Fostering a Quality Culture

PRE-BUDGET 2019 DOCUMENT

MINISTRY FOR FINANCE

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MINISTRY FOR FINANCE

Contents

Foreword

Malta continues to be one of the best economic performers in Europe sustaining robust economic growth rates, healthy fiscal and trade surpluses and a consistently declining debt-to-GDP ratio.

The country's strong economic performance continues to reflect a buoyant labour market characterised by increases in participation rates particularly that of females coupled with a record low unemployment rate. Increased employment rates and continued inflows of foreign workers continue to mitigate labour supply constraints and dampen inflationary pressures.

The new level of growth continues to translate into higher wages for households and profits for businesses, as well as greater social justice and inclusion, leading to higher living standards for all.

The Government, will continue to make Malta more competitive by channelling capital expenditure to address infrastructural bottlenecks that inevitably arise in the wake of rapid economic growth. Foreign and local investment will continue to be strong boosting job creation and family's incomes.

Concurrently, we will target a moderate fiscal surplus and ensure that debt burden on future generations is minimised.

The future looks bright. Indeed, we will ensure that the Maltese and Gozitan citizens enjoy a better quality of life.

Prof. Edward Scicluna
Minister for Finance

01

Macroeconomic Conditions

1.1 **Introduction**

The Maltese economy continued to record robust growth rates with all sectors of the economy recording growth in gross value added. Net exports and private consumption continued to drive the robust economic activity. Inflation remained stable while the labour market continued to be buoyant with increases in activity rates particularly that of females translating in strong employment growth and a record low unemployment rate.

Positive developments in the labour market 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.

Malta continued to perform positively in external trade sustaining the current account surplus recorded in recent years. These developments were mainly driven by marked increases in services exports and a moderate decline in goods imports. Indeed, service exports such as tourism recorded double digit growth rates.

In the coming year, Malta is expected to remain amongst the top performers in the EU. Growth is expected be mainly driven by domestic demand, underpinned by robust growth in private and public consumption, as well as investment. At the same time, external developments will also contribute positively to growth. The labour market is expected to remain supportive to economic growth while inflation is expected to remain within the thresholds of price stability.

1.2 International Scene

1.2.1 Economic Growth and Growth Prospects in the Global Economy

In 2017, the European economy has grown by 2.4 per cent, a figure which was unprecedented in the last ten years, as all Member States saw their economies expand. Short term indicators suggest that growth will continue in the next two years, as unemployment rates keep falling and inflation keeps rising at a steady pace.

The European Commission Spring 2018 Economic Forecast suggests that there is a more optimistic outlook in advanced economies, particularly the US. In fact, over the short term, the US economy is expected to benefit from a strong fiscal stimulus, which will likely result in a temporary boost in both business investment and private consumption.

Growth in emerging countries is expected to reach 5.0 per cent in the short term. Strong investment levels and further recovery in international trade are expected to increase in both emerging and advanced economies, which will help retain the positive momentum in the global economy. Also supporting this projected growth figure is robust growth in the Chinese economy.

Global growth when excluding the European Union is expected to rise from 3.9 per cent in 2017 to 4.2 per cent in both 2018 and 2019. However, growth is relatively more moderate than previously expected, due to a number of factors which may hinder global economic performance. These risks are largely linked to shifts in US fiscal and trade policies. Besides, following a prolonged period of consistent recovery, financial markets have become more volatile as of late. High equity market valuations and compressed risk premia in the US have caused markets to react, hinting stronger than expected interest rate increases.

Table 1.1
Selected Macroeconomic and Fiscal Indicators

	2016	2017	2018f	2019f
Real GDP Growth(%)				
EU	2.0	2.4	2.3	2.0
Euro Area	1.8	2.4	2.3	2.0
USA	1.5	2.3	2.9	2.7
Japan	0.9	1.7	1.3	1.1
Malta	5.5	6.6	5.8	5.1
Inflation(%) [Consumer Prices]				
EU	0.6	1.6	1.7	1.7
Euro Area	0.4	1.4	1.5	1.6
USA	1.2	1.7	1.9	2.0
Japan	-0.5	0.2	0.5	0.9
Malta	0.4	0.2	1.6	1.8
Unemployment(%)				
EU	8.6	7.6	7.1	6.7
Euro Area	10.0	9.1	8.4	7.9
USA	4.9	4.4	4.0	3.5
Japan	3.1	2.8	2.7	2.6
Malta	4.7	4.0	4.0	4.0
Employment Growth(%)				
EU	8.6	7.6	7.1	6.7
Euro Area	1.4	1.6	1.3	1.1
USA	1.7	1.3	1.4	0.9
Japan	1.0	0.7	0.6	0.5
Malta	4.0	5.4	3.9	2.4
General Government Balance (%GDP)				
EU	-1.6	-1.0	-0.8	-0.8
Euro Area	-1.5	-0.9	-0.7	-0.6
USA	-4.9	-4.9	-5.3	-5.9
Japan	-3.4	-3.8	-3.2	-2.7
Malta	1.0	3.9	1.1	1.3
General Government Debt (%GDP)				
EU	84.8	83.1	81.2	79.1
Euro Area	91.1	88.8	86.5	84.1
USA	107.2	107.8	108.0	109.4
Japan	235.6	236.4	236.0	234.2
Malta	56.2	50.8	47.1	43.4

Source: *Eurostat, Ameco & the European Commission Spring 2017 Forecast*

1.2.2 Economic Growth and Growth Prospects in the EU

The European economy registered a growth rate of 2.4 per cent in 2017. Improved economic confidence, increased support from the synchronised global expansion, the favourable financing conditions, and continued improvements in the labour market situation were all factors that led to the higher than expected level of growth in 2017. This momentum may still be carried forward in 2018 and 2019, as the EU economy is expected to grow by 2.3 per cent and 2.0 per cent in 2018 and 2019 respectively. The growth contribution of net exports has recently increased and is projected to further improve. However, the projected short-term expansion is set to be driven entirely by domestic demand, supported by increased investment and public consumption.

Untapped labour market resources, further improved economic confidence and continued recovery in world trade are a few of the main reasons behind the strong growth expected in the short term. As long as monetary policy remains accommodative, financial conditions should remain favourable, meaning that investment will be further encouraged.

The European Commission Spring 2018 forecast suggests that despite the eventual taper of the asset purchase programme and the risks to global trade resulting from US protectionist policies, GDP growth will remain strong. That said, overall risks to growth are considered by the European Commission to be skewed towards the downside. In particular, trade tensions emanating from the US trade policies present a notable downside risk to the European Economy. Furthermore, the uncertainty surrounding the US policies in general seem to have kept the US Dollar relatively weak particularly against the Euro and therefore, has not mitigated the impact on external competitiveness of the Euro Area as many analysts were predicting. In addition, labour supply and production capacity limitations may act as constraints on EU growth over the next two years. Additional downside risks relate to the persisting geopolitical tensions in other parts of the world, such as the Middle East and the Korean peninsula, while risks related to the outcome of Brexit negotiations remain.

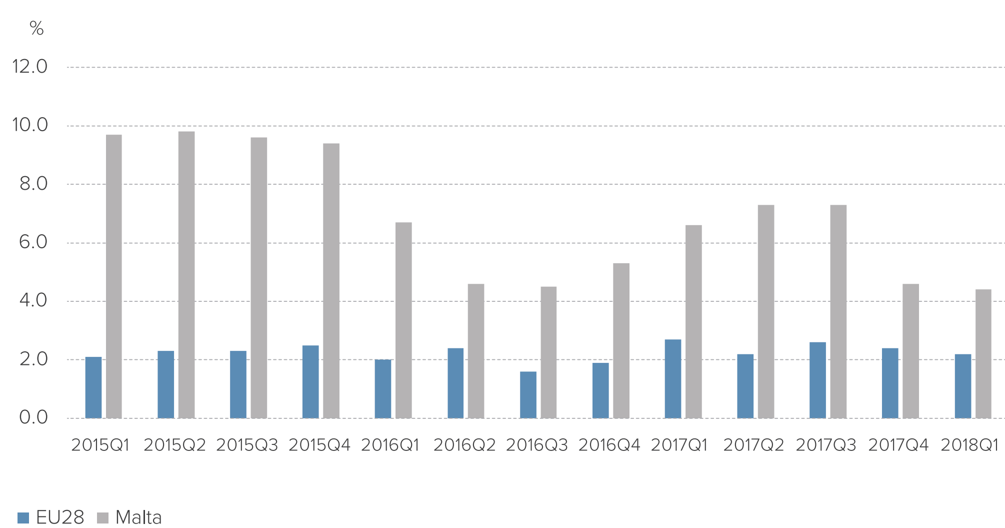
1.3 The Maltese Economy

1.3.1 Economic Growth

The latest data published by the NSO shows that throughout the first quarter of 2018, the Maltese economy experienced a growth of 4.4 per cent in real terms. This growth was predominantly driven by net exports which contributed to the further strengthening of Malta's external balance. Private consumption also contributed positively to growth increasing by 3.1 per cent.

In nominal terms, total incomes grew by 6.4 per cent, as positive figures were recorded in both gross operating surplus and compensation of employees, which grew by 5.7 per cent (or €72.2 million) and 6.6 per cent (or €74.0 million) respectively.

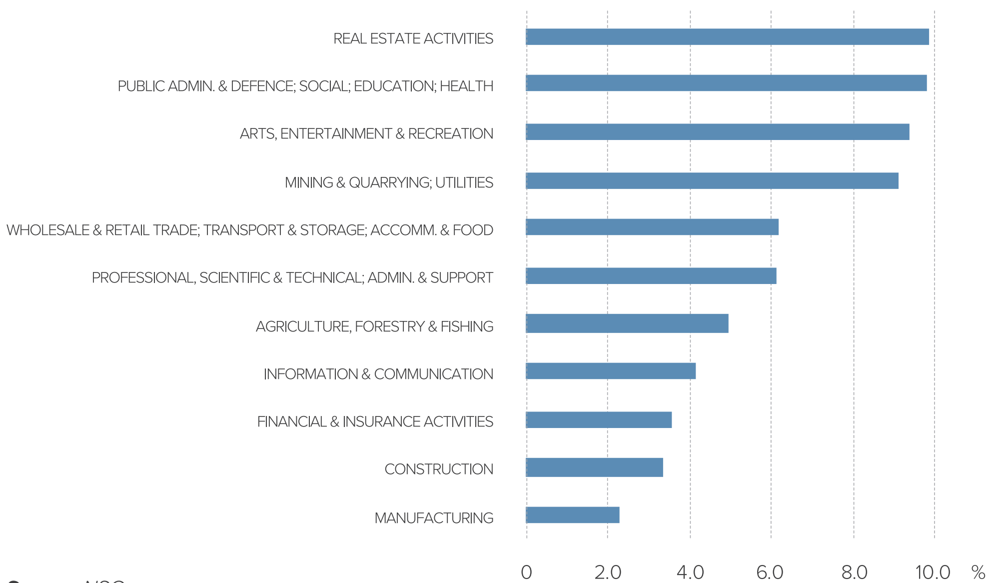
Figure 1.1
Real GDP growth, 2015Q1 - 2018Q1



Source: *NSO*

During the same period, total gross value added increased by 6.7 per cent. Growth in gross value added was recorded in all sectors of the economy. Notable growth was recorded in the real estate activities sector, the arts, entertainment and recreation sector which includes gaming, the wholesale and retail trade, transportation and storage, the accommodation and food services sectors as well as in professional, scientific, and technical activities and administrative and support service activities. Growth in economic wealth was also recorded in the construction, manufacturing, agriculture, and fishing sectors.

Figure 1.2
Growth in Gross Value Added in 2018Q1



Source: *NSO*

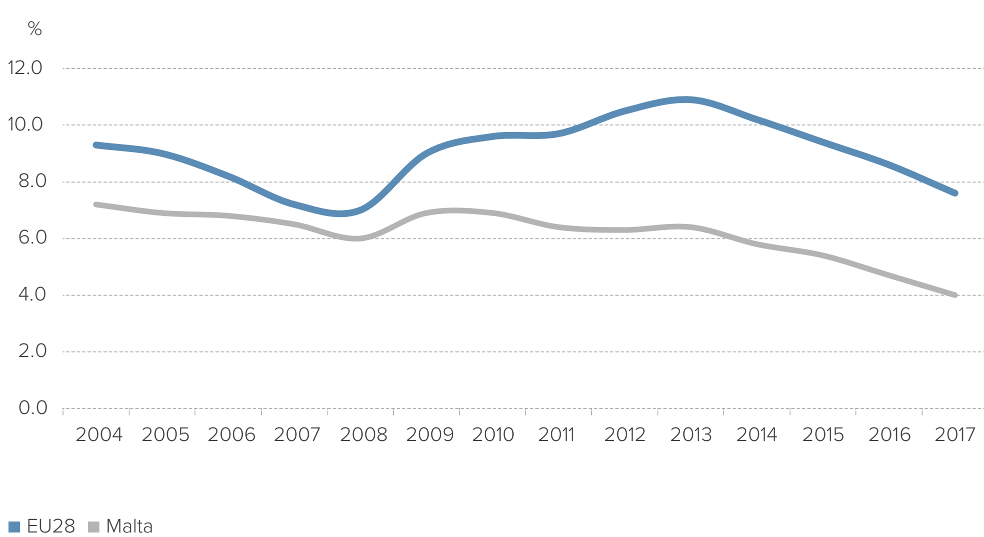
1.3.2 Labour Market

During 2017, the labour market continued to exhibit positive results as the increase in activity rate translated into higher employment while the unemployment rate continued to fall to a record low.

The Labour Force Survey (LFS) indicates that employment grew by 3.2 per cent in 2017. This positive performance was supported by the buoyant economic environment which 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 5.4 percentage points in 2017. 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. Moreover, in the first quarter of this year, Malta recorded the highest employment growth rate in the EU with a growth in employment of 5.3 per cent when compared to the corresponding period of last year.

