

Towards a  
**Sustainable**  
Economy

# 2021

PRE-BUDGET DOCUMENT



MINISTRY FOR FINANCE  
AND FINANCIAL SERVICES



Towards a  
**Sustainable**  
Economy

PRE-BUDGET DOCUMENT **2021**

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AND FINANCIAL SERVICES



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## Foreword

The outbreak of the Coronavirus pandemic in early 2020 has brought about unprecedented stresses to the global economy. Global economic activity was hard hit as lockdowns started being imposed to limit the spread and ease pressure on overwhelmed healthcare systems.



**Being part of a globalised world, Malta was not immune to the pandemic and its impact on the economy. Nevertheless, our country has had a solid starting point.**

Six years of unprecedented economic growth left our country well prepared for a possible external economic shock, while four years of consecutive fiscal surpluses and a declining National debt burden put the Government in a solid financial position to weather a crisis.

The Malta Government could therefore afford to immediately launch a series of financial packages to address the health emergency needs, ease liquidity pressures on businesses and safeguard jobs and households' income. Acting pro-actively, the Government also launched a comprehensive recovery plan to regenerate the Maltese economy upon the gradual reopening of the economy from its partial lockdown. The 2021 Budget is being prepared with this recovery plan in mind. Its objective is to ensure that Malta would return to the path of economic growth witnessed in recent years.

The budgetary measures will be governed by five principles on which the Government's economic vision rests. The first principle is that of good governance. In the coming year, the Government will continue implementing measures and reforms which strengthen the rule of law, the regulatory and supervisory authorities and the fight against money laundering and the financing of terrorism.

The second principle will be that of ensuring that economic growth translates into a higher quality of life for all citizens. Investing in education, which is key to sustaining medium to long term economic growth, is the third principle governing the Government's vision for the future. The fourth principle is that of continuing upgrading Malta's infrastructure through the ongoing investments in roads, transport and technology. The final principle is that of achieving a carbon neutral economy by 2050 with intermediary goals being set every ten years. This will ensure that the environment, which is crucial for achieving sustained economic growth and a better quality of life, is indeed prioritised.

For the medium term, we need to strike a balance between health and economic well being. We need to implement measures which safeguard public health, jobs and the economy.



**Prof. Edward Scicluna**

Minister for Finance & Financial Services

01

MACROECONOMIC  
CONDITIONS





## 1.1 Introduction

In 2019, the Maltese economy recorded a real growth rate of 4.4 per cent, equivalent to 7.1 per cent in nominal terms. This growth figure was 2.9 percentage points higher than that of the European Union (EU), securing Malta's position as one of the fastest growing economies in the EU.

The domestic demand component was the main driver of this robust economic activity. The labour market continued to be buoyant, with further increases in activity rates observed, particularly among females and older workers, contributing to a record low unemployment rate. Inflationary developments remained within the thresholds of price stability.

Malta continued to perform positively in external trade, sustaining the current account surplus recorded in recent years. The large net export balance of the services sector largely explains the overall surplus of the current account. This was coupled with a lower goods net import figure which continued to accentuate the strong current account balance.

In 2020, the COVID-19 pandemic brought about unprecedented stresses to the global economy. The effect of this shock distinguishes itself from previous crises as the declines in demand are accompanied by supply restrictions resulting from the mandatory imposition of various lockdowns. Despite efforts by international institutions and Governments, the economic situation going forward is overshadowed with uncertainty with respect to both the duration of the virus outbreak as well as its rate of transmission.

Against this background, the Maltese economy is expected to be impacted negatively in 2020. Nevertheless, the economic fall in output is expected to be fully recovered in 2021 as the Maltese economy is expected to return to positive growth. Given the high degree of openness of the economy, the main contributor to the decline in real GDP for 2020 is a negative net exports balance. The domestic component of the economy is expected to positively contribute to growth in 2020.

## 1.2 Local Scene

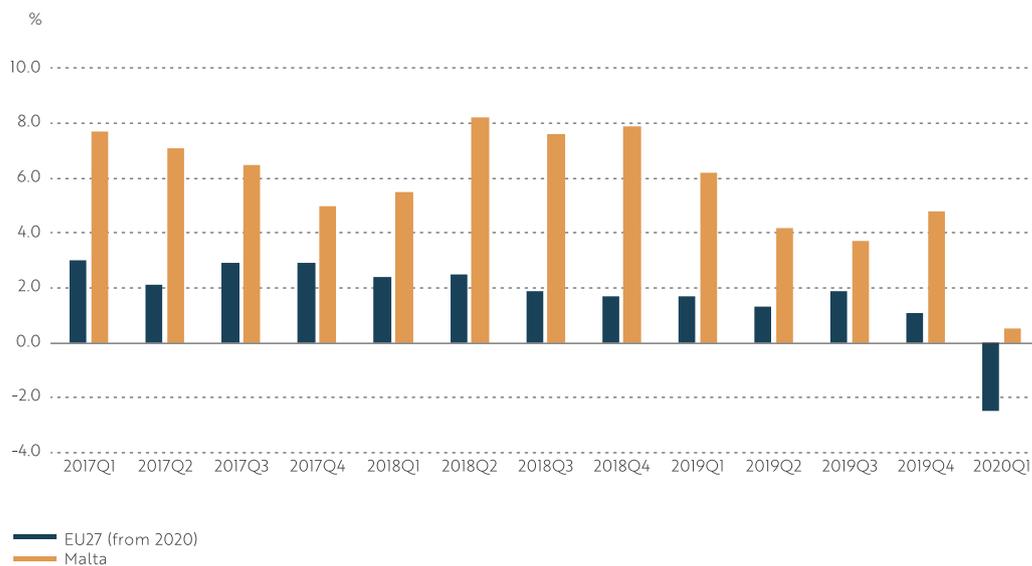
### Economic Growth

During the first quarter of 2020, the Maltese economy grew by 0.5 per cent in real terms over the corresponding period of last year. This growth was predominantly driven by net exports which contributed 3.4 percentage points to growth after a strong start to the year before the pandemic hit.

In nominal terms, total income grew by 1.9 per cent, mainly reflecting a 5.9 per cent (or €78.2 million) increase in compensation of employees and a 2.4 per cent (or €36.0 million) growth in gross operating surplus.

**Figure 1.1**

Real GDP GROWTH: 2017Q1 - 2020Q1



Source: NSO

**Table 1.1**

	2018	2019	2020f	2021f
<b>Main Macroeconomic Indicators</b>				
GDP growth at current market prices (%)	9.6	6.8	-3.6	6.4
GDP growth at Chain Linked Volumes by period (Reference year 2010) (%) <sup>1</sup>	7.3	4.4	-5.4	4.3
<b>Expenditure Components of GDP at Chain Linked Volumes by period (Reference year 2010) (%)</b>				
Private final consumption expenditure <sup>2</sup>	7.6	2.4	-0.8	1.8
General government final consumption expenditure	12.7	12.0	16.5	-3.2
Gross fixed capital formation	-2.1	7.2	-4.0	8.8
Exports of goods and services	3.5	1.7	-12.1	7.2
Imports of goods and services	3.4	2.1	-8.0	5.8

**Source:** NSO, MFIN

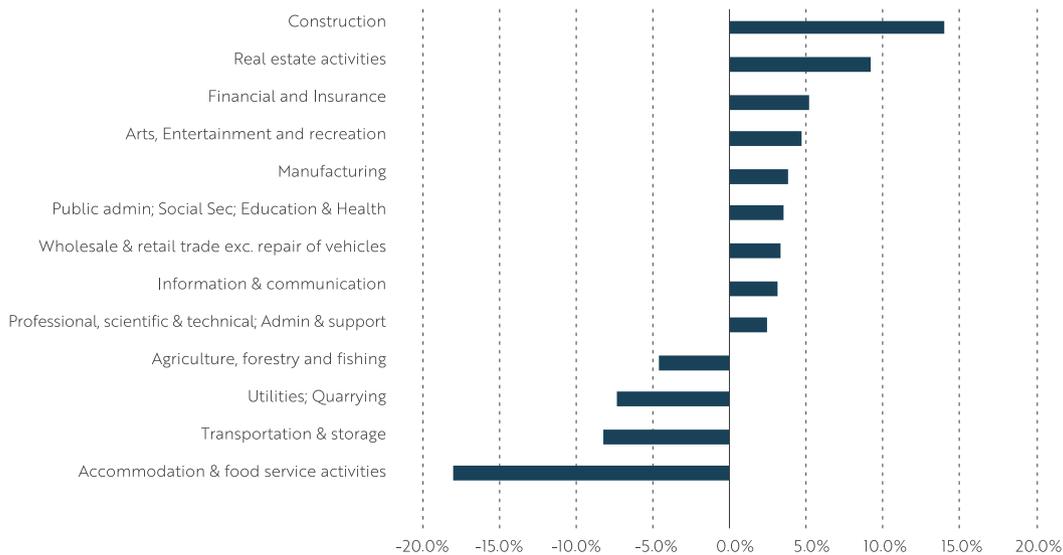
During the same period, total gross value added increased by 2.6 per cent. The first three months of 2020 were sufficiently buoyant to yield growth in gross value added in most sectors. The highest growth rates were recorded in the construction sector (14.1 per cent), the real estate sector (9.2 per cent), the financial and insurance sector (5.2 per cent) and the arts, entertainment and recreation sector (4.7 per cent). The wholesale and retail trade and the manufacturing sectors also recorded growth in gross value added. A few sectors witnessed immediate negative implications from the outbreak of the pandemic and the enforcement of the stringent but necessary containment measures, with the most affected sector, as expected, being the accommodation and food service activities sector.

<sup>1</sup> Users should note that chain-linking gives rise to components of GDP not adding up to the aggregate real GDP series. This non-additivity, similar to that in other countries' national accounts, is due to mathematical reasons and reflects the fact that chain-linked volumes are calculated by separately extrapolating both totals and their sub-components.

<sup>2</sup> Includes NPISH final consumption expenditure.

**Figure 1.2**

Growth in Gross Value Added in 2020Q1



Source: NSO

## Labour Market

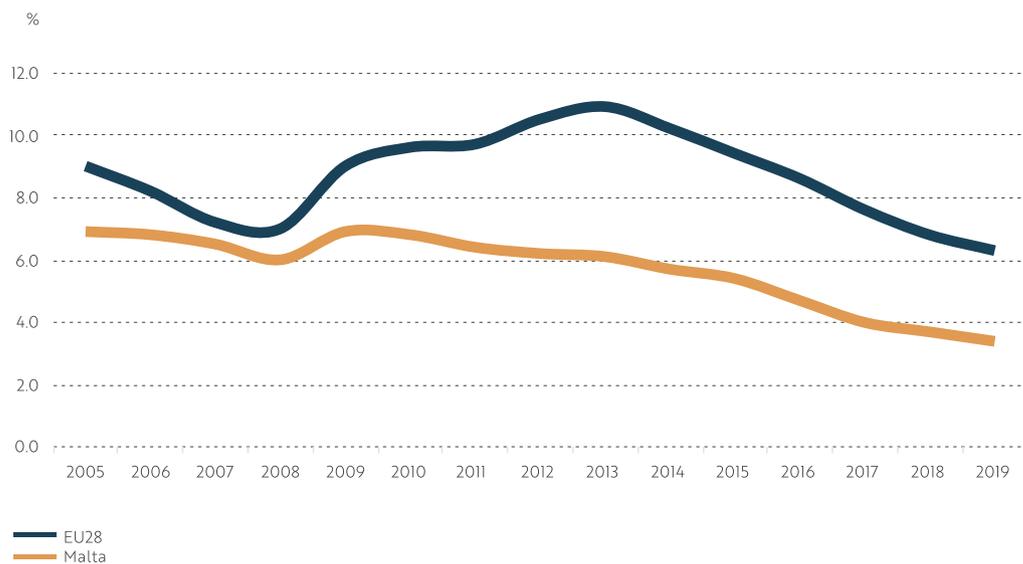
The labour market continued to yield positive developments in 2019. Employment growth (as per Labour Force Survey) stood at 5.8 per cent, reflecting strong labour market conditions and the robust state of the Maltese economy. Employment growth was driven by improved business prospects and inflows of foreign workers, while further supported by ongoing efforts in promoting and sustaining active labour market policies. The latter included work-life balance measures, family-friendly measures, in-work benefit, tapering of benefits, deferred retirement incentives and lower taxes on labour which have effectively helped increase participation rates, particularly among females and the elderly.

