PRE-BUDGET
CONSULTATION DOCUMENT

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GOVERNMENT OF MALTA
MINISTRY FOR FINANCE
AND EMPLOYMENT

X'pajjiż tixtieq tħalli lil uliedek?

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FOREWORD

2021 has been a challenging year for economies worldwide. Markets and industries are still having to confront significant issues originating from the pandemic, such as disturbances in various industry logistics and human resources. Demand and supply in different markets have been affected, and returning to a stable landscape, especially in the manufacturing sector, will take some time.

Prospects of economic recovery have become more attainable following the vaccine roll-out, yet there still exists an element of unknown in terms of what the upcoming months look like.

Countries that have an extended vaccine roll-out have seen notable economic progress, as the broader economy re-opens. This momentum is expected to continue in the coming months. While new, aggressive variants that impede the current growth dynamic can never be excluded, there certainly is an added advantage for countries with thorough vaccine roll-outs, as opposed to others who are behind. Malta has performed well in this regard, regularly topping vaccine uptake charts, and proving that the substantial financial investment has helped the recovery both in terms of health and the economy.

The Government has proactively indicated a policy of solid investment towards saving lives and people's livelihoods. This investment, mainly due to IT being made earlier on, proved a successful one.

During the pandemic, unemployment has remained low and stable, incomes remained steady, individual restrictions were minimal, while peer-reviews of Malta's management of the Covid-19 health challenges were deemed very positive.

To combat the devastating effects that the Covid-19 could have brought upon families and businesses, the Government invested millions of euros in schemes and assistance. Although this resulted in a substantial deficit, it is a fact that Malta's debt to GDP ratio still ranks well when compared to neighbouring European countries. However, this should not allow complacency to creep in, as Malta's deficit reduction targets are as ambitious as our response to the pandemic was.

This adjustment must be balanced out with policies, and their financial backing, towards sustainable growth. The upcoming budget will focus on consolidating current economic and social sectors which have delivered for this country over the years, such as tourism and manufacturing.

Malta must also ambitiously look into new areas of economic growth, such as sustainable energy and digital innovation, and be forward-looking and aggressive in its pursuit.

Such focus must be within the background of creating a country where people enjoy living in it - and this is why more investment needs to go into the environment. The budget should not and will not be solely about numbers and growth. It must look into having a green and social agenda integrated into all its aspects.

All this must be paired with sensible spending from the Government and its entities to extract the maximum value out of every euro spent.

Another priority of this budget will be to ensure that the revenue that the state is owed, is truly received. While the Government is committed to not raising taxes, it is committed to fostering tax morality, fighting tax fraud and tax evasion.

Tax evasion has often been characterised as some Mediterranean affliction that is part of the landscape; this will no longer be the case. Just as employees pay their total tax owed, so must everyone else, no ifs and buts. Through such efforts, coupled with continuous economic growth, the Government will not only sustain the costs of past and current expenditure related to the pandemic and the support schemes that have followed, but also create the foundations for sustainable economic growth for the future.

If we truly want our education to become world-class, for our healthcare systems to remain free, for our infrastructure to continue its upgrading and for our social safety nets to remain and grow, we must ensure that every euro owed makes its way to the public coffers. This is a cultural shift as much as it is an administrative one, but it must be implemented assertively, rationally and fairly.

Clyde Caruana
Minister for Finance and Employment

A GLOBAL PANDEMIC: A LOCAL PERSPECTIVE

1

1.1 Macroeconomic Developments

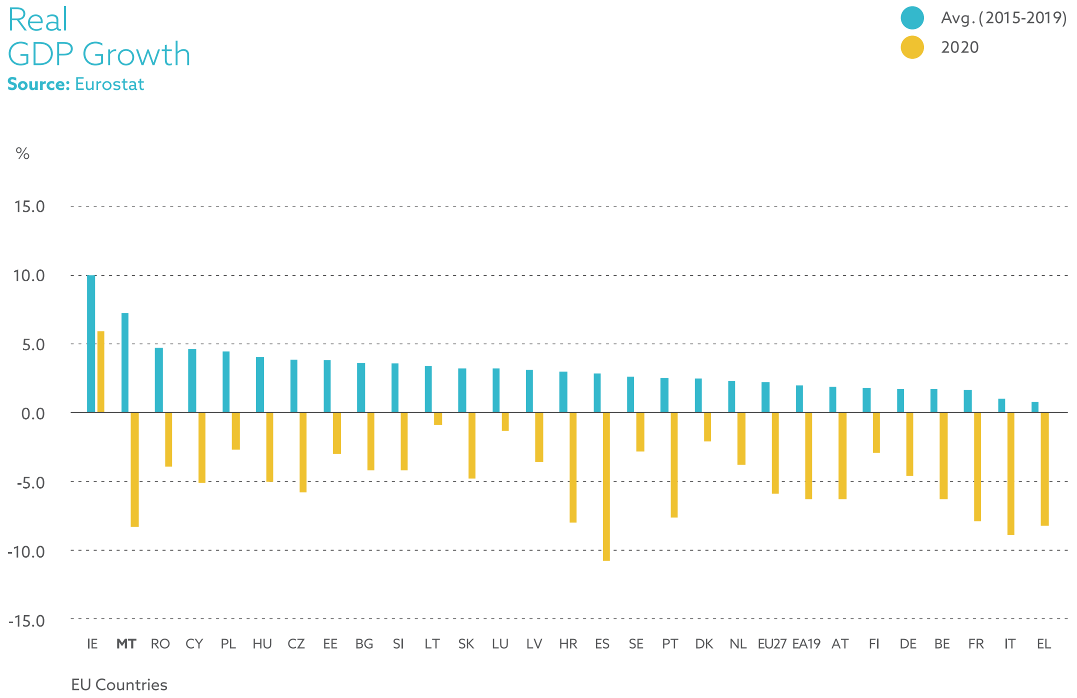
At the beginning of 2020, the world faced the start of a new reality - a global pandemic - which not only posed serious unrecognisable dangers to health systems, but also constituted an unprecedented level of instability for the world economies. Unlike previous economic crises, which while impactful on the economy, allowed a normal and continuous operating level, this crisis, shaped by the pandemic, resulted in a complete shut off of key economic sectors. In many ways, policymakers and business leaders had no previous rulebook on how to deal with such a scenario. Towards 2020Q2, countries were forecasting not only a morbid health crisis, but also very grim forecasts for their economies. The 2020 Spring Forecast published by the European Commission, forecasted an average decline in the Gross Domestic Product (GDP) of 7.7 per cent in the Euro Area (EA) and 7.4 per cent in the European Union (EU) for 2020. Italy was the first country to be severely impacted by the Covid-19 pandemic, and had to impose stringent measures, at the time perhaps also seemingly draconian, to curb the spread of the virus. Across the EU, member states adopted different strategies to limit the health and economic impact of the virus.

Economic Performance

On 9th March 2020, Malta took the unprecedented step of closing air routes to a number of European destinations, effectively kick-starting the process of shutting down the tourism sector. According to the World Travel and Tourism Council (WTTC), this sector contributed to 15.9 per cent of the Maltese economy.

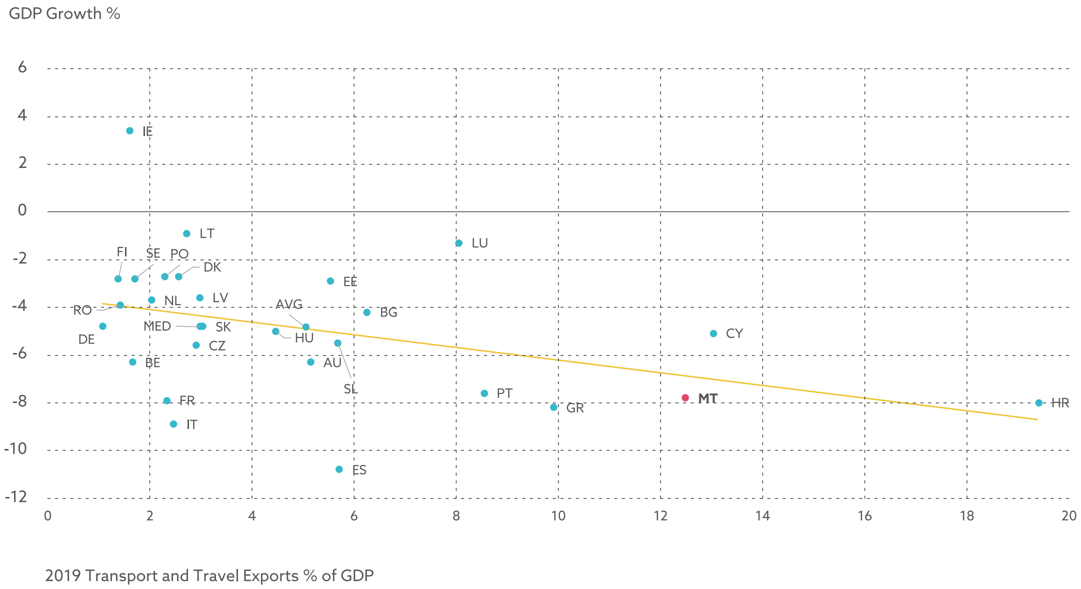
Malta's economy experienced increased economic growth rates during recent years, with the economy growing at an average of 7.2 per cent between 2015 and 2019, registering the second-highest average growth rate among EU member states during this period. As a result of the Covid-19 pandemic, the Maltese economy contracted by 8.3 per cent in 2020.

Figure 1.1
Real GDP Growth
Source: Eurostat



The economic impact of Covid-19 across the various Member States was not uniform. The service sectors bore most of the damage due to the infectious nature of the virus. Economies which have traditionally been heavily reliant on tourism such as Malta, Cyprus and Greece, witnessed the most profound declines in transport and travel exports relative to GDP. The sheer size and importance of these sectors contributed to a decline in GDP which was proportionally higher than that experienced in the other Member States.

Figure 1.2
2019 Transport & Travel Exports as a % of GDP vs. 2020 GDP Growth
Source: Eurostat



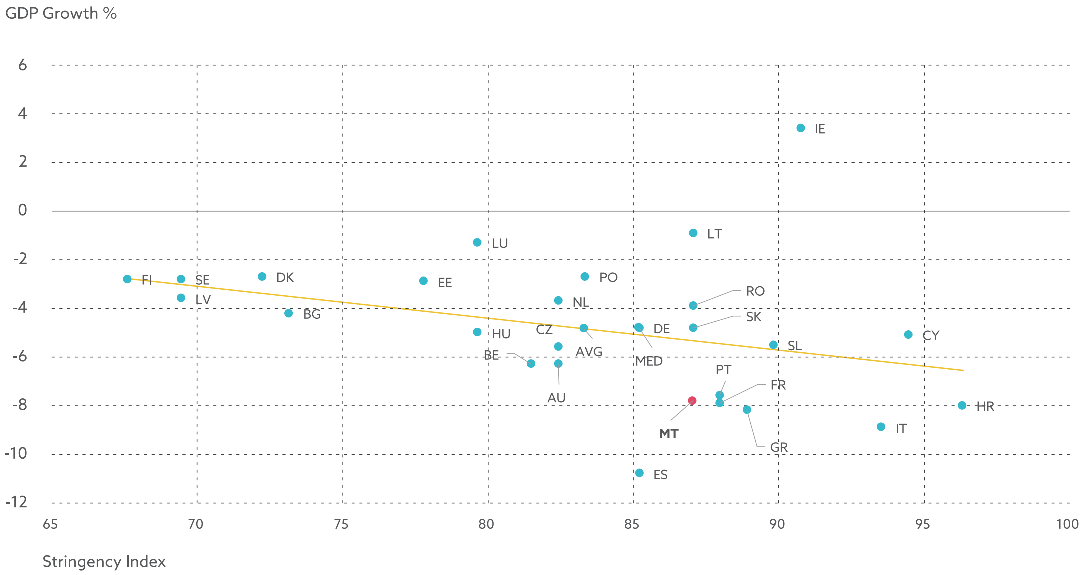
In Malta, the diversification of the economy over the years prevented a much bigger fall in economic activity. In fact, other important sectors such as remote gaming, information and communications, pharmaceuticals, electronics, construction and real estate, proved to be notably resilient, and mitigated some of the economic repercussions of the pandemic. Had it not been for these sectors, the decline in GDP would have been much more significant.

As cases started to spread, some countries decided to impose strict restrictions while others were more lenient. In general, those Member States which adopted more stringent policy measures (higher stringency index) registered a stronger decline in economic performance in 2020 (bigger decline in GDP). The stringency index is calculated as a mean score between zero to hundred, based on nine metrics, including school closures, workplace closures, cancellation of public events, restrictions on public gatherings, closures of public transport, stay-at-home requirements, public information campaigns, restrictions on internal movements and international travel controls.

Figure 1.3

Max Stringency Index vs. 2020 GDP Growth

Source: Eurostat

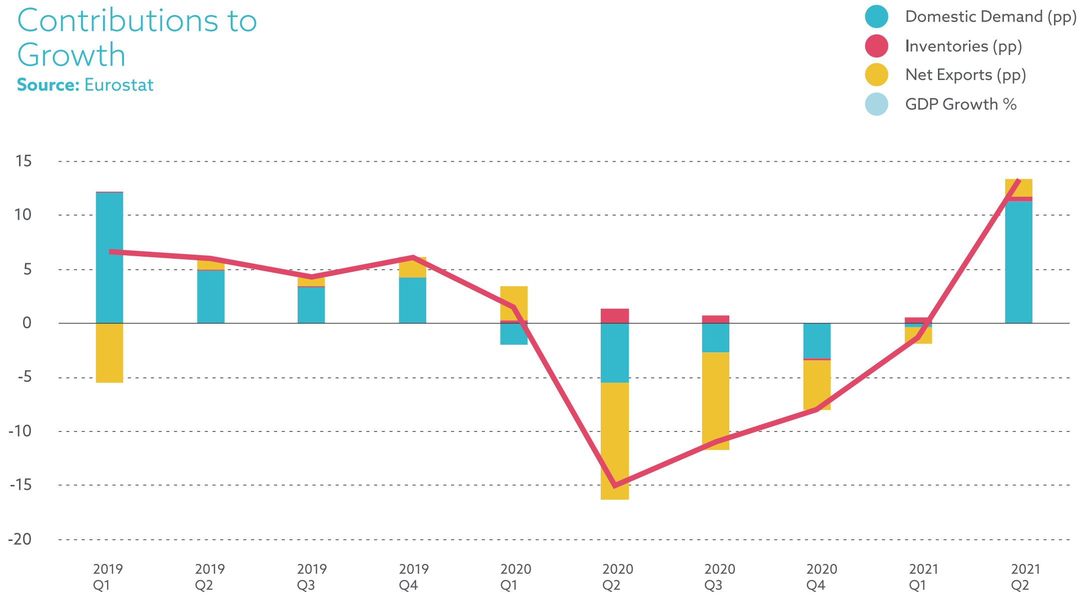


During the second quarter of 2021, as restrictions were being eased, the Maltese economy registered an increase of 13.4 per cent in real terms, when compared to the corresponding period last year. Such results indicate that the Maltese economy grew by 5.6 per cent in real terms and by 6.9 per cent in nominal terms during the first half of 2021. The main driver of growth in 2021Q2 was domestic demand (consumption and investment) contributing 11.4 percentage points.

In fact, private household consumption registered an increase of 14.7 per cent, with growth registered in all consumption categories, while investment increased by 23.6 per cent in real terms, reflecting a regained confidence surrounding the outlook for the economy. Increases in both the private sector (30.1 per cent) and the public sector (4.5 per cent) contributed to the growth in investment. This increase was mainly driven by growth in transport equipment, and metal products and machinery. Government expenditure declined by 1.7 per cent in real terms.

Exports increased by 10.7 per cent in 2021Q2. This was primarily driven by exports of services (11.4 per cent), and to a lesser extent by exports of goods (6.4 per cent). Imports also increased by 10.3 per cent, in 2021Q2, primarily driven by imports of goods (33.1 per cent) and to a lesser extent by imports of services (3.1 per cent).

Figure 1.4
Contributions to Growth
Source: Eurostat



Gross Value Added (GVA) growth stood at 13.8 per cent in the second quarter of 2021. Growth was recorded in all sectors, with the highest growth recorded in the wholesale and retail trade sector (which grew by 25.2 per cent), followed closely by the arts, entertainment and recreation sector (which grew by 22.5 per cent). Other significant growth rates were recorded in the industrial sector (16.5 per cent) which was driven primarily by the manufacturing sector (15.4 per cent).

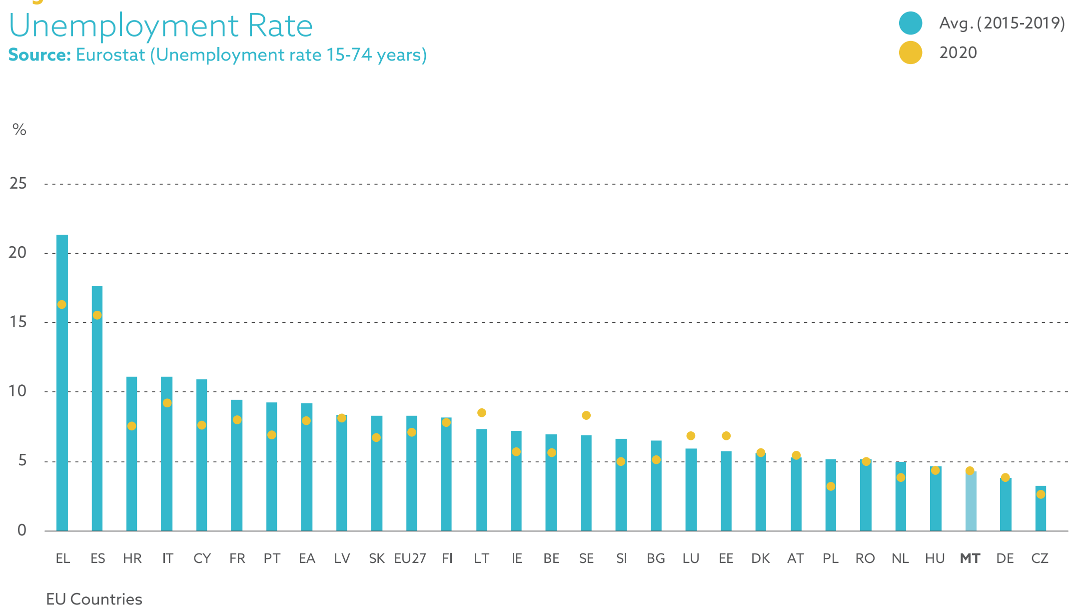
Labour Market

During the past five years, the unemployment rate (for persons aged 15-74) has followed a downward trajectory, declining from 5.4 per cent in 2015 to 3.6 per cent in 2019. In 2019, Malta registered a record low unemployment rate of 3.6 per cent, 3.1 percentage points lower than the EU average. During the same period, Malta's average unemployment rate stood at 4.3 per cent, the third-lowest average rate amongst EU member states. In 2020, Malta's unemployment rate increased marginally by 0.7 percentage points.

Figure 1.5

Unemployment Rate

Source: Eurostat (Unemployment rate 15-74 years)



During 2021, the unemployment rate started to decrease steadily, successfully falling below the 2019 level, at 3.3 per cent in July. Youth unemployment was the fifth-lowest rate in the EU at 10.6 per cent, during the same period.

This positive performance was mainly the result of the Covid-19 pandemic financial packages provided by the Government, in particular the wage supplement scheme which safeguarded the income of around 100,000 employees. Such schemes also enhanced regularisation in the labour market helping to further contain the increase in the unemployment rate.

In 2020, Malta's employment rate (20-64) stood at 77.4 per cent, increasing by 0.6 percentage points over the previous year. In this regard, Malta surpassed both the EU and EA averages by 4.9 and 5.6 percentage points, respectively. As a matter of fact, Malta registered the highest year-on-year employment growth in 2020 when compared to other member states. Overall employment growth stood at 2.7 per cent in 2020. The policy measures in response to Covid-19 were instrumental to alleviate the impact of the pandemic on the labour market and to enhance regularisation, so as overall employment increased.

Figure 1.6
Change in Employment Rate (2019-2020)
Source: Eurostat

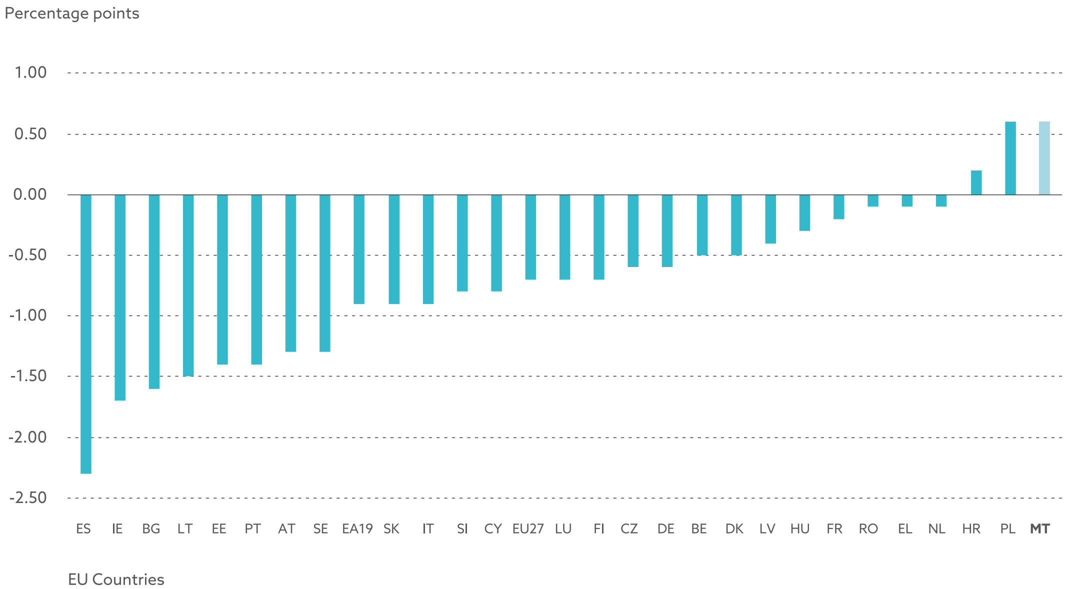


Figure 1.7

Percentage of Trade in Goods Excluding Specific Chapter by Continent/Region: Jan-Jun 2021[1]

Source: NSO

Table 1.1

Imports, Jan - July 2021

Source: NSO

Region	Top 3 Countries
European Union (56.2%)	Italy (€335.0 mill.), Germany (€142.0 mill.), France (€138.4 mill.)
Asia (25.3%)	China (€128.3 mill.), India (€85.6 mill.), Korea (€33.8 mill.)
Other Europe (11.9%)	UK (€128.2 mill.), Turkey (€59.3 mill.) and Russia (€5.5 mill.)