The unemployment rate, defined as unemployed persons as a percentage of the labour force has been pursuing a sustained declining trend in recent periods, decreasing from 4.7 per cent in 2016 to 4.0 per cent in 2017. Notable improvement was also made in reducing youth unemployment, which declined from 11.0 per cent in 2016 to 10.4 per cent in 2017. Moreover, unemployment data covering the first three months of this year shows that Malta recorded the second lowest total unemployment rate among European Member States, at 3.4 per cent.

Figure 1.3
Unemployment Rate



Source: Eurostat

Table 1.2 represents the main labour market indicators for the years 2016 to 2019. Employment is expected to continue growing in 2018 and 2019 albeit at a more moderate pace. The unemployment rate is projected to remain below the historical average at around 3.9 per cent though recent data may indicate an even more buoyant labour market than was anticipated in the Spring forecast. Meanwhile, average wages are set to continue growing, with compensation per employee forecasted to grow by 3.2 per cent in 2018 and 2019.

Table 1.2
Labour Market Indicators

	2016	2017	2018f	2019f
Employment Growth (National Accounts Definition, Domestic Concept, %)	4.0	5.4	3.8	3.5
Labour Productivity (%change)	1.4	1.1	2.1	1.7
Compensation of Employees (% change)	7.1	6.8	7.1	6.8
Compensation per Employee (% change)	2.9	1.3	3.2	3.2
Unemployment rate (Harmonised definition, %)	4.7	4.0	3.8	3.9

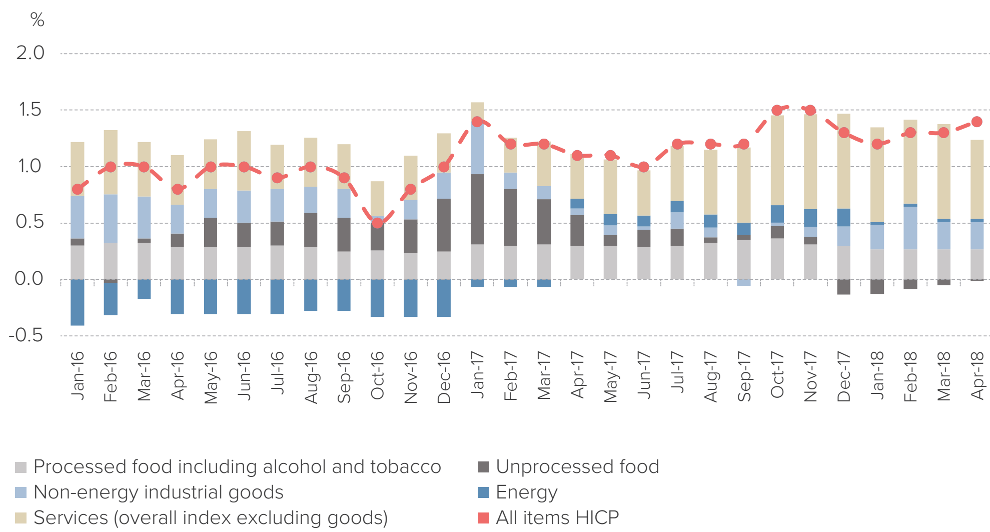
Source: *NSO, MFIN*

1.3.3 Inflation

In April 2018, the annual HICP inflation in Malta stood at 1.4 per cent compared to 1.2 per cent recorded in January 2018. This compares well with an annual rate of 1.4 per cent in the European Union and 1.2 per cent in the Euro Area.

During the first four months of this year, HICP inflation fluctuated within the narrow range of 1.2 per cent and 1.4 per cent. This reflected marginal declining trends in services prices but relatively marginal upward trends in the non-energy industrial goods and the unprocessed food components. The annual rate of growth of services prices decreased from a rate of 1.8 per cent in January to 1.5 per cent in April. Processed food inflation, including alcohol and tobacco, remained stable over the period under review with an average annual rate of 2.0 per cent. Meanwhile, the annual growth of the non-energy industrial goods and the unprocessed food components increased from a rate of 0.8 per cent and -1.9 per cent in January to 0.9 per cent and -0.2 per cent in April, respectively. Meanwhile, core HICP inflation remained relatively stable at 1.6 per cent over the first four months of this year.

Figure 1.4
Contributions to Year-on-Year HICP Inflation



Source: NSO

1.3.4 Balance of Payments

The current account surplus continued its upward trajectory during 2017 to reach 12.6 per cent of GDP, while in 2016 this balance stood at 7.0 per cent. These developments were mainly driven by a general increase in the external balance of goods and services, which was itself supported by marked increases in services exports and a moderate decline in goods imports. The growth in services exports was mainly driven by consistent gains in the Personal, Cultural and Recreational sector, the Transport sector, the Insurance and Pension services sector and the Travel sector. In fact, during the first four months of 2018, the number of inbound tourists reached 647,921, an increase of 99,445 or 18.1 per cent when compared to the comparable period last year.

This strong increase was entirely driven by a higher number of tourists that visited Malta for leisure purposes. Furthermore, expenditure by tourists in the period January to April 2018 increased by around 10.3 per cent over the corresponding period in 2017 rising to €431.3 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 17.9 per cent which reflects an increase of 27.3 per cent in private accommodation and an increase of 12.6 per cent in collective accommodation.

From a financial account perspective, Malta continued to enjoy a strong net asset position throughout 2017. As at the end of the year, domestic residents held about €239.0 billion in assets, while total liabilities amounted to €232.0 billion. Throughout 2017, while foreign direct investment net liabilities decreased by €9.1 billion, portfolio investment assets increased by €6.7 billion over 2016. 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, which explains the consistently increasing net payments abroad. The negative primary income balance amounted to -7.2 per cent of GDP in 2017, 0.1 percentage points less than the previous year.

Looking ahead, the latest forecasts produced by the MFIN in the Update of the Stability Programme 2018-2021 envisage further strengthening of Malta's external position in the medium term. The goods and services balance as a percentage of GDP is expected to pursue its upward trajectory in reflection of further competitiveness and efficiency gains, newly established economic sectors, and improved global economic sentiment and world demand. When considering the financial account, the net asset position is projected to strengthen, reflecting 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 translate into lower net payments abroad.

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 6.1 per cent in 2018 and 5.3 per cent in 2019. Economic growth in 2018 is expected be mainly driven by domestic demand, which is projected to contribute 5.4 percentage points to growth, underpinned by robust growth in private and public consumption, as well as investment. Net exports are also expected to contribute positively to growth by 0.8 percentage points. In 2019, a pick-up in investment will underpin domestic demand and drive economic growth by 4.2 percentage points, while the contribution of net exports will remain modest at 1.1 percentage points.

After registering a robust growth of 4.3 per cent in 2017, private consumption growth is expected to remain moderate over the short-term on the back of strong labour market developments and moderate growth in disposable income. Indeed, private consumption is expected to grow by 4.4 per cent and 3.8 per cent in 2018 and 2019, respectively.

In 2018 and 2019, real government expenditure is expected to grow by 15.2 per cent and 1.8 per cent respectively, while nominal government consumption net of IIP is expected to grow by 5.5 per cent in 2018, and 3.7 per cent in 2019.

With respect to gross fixed capital formation, following a negative growth rate in 2017 emanating from a trailing base effect from 2015, investment is expected to resume its positive performance in 2018. In fact, it is expected to increase by 4.2 per cent in 2018 before reaching a growth of 10.0 per cent in 2019, as a number of projects in the investment pipeline are expected to commence. 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 nonrealisation or due to lack of complete information regarding specific projects.

From the external side, for 2018, exports are forecasted to increase by 3.1 per cent thus outpacing growth in imports which is expected at around 2.9 per cent. In 2019, export growth is expected to accelerate to 3.4 per cent, while import growth will marginally decline to 2.8 per cent, thus widening Malta's positive 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.

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 (MFAC) 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 by the MFAC to be plausible.

To assess the balance of risks over the forecast horizon, economists at the Ministry for Finance assess the likelihood and plausibility of a number of scenarios and through simulation analysis quantify the economic impact of these alternative scenarios on the Maltese economy. Further details can be found in the Medium Term Fiscal Strategy for Malta: Update of the Stability Programme 2018-2021 published in April 2018 by the Ministry for Finance. On balance, the simulation exercise indicates that risks are skewed towards the downside in the short-term specifically in 2018 and 2019 due to the uncertainty on how markets shall respond to the political uncertainty in the US and the gradual tightening of monetary conditions in the euro area. Nevertheless, the balance of risk turns on the upside in the medium term.

02

Fiscal Sustainability


ON REUTERS
CENTER OF EXCELLENCE

2.1 **Introduction**

During the last five years, the Government managed to successfully consolidate public finances, turning a deficit of 3.5 per cent of GDP in 2012 to a surplus in excess of 1.0 per cent of GDP in the last two years.

The gradual but consistent improvement in the budget balance positively impacted the Government debt ratio which fell below the 60.0 per cent target in 2015 and which has continued to decline in the last two years. These developments were primarily supported by a strong and sustainable rate of economic growth and growing primary surpluses.

Government considers the recent fiscal developments as one important indicator of the sustainability of economic policies, whilst allowing the recovery of the necessary fiscal space to allow fiscal policy to act in a countercyclical manner should the need arise. The achievement of the MTO is also an important step in the safeguard of long-term sustainability of public finances. The budget surplus also allows more room for manoeuvre to address other structural challenges such as infrastructural bottlenecks and further investments in human capital and technology. This further strengthens potential growth and supports the process of convergence to higher living standards.

Against the background of persistent challenges and downside risks in the external environment, continued prudence in the fiscal targets and the creation of additional buffers are warranted. In this context, the Government's Medium Term Fiscal Strategy targets a rising surplus net of IIP and a permanent structural surplus (also net of IIP). The budget balance is targeted to reach 1.1 per cent of GDP in 2018 and to remain at 0.9 per cent of GDP in both 2019 and 2020 before rising further to 1.6 per cent of GDP in 2021. Such targets are themselves based on prudent fiscal assumptions which create an extra buffer in these projections. These targets are consistent with the allocation of around 3.0 per cent of GDP towards public investment programmes in 2018 which rises to around 3.4 per cent of GDP by 2021. These investments do not include additional investment devoted to the improvement of human capital to meet the challenges in the education sector, which are generally classified elsewhere in the ESA categorisation.

2.2 Fiscal Developments in 2017

The year 2017 saw a further over-achievement of fiscal targets resulting in a surplus of 3.9 per cent of GDP and a structural balance of 3.6 per cent of GDP. This indicates that Malta remains well within its Medium Term Budgetary Objective (MTO) of a balanced budget in structural terms. Whilst the International Investor Programme partly contributed to this positive outcome, the budget balance net of IIP would still have reached a surplus of 1.4 per cent of GDP, supported by the strong economic momentum. Also notable is the decline in the debt ratio, which in 2017 has declined to almost 50 per cent of GDP.

2.2.1 Budget 2017 Outcomes against Targets

During 2017, the budgetary situation improved markedly as the general Government recorded a surplus which was 3.4 percentage points of GDP better than the target surplus of 0.5 per cent of GDP contemplated in the 2017 Medium Term Fiscal Strategy. Table 2.1 displays the Government's final fiscal position for 2017 compared to the targets revised in the 2017 Medium Term Fiscal Strategy.

The better than expected outturn mainly reflected a much stronger than anticipated revenue outcome, which turned out 4.0 percentage points of GDP higher than expected. In part, the stronger-than-expected nominal growth, in particular the robust growth registered in corporate profits and the stronger labour market, resulted in higher than expected proceeds from income tax and social contributions. Revenue from taxes on production and imports was also more buoyant than expected. Meanwhile, IIP proceeds turned out 2.6 percentage points higher than expected, contributing substantially to the budgetary surplus.

On the other hand, total expenditure was marginally higher than expected, as the faster growth in current expenditure more than compensated for lower capital expenditure. Indeed, general Government expenditure was 0.6 percentage points of GDP higher than projected, as a higher than target ratio was observed in current expenditure components. Total capital outlays were 0.2 percentage points of GDP lower than projected, mainly due to lower than projected gross capital formation sourced from EU funds programmes.

Meanwhile, expenditure on intermediate consumption and on social benefits and social transfers in kind was 0.3 percentage points of GDP higher than target in both components.

While the higher than expected expenditure on intermediate consumption mainly reflected higher than planned expenditure by EBUs, higher expenditure on social payments was mainly on account of the reclassification of (higher than planned) expenditure on the free childcare scheme, as well as higher than estimated outlays for the direct provision of pharmaceutical products. Expenditure on subsidies was 0.2 of a percentage point higher than targeted, mainly due to higher film industry incentives and higher expenditure in respect of renewable energy schemes.

In 2017, at 50.8 per cent of GDP, the debt-to-GDP ratio was 5.1 percentage points of GDP lower than projected. These developments reflect a more buoyant macroeconomic environment than that expected in the 2017 Update of the Stability Programme coupled with a stronger than anticipated fiscal position.

Table 2.1
General Government Finances, 2017

% of GDP	Estimate	Actual	Difference
Revenue	**36.4**	**40.4**	**4.0**
Components of revenue			
Taxes on production and imports	11.9	12.7	0.8
Current taxes on income and wealth	13.4	14.1	0.7
Social contributions	6.1	6.3	0.2
Property income	1.0	0.8	-0.2
Market Output	2.8	5.4	2.6
Current transfers	0.5	0.3	-0.2
Capital transfers	0.6	0.8	0.2
Expenditure	**35.9**	**36.5**	**0.6**
Components of revenue			
Compensation of employees	11.4	11.4	0.1
Intermediate consumption	6.4	6.8	0.3
Social benefits and social transfers in kind	10.0	10.2	0.3
Property Income	1.9	1.9	0.0
Subsidies	1.0	1.2	0.2
Gross capital formation	2.6	2.2	-0.4
Capital Transfers Payable	0.8	0.9	0.1
Current Transfers Payable	1.8	1.8	0.0
Current Taxes Payable	0.0	0.0	0.0
Surplus	**0.5**	**3.9**	**3.4**
Primary Balance	**2.4**	**5.8**	**3.4**

Source: *NSO, MFIN*

2.3 **Fiscal Outlook in 2018**

During the current fiscal year, the general Government balance is expected to remain in surplus at 1.1 per cent of GDP in 2018. This constitutes a 0.6 percentage point improvement in the targeted balance, as compared to a surplus of 0.5 per cent of GDP targeted in the 2018 Budget.