Indeed, these efforts contributed to further improvements in the female participation rate, which increased by 2.3 percentage points in 2019. This helped further reduce the gender disparity between employment rates of males and females. The overall activity rate for 2019 was estimated at 76.0 per cent, with the highest rate recorded being among persons aged 25-54 (87.7 per cent). During the first quarter of 2020, there was an increase of 5.5 per cent in employment when compared to the corresponding quarter of 2019.

The unemployment rate (based on the Harmonised definition) reached a historically low level at 3.4 per cent in 2019, which was 2.9 percentage points lower than the EU-28 average (2019 composition). Malta also fared relatively well when considering youth unemployment (ages 15 to 24) which stood at 9.2 per cent compared to the EU-27 average of 14.3 per cent.

Unemployment data covering the first three months of this year shows that Malta recorded one of the lowest unemployment rates among European Member States, at 3.4 per cent. In June, there was an increase in the unemployment rate to 4.2 per cent. Nevertheless, this increase was marginal when compared to the increase recorded in the other EU Member States. Indeed, in June, Malta recorded the third lowest unemployment rate in the EU. The June unemployment rate was also 0.1 percentage points lower than the previous month.

**Figure 1.3**  
Unemployment Rate

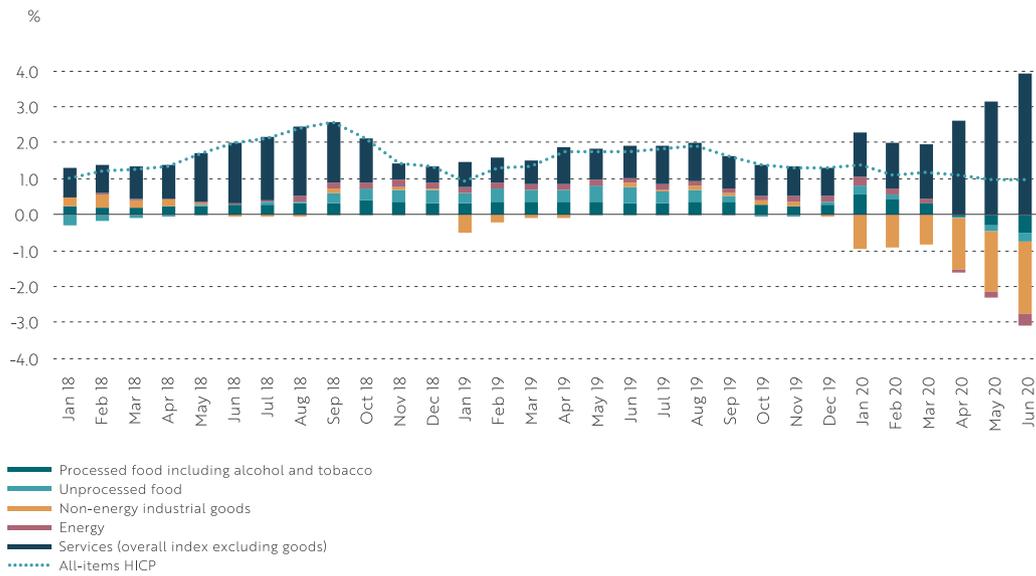


Source: Eurostat

## Inflation

From January to June 2020, HICP inflation has decelerated from 1.4 per cent to 1.0 per cent. The main drivers of this deceleration were declines in unprocessed food and energy. In terms of contributions, the 1.0 per cent inflation rate was made up of a higher contribution of the services subcomponent which outweighed the decline in the contribution of non-energy industrial goods, processed food and energy subcomponents, as illustrated in Figure 1.4.

**Figure 1.4**  
Contributions to Year-on-Year HICP Inflation



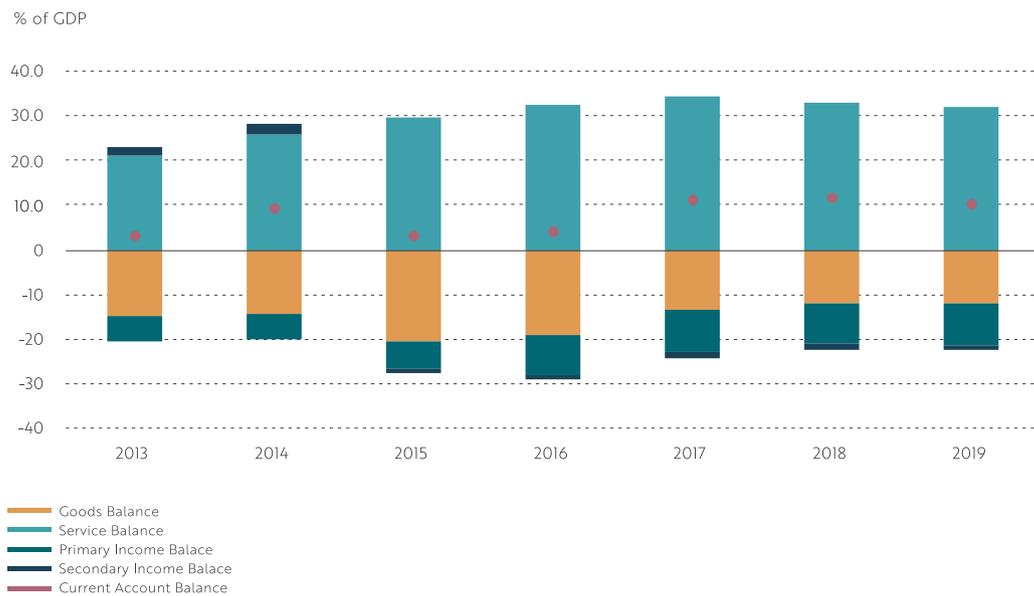
Source: NSO, MFIN

## Balance of Payments

The balance of payments records inflows and outflows of goods, services and financial transactions. The current account focuses on flows related to goods, services and income from Malta to the rest of the world. Over recent years Malta has recorded a surplus which reached 9.8 per cent of GDP in 2019. The main contributor of this surplus was the strong net export balance which stood at 20.5 per cent of GDP, underlined by a services net export balance of 32.2 per cent of GDP and a modestly downward trending goods net import balance of 11.9 per cent of GDP. The key drivers behind the strong net export figure include substantial increases in exports related to personal, cultural and recreational services, travel, transport, financial and insurance services.

**Figure 1.5**

Current Account



Source: NSO

The primary income account within the current account shows the income received on Malta residents' foreign investments and income paid to foreigners on their investments in Malta. In 2019, Malta's primary income account had a net payment balance of 9.5 per cent of GDP, implying that income flows from Malta to foreign jurisdictions outweighed income inflows to Malta. This balance is driven by substantial direct investment liability net payments which is partially offset with net receipts with respect to portfolio investment assets. The secondary income account is only a minor component of Malta's balance of payments and shows any income transfers unrelated to any services rendered (such as pensions and remittances). In 2019, the secondary income account had a net payment balance of 1.2 per cent of GDP.

The net international investment position takes stock of the amount of foreign assets and liabilities held in Malta. As at the end of 2019, Malta held around €255.2 bn in assets and €246.9 bn in liabilities. Most of the assets are held in the form of either portfolio or direct investments, while most of the liabilities are held in the form of direct investment. The overall net international position as at the end of 2019 stood at 62.2 per cent of GDP.

Throughout the first quarter of 2020, the current account recorded a surplus of 6.3 per cent of GDP, with net exports of goods and services amounting to 17.2 per cent of GDP, the primary income net payment balance reaching 9.9 per cent of GDP and the secondary income account recording a net payment balance of 1.0 per cent of GDP.

### 1.3 Growth Prospects

The Maltese economy is expected to contract by 5.4 per cent in real terms during 2020. International developments are projected to weigh on Malta's net export performance with a negative 7.2 percentage point contribution to GDP. Nevertheless, the domestic component of the economy is expected to contribute 1.8 percentage points to growth in 2020.

The outlook for 2021 is subject to a high degree of uncertainty and is highly contingent on the economic recovery in Malta's trading partners, the persistence of supply disruptions due to the severity of the shock as well as the speed at which the confidence and behaviour of domestic consumers and firms will return to normality. The baseline projection accounts for gradual resumption of economic activity from the third quarter of 2020, and a recovery in 2021.

Indeed, the Maltese economy is expected to resume its positive performance and grow by 4.3 per cent in real terms in 2021. This reflects the fact that growth rates in the main GDP components are expected to turn positive in reflection of the recovery in tourism, external demand and domestic sentiment. Net exports are projected to be the main driver of this growth with an expected contribution of 2.5 percentage points followed by a positive domestic demand contribution of 1.8 percentage points.

Private consumption growth for 2020 is projected to decline by 0.8 per cent. In 2021, a rebound in consumption of 1.8 per cent is projected supported by employment creation and stronger wage growth.

Public consumption is expected to grow by 16.5 per cent, on the back of significant increases in expenditure following the announcement of various Government support measures aimed at sustaining employment and guaranteeing corporate liquidity as well as higher expenditure in relation to the health sector. In 2021, on the back of a substantial base effect from the significant growth in 2020, public consumption growth is projected to decline by 3.2 per cent.

Gross fixed capital formation is projected to decline by 4.0 per cent in 2020, reflecting the deferral of large-scale planned investment projects due to the uncertain outlook. Whilst the COVID-19 situation is expected to weigh on investment appetite, it is assumed that this is a temporary shock and hence the impact on the longer-term outlook should remain limited. In fact, as firm and investor sentiment is gradually restored and the announced projects in the pipeline progress in accordance to plans, gross fixed capital formation is projected to grow by 8.8 per cent, as several large-scale investment projects particularly in transport and aviation, tourism, real estate and health sectors are expected to recuperate.

From an external perspective, the subdued outlook in Malta's main trading partners is reflected in the anticipated decline of 12.1 per cent in exports in 2020. Partially offsetting this drop is a decline in imports of 8.0 per cent, reflecting lower imports of capital goods and industrial supplies. In 2021, a recovery in growth of Malta's main trading partners is anticipated to result in an increase in exports of 7.2 per cent. Moreover, a substantial increase in investment activity, coupled with improved domestic activity prospects explains the growth in imports of 5.8 per cent.

Despite Government's policy efforts to ease cash flows challenges faced by local businesses as a result of the pandemic, some negative consequences on the labour market are expected to materialise in the short-term. Employment is expected to decline by 3.3 per cent in 2020 while the unemployment rate (based on the Harmonised definition) is projected to amount to 5.9 per cent. In 2021, a pick-up in economic activity is projected to generate employment growth of 3.2 per cent. These favourable labour market dynamics correspond to a reduction in the unemployment rate to reach 3.7 per cent.

Compensation of employees is projected to decline by 1.8 per cent in 2020 before recovering to rise by 6.1 per cent in 2021. In 2021, growth in compensation per employee is projected to be 2.8 per cent. Table 1.2 presents the main labour market indicators for the years 2018 to 2021.

**Table 1.2**

	2018	2019	2020f	2021f
<b>Labour Market Indicators</b>				
Employment Growth % (National Accounts Definition, Domestic Concept)	5.5	5.7	-3.3	3.2
Labour Productivity (%change)	1.8	-1.2	-2.2	1.1
Compensation of Employees (% change)	7.7	7.6	-1.8	6.1
Compensation per Employee (% change)	2.1	1.8	1.6	2.8
Unemployment rate (Harmonised definition, %)	3.7	3.4	5.9	3.7

**Source:** NSO, MFIN

The inflation rate is expected to decline to 1.0 per cent in 2020. Underlying the deceleration in inflation is the unprecedented drop in oil prices as a result of the COVID-19 developments together with subdued services inflation resulting from the suppression in demand being more austere than the supply-side restraints. Inflation is expected to increase to 1.4 per cent in 2021, as demand recovers when the pandemic subsides.

