversified over time both in terms of markets as well as the development of specific niches such that currently demand is greater than supply.

Ensuring the accuracy of macroeconomic forecasts in an economy is highly important as this serves as the foundation of Government economic policy making, formulation, analysis and decision-making. Furthermore, the expected macroeconomic trajectory of the Maltese economy enables policymakers to draft and plan its fiscal strategy for the years to come. As a result, it is the Government's strategy to conduct both an ex ante analysis of past forecasts accuracy and an ex post assessment to determine the balance of risks for the forecast horizon.

To assess the balance of risks over the forecast horizon, experts at the Ministry for Finance assess the likelihood and plausibility of a number of scenarios and through simulation analysis quantify their economic impact on the Maltese economy. Further details can be found in the Medium Term Fiscal Strategy for Malta: Update of the Stability Programme 2016-2019 published in April 2016 by the Ministry for Finance.

On balance, this indicator underlying the spring forecast shows upside risks in 2016 and downside risks for 2017. Upside risks are mainly driven by the possibility of a more competitive exchange rate, more expansionary monetary conditions, lower commodity prices, a stronger than anticipated domestic investment or a stronger performance in manufacturing. Downside risks are driven primarily by lower than anticipated growth in external demand, the impact of BREXIT or a rise in domestic savings.

02

FISCAL SUSTAINABILITY

27/04/2016 Errata Corrige - 4th AGM held
MSE Sharia Index - 30 Days
1140
1115
1090
22/03 01/04 08/04 15/04 22/04 29/04
revious %
518.345 0.61%
1122.825 0.72%
Change %
0.025 2.72%
0.032 1.44%
0.007 0.91%
0.020 5.26%
0.000 0.00%
0.002 0.06%
0.004 0.25%
0.010 1.56%
Corporate Bonds
Symbol CCY Price Volume Change %
IH21A EUR 108.600 3,500 0.600 0.56%
IH23A EUR 109.000 25,000 0.000 0.00%
IH25A EUR 109.000 13,900 1.000 0.91%
MB19A EUR 110.530 7,000 0.020 0.02%
MB19B GBP 103.000 100,000 0.500 0.49%
MB24A EUR 106.010 25,000 0.010 0.01%
MB24B GBP 103.010 20,000 0.010 0.01%
MD18A EUR 102.050 2,300 0.290 0.28%
Government Bonds
Symbol Price Volume Change %
G16B 102.710 18,635 0.140 0.14%
G16C 0.000 3,390,636 0.000 0.00%
G16D 0.000 20,000,000 0.000 0.00%
G17B 0.000 3,400,000 0.000 0.00%
G17C 106.410 3,600 0.050 0.05%
G17D 105.130 20,000 0.600 0.57%
G18A 117.120 3,960 0.050 0.04%
O EUROPE
RNATIONAL LISTING
malta.com.mt
MLT 0.920
26/04 1.08%

02.1

INTRODUCTION

Since 2013, the general Government deficit as a percentage of Gross Domestic Product (GDP) fell steadily, from an excessive deficit of 3.5 per cent in 2012 to 1.5 per cent in 2015 due to both increases in revenue streams and restraints in Government current expenditure. These fiscal developments, based on a number of structural reforms, were an important achievement for the Maltese economy. The Government plans to further reduce the deficit over the medium-term, with the attainment of a balanced budgetary position in structural terms by 2019.

The gradual but consistent reduction in the deficit and the strong pace of economic activity spurred by structural reforms positively impacted the debt ratio which declined by 3.2 percentage points to 63.8 per cent in 2015. In this regard, the Government continues to be committed to gradually reduce the debt ratio to below the 60 per cent of GDP reference value.

02.2

FISCAL DEVELOPMENTS IN 2015

2.2.1 Extraordinary Factors Affecting the 2015 Outcome

In 2015, Malta managed to outperform its deficit targets. In particular, the budget deficit decreased from 2.0 per cent in 2014 to 1.5 per cent of GDP for 2015, marginally better than the target of 1.6 per cent of GDP. This was achieved despite a higher than anticipated budget to cover elements of national co-financing, non-eligible expenditure and funding gaps that were necessary in order to ensure that a strong rate of absorption of EU funds could be achieved. Additional expenditures related to the EU-Africa Summit and the Commonwealth Heads of Government meeting were also not foreseen in the original fiscal targets presented in the Budget for 2015. These variances, in total amounting to 0.46 per cent of GDP, are not expected to be repeated in the coming years.

Notwithstanding the decline in the general Government deficit-to-GDP ratio, Malta's structural balance has remained relatively stable, estimated at a deficit of 2.3 per cent of GDP. It is nevertheless worth noting that revisions to output gap estimates and statistical revisions of historical data neutralised as much as 0.8 percentage points of potential GDP in structural effort.

With regards to the debt ratio, the fiscal consolidation efforts and the strong rate of economic expansion led to a reduction in the debt ratio. Indeed in 2015, the debt declined from 67.1 per cent in 2014 to 63.8 per cent of GDP, consistent with the forward-looking debt reduction benchmark in 2015.

2.2.2 Budget 2015 Outcomes against Targets

General Government expenditure was 0.9 percentage points of GDP lower than projected. This suggests that part of the proceeds which should have resulted from the stronger than anticipated rate of economic growth were not used for expanding expenditure.

Moreover, to ensure that a strong rate of absorption of EU funds could be achieved, a higher than anticipated expenditure on gross fixed capital formation and capital transfers payable, and a higher than anticipated budget to cover elements of national co-financing of EU funds in 2015, were necessary.

As a result, aggregate expenditure on gross fixed capital formation and capital transfers payable was 0.5 percentage points of GDP higher than projected. In contrast, spending on social benefits and social transfers in kind and subsidies was 0.7 and 0.3 percentage points of GDP lower than target, respectively. Similarly, compensation of employees was 0.3 per cent lower than budgeted.

While the stronger than anticipated rate of economic expansion in 2015 led to higher than anticipated tax revenue, the strong growth in GDP outpaced the growth in some components of revenue, in particular social contributions, taxes on production and imports and property income. As a result, the revenue-to-GDP ratio turned out 0.8 percentage points lower than targeted in the 2015 Update of the Stability Programme.

Taxes on income and wealth were €63.9 million higher than target while indirect tax revenue from taxes on production and imports were €34.0 million higher. Revenue from social contributions was roughly in line with budgetary targets.

In line with the policy objective of consolidating public finances to reach a balanced structural budget in the medium-term, the general Government deficit has been reduced to 1.5 per cent in 2015, marginally outperforming the deficit target of 1.6 per cent. Table 02.1 displays the Government’s final fiscal position for 2015 compared to the targets revised in the 2015 Update of the Stability Programme.

In 2015, the debt-to-GDP ratio was 2.9 percentage points of GDP lower than projected, reflecting a more buoyant macroeconomic environment than that expected in the 2015 Update of the Stability Programme. The contractionary impact of the primary balance on the debt-to-GDP ratio remained unchanged at 1.1 percentage points, while the stock-flow adjustment (SFA) has been revised upwards from 0.3 percentage points in the 2015 estimate to 0.8 percentage points in the most recent estimates.

General Government Finances, 2015

% of GDP	Budgeted	Actual	Difference
Revenue	42.6	41.8	-0.8
Components of revenue			
Taxes on production and imports	13.9	13.5	-0.3
Current taxes on income and wealth	14.1	14.1	0.0
Social contributions	7.1	6.8	-0.4
Property income	1.2	1.1	-0.1
Market Output	2.6	2.6	0.0
Current transfers	0.4	0.3	-0.1
Capital transfers	3.3	3.4	0.1
Expenditure	44.2	43.3	-0.9
Components of expenditure			
Compensation of employees	13.0	12.7	-0.3
Intermediate consumption	6.8	6.8	0.0
Social benefits and social transfers in kind	12.5	11.7	-0.7
Property Income	2.7	2.6	-0.1
Subsidies	1.5	1.3	-0.3
Gross capital formation	4.1	4.5	0.4
Capital Transfers Payable	1.4	1.5	0.1
Current Transfers Payable	2.2	2.3	0.1
Current Taxes Payable	0.0	0.0	-0.2
Deficit	-1.6	-1.5	0.1
Primary Balance	1.1	1.1	0.0

Table 02.1
Data Source: NSO News Release No 106 of 2016 for the Actual data, MFIN Update of Stability Programme 2015-2018 for the Budgeted data

Note: Actual data has been updated with GDP data per NSO News Release No 108 of 2015

02.3

CONSOLIDATING BUDGETARY TARGETS IN 2016

The Government remains committed to a sustainable fiscal position by gradually reducing the fiscal imbalance. As shown in Figure 02.1, during the current fiscal year, the general Government balance is expected to decline even further from 1.5 per cent of GDP in 2015 to 0.7 per cent of GDP in 2016 consistent with an improvement in the fiscal position of 0.8 percentage points of GDP and an equal structural effort of 0.8 percentage points of GDP. In addition to the measures outlined in the 2016 Budget, the Government is undertaking further consolidation measures during this year.

These more ambitious commitments are justified by the stronger than anticipated pace of economic growth and are consistent with the counter-cyclical requirements of the budget rules as outlined in the Fiscal Responsibility Act. These measures are expected to sustain further the expenditure-based consolidation and strengthen the improvement in the structural balance to 0.8 percentage points of GDP, compared to the effort of 0.6 percentage points of GDP outlined in the 2016 Budget.

The general Government revenue-to-GDP ratio is expected to decrease by 2.4 percentage points to 39.5 per cent of GDP in 2016, mainly attributable to a lower ratio of capital transfers, which is expected to be 2.3 percentage points lower in 2016. This mainly reflects lower EU funds expected, following the final uptake of revenue from the 2007-2013 Financial Framework.

These reductions would be balanced by lower EU funded capital expenditure thus rendering such decline in revenue generally deficit neutral except for the co-financing element which is expected to be deficit-reducing this year. Marginal declines of 0.1 percentage points are expected in the property income ratio and the social contributions ratio. Meanwhile, lower current taxes on income and wealth ratio are partly as a result of measures in place to reduce the tax burden on labour.

In 2016, the ratio of general Government expenditure to GDP is expected to decline by 3.1 percentage points of GDP from 43.3 per cent in 2015 mainly reflecting the lower level of EU funding. Lower capital transfers, namely due to a lower equity injection in Air Malta, are also expected to contribute towards a lower expenditure ratio. Growth in social benefits expenditure and in interest payments are expected to be weaker than GDP growth.

As a result, the ratio to GDP of social benefits is expected to decline by 0.4 percentage points, while interest expenditure as a percentage of GDP is expected to decline by 0.3 percentage points. These developments are supported by the in-depth Comprehensive Spending Review on Social Protection expenditure and by the ensuing low interest rate environment, respectively. Meanwhile, the ratio to GDP of compensation of employees is expected to decline by 0.2 percentage points.