Consistent with the upward revision in macroeconomic projections and the better than expected outturn in 2017, revenue projections have been updated accordingly. An element of prudence in terms of conservative elasticity assumptions and prudent growth forecasts has been maintained as vulnerabilities cannot be excluded, particularly those emanating from external economic conditions.

As indicated in Table 2.2, the general Government revenue-to-GDP ratio is expected to decrease by 1.8 percentage points to 38.6 per cent of GDP in 2018. Indeed, a decrease in the ratio of market output to GDP, which is expected to be 0.6 percentage points lower in 2017, is projected to be in part offset by a higher ratio for current taxes on income and wealth (+0.4 percentage points), reflecting higher revenue from income tax. Taxes on production and imports are also expected to be lower by 0.3 percentage points in 2018.

In 2018, the ratio of general Government expenditure to GDP is expected to increase by 1.1 percentage points of GDP from 36.5 per cent in 2017. This development is primarily on account of a higher ratio from capital transfers payable and gross fixed capital formation. Capital expenditure will be devoted to roads, the environment, health and education and include higher infrastructure expenditure financed from both the EU and local funds. Higher capital transfers in 2018 include the transfer of Air Malta's landing slots to Malta Air Travel Ltd (MAT Ltd). In addition, Government has included an allowance of €35 million in expenditure in 2018 for projects financed from the National Development and Social Fund, of which the absolute majority are expected to finance projects of a capital nature.

The lower ratio for social payments is expected in spite of a number of 2018 Budget measures addressing the adequacy of pensions, including disability pensions, and other vulnerable groups. Indeed, the negative fiscal impact of these measures will be for the most offset by the expenditure-reducing effect of measures legislated in previous Budgets, in particular the tapering of social benefits, and the further extension of the retirement age in 2018 by virtue of the 2006 pension reform initiatives. The growth in social benefits expenditure is expected to be weaker than GDP growth. Lower ratios to GDP are also expected for interest expenditure, intermediate consumption and compensation of employees which, during the current year, are expected to decline by 0.3 and 0.1 percentage points of GDP respectively.

Table 2.2
General Government Finances, 2016-2018

% of GDP	2016	2017	2018f
Revenue	**38.1**	**40.4**	**38.6**
Components of revenue			
Taxes on production and imports	12.5	12.7	12.3
Current taxes on income and wealth	13.6	14.1	14.5
Social contributions	6.3	6.3	6.3
Property income	0.9	0.8	0.9
Market Output	3.9	5.4	3.4
Current transfers	0.2	0.3	0.3
Capital transfers	0.7	0.8	1.0
Expenditure	**37.1**	**36.5**	**37.5**
Components of revenue			
Compensation of employees	11.6	11.4	11.3
Intermediate consumption	6.2	6.8	6.7
Social benefits and social transfers in kind	10.7	10.2	10.0
Interest expenditure	2.2	1.9	1.6
Subsidies	1.3	1.2	1.2
Gross fixed capital formation	2.5	2.2	2.9
Capital Transfers Payable	0.8	0.9	1.7
Current Transfers Payable	1.9	1.8	2.1
Other expenditure	0.0	0.0	0.0
Surplus	**1.0**	**3.9**	**1.1**
Primary Balance	**3.1**	**5.8**	**2.8**

Source: *NSO, MFIN*

2.3.1 **Developments during January- June 2018**

Table 2.3 displays the consolidated central Government revenue and expenditure as reported for the first six months of the year for 2017 and 2018. Actual values are compared to the estimated monthly figures consistent with the Autumn annual budgetary targets using a set of monthly seasonal indices. The resulting variance is presented in the last column. It should be noted that non-tax revenues from the Central Bank of Malta, rents, dividends on investment and interest payment will be accrued at end-of-year and hence the variance is set to zero. Also, since revenue from grants and foreign financed capital expenditure tend to cancel each other by the year end, the variance of the two is not taken into account. It is also worth highlighting that since this exercise is based on cash data, it is sensitive to the timing of payments, such that some of the resulting variance may moderate over the coming months.

The central Government balance for the first six months of 2018 was €23.9 million better than target.

Revenue from taxes registered a positive variance of €31.8 million mainly due to the positive performance in indirect tax revenues, mainly reflecting higher than estimated revenue of €20.7 million from Licences, Taxes and Fines. Additionally, higher than expected revenue was also recorded in direct tax revenues as revenue from Social Security outperformed the target by €8.7 million.

Revenue from non-tax components was about €12.9 million higher than expected with revenue from Fees of Office being the main contributor registering a positive variance of €9.1 million followed by Reimbursements, which registered a positive variance of €5.8 million. This positive performance was partly offset by the €2.0 million negative variance registered by Miscellaneous Receipts. The higher than expected revenue from Fees of Office is mainly on account of revenue from the Residency and Visa Programme and from Fees for rights of use, while above target proceeds from reimbursements is mainly on account of transfers in respect of residential care for the elderly and infrastructural fees.

Meanwhile, expenditure during the first six months of 2018 was €20.8 million higher than the budgetary targets contained in the 2018 Budget, as higher than estimated recurrent expenditure of €41.6 million was in part offset by lower than expected domestic capital expenditure amounting to €20.8 million.

Higher than expected recurrent expenditure was mainly on account of Programmes and Initiatives (€38.6 million) in respect of Church schools (+€16.0 million), State Contribution (+€14.9 million), Retirement Pensions (+€14.1million), and the Gozo General Hospital Health Concession Agreement (+€9.7 million). Higher than expected Personal Emoluments (€11.9 million) was also recorded, mainly related to Education and Health. These developments were partly offset by lower than target Operations and Maintenance expenditure (€7.6 million) and Contributions to Government Entities (€1.3 million).

Table 2.3
Central Government Finances, January-June 2017-2018

Consolidated Fund € 000s	2017 Actual	2018 Actual	2018 Estimate	Variance
Recurrent Revenue	**1,791,651**	**1,879,973**	**1,835,279**	**44,693**
Customs and Excise Duties	139,283	146,211	144,942	1,269
Licenses, Taxes, and Fines	164,799	186,479	165,757	20,722
Value Added Tax	362,556	391,240	390,437	803
Income Tax	535,891	594,301	594,008	293
Social Security	379,726	423,649	414,916	8,733
Fees of Office	11,085	18,274	9,134	9,140
Reimbursements	16,527	19,000	13,180	5,820
Public Corporations	0	0	0	0
Central Bank of Malta	36,000	28,000	28,000	0
Rents	18,400	13,147	13,147	0
Dividends on Investments	17,125	20,583	20,583	0
Interest on Loans	33	31	125	-94
Grants	94,072	27,201	27,201	0
Miscellaneous	16,155	11,856	13,849	-1,992
Total Expenditure	**1,920,438**	**2,040,276**	**2,019,443**	**20,833**
Personal Emoluments	376,923	407,039	395,157	11,882
Operations and Maintenance	88,498	91,421	99,044	-7,623
Programmes and Initiatives	1,031,374	1,096,378	1,057,736	38,642
Contributions to Government Entities	177,384	201,762	203,031	-1,269
Interest Payments	106,204	101,011	101,011	0
Capital Expenditure	140,055	142,666	163,465	-20,799
Foreign	26,424	21,998	21,998	0
Domestic	113,632	120,668	141,467	-20,799
Central Government Balance	**-128,787**	**-160,304**	**-184,164**	**23,860**

Source: *NSO, MFIN*
Note: An explanation for the components with resulting zero variance is given in the text (see section 2.3.1).

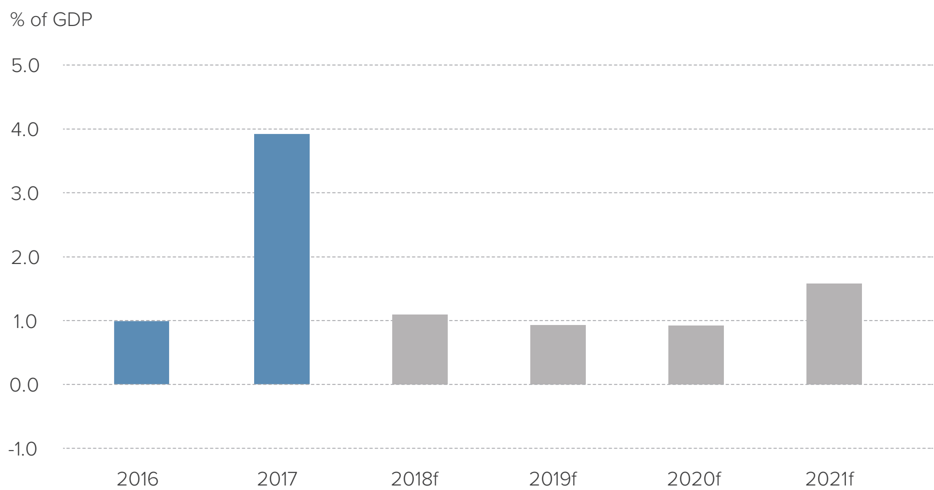
2.4 **Debt levels and developments**

Government debt has declined below the 60 per cent Treaty requirements in 2015 and further declined to a debt-to-GDP ratio of 50.8 per cent in 2017. The decline of 5.4 percentage points of GDP over 2016 is mainly attributable to the impact of the primary balance on the debt ratio, complemented by the contribution of real GDP growth and inflationary pressures.

In 2018, the debt-to-GDP ratio is expected to decline further by 5.1 percentage points to 45.8 per cent of GDP. All this is supported by the contractionary effect of the primary surpluses and the snowball effect. In 2017, the stock flow adjustment (SFA) is projected to have a marginal positive impact of 0.1 on the debt ratio.

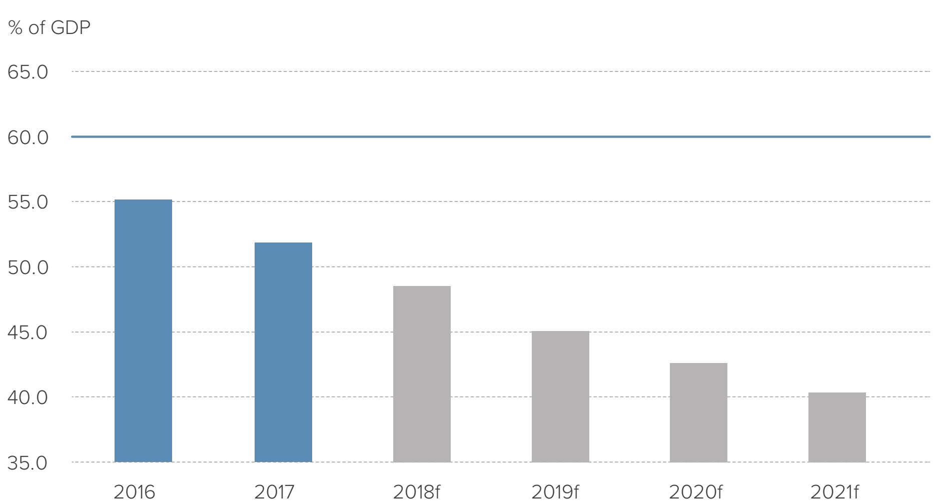
Over the medium term, further improvements in the underlying debt dynamics are expected as the debt-to-GDP ratio is expected to decrease further to 35.6 per cent of GDP in 2021. Over the medium-term horizon, the projected reduction in the gross debt ratio is mainly driven by the positive primary surpluses and the nominal growth trajectory. Both components are expected to mitigate the upward pressure that the interest expenditure and the stock flow transactions are expected to have on the debt-to-GDP ratio. Meanwhile, the projected IIP revenue will continue to underpin the positive stock-flow adjustments throughout the forecast period. Additionally, growth prospects, sustained investor confidence, and an efficient and effective debt management system will also assist the downward trajectory of the debt-to-GDP ratio.

Figure 2.1
General Government Balance, 2016-2021



Source: NSO, MFIN

Figure 2.2
Gross Government Debt, 2016-2021



Source: NSO, MFIN

2.5 **Malta’s Medium Term Fiscal Strategy**

In the context of buoyant economic growth and a starting position where the Medium-Term Objective (MTO) was over-achieved already in 2016 (a target originally meant to be achieved in 2019), the fiscal situation transcends the normal fiscal rules of the Stability and Growth Pact (SGP) and the Fiscal Responsibility Act (FRA).

Over the medium-term, the robust performance of the Maltese economy is expected to be sustained, though growth is expected to moderate compared to rates recorded in recent years. The rate of growth of potential output is also expected to moderate over the medium-term, and the output gap is expected to remain positive though closing gradually by 2020 and to turn slightly negative in 2021. Based on the outlined macroeconomic projections and estimates of the business cycle, the Maltese Government is committed to continue to ensure compliance with the MTO, net of IIP receipts and expenditure over the medium-term.

In addition, ensuring that expenditure growth does not exceed the economy’s growth potential remains an intermediate target. Indeed, the general Government balance is expected to increase to 1.6 per cent of GDP over the medium-term forecast horizon. The outlined trajectory is translated into a structural balance of 0.6 per cent of potential GDP in 2018 (or a structural budget balance net of IIP revenue and expenditure), increasing gradually to 1.8 per cent of potential GDP by 2021.

Against the background of plausible medium-term macroeconomic forecasts and prudent fiscal assumptions, as well as relatively more moderate contributions from the IIP, the total revenue ratio is expected to decline by 1.3 percentage points of GDP to 37.4 per cent of GDP by 2021. Tax receipts are expected to decline by 0.9 of a percentage point of GDP to 32.4 per cent of GDP by 2021, partly driven by a slower growth in the indirect tax base than nominal GDP, whilst proceeds from market output are set to decline marginally from 3.4 per cent of GDP in 2018 to 3.0 per cent of GDP in 2021 as contributions from the IIP moderate.