These macroeconomic projections have been recently assessed and endorsed by the Malta Fiscal Advisory Council. It is important to emphasize that the figures presented are scenario-based projections, and risks remain skewed towards the downside for 2020. Furthermore, the real GDP growth for 2020 would have been materially worse had it not been for the wide-ranging public intervention by the Government, that should help support domestic demand and mitigate the liquidity constraints of enterprises in the face of the severe supply restrictions imposed. Estimates suggest that the measures restored around 2.0 percentage points to GDP growth whilst supporting the liquidity of enterprises to help them avoid job losses. These policies, ranging from wage supplements, tax deferrals, quarantine leave, teleworking measures, and liquidity guarantees, will be crucial in cushioning the impact on the real economy, averting stresses on the financial system and supporting a stronger post-COVID recovery.

## 1.4 International Scene

### Economic Growth and Growth Prospects in the Global Economy

In 2019, the European economy grew by 1.5 per cent, down 0.5 percentage points from the growth recorded in the previous year. Global Gross Domestic Product (GDP) growth excluding the EU amounted to 3.0 per cent in 2019 and this was also 0.7 percentage points lower than previously recorded. The slower growth was mainly driven by a deceleration in world demand which was particularly evident in manufacturing, a decline in productivity and geopolitical tensions which acted as a headwind on global trade.

The effect of the COVID-10 pandemic shock distinguishes itself from previous crises as the declines in demand are complemented with supply restrictions resulting from the mandatory imposition of various lockdowns. The unrelenting speed at which the virus spread resulted in unanticipated strains on health care systems. International institutions and the Governments hastily responded to the outbreak by loosening monetary policies and providing fiscal stimulus in an attempt to cushion the economic setback. Despite these efforts, the situation going forward is overshadowed with uncertainty with respect to both the duration of the virus as well as the intensity at which it reproduces.

Against this background, the European Commission Spring 2020 forecast expects global growth to contract by 2.9 per cent as economies struggle to operate amidst the pandemic outbreak. This projection assumes that economic activity will resume in the second half of 2020. On the back of this assumption, global growth is expected to bounce back by 5.0 per cent in 2021. The European Commission highlights that the recovery will be uneven across countries and regions, depending on their policy space and their pre-pandemic economic health.

Indeed, the impact on emerging and low-income countries is projected to be long lasting, especially in view of the economic, financing and social challenges as well as their dependence on commodities. Economies like Russia and Brazil are projected to experience negative growth of 5.0 per cent and 5.2 per cent in 2020 respectively, while the recovery in 2021 is also projected to be muted at 1.6 per cent and 1.9 per cent respectively.

Meanwhile, other resilient emerging markets like China and India are still expected to grow by 1.0 per cent and 1.1 per cent in 2020 respectively, before rebounding strongly in 2021 at 7.8 per cent and 6.7 per cent growth respectively.

Advanced economies like the US and Japan are also projected to suffer substantial declines in growth in 2020, with declines in the range of 6.5 per cent and 5.0 per cent respectively. In 2021 the US is expected to grow by 4.9 per cent, while Japan is projected to grow by 2.7 per cent as a result of the expected capital inflows causing upward pressure on currencies and downward pressure on yields, which can help to sustain the low interest environment and kick-start economic growth.

Adopting the same assumption that economic activity will resume in the second half of 2020, the IMF's April World Economic Outlook points towards a marginally more pessimistic outlook in 2020 as global growth declines by 4.9 per cent. However, the projected recovery is more buoyant, as global growth is projected to rise by 5.4 per cent. In the meantime, yield curves have continued to flatten, or even turn negative in some regions supported by central banks' commitment to support the economy as well as weak inflation expectations. Major global central banks' communication to retain low borrowing costs and ensure sufficient liquidity is injected into the economies signals that, the worst appears to be over. However, uncertainty still remains, particularly on whether second or even third waves of the virus may emerge, whether and when a vaccine becomes readily available to the market and the behavioural response of consumers and firms. Hence, the balance of risk is primarily tilted to the downside over the short term.

**Table 1.3**

	2018	2019	2020f	2021f
<b>Real GDP Growth (%)</b>				
EU	2.1	1.5	-7.4	6.1
Euro Area	1.9	1.2	-7.7	6.3
USA	2.9	2.3	-6.5	4.9
Japan	0.3	0.7	-5.0	2.7
Malta	7.3	4.4	-5.8	6.0
<b>Inflation (%) (Consumer Prices)</b>				
EU	1.8	1.4	0.6	1.3
Euro Area	1.8	1.2	0.2	1.1
USA	2.4	1.8	0.5	1.5
Japan	1.0	0.5	0.0	0.2
Malta	1.7	1.5	0.7	1.1

	2018	2019	2020f	2021f
<b>Unemployment Rate (%)</b>				
EU	7.3	6.7	9.0	7.9
Euro Area	8.2	7.5	9.6	8.6
USA	3.9	3.7	9.2	7.6
Japan	2.4	2.3	4.3	4.5
Malta	3.7	3.4	5.9	4.4
<b>Employment Growth (%)</b>				
EU	1.4	1.0	-4.4	3.3
Euro Area	1.5	1.2	-4.7	3.9
USA	1.7	1.1	-6.3	2.0
Japan	1.7	0.5	-5.0	-1.0
Malta	6.0	5.6	-1.8	2.8
<b>General Government Balance (%GDP)</b>				
EU	-0.4	-0.6	-8.3	-3.6
Euro Area	-0.5	-0.6	-8.5	-3.5
USA	-6.6	-7.2	-17.8	-8.5
Japan	-2.3	-2.3	-4.9	-5.3
Malta	1.9	0.5	-6.7	-2.5
<b>General Government Debt (%GDP)</b>				
EU	81.3	79.4	95.1	92.0
Euro Area	87.8	86.0	102.7	98.8
USA	108.7	111.1	136.2	136.6
Japan	237.1	236.5	254.1	252.6
Malta	45.6	43.1	50.7	50.8

**Source:** Eurostat, AMECO & the European Commission Spring 2020 Forecast

## **Economic Growth and Growth Prospects in the EU**

The COVID-19 pandemic struck the European economy while it was on a moderate recovery path following the great recession of 2009. Economic activity in Europe has weakened significantly over the first half of the year, as the containment measures triggered in response to the crisis by most Member States in March put the European economy into an unprecedented lockdown.

Following the 1.5 per cent growth the EU experienced in 2019, the economy contracted by 2.5 per cent in the first quarter of 2020 and this downward trend is expected to continue.

Over recent weeks, the euro has gained lost ground against major currency pairs in nominal effective terms after a notable depreciation at the outset of the pandemic, reflecting aggressive monetary accommodation and capital flowing into perceived safe haven assets. The recent appreciation is reflective of weakening commodity prices, increased optimism on the proposed joint European recovery package, as well as capital outflows from emerging market currencies that have occurred amid mounting evidence about the damaging economic impact the COVID-19 pandemic will have on the global economy.

Labour markets were the highlight of the expansion years up to early 2020, as unemployment rates fell to their lowest in more than a decade and employment reached new all-time highs. However, in the first quarter of 2020, employment growth decreased by 0.2 per cent in both the EU and the Euro Area (EA), and is expected to decrease further throughout the rest of the year. Employment growth in the EU and the EA are expected to decrease by 4.4 per cent and 4.7 per cent respectively. Furthermore, the unemployment rate is expected to reach 9.0 per cent and 9.6 per cent for the EU and the EA respectively.

The European Commission expects the EU economy to contract by 7.4 per cent this year and rebound by 6.1 per cent in 2021, while the EA is expected to contract by 7.7 per cent this year and rebound 6.3 per cent in 2021. That said, the significant stimulus packages proposed by European leaders in conjunction with accommodative monetary policy in the foreseeable future will surely be instrumental in supporting Member States' recovery prospects.

Of noteworthy is the fact that the European Commission expects Malta to record the least negative economic growth in the Euro Area (EA) this year and a higher than the EU and EA average economic growth rate in 2021.



02

FISCAL  
SUSTAINABILITY





5007A	06250	0150	0000%
7105	015%		
0007A	102500		
17005	000%		

10000	10000	10000
10000	10000	10000
10000	10000	10000

**USDPPI FALL drags 18 Portland producers as it sends...  
 Federal Reserve's...  
 ...**

Symbol	Last Price	Net Change	% Change
USDPPI	10000.0	-10.00	-0.10%
USDPPI	10000.0	-10.00	-0.10%
USDPPI	10000.0	-10.00	-0.10%

**Exchange Rates**

Pair	Last Price	Net Change	% Change
US Dollar / Australian Dollar	0.7500	0.0000	0.00%
US Dollar / Canadian Dollar	1.3000	-0.0000	0.00%
US Dollar / Euro	0.7500	-0.0000	0.00%
US Dollar / Japanese Yen	100.00	0.0000	0.00%

## 2.1 Introduction

During the past seven years, the Government managed to effectively consolidate public finances by turning a deficit of 3.5 per cent of GDP in 2012 into a surplus. The year 2019 was the fourth consecutive year when a budget surplus was recorded. In 2019, the general Government surplus stood at 0.5 per cent of GDP. Furthermore, the gradual but consistent fiscal effort also positively impacted the debt ratio which fell below the 60 per cent target in 2015 and continued on its declining path ever since, reaching 42.9 per cent of GDP in 2019.

The improvement in Government's finances driven by favourable economic conditions and the strengthening of Malta's fiscal framework, contributed towards the recovery of the necessary fiscal space to allow fiscal policy to act in a countercyclical manner, while also helping to improve the long-term sustainability of public finances. Such developments are considered favourably by rating agencies and resulted in positive rating actions in recent years, which in addition to recent reform efforts, have helped to encourage investment in a number of important areas.

Fiscal consolidation and sustainable debt levels also strengthen potential growth and support the process of convergence to higher living standards. Cognisant of this, the Government will continue to prioritise fiscal consolidation once the pandemic is over.

The general Government balance is estimated to turn to a deficit of 8.7 per cent of GDP in 2020. Indeed, fiscal developments in 2020 are expected to be affected considerably by the negative impact of the COVID-19 pandemic on macroeconomic developments and the COVID-19 support measures. It is noteworthy that in the absence of such an unprecedented shock, public finances would still be in a surplus position. Against the background of the strong underlying macroeconomic fundamentals, the Maltese Government is well-positioned to put in place measures to minimise the impact of the COVID-19 pandemic, thus ensuring that the economy returns as quickly as possible to the path of economic growth. On account of these developments, as well as the gradual termination of some temporary social and economic support measures, the general Government balance is expected to improve to a deficit of 4.0 per cent of GDP in 2021<sup>3</sup>.

<sup>3</sup> The forecast for 2021 remains subject to a significant degree of uncertainty in light of the ongoing impact of the pandemic on the global economy.

## 2.2 Fiscal Developments in 2019

In 2019, the general Government surplus stood at 0.5 per cent of GDP. Furthermore, the debt ratio has fallen to 42.9 per cent of GDP in 2019.

### 2.2.1 Budget 2019 Outcomes against Targets

During 2019, the general Government recorded a surplus of €71.0 million.

Table 2.1 displays the Government's final fiscal position for 2019 compared to the targets revised in the 2019 Medium Term Fiscal Strategy. It is important to note that the targets for 2019, as outlined in Spring 2019, were different from those underlying the 2019 Budget presented in October 2018 due to updated fiscal information available and revised macroeconomic assumptions upon which the fiscal projections are based.

