Pre-Budget Consultation Document

2024

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GOVERNMENT OF MALTA
MINISTRY FOR FINANCE
AND EMPLOYMENT

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Pre-Budget 2O24 Consultation Document

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Foreword

by the **Minister for Finance and Employment**

At a global level, this year we have harboured a new dimension to the fiscal and economic challenges we have endured over the past three years. At the fringes of the pandemic and a European war soon entering its second year, we have had to adjust to living with surging inflation rates, shocking and widespread impacts of climate change and a resulting economic slowdown.

On a national level, despite being an open economy impacted by these external global factors, Government continued to show time and again that the policy decisions taken were not only the right ones but also taken at the right time. As other countries lag in lengthy policy decision-making, including whether to subsidise electricity tariffs, Malta has enjoyed significantly lower inflation rates than its European counterparts, a very robust labour market and sustained economic growth.

As we navigate through higher prices in 2024, our economy will continue to enjoy encouraging GDP growth levels. We will remain positive outliers in the European Union, leading in several ways. The next financial year will see the Ministry for Finance continue to implement its plan for the sustained reduction of the budget deficit and controlled Government debt, to gradually align with the European Commission's fiscal rules. This plan is a continuation of the Ministry's rigorous endeavours on fiscal consolidation over the past two years, which has already significantly improved our fiscal position. For this plan to be successful, further vigilance, action and firm decisions shall be required. These decisions will be taken boldly.

Our economy does not simply stop at numbers. We are committed, as we have always been, to ensuring that our economy generates enough wealth, which in part provides Government with the necessary resources to help all strata of society. I believe that it is only when all levels of society are faring well that we can move forward.

As a collective nation of market players; Government, businesses, consumers, workers, students, pensioners and all other actors, we must think long and hard of the results we wish to obtain from our daily labour. We continue producing robust GDP growth levels; however, the collective message from the people we serve is evident in its desire for a sustainable alternative. Our nation yearns for a change that allows us to achieve more economic value through the effective, intelligent, and increasingly productive use of available resources.

With this collective ambition as our driving force, it is imperative that Malta moves towards an economy that encompasses a broader spectrum of determinants; such as environmental sustainability, mental well-being, urban liveability, and work-life balance. Furthermore, it is crucial to assess the impact and ramifications of expansion on our existing infrastructure, and evaluate the cost-effectiveness of increasing further the capacity to accommodate the continuation of the status-quo.

The Government's role in this exciting yet challenging phase for our country is to steer the aspirations, talent and innovative ideas of the collective into an actionable way forward which addresses any residual market failures and ensures all society moves forward. It is no longer a matter of Government correcting for externalities after they have occurred, but about charting a future with a positive financial, social and economic benefit-to-cost ratio that we are all responsible for from inception.

For Government to support the co-creation of this future economic value, it needs to be of the right structure, and also consist of the proper capabilities and skills. In recognition of evolving demands and expectations, it is essential for the public administration to engage in comprehensive evaluations of its operations. This ensures that the institution becomes better scaled and harnesses each resource to its maximum potential for optimal efficiency. As the Government focuses intently on its fiscal responsibilities, it shall become its objective to do more with less, deploying funds with greater strategic thinking. We shall be working to see that the necessary transformations happen such that all sectors, including the public sector, are free from rent – they contribute to economic value and not extract from it.

Global economies are undergoing rapid transformations. Malta's capacity for agile adaptation amidst such swift changes presents a strategic advantage. The nimbleness inherent in our compact economy can serve us well as we forge our path forward. The apprehension and unease elicited by looming change are entirely comprehensible. Notwithstanding, we are bolstered by the endorsement for economic change from extensive sections of society. This path forward away from the status-quo shall lead to a country with a more balanced approach to growth, a higher productive return for labour and a better standard of living.

Clyde Caruana
Minister for Finance and Employment

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Macroeconomic Conditions

1.1 International Economic Scene

1.1.1 The Global Economy

The global economy is slowing down following the recovery from the pandemic. Supply chain bottlenecks have largely been resolved and the disturbances in energy and food markets due to the war in Ukraine have been diminishing. However, persistent high inflation continues to constrain household purchasing power, and tighter financial conditions are putting pressure on economic activity. Despite these challenges, the global economy proved more resilient than expected in the first half of 2023.

Due to the persistence of high inflation, particularly in relation to food, energy, and services, along with tight labour markets, central banks worldwide have taken a proactive approach of raising interest rates to curtail aggregate demand. In a context of continued monetary tightening, risks persist with regards to financial stress in the global economy. This has initiated a drag on activity, decelerating the expansion of credit to the non-financial segment, raising interest payments for households and businesses, and exerting stress on real estate markets.

Nonetheless, growth is expected to persist, albeit weak when compared to historical standards. According to the International Monetary Fund's (IMF), July World Economic Outlook, global economic activity is projected to decelerate from 3.5 per cent in 2022 to 3.0 per cent in 2023 and 2024. This is reflective of the expectation of slow growth in world trade, which is expected to increase by 2.0 per cent in 2023 and 3.7 per cent in 2024 - well below the long-term average of 4.9 per cent. Moreover, advanced economies, including the United States, Japan, and the United Kingdom, are anticipated to face growth slowdowns due to factors such as the fading impact of fiscal packages, persistent inflation, and upcoming monetary policy changes (refer to Figure 1.1 below). Meanwhile, the growth outlook in emerging markets remains broadly stable for 2023 and 2024.

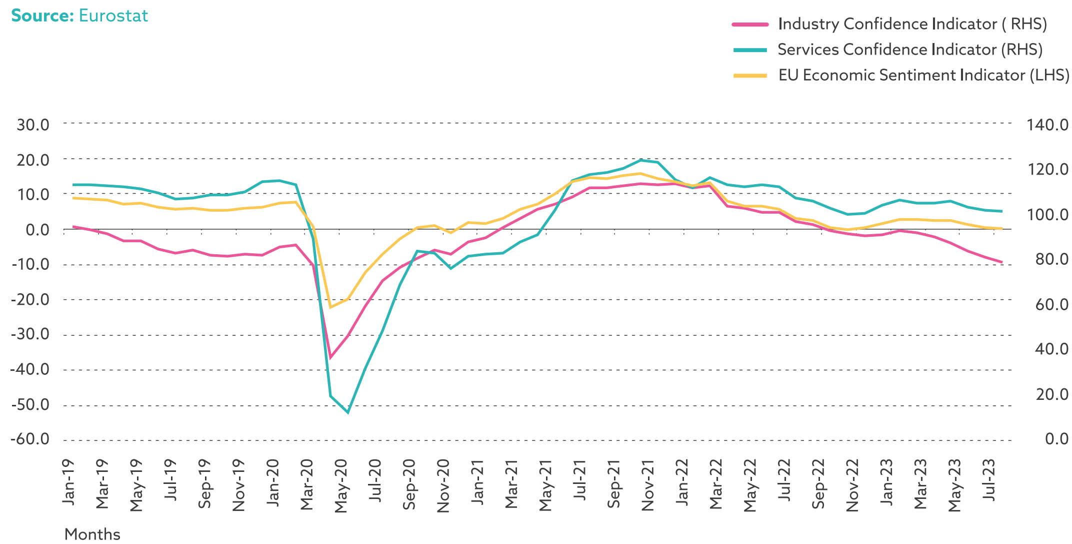
Figure 1.1
Economic Growth by Region
Source: IMF July World Economic Outlook

1.1.2 European Economy

The European economy continued to slow down in the first quarter of 2023, with growth standing at 1.2 per cent in the EU, and 1.4 per cent in the EA. During the second quarter, the EU experienced stagnant growth, whereas the EA economy saw a slight increase of 0.1 per cent. This development was primarily driven by factors such as weak export performance.

The slowdown observed in the first half of the year is evidenced from the worsened trends seen in high-frequency indicators, as depicted in Figure 1.2. The decline in the EU Economic Sentiment Indicator[1] resulted from a notable reduction in confidence levels among industry and construction managers, which was only partly counterbalanced by an increase in confidence among retail traders and consumers. The deterioration in manufacturing can be attributed to stringent financial conditions and the post-pandemic shift in consumer spending, where preferences are reverting towards services, especially contact-based ones that were restricted during the pandemic.

Figure 1.2
EU Sentiment Indicators
Source: Eurostat



[1] *The Economic Sentiment Indicator (ESI) is a composite indicator combining judgements and attitudes of businesses (in industry, construction, retail trade, services) and consumers by means of a weighted aggregation of standardised input series.*

During the first half of 2023, the euro rebounded from its depreciation against the US dollar, propelled by the US Federal Reserve initiating a moderation in interest rate hikes, complemented by a moderately improved economic sentiment within the EA. In addition, the strengthening of the euro can be attributed to a significant tightening of monetary policy in the EA. Furthermore, the stronger euro is also attributed to a slight improvement in the economic outlook due to diminishing uncertainty and a decline in the commodity prices from their peak. The ongoing strengthening of the euro should play a crucial role in containing imported inflation, which is particularly relevant for small and open economies such as Malta.

Labour markets remain a resilient force for economic growth in the EU. The unemployment rate continued to decline during the first half of 2023, reaching 5.9 per cent in the EU and 6.4 per cent in the EA in June. This constitutes a historic low for both regions. Moreover, in the first quarter of 2023, employment growth remained robust. Such tight labour market conditions have led to strong nominal wage growth in Europe. However, wage growth continues to fall short of inflation, as nominal wages have not yet recovered the fall in purchasing power.

Against this background, the European Commission's spring economic forecast projects economic activity in the EU to slow down further in 2023, expanding by 1.0 per cent, before growing by 1.7 per cent in 2024. In the EA, real GDP is expected to increase by 1.1 per cent, followed by an expansion of 1.6 per cent in 2024. The continued resilience in the labour market and declines in energy prices should outweigh the negative impact of tightening financial conditions. Moreover, the acceleration in growth in 2024 is driven by the expected strong rebound in private consumption as the grip of inflation on household purchasing power starts to fade, while financing conditions ease.

In relation to Malta's main trading partners in the EU, as per the European Commission's spring projections, growth is expected to remain relatively subdued for Germany, which is projected to increase by 0.2 per cent in 2023 before accelerating to 1.4 per cent in 2024. Italy is expected to experience stronger growth in 2023, reaching 1.2 per cent and 1.1 per cent in 2023 and 2024 respectively, while France is projected to grow by 0.7 per cent and 1.4 per cent in 2023 and 2024 respectively.

1.2 Local Scene

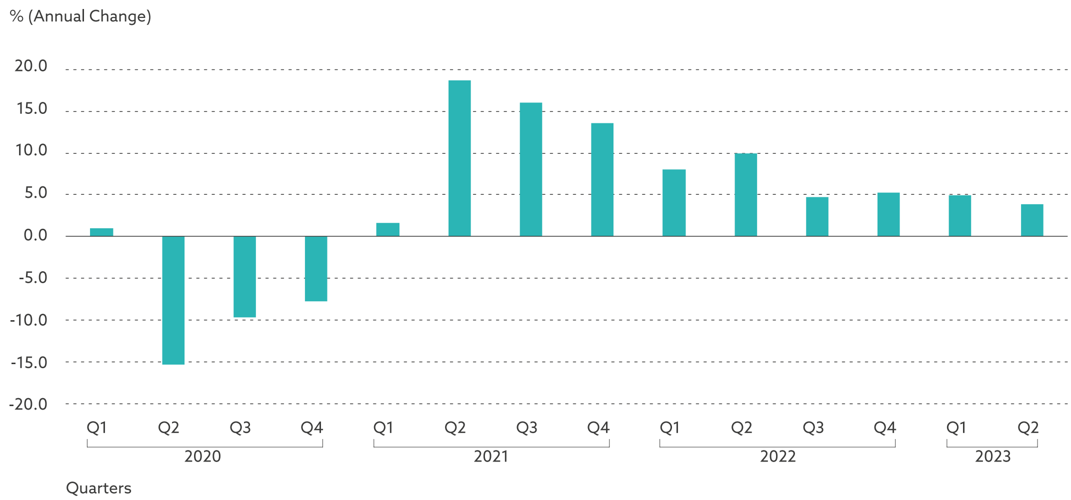
1.2.1 Economic Growth

In 2022, the Maltese economy continued to exhibit resilient growth, as economic activity increased by 6.9 per cent in real terms or 12.6 per cent in nominal terms. This growth figure was double that in the European Union (EU), where growth averaged 3.4 per cent when compared to the previous year.

Domestic demand was the main driver behind the growth in economic activity, as household consumption recovered to pre-pandemic levels, supported by the positive performance in the labour market. Furthermore, significant one-off investments in transport equipment contributed to robust investment growth. On the external side, exports were mainly driven by the strong recovery in tourism, which more than offset the deceleration in external demand conditions towards the end of 2022. Such increase in exports was more than outweighed by imports, reflecting the importation of capital goods and industrial supplies.

During the first half of 2023, the Maltese economy grew by 4.4 per cent in real terms over the corresponding period in the previous year. In the EU, growth averaged 0.8 per cent in real terms, reflecting very weak household consumption and negative net exports. By contrast, growth in Malta was mainly driven by net exports, while domestic demand was supported by strong growth in household consumption.

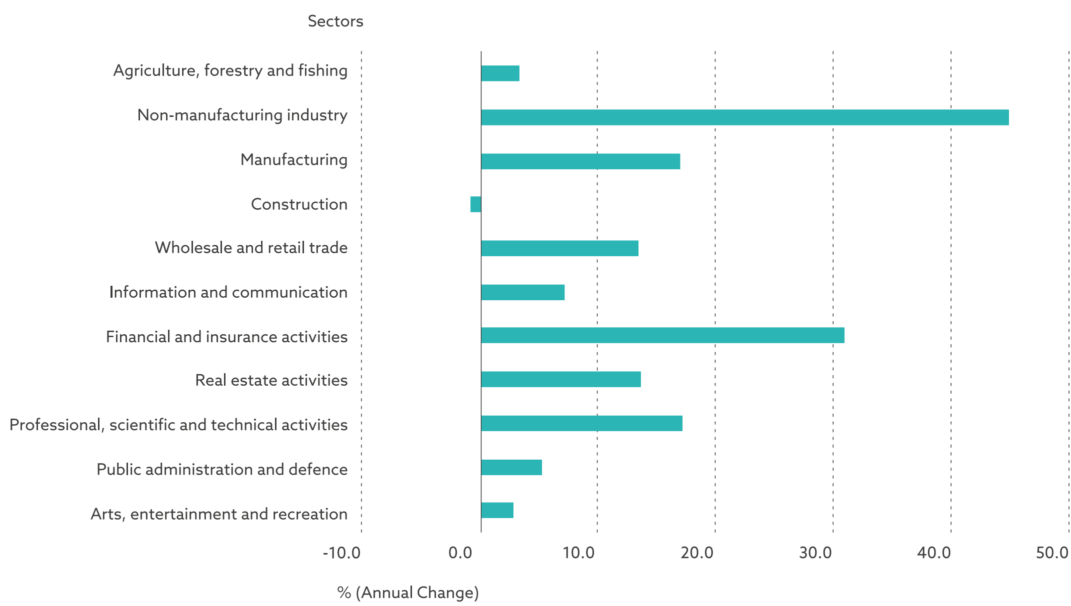
Figure 1.3
Real GDP Growth
Malta
Source: NSO



In nominal terms, there was a noteworthy 12.6 per cent expansion in gross national income, primarily driven by a substantial 11.6 per cent surge in gross operating surplus. Additionally, there was an 8.9 per cent rise in compensation of employees. Concurrently, there was an 11.0 per cent increase in taxes less subsidies on production and imports.

Over the same time frame, overall gross value added (GVA) rose by 12.0 per cent. The Non-Manufacturing industrial sector experienced the most significant growth in GVA at 44.7 per cent, followed by the Financial and Insurance activities sector at 30.8 per cent. Conversely, the Construction sector observed a marginal decline of 0.9 per cent in GVA. The Professional, Scientific, and Technical activities sector, along with Manufacturing, Real Estate activities, and Wholesale and Retail Trade, experienced noteworthy double-digit increases. Meanwhile, the remaining sectors maintained positive growth.

Figure 1.4
Growth in Gross Value Added in 2023H1
Source: NSO



1.2.2 **Labour Market**

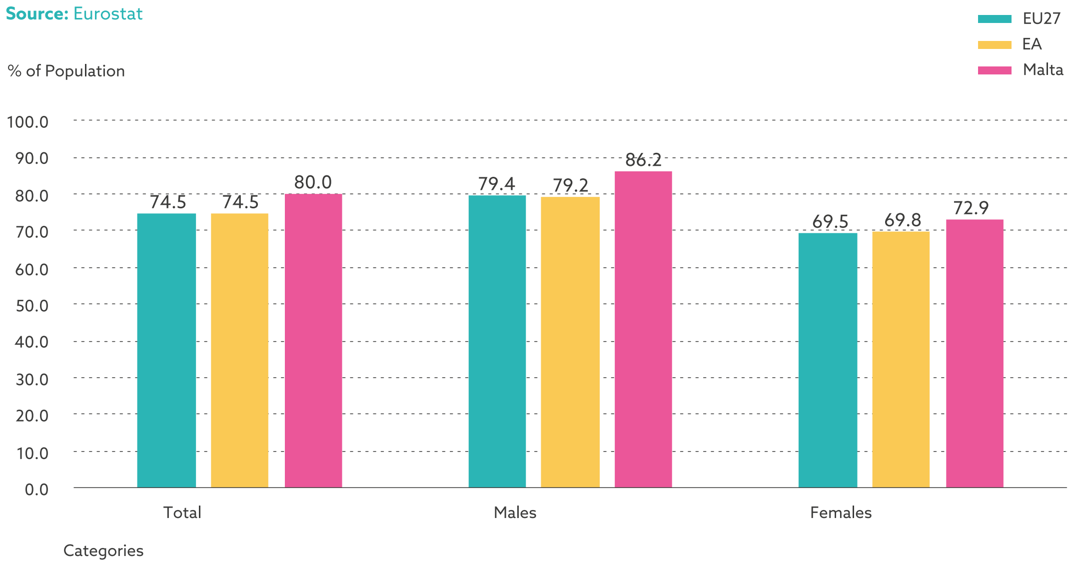
The labour market continued to yield positive developments in 2022. Employment growth, as measured by the Labour Force Survey, reached 5.1 per cent. Improved business prospects due to strong economic growth were the main factors behind the growth in employment. Moreover, employment was further supported by ongoing efforts in promoting and sustaining active labour market policies.

Indeed, the female participation rate increased by 3.5 percentage points in comparison to 2021, surpassing the average rates observed in the EU and the EA, reversing a negative pre-pandemic trend. The male participation rate also increased slightly by 0.3 percentage points, indicating an ongoing narrowing of the gender disparity in participation rates. The overall activity rate for Malta increased to 80.0 per cent in 2022, remaining significantly higher than the European average. This trend persisted in the first quarter of this year.

Figure 1.5

Participation Rates by Gender (2022)

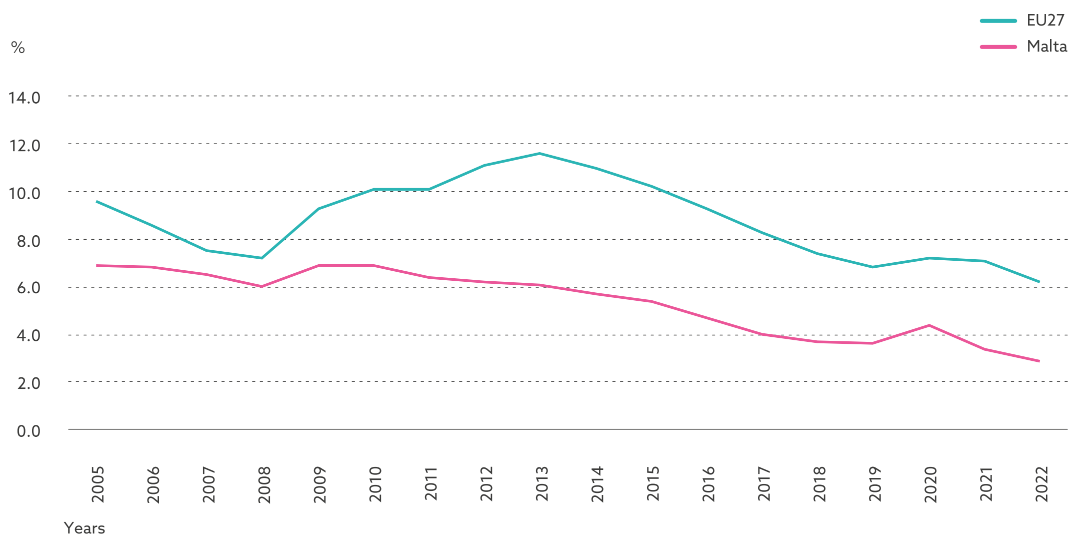
Source: Eurostat



Employment remained strong in the first quarter of 2023, registering a growth rate of 5.4 per cent compared to the corresponding quarter in 2022. The unemployment rate, as measured by the Harmonised definition, demonstrated a consistent decline, notwithstanding a substantial and ongoing influx of foreign labour. Specifically, in 2022, the unemployment rate reached a historically low level of 2.9 per cent, which is 3.2 percentage points below the EU-27 average.

This figure reflects both a robust and resilient economy, and at the same time it also highlights the presence of labour market shortages. The downward trend persisted throughout the first half of this year as Malta recorded the lowest rate among its European peers, standing at 2.5 per cent by July. In 2022, Malta also fared relatively well in youth unemployment (ages 15 to 24), which stood at 8.3 per cent compared to the 14.5 per cent EU average.

Figure 1.6
Developments in the Unemployment Rate
Source: Eurostat



Implementing the National Employment Policy

The National Employment Policy 2021-2030 maps out the Government's holistic vision for employment in Malta, honing its ongoing progress, with some of its recommendations being implemented every year.

In 2023, the initial results from the Skills Survey, which was launched in 2022, were published. Given Malta's lack of human resource and persistent skill gaps, this survey served as a national stock-taking exercise of Malta's skills and qualifications among the working age population to shed light on the skills profile of Malta's workforce. To further complement this vision, in 2023 a new National Skills Council was established. The Council has an instrumental role in ensuring that Malta is better prepared to face new labour market realities. Its primary objective is to use evidence-based practices to understand and anticipate current and future skills within the labour work force to initiate the necessary policy changes.

In an effort to encourage pensioners to remain active and continue working beyond retirement age, in 2022, the Government announced that over a period of five years, pension income will no longer be considered as part of the taxable income. In view of this, in 2023, 40.0 per cent of the pension income was no longer considered as part of the taxable income for pensioners, while in 2024, the amount of pension income not considered as part of the taxable income will increase to 60.0 per cent.

Moreover, to incentivise more individuals to work in sectors with atypical working hours, which sectors have witnessed labour shortages in recent years whilst at the same time increasing household incomes, the Government has introduced a new annual grant for employees with atypical working hours. Employees in the accommodation and food service activities, administrative and support service activities, manufacturing, transportation and storage, and wholesale and retail trade private sectors working on shifts, weekends or after 6pm, whose basic salary does not exceed €20,000, started benefiting from an additional €150 per year. In the first pay-out more than 35,000 workers benefited from this grant, with the total Government expenditure surpassing €5 million.

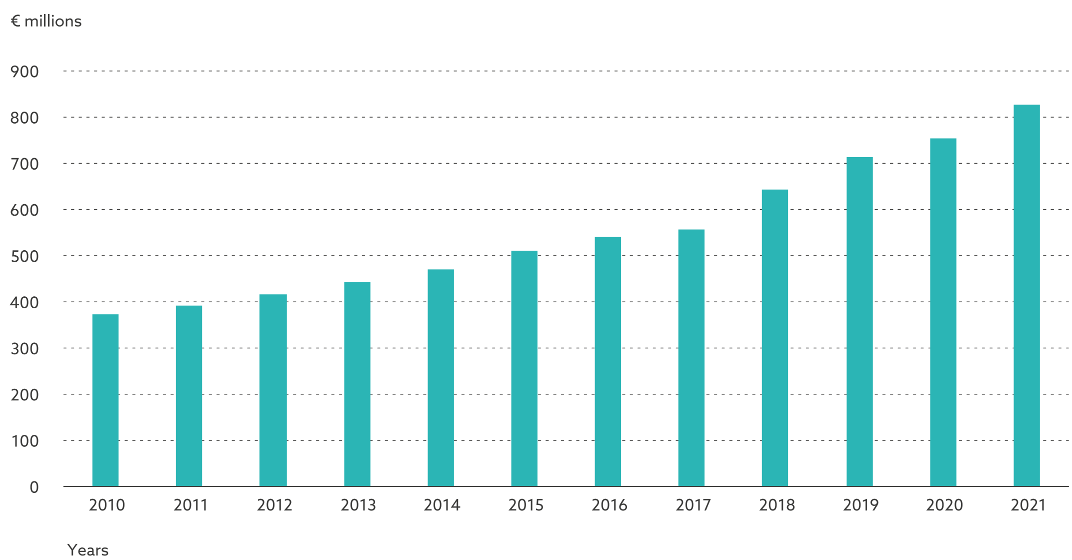
1.2.3 **Education**

Robust economic growth coupled with the implementation of active labour market policies of making work pay have underpinned the positive results achieved in the labour market in the last decade. This year, Malta continued to record strong employment growth, low unemployment rates, higher female labour market participation rates, and higher overall labour market activity rates.

Moreover, as reiterated in the National Employment Policy 2021-2030, in the coming Budget and the years ahead, the focus needs to continue shifting towards more investment in the human capital and hence, in the quality of the labour force in Malta and Gozo.

In this regard, the Government has made a strong commitment to education and has invested in various aspects of the national educational infrastructure and the quality of education. This includes funding for primary and secondary schools as well as higher education institutions, vocational training and skills development, training programmes for educators, educational material, and technological advancements in the classroom. The Government remains committed towards ensuring that high quality education is accessible to all.

Figure 1.7
Total Government Expenditure on Education
Source: Eurostat

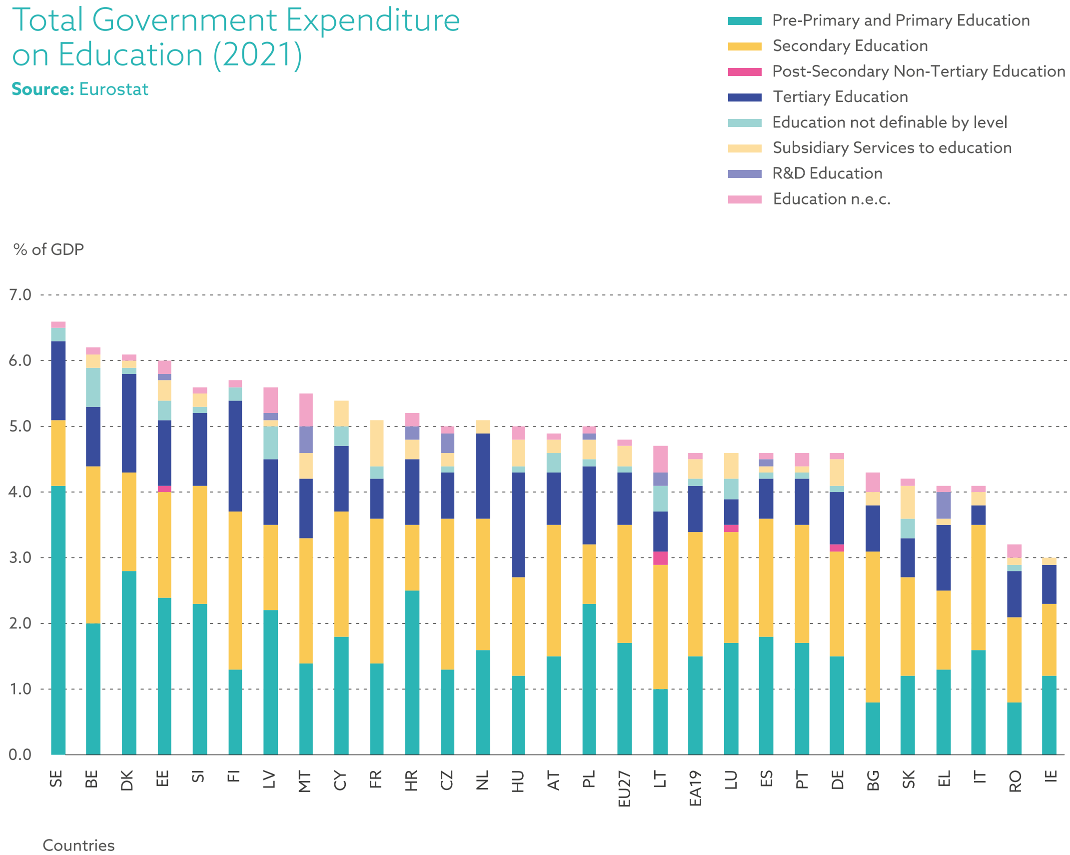


The Government expenditure on education has continued to increase over the past years amounting to over €826 million in 2021, equivalent to 5.5 per cent of GDP, well above the EU average. Moreover, as a member of the EU, Malta also has access to various funding programmes to support its education sector.

