PRE-BUDGET DOCUMENT 2018

UPGRADING MALTA'S INFRASTRUCTURE

MINISTRY FOR FINANCE

PRE-BUDGET DOCUMENT 2018

UPGRADING MALTA'S INFRASTRUCTURE

AUGUST 2017

MINISTRY FOR FINANCE

ISBN 978-99957-58-18-9

CONTENTS

FOREWORD

During these four years Malta has experienced something of an economic miracle with unprecedented growth rates, falling unemployment, low inflation and also a budget surplus.

The reduction in taxes and in water and electricity tariffs, the increases in pensions and take home pay, all contributed to improving household incomes. The Government was able to meet the dual commitments of greater social justice and social inclusion.

In this budget the experiences of a prosperous economy will become increasingly connected to improving quality of life. A prosperous economy deserves high quality infrastructure of technology, roads and housing as well as investment in high quality education and high quality health care that complement and contribute to continuing economic success.

The future is Malta, a place of excellence.

Prof. Edward Scicluna
Minister for Finance

01

MACROECONOMIC CONDITIONS

1.1

INTRODUCTION

In 2016, the Maltese economy grew by 5.0 per cent. This compares well with a growth rate of 1.9 per cent recorded in the EU and 1.8 per cent in the EA. Growth was primarily driven by strong net exports on the back of a modest contribution by domestic demand. As a result, Malta's economic performance exceeded expectations for 2016.

The labour market remained buoyant throughout 2016 with increases in activity rates, particularly that of females translating in an employment growth of 3.3 per cent and a record low unemployment rate of 4.7 per cent. These positive developments reflected the various budget measures which were aimed at increasing labour market participation rates especially amongst females, the sustainable increases in average compensation per employee and successful job matching.

For 2017, Malta is expected to remain amongst the top performers in the EU. In the first quarter of 2017, the economy recorded a growth rate of 4.2 per cent, compared to the EU average of 2.4 per cent. Growth was mainly driven by domestic demand which contributed to real growth by 2.1 percentage points, sustained by strong labour market conditions, buoyant private investment and low inflation. The external side of the economy also contributed positively to economic growth. Against this background, projections point towards a stable and positive performance over the forecast horizon.

1.2

INTERNATIONAL SCENE

Economic Growth and Growth Prospects of the Global Economy

The European Commission Spring 2017 Economic Forecast points out that global growth is expected to recover during 2017 and 2018, as it is expected to reach 3.4 per cent and 3.6 per cent, respectively. In the short-term, growth is expected to be driven largely by emerging markets and some firming in advanced economies. Soft indicators such as global manufacturing and composite PMIs, business sentiment and global activity indicators pertaining to trade and industrial production have strengthened markedly in recent months in both emerging and advanced economies.

The forecasts for the United States of America confirm stable growth, but this is not expected to pick up any further in the wake of the recent increases in interest rates and the risk of shifts towards a more protectionist stance when it comes to trade policy. While advanced economies are expected to continue achieving modest growth, economic activity is anticipated to particularly pick up pace in emerging markets and developing economies. Recovering commodity prices and a modest increase in the price of oil will continue to assist this recovery. Measures enacted by the Chinese Government in response to recent slowdowns in the economy are also expected indirectly to spur further growth in emerging economies. A similar outlook is projected by the International Monetary Fund (IMF).

Nevertheless, the outlook remains subject to various risks. Expectations of fiscal stimulus in the US have lifted consumer and business sentiment which could spur stronger-than-expected growth in the near term. However, the possibility that the expected stimulus package fails to reach expectations and the move towards more inward-looking and protectionist policies serve as ample risks for sound global recovery.

Moreover, the market reaction to Brexit was modest and the ultimate impact remains uncertain. Also, several emerging market and developing economies still face daunting policy challenges in adjusting to weaker oil and commodity prices. Lastly, it is notable that geopolitical risks in the Middle East and East Asia have intensified in recent months thus representing a long-standing medium-term risk to recovery.

Table 1.1:
Selected Macroeconomic
and Fiscal Indicators

	2015	2016	2017f	2018f
Real GDP Growth(%)				
EU	2.2	1.9	1.9	1.9
Euro Area	2.0	1.8	1.7	1.8
USA	2.6	1.6	2.2	2.3
Japan	1.2	1.0	1.2	0.6
Malta	7.3	5.0	4.3	3.7
Inflation(%) [Consumer Prices)				
EU	0.2	0.5	1.8	1.6
Euro Area	0.1	0.4	1.6	1.3
USA	0.4	1.0	2.0	2.2
Japan	0.4	-0.4	0.2	0.4
Malta	1.2	0.9	1.5	1.8
Unemployment(%)				
EU	9.4	8.5	8.0	7.7
Euro Area	10.9	10.0	9.4	8.9
USA	5.3	4.9	4.5	4.4
Japan	3.4	3.1	3.1	3.1
Malta	5.4	4.7	4.6	4.7
Employment Growth(%)				
EU	1.1	1.3	0.9	0.8
Euro Area	1.0	1.4	1.1	1.1
USA	1.7	1.7	1.1	0.7
Japan	0.4	0.8	0.3	0.2
Malta	3.8	3.7	3.2	2.9
General Government Balance (%GDP)				
EU	-2.4	-1.7	-1.6	-1.5
Euro Area	-2.1	-1.5	-1.4	-1.3
USA	-4.2	-4.8	-4.7	-5.2
Japan	-3.5	-3.7	-4.2	-3.6
Malta	-1.3	1.0	0.5	0.5
General Government Debt (%GDP)				
EU	86.5	85.1	84.8	83.6
Euro Area	92.5	91.3	90.3	89.0
USA	105.2	107.4	107.8	108.7
Japan	238.0	238.6	239.4	240.5
Malta	60.6	58.3	55.9	52.5

Source: Eurostat, AMECO & the European Commission Spring 2017 Forecast

Economic Growth and Growth Prospects in the EU

The European Commission Spring 2017 Economic Forecast indicate that in spite of political uncertainty and challenges, the European economy entered its fifth year of expansion and is expected to continue performing positively with growth in the euro area expected at 1.7 per cent and at 1.8 per cent in 2017 and 2018, respectively. Private consumption is set to remain the key driver to economic growth on the back of robust employment. Investment is also expected to strengthen as the pick-up in global growth is expected to increase foreign demand for euro area exports. Unemployment in the EA is expected to fall further to 8.9 per cent in 2018. Headline inflation is expected to gradually slow down to 1.6 per cent in 2017 and to 1.3 per cent in 2018. On a more positive note, core inflation remained low and is only expected to increase slightly to 1.3 per cent in 2018.

Accommodative monetary policy, stronger economic sentiment, the gradual recovery in global activity, the gradual fading of political uncertainties following elections in some EU Member States and resilient domestic drivers such as job creation are the main factors behind the expected growth momentum in the European economy. Nevertheless, downside risks to growth are still present in particular the uncertainty related to the economic and trade policies of the US, the risk of a disorderly adjustment in China, vulnerabilities in other emerging market economies, the uncertainties related to the process of the UK leaving the EU and possible fragilities in the banking sector.

1.3

LOCAL SCENE

Economic Growth

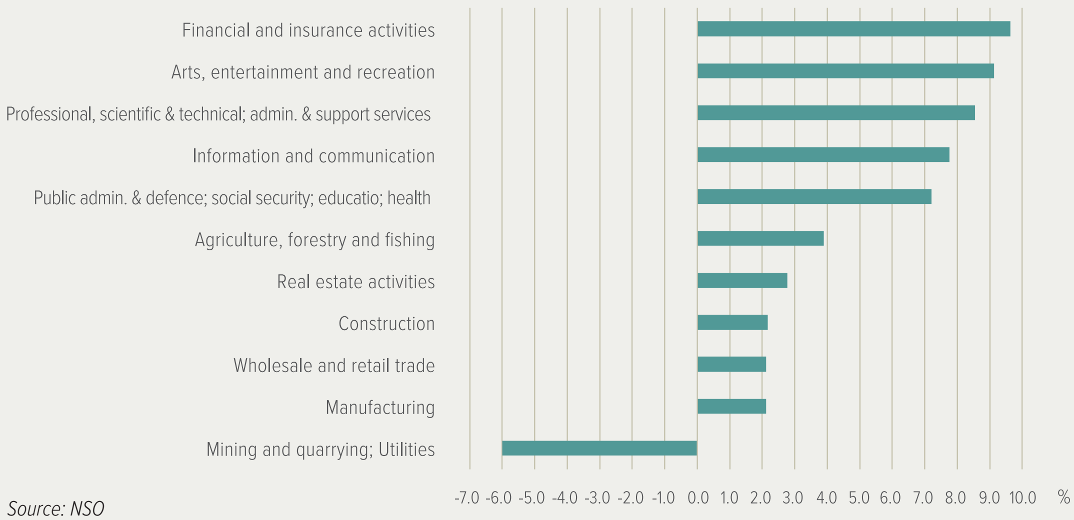
Latest data released by the NSO shows that in the first quarter of 2017, the Maltese economy expanded by 4.2 per cent in real terms, primarily driven by domestic demand. In nominal terms, total incomes grew by 6.2 per cent driven by a positive performance in both gross operating surplus and compensation of employees, which grew by 6.6 per cent (or €70.1 million) and 4.8 per cent (or €49.0 million), respectively.

Figure 1.1
Real GDP growth, 2014Q1 - 2017Q1

Source: NSO

During the same period, total gross value added increased by €116.2 million, or 5.6 per cent, compared with an 8.2 per cent increase in the corresponding period of 2016. Growth was underpinned by an affirmative performance in nearly all sectors of the economy including manufacturing. The highest growth rates were recorded in the financial and insurance activities sector (9.6 per cent), the arts, entertainment and recreation, repair of household goods and other services sector (9.1 per cent) and the professional, scientific and technical activities; administrative and support service activities sector (8.5 per cent).

Figure 1.2
Growth in Gross Value Added in 2017Q1



Source: NSO

Labour Market

The Labour Force Survey (LFS) for 2016 confirmed that employment in 2016 grew by 3.3 per cent. This positive performance was supported by the buoyant economic environment that in turn resulted in strong labour demand conditions. The strong pace of economic activity was supported by a series of structural reforms that included reductions in income taxes, free child care services, the opening of schools earlier, the provision of after school child care services, the maternity leave reform, the promotion of flexible working arrangements, in-work benefits, tapering of benefits and other fiscal incentives. These efforts also contributed to further improvements in the female participation rate, which increased by 4.5 percentage points in 2016. As a result, although males have a higher employment rate in all age groups, the discrepancy between genders in terms of employment is converging at a steady pace.

This positive employment growth resulted in a record low unemployment rate of 4.7 per cent in 2016.Meanwhile, the inactivity rate, which measures the number of people of working-age who are inactive as a percentage of the working-age population, decreased from 32.4 per cent in 2015 to 31.0 per cent in 2016.

The pronounced decline in the inactivity rate over the recent years is attributed to protracted declines in the female inactivity rate which declined by 1.7 percentage points in 2016. The male inactivity rate has also declined from 19.2 per cent in 2015 to 18.1 per cent in 2016.

Figure 1.3
Inactivity Rates, 2000 - 2016

Source: Eurostat

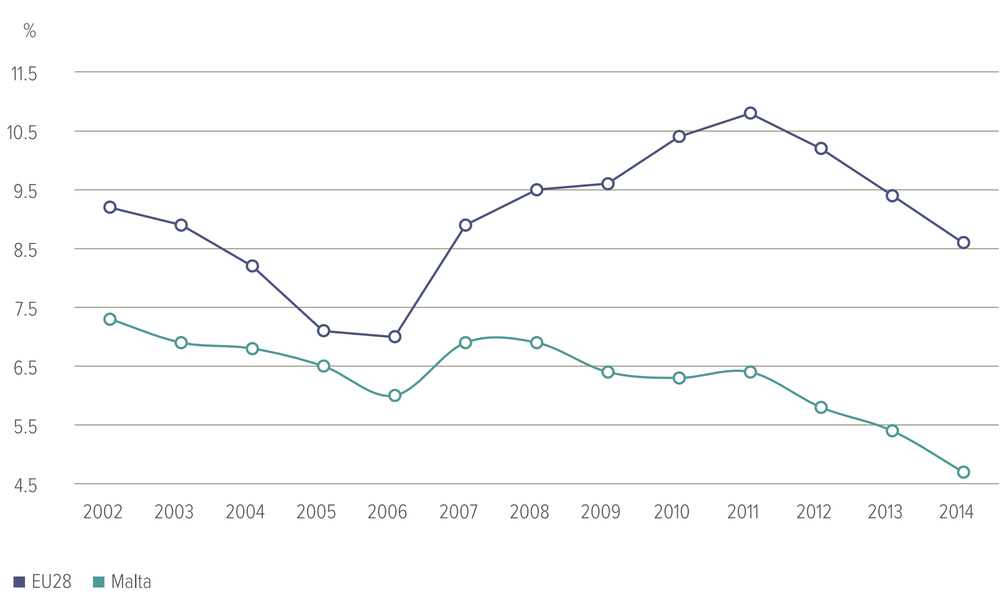
During the first quarter of 2017, the labour market in Malta maintained its momentum with employment increasing by 2.8 per cent over the corresponding period of last year and an unemployment rate of 4.2 per cent. As a result, the employment rate increased further by 1.5 percentage points to 65.8 per cent with the employment rates of males and females increasing by 1.0 percentage points and by 1.8 percentage points, respectively. With an employment growth of 2.8 per cent, Malta almost reached its EU2020 target employment rate of 70 per cent buoyed by increases in female activity rate and employment.