General Government Balance, 2013-2019

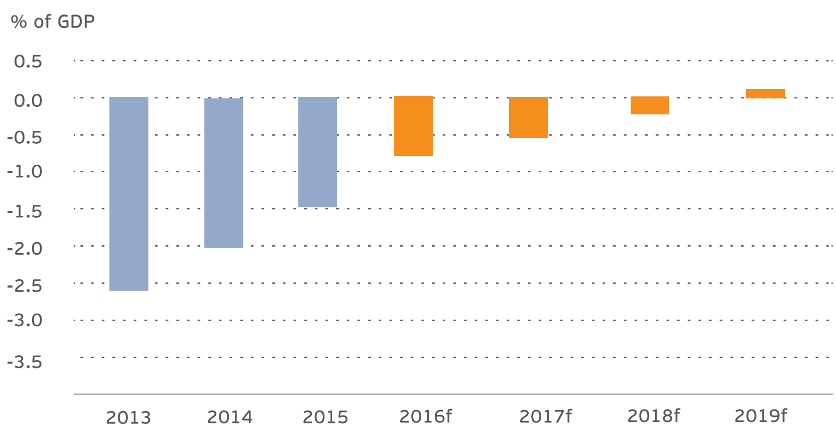


Figure 02.1

General Government Finances, 2014-2016

% of GDP	2014	2015	2016 f
Revenue	41.2	41.8	39.4
Components of revenue			
Taxes on production and imports	13.6	13.5	13.6
Current taxes on income and wealth	14.3	14.1	13.9
Social contributions	6.9	6.8	6.7
Property income	1.2	1.1	1.0
Market Output	2.2	2.6	2.7
Current transfers	0.5	0.3	0.5
Capital transfers	2.5	3.4	1.1
Expenditure	43.2	43.3	40.2
Components of expenditure			
Compensation of employees	13.0	12.7	12.5
Intermediate consumption	6.5	6.8	6.6
Social benefits and social transfers in kind	12.4	11.7	11.3
Interest expenditure	2.9	2.6	2.3
Subsidies	1.3	1.3	1.2
Gross fixed capital formation	3.6	4.5	3.2
Capital Transfers Payable	1.1	1.5	0.6
Current Transfers Payable	2.4	2.3	2.5
Other expenditure	0.0	0.0	0.0
Deficit	-2.0	-1.5	-0.7
Primary Balance	0.8	1.1	1.6

Table 02.2
Data Source: NSO News Release No 106 of 2016 for the Actual data, MFIN Malta Half Yearly Report 2016 for the Forecast data

Note: Actual data has been updated with GDP data per NSO News Release No 108 of 2015

2.3.1 Developments during January-June 2016

Table 02.3 displays the central Government revenue and expenditure as reported for the first six months of the year for 2015 and 2016. Actual values are compared to the estimated monthly figures consistent with the respective budgetary annual targets using a set of monthly seasonal indices. The resulting variance is presented in the last column. It should be noted that non-tax revenues from Central Bank of Malta, rents, dividends on investment and interest payments will be accrued at end-of-year and hence the variance is set to zero. Also, since revenue from grants and capital expenditure tend to cancel each other by the year end, the variance of the two is not taken into consideration.

The central Government deficit for the first half of this year was lower than target by €55.6 million as result of a higher than expected increase in recurrent revenue and a lower than budgeted increase in expenditure.

Recurrent revenue has outperformed targets by €42.3 million in the first six months of this year as a result of a stronger positive performance in tax revenue. Indeed, direct tax revenue was around €24 million higher than estimated with both income tax and revenue from social security contributions exceeding budgetary targets. Revenue from indirect tax revenue was around €17 million higher than expected, mainly due to higher than expected revenue from Licences, Taxes and Fines and Customs and Excise Duties.

Similarly, revenue from non-tax components was €1.6 million higher than expected with revenue from Miscellaneous Receipts being the main contributor to this increase.

Expenditure in the first six months of 2016 was about €13 million lower than budgetary targets, mainly due to lower expenditures in the Programmes and Initiatives component and lower Personal Emoluments.

Moreover, the Government will continue to monitor closely both the revenue and expenditure components in the coming months, so as to be able to take any corrective measures should Government identify any persistent deviations.

Central General Government Finances, January-June 2015-2016

Consolidated Fund € 000s	2015 Actual	2016 Actual	2016 Estimate	Variance
Revenue	1,607,398	1,657,056	1,614,799	42,257
Customs and Excise Duties	112,531	129,941	123,343	6,598
Licenses, Taxes, and Fines	135,121	156,243	138,864	17,379
Value Added Tax	300,676	319,540	326,963	-7,423
Income Tax	464,415	522,841	506,877	15,965
Social Security	324,411	360,610	352,462	8,148
Fees of Office	12,508	12,771	20,084	-7,313
Reimbursements	10,549	12,423	11,392	1,031
Public Corporations	0	0	0	0
Central Bank of Malta	36,000	36,000	36,000	0
Rents	15,673	17,552	17,552	0
Dividends on Investments	8,698	11,941	11,941	0
Repayment of Interest on Loans	132	72	234	-161
Grants	157,090	58,284	58,284	0
Miscellaneous	29,595	18,837	10,803	8,034
Total Expenditure	1,765,367	1,767,684	1,781,039	-13,356
Personal Emoluments	341,193	359,510	368,549	-9,038
Operations and Maintenance	77,306	90,387	82,862	7,525
Programmes and Initiatives	881,106	913,002	926,386	-13,384
Contributions to Government Entities	143,558	166,722	165,181	1,541
Interest Payments	116,164	111,786	111,786	0
Capital Expenditure	206,042	126,276	126,276	0
Central Government Balance	-157,969	-110,628	-166,241	55,613

Table 02.3
Data Source: NSO, MFIN

02.4

DEBT LEVELS AND DEVELOPMENTS

In 2015, the debt-to-GDP ratio declined to 63.8 per cent of GDP. The decline of 3.2 percentage point of GDP is mainly attributable to the buoyant macroeconomic environment as reflected by the contribution of real GDP growth to the reduction in the debt ratio, complemented by the contribution of inflationary pressures and the impact of the primary balance.

In 2016, the debt-to-GDP ratio is expected to decline further by 1.4 percentage points to 62.4 per cent of GDP. The stock flow adjustment (SFA) is projected to result in an expansion of the debt ratio of 1.9 percentage points in 2016, on account of a sizeable increase in the cash holdings on the part of Government. The expansionary impact of the SFA on the debt ratio is nevertheless expected to be more than offset by the contractionary effect on the debt-to-GDP ratio of the primary surplus and the projected growth rate of nominal GDP of 6.8 per cent.

Over the medium term, further improvements in the underlying debt dynamics are expected to be secured through an improvement in the primary surplus, positive growth prospects, sustained investor confidence, and an efficient and effective debt management system. In this respect, the debt-to-GDP ratio is expected to exhibit a downward trajectory and fall below the 60 per cent target by the end of the forecast horizon.

Gross Government Debt, 2013-2019

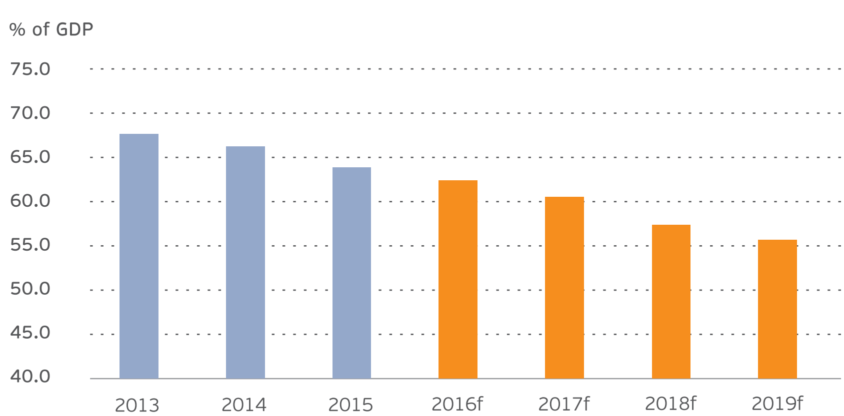


Figure 02.2

02.5

MALTA'S MEDIUM TERM FISCAL STRATEGY

Government's fiscal policy objective remains that of ensuring a sustainable fiscal position by gradually, but consistently reducing the fiscal imbalance, to reach a balanced budget in the medium-term. Coupled by a sustainable rate of economic growth, fiscal consolidation is necessary to ensure the sustainability of Government's fiscal position.

Government is aiming for a deficit target of 0.7 per cent of GDP in 2016 which will decline to 0.6 per cent of GDP in 2017 and further down to 0.2 per cent of GDP by 2018.

Based on the output gap projections and consistent with the requirements of the national fiscal rules, the Government is targeting an average structural effort of 0.6 percentage points of GDP per annum which foresees the attainment of the Medium-Term Budgetary Objective (MTO) of a balanced budget by 2019. The structural effort is frontloaded in 2016 in view of favourable economic conditions.

Due to lower EU-financed investments, a prudent elasticity assumption and a slower growth in the tax base than nominal GDP, as well as more moderate proceeds from the International Investor Programme, total revenue is expected to decline to a ratio of 38.4 per cent of GDP by 2019. On the basis of the targeted structural effort and the revenue projections conditional on macroeconomic conditions and budgetary measures, expenditure targets have been set at 40.2 per cent of GDP in 2016. Over the medium-term, the targeted general Government expenditure ratio is set to decline marginally to 39.9 per cent of GDP in 2017 and to 38.3 per cent of GDP by 2019.

The envisaged fiscal consolidation will be supported by strong and sustainable economic growth. A number of ongoing and planned structural reforms will be contributing to potential economic growth, while ensuring fiscal sustainability. The Government spending reviews will continue to ensure improved effectiveness and efficiency through an input-output approach in spending decisions. In turn, this will ensure greater financial discipline and fiscal accountability in the public sector. Efforts towards curbing fiscal abuse and improving efficiency in revenue collection will continue with the consolidation of the various functions of Government revenue.

In addition, the institutional fiscal framework introduced in 2014 through the Fiscal Responsibility Act will support the achievement of the fiscal targets.

2.5.1 Evaluation and Endorsement of Macroeconomic and Fiscal Forecasts

The macroeconomic and fiscal forecasts underlying the Medium Term Fiscal Strategy for Malta (Update of the Stability Programme 2016-2019) were submitted to the Malta Fiscal Advisory Council (MFAC) for evaluation and endorsement in line with the requirements of the Fiscal Responsibility Act. The MFAC considered the macroeconomic projections to be plausible and the risks to the attainment of the targets for the fiscal balance to be neutral. As a result, both macroeconomic and fiscal forecasts were endorsed by the MFAC.

03

INVESTMENT, PRODUCTIVITY AND COMPETITIVENESS

03.1

INTRODUCTION

The ability of a country to obtain success in international markets and increase the real income of its people can be considered as a good reflection of a country's level of competitiveness. Sustaining competitiveness is a prerequisite for economic growth and ensuring prosperity, particularly for small open economies such as Malta, which is heavily reliant on export-led growth and foreign direct investment as a source of increasing productivity and improving living standards.

03.2

RESTRUCTURING AND DIVERSIFICATION OF THE MALTESE ECONOMY

During the last decade and a half, the Maltese economy experienced a transition from manufacturing towards a service economy. Table 03.1 highlights the shares in gross value added (GVA) of the Maltese economy at NACE A38 sectoral level and the changes.

Apart from the shift away from manufacturing towards services-oriented industries, one can also note significant restructuring that took place within the manufacturing sector itself in an effort to diversify into higher value added products. The share of the traditional sectors including textiles, clothing and leather products as well as the manufacture of computer, electronic and optical products have declined considerably over the last few years while the manufacture of basic pharmaceutical products and pharmaceutical preparations have increased from 0.3 per cent of GVA in 2000 to 1.1 per cent in 2015.

In services, the wholesale and retail trade sector is still the largest sector in the Maltese economy. Notable shifts worth highlighting are the arts, entertainment and recreation sector (from 1.5 per cent of GVA in 2000 to 9.2 per cent of GVA in 2015), the information and communication technology sector (0.9 per cent of GVA in 2000 to 3.2 per cent of GVA in 2015) and the financial intermediation sector (4.5 per cent in 2000 to 6.8 per cent in 2015). In the process the Maltese economy has become even more diversified and less concentrated.