Meanwhile, while the ratio of current expenditure-to-GDP is expected to decline over the medium-term to 31.1 per cent, capital expenditure is forecasted to increase from 3.2 per cent of GDP in 2017 to an average of 4.7 per cent of GDP between 2018 and 2021. Indeed, by means of the planned capital programme, the Maltese Government will give precedence to the national infrastructure needs over the forecast horizon, aligned with national economic and social priorities, and consistent with Government's objectives for sustainable economic growth.

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 2018-2021) 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, as in its view, the balance of risks to GDP growth for the period 2018 to 2021 is broadly neutral, with the possible downside risks associated to the external sector likely to be compensated for by possible upside risks related to domestic demand. Meanwhile, the MFAC considers the planned stream of fiscal surpluses within its endorseable range, such that the anticipated steady decline in the debt-to-GDP ratio is deemed to be plausible.

03

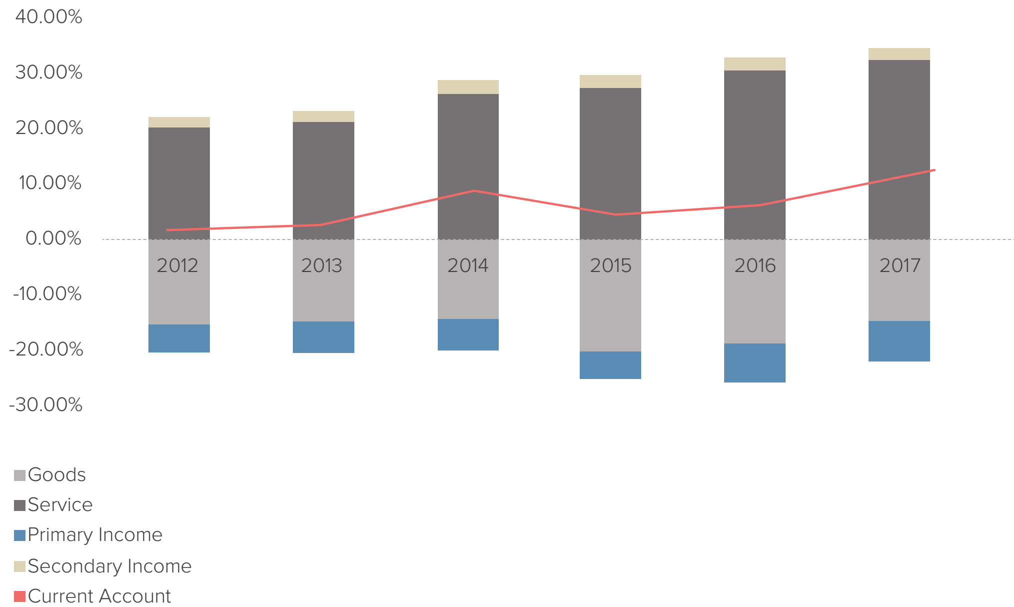
Competitiveness

3.1 **Introduction**

Competitiveness refers to the ability of firms to compete in markets. The roots of national competitiveness are multidimensional, determined by interdependent microeconomic factors including demand conditions, the existence of clustering, unit labour costs and quality of production. This in turn reflects the overall ability of a country to utilise its resources in an efficient manner. Being a small and open economy, Malta's competitiveness is crucial to the sustained economic development and the quality of life for its citizens.

During the last six years, Malta has been registering a current account surplus in its balance of payments (Figure 3.1). In 2017, the current account surplus stood at a record-high level of 12.5 per cent of GDP, mainly driven by net-exports of services amounting to 32.3 per cent of GDP. The secondary income account, capturing the redistribution of income through current transfers, contributed positively to the current account surplus outweighing the negative contribution from the goods and primary income accounts.

Figure 3.1
Current Account Developments, % of GDP



Source: NSO

The strengthening of the labour market and addressing skill mismatches has always been a policy priority for the Government. The participation rates, particularly for females, have been increasing in recent years confirming the rapid response to job creation and the demands of an expanding labour market. The significant increases in the employment rate together with record low levels of unemployment, manifest a solid job rich economy. Moreover, the accumulation of physical and human capital, together with efforts to strengthen innovation and R&D activities could yield substantial productivity and competitive gains over the long-term, thus mitigating the potential negative growth implications of demographic ageing.

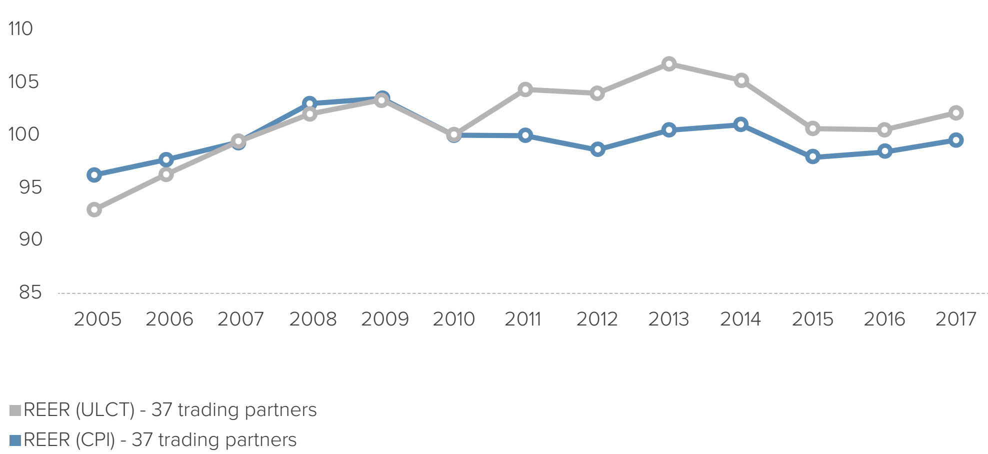
A broad set of macroeconomic indicators, some of which feature in the Macroeconomic Imbalance Scoreboard have been used to asses Malta's competitiveness against European peer countries. These include the, REER and a benchmarking exercise based on compensation per employee, labour productivity and unit labour cost.

3.2 **Competitiveness Indicators**

3.2.1 **REER – 37 trading partners**

The real effective exchange rate (REER) is a commonly used indicator to account for external imbalances and losses in competitiveness. It is essentially a trade weighted average value of a country's currency relative to the exchange rate of its main trading partners adjusted for inflation. An increase in the REER is associated with a loss in competitiveness for the respective country and the industries operating from it. Overall, the trend shows that during the period 2005 to 2009 there was an appreciation of the REER, which slightly persisted during the 2011 to 2014 period suggesting losses in competitivity during such periods. Following 2014, the REER has depreciated meaning that Malta gained a stronger competitive position relative to its main trading partners (Figure 3.2).

Figure 3.2
REER - 37 Trading Partners (2010 - 100)



Source: Eurostat

3.2.2 Compensation per Employee, Labour Productivity and Unit Labour Costs: A Benchmarking Exercise

Labour is a vital input in a country's productive processes. Hence, ensuring that growth in wages evolve in line with productivity is essential to sustain competitiveness. Through this benchmarking exercise, as shown in Table 3.1, Malta is compared to other economies within the EU at a similar stage of development as defined by the GDP per capita in PPS indicator in the range of 75 per cent to 100 per cent of the EU average. In this regard, the Maltese economy is benchmarked against Cyprus, Czech Republic, Estonia, Italy, Lithuania, Portugal, Slovakia, Slovenia and Spain. Malta is also compared to the EU and the EA averages.

In Malta, during the period 2014 to 2017, compensation per employee on average stood at €23,276. This indicates an increase of €2,460 over the 2010 to 2013 period, an average growth rate of 2.7 per cent. When compared to the other Member States, Malta recorded the fifth highest average compensation per employee. Lithuania had the lowest average compensation per employee at €13,913 while Italy had the highest ratio at €35,664.

Malta's labour productivity on average increased by 2.8 per cent during the last four years. This was the highest increase in labour productivity recorded amongst the benchmarked countries. Meanwhile, compensation per employees increased by 2.7 per cent during the same reference period. This implies that the nominal unit labour cost has, on average, declined marginally by 0.1 per cent resulting from a stronger increase in labour productivity relative to compensation per employees. As a result, the nominal unit labour cost for Malta during the 2014 to 2017 period was amongst the lowest in the EU, suggesting that Malta's competitiveness has improved.

Table 3.1
Compensation per employees, labour productivity and nominal unit labour cost, 2010 – 2017

%	Compensation per employees		Labour Productivity		Nominal ULC	
	2010-2013	2014-2017	2010-2013	2014-2017	2010-2013	2014-2017
MT	2.7	2.7	0.3	2.8	2.4	-0.1
EU	2.4	1.4	1.2	0.9	1.2	0.5
EA	1.7	1.1	1.0	0.8	0.8	0.7
CZ	2.5	4.0	0.9	2.5	1.1	1.7
EE	4.0	5.3	3.0	1.2	1.1	4.1
ES	-0.1	0.7	1.4	0.6	-1.5	0.1
IT	0.7	0.5	0.0	0.1	0.7	0.4
CY	-0.2	-1.2	0.3	0.4	-0.5	-1.6
LT	4.0	6.5	4.2	1.8	-0.2	4.7
PT	0.2	0.5	1.4	-0.2	-1.2	0.6
SL	1.3	2.1	1.0	1.8	0.3	0.4
SK	3.1	2.9	2.9	1.3	0.3	1.6

Source: *Eurostat*

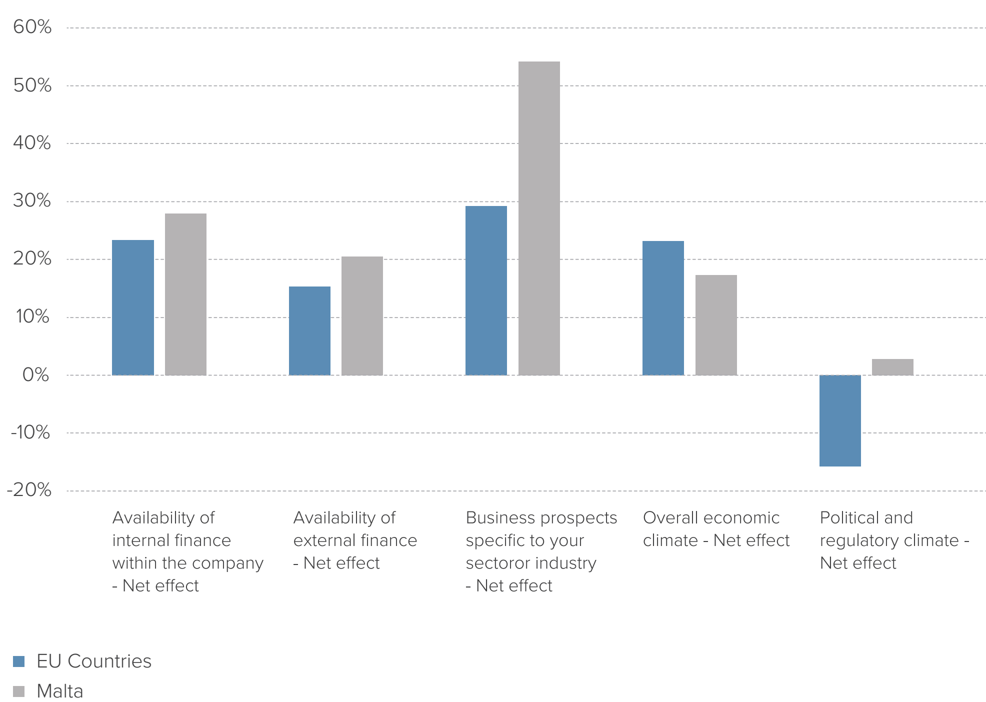
3.3 Investment: Drivers and Constraints

According to the European Investment Bank Survey (2017), Malta's positive outlook has ensured that investment has continued to increase with around 84 per cent of the firms investing during the last financial year.

3.3.1 Short-Term Influences on Investment

Firms located in Malta are optimistic about the business environment in the coming 12 months in general and therefore have a higher propensity to carry out planned investment. The net share of firms expecting an improvement in the business prospects is particularly high, when compared to the EU average. Firms are expecting the political and regulatory climate to improve marginally, contrary to the expectations at EU level.

Figure 3.3
Factors Influencing Firms' Ability to Carry Out Planned Investment (2016 Data)

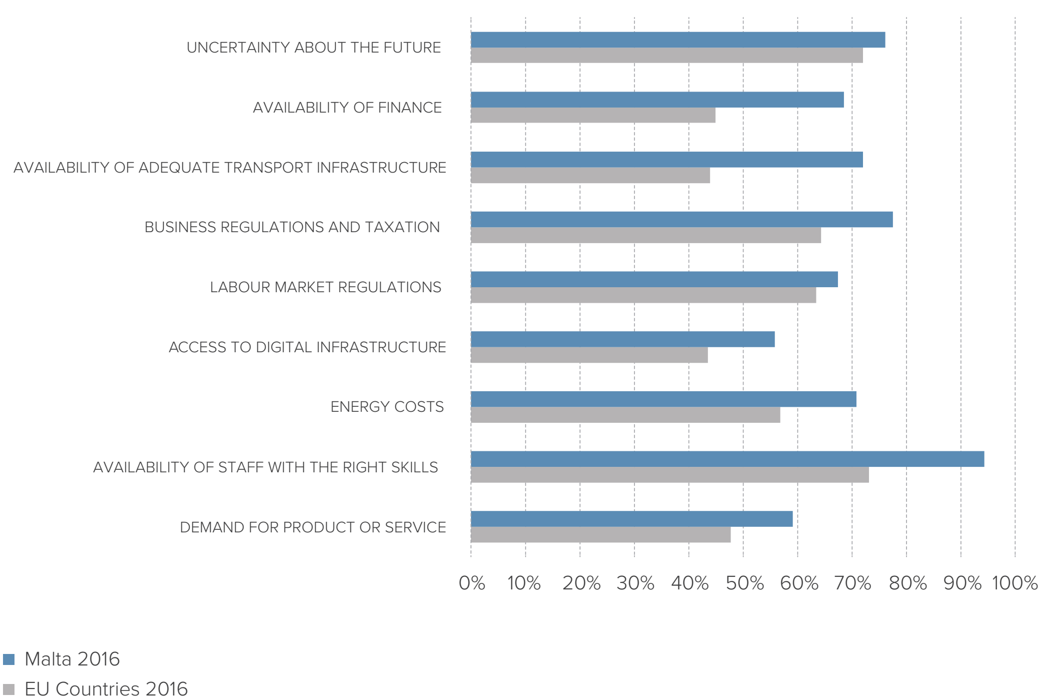


Source: European Investment Bank Survey (2017)

3.3.2 Long-Term Barriers to Investment

The availability of staff with the right skills, the business regulation and taxation, and the uncertainty about the future were identified as the three most common barriers to investment for firms in both Malta and the EU in 2016. The most quoted barrier to long-term investment according to firms located in Malta was the lack of adequately skilled staff, identified by 94 per cent of the firms. The lack of adequately skilled staff was also the most quoted barrier to long-term investment in the EU. Business regulations and taxation were identified as the second and third most quoted barriers in Malta and in the EU, respectively (78 per cent of firms in Malta and 64 per cent of firms in the EU). The third most mentioned investment barrier in Malta was the uncertainty about the future (76 per cent), while in the EU this was the second most quoted barrier to long-term investment.