1. *As from the publication relating to the January 2021 reference period, the format of the NSO news release changed. The main enhancement was the reporting of statistics that exclude specific chapters, namely mineral fuels, oils and products (Chapter 27), aircrafts/spacecrafts and parts thereof (Chapter 88) and ships, boats and floating structures (Chapter 89). These are categories which are dominated by one-off transactions that could weigh heavily on the overall headline figures. Therefore, while the official figures remain those for total trade, data excluding these specific chapters is, in many cases, more suitable to analyse underlying economic trends.*

Table 1.2

Exports, Jan - July 2021

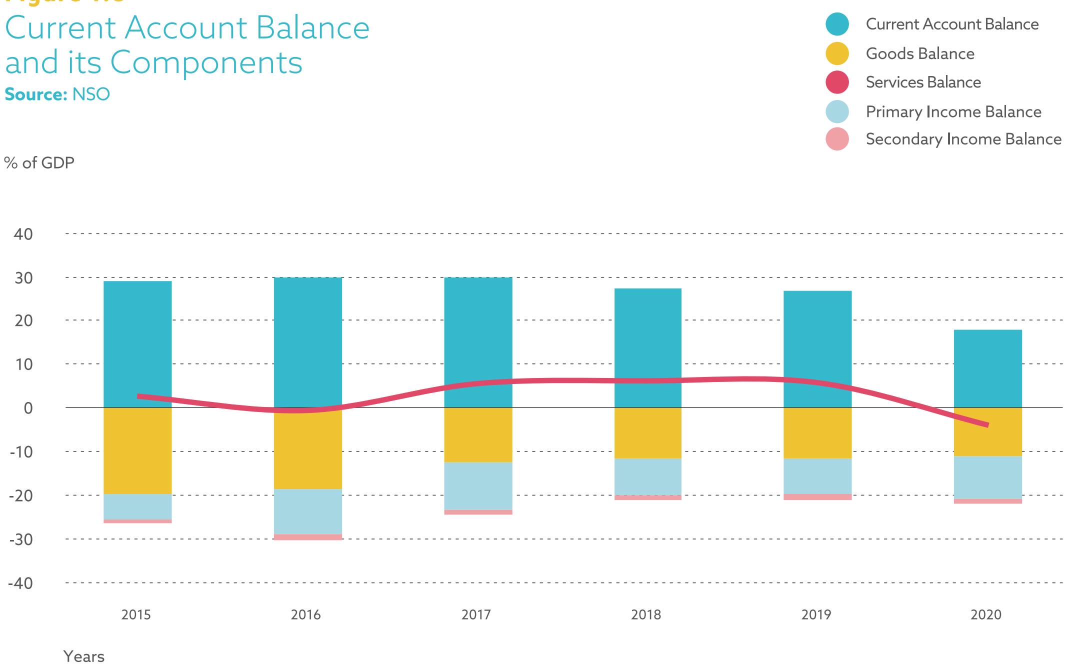
Source: NSO

Region	Top 3 countries
European Union (49.1%)	Germany (€141.8 mill.) France (€93.3 mill.), Italy (€54.5 mill.)
Asia (22.2%)	Singapore (€47.0 mill.), Hong Kong (€45.2 mill.), China (€26.2 mill.)
Africa (13.0%)	Libya (€27.4 mill.), Sudan (€19.4 mill.), Ghana (€17.8 mill.)

Figure 1.8

Current Account Balance and its Components

Source: NSO



The current account focuses on flows related to goods, services and income between Malta and the rest of the world. Over recent years, Malta has recorded a surplus owing to a strong net export balance, reaching a peak of 5.7 per cent of GDP in 2019 from a -6.1 per cent in 2010. However, due to the Covid-19 pandemic, the current account recorded a deficit of 3.6 per cent of GDP in 2020. The current account deficit largely reflected a reduced services net exports balance, mostly attributable to a decline in tourism activity and an increase in the net imports of other business services.

Throughout the first quarter of 2021, the current account improved to a deficit of 1.3 per cent of GDP, with net exports of goods and services amounting to 7.4 per cent of GDP. Additionally, the primary income net payment balance reached 7.5 per cent of GDP and the secondary income account recorded a net payment balance of 1.1 per cent of GDP.

The net international investment position takes stock of the amount of foreign assets and liabilities held in Malta; at the end of 2020, Malta held around €258.6 billion in assets and €250.8 billion in liabilities. Most of the assets are held in the form of either portfolio or direct investments, while most of the liabilities are held in the form of direct investment. The overall net international position at the end of 2020 stood at 61.3 per cent of GDP.

Malta's trade with the United Kingdom (UK) post-Brexit

The UK is Malta's second-largest trading partner, with 9.0 per cent of imports in the last five years coming from the British Isles. A significant trade deficit was recorded in 2020, with import values amounting to €425.2 million and export values amounting to €46.0 million. Prior to the EU-UK Trade and Cooperation Agreement (TCA) there was a risk that Malta's importers would have to pay around 5.0 per cent tariffs on their purchases. However, this cost was avoided by the TCA between the two parties as trade in goods was not subjected to tariffs, provided that the product respects the rules of origin agreed upon, by the parties.

Additional costs that trade in goods must face, relate to custom procedures in the form of fees for administration and declarations, administrative burden and time lost in processing. Other costs for trade that are difficult to quantify, include specific licences to import and export certain goods, such as chemicals, alcohol and tobacco. Another barrier to trade is mutual recognition.

Whilst there is an agreement between authorities to cooperate with regards to regulation and standards in the production of goods, companies wishing to operate in both economies must now respect two different regimes. Some simplified arrangements exist in certain areas; however, problems still exist especially in the pharmaceutical industry where the TCA does not contain a wholesale mutual recognition of regulatory regimes. Products will therefore be regulated in the UK, separately from the EU, and firms will need to comply with both sets of requirements.

Trade data for the first six months of 2021 suggests that export values have fluctuated to some extent over time, from 2019, with increases in overall exports recorded in 2021. Imports decreased significantly over the two six-month periods. In fact, imports for the first six months of 2021 were below pre-Brexit levels. It is important to note that Brexit and Covid-19 have almost occurred simultaneously and the impact of either one of these on trade, is not clear cut.

Figure 1.9
Imports
Source: NSO, MFIN

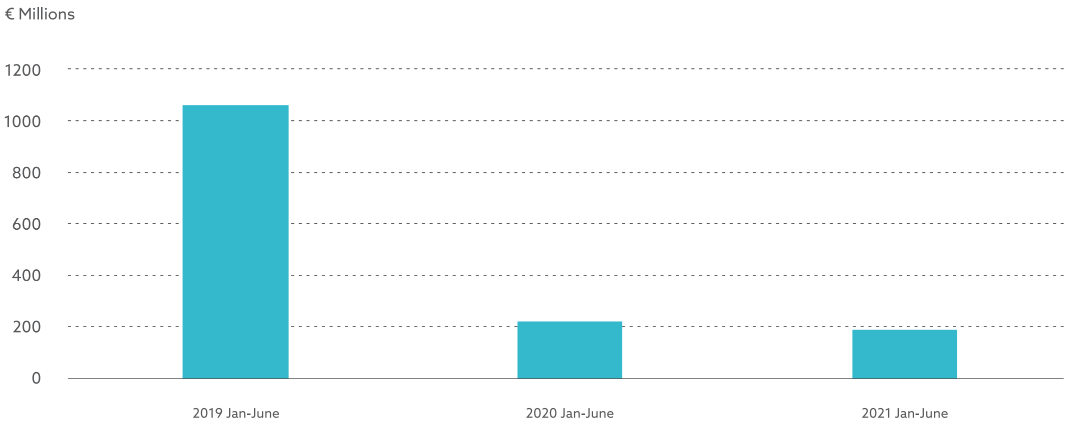
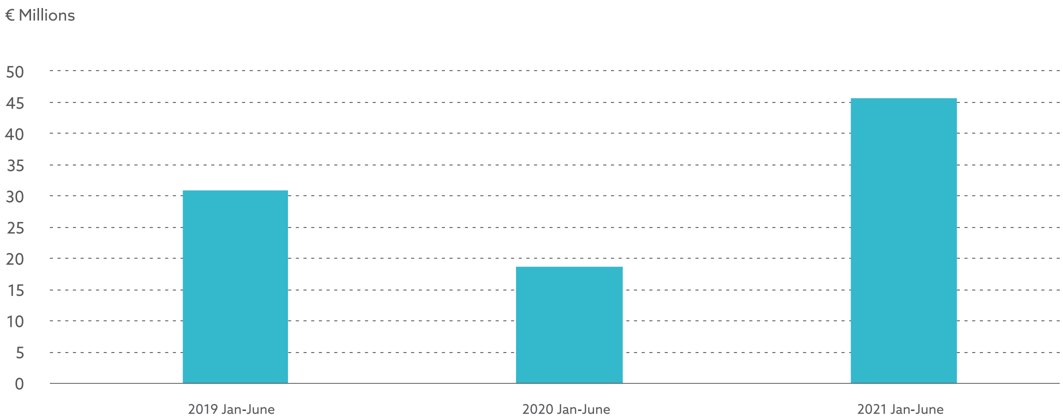


Figure 1.10
Exports
Source: NSO, MFIN



1.2 National Response to the Global Pandemic

A broad range of policy measures were implemented to limit the impact of the pandemic. The initial policy response sought to lower the number of infections, to avoid an overloading of the acute healthcare system and to limit the number of casualties. To this end, in an initial response, the Maltese Government intervened to contain the spread of the virus through a series of prevention, containment, control and treatment measures, implemented and enforced across sectors and within society. In addition, further healthcare funding was necessary to address hospital capacity, medical equipment and protective gear requirements.

Subsequently, fiscal policy measures were put in place to cushion the economic impact on revenues, incomes and liquidity, consisting of discretionary policies with a direct impact on the budget, as well as liquidity-oriented measures. Several policy measures which had been put in place to cushion the impact of the pandemic in 2020, were extended in 2021.

Table 1.3
Pandemic Response Actions and Measures, 2020
Source: MFE

Actions/ Measures	€ millions
Wage Supplement Scheme	373.2
Tax Deferrals	215.0
Various medical supplies and equipment in relation to Covid-19	74.1
Economic Regeneration Voucher Scheme	43.4
Reduced tax on the transfer of immovable property	50.1
Cargo Transportation & Repatriation Costs	50.0
Additional funds to the education sector	10.3
Short-term social measures	14.5
Quarantine Leave	3.6
Interest Subsidy Scheme	0.7
50% Utility Bill/ Rent Subsidy to Businesses	3.0
7 cent reduction in the price of petrol & diesel	7.3
Refund of Port Charges & Container Discharge Fees	1.0
Tax Refund to Workforce	12.3
Assistance for Postponed Weddings & Voluntary Organisations	1.1
Reimbursement of Commercial Licences	4.4
Other (Elderly Care)	3.0
Other tourism-related expenditure (incl. cancellation of licences & fees)	6.5
Total estimated cost	**873.5**

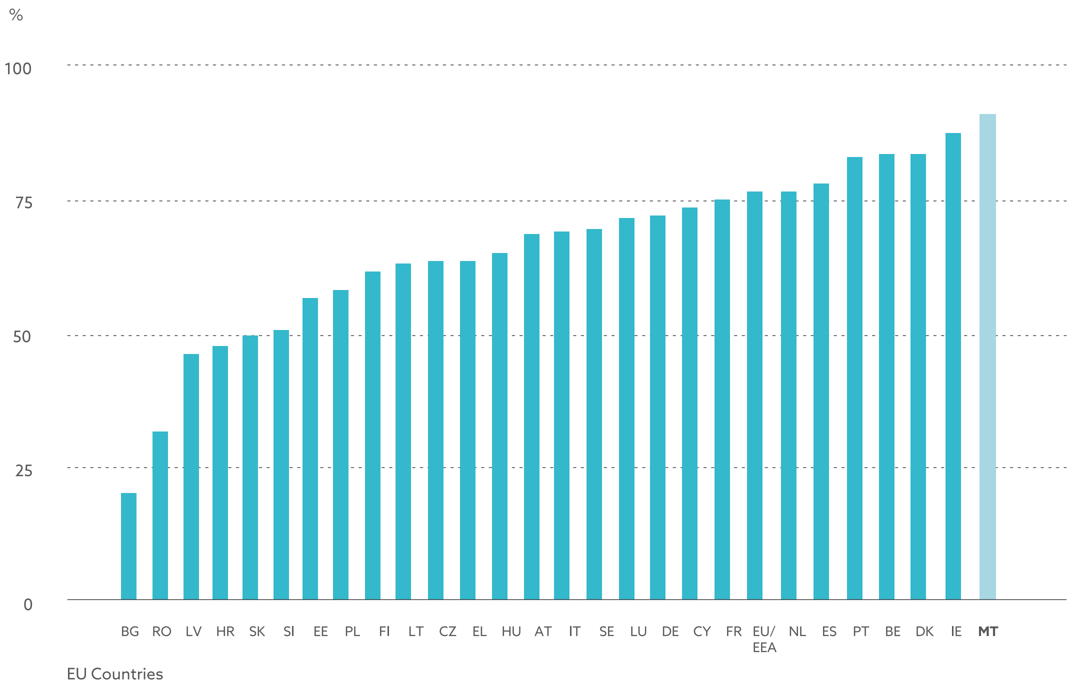
Total Government expenditure related to Covid-19 measures is estimated to amount to €660.4 million in 2021.

Healthcare expenditure related to the pandemic included outlays needed to address hospital capacity, the purchase of medical equipment and protective gear, the repatriation flights to bring Maltese nationals and residents, home, and to carry cargo and urgent medical supplies for hospitals, following the ban on travel. The Government directed €74.1 million towards procurement to address the pandemic. €1.7 million were spent on assistance to homes for the elderly, while expenditure for the acquisition of bed space to transfer the elderly from Gozo's General Hospital to a private facility totalled €1.3 million. It is estimated that the Government will spend around €50.0 million on procurement to address the pandemic during 2021.

Figure 1.11

Cumulative Uptake (%) of Full Vaccination Among Adults (18+)

Source: ECDC Covid-19 Vaccine Tracker (as at 01/09/2021)



At the beginning of September 2021, Malta achieved the highest Covid-19 vaccination rate within its EU counterparts, with 90.8 per cent of the adult population in Malta being fully vaccinated, compared to 76.5 per cent of the EU/ EEA average. Clearly, the Government's immediate efforts to purchase vaccines and early rollouts have paid off, with Malta being at the forefront of its peers in this area.

In the absence of Government support, a counterfactual analysis suggests that the economy could have lost around 16.0 per cent of its output. Model simulations also suggest that the fiscal support measures in 2020 mitigated these negative effects and cushioned the economic impact of the pandemic by at least 4.0 per cent of GDP. The simulations also show that the extension of measures announced by the Government to further support the economy in 2021, are justified when considering the extended effects of the pandemic in 2021. Whilst the level of uncertainty surrounding the pandemic is quite substantial, with specific risks associated with virus mutations and vaccine supplies, it is projected that a partial economic rebound will take place in 2021. The economy is projected to return to 2019 levels by 2022 as a result of the economic support provided by the government in line with official forecasts. In the absence of Government support, the economic contraction would have been greater and thus, the recovery would have been significantly delayed.

In response to the outbreak of Covid-19 and the subsequent containment measures, several businesses and households were faced with liquidity challenges, and thus applied with Monetary Financial Institutions (MFIs) in Malta for a moratorium on loan repayments. A total of 13,805 loans were subject to a moratorium by the end of June 2020.

Table 1.4

Loans Subject to Moratorium, by Sector

Source: CBM

	Volume of Loans		**Outstanding Amounts (€ millions)**		**Share in Sector's Outstanding Loans (%)**	
Sectors	**End June 2020**	**End June 2021**	**End June 2020**	**End June 2021**	**End June 2020**	**End June 2021**
Households	11330	124	620.7	10.6	10.1	0.2
Manufacturing	193	1	46.2	0.1	21.5	0.1
Construction	162	9	45.6	11.1	7.4	1.7
Wholesale and retail trade; repair of motor vehicles and motorcycles	765	6	85.5	1.4	12.8	0.2
Transportation and storage and information and communication	153	3	70.4	0.1	26.5	0.0
Accommodation and food service activities	362	29	213.4	39.8	48.5	7.0
Real Estate Activities	400	9	305.2	6.8	31.8	0.7
Other[2]	440	33	299.4	56.1	15.5	2.7
Total	**13805**	**214**	**1686.3**	**126.1**	**15.0**	**1.0**

As the moratoria period started to gradually expire for many loans, and economic activity began to normalise in most sectors, particularly towards the end of the second quarter of this year, loans subject to a moratorium started to decline sharply. Indeed, at the end of June 2021, 214 loans were subject to a moratorium on repayments. The value of such loans stood at €126.1 million, or 1.0 per cent of total outstanding loans to Maltese residents. During the month of June, declines in both value and volume terms were observed across all sectors. However, the largest decreases in value were registered in real estate, wholesale and retail, the accommodation and food services sectors, as well as among households.

[2] *Includes loans to agriculture and fishing, mining and quarrying, public administration, education, health and social work, financial and insurance activities (including interbank loans), professional, scientific and technical activities, administrative and support service activities, arts, entertainment and recreation, other services activities and extra-territorial bodies and organisations, and the electricity, gas & water supply sector*

To further alleviate liquidity challenges in April 2020, the Government launched the Malta Development Bank (MDB) Covid-19 Guarantee Scheme (CGS) for the purpose of guaranteeing new loans granted by commercial banks to businesses for working capital purposes, facing liquidity shortfalls as a result of the pandemic. The scheme enables credit institutions to leverage Government guarantees up to a total portfolio volume of €777.8 million.

By the end of June 2021, 606 facilities were approved under the CGS, covering total sanctioned lending of €451.5 million. As the scheme provides guarantees on new loans for working capital and on loan repayments, the amount of loans disbursed under the scheme, may be lower than the sanctioned amount. By the end of June 2021, €372.5 million were disbursed, up from the €364.4 million disbursed by the end of May. Thus, by the end of June, 58.0 per cent of the scheme was sanctioned, while 47.9 per cent was disbursed.