Figure 1.8

Total Government Expenditure on Education (2021)

Source: Eurostat



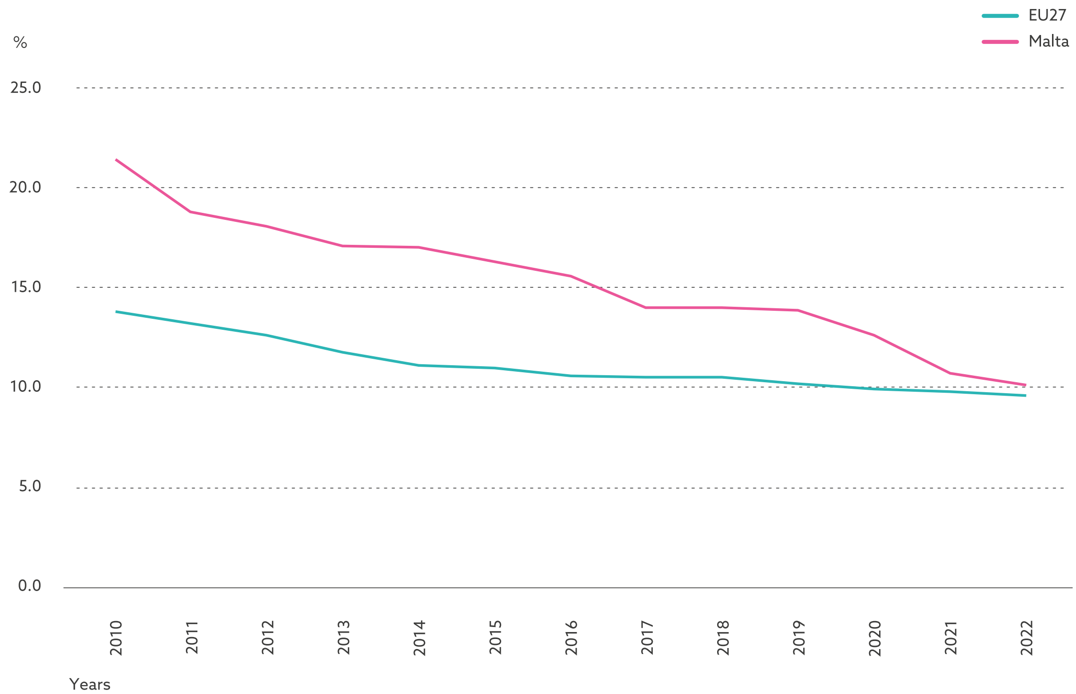
A new National Education Strategy 2024-2030 is expected to be launched in the second quarter of 2024. This strategy will be built on a person-centred approach and will be based on three pillars – Wellbeing, Achievement and Inclusion. The strategy will reflect the current needs of the educational system, incorporating the SDG goals within its action plan.

Measures to Address the Early School Leavers

The Early Leaving from Education and Training (ELET) rate has been on a downward trend over the past years, more than halving from 21.4 per cent in 2010 to 10.1 per cent in 2022. This augurs well for reaching the EU target to reduce ELET to less than 9.0 per cent by 2030. The decrease recorded has also managed to successfully narrow the gap between Malta's ELET rate and the EU average ELET rate. Nevertheless, there is still room for improvement since Malta's ELET rate was still 0.5 percentage points above the EU average rate of 9.6 per cent in 2022.

Figure 1.9
ELET

Source: Eurostat



In order to continue reducing the ELET rate, the Government needs to direct further investments towards modernising educational infrastructure and enhancing the quality of education at the earliest stages. In this regard, besides the investment on several infrastructural projects which include the building of new schools and refurbishing and modernising existing ones, the Government has continued investing in the One Device Per Child initiative. The aim of this project is to use the devices (Tablets and Laptops) provided for educational purposes until students' progress up to Year 11. In this scholastic year, the Government provided a new Laptop to each seventh-year student.

Moreover, classrooms and innovative learning spaces are becoming equipped with cutting-edge interactive flat panels (IFPs) that allow students to interact directly with the learning content. Another project consists of the 'Infrastructure for Nationwide VET to reduce Early School Leavers Tomorrow' which is aimed to support the conversion of laboratories in various schools in Malta and Gozo into VET labs.

Other initiatives include the Catch-Up Classes initiative consisting of additional support classes covering the core academic subjects, and the Reading Recovery Programme being implemented by the National Literacy Agency.

Furthermore, through the Recovery and Resilience Plan, the Government is also committed towards the implementation of at least 20 measures of the updated National Inclusion Strategy. Such measures include the setting-up of two new multi-sensory learning rooms (MSLR) in colleges, and the setting up of two autism units in middle schools.

A new Malta Early Leavers from Education and Training Strategy has been launched in July 2023. This Strategy aims to develop equity and lifelong learning opportunities by fostering a whole school approach to tackle ELET through policy, research, and practice. The Strategy is subdivided into 15 measures through 3 main pillars (Prevention Strategic Actions, Intervention Strategic Actions and Compensation Strategic Actions). This Strategy shall be measured annually and analysed according to the identified strategic actions and goals.

With reference to the implementation of measures included in the Basic Skills Strategy, the Government is committed towards the implementation of measures for learners of all ages, amongst which, the introduction of a 'Skills Checker' in the form of an electronic application for self-measurement of literacy, numeracy and digital skills levels.

Moreover, following the launch of the National Quality Standards in Education and A Quality Assurance Framework for Education in Malta in July 2023, schools will be provided with clear signposts that help them in their internal review exercise, assisting in facilitating the process of setting clear targets towards achieving a quality education.

At compulsory education level, a new Directorate for STEM and VET Programmes has been set up in May 2023, as a result of a nationwide commitment to quality STEM and VET education for all students.

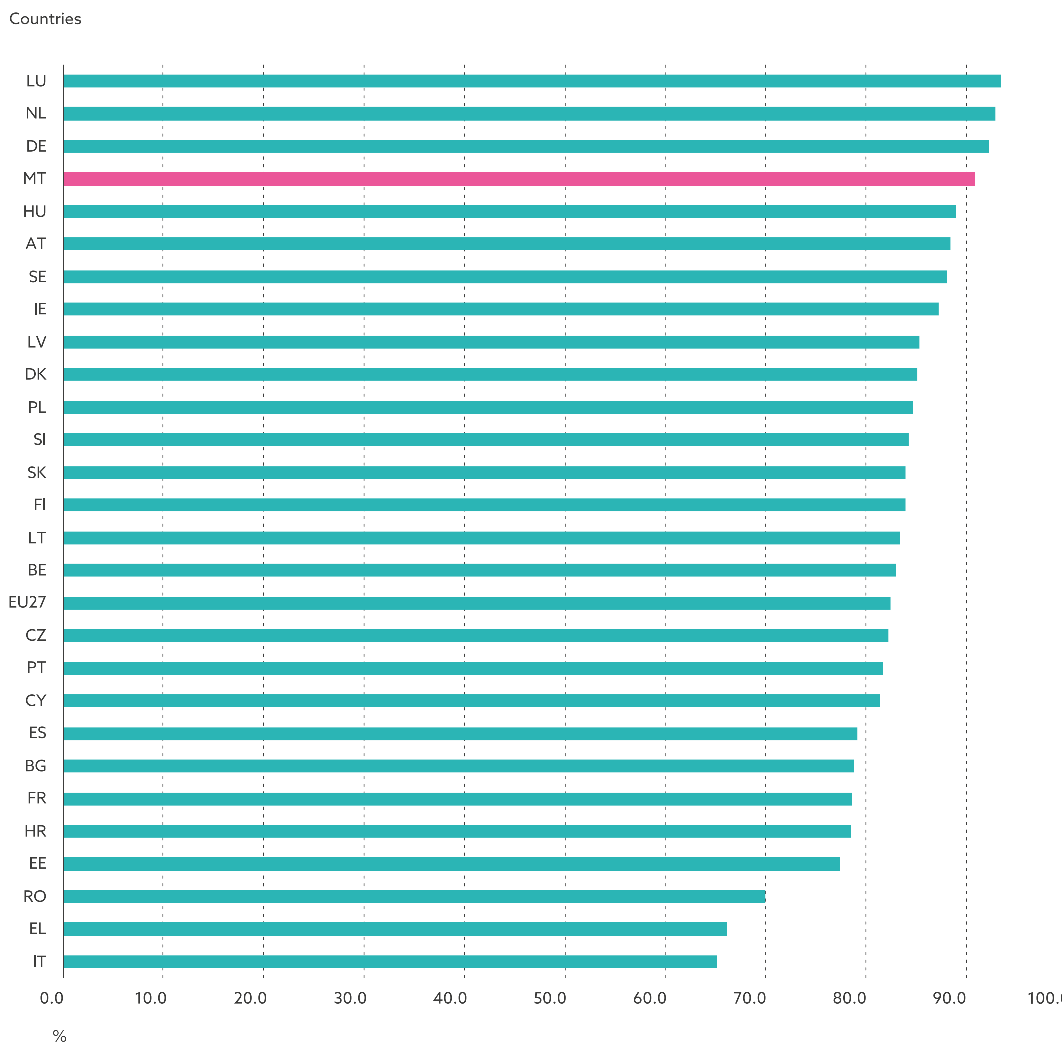
Measures to Increase Participation in Tertiary Education

In order for Malta to compete and meet the challenges posed by the high-value added and knowledge-intensive markets of the global economy, it requires the availability of a highly skilled and flexible workforce. This type of workforce is achievable if students continue to pursue their studies at tertiary levels (or equivalent) acquiring, in the process, the necessary knowledge and skills for high-value added jobs.

Figure 1.10

Employment Rates of Recent Graduates aged 20-34 (2022)

Source: Eurostat

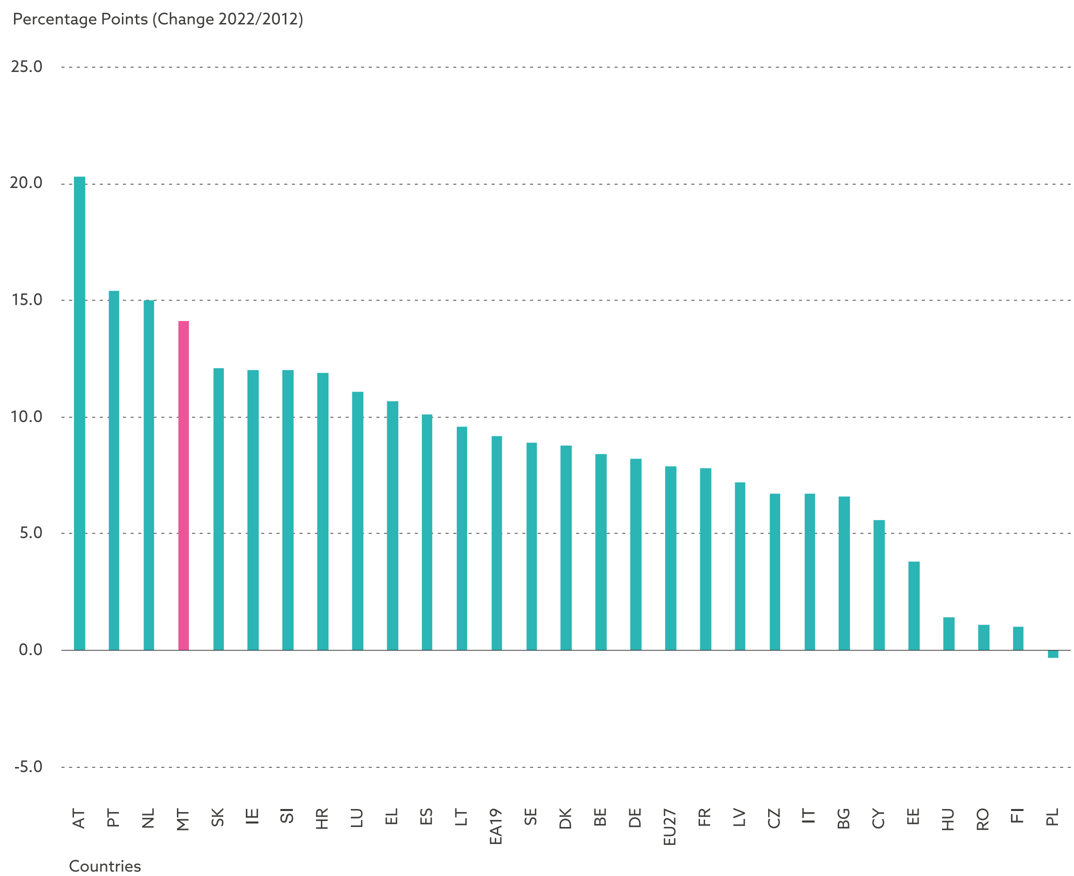


In 2022, 90.8 per cent of recent graduates aged 20-34 in Malta were employed, 8.4 percentage points above the EU average, which stood at 82.4 per cent. Malta ranked amongst the top member states in this area, which proves that investment in higher and tertiary education reaps its benefits.

Figure 1.11

Charge in the Share of Tertiary Educational Attainment (age 25-34)

Source: Eurostat



Malta has also experienced one of the largest increases in the share of tertiary educational attainment amongst individuals aged 25-34, over the past 10 years. The rate increased by 14.1 percentage points, from 28.3 per cent in 2012 to 42.4 per cent in 2022.

In this regard, the Government will continue investing in the infrastructure and the quality of education in the tertiary sector. One of the projects currently being undertaken is the development of the Transdisciplinary Research and Knowledge Exchange Complex at the University of Malta (UOM). Furthermore, through the second phase of the Malta College for Arts, Science and Technology (MCAST) Campus Master Plan, MCAST is committed towards the construction, furnishing and equipping of the Institute for Engineering and Technology, the MCAST Resource Centre, and the Institute of Information and Communication Technology. Moreover, various schemes are being provided to encourage more individuals to pursue tertiary and post-tertiary education including; the Endeavour Scholarships Scheme, the Reach High Scholars Programme Post-Doctoral Grant, and the Get Qualified Scheme.

Measures to Increase the Adult Learning Participation Rate

One fifth of adult Europeans struggle with basic reading and writing, numeracy and the use of digital tools in everyday life. The same number of adult Europeans only obtained a lower secondary education level. By 2030, Malta has committed to encourage at least 57.6% of all adults aged 25 to 64 years to participate in learning every year, and thus reduce risk of poverty and social exclusion.

In this regard, the National Strategy for Lifelong Learning being launched in 2023, has a social mission at its core and aims to improve the lives of the most vulnerable through a diverse range of lifelong learning opportunities. The Strategy is also embedded in the Framework for the Education Strategy for Malta 2014-2024, as well as research evidence on a local and European level. It comprises three main pillars:

- **Pillar 1**: Improving educational opportunities for low-skilled and low-qualified adults
- **Pillar 2**: Diversifying the methods and opportunities for learning
- **Pillar 3**: Ensuring quality in Lifelong Learning course provision

These 3 pillars are further sub-divided into 16 measures and 51 actions for a period of seven years that are to be implemented by several stakeholders.

Education Resources, Infrastructure and Facilities

To ensure sufficient numbers of education resources, two main instruments are used. Firstly, the Human Resources classification plan for the coming scholastic year is prepared at the end of the current year. The Government, through the Ministry for Education, Sport, Youth, Research and Innovation, also conducts an ongoing projection exercise based on the number of resignations of teachers and those on any type of long leave. This projection exercise is carried out per subject. From the above data, it elicits the number of educators needed in each area.

Training is an important part of professional development. A paid study leave scheme is being provided to enhance the educators' skills. This scheme helps teachers pursue further studies in the areas of specialisation within the education sector, at tertiary level. Additionally, the Institute for Education and University of Malta both offer a Postgraduate Certificate in Education (Conversion), presenting an additional qualification for persons already in possession of a teaching qualification who wish to specialise in another subject/area/cycle.

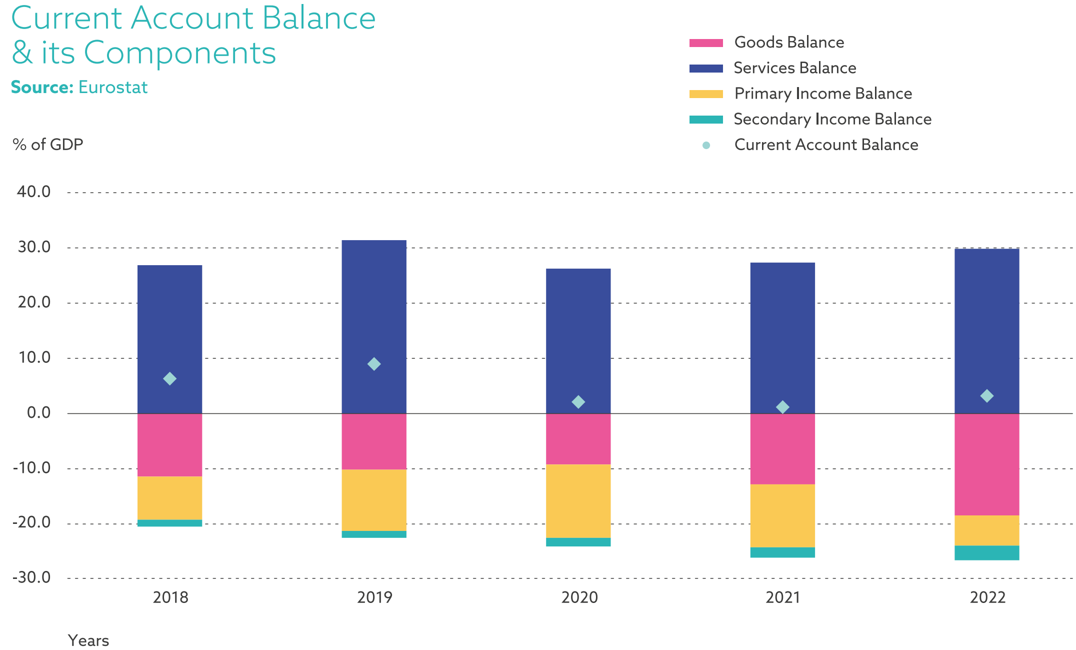
In addition, in January 2023, MCAST embarked on a European Universities Alliance project that aims to promote dual education and micro-credentials, enabling students to travel and study across the 9 multi-disciplinary universities or universities of applied sciences making up the consortium.

1.2.4 **Trade**

During January to June 2023, imports decreased by 3.7 per cent compared to the same period in 2022, falling from €4,091.4 million to €3,939.1 million, with notable declines observed in Mineral fuels, lubricants, and associated materials, as well as in Machinery and transport equipment imports. Exports remained stable at €2,100.9 million, revealing fluctuations in Mineral fuels, lubricants, and associated materials, and Machinery and transport equipment exports. Consequently, a slight improvement in the trade balance deficit was recorded.

Figure 1.12 illustrates recent annual trends in the Current Account as part of the Balance of Payments. Historically, the Current Account has consistently registered a surplus. This trend persisted in the first quarter of 2023, reflecting a surplus equivalent to 5.7 per cent of GDP, driven by positive developments in Services.

Figure 1.12
Current Account Balance & its Components
Source: Eurostat



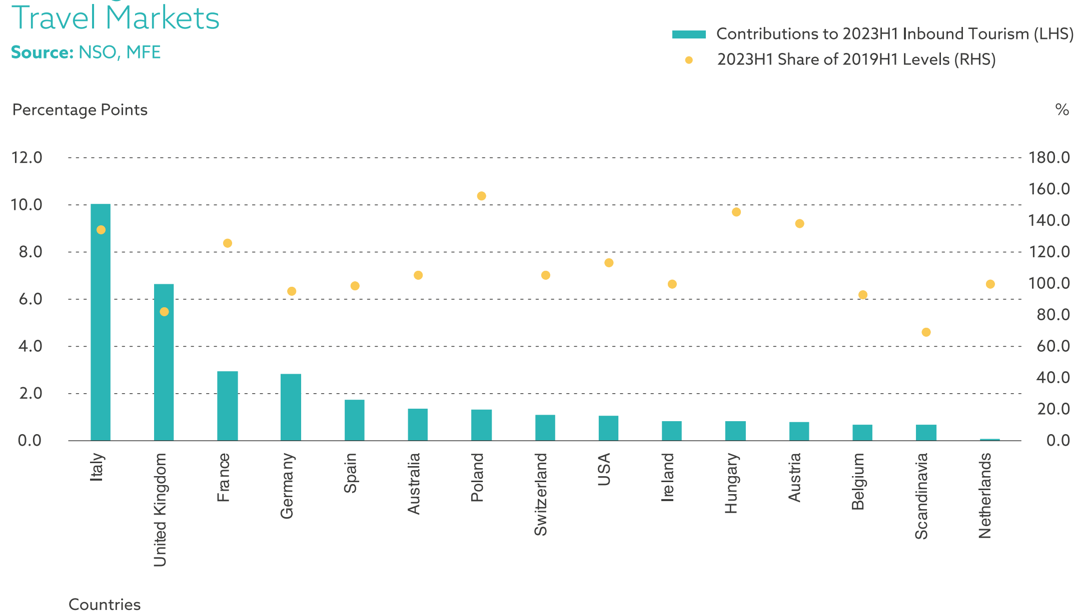
1.2.5 **Tourism**

In 2022, the number of inbound tourists topped 2.3 million, which accounted for an impressive 83.1 per cent of 2019's tourism levels. When compared to 2021, total inbound tourists in 2022 recorded a remarkable increase of 136.2 per cent. Reflecting this surge, the estimated total tourism expenditure for 2022 amounted to €2.0 billion, marking a substantial increase of 131.1 per cent compared to 2021. Tourism expenditure per capita is estimated at €880, indicating a modest decrease of 2.1 per cent over 2021. On average, tourists shortened the length of their stay by 1.4 nights, with 45.6 per cent of inbound tourists staying for seven days or longer.

During the first six months of this year, the number of inbound tourists nearly reached 1.3 million, marking around 107.0 per cent of 2019 inbound tourists during the same period. This signals a robust rebound in the economy's tourism sector from the effects of the COVID-19 pandemic. In comparison to 2022, total tourism expenditure increased by €0.34 million, with nominal per capita spending increasing by 3.5 per cent. Concurrently, the average stay of tourists marginally declined by 0.4 nights, reaching 6.3 nights on average.

Figure 1.13 portrays the contribution made by Malta's leading inbound travel markets to overall inbound tourism during the first half of 2023. Notably, Italy, the United Kingdom, and France continued to be amongst the highest contributors to total inbound tourism. With regards to the return to 2019 levels, most of the groups have witnessed a resurgence or nearly reached 2019 levels. However, inbound tourists from Scandinavia (Denmark, Finland, Norway and Sweden) have not yet achieved a substantial recovery.

Figure 1.13
Leading Inbound Travel Markets
Source: NSO, MFE



1.2.6 The Gaming Sector

The Arts, Entertainment, and Recreation Sector experienced a positive growth rate of 2.7 per cent in gross value added during the initial half of 2023. The growth in this sector is primarily influenced by advancements in the Gambling and Betting Activities industry, which holds a major share in this sector. The growth rate was lower than the average growth rate in previous years, reflecting a stabilisation in Gambling and Betting Activities. Employment within the sector increased during the same period, growing by 3.7 per cent while wages and salaries grew by 3.2 per cent.

1.2.7 **The Manufacturing Sector**

The Manufacturing Sector exhibited a notable degree of resilience in the initial six months of the current year, demonstrating a growth rate of 16.9 per cent. The expansion was widespread throughout nearly all sub-sectors within the Manufacturing Industry. The largest growth rates were registered in the Manufacturing of Basic Pharmaceutical Products and Pharmaceutical Preparations; Computer, Electronic and Optical Products; Printing and Reproduction of Recorded Media; Machinery and Equipment; and Motor Vehicles, Trailers, and Semi-Trailers. In the same timeframe, the sector also experienced a 3.4 per cent rise in employment levels, and a significant growth of 8.9 per cent in wages and salaries.

1.2.8 **The Shipping Registry**

As at end December 2022, the number of ships registered under the Merchant Shipping Act was 9,336 for a total gross tonnage of 84.1 million. As a result, Malta has maintained its position as the largest register in Europe and the sixth largest in the world in terms of gross tonnage.

Positive results were once again achieved in the registration of super yachts under the Malta flag. During 2022, another record increase of over 6.5 per cent was recorded in the registration of super yachts over 24m in length, under the Merchant Shipping Act. The increase brings the total number of super yachts registered under the Malta flag to over 1,058.

The Registry is presently undergoing an important digitisation Project, financed through the Recovery and Resilience Funds (RRF). The investment in digital services and a cloud-based infrastructure shall help to ensure more efficient regulatory practices and improve the internal operations, customer relations and administration within Malta's Merchant Shipping Directorate.

1.2.9 **Aviation**

Apart from providing a vital connectivity function for a country where tourism is one of the key economic pillars, aviation is also a vibrant economic sector of its own which in recent years has experienced significant growth. The registration sector continued to experience significant growth with the Maltese aircraft register listing 839 aircrafts in July 2023 up from 762 recorded at the end of 2022. The number of Air Operating Certificate (AOC) holders stood at 46 at the end of July 2023.

Earlier in 2023, the Government published Malta's first Civil Aviation Policy which is based on five strategic policy pillars, which include; capacity building, strengthening the economic impact, deepening stakeholder collaboration, legal and regulatory, and sustainability. A detailed Implementation Plan is presently being prepared for publication by not later than the 31st of December 2023.

Air Navigation

During the year 2022, works continued on the installation of high-definition surveillance cameras around the runway. Their software configuration was completed, and the system is now fully operational. The installation of the surveillance cameras along parts of the runways and aprons at MIA costed the Malta Air Traffic Services (MATS) the sum of circa €1 million. In order to cater for Data Link Services in line with EU requirements, the 'Bengħajsa Station' was upgraded at a cost of circa €3 million, and now that live testing has proved sufficient, staff training is underway with a view to expedite its implementation.

Furthermore, the MATS also launched the implementation of a 24x7 Cyber Security Operations Centre to counter cyberattacks on its networks.

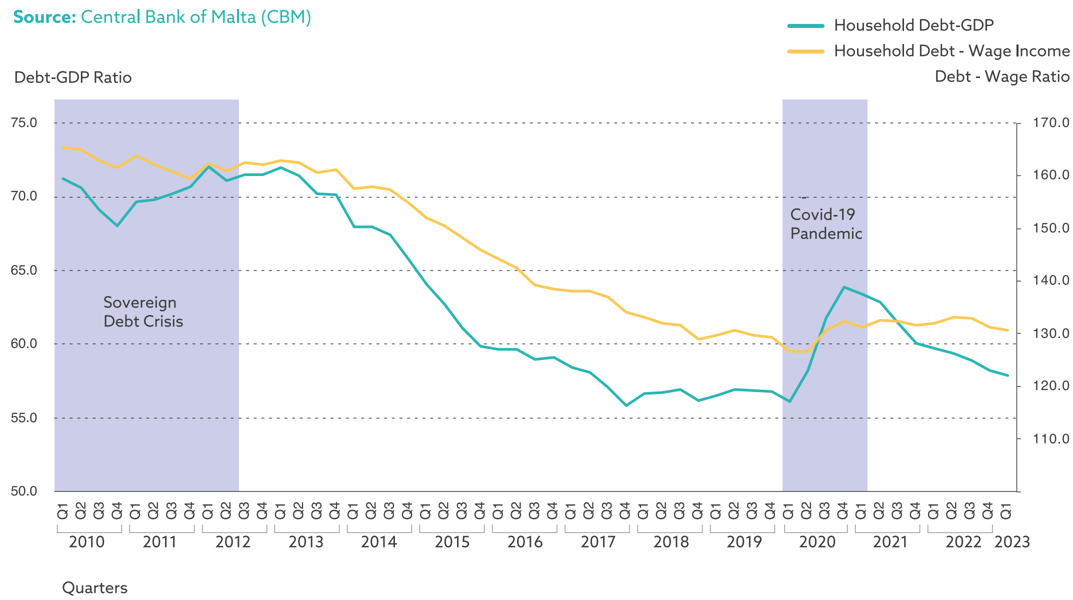
1.2.10 **Monetary Developments**

Private debt as a share of GDP is gradually falling to its pre-pandemic level, mainly due to the rapid economic recovery and continued growth. The increase in the private debt ratio during the pandemic was due to the denominator effect, a result of the significant decline in GDP.

Figure 1.14

Household Debt
as a % of GDP and Income

Source: Central Bank of Malta (CBM)



As the economy recovered, household debt as a share of GDP started to converge back to the levels witnessed in the period leading to the pandemic, where household debt had stabilised at around 55.0 per cent of GDP. However, while the economy has fully recovered from the recession, the household debt ratio remains above the pre-pandemic level, indicating that the level of indebtedness increased slightly due to household borrowings to finance house purchases. In fact, in nominal terms, consumer credit and other lending actually declined in 2021 and 2022, and therefore household credit was completely driven by lending for house purchases.

Consumer credit and other lending have accelerated during the first months of 2023, whereas lending for house purchases slowed down from the large increases during the pandemic, albeit still recording strong growth of 8.5 per cent during the first half of the year. Household credit was also supported by the limited interest rate passthrough when compared to other EA countries.

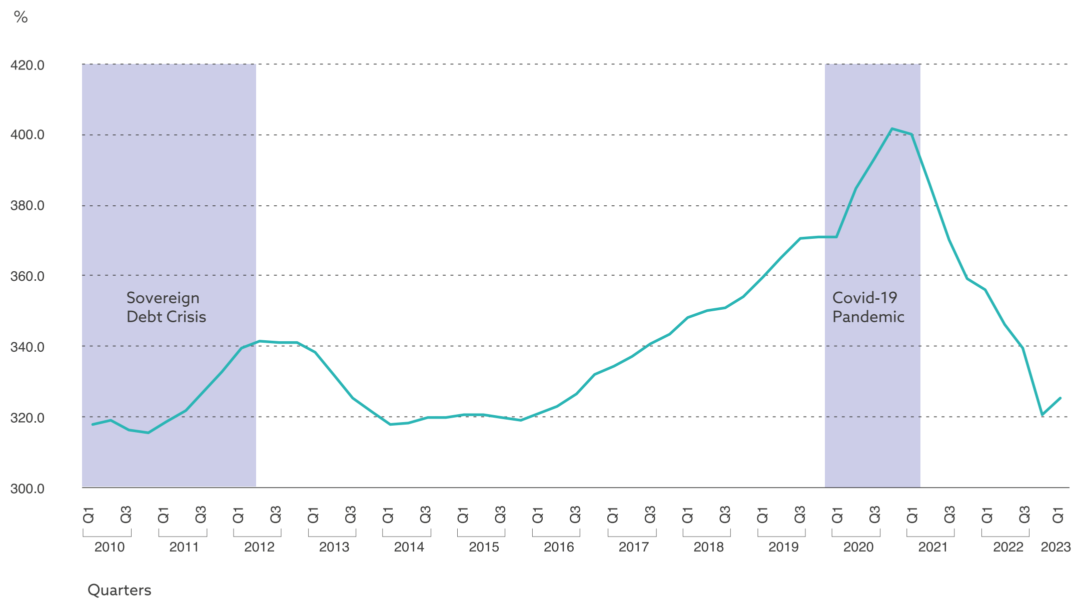
Similar dynamics can be observed when household debt is compared to compensation of employees. In this case, wages during the pandemic were supported by Government measures, including the wage supplement scheme. This meant that the level of household debt maintained a stable share of income amidst the recession, with only a minor increase, and maintained a stable trend since.