Restructuring and Diversification of the Maltese Economy

	% Share of GVA in		
	2000	2015	
Agriculture, forestry and fishing	2.2	1.4	▼
Mining and quarrying	0.2	0.1	▼
Manufacture of food products, beverages and tobacco products	3.1	1.8	▼
Manufacture of textiles, wearing apparel and leather products	2.3	0.2	▼
Manufacture of wood and paper products, and printing	1.3	0.8	▼
Manufacture of coke and refined petroleum products, chemicals and chemical products	0.3	0.1	▼
Manufacture of basic pharmaceutical products and pharmaceutical preparations	0.3	1.1	▲
Manufacture of rubber and plastics products, and other non-metallic mineral products	2.0	1.1	▼
Manufacture of basic metals and fabricated metal products, except machinery and equipment	0.6	0.4	▼
Manufacture of computer, electronic and optical products	6.7	0.5	▼
Manufacture of electrical equipment	0.4	0.2	▼
Manufacture of machinery and equipment n.e.c	0.2	0.1	▼
Maufacture of transport equipment	0.8	0.7	▼
Manufacture of furniture; other manufacturing; repair and installation of machinery and equipment	3.5	2.4	▼
Electricity, gas, steam and air-conditioning supply; water supply; sewerage; waste management and remediation activities	2.4	1.8	▼
Construction	5.9	4.2	▼
Wholesale and retail trade, repair of motor vechicles and motorcycles	13.7	11.1	▼
Transportation and storage	7.8	6.6	▼
Accommodation and food service activities	6.3	5.3	▼
Publishing, audiovisual and broadcasting activities	0.5	0.6	▲
Telecommunications	3.0	2.1	▼
Computer programming, consultancy and related activities; information services activities	0.9	3.2	▲
Financial and insurance activities	4.5	6.8	▲
Real estate activities	5.4	5.5	▲
Legal and accounting activities; activites of head offices; management consultancy activities; architecture and engineering activities; technical testing and analysis	2.7	4.9	▲
Scientifc research and development	0.0	0.0	▲
Advertising and market research; other professional, scientific and technical activities; veterinary activities	0.8	2.1	▲
Administrative and support service activities	3.4	5.5	▲
Public administration and defence; compulsory social security	6.2	6.2	▼
Education	5.2	6.1	▲
Human health activities	4.4	6.3	▲
Social work activities	0.2	0.4	▲
Arts, entertainment and recreation	1.5	9.2	▲
Median	2.3	1.8	
Standard Deviation	3.0	3.0	
Herfindahl-Hirschman Index	5.81%	5.8%	
Reciprocal of the Herfindahl-Hirschman Index(Indication of Market Structure)	17.2	17.2	
Gap between the largest and smallest 5 sector shares in the Maltese economy	40.3%	39.6%	

Table 03.1
Data Source: NSO, MFIN

03.3

STANDARD MEASURES OF PRODUCTIVITY

The analysis has so far shown a structural shift in the Maltese economy towards services and higher value added manufacturing activity over the last fifteen years.

These developments were translated into a substantial and persistent improvement in the current account position of the balance of payments. Essentially over the last few years the current account balance went from a persistent deficit to a surplus reaching 2.6 per cent of GDP in 2015. (Fig 3.1)

In the meantime the Real Effective Exchange Rate (REER) saw improvement from the second half of 2014 to date. (Fig 3.2)

As illustrated in Figure 03.3, the rate of growth of potential output has almost doubled in the last three years and is expected to exceed 4 per cent in 2016. This development was underpinned by the strengthening of the labour market, followed by higher investment and also higher contributions from total factor productivity (TFP), an indicator meant to capture improvements in labour quality, institutions, market functioning, innovation and research. All these aggregate indicators suggest that the rate of expansion and competitiveness gains recorded in the recent years are mainly structural in nature and thus likely to be permanent.

Current Account Developments (% of GDP)

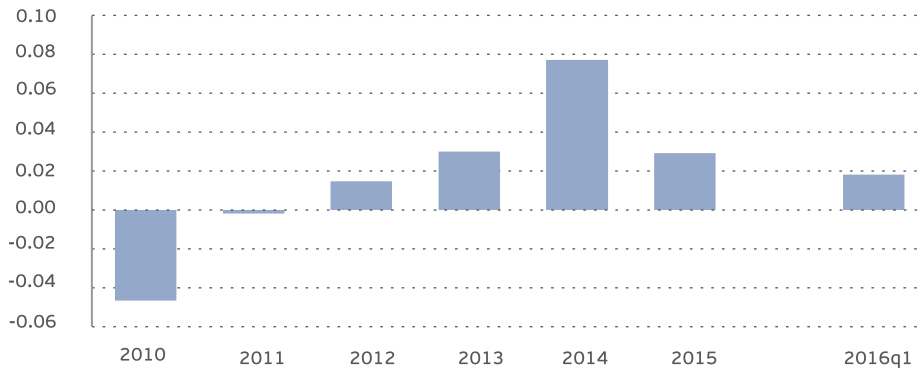


Figure 03.1
Data Source: Balance of Payments NSO

Malta REER - 37 trading partners (2005=100)

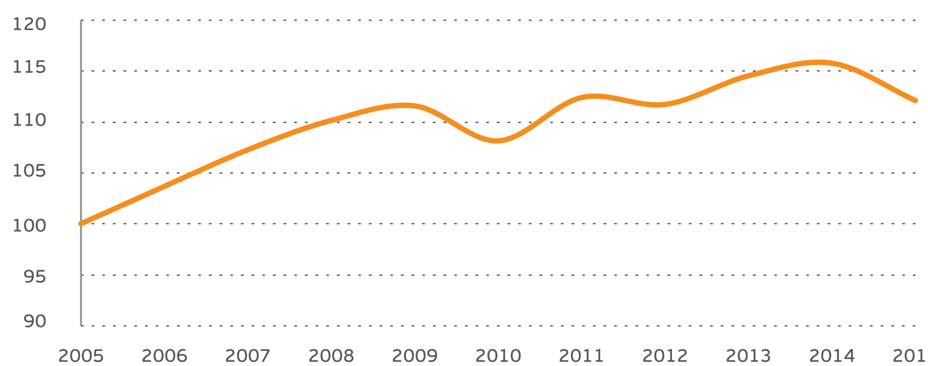


Figure 03.2
Data Source: EUROSTAT

Malta's Potenial Output Estimates %

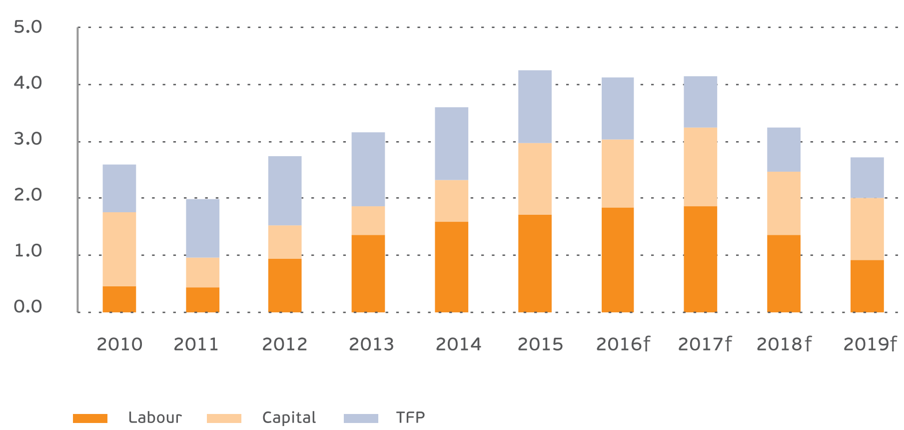


Figure 03.3
Data Source: MFIN estimates

3.3.1 Compensation per Employee, Labour Productivity and Unit Labour Costs: A Benchmarking exercise

Since labour represents a major input in the production process, the comparison of domestic wages relative to those of Malta's major competitors remains critical in maintaining a competitive position while ensuring the sustainability of economic development over time.

Through a benchmarking exercise, Table 03.2 compares Malta to small open economies within the European Union with a similar level of development defined as GDP per capita in PPS of between 75 per cent of the EU average to 100 per cent of the EU average. Based on these considerations, the Maltese economy is benchmarked against the Czech Republic, Estonia, Cyprus, Portugal, Slovenia and Slovakia. At the same time, the indicators were also compared to the EU and the EA average as targets for enhanced competitiveness and economic development.

annual percentage changes	Compensation per employee		Labour Productivity		Nominal ULC	
	2001-2009	**2010-2015**	**2001-2009**	**2010-2015**	**2001-2009**	**2010-2015**
MT	3.0	2.6	0.8	0.5	2.2	2.0
EU	2.3	2.4	0.7	1.0	1.6	1.4
EA	2.1	1.4	0.0	0.6	2.0	0.8
CZ	9.4	1.8	2.7	1.5	6.6	0.3
EE	11.4	4.2	3.7	2.2	7.7	2.0
CY	5.4	-0.5	0.6	0.3	4.8	-0.7
PT	3.6	0.1	0.8	0.8	2.8	-0.8
SL	5.2	0.7	2.0	1.4	3.2	-0.7
SK	10.6	3.3	3.9	2.4	6.7	0.9

Table 03.2

The level of compensation per employee in Malta during the years 2010 to 2015 stood at €18,642. This represents an increase of €3,483 over the 2001 and 2009 period. This compares favourably within the range of the benchmarked member states. Out of the benchmarked countries, Slovakia had the lowest compensation per employee at €12,331 while compensation per employee in Cyprus reached an average of €22,310 over the 2010-2015 period.

Similarly, the level of real GDP per person employed stood at an average of €40,136 in the period between 2010 and 2015, an increase of €1,205 when compared to the period 2001-2009. Of the benchmarked countries, Estonia had the lowest real GDP per person employed at €27,862 compared to the level of €47,878 in Cyprus on average over the 2010-2015 period.

It is notable that compensation per employee rose faster than productivity levels between the two periods under analysis suggesting that nominal unit labour costs have increased. During the last five years labour productivity in Malta has been growing at the low end of the distribution of benchmarked countries and even lower than the EU average though relatively close to the EA average. This could in part be attributable to the shift in labour intensive service industries explained in earlier sections of this analysis.

03.4

REVIEW OF INVESTMENT

The shift towards service oriented industries has arguably increased the labour intensity of production and reduced the capital intensity typically associated with manufacturing production. This may appear as a decline in labour productivity but a corresponding increase in capital productivity. In other words the emerging services industries can produce the same amount of output with more employees but less capital goods.

As the Maltese economy became more service oriented and most probably less capital intensive, investment in Malta, as represented by Gross Fixed Capital Formation (GFCF) has been consistently below that of the EU 28 level over the past decade up until 2014. In 2014, investment started to pick up and surged in 2015 as a result of the investments undertaken in the energy sector and the exceptional absorption of EU funds. A substantial amount of investment in the aviation industry was also recorded. Figure 03.4 shows the overall development over the last years and how this is comparable to the EU 28 countries. Figure 03.5 presents the developments related to GFCF by type of asset.