Table 1.5

MDB Covid-19 Guarantee Scheme, by sector

Source: MDB, CBM

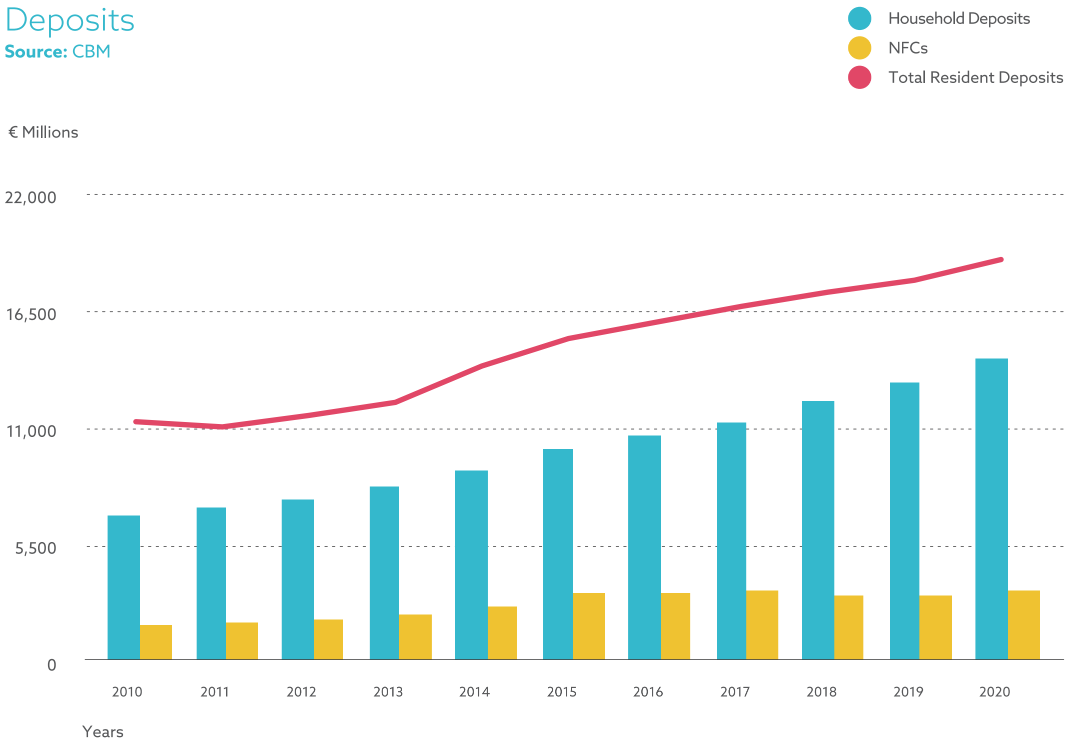
	Total number of facilities		**Sanctioned Amount (€millions)**	
Sectors	**End June 2020**	**End June 2021**	**End June 2020**	**End June 2021**
Manufacturing	22	52	11.1	23.6
Construction	7	36	20.0	41.4
Wholesale and retail trade; repair of motor vehicles and motorcycles	73	165	36.5	95.2
Transportation and storage and information and communication	18	41	25.7	50.3
Accommodation and food service activities	61	142	40.4	107.4
Professional, scientific and technical activities	18	37	2.8	21.7
Administrative and support services activities	19	36	5.1	13.5
Real Estate	9	17	1.3	6.4
Other[3]	28	80	18.1	92.1
Total	**255**	**606**	**161.1**	**451.5**

[3] *Includes loans to education, health and social work, financial and insurance activities, arts, entertainment and recreation and other services activities, activities of households, electricity, gas & water supply sector*

Figure 1.12

Deposits

Source: CBM



At the end of December 2020, total deposits held by Maltese residents with MFIs, amounted to €20,945.4 million, equivalent to a 6.2 per cent increase from the previous year. The increase in deposits reflects a rise in both household deposits as well as non-financial corporations (NFCs) deposits. Whilst deposits have been increasing consistently during the past years, reflecting strong economic and employment growth in Malta, increased deposits in 2020 could indicate increased precautionary savings due to the pandemic. Since 2013, residents' deposits have risen drastically, increasing by 66.9 per cent.

1.3 The Impact on Public Finances

Four years of consecutive fiscal surpluses and a declining Government debt put public finances on a sound footing. The sustainability of Malta's public finances had been improving in recent years resulting from prudent fiscal policy, strong growth, and favourable financing conditions. This was also supported by the sustained strengthening of the institutional capacity in Malta's fiscal framework.

All this has helped to improve the long-term sustainability of public finances as well as provide the necessary fiscal space for the Government to deliver a strong fiscal stimulus should the need arise.

A number of countries could not afford to provide the much needed strong fiscal response since their public finances were not strong prior to the crisis. In fact, the fiscal response to the pandemic was very uneven globally. Figure 1.13 shows the frequency distribution of fiscal response tracked by the IMF Fiscal Monitor. The y-axis represents the proportion of countries in the respective fiscal stimulus while the x-axis represents the size of the fiscal stimulus for 2020 and up to April 2021. The response among advanced economies was much more pronounced than in emerging or low-income, developing economies, although the range is also wider. At 7.1 per cent of GDP, Malta's economic response compares well to that of advanced economies and is nearly double the median response in EU Member States (3.8 per cent).

The median response among emerging economies was 3.3 per cent of GDP and 2.4 per cent of GDP among low-income developing economies. This measure excludes the impact of fiscal stabilisers which, combined with the discretionary component, helped to mitigate the economic impact of the pandemic.

Figure 1.13

Global Fiscal Response to the Pandemic (Excl. Liquidity Support or Deferrals)

Source: IMF

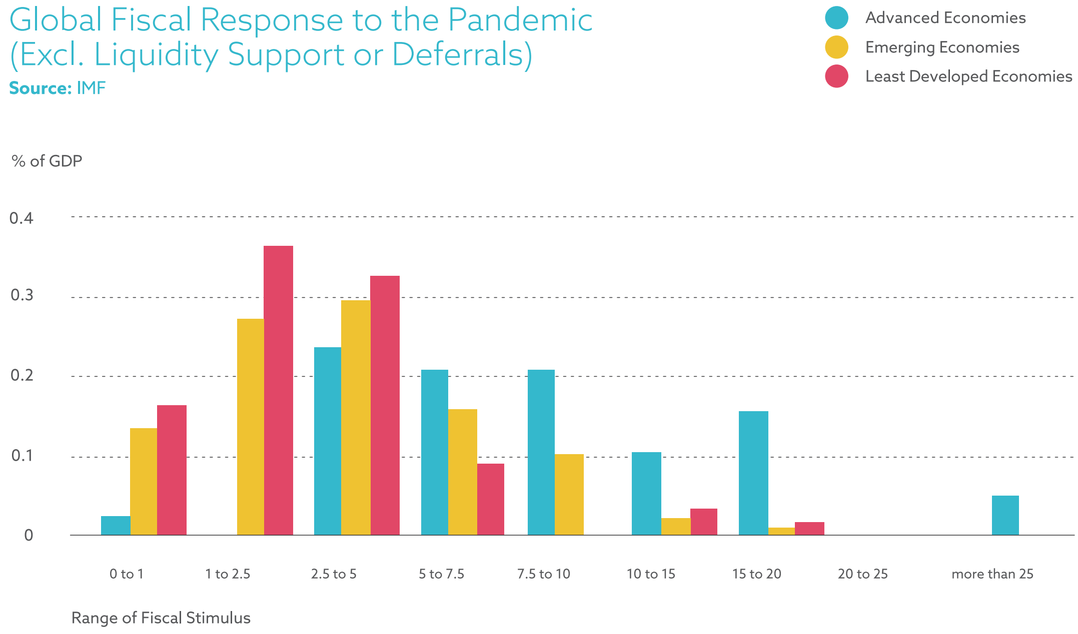
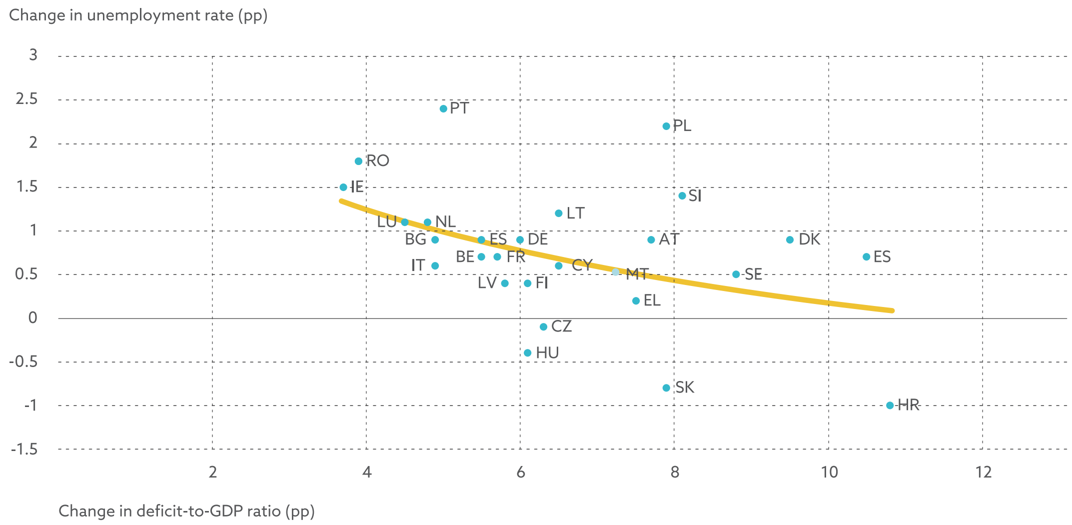


Figure 1.14

Effectiveness of Fiscal Policy in Supporting the Labour Market (2020)

Source: Eurostat

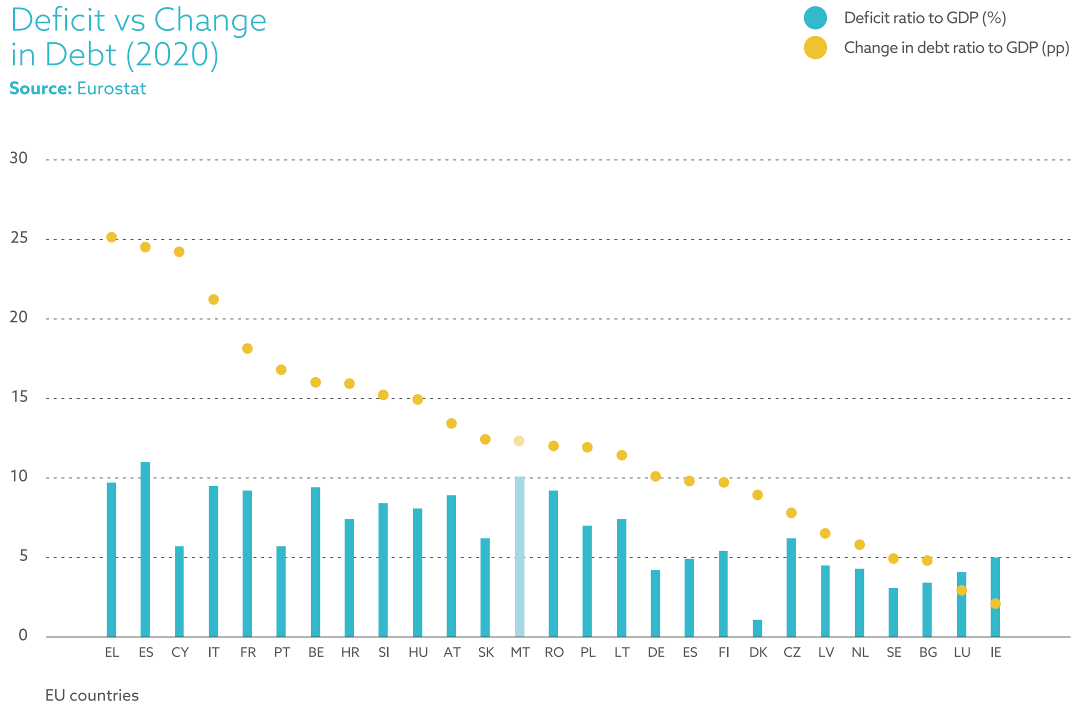


From the revenue aspect, fiscal support was provided by elements (also known as automatic stabilisers) built into the budget that mitigate fluctuations in economic activity, without the need for discretionary Government actions. Indeed, a substantial fall in tourist expenditure and household spending led to a decline in indirect tax revenue, whilst corporate losses underlined a significant drop in direct tax revenue. However, proceeds from personal income tax revenue and social security contributions were relatively shielded by the contained impact of the pandemic on the labour market, reflecting the effectiveness of the wage supplement scheme in helping businesses retain their workers. As illustrated in Figure 1.14, the EU Member States with the strongest fiscal response recorded the lowest increases in unemployment in 2020. Keeping people in work through such schemes is an effective way of providing income support and limiting job losses, while avoiding costly search and matching processes as recovery progresses.

Figure 1.15

Deficit vs Change in Debt (2020)

Source: Eurostat



Given the severity of the crisis, automatic stabilisers were not sufficient to mitigate the economic fallout from the pandemic and these were supported by discretionary measures meant to support both demand and supply. Government expenditure increased substantially, mainly reflecting the fiscal impact of Covid-19 related support measures.

The fiscal support measures and automatic stabilisers in Malta were among the strongest in the EU. As a result, Malta recorded a budget deficit of 10.1 per cent of GDP in 2020. However, the impact on the debt ratio has been relatively much less pronounced than in the other Member States and ranked in the middle of the rise in debt ratios among the EU. Indeed, the rise in the debt ratio was even less than the EU average of 13.2 percentage points of GDP and the debt ratio, 54.3 per cent of GDP, remains ranked amongst the lowest in the EU.

2

BUDGETARY TARGETS

2.1 Economic Outlook

Global

According to the IMF's July World Economic Outlook, global economic activity is expected to grow by 6.0 per cent in 2021, and by 4.9 per cent in 2022. However, the global recovery is expected to diverge across countries, mostly depending on the progress and effectiveness of vaccination campaigns and the size of fiscal support. Such growth divergences are evident both within and between advanced, emerging and developing economies. The global forecast assumes that virus transmissions will be brought to low levels everywhere by the end of 2022. Additional fiscal support in the United States and the Next Generation EU grants and loans were incorporated, while policy rates are assumed unchanged throughout the forecast horizon.

The impact on emerging and low-income countries is projected to be long lasting, with the slow rollout of vaccines being the main factor weighing on the recovery, partially offset by stronger external demand from advanced economies. Low-income developing countries are expected to grow by 3.9 per cent in 2021 and by 5.5 per cent in 2022. On the other hand, economic activity in advanced economies is expected to increase by 5.6 per cent and by 4.4 per cent in 2021 and 2022 respectively.

Main trading partners of Malta, such as Italy and Germany, are expected to grow by 4.9 per cent and 3.6 per cent respectively in 2021, and by 4.2 per cent and 4.1 per cent respectively in 2022. The EA is expected to grow on average by 4.6 per cent this year and 4.3 per cent next year. Reflecting the additional fiscal support, economic activity in the United States is expected to grow by 7.0 per cent in 2021 and by 4.9 per cent in 2022. Meanwhile, China, which proved to be a resilient economy during 2020, is expected to continue to grow considerably by 8.1 per cent and by 5.7 per cent in 2021 and 2022 respectively. India is also expected to record substantial growth of 9.5 per cent in 2021 and 8.5 per cent in 2022.

Risks around the global forecast remain on the downside, including worsening pandemic dynamics and tighter financial conditions. These risks would severely impact the recovery in emerging and developing markets, which would drag global economic growth down.

National

Given the current global circumstances brought about by the Covid-19 pandemic, the outlook for 2021 and beyond is subject to a high degree of uncertainty. The baseline projection is consistent with a gradual recovery in economic activity particularly after the third quarter of 2021, and a stronger recovery in 2022. As a result, the Maltese economy is expected to resume its positive performance and grow by 3.8 per cent in real terms in 2021 and by 6.8 per cent in 2022.

In 2021, growth is expected to be driven mainly by the recovery in exports and investment and supported by the Government stimulus measures which were extended from last year. Meanwhile, consumption is expected to recover more gradually in 2021 and more strongly in 2022. The economy is expected to surpass its 2019 level by the end of 2022. Growth is expected to moderate thereafter but will remain above potential growth estimated at 3.0 per cent in the outer years. This will result in a very gradual correction of the output gap by 2024.

In 2021, a pick-up in economic activity is projected to generate an employment growth of 2.2 per cent before reaching an average of 3.2 per cent in the outer years. The unemployment rate, based on the Harmonized definition, is projected to stand at 4.3 per cent in 2021 before declining to 3.9 per cent in 2022 and reaching 3.8 and 3.7 per cent in 2023 and 2024 respectively.

Inflation for 2021 is expected to hit 1.3 per cent, underpinned mainly by oil prices and a modest acceleration in services inflation. Prices are expected to rise further to 1.5 per cent in 2022, as economic activity continues to recover. Prices will further increase by 1.6 per cent and 1.7 per cent in 2023 and 2024 respectively.

2.2 FATF Action Plan

In June 2021, the Financial Action Task Force (FATF) subjected Malta to increased monitoring to address strategic deficiencies in its regimes to counter money laundering, terrorist financing and proliferation financing. This procedure is also known as 'greylisting'. The FATF took note of the progress registered by Malta to address the recommendations of the Mutual Evaluation Report and that Malta is committed to further strengthen its AML/CFT regime by implementing the FATF action plan.

The Government is currently working on addressing the three recommendations[4] flagged by the FATF:

1. Continuing to demonstrate that beneficial ownership information is accurate and that, where appropriate, effective, proportionate, and dissuasive sanctions, commensurate with the ML/TF risks, are applied to legal persons if the information provided is found to be inaccurate; and ensuring that effective, proportionate, and dissuasive sanctions are applied to gatekeepers when they do not comply with their obligations to obtain accurate and up-to-date beneficial ownership information;

2. Enhancing the use of the FIU's financial intelligence to support authorities pursuing criminal tax and related money laundering cases, by clarifying the roles and responsibilities of the Commissioner for Revenue and the FIU;

3. Increasing the focus of the FIU's analysis on these types of offences, to produce intelligence that helps Maltese law enforcement detect and investigate cases in line with Malta's identified ML risks related to tax evasion.

This FATF action plan centres around two Immediate Outcomes: Immediate Outcome 5 that addresses Legal Persons and Legal Arrangements and Immediate Outcome 6 that focuses on Financial Intelligence. The authorities are incessantly working to address the FATF National Action Plan in a sustainable and effective way within a reasonable timeframe. Milestones reached from the date of the commitment (25 June 2021) to date, include the following points, among others:

- Continuously enhancing national and international cooperation:

  - Legal amendments to the Criminal Code and to Chapter 373 that affected the strengthening of the sharing of information as indicated in Act XLIII of 2021: Various Laws relating to the Facilitating of the Use of Financial and other Information (Amendment) Act, 2021, published on 20 July 2021(https://legislation.mt/eli/act/2021/43/eng).

  - MoU signed between the Malta Business Registry and the Financial Intelligence Analysis Unit which acts as an agreement between the entities to share information and collaborate on investigations on the ultimate beneficial ownership of financial structures.

4. *https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/increased-monitoring-june2021-.html*

- Outreach to the private sector, where, an outreach to the private sector was already organised by the National Coordinated Committee on Combatting Money Laundering and Funding of Terrorism, held on 15 July 2021 via a webinar with 600 participants as private practitioners. The objective of this webinar was to inform tax practitioners and financial institutions on red flags and typologies of tax evasion and associated ML, and thereby have more reporting of high-quality STRs related to tax.

Additional internal work was and is being currently carried out with the target of enhancing ML/TF risk in relation to these two immediate outcomes on tax evasion and beneficial ownership. A uniform understanding of what constitutes as high risk is crucial in order to have mitigation measures that are aligned with the identified risks.

2.3 Updated Budgetary Plans for 2021 and 2022

The Budget 2021 measures in support of the recovery originally accounted for 2.2 per cent of GDP but were later extended to a total stimulus of 5.3 per cent of GDP as the second wave of the global virus hit the Maltese economy in the first to the second quarter of this year. Furthermore, the cumulative loss in revenue from the economic downturn was estimated at 6.1 per cent of GDP for 2021.

The extension of such temporary social and economic support measures, beyond the first quarter of 2021, and the higher loss in revenue, consequently worsened the estimated general Government deficit for 2021, from 5.9 per cent (estimated in October 2020) to 12.0 per cent of GDP. As a matter of fact, out of a projected deficit of 12.0 per cent of GDP in 2021, at least 11.4 per cent of GDP is entirely attributed to the impact of the pandemic on general Government revenue and expenditure. On account of these developments, the debt-to-GDP ratio is expected to continue to increase and possibly reach 65.0 per cent in 2021.

With a view to sustaining the recovery, the Maltese Government is set to maintain a supportive budgetary policy in 2022, allowing for the impact of the Recovery and Resilience Facility to fund additional high-quality investment projects and structural reforms. The assumed economic recovery is expected to boost taxation receipts over the course of the next year and by end of 2022, tax revenue is estimated to exceed the level that was recorded prior to the pandemic. General Government expenditure is estimated to decline in 2022, as the temporary support is expected to be phased out, in line with Government's commitment to contain expenditure as the public health situation improves and the economy recovers. As a result, the Government deficit is projected to stand at 5.6 per cent in 2022 whilst the debt-to-GDP ratio is expected to reach 65.8 per cent.