Administrative data produced by JobsPlus showed that by the end of 2016, the number of people in full-time employment in the private sector increased by 8,506 or 6.5 per cent. During the same period, the number of people holding a part-time job as their primary job increased by 1,675 or 5.0 per cent.

The share of public sector full-time employment stood at 24.5 per cent in 2016, down from 25.4 per cent in 2015 and 26.6 per cent in 2014.

Moreover, the activity rates among men and women increased by 0.3 percentage points and by 1.6 percentage points, respectively. Consequently, the total activity rate increased by 1.0 percentage point, from 67.7 per cent in the first quarter of 2016 to 68.7 per cent in the first quarter of this year. The unemployment rate based on the LFS has been following steady declines over the years falling from 6.9 per cent in 2010 to 4.7 per cent in 2016. This positive momentum kept going during the first quarter of this year. The number of registered unemployed persons declined by 1,009 to reach an all-time low level, from 3,511 in the first five months of 2016 to 2,502 in the corresponding month of 2017. Furthermore, Malta registered the third lowest unemployment rate in 2016, relative to EU28.

Figure 1.4
Unemployment Rate, 2002 - 2014



Source: Eurostat

Table 1.2 shows the main labour market indicators for the years 2015 to 2018, with 2017 and 2018 being forecasts presented in the Update of the Stability Programme 2017 – 2020 published in April 2017. Employment is expected to maintain its growth momentum, albeit at a more moderate pace. Such growth will continue to be supported by active labour market policies, continued improvements in the female participation rate as a result of the cohort effect as well as further inflows of foreign workers. The unemployment rate is expected to remain below historical averages, reaching 4.6 at the end of 2017. Meanwhile, average wages are set to continue growing, with compensation of employees forecasted to grow by 7.0 per cent in 2017 and 6.6 per cent in 2018. On the other hand, labour productivity measured as real GDP per person employed is forecasted to slightly decelerate to 1.1 per cent and 0.8 per cent in 2017 and 2018, respectively.

Unit Labour Costs (ULC) which are measured as the change in the ratio of compensation per employee to labour productivity, continued to grow during 2016 at a nominal increase of 1.4 per cent. It is worth noting that the recent deceleration in Malta's ULC is attributed to a slower growth in compensation per employee when compared to the labour productivity per person employed. For 2017 and 2018, ULC is expected to accelerate and increase by 2.5 per cent in 2017 and by 2.8 per cent in 2018, as compensation per employee is expected to accelerate relative to previous years while labour productivity is expected to marginally slowdown.

Table 1.2
Labour Market & Costs Indicators

	2015	2016	2017f	2018f
Employment Growth % (National Accounts Definition, Domestic Concept)	3.9	3.5	3.2	2.9
Labour Productivity per person employed (% change)	3.2	1.4	1.1	0.8
Compensation of Employees (% change)	7.3	6.4	7.0	6.6
Compensation per Employee (% change)	3.3	2.8	3.6	3.6
Unemployment rate (Harmonised definition, %)	5.5	4.8	4.6	4.7
Unit Labour Costs %	0.1	1.4	2.5	2.8
Real Unit Labour Costs %	-1.1	0.5	1.1	1.0

Source: NSO, MFIN

Inflation

In May 2017, the Annual HICP inflation in Malta fell to 1.1 per cent compared to 1.4 per cent recorded in January 2017. For the first time in over two years, HICP inflation in Malta stood below that registered in the Euro Area where prices increased by 1.4 per cent and in the European Union that showed prices increasing by 1.6 per cent.

During the first five months of this year, HICP inflation fluctuated within the narrow range of 1.4 per cent and 1.1 per cent. This reflected the declining trends in the non-energy industrial goods and the unprocessed food components. The annual rate of growth of services prices increased steadily from a rate of 0.4 per cent in January to 1.1 per cent in May. Processed food, including alcohol and tobacco, remained relatively stable over the period under review with an average annual rate of 2.3 per cent. Meanwhile, core HICP inflation remained relatively stable at 1.0 per cent over the first five months of this year, 0.2 percentage points lower than the overall rate.

Figure 1.5
Contributions to Year-on-Year HICP Inflation

Source: NSO

Balance of Payments

The current account balance for Malta has continued to record consistent surpluses mainly driven by the growth in net exports related to services activity, thus more than compensating for the increasing net payments in the primary income account balance. In the first quarter of 2017, the current account balance stood at 2.3 per cent of GDP while in 2016 this balance stood at 3.4 per cent. In both instances, the surplus was driven by the goods and services balance. In 2016, the goods and services balance increased by 55 per cent and remained positive. This substantial increase was mainly driven by an increase in net exports pertaining to personal, cultural and recreational services and a decrease in net imports of other business services.

During the first four months of this year, the number of inbound tourists reached 548,475, an increase of 102,250 or 22.9 per cent when compared to the same comparable period last year. This strong increase was mainly driven by a higher number of tourists that visited Malta for leisure purposes, although the number of business tourists also increased. Furthermore, expenditure by tourists in the period January to April 2017 increased by around 17.6 per cent over the corresponding period in 2016 rising to €390.9 million. Higher expenditure was recorded in package, non-package and other expenditure. Over the period under review, the nights spent have also increased by a significant 12.4 per cent which reflects an increase of 21.4 per cent in private accommodation and an increase of 11.4 per cent in collective accommodation.

The primary income account has registered consistent net payments over the past few years. If one looks at yearly trends since 2010, the stock of assets has been rising by 4.7% and the stock of liabilities has been rising by 4.5%. The resultant increase in the net asset position reflects the lower reliance on foreign financing and the increasing reliance on domestic savings financing economic activity in Malta. Other things equal, the increase in net foreign assets should have translated into lower net payments abroad. Nevertheless, the returns received by foreigners on domestic assets is consistently higher than returns received by Maltese on their foreign assets. More importantly, since 2011 the returns received by domestic residents on their foreign asses have been declining much more strongly than the returns received by foreigners on domestic assets (possibly reflecting the more robust and stable economic performance in Malta than abroad). This explains why, despite the increase in net foreign assets, net payments abroad increased nonetheless.

1.4

GROWTH PROSPECTS

The economy is expected to maintain its robust performance over the short-term horizon, with real GDP forecasted to increase by 4.3 per cent in 2017 and 3.7 per cent in 2018.

Growth in 2017 is expected to be fuelled by strong domestic demand, mainly on the back of private and public consumption expenditure. Private consumption expenditure growth is expected to remain supportive, further increasing by 3.6 per cent. Such growth will continue to be driven by favourable labour market developments and growth in disposable income, with subdued inflationary pressures.

In 2017, government expenditure is expected to grow by 12.4 per cent, primarily attributed to an increase of 12.6 per cent (or €80 million) in intermediate consumption (reflecting outlays attributed to Health Concession Agreements, as well as one-off expenses related to the EU Presidency) and an increase of 6.6 per cent (or nearly €78 million) in the public wage bill when compared to 2016 (following the new public service collective agreement which came into effect from 1st January 2017). Furthermore, the revenue from the Individual Investor Programme (IIP) included under market output which is reclassified as exports in national accounts was expected (in the Spring forecast round) to be lower than 2016, thus exhibiting an increase in public final consumption expenditure.

Investment is projected to decline marginally by 1.3 percent and 3.1 percent in 2017 and 2018, following a continued base effect in view of the large-scale projects in the aviation and energy sectors which materialised throughout 2015. It is notable that given its use for budgetary projections, macroeconomic forecasting experts within the Ministry for Finance take a prudent stance when it comes to macroeconomic forecasts. As a result, a number of large scale projects were not taken into consideration, either due to the fact that there is a material risk of non-realisation or due to lack of complete information regarding specific projects. The year 2019 will see investment growth pick up once again, as a number of projects in the investment pipeline, particularly in the aviation sector, are expected to take place.

From the external side, for 2017, exports are forecasted to increase by 3.4 per cent thus outpacing growth in imports which is expected at around 3.2 per cent. In 2018, export growth is expected to accelerate to 4.4 per cent, while the declining import-intensive investment activity is expected to contribute to subdued import growth of 2.7 per cent, thus contributing positively to Malta’s external trade balance. In line with these external developments, the current account balance is expected to retain consistent surpluses over the forecast horizon on the back of growth in services exports.

In 2016, the Maltese economy reached a record level of 2 million tourists. A record performance for 2017 is anticipated once again, mainly supported by a less seasonal inflow of tourists as well as the introduction of several low-cost airline routes. The ongoing investments in collective and private accommodation are expected to further spur growth in the industry.

Ensuring accuracy of macroeconomic forecasts is important as this serves the foundation of Government economic policy making, especially in the budgetary domain. With effect from 1st January 2015, the Malta Fiscal Advisory Council has become responsible to review, assess and endorse the fiscal and economic plans as proposed by the Maltese Government for the short-term horizon, which power was established following the legislation of the Fiscal Responsibility Act, 2014. This provided room for constructive dialogue which communication helped experts at the Ministry for Finance to develop methodologies aimed at improving forecast accuracy and transparency. It is noteworthy that these macroeconomic forecasts have been assessed to be plausible.

To assess the balance of risks over the forecast horizon, experts at the Ministry for Finance assess the likelihood and plausibility of a number of scenarios and through simulation analysis quantify the economic impact on the Maltese economy. Further details can be found in the Medium Term Fiscal Strategy for Malta: Update of the Stability Programme 2017-2020 published in April 2017 by the Ministry for Finance.

On balance, the simulation exercise indicates that risks are skewed towards the upside for 2017 and 2018, reflecting the possibility of stronger than anticipated tourism and remote gaming growth, stronger private consumption and investment growth, as well as an accelerated global economic recovery. Nonetheless, a number of downside risks should not be disregarded, particularly with respect to uncertainty on how markets shall respond to the new US administration’s economic policies, political uncertainty in the euro area and price pressures.


CHARTS
Indices
Value
Previous
Listed Equities
Price
Volume
Change
MALTA STOCK EXCHANGE
GATEWAY TO EUROPE
www.borzamalta.com.mt
BOV

02

FISCAL SUSTAINABILITY

2.1

INTRODUCTION

Over the last four years, Government managed to successfully consolidate public finances, turning a deficit of 3.6 per cent of GDP in 2012 to a surplus of 1.0 per cent of GDP in 2016. The gradual but consistent improvement in the budget balance positively impacted the debt ratio which fell below the 60.0 per cent target to 58.3 per cent of GDP in 2016 from 68.1 per cent in 2012.

Table 2.1
General Government Finances, 2016

% of GDP	Budgeted	Actual	Difference
Revenue	**39.4**	**39.1**	**-0.3**
Components of revenue			
Taxes on production and imports	13.6	12.8	-0.8
Current taxes on income and wealth	13.9	13.9	0.0
Social contributions	6.7	6.5	-0.2
Property income	1.0	0.9	-0.1
Market Output	2.7	4.1	1.3
Current transfers	0.5	0.3	-0.1
Capital transfers	1.1	0.6	-0.4
Expenditure	**40.1**	**38.1**	**-2.0**
Components of expenditure			
Compensation of employees	12.5	12.0	-0.5
Intermediate consumption	6.5	6.4	-0.1
Social benefits and social transfers in kind	11.3	10.9	-0.4
Property Income	2.3	2.2	-0.1
Subsidies	1.2	1.3	0.1
Gross capital formation	3.3	2.5	-0.8
Capital Transfers Payable	0.6	0.8	0.1
Current Transfers Payable	2.4	2.0	0.1
Current Taxes Payable	0.0	0.0	-0.2
Deficit / Surplus	**-0.7**	**1.0**	**1.7**
Primary Balance	**0.9**	**3.2**	**2.3**

Data Source: NSO News Release No 109 of 2017 for the Actual data, MFIN Update of Stability Programme 2016-2019 for the 2016 Budgeted data, MFIN projections for 2017 Budgeted Data

Note: Actual data has been updated with GDP data per NSO News Release No 093 of 2017

These positive fiscal developments are an important achievement in safeguarding the long-term sustainability of public finances. A budget surplus enhances the overall credit rating of the economy attracting more investment in the country. Furthermore, it allows more room for manoeuvre to address other structural challenges and increase investment in human capital and technology. This boosts potential growth and hence, supports the process of convergence to higher living standards. At the same time, Government is conscious of persistent challenges in the external environment which support the need for continued prudence in the fiscal targets and the creation of additional buffers. In this regard, the Government is essentially projecting to maintain a surplus of 0.5 per cent of GDP over the next three years and a structural balance which gradually increases from 0.2 per cent of GDP in 2016 to 0.6 per cent of GDP by 2020.