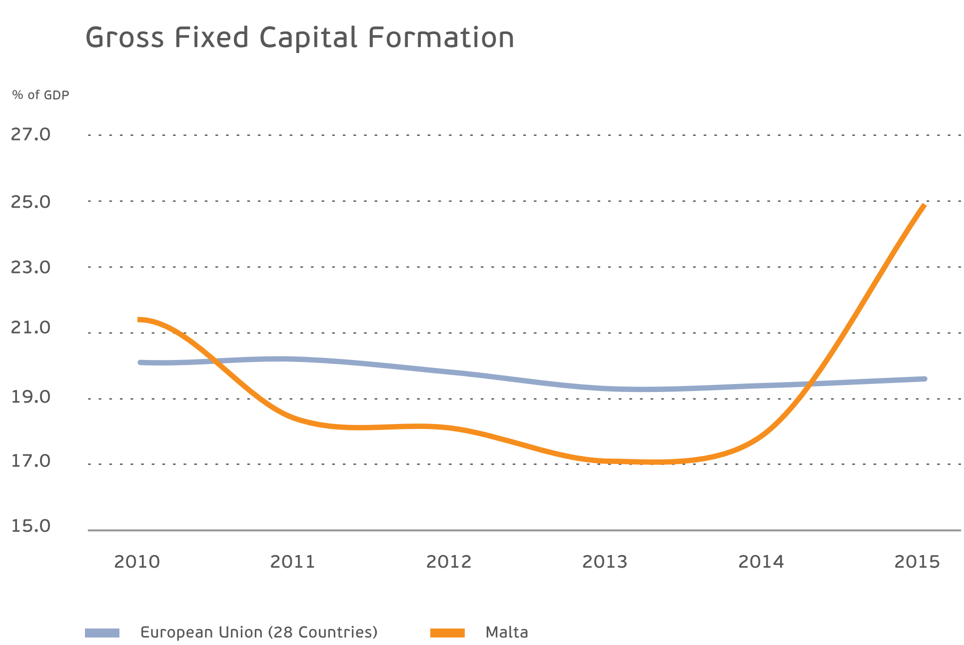


Figure 03.4
Data Source: EUROSTAT

Gross Fixed Capital Formation by Asset Type

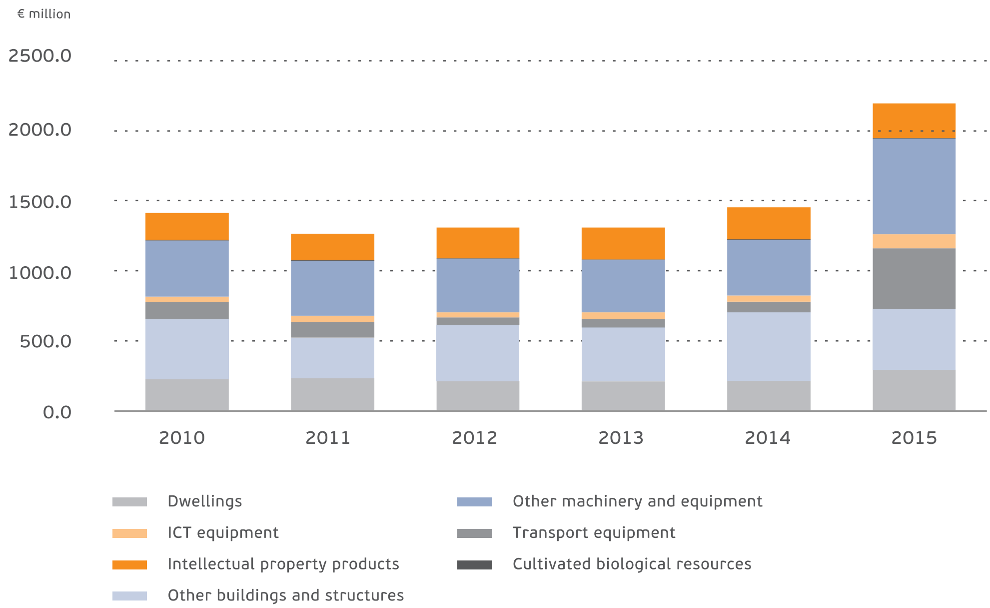


Figure 03.5
Data Source: EUROSTAT

Stock Position of Foreign Direct Investment in Malta

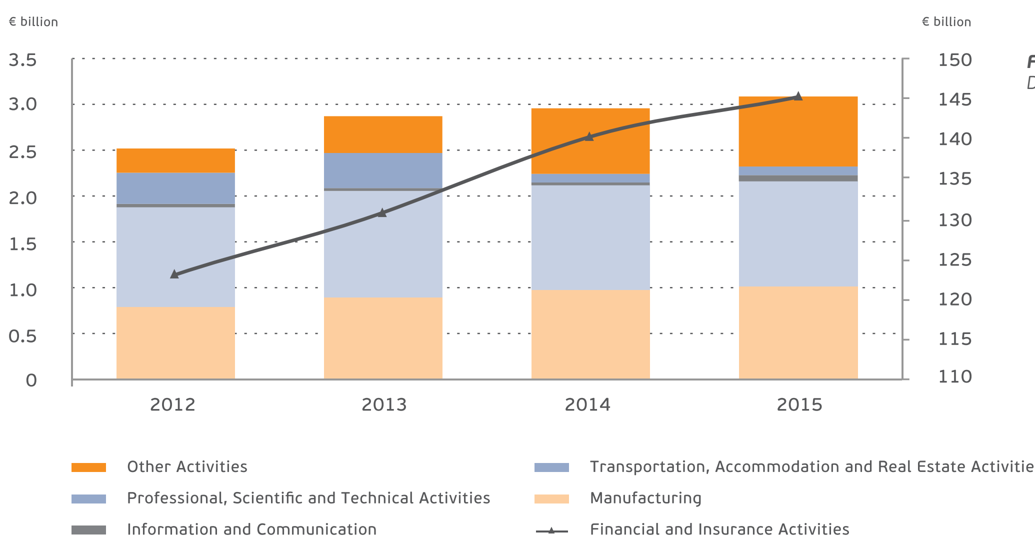


Figure 03.6
Data Source: EUROSTAT

Traditionally Foreign Direct Investment (FDI) has been an important source of investment financing in Malta. Nevertheless in recent years as the current account position turned into surplus territory Malta is increasingly becoming less reliant on capital inflows. Non-financial FDI flows in Malta have increased over the past few years from €2.5 billion in 2012 to almost €3.0 billion in 2014 consistent with an average annual growth of 8.4 per annum. Indeed, Figure 03.6 outlines the developments in the Stock position of FDI in Malta.

03.5

EASE OF DOING BUSINESS

The World Bank Doing Business Report is an annual country by country report, which provides an overview on the ease of doing business in a particular country. The report uses a distance to frontier approach to assess the performance of a country in terms of different factors such as the ease of obtaining credit and the enforcement of contracts. The distance to frontier approach measures the economy's distance to that of the best performer from a scale of 0 to 100, with a score of 100 showing the best performer.

The radar figure indicates that Malta performs well with respect to the payment of taxes and trade across borders. This means that companies are not overburdened with tax payments and that the time and costs of importing and exporting goods and services are relatively low.

Malta's main weaknesses in terms of the distance to the best performer is mostly prominent in two cases, namely getting credit and resolving insolvency with a score of 10 and 45 respectively. In the case of getting credit, Malta's score is low given the lack of institutional set ups in this respect, such as a lack of credit bureau and a credit registry. In terms of insolvency resolution Malta's weaknesses lie in inefficiencies related to the time, cost and recovery rates of insolvencies.

Malta: Distance to Frontier

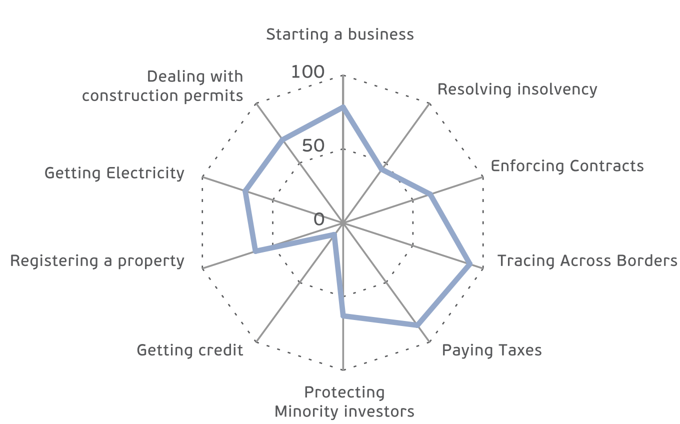


Figure 03.7
Source: World Bank Doing Business Report 2015/2016

Global Competitiveness

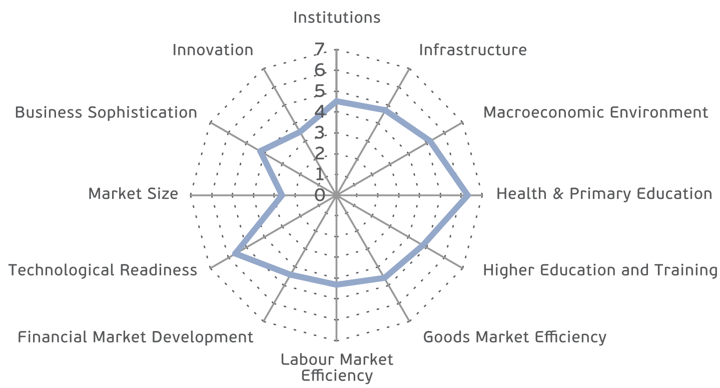


Figure 03.8
Source: Global Competitiveness Report 2015/16

In both these respects Malta has been undertaking the necessary reforms in order to address such issues both with respect to the necessary insolvency laws and the necessary credit provision.

The Global Competitiveness Report issued by the World Economic Forum is a survey based report aiming to assess the main elements making up a competitive economy. In this respect Malta obtains a global competitiveness index score of 4.4 out of a possible 7. Such an index is composed of various elements such as the strength of institutions and infrastructure. The radar figure shows how Malta performs in various categories. Notwithstanding that Malta seems to be performing quite well in many categories it still seems to be lacking in the necessary innovative capacities and more understandably, in the market size, which is limited due to its geographical characteristics.

03.6
CONCLUSION

Competitiveness has always proven to be an important expedient for long-term economic success. Raising productivity helps to improve living standards especially in a small open economy such as Malta. Improving an economy's competitiveness position is an important way how the policymaker can trickle success at a micro level.

In recent years, Malta has managed to register notable performances, outperforming most of the European Union economies. Furthermore, the relatively increased investment, foreign direct investment, decreases in unit labour costs, current account surpluses, an increasingly diversified and innovative economy, competitive markets and a strong labour market are all ingredients which continue to promote Malta as a business hub.

Moreover, to further enhance the competitiveness of the Maltese economy, the Government intends to address the remaining structural challenges underlying the country's productivity performance such as the quality of the labour force.

Indeed, human capital investment is an important input into the productivity equation. High standards of education, health, labour market flexibility and government structural policies to increase participation and invest in re-training investment programmes ensure that employees have the necessary skills, knowledge and capacity to attract high value added sectors to Malta. The role of educational attainment and the skills gap will be explored further in Chapter 4.

04

EDUCATION AND SOCIAL COHESION

04.1

INTRODUCTION

In spite of the challenging international environment, Malta has experienced strong economic growth over recent years, which has manifested itself in a buoyant labour market. Yet, a key challenge faced by policy makers remains that of ensuring that prosperity is sustainable and reaches the needs and expectations of society. Indeed, a sustainable society is one in which economic development, social provision and social cohesion go hand in hand with a high level of environmental protection.

04.2

CONCEPTUALISING SOCIAL COHESION

According to the Council of Europe, social cohesion reflects the capacity of a society to ensure the welfare of all its members, minimising disparities and avoiding polarisation. A cohesive society is a mutually supportive community of free individuals pursuing these common goals by democratic means.

Though arguably not a sufficient condition, economic growth should facilitate social cohesion. Long-term unemployment poses a serious challenge to economies because of its negative social and financial implications for the individual and for society. On an individual level, in the absence of an adequate and well functioning social protection system, long-term unemployment and inactivity increase absolute and relative poverty, resulting in higher levels of social exclusion. This in turn discourages further education participation, leads to negative health effects and possible increases in crime and delinquency. It can also lead to a deterioration of skills and human capital, hindering future employability, productivity and earnings.

At the societal level, prolonged unemployment harms economic growth. A stable society provides a favourable environment for business enterprise to invest and employ and for consumers to spend. High rates of long-term unemployment could have further and long lasting consequences for the labour market and economy.

Poverty and social exclusion harm individual lives and limit the opportunities for people to achieve their full potential by affecting their health and well-being and lowering educational outcomes. Effects could be long lasting as poverty can be passed from one generation to the next if not addressed.

Societies where people tend to live longer and have high levels of education attainment enjoy broader and better enforceable rights are often also among the richest societies in the world. However recent research confirms that economic growth is increasingly associated with growing income inequality and rising poverty, creating significant social ‘costs’.

4.2.1 Educational Attainment, Cohesion and Growth

The positive relationship between education and economic growth is well established in both theoretical and empirical economic literature suggesting a positive relationship between education, GDP, population and income.

Studies have also shown that improvements in education attainment lead to economic gains at individual, company and economy level. Although education on its own cannot explain all the variations in income inequality, literature suggests that wages are higher for persons having qualifications, when compared to those that do not hold such qualifications.

Apart from the benefits experienced by the individuals who increase their level of education, education attainment tends to have spill over effects for the industry and the economy as a whole. Employees do tend to learn from each other and firms will adapt their tools and use of capital in line with the improved skills of the work force, thereby increasing productivity. As a result, education attainment has also an important effect on total factor productivity as it ensures that an economy is capable to carry our technology innovation.

Education also increases the employability of individuals. At the place of work, ideas and information are exchanged among individuals coming from different social groups. This connecting aspect of jobs can thus greatly contribute to social cohesion and integration.

The identity conveyed by a job can influence the social categories that individuals associate with their behaviours, and the norms that shape this behaviour. In industrial countries, jobs that give people opportunities to learn and develop careers can be motivating and strengthen identity. This also holds for the self employed where empowering access increase stake and associated interest.

04.3

SOCIAL COHESION IN MALTA

4.3.1 Policy Framework

A National Strategic Policy for Poverty Reduction and Social Inclusion covering the period 2014 to 2024 was launched on 19 December 2014. This comprehensive policy addresses poverty through a multifaceted approach that extends beyond the financial dimension and takes into consideration six dimensions which include social services, health and environment, culture, income and social benefits, education and employment.