Figure 2.1
General Government Deficit/Surplus
Source: Eurostat

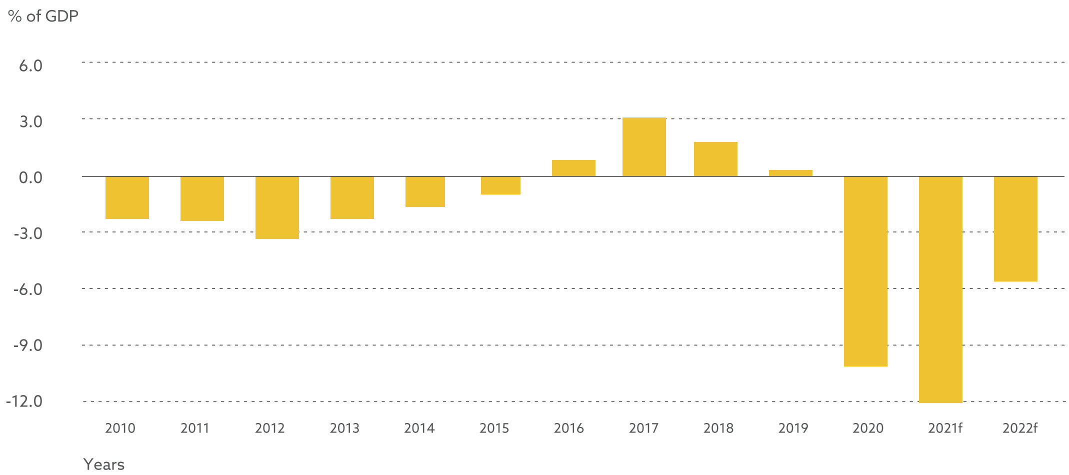
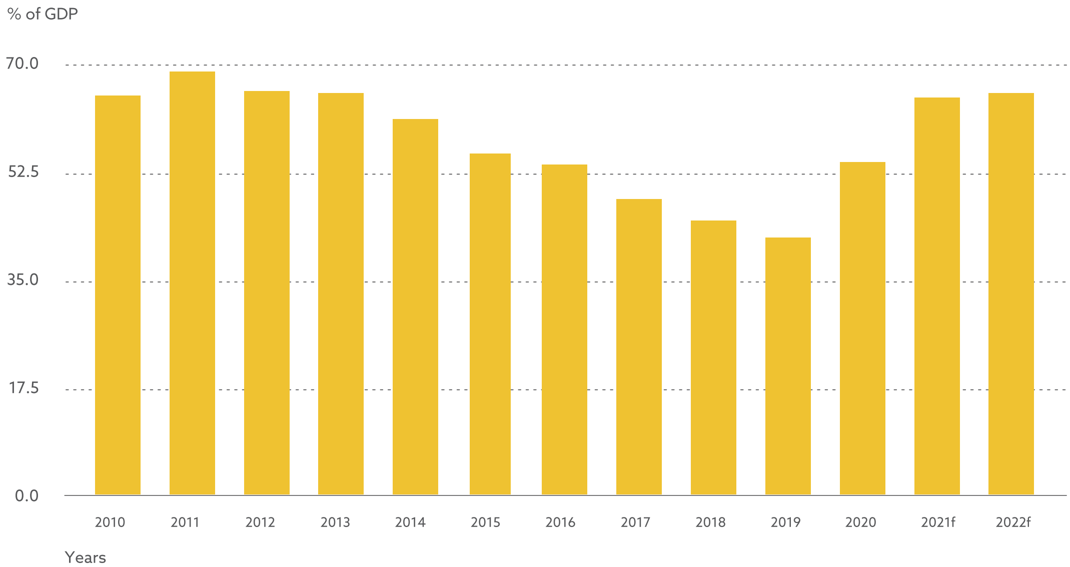


Figure 2.2
General Government Gross Debt
Source: Eurostat



2.4 Medium-term Budgetary Outlook

For the period beyond 2022, depending on the strength of the recovery and fiscal sustainability considerations, the Maltese Government shall consider fiscal policies that attain a prudent medium-term fiscal position. The phasing out of containment measures is expected to support the improvement in public finances over the medium term. The level of uncertainty regarding the short, and medium, term path for the economy remains significant. However, while conscious of the positive bearing that fiscal consolidation and sustainable debt levels have on potential growth, the Government remains committed to gradually balance the budget over the economic cycle, when economic conditions allow.

The Maltese Government remains committed to put the debt-to-GDP ratio back on a declining path once the recovery is firmly established and ensures that the debt ratio declines below 60.0 per cent of GDP.

2.5 Developments in the Global Framework for Taxation

OECD Pillar 1 and 2

In the international scene, matters related to international taxation have increased in complexity due to globalization and to differing rules amongst various jurisdictions. This makes it difficult to determine the location where tax is due for various goods and services. Furthermore, these complexities have made room for undesirable tax practices, with countries having generous tax rules benefitting over those with more stringent regulations. Entities started shifting profits from high-tax jurisdictions to low-tax jurisdictions, to take advantage of such a system. Critics of this system argue on two fronts. On the one hand, this system is depriving jurisdictions that are creating economic value of the tax revenue associated with such economic activity, on the other, low-tax jurisdictions are eroding the aggregate tax base.

To tackle this issue, the OECD has been undertaking the Base Erosion and Profit Shifting (BEPS) initiative. The BEPS project consists of 15 actions set to equip Governments with the necessary tools to address tax avoidance, to ensure that profits are taxed where economic activities generating profits are performed, and where value is being created. Action 1 of this initiative specifically addresses 'Tax challenges arising from digitalization' and in this action the OECD proposed a two-pillar approach to address profit shifting.

Pillar 1

Pillar 1 of the BEPS project aims to reallocate taxing rights from countries with excessive residual profits, that are those profits which are excessive relative to the level of activity within a country, to countries that are presently collecting less than their fair share of taxation when compared to their level of economic activity. More specifically, Pillar 1 is generally composed of two stages; the first is the determination of what is known as the global residual profit figure, composed of an aggregated value of all residual profits within all jurisdictions taken into consideration, and the second stage is the re-allocation key to be used in distributing these residual profits.

Pillar 2

Pillar 2 aims at putting a floor on possible tax competition by setting a minimum effective rate of taxation at 15.0 per cent. This means that any firm operating in a jurisdiction that currently has an effective tax rate below this minimum rate of 15.0 per cent, has to 'top-up' its effective taxation from the current one, up to the 15.0 per cent minimum. Pillar 2 would solve the issue of profit shifting by eliminating any tax rate differentials across countries and addressing the incentive for firms to shift their profits.

Malta is willing to collaborate with the OECD to find a fair and feasible solution to ensure that tax is paid in a more just manner.

The devil is in the detail - and Malta has requested more clarity before taking a rooted position in this regard. The Government believes that the parameters defining this package are essential, not just for Malta but also for many countries expecting a workable and adaptable approach.

In the meantime, the Government intends to engage stakeholders in the discussions ahead to ensure that this agreement is in line with Malta's priorities to safeguard the incentives in place that form the basis of its effectiveness as a jurisdiction.

THE SKILLSET FOR TOMORROW'S WORLD

3

The Covid-19 pandemic has resulted in one of the largest disruptions to the education system in history. As part of the mitigating efforts, Malta implemented several measures which brought the country to the forefront digital education, over the past two scholastic years. The sudden changeover resulted in a resourceful approach which had to be introduced as a crisis measure and for an imperfect temporary solution. While the rate of early school-leaving in Malta declined in 2020, from 17.2 per cent in 2019 to 16.7 per cent in 2020, the impact of Covid-19 meant that the quality of education during this temporary period was negatively impacted when compared to the previous year.

In the early stages of the pandemic, the Government greenlit a free reign to the education authorities without being encumbered by financial restraints, in order to invest in all that is required in terms of preventive measures and structural changes for schools to reopen as soon as possible, in the safest way. Despite everything, to date schools have reopened and are functioning in a relatively normal manner, while the health impact has been very minimal.

3.1 The Global Impact of Covid-19 on Education

Following a review of international literature largely focusing on the school closure between March-May 2020, the following section seeks to analyze the social and psychological repercussions of the Covid-19 mitigation measures on the education sector, in particular the educators and support staff, students and their immediate family.

In general, the economic literature faced challenges in estimating the cost of school closure that was assessed during the timeframe of school closure itself. This is because a temporary closure of schools of such scope and duration was unique and initial predictions about the effects of school closures were based on previously collected data of school interruptions and loss of instruction time, such as summer learning loss, teacher strikes, reforms or natural disasters. Other predictions relied on suggestive extrapolations based on the loss of a share of a year of schooling.

Primary and secondary education

Temporary school closures due to Covid-19 have brought significant disruptions to education across Europe. Emerging evidence from some of the region's highest-income countries indicates that the pandemic is giving rise to learning losses and exacerbating social and economic inequality. The abrupt school closures meant students, teachers and administrations were unprepared for this disruption and had to create emergency remote learning systems almost immediately.

Lack of personal interaction between teacher and student was a major consequence of remote learning. Moreover, despite best efforts to set up a supportive remote learning experience, evidence is emerging to show that school closures have resulted in actual learning losses and increased inequality, even in Europe's high-income countries. Learning losses are found to be much higher among students whose parents have less education, while children from socioeconomically advantaged families have received more parental support with their studies during such periods. Such losses, if not addressed, may leave a long-term compounding negative effect on many children's future well-being and may translate into greater long-term challenges related to less access to higher education, lower labour market participation and lower future earnings.

A research study conducted in the UK delved into the psycho-social effects of the pandemic on primary and secondary students in the UK. School closures have had a negative impact on childhood loneliness and emotional well-being, and this was a cause of concern for parents. Alongside the impact on mental health, over half of young carers said their education has suffered since the pandemic began.

In the context of the Covid-19 pandemic in the UK, school non-attendance has also been linked to future social inequalities. Poorer families (who are more likely to have been exposed to coronavirus and affected more by the lockdown) were less willing to allow their children to return to in-school education.

Closures may have compelled some parents to participate in their children's education more, but decreased children's attachment to schooling. Student disengagement and reduced schooling persistence could lead some, especially vulnerable students, to drop out of school.

Some schools have made positive steps to stem the impact of closures on inequality gaps. Research suggests that a third of teachers reported contacting specific parents to offer advice about supervised learning and a fifth reported that their school provided pupils with laptops or other devices. At the same time, the study found a disparity in provision between the most advantaged state schools and the most deprived. The physical closure of schools has led to the expansion of remote learning, leading to the requirement of teaching and learning conditions and equipment that are not always accessible. For educators, this centred on access to both technology and training. For pupils, much of the remote learning methods used during the pandemic took place online and required a computer or tablet.

Parental participation and access to an appropriate place to study are additional variables in the effectiveness of the home learning environment. The OECD suggested that access to a quiet place at home to study may have deteriorated during the crisis. Similarly, the range of parental support varies across households. As levels of educational attainment are often linked to socio-economic status, this is another factor likely to disadvantage children from poorer backgrounds.

Students in vocational education and training (VET) and tertiary education

A survey conducted by the European Commission in May 2020 outlined the state of play of institutions and students during the first educational institutions' closure. It was observed that all EU Member States set up online learning platforms ranging from broadcasting from national television stations to more elaborate IT learning platforms. In most cases, tuition focused on theoretical knowledge, with few institutions providing instructions or demonstrations pertinent to practical skills. There was the perception that VET students were at a disadvantage compared to learners from other educational tracks as more efforts were put into general school subjects, and less in typical vocational content.

Work-based learning, which is an integral component of VET and which was mostly affected by schools' closure, was maintained in only very few countries and in sectors where companies' activities were still ongoing. In sectors, particularly hospitality and aviation, which were disproportionately hit by the pandemic, VET opportunities suffered substantially.

A survey carried out at one of the largest public institutions in the United States sought to understand the impact of the Covid-19 pandemic on higher education. The survey findings on academic outcomes indicate that Covid-19 has led to a large number of students delaying graduation, withdraw from classes, or intend to change majors. Moreover, approximately half of respondents reported a decrease in study hours and in their academic performance. Students reported a decrease in their likelihood of taking online classes as a result of their recent experiences, suggesting that, a priori, most engaged students, particularly men, prefer in-person classes. The data also show that while all subgroups of the population experienced negative effects due to the outbreak, the size of the effects is heterogeneous with lower-income students (those with below-median parental income) being substantially more likely to delay graduation than their higher-income counterparts.

A study also found that both the perceived economic and health shocks play an important role in determining students' Covid-19 experiences. For example, the expected probability of delaying graduation due to Covid-19 increases if there is either a student's subjective probability of being late on a debt payment in the upcoming 90 days (a measure of financial fragility) or the subjective probability of requiring hospitalization conditional on contracting Covid-19. The average of the principal component for the economic and health shocks is higher for students from lower-income families explaining why such perceptions have potentially influenced education prospects and exacerbated socio-economic disparities in higher education.

It is noteworthy that the school lockdown was considered as an opportunity for students and educators to develop or deepen their digital skills. However, it also underlined the digital divide and the inequality and disadvantage this creates for households and learners that did not have access to computers and the internet.

Most countries gave priority to evaluation and examinations of students in the last year of their programmes, some of them taking place online and some reverting to exams in real presence under strict health and safety conditions. Often, practical training was shortened or, when possible, postponed. In some countries, alternatives like project work or simulated demonstrations have been found.

3.2 Access to Quality Education

Over the past years a lot of effort has been directed towards, not just ensuring that education is accessible, but that the education that is accessed is adaptable to the requirements of the individual.

There is no debate that access to education and training is widespread and for all. However, the fact that several young people were leaving 11 years of compulsory schooling with nothing to show for it was not just a substantial economic loss for the country, but even a social and cultural deficit. The creation of MCAST in 2001, coupled with the increased emphasis on vocational education over the past three years, means that access to quality education, and not just access to education, can be seen. This emphasis on delivering education differently and with a vocational aspect can be noted across the board in education, even in institutions that side with the traditional aspects of academia. Moreover, MCAST is also scaling its offerings to make sure its education programmes do not plateau within a certain level, but students can continue their educational journey there. This is a positive step that counteracts some of the negative yet improving educational indicators, such as the early school leaving rate, that Malta currently holds.

The impetus towards quality and access for all can be seen in the number of public sector employment in education, where full-time employment in the Education sector increased by 28.0 per cent between 2010 and 2020. This increased number of learning support educators and other critical workers in education, such as psychologists, meant a more professional and student-centric education. Reforms in education do take time to flourish into actual outcomes, and it is hoped that the investment and work made in these reforms bear fruit into improved indicators in the coming years.

Figure 3.1
Total Education Expenditure
Source: Eurostat

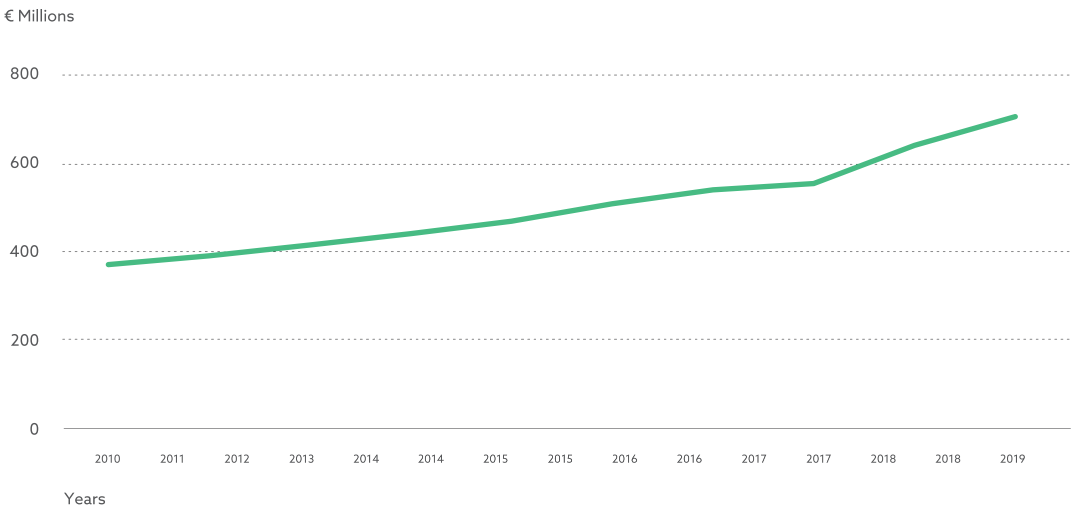


Figure 3.2
Capital Expenditure on Education
Source: Eurostat

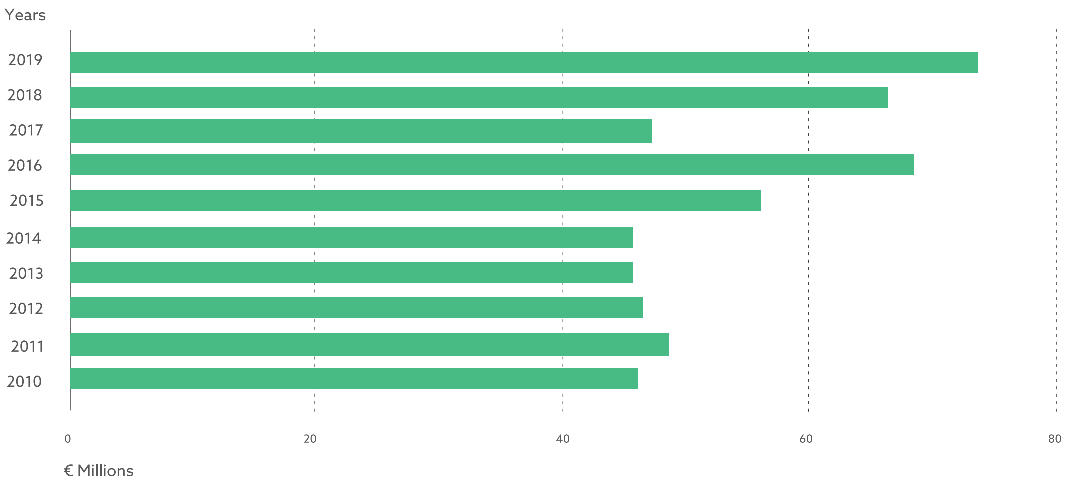


Figure 3.3

Gainfully Occupied Population in Education (Public Sector)

Source: NSO

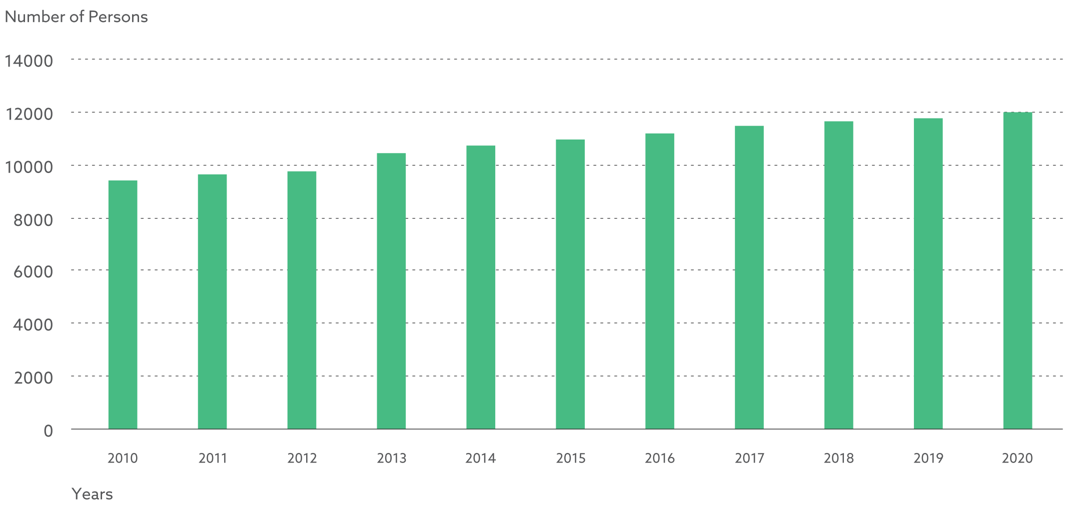
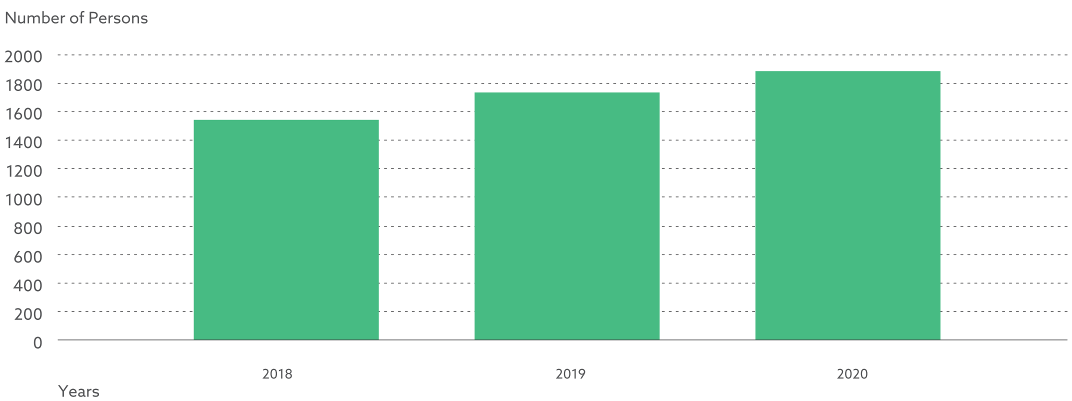


Figure 3.4

Learning Support Educators

Source: MFED

*Figures exclude Support LSEs



All this was made possible through substantial investment, both in terms of infrastructure and technology. Between 2010 and 2019, total government expenditure in education increased from €371.1 million to €706.8 million.

The reforms enacted in the past years also tried to address structural gaps in the system which left young people and learners in notoriously difficult educational dead-ends. Some of this investment is also going into supporting students to re-try when they are unsuccessful (GEM16+ and Youth Guarantee's revision classes for example) and through financial aid in the form of stipends for repeaters.

From the economic point of view, the ROI on this investment will be weighed in the coming years in the form of a more highly, or better, skilled supply in the labour market.