2.2

FISCAL DEVELOPMENTS IN 2016

In 2016, the budgetary situation improved markedly as a surplus of €101.0 million was recorded, compared to a deficit target of €65.7 million set in the 2016 Update of the Stability Programme. In terms of GDP, the general Government balance has improved from a planned deficit target of 0.7 per cent, to a surplus of 1.0 per cent of GDP. This indicates that Malta has attained its Medium-Term Budgetary Objective (MTO) of a balanced budget in structural terms three years ahead of target. These fiscal developments were supported by strong and sustainable economic growth which sustained robust direct tax revenue, the proceeds from the International Investor Programme (IIP), and a more contained growth in current expenditure backed by the Comprehensive Spending Reviews.

On account of these developments, the debt-to-GDP ratio declined to 58.3 per cent of GDP in 2016 from 60.6 per cent a year earlier, below the 60 per cent of GDP reference value.

2.2.1 Budget 2016 Outcomes against Targets

During 2016, the general Government recorded a surplus of 1.0 per cent of GDP, surpassing the deficit target of 0.7 per cent of GDP contemplated in the 2016 Update of the Stability Programme. Table 02.1 displays the Government's final fiscal position for 2016 compared to the targets revised in the 2016 Update of the Stability Programme.

General Government expenditure was 2.0 percentage points of GDP lower than projected, as a lower outturn than projected was registered for most components of expenditure. These developments reflect a stronger than anticipated pace of economic expansion together with Government's policy to control current expenditure through the use of the Comprehensive Spending Reviews (CSR) in order to create fiscal room for manoeuvre which would enable the economy to absorb unexpected shocks, as well as address long-term fiscal sustainability challenges. Furthermore, the spending reviews are contributing to the achievement of improved efficiency in public spending, reduction of waste and better value for money.

As already outlined, a lower than target ratio was observed in nearly all expenditure components. Capital outlays were 0.6 percentage points of GDP lower than projected, due to lower than projected capital transfers sourced from EU funds programmes. Meanwhile, expenditure on compensation of employees and on social benefits and social transfers in kind was 0.5 and 0.4 percentage points of GDP lower than target, respectively. In contrast, expenditure on subsidies was 0.1 of a percentage point higher than targeted, mainly due to higher film industry incentives, higher subsidies disbursed by EBUs and higher expenditure in respect of the new renewable energy schemes.

Table 2.2
General Government Finances, 2015-2017

% of GDP	2015	2016	2017 f
Revenue	**39.9**	**39.1**	**38.8**
Components of revenue			
Taxes on production and imports	12.8	12.8	12.5
Current taxes on income and wealth	13.3	13.9	14.2
Social contributions	6.4	6.5	6.5
Property income	1.1	0.9	1.0
Market Output	2.7	4.1	3.5
Current transfers	0.3	0.3	0.5
Capital transfers	3.3	0.6	0.5
Expenditure	**41.2**	**38.1**	**37.9**
Components of expenditure			
Compensation of employees	12.0	12.0	12.1
Intermediate consumption	6.5	6.4	6.8
Social benefits and social transfers in kind	11.1	10.9	10.6
Interest expenditure	2.5	2.2	2.0
Subsidies	1.2	1.3	1.0
Gross fixed capital formation	4.2	2.5	2.5
Capital Transfers Payable	1.5	0.8	1.0
Current Transfers Payable	2.3	2.0	1.9
Other expenditure	0.0	0.0	0.0
Deficit / Surplus	**-1.3**	**1.0**	**0.8**
Primary Balance	**1.2**	**3.2**	**2.8**

Data Source: NSO, MFIN

Table 2.3
Central Government Finances,
January-June 2016-2017

Consolidated Fund € 000s	2016 Actual	2017 Actual	2017 Estimate	Variance
Recurrent Revenue	**1,657,056**	**1,828,413**	**1,787,417**	**40,996**
Customs and Excise Duties	129,941	139,283	136,793	2,490
Licenses, Taxes, and Fines	156,243	164,799	155,707	9,092
Value Added Tax	319,540	362,556	357,352	5,205
Income Tax	522,841	535,891	548,367	-12,476
Social Security	360,610	379,726	379,190	536
Fees of Office	12,771	47,846	16,914	30,932
Reimbursements	12,423	16,527	13,836	2,691
Public Corporations	0	0	0	0
Central Bank of Malta	36,000	36,000	36,000	0
Rents	17,552	18,400	18,400	0
Dividends on Investments	11,941	17,125	17,125	0
Repayment of Interest on Loans	72	33	1,648	-1,615
Grants	58,284	94,072	94,072	0
Miscellaneous	18,837	16,155	12,014	4,141
Total Expenditure	**1,767,684**	**1,920,438**	**1,892,059**	**28,379**
Personal Emoluments	359,510	376,923	383,322	-6,399
Operations and Maintenance	90,387	88,498	91,449	-2,951
Programmes and Initiatives	913,002	1,031,374	982,477	48,897
Contributions to Government Entities	166,722	177,384	188,551	-11,167
Interest Payments	**111,786**	**106,204**	**106,204**	0
Capital Expenditure	**126,276**	**140,055**	**140,055**	0
Central Government Balance	**-110,628**	**-92,025**	**-104,642**	**12,617**

Data Source: NSO, MFIN

While the stronger than anticipated rate of economic expansion in 2016, led to higher than anticipated tax revenue, the upward revision in GDP outpaced the better than expected revenue outcome. As a consequence, a marginally lower than projected outturn in the revenue-to GDP ratio of -0.3 of a percentage point was registered, as lower ratios to GDP for taxes on production and imports, capital transfers, social contributions and property income were only in part offset by the higher than anticipated revenues from market output. Nevertheless, it is worth noting that compared to 2015, a higher tax revenue ratio to GDP was registered in 2016.

In 2016, the debt-to-GDP ratio was 4.3 percentage points of GDP lower than projected. This improvement is a result of a more buoyant macroeconomic environment than that expected in the 2016 Update of the Stability Programme as well as better than expected primary balance on debt-to-GDP ratio which improved by another 1.6 percentage points. These improvements mitigate the upward revision of 0.5 percentage points in the Stock Flow adjustment.

2.3

FISCAL OUTLOOK IN 2017

During the current fiscal year, the general Government balance is expected to remain in surplus at 0.8 per cent of GDP in 2017.

Consistent with the upward revision in macroeconomic projections and the better than expected outturn in 2016, revenue projections have been updated accordingly. However, an element of prudence in terms of conservative elasticity assumptions and prudent growth forecasts has been maintained. As indicated in Table 02.2, the general Government revenue-to-GDP ratio is expected to decrease by 0.3 percentage points to 38.8 per cent of GDP in 2017. A higher ratio for current taxes on income and wealth (+0.3 percentage points), reflecting higher revenue from income tax, is expected while, the ratio of market output to GDP is expected to be 0.6 percentage points lower in 2017. Taxes on production and imports are also expected to rise more slowly than GDP mainly reflecting prudent fiscal assumptions and a lower growth in consumption compared to GDP growth.

In 2017, the ratio of general Government expenditure to GDP is expected to decline marginally by 0.2 percentage points of GDP from 38.1 per cent in 2016. This development is primarily on account of a lower ratio for social benefits and social transfers in kind of 0.3 percentage points of GDP, as the growth in social benefits expenditure is expected to be weaker than GDP growth. The lower ratio for social payments is expected in spite of a number of 2017 Budget measures addressing the working poor, youths, pensioners, and other vulnerable groups. These developments are supported by the in-depth Comprehensive Spending Review on Social Protection expenditure and low inflation. Lower ratios to GDP are also expected for subsidies and interest expenditure which, during the current year, are expected to decline by 0.3 and 0.2 percentage points of GDP respectively. Such declines are in part offset by a higher ratio for intermediate consumption, reflecting added outlays due to Health Concession Agreements as well as the Presidency of the Council of the EU.

2.3.1 Developments during January-June 2016

Table 2.3 displays the central Government revenue and expenditure on a cash basis as reported for the first six months of the year for 2016 and 2017. 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 the Central Bank of Malta, rents, dividends on investment and interest payment will be accrued at end-of-year and hence the variance is set to zero. Also, since revenue from grants and capital expenditure tend to cancel each other by the year end, the variance of the two is not taken into account.

The central Government balance for the first half of this year was better than target by €12.6 million primarily due to stronger than forecast expenditure on programmes and initiatives, which was offset by stronger than projected revenue. Moreover, given that there are a number of known timing issues with respect to both receipts and payments, the actual budgetary position continues to exceed expectations.

Recurrent revenue has outperformed targets by €41.0 million in the first six months of this year, mainly on the back of the positive performance in both tax and non-tax revenues. Indeed, revenue from taxes registered a positive variance of €4.8 million mainly due to positive developments in indirect tax revenues, from which proceeds were €16.8 million higher than estimated for the period.

This positive variance was partly offset by the lower than expected revenue from income tax which however, reflects timing issues in the processing of payments due and internet banking transactions and will therefore adjust in the coming months. Revenue from non-tax components was €36.1 million higher than expected with revenue from fees of office being the main contributor to this variance, mainly on account of revenue from the Individual Investor Programme (IIP).

Meanwhile, during the first six months of 2017, expenditure was €28.4 million higher than estimated mainly due to higher expenditure on programmes and initiatives of €48.9 million. Developments in programmes and initiatives recorded during the first six months of 2017 however also reflect seasonal conditions in the timing of social payments due.[1] The higher than projected expenditure on programmes and initiatives was partly offset by lower than estimated expenditure of €11.2 million on contributions to Government Entities, personal emoluments (€6.4 million) as well as lower than target expenditure of €3.0 million on operations and maintenance.

[1] *A payment for social security benefits (retirement pensions and social assistance) which was due on 1 July, and which last year was recorded in August, was this year recorded in June.*

2.4

DEBT LEVELS AND DEVELOPMENTS

In 2016, the debt-to-GDP ratio declined to 58.3 per cent of GDP. The decline of 2.4 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.

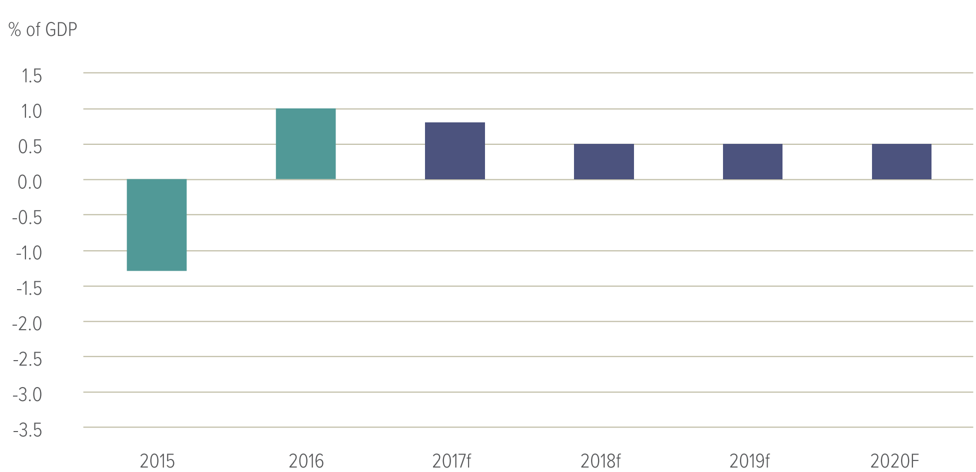
In 2017, the debt-to-GDP ratio is expected to decline further by 2.7 percentage points to 55.6 per cent of GDP. The stock flow adjustment (SFA) is projected to result in an expansion of the debt ratio of 2.5 percentage points in 2017.

The expansionary impact of the SFA on the debt ratio is expected to be mitigated by the contractionary effect of the primary surplus and the snowball effect.

Over the medium term, further improvements in the underlying debt dynamics are expected to be secured through the contractionary effect of the primary surplus and snowball effect which will more than offset the expansionary effect by the stock flow adjustment. Positive growth prospects, sustained investor confidence, and an efficient and effective debt management system will also assist the downward trajectory of the debt-to-GDP ratio. Indeed, the debt-to-GDP ratio is expected to decline to 47.5 per cent of GDP by 2020.

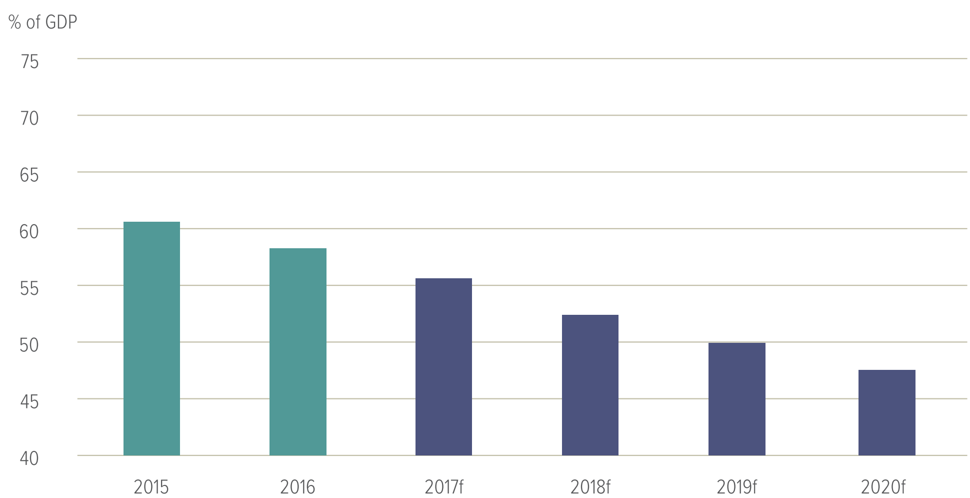
Developments in the gross Government debt are illustrated in Figure 2.2.