One should note that Figure 1.15 is based on non-consolidated financial balance sheets of Non-Financial Corporations (NFCs), meaning that transactions and positions within the same sector are also recorded. Private debt of NFCs as a share of GDP declined significantly during the past two years, reaching a lower ratio than what was observed before the pandemic. This decline reversed the increasing trend in corporate debt before the pandemic as corporates faced lower corporate financing needs. Credit to resident corporations continues to be driven by the real estate activities sector, followed by the construction, transport, storage, and the information & communication sectors.

Figure 1.15

NFC Debt as a % of GDP

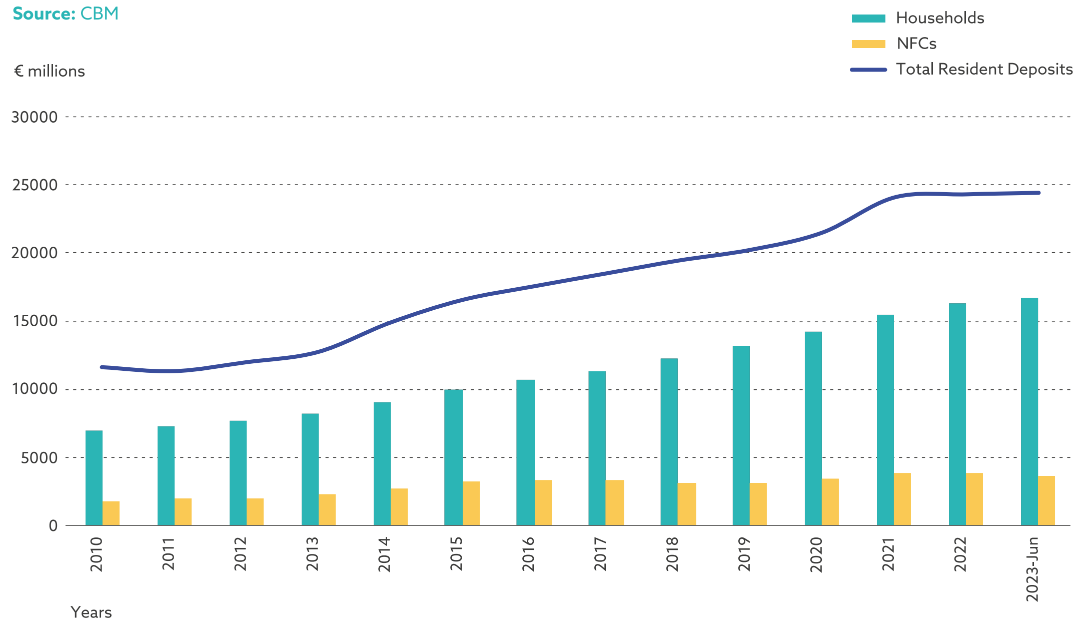
Source: CBM



The below chart portrays total deposits held by Maltese residents with Monetary Financial Institutions (MFIs). Deposits in the past decade grew continuously, driven by positive economic developments which generated liquidity in the economy. Total deposits decreased in recent months, amounting to €24,452.9 million as at June 2023, indicating a slight decline in residential deposits of -1.2 per cent when compared to the same month in the previous year. However, this is more reflective of declines in deposits of NFCs and FCs, as household residential deposits continued to grow, indicating that the financial position of households remains positive.

Figure 1.16
Deposits

Source: CBM

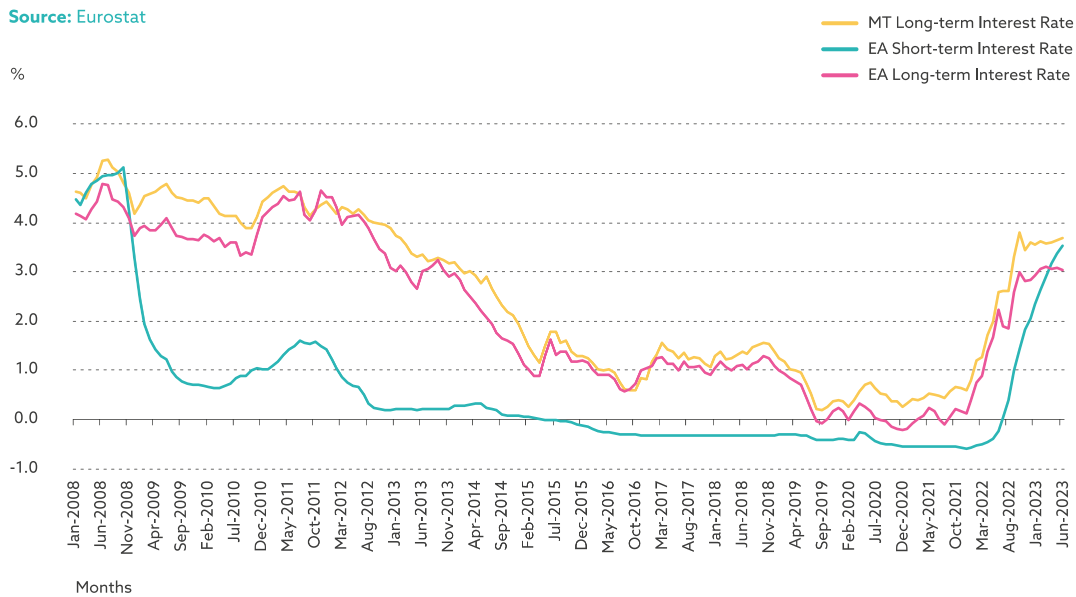


Even though total residential deposit growth has declined in recent months, household deposits continued to grow, albeit at a slower pace. This follows a two-year period in which deposits increased above the previous trend, as consumption opportunities halted due to the pandemic, while the labour market remained resilient, supporting incomes, and therefore resulting in an element of savings. The recent moderation in deposit growth reflects this dynamic, as these accumulated savings were used as a buffer against rising prices and declining purchasing power.

Interest Rates

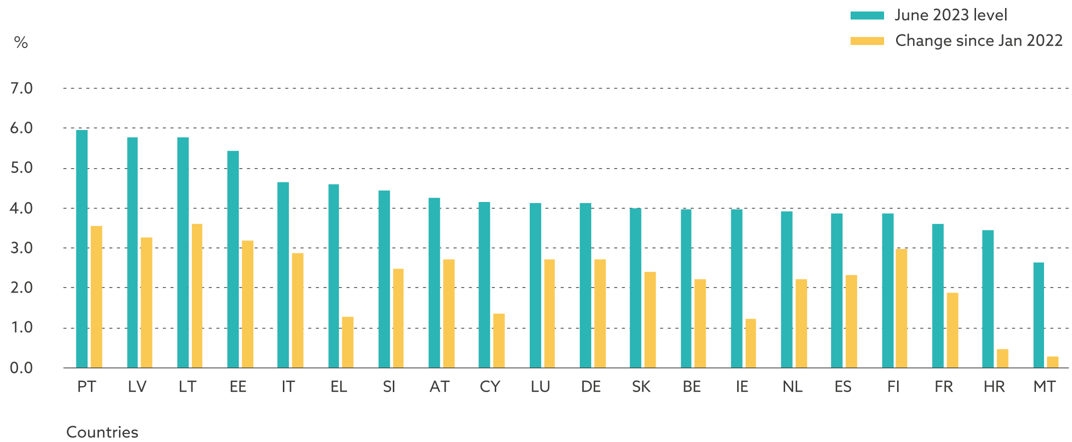
Inflationary pressures in the global economy have proved to be more persistent. Consequently, central banks conduct monetary policy to achieve price stability, mainly by adjusting the supply of money in the economy via changes in interest rates. As price rises continued to be persistent, central banks around the world started to raise interest rates to tighten monetary policy, with the aim of increasing the cost of borrowing, thus curtailing aggregate demand while also anchoring inflation expectations.

Figure 1.17
Interest Rate Developments
Source: Eurostat



ECB rates hikes since July 2022, and the expectations of continued tightening have been reflected in the steep rise in Malta's 10-year sovereign yield.

Figure 1.18
Annual Percentage Rate of Charge Lending for House Purchase (New Business)
Source: European Central Bank (ECB)



The interest rate pass-through measures how changes in a reference rate (central bank rate or money market rates) are channelled to bank lending rates. Domestically, the transmission of monetary policy via the bank lending channel has been very limited. In fact, Malta observed the lowest increase in lending rates, both with regards to mortgage rates, and corporate financing when compared to EU counterparts. Figure 1.18 depicts the annual percentage rate of charge of each EA country, which incorporates all costs paid by the borrower, including bank and administrative charges, for a new loan for house purchase. In January 2022, the lending rate for house purchases in Malta stood at 2.4 per cent, significantly higher than the EA average of 1.6 per cent. However, by June 2023 Malta had the lowest annual percentage rate of charge in the EA, reflecting the limited monetary policy pass-through in domestic lending rates.

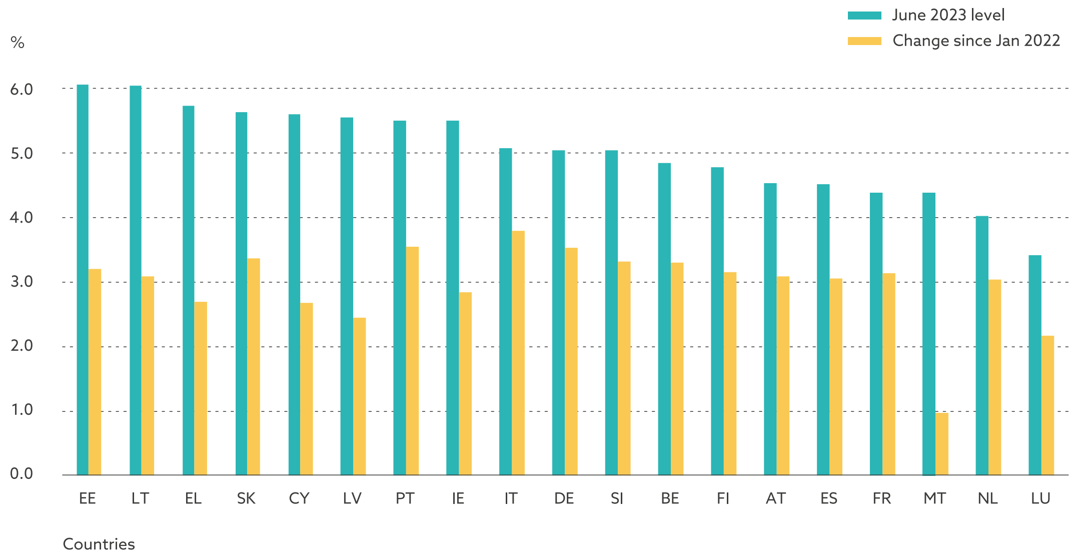
The large increase in deposits held with banks supports ample liquidity buffers, in addition to the strong capital buffers of Maltese banks. As a result, local banks have been displaying reduced susceptibility to changes in market rates, thereby elucidating the relatively low rate of passthrough in Malta. Moreover, it is important to note that lending rates in Malta were already higher than the EA average prior to the onset of ECB's monetary policy tightening stance. This is also apparent in corporate lending.

Taking all this into account, particularly during this delicate phase of tightening monetary policy, Malta observed relatively small changes to domestic lending rates. The change in lending rates in Malta have been the lowest across the EA, indicating that the interest-rate passthrough has been very limited, in line with the historic standard.

Figure 1.19

Cost of Borrowing to Corporates

Source: ECB

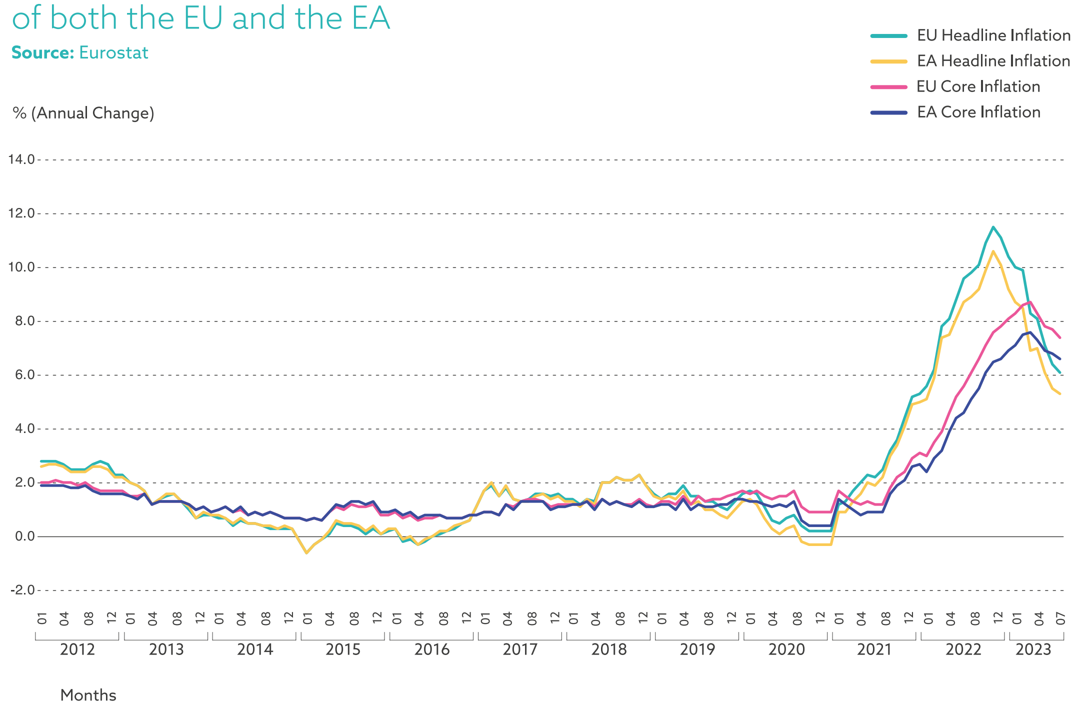


1.3 Inflation

1.3.1 External Developments

While inflationary pressures remain elevated, they have eased from the multi-decade highs reached due to a series of recent unprecedented events. The moderation of inflation is notable in the EU, with headline HICP inflation recorded at 6.4 per cent in June 2023, in contrast to the 9.6 per cent in the same month of 2022. However, core inflation, which excludes energy and volatile food components, is showing signs of more persistence. The trajectory observed for the EU closely mirrored that of the EA as shown in Figure 1.20.

Figure 1.20
Headline Inflation & Core Inflation of both the EU and the EA
Source: Eurostat

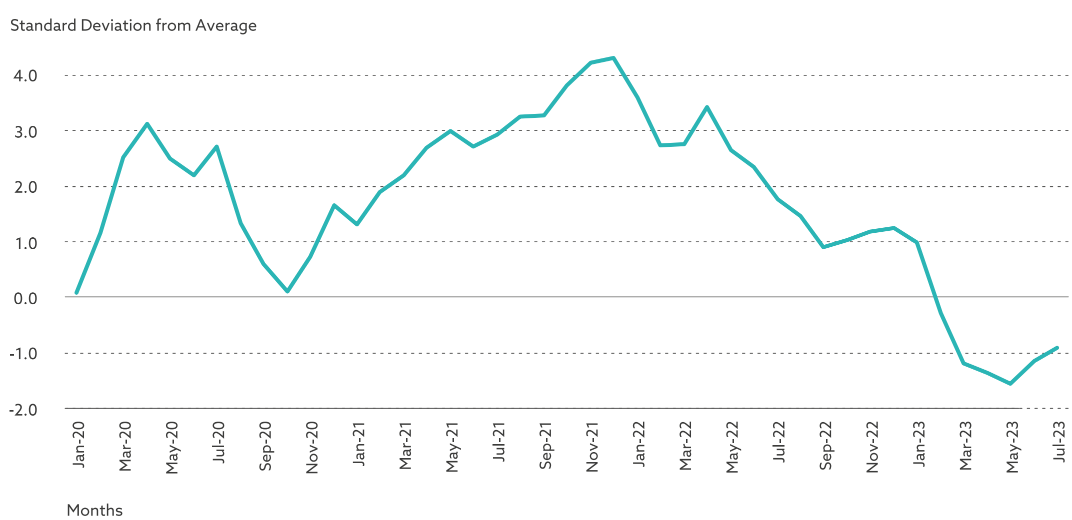


The deceleration in inflation reflects continuing supply-chain resolutions, as underscored by the New York Federal Reserve's Global Supply Chain Pressure index (Figure 1.21), which turned negative in 2023, indicating that producers are now confronted with spare capacity. China's departure from the no-COVID policy at the end of 2022 also contributed to the general resolution of supply-side issues. Moreover, freight costs have reverted to pre-pandemic levels. Finally, in the EU, factors limiting production due to material and equipment shortages have receded from the peak observed in the first half of 2022, even though they remain above the long-term average, indicating that limited bottlenecks remain.

Figure 1.21

Global Supply Chain Pressure Index (GSCPI)

Source: New York FED



The Russian invasion of Ukraine exacerbated existing supply disruptions, particularly in energy and food commodities. These disruptions were disproportionately felt by European countries, especially in Central and Eastern Europe. The spike in gas and electricity prices in 2022 can also be attributable to decisive EU action in strengthening gas storage reserves. As gas reserves were successfully filled for the winter season, demand for gas stabilised, leading to a decline in its price.

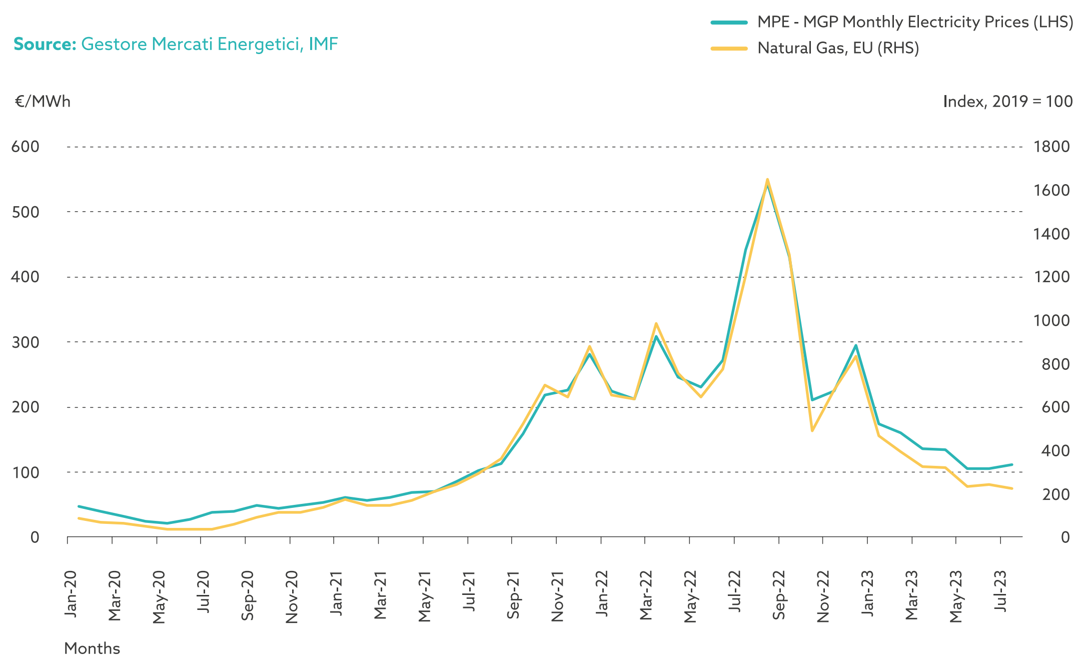
Moreover, initiatives to diversify European energy supply away from Russian gas were particularly instrumental for the decline in energy prices. A milder winter season and voluntary demand reduction targets by European countries further aided in the stabilisation of gas and energy prices below their peak. Both industry and household gas demand decreased, and this trend continued into the early months of 2023, signalling a general economic slowdown alongside energy conservation efforts. As a result, gas and electricity prices have been on a decline.

These price developments are illustrated in Figure 1.22 below. Gestore Mercati Energetici (GME) is the only body responsible for managing physical energy trading platforms in Italy, and thus determines the price of electricity bought from the interconnector in Malta. The chart shows that electricity prices reached their peak in the summer of 2022. Thereafter, prices began to decline, stabilising at levels below those observed prior to the war in Ukraine.

Figure 1.22

Electricity and Natural Gas Prices

Source: Gestore Mercati Energetici, IMF



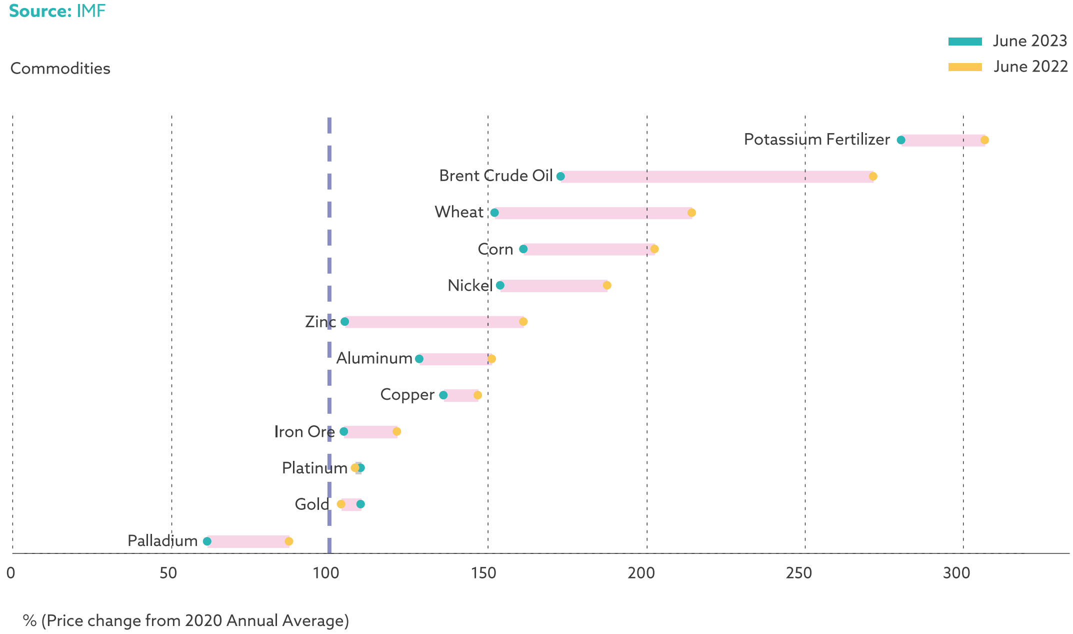
Despite efforts to diversify energy supplies, this process, which includes investments in adapting infrastructures and transitioning more towards renewable energy, requires more time. Therefore, European countries continue to be vulnerable to external supply shocks. This is evident in the spike in European gas prices in early August following prospects of strikes in main LNG suppliers. Risks also persist from the demand-side, as extreme weather conditions could intensify power demand, while a return towards lower prices could induce a recovery in gas and electricity consumption, increasing prices.

Overall, the second half of 2022 witnessed a decline in commodity prices after a series of unprecedented events caused a surge in prices. In June 2023, wheat prices declined by 29.0 per cent, and corn prices declined by 20.5 per cent compared to the same month the previous year, though they still remained above their long-term average. While food commodity prices have stabilised, fertiliser prices, albeit on a declining trend, are still quite high; this can pose some risks to food prices going forward. By contrast, the prices of metal commodities (iron, copper, aluminium) have largely reverted to normal levels. The chart shown in Figure 1.23 illustrates the changes in commodity prices that have occurred in the past two years relative to the average prices in 2020.

Figure 1.23

Average Global Price in Selected Commodities compared to 2020

Source: IMF

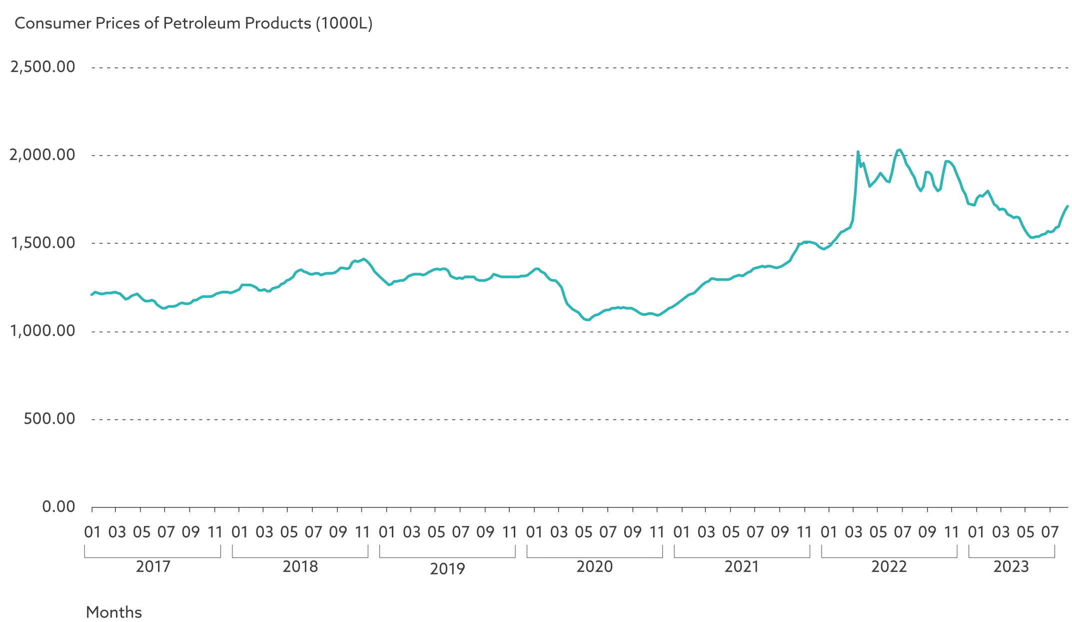


Amid these economic dynamics, it is important to recognise that other inflationary forces are also at play. Notably, labour markets in advanced economies remain tight, even in the face of an ongoing economic slowdown, pushing up nominal wages. Should labour market tightness persist, wage pressures may create further inflationary pressures. At the same time, observed increases in profit margins may cushion these impacts.

Figure 1.24

Average Diesel Price in the EU

Source: European Commission



According to Figure 1.24, the price of diesel peaked during the first quarter of 2022, followed by ongoing fluctuations at an elevated level. The current elevated levels of diesel prices indicate a lack of stabilisation, a notable presence of uncertainty, and the potential for further escalation of these prices. Furthermore, it can be posited that Malta's heavy reliance on trailers for the importation of food supplies may serve as a contributing factor to the persistence of elevated food prices within the country, even in the face of declining commodity prices.

1.3.2 Domestic Inflation

The Retail Price Index (RPI) tracks the cost of a representative basket of goods and services consumed by private households. This is the primary metric used for indexing wages, social benefits, rents, and certain excise taxes. It is also used to calculate the Cost-of-Living Adjustment (COLA).

The HICP is a chain-linked index of inflation which employs a standard methodology across EU Member States. The weights of the HICP are updated annually, thereby capturing changes in consumption patterns over time. While the RPI solely captures consumption by private households, the HICP also encompasses the purchasing behaviour of institutional households and tourism expenditure in Malta.

Based on the RPI, Malta continued to witness substantial price growth in the first quarter of the year, with prices rising by an average rate of 7.0 per cent in comparison to the same period last year. However, prices have somewhat slowed down during the second quarter of this year, averaging at 5.6 per cent. Price growth was substantial especially in Food and Housing. The gradual slowdown in inflation rates during the second quarter of the year can be attributed to easing pressures in Housing and, to a lesser extent, in Recreation and Culture. Additionally, Clothing and footwear prices have entered into a deflationary phase in the second quarter.

With regards to HICP, Malta recorded the second lowest inflation rate in the EU during 2022 (6.1 per cent). This was the result of Government measures aimed at sheltering the economy from the escalating energy prices and supporting the security of imported supplies of grain, wheat, and animal fodder. These measures accounted to a cumulative €514 million, covering the period from the onset of the conflict in Ukraine in 2022 through June 2023 (refer to Table 1.1 below for a disaggregation). This political commitment has been instrumental in containing costs for the private sector, allowing the domestic economy to remain competitive and supporting consumers.