3.3 Skills Gap in the Labour Market

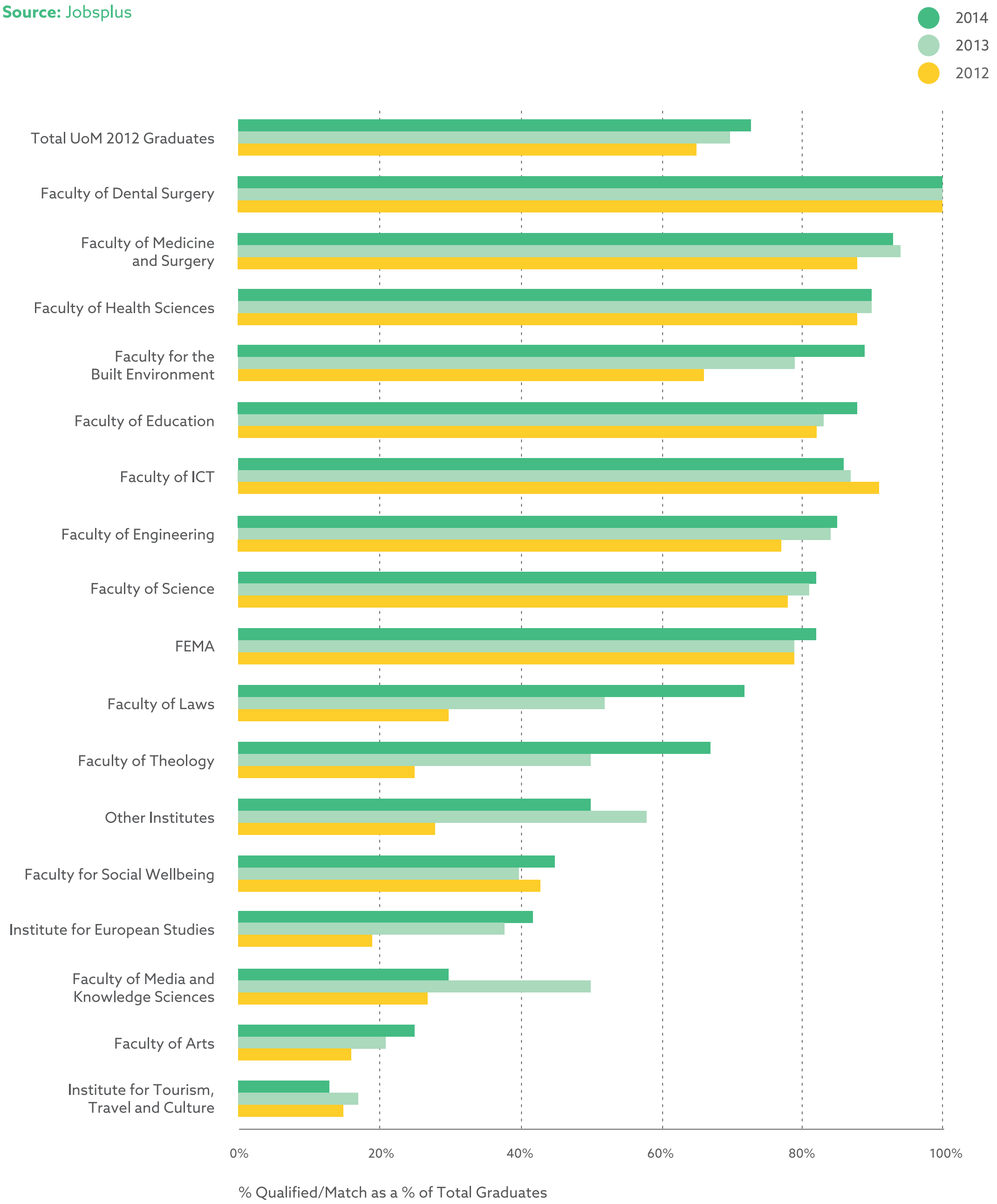
One of the effects of Covid-19 was the travel barriers that were raised among states. In March 2020, a considerable number of European and non-European workers in Malta left the country and returned to their country of origin. This phenomenon was seen throughout the world as the uncertainty at the time, both in terms of the pandemic and employment, resulting in an exodus of workers in almost all fields.

Europe is now slowly emerging from the adverse effects of Covid-19, and economies are restarting. However, the lack of supply of workers deriving from this vacuum is slowing down business resumption.

A significant cause of this issue in Malta is that the European Union has directed the Member States not to allow travel from countries that, historically, are the provenance countries of third-country workers. The list of non-European countries from which the European Union permits travel is increasing by the day. This means that work visas and travel can soon resume. Therefore, this issue is temporary to a certain extent because once the barriers for travel currently in place are removed, employers will have the possibility to recur to third-country nationals for vacancies whereby they cannot find local workers. While this is undoubtedly a contributing factor to the current situation, other more structural issues are at play.

The skills gap is a challenge that the Maltese economy has experienced over the past years, especially during the peak years of economic growth. The skills required to fill several employment vacancies do not match the skill set that those looking for employment, or those who are underemployed, possess.

Figure 3.5
Source: Jobsplus



Educational institutions are now more acutely aware of this problem, which was evidenced in the Employability Index Report in 2015 and the advice provided to young people seeking advice on which area to study is partly based on the economic landscape of that particular area of study.

A post-secondary or tertiary educational programme should not be a conduit solely to find employment. There are personal and broader considerations that need to be taken. However, it is important for a young person to properly understand, in terms of employment, where a particular educational programme will lead. For example, the Employability Index had found that while 100.0 per cent of the 2012 University graduates in the faculty of Dental Surgery found employment in that area, less than 25.0 per cent of the graduates from the Faculty of Arts matched their job with what they studied. This could be taking place for many reasons, but there is undoubtedly an element of underemployment in low-matching educational programmes. This is because the demand, or creation of jobs, in that particular area for employment, with those skill sets, is considerably lower than the number of graduates from that area.

3.4 The Employment Policy

The National Employment Policy launched in May 2014 had proposed several reforms in different areas, from childcare to benefits tapering, which provided a basis for the employment sector in the following years. The successful implementation of those policies resulted in being a major contributing factor to tapping the potential of the local labour market and the subsequent economic growth which Malta experienced.

The points and reforms in the 2014 policy document are now exhausted. The Government is currently in the final stages of a public consultation process for a new policy document relating to employment. The challenges found in 2014, among which are the low female participation rate, the relatively high unemployment rates and the lack of pragmatic incentives to move from social benefits to employment, have been thoroughly addressed over the past years. There are new challenges that have been created since then, partly due to the economic developments and partly due to the new dynamic resulting from the employment reforms enacted.

The Government has highlighted twelve main challenges which the current labour market is facing. These are:

1. Ways to strengthen and sustain the growth of the female participation rate and persons with disabilities in the labour market
2. The reality of underemployment and other impacts of Covid-19
3. The need of up-skilling and re-skilling the Maltese workforce
4. Maltese low-skilled workers and the opportunities and threats facing this sector
5. The lack of salary increases in specific employment areas, leading to a deteriorated standard of living for workers
6. TCN workers and the downward pressures they put on salaries
7. The volume of TCN workers and the comparable increase in infrastructural, education, healthcare and housing needs
8. The demand of specific industries, primarily construction and tourism, for TCN workers
9. The demand of specific industries, such as finance, gaming and engineering, for high-skilled workers
10. Automation and other technological advancements and what this will bring to specific sectors
11. Address the issue of pay inequalities
12. Disincentivise the black economy and strengthening the rights of workers and employers in the formal one.

These are challenges which in some cases are continental and global. The United Kingdom, for example, has a substantial dependency on foreign workers in areas such as logistics and hospitality given the severe shortages in those areas. While factors such as Brexit come into play, the fact that third-country nationals returned to their home country when the pandemic started has undoubtedly played a significant role.

The new employment policy, which will be launched next month, will delve deeper into the listed challenges and will include recommendations to address them.

A SOCIAL NET THAT EMPOWERS PEOPLE

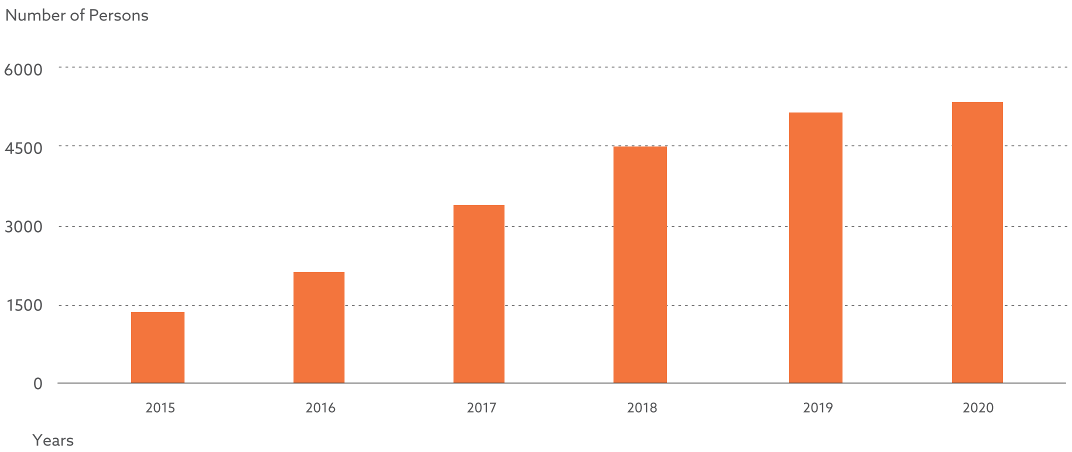
4

The Government is cognisant that an inclusive society is about more than just monetary poverty. The Covid-19 pandemic has revealed new areas of social exclusion where certain sections of society risk falling behind, for example in terms of digital communications and education. As the EU's economy becomes greener and more digitalised, and jobs are transformed, action to ensure that nobody gets left behind is crucial.

4.1 The Making Work Pay Strategy

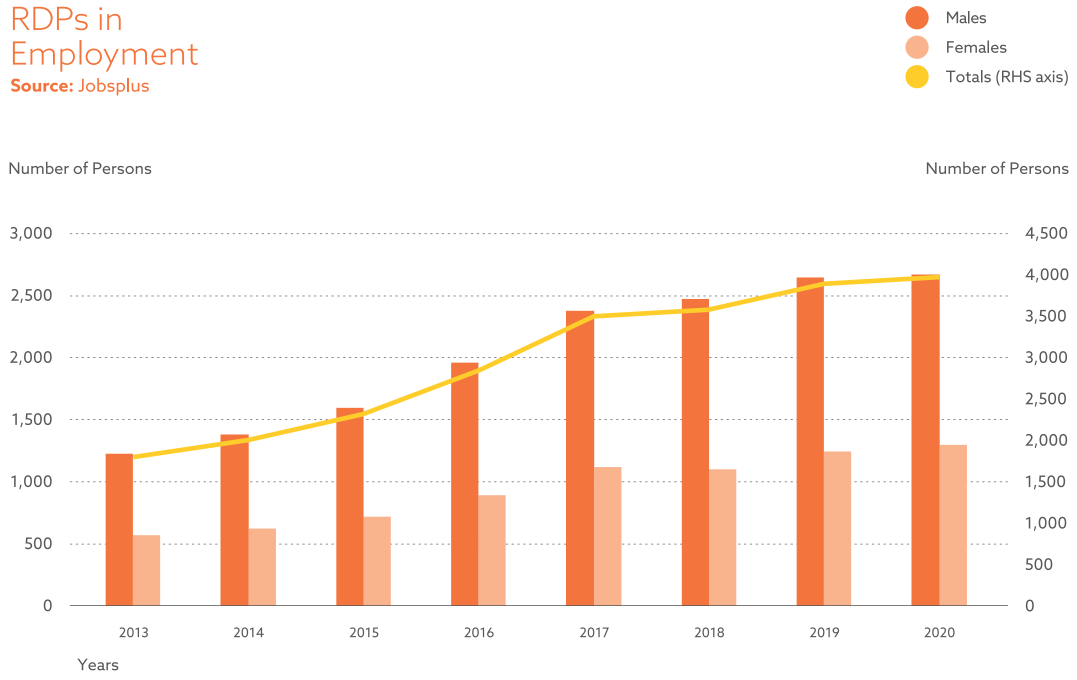
The key thrust of national policy since 2014 has been the creation of favourable economic and employment conditions to provide jobs and decent incomes for most of the population. The Making Work Pay strategy has been crucially supported by a package of active labour market measures. These include the reduction in the income tax rates, the tapering of benefits and the in-work benefit scheme, aimed at reducing welfare dependency by incentivising inactive or unemployed persons to work. Measures that reduce the barriers to entry and re-entry in the labour market for women were also implemented. Such measures include free childcare centres, the provision of breakfast clubs and afternoon school services, and tax credits for women returning to work. These measures successfully supported women who were willing and able to work or return to work but could not do so due to such barriers.

Figure 4.1
In-work Benefit Beneficiaries
Source: NSO



In 2015, this Government introduced the in-work benefit scheme aimed at helping low-to-medium income families as part of the 'making work pay' concept. The number of beneficiaries of this scheme has been continuously increasing since conception with the total number of beneficiaries amounting to 5,337 in 2020. Over the years, the Government has widened the scope and eligibility of this scheme in an effort to motivate more individuals to join the labour market as well as reduce social benefits claimants.

Figure 4.2
RDPs in Employment
Source: Jobsplus

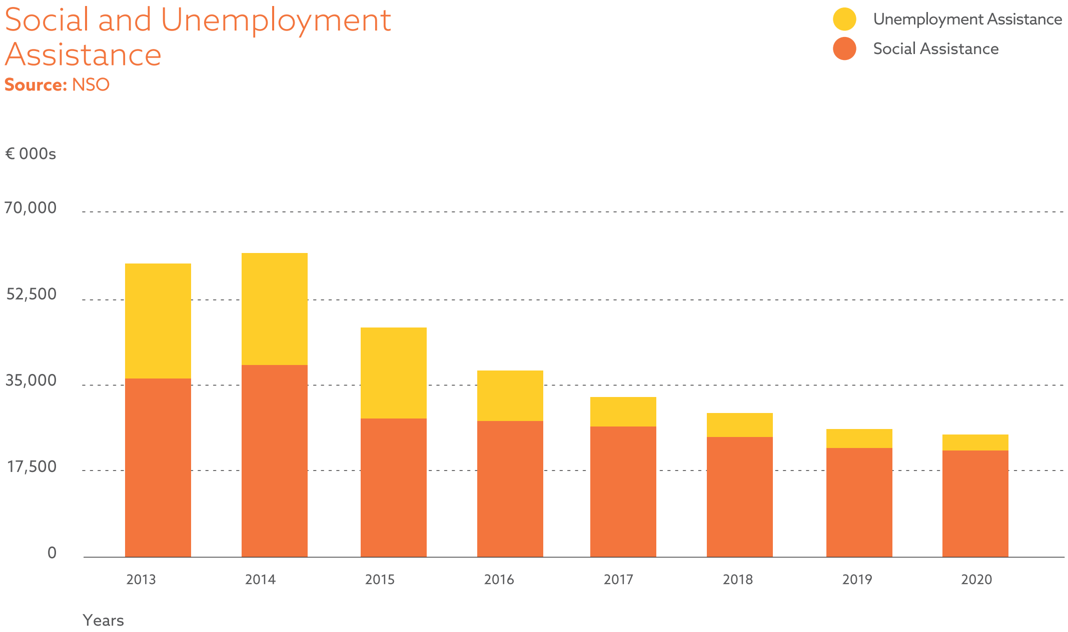


This Government's commitment towards equality and social inclusion has been at the forefront of policymaking. One of the key achievements in this area relates to the involvement of registered disabled persons (RDPs) into the labour market. The number of RDPs in employment has been on the increase in recent years with a total of 3,972 individuals employed as at the end of 2020, more than double the figure of 2013. This increase is equally reflected in both the number of male and female RDPs in employment; with the number of males increasing from 1,226 in 2013 to 2,672 in 2020 and the number of females rising from 571 in 2013 to 1,300 in 2020, which further compliments Government's dedication towards female participation.

Figure 4.3

Social and Unemployment Assistance

Source: NSO



Backed by a vibrant economy and the creation of thousands of new jobs, the Making Work Pay strategy has spawned a record decline in the numbers of social assistance and unemployment beneficiaries. In fact, for the first time, in 2018 Malta's labour market participation rate exceeded the EU average rate while in 2020, the female employment rate exceeded the EU average rate. The participation rate of those aged between 55-64 also increased significantly from 39.1 per cent in 2013 to 51.8 per cent in 2020 considerably reducing the gap between Malta and the EU average rate.

Malta has also been recording one of the lowest unemployment rates in the EU, every consecutive year. As a result, the number of persons on social dependency decreased by 57.2 per cent in less than a decade from 15,114 in 2013 to 6,469 in 2020. Moreover, expenditure on social assistance and unemployment assistance was cut down by €36.5 million (59.6 per cent) in 2020 from a high of €61.2 million in 2014.

The savings registered over the years were redistributed to finance increased children's allowances, the reform in the disability assistance, the introduction of improved packages for carers of elderly persons living in the community, and the enhancement of contributory pensions.

As more people joined the labour market, less people remained on social benefits and poverty rates dropped. The latest published data indicate that in 2019, the risk of poverty or social exclusion in Malta was limited to 20.1 per cent of the population (24.6 per cent in 2013). Between 2013 and 2018 the rate continuously decreased reaching a low of 19.0 per cent in 2018, resonant with the Government's commitment towards social inclusion. Malta compares well with its EU counterparts and just below the EU27 average of 20.9 per cent. On the same lines, material and social deprivation was 6.5 per cent (15.3 per cent in 2014), material deprivation was 8.7 per cent (19.9 per cent in 2013), and severe material deprivation affects only 3.4 per cent (10.2 per cent in 2013) – all figures being below the EU average.

Figure 4.4

People at Risk of Poverty or Social Exclusion (2019)

Source: Eurostat

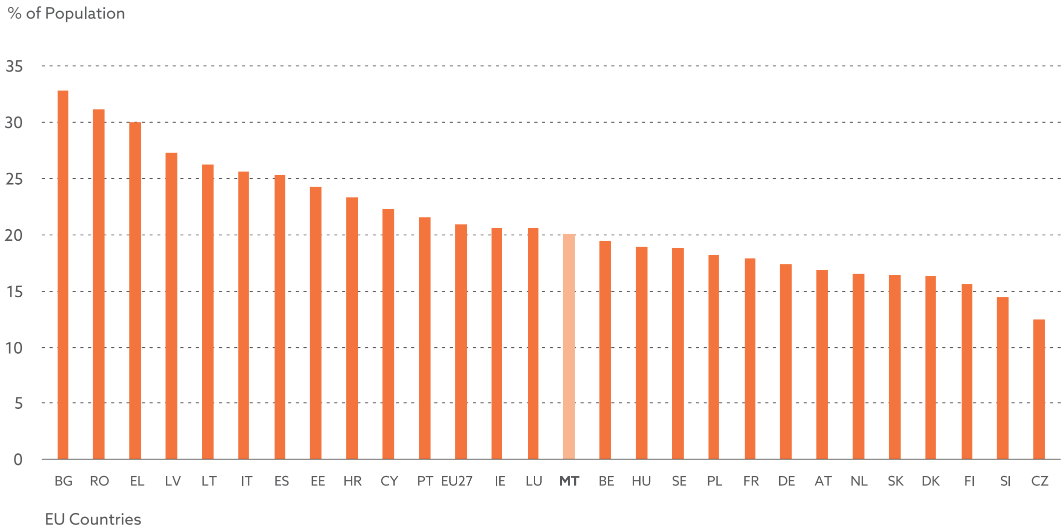


Figure 4.5
People at Risk of Poverty or Social Exclusion (MT)
Source: Eurostat

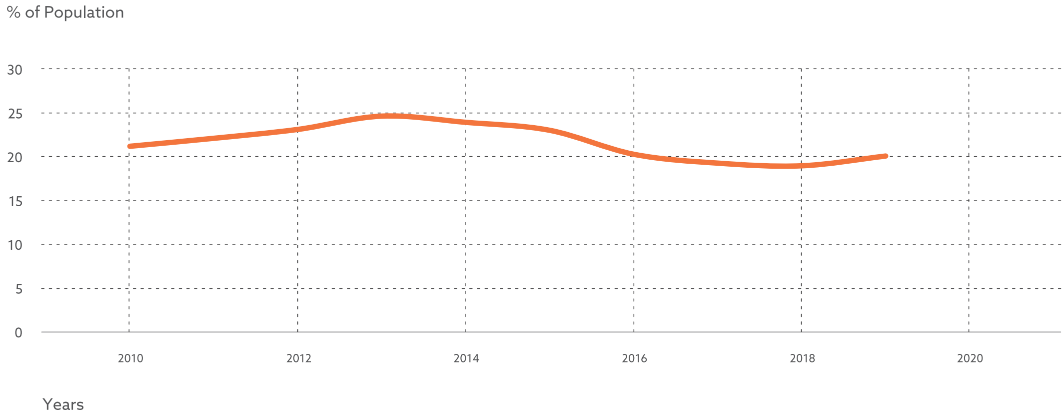
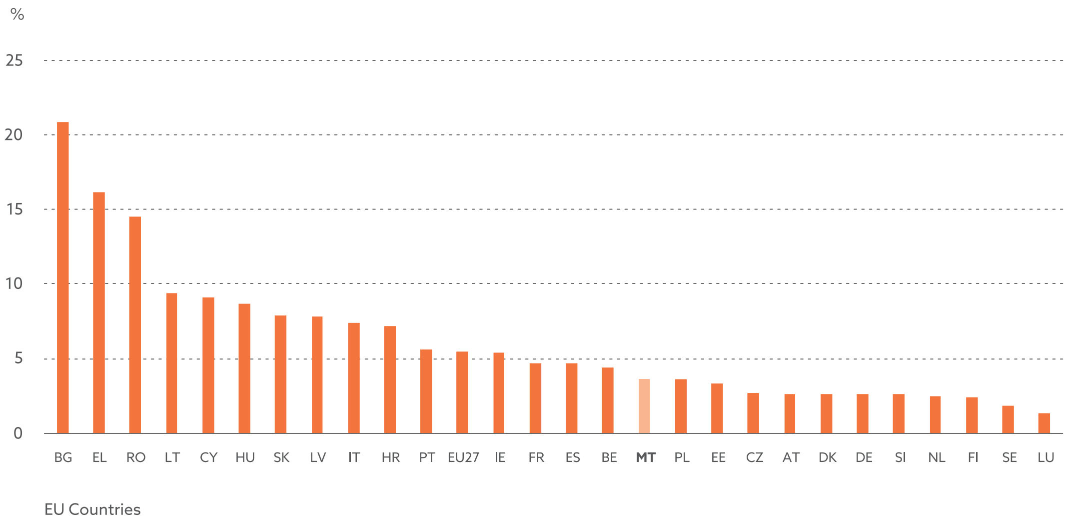


Figure 4.6
Severe Material Deprivation Rate (2019)
Source: Eurostat



The developments and changes in society over the years have led to considerable changes in social needs. This means that new problems may emerge, and different solutions may have to be found to address them. The problems that tormented society decades ago, such as low incomes and high unemployment, have been overtaken by new ones, despite rising incomes and low unemployment. The broad aims of Malta's Social Protection System are designed to safeguard society against the social risks in relation to individual, familial and societal wellbeing.