Figure 2.1
General Government Balance, 2015-2020



Data Source: NSO, MFIN

Figure 2.2
General Government Debt, 2015-2020



Data Source: NSO, MFIN

2.5

MALTA'S MEDIUM TERM FISCAL STRATEGY

The Medium-Term Objective (MTO) of a balanced structural budget was achieved in 2016, well ahead of the 2019 target consistent with the calendar of convergence established by the European Commission for Malta.

Economic growth projections have been revised upwards and the output gap is expected to be more positive in 2017 than originally forecast, in reflection of the improved economic outlook. Nevertheless, in the context of a starting position where the MTO was over-achieved already in 2016, the fiscal situation transcends the normal fiscal rules of the SGP and the FRA. In 2017, the general Government balance is expected to remain in surplus, and the structural balance is expected to improve marginally to 0.5 percentage points of potential GDP thus remaining in excess of the MTO.

Over the medium-term, the Maltese economy is expected to continue growing at a moderate pace. The rate of growth of potential output is also expected to moderate over the medium-term, and the output gap is expected to remain positive though closing gradually by 2018. Government is therefore aiming to maintain a stable general Government balance of 0.5 per cent of GDP over the medium-term. The outlined trajectory is translated into a gradually growing structural surplus. A number of ongoing and planned structural reforms will be contributing to potential economic growth, while ensuring fiscal sustainability.

The Ministry for Finance prepares revenue forecasts for general Government based on the most plausible and prudent medium-term macroeconomic forecasts and assumptions. Due to prudent elasticity assumptions and a slower growth in the tax base than nominal GDP, as well as more moderate contributions to the National Development and Social Fund, total revenue ratio is expected to decline to 36.8 per cent of GDP by 2020. The tax burden is expected to decline by 1.2 percentage points of GDP to 32.3 per cent of GDP by 2020.

Meanwhile, the targeted general Government expenditure ratio is set to decline gradually to 36.3 per cent of GDP by 2020. While the ratio of current expenditure to GDP is expected to decline over the medium-term to 32.6 per cent, capital expenditure is forecasted to average 3.8 per cent of GDP between 2017 and 2020. The medium-term expenditure commitments include major expenditure related to Malta's EU Presidency in 2017 as well as expenditure related to Valletta 2018.

Whilst expenditure on Health, Education and Social Protection remain priority areas, Government is constantly striving to ensure that expenditure leads to high quality outcomes. In this regard, the Government spending reviews will continue to ensure improved effectiveness and efficiency through an input-output approach in spending decisions.

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 2017-2020) 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 the upside risks to revenue and expenditure compensate for each other. As a result, both macroeconomic and fiscal forecasts were endorsed by the MFAC.

03

WAGES AND COMPETITIVENESS

3.1

INTRODUCTION

Malta's strong economic performance has been complemented by a record decline in the country's unemployment rate. In the meantime, the employment rate has continued to expand with more women entering the labour market.

From a theoretical perspective, wages, as the price of labour, have a key role to play in determining the overall balance for both the supply and the demand for labour. Aside from making it less attractive for some to participate in the labour market, persistantly low wage growth may lead to deflationary pressures and sluggish consumption. Equally, excessively high wage growth relative to productivity and inflation could signal imbalances in the labour and product market. This induces cost-push inflationary pressures, making it less attractive to hire and maintain workers, thus denting competitiveness.

The transition between wage developments and external competitiveness is particularly important for Euro area countries as currency devaluation is not an option in a monetary union. If wages are not matched by productivity, wage increases lead to higher nominal unit labour costs and real effective exchange rates. However, when evaluating the above transition mechanisms, the institutional specificities as well as the business cycle need to be taken into consideration.

Indeed, ascertaining competitiveness vis-à-vis wages while at the same time addressing distributional issues remains the perennial balancing act of policymakers. Malta's capacity to attract Foreign Direct Investment is paramount to sustain economic growth and higher standard of living. Nevertheless, it is also one of the political priorities of this Government to ensure that economic prosperity is combined with issues of social justice.

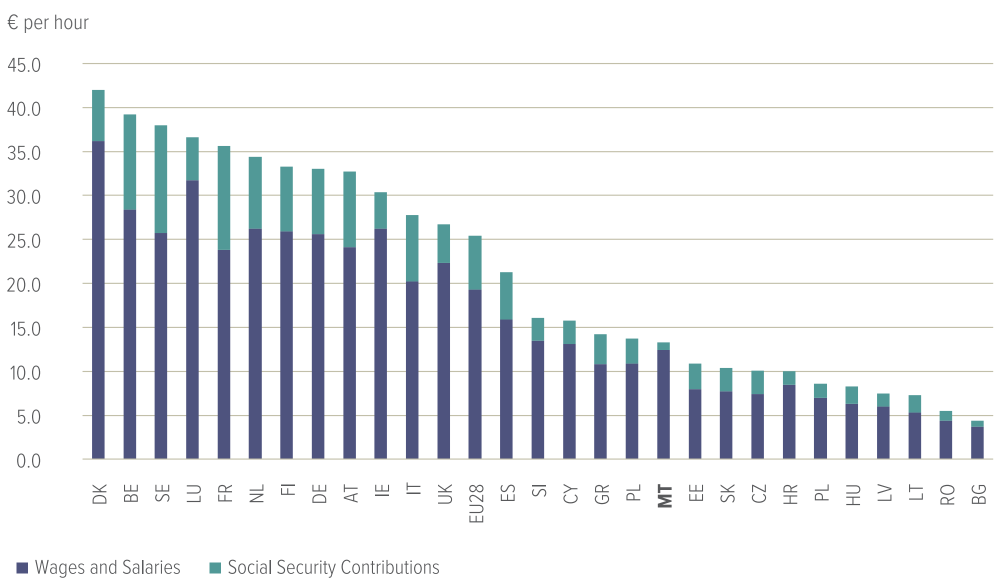
In this context, the setting of the new minimum wage, agreed upon by all social partners, was sensitive to these two contrasting but equally important objectives.

3.2

HOURLY COST AND EARNINGS DISPARITY

Labour costs include not only gross wages and salaries but also social contributions payable by employers. In 2016, the average hourly labour cost in direct production and services (excluding public administration), was estimated at €13.20 in Malta compared to €25.40 in the EU28. The average, however, masks significant differences across countries. Malta recorded the lowest share of social contributions and other labour costs paid by employers at 6.8 per cent compared with the EU average of 24 per cent.

Figure 3.1
Labour costs, 2016

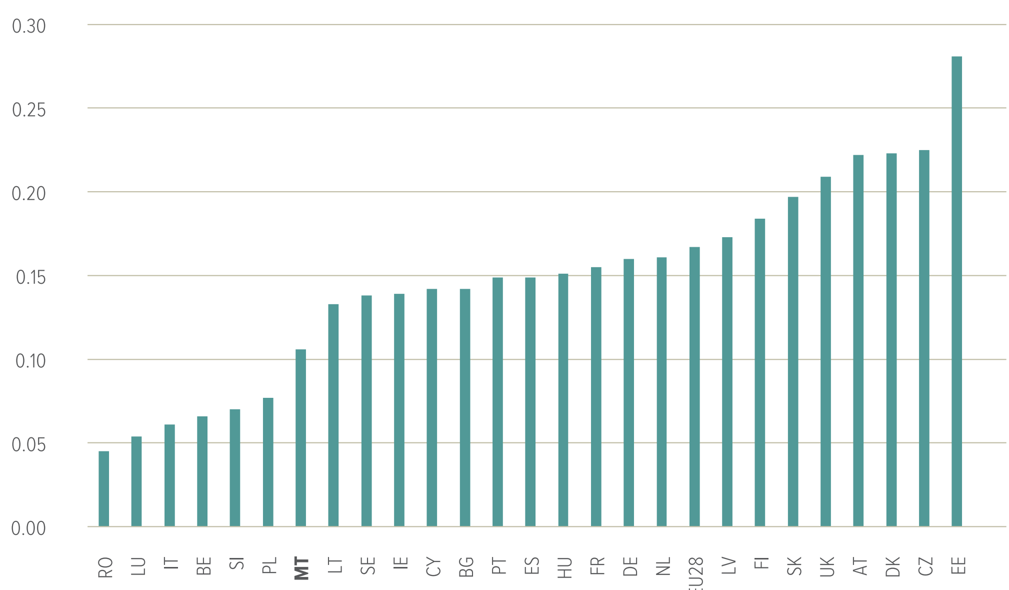


Source: Eurostat

Earnings dispersion also differs significantly across countries. In 2014, Malta recorded the sixth lowest dispersion (2.9) when comparing the ratio of the top decile to the bottom decile. The ratio for the EU28 stood at 7.2, implying that there are higher tendencies of income compression around the median in Malta when compared with the rest of the EU. These findings are corroborated by the S80/S20 ratio, which measures the ratio between the sums of the highest and lowest 20 per cent equivalised incomes of persons within households. The S80/S20 ratio for Malta and the EU28 stood at 4.2 and 5.2 respectively thus confirming that that households' equivalised incomes in Malta are more compressed when compared to the average prevailing in the European Union.

In Malta, the unadjusted gender pay gap, defined as the difference between average gross hourly earnings of male and female employees, expressed as a percentage of average gross hourly earnings of male paid employees, is on the low side (10.6 per cent) when compared to the EU28 average (16.3 per cent). Furthermore similar to the experience of European countries, the age-wage profile follows a concave profile resulting in increases in pay by experience and subsequent flattening of hourly wage. Wages and age are positively related to each other mainly due to job tenure and experience, particularly for men.

Figure 3.2
Gender Gap, 2014, by gender and age



Source: SES, Eurostat

However, this relationship tends to be diluted by cohort effects reflecting educational level differences, fewer market opportunities due to age discrimination and re-entrance of women in the labour market after long career breaks with limited experience and training. Persons who attain a higher level of education earn higher wage rates and are more employable, reflecting the value that companies place on activities produced by higher skilled workers. From a macroeconomic perspective education lowers structural unemployment by supporting a better utilisation of resources and therefore improving the standard of living.

The latest Structural Earnings Survey shows that Maltese workers that have a high level of education (ISCED 5 and 6) earn around 70 per cent more than those with a lower level of education attainment (ISCED 0 to 2). In addition, graduates (ISCED 5 to 8) earn on average 80.2 per cent more than persons with a low educational attainment (ISCED 0 to 2), and 36.3 per cent more than the average gross earnings. In the case of females, the discrepancy is less pronounced in both absolute and relative terms, when compared to that of males.[2]

3.3

MINIMUM WAGE

3.3.1 Incidence of Minimum Wage

The minimum wage is legislated on the basis of the Minimum Wage National Standing Order and is adjusted annually in line with the cost of living adjustment (COLA). The 2017 National Agreement on the Minimum Wage stipulates that employees will be elevated from the minimum wage upon completion of the first year of employment with the same employer. The employee becomes entitled to mandatory increases of €3 per week during the second year of employment, and upon completion of the second year, to an additional €3 per week. Employees earning more than the basic minimum wage will still be entitled to the portion of the increases during the second and third year of employment. The agreement also stipulates that the weekly COLA will be supplemented by €1.00 per week for 2018 and 2019. In 2017, the National Minimum Wage rate stood at €169.76 per week for those persons aged 18 or over and €162.98 per week for those aged 17 years while for those under 17 years, it stood at €160.14.

Administrative records show that the number of persons earning the minimum wage rate in 2015 stood at 6,097 or 3.4 per cent of full-time workers. The number of men and women amounted to 3,617 and 2,480 respectively with almost 80 per cent of the minimum wage earners being less than 44 years of age. This suggests that the incidence of minimum wage earners increases in younger cohorts. The share of foreign-born people amounted to 16.5 per cent. Furthermore, 75.0 per cent of all employees on the minimum wage rate are engaged on a full-time basis.

[2] *For this purpose: (i) low level of education incorporates ISCED 1 and 2, (ii) medium level of education compromises ISCED 3 and 4, (iii) high level of education groups ISCED 5a, 5b, and 6 and (iv) post-graduate qualifications ISCED 7 and 8.*

The wholesale and retail sector employed the largest number of minimum wage earners accounting for 21.3 per cent of all minimum wage earners. Other notable shares were found in administrative and support services (16.5 per cent), accommodation and food service (15.0 per cent), manufacturing (14.3 per cent), and construction (9.9 per cent) sectors.

From a theoretical perspective, the inappositeness or otherwise of low-paid jobs is an open issue in economic literature. One point of view supports the idea that individuals enter into low-paid jobs for a transitory period before moving on to higher-paid employment. This is corraborated by the general observation that the proportion of minimum wage earners in employment declines by age, indicating upward wage mobility among low-paid workers. This could be attributed to the general observation that earnings tend to increase with experience at a decreasing rate for persons with generally equal level of skills and education. Looking at the base wage distribution, there is a high concentration of people earning between the minimum wage and 20 per cent above the minimum wage. In 2015, on top of the minimum wage earners, there were 10,311 employees who earned between the minimum wage and 5 per cent above the minimum wage, 5,555 employees who earned between 5 and 10 per cent above the minimum wage, 4,350 employees who earned between 10 and 15 per cent above the minimum wage, and 4,950 employees who earned between 15 and 20 per cent above the minimum wage.