When compared to the surplus of €120.3 million estimated in the 2019 Medium Term Fiscal Strategy (MTFS), the general Government surplus was €49.3 million lower in 2019. The general Government revenue turned out €79.1 million lower than estimated in the 2019 Medium Term Fiscal Strategy, while expenditure was €29.8 million lower than estimated. A detailed comparison of the 2019 actual figures versus the MTFS estimates for 2019 is illustrated in Table 2.1.

At 42.9 per cent of GDP, the 2019 actual ratio of general Government debt-to-GDP was marginally higher than the estimate presented in the 2019 Medium Term Fiscal Strategy, mainly due to a lower than projected primary surplus.

**Table 2.1**

General Government Finances, 2019

€ millions

	Estimate	Actual	Difference
<b>Revenue</b>	<b>5,124.4</b>	<b>5,045.3</b>	<b>-79.1</b>
<i>Components of revenue</i>			
Taxes on production and imports	1,665.8	1,601.2	-64.6
Current taxes on income and wealth	1,796.4	1,827.0	30.6
Social contributions	817.5	800.1	-17.4
Property income	68.5	61.7	-6.8
Market Output and Output for own final use	446.1	527.9	81.8
Other revenue	330.1	227.3	-102.8
<b>Expenditure</b>	<b>5,004.1</b>	<b>4,974.3</b>	<b>-29.8</b>
<i>Components of expenditure</i>			
Compensation of employees	1490.3	1484.1	-6.2
Intermediate consumption	936.9	985.9	49.0
Social payments in cash and in kind	1275.1	1236.5	-38.6
Interest expenditure	186.5	181.3	-5.2
Subsidies	165.4	195.0	29.6
Gross fixed capital formation	525.1	505.9	-19.1
Capital Transfers Payable	168.6	107.0	-61.1
Other expenditure	256.2	278.5	22.3
<b>General Government Balance</b>	<b>120.3</b>	<b>71.0</b>	<b>-49.3</b>
<b>Primary Balance</b>	<b>306.8</b>	<b>252.3</b>	<b>-54.5</b>

Source: NSO, MFIN

## 2.3 Fiscal Outlook in 2020

Revisions were carried out to the components of both revenue and expenditure for 2020, compared to the projections outlined in the 2020 Draft Budgetary Plan. These revisions reflect the final outcome in 2019, the impact on economic activity resulting from the COVID-19 pandemic, as well as the fiscal impact of the Government support measures and the subsequent economic recovery plan. This plan is built on three main pillars, aimed at reducing costs for businesses and providing more liquidity, boosting domestic demand and providing direct support to industry while incentivising work. These measures would not have been possible in the absence of sound public finances. On account of these revisions, in 2020, the budget balance is expected to turn to a deficit of 8.7 per cent of GDP. Updated budgetary plans are outlined in Table 2.2.

The negative economic and fiscal impact of COVID-19 is assumed to be temporary, as Malta is expected to recover rapidly following the gradual opening of the economy and the Government support measures that have avoided a substantial reduction in jobs. The positive track record in public finances in recent years and Government's commitment to meeting fiscal targets will help bring public finances back into balance over the forthcoming years.

The outbreak of the pandemic exerted adverse effects particularly in tourism-related industries. These developments are expected to negatively affect proceeds from taxes on production and imports. The Government support measures, particularly those aimed at sustaining employment are expected to mitigate the severity of the downturn on compensation of employees. In addition, the support measures aimed at sustaining corporate liquidity and profitability are aimed at reducing the risk of corporate insolvencies and are expected to minimise the timeframes within which the more severely hit sectors recover.

In this context, it is worth reiterating that the outlined fiscal projections assume a gradual and partial resumption of economic activity from the third quarter of 2020. On account of these developments, the general Government revenue to GDP ratio is expected to decline by 0.6 percentage points to 37.4 per cent of GDP compared to 2019.

Meanwhile, the ratio of general Government expenditure to GDP is expected to increase by 8.6 percentage points to 46.1 per cent in 2020. The increase in the expenditure-to-GDP ratio is mainly underpinned by the fiscal impact of COVID-19 related measures as well as measures legislated by means of the 2020 Budget. Indeed, the projections for general Government expenditure have been revised significantly upwards, mainly on account of fiscal measures introduced to mitigate the effects of COVID-19 pandemic.

**Table 2.1**

General Government Finances, 2018-2020  
% of GDP

	2018	2019	2020f
<b>Revenue</b>	<b>38.5</b>	<b>38.0</b>	<b>37.4</b>
<i>Components of revenue</i>			
Taxes on production and imports	12.7	12.1	11.0
Current taxes on income and wealth	13.3	13.8	14.1
Social contributions	6.2	6.0	6.0
Property income	0.7	0.5	0.5
Market Output and Output for own final use	4.0	4.0	4.0
Current transfers	0.4	0.3	0.4
Capital transfers	1.2	1.4	1.4
<b>Expenditure</b>	<b>36.6</b>	<b>37.5</b>	<b>46.1</b>
<i>Components of expenditure</i>			
Compensation of employees	11.1	11.2	12.4
Intermediate consumption	6.6	7.4	9.6
Social benefits and social transfers in kind	9.5	9.3	10.6
Interest expenditure	1.5	1.4	1.4
Subsidies	1.4	1.5	4.3
Gross fixed capital formation	3.1	3.8	4.8
Capital Transfers Payable	1.3	0.8	0.6
Current Transfers Payable	2.1	2.0	2.4
Other expenditure	-0.1	0.1	0.1
<b>General Government Balance</b>	<b>1.9</b>	<b>0.5</b>	<b>-8.7</b>
<b>Primary Balance</b>	<b>3.4</b>	<b>1.9</b>	<b>-7.3</b>

Source: NSO, MFIN

### 2.3.1 Developments during January-June 2020

Table 2.3 displays the consolidated central Government revenue and expenditure as reported for the first six months of the year for 2019 and 2020. Actual values are compared to the Ministry for Finance and Financial Services (MFIN) estimated monthly figures using a set of monthly seasonal indices. The resulting variance is presented in the last column. It should be noted that non-tax revenues from the Central Bank of Malta, rents, dividends on investment and interest payment will be accrued at end-of-year and hence the variance is set to zero. Also, since revenue from grants and foreign financed capital expenditure tend to cancel each other by the year end, the variance of the two is not considered.

This exercise is based on cash data such that the in-year budgetary performance is not symmetrical throughout the year. Seasonal patterns may also vary from one year to the next due to the timing of payments and receipts. Therefore, in-year budgetary data as a measure of in-year budgetary performance should be read with caution.

Moreover, the seasonal forecasting model cannot capture the very recent extraordinary circumstances and the resulting impact on Government revenue and expenditure, including the fiscal impact of measures intended to mitigate the negative economic consequences brought about by the COVID-19 pandemic, whose fiscal impact is not evenly spread during the year. As a result, this evaluation should be considered with more caution than the comparable analyses in previous Pre-Budget Documents.

During the first six months of 2020, recurrent revenue was €139.5 million lower than estimated for the period under review as lower than estimated revenue from both direct and indirect taxes, of €131.7 million and €49.5 million respectively, was only in-part offset by higher than estimated revenue of €41.7 million from non-tax components. In view of the exceptional and unprecedented nature of the support measures, seasonal estimates may not be consistent with the actual timing of fiscal assistance intended to improve business liquidity pressures on the cash flow arising from the COVID-19 pandemic, whereby Government provided a tax deferral scheme for specific categories of tax<sup>4</sup>.

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<sup>4</sup> <https://cfr.gov.mt/en/News/Pages/2020/Fiscal-Assistance-Postponement-of-Payment-of-Certain-Taxes.aspx>

Additionally, further recovery measures were announced relating to property and construction, in particular, a reduction in stamp duty on property purchased, lower tax for those selling property and an updated 1st time buyers scheme.

Total expenditure was €28.8 million higher than estimated, as both recurrent expenditure and capital expenditure overperformed targets by €2.7 million and €26.0 million respectively. Programmes and Initiatives and Personal Emoluments were lower than estimated by a total of €23.3 million, while Operations and Maintenance expenditure and Contributions to Government Entities were higher than estimated by €26.0 million.

Domestically financed capital expenditure exceeded the estimate for the period by €26.0 million. These developments mainly reflect additional spending towards investment incentives (€138.0 million), which amounted to €162.0 million, including €154.0 million spent with respect to the COVID-19 Wage Supplement.

**Table 2.3**

Central Government Finances, January-June 2019-2020

Consolidated Fund Data € millions	2019 Actual	2020 Actual	2020 Estimate	Variance
<b>Recurrent Revenue</b>	<b>2,164.5</b>	<b>1,819.3</b>	<b>1,958.8</b>	<b>-139.5</b>
Customs and Excise Duties	153.5	118.2	151.8	-33.6
Licenses, Taxes, and Fines	202.2	147.8	198.6	-50.8
Value Added Tax	448.1	361.6	326.7	34.9
Income Tax	685.2	557.0	662.2	-105.2
Social Security	470.6	412.1	438.6	-26.5
Fees of Office	40.3	55.3	60.1	-4.9
Reimbursements	22.5	14.7	1.9	12.9
Central Bank of Malta	20.0	20.0	20.0	0.0
Rents	23.3	14.9	14.9	0.0
Dividends on Investments	8.6	12.7	12.7	0.0
Repayment of Interest on Loans	0.04	0.01	0.14	-0.13
Grants	71.5	54.5	54.5	0.0
Miscellaneous	18.7	50.6	16.8	33.9
<b>Total Expenditure</b>	<b>2,320.7</b>	<b>2,715.0</b>	<b>2,686.2</b>	<b>28.8</b>
Personal Emoluments	441.6	454.4	458.3	-3.9
Operations and Maintenance	104.8	131.2	110.2	21.0
Programmes and Initiatives	1,237.6	1,348.9	1,368.3	-19.4
Contributions to Government Entities	222.9	300.5	295.5	5.0
Interest Payments	94.2	93.1	93.1	0.0
Capital Expenditure	219.5	386.9	360.8	26.0
Foreign	66.2	55.5	55.5	0.0
Domestic	153.3	331.4	305.4	26.0
<b>General Government Balance</b>	<b>-156.2</b>	<b>-895.6</b>	<b>-727.4</b>	<b>-168.3</b>

Source: NSO, MFIN

## 2.4 Debt Levels and Developments

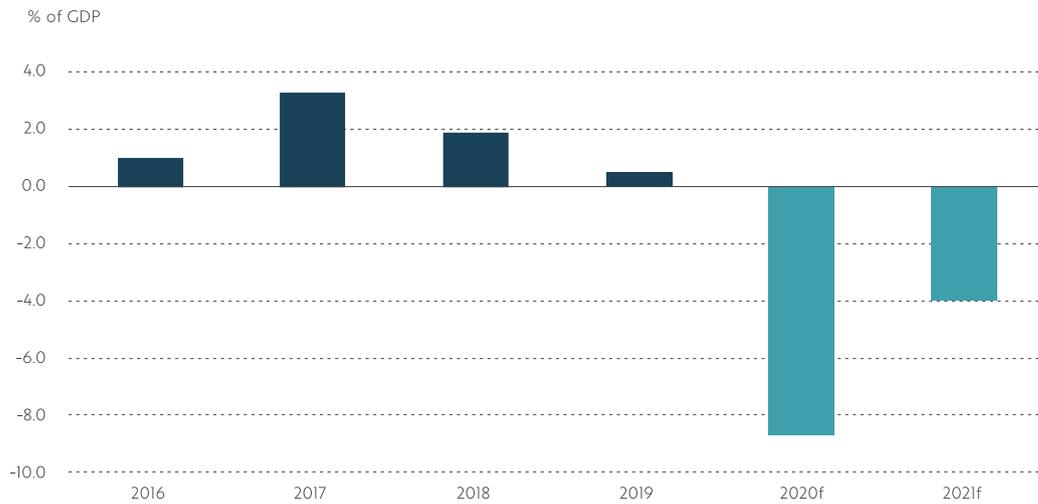
The Government debt has declined below the 60 per cent Treaty requirements in 2015 and maintained a sustained downward trajectory, declining to a debt-to-GDP ratio of 42.9 per cent in 2019. The decline of 2.6 percentage points of GDP over 2018 is mainly attributable to the healthy state of public finances as well as the strong and sustained rate of economic growth.