Figure 3.4
Factors Impacting Long-Term Investment Decisions



Source: European Investment Bank Survey (2017)

3.4 The Quantity and Quality of Labour

3.4.1 Availability of Workers

Population of working-age is widely considered to be one of the factors that can boost economic growth. It is generally acknowledged that GDP growth in high-income countries is likely to be relatively slow in the coming decades because the working-age population is predicted to either grow at a slower pace or even decline.

3.4.2 'Natural' Demographic Transition

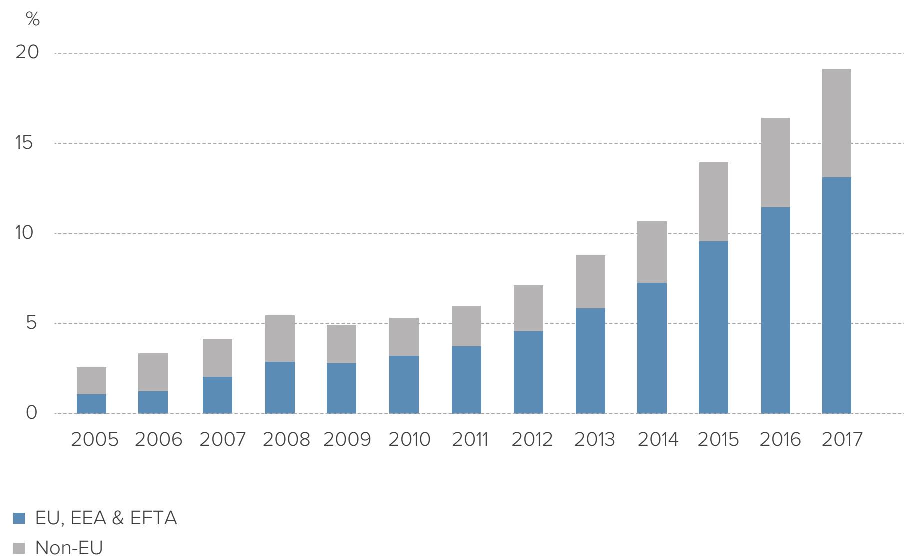
Over the next few years, Malta is expected to undergo a huge demographic shift due to a continued natural demographic transition (low to stable fertility rate coupled with higher longevity) and increases in net-migration flows.

While Maltese nationals aged 65 or older accounted for 3.0 per cent of the total population in 1980, by 2016 this ratio increased to 19.1 per cent and, according to Eurostat's population projections, in 2070 it is projected to reach 30.6 per cent of the total population. As a result, the Maltese population is expected to start depopulating by the mid-2020's in a context of no net-migration flows. Indeed, the projected increase in the employment rates of women and older workers would temporarily cushion the effect of ageing on the labour force count.

3.4.3 Recent Migration Flows

Between 2014 and 2016, net-migration inflows averaged 9,305 persons every year. Of these 7 out of 10 were between 20 and 49 years of age. In 2016, the share of foreigners in the total population that stood at 11.8 per cent.

Figure 3.5
Share of Foreign Workers in Total Full-Time Employment



Source: Administrative Data

In recent years, the number of foreign workers in Malta increased considerably and a higher engagement of Maltese nationals in the labour market was also observed. Yet, as reported in the EIB survey, staff shortages in Malta persist. Since 2005, the share of migrants surged from 3 per cent to 19 per cent of total full-time employment. Foreign workers are more likely to be engaged in the services sector, mostly in arts, entertainment and recreation, administrative and support services and accommodation and food services activities. The share of EU full-time working migrants increased from 1 per cent in 2005 to more than 13 per cent in 2017, while the share of third-country nationals increased at a slower pace from 2 per cent to 6 per cent during the same period.

3.4.4 **Projection Scenarios**

It is pertinent to point out that projecting the demographic and economic developments over the next twenty years is subject to a significant element of uncertainty and the farther away from the starting point, the higher the degree of uncertainty.

The model used in projecting population is the World Bank's PROST15, being the same model used in the projection of pension expenditure. To capture the economic implications of a change in the working-age population, the production function framework used is based on the standard specification of the Cobb-Douglas production function with constant returns to scale.

Various scenarios were modelled to capture the sensitivity of total population and potential output in response to a change in net-migration. For the scope of the Pre-budget Document one scenario, the most relevant, will be re-produced in this document. The scenario ("RESTAT") assumes that net-migration trends remain persistently high between 2018 and 2021 and converge to Eurostat's assumptions by 2022.

The scenario is compared against the results emanating from the demography and macroeconomic projections presented in the Ageing Report 2018 ("AR2018").[1] The Ageing Report 2018 was published in May 2018, which makes use of Eurostat's population projections released in February 2018. Therefore, it did not undertake the recent benchmark estimation of migration flows by the National Statistics Office.

Table 3.2
Total net-migration flow assumptions, 2016-2040

	2016	2020	2025	2030	2035	2040
AR2018	3,478	3,214	2,944	2,641	2,325	1,992
RESTAT	9,841	9,162	2,944	2,641	2,325	1,992

Net-migration includes all age groups, i.e. both working-age population and cohorts of dependency (0-14 and 65+)

Table 3.3
Demographic and Macroeconomic Implications

	2018	2020	2025	2030	2035	2040	Average 2018-2040
Total Population							
AR2018	446,000	455,000	475,000	490,000	500,000	506,000	
RESTAT	472,000	494,000	522,000	542,000	555,000	562,000	
Potential Support Ratio							
AR2018	3.2	3.0	2.7	2.5	2.5	2.4	
RESTAT	3.5	3.4	2.9	2.7	2.6	2.5	
Potential Growth Rate							
AR2018	4.8	4.2	3.8	3.2	2.5	2.0	
RESTAT	6.5	5.8	3.4	2.9	2.3	1.9	3.2

[1] *For more information on the methodology see the 2018 Ageing Report: Underlying Assumptions and Projection Methodologies.*

For the RESTAT scenario, the high positive net-migration flows are assumed to only last by 2021. Subsequently, total population is projected to increase to reach 562,000 in 2040. The potential support ratio which is the number of people aged between 15 and 64 in relation to an older person aged 65 years or more, would amount to 2.5. Potential growth rate is estimated at an average growth rate of 3.2 per cent. Compared with the AR2018 scenario, higher employment leads to higher GDP growth between 2018 and 2021 where it is assumed that migration remains in line with recent trends. Then, as expected, potential GDP growth converges to the AR2018 scenario over the long-term.

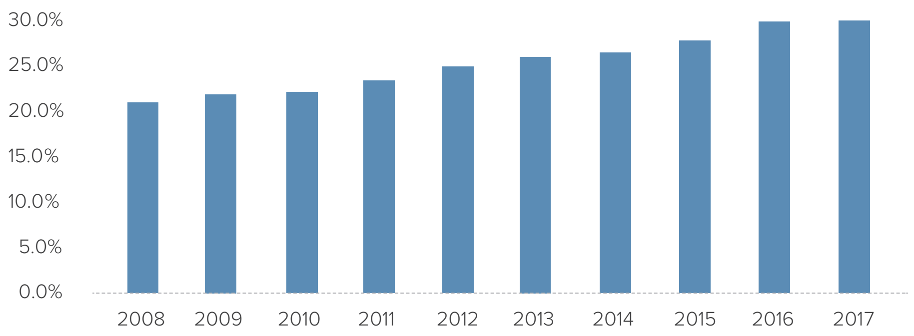
3.4.5 **Higher Education and Training**

Arguably, going beyond the supply of capital, the quality of human capital also plays an important role in determining the growth potential of the economy. In this regard, it is evident that Malta has potential record gains, by focusing on enhanced educational outcomes.

Malta's tertiary education attainment improved steadily over the past years. Indeed, the share of the population aged between 30 and 34 that attained a tertiary level of education reached 30.0 per cent in 2017, whereas in 2008 the rate stood at 21.0 per cent. The share of tertiary education attainment in Malta by females stood at 41 per cent, while that of males stood at 27.7 per cent. Similarly, the share of employees attaining a tertiary level of education in Malta increased by 7.2 percentage points to 25.8 per cent in 2017 with improvements recorded by both male and female employees. Notwithstanding this improvement, Malta's tertiary education attainment is still below the EU average.

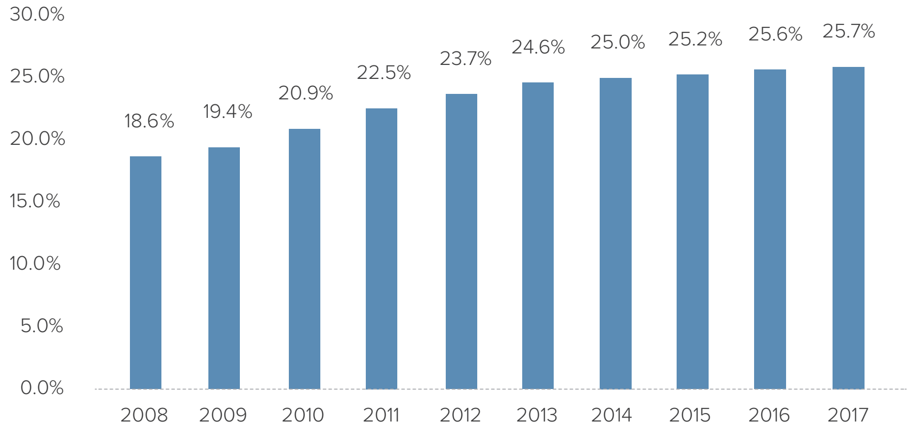
The adult participation in learning measuring the share of people aged 25 to 64 years participating in education or training also improved over the past years. In 2017, Malta was nearly at par with the EU average with the percentage of adults participating in education or training standing at 10.1 per cent.

Figure 3.6
Population Aged 30-34 Years Attaining a Tertiary Level of Education



Source: Eurostat

Figure 3.7
Employees Attaining a Tertiary Level of Education



Source: Eurostat

Thus, while the education system in Malta has recorded improvements, there is certainly room for gains in educational outcomes, gains that could contribute towards consolidating the transition towards an economy that reaps the benefits of education, generates wealth and supports gains in the quality of life.

3.5 **Conclusion**

In recent years, Malta has managed to obtain a strong external position with a sizeable current account surplus, showing marked positive development in services. Furthermore, during the 2014 to 2017 four-year period, nominal unit labour cost on average declined as the average growth in labour productivity outweighed the average increase in compensation per employee.

The influx of foreign workers is creating unprecedented opportunities that are set to be amplified through gains in educations outcomes. In the context of an ageing population, these developments are likely to have a strong positive bearing on economic growth over the next decades.

In the light of the links between investment in human capital investment and potential output, higher education attainment is also likely to bring about a significant improvement in the distribution of income apart from supporting the ongoing structural transformation of the economy.

04

Waste Management Infrastructure

4.1 EU's Strategy Towards a Circular Economy

Transitioning towards a more circular economy can lead to considerable benefit to any country. Apart from reducing environmental pressures, contributing towards the global climate commitments and contributing towards reaching the Sustainable Development Goals, a circular economy will reduce the dependency on imports. At the same time, it could result in increased competitiveness for the industry, thus leading to increased job opportunities.

The transition to a circular economy requires Member States to use the EU waste hierarchy as a guiding principle, in order to make use of resources in the most efficient manner and create less waste. On top of the waste hierarchy is waste prevention, followed by product reuse, product recycle, energy recovery and landfilling as the less optimal scenario. It is only through the use of this guiding principle that the circular economy's full potential can be reached, both in economic and environmental terms.

The Paris Agreement, adopted in December 2015, aims to hold global temperatures below 2°C above pre-industrial levels and will pursue efforts to limit the temperature increase to 1.5°C. In order to achieve this goal, countries are required to contribute to climate change mitigation and adaptation, whilst making substantial changes to their economies. Parties adhering to the Paris Agreement need to implement effective policy measures in order to ensure that such target is reached. Through more circular economies, it was estimated in fact, that half of the gap towards the Paris Agreement goal could be reached[2].