Figure 1.25
HICP Inflation Rate June 2023
Source: Eurostat

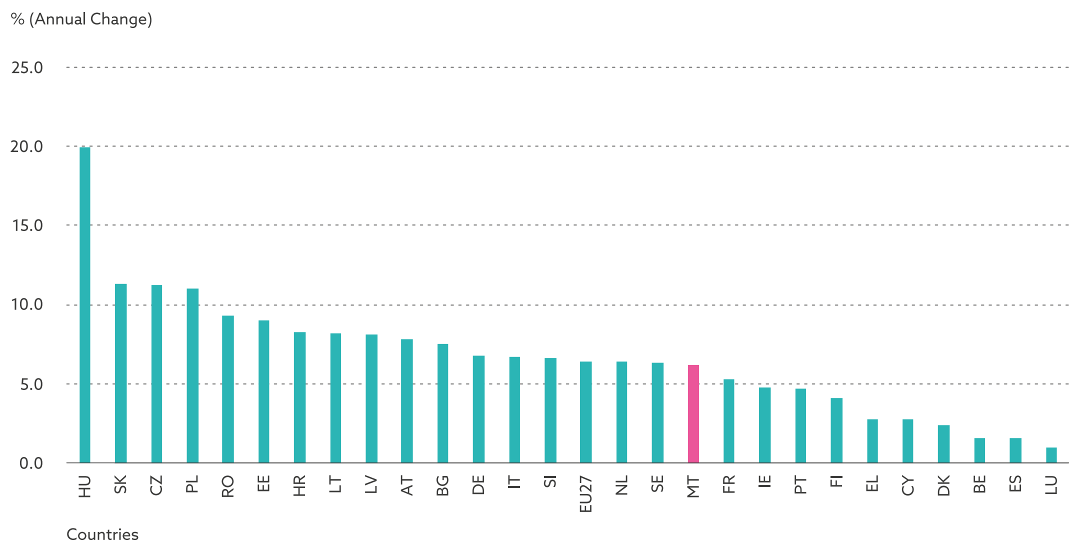


Table 1.1
Government Subsidies to Contain Prices of Energy, Fuels, Cereals and Animal Feed
Source: MFE

Electricity	€329.8 million
Fuel	€143.4 million
Gas	€23.7 million
Grain, Wheat and Animal Fodder	€16.9 million

The moderation in energy and commodity prices at lower levels by the end of 2022 started to feed into lower consumer retail energy prices in 2023. This meant that inflation rates of EU Member States where domestic energy prices had surged significantly, observed a more pronounced decline in overall inflation rate in the first half of 2023, relative to other countries which maintained stable energy prices. Therefore, the dispersion in inflation rates between Malta and the EU started to narrow down in 2023. The inflation rate in Malta stood at 6.2 per cent in June 2023, slightly below the EU average of 6.4 per cent (Figure 1.25). While inflation rates remain above historical averages, it is expected that the pace of price increases will continue to ease due to the materialisation of high base effects in the coming months, in addition to the transmission of lower commodity prices in import prices, and a slowdown in global demand driven by monetary policy tightening.

Figure 1.26

HICP Inflation by Component (Jan-June 2023)

Source: Eurostat

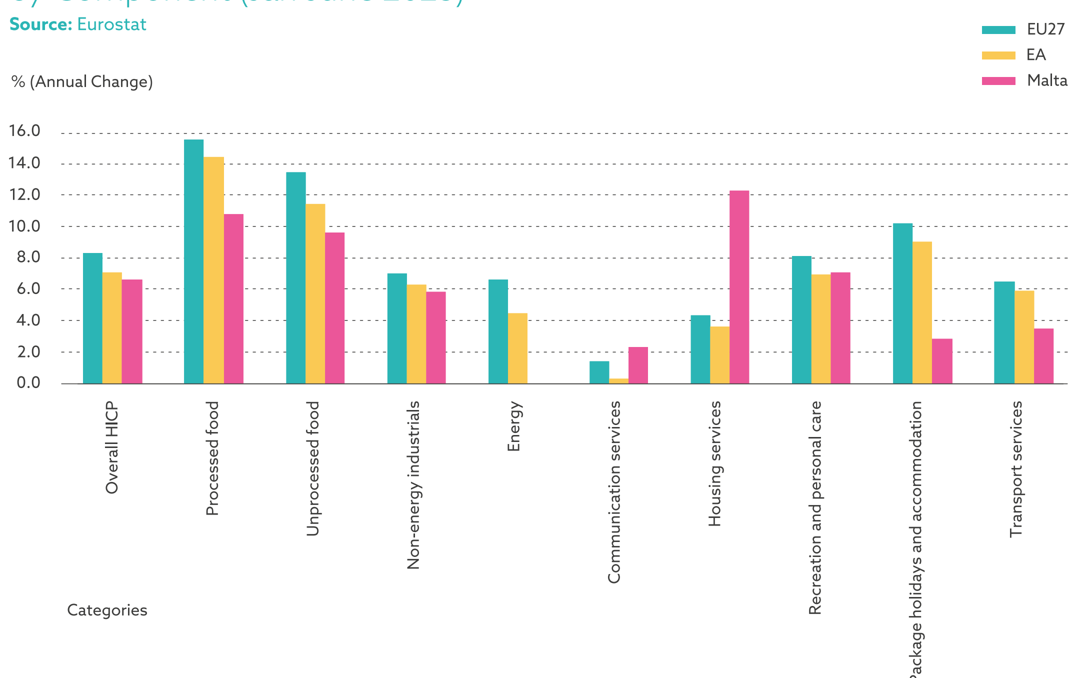


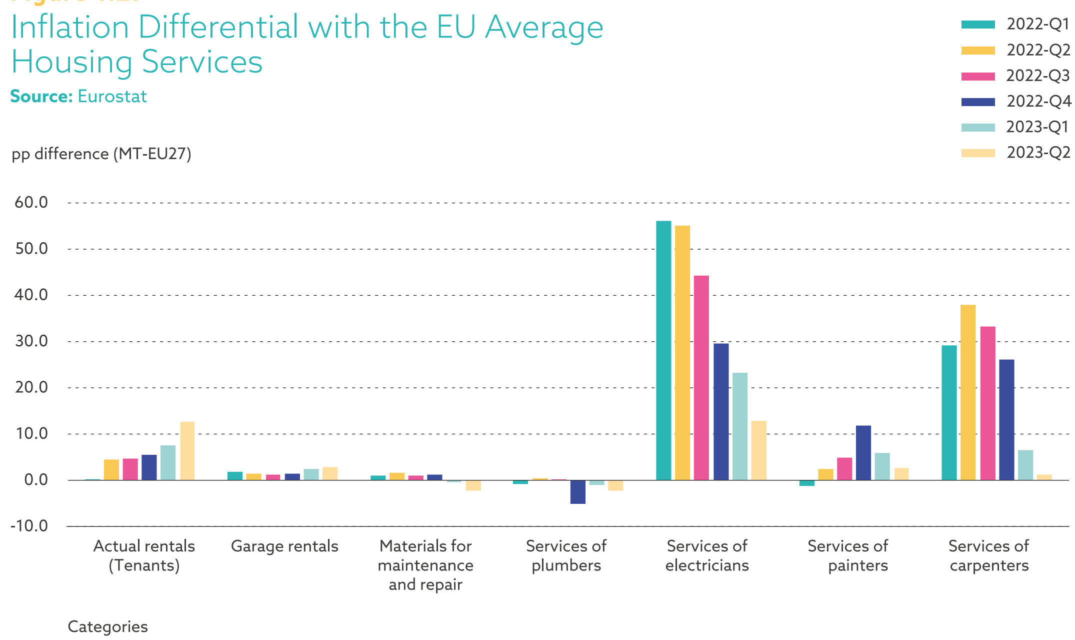
Figure 1.26 compares the inflation rate of various consumer categories in the EU and EA with the comparable categories in Malta. It is evident that in most categories, the pace of price increases is lower in Malta, with a few exceptions. Positive dispersion is relevant in services related to package holidays and accommodation, reflecting the strong recovery in the tourism sector. In fact, the inflation rate in the first half of the year was 7.3 percentage points lower than the EU average.

By contrast, inflation in Housing services has been substantially higher when compared to other European countries. After peaking at 14.8 per cent in December 2022, inflation in housing services declined gradually to 11.6 per cent in June 2023. It remains well above the EU average, albeit most of the sub-components appear to have peaked, narrowing down the dispersion with the EU average. The high inflation in the sector is at least partly explained by the rise in commodity and material prices, given that housing services prices tend to follow the trajectory of non-energy industrial goods. As pressures on that side appear to be easing, it is expected that inflation in housing services continue to ease with a lag going forward. However, the significant dispersion with the EU average suggests that other domestic forces are at play, which include both population growth and the tourism recovery, that are increasing demand for housing services.

Figure 1.27

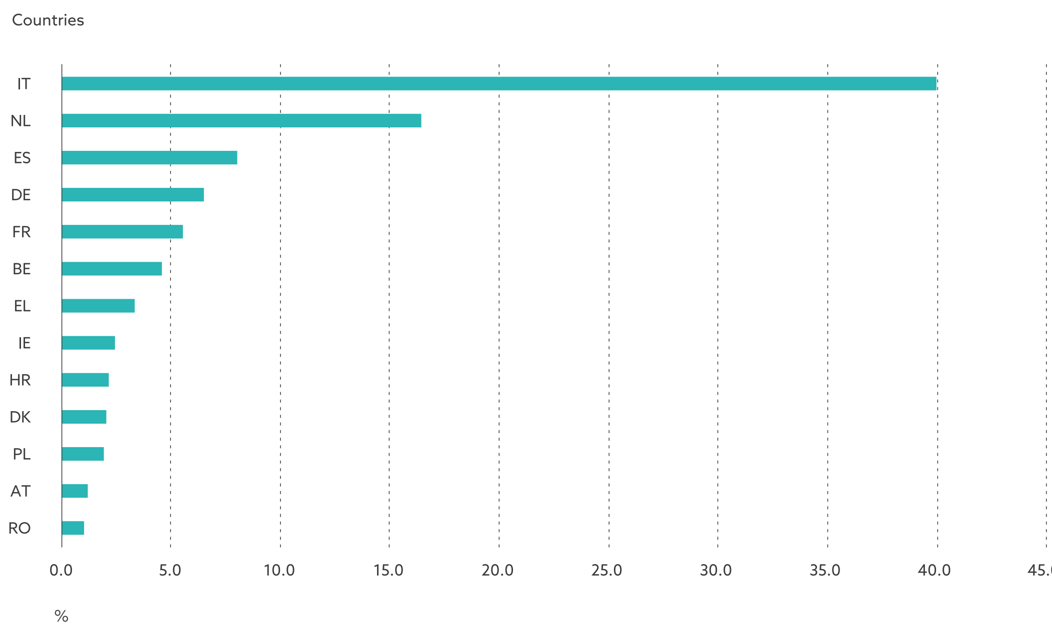
Inflation Differential with the EU Average
Housing Services

Source: Eurostat



Food Inflation

Figure 1.28
Share of Food Imports
from Selected EU Countries
Source: Eurostat



Note:
Data includes imports of Agriculture, forestry, fishing, food, beverages and tobacco from EU Member States.
Excludes countries with a share of imports below 1.0 per cent.

The Food and Agriculture Organisation (FAO)'s Food Price index, which is a measure of international prices of a basket of food commodities, declined by 16.1 per cent in the first half of the year, returning to the levels observed before the war in Ukraine. While food commodity prices are still higher than the pre-pandemic period, meaning that some bottlenecks remain, the moderation in food commodity prices has not been fully reflected in consumer food prices.

Due to its insularity, Malta imports a significant portion of its food, making it susceptible to shocks in the supply of agricultural products in trading partner economies. Between January and June in 2023, prices of processed food grew by 10.8 per cent, while unprocessed food inflation stood at 9.6 per cent. High inflation in foods is broad-based across various food items, and those foods with a large share of the consumption basket have not peaked yet. Persistent and increasing inflation in processed food is prevalent in bread and dairy products, the latter reflecting announced increases in product prices as from 1 June 2023. Inflation in unprocessed food is largely driven by persistent price growth in fruit and vegetables.

Figure 1.29
Food Inflation in Malta and Main Trading Partners
Source: Eurostat

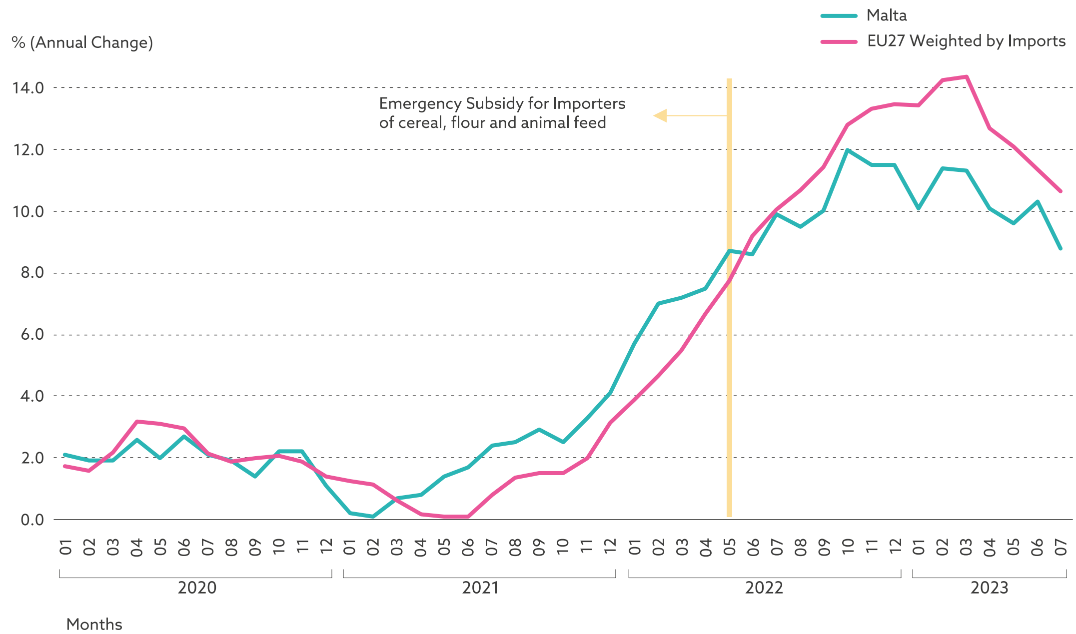


Figure 1.29 depicts food inflation in Malta, together with that of EU-27 countries, weighted by the share of food importation for Malta. It shows that from the second half of 2021, food inflation in Malta was increasing beyond that of the main trading partners. This is because Malta was more susceptible to international prices and the increase in freight rates, given that alternative transportations are limited in Malta due to its insularity. In view of the increased threat to food security following the war in Ukraine, the Maltese Government announced a temporary price stabilisation subsidy scheme to mitigate the increase in the price of food products. It is evident that following this measure, food inflation in Malta remained consistently below that of EU partners, as costs of suppliers were contained.

Food inflation in Malta's main trading partners appears to have peaked. In fact, during the second quarter of 2023, the increase in consumer food prices in main sources has been easing each month. This is in line with previous declines in global commodity markets, albeit consumer prices have not reflected the full decline in commodity prices. Therefore, food inflation should be expected to continue moderating in the short-term, albeit remaining high.

Property Price Index (PPI)

The Property Price Index (PPI) is an index published by the National Statistics Office (NSO) and is used to monitor property price developments in Malta. The methodology behind such index consists of an aggregation of median prices for three main dwelling types:

i. Apartments

ii. Maisonettes

iii. Terraced Houses

The aggregation process makes use of a Laspeyres-type formula, where current prices are compared to base year prices (in this case the base year chosen is 2015). Figure 1.30 shows the historical developments of the PPI from 2017 Q1 up to 2023 Q1. The upward trend suggests significant positive developments in the PPI over the said period. This translates into a roughly 1.4 per cent quarterly compounded average rate of growth in property prices from 2017Q1 up to 2023Q1. A slight drop in the PPI can be observed during the first quarters of the year due to lower counts being registered over this period. Notwithstanding these developments, the PPI indicates that the property market in Malta has withstood recent crises very well as the market did not experience any decreases in aggregate terms during the period under review. Figure 1.31 shows that the year-on-year growth rate of the PPI has remained between 4.5 per cent and 7.6 per cent between 2021Q1 and 2023Q1.

Figure 1.30
PPI (Y-o-Y Growth Rate)
Source: NSO

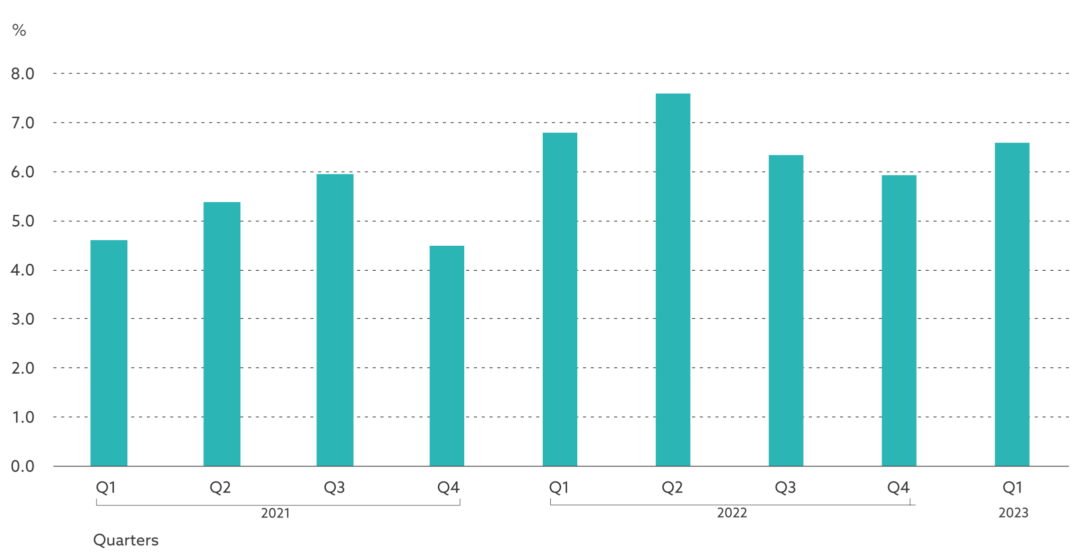
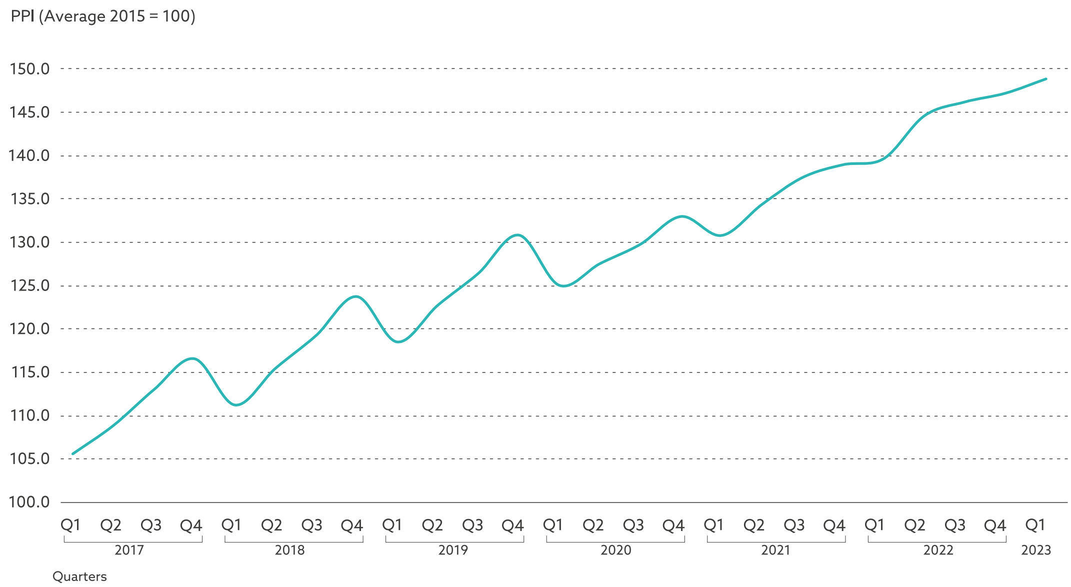


Figure 1.31
Property Price Index

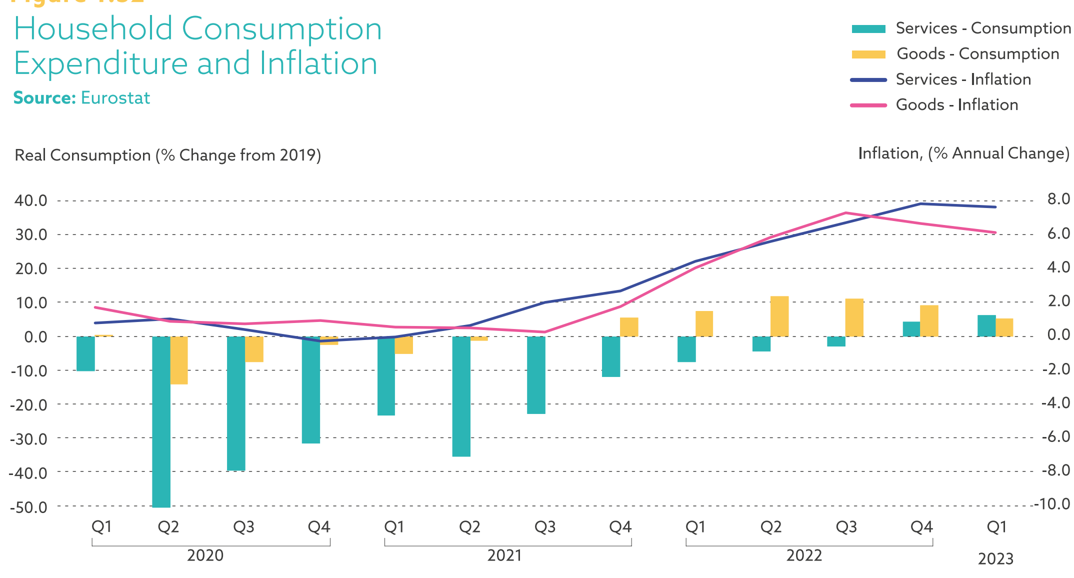
Source: NSO



Demand and Shifts in Consumption

Figure 1.32
Household Consumption Expenditure and Inflation

Source: Eurostat



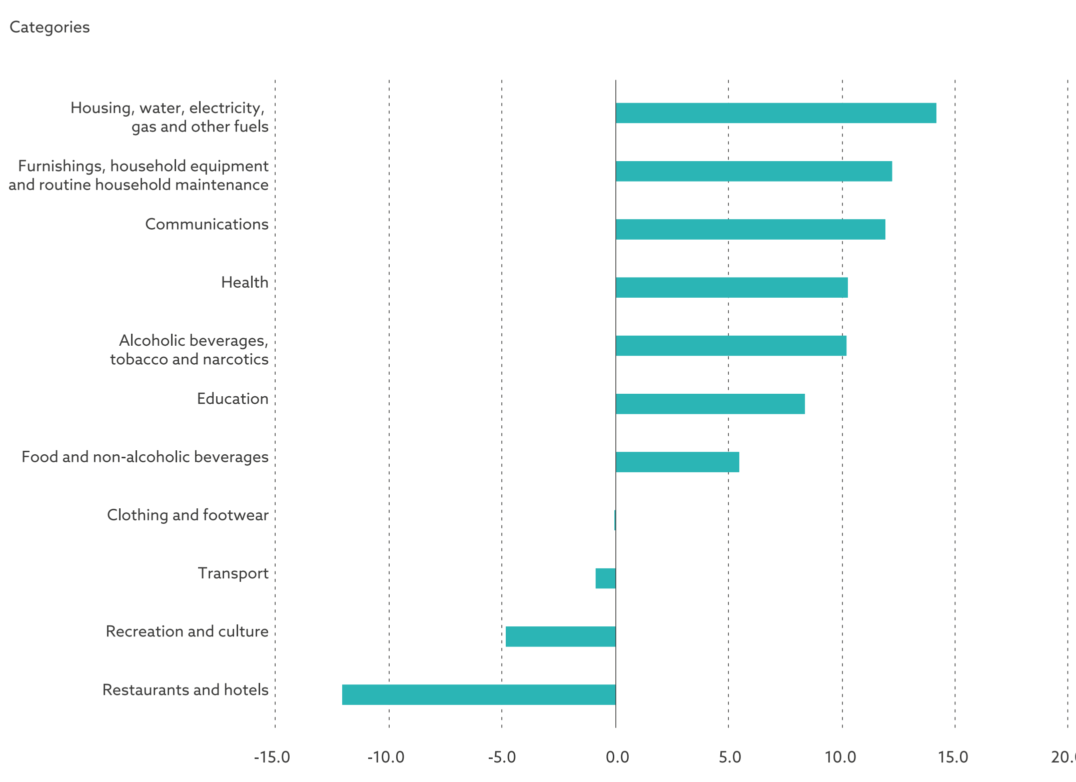
The Maltese economy rebounded strongly from the COVID-19 pandemic. However, household consumption expenditure on services only recovered to pre-pandemic levels in the last quarter of 2022. During 2022, services inflation in Malta stood at 5.9 per cent when compared to the EU average of 4.3 per cent, despite the recovery in services in Malta lagging behind, which indicates that inflation was more cost-push oriented in general. This suggests that demand-pull inflation for overall services has been limited, with the increase in costs mainly driving inflation dynamics. For instance, the increase in food prices has a direct consequence on services related to Restaurants and hotels, as well as increases in raw materials having an impact on maintenance and housing services. As food and goods inflation remains high, this is expected to be reflected in spillover effects on services inflation.

With regards to housing services however, an element of demand-pull inflation could be present, as household consumption for housing services remained resilient during the pandemic. In fact, final consumption expenditure of households for housing, water, electricity, gas and other fuels was the only consumption category (by COICOP 3 digits) that registered increases during 2020, and consumption in housing remained strong up till 2023.

Figure 1.33

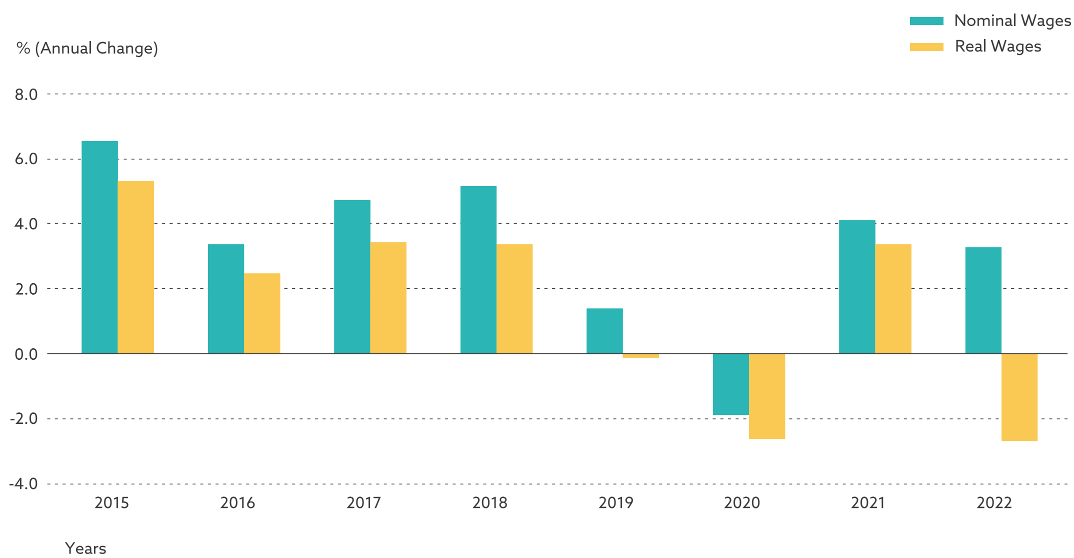
Household Consumption in 2022 compared to 2019 Levels (Real Terms)

Source: Eurostat



1.3.3 Wage Developments

Figure 1.34
Wage Growth
in Malta
Source: Eurostat, MFE



Note:
Wages defined as compensation per Full-Time Equivalent Employment

During 2022, nominal wages in Malta grew by 3.3 per cent. However, the increase in prices largely outpaced wage growth, leading to a decline in real wages. Nominal wages started to pick up in the last quarter of 2022, growing by 5.8 per cent, as the decline in household purchasing power led to higher wage demands, and as the labour market continued to remain tight. Despite the acceleration in wages in the last quarter of 2022, such growth only partially recovered the fall in real wages.

Wage growth appears to have moderated in the first half of 2023, increasing by 3.6 per cent. Furthermore, up till now, the acceleration in wages in Malta has only come following price increases and has now started to moderate as inflation retracted from its peak. This may imply that higher wage demands came as a response to past rises in inflation, rather than due to the expectation of further price rises, which would lead to a self-reinforcing wage-price spiral.

Labour market shortages remain prevalent in the Maltese economy, supporting wage increases to attract workers. In the context of such shortages, nominal wages are expected to continue increasing. In view of the acceleration in wages, unit labour costs increased during the last two quarters. Nevertheless, in real terms, unit labour costs declined in 2022 and throughout the first half of 2023, in view of higher prices.

Moreover, inflation expectations remain well-anchored. This may imply that wage increases are driven by shortages and the lagged transmission of higher prices. In essence, wages and prices can be driven by the same factor, which is excessive demand in a context of shortages. As inflationary pressures have already subsided, one would expect expectations to remain contained.