3.3.2 Relative Value of the Minimum Wage

During the past decade, the minimum wage rate has trended downwards when expressed in relation to average and median incomes. This implies that the increases in average incomes have outpaced minimum wage rate rises. In fact, whereas in 2005 the national minimum wage rate amounted to around 55.5 per cent of average salary this had declined to 50.6 per cent in 2017. The relative value of minimum wage declined by an average of 0.4 percentage points per year. As expected, in 2016, the minimum wage rate expressed as a percentage of median salary was higher (56.1 per cent).

The decline in minimum wage relative to median salary is on average slower, dropping 0.3 percentage points per year. Turning to the relative value of the minimum wage by economic sector, the highest ratio is recorded in accommodation and food service activities (66.4 per cent) and wholesale and retail trade (64.6 per cent), followed by construction (57.2 per cent) and manufacturing, mining and quarrying and other industry (54.0 per cent).

The value of minimum wage relative to the average and the median wage decreased in most business activities between 2008 and 2016. However, a higher ratio was recorded for wholesale and retail trade, transportation and storage and accommodation and food services sectors.

Table 3.1
Kaitz Index,
by economic activity

	MW/Average Salary			MW/Median Salary		
	2008-2010	2011-2013	2014-2016	2008-2010	2011-2013	2014-2016
Industry, except construction	55.8%	54.4%	54.0%	60.8%	60.5%	59.9%
Construction	61.0%	59.5%	57.2%	64.8%	64.7%	63.1%
Wholesale and retail trade	62.1%	64.8%	64.6%	68.0%	70.7%	70.4%
Transportation and storage	51.0%	48.6%	49.7%	56.1%	54.6%	55.7%
Accommodation and food service activities	66.1%	68.1%	66.4%	70.3%	72.5%	71.2%
ICT	44.7%	43.3%	41.7%	48.7%	47.0%	45.1%
Financial services	43.1%	38.7%	39.9%	48.4%	44.3%	47.2%
Administration and support service activities	53.4%	50.8%	49.6%	59.5%	58.6%	57.6%
Public administration, education, and health	51.7%	50.3%	49.0%	53.3%	52.2%	51.0%
Arts, entertainment and recreation*	57.7%	54.4%	52.6%	64.6%	63.1%	62.1%

** under-represented*

Source: LFS, NSO

3.4

CONCLUSION

Wage increases, especially for the low-income households, leads to an improved purchasing power of households and therefore to an increase in the consumption and demand for products produced by resident firms. However, the impact of such measures should always be assessed in the light of the sensitive trade-off between distributional issues and competitiveness.

In addition, the labour supply side perspective should also be taken into consideration. If the market wage is very low (i.e. below the wage rate at which an individual would be indifferent between working or not) the individual will not participate in the labour market. In light of this in the recent years, rather than pressuring the private sector to increase wages which would have impinged on Malta's competitiveness, the Government introduced and financed 'making work pay' reforms including the in-work benefits and the tapering of benefits. These measures aimed to enhance the financial situation of families living on low-income and encourage employment.

Moreover, promoting a culture of high educational attainment is a prerequisite for mitigating risks associated with the labour market, such as unemployment and precarious employment. With low levels of educational attainment, a country could face a 'lost generation' effect with young people being engaged in low value-added activities and consequently foregoing higher potential output. Hence, the importance of balancing distributional concerns with investment in both human capital as well as the country's infrastructure. This will ensure that, the conditions to support the creation of further growth and prosperity on a sustainable basis, are in place.


SIEMENS
SGT-800

04

INVESTMENT IN INFRASTRUCTURE

4.1

INTRODUCTION

During the last four years, the Maltese economy successfully progressed to a higher level of economic growth. This new level of growth brought about new challenges with the most pressing being the need to invest and upgrade the existing infrastructure in order to support the increased economic activity and pave the way for further growth.

Indeed, public investment in infrastructure, which includes road and other transportation facilities, power generation and other utilities and communication systems, facilitates economic development by connecting private citizens and companies to economic opportunities. Through the provision of physical infrastructure, public investment can serve as a catalyst for economic growth by reducing congestion costs, enabling a better utilisation of resources and increasing productivity.

Going forward, in order for Malta to make a quantum leap in its developmental process and converge to EU average living standards, it is paramount for the country to invest in infrastructure so as to ensure that the latter does not pose a bottleneck to economic growth. Increased investment in infrastructure, in effect, is expected to bring about a higher degree of income convergence with the EU.

4.2

INVESTMENT IN INFRASTRUCTURE – A THEORETICAL PERSPECTIVE

One of the main aims of public investment is to improve a country's infrastructure, not only for business purposes but also for social reasons. The Government's role in the provision of public goods, such as road infrastructure, cannot be understated as these are goods which the private sector finds it financially unfeasible to provide and thus the market fails as an efficient allocative mechanism. It is up to the Government to address these market failures and ensure that progress is not undermined. In deciding which projects to undertake, the decision-makers need to weigh carefully broader social returns against funding costs and fiscal implications, in recognition of the fact that infrastructure projects are normally not undertaken to boost revenues. Indeed whilst certain infrastructure projects may have a high social return, the costs associated with it may not be recouped thus bringing to the fore the above-mentioned trade-off between social benefits and fiscal costs. Another important consideration relates to the form of infrastructure investment. Indeed, whilst investment could take form of new projects, it is equally important to boost operations and maintenance spending which reduces capital depreciation and extends the lifetime of infrastructure.

Investment in the infrastructure has a twofold effect on the economy. In the short term, investment can have an expansionary effect with the potential of some crowding-in of private investment in recognition of the complementary nature of infrastructure services. Government investment can also add to public debt if the government borrows to finance additional spending even though the outcome would reflect the extent to which the rise is offset by the rise in the economic growth and any resulting tax revenue.

In the long-term, investment in infrastructure results in a supply-side effect as a higher infrastructure capital stock increases the productive capacity of the economy.

4.3

THE EXTERNAL COSTS OF TRAFFIC AND CONGESTION

According to Eurostat data for 2015, Malta registered the 2nd highest number of passenger cars per 1000 inhabitants (634) in the EU. The figure has been consistently on the increase in the last decade and it is very unlikely to see a reversal anytime soon with the consequence of worsening traffic congestion costs.

Congestion costs are normally composed of three main components: the reduced productivity of the labour force as a result of being stuck in traffic; the cost push effect on inflation triggered by higher transportation costs and the costs associated with air pollution.

A report published by the European Commission in 2015 under the heading 'The External Costs of Passenger and Commercial Vehicles Use in Malta', digs deeper into these three components. The report estimated that the total external costs of traffic and congestion in Malta stood at €274 million in 2012 and predicted that under a 'no policy change' scenario the costs in 2020 and 2030 would reach €318 million and €322 million, respectively.

Table 4.1
External Costs of Transport (€ million)

	Accidents	Air Pollution	Climate Change	Noise	Congestion	Total Cost
2012	€83.9	€14.3	€46.8	€11.0	€117.9	€274
2020	€89.6	€15.3	€51.2	€10.4	€151.1	€318
2030	€89.6	€15.5	€52.3	€10.6	€154.1	€322

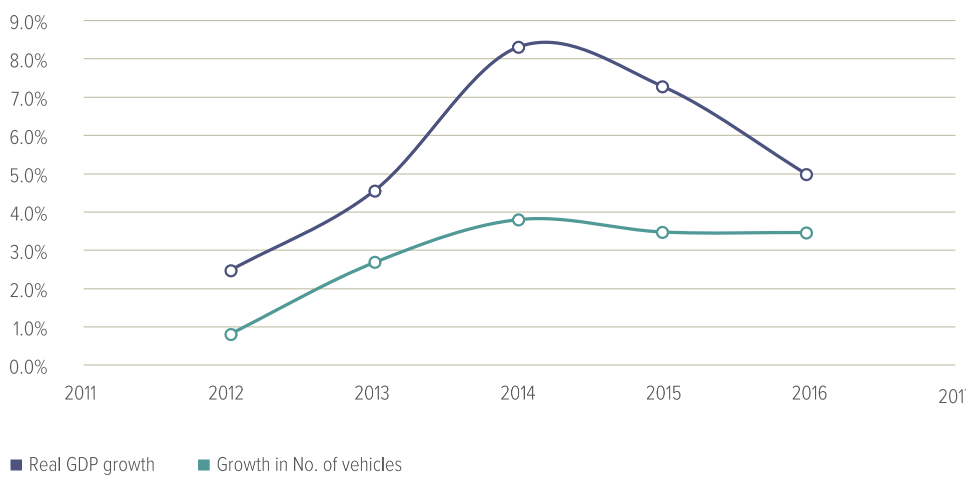
Source: The External Costs of Passenger and Commercial Vehicles Use in Malta

Furthermore, the report also predicted that in 2030 the vehicle fleet in Malta will increase to 349,774, a figure that has, since then, been surpassed within a much shorter timeframe.

The surge in the number of registered licensed vehicles in Malta can be partly explained by the buoyant economic performance. When people feel richer, they tend to spend more on motor vehicles and fuel.

Figure 4.1 points to the strong correlation observed over the past five years between the real GDP growth and the growth in the number of licensed vehicles. These observations reassert the need to invest in road infrastructure as part of a holistic plan on transportation in Malta.

Figure 4.1
Growth rates (Real GDP vs. Number of vehicles)



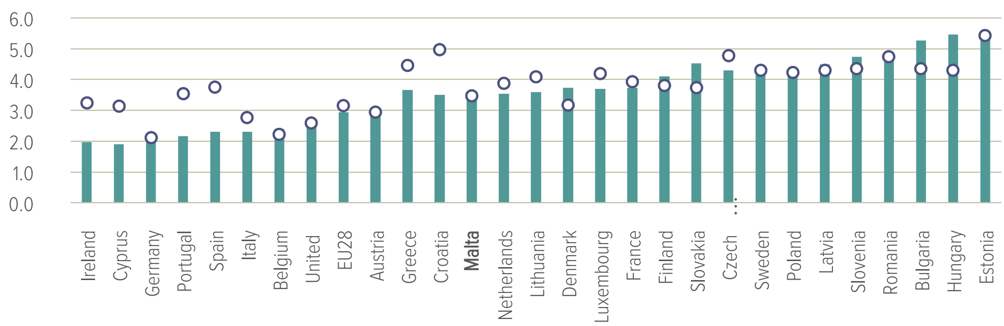
Source: NSO

4.4

BENCHMARKING PUBLIC INVESTMENT

Low levels of public investment, if maintained over a prolonged period, may lead to a deterioration of public capital and diminish longer-term output. The IMF World Economic Outlook Report of October 2014 pointed out that a 1-percentage point of GDP increase in investment would increase output by 0.4 per cent in the first year and 1.4 per cent after four years. After being stable at around 3 per cent of GDP for more than a decade, public investment in the EU started to increase and reached 3.7 per cent in 2009 before reverting back to the pre-crisis ratio.

Figure 4.2
Public investment to GDP ratio - % of GDP



Sources: Eurostat

The comparative analysis for the EU indicates that member states can be grouped into three categories. First, there are those countries that require considerable fiscal consolidation effort and therefore experienced the largest investment cutbacks (Spain, Portugal, Greece and Cyprus). Secondly, it is worth noting that public gross fixed capital formation has increased in Eastern European countries especially those that have benefitted from the increasing use of cohesion funds (Poland, Latvia and Bulgaria). Third, there are countries with relatively low levels of public investment to GDP ratios which exhibited stability across 2002-2015 (Germany and Austria).

Malta compares relatively well with other Member States and stands nearly in the middle of the distribution with an average public investment-to-GDP ratio of 3.6 per cent for the period 2013 to 2015.

Over the past few years, the Government has sought to increase investment through several channels of the Maltese economy including social capital investment, human capital, digital technological capital and also physical capital. Furthermore, it is worth noting that although investment leads to positive economic stimulae and spillovers on the domestic economy, it is not self-financed. Nevertheless, the Government remained committed towards its effective fiscal consolidation strategy and managed to decrease its public debt-to-GDP ratio below the threshold as established in the Stability and Growth Pact whilst supporting investment.

Table 4.2 shows public investment (Gross Fixed Capital Formation) by expenditure function as a percentage of GDP for the European Union, the Euro Area and for Malta. From the period 2008-2012 to the period 2013-2015, Malta's public investment expenditure on the traditional functions such as general public services, health, public order and safety and social protection increased by one percentage point from 2.6 per cent in 2008-2012 to 3.6 per cent in 2013-2015. The Government increased its allocation for investment on environment protection, economic affairs, recreation, culture and religion, health, defence and education. Investment on such functions, are synonymous with a developing economy and translate into higher living standards and higher social wellbeing.