[2] *Circle Economy; Ecofys, 2016. Implementing circular economy globally makes Paris targets achievable, Available at: http://www.ecofys.com/en/publications/circular-economy-white-paper-ecofys-circle-economy*

4.1.1 New Waste Directives

The latest EU measures on waste are an important step towards a circular economy. The new directives will phase out landfilling and promote the use of economic instruments, such as the extended producer responsibility schemes, with the aim of stepping up recycling of municipal and packaging waste, when prevention of such waste is not possible. The amount of landfilled municipal waste must be reduced to no more than 10 per cent of the total municipal waste generated by 2035. At the same time, extended producer responsibility schemes will be mandatory for all packaging by 2024. New recycling and landfilling targets aim to improve waste management in the EU. The target for recycling of municipal waste was set at 65 per cent by 2035, while the recycling targets for packaging waste varies from 30 per cent (wood) to 85 per cent (paper and cardboard). Apart from seeking to reduce further food waste and marine litter, the new directives also include new separation collection rules for hazardous household waste (by 2022), bio-waste (by 2023) and textiles (by 2025), with the aim of boosting the quality of secondary raw materials, as well as their uptake.

4.1.2 EU Strategy for Plastics in the Circular Economy

The EU Strategy for Plastics, which is part of the EU's transition towards a more circular economy, was adopted in January 2018 with the aim to transform the way plastics and plastic products are designed, produced, used and recycled. This strategy seeks to stimulate the market for recycled plastics through the better design of plastic products, higher plastic waste recycling rate and better quality recyclates[3]. This regulation specifies that all plastics packaging should be recyclable by 2030, whilst calling for the reduced impact of single-use plastic. In this regard, in May 2018, the European Commission has proposed an EU-wide ban on the 10 single-use plastics found littering beaches and seas surrounding Europe mostly, including straws, cutlery and cotton buds. In line with this proposal, Member States would also be required to collect at least 90 per cent of single-use plastic bottles by 2025.

[3] *Recyclates are secondary raw materials that can be used to make high-quality new products.*

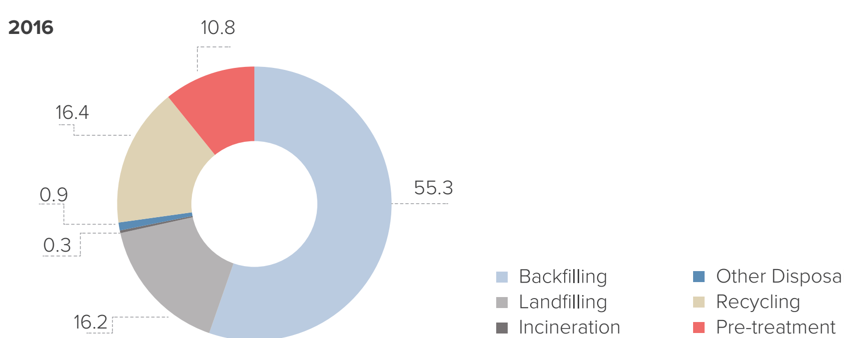
4.2 Malta's Strategy

Malta is obliged to recycle 50 per cent of paper, plastics, metal and glass waste from households by 2020. Also by 2020, the EU Landfill Directive[4] stipulates that only 35 per cent (based on 2002 levels) of biodegradable municipal waste can be landfilled. By 2030, the common EU target is to recycle 65 per cent of municipal waste and 75 per cent of packaging waste, and to reduce landfilling to only 10 per cent of municipal waste.

4.2.1 Benchmarking Malta's Performance

The provisional total solid waste generation in 2016 was 2.0 million tonnes. Malta registered the fourth highest level of municipal waste per inhabitant in the EU after Denmark, Cyprus and Germany, with 621 kg per inhabitant generated in 2016 compared to 482 kg per inhabitant which is the EU average[6].

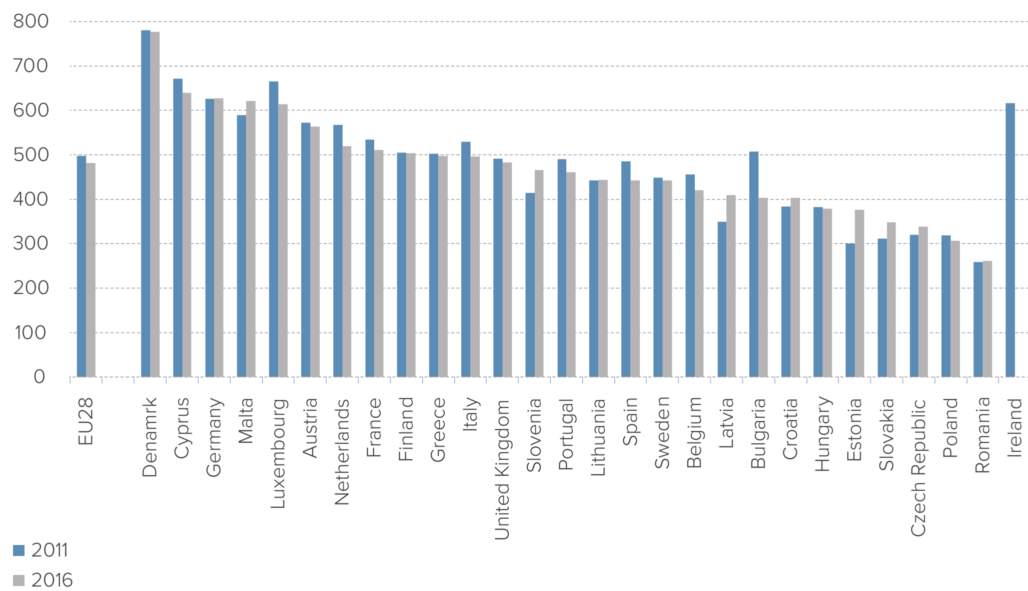
Figure 4.1
Waste Treatment in Malta, in 2016, in Per Cent



Source: NSO

[4] *NSO – NR 026/2018 of 15 February 2018*
[5] *Eurostat – env_wasmunn extracted on 19 June 2018*

Figure 4.2
Municipal Waste Generation, 2011 and 2016, in KG per Inhabitant.
Note: Data for Ireland for 2016 was not available



Source: Eurostat

4.2.2 **Cost of Landfilling**

Literature asserts that the quantification of externalities from disposal of waste can be grouped by two dimensions, first whether the externality is a cost or a benefit, and secondly, whether the externality is fixed or variable. A fixed externality should be understood as an externality that does not vary with the amount of waste and include disamenity costs. Variable externalities are more directly related to the amount of waste generated.

Further, externalities should be divided into external costs and external benefits. A negative externality, is any loss of human wellbeing associated with a process, which is not already allowed for in its price; such as greenhouse gases, air pollution and the impact of emissions to soil and water from waste disposal. On the other hand, the recovery of electricity from an incineration plant is a positive externality.

Due to constraints arising from the scarcity of land and resources, waste management in small island states such as Malta require special attention. Malta's reliance on landfilling is not sustainable. The Waste Management Plan 2014-2020 has committed, and delivered, two studies on the potential export of waste against its local treatment using waste to energy technology. In 2017, the Minister for the Environment, Sustainable Development and Climate Change set up a Committee to review the various studies which were carried out within the context of the overall waste management practices and infrastructure. The final report of the Committee was published in February of this year through a Position Paper titled "Technical Report on the setting up of a waste to energy facility in Malta".

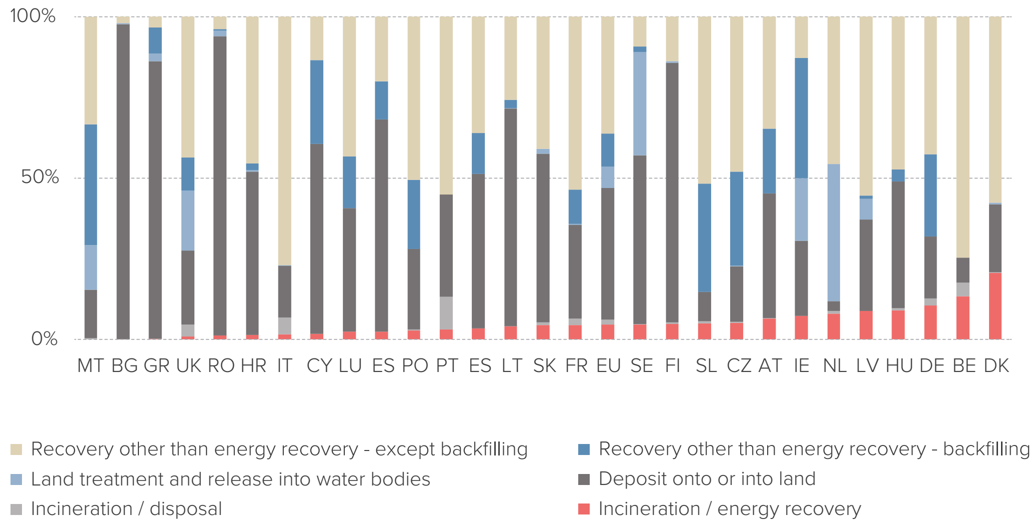
The main characteristics of the proposed incineration plant as included in the Report are presented in Section 4.3.

Landfilling costs are typically affected by the costs of land acquisition, capital expenditure and development costs, operating costs, restoration and aftercare costs. In addition to these, costs of incineration include and are affected by the plant utilisation rate, maintenance costs, the treatment and disposal/recovery of ash residues, the efficiency of energy recovery and the revenue received for energy delivered.

4.3 **Waste to Energy**

As can be noted from figure 4.3, there are substantial difference in how waste was treated in 2014 in the EU. On average, waste in the EU is mostly treated through land treatment and release into water bodies (40.7 per cent) and recovery other than energy recovery except for backfilling (36.2 per cent). Malta was the only EU country which did not treat any waste through incineration with energy recovery. Furthermore, only 0.4 percent of the waste in Malta was treated with incineration for disposal in the same year.

Figure 4.3
Waste Treatment in 2014



Source: Eurostat

4.3.1 Incineration and its Advantages

Incineration is the controlled combustion of waste in order to 'destroy' most of the mass thereby reducing the amount and volume of waste requiring landfilling and altering its chemical composition generally by transforming it into less hazardous material. Incineration of municipal solid waste brings about a reduction in mass of about 70 per cent but, more significantly, a reduction in volume of 90 per cent.

Whilst it is essential for countries to respect the waste hierarchy, by first trying to reduce waste, the use of waste-to-energy processes is identified as an important instrument in ensuring a sustainable circular economy, as it helps reduce landfilling whilst generating energy. In fact, through the waste-to-energy process, incineration can be used to produce electricity, heat and even fuel, whilst the ash produced can be utilised by the construction industry. Incineration is the most widely used method to turn waste into energy, by burning waste at ultra-high temperatures.

The use of incineration for the treatment of waste has a number of advantages over landfilling. Since incineration can burn a large proportion of the waste, it facilitates waste management, thus reducing the reliance on landfilling. Consequently, the problems of contamination of groundwater and soils are mitigated.

Nonetheless, incinerators can lead to air pollution, especially if the latest technology in pollution reduction is not adopted. The energy generated from incineration is another advantage of this type of waste treatment, if used to generate electricity, heat or fuel. Member States are encouraged to invest in the most efficient incinerator plants so as to ensure that the amount of energy recovered from waste is high.

As mentioned above, the advantages of incineration over landfilling are considerable, especially when using the latest technology. At the same time, Malta recognises the need to attain the right balance between incineration and recycling and initiatives are being prioritised also with respect to the latter. Apart from the ongoing campaign by WasteServ Malta entitled 'Don't Waste Waste', which encourages the use of the waste hierarchy as a guiding principle, the Government intends to continue promoting recycling through the introduction of both fiscal incentives and fiscal disincentives. The Government is planning to fine those that do not recycle, whilst considering incentives for the introduction of plastic bottle returns.

4.3.2 Characteristics of the Proposed Incineration Plant

Various EU countries with similar populations to Malta have Waste-To-Energy (WtE) facilities as part of their Waste Management infrastructure.

The assumptions contained in the model for Malta aim to achieve at least 60 per cent recycling of municipal waste by 2030 and that municipal waste does not grow at a greater rate than 0.74 per cent per annum between 2015 and 2030 (by weight) and that waste generated post 2030 remains constant, i.e. no further growth in waste.

Despite the various studies carried out regarding the cost of operations of both the Waste to Energy Plant and the Export alternative, costs remained subject to uncertainties, rendering the long-term financial case of choosing one over the other rather difficult. However, it is ascertained that a national strategy of a sovereign island state cannot be based on permanent arrangements to export waste and thus being exposed to strategic risks in case of changing regulations and political scenarios.

The challenges in having a waste incineration plant is that the indicative capital cost of a moving grate incinerator is an investment of between €88 million and €114 million. There are also operational and skill challenges to run and maintain a WtE plant.

Moreover, if recycling were not to be pursued and improved, the capacity of the proposed facility would not suffice. In this light, Malta remains committed to up the ante when it comes to recycling. A WtE can only be justified if it forms part of a national strategic policy that is based on low waste growth and high recycling.

Hence, the eventual development of a WtE facility must be carried out in parallel with a comprehensive campaign to attain the targets for recycling, established in various EU directives and the Waste Management plan for the Maltese Islands, 2014 – 2020.

05

The Budget's Priority Areas

5.1 **Introduction**

The Maltese economy continues to show robustness with buoyant employment growth and record low unemployment rates. This in turn is providing pathways to higher living standards and improved quality of life.

Economic prosperity has continued to mean increased social justice. The Government continued to increase pensions and the in-work benefits while reducing taxes for labourers and pensioners. It has increased the minimum wage as well as introduced progressive monetary supplements to working families. Through the increase in allowance for carers, the Government has allowed more individuals to continue to live in their homes. The severely disabled have also seen increases in their incomes year on year.

The Government has continued to invest in health and education as well as in national security and the justice system. Our country needs to continue improving its housing stock while the Government will be addressing the challenge of the household rental market.

Going forward, the new economy brings new challenges but also new opportunities.

Economic prosperity means sustainable development, which means more caring for the environment that includes improvements in air quality. The comprehensive energy reform has been a success in this regard. The Government will now focus on addressing the challenges faced by waste management.

The reliance on landfill sites is not sustainable in the long term. In the coming years, Government will be addressing the management of waste disposal, with major investments in the incinerations of waste utilising the latest and most up to date technology.