4.2 Pension Adequacy and Sustainability

As a country with nearly a quarter of the population aged above 60, one can notice increased longevity and decreased childbirth rates. Whilst this is a positive phenomenon as persons are living longer, it also demands the need for adequate planning and comprehensive policies to enable the country to prepare itself for the challenges imposed by population ageing, while creating an environment that promotes healthy ageing.

One of the main challenges posed by an ageing population is that it shrinks the working-age population and hence increases the old-age dependency ratio. This puts pressure on the sustainability of public pensions. As a matter of fact, expenditure on pensions is presently the most important age-related Government expenditure item and is expected to remain so for the foreseeable future.

Figure 4.7

Expenditure on Contributory Pensions

Source: NSO, EPD (Pension expenditure includes statutory bonus, weekly allowance and COLA for each category)

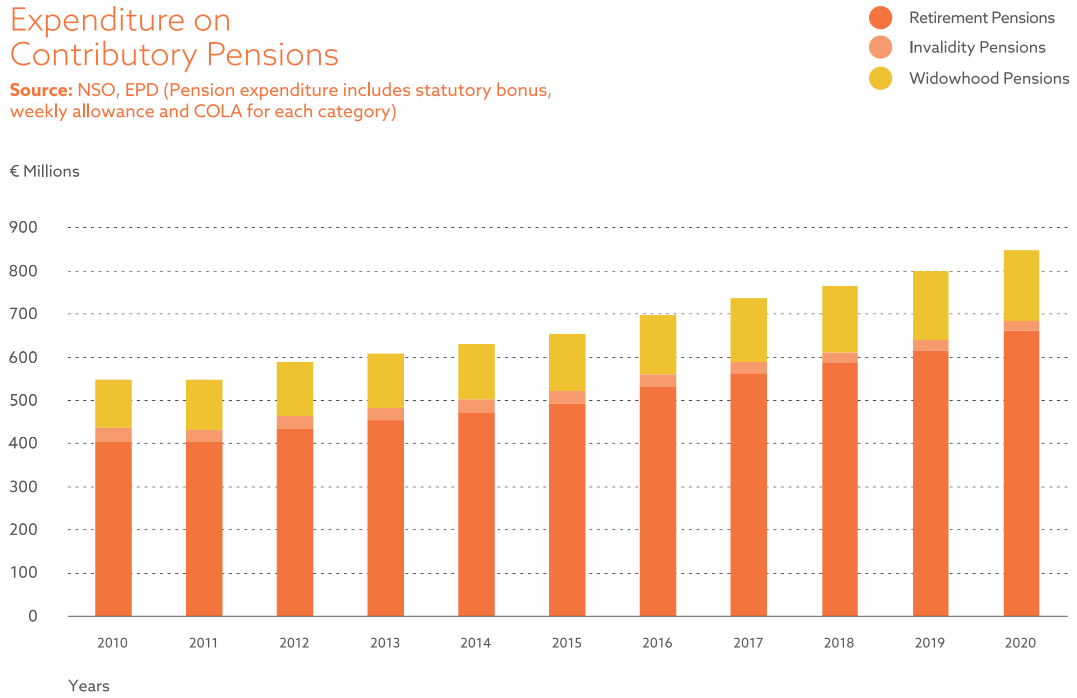
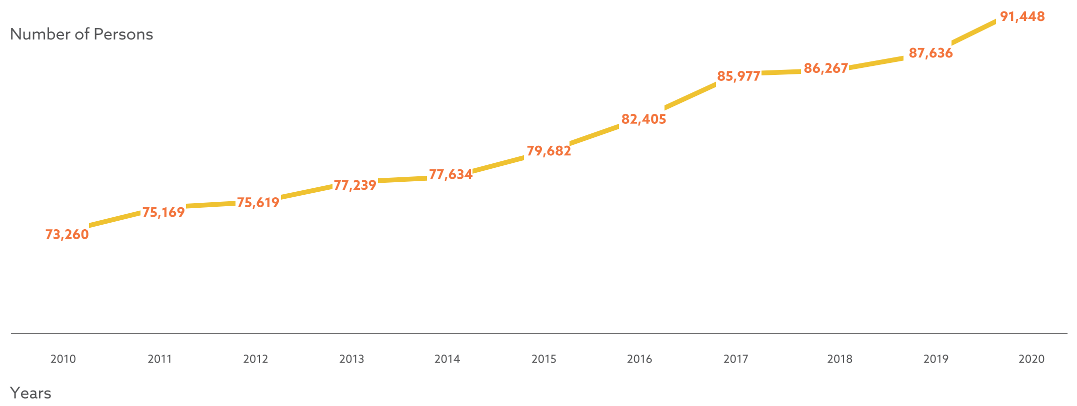


Figure 4.8

Beneficiaries of Contributory Pensions

Source: NSO, EPD



During the last eight years, the expenditure on pensions and pension-related payments rose by nearly 40.0 per cent to around €848.9 million by December 2020. Nevertheless, this increase reflected both the rise in the number of pensioners and the increase in pension income as a result of the Government's initiatives to enhance pension adequacy, including the annual increase in the contributory pension in addition to the COLA.

In order to increase pension sustainability, the Government implemented various measures that aim to lengthen the duration of working lives and discourage early retirement. Measures included the progressive increase in the pension age to reach 65 years by 2027, the lengthening of the contributory period from 30 years to 41 years, as well as the imposition of ceilings on the number of credited contributions for those born on or after 1969 to prevent early retirement. Fiscal incentives to defer early retirement were provided to the private and public sector workers. The policy was also focused on diversifying retirement income by introducing and then strengthening in subsequent Budgets the tax benefits for the Third Pillar Pension Scheme and the Voluntary Occupational Pension Schemes. In addition, the increase in net migration of working age in Malta recorded in the past seven years has also helped to ease pressures on the pension system.

4.3 The Elderly and Persons with Disability

With Malta's ageing population, the sustainability of long-term care in general is certainly a major concern. In 2019, one-fifth of Malta's population was aged 65 and over. According to the 2021 Ageing Report, public spending on long-term care is expected to increase substantially, reaching 1.5 per cent of GDP in 2030 and 2.0 per cent of GDP in 2050. Within this context, there are efforts in place to ensure that the elderly remain active within the community through appropriate support services that will ensure a better quality of life for citizens, whilst at the same time mitigate against long-term hospitalisation.

In this regard, the Government will continue implementing measures such as financial assistance to the elderly living independently at home, which enables the elderly who are willing to continue living in their own home to be able to do so. Such measures relieve pressures on residential homes and provide financial support to the elderly living independently.

Furthermore, substantial investment has also been made and will continue to be made in both St. Vincent de Paul Long-Term Care Facility and in residential homes for older persons in order to ensure further upgrades are made for services offered by the Government.

While there have been advancements in the employment of persons with disability, further investment on the quality of such employment is necessary so that the full potential of persons with disability is realised.

During the past months, the Government embarked upon the continuation as well as new initiatives and projects concerning persons with disability and inclusivity therein. In this respect, it launched for public consultation and final publication, the National Autism Strategy catering for children and adults on the spectrum. Concurrently, the Government has also launched for public consultation and is currently doing the final amendments on the National Strategy for Persons with Disability. This takes a multi-dimensional approach towards looking at persons with disability and their needs from different perspectives. The United Nations Convention on the Rights of Persons with Disability and the Amendments to the Equal Opportunities Act have passed through Parliamentary stages and thus are coming into force as part of the legislative reforms mentioned in this Strategy. It is also worth mentioning that the Hate Crimes Amendment Bill has also been initiated in order to ensure further safety and precautionary measures for persons with disability.

On an infrastructural basis, further investment in the embellishment and concurrent upkeep of Day Centres for persons with disability are also in progress together with the development of residential facilities.

A HEALTHY LIFE IN A GREENER COUNTRY

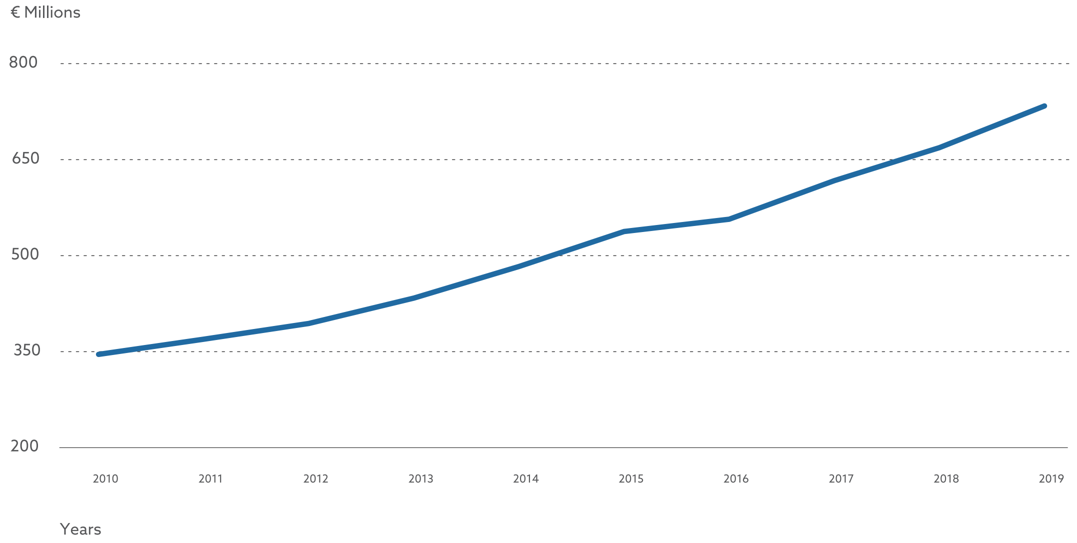
5

5.1 The Effectiveness of Healthcare Expenditure

Increases in real income, greater availability of services due to the expansion of facilities, and the variety of new services offered which resulted from scientific and technological innovations positively influenced the level of demand for public healthcare. The effects of changes in demographic factors coupled with the steady increase in life expectancy also increased the demand for healthcare services. To meet the steady increase in demand and ensure a robust healthcare system, the Government increased significantly the financial resources devoted to public healthcare.

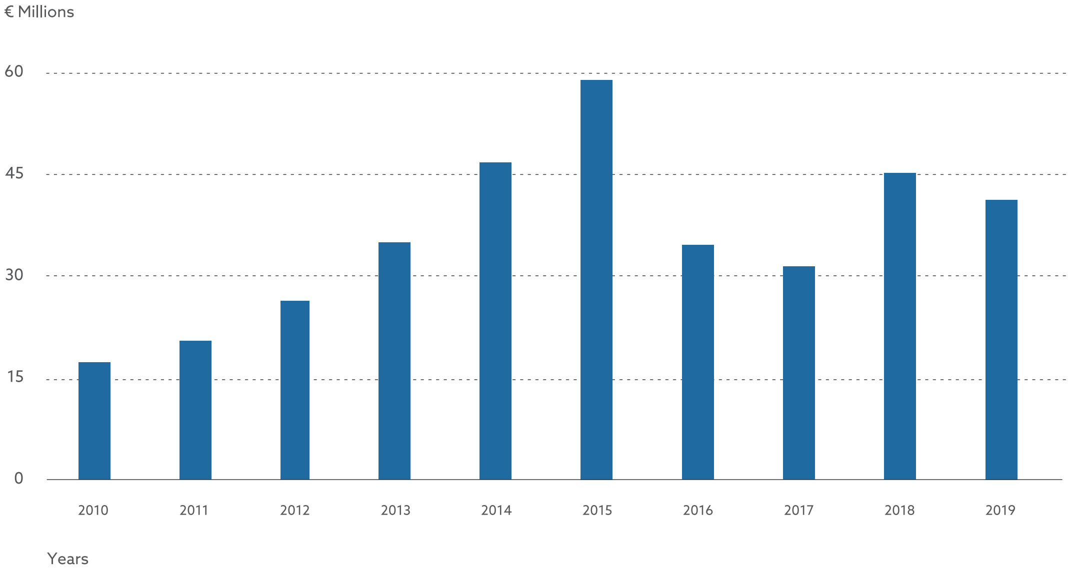
In 2019, the total Government expenditure on healthcare stood at €735.1 million, equivalent to 14.7 per cent of the total. This means that when compared to 2010, where expenditure was equal to €346.7 million or 12.8 per cent of total expenditure, the expenditure on healthcare more than doubled. Provisional figures indicate that Government expenditure on healthcare rose to €883.2 million in 2020.

Figure 5.1
Total Health Expenditure
Source: Eurostat



Investment in public healthcare increased significantly in the past decade. In fact, at €41.2 million, capital expenditure in 2019 was more than double that recorded in 2010 (€17.5 million).

Figure 5.2
Capital Health Expenditure
Source: Eurostat



Malta has one of the highest life expectancies at birth amongst EU member states, with life expectancy in Malta standing at 82.9 years in 2019. Life expectancy for men and women alike is expected to increase by an average of 1.5 years by 2030, with life expectancy at birth for men increasing from 80.5 years in 2019 to 82.0 years in 2030 and from 84.5 years in 2019 to 85.9 years in 2030 for women.

Figure 5.3

Life Expectancy at Birth (2019)

Source: Eurostat

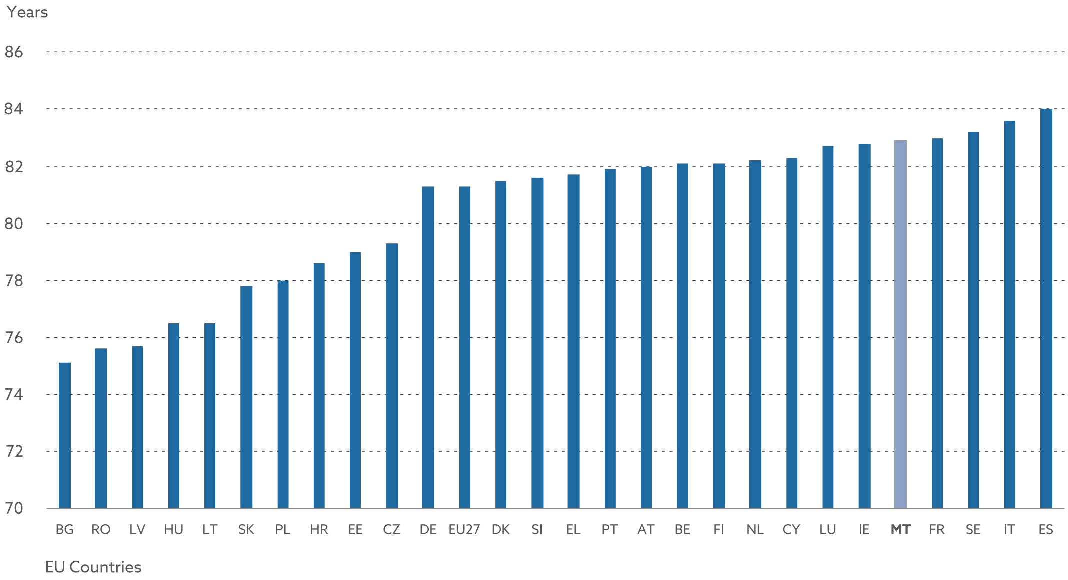
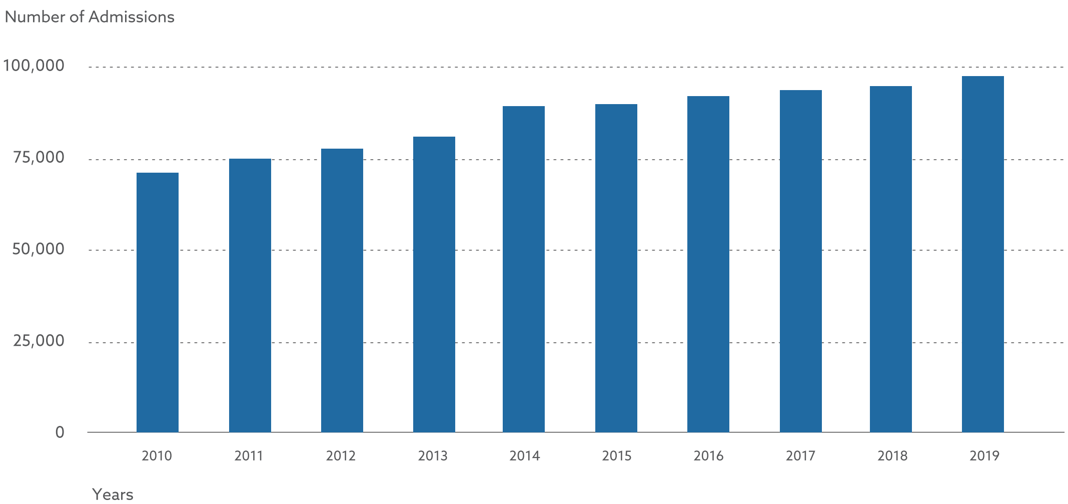


Figure 5.4

In-Patient Admissions

Source: MDH



The number of in-patient admissions has continuously increased over the past decade, reaching a total of 97,618 in 2019. This is equivalent to a 3.0 per cent increase over the previous year. This figure includes the total number of registered admissions in in-patients and day cases. The average daily admission rate in 2019 stood at 267 admissions per day, with an increase of 72 admissions per day from 2010.

The Government's forward-looking vision, shifting demographic and economic patterns, volatile international scenarios, Brexit, the Covid-19 experience and its un/anticipated consequences, all present major challenges to the Maltese healthcare system.

5.2 Challenges in the Healthcare System

Human Resources

Several short, to medium, term challenges in healthcare relate to workforce planning and management. A rapidly expanding population - both in the younger adult (through migration) and the older (through population ageing) cohorts - has been increasing the demand for healthcare, consequentially outstripping the local supply of health workforce and creating a demand for foreign workforce top-ups.

In light of this reality, Malta has, over the past years, been actively engaged in attracting new healthcare training institutions. In addition to the University of Malta, which has expanded its intake in professions such as nursing, the Higher Education sector has been expanded further through the establishment of at least, three additional higher education institutions. Together with a number of initiatives which the Government has embarked upon, the public health's workforce strategy aims at increasing the supply of the domestic workforce and improving the responsiveness of higher education facilities to the medium-term requirements of the healthcare system.

Going forward, further investment in human resources planning and management is essential to facilitate the expansion of the skillset of the current workforce, to foster a culture of flexibility, as well as pre-empt and prepare to meet the challenges generated by future needs.

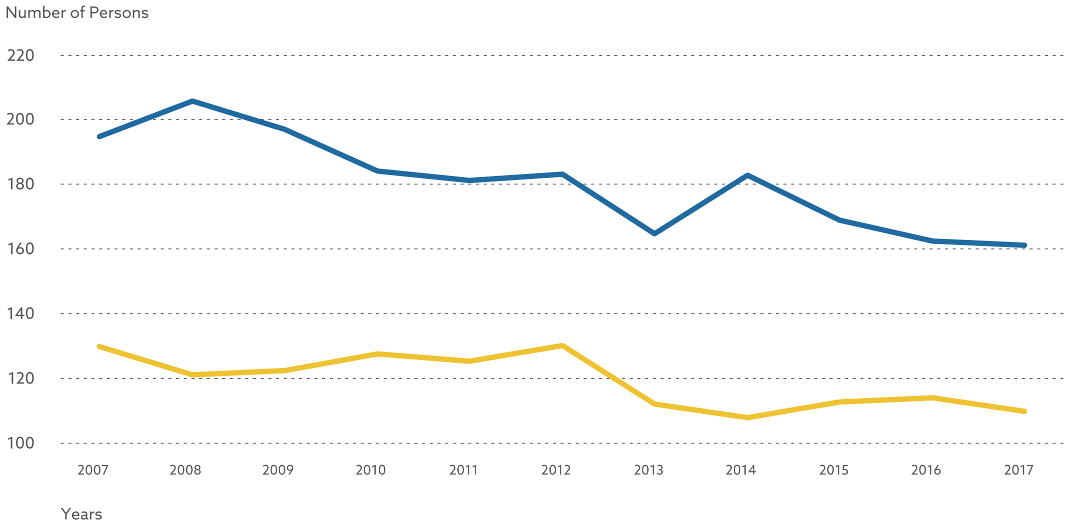
Medicines

The Government has always prioritised budgetary support for the procurement of medicines. Indeed, during the first quarter of 2013, around 183 medicines were out-of-stock. The trend was reversed over the years as a result of the Government's firm commitment towards increasing the supply of medicine in a timely manner. In the years that followed, there were long periods whereby no medicines were out-of-stock while at other periods, out of stock situations were limited to a handful of medicines.

Another case in point is the dedicated cancer drugs vote which helped to cut the lag in access to oncological drugs. If one had to consider the expansion of the medicine formulary over the last few years, the most notable expansion would be in oncology drugs. The setting up of SAMOC, coupled with the several newer treatment and diagnostic modalities, the establishment of cancer treatment pathways, and the introduction and expansion of cancer screening programmes may indeed be associated with the changes, in these last years, as observed in the most recent data on the cancer mortality rate. A sustained decrease in males and a drop to a lower level in the case of females have been noted from 2007 to 2017.