1.3.4 **Profit Developments**

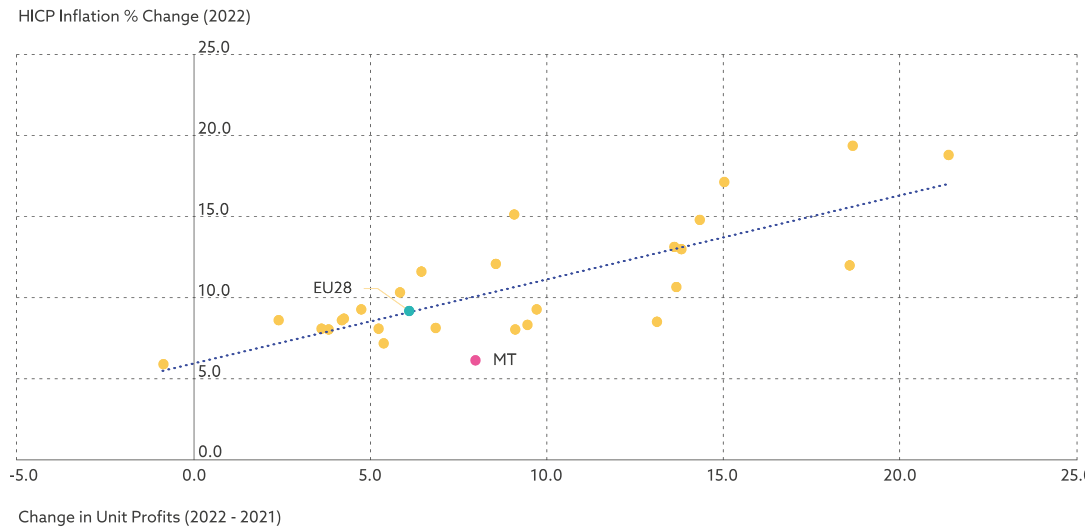
Even though most of the successive supply side shocks, a major source of initial inflationary pressures, have largely been resolved, and the pace of price increases remain significantly higher than what is considered normal to have price stability. This is especially true for core inflation, which continues to be sticky across major economies, including the EU. Therefore, as imported inflation has been facing moderation since mid-2022, other domestic forces could be shaping inflation dynamics. These domestic forces, apart from wages, include corporate profits which have surged following the COVID-19 pandemic.

In this section, corporate profits are analysed from a national accounts perspective, which is a comprehensive system of recording and measuring the economic activities of a country. They capture various economic transactions across sectors and include the measurement of key economic variables such as the GDP. From the income side, GDP is calculated by summing together compensation of employees, taxes on production and imports less subsidies, in addition to gross operating surplus and mixed income. Gross operating surplus is the main indicator of firms' performance in terms of profitability. It is important to note that gross operating surplus is calculated before payment of taxes, interest on loans, or dividends to shareholders. Moreover, it does not take into account some of the costs which are present in company accounts, including wear and tear on buildings and machinery and consumption of fixed capital. Therefore, such differences in the calculation can lead to a divergence between company and national accounts' measurement of corporate profits.

Figure 1.35

Unit Profits (2022) vs HICP Inflation (2022) in EU Countries

Source: Eurostat

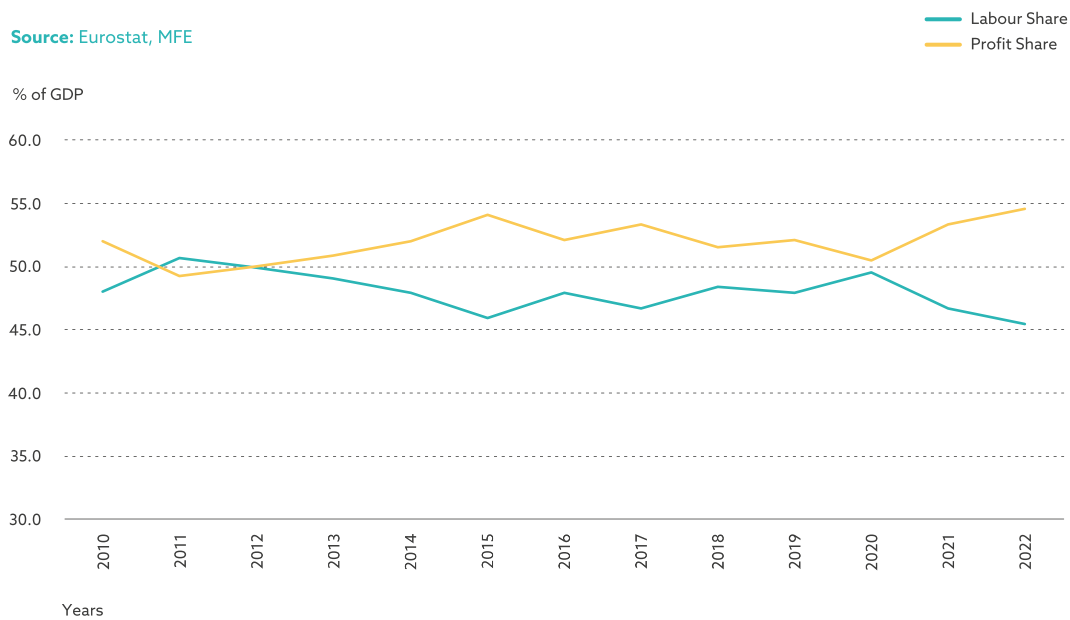


Corporate profits have rebounded strongly across the EU after suffering a decline during the pandemic. In 2022, unit profits, defined as profits per unit of output, increased across almost all EU countries Figure 1.35. Interestingly, those countries that observed the highest increase in unit profits have registered the strongest increase in headline inflation during 2022. Also, increases in unit profits have largely outpaced inflation, which is the case for Malta. However, this does not necessarily mean that inflation is driven by increased profit margins. This is because causality is difficult to disentangle. In essence, firms may keep mark-ups constant (difference between selling price and costs) but still see a rise in profits due to the increase in intermediate costs, which costs have increased substantially. Should this argument hold, profits would be expected to experience a slowdown going forward, as most of the increases in material costs have now broadly returned to lower levels.

Domestically, profit developments have followed those in other European countries. Economic output can be divided either between firms and capital owners, in the form of profits, dividends and rents, or to labour. This constitutes the labour or capital share of GDP. As evidenced by Figure 1.36, the labour share had been progressively increasing since 2015, on the back of a tight labour market. In 2020, the labour share increased as Government support measures cushioned the impact of the pandemic on incomes and employment. This constituted a corresponding decline in the profit share. Since then, the profit share increased significantly, from 50.5 per cent in 2020 to 54.6 per cent in 2022. This meant that the labour share lost the gained ground in the period leading to the pandemic, and the profit share analogously surged.

Figure 1.36
Profit and Labour Share

Source: Eurostat, MFE



Note:
Net taxes are excluded from GDP

Figure 1.37
GDP Deflator Decomposition

Source: Eurostat, MFE

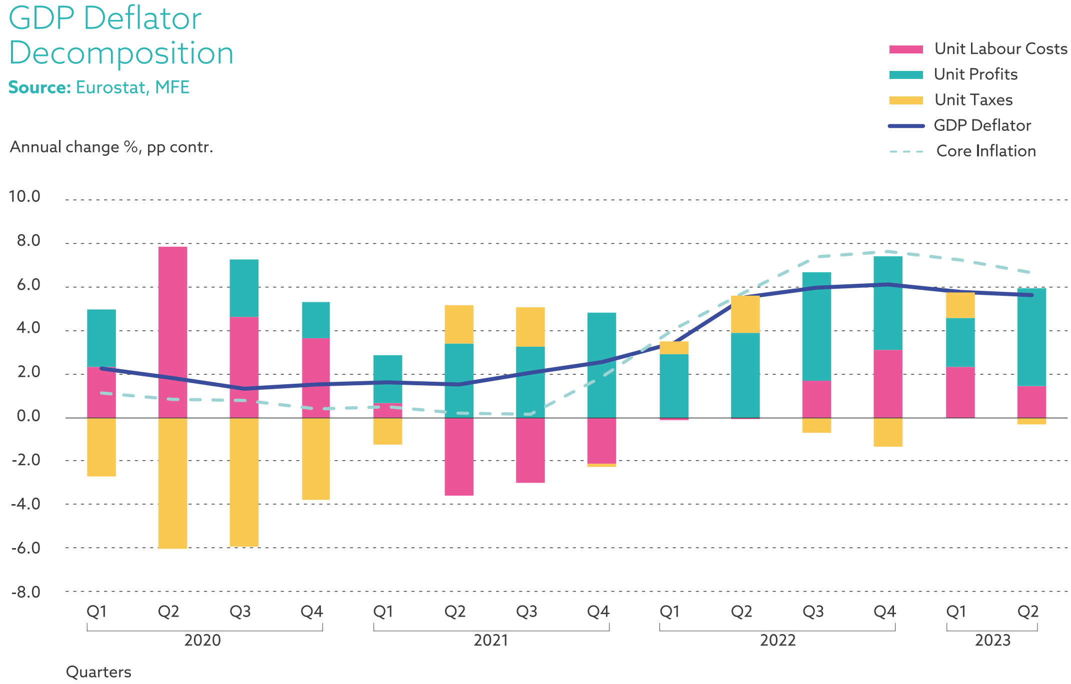


Figure 1.37 depicts the GDP deflator and its main drivers. The GDP deflator is the ratio of goods and services produced domestically in current market prices, to that at constant prices or volume. In other words, the GDP deflator indicates how much of the economic activity is due to change in the price level. The above chart shows that the GDP deflator is a good metric to track domestic price pressures as measured by core inflation as they follow similar trajectories. Furthermore, the GDP deflator was decomposed to analyse how changes in the GDP deflator are reflected in income forces in Malta.

During the pandemic shock, the GDP deflator remained relatively low as domestic price pressures were limited. In effect, this was the result of sizable Government support, including the wage supplement scheme, which cushioned the impact on both wages and profits. This is reflected in the substantially negative contribution of net taxes, offsetting the positive contribution of unit labour costs, and to a lesser extent, unit profits.

The recovery period has been largely shaped by resilient profits, making them the most significant driver of domestic price pressures. The surge in the GDP deflator was mostly driven by unit profits while unit labour costs remained subdued. In fact, unit labour costs have only started to contribute positively to the deflator in the last two quarters of 2022, but remained a minor share when compared to profits. This trend continued into 2023, where unit profits played a significant role in driving the GDP deflator, especially in the second quarter, while to a lesser extent, unit labour costs also contributed positively. This is consistent with firms having the ability to pass on the higher costs more quickly, while wages take longer to adjust.

Profit developments play a crucial role in shaping inflation dynamics, as they have implications on how increases, including wages, are passed to customers. The recorded increase in profits during the recovery period can act as a buffer against future wage increases. Moreover, possible increase in retained earnings, can be allocated towards investments which can aid in meeting growing demand by increasing capacity and thereby limiting inflationary pressures. To this end, the rise in profits has the potential to avert a wage-price spiral from taking hold.

1.4 Malta Growth Prospects

The interim summer forecast produced in July by the Economic Policy Department in the Ministry for Finance and Employment (MFE), indicates that the Maltese economy is expected to grow by 3.9 per cent in real terms, and 8.6 per cent in nominal terms in 2023. The net exports component is expected to be the main driver of growth in 2023. Despite a general economic slowdown in Malta's main trading partners and further strengthening of the euro against the dollar, exports are expected to remain resilient, mostly driven by the positive and better than expected performance in the tourism sector. To this end, exports are expected to increase by 4.5 per cent in 2023.

Imports are expected to experience only moderate growth at 1.2 per cent. Such moderation in imports is mainly due to large one-off outlays during 2022 that produced a large base effect, reflecting the high import-intensity of investment in Malta. Overall, investment is expected to decline by 16.6 per cent, as it is projected to revert to its historical average investment-to-GDP ratio after a one-off spike in 2022. In view of the expected decline in investment, domestic demand is expected to contribute negatively to economic growth.

On the other hand, household consumption is expected to grow by 3.8 per cent, supported by the prospective positive performance of the labour market and lower inflationary pressures in the second half of the year as household purchasing power starts to recover.

In 2024, the Maltese economy is projected to grow by 4.4 per cent in real terms and 7.6 per cent in nominal terms. Domestic demand, driven by consumption due to expected inflation relief along with a stabilisation in investment, is anticipated to be the primary growth catalyst. Supported by continued labour market resilience and further increases in wages, which should pick up in real terms as inflationary pressures subside, consumption is expected to grow by 3.9 per cent. Moreover, investment is projected to partially recover, growing by 5.7 per cent.

As global economic activity picks up in 2024, both exports and imports are expected to increase at a faster pace. In particular, Malta's exports are anticipated to grow by 5.2 per cent. Imports are envisaged to align with the upswing in domestic activity and increase by 5.0 per cent, particularly driven by the rebound in investment and the expected appreciation of the euro against major currencies including the US dollar.

Total compensation of employees is projected to increase by 9.4 per cent in 2023 and 8.1 per cent in 2024, driven by a combination of factors including the impact of tight labour market conditions, as reflected by low projected unemployment rates and rising prices. Concomitantly, compensation per employee is projected to grow by 5.3 per cent in 2023 and further by 3.9 per cent in 2024.

The inflation rate is expected to remain at 6.1 per cent in 2023, predominantly driven by services and food prices, which are proving to be more persistent than anticipated. Energy inflation is projected to remain stable in 2023, consistent with the Government's commitment to absorbing the rising energy prices. Harmonised Index of Consumer Prices (HICP) inflation is expected to decelerate in 2024 to 3.7 per cent, influenced by declining import prices, high base effects from the previous year, a continued resolution of supply bottlenecks, and the transmission of monetary policy leading to lower aggregate demand in advanced economies.

It is worth highlighting that the summer forecast relied on data from the first-quarter news release. Subsequently, the first-quarter data has been revised upward, as anticipated. Nonetheless, considering the subdued nature of second-quarter data, this forecast still holds, although some minor revisions might be required in the upcoming updated forecast for the 2024 Budget.

Table 1.2
Growth in Main Macro Indicators (%)
Source: NSO, MFE Projections

	2021	2022	2023 (f)	2024(f)
Real GDP	12.3	6.9	3.9	4.4
Nominal GDP	14.5	12.6	8.6	7.6
Consumption	8.3	9.5	3.8	3.9
Government Expenditure	6.5	2.3	3.4	2.9
Investment	12.7	31.2	-16.6	5.7
Exports	7.5	6.8	4.5	5.2
Imports	5.0	10.1	1.2	5.0
Inflation Rate (%)	0.7	6.1	6.1	3.7
Employment Growth (FTEs)	3.2	6.4	3.9	4.0
Unemployment Rate (%)	3.4	2.9	2.8	2.8
Compensation per Employee	4.1	3.3	5.3	3.9

02

Fiscal Sustainability

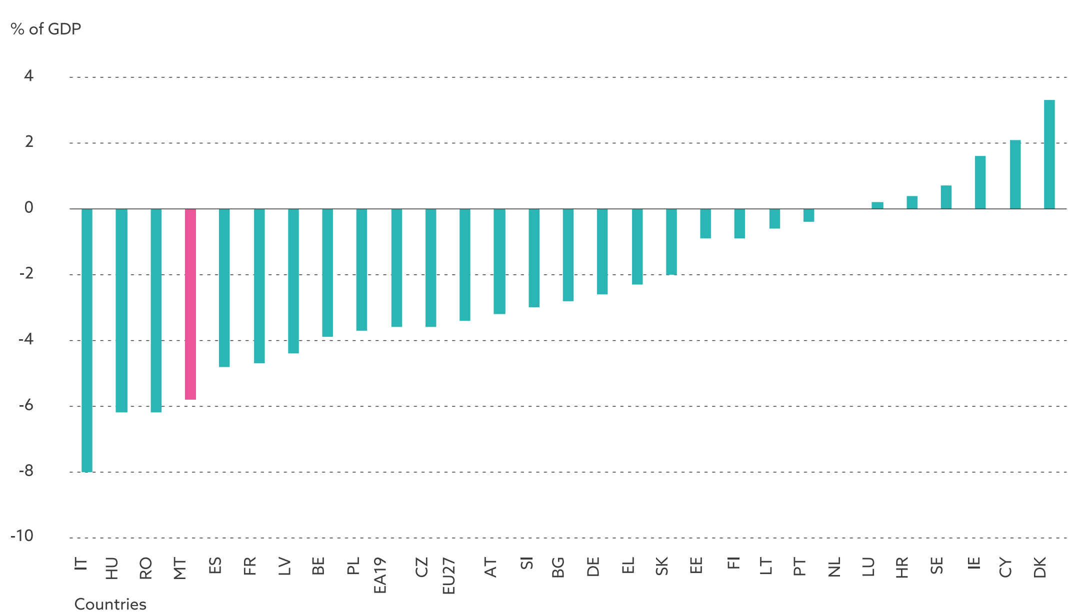
2.1 Fiscal Developments in 2022

Despite the introduction of support measures to mitigate the impact of high energy prices, strong nominal growth and the unwinding of residual pandemic-related measures led the EU aggregate Government deficit in 2022 to fall further to 3.4 per cent of GDP. Similar developments were noted locally, whereby in 2022, the general Government balance fell down from a deficit of 7.8 per cent in 2021 to a deficit of 5.8 per cent in 2022.

In 2022, despite an increased level of general Government revenue, its ratio to GDP decreased by 1.0 percentage point from the previous year to 35.1 per cent. Tax revenue (excluding social contributions) remained stable at 24.4 per cent of GDP, in spite of absolute increases across all tax components resulting from a robust rebound in tourism, a surge in domestic demand, and strong corporate profits and employment growth. Current taxes on income and wealth slightly decreased by 0.1 percentage points to 13.6 per cent. Taxes on production and imports maintained a 10.5 per cent of GDP ratio, although they increased in absolute terms. Capital taxes remained unchanged, while the ratios of social contributions and property income declined by 0.2 and 0.1 percentage points, respectively. 'Other' revenue fell by 0.8 percentage points, mainly due to reduced capital transfers and investment grants.

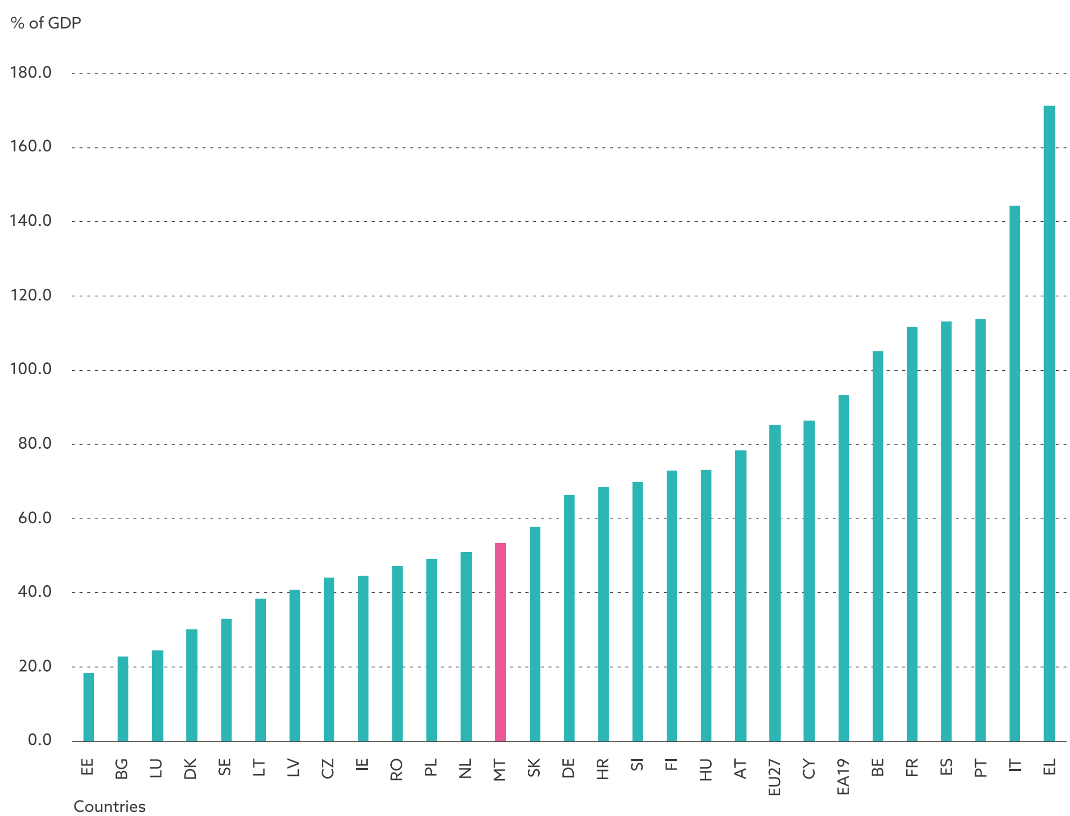
Meanwhile, the Government expenditure to GDP ratio decreased by 3.1 percentage points to 40.9 per cent, although absolute expenditure increased due to measures to counter foreign inflationary pressures, partially offset by the phasing out of COVID-19 measures. Indeed, subsidies increased by 0.4 percentage points, driven by energy support measures, Air Malta plc early retirement scheme, and national airline restructuring aid. All other expenditure components saw decreases in their ratio-to-GDP, notably employee compensation and 'other' expenditure, which dropped by 1.1 and 0.6 percentage points, respectively. Intermediate consumption and gross fixed capital formation ratios also declined by 0.5 percentage points.

Figure 2.1
General Government Balance 2022
Source: Eurostat



The EU debt-to-GDP ratio fell to around 85 per cent of GDP in 2022, from the record high of 92 per cent recorded in 2020. In spite of the impact of the COVID-19 related economic support measures and the subsequent inflation mitigation measures, Malta continues to be amongst the Member States with the lowest debt ratio in the Euro area. Malta's debt-to-GDP ratio remained below the 60.0 per cent Maastricht criteria and decreased to 52.3 per cent in 2022 from the 54.0 per cent in 2021.

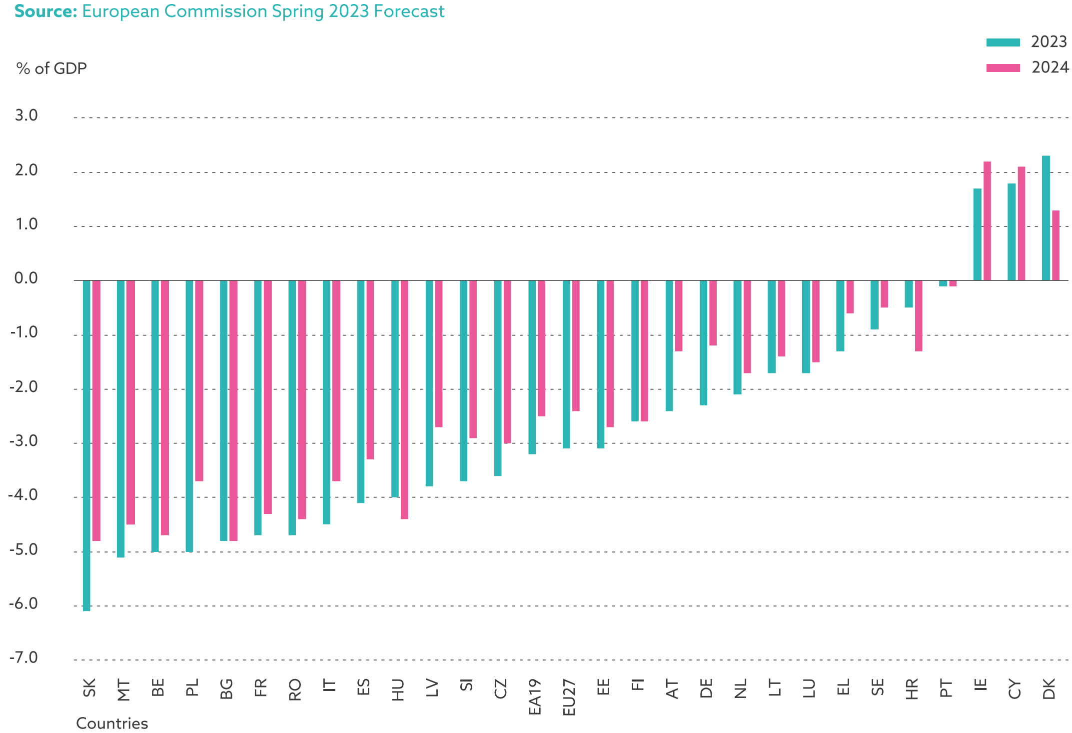
Figure 2.2
General Government Debt
2022
Source: Eurostat



2.2 Fiscal Outlook in the EU

According to the latest European Commission forecast, the planned reduction of energy support measures is anticipated to lead to further deficit reductions across the EU, with deficits expected to be 3.1 per cent and 2.4 per cent of GDP in 2023 and 2024, respectively. Nevertheless, some Member States are projected to experience a deterioration in their general Government balance in 2023 due to their expansionary fiscal stance.

Figure 2.3
Forecasted General Government Balance
Source: European Commission Spring 2023 Forecast



Meanwhile, based on its most recent forecasts for Malta, the European Commission estimates the Government deficit to decline from 5.8 per cent of GDP in 2022 to 5.1 per cent in 2023, and to gradually decrease to 4.5 per cent in 2024. The main factor driving the deficit reduction in 2023 is the decrease in public expenditure related to measures aimed at mitigating the impact of high energy prices, largely due to lower international energy prices. The net budgetary cost of energy support measures is estimated at 1.7 per cent of GDP in 2023, down from 2.5 per cent in 2022, and is assumed to be 1.5 per cent of GDP in 2024. Deficit developments are also influenced by the complete phasing out of COVID-19 emergency temporary measures as well as the expected phasing out of national airline restructuring costs and the Government wage bill growth remaining below nominal GDP growth.

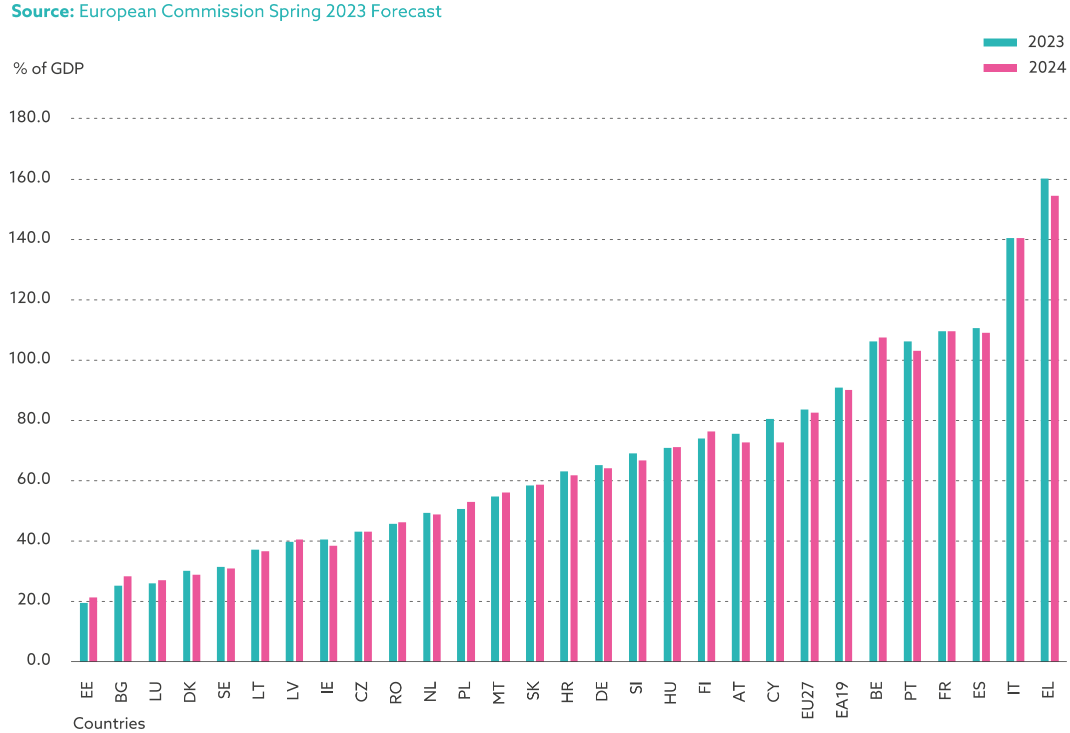
The EU aggregate debt ratio is expected to fall in 2023-24 despite debt-increasing primary deficits, due to economic growth and inflation. Higher interest rates are affecting the cost of servicing public debts only gradually due to their long maturity. The debt ratio is projected to further decline to below 83 per cent of GDP in 2024, but to remain above the pre-COVID-19 crisis level of around 79 per cent in 2019.

As the primary balance continues to be negative, the European Commission projects the Government debt-to-GDP ratio in Malta to increase to 54.8 per cent in 2023 and further reach 56.1 per cent in 2024.

Figure 2.4

Forecasted General Government Debt

Source: European Commission Spring 2023 Forecast



2.3 National Fiscal Forecasts

The economic expansion is expected to boost taxation receipts over the course of this year. Meanwhile, the increase in general Government expenditure is estimated to be less pronounced compared to economic growth. This is expected to result in an improvement in the general Government balance in 2023 to a deficit of 5.0 per cent of GDP. The total revenue ratio for the general Government is expected to increase by 0.6 percentage points, while the expenditure-to-GDP ratio is expected to narrow by 0.2 percentage points.

In 2023, tax revenue is projected to increase by 7.2 per cent, driven by positive contributions from private consumption, the rebound in tourism, profits, and labour market growth. Direct taxes are expected to decline by 0.3 percentage points of GDP, while indirect taxes remain unchanged. Non-tax revenue is expected to increase by 1.0 percentage point of GDP due to higher revenue from market output and capital transfers. Government expenditure is estimated to decline by 0.2 percentage points of GDP, but overall expenditure is expected to rise by 8.1 per cent reflecting the heightened inflationary pressures on intermediate consumption, social benefits, and employee compensation. However, subsidies are anticipated to decrease by 1.3 percentage points of GDP. Meanwhile, investment is boosted by EU-funded projects, including the Recovery and Resilience Fund and the Multiannual Financial Framework.

During 2024, the Government is targeting a deficit of 4.5 per cent of GDP. The deficit reduction in 2024 is expected to be driven by a sustained growth in tax revenue while Government expenditure is expected to increase by less relative to GDP growth. The controlled growth of intermediate consumption expenditure and the phasing out of early retirement schemes for the national airline are expected to play a role in reducing the deficit ratio. Rising interest expenditure will counterbalance, part of the deficit reduction effort.