Table 4.2
Public Investment by COFOG
(per cent of GDP)

	EU28		EA19		MALTA	
	Average 2008-2012	Average 2013-2015	Average 2008-2012	Average 2013-2015	Average 2008-2012	Average 2013-2015
General public services	0.4	0.4	0.5	0.5	0.3	0.3
Defence	0.3	0.3	0.2	0.2	0.1	0.2
Public order and safety	0.1	0.1	0.1	0.1	0.1	0.1
Economic affairs	1.2	1.0	1.1	0.9	0.7	0.9
Environment protection	0.2	0.2	0.2	0.2	0.3	0.5
Housing and community amenities	0.2	0.1	0.2	0.1	0.0	0.0
Health	0.3	0.2	0.2	0.2	0.3	0.6
Recreation, culture and religion	0.2	0.2	0.2	0.2	0.2	0.4
Education	0.4	0.4	0.4	0.3	0.5	0.6
Social Protection	0.1	0.1	0.1	0.1	0.1	0.0
Total	**3.4**	**2.9**	**3.3**	**2.7**	**2.6**	**3.6**

Source: Eurostat

When compared to the European Union, between 2013 and 2015 the Maltese Government registered higher investments on environment protection (+0.3 percentage points), higher investments in health (+0.4 percentage points), higher investment profile on recreation, culture and religion (+0.2 percentage points) and higher investment in education (+0.2 percentage points). On the other hand, the European Union allocates more investment on general public services, defence, housing and community amenities and social protection relative to Malta.

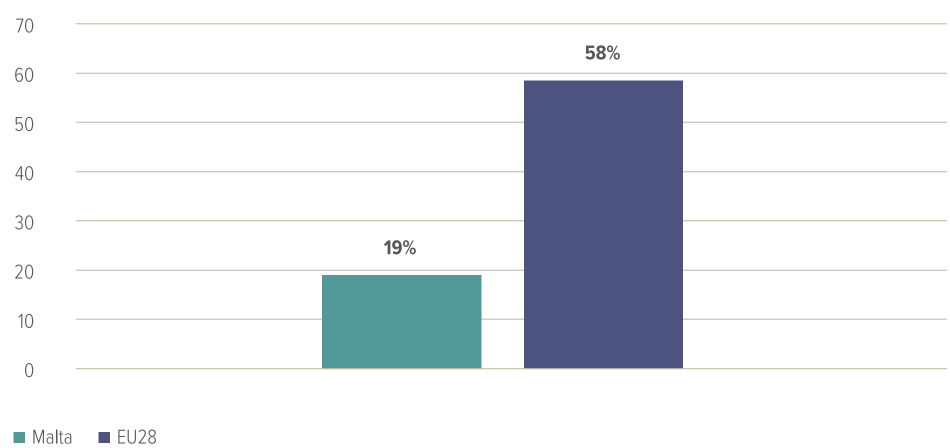
4.5

THE CASE FOR PUBLIC INVESTMENT IN INFRASTRUCTURE: DELVING DEEPER

At this point it is worth opening a short parenthesis on the public capital stock, which is an accumulation of past investments, rather than focusing on annual inflows of public investment. The reason being that the 'volume' of existing networks of physical assets, made up of economic infrastructure such as roads, airports and utilities as well as social infrastructure such as public schools, hospitals and prisons, has a strong bearing on Malta's capacity to provide productive services. Moreover, in the ensuing analysis, the emphasis shall be on the stock of public capital net of depreciation.

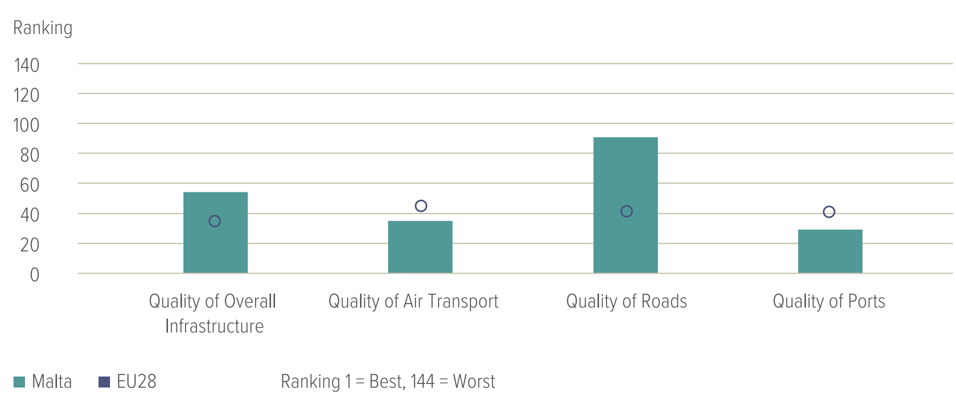
The comparison between Malta's public capital stock level (expressed as a percentage of GDP) and the EU average shows that there is the potential to invest more in the physical infrastructure. Against this backdrop, there is another comparative analysis which clearly points at the areas where higher public investment levels are justified.

Figure 4.3
Public Capital Stock as % of GDP (2015)



Source: IMF

Figure 4.4
Public Investment - Quality of Infrastructure (2015)



Source: IMF

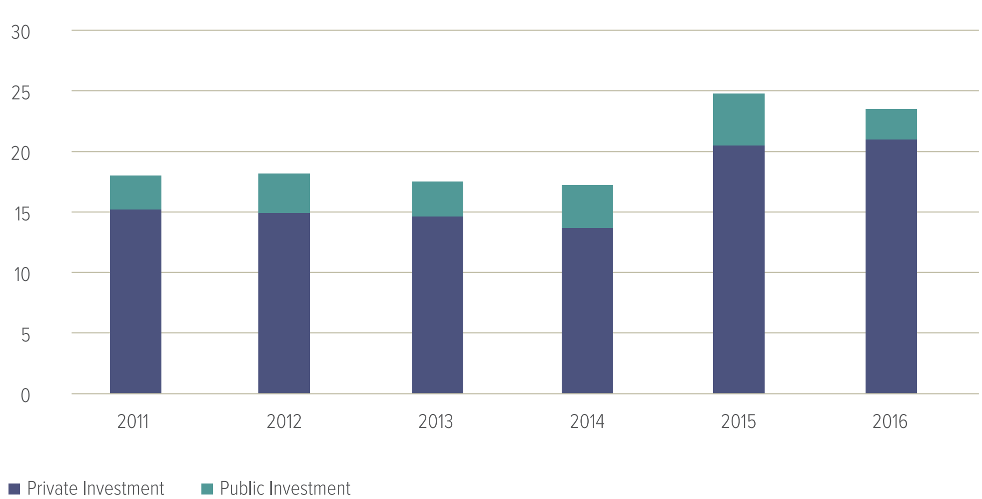
In 2015, the Global Competitiveness Report, which is drawn by the World Economic Forum, showed that in terms of the quality of air transport and ports, Malta ranks 35th and 29th respectively out of 144 countries, which is a better standing when compared to the EU28 average. However, Malta did not fare well in terms of the quality of roads, ranking 91st. Likewise, the overall quality of infrastructure indicator shows that the rank recorded at EU level is better than the one recorded locally thus supporting the case for further public investment in infrastructure.

4.6

PRIVATE INVESTMENT IN INFRASTRUCTURE

A thorough analysis of investment in infrastructure cannot stop short of discussing the role of the private sector in this area. As illustrated in Figure 4.5, over the last few years, Malta's positive investment trends moved pro-cyclical with the economy. Investment took a sharp upturn particularly post 2014, mainly due to an increase in private investment recorded in 2015.

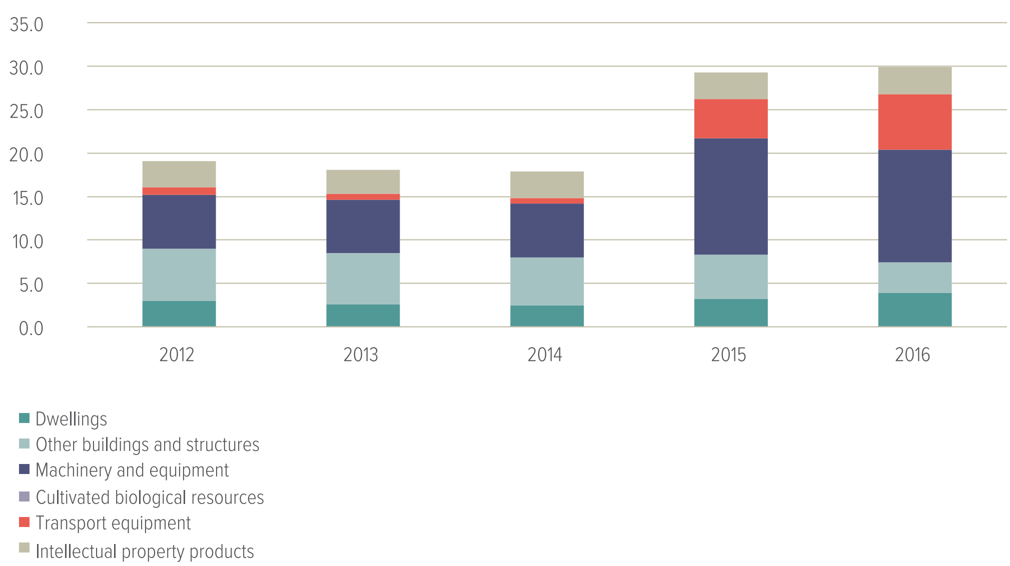
Figure 4.5
Malta - Investment (% of GDP)



Source: Eurostat

Figure 4.6 sheds light on the different elements of GFCF that have contributed to overall investment growth. The sharp increases recorded in 'machinery and equipment', and 'transport' stemmed from higher investment levels recorded in the energy and aviation sectors respectively. Meanwhile, it is notable that investment in dwellings also increased in 2015 and 2016, reflecting the boost experienced in the construction industry.

Figure 4.6
GFCF Decomposition (PI 6) - % of GDP



Source: Eurostat

Indeed, it seems that that the pace of economic growth is increasingly supported by inward migration that has resulted in increased demand for housing. Similarly, the developments in the corporate sector, especially in the services sector have also resulted in an increased demand for quality office space.

The downside to a booming construction industry is the adverse effect it has on the environment and the landscape. Nevertheless, it must be pointed that the growth recorded in the construction industry is essentially a reaction to the increase in the demand for housing and office space in Malta. Higher demand for dwellings in relation to the supply is reflected in property prices. Unless the supply of dwellings adjusts to this outward shift in demand, the upward pressure on property prices will persist, with all the ramifications, economic, financial and social, that such a scenario would represent.

4.7

INVESTMENT IN ROAD INFRASTRUCTURE: ILLUSTRATING THE ECONOMIC IMPACT

There are a number of public investment projects in the pipeline which are expected to strengthen the economic base, with the most ambitious one being that resurfacing of all roads over 7 years, estimated to cost around €700 million. To illustrate the economic impact of this measure, the Supply, Use and Input-Output Tables compiled by the NSO were used. This elaborate tool can be used to establish the output multiplier of a given injection, amongst other things.

Table 4.3 shows that the simple output multiplier for Construction is 1.7 [3]. This means that if the final demand for domestic output of Construction goes up by €1, a chain reaction will ensue leading to an increase in output across all sectors in the Maltese economy, amounting to €1.7.

Applying the model to our case of a €700 million injection in the 'Construction' industry, the adjustment process across all sectors within the economy is expected to generate an increase in output amounting to €1.2 billion[4].

The increase in output generated by the multiplier could be even more pronounced, as induced effects are excluded from the analysis. The rationale behind the concept of induced effects is that increased production leads to an increase in employment, which in turn increases household income and consequently translates to a further increase in demand and production. Additionally, this investment of €0.7 billion is estimated to generate a gross value added of €400 million.

[3] *The construction industry registered the highest output multiplier but in terms of the gross value added, the sector registered one of the lowest multipliers.*

[4] *This results presented in this section are only indicative and should be interpreted with caution. Static equilibrium analyses are subject to two main shortcomings:*

- *The adjustment process to reach the equilibrium state might take time to materialise and in the process the model might have lost its relevance (the problem is even more accentuated by the fact that the proposed injection is spread over seven years and the input-output tables used are based on 2010 data).*
- *The adjustment process might drive all variables considered in the model further apart, rather than closer to each other, thus precluding the attainment of equilibrium.*

Another flaw of the analysis is that the multipliers for investment in road infrastructure are assumed to be same as the average multipliers for the entire construction industry.

Table 4.3
Output multipliers

Computational note	Industries	F: Construction [41-43]	Injection of €0.7 billion on road infrastructure
1	A: Agriculture [1-3]	0.003	€2,141,194
2	B to E: Production [5-39]	0.261	€182,807,191
	of which: manufacturing [10-33]	0.194	€135,981,307
3	F: Construction [41-43]	1.171	€819,857,049
4	G: Distribution [45-47]	0.083	€58,038,864
5	H: Transport [49-53]	0.027	€18,574,990
6	I: Hotels and restaurants [55-56]	0.004	€2,670,458
7	J: Information and communication [58-63]	0.012	€8,163,016
8	K: Financial and insurance [64-66]	0.074	€51,463,862
9	L: Real estate [68]	0.013	€9,001,419
10	M: Professional [69-75]	0.039	€27,623,456
11	N: Administration and support [77-82]	0.009	€6,543,481
12	O: Public administration [84]	0.004	€2,788,726
13	P: Education [85]	0.002	€1,572,278
14	Q: Health and social work [86-88]	0.000	€100,932
15	R: Arts, entertainment and recreation [90-93]	0.001	€353,669
16	S: Other services [94-96]	0.001	€795,079
17	T: Households as employers [97-98]	0.000	€0
18	U: Extra-territorial organisations [99]	0.000	€0
19=1+2+…18	**Output multipliers**	**1.704**	**€1,192,495,665**
	Direct and indirect multipliers for other inputs		
20	Imports	0.406	€284,535,673
21	Taxes less subsidies on products	0.011	€7,716,304
22	Compensation of employees	0.265	€185,246,683
23	Taxes less subsidies on production	0.005	€3,392,826
24	Gross operating surplus	0.313	€219,109,502
25=22+23+24	**Gross value added**	**0.582**	**€407,749,011**

Source: NSO

4.8

CONCLUSION

Public investment is essential in addressing market failures related to the provision of adequate infrastructure, human capital and technological advancements. Although Malta's economic performance has been commendable during the past few years, it is essential that public capital stock is sustained while promoting private-public partnerships in order ensure that Malta begets the infrastructure it deserves.