The National Strategic Policy for Poverty Reduction and Social Inclusion (2014-2024) deals with Malta's population in general but addresses four specific target groups including children, elderly persons, unemployed people and the working poor. This strategy presents a series of policy initiatives that focus upon the modernisation and effectiveness of social services; more student engagement and the attainment of higher and further education; improved training and vocational opportunities leading to more quality jobs; strengthening of primary health care and the promotion of healthy life styles; and the deepening of cultural awareness. These strategic actions are expected to contribute towards improving the various factors that directly or indirectly impinge upon poverty reduction, and in so doing should eventually enhance economic prosperity for all.

04.4

STRENGTHENING SOCIAL COHESION – FOCUSING ON SKILLS

One of the main vehicles through which low skills lead to social exclusion relates to the labour market. Indeed, lower skilled persons find it more difficult to access the labour market as demonstrated by the employment rate for persons with a low level of educational attainment which at 52 per cent is considerably lower than the overall average in Malta of 63.9 per cent.

It is clear that low skills are associated with relatively lower employment rates in Malta and in turn this is manifesting itself in poverty outcomes in light of the persistence of poverty and social exclusion in households with low work intensity. In addition, education and training can potentially improve the quality of employment and open more opportunities for high skill high value added and higher paid jobs and thus address the rising risk of poverty among the employed. Hence, it is evident that higher educational attainment and skills should be at the basis of Government's strategy for sustainable economic growth and social cohesion in Malta.

Such an educational strategy should be based on the belief that the provision of lifelong learning opportunities from early childhood and care to adult learning ensures that all members of society have the opportunity to obtain the necessary skills and attitudes to be active citizens and to succeed at work and in society. It is a well proven fact that a high level of educational attainment for individuals supports well-being and a greater chance to achieve economic success.

4.4.1 Benchmarking Education Outcomes

Benchmarking the level of education attainment among countries can be difficult as educational systems vary considerably. To understand and be able to properly interpret the data on a level playing field, an international standard under the UNESCO Institute for Statistics is used. The ISCED facilitates international comparisons on the benchmarking of progress on international education goals. ISCED covers formal and non-formal education programmes and any resulting recognised formal educational qualifications and serves as reference classification for organizing education programmes and related qualifications by education levels and fields. The educational attainment level of an individual is the highest ISCED level successfully completed.

Looking at 2015, figures in tertiary education attainment for ages between 30-34 years (ISCED levels 5-8) Malta's rate is that of 27.8 per cent. This figure is almost the lowest rate within the EU. The EU target 2020 requires that at least 40 per cent of the population between the ages of 30 – 34 years should achieve this level of education. One notes that 17 Member States have already achieved this target with the highest rate recorded in Lithuania at 57.6 per cent while the lowest rate is recorded in Italy at 25.3 per cent. Malta's EU 2020 target for tertiary education attainment was set at 33 per cent.

From a national perspective, the level of attainment in Malta remains relatively low in comparison to the EU average as the progress recorded over the past decade (an increase of tertiary education attainment by 7.1 p.p. over the period 2006-2015) has not kept the pace of the gains recorded by other member states.

Nevertheless, if one looks within the 25 to 34 age group tertiary education attainment rises to 31 per cent and within this younger age group the improvement in tertiary education attainment has been more pronounced, rising from 17.8 per cent in 2005.

Whereas the gap with the EU in tertiary education attainment between the age of 30 to 34 has remained roughly stable at around 11 p.p. (suggesting no material convergence), the comparable gap in the 25 to 34 age bracket has declined from 10.5 p.p. in 2005 to less than 7 per cent in 2015. Furthermore if one looks at the 20 to 25 age group the upper secondary and post secondary attainment level (ISCED 3 and 4) has increased between 2005 and 2015 reaching almost 56 per cent and is also converging to the EU average of 65.5 per cent. These indicators suggest that Malta is on a path to record further gains with respect to the 2020 targets. With regards to participation in lifelong learning, Malta's rate stood at 7.2 per cent in 2015. The highest rate was observed in Denmark at 31.3 per cent while the lowest performance was recorded in Romania at 1.3 per cent. It is important to highlight that the EU 2020 target is that an average of at least 15 per cent of adults should participate in lifelong learning by 2020. Malta's performance remains lower than the EU average rate. However, it is to be outlined that the gains recorded by Malta over the past decade (1.7 p.p.) exceeded the gains in the EU average rate.

Despite the ongoing improvement in the early school leaving rate, Malta reported a rate of 19.8 per cent in 2015. The EU 2020 agenda has set the objective of reducing early school leaving to 10 per cent, an objective endorsed by Malta in its National Reform Programme.

Drawing on the above high level indicators, it can be noticed that despite substantial improvements recorded during the past years, Malta is still below the EU average. Early indicators for the younger age groups point towards further convergence in educational standards but this would not be enough. In this respect, Government is committed to continue to implement policies which increase the pace of convergence in education standards.

04.5

MEASURING THE SKILLS GAP IN MALTA

Economic growth in Malta has in recent years been associated with the creation of new economic sectors that thrive on higher value added activity. In this regard, the level of educational attainment and skills take a forefront place in the debate from both competitiveness and a social cohesion perspective. Indeed, economic development is contingent on the extent that prosperity associated with economic growth reaches out the broadest possible spectrum of groups in society.

Yet, productive participation in the new economic sectors is contingent on the development of a skills base that matches labour demands. Skills mismatches pose a bottleneck to economic growth and can cause social cleavages as specific groups become marginalised and do not benefit from the generation of wealth. Over the short-term, it is evident that migration is playing a key role in filling any skills gap as these emerge. However, from a longer term perspective it is clear that there is room to improve the skills of the local population and thus ensuring that both local and foreign nationals can access the labour market on an even playing field. In this regard, it is pertinent to review the skills gap in Malta and benchmark it relative to the EU average.

Skills Gap in Malta

Relative Dispersion of Employment Rates by Skill Level (2015)

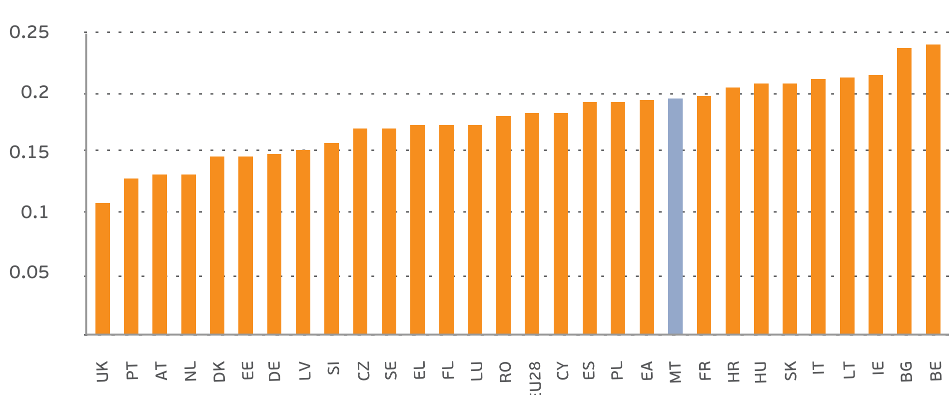
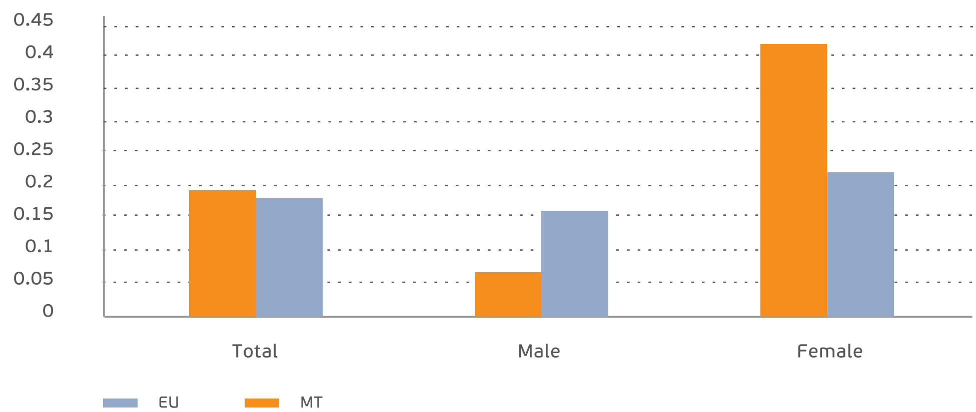
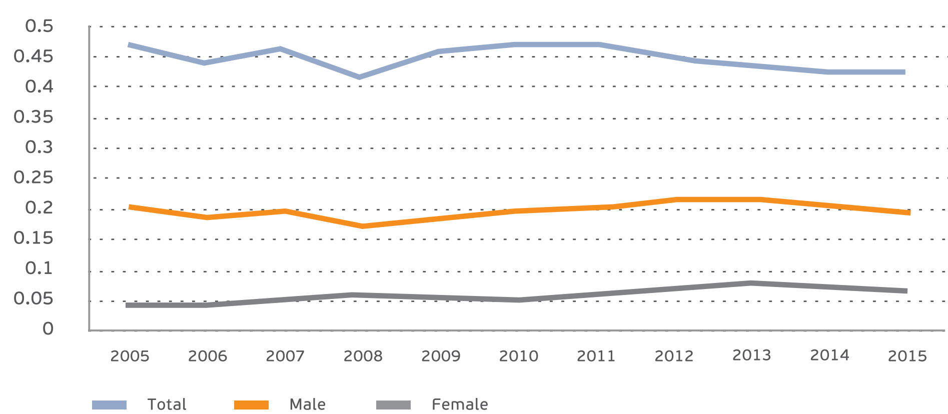


Figure 04.1
Data Source: Eurostat

Relative Dispersion of Employment
Rates by Skill Level (2015)



Relative Dispersion of Employment
Rates by Skill Level (15-64)



Taking an inter-temporal perspective, it is noticeable that the level of skills mismatch amongst females has been on the decline over the past decade. In fact, the decline in the level of mismatch for females was the key contributor to the overall decline in the level of mismatch recorded over the past decade. With respect to males, the level of mismatch has remained broadly stable even though some increases were also noted in this regard.

An interesting insight can be gained by looking at the performance of different age groups for the period 2006-2015:

- *Younger persons (15-24)*: In this regard one notes rising mismatch for the 15-24 age group, driven mainly by a rising proportion of medium and high skilled individuals in the population that exceeded the rise in the employment rate for both groups. In this case, this development needs to take into consideration the rising participation in tertiary education by younger adults and thus it is not necessarily a negative development, which development will possibly reduce skill mismatches over the long-term;

- *Prime working age (25-54)*: Declining skills mismatch for persons is mainly driven by females, as a rising share of medium and high skilled persons was met with a rising employment rate for both groups;

- *Older workers (55-64)*: rising skills mismatch in this age group is driven by both males and females. Relative gain in the share of medium skilled group was met with increased employment rate for that group suggesting that skill mismatches in the medium skilled group were addressed. Nevertheless, the employment rate for high skilled workers increased in spite of practically no change in share of high skilled persons in population indicating a rise in skill mismatches of high skilled labour of older workers.

04.6
CONCLUSION

In recent years, Malta has recorded strong rates of economic growth. However, economic growth on its own is not enough to enhance prosperity for all groups in society. Government policy aims to reduce social exclusion while greater social cohesion contributes to economic development and enables individuals to fulfil their full potential, leading to more successful lives.

Furthermore, increasing educational participation and attainment and strengthening non-formal education and training are important to increase employment opportunities and increase access to high quality jobs. Indeed, severe material deprivation is significantly higher for persons with only basic educational attainment (18.6 per cent for persons with ISCED 0-2 level) in comparison to those with tertiary attainment (3 per cent). Hence, any strategy for sustainable economic growth for Malta must take into consideration the starting position with respect to educational attainment and skills.

It is evident that further investment in human capital through lifelong learning, tertiary education attainment and reduction in early school leaving are key elements in a strategy for sustainable economic growth and social cohesion. Indeed education and training enable individuals to acquire knowledge and cultivate skills and competences that are relevant to the labour market.