Figure 5.5
Cancer Mortality
in Malta
Source: MFH

Males
Females



Investments were also undertaken in other critical non-communicable disease areas. These have positively affected large cohorts within the population. Patients with other uncommon yet severely disabling conditions were also provided with newer therapeutic drugs.

The process of maintaining supplies of normal treatment is a continuous and challenging process. The sustainability of accessing medicines at a competitive price was visibly challenged by the disruption in supplies brought about by Brexit and the Covid-19 pandemic. The availability of supplies, especially during the Brexit transition period, was approached through the stockpiling of treatments (sourced from the UK), the identification of alternative market sources as well as participation in joint-procurement initiatives to secure economies of scale. Increased efficiency in procuring medicines, together with the active liaison maintained with the EU Commission, proved invaluable in maintaining the lowest possible levels of stock-outs and in securing the availability of stocks and particular treatments that were historically procured through the UK. The situation was further addressed through the attainment of exemptions to allow accessibility of medicines, the implementation of cycles for translations of the patient information leaflets, re-labelling of packs as well as in-house registrations to enable supplies from EU countries with foreign languages.

For the 2022 Budget, the Government will focus on providing new treatments to various patient cohorts and expanding the remote patient monitoring programme. The Government also intends to carry forward the implementation of its mental health strategy and the expansion of the portfolio of specialist services within primary care, to include other specialities. In addition, it intends to continue working on the New National Health Systems Strategy (up to 2030), of which an advanced draft is already in place.

Primary Healthcare Services

The maintenance of the health standards acquired so far, together with the need to address and expand other aspects of the Maltese Health System, presents two major challenges in primary health care. These challenges include the redistribution of resources to offload activity from a more expensive secondary care, the increase in capacity to cope with a growing and ageing population, as well as the adaptation of the health system to an increasingly diverse population. In addressing these challenges, the Government plans to further invest in specialist services at primary care level, with a view to offloading specific busy outpatient clinics at Mater Dei Hospital.

Over many years, the budget allocation afforded for Primary HealthCare served only to sustain moderate capital investment, resulting in major refurbishment projects and operational re-engineering not being possible. The allocation of the €14 million grant secured by the Primary HealthCare in March 2019 was a major step towards the mega-refurbishment and upgrading programme that aimed to reposition public primary healthcare at the centre of the national health system.

The holistic refurbishment of the Primary HealthCare current infrastructure, the development of Hub Centres at strategic locations across the Maltese Islands and the new innovative initiatives, provide the much-needed quantum leap in the overall quality of care at primary healthcare level.

Mater Dei Hospital (MDH)

Since the opening of its doors, MDH's throughput increased by 38.0 per cent in A&E attendances, 43.0 per cent in admissions and 45.0 per cent in surgery. This upward surge led to an acute shortage in hospital beds, the accumulation of outpatients and elective surgery waiting lists, as well as the need to expand the A&E Department onto ward areas – thereby impacting bed availability further.

The investment and innovative approaches have, however, helped to increase capacity and address waiting time, particularly in terms of outpatient appointments, outpatient diagnostic tests and surgeries. The table below presents a comparative analysis between the waiting times noted in the first health system performance assessment (HSPA) of 2012 and the latest-available mean waiting time.

Table 5.1

Mean Waiting Time

Source: CTMS & Surgical Ops Register - Clinical Performance Unit, MDH

Category	2012 (Days)	2021 (Days)
Mean waiting time for an outpatient appointment	281	161
Mean waiting time for an MRI	543	153
Mean waiting time for a CT scan	404	125
Mean waiting time for an ultrasound appointment	568	91
Mean waiting time for a Total Knee Replacement operation	600	455 (284 pre-Covid)
Mean waiting time for a Total Hip Replacement operation	288	444 (253 pre-Covid)
Mean waiting time for a cataract removal operation	318	291 (180 pre-Covid)

Needless to say, the Covid-19 pandemic created its fair share of challenges for MDH. However, as soon as the Covid-19 pressures on MDH abated, on-going concerted efforts were put in place with a view to drive the surgical throughput at MDH up and forward. Consequently, the June 2021 throughput for surgery reached 4,367 interventions - practically the equivalent to that achieved in June 2019 (4,482).

In the 2022 Budget, the Government will be embarking on a number of initiatives which that being generated by the need for larger spaces to accommodate current and future service expansion requirements.

Digital Infrastructure

Conscious that the digitalisation of the economy strengthens the ability of that same economy to produce, it is a well-known fact that several activities within the health sector are only partly digitised and still require 'physical contact'. The need to seek the introduction of a number of measures to help achieve productivity gains within sectors that are still more 'physically based' is highly evident. The Government has been heavily investing toward this paradigm shift, through the setup of an e-health infrastructure. Part of the investment was the creation of the IT platform as well as the governance framework around a National Electronic Health Record which joins together all the different elements of such a record. This investment is expected to make substantial inroads into the two main communication constraints within the Maltese healthcare system – between the private and public sector; and between primary and secondary care – both of which are critical for the continuity of care and consequently, for patient safety.

5.3 Climate Neutrality

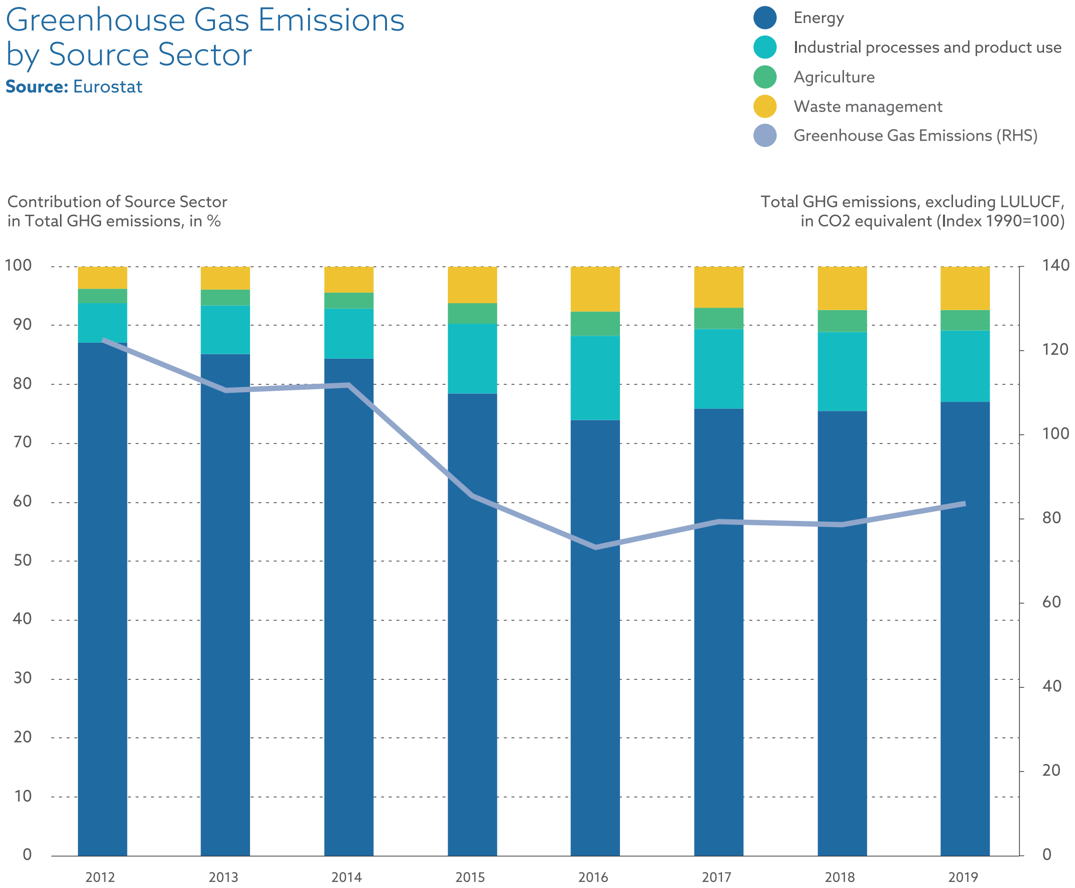
The physical and mental well-being of the population is not only dependent on the effectiveness of a country's healthcare system, but it is also dependent on the quality of the country's rural and urban environment.

The Government has made Carbon neutrality an integral part of Malta's economic vision as it underpins the significance of a post-pandemic green recovery. The urgency of acting for climate remains paramount as highlighted in the recent announcement of the 'Fit for 55' proposals by the European Commission and its focus on meaningful EU emissions reduction.

Figure 5.6

Greenhouse Gas Emissions by Source Sector

Source: Eurostat



Following the Maltese Government's energy reform earlier this decade, a reversal of the upward trend in GHG emissions has been observed, as at 2019 GHG emissions were around 32 per cent lower than in 2012. In 2019, emissions from the energy sector (which includes transport) accounted for 77 per cent of total national GHG emissions, which share had surpassed 87 per cent in 2012.

Nevertheless, the Government needs to accelerate the ongoing efforts towards electrification and increasing energy-efficient use in buildings in order to deliver the results as mapped out in the Low Carbon Development Strategy, purposely targeting a reduction of 19.0 per cent by 2030.

Energy-efficiency in Buildings

One of the Low Carbon Development Strategy deliverables relates to energy-efficiency in buildings, where significant upgrades are required to improve effectiveness. The buildings sector emits, through electricity use (34.0 per cent of total emissions), through fuel use (6.0 per cent of total emissions mainly used for heating buildings and cooking) and through the use of air-conditioning which releases f-gases into the air (12.0 per cent of total emissions).

To date, several grant schemes have been issued to incentivise the uptake of energy-efficiency in buildings. Such schemes include PV systems and energy storage, solar water heaters, heat pumps and double-glazing.

It is estimated that within just four years, beneficiaries of Solar Water Heaters (SWH) and Heat Pump Water Heaters (HPWH) will recuperate their initial investment and save thousands in utility bills. Given Malta's number of sun exposure, SWH and HPWH may meet around 80.0 per cent of a single household's water heating needs and have a lifespan of around 20 years.
The 2022 Budget will continue to provide schemes that incentivise the use of renewable energy sources in households. This will positively contribute towards attaining the 11.5 per cent in renewable energy targets.

Rural and Urban Environment

The construction industry is traditionally a key economic sector that makes up around 5.0 per cent of gross value added generated by the Maltese economy. This sector is known for its resilience in the face of economic shocks, such as those experienced during the pandemic. Therefore, its sustainability is crucial to ascertain a sound economic recovery and, subsequently, stable economic development beyond the recovery.

The Government has signalled the beginning of a much-needed reform in the sector through the enactment of the Building and Construction Act, which set up a Building and Construction Authority. The Government is committed to increase the need to address the issue of 'uglification' and incentivise comprehensive development and green buildings, through significantly increased budgets for green planning.

The lack of greenery and heightened urbanisation needs to be addressed through green projects and landscaping efforts. In this regard, in the coming years various projects of roofing and urban greening will be implemented.

In 2021, investments were also undertaken in the conservation of valleys and rural structures through the cleaning of valleys from debris, restoration of rural structures and planting of shrubs and trees. Investment on the embellishment of open spaces, parks and gardens, along with the conservation of valleys and rural structure will continue to be prioritised in the coming years.

Waste Management and Recycling Targets

Minimised waste generation and high recycling rates reflect an economy which maximizes use of its resources and uses them sustainably. Unfortunately, Malta lags in waste management with its recycling rate being one of the lowest in the EU. This triggered a Waste Management Plan 2021-2030 for a quantum leap in Malta's waste management.

This plan is being implemented through the consolidation and upgrading of the national waste infrastructure into the ECOHIVE Complex costing around €500 billion. This is, by far, the largest investment ever undertaken in Waste Management in Malta. By the first months of next year, the first phase of this extensive project, which is the contract for Malta's Waste to Energy Plant should be adjudicated. This infrastructural set-up will allow Malta to move to a circular economy and will bring an end to years of reliance on landfilling.

However, this investment needs to be accompanied by a strengthened separation at the source of waste in such a manner to allow each waste stream to be treated effectively and close the loop. Separation at source in Malta improved significantly since the roll-out of organic household waste collection launched in October 2018. In 2019 and 2020, an average of 54,000 tonnes of organic waste have been collected from households diverting them away from landfill. The next step is to tackle waste separation, in particular organic waste from commercial establishments, in order to divert more waste away from landfill and reduce greenhouse gas emissions.

5.4 Sustainable Mobility

In recent years, public investment in infrastructure, which incorporates the arterial and urban roads' networks and other transportation facilities increased exponentially to try and address the infrastructural deficit of previous years.

The two main pillars pursued to attain a sustainable and efficient road infrastructure to mitigate traffic management, urban heat island effects, improve air quality and minimise urban impact, include the National TEN-T infrastructure and the Residential/Rural roads network.

This strategy is supported through a study which was carried out by Infrastructure Malta, that shows that less traffic congestion will lead to 62,000 tonnes less of CO2 emissions, 5 million hours of saved travelling time every year and €25 million savings in fuel costs.

In 2013, Malta committed with the EU Commission and other European Institutions to upgrade its TEN-T network in line with the current TEN-T policy based on Regulation EU No. 1315/2013.

The TEN-T network comprises of 2 network layers:

1. The CORE network, that includes the most important connections linking the most important and busy nodes, which are to be completed by 2030, and

2. The COMPREHENSIVE network which compromises the other arterial roads and have been earmarked to be completed by 2050.

All projects identified in the CORE infrastructure upgrade have already been implemented and more than 60.0 per cent of those listed as COMPREHENSIVE network projects have been completed. This status of work positions Malta ahead of the agreed timelines with the EU.

Investment has also been earmarked towards residential and rural areas as this type of road infrastructure is as important as the TEN-T network. Since 2019 and up to June 2021, the number of rural roads completed amounted to 286 while that of residential roads was equal to 363.

The Government's main aim is to continue with the transformation and strengthening of Malta's mobility sector. The main objective is the continuous implementation of the unprecedented enhancement of the island's mobility infrastructure being public transport, road, air and maritime connectivity, based on the National Transport Master Plan 2025, National Transport Strategy 2050 and Slow Streets Action Plan 2020.

Electrification of Vehicles

One of the major challenges for the Maltese economy to attain its carbon-neutral ambitions relates to the industry's ability to accelerate the transition towards cleaner mobility. The transport sector is responsible for 21.1 per cent of GHG emissions generated in Malta. These effects are especially severe in Malta due to the high car dependency and relatively old car fleet.

The CO2 contribution is also significant, with transport becoming the biggest single sector surpassing electricity generation in 2019.

The Government has been promoting and investing in cleaner and sustainable modes of transport by devising and launching innovative grant schemes that meet this objective through alternative modes of transport and public transport. Schemes included a reduction in fees and taxes such as the reduction in the annual circulation licence fee and the exemption from registration tax for the purchase of electric and plug-in hybrid vehicles. Grants were also provided through the scrappage scheme for the purchase of environmentally friendly vehicles, the purchase of electric and plug-in-hybrid vehicles, pedelecs and category L vehicles, as well as financial incentives to convert a vehicle to run on LPG/AutoGas.

Table 5.2

Scrapping Scheme –
Grant on the Purchase of Environmentally Friendly Vehicles

Source: MTIP

Year	Takeup Amounts	Takeup (€)	Investment (€)
2017	1597	1,395,100	1,200,000
2018	1270	1,799,218	1,800,000
2019	1637	1,799,909	1,800,00O
2020	1301	1,484,797	1,486,000
2021	555 (Q1/Q2)	400,000	1,500,000

Table 5.3

Electric Scheme –
Grant for the Purchase of Electric and Plug-in-hybrid Vehicles

Source: MTIP

Year	Takeup Amounts	Takeup (€)	Investment (€)
2017	70	253,000	450,000
2018	228	1,344,500	1,800,000
2019	299	1,498,500	1,500,000
2020	513	2,813,458	2,900,000
2021	373 (Q1/Q2)	2,500,000	2,500,000

Table 5.4

Electric Pedelec Scheme –
Grant on the Purchase of Pedelecs and Category L Vehicles

Source: MTIP

Year	Takeup Amounts	Takeup (€)	Investment (€)
2018	224	89,600	100,000
2019	280	112,000	120,000
2020	431	178,800	180,000
2021	604 (Q1/Q2)	200,000	200,000

Table 5.5

LPG Scheme –
Scheme to Convert a Vehicle to Run on LPG/AutoGas

Source: MTIP

Year	Takeup Amounts	Takeup (€)	Investment (€)
2017	220	44,000	50,000
2018	142	28,400	50,000
2019	203	40,000	50,000
2020	121	23,800	100,000
2021	93 (Q1/Q2)	26,800	50,000

The commitment towards vehicle electrification needs also to be supported by a strong investment in the country's charging infrastructure. An investment of €2 million enabled the installation of a mix of 130 fast and medium-fast chargers across Malta and Gozo. However, this number needs to increase significantly to cater for the electrification of vehicles. Going forward, the Government intends to significantly increase investment in the installation of public charging points infrastructure, also through partial EU 2021-2027 financing. This will be done whilst upscaling incentives to promote the uptake of cleaner vehicles through grant schemes to scrap internal combustion engine vehicles and to provide support to those who wish to install a private charging point.

Public Transport

Public transportation is an important pillar not just for mobility, but also for the well-being of the environment and the economy. In a densely populated country, an efficient public transport is critical for the standard of living of society, as well as an important piece of the puzzle to tackle traffic congestion.

In 2020, the number of persons using public transport decreased significantly, reflecting the impact of the pandemic on public transport as both tourist and local passengers declined. Going forward, in order to effectively address traffic congestion and pollution, the Government needs to ensure, not only that the passenger numbers recover from the impact of the pandemic, but that they start growing at a rate higher than that achieved during the pre-Covid period.

Over the past years the service has improved considerably, and various measures have been introduced to make public transport affordable. Free public transport was provided to all individuals aged between 16 to 20 years, students who have turned 20 but are still full-time students and individuals aged 14 years. Free public transport was also provided to the elderly who have reached the age of 70. These measures have been successful in their implementation with a generally positive response from users.

The Government is committed to continue its investment in public transportation and build on the success over the years, through an improved network, a more modern fleet and wider accessibility.

Sea Transport

In recent years the Government has been highly promoting such means of transport as a faster and safer alternative to Land Transportation. In fact, the launching of the Valletta 3 Cities Ferry service and the recent Valletta-Gozo Fast Ferry Service are producing encouraging results when it comes to usage.

To continue promoting this alternative method of transport, investment in the renovation of a number of breakwaters and marine infrastructure is being planned.

Table 5.6

Total Number of Passengers Per Year using Public Transport

Source: MTIP

Year	Total
2011	33,152,731
2012	34,030,681
2013	39,438,822
2014	43,687,135
2015	42,160,228
2016	43,253,238
2017	48,053,045
2018	53,467,404
2019	57,409,385
2020	33,776,664

Table 5.7

Passenger Numbers – Sea Transportation

Source: MTIP

Year	Gozo Malta - Gozo Channel	Gozo Malta - Fast Ferry	Bormla - Valletta
2017	5,383,840	n/a	451,764
2018	5,758,318	n/a	528,635
2019	5,917,780	n/a	572,646
2020	3,773,981	n/a	179,249
2021	1,618,202 (Jan-Jun) (Actual) 1,800,000 (Jul-Dec) (Forecast)	255,000 (Forecast) Service comm.1st June 2021	53,834 (Jan-Jun) (Actual) 65,000 (Jul-Aug Forecast)
2022	4,500,000 (Forecast)	600,000 (Forecast)	200,000 (Forecast)

A SUSTAINABLE ECONOMY FOR QUALITY GROWTH

6

Malta has excelled in creating strong growth results over the past years and has become one of the best economic performers in the European Union. The local political and economic landscape in the 2008-2013 years combined to create a significant blockage in potential investment, which was removed in the following years. This was aided by various pro-business reforms, which enabled this investment to grow and flourish.

Retail, tourism and hospitality, construction and services are among the sectors that saw strong growth yearly. This resulted in the value of properties increasing and salaries rising substantially in medium to high-skilled roles.

It is fair to say the Covid-19 brought about a lull across all European economies, resulting in perfect timing for the Maltese to evaluate and recalibrate its priorities where necessary. A cost/benefit analysis of the foundation of this growth, its sustainability and its side effects need to be made in order to pave the way forward. There is no doubt that economic growth provides Governments with the necessary liquidity to enact change, reform and improve various areas and often, this requires considerable investment.

Over the past years, the investment in infrastructure, health and education allowed Malta to reach a good European standard, whereby in the past, these areas were deteriorating quickly. Other investments, such as the free childcare scheme and the in-work benefit, are in many ways self-sustainable but many others, such as pensions or other social benefits to those in need, require transfers from other parts of society. Being able to support and invest in these areas, without having to raise taxes, is certainly the main benefit of achieving a high level of economic growth.

Of course, economic growth also has a cost. The lack of workers in critical economic sectors meant the industry had to resort to importing workers from abroad to sustain its growth. This phenomenon brought a number of social, housing and infrastructural pressures whilst increasing the demand for services such as health and education. There is also a quality of life cost that cannot be ignored and can be twinned with an environmental cost.

Ten years ago, surveys often painted a picture of Maltese and Gozitans worried about the economy, jobs and the financial situation. Recent surveys have changed this, but new issues have cropped up. The liveability factor is increasing in its importance across surveys, and policy should be directed at improving the liveability and environmental challenges that Malta is facing. This can have an impact on different levels: from the attraction of Malta in terms of tourism and investment in the short-term, to a worst-case scenario of a brain drain in the long term.