In 2020, the estimated general Government debt-to GDP ratio is expected to increase but remain below the 60 per cent debt-to-GDP EU threshold to 54.2 per cent of GDP. This is mainly due to the negative primary balance together with an expansionary impact of the SFA on the debt-to-GDP, reflecting the impact of the COVID-19 pandemic.

Although the overall underlying debt dynamics are expected to improve in 2021, the debt-to-GDP ratio is expected to marginally increase in 2021 to 55.8 per cent of GDP. The projected increase in the gross debt ratio is mainly driven by the expansionary impact of the primary balance and the stock flow adjustment, partly offset by the contractionary impact of the 'snowball effect'.

**Figure 2.1**

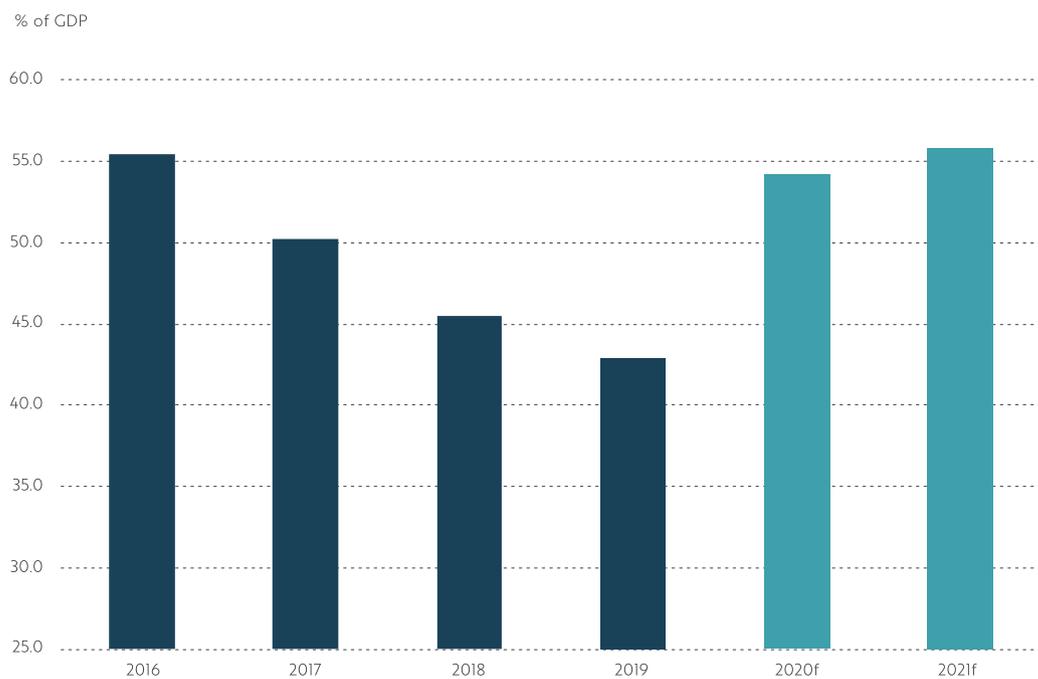
General Government Balance 2016 - 2021



Source: NSO, MFIN

**Figure 2.2**

General Government Debt 2016 - 2021



Source: NSO, MFIN

## 2.5 Malta's Medium-Term Fiscal Strategy

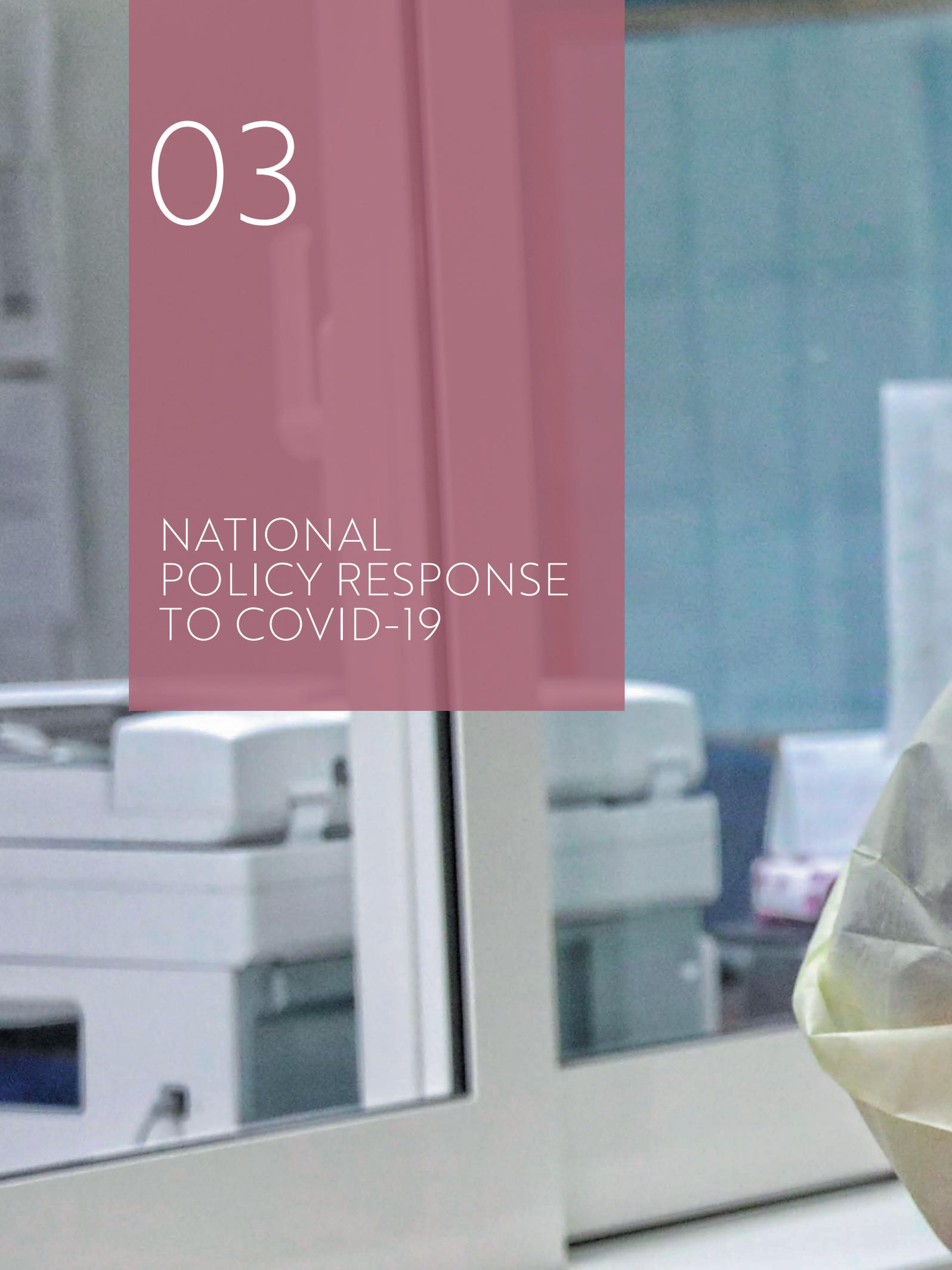
Fiscal rules established by the Fiscal Responsibility Act (FRA) and the Stability and Growth Pact (SGP) are currently suspended in view of the exceptional circumstances and the activation of the general escape clause triggered by the consequences on the economy resulting from the pandemic. These provisions apply to both the departure from the Medium-Term Objective (MTO), as well as the adjustment path towards it. As long as exceptional circumstances prevail, any departure from the MTO in that year and any lack of sufficient adjustment towards the MTO in any of the years that the exceptional circumstances prevail, do not constitute a breach of the rules.

Malta's strong economic and fiscal performance in recent years has allowed the country to be in a relatively good position to mitigate the impact on the economy from the economic and financial consequences of COVID-19. Prior to the pandemic, Malta's debt-to-GDP ratio had fallen sharply. This provided the Government with space to respond to the coronavirus shock, without jeopardising debt sustainability. Nevertheless, once exceptional circumstances no longer prevail, the Government will support a fiscal strategy to revert to the Medium-Term Objective of a balanced budget in structural terms and ensure that the debt ratio remains below 60 per cent of Gross Domestic Product (GDP). It is however premature at this stage to anticipate when these exceptional circumstances will cease to exist.



# 03

## NATIONAL POLICY RESPONSE TO COVID-19





The COVID-19 pandemic poses an unprecedented challenge with major socio-economic consequences for all countries affected. During the last six months, the Maltese Government has adopted a proactive approach through the launch of a series of financial packages to address the health emergency needs, retain individuals in employment and support economic activity. Moreover, following the gradual re-opening of non-essential retail outlets and accommodation establishments and services, the Government also launched a comprehensive recovery plan aimed at regenerating the Maltese economy.

### **3.1 The Government's Policy Response to COVID-19**

Since recording the first Covid-19 case in early March, the Government introduced public health restrictions with the aim of controlling the transmission of the virus and easing the workload on the healthcare systems. Measures such as the closure of the air and sea ports and the closure of non-essential retail outlets and accommodation establishments and services, had a direct impact on the viability of activity in specific sectors of the economy, in particular sectors directly related to the tourism industry.

To mitigate the negative effects on economic activity brought about by these unavoidable restrictive measures, the Maltese Government introduced several measures targeted to households and businesses to sustain public welfare and safeguard jobs.

### 3.1.1 Measures targeting households

In order to combat possible distortions in the labour market and encourage the retention of employees, the Government introduced the **Covid-19 wage supplement scheme**. The scheme provided financial assistance for the period covering 9th March and 1st July for both employees and the self-employed who operated in economic sectors that were negatively affected by the pandemic. Full-time employees operating in sectors that had been drastically affected by COVID-19 or had to temporarily suspend operation (Annex A) were entitled to a monthly gross wage of €800, whereas part-time employees were eligible for €500 per month.

In addition, full-time employees working in sectors that were adversely affected by the pandemic (Annex B) were entitled to one day's salary per week, equivalent to €160 per month, while part-time employees were entitled to €100 per month.

As illustrated in table 3.1, up to the beginning of July, around 16,612 registered businesses have benefitted from the wage supplement scheme, covering a total of 79,576 employees (69,538 full-timers and 10,038 part-timers). Specifically, 60,665 employees fell under Annex A of the scheme and hence were employed with sectors that were drastically affected by the pandemic, whereas 18,911 employees fell under Annex B of the scheme. The cost associated with the wage supplement scheme up to the beginning of July was €150.8 million for Annex A and €9.5 million for Annex B. The main sectors from which companies applied for the wage supplement scheme were the Accommodation and food service activities, followed by the Wholesale and retail trade sector and Administration and support services.

The Government also announced a set of social measures for the period between March and June, intended to alleviate the impact of COVID-19 on the financial condition of households. The **parental benefit scheme**, targeted working parents in the private sector, who could not go to work or carry out their functions through teleworking arrangements and were required to stay at home to take care of their school-aged children. Parents were entitled to a direct payment of €800 per month if working full-time or €500 per month if working part-time. The scheme ran between 9th March and 1st July, during which period, 4,500 parents benefitted from this scheme, costing €10.3 million.

The **additional unemployment benefit scheme** catered for employees who lost their jobs due to COVID-19. The scheme offered financial aid equivalent to that of the parent benefit for the period between 9th March and 1st July. During this period, a total of 2,140 benefitted from this scheme, incurring a cost of €3.5 million. By the end of June, around 385 beneficiaries of this scheme were re-engaged in employment.