05

INVESTING IN PRIORITY SECTORS


IĊ- ĊENTRU TAL- ONKOLOĠIJA
SIR
ANTHONY
MAMO
ONCOLOGY CENTRE

05.1

INTRODUCTION

In the past three years, the Maltese economy succeeded in obtaining robust results on various fronts. To its credit, it was amongst the top performers in Europe in terms of economic and employment growth, while it outperformed all EU Member States on the total and youth unemployment rates. At the same time, Government's fiscal deficit fell to record low levels while the past upward trend in the debt ratio was reversed. These positive macroeconomic and fiscal developments enhanced Malta's competitiveness level which in turn boosted exports and the surpluses in the current account.

These achievements were the result of Government's policy to increase Malta's growth potential by implementing measures to make work pay, creating opportunities and eliminating dependencies, restoring sustainability in public finances and reforming institutions. The governing principle was that of letting the private sector to be the main engine of growth.

The Government aims to combine the policy objectives of economic prosperity with greater social inclusion and a sense of social justice. Towards this end, the Government will continue investing in priority sectors including education, health and social welfare.

It will also continue reforming sectors to further enhance the Maltese economy's competitiveness level, while ensuring sustainable growth. Indeed, investment will continue on the justice, energy and water, transport and infrastructure, and tourism sectors, amongst others.

05.2

JUSTICE - CREATING NEW FRAMEWORKS FOR A VIBRANT ECONOMY

The economy cannot progress if it is not supported by a wide array of modern and efficient ancillary services that support its operations. A crucial facet of this system is expeditious access to redress and a fair system of justice.

To this end, a number of amendments to the Code of Organisation and Civil Procedure have been enacted earlier this year in order to further expedite Civil and Commercial cases. This thrust to speed up procedures was sustained through further measures whereby decrees to lawyers from the Civil Courts, transcripts of witnesses' statements and information on whether summons to witnesses have been duly served or not are being transmitted electronically. Furthermore, the existing facility of e-filing applications and appeals from decisions of the Small Claims Tribunal has been extended to applications before the Administrative Review Tribunal. The ease of access to services online will shortly be extended to enable the public to view their bill of costs and effect payment online. In addition, it will be possible to submit judicial acts electronically and related fees may be paid online.

Procedures will be further expedited by enabling court employees the facility to print out an accurate taxed bill of costs for each civil case which would be automatically updated, thus expediting procedures.

The judiciary was provided with further assistance in the drafting of judgements through the assignment of experienced full-time lawyers chosen by members of the judiciary themselves. Specialised training on migration matters was provided to the judiciary and prosecuting officers by the International Organisation of Migration through the assistance of the Irish Government.

Most importantly the recent enacting of the Constitutional Reforms (Justice Sector) Act contributed towards increasing transparency, good governance and strengthening the notion of checks and balances with full respect to the independence and impartiality of the Judiciary.

It also modernised the manner in which members of the Judiciary are appointed and held accountable with full respect to the principle that members of the Judiciary must be judged by their own peers. Also, the Act improves the conditions of employment of members of the Judiciary, with the introduction of a service pension, in order to make sure that our country keeps attracting the best legal minds to the Bench.

The Government is giving particular attention to court statistics as a basis for policy guidance. In order to tackle the existing backlog of cases, it carries out accurate reviews of the clearance rate, disposition time and pending cases of each member of the judiciary in the civil, commercial and criminal spheres. Efficiency parameters are being studied on a quarterly basis so as to provide for a timely intervention in the event of negative trends.

From a substantive point of view, Government introduced further measures to minimise delays. One such measure was the facilitating of procedures concerning the sale of immovable property held in co-ownership by a number of co-owners. The measure, which was received very favourably, addresses the situation whereby the co-owners of an immovable property fail to agree on terms of sale of the property.

The Government is also in the process of introducing new legislation in order to speed up proceedings with respect to resolution of insolvency, through the new concept of Second Chance, which seeks to introduce voluntary mediation procedures in insolvency if at least 60 per cent of the company's creditors are in agreement. It is also placing due importance in bolstering Alternative Dispute Resolution (ADR) mechanisms through its commitment in expanding the Mediation Centre and containing its fees to a minimum. Furthermore, Government is committed to improve the Malta Arbitration Centre by converting it into a more efficient and effective hub for domestic and international dispute resolution.

05.3

SOCIAL SOLIDARITY - THE COMMITMENT TO SOCIAL INCLUSION

Government spending on social provision amounts to over €1.4 billion equivalent to over 13.4 per cent of national income. Each week some 140,000 people claim benefits ranging from pensions to social assistance, unemployment assistance, child allowances and grants.

The continued review of social security ensures that the benefit system continues to reflect societal change and changing social needs.

One major pillar of government policy since 2014 has been the commitment to making work pay as a way of ensuring that young people are encouraged to move from dependence on the benefit system to employment, training and education.

During the period December 2014 to July 2016 over 3,200 claimants have left the benefit system and found employment including 1,400 claimants who had previously claimed social assistance and 1,700 who were registered in unemployment assistance. In the meantime, the number of claimants who have benefited from the taper of benefits increased from 490 in December 2014 to over 2,000 in July 2016.

In the Budget of October 2015 the Government extended the in work benefit to single earner households on minimum wages.

The reforms in pensions, outlined in the October 2015 budget, have ensured that all pensioners are now guaranteed a minimum pension of €140 per week in accordance with their national insurance contributions. During the budget, the Government also announced that persons who were at the point of survivorship and who were entitled to a contributory pension in their own right would now receive the higher pension between their own and that of their deceased spouse. This measure has benefited some 18,000 pensioners.

An increased life expectancy creates new challenges. More of our senior citizens want to continue to live in their own homes and in their community settings. Towards this end, in the 2016 Budget, Government introduced a pilot programme part-financing the employment of live-in carers at home.

The Government is at present reviewing the existing system of the carer's pension and the social assistance carer's pension to widen existing eligibility. It is the intention that the Government will seek to reform the two schemes and provide a single revised carer's pension. At the same there will be a review of eligibility, utilising international benchmarks. The development of a retirement home in Gozo for elderly persons is also underway.

The Government seeks to both 'enable' and 'empower' people with disability by a policy process that ensures those with disability continue to live in their communities.

Additional funding has been made available to the Home Help Extension Service scheme while the Housing Authority has strengthened collaborative ties with NGOs (YMCA and Caritas) on projects aimed to support independent living.

The Government has also undertaken a number of changes in the tax-benefit system to assist the integration of persons with disability. A disabled person in employment is now entitled to full disability pension. For trusts and foundations working alongside disabled persons, there are incentives including exemptions on capital gains and stamp duties. Disabled persons do not pay transfer duty on inherited property.

There are incentives for employers to employ more people with disabilities. Employers do not have to pay social security contributions on behalf of the disabled employee while the wage paid to the disabled person can be offset against company profits.

During 2016, the Housing Authority has continued with its programme of repair and regeneration of housing estates such as the project with Floriana Local Council. Furthermore, in 2016 first time buyers have continued to benefit from the first-time buyer scheme.

The Government is aware that a number of families are faced with rising rents. Towards this end, the Rent Subsidy Scheme is at present being reviewed. In addition, there also measures to be studied to make available more affordable housing.

05.4

EDUCATION - UPGRADING OF SKILLS AND MATCHING JOBS

After successfully achieving record growth in employment and a historically low unemployment rate, the Government now intends to focus on further improving the quality of the labour force through the upgrading of skills while addressing skill mismatches.

Following the launch of the National Literacy Strategy for All in Malta and Gozo 2014-2019 a Strategy Unit was set up to support the implementation of the strategy. As part of the Strategy, a pilot project was launched in October 2014 whereby tablets were introduced in classrooms followed by a comprehensive evaluation report drawing recommendations on the introduction of innovative pedagogical practices using technology on a national scale as from the coming scholastic year.

The strategy of upgrading basic skills is also being extended to post-secondary educational institutions. The Malta College of Arts, Science and Technology (MCAST) and the Institute for Tourism Studies (ITS) both offer foundation programmes for students with basic skills needs. MCAST is also responsible for the implementation of the National Apprenticeship Scheme. Another initiative relates to the Youth Voluntary Work Scheme which is expected to provide young people with placements in local voluntary organisations, complemented also with work experience abroad.

In order to increase and enhance basic skill levels, Government is also committed to continue addressing the Early School Leaving (ESL) rate as well as tackling school absenteeism. The Strategic Plan for the Prevention of ESL in Malta which was published in June 2014 introduced various measures under a three-pillar approach namely prevention, intervention and compensation.

As part of this strategy, a new curriculum based on learning outcomes in basic skills which include creativity, critical thinking and active citizenship was formed. Furthermore, vocational subjects were introduced in the national curriculum. Vocational subjects offered by secondary schools include engineering technology, information technology, health and social care, and hospitality, and agribusiness. Complementing this initiative, all post-secondary institutions now accept Vocational Education and Training (VET) subjects as part of the students' requirements to start a post-secondary course.

In addition, the University of Malta initiated the broadening access in education initiative in order to increase education in regions traditionally associated with low level of participation in education. In fact, the Cottonera Resource Centre was set up for such a purpose.

The Government is also providing SEC revision classes free of charge for those students who failed or were absent for their examination.

In the 2016 Budget, the Government inaugurated the opening of the Ġużè Ellul Mercer 16+ Extended Secondary School where students who obtained one O-level at the end of compulsory secondary education can continue their studies.

Through the Youth Guarantee Scheme, the Government is also giving a second chance in education to individuals who did not manage to attain a good level of education. The scheme is also facilitating the entry of individuals into the labour market, helping them to improve their employment opportunities and retain their employment.

The Government is also encouraging lifelong learning by offering various courses equivalent to Level 1 on the Malta Qualifications Framework such as adult learning courses, adult courses in the community, adult basic literacy and numeracy and IT skills courses. Furthermore, the Ministry for Education and Employment has embarked on a number of European Union (EU) projects with regards to Adult Learning.

Through these projects, the EU Agenda in Adult Learning is being adopted in Malta, where a work programme for 2016-2017 has also been adopted by the authorities.

Government is aware of the important role played by the regulator of higher education services in fostering the effective development of further and higher education in Malta. In this regard, Government is increasing its allocation of both human and technical capacity resources in the National Commission for Further and Higher Education to better fulfil its regulatory function in education.

Furthermore, students admitted to read courses under the maturity clause in MCAST, University of Malta and post-secondary schools will be considered as students with full requirements when applying for a stipend and can also be eligible for the supplementary maintenance grant. Similarly, financial benefits in terms of students' maintenance grants paid to full-time post secondary, vocational and tertiary students will continue to be tax exempt, irrespective of other income received. In addition, stipends will continue to be adjusted with the cost of living adjustment (COLA) mechanism on a pro-rata basis.

The Government will be sustaining the arrangement it has reached with Cambridge English Language Assessment, in order to strengthen the use of the English language and encourage more children to study languages through more attractive packages.

The Government is also committed to support the continuous professional development of teachers in the light of their pivotal role in the educational system. Indeed, various programmes were implemented to honour this commitment including, the teacher training programme on vocational subjects, the extension of the Paid Study Leave Scheme, in-service training, staff development sessions as well as the setting up of the Institute of Education, which is an autonomous entity that will be responsible for the continuous professional development and training of educators.

The Government is also allocating funds to enhance the educational infrastructure. Various new schools have been built throughout this legislature. Furthermore, at MCAST, work on the second phase of its campus will be commencing which includes the building of a new block for the Institute of Engineering and Transport, MCAST Resource Centre and the new ICT Institute. A new Post Doctoral Centre will be built on campus at the University of Malta with the aim of housing post doctoral researchers as well as providing an interim space for business incubation facilities.

Addressing skills gaps requires eliminating barriers that impede working or studying parents from furthering their education and work capacity. In this regard, various measures were implemented through the previous three budgets including the provision of free childcare centres, providing free before and after school care services and increasing tax deductions for parents sending their children in private child care centres.

Other ongoing initiatives such as the ‘Get Qualified’ scheme are being directed towards areas where Malta faces skill gaps. In the 2016 Budget, Government announced that a National Skills Council will be set up to analyse the industry’s needs and the role of education complementing the Employability Index, launched in October 2015, which aims to offer more guidance to students on the choices of jobs that are available for the various lines of studies. Furthermore, the second phase of the Youth Village Project is also completed.