2.4 Debt Levels and Developments

Figure 2.5
General Government Debt
Malta
Source: EPD

Based on estimates by the Ministry for Finance and Employment, the debt ratio is forecasted to gradually increase slightly from 52.3 per cent of GDP in 2022 to 54.5 per cent of GDP in 2024. The slight expected rise in the debt-to-GDP ratio over the medium-term horizon is mainly driven by developments in the projected primary deficits, and to a lower extent the increase in interest rate expenditure, as higher interest rates are expected to affect only gradually the implicit cost of public debt. Meanwhile, the projected increase in the GDP deflator is expected to have a debt-decreasing impact over the forecast horizon, while the interest-growth differential ('snowball effect') is set to continue decreasing the debt ratios.

2.5 Modernisation of the Malta Tax and Customs Administration

2.5.1 A New Strategic Vision

The Government has committed to integrating the Tax and Customs administrations into one synergised entity to bring about the much-required modernisation of operations, together with improved efficiency and effectiveness in the collection of revenue streams and border control. This, with the final aim of sustaining public finances and facilitating trade.

To this effect, in 2021, the Government through the Ministry for Finance and Employment appointed a Tax Administration Reform team (TAR) to carry out an in-depth operational review of the Commissioner for Revenue and the Customs Department, and come up with a recommended action plan to optimise the operations of these key entities and reduce any inherent risks. Operations were reviewed from a process, human resources, technology and strategic point of view. These recommendations were presented to new management in 2022. It goes without saying that these entities need to remain strategically relevant and effective especially when one considers that more than 90% of Government revenue is collected through these bodies.

As a starting point, to deliver the recommended transformation of both the Tax and Customs administrations, a wide consultation process, with both internal and external stakeholders, was carried out in 2022 to formulate a three-year transformation strategy. The assistance and support of the International Monetary Fund were critical during this period, whereby through their wealth of knowledge and know-how, their experts reviewed the strategy document and ensured that this strategy will meet international standards as set in the OECD Administration 3.0, the European Union and the World Trade Organisation.

The strategy: 'Delivering Transformation Strategic Plan 2023 – 2025 A new Strategy for Malta's Tax and Customs Administration' was launched on the 9th of May 2023. The document was well received both internally and externally, by the professional and the constituted bodies.

The 3-year strategy is based on three strategic goals that are:

1. Awareness and education of the obligation of each taxpayer to pay their fair share of taxation.

2. Efficiency and effectiveness through the re-engineering of the different functions and processes that form part of the organisational design of the Tax and Customs Administration and investment in Information Technology to become a data-driven organisation.

3. Compliance and enforcement wherein the Administration will reach out to different segments of the taxpayers to encourage voluntary compliance also through investments in AI systems to enhance enforcement.

The delivery of the transformation strategy of the Tax and Customs Administration is now taking shape and is on course in the implementation of the actions.

In fact, the legislative amendments to Chapter 517 of the Revenue Act wherein the Malta Tax and Customs Administration headed by a Commissioner for Tax and Customs was established, came into force on 18th July 2023. In line with the Good Governance principle, a Board of Governance responsible for strategy and policy was introduced within the Act to give more operational autonomy to the Malta Tax and Customs Administration.

2.5.2 **Improved Compliance and Collection**

On an operational level, the newly branded Malta Tax and Customs Administration is already improving its operation results in tax collection. In fact, during 2022, it succeeded in sending out more than 4,875 demand notes to taxpayers – this is an increase of 51% over 2021; and more than 6,500 notification letters to different taxpayers, a 100% increase over 2021. Furthermore, the administration has successfully concluded more than 1,765 repayment agreements, a 42% increase over 2021.

With regards to revenue collection, the act of reaching out to taxpayers and educating them on the importance of being tax compliant is delivering positive results. In fact, the increase in revenue attributed to enhanced revenue collection recorded in 2022, was €312 million, that is a 10% increase over that of 2021.

The submission rate for filing returns of individual taxpayers improved from 60% to 89%. It must be pointed out that the online submission of Individual Tax returns increased from 19% (for the Year of Assessment 2021) to 33% (for the Year of Assessment 2022).

Furthermore, during the Year of Assessment 2022, 81% (334,000) of the individual taxpayers' population were not requested to file an income tax return and were automatically served with a tax assessment. For the Year of Assessment 2023, this number increased to 373,000 taxpayers, an increase of 12%.

On the other hand, the compliance rate of the corporate taxpayer is 55%. In this regard, during 2023, an analysis is being carried out to reach out to corporate taxpayers, leading them to become compliant in the submission of their tax returns.

Following the issuing of nudging letters to reach out to different segments of taxpayers, the aggregate payments' compliance rate improved on average from 72% in 2021 to 92% in 2022.

2.5.3 **Investment in Modernisation**

Taking the Malta Tax and Customs Administration to the next level, through the commitment of the Ministry for Finance and Employment, the administration has invested in an Artificial Intelligence application of data analytics and machine learning, with the aim of being a more data-driven organisation to increase the level of compliance and enforcement. This is a four-phase project, wherein the first phase is planned to reach its completion by the end of 2023.

On the recommendation of the International Monetary Fund (IMF), the current IT legacy systems, that have served the administration well for more than 30 years, are planned to be replaced with an off-the-shelf, Integrated Tax Administration System for Taxation and Customs. In fact, a Pre-Market Consultation (PMC) has already been issued earlier this year. This will be followed by an open tender that is planned to be issued in 2023, with the preferred bidder being selected during 2024, with a roll-out plan of three years.

2.5.4 **Border Control**

With regards to Customs, and coupled with the digitisation programme being carried out across the whole of the Malta and Customs administrations, a re-engineering process of the Customs Department is being initiated. Through the support of the IMF, a review of the current Customs' organisation design structure has been carried out and a report was provided with recommendations on how best the core functions of Customs are to be re-designed, in order to improve efficiency and effectiveness in the facilitation of trade and control of the borders.

2.6 International Taxation

At an international level, significant work has been carried out on the Two Pillar solution which includes the initiative concerning the 15% global minimum level of taxation under Pillar 2. An agreement was also reached at the EU level in December 2022, with a Directive concerning the 15% global minimum level of taxation.

Significant progress has also been achieved at the OECD level on Pillar 1 and the so-called Subject-To-Tax-Rule (STTR) - under Pillar 2. The purpose of Pillar 1 is different from that of Pillar 2 in that while the latter establishes a global minimum level of taxation, Pillar 1 aims at expanding a jurisdiction's authority to tax profits from companies that make sales into their country, but don't have a physical location there while the STTR enables developing countries to update bilateral treaties to tax intra-group income. Both Pillar 1 and the STTR involve multilateral instruments for their implementation and the Government will be analysing what effect signing up to such instruments may have.

The Government through the Tax Administration, the Economic Policy Department and a number of practitioners from the big four audit firms in Malta, have been carrying out an analysis and discussions with the view to implement the Directive in a way that the sustainability of public finances will be protected, while retaining Malta's competitiveness and attractiveness.

It is the Government's clear objective that the Malta Tax and Customs Administration will be given all the support required so that it will have the required resources to become a truly modern Tax and Customs Administration that will be capable to fulfil its mission to sustain Malta's development by collecting all taxes fairly and effectively, through voluntary compliance and by protecting Malta's trading borders.

2.7 Malta's Medium-Term Fiscal Strategy

The forthcoming Budget for 2024 is to be planned in line with the Government's Medium Term Fiscal Strategy as published in the Update of Stability Programme 2023-2026. This strategy devises a plan to eliminate the excessive deficit over the coming four years based on a structural effort, which is consistent with the current Treaty provisions within the Stability and Growth Pact. It also takes into account the potential changes in the EU fiscal rules presently being negotiated as part of the EU Economic Governance Review.

The activation of the General Escape Clause (GEC) of the Stability and Growth Pact (SGP) enabled large-scale fiscal support in all Member States in response to the COVID-19 pandemic. It allowed Member States to undertake measures to deal adequately with the crisis, while departing from some budgetary requirements that would normally apply under the EU fiscal framework. In 2020 and 2021, coordinated policy action successfully cushioned the macroeconomic impact of the COVID-19 pandemic. In 2022, fiscal policy also mitigated the social and economic impact of the sudden rise in energy prices and allowed the provision of humanitarian assistance to those fleeing Ukraine. The Commission has considered that the conditions to maintain the GEC in 2023 and to deactivate it as of end-2023 were met.

With the withdrawal of the GEC, Member States are required to return to adherence with the fiscal rules outlined in the SGP. In anticipation of the lifting of the GEC in Spring 2024, the Government is targeting an improvement in the structural balance exceeding the minimum effort of 0.5 per cent. The average annual decline in the structural budget balance targeted by the Government over the next three years is 0.6 percentage points of GDP. This effort is targeted to be sustained over the medium term. Indeed, the deficit is expected fall below 3 per cent of GDP by 2027. The fiscal figures may be subject to minor revisions should updated data be available when producing the final set of forecasts for the Budget 2024.

03

A Socially Conscious Society

The Government's actions, especially when confronted with the double impact of the Ukraine war and the emergence of inflationary pressures, was to place social considerations at the centre of the stage, reinforcing once again the importance of the social pillar in providing economic solutions with a positive impact on social welfare, especially in times of crisis.

The Government immediately recognised that different households face a different inflation rate depending on their consumption patterns. Lower-income households spend a significantly larger share of their income on food and housing, while wealthier households have a more diverse pattern of consumption.

3.1 Social Measures to Ease the Increase in the Cost of Living

The Government responded to the cost-of-living crisis with substantial subsidies on energy and food prices. These were complemented by various social measures, including enhanced contributory and non-contributory pensions, and increases in the grant awarded to persons, mostly married women, who failed to qualify for a pension of their own right because of a deficient contribution record. Higher child supplements were awarded to families with children under 16 years and the cost-of-living allowance was paid in full to claimants of social assistance. Beneficiaries of the benefit tapering scheme were accorded a 10 per cent increase in their tapered rates.

Another notable development at the end of last year was the introduction of the additional Cost Of Living Adjustment (COLA) mechanism to award pay-outs, in addition to the annual COLA, to low-income households and make up for inflationary pressures on household expenditure. About 47,000 families with 98,300 dependents received a total of €16.6 million.

3.2 Lower Number of Unemployed and Persons on Social Assistance

Favourable economic and employment conditions continued to spawn job opportunities and decent incomes for most of the population, propelling further drops in the number of social assistance and unemployment beneficiaries. In the first half of the year in the period between 2019 and 2023, their number dropped by more than 23.5 per cent to 6,335. The number of jobless persons has been cut down to record levels with Malta recording the lowest unemployment rate in the EU at 2.5 per cent in July of this year.

Labour activation measures and free childcare have steadily invigorated the female participation in the labour market, closing the labour activity gender gap to 13.3 per cent in 2022, down from 29.2 per cent in 2017.

Table 3.1
Beneficiaries of
Selected Assistance
Source: NSO

Beneficiaries of	Jan-June 2019	Jan-June 2020	Jan-June 2021	Jan-June 2022	Jan-June 2023
Social Assistance (SA)	4,763	4,358	4,229	3,986	3,797
SA for Unmarried Single Parents (SUP)	2,578	2,433	2,473	2,301	2,186
Unemployment Assistance	945	843	841	462	352
Total	**8,286**	**7,634**	**7,543**	**6,749**	**6,335**

The In-Work Benefit has been a key pillar in the labour activation policy, allowing parents in employment to augment their take-home wages with additional pay-outs for each child in the family under 23 years.

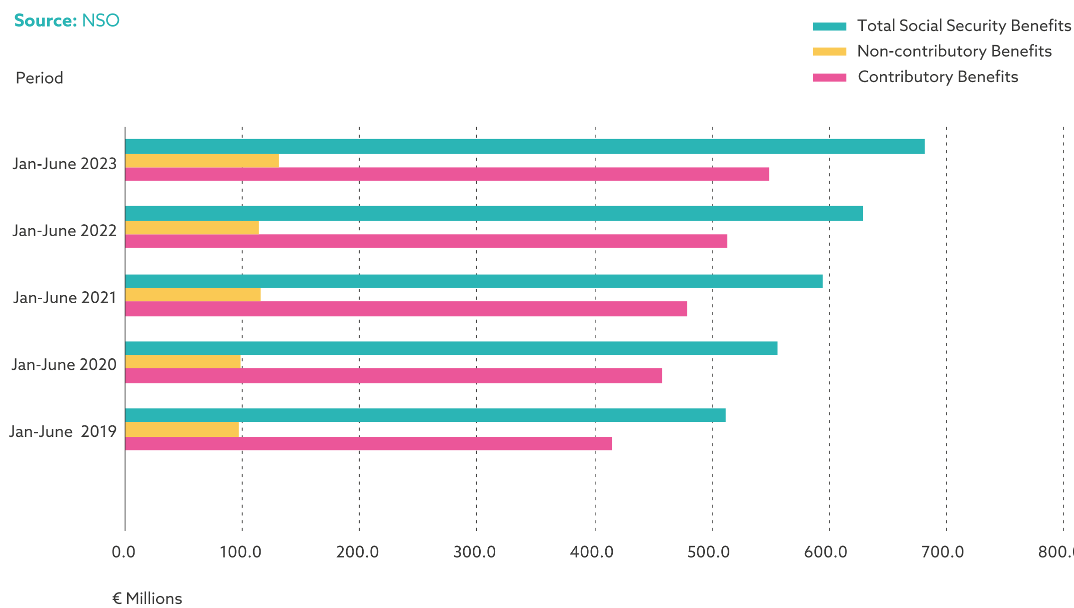
The number of households benefiting from the benefit in the first half of 2023 significantly shot up to 25,600. Between them they received €13.4 million. The wider coverage of targeted households was achieved through the introduction at the end of 2022 of an automated system which eliminated the need for households to apply, by extracting employment incomes from income tax returns and integrating them with household information available on the database of the social network.

3.3 Social Security Expenditure

NSO figures show that in the first half of 2023 expenditure on pensions and social benefits rose by €52.5 million over the same period in 2022, making it the biggest increase for the same period in the last five years. The increased expenditure drove up the overall share of social benefits in the total social protection expenditure. The outlay on pensions and social benefits will top the €1.3 billion mark by the end of this year.

Figure 3.1
Social Security Expenditure

Source: NSO



3.4 AROPE

In 2022, the at-risk-of-poverty or social exclusion (AROPE) rate which provides the share of persons who are either at-risk-of-poverty, severely materially and socially deprived, or residing in a household with low work intensity calculated using previous year's data, decreased by 0.2 percentage points to 20.1 per cent, when compared to 2021. The rate was lower than both the EU and EA average rates of 21.6 per cent and 21.8 per cent respectively.

Additionally, in 2022 the AROPE rate for persons under 18 years, and the AROPE rate for females were significantly lower than the EU and EA averages, and both rates recorded a decrease when compared to the previous year.

Figure 3.2
AROPE - MT

Source: Eurostat

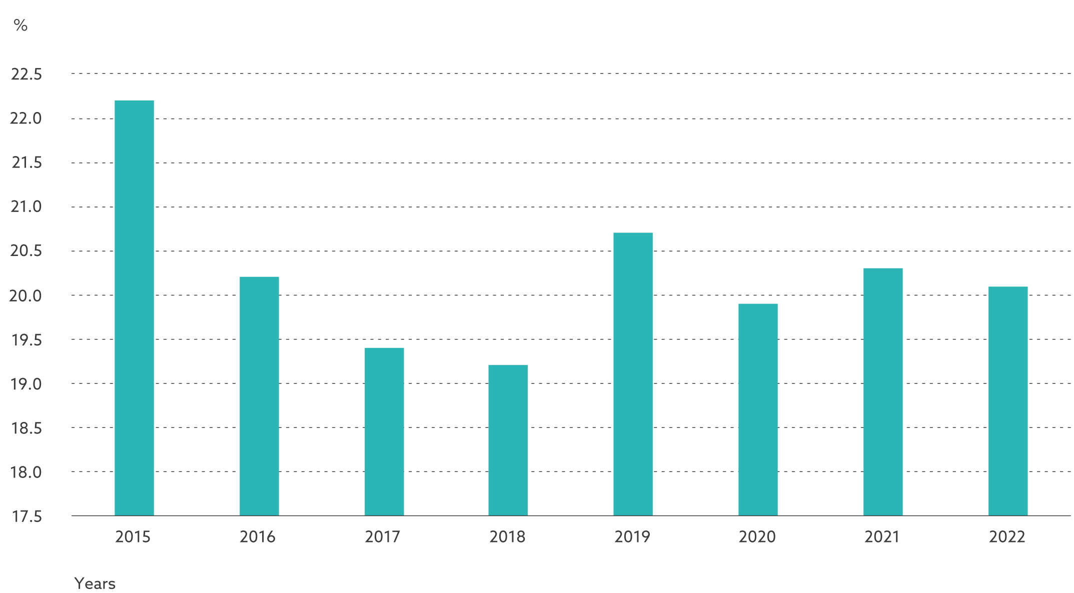


Figure 3.3
AROPE, 2022
Source: Eurostat

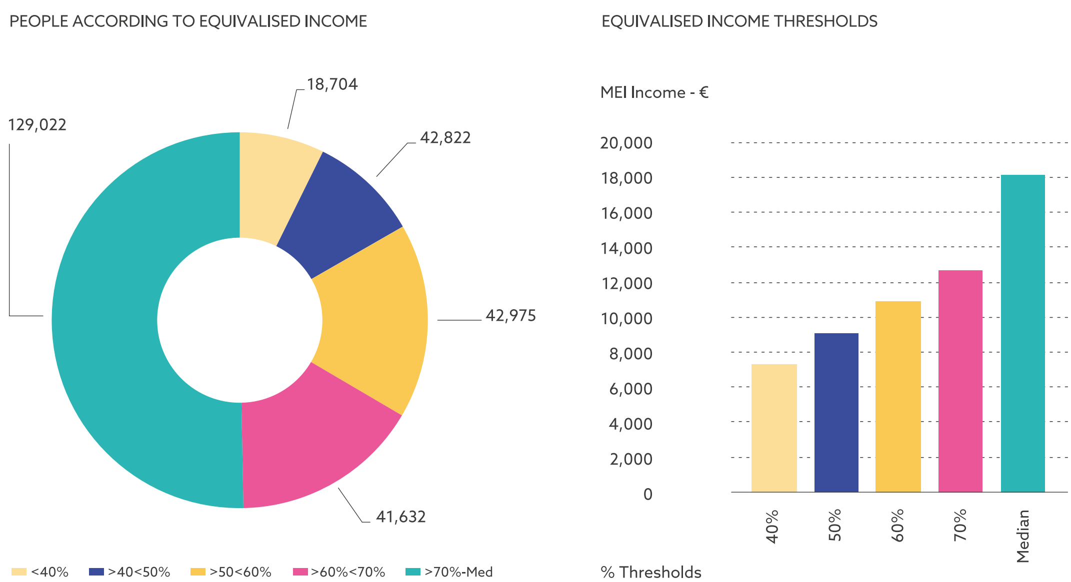
Furthermore, in 2022 the number of families needing social assistance fell, the 80/20 income distribution ratio improved to 4.8 per cent, the material and social deprivation rate continued its downward trajectory (a reduction of 14 percentage points since 2014), and the severe material deprivation rate dropped by almost 3.0 percentage points to 5.4 per cent.

The progress in the fight against poverty is also evident from the fact that a considerable number of persons exited the lowest brackets of disposable income and transited to higher ones. In fact, 4,580 persons who used to earn less than 40.0 per cent of the Median Equivalised Income[2] started earning more.

Around 2,390 persons who used to earn less than 40.0 per cent of the median started earning between 40.0 per cent and 50.0 per cent of the median, while around 2,240 persons who used to earn between 40.0 per cent and 50.0 per cent started earning between 50.0 per cent and 60.0 per cent of the median. Moreover, 2,970 who were in between the 50.0 per cent and 60.0 per cent bracket moved up to the higher-than-70.0 per cent bracket.

[2] *Equivalised Income takes into account differences in household size and composition*

Figure 3.4
People according to Equivalised Income and Income Thresholds 2022
Source: NSO



In the coming year, the Government will remain committed to a socio-economic model that offers a prospect for a more just, equitable and humane world for the Maltese and Gozitan citizens. Although inflationary pressures are expected to recede in the coming years, measures will be targeted to alleviate any excessive burden on pensioners and families, especially those with low incomes, and other vulnerable groups. New budgetary measures will also seek to alleviate other identified social inequalities and address anomalies created by past administrations.

3.5 Persons with Disability

The Government has been implementing various programmes and reforms to enhance the standard of living of persons with disabilities in Malta and allow them, where possible, to live more independently.

One of the main focuses has been on de-institutionalisation and strengthening community-based services. The Government has undertaken the task of reforming the Personal Assistant scheme with the aim of providing individuals with disabilities the opportunity to live in the community and actively participate in society, and empower them to exercise their rights and be autonomous.

To support this effort, in 2023 a budget of €4.2 million was allocated to strengthen the provision of personal assistants to persons with disabilities. The increase in budget has not only increased the number of beneficiaries from 300 to 400, but has also raised the Government co-financing rate of personal assistants from €6.50 to €9.50 per hour.

In addition to the Personal Assistant reform, two transitional facilities in Kirkop and Qrendi are being constructed to train individuals with disabilities who are currently institutionalised in gaining independent living skills, facilitating their reintegration into the community. A memorandum of understanding with the Housing Authority will help provide apartments for these individuals as their new homes while the Support Agency's professionals, such as social workers, will continue to support them. Subsidies or part financial coverage for personal assistants will be provided according to their needs.

Another important initiative is the introduction of Redress Panels. Currently, disabled persons or their family members can only seek to protect their rights by seeking CRPD's assistance in investigating their complaints. Should this not suffice, then they would have to seek redress in a court of law. With the introduction of redress panels, persons with disability or their representatives would be able to petition the panels to hear their cases related to employment, education, health and accessibility, amongst others.

Currently in Malta a person with disability undergoes several different assessments as required by the different entities and systems in place, these include; health assessment, social security benefits and applications for disability services. The Disability Assessment and Programme Eligibility Reform calls for these divergent systems of disability assessment and programme eligibility to be unified into a holistic system based on functional and social, instead of medical criteria, in the interests of simplification, sustainability, and dignity of the disabled people who must use these systems.

Moreover, cognisant of the fact that parents of children with disabilities have to spend significant amount in therapies out of their own pockets in addition to availing themselves of therapies offered for free by the State, the Government has introduced an annual €200 tax credit to parents of children with disability, for each child with a disability.

Furthermore, annual benefits given to parents, who could not work due to caring for a severely disabled child, were increased to half the net National Minimum Wage. Consequently, the benefit increased from €500 to just over €4,500 per year, disbursed quarterly.

Grants related to specialised equipment for individuals with special needs enabled recipients to accumulate savings when purchasing specialised equipment. This funding covered a range of specialised equipment such as wheelchairs, stairlifts, guide dogs, and other essential items. A considerable number of individuals, approximately 1,020 in total, took advantage of this program, resulting in nearly €222,350 saved collectively between January 2021 and June 2023.

The Government continued to provide support and financial assistance to individuals with disabilities and their families, to be able to acquire suitable means of transportation that cater to their specific needs. This initiative plays a vital role in enhancing the quality of life for people with disabilities by promoting independence. Between January 2021 and June 2023, a total of 88 applicants made use of this scheme and saved a total of €137,984.

3.6 Social Implications of Selected 2023 Budget Measures

The Government has made continuous efforts to enhance the social protection system, with a specific focus on pensioners and low-income families, providing a safety net to vulnerable households amidst recent crises. To address poverty and reduce social inequality, each year the Government has implemented various policy reforms in the tax and benefits framework. This chapter examines the distributional impact of two budget measures introduced in 2023: the Additional COLA for Vulnerable Household Mechanism and the Increase in Children Allowance.

The distributional analysis of these reforms on household disposable income and poverty level, is carried out using EUROMOD[3], an EU-wide static tax-benefit microsimulation model, and 2021 EU-SILC microdata[4].

The assessment considers three policy scenarios:

- **'Baseline' Scenario** which represents the status quo based on the 2022 tax and benefits policy rules.
- **'Additional COLA Vulnerable Household Mechanism' Scenario** models only the Additional COLA Vulnerable Household Mechanism to the base scenarios.
- **'Children Allowance' Scenario** models the annual €90 per child increase in children allowance to the base scenario.

By comparing the outcomes of these scenarios to the baseline, the distributional impact of each reform is illustrated.

[3] *EUROMOD is a tax-benefit microsimulation model for the EU that enables researchers and policy analysts to calculate, in a comparable manner, the effect of taxes and benefits on household incomes and work incentives for the population of each country and for the EU. The simulations are based on the 2022 tax and benefit system of Malta using EUROMOD version I5.41+.*

[4] *The EU-SILC data represents the national population and provides data on income, poverty, social exclusion and living conditions of households.*

3.6.1 Additional COLA Household Mechanism and Increase in Children Allowance

The scope of the cost-of-living-adjustment (COLA) is to shield any losses in the purchasing power of individuals caused by inflationary pressures (increases in the general price levels of goods and services). In time, social benefits (particularly pensions) were also indexed to some extent to COLA.

The COLA mechanism utilises the percentage increase in the Retail Price Index (RPI), which is based on the consumption/spending patterns identified for resident households from the Household Budgetary Survey (HBS). Although, as the RPI basket is based on the consumption patterns of the average household, households classified on the lower end of the income spectrum may be perceiving higher levels of inflation due to different consumption patterns. To this end, the Government introduced the Additional COLA Vulnerable Household Mechanism which is a separate mechanism directed to compensate low-income families for the recent increase in the cost of living due to high inflation.

The mechanism is triggered when two circumstances occur:

- The inflation rate in the previous 12 months was higher than 2 per cent.

- Individual inflation in the last 12 months in three of the five basic components in the RPI (which include Food; Accommodation; Electricity, Water, Gas and Fuel; Costs related to home maintenance and household appliances; and private healthcare) exceeds the average of the previous five years.

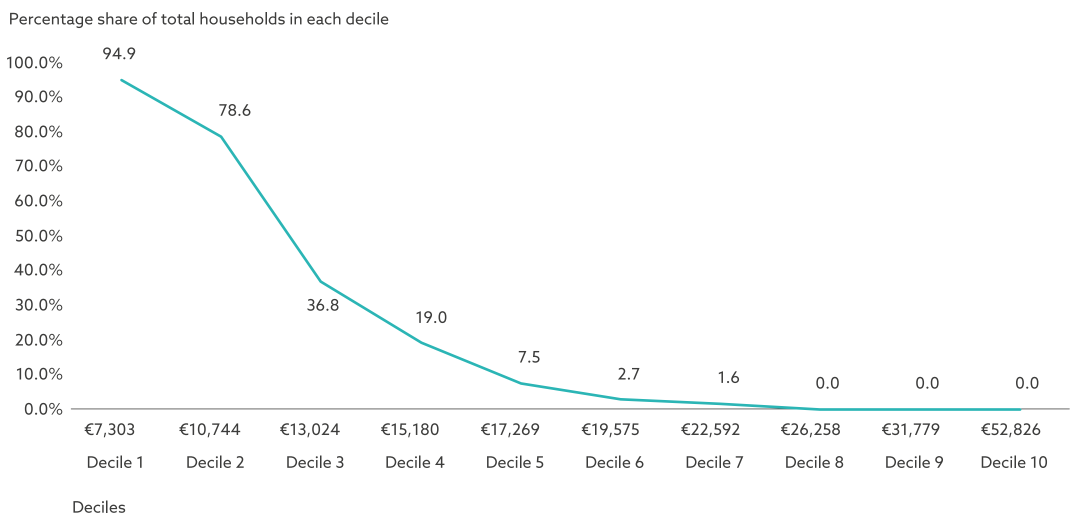
If both conditions are met, the mechanism is triggered and households who receives social benefits, and who earn less than the household median equivalised disposable income[5], will benefit from a pay-out based on the household earnings and household size. The mechanism ensures that the pay-out is highest among families with more persons living in the same household and whose household equivalised income is low.

[5] *Equivalised disposable income, also referred to as National Equivalised Income (NEI), is defined as the household's total disposable income divided by its "equivalent size", to take account of the size and composition of the household and is attributed to each household member. The equivalised value is based on the weight specified by the OECD, in which the reference person takes a value of one, all other adults in the household take a value of 0.5 each and children take a weighting individual value of 0.3.*

Figure 3.5

Share of Number of Benificiaries of the Additional COLA Vulnerable Household Mechanism by Distribution

Source: EPD calculations using EUROMOD and 2021 EU-SILC data



According to the EUROMOD simulation, 28% of Malta's household population should have benefited from this mechanism. Out of these beneficiaries, 94.9% are in the first decile (households with an average equivalised disposable income of €7,303 per year) of the income distribution, as shown in Figure 3.5, which depicts the share of beneficiaries that benefited from this policy reform by distribution.

In 2023, the Government also increased the children allowance for each child by €90, aiming to provide support to families and reduce child poverty and inequality. This means that parents of dependent children, regardless of their income, are receiving an additional €90 per child each year as part of their respective benefits.

Table 3.2
Main Poverty Indicators

Source: EPD calculations using EUROMOD and 2021-EU_SILC data

Distributional Impact of Reforms (in percentage points)

	Children Allowance	Additional COLA Household Mechanism
Poverty Indicators[6]		
Population	-0.03pp	-0.40pp
Children	-0.08pp	-0.48pp
Working Age	-0.02pp	-0.32pp
Working Age Economically Active	-0.02pp	-0.20pp
Elderly	-0.00pp	-0.63pp
Gini Coefficient	-0.0003	-0.0031

The Additional COLA Vulnerable Household Mechanism is expected to have a positive impact in alleviating poverty, as shown in Table 3.2. The overall at-risk-of-poverty rate is expected to decrease significantly, with a decline of 0.40 percentage points compared to the 'Baseline' scenario.