Moreover, both the **medical and the disability benefit schemes** were granted to working disabled and vulnerable people who could not carry out their work functions due to being ordered to stay home for medical reasons. The latter schemes ran between 27th March and 5th June, during which period, a total of 2,058 person benefitted from the schemes, incurring a cost of €3.3 million. In total, the social measures incurred a cost of €17.2 million.

The **wage supplement scheme**, along with the **parent benefit scheme** safeguarded the jobs of 84,126 individuals. Such measures have been vital in adequately assisting and supporting business to prevent job losses and hence stabilising the increase in unemployment in Malta. Indeed, as illustrated in Figure 3.1, Malta's unemployment rate as at June2020 stood at 4.2 per cent, registering a relatively marginal increase of 0.8 per cent from the same rate recorded in March 2020. Indeed, in June, Malta's harmonized unemployment rate was 2.9 percentage points lower than the EU-27 average and was the third lowest rate recorded amongst the EU Member states and the lowest among Euro-Area members.

**Table 3.1**

Take-up and expenditure data of COVID-19 measures

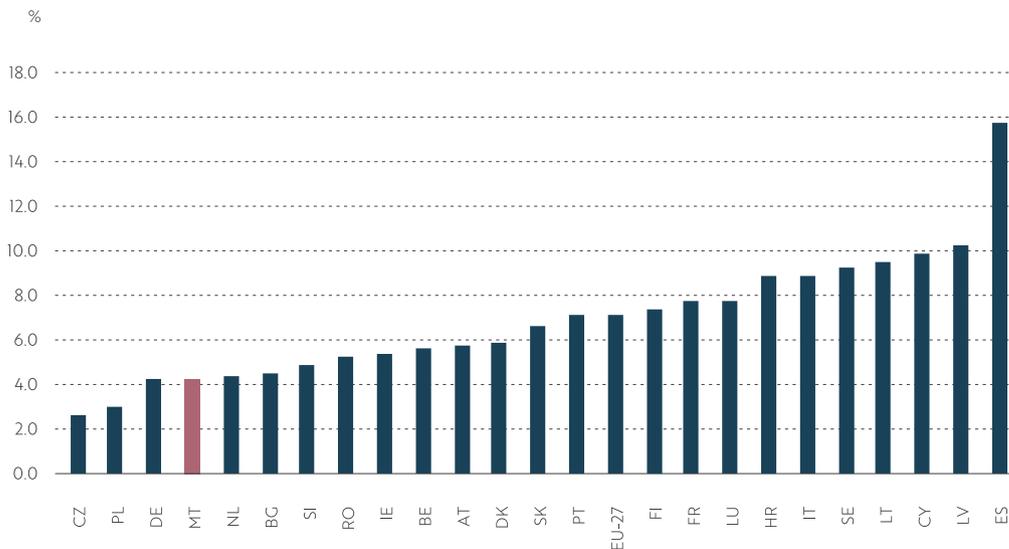
<b>COVID-19 Wage Supplement<sup>5</sup></b>	<b>Claims Approved</b>	<b>Total Claims Approved</b>
Companies	4,244	16,612
Self-employed	11,448	
Others	920	
<hr/>		
No. of Employees: Full-time	69,538	79,576
No. of Employees: Part-time/Casual	10,038	
<hr/>		
<b>COVID-19 Wage Supplement Annex A - (€800/€500)</b>	<b>Claims Approved</b>	<b>Total Disbursed, €</b>
No. of Entities	13,891	€150,776,881
No. of Employees: Full-time	51,918	
No. of Employees: Part-time/Casual	8,747	
<hr/>		
<b>COVID-19 Wage Supplement Annex B - (€320/€160)</b>	<b>Claims Approved</b>	<b>Total Disbursed, €</b>
No. of Entities	2,721	€9,457,118
No. of Employees: Full-time	17,620	
No. of Employees: Part-time/Casual	1,291	
<hr/>		
<b>Quarantine Leave</b>	1,465	€1,130,000
<b>Facilitating Telework Activities</b>	370	€605,613
<hr/>		
<b>Social Measures<sup>6</sup></b>	<b>Claims Paid</b>	<b>Total Disbursed, €</b>
Medical Benefit	1,679	€2,754,914
Additional Unemployment Benefit	2,140	€3,519,870
Parental Benefit	4,550	€10,292,797
Person with Disability Benefit	379	€588,944

Source: NSO, MFIN

<sup>5</sup> Data of COVID-19 Wage Supplement, quarantine leave and facilitating telework activities is as at end of July.<sup>6</sup> Data of COVID-19 Social Measure is as at beginning of July.

**Figure 3.1**

EU member states' harmonized unemployment rate as at June 2020<sup>7</sup>



Source: NSO, MFIN

### Distributional impact of the wage supplement scheme

To assess the effectiveness of the wage supplement and its estimated impact on the rate of poverty, simulations were modelled using EUROMOD<sup>8</sup>. EUROMOD is a static model and therefore, the results illustrate the impact of the reform measures presuming that everything else remained unchanged. The simulations consisted of a baseline scenario, whereby the specific reform is excluded from the simulation and a scenario in which the reform is included. The difference between these two scenarios is the impact of that specific policy reform<sup>9</sup>. Results are not comparable to other previous estimations.

<sup>7</sup> The unemployment rate for Estonia, Greece and Hungary was not available.

<sup>8</sup> 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.

<sup>9</sup> Under the baseline scenario it is assumed that employees and self-employed that operate in the sectors affected by COVID-19 transition to either being unemployed or furloughed or on reduced hours for the duration of the scheme (7 months). Moreover, employees/ self-employed are randomly selected from the SILC dataset based on take-up data provided by Malta Enterprise. The reform scenario captures the same individuals as the baseline scenario and grants the benefit rates according to the criteria of the policy.

**Table 3.2**

Distributional impact of wage supplement scheme (in percentage points)

<b>Poverty Indicators</b>	<b>Change in Poverty Rates (p.p)</b>
Population	-2.27
Children	-3.01
Working Age	-2.54
Economically Active	-2.32
Elderly	-0.59
Gini Coefficient (ratio)	-0.0075

This wage supplement scheme is expected to have a positive impact in terms of the overall at-risk-of-poverty rate, which is estimated to decline by around 2.27 percentage points relative to the baseline scenario, whereby the beneficiaries are assumed to be unemployed or furloughed or on reduced hours. As shown in Table 3.2, the wage supplement is estimated to cause a decline of 2.54 percentage points in the at-risk-of-poverty rate among the working age cohort, which is the cohort for which this measure is targeted to. In addition, the at-risk-of-poverty rate of the children cohort declined by 3.01 percentage points, indicating that working families are affected positively by this measure. The Gini coefficient, which shows the level of income inequality in the distribution of disposable income, also registered a decline, suggesting that this measure mitigates income inequality.

### **3.1.2 Measures targeting businesses**

The wage supplement scheme, apart from financially supporting household from adverse declines in their household disposable income, also supported businesses in absorbing labour costs, thus easing their financial burdens. Other measures aimed at reducing business costs incurred as a result of the pandemic, included the quarantine leave grant of €350 given to employers or full-time employees who were legally obliged to abide by a quarantine order. Up to the end of July 1,465 grants have been approved, resulting in a cost of €1,130,000. In addition, the facilitating telework activities scheme, gave financial assistance to employers to invest in technology that enable teleworking arrangements to their employees by partially covering the cost of teleworking solutions. Up to the end of July 370 businesses benefitted from this scheme with the cost amounting to €605,613.

The introduction of tax deferrals (of Provisional Tax; Value Added Tax; Social Security Contributions) for business and self-employed for the months from March to June aimed to improve business liquidity by easing pressures on their cash flow arising from the economic impact of the pandemic. Up until end of May, 3,324 businesses had their application for tax deferral approved amounting to an estimated total of around €60 million being deferred. This measure was further extended in the Government economic recovery plan such that some payments due in the months of July and August (depending on the tax category) are to be settled by end of May 2021.

The Government, through the Malta Development Bank, also launched the COVID-19 Guarantee Scheme (CGS). This measure provides guarantees to commercial banks to give loans to established businesses operating in Malta that have been affected by the pandemic, to finance their working capital requirements. This scheme is backed by a guarantee fund, in the form of a Government guarantee of €350million, whereby it offers a 90 per cent guarantee for each eligible working capital loan subject to a cap of 50% on the overall loan portfolio. This implies that the guarantee fund of €350million can be leveraged up by the participating banks to a potential maximum portfolio of almost €780million. Furthermore, the Government is subsidising the interest rate of these loans for two years, up to a maximum of 2.5 per cent. Up until the end of June, 237 SME'S and 13 large companies benefited from this scheme, whereby the total sanctioned amount was €161 million, and the disbursed value amounted to €65 million.

Moreover, the Government has directed credit and financial institutions to offer a six-month moratorium on repayment of capital and interest to support both businesses and vulnerable individuals who have been materially affected by the Covid-19 outbreak. Up until the end of May, 3,155 households and 211 businesses benefitted from this scheme with the total outstanding value of loans amounting to €589.3 million. This measure is still on going and applications are open until the end of September 2020.

## 3.2 The Government's Economic Recovery Plan

Following the lifting of several restriction imposed as a result of the pandemic and the re-opening of non-essential retail outlets and accommodation establishments and services, the Government, on the 8th of June, announced a €900 million comprehensive recovery plan aimed at regenerating the Maltese economy. This budget is expected to amount to 6.8 per cent of GDP. The economic recovery plan is based on three pillars; (i) Reducing business costs; (ii) Stimulating domestic demand and consumption; and (iii) Directly supporting businesses and safeguarding jobs.

### 3.2.1 Reducing business costs

To further ease pressures on the liquidity of businesses, the Government extended the Tax Deferral scheme. Taxes which fall due in July and August 2020 (depending on the tax category), are to be settled by end of May 2021.

The Government also introduced an electricity bill refund scheme and a rent refund scheme for businesses affected by the pandemic, under specified eligibility criteria. These measures are expected to cost around €80million.

Other measures aimed at assisting businesses to cover part of their recovery costs, include the Microinvest cash conversion scheme providing a grant to cover costs relating to the refurbishment and upgrading of offices and factories, investment in machinery and other assets; the business re-engineering consultancy service, whereby assistance will be provided to businesses, in particular small businesses, that might need professional help to build a new business plan and explore new technological solutions and the extension of the skills development scheme for businesses that employ less than 50 employees. In addition, businesses will be able to benefit from the announced refunds of €5million on commercial licenses and the reduction in fuel prices.

### **3.2.2 Stimulating domestic demand and consumption**

To stimulate domestic expenditure, the Government has distributed a €100 voucher to every resident aged 16 and over, to be spent locally, to the extent of 80 per cent at hotels, licensed accommodations, restaurants, bars or diving schools and 20 per cent at retail outlets that were ordered to close down their business premises during the pandemic. In addition, a tax refund, varying between €40 and €68, depending on the annual salary income, was given to all individuals who were in employment within the Maltese labour market, during 2018, and had a salary income of less than €60,000. Moreover, beneficiaries of the in-work benefit were entitled to a grant of €250 and the income thresholds of this benefit, were widened to include lower-income households.

The Government has also temporary reduced the Duty on Documents and Transfers of residential property when such property is sold in accordance to the applicable eligibility criteria.