05.5

HEALTH – THE CONTINUING COMMITMENT TO HIGH QUALITY CARE

The Government notes with satisfaction that life expectancy in Malta has climbed to 82 years in 2015, placing Malta in the top 20 countries in the world. This Government is a firm believer in the saying 'Health is Wealth' as decreed by Margaret Chan, DG WHO, in her address in Malta a few years back. Indeed having a population in good health is a pre-condition for economic growth – another achievement that Government has been working on during this legislature.

The Ministry for Health has managed to address a challenge that had been accepted as unsolvable for too many years – that of matching supply with the upward creep in demand for medical goods and services like medicines, surgical operations and outpatients appointments – and doing so as efficiently as possible. Following the eradication of the out-of-stock crisis, the Government has already been making substantial inroads in improving access and reducing waiting lists in most surgical modalities and diagnostic procedures and is working on doing so with outpatients appointments.

The Ministry for Health has not only registered substantial mileage in terms of improving efficiency within the health system but has broken the mould and actually engaged to make the health sector generate economic growth in its own right rather than being a drain on other Government sources of income. For this purpose, the Government is seeking to solicit a more pronounced partnership with the private sector with the partnership with VGH already binding at this juncture and beyond the design stage as it firmly believes that both the health sector and the domestic economy can benefit from the skills and resources which private sector partners can bring to the negotiating table. In this context, Government has finalised agreements with a major private hospital operator to manage two major hospital sites in Malta. Government has also managed to encourage other private operators to set up shop in Malta – finally bringing the concept of medical tourism in Malta to fruition. This will not only help diversify and increase the growth potential of the economy but will also enrich our health system with more modern medical services and technology available in Malta.

The Government is also seeking to seal its commitment to the maintenance of the Maltese citizen's health by entering into a contractual agreement through the charter of patient rights, which has been opened for consultation in the latter months. The charter defines the citizen's right to healthcare including parameters and timeframe. It also defines the reparative course of action that the Government would be expected to take in the case of undue delay to access healthcare.

The Government has sustained increases in investment expenditure allocated for public health expenditure over the last few years and is committed to keep increasing investment in this sector. The Ministry has already strived to innovate business processes in inventory management, stock control, and also smarter procurement practices to unleash a higher dose of competition in our bidding processes. It is also seeking to engage with the pharmaceutical industry to explore innovative ways how to attain access to newer more effective medicines in a cost-effective manner.

In this spirit, the Government is safe in the knowledge that the Ministry for Health is seeking to maximise the return of any investment made in this sector, and, as discussed above, even seeking further private capital to supplement the public sector investment. Innovating practices in order to maintain the balance between access, quality and efficiency in a health system require all to be on board, and therefore the Ministry will remain keen to explore with its employees, trade unions and management teams in our entities how we can approach our mutual objective efficiently – that of having more quality health services for all.

The Government would like to reiterate its commitment to healthy ageing. It is very much aware that this requires a two-pronged approach – the treatment of chronic disease and the prevention of illness. Two disease areas that become particularly relevant in an ageing population are diabetes and cancer. In the area of diabetes, the Ministry has published its vision towards the end of 2015 and immediately set out with its implementation with the introduction of new drugs. In the area of cancer, the Ministry is reviewing the progress with respect to the National Cancer Plan 2010-2015 and is preparing the next Cancer Plan. One main focus of the Government's fight against cancer is the area of treatment. The Sir Anthony Mamo Oncology Centre has made possible newer diagnostic and treatment modalities for the Maltese patient afflicted by cancer who has already started to reap these benefits. The next area on which the Government is focusing its energy is the provision of more modern drugs for the treatment of cancer. In order to address the demand-supply mismatch, the Ministry for Health has also invested in other medical specialities within the public health system, particularly in terms of diagnostic and curative equipment – thanks to dedicated European funding, and in terms of more specialist health professionals in order to cater for existing demand.

The Government is a firm believer in primary care becoming a cornerstone in our health system and is committed to increase the role that this sector plays.   The family doctor not only facilitates access to care for the less mobile patient by bringing healthcare practically to the doorstep, but is also capable of providing continuous and holistic care. There is the additional bonus that, due to less overheads, it is more efficient to deliver such care in a primary care setting than in a hospital.

Government is already trialling this model having engaged with family doctors to provide follow-up for a number of chronic conditions – namely in breast cancer and mental health. The Government has already started to further this engagement with primary care through an investment in a major primary care hub in the south of the island, with the help of European funding, in order to bring more specialist ambulatory services closer to the user, within the community. Cancer screening services are also being expanded with the introduction of cervical cancer screening late in 2015.

As discussed earlier, healthy ageing also requires investment in primary preventions of illness. Engagement has been occurring at all levels – from young to old. One landmark exercise was the bipartisan effort to enact the Healthy Lifestyle Act last winter, to which the Ministry has contributed wholeheartedly.

This legislative instrument has created an inter-ministerial body which is already working on the introduction of new policy and legal options which will surely help to curb this burden. One such initiative is the introduction of legislative instruments governing smoking in cars – an initiative which is known to decrease substantially the exposure to passive smoke, especially in the case of children.

It is well-documented that the investment on prevention provides the largest return on investment in health. Unfortunately, such return typically materialises itself a few decades into the future with very little low-hanging fruit. Nevertheless, the Ministry is mature enough to look beyond what it can achieve in this legislature and still believes that it is worthwhile investing in prevention as it is the best guarantee for a healthy future for the person involved, away from chronic disease till the very end.

05.6

ENERGY AND WATER - IMPROVING QUALITY OF LIFE

The year 2017 will be particularly exciting in the field of water. The country shall start reaping the benefits of the massive investment undertaken in the last years by the Water Services Corporation in building three polishing plants (two in Malta and one in Gozo) that will be treating wastewater at a tertiary level to produce around 7 million m^3 of "new water". The new water, which will start being produced in the third quarter of this year, will effectively broaden the national water resource base by providing opportunities for shifting the water use of the agricultural and commercial sectors to a new alternative resource, thus contributing to achieve sustainable water use outcomes, in good part by reducing extraction of groundwater.

The production and distribution of new water will be a critical component of the National Water Management Plan which, next year, will see its first year of implementation. Apart from widening the national water supply base, the Plan seeks the development of an integrated management framework for the future development of Malta's water sector including the achievement of increased levels of efficiency in the use of water by all sectors.

Despite the financial turnaround of Enemalta and the coming online of the new gas-fired power plant later on this year, energy will remain on top of Government's agenda as there are still crucial challenges to be addressed and key milestones to be achieved as part of the Government's ambitious strategy, namely when it comes to renewable energy and energy efficiency.

While a significant improvement has been registered in the last 2 years towards reaching Malta's 10% renewable energy target by 2020, the momentum has to be maintained. The Government remains committed to reaching this target indigenously - despite our geophysical limitations - through effective and sustainable measures including fiscal incentives.

The introduction of the solar farm policy, together with a number of public-private initiatives which shall all come online next year, will further enable full maximisation of our land resources, such as landfills, water reservoirs and disused quarries, for solar energy purposes.

Next year will also mark the first full year of implementation within the parameters of an "updated" National Renewable Energy Action Plan which offers a more realistic roadmap towards attaining the 2020 and interim renewable energy targets. It is estimated that thanks to these efforts Malta will have no less than 120 Mwp in photovoltaic capacity online by end 2017. Similarly the Government is committed to incentivising energy efficiency measures especially to render the commercial sector more competitive.

On the conventional side of energy, next year will see substantial progress in the demolition of the Marsa power station and the chimney at Delimara, symbolising the complete breakaway from the old, inefficient and HFO-based energy mix, to a more efficient, healthier and reliable generation capacity made up of the new plant at Delimara (D4), the Delimara 3 plant which is being converted to gas, and the electricity interconnector between Malta and Sicily. This means that come next year, the country will have three main players in the generation sector, namely Enemalta, Shanghai Electric Power, and Electrogas, apart from renewable energy producers.

The coming into play of private operators in the generation sector will enable Enemalta to focus more on the distribution of electricity which will be further enhanced by the coming online of a number of distribution centres at strategic points around Malta and Gozo, to meet the ever-growing electricity demand and to ensure a more secure and reliable electricity supply. Next year, it is also envisaged that Enemalta shall register its first financial profits.

Throughout next year, the Government will continue to work on public private projects which have already been launched in the course of the last two years. It will also continue to adopt this model for an array of others which are in the pipeline in various sectors, namely but not restricted to infrastructure and tourism.

The Government believes that such arrangements between the private sector and itself whereby services and other capital projects are executed together, with a clear agreement on shared objectives, yield the best results for the country in terms of enabling more investment in infrastructure by accessing private finance, achieving more value for money and increasing accountability in the provision of infrastructural and public services, harnessing private sector innovation and efficiency, stimulating growth and development in Malta, and above all, in creating new jobs and employment opportunities.

05.7

TRANSPORT AND INFRASTRUCTURE - BETTER INFRASTRUCTURE FOR A MODERN COUNTRY

In order to reduce traffic congestion, the Government is implementing a number of initiatives that seek to address the challenges faced by Malta's transport system both private and public.

Within the public transport system, a number of initiatives, partly financed through the European Regional Development Fund (ERDF), were launched in the second half of 2015 while new environmentally-friendly buses were also introduced to the network. In addition towards the end of 2015, a two-phase optimised route network was rolled out which included the introduction of new routes, modifications in existing routes, additional frequencies in certain locations and revised timetables to better reflect travel patterns and better coverage. The Government also launched the National Transport Strategy and a Master Plan which was open for public consultation until the 22nd July and the feedback received is being prioritised and analysed.

An efficient and effective public transport system will help reduce traffic congestions, thus ameliorating private transport systems. However, this is not enough. This needs to be backed by effective road infrastructure and measures that encourage other forms of transport which aid in reducing traffic congestions.

Towards this end, additional projects have been planned in order to remove major traffic bottlenecks, such as in Marsa on which work will commence in the last quarter of 2017 and the Kappara Junction where works have started. In order to monitor traffic in real time, the Government is introducing Closed Circuit Television Cameras and Automatic Number Plate Recognition Cameras across critical road sections during this year.

Through the 2016 Budget, the Government has also extended the tax rebate offered to parents whose children make use of school transport while the grant on purchasing of bicycles and pedelec bicycles will continue to be offered during this year. Grants will also be given to companies installing bicycle racks.

Through the 2016 Budget, Government has reduced the annual circulation licence fee for motorcycles with small engines and removed the registration tax on electric motorcycles. Furthermore, drivers holding a Category B licence can now drive motorcycles with small engines, subject to a number of conditions aimed at instilling road discipline and safety. Such measures aid the flow of traffic as well as alleviate parking in congested areas.

In addition, a Malta-Gozo link feasibility study is also currently being carried out with the aim of better understanding the geological challenges of building a tunnel between the two islands.

05.8

TOURISM – A HIGH PERFORMING SECTOR

During this legislature, the tourism sector is experiencing record and unprecedented growth year after year, thanks to which we are sustaining a sectoral performance that is well above global, European and Mediterranean averages and benchmarks. The profitability of all local tourism operators is also improving; this in turn has placed the sector in a positive stage of self-regeneration through investment, upgrading, expansion and the supply of new and innovative tourism products.

2015 was another excellent year for tourism. The resulting optimism surrounding our tourism industry has been confirmed by several reports and statistics stemming also from international sources. The World Tourism Organisation has praised the growth of tourist arrivals in Malta, referring to this as being 'robust and positive'. The World Tourism Barometer, published last January, reports that global tourism between January and December of last year rose by 4.4 per cent, while arrivals in Malta for the same period rose at a higher rate, that is, 5.4 per cent as tourism arrivals reached more than 1.8 million.

Significantly, Malta's growth also surpasses the average increase registered by other Mediterranean destinations which stood of 4.7 per cent. Moreover, in 2015, according to the UNWTO Barometer, the average percentage increase in tourism expenditure among the EU-28 States was that of 2.9 per cent whilst tourism expenditure in Malta during the same year rose by an impressive 7.5 per cent, to no less than €1.64 billion. This translates into an additional €115 million that was injected into our economy last year alone.

In the meantime, we already have strong indications that 2016 stands to further outperform the previous 12 months yet again. The figures for the tourism industry for the period January to June 2016 denote that Malta hosted more than 835,000 tourists, an increase of 9.7 per cent over the same period of last year. The record number of tourists excluding overnight cruise passengers registered between the first six months of this year is the largest growth in the number of tourists ever recorded between the months of January and June since 2011.