The Government will also continue with its programme of upgrading Malta's infrastructure by invest in roads, ensuring sustainable development and providing incentives for alternative forms of commuting.

The forthcoming budget will continue to address these new challenges brought by the economic success, while at the same time addressing social obligations.

5.2 Continuing to Protect the Environment

The increase in economic and income generation, is also contributing to an increase in the generation of waste. With a view to securing better value from waste, during 2018, the separate collection of organic waste was launched. This will become a mainstream of the way we manage waste.

Separately collected organic waste offers the opportunity not only to generate clean energy from this fraction, but, by virtue of its separate collection, the resultant treated waste can be used as a soil conditioner in agriculture.

Malta is a country that suffers from a lack of economies of scale and it is therefore Government's intention to consolidate all waste management operations at Magħtab. This will not only provide the opportunity for establishing a national waste management nucleus but will also avoid unnecessary vehicular movements between plants. Moreover, Government has announced its plans to also locate a Waste to Energy (W2E) facility within the Magħtab waste management complex.

The approved waste package policy, has set onerous targets with the obligation to recycle 65 per cent of all municipal solid waste and to limit the amount of waste that can be allowed to landfill to 10 per cent.

The Government will be looking at initiatives which could further its intent to reduce the amount of waste generated as well as to treat waste fractions generated in such a manner that their resource value may be recovered with added value.

During this year an agreement was reached with the Local Councils Association with a view to better charting their role in waste management. This plan of action, which will include an aggregated method of collection of waste, a limitation on the frequency of mixed waste (black bag) collections and a significant increase in enforcement measures, will start to be rolled out this year. The proposed littering regulations have integrated the obligation for individuals to comply with local council waste collection schedules and made it an offence not to place the right bag for collection on the right day. Cognisant of the damage being caused by single use plastics not only from a resource perspective but also from an environmental one, the Government will be promoting the use of more environmentally friendly alternatives.

It will also continue to contribute towards mainstreaming a greener economy. In line with Budget 2018, the Ministry responsible is studying the different potential means for green financing and for green incentives with the ultimate aim to transition all economic activities towards greener practices.

The Government is also committed to continue conserving Malta's natural assets for the future generations. Following the completion of designation of both terrestrial and marine protected areas, the Government will ensure protection of such heritage by taking appropriate necessary action to enhance their strengths and mitigate their weaknesses and by promoting positive socio-economic implications from related activities.

Ambjent Malta will be given a prominent role in the management of Malta's countryside. It is Government's intention to reach out to all stakeholders with a view to engaging them in the management of our natural capital as well as to realise the intangible value of such sites.

Following the publication of, and consultation on, the Vision Document for Malta's transition to a Low Carbon Development economy, work will continue concerning the development of the strategy document charting out the actions that need to be taken to make a tangible difference for a 2050 horizon. In relation to these efforts, the Government will continue to work within the National Energy and Climate Plans Framework to ensure the continued reduction in greenhouse emissions for a better quality of life.

Concerning the agricultural sector, the National Agricultural Policy is intended to provide a clear direction to all relevant stakeholders. The Government will be supporting this sector by ensuring that the complex legal framework of the agricultural operators is simplified.

Work will continue on the reform of the Pitkalija in order to ensure that Malta's main hub for local horticultural produce works efficiently and provides high quality services.

The Maltese Government intends to continue its efforts in promoting further animal welfare practices, ensure the sustainability of fish stocks and retain, and possibly enhance, the competitiveness of fishermen.

5.3 Investing in the Infrastructure and Public Transport

The Government is committed to the revolution of the country's infrastructure, the implementation of innovative projects and the promotion of efficient transport while ensuring sustainable development.

Transport infrastructure is one of the pillars of any economy. In light of this, it is a priority for the Government to invest in Infrastructure Malta, which is the new agency entrusted with the responsibility to plan and to manage the building and maintenance of the road network, with a mandate to upgrade the country's road infrastructure within seven years.

The Government will also carry-out the relative studies that will lead to the conceptual design of the tunnel to link the two islands, Malta and Gozo.

The Government is also working on a number of initiatives which supports the use of alternative means of transport to address the issues of traffic congestion and improve air quality.

Additionally, the maritime and aviation sectors are growing at a steady pace with the Malta flag for both sectors being in high demand. In order to continue supporting such industries, the Government will continue investing in both sectors.

The Lands Authority has started a rigorous process of digitalisation towards improved efficiency as well as focusing on different measures to ensure transparency in its processes.

5.4 Sustainability in Energy and Water Management

Ensuring a secure, affordable and sustainable supply of water and energy resources is a key requirement to sustain the economic development of our country as well as the wellbeing of our citizens.

The Water Services Corporation (WSC) will continue to further expand the distribution of new water targeting the Agricultural Sector, to a wider range of users. WSC intends to continue with its investments in the upgrading of reverse osmosis plants to provide a better distribution and good quality drinking water.

The Energy and Water Agency (EWA) will continue the implementation of its national water conservation campaign, which will address all consumers, and support them with the adoption of efficient water use practices.

During the coming year further identification of significant flood risk areas in Malta and Gozo, and the mitigation measures, will be carried out.

With respect to energy, the focus will continue to be on the decarbonisation of the energy system, and the Government shall continue to provide support to residents and industries to incentivise investment in renewable energy sources and energy efficiency measures.

Enemalta plc will continue its investment in the reinforcement of the electricity distribution network and on the continued improvement of customer service.

The Government will continue increasing awareness on Energy Efficiency through various programmes.

5.5 Strengthening Institutions and Regulatory Authorities

In December 2017, Malta has transposed the fourth Anti-Money Laundering Directive (AMLD IV) into national law, incorporating the latest Financial Action Task Force (FATF) Recommendations in the field of anti-money laundering and counter-terrorist financing.

Indeed, amendments were made to the Prevention of Money Laundering Act following which the Government set up an Anti-Money Laundering Unit to ensure coordination of the various stakeholders' efforts against money laundering.

A National Risk Assessment of the main economic activities was also carried out. Subsequently, the Government launched the National Anti-Money Laundering and Combating the Financing of Terrorism Strategy and Plan. These will act as an institutional framework to supervise, gather intelligence on, and take all necessary action against financial crimes. The Government has already started implementation with the establishment of a National Coordination Committee, with its own permanent secretariat.

The Government will continue with its drive to address fiscal evasion. The fight against tax evasion and improved tax compliance is spread across all economic sectors through a further allocation of resources. The three types of control, pre-registration, post-registration and control visits, have been strengthened, translating into immediate follow-up action on any tax leakage.

Malta's Customs gives high priority to the fight against smuggling, illicit trade, organised crime and terrorism not only for security reasons but also to promote a level playing field in the commercial sector and to safeguard Government's revenue. The Government will continue to invest further within the department of customs both by way of other non-intrusive tools and technical assistance.

The initiatives taken in the last two years by the Malta Stock Exchange (MSE) are reaping results, whereby through its Alternative Markets Platform, is giving an alternative competitive financing route for Small and Medium Enterprises (SMEs). Recently, the MSE formed a subsidiary company (MSX) to continue the internalisation and expansion of the MSE by entering into joint-venture agreements.

The Malta Development Bank was set-up to address market failures by offering financing facilities to support productive and viable operations when the market is unwilling or unable to accommodate them. The Bank's operations will target the provision of facilities to SMEs and infrastructure projects that contribute to national or regional development. Thus, it will be complementing and supplementing the operations of market players in the financial system, rather than offering any form of competition.

The Comprehensive Spending Reviews are establishing frameworks that seek to phase out unnecessary expenditure, reduce waste and inefficiencies and ensure a better match between public programmes and policy outcomes. In this regard, a new directorate tasked with Public Sector Performance and Evaluation has been set up. A director has been appointed and the institution building is underway, where a number of officers are expected to be recruited during this year.

An extensive training programme, partly financed through the Structural Reform Support Programme (SRSP), will be carried out with the scope of improving human resource capacity.

At the request of the Maltese Government, this year Malta undertook a Fiscal Transparency Evaluation (FTE) exercise in conjunction with the International Monetary Fund's (IMF) Fiscal Affairs Department. Such an exercise is in line with Government's objective for effective fiscal management and accountability.

5.6 **A Hub for Digital Innovation**

Over the last two decades, Malta moved away from low value-added activities towards knowledge-based sectors. It has managed to distinguish itself, especially in recent years, across a range of activities including financial, corporate and fiduciary services.

One of Malta's main economic pillars is online gaming, registering constant and sustained growth during the last few years.

Currently Malta is considered as one of the leading jurisdictions in this sector, having a legislative framework that has been described recently by IMF as being exceptional. The Government will continue to strengthen this sector by enacting new legislation that will see the betterment of existing legislation. New niches, such as Fantasy Sports, will also be developed and nurtured.

While continuing to strengthen Malta's online gaming industry and the financial services sector, the Government has also been successful in attracting new economic sectors. The emergence of new disruptive technologies such as Distributed Ledger Technology (DLT) has added impetus to this drive as DLT promised to change radically how business is done, how data is handled and how digital assets are owned.

Malta aims to place itself at the front-end of this revolution. It will be offering legal certainty to a space that is at present totally unregulated. This will be achieved by encouraging innovation and investment as well as having a clear and transparent legislative framework that can also be utilised in Artificial Intelligence and Internet of Things, two new areas that will be given priority during the next few years.

This new sector has the potential to grow and contribute to Malta's economic growth at par with other major economic sectors. Apart from attracting further investment, this sector will also enrich Malta's human resources and increase productivity as it attracts highly skilled individuals to Malta.

Closely related to this is the development of Fintech and Regtech, that is the combination of financial services to technology. Fintech as well as Islamic Finance are areas that Malta will be developing further in its drive to move this sector towards higher value added and make it more resilient to external shocks.

For Malta, to further develop its potential of becoming an attractive alternative to the world's main international financial centres, its legislative framework and regulatory bodies, need to continue evolving. Following legislative changes earlier this year, further changes are envisaged that will see the Malta Financial Services Authority (MFSA) adopting a more modern structure and will render it more proactive and able to move faster.

The proliferation of new and emerging technologies, together with new legislative developments at an international level, will have impact on financial services, online gaming and intellectual property, among other sectors. Malta needs to lead in this area by being proactive, open to business, and by strengthening its legislative framework and institutions.

5.7 Fostering Competitiveness and Sustainability

Through the Malta Enterprise Corporation, the Government will be launching new incentives to support businesses in reducing costs and encouraging increased investment in research and development. The Government will be restructuring intellectual property services and launching a new Trademark Act that allows for the possibility of registering in Malta new types of marks.

Building an ecosystem for start-ups is crucial for fostering innovation in the Maltese economy. For this purpose, the Government will be launching several initiatives including the Risk Investment Scheme and the Accelerator Programme.

Malta Industrial Parks Ltd (MIPL) is focusing on the model of integrated business parks to be able to accommodate clusters of industry. In addition to the option of horizontal expansion of industrial space, MIPL is exploring the possibility of vertical expansion in selected areas and is also testing the market appetite for Public Private Partnerships in the development of Industrial parks. MIPL has and shall keep on increasing its efforts to ensure an effective tenants' association in each industrial estate. The greening of industrial estates will also be top priority. With regards to the aviation sector, MIPL is also working on a comprehensive master plan for the Luqa area, in close collaboration with the Ministry for Tourism.

In response to Malta's surge in economic activity, Identity Malta has embarked on a business process reengineering exercise in order to heighten its performance, without compromising its security checks. In accordance to this, the new student VISA policy has simplified the immigration process for non-EU students, which will in turn boost Malta's competitiveness as an educational hub.

One of the agency's key measures is to continue to reduce bureaucracy when companies apply for the necessary work and residence permit on behalf of their prospective employees who are still abroad.

In the recent months, the Malta Residency and Visa Programme (MRVP) continued to gain international reputation as a Residency by Investment Programme that is of a qualitative nature, and legally robust. In view of the aforesaid and given that various countries have Residency by Investment Programmes in place, the Malta Residency Visa Agency (MRVA) will continue to successfully manage the Programme's operations with due diligence and care. MRVA will continue to suggest changes in the respective legal framework in order to make the Programme more attractive without jeopardising quality.

The Ministry for Foreign Affairs & Trade Promotion will continue to sustain Malta's economic growth through enhanced efforts to promote trade via its network of missions. The substantial growth of Malta's economy has increased the need for foreign workers. This phenomenon has entailed additional operational pressures on some of our missions, especially in adopting a more efficient and speedier processing of visa applications. Apart from the engagement and training of our consular staff, a Visa Action Plan to improve the service being provided will be implemented. This Plan includes an upgrade of the current operative software. Bilateral meetings will be stepped up in the coming months to support the above initiatives.

The Planning and Priorities Coordination Division (PPCD) will continue working to ensure the efficient absorption and management of European funds, through effective coordination across Government Departments, Authorities, Agencies and other stakeholders. Moreover, as part of its work, PPCD will continue ensuring that the projects supported are results oriented.

Throughout 2018, elements of the new financial package and Commission regulatory proposals have been unveiling for post-2020. PPCD will be ensuring that the notions of simplification, proportionality, and reduction of administrative burdens will be recognised and taken in account when negotiating the draft legislation for the post 2020.

The Business Enhance programme has helped hundreds of businesses in Malta access EU funds. Throughout 2019 the Measures and Support Division (MSD) will work to drive uptake amongst enterprises under the Business Enhance ERDF Grant Schemes initiative while stepping-up the completion of supported projects under this initiative.

5.8 **Investment in Tourism**

Tourism continues to be an important sector of the national economy, making an essential contribution towards economic growth. Tourism in Malta has registered exceptional growths, with 2017 being the eighth consecutive year of delivering overall increases for Malta's tourism sector, and another year of records. Inbound tourism increased by 16 per cent, reaching 2.3 million. Tourism expenditure grew, with tourists contributing over €1.9 billion to the local economy while a historic record of 16.5 million bed nights were generated.