The liveability factor is something that is undoubtedly a priority for the upcoming budget in terms of policy. The Government shall focus on growth, primarily since the deficits incurred due to Covid-19 are substantial. Still, it must be better balanced by diluting the negative aspects of the environmental and liveability cost. Enforcement and better regulations, especially in areas such as noise and air pollution, are critical.

6.1 Tourism

The Maltese economy's dependence on tourism was highlighted during the Covid-19 pandemic, as travel decelerated to an almost complete stop in some months, resulting in the most significant tourism crisis in history. At no point was travel so forcefully stopped over the past decades and no economic crisis or terror act slowed down travelling and tourism with such brute force and with such longevity.

To date, timid improvements were noted, but it is nowhere near the levels, both in terms of volume and value, as pre-Covid times. The 'return to normality' in tourism is expected to be dragging across Europe, especially since there are various checks and restrictions in place which invariably deter travel. Fluid scenarios whereby restrictions vary relatively quickly means that tourists, risk being quarantined abroad, or when returning home.

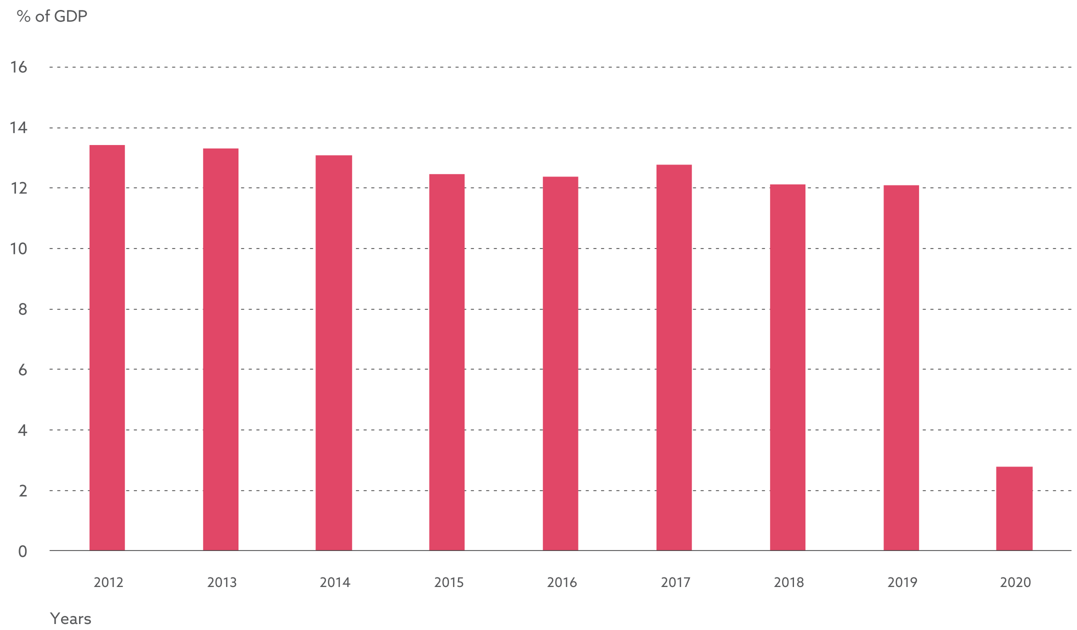
The two voucher schemes aimed at retail and hospitality helped subside the shortfall and accelerated the physically limiting notion of locals taking a holiday break in Malta.

Investment and promotion towards 'safe tourism' are crucial for the coming months, and Malta must position itself as a safe destination that people can enjoy visiting. These steps will maximise inbound tourism in the economically, more challenging, winter months. Accessibility to the islands is not an issue because connectivity, primarily through low-cost carriers and Air Malta, is robust.

Figure 6.1

Travel (BOP - MT)

Source: Eurostat



Full-time employment in the Accommodation and Food Service Activities Sector averaged 15,482 in 2020, part-time employment (as a primary job) amounted to 3,963 and part-time employment (as a secondary job) 3,345.

According to the International Civil Aviation Organization (ICAO), the Covid-19 pandemic devastated world travel. When comparing 2020 scheduled passenger traffic with 2019 levels, overall, 50.0 per cent less seats were offered by airlines. Also, travel experienced 2,699 million less passengers and airlines registered approximately 371 billion dollars in loss of gross passenger operating revenues. Preliminary estimates for 2021 indicate that between 38.0 and 40.0 per cent less seats will be offered by airlines when compared to 2019, and around 2,074 to 2,210 million passengers less. When comparing 2021 revenue to 2019 levels, airlines are expected to experience a loss of approximately 305 to 324 billion dollars of gross passenger operating revenues, overall.

6.2 Innovation

The President of the European Commission, Ursula von der Leyen, has stated that "as we will emerge from the pandemic, innovation will be key for the success of our digital and our green agenda."

As investment and support pour for the European Union's digital and green priorities, the foundation needs to be in place for the future. There is little doubt that policymakers across Europe view technology and renewable energy as the pillars upon which the innovation of the future can be derived.

The Maltese economy, especially the private sector, needs to absorb the raison d'être of these agendas because they will profoundly affect the Maltese and Gozitan lives and the attractiveness of Malta's economic model. There is plenty to be optimistic about what is around the corner. The digital changes mean that the effects of Malta's insularity are decreased.

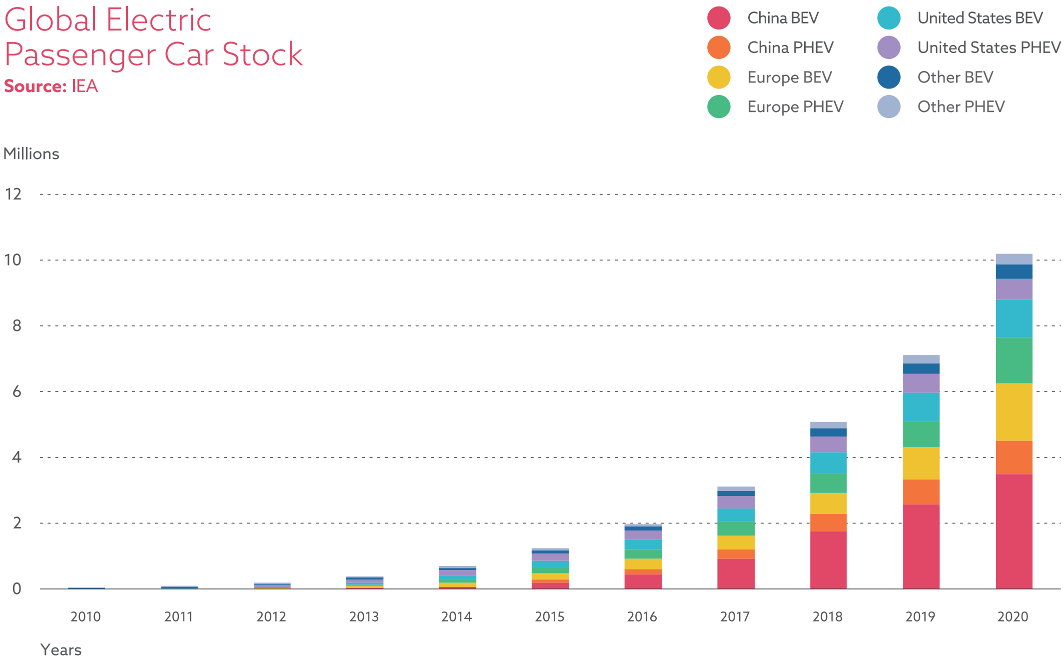
The technology surrounding wind, hydro and solar - all areas in which Malta can have a disproportionately positive effect - is improving exponentially and will soon be at a level where the value they bring will be substantially better than the status quo. This is the right time for policymakers and businesses to invest time and resources in these areas, as market leaders will soon start to emerge and establish themselves in a more permanent manner.

It is to be noted that France, UK, Germany and especially Italy are putting a considerable political, economic and financial focus on renewables. They view such technology and the digital innovation paired with them as a possible permanent edge on other less innovative economies.

Figure 6.2

Global Electric Passenger Car Stock

Source: IEA

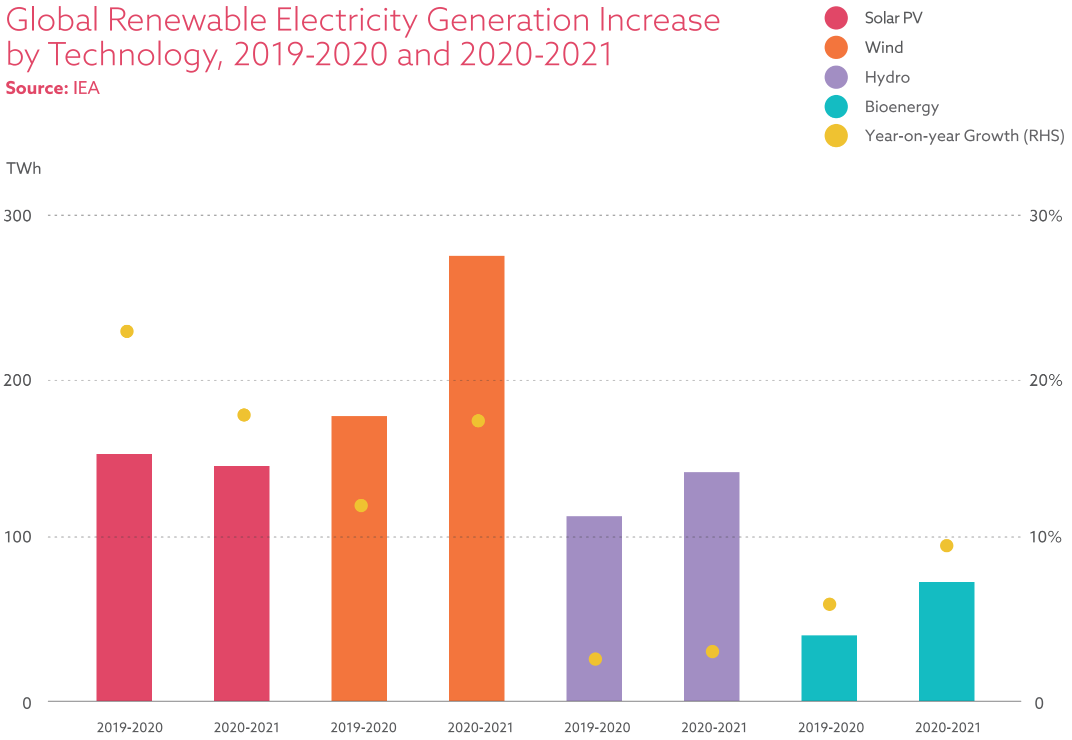


The demand for global electric passenger cars has increased drastically over recent years, across the entire globe, with over 10 million passenger cars in the global market. According to the International Energy Agency (IEA), in 2019, renewable electricity generation rose by approximately 6.0%, with wind and solar PV technologies together accounting for 64.0% of this increase. Indeed, the Covid-19 pandemic has also affected overall global demand for renewables mainly due to lockdowns and containment restrictions.

Figure 6.3

Global Renewable Electricity Generation Increase by Technology, 2019-2020 and 2020-2021

Source: IEA

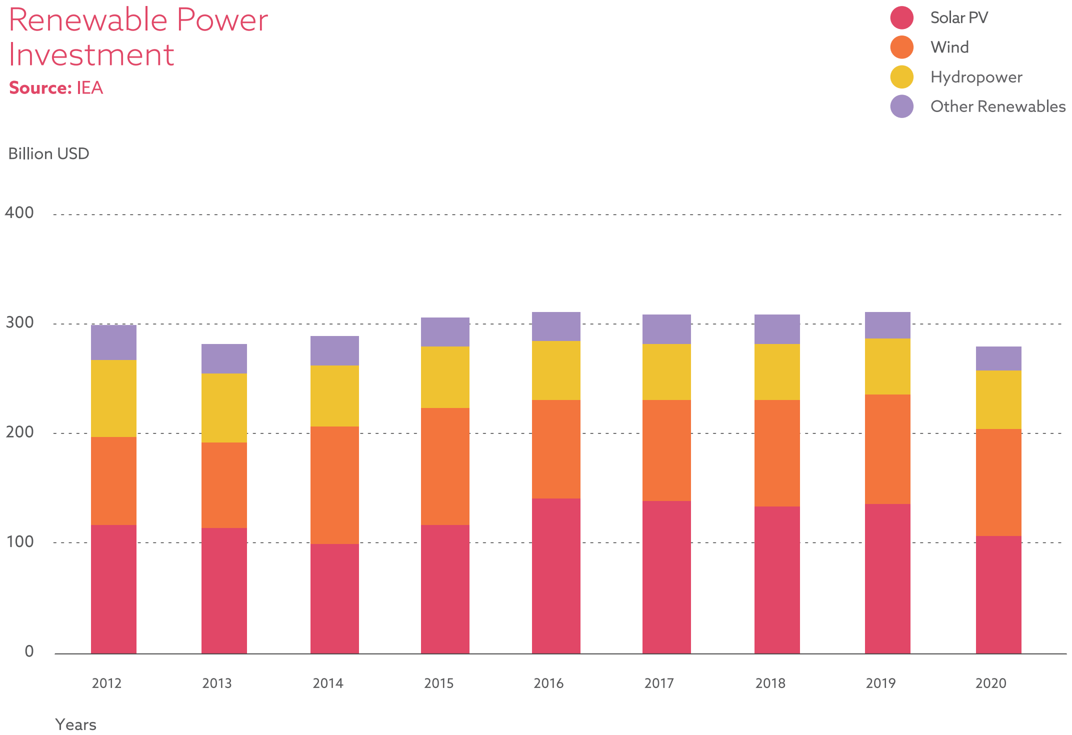


The appetite for this type of foreign direct investment in these areas is there. According to the IEA, following the Covid-19 pandemic, global energy investment is set to rebound in 2021.

Figure 6.4

Renewable Power Investment

Source: IEA

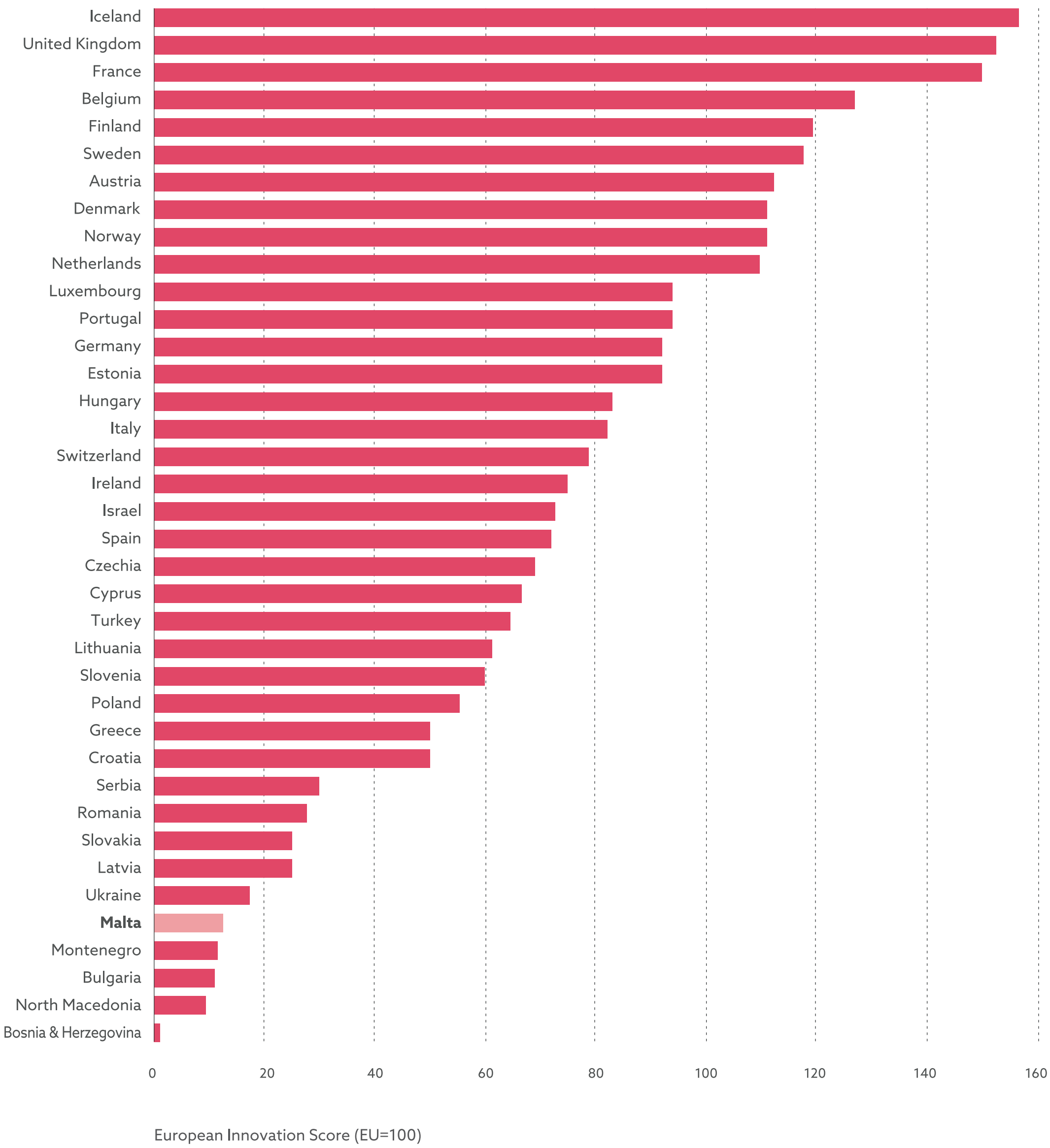


Focus on policy and public investment should be driven towards attracting digital and renewable energy investments into Malta, as well as provide the necessary foundation for it to flourish. Scholarships, business support schemes and incentives will be prioritised towards these key areas. This strategy does not just bring direct positive outcomes. It also creates the indirect, but just as important, results that we would like to have as a community: cleaner air, less pollution, increased efficiency, and a more digital and modern society.

Figure 6.5

European Innovation Scores in Finance and Support in European Countries 2021 (EU=100)

Source: European Commission



6.3 The Growing Demand for Cleaner Energy

Over the past decade, electricity demand has been progressively increasing in direct correlation with GDP and population size. From 2011 to 2019, Malta recorded the highest growth in electricity consumption by households in the EU, with an increase of nearly 40.0 per cent.

The significant increase in energy consumption correlates with Malta's high GDP growth rates registered in recent years.

Demand is set to continue increasing. Energy needs through the introduction of onshore power for maritime vessels, and the expected increase in electric vehicles, will compound the projected growth.

In line with Malta's GHG emission reduction obligations, which is equivalent to a reduction of 19.0 per cent in GHG emissions compared to 2005 under the Effort Sharing Regulations, this contributes towards achieving the collective EU target of a drop of 55.0 per cent reduction by 2030. This imposes a solid commitment to continue to increase the share of renewable energy.

To meet the increasing demand and achieve these targets, investment in this area needs to accelerate in the short-term, and this will be a priority in the forthcoming budget.

A second electricity interconnector cable between Malta and Italy will add a 200MW source of electricity. It will also deliver a more resilient electricity grid that accommodates large-scale renewable energy generation, mainly offshore.

Several technical studies are being undertaken to finalise the route and prepare for the permit requirements in both Malta and Italy.

Electricity imports will increase with local generation and access to new fuel markets. In this regard, the Government will continue to pursue the hydrogen-ready pipeline project, which has now been secured as an EU Project of Common Interest.

This allows Malta to access new technologies, mainly green hydrogen originating from renewable sources and will be necessary to decarbonise the electricity sector in the longer term.

These investments are the bedrock of future economic growths and achieving several sustainability goals for the country.

CONCLUSION

The Pre-Budget Consultation is traditionally confined to mostly sectoral stakeholders and technical dialogue, however this year the Government wanted to reach out to a wider audience to obtain a wider representation and receive deeper feedback.

The budget is an exercise that goes beyond line items - it is also conventionally seen as the Government's vision for the upcoming year. Often the Prime Minister's and Finance Minister's speeches are not just technical, but a formulation of the strategy and plan that the Government is taking forward. Therefore, it cannot be seen as just a technical exercise and it must involve all sectors of society.

It is also an opportunity to discuss the challenges people face in their everyday lives and the solutions to those issues in objective and rational terms. This pre-budget consultation aims to be a grounded one, with honest discussions that bring value to the table.

The way this document is structured is an issue-oriented one, rather than a Ministerial one. Issues are rarely strictly just of one Ministry but overlap and require collaboration between different departments and entities together with the private sector.

Can we truly discuss employment without discussing social equality or economic migration? Can we objectively discuss the environment without discussing the economic aspect of the areas that impact it, such as mobility or housing needs?

Can we genuinely discuss learning and education without addressing the social issues luring behind them?

There are also important national issues that merit conversation, such as ways that cultural initiatives can be more sustainable or how an increase in investment in sports can be paired with tangible goals.

Beyond these intrinsic issues, there are also more abstract ones such as, what country would we like to leave to our children, and are we proud with what we have built and become?

These are just some of the discussions that the pre-budget consultation hopes to raise with people and stakeholders. Ultimately these will be presented by the Government on October 11th.

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GOVERNMENT OF MALTA
MINISTRY FOR FINANCE
AND EMPLOYMENT