The cruise market is another fast developing sector that highly complements our traditional tourism market in a very direct manner. During last year, the total number of cruise passengers increased by 30 per cent, when compared to the same period in 2014, to reach a total of 670,000. These record figures even surpassed those registered in 2012 by 10 per cent, that year being considered as an exceptional one for the cruiseline industry in Malta. Moreover, Malta's cruise sector has been successfully evolving from one which was exclusively a port-of-call, to one which strategically also includes the concept of home-porting where we are targeting mainly our growth tactics.

The record performance by the cruiseline industry recorded last year is expected to be maintained into 2016 too. According to latest published figures by NSO, Malta registered nearly 240,000 cruiseline passengers during the first half of this year, equating to an increase of 6.2 per cent on 2015.

According to estimates compiled by Valletta Cruiseport, it is projected that by the end of this year Malta will register approximately 700,000 cruiseline passenger arrivals that, if materialised, will mean an increase of 4.4 per cent over last year.

The success in the tourism industry and its affiliated sectors, and the very positive outcome of our strategies and policies, are the result of an effective collaborative synergy between all tourism stakeholders and the Government.

05.9

GOZO - A PROSPEROUS ECONOMY WITH A UNIQUE HISTORY

The past three years have seen significant changes in Gozo, where work has continued unabated not only to ensure that EU funds were utilized in the most efficient manner, but also to provide the island with the needs of a changing economy and society.

The Citadel in its restored splendour has been inaugurated with a total investment of €14 million co-financed by the European Union. Other projects include works on valleys, fishing ports, beaches, roads and village squares. These included Marsalforn Valley, il-Menqa in Marsalforn, Blue Flag and Beaches of Quality (Ramla, Ħondoq and Marsalforn), the road network from Ħondoq ir–Rummien to ta' Ċenċ, and Xewkija Pjazzetta. Restoration works have also been accomplished on several buildings requiring this attention such as the Banca Giuratale and the facade of the Ministry for Gozo.

There are ongoing works on several other squares, such as Xagħra, Xewkija, St Francis Victoria and Għajnsielem. Work is also advancing on several roads around the island.

There are other projects which will continue to embellish the island and provide services to its residents, and these include the old people's home in Ghajnsielem, with a cost of €6 million. This will accommodate 140 persons and for the first time in Gozo, the home will be able to house couples for them to enjoy their retirement together. The home will also have a special wing for patients with dementia.

Works are also solidly advancing on the connecting stairs which will lead from the carpark/bus terminus to St Francis Square. This will eliminate the dangerous situation that people face when accessing the square through Maingate Street.

The new entrance to the square will include a wide stairs, lift facilities and an exhibition hall to benefit those who want to showcase their work. The project is estimated to cost about €3 million.

A number of initiatives have been launched to encourage more people to visit Gozo, including a cultural calendar which spreads across many artistic disciplines, such as art, music, fireworks, sports, and religious events.

These projects and initiatives have improved the appearance of the island, which continues to have a positive impact on employment and tourism figures. These have both seen increases in the last three years. Official statistics testify to the improvement of the island in terms also of gross value added, which has seen economic growth increase significantly.

Now that plans have been approved for the new courts in Gozo, work will begin on the issue of tenders so that the first phase regarding the underground parking can start. The building will not only provide the much needed parking places in Victoria, but will house all the needs associated with the courts, by providing a more convenient location, more space for court halls and will be providing a modern building with all its amenities based on a eco-friendly structure.

A significant project for SMEs has been launched with a total investment of €16 million, co-financed through ERDF. This will create workspace for the manufacturing sector and offices for services-oriented economic activities, in two separate areas within the existing industrial zone of Xewkija.

The Ministry for Gozo has also applied for EU funds to construct the Gozo Museum. This will be housed in part of the old Lyceum school in Republic Street. The Gozo Museum will accommodate the artefacts that document the history of the island and offer the possibility of new work to be exhibited there as well.

The project is expected to cost in the region of €5 million. The competition for the museum's design is still in the process of adjudication.

Other applications for EU funded projects have been made and these will be announced once the results are published.

The decision regarding the tender for the natatorium should be announced in the coming weeks. This is going to provide Gozo with a project that will not only be utilized for sports activities particularly during winter, but is aimed to offer rehabilitative services all year long for those suffering from injuries, old age or other needs requiring heated water for healing purposes.

Studies are also underway to improve Gozo's accessibility, both physically through the fast ferry and tunnel and also digitally via a second fibre optic cable.

The Ministry for Gozo will continue to work to improve the services offered on the island, its infrastructure and its potential to create more wealth to its residents.

05.10

ENVIRONMENT – MOVING TOWARDS SUSTAINABLE DEVELOPMENT

The Government is directing the Maltese economy towards a path of robust growth which not only enhances the standard of living of the Maltese and Gozitan population but also decouples such growth from increased adverse effects on the environment. This will enable our country to grow in a sustainable and resilient manner in the long term.

The success of achieving sustainable economic growth and development depends significantly on resource efficiency and upon having comprehensive measures and actions that positively impact on various areas such as land use, air quality, water and waste management. Being cross cutting in nature, measures and actions that positively impact the environment need to be implemented by most Ministries and their respective institutions. The involvement of all stakeholders shall be key not only to benefit from their expertise but also to instill a sense of accountability, transparency and participation that further paves the way for building resilient communities. In this regard, a number of initiatives have been launched.

One of the vital iniatitives in this field was the completion of the MEPA demerger in April of 2016 setting the stage for the genesis of the Environment and Resource Authority (ERA), Malta's first ever stand-alone independent and autonomous regulator for the environment. ERA is empowered to autonomously implement the country's environmental regulatory framework and ascertain its effectiveness so as to ensure the better management and protection of the environment. This was an important step towards ensuring a high degree of protection for Malta's environmental resources. The ERA Board has been set up and the Chief Executive Officer and Director for the Environment of the authority have also been appointed. Work will continue on this authority to enhance its capacity base which will enable it to ensure effective delivery of environment protection.

The Government is also conscious of the resource that is Malta's countryside and other protected areas not least Natura 2000 sites. To this effect Government considers that such areas merit a more holistic management that is driven by a vision and implemented by various stakeholders and non-governmental organisations. To this effect a national agency will be set up in order to offer holistic vision for the management of Malta's countryside and its natural heritage areas as well as to identify areas where afforestation projects may be implemented. MSDEC has already appointed a Committee to come up with recommendations for Dwejra whilst another management committee will shortly be appointed for the Nwadar National Park. Eventually, all managed areas will be drawn under a single umbrella entity to ensure coherence in strategy while safeguarding independence in operations and management.

Government has continued to implement the Waste Management Plan 2014-2020 and is committed towards ensuring a resource management approach towards waste management to further embrace circular principles. The inauguration of a new North Mechanical Biological Treatment (MBT) Facility, which took place early in the year 2016, will provide additional treatment volumes for muncipal waste, whilst recovering energy embedded in the organic fraction of waste. At the same time it will assist the deviation of waste away from the Għallis landfill which is nearing its lifetime.

In addition, the Government has launched a pilot project in relation to the collection at source of separated organic waste. The project which currently covers 9 localities in Malta is being extended as from September to the entire Gozo region with the ultimate intention of subsequently implementing the project on a national scale.

The removal of eco-contribution on electronic and electrical equipment paved the way for the setting up of two extended producer responsibility schemes that are now responsible for recovering waste electronic and electrical equipment. Similarly, it is envisaged that as from 2017, the same will happen for batteries thereby further promoting the principle of extended producer responsibility and, in turn, contributing to a greener economy.

The challenges that lie ahead in the waste sector are indeed phenomenal in scale. Conscious of the fact that landfill void space has been exhausted due to Malta's high waste generation rate per capita as well as a low separation rate, a better end of waste solution is required. While the current MBT plants are geared towards the treatment of organic waste, the non-organic fraction requires further treatment in order to ensure that the amount of waste landfill is limited to that which is inevitable.

Green public procurement (GPP) instruments contribute towards a more resource-efficient economy. During 2015, the Green Public Procurement Office continued its mainstreaming mainly through substantive training sessions across all Government sectors. Actions on GPP will continue in 2016 with an emphasis on the development of the second National Action Plan to further integrate resource efficiency and sustainable production and consumption principles into public expenditure.

Another priority for MSDEC is the need to shore up enforcement all along its life cycle. While the necessary capacity building needs to be established within ERA to make enforcement of existing regulations a reality, there are other players within the judicial chain that need to be reinforced in order to enhance their capacity in respect of environmental enforcement.

The evidence of climate change is unequivocal and determined action was taken through the Paris Agreement. On its part, Malta needs to strive for a more low carbon economy in order to build in resilience. Indeed, work on developing a Low Carbon Development Strategy in accordance with requirements under the United Nations Framework Convention on Climate Change (UNFCCC) and European Union legislation, has continued.

It is of vital importance that society has a clear and in-depth understanding of the current situation of Malta and the expectations of the country for future development. Hence, in formulating this strategy account of the particular circumstances and realities of the country, especially those aspects that link socio-economic development with climate action will be taken. The main aim of this initiative is to strive for a holistic approach in instilling environmentally-sustainable principles throughout the public and private sector but also to engage individuals into a consonant behaviour.

Government has made various efforts and is leading by example in the move of the country towards a greener economy. Indeed, in December 2015, Government finalised a project on the renovation of public buildings, with the aim of increasing energy efficiency and reducing GHG emissions. It has also continued its work on the retrofitting of street lighting by introducing energy efficient LED lighting and smart lighting technology. In addition, a partnership between the Government and private enterprise is also being set up in order to develop solar farms on Government property.

Cognisant of the fact that the shift towards a greener economy requires an increase in the use of renewable energy, Government has extended schemes on the purchasing of solar water heaters and roof insulation. It has also re-launched grant schemes and feed-in tariffs to promote the purchase of photovoltaic systems (PVs).

In 2015, the Government launched the Sustainable Enterprise Award, which rewarded SMEs for their efforts in increasing economic, social and environmental sustainability through their practices. SMEs and non-SMEs were also required to complete an energy audit by end 2015, In March of this year, Government together with the Board of Governors of the National Strategy for Education for Sustainable Development for Malta (NSESD) released a Public Consultation Document entitled Nurturing a Sustainable Society - A National Strategy for Education for Sustainable Development for Malta. The document aims to promote sustainable development within education institutions and is open for consultation to a wide range of stakeholders including the general public. This encourages all citizens to become active participants in improving our quality of life based on respect and care for the environment.

Efforts have been ongoing in the transport sector as well. In particular, Government has continued to encourage the replacement of internal combustion engine vehicles with electric vehicles and to promote the conversion of vehicles to autogas. Meanwhile, importers and wholesalers of automotive petrol and diesel have been required to place a share of biofuel in the market to abide by the biofuel substitution obligation. The Government has also introduced a tax deduction when companies buy hybrid vehicles, whilst increasing the deduction available for businesses that buy electric vehicles. In addition, this year saw the launch of two new grants for the purchase of electric cars and the scrapping of combustion engine vehicles.

05.11

FACING THE FUTURE WITH CONFIDENCE

As the process of national growth-friendly consolidation and reform gains increasing momentum, the main aim of Government policy will remain focused on the need to promote an improved quality of life among the community as a whole.

This is no easy task since at a time of strong economic growth, expectations are bound to rise and the competing demands of society have to be carefully weighed, balanced and analyzed. The interests and concerns that are expressed by all those who genuinely have the country's future at heart in such areas as the environment, health, education, social solidarity, justice, energy, transport, pensions, etc need to be addressed meaningfully and vigorously with a view to a better future for all. Although strong foundations have already been laid in recent years, this is of course an ongoing process. The main challenge in this regard remains that of adequate resource provision especially related to the labour market and the infrastructure that is required to underpin this process on its various fronts – and the judicious use of resources will remain key to this task.

As the country faces the future with courage and resilience, this confidence will be further strengthened during the first half of 2017 as Malta assumes the role of President of the European Council.

The country will no doubt rise to the occasion and ensure that it will showcase its achievements and contribute towards the attainment of its overriding objective to establish itself as a leading light on the EU stage.