### **3.2.3 Directly supporting businesses and safeguarding jobs**

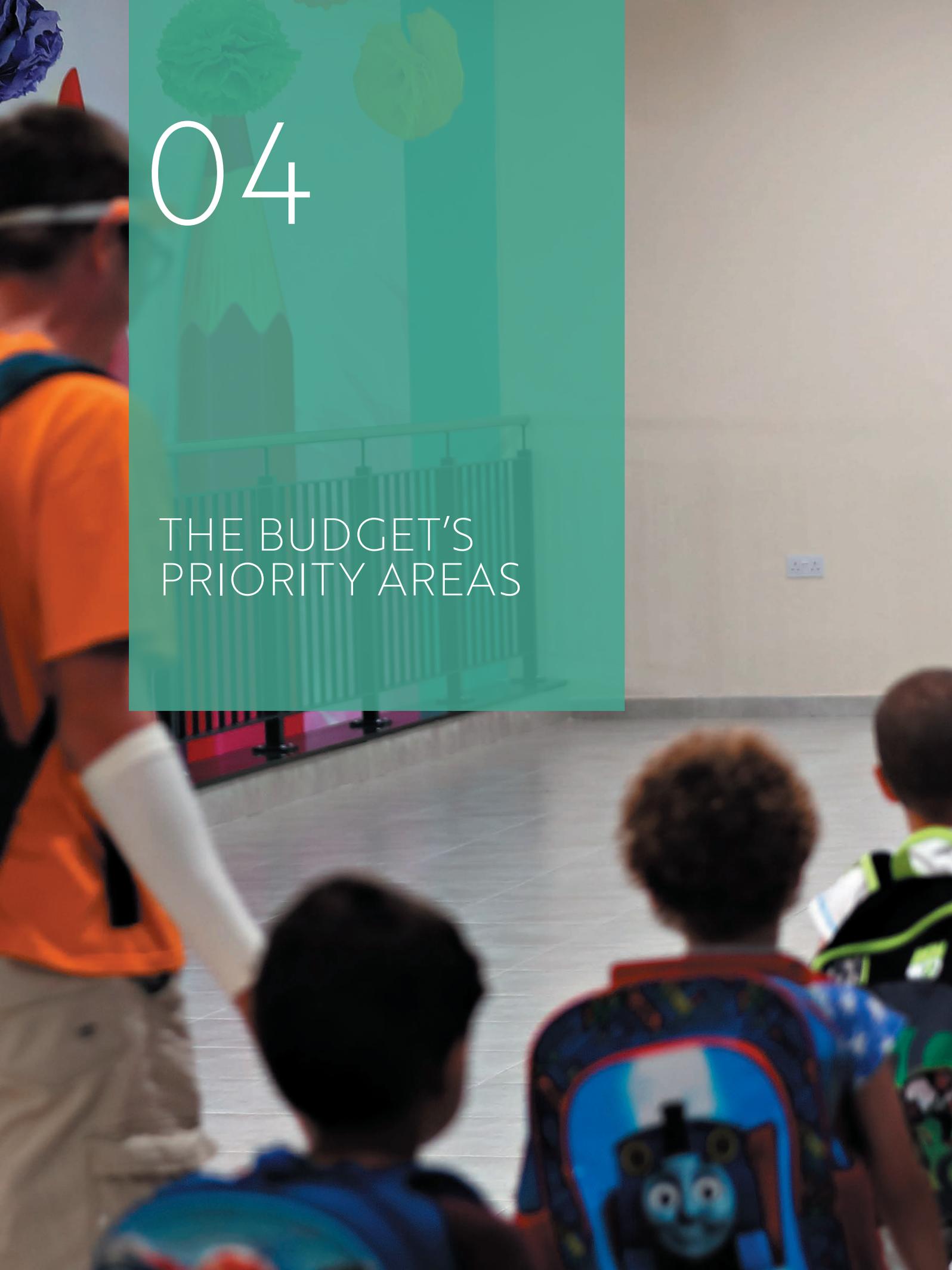
The wage supplement scheme, which was adopted by the Government in March 2020 as an initial policy response to Covid-19, was extended for a further 3-month period covering the period between July and September 2020. The scheme was widened in scope to also cater for pensioners and students who work in the affected sectors and the benefit rates were slightly revised.

The Government, apart from providing an export guarantee scheme as well as a refund on logistics costs and container discharge fees, is also allocating a fund to be utilised by local businesses when they invest in digital promotion in new foreign markets, aimed to help them promote their products abroad. The Government is also financially incentivising the construction industry to modernise its machinery and equipment.

Other measures aimed at directly supporting businesses include; a new underwriting facility for private enterprise bonds set up by the Malta Development Bank, a reimbursement of up to 80 per cent of the cost incurred to participate in international fairs that were cancelled due to COVID-19, assistance to nursing homes with an allocation of €2million and an allocation of €3million to NGOs to mitigate the impact of the pandemic on their income.

### 3.3 Conclusion

The Government has launched several measures and financial aid packages in order to support the Maltese economy in response to the impact of the Covid-19 outbreak and the containment measures adopted. Through the initial policy response to the pandemic, the Government aimed to ease pressures on liquidity of businesses, safeguard jobs and aid the most vulnerable during the crisis. These measures were strengthened through the Economic Recovery plan as the Government sought to support businesses with a view to strengthen their competitiveness, continue to protect jobs whilst also stimulating domestic consumption. The Government remains vigilant and stands ready to take the necessary steps to continue mitigating the economic and social impact of the pandemic and ensuring a complete economic recovery.



04

THE BUDGET'S  
PRIORITY AREAS



## 4.1 Introduction

The 2021 Budget cannot be described as a normal budget. It is being prepared at a time when we are recovering from the economic shock which the Covid-19 pandemic left on all economies of the countries.

The management of public finances in the last seven years, whereby for successive years, Malta registered annual surpluses in its finances, placed Malta in a situation to weather well this crisis. The Government was in a financial position to give the necessary financial assistance for businesses to retain employees in their employment and for businesses to overcome the liquidity constraints.

We are now in the implementation of the recovery plan. The 2021 budget is part of this recovery plan and all the incentives are being tailored to achieve the aim of having a speedy recovery of all our economic sectors, thereby reverting to a robust economic growth level. This in turn will assure that the Maltese and Gozitan population will continue to enjoy high standards of quality life.

## 4.2 Sustaining existing Economic Sectors

The Financial Services sector continues to be an important economic sector for the Maltese economy. It has been a catalyst in supporting the recovery during and post-COVID-19 crisis.

The Malta Financial Services Authority has set of interlinked strategic priorities for the 2019-2021 period, focusing on the protection of the financial system from financial crime, money laundering and terrorism financing. Investments made so far in AML/CFT supervision, helped the Authority to expand its assertive programme of inspections. It has also strengthened the supervisory and enforcement actions and the implementation of measures to address the recommendations, which international institutions had made.

The Authority will continue engaging on a regular basis with its stakeholders in Malta and abroad and engaging and requiring higher compliance performance from its regulated entities with the aim of raising standards of knowledge and collective responsibility for the sector.

The Authority has started to map out its next 3-year strategy covering the period 2021-2024. This strategy will continue to build on the milestones achieved throughout these transformative years and will focus on the fostering of an environment for sustainable finance in all segments of the market and the governance of more complex and hybrid products in the fintech space.

Throughout the Covid-19 pandemic, businesses were aided to preserve the jobs of their employees, and most significantly, Malta's economy proved its agility and flexibility in adapting to these adverse circumstances. The Government intends to remain close to the business community, understand their needs, and assist the businesses in the best interest of national economic growth.

The regeneration of the Maltese economy through a considerable economic injection was a crucial step forward to re-ignite once again that sense of optimism. The exploration of new economic niches has proved to be essential and this is the way the Government intends to continue, by upgrading the infrastructure of the industry, welcoming new businesses to operate from Malta, nurturing new talent, and fostering careers.

The global economy is about to embark on a new era amid the circumstances which brought about challenges and new opportunities. The Maltese economy must be well-equipped to retain its resilience and competitiveness. Thus, the Government will embark on the drafting of the vision for the Maltese economy for the next 10 years whilst a strategy will be presented for the upcoming 3 years.

It will also embark on a 7-year investment program of €400 million, which shall translate into the upgrading of industrial infrastructure and the creation of new office spaces for new business models.

Sustaining small businesses in Malta and Gozo will continue to be a priority through schemes, aimed at exploring new markets, encouraging telework initiatives, bolstering their investment initiatives, and helping start-ups with the implementation of their innovative projects.

A study will be carried out to identify the e-commerce needs of small and medium sizes enterprises for them to be able to sell their products online both locally and internationally.

When it comes to Start-up ecosystems, which are important for having a vibrant economy since this industry contributes to economic growth and job creation, a framework will be established to make Malta the natural choice for start-ups wanting to operate in Europe.

The Government retains its commitment to keep on exploring and attracting investment from the Medical Cannabis Industry, an economic niche which has a huge potential to contribute towards economic growth.

Through the Intellectual Property Programme, an Outreach Programme will be launched, intended to reach out the younger generation – the students in Malta and Gozo - to inform them about the importance of protecting one's Intellectual Property.

In order to enhance Malta's economic growth, now is the time to shift towards a circular economy, by seeking circular consumption and production patterns, exploring Waste Prevention and Management, ensuring the responsible re-use of resources and enhancing Green Public Procurement to safeguard the environment.

At present, the Department of Contracts is responsible for public procurement and is performing the dual role of operator and regulator.

There is the need to re-engineer public procurement in Malta whereby the Department of Contracts will regulate public procurement and set the standards, while the Ministries and Entities, as end-users, will be the ones that apply the Regulations and Policies along the procurement cycle.

The Department of Contracts will be responsible for overseeing the implementation of procurement Regulations and Policies, the development of policy and the continuous professional development of public employees.

It will also be responsible for regulatory decisions including the imposition of financial corrections, the review of any procurement document before publication, the mediation of disputes between contracting authorities and economic operators, the cancellation of calls for tender, and the termination of contracts where breaches to Regulations and Policies are determined.

As a regulatory body, the Department will undertake a risk-based approach to identify risks related to the integrity in the entire procurement process. There will be a Contracts Register, which will be designed on the Open Contracting Data Standard.

Concurrently, each Ministry will be required to set up a Ministerial Contracts Committee which will take over the work presently carried out by the Departmental Contracts Committees.

Attracting new investment in Malta would translate into the creation of new jobs and opportunities, which would further contribute to Malta's attractiveness and competitiveness internationally. Hence, the Government aims to continue exploring new investment opportunities. In this regard, the legislation in relation to companies operating in the aviation sector, has been redrafted to attract new aviation companies to operate from Malta, whilst allowing the existing ones to expand.

The national airline Air Malta, during the recent challenging times demonstrated, the importance for a small nation-state as ours to have its national airline. Bold decisions had to be taken for its long-term sustainability. The Government aims to strengthen the national airline in such a way that it will be able to compete in this new era. Air Malta will be investing in new emergent technologies aimed at bringing about a closer relation with the customers and putting our national airline at the forefront on the use of technology.

Tourism continues to occupy a primary place within the Maltese socio-economic context. It continues to be a major driver of growth, wealth and employment. Once again, the year 2020 started very positively. January and February, in fact, recorded some impressive results, paving the way to what was going to be another record year in inbound tourism. Unfortunately, the COVID-19 outbreak ground to a halt the travel and tourism industry in Malta and worldwide.

In such a scenario, the Government's primary strategic objective for tourism in 2021, shall be to continue working relentlessly to revive the travel and tourism industry for the benefit of the whole economy. The aim shall be that of minimising as much as possible the recovery period with the aim of returning to the 2019 tourism levels as quickly as possible.

Throughout the recent lull in activity, the Government has not been complacent, but has worked together with stakeholders to ensure the long-term viability of the industry.

The introduction of several supportive measures to protect company liquidity, employee retention and human resource development through an ambitious training programme for workers in the industry, have all contributed towards this goal. On the wider front, the Government has been actively involved in a nation-wide effort to engage in product improvement and maintenance to prepare the country for when tourists return.

For 2021, the Government is planning to implement more measures aimed at stimulating tourism growth. A crucial element in this regard shall be to restore air connectivity to pre-COVID-19 levels by enticing airlines, most of which are going through dire financial situations of their own, to establish routes to and from Malta.

It shall be undertaking initiatives to entice more consumers to regain the confidence to travel to Malta. These shall include targeted marketing strategies reaching out to those segments through which the industry may see the quickest recovery, and the attraction of high-level events to Malta as an enabler to put Malta back on the map. This will be in line with a revamped post-COVID19 Tourism Strategy to 2030 based on the premise of long-term sustainability and maximised economic and social tourism returns.