Investment in the Maltese infrastructure is the natural next step to catalyse growth. While capitalising on the strengths of our ICT infrastructure, investment in road infrastructure remains a precursor to sustained long-term growth as it attracts private investors, facilitates trade and commerce and propels further developments in the labour market. This will ensure that Malta addresses the infrastructural bottlenecks to economic growth thus, ensuring convergence to EU average living standards.

05

THE BUDGET'S PRIORITY AREAS

5.1

INTRODUCTION

During the legislative period of 2013 to 2017, the Labour Government achieved a number of economic objectives including unprecedented economic growth, low rates of unemployment, low inflation and a financial surplus. Furthermore, during these four years, the Government continued to generate policies that have contributed to greater social justice and higher levels of social inclusion.

Increases in pensions, the lowering of prices for energy and water, tax exemptions on pensions and the reforms in social security benefits aimed at making work pay, have all contributed to reducing those at risk of poverty. Social inclusions meant more women entering the labour market because of free childcare and the taper of benefits as well as increasing the involvement of vulnerable people as more disabled persons entered into employment. Revising the means test meant more citizens becoming eligible for free prescription drugs. The revisions in the carers allowance have facilitated the process that allows our senior citizens to continue to live in their own homes and in their communities.

In this legislature, the Government aims to continue with the path of turning manifesto pledges into concrete policy proposals, of turning promises into policy implementation that will continue to improve the quality of life of our citizens as deemed fit for a modern and successful economy.

The Government is committed to major improvements in our infrastructure including providing for better roads and safer pavements for pedestrians. In addition, there will be new capital projects that ensure the continued security of the nation.

The building of new hospital, the modernization of health centres and the introduction of new medicines will ensure that our citizens will continue to receive high quality health care.

Our young people will have more choices in their education pathways that will allow them to move into high quality jobs in the future.

In addition, the Government is committed to the continued reduction in poverty risks in particular amongst children and the elderly.

The prosperous economy allows the Government to provide the funding necessary for Malta’s economic success.

5.2

UPGRADING THE INFRASTRUCTURE AND PUBLIC TRANSPORT

During the forthcoming financial year, the Government will embark on a wide variety of projects and initiatives to augment the quality of the country's transport and infrastructure systems.

This commitment seeks to place commuting and transport in our country at the centre of policy making, during the coming legislature. The Government aims to establish a new agency that will plan and manage the building and maintenance of the road network, with a mandate to upgrade the country's road infrastructure within a period of seven years. New public-private financial instruments and investments will support the programme, worth approximately €700 million. This is the first step in a complete Transport blueprint intended to improve vehicular traffic flows, maximise the return on the allocated investment and enhance coordination among stakeholders.

Another major project, which will strengthen societal cohesion, will be the Malta-Gozo tunnel project. A number of technical and scientific studies have now been completed at the University of Malta and at other external research institutes and companies. Furthermore, geological tests known as Investigative Coring are being conducted on the seabed between Malta and Gozo.

During 2017, the Government continued to invest in a greener transport system by launching several incentives to reduce traffic congestion during peak hours by encouraging a modality shift to other forms of transport such as ferryboats and public buses.

Within this legislature, students, children, pensioners and people with disability will be eligible to use public transport free of charge. In addition, electric or auto gas vehicles will be exempt from the payment of registration tax.

The Government will also continue tackling traffic challenges during peak hours by facilitating traffic flows to and from arterial and distributary roads, particularly the ones near schools, where increased travelling is expected at certain times of day. Also within this legislature, all students including those attending Government, church and independent schools, will benefit from free, supervised school transport.

5.3

ENSURING A CONTINUING DYNAMIC ECONOMY

Small and Medium Enterprises are a cornerstone of the economy. The Government seeks to create an enabling environment that ensures these enterprises will continue to thrive and prosper. It will seek to widen the bracket of eligibility so that more enterprises will be able to take advantages of these incentives and increase the level of support. Access to finance and assistance to start-ups will continue to be the key policy objectives.

Conscious of the fact that space is at a premium in Malta and Gozo and that one of the major hindering factors to growth for industry is finding adequate industrial space, the Government will initiate a number of projects on both islands in order to better cater for the demands for space by SMEs in line with their need for growth.

The Malta Enterprise Corporation will also continue in its endeavours to attract high value added Foreign Direct Investment in traditional and other innovative sectors with a special focus on continuing to build on the successes achieved in the life sciences sector.

A major branding exercise to promote Malta as a hub for international start-ups will also be undertaken, together with collaboration opportunities with overseas start-ups agencies. Furthermore, the inclusion of Trade Promotion within the Foreign Affairs Ministry will further help to attract Foreign Direct Investment and improve international trade.

The Government will also be actively working on leveraging on the opportunities related to Brexit. Malta will be targeting not only those British companies that would now require a base in the EU in order for them to remain sustainable and grow, but also non-British international companies currently based in the UK and might now be looking for an alternative base in Europe.

The increase in Malta's economic activity, as well as the unprecedented BREXIT developments, has mounted additional pressure on Identity Malta's operations. To better comprehend the needs of the ever-changing labour market demands, a series of stakeholders' meetings are being conducted, which complemented with an internal exercise, should lead to fine tune the agency's operational procedures in becoming more efficient in its approach.

The Government has also appointed a specific task force for the simplification and the reduction of bureaucracy to efficiently serve the citizens and the business community at large by drawing up service agreements with all in-house departments and entities in order to reduce waiting time. The drive of simplification and easing of bureaucracy will not only continue but government is raising the set bar from 25% to 30% reduction.

5.4

STRENGTHENING OF THE FINANCIAL SERVICES SECTOR

The financial sector's role is to encourage and mobilise savings, intermediate them at low cost, and channel them into efficient investment.

Due to its profitable business model, the private financial system has its limitations when it comes to long-term finance, crucial for investment in innovation and skills. Businesses need such investment to grow and create jobs in key sectors like infrastructure, renewable energy and energy efficiency projects. In addition, Small and Medium Enterprises get insufficient credit, which is often costly and short-term.

There is therefore a need for financial instruments to implement long-term national development strategies and the investment in projects, which are of importance for future development of the country.

The setting up of the Malta Development Bank, will help in funding sectors or activities where important externalities exist, implying that social returns are higher than market returns, and it will encourage more competition among financial institutions, which should lead to greater efficiency. Moreover, having a more diversified financial system could lead to less systemic risk and contribute to financial stability.

As one of the leading financial institutions in Malta, the Malta Stock Exchange will be continuing with its drive to maximise the potential of Malta's capital markets to attract international listing. MSE will play a pivotal role in the promotion of Malta at the most influential world financial centres, aimed at enhancing Malta's international profile as a dynamic and well-regulated financial centre.

It will be implementing its strategy to develop a liquid, efficient and fair securities market for the benefit of issuers and investors while at the same time adding value to all of its stakeholders.

5.5

INVESTING IN SUSTAINABLE TOURISM

Tourism has remained a high performing sector and continues to play a pivotal role in the Maltese economy, with unprecedented growths year after year.

An important development in the cruise market sector is the successful evolution from one in which Malta was exclusively a port-of-call, to one which also includes the concept of home-porting where Government's strategy is targeted at registering further growth.

One needs to remain vigilant in face of stiff competition across the Mediterranean so as to ensure that Malta remains a destination which is truly sought after by all ages and in every season. This can be seen in Malta's changing tourism profile. The biggest growth registered in tourist arrivals last year was in the 25-44 year-old age bracket followed by the 'under-24-year-olds'. The islands' growing appeal to a younger tourist is part of the change which, the Maltese tourism industry as a whole is undergoing. Moreover this change is not taking place to the exclusion of other age brackets, which are also growing. The fact that arrivals are coming from an increasing variety of source markets, and that tourism inflows are gradually spreading beyond the traditional peak summer months to the rest of the year are also positive trends worth mentioning.

For the next three years the main challenges will be how to ensure that the Maltese tourism volumes continue to grow in a sustainable and managed manner, especially by channelling growth into the low season months. This has to be done, partly by applying an airline route development strategy aimed at sustaining growth as a result of improved, all year-round connectivity, and partly by ensuring that the Maltese tourism product offers benefits aimed at enhancing those aspects where Malta has a competitive advantage. We will also continue tapping new markets.

Improving the overall product, ensuring all-year round proper up keeping of the general infrastructure especially in tourism zones, appropriate enforcement, along with undertaking the necessary reforms within Air Malta, will be pivotal in attaining these objectives. Air Malta's importance to the tourism and other economic sectors, remains undisputed. A number of tourism oriented capital projects are also in the pipeline, to further stimulate Malta's touristic attractiveness.

Throughout the next months, the Government also aims to start implementing a new legislative framework, which is based on the principles of flexibility, simplification and the stimulation of innovation in response to a rapidly evolving global tourism industry.

5.6

MODERNISING THE WATER AND ENERGY SUPPLIES

Energy and water are an integral pillar for the functioning of a thriving economy. In this context, the Energy and Water Agency will continue to develop and put forward policies to ensure security of supply, sustainability and affordability of Energy and Water for both enterprises and families.

Addressing Malta's water challenge requires that efficient use be made of water resources in order to lower the national water demand. A national water conservation campaign will be launched while all consumers will be given support for them to adopt efficient water use practices.

Furthermore, in order to ensure better protection of groundwater resources new and innovative monitoring technologies will be progressively installed in all aquifer systems. These will provide a more reliable assessment of the status of these resources and the necessary information for further action towards the protection of groundwater resources from over abstraction, pollution and seawater intrusion, on a national and regional level.

During the coming year, the Government will continue to make improvements in existing water infrastructures. After having successfully commissioned and tested three polishing plants (two in Malta and one in Gozo) to treat wastewater at a tertiary level and produce "new water" for agricultural and industrial use, the Water Services Corporation (WSC) will further expand the distribution of this water to a wider range of users. There will be further investment to upgrade the reverse osmosis plants while a new desalination plant will be built in Gozo, thereby guaranteeing supply of potable water to Gozo residents.

Building on the achievements in the Energy sector of the last four years, Enemalta will continue to invest in reinforcing the electricity distribution network, whilst maintaining the implementation of its long-term plan for financial sustainability.

The Energy and Water Agency shall continue with the implementation of the Malta-Italy Gas Pipeline – 'Med-Link'. The pipeline will connect Malta to the EU's Gas Network, enhance Malta's security of natural gas supply, and replace the Floating Storage Unit temporarily berthed in Delimara.

During the current year, the route and sites where the pipeline would link up to the gas grid in Gela and Delimara were identified, the basic design completed and the process for obtaining the permits has been launched in both Malta and Italy. Next year, the Agency shall proceed with the detailed environmental and technical studies including a marine survey of the route.

A key element of Malta's decarbonisation strategy is the shift to cleaner fuels by also supporting Renewable Energy generation. In this regard, the Agency will continue to implement Malta's National Renewable Energy Action Plan, contributing towards the creation of further green jobs, and providing the opportunity for families and businesses to invest in green energy and reduce their energy bills.

In addition, the Government remains committed to promote renewal energy and the use of efficient energy sources, as well as encourage water conservation in the domestic sector, though various schemes.

5.7

INVESTING IN A BRIGHTER FUTURE FOR OUR YOUTHS

The Government is committed to the improvements of teacher quality and exploring ways of creating pathways and career opportunities in the teaching profession.

There will be the extension of widening the choice of both vocational and applied studies subjects in a way that provides more choices for students, coupled with new investment in schools' laboratories and workshops for subjects. To strengthen the concept of voluntarism among our younger generation, a consultation process, with groups involved in volunteering, will be undertaken, with the aim of publishing a National Strategy on Volunteering.

5.8

CREATING CENTRES OF EXCELLENCE FOR HIGH QUALITY HEALTH CARE

During the coming years, Government will continue to introduce new medicines, strengthen and extend the eligibility criteria to IVF, invest in Primary Care, build new specialised hospitals and explore new opportunities between Government and the Private Sector.

Our programme of investment in hospitals and new specialist centres will ensure that Malta continues to provide high quality health care. The investment programme will include the building of a new five storey car park which will help address the perennial problem of parking but also the access to the hospitals. There will also be a new out patients building. In the meantime, the new Mother and Child hospital will specialise in the caring of expectant mothers and the paediatric care for young children.