The elderly cohort is estimated to experience the highest decline in relative poverty, with a decrease of 0.63 percentage points, indicating that this policy is particularly beneficial for this segment of the population. Furthermore, when examining poverty rates by household type, single parents are expected to benefit the most, with a substantial drop of 2.14 percentage points in relative poverty compared to the baseline. Additionally, households with two adults, at least one elderly member, and no children are expected to incur a decline of 1.10 percentage points in relative poverty.

The Gini coefficient, which measures income inequality, has recorded a decrease of 0.0031 percentage points, suggesting a marginal improvement in the distribution of disposable income. While the improvement is modest, it still indicates a step towards a more equitable income distribution.

[6] *The poverty indicators capture poverty risk of the total population and different sub-population groups. The indicator is based on the at-risk-of poverty (AROP) rate of the baseline scenario. Households are defined as being at risk of poverty (poor) if their equivalised disposable household income is below the poverty line, which is defined as 60% of the median equivalised disposable household income.*

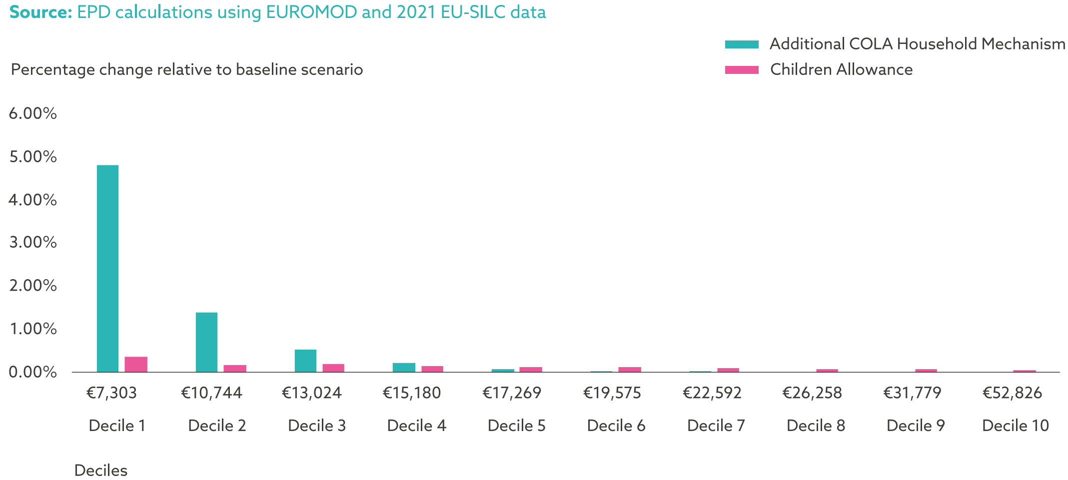
The results from the EUROMOD simulations for the increase in the children allowance suggest that the overall at-risk-of-poverty rate is expected to decrease by approximately 0.03 percentage points, primarily benefiting children who are at risk of poverty, resulting in a decrease of around 0.08 percentage points (Table 3.2).

Notably, households comprising two adults and two children are expected to experience the most substantial decline in relative poverty compared to the base scenario, with a decrease of 0.35 percentage points. Additionally, the Gini Coefficient recorded a marginal decrease, indicating that this measure effectively addresses income inequality.

Figure 3.6

Percentage Change in Equivalised Disposable Income from Baseline Scenario of the selected measures by Decile Groups

Source: EPD calculations using EUROMOD and 2021 EU-SILC data



Additionally, Figure 3.6 illustrates the percentage gains of equivalised household disposable income by decile when compared to the 'Baseline' scenario. For the Additional COLA Vulnerable Household Mechanism, the data shows a progressive pattern, with the first decile representing households with an average annual equivalised disposable income of €7,303 experiencing the highest percentage increase in income, amounting to a growth of 4.81 per cent, whereas households with an average annual equivalised disposable income of €10,744 experienced an increase in income of 1.39 per cent. The higher deciles, up to decile 7 or up to an average annual equivalised disposable income of €22,592, benefit from a progressively smaller increase with the smallest improvement registered for the 7th decile at 0.02 per cent. This progressive distribution of gains indicates that the simulated measure has a positive impact on lower- and middle-income groups, effectively benefiting those who are more vulnerable.

The impact of the increase in children allowance on households' equivalised disposable income by decile is also depicted in Figure 3.6. The results reveal a positive distributional impact across all income brackets, indicating that the measure has beneficial effects on households at various income levels.

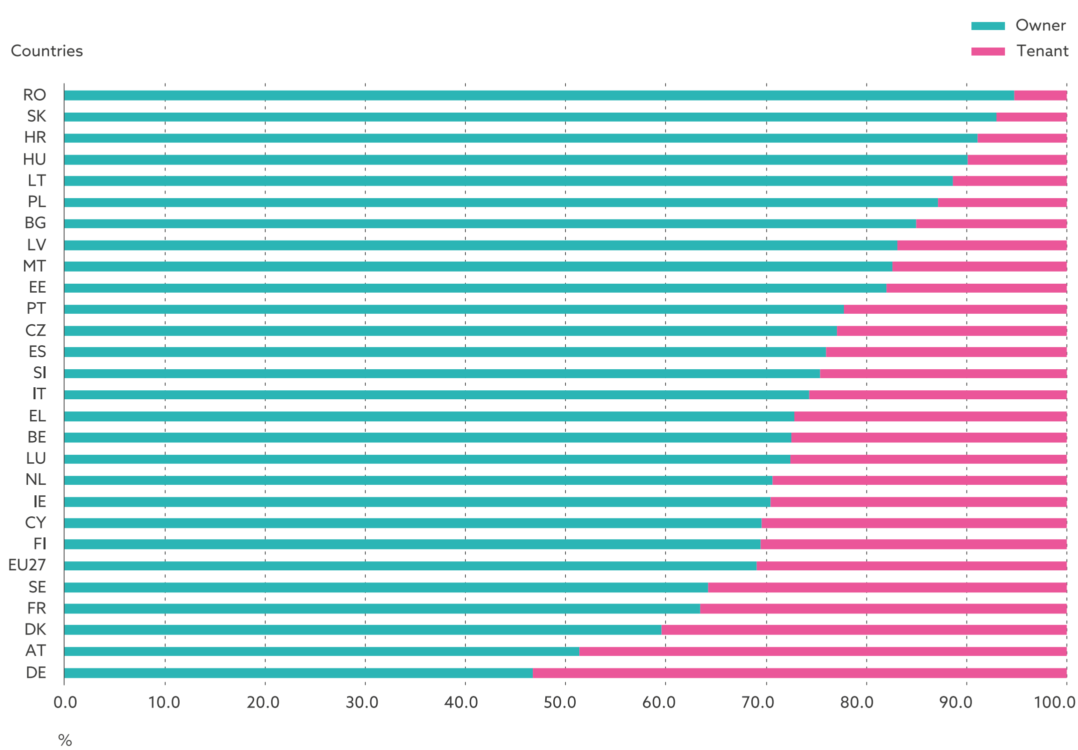
Overall, the analysis reveals that both the Additional COLA Vulnerable Household Mechanism and the increase in the Children Allowance positively impact poverty rates, particularly among vulnerable groups such as the elderly, single-parent households, and children. Additionally, both have a positive effect, albeit marginal, on reducing income inequality highlighting their importance in promoting social welfare, and in complementing other measures that address economic disparities within the population.

3.7 Investment in Social Housing and Affordable Housing

The Government's commitment towards a universal protection of the right to housing has been sustained through the unprecedented increase in the investment made by the Government in the housing sector, with the allocated budget increasing exponentially over the past decade. The increase in investment has given rise to a proliferation of schemes, initiatives, and grants for social housing and affordable housing.

The Government has also been sensitive to the cultural context in which it operates, and this is the main reason why it continues to assist individuals, couples, and families to access the homeownership market. The homeownership rate has remained somewhat stable over the past fifteen years as the bulk of the Maltese and Gozitan populations remain, to this day, predominantly geared towards homeownership. In 2022, Malta's home ownership rate continued to be significantly higher than the EU average of 69.1 per cent. At 82.6 per cent, the homeownership rate was 0.7 percentage points higher than in 2021.

Figure 3.7
Share of People Living in Households Owning or Renting their Home
Source: Eurostat



3.7.1 **Affordable Housing**

Home-ownership Initiatives

Most individuals require that small push that enables them to become homeowners. Among these 'enabling' measures one may find the provision of social loans, a scheme that covers the 10% down payment for first-time buyers through an interest-free loan and the Equity Sharing scheme, whereby the Authority enters as a partner with borrowers that are unable to purchase the property on their own. In 2022, the maximum value of properties acquired in terms of the 10% Deposit Payment Scheme was increased from €175,000 to €225,000.

These schemes complement other targeted initiatives announced by the Government. For instance, first-time buyers are also exempt from paying stamp duty on the first €200,000 of the value of their property which means that they can save up to €7,000. This scheme was introduced in 2014 to help young couples acquire their first residence. In nine years, over 34,000 people saved almost €120 million in taxes when buying their first residence.

Similarly, a recently announced incentive gives first-time buyers the opportunity to benefit from a one-time subsidy of €10,000 spread over 10 years, which amounts to €1,000 per annum. The latter is not intended to help individuals access the property market but rather to assist their purchasing power to make their house, a home. The fact that these incentives are targeted instead of broad-based is intended to limit the inflationary impact on property prices. In the first year, 2,700 first-time buyers availed themselves of this grant.

Rental Initiatives

The increased demand for rental housing by foreign workers and tourists staying in private accommodation has resulted in a sharp increase in rents that placed excessive pressure on low-income households residing in this sector. Around 16,715 individuals have benefitted from rent subsidy schemes since 2018, almost double the amount prevailing between 2013 and 2017. The budget for this rental assistance amounted to €28.3 million over the five-year period. In the 2023 Budget, the Government increased the internal benchmarks and ceilings for this scheme to ameliorate the level of assistance granted to eligible lessees.

The Housing Authority established itself as the regulator of this market following the rent reform introduced in 2020. While this reform kept the price mechanism untouched, it sought and succeeded, to introduce basic yet professional standards that are suited for a modern rental market. These included the mandatory registration of contracts, including the amount deposited and an inventory list, procedures for renewals and terminations, and an adjudicating panel to ensure that small disputes are resolved quickly. After three years in vigore, the Government has engaged in a wide consultation exercise with major stakeholders in the field to seek ways and means to update the regulatory framework and keep it relevant to the new realities of this fast-paced market.

The Government, through the Housing Authority, also manages the scheme for households leased before June 1995. These households, most of whom are elderly, were allowed to keep their residence to ensure that they are not displaced from the place where they have spent their entire life. At the same time, the rightful owners of these dwellings are now able to receive a much fairer rent based on the value of their properties. Since the coming into force of the controlled leases reform, 727 pensioners and 31 persons in gainful employment have been assisted through strong subsidies, whilst over 1,000 tenants have been assisted through free legal assistance.

Furthermore, the Government has recently introduced exemptions and lower tax rates on the buying and selling of property for those who opt to sell dwelling houses previously leased at affordable rates to the sitting tenants of those houses, or to third parties if the transfer adheres to the applicable legal requirements.

3.7.2 **Social Housing**

The Government is also strengthening the provision of social housing which is intended for low-income households who can neither afford to purchase nor lease a property on the open market.

The construction of new units in several localities across the Maltese islands is planned to raise the stock of social housing by around a third. Malta has not seen such an impetus in social housing in years.

The investment in social housing is not just focused on the creation of new social housing units (and the renovation of older ones). Through another scheme entitled 'Nikru Biex Nassistu', the Housing Authority leases properties from the private sector for a 10-year period and sub-leases them at a subsidised price to low-income households. A total of 728 beneficiaries have benefitted through this scheme between 2017 and 2023.

Regeneration Initiatives

The Government has also continued to address the matter of its ageing housing stock by investing a further €2.1 million in the regeneration of its housing stock in 2022 and a further €1.4 million in the first six months of 2023. This investment in buildings which were developed in the seventies and eighties has improved the quality of living of around 900 families. The regeneration of social accommodation blocks around Malta and Gozo are being complemented by the rehabilitation of vacant public dwellings in 13 sites in Malta which shall offer suitable accommodation to dozens of families once the sensitive revamp of these historic structures is complete.

The Government also assists low-income households in the regeneration, renovation and rehabilitation of their dwelling houses (either owned by them or leased from third parties) through various schemes. In total, from 2018 onwards, 1202 families benefited from the assistance provided in terms of Rehabilitation of Vacant Dwellings, Adaptation of Pre-1995 Properties and the Subsidy on Adaptation Work schemes and their ancillary sub-schemes.

In the coming years, the Government will focus on strengthening both the social and affordable housing initiatives to target all segments of society. This will enable it to continue implementing the gradual shift towards a universalistic notion of housing assistance rather than housing assistance solely targeted to specific income segments.

04

Investing in our Country's Infrastructure

4.1 Upgrading the Road Infrastructure

Realising the vision as outlined in the National Transport Strategy 2050 is quite a challenge for the national Government. The reason being that on top of being a densely populated country, Malta has a high private vehicle ownership rate, having a total of 435,000 vehicles registered with an average of 58 additional vehicles registered every day.

In addressing this challenge, the Government needs to ensure that the infrastructure not only creates better roads and connections for motorised traffic, but also provides for sustainable and safer mobility for people. In this regard, from 2018 up till July 2023, the Government spent a total of €606.4 million towards upgrading the road infrastructure in Malta and Gozo.

A number of traffic bottlenecks have been addressed through various developments such as the Kirkop Tunnels and Airport Intersection Project, improving also access to the Malta International Airport and the Malta Freeport. This project has provided for safer facilities for alternative modes of travel, and now includes new footpaths and improved public transport amenities as well as new cycle lanes and safe cycle routes that complement existing ones.

The €11-million investment in the Luqa Junction Project, now nearing its completion, will replace this locality's principal roundabout with a multi-level junction facilitating quicker and safer connections between Qormi, Luqa, Santa Luċija, Marsa, Gudja, the Airport, and the Kirkop Tunnels. The project incorporates pathways, pedestrian crossings and a new segregated cycling and pedestrian path along 'Il-Kunsill Tal-Ewropa' Road. Furthermore, it will create a new recreational open space with easy pedestrian access from the centre of Luqa.

In October 2022, the opening of the Mrieħel Underpass created an uninterrupted link between Imdina Road, Balzan and Mriħel Bypass with an investment of €7.4 million. This project augments the positive impacts of the Central Link Project in Attard, Balzan, Birkirkara and Mrieħel by reducing traffic volumes. The Mrieħel Underpass Project enabled the introduction of safer pedestrian and cycling crossings to link Birkirkara, Mrieħel and Balzan, with 'Il-Ħofor' Road, a rural road leading to Żebbug and Qormi. These roundabout crossings will further improve the connections of the four-kilometre cycling and walking infrastructure developed through the Central Link Project in Ta' Qali, Attard and Balzan.

A safety upgrade of €5 million along both carriageways of the Mrieħel Bypass and upgrading the existing junction leading to the Mrieħel Industrial Estate will introduce a total of 4.5 kilometre vehicle restraint systems on both sides of the road as well as upgrades to alleviate flooding problems.

Furthermore, the Government has allocated €5.4 million to address the traffic bottleneck and ensure greater road safety in St Andrews Road, Swieqi, while also accommodating pedestrians and cyclists through the introduction of a new shared pedestrian/cycle lane in the form of a raised footpath to make room for a new multi-mobility link in the area.

Another important infrastructural project is the Msida Creek project, which includes the building of a new flyover to replace the Msida Creek traffic lights junction and safer facilities for alternative modes of travel, including a new cycling and walking track. The project will also provide for a major upgrade and embellishment of the surrounding areas with new recreational zones. It is estimated that around 60 per cent of the Msida Creek Project will be dedicated to open public spaces, creating a more pleasant environment to the centre of this locality while improving air quality.

Furthermore in 2022, the Government announced a comprehensive action plan for improving Road Safety in Malta. These measures tendered for implementation include the revision of the Road Safety Strategy to reflect the realities of today until 2030, the establishment of a Transport Safety Investigations Commission, the strengthening of the Road Safety Council as a consultant to the Government, with its structure and role to form part of Malta's laws, and increased enforcement and stricter fines, amongst others.

During the first half of 2023, the Government embarked on a wide-range public dialogue focusing on mobility in Malta. This exercise has provided the Government with the opportunity to discuss with stakeholders and tap their views with regards to the main challenges affecting transport in Malta. In particular, the discussions focused on strengthening public transport and measures to address congestion during the rush hour, particularly by staggering the provision of specific services. These meetings provided valuable insights which will feed into the policy process and the design of measures.

Furthermore, in May and July of this year, the Government issued additional regulations in order to address traffic congestion by managing better and keeping up with the technological developments of the carriage of passengers via small vehicles, the sector known as 'Y plates'.

The Government, through Transport Malta, is currently reviewing the National Transport Master Plan which shall guide policy and decisions for a safer, greener and sustainable transport system in the Maltese Islands. During 2022, consultation has been carried out with the public and targeted stakeholders to establish the priorities and challenges in the sector. Further work has followed and is currently ongoing to update the national traffic model which shall sensitise the needs and recommend potential solutions for the national transport system up to 2030.

4.2 Upgrading the Maritime Infrastructure

Investment in maritime infrastructure also enhances the connectivity of the country thus, supporting competitiveness and the creation of prosperity. A major €25 million project is presently underway with the scope of extending and connecting Pinto 4 and 5 with Lascaris Wharf, forming a new continuous berth along both areas, measuring 350 metres in length.

Another project is planned with the scope to reduce the wave impacts within the Grand Harbour port area. In addition, another important investment is planned for execution over a number of years with a view to upgrade the Deep Water Quay.

A new €55 million cargo facility between Laboratory Wharf and Fuel Wharf 360-metre quay for cargo handling in the 'Ras Hanżir' area of Corradino, at the Grand Harbour will introduce much-needed additional berthing space for Ro-Ro (Roll-on/Roll-off) ships and other cargo vessels in the Grand Harbour. It will improve the efficiency of this port while providing local maritime authorities with increased flexibility and availability on the use of other quays in the same area. The new quay will also meet the specifications of future-generation Ro-Ro vessels, and could provide the civil infrastructure for future shoreside electricity to ships for increased environmental sustainability.

4.2.1 **Capital Projects in the Grand Harbour Region**

Work on various projects continued and some of these were completed in 2023, while other projects in localities along the coast of the Grand Harbour and the Port of Marsamxett are underway. The project on the coast of Msida which consisted of the creation of a larger promenade, a segregated bicycle land, new lighting system, planting of trees as well as facilities for fishers and boat owners was completed. A similar project along the coast in Pieta is currently underway and expected to be completed in 2024. Technical studies are underway with respect to the Ta' Xbiex coast, ahead of planned works in the second half of 2024. All these projects will lead to a continuous promenade starting from Sa Maison all the way to Ta' Xbiex/Gżira.

Other regeneration projects addressed the area known as 'tal-Magħluq' in Marsaxlokk while other works currently underway with end of year completion, will be addressing two areas in Senglea and Kalkara. In Senglea, the project will result in making the area known as the Belvedere accessible to persons with restricted mobility, while in Kalkara the project will be going beyond structural works to also include a change in traffic design and the creation of a pedestrianised zone.

With an investment of €5 million Malta is nearing the final stages of the regeneration of the dilapidated Sally Port quays, turning a neglected seafront area in Cottonera into a new promenade.

In addition, works on the regeneration of the Marsamxett area of Valletta on historic buildings, social housing as well as streets and squares continued, and the improvement to the area is very evident.

Moreover, discussions and consultations with various Government entities have taken place ahead of embarking on the large regeneration project of Marsa, thus taking the country into the next phase of regeneration in the Grand Harbour region.

4.3 Upgrading the Energy Infrastructure

In 2022, electricity demand growth has re-established at pre-pandemic levels. A new record in electricity demand has been recorded. Demand growth is expected to continue to progress in 2023 due to further efforts in the electrification of transport and as the facilities for on-shore power for maritime vessels come online.

4.3.1 **Electricity Distribution System Upgrades**

In 2022, Enemalta launched a €90 million investment programme spread over six years. This investment includes intervention at all levels of the distribution system. The Government will be doubling this investment in 2024, to accelerate the implementation of this network reinforcement plan.

New transformers and switchgear have been energised at the Tarxien, Marsaskala and Imrieħel Distribution Centres, effectively doubling their capacity. A total of 66 new substations were added to the network, together with 9 medium voltage network reinforcements, and 130 new low voltage network feeders. New technology for voltage regulation has been introduced in the low voltage network. 41 existing substations were upgraded with new switchgear or transformers, while 37 others were equipped with automated control systems to improve response times during network disruptions.

New distribution centres and substations, and other major reinforcements in the medium voltage network will remain a priority, with projects in Qrendi, Zurrieq, Mosta, Naxxar, Siġġiewi, Rabat, Dingli, Imsida, St Andrew's, Kottonera, amongst other localities. Other reinforcements at Marsaskala, Luqa, Ħandaq and Żebbug will be issued for tendering by the end of the year. Further substation automation will proceed as planned. Investment in the low-voltage network will also be given precedence to ensure improved service quality levels for all consumers.

Preparatory works for the new high voltage cable link between the Malta-Italy Interconnector Terminal Station at Magħtab, and the Mosta 132kV Distribution Centre have progressed significantly and a tender shall be issued by the end of the year. Similarly, the preparatory works for a new Distribution Centre in Naxxar are being finalised. The St. Andrew's Distribution Centre will also be upgraded with new transformers and switchgear, to increase its capacity and resilience.

This electricity distribution investment is being complemented by a €70 million injection of European Union funds through the RePowerEU programme. Through this additional investment, the Government will continue to strengthen the country's electricity infrastructure while facilitating increased deployment of grid-connected renewable energy systems, in line with Malta's decarbonisation objectives.

4.3.2 **Second Interconnector to Italy**

As pledged in the Government's Manifesto, preparations for the installation of a second electricity interconnector cable between Malta and Italy are progressing well. Besides providing an additional 200MW source of electricity, the project will also deliver a more resilient electricity grid which will be able to accommodate large-scale renewable energy generation, particularly offshore, whilst contributing to Malta's decarbonisation and climate change targets.

Over this past year, works on the design and permitting of this project have advanced considerably, whereby the route, onshore and offshore, have been determined, and the cable sizing and ampacity have been designed according to the route length and its physical properties. The design of the transformers, shunt reactors and switchgear have also been completed. In line with this design, the EIAs/permitting studies in Malta and Italy, have been completed. The Environmental Impact Assessment studies for Malta were submitted to the Environmental Resources Authority (ERA) in May 2023 and a public consultation was conducted in June 2023. The application for the Italian Single Authorisation Decree is planned to be submitted in Q3 2023. The Project will be part-financed from the ERDF Programme 2021-2027.

4.3.3 **Utility Scale Battery Energy Storage Systems**

To complement the second cable interconnector, strengthen the electricity distribution network, enhance the resilience of the grid, reduce grid bottlenecks and provide flexibility in terms of the ability of the system to accommodate additional renewable energy, Malta is looking at implementing Utility Scale Battery Energy Storage Systems (BESS).

The Government is working on two projects for Utility Scale Battery Energy Storage System, with the first located in the Delimara Power Station, funded through ERDF funds with a maximum budget of €35 million, and the second Project within the 'A' Station in Marsa, funded from the RRF with a maximum budget of €12 million.

Technical and economic consultants have been contracted this year to prepare the design of the BESS to enable the preparation and publication of an open tender call for awarding an EPC contract for the installation of these two projects in 2024. The permitting procedure for both projects has also started this year.

4.4 Investing in Waste Management and Infrastructure

Obtaining higher levels of waste separation and introducing waste prevention measures remain a top priority. Significant strides in waste management have already been made in the past year, including the successful commissioning of the new Multi Material Recovery Facility (MMRF), further enhancing the potential for recycling various waste streams and diverting waste away from landfilling. This new facility will result in improved waste handling efficiency and preparation for export.

Four recycling centres were opened last year, bolstering reuse efforts and promoting the concept of recycling with the general public. These centres allow people to reuse their items by exchanging them with others such as books, toys, and furniture.

To further increase recycling rates and align with the Government's vision of a circular economy, a new deposit refund scheme for beverage containers was launched last November, with a dedicated sorting facility, guaranteeing the sorting of waste materials to a high standard, thus ensuring their suitability for recycling as food-contact materials.

Furthermore, in order to continue reducing the use of plastic containers utilised for bottling water, the Government has increased the grants on the purchase of equipment to purify water at home by reverse osmosis, reverse osmosis system with reject water return and water filtration system. The budget allocated amounted to €1 million. Under the old scheme, from the beginning of 2019 up to mid-April 2023, the number of beneficiaries totalled 4,755. From mid-April 2023 up to mid-August 2023, the number of beneficiaries in the enhanced scheme reached 1,979. This means that the total applications for the first four months of the new scheme already accounted for around 42 per cent of the total applications received in slightly over 4 years under the old scheme.

In addition, the Government has introduced various important measures over the past months including revised gate fees for commercial waste to help incentivise businesses to adopt more sustainable waste practices. The introduction of a harmonised regional waste collection system, coupled with an increase in organic collection frequency is also resulting in higher waste separation rates. As from January 2023, properly separated organic waste increased by more than 35 per cent, leading to higher renewable energy production. Other properly separated waste such as wood and mattresses also saw significant increases.

Ongoing efforts also include studying the possibility of expanding Extended Producer Responsibility (EPR) obligations to encompass additional waste streams, such as tyres, textiles, and non-packaging paper.

These initiatives demonstrate the Government's commitment to maximising resource use, increasing recycling rates, and achieving sustainable waste management goals. Furthermore, the Government has also made waste separation mandatory last April to achieve higher levels of waste diversion from landfill. An awareness raising campaign is currently ongoing, including harmonised separation guidelines. In order to reach out to foreign residents as well as tourists, such educational material is also being communicated in various languages.

4.4.1 **ECOHIVE Project**

At the core of the Government's long-term vision lies the ambitious ECOHIVE complex aimed at elevating Malta's waste management facilities and overall performance. Supported in part by EU funding, this €500 million endeavour represents the most substantial investment ever made in Malta's waste management infrastructure.

Progress is already underway, with excavation works for the Waste to Energy project now in completion. This facility shall be able to divert over 190,000 tonnes of nonrecyclable waste from landfills and transform it into green energy, which amounts to approximately 4.5 per cent of Malta's overall energy demands.

A Material Recovery Facility (MRF) was also commissioned in March 2023 within the ECOHIVE Complex.

Furthermore, advanced stages of design and tender preparations have been reached for the new Organic Processing Plant which will be able to accept 74,000 tonnes of organic waste and transform it into good quality compost and renewable energy in the coming years.

As part of the ECOHIVE Project, WasteServ will be constructing a Skip Management Facility which will also divert 47,000 tonnes of mixed waste away from landfill; building permits have received approval, and in the upcoming months, a tender will be published for the construction works. Simultaneously, works on a new automated glass sorting line at Sant Antnin are also underway, following the completion of the tendering procedure and contract signature. The new facility will be sorting glass bottles and jars whilst separating clear from coloured glass. It will also be able to sort flat glass offcuts coming from the commercial sector.

4.4.2 **Construction and Demolition Waste**

The Construction and Demolition Waste Strategy for Malta 2021-2030 proposes both short and long-term measures to foster a shift towards a more circular economy in the construction industry, prioritising reuse and recycling.

One of the primary foci has been on incentivising the crushing of materials before backfilling, ensuring void spaces are restored to their original state while maintaining stringent environmental standards. This has been implemented through the Restoration of Void Spaces (ROVS) scheme issued under the Environment Fund.

Following the publication of construction standards to reduce waste generation and ensure that generated waste aligns with the waste hierarchy for appropriate treatment, a new regulatory framework for Construction and Demolition Waste is currently being developed, aiming to streamline waste management efforts and promote sustainable practices within the construction sector. This regulatory framework is expected to come into force by end of year.

4.4.3 **Single Use Plastics**

The Single Use Plastics (SUP) Framework Regulations introduced last year are part of the Government's efforts to transition towards a more sustainable and circular economy, reducing plastic waste and its detrimental effects on the environment and wildlife.

The regulation, in line with the SUP Directive, aims to reduce plastic pollution, particularly in marine environments. Various SUP products have already been prohibited from being placed on the local market, such as oxo-degradable plastic cutlery, plates, straws, and food containers made of expanded polystyrene intended for immediate consumption.

Aligned with the Directive's guidelines, ongoing efforts include the prohibition of additional single-use plastic items and a greater focus on reducing consumption of various SUP products. Moreover, the implementation of new Extended Producer Responsibility (EPR) schemes is underway, holding producers accountable for the waste management of SUP items. Further attention will be devoted to promoting actions that encourage the use of alternative products and sustainable materials.

4.5 Investing in Water Management and Infrastructure

The availability of sufficient water resources has been a constant challenge throughout Malta's history due to the semi-arid climate. However, Malta has responded to its water challenge, achieving a reliable and secure supply of water and sanitation services.

Throughout the years, rainwater harvesting reservoirs have been constructed in the central areas of the towns and villages, presenting during historic times an important source of water during the dry summer months. The Government intends to promote the regeneration of these infrastructures, within a broader context of promoting the importance of rainwater harvesting as a national water management measure. Through a budget of €0.5 million, the Energy and Water Agency (EWA) will be launching a programme to support Local Councils in the rehabilitation of reservoirs located in urban centres which can provide important benefits to the localities including flood mitigation and irrigation to complement urban greening and cleaning activities.

Additionally, the Government will continue looking at the promotion of innovative water management technologies to broaden the national water resource base. Acknowledging the recent developments in safe greywater recycling systems, the Government will embark on a regulatory reform to enable the adoption of greywater recycling systems in Malta. Greywater refers to water from showers and wash-hand basins which requires limited treatment for enabling its reuse and therefore is considered as a green water-reuse technology since it requires significantly less chemicals and energy than other technologies.

In conjunction with this reform, EWA will launch a support scheme focused on supporting the installation of greywater recycling installations in households and accommodation enterprises. This scheme will promote these technologies and support their entry as a sustainable water management solution in the local market. Additionally, coastal accommodation enterprises will also be supported in the installation of energy efficient desalination systems. In this way, sustainable alternative water resources will be promoted, enabling the reduction of the demand of mains water at source and therefore supporting Malta's efforts to achieve the sustainable use of water resources.

4.5.1 **Water Services**

There are numerous efforts directed towards safeguarding the potable water sector. A strong 3-year business plan followed by a 7-year national investment plan forms the foundation of Malta's national water utility company's work. This plan ensures that all the necessary infrastructural works take place so that the potable water supply is never compromised while the quality of water is improved continuously.

The Government through the Water Services Corporation (WSC) has invested in water production and distribution systems, including an increase of about 30 per cent in the production capacity of reverse osmosis plants. This year, the second phase to increase water production by another 20 per cent and to increase water reserves, was launched with an investment of more than €12 million. This will help to continue to meet the demand beyond 2030.

Ensuring the security of water supply whilst protecting and conserving groundwater, remain top considerations on the water sector priority list. A number of projects targeting the replacement of 50km of ageing water mains are moving steadily, with almost 20 per cent completed by June this year and a further 24 per cent already at the publication or contracting stage.

A new water transfer main will be installed between the Reverse Osmosis plant in Ċirkewwa and the Ta' Qali reservoirs with an investment of €11 million, together with a main that will deliver water from Naxxar to Salini at a cost of €3.5 million.

The shoring up of the sewage treatment plant at Sant'Antnin is in its final stages, and the plant is expected to start operating by the end of the year. With an investment of around €7 million, this measure will increase the capacity of sewage treatment in the South of Malta by more than 20 per cent.

Moreover, the WSC has launched the first-ever Green Bonds in Malta which were fully subscribed in a record short period of time. The latter primarily aims to raise capital for Green and Sustainable Projects to reach a Net-Zero Impact Utility under the ESG (Environmental, Social and Governance) investing umbrella. This initiative is aligned with MFSA's approval of the Bye-Laws for establishing a Malta Stock Exchange Green Market in early 2021.

05

A Greener Environment

Climate Change is being witnessed globally and is posing new threats and challenges, especially on small island states like Malta. It is no longer a matter of if it will happen, but rather when and how it will happen. It is, therefore, with utmost urgency that countries like Malta need to accelerate the implementation of mitigation and adaptation measures to reduce carbon emissions and curb the effects of climate change. Conserving energy and reducing emissions represents a winning resolution to climate change mitigation by decreasing the demand for energy generation and unsustainable resources while also reducing carbon emissions.

Even during a global energy crisis, the Government is seeking ways to deliver its climate-neutral vision by encouraging and supporting private investments whilst also decreasing its dependency on non-renewable sources. To achieve this, Malta is working on its energy connectivity and diversification of energy sources, enabling sustainable investment in Maltese enterprises, and committing to green infrastructure.

The investment in Malta's energy connectivity and diversification will further enhance the development of large-scale renewables. In addition, this will also allow Malta to venture into innovative markets for the deployment of offshore renewable energy technologies and cleaner energy markets. The approaching Budget is intended to enable households, businesses and non-governmental organisations to invest in smarter, greener and more sustainable choices and further encourage waste reductions and proper separation.

This investment in operations and the return on investment for nearby communities will be the main yardstick by which economic growth is to be measured. As more SMEs digitise and green their business models and as more citizens make sustainable decisions, quality of life is further enhanced. The coming Budget will continue to build on the pillars of sustainable development, green infrastructure, urban greening, afforestation and sustainable growth.

In this regard, RRF and EU Funds are of utmost importance to ensure that Malta continues onto the path of recovery whilst consolidating Malta's intention to reach the 2030 targets for a more sustainable economy.

5.1 Reducing GHGS by 19%

In order to step up efforts to achieve its 2030 target, the Government is working hand in hand with industry and civil society alike. The Maltese Government is committed to helping families, communities, business owners and operators to adopt more sustainable energy and transport practices. The goals are clear, and work will focus on reducing greenhouse gas emissions. Reaching the 2050 goals requires all stakeholders to take immediate action. Policy initiatives to promote more sustainable practices will continue and, where required, strengthened in the coming Budget.

5.1.1 Decarbonising Road Transport

The electrification of land transport remains an important tool to reduce emissions in road transport. In order to incentivise the take up of electric vehicles, over the span of 4 years, €50.3 million from Malta's Recovery and Resilience Fund (RRF) have been allocated to instigate a wider shift towards electric mobility, and reduce emissions emanating from the road transport sector. These funds will assist in promoting the uptake of new electric vehicles in the private sector, including the commercial sector through grant schemes. The schemes were launched in January 2022 and are to run through a rolling call up to 2025.

As a result of an investment of around €28 million in incentive grants in 2022, 1,381 electric/plug-in hybrid vehicles and 1,378 pedelecs/motorcycles were registered until the end of December 2022.

In 2023, the Government continued to strengthen the grant schemes. A total of 9 financial initiatives in the form of grants were launched in the beginning of 2023. From January to June 2023, the registration of new electric vehicles and plug-in hybrid vehicles surpassed that recorded in 2022 in the same period. By the end of June 2023, there were a total of 6,830 registered electric vehicles, and 3,605 plug-in hybrid vehicles registered.

Table 5.1

Take-Up of Schemes and Expenditure in 2022

Source: Transport Malta

	Take-up Amounts	Take-up (€)	Allocated Budget (€)
Scrapping Scheme	793	1,198,254	1,200,000
New Electric Vehicles/ Category L	1,378	8,515,503	15,000,000
of which Cars	589		
Motorcycles	789		
Petrol Motorcycles	2,219	3,366,638	3,370,000
LPG	129	56,000	60,000
Plug-in-hybrid/ used electric	792	8,362,689	8,400,000

Table 5.2

Take-Up of Schemes and Expenditure in 2023 (up to 30th June)

Source: Transport Malta

	Take-up Amounts	Take-up (€)	Allocated Budget (€)
Scrapping Scheme	175	263,340	300,000
New Electric Vehicles/ Category L	911	5,259,161	15,000,000
of which Cars	376		
Motorcycles	535		
Petrol Motorcycles	2,082	3,420,455	4,200,000
LPG	73	59,900	60,000
Plug-in-hybrid/ used electric	765	7,105,500	8,670,000

5.1.2 **Charging Infrastructure**

With the shift towards electric vehicle registration comes the requirement for more charging infrastructure to sustain that shift. Publicly accessible charging infrastructure is required for three main purposes: to be aligned with the European Mandatory Legislative Targets, to support short to medium distance journeys and to enable the e-mobility transition for those drivers without residential (off-street) parking. To sustain this change, the Government will continue investing in expanding the existing public charging infrastructure network.

The publicly accessible charging infrastructure project being deployed by the Government is building upon the already available 372 charging points to achieve, in total, an excess of 1,500 charging points across the Maltese Islands. This shall be made up of medium (22kW per point) and fast chargers (over 50kW per point).

The Government will also upgrade the control and management systems and due consideration will be given to the adoption of an interoperable National EV Charging Platform which shall aggregate all charging infrastructure from various private and public operators.

Looking beyond the 2024 budget, a Master Plan for the period 2025 – 2030 shall be commissioned. This will act as the basis for future investments that the Government undertakes in public charging infrastructure.

5.1.3 **Public Transport**

Public transport plays a pivotal role in supporting the twin objection of reducing congestion and supporting decarbonisation. In the Budget for 2022, the Government introduced an important measure to support these objectives whereby free Public Bus transport was offered to all personalised 'tallinja' card holders as from October 2022. This applied to some 400,000 'tallinja' card holders. In fact, at the end of 2022 there were 479,667 personalised 'tallinja' card holders. Nevertheless, despite the increase in the number of passengers using public transport, additional measures are required to be implemented to ensure a more substantive modal shift.

One of the measures being considered is giving priority to buses including by dedicated lanes. This will render public transport more dependable and efficient, reducing journey times. Public transport also contributes to the national decarbonisation efforts through the part-electrification of its fleet as result of investment on part of the operator supported by the RRF funds.

Table 5.3
Total Number of Passengers using Public Transport
Source: MTIP

Year	Passengers
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
2021	35,207,174
2022	49,222,424

5.1.4 **Supporting Maritime Mobility**

Over the course of the past year, the Government has continued to encourage and support ferry connections connecting coastal areas to encourage a modal shift, including a fast ferry passenger service between Malta and Gozo. This encourages an efficient car-free connection between the port of Mġarr in Gozo directly to Valletta. The Government

Table 5.4
Passenger Numbers Sea Transport
Source: MTIP

Year	Gozo-Malta Fast Ferry	Bormla-Valletta Ferry
2022	476,180	421,944
2023 Jan-June	255,406	231,842

An investment of circa € 14 million will finance the rebuilding of the breakwater in Buġibba, which will introduce a new terminal with safer facilities for ferry passengers. Through this project, the breakwater will have all necessary facilities to support sea transport service to other locations around the island. The infrastructural works will also provide better protection to mooring fishing vessels. Apart from the Buġibba ferry landing, a number of other projects were carried out or are in the process of completion, these include ferry landings in Sliema, Marsamxett, Mġarr Gozo (Fast Ferry), and Barriera Wharf (Fast Ferry).

5.1.5 **Electrification of the Ports**

The North Harbour and Boiler Wharf Shore Supply Project is an environmental investment to cut 90% of air pollution by cruise liners at the Grand Harbour. Through this project, the port will be equipped with all necessary electrical infrastructure for cruise liners to switch off their gas oil/heavy fuel oil engines and plug in to shore supply electricity. These facilities will energise the ship's onboard system whilst berthed at the port, improving air quality for 17,000 families living in the Grand Harbour area. This Project will cost circa €33.2 million and is co-financed by the EU's Connecting Europe Facility. This project will provide electricity for up to 5 cruise ships simultaneously.

Currently, the North Harbour and Boiler Wharf Shore Supply Project, is nearing completion as testing of shoreside electrical equipment at Boiler Wharf, Senglea, is 95 per cent complete.

A 5th berth, Pinto 4/5, will be operational after the completion of infrastructural works to extend the quay. This investment will make Malta one of the first in Europe to adopt this environmental technology on a port-wide scale. Each quay will have several shore connection boxes to provide plug-in points, where specialised mobile cable cranes will make the final connection to the ships. There will be 13 shore connection points at the north side at Pinto Quays and Deep-Water Quay, and another 4 connection points at Boiler Wharf. These will provide flexibility to enable the connection to specific ship orientations.

Through this project, Malta will drastically reduce the emissions caused by cruise ships while visiting Malta.

The South Harbour and Lascaris project will extend shore side electricity to the other side of the Harbour. The investment envisions the provision of high and low voltage on shore power supply at Palumbo Shipyard on Dock 6 and Parlatorio Wharf, Malta Maritime Hub (MMH), Laboratory Wharf, Ras Hanżir and Lascaris Wharf on the outer region of the Harbour. This project will cost €44.6 million.

5.2 Renewable Energy Targets

It is estimated that through the implementation of the LCDS, Malta and Gozo are set to increase the share of renewables in the grid mix to 22 per cent by 2050. Under the Fit-for-55 package, Malta has committed to an 11.5 per cent RES target by 2030. This target has been exceeded in 2021 with a share of 12.15 per cent.

The launch of a set of ambitious schemes, grants, and tariffs encouraging more people to invest in renewable energy has given positive results. In 2022 alone, a total of €3 million in grant payments for photovoltaics with standard or hybrid inverter solutions were distributed amongst 805 beneficiaries, while 329 beneficiaries received a total of €1.8 million from the Battery Storage Scheme.

According to the latest statistics published by the NSO, in 2022 the stock of Photovoltaic Panels (PV) installations amounted to 32,452 of which 85.2 per cent were installed in the region of Malta, and 14.8 per cent were in the Gozo and Comino region. When compared to 2021, generation of energy from grid-connected PVs increased by 13.2 per cent in 2022, totalling an estimated value of 289.5 GWh.

Nevertheless, when compared with other EU member states, Malta's share of renewables in the grid mix is still relatively low. In this regard, the Government is committed to continue launching initiatives in support of further investment in renewable energy systems for households, commercial sectors and enterprises.

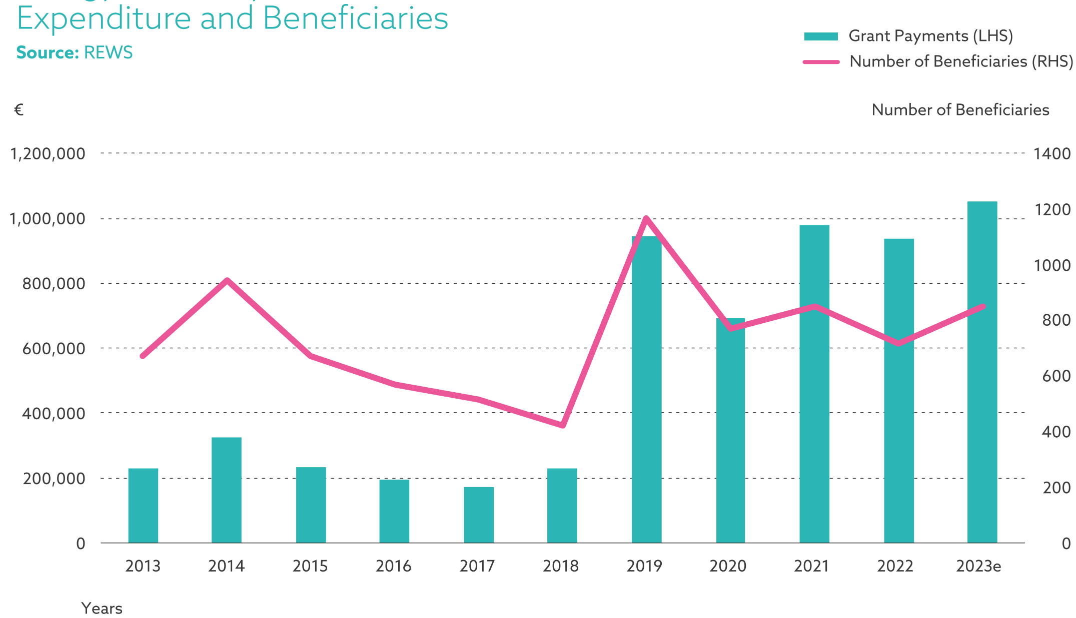
The Government has allocated 8MW as a Feed-In-Tariff scheme for PVs less than 40kWp for households, while also retaining the existing PVs in households over 20 years. This measure does not only make financial sense to households, but will enable more longevity of the existing technology and enhance the circular economy.

A total of 16.57MW have also been allocated for medium to large renewable energy systems which could supply 6,050 households in a single year. Furthermore, a total maximum allocation of 19MW has been issued for the mass scale projects beyond 1MW. If this is fully taken up, such systems could be able to supply a total of 7,000 households.

5.2.1 Energy Efficient Buildings and Businesses

Reducing emissions from buildings is critical to meet the EU climate targets. To promote the sustainability of the building sector, the Government has embarked on a series of schemes providing financial support to cover part of the costs of solar water heaters, roof insulation, double glazing and air to water heat pump systems installed for domestic use.

Figure 5.1
Energy Efficiency Expenditure and Beneficiaries
Source: REWS



The uptake by many households has been positive where in 2022 alone, a total of 717 beneficiaries benefitted from the Solar Water Heater (SWH), Heat Pump Water Heater (HPWH), and Roof thermal Insulation and Double Glazing (RIDG) schemes. The total Government allocation amounted to €0.94 million. In 2023, it is estimated that around 853 beneficiaries will benefit from €1.1 million in grant payments on such energy efficiency schemes.

The grant for domestic wells will continue to increase the use of second-class water in the domestic sector. In 2022, the number of grant payments effected resulted in a total of €86,000 for 108 beneficiaries.

These schemes are expected to reduce dependency on standard energy sources, help in achieving renewable energy and decarbonisation targets and increase the uptake of energy saving equipment. In this regard, for 2024, the Government will continue to allocate funds for such energy efficiency schemes as well as grants on the installation of water filtration technologies with the aim of reducing Single Use Plastics from the domestic sector.

5.2.2 Energy and Water Efficiency Scheme for Voluntary Organisations

The Energy and Water Efficiency Scheme for Voluntary Organisations (VOs) has been launched in 2022, following a similar successful scheme dedicated to Sports Organisations. The main objective is to support VOs in reducing their overall energy and water consumption through energy efficiency, and/or reduction in water use, and/or augmentation of water supply. The assistance is intended to facilitate investments in solutions that contribute directly and tangibly towards these objectives. Under this scheme, compliant VOs can apply to carry out interventions under 3 criteria for Water supply augmentation and another 3 criteria for Energy Efficiency. To further facilitate the completion of these projects, 60 per cent of the grant given is disbursed immediately upon confirmation of funding, with the remaining 40 per cent being disbursed on completion of the project. Over 45 organisations will have benefitted from this scheme by the end of 2023, implementing projects such as changing light fittings to LED, replacing old appliances with new efficient ones, repairing water reservoirs and installing second-class water systems to use rainwater.

5.2.3 Promotion of Energy Audits Scheme for SMEs

The Energy Audit is the first step for an enterprise to take stock of its energy consumption. The Energy Efficiency Regulations transposing the Directive (EED) identify SMEs as a target for promoting energy audits, with EWA being the entity that administers the implementation of such energy audits. Since its inception in 2018, the scheme has assisted 57 enterprises.

5.2.4 Enabling Clean Sources of Energy

The second Malta-Italy interconnector will serve as an enabler for large-scale renewable systems by increasing the stability of the Maltese grid. Malta's ambition is to continue to increase the number of onshore renewables by tapping into spaces that have not reached their potential.

The Government is aware that for Malta to reach its ambitious targets, it needs to look at large scale offshore renewable projects. At present, deep sea-bed floating offshore wind technology is maturing at a fast pace.

In this regard, a Pre-Market Consultation for economic activities in Malta's Exclusive Economic Zone (EEZ) was conducted last year. This process has yielded a significant interest from investors in offshore wind technology, among other activities. An analysis was also carried out which confirmed that Malta's extensive sea provides a large potential marine area offshore and a good opportunity to explore offshore renewable developments, primarily in wind or solar deployment.

Earlier this year, a bill proposing amendments aimed at setting up an EEZ was initiated, and a policy framework was issued for public consultation, with the aim of gauging further private sector interest. Following a public consultation process and completion of relevant preliminary studies, the Maltese Government will better update its policy framework, accordingly and establish a target capacity and timeframe for the deployment of offshore energy within its EEZ.

Interconnect Malta (ICM) has also engaged technical, commercial and legal consultants to advise and assist in the procurement process for the award of a concession in the EEZ for developing Offshore Renewables for the generation of green electricity.

Meanwhile, the Government shall continue pursuing a hydrogen-ready pipeline project, which has been provisionally secured as an EU Project of Common Interest in the list of 2023. This opens the door for Malta to access new technologies, particularly green hydrogen originating from renewable sources. This will be necessary to decarbonise the electricity sector in the longer term. Studies are underway to evaluate the availability of hydrogen in the vicinity and determine the necessary infrastructure to deliver it to Malta.

5.3 Ameliorating the Urban Environment

5.3.1 Urban Greening

Launched in January 2023, Project Green is an agency entrusted with delivering the main electoral pledge of an unprecedented urban greening program by delivering the largest investment in the environment and improving the quality of people's lives. With a €700 million investment over seven years, the goal is to provide green recreational spaces within a short walking distance from every home.

This first major project launched was the urban greening project in San Ġwann. This is a project which will transform one of Malta's busiest streets into a 7,200m2 green lung in the centre of this highly populated town. This represents a threefold increase in the existent environmental footprint which will be within walking distance for 90 per cent of the residents. The project will also include alternative mobility routes and a twofold increase in an underground car park for both residents and visitors.

In Cospicua, the former AUM site will be converted into a 3,000m2 green lung which will be within walking distance for 10,000 people living in Cottonera. This project will also incorporate more than 200 parking spaces in a three-storey underground facility. Similar projects are also being planned in Mqabba, Birkirakara and St. Venera.

Furthermore, during the first months since the establishment of the Authority, almost 40,000m2 of green open spaces have been opened and regenerated across the island. This includes one of the largest family parks in the South of Malta, specifically in Birżebbuġa.

In Żabbar, the San Klement Park was extended with a further 2,000m2 which can be reached by 11,000 residents in nearby Bormla, Fgura and Żabbar. In Safi, an area which was totally neglected has been turned into a 1,000m2 open space and dog park in conjunction with Ambjent Malta. In Gudja, Mosta and Ta' Qali, existent spaces were totally reinvigorated to make them enjoyable and accessible to the general public.

During the coming months, other green projects will be inaugurated in Kalkara, Marsascala, Qrendi and Santa Luċija, amongst others. Meanwhile, significant cleaning and restoration works have been completed in several valleys, with a total investment of €2 million. These projects not only ensure water storage but also preserve Malta's historical heritage. In the coming year, the rehabilitation of various valleys will continue.

16 new urban green projects were also launched through the Community Greening Grant, which constitutes the largest-ever environmental incentive scheme for Local Councils, NGOs, VOs, and the public. These projects contribute positively to the well-being of local citizens. Indeed, €10 million have been allocated to the Community Greening Grant, utilising a combination of EU and public funds. The nature of each project varies and include the creation of completely new open spaces on previously inaccessible areas, and the upgrade of existing public spaces into quality green projects in various localities around Malta and Gozo.

Upon completion, the Government will deliver nearly 80,000m2 of quality green open spaces across Malta. To achieve this, 6,400 new trees will be planted, and 2,800m of walking and cycling paths will be integrated. The project emphasises sustainability, with an average of 80 per cent sustainable materials used and 80 per cent permeable surface area, maximising water retention by reducing the use of concrete.

The works are scheduled to be completed by 2025, and long-term sustainability is ensured through the submission of a 10-year maintenance plan by the applicants. This approach guarantees that beneficiaries not only implement the project, but also oversee the long-term maintenance of the area.

Moreover, Malta will be updating its National Energy and Climate Plan (NECP) during the next few months. This plan will encapsulate new policy measures to raise Malta's ambition in line with the Fit-for-55 package and the REPowerEU, whilst considering the projected macro-economic developments leading to a higher energy demand. This plan goes hand-in-hand with the Government's vision to promote the creation of green infrastructure, charging infrastructure, the creation and expansion of existing green open spaces, and recreational parks. This consolidates even further Malta`s plan of action to reach the 2030 targets for a more sustainable economy.

5.3.2 **Better Aesthetics in Development**

The real estate sector in the past few years has registered substantial activity attracting various investments together with an enhanced productivity. This activity was the result of higher demand for property units both for residential and commercial purposes.

The Planning Authority with the assistance of various local and international consultants is finalising the necessary studies for the updating of the Strategic Plan for the Environment and Development (SPED). These studies shall provide essential tools in reviewing national planning objectives based on various important aspects that shall indicate the country's need in the next two decades.

One of the major objectives that shall be addressed within the immediate term is a review of current policies and regulations in relation to aesthetics. The urban fabric has been impacted with the enhanced development Malta has registered over the years. The review shall set out specific objectives to be achieved to promote good practices, adopting policies that protect streetscapes and a more holistic approach in this regard.

A focused discussion leading to a specific review is being undertaken to address the needs of Gozo. Gozo has its regional particularities and specific necessities. Future development must respect such specificities. The Gozo strategy, that has recently been published, shall also indicate the aspects that require review to protect the uniqueness of Gozo, the Island of Villages.

The Planning Authority will continue with the current review of the local plan related to the inner grand harbour region. This review is essential to undertake a coordinated vision for the regeneration of this region that has extensive potential to yield investment possibilities while improving the urban fabric for the community in the vicinity.

The Government will also implement the reform announced in the appeal procedures related to permits. The established system of suspension of permits when subject to an appeal shall be updated to provide more clarity for all involved.

The enforcement regulations related to Planning matters shall also be reviewed and legislative proposals will be presented in the near future.

The planning process shall also be involved in ensuring more sustainability in Maltese buildings. This initiative shall be carried out in conjunction with the Building and Construction Authority as well as other entities responsible for energy matters. Energy efficiency objectives in buildings need to be achieved in a renewed and a more effective manner. This issue is of great importance particularly in relation to Malta's decarbonisation strategy.

The Building and Construction Authority shall continue to undertake various reforms in the construction sector to continue introducing regulations and enact the appropriate legislation. The process towards the introduction of the Building Codes shall be enhanced to ensure completion in the near future. Moreover, the implementation of the new contractors Licensing regime, the introduction of compulsory skill cards and the promotion of more training and education in the sector shall be the main thrust in achieving the objectives of this reform.

These changes shall continue to be adopted with a continuous and structured involvement of all stakeholders including the general public which expressed a clear message towards a change for more responsible and sustainable development that achieves better and higher standards.

In the 2022 Budget, the Government launched the scheme that exempts taxes on the first €750,000 of the sale price for properties that are in an Urban Conservation Area, and properties that were built more than twenty years ago and have been vacant for more than seven years.

This scheme has already benefited more than 9,100 individuals, saving them nearly €60 million in taxes in less than two years.

This exemption does not encompass the grants given to first-time buyers purchasing similar properties. In Malta, first-time buyers opting for these types of properties receive a cash grant of €15,000; in Gozo, this grant is doubled to €30,000. Over 190 applications have thus far been approved through this scheme, with a total expenditure of almost €3.1 million.

These schemes align with the Government's efforts to regenerate the localities around Malta and Gozo, though they are not the sole initiatives. In fact, property owners are also eligible for VAT grants, capped at €54,000, on the first €300,000 spent on restoration and finishing costs. 110 applicants have already benefited from these grants, receiving almost €1 million.

5.4 Sustainability in the Business Community

As Malta continues moving towards its carbon-neutrality targets of 2050, the Government through Malta Enterprise is focused on achieving sustainability in all aspects of Malta's business community. To this effect, over the past three years, 85 companies benefited from €4.8m in investment aid related to energy efficiency and sustainability schemes.

The future model of local enterprises lies in the formation of sustainable business models. In the 2024 Budget, the Government through Malta Enterprise will build on the measures announced in the previous budget and keep extending its support to Maltese businesses who are embracing the transition towards ESG practices to transition towards a greener economy. This will be done via practical policy support and financing schemes. This will ensure that SMEs invest in sustainability: innovating their operations to increase their efficiency, competitiveness, and attractiveness.

5.4.1 **Start-ups in Malta**

The Government will continue to invest in the local start-up ecosystem through the Start-up Framework. The framework will look at how to improve the processes and services offered to start-ups, to help these businesses focus and strengthen their core business. In this regard, Malta Enterprise is also in the process of creating a One Stop Shop for start-ups which will aid start-ups to base themselves in Malta.

The Government's vision for next year is to move beyond this by focusing on fiscal sustainability and the regeneration of enterprises. As Malta's businesses have been experiencing high growth rates for the past 10 years, it is imperative that they are incentivised into looking at medium and long-term sustainability so that their business models can be sustained over a prolonged period, especially in times of an international economic downturn.

Investing in workers' skills has the potential to reach a balance between labour demand and supply, effectively raising wages and quality of life. The training, knowledge transfer and re-skilling of employees is, therefore, an important agenda to focus on in the next year.

Indeed, the focus of Malta's National Employment Policy 2021-2030 as mentioned earlier on, is equipping workers with the needed tools and skills for the future. The Malta Further and Higher Education Authority (MFHEA) is also in the process of setting up STEM sectoral skills units. This complements the establishment of the new National Skills Council.

In addition, Malta Enterprise has re-launched the Skills Development Scheme, which aids companies willing to develop training programmes for their employees. By having a highly skilled workforce, Malta can achieve another element of sustainability, where workers are fully equipped for the future economy.

5.5 Conclusion

Global economic growth has slowed down in 2023 as persistently high inflation rates and tighter monetary policies continue to constrain household purchasing power and hence, economic activity. Climate change, energy and cost of living challenges are expected to continue to be the main global issues in the near future.

Fiscal sustainability will also be a primary focus for European economies in the coming year. Indeed, with the lifting of the GEC in Spring 2024, EU economies will be required to return to adherence with the fiscal rules outlined in the SGP, in particular the adherence to the 3 per cent deficit-to-GDP and the 60 per cent debt-to-GDP ratios.

In Malta, swift Government intervention has ensured that the Maltese economy remains resilient and continues to register robust economic and employment growth rates, while successfully maintaining a relatively lower inflation rate when compared with the EU average. Nevertheless, Malta's inflation rate is still high when compared to the historical average and thus in the upcoming Budget, the Government intends to continue to adopt measures that ease cost-of-living pressures on Maltese and Gozitan families.

Complementing these measures is the substantive investment which will be directed towards healthcare, education, and the upgrading of skills of the works force. This will enhance the quality of Malta's human capital which in turn would increase employees' incomes.

The Government will also continue reinforcing its commitment towards a climate-neutral economy. This will be done by enhancing Malta's energy security and diversification, enabling sustainable investment in Maltese enterprises, ensuring a tangible commitment towards green infrastructure, enhancing waste and water management, and directing more substantial investments towards renewable energy sources and cleaner modes of transport.

These expansionary budgetary measures need to be in line with the EU's fiscal thresholds. In this regard, the coming Budget will ensure that the Government adheres to SGP rules by targeting an improvement in the structural balance exceeding the minimum effort of 0.5 per cent which is expected to be sustained over the medium term. Indeed, the budget balance is expected to improve to a deficit below 3 per cent of GDP by 2027 while the debt ratio is expected to remain below the 60 per cent of GDP threshold.

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