These initiatives shall continue to be accompanied with investment toward the enhancement of the product offer – improving the infrastructure and facilities in tourist areas and all over the island through ongoing and new projects.

The Government shall be intensifying its efforts on clamping down on unlicensed touristic accommodation, thus ensuring a fair playing field between operators and safeguarding comfort, safety and quality to tourists.

Cognisant of the important role of Malta's cultural tourism offer in attracting tourists during all months of the year, efforts will be dedicated to tap on the opportunities for further developments in this area to continue to address seasonality. This includes the continued investment in the cultural and national events calendar to feature a year-round variety of events of cultural, entertainment, religious, musical or commemorative nature. The Government will be also exploring the possibility of having a state-of-the-art convention centre which would put Malta on the world map for such events.

During the coming year, changes will continue to be implemented to raise the standards of the construction industry. The Building and Construction Authority will be set up along with the necessary laws that will regulate the sector amongst which are the National Building Code, Licencing of Building Contractors and Obligations of all stakeholders in the Industry.

Having enacted the law that regulates the licensing of property agents during the past weeks, licenses will be issued to all those who follow a course given by an accredited institution. All those operating in the sector, have the possibility to get the necessary qualifications to satisfy what is being requested by law.

The agriculture and fisheries sector in the Maltese Islands have been significantly re-shaped in recent years and changes are still ongoing. The Government will continue to steer the sector into a more sustainable direction by providing the means along which it can develop and flourish. Emphasis will be made on increasing the competitiveness of active farmers and fishermen by focusing on quality and encouraging diversification, facilitating young entrants into the sector and fostering sustainability of farming and fishing activities. Young entrants can bring new skills, energy, new and modern professional management to the farming and fishing sectors. Furthermore, initiatives aimed at promoting local products, which over the years have reached superior qualities, will continue being implemented.

With a policy vision centred on increasing competitiveness, the Government will also continue with its drive to strengthen its regulatory and supervisory authorities. These authorities have been engaged in implementing a substantial number of initiatives and projects, stemming from strategic policy documents.

The projects will enhance research, contribute towards the country's economy and create opportunities for further collaboration between educational institutions, research centres, and the private sector.

Animal rights and welfare will remain high on the Government's agenda, by focusing in initiatives to control the stray population, improvement of the regulatory framework and embark on a national project to establish a modern rehoming centre for animal adoption.

Next year will also see the whole cultural sector having a new policy which shall present a new vision that will guide it into the new decade. Culture and the creative industries have become a strategic sector to boost competitiveness, productivity, employment and sustainable economic growth. These sectors are being used more frequently to promote social integration, social values and touristic promotion.

The new Cultural Policy will present 175 outcomes which will shape the future of this industry following the testing times of the post-pandemic era. The national cultural policy will be further reflected in the launch of a new strategy by Arts Council Malta in 2021, which will be instrumental for the implementation of the policy.

The Malta International Contemporary Arts Space (MICAS), while still a work in progress, is on track with the innovative arts space envisaged to be completed in 2022.

In 2021, the extensive programme of restoration projects will continue in several localities around Malta. The focus will be the continuation of the restoration of the Grandmaster's Palace; the restoration of fortifications in the Cottonera area and the restoration of the Malta Maritime Museum. Coupled to this, the successful Local Council Restoration Scheme will continue in 2021, with projects being implemented during the forthcoming year, being funded through the Restoration Fund.

### 4.3 Strengthening the New Technology Sectors

Considering recent events, the digital sectors were given higher prominence mainly due to the key role played during the pandemic, especially when one considers how the use of such means of technology provided the possibility for most of the workforce to work from home. The new normality, post-Covid, means that the Government, must further increase and consolidate investment towards the digital sector.

Through the setting up of the Digital Economy Think Tank, while entrusted with the task of consolidating the existing sectors, it will prepare the necessary groundwork to attract new niche economic areas.

The Government is planning on implementing several AI-related projects, that emanated from Malta's National Artificial Intelligence (AI) strategy. Such AI projects cover economic sectors such as healthcare, education and transport, amongst others.

The continued growth and success of the Maltese gaming sector was the result of Malta's ability to create an attractive, stable and reputable regulatory environment in which the gaming sector could grow. The Government's vision is to keep fostering a proactive and pragmatic approach to regulating the industry, implementing best practices, whilst navigating through inevitable developments that challenge the industry.

Simultaneously, it will be making sure that gaming is fair and transparent to the players, preventing crime, corruption and money laundering and protecting minor and vulnerable players, thereby ensuring that reputable and compliant operators holding the MGA licences, will be maintained.

The Government will direct more effort towards reaping the full potential that the esports and video game development industries have to offer. These two areas are relatively new to Malta's economic portfolio and with the right investment and the implementation of a future-proof strategy, such sectors are provided with the necessary tools to thrive.

Research and innovation remain an integral part of the Government's forward-looking strategic vision and hence, it intends to continue consolidating and strengthening these areas. In this regard, potential future investments include both Quantum and High-performance computing.

Investment in research and innovation, without the necessary Intellectual Property rights in place, would be irrelevant. In this light, the Government is committed towards ensuring a robust IP framework that is fully compliant with the EU.

The implementation of the space strategy is equally important and there are ongoing plans on how to achieve the most optimal way forward for such new industry.

Investment in the digital economy sectors should also be coupled with investment in cybersecurity, which will provide clients and users with the ease of mind when using such technology.

With respect to blockchain, several initiatives will be implemented aimed at boosting and reaping the full potential of the Distributed Ledger Technology (DLT) including the launching of an educational campaign to highlight the benefits and differences between these new means of technology, especially between blockchain and cryptos.

Given Malta's limited size, one would anticipate problems that specific industries might face with regards to the availability of skilled human capital. It is therefore in the national interest to invest in the necessary training but also to ensure that the right incentives are in place to attract foreign professionals and highly qualified persons including Maltese who are currently working abroad. Reskilling and upskilling will help in alleviating this problem and prepare the current workforce for the jobs of tomorrow.

## 4.4 Enhancing Economic Growth in Gozo

Based on the “Gozo Development Regional Plan”, which established a vision for Gozo to continue with its prosperity and economic growth, the Government will continue to enhance the island’s economy through qualitative job creation and to ensure that the island’s unique and natural characteristics are being safeguarded. The vision is that of securing an innovative, rejuvenated and connected island that delivers social and economic prosperity for all, while at the same time conserving its unique rural and cultural characteristics.

Economic development and employment generation that depart from overdependency on the tourism sector remains an important objective. The Government will continue to build on schemes which have been successfully introduced in these last years, resulting in the generation of more employment in Gozo; qualitative and sustainable jobs, while supporting Gozitan employees working in Malta.

The tourism sector remains one of the most important economic pillars of the country. Gozo runs the economic engine in relation to internal tourism with impressive statistics obtained year after year confirming this. Nonetheless, inbound tourism remains essential. Especially after COVID-19, one should intensify not only the marketing campaigns, but also the continuous upgrades of the Island’s product in terms of digital and infrastructural upgrades, including the embellishment of popular touristic areas, and continuing to develop specific niches to further add to product diversity.

The cultural calendar, emphasizing Gozo’s rich culture and heritage, whereby various thematic festivals and events are organised, will be intensified.

The Government will be addressing social issues and develop the capacity to be responsive to the emerging needs of Gozo’s ageing population. Thus, it will ensure that new geriatric health policies and services are introduced for the elderly persons to be able to remain living within their community and have in place the necessary amenities, both for leisure and wellbeing, to remain active.

The Eco-Gozo Strategy remains an important milestone for the Gozitan community. To this end, works will continue on the regeneration of valleys; building of rubble walls and the restoration works on landmark sites. When it comes to Infrastructure and high-quality roads, the unprecedented road building programme, will be continued.

Better connectivity between the main Islands, mainly through the continuation of the fourth ferry service, is of the highest importance in order to facilitate daily commuters and to ensure that the needs of all Gozitans are being adhered to.

## 4.5 Education, Employment and Quality Life for All

The Government will continue to invest in the provision of learning opportunities to ensure that all children, youths and adults can obtain the necessary skills and attitudes to succeed at work and in society. Malta's efforts for a more pertinent education system have yielded a steady decline in Early School Leavers from 21.7 per cent in 2012 to 16.7 per cent in 2019. In addition, the proportion of people aged 30-34 with tertiary level qualifications, increased by 11.5 percentage points since 2012. The statistics show that adult learning is at par with the EU average at 12.0 per cent participation rate.

The outbreak of the COVID-19 pandemic challenged and disrupted the educational journey but Malta's efficient response ensured that learning at all levels was safeguarded as much as possible.

Inclusion in child-care services reflects the acceptance in society of the principles of social justice. Therefore, additional inclusive services in State run childcare centres for children with different needs will ensure that more children will be able to make use of childcare services.

Promoting student well-being creates a better overall experience for students, which ultimately supports them to develop coping skills for life. The Government will continue to invest in diverse incentives to safeguard students' well-being. As a result, students are more likely to continue with and be successful in their academic studies, enjoy their students' experience and contribute more positively to student life. Simultaneously, in order for students to become active participants in society, the Government will be increasing the focus on issues relating to the environment, sports, culture, the arts and community involvement, in the educational field.

Whether pursuing personal interests and passions or chasing professional ambitions, lifelong learning can help individuals to achieve personal fulfilment and satisfaction. To this end, the Government is embarking in the further provision of wide-ranging online courses and blended learning. This incentive will encourage people with low digital skills to undertake further studies.

Both the University of Malta and MCAST, will continue investing in additional facilities to provide education and training facilities for tertiary and vocational education and training to continue to reduce early school leavers as well as improve tertiary education attainment.

The Government recognises that a successful education strategy contributes towards effectively closing the skills gap, which is one of the major challenges facing the Maltese economy. Various initiatives have been developed bringing together educational professionals, students and employers, with a view to address the needs arising from the ever-changing labour market.

In line with Malta's Sustainable Vision 2050, efforts to classify occupations related to the green economy and the identification of transversal green skills will take place. The aim is to be better prepared to face the green skills challenges of the future, which are fundamental for sustainable economic growth.

The Health Authorities, during this current year, successfully handled the unprecedented challenge that was prompted by the Covid-19 pandemic. Apart from addressing the immediate needs, the Government anticipated the associated burden that the pandemic would place on the health management of other chronic diseases. Hence, it proceeded to adopt a transition strategy aimed at easing public health measures and the consequent adaptation to a 'new' normal but also included the resumption of elective and preventive care.

The negotiated access to one of the more well-developed candidates in the race for an effective anti Covid-19 vaccine will be a major initiative, which clearly demonstrates the Government's commitment towards safeguarding the population from viral contagion and transmission.

In forthcoming year, apart from the support to continue to provide improved and new services, the Government will continue to concentrate on the provisions of an ongoing supply of free medicines, with emphasis being given to the needs of chronic disease sufferers, who are more likely to require attention and better medication to cope with underlying clinical conditions of their disease.

The Government is also committed to support cancer patients, not only through the availability of specific oncological drugs and treatment, but through palliative care through the creation of a comprehensive strategy that includes partnerships with NGOs and the eventual development of a facility for the delivery of inpatient hospice care and a Survivorship Programme for the patients and their families.

The encouragement of prevention through the provision of regular informative and educational campaigns is deemed to yield successful long-term results whilst engaging citizens in adopting a sense of ownership for their own wellbeing.

Therefore, in the coming year, the Government will continue to provide educational programmes which will focus on the improvement of employee health at the workplace; sexual health awareness; address eating disorders and obesity amongst minors.

The future of healthcare cannot be fully secured unless supported by empirical evidence which best supports the taking of reliable, accurate, informed and timely decisions. The Government will thus continue to keep abreast with cutting-edge advancement in technology and information technology which will facilitate the management of all medical and clinical patient information and provide physicians with access to real-time patient data.

The Government will embark on the development of two strategies, namely the Hepatitis C Elimination Strategy and a National