The first four months of 2018, started off with a remarkably positive performance. NSO data for the period January to April 2018 points to another extraordinary performance with the number of inbound tourists recording a double-digit growth of 18 per cent, reaching the figure of 647,921. In addition, nights spent by tourists and tourist expenditure mirrored the excellent performance in the number of tourists, resulting in an additional €40 million injection into the Maltese economy. Record performances have also been registered in the cruise market sector.

These positive results are mainly attributed to a multi-pronged policy approach to tourism and Malta's efforts in securing and expanding air connectivity mainly through an airline route development strategy. The strategy aimed at increasing volumes in a sustainable and managed manner is also bearing fruit. This strategy involved channelling growth into the low season months and improving year-round connectivity.

This success is also the result of important decisions taken in the past months related to Air Malta's adoption of a business plan that focuses on growth. This made it possible for Air Malta to introduce more competitive fares, launch a number of new routes not served by other carriers, increase its fleet and increase frequency of flights on the most popular routes, thus increasing connectivity to Malta.

The intention is to continue adopting a multiple approach strategy to tourism growth. The Government will continue working with the different stakeholders to refine and improve the tourism product offer. This will entail further efforts to maintain proper upkeep of public facilities, beaches and infrastructure, and to ensure security and safety, particularly in tourism zones whilst several capital projects are also in the pipeline.

Cognisant of the important role of Malta's cultural tourism offer in attracting tourists during all months of the year, more efforts will be dedicated to tap on the opportunities for further developments in this area.

This includes the expansion of the national events calendar to feature a year-round variety of events of a cultural, entertainment, religious, musical and commemorative nature. The continued monitoring of industry development, especially in terms of service-provider evolution, through legislative updates and compliance, will also remain one of Government's priorities.

5.9 **Ensuring Prosperity in Gozo**

Gozo continues to experience an exciting period of greater prosperity and economic growth. This is the result of a series of investments spear headed by the Government's vision to introduce new economic and knowledge based niches in Gozo. The Ministry for Gozo is committed to strengthen and enable more strategically targeted investment over the coming decade.

Understanding that Gozo's priorities and needs are different from Malta's, the Ministry for Gozo initiated a process leading to the design of a Gozo Development Regional Plan. The Development Regional Plan, which includes a skills gap analysis, establishes a vision of where Gozo ought to be by 2030. The vision is that of securing an innovative, rejuvenated and connected island that delivers social and economic prosperity for all while at the same time conserving its unique rural, cultural, and natural characteristics.

The Government is creating the necessary foundations that will continue to attract quality and value add jobs in Gozo. The commissioning of the alternative fibre connectivity link is now well advanced while the Invest Gozo Unit within the Ministry for Gozo is being set-up.

Infrastructure and connectivity are important pillars for the Gozitan economy. Therefore, the Government embarked on an unprecedented road building programme, targeting arterial roads, which for years, were neglected and had become a safety hazard. Challenges stemming from Gozo's ageing population will also be addressed.

With tourism accounting for more than fifty per cent of Gozo's GDP, the Government will invest significantly in 2019 and coming years to strengthen the tourist experience. Several master plans for touristic locations have been drawn-up while others are near completion.

5.10 Ensuring Better Educational Outcomes

The Government will continue investing in Education for a more equitable quality secondary education. My Journey: Achieving through Different Paths is the Secondary Reform designed to enable all students in Malta's educational system to select a relevant route that sustains best their abilities. The intended inclusive and comprehensive equitable quality learning programmes for the compulsory secondary schooling structure is driven both by the values of inclusion, social justice, equity and diversity and the four main targets of the Framework for the Education Strategy for Malta 2014-2024.

The Government will continue to invest in educators for their continuous professional development and to continue empowering them with the necessary tool to provide the best education to our students. Educators will also be trained in educating gifted students. The Institute for Education will continue to provide the necessary training to strengthen pedagogy skills and promoting new teaching methods. The Institute aims to continue to develop courses to support supply teachers in different levels to undertake further training.

For the Academic year, 2018/2019 the free and supervised transport offered also to all students will commence. This initiative will not only help families economically but will enhance traffic management and reduce traffic congestions.

The Government will continue investing in Life Long Learning while Government, together with the main Educational Institutions, will revise the classification of courses offered by the University of Malta, MCAST and other licensed Educational Institutes according to the Industry's needs.

5.11 Commitment to Greater Social Justice and Social Inclusion

The Government remains committed to its strategy of prosperity with a purpose. The stronger economy means that Government can guarantee and improve essential services including more income and care for senior citizens and people with disability.

The In-Work Benefit and the Taper of Benefits measures have achieved a major shift from dependency on welfare to employment which is the best pathway out of poverty. The study of the In-Work Benefit scheme, confirms that by the end of 2017, over 3,000 claimants were benefitting from this measure. In the meantime, the study of the Taper of Benefits scheme shows that some 2,400 claimants, mostly women, have elected to enter the labour market and benefit from the taper of benefits.

The Government will continue to attach greater importance to a fairer distribution of income. One of the major achievements last year was to reduce markedly the rate of people at risk of poverty and those materially deprived. Since 2014, the Government has reduced the rate of poverty and social exclusion from 24.0 per cent in 2013 (based on 2012 income) to 20.1 per cent in 2016 (based on 2015 income), as reported by Eurostat.

Over the same period, the number of people at risk of poverty or social exclusion was reduced by 16,000. Moreover, the new minimum wage, the continued increases in pensions and the new tax refund will ensure that the rate of poverty will continue to decline sharply into the foreseeable future.

The Government is committed to continue to improve the income of pensioners to make up for a 25-year period in which no additional adjustments were made to pensions. Through the 2017 Budget, over 22,000 pensioners started paying less taxes on pensions, whilst 9,000 pensioners stopped paying tax altogether. The ceiling on which income from pension is tax exempt was also raised enabling more pensioners to no longer pay tax. This year, the Government has continued to increase pensions, where over 90,000 pensioners benefitted. Past anomalies are also being rectified in respect of members of labour corps set up before 1979, former licensed port workers and police officers.

Government's actions in the social services arena are multi-varied. Suffice to say that this year, it made a substantial improvement in carer benefits, with the aim of encouraging more senior citizens to live in their own homes; increased the reimbursement of expenses incurred by parents in adopting foreign children; stopped the discrimination against young orphans who are in employment; raised the foster care allowances; and extended sickness benefits to widowers who work and receive a contributory pension.

Various proposals to address the new challenges presented by both rental prices and property prices will be put forward in a White Paper to be published for public consultation. The aim of the White Paper will be the formulation of a legal framework that will be fair to both property owners and tenants. The Government is also investing around €50 million to build around 700 additional social housing units.   This is the initial phase of a more extensive programme over the next few years.

5.12 High Quality Health Care that Puts Patients First

The Government will continue to invest in the upgrading and refurbishing of the health infrastructure.

Cancer survival will continue to be a priority for the Government as new medicines and new treatments continue to be explored. Furthermore, the continuation of the prevention programme for such chronic diseases will; reduce the diseases and the related deaths, improve the overall health of the patient and reduce the related health cost. In addition, the remote patient monitoring system for chronic diseases will introduce electronic medical equipment for the patient's home. This measure will reduce outpatient appointments and hospital admissions, and improve the management of chronic diseases and wellbeing of the patients.

The health system will continue to be strengthened through further preventive screening programmes; carrying out of awareness campaigns and the further expansion of the Government National Formulary to increase the availability of free medicine treating more diseases.

5.13 Reforms in the Justice System, Cultural Heritage and Responsive Local Councils

In Justice, the Courts Department is committed to increase the number of acts, which can be filed online, to provide better accessibility to the Justice System. The Mediation Centre will continue to promote the advantages of alternative dispute resolution and encourage mediation as a means to reach a final settlement, this with a view of decreasing substantially the present backlog of court cases and alternatively, disputes would be settled in a short time.

The European Union's new General Data Protection Regulation (GDPR), seeks to build and enforce a protection framework to deal with breaches of privacy. The Government will ensure that the Maltese Public Service and Public Sector are fully committed to the application of the data protection principles and legislation.

Various measures will be implemented to create a National Inventory of Intangible Cultural Heritage with a view of including elements of the traditions, activities and practices already recognised as national importance to the national identity and to be included in UNESCO's World Heritage List of 2019. The cultural policy shall be updated to embrace new challenges, such as multi-culturalism, diversity and inclusion.

The Local Government will continue to invest in carrying out major infrastructural projects within their locality and carry out the necessary upkeep and maintenance of these projects. The Local Councils will also be encouraged to propose initiatives that address the issues of well-being or a healthy lifestyle for local citizens. The Government will continue to improve the cleansing and upkeep of the Maltese islands.

The Malta Medicines Authority as a forward-looking regulator working in transparent dialogue with stakeholders has managed to transform the pharmaceutical industry into an innovative, patient focused and optimised sector. The process of transformation will be renewed through targeted initiatives aiming at extending the regulatory remit of the Authority to medical devices with a view to consolidate the skills and expertise available at National level. The Authority will continue developing the regulatory framework for cannabis for medicinal purposes to ensure that Malta is the jurisdiction of choice for world leaders in the area.

Accessibility of medicines will remain a priority, particularly taking into consideration new safety features to be introduced for medicinal products.

5.14 **Strengthening National Security**

The strengthening of national security, both locally and beyond our borders, will again feature highly on Government's agenda.

During 2019, the Malta Police Force (MPF) will pursue its goal of evolving into intelligence-led policing and the setting up of regional hubs.

Armed Forces of Malta (AFM) will continue with the ongoing five-year project to upgrade and refurbish a number of its facilities and premises while continuing to enhance assets.

The Civil Protection Department's (CPD) will continue to invest in fire fighting vehicles to address new realities.

The Corradino Correctional Facilities (CCF) will be continuing with the implementation of an awarded EU funded project focusing on the educational needs of the inmates and their employability.

The Government remains committed to the principle of solidarity in the context of migration and asylum to ensure that no Member State is left alone in the event of disproportionate pressures. Collaboration with the relevant EU agencies and other Member States will continue at a steady pace. The Government will also continue ensuring that Malta's concerns on migration and security are voiced at the European and International level.

5.15 Strengthening Human Rights, Equality and Social Dialogue

During the first months of 2018, the Vote 16+ reforms following constitutional amendments were approved unanimously by Parliament. This means that, all 16 and 17-year olds will be eligible to vote for the very first time during the forthcoming European Parliamentary elections which will be held in May 2019.

The Government will continue strengthening mechanisms that combat Gender-Based Violence and Violence against Women. Towards this end, it has launched a national strategy and an action plan and introduced the necessary legislation to implement the Istanbul Convention.

The Government will also strengthen the fight against human trafficking.

The Government also has a mandate to start discussions on prostitution. Its main objectives are combating sexual exploitation and the identifying exit strategies for vulnerable persons who are unable to quit prostitution. Another reform which the Parliamentary Secretariat for Reforms, Citizenship & Simplification will be focusing on throughout 2019 is that on the use of cannabis. Research evidence shows that within the European Union, including Malta, children, at very young ages, are experimenting with alcohol, tobacco, cannabis and other drugs. It is for this reason that this issue needs to be addressed at its core by establishing a mechanism to identify the problem at an early stage. The Government will also facilitate the access to alternative means of recreation by providing space for arts, music and sport among others.

The Government will be embracing a harm reduction approach for adults above the age of 21 years by considering measures to regulate the market and will continue to invest in existing infrastructures and rehabilitation services. A Technical Committee will embark on a two-year project that aims to foster a gender-sensitive Parliament through a package of initiatives and amendments.

There is a growing consensus that Malta is witnessing a fundamental transformation in the employment world. MCESD has an important role to play at the forefront of the future of work debate. MCESD will be widening its representation of social and civil dialogue, enhance its relevance and improve the efficiency and effectiveness of its operations.

Throughout 2019, MEUSAC will seek to further consolidate its role as the Government agency that brings citizens closer to the European Union. Amongst the initiatives that MEUSAC will undertake in 2019 is the organisation of the first in a series of Europa forum events that will serve as a platform for discussion and debate on the European Union and its future.

5.16 Voluntary Organisations, Youth and Sports

Following the introduction of Vote 16, the Government is committed to strengthen the Youth Parliament by encouraging more participation and giving young people under 16 the necessary skills to enable them to take responsible decisions and understand better their important role in society.

The Government also wants to develop creativity and further promote the performing arts culture in youth.

The Government's commitment towards supporting and encouraging the work carried out by registered Sports Organisations and the investment in athletes will continue.

The Government will be engaging itself in information sessions and coming up with a targeted campaign for the benefit of the Voluntary Organisations.

5.17 **Conclusion**

Malta is prospering in a context of higher living standards, increased social justice and a more inclusive society that cares for those in need and accepts increased social diversity.

While the economy has prospered, the Government placed public finances on a sound footing recording a surplus for the second consecutive year and consistently reducing the debt burden on Maltese and Gozitan families. In line with European and international standards, several measures to combat money laundering, tax evasion and fraud have been implemented, while various reforms to strengthen the country's justice system, the institutions and good governance were introduced.

We succeeded in reducing the number of people living at the risk of poverty or social exclusion and we are confident that the increases in pensions, the minimum wage, in-work benefits, progressive monetary supplements will continue to reduce poverty even further.

We have enhanced the quality of our country's health care by upgrading the health care infrastructure, ensuring better health care services and increasing the availability of free medicines. We will continue investing in health care while also directing our efforts to ensure affordable and social housing.

We continued to direct our country to higher value-added, knowledge-based sectors comprising a range of activities including professional, financial, gaming, corporate and fiduciary services. The Government has also been successful in attracting new economic sectors including Fintech, Islamic Finance and medical and educational tourism.

The sustainability of our economy now depends on our young people becoming better qualified to meet the demand of a dynamic labour market. It also depends on the Government ensuring that the infrastructure is upgraded to sustain the new level of economic growth and the environment is better protected with increased uses of greener and cleaner energy, sustainable water sources, as well as better waste management.

This way, the Government is ensuring that the quality of life for all Maltese and Gozitan citizens is indeed enhanced.

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