Psychiatric patients will be admitted to Mater Dei while there will be new investment that allows for the modernisation of Mount Carmel Hospital.

Within the grounds of St Luke's Hospital, there will be the construction of rehabilitation centre; a centre for orthopaedic services and a centre that specialises in dermatology, while Karen Grech Hospital will become a modernised geriatric hospital.

There will be new investment in primary care services including the polyclinics and health centres. The new state of the art hospital in Gozo will provide new services including endoscopy services, obstetric orthopaedics, cardiology and cancer care. This will reduce the need for people living in Gozo to come to Malta for treatment.

In addition, the Barts Research Centre will ensure that these islands will become a centre of excellence in health care services.

5.9

CONTINUE ADDRESSING POVERTY REDUCTION, SOCIAL SOLIDARITY AND SOCIAL INCLUSION

The various reforms in social security during the period 2013 to 2017 have contributed to create greater social solidarity and social inclusion – social provision that have improved the quality of lives for a majority of households.

Priority has been given to a host of measures devised to strengthen the sustainability and adequacy of pensions.

In terms of sustainability, the adopted measures were primarily designed to incentivize persons to remain active in the labour market beyond current effective retirement age and to ensure that, over time, a fair balance would be kept between contributions and benefits across generations.

Employees in the private sector opting to remain in employment have been given the option to defer their retirement pension and in so doing, gain annual and incremental percentage increases in their pension rate.

The overall improvement of the social benefit package, active ageing measures, the facilitation of entry into the labour market, especially of women, and the unprecedented creation of new job opportunities have left their marks on the reduction of poverty and on improving the living standards of low and middle income families.

Indeed, the rise in the number of persons at the risk of poverty manifested up to 2013 has been crucially halted and reversed and last year Malta recorded the biggest year-to-year drop in the rate of Severe Material Deprivation among European Union countries, with their number falling by 15,000 from 34,000 to 19,000.

Government will continue with its drive to further reduce the number of individuals who are at risk of poverty in particular one-earner families with dependents under 16 years.

In an increasingly ageing population, the reduced role of the extended family and the greater participation of women in the labour market, have in turn weighed in to accelerate the demand for long-term care for the elderly.   This administration is committed to ease this demand, and possibly neutralize it, by actively incentivising public private projects and by contracting more bed capacity in private homes.

The government is committed to the idea that our senior citizens continue to live in their own homes and in their communities. In the budget of 2017, the government increase both the carers and the assisted carers' allowances.

The disability sector has also been a focal point of social and public policies over the past four years. The policy has been directed to improve the employment prospects and social status of people with disability. In recognition of the rights of persons with disability to live independently in the community, the policy also provided for a landmark project to roll out purposely structured and furnished homes in various localities for persons with disability to live together on their own. The project will continue further next year with the opening of three new homes.

Further positive steps will be taken in the reform of the disability assistance to better assist those persons who because of their disability could never be in a position to be gainfully occupied. The Commission for the Rights of Persons with Disability will be strengthened by the setting up of an Enforcement and Guidance Unit and in-house legal unit to assure the rights of persons with disability and their families.

A concerted multi-faceted plan will be driven by the purposely-appointed parliamentary secretariat to drastically address the demand for social housing through the launch or continuation of various initiatives by the Housing Authority. Concurrently, the Government will continue with its programme to build new housing units; to regenerate and embellish housing estates and to acquire properties from the private sector in order to lease them out to families and persons on the waiting list for social accommodation.

Steps will also be taken to further improve subsidies to low income tenants hard hit by increased rents in the property market and to extend, with the support of financial institutions, social loans to relatively low income working citizens wishing to become homeowners.

5.10

ENHANCING THE CITIZENS' WELLBEING

The recently established Department of Justice is fulfilling the needs in the justice system. During these four years, a number of reforms have made the system more capable in processing the paralegal work and services it offers within its remit. The reforms also enabled the adoption of simplified processes and electronic means making the justice system more efficient, transparent and accountable.

During the last legislature, the Department launched the Court Experts Reform Exercise, whereby new court experts in various areas were engaged. In 2018, the Department of Justice will sustain its commitment to assist the Judiciary, the Court Administration and MJCL with the provision of updated statistics and data analysis in order to ensure a more strategic understanding of the levels of efficiency of the justice system.

Investment in the Legal Aid Agency will continue with a view of offering the best services to the most vulnerable in our society particularly with regard to causes related to Family Section of the Civil Court and in criminal matters.

In the competition sector, the Malta Competition and Consumer Affairs Authority (MCCAA) will be taking on a number of projects that would ensure that the Authority can continue to oversee the proper functioning of the market and enhance consumer welfare. New online services including the facility for online access to Consumer Claims Tribunal cases will be introduced.

In the pharmaceutical sector, the Government has taken several measures to foster economic activity that led to an increase of twenty-five percent in the number of pharmaceutical operators registered with the Medicines Authority and a record number of medicinal products registered in Malta. Simultaneously, the Malta Laboratories Network is working to ensure a high level of service, avoid unnecessary duplication of equipment and to achieve the best contribution by all scientists.

In the cultural field, Arts Council Malta (ACM) will continue to manage the Government's unprecedented investment in the growth of the cultural and creative sectors while ensuring that Valletta 2018 delivers its remit as the European Capital of Culture successfully. Young artists under the age of 16, will be supported to participate in international arts events and festivals.

Following the study on theatre spaces across Malta and Gozo, a 5-year infrastructure programme for the development and support of community theatre spaces will be launched. Furthermore, Central Government will be embarking on a wide reform in Local Government. These measures will include the strengthening of citizens' active participation in Local Government as well the rendering of more transparency and accountability. Central Government will also concretely assist Local Government in their environmental and infrastructure challenges, in particular with respect to waste management and road reconstruction.

5.11

STRENGTHENING CIVIL LIBERTIES AND SOCIAL RIGHTS

During 2018, the Human Rights and Integration Directorate will have in place an approved Migrant Integration Strategy.

Furthermore, the Directorate responsible will also have in place an approved strategy against Violence against Women and Gender-Based Violence Strategy in line with the proposed new legal amendments and in preparation for GREVIO's evaluation (which is due in September 2018). Besides, the Directorate will have a Human Rights and Equality Strategy to follow up on the work of the past four years in this field and act systematically during the coming three years.

Amongst the various initiatives planned by the National Commission for the Promotion of Equality, there are those to enable the implementation of gender equality planning, to improve gender-balance in TV debates and entities' boards, and also to strengthen the framework that facilitates the re-conciliation of work and family life and further encourages women's participation in the labour market.

The Malta Council for Economic and Social Development will be undergoing a process of restructuring, involving the renewal of the structure and operating procedures of the Council, with the aim of leading to a more efficient and effective social dialogue in Malta.

Following the establishment of MEUSAC as an agency, Government will focus its efforts on consolidating the dynamics of consultation on EU affairs, EU information and assistance on EU funds. Government will also, through MEUSAC, keep the social partners updated on the ongoing negotiations for the withdrawal of the United Kingdom from the EU.

During the coming year, besides initiating discussions on the Parliamentary reforms, public consultation will be carried out on a number of other reforms, as highlighted in the electoral manifesto. During the month of September, a public consultation will be launched on the proposal to lower the voting age for general elections and European Parliament elections to 16.

5.12

ENSURING THE CONTINUED SECURITY OF OUR COUNTRY

While security and the protection of our citizens continues to be the major concern of the Corps of Police, more investment will be carried out so as to continue to ensure that, during a major disaster or national tragic event, the Civil Protection Agency will always have the required resources to respond. This means investment in new police vehicles, motor cycles, the upgrading of fire engines and the continued training of fire crews.

While it is important that criminal justice is done, measures dealing with victims of crime will be available.

The programme dealing with the re-habitation of inmates, will place more emphasis on education and other extra curricula activities so that inmates will be better equipped to enter the world of employment once they leave the correctional facilities.

The challenge of migration persists and this government will continue to push forward its believe that Europe must continue to honour the concept of solidarity and burden sharing. There is a need to bring to a halt the continuous influx of undocumented migrants and to stop the inhuman trafficking of people that put migrant lives in jeopardy.

The security of the Country continues to depend on the provision for both human and capital resource investment in new technology that allow for better information flows both at home and with our European partners. Thus, we need to invest in forensics and in the modernisation of police stations and train personnel to deal with cyber crime.

5.13

ENSURING PROSPERITY IN GOZO

Gozo has experienced unprecedented economic growth during the last few years with the major contributor being the increases in the tourism sector. However, a number of challenges still need to be addressed and a number of projects still need to be delivered in order to continue to diversify the Gozitan economy, provide jobs in Gozo for Gozitans, drastically reduce the brain drain, while at the same continue to reduce the economic differences between the two islands.

There will be a concrete drive to enhance and bolster the connectivity between Malta and Gozo. Connectivity is not limited to, and exclusive to, physical links, but it also includes the installation of an alternative fibre optic cable and digital connection, which would enable the establishment of further IT-related jobs in Gozo.

Due importance will be given to Gozo's main ports including their modernisation and infrastructure investment to better service the commuters.

Gozo Channel, the service provider plying the waters between the islands, has experienced a positive financial turnaround during the last legislature. The introduction of new concepts of booking will make the company more efficient whilst making commuting between the two islands, a more pleasant one, particularly to frequent users.

New niche markets are to be explored including Gozo Agricultural Village and further investment in the Eco-Gozo concept. Cultural tourism is another niche which Gozo is to tap and embark upon, within which the new Gozo Museum is to feature prominently.

Medical tourism is a new niche market, which is still in an embryonic stage in Gozo. The investment in the medical field is to include infrastructure to cater for ancillary services and structures relative to ageing. Considering that Gozo's population is an ageing population, this challenge must be transformed into a sterling opportunity for both service providers and job creation.

Tourism is the main pillar of the Gozitan economy. Hence, a new Dwejra Opportunity Fund will be encouraged and nurtured with the aim of preserving Gozo's extensive cultural and historical heritage.

Further promotion of Gozo within the international markets, including participation in various international for and networking, is envisaged to ensure a versatile tourism industry to cater for all segments, interests and needs.

5.14

PRESERVING OUR ENVIRONMENT

The protection of our environment enhances our quality of life. Quiet spaces cleaner air and the protection of our histories continue to make our islands a place that brings many visitors to Malta, making Malta a global destination.

Issues that need to be addressed with some urgency include waste management, maintenance and the upkeep of our natural capital.

The management of waste in the Maltese Islands will be the major initiative that Government will focus upon. The immediate objective is to reduce the pressure on the existing landfill by exporting Refuse Derived Fuel as well as recyclable waste collected in the grey/green bag.

Government aims to re-launch a new material recovery facility while there will be the long term waste disposal plan, as contained in the Waste Management Plan 2014-2020.

The Government will be proposing a constitutional amendment that will enshrine environmental protection and the right to clean air and environmental health as a fundamental right, thus putting environmental protection as one of the priorities in Government's decision-making process. It has also launched a consultation exercise for 24 sites to be declared as Public Domain.

Following the publication of the "Vision for a Low Carbon Development Strategy", which envisages Malta's transition from its current economic model to one, which is less carbon dependent, the Government, is to publish a Vision document for its "New Sustainable Development Strategy". The new strategy is also intended to demonstrate what action Malta will be taking to contribute towards the achievement of the Sustainable Development Goals for 2030.

The continued development of the agricultural sector in Malta is vital not only for the purposes of food security but also important for the strengthening of our environment. Work will start on developing the procedure by which, the transfer of Government agricultural land held under title (qbiela), will be facilitated amongst members of the same family, to young farmer graduates from the MCAST Agricultural Centre and eventually between third parties.

The Government is committed to increase demand for local grown farm products. In addition, it aims to embark on an information campaign on the benefits of the Maltese Local Natural Product. The Government will also introduce incentives promoting organic farming and the introduction of a Quality Label of agricultural products grown in Malta. This will be further supported by the implementation of a new Agriculture Act.

5.15

CONCLUSION

The dual themes of this budget include an emphasis on continuity of recent past successes, while also outlining new initiatives on infrastructure investments that complement an already prosperous economy.

Much has been achieved in these four years to ensure that the economy would flourish. From providing fiscal incentives for both business and households, to implementing making work pay initiatives, reducing the risk of poverty and ensuring that economic growth is indeed enjoyed by all.

This did not come at the expense of sustainability in public finances. On the contrary, we have succeeded in providing such growth-enhancing measures while turning the fiscal deficit to a budget surplus.

Looking ahead, all these objectives need to be consolidated and sustained. Our islands need to become a centre of excellence, a place that attracts new enterprises and direct foreign investment that ensure Malta will stay competitive within the global economy.

The commitments to increase the level of investment in our infrastructure will reshape and redefine our road networks reducing the infrastructural bottlenecks to further economic growth. Reforms in the educational system will provide new learning pathways for our students and for them to explore their abilities and their capacities. Investment in health care, including the new hospitals in Gozo, St Luke's and Karen Grech, will provide new health services for both Malta and Gozo. Investment in waste management, in water storage and in energy, will create a more effective use of these essential resources.

Social investment is also within this vision. Through a private public partnership, the Government will address affordable housing.

2018 will be a continuation of the success that Malta has experienced in these last 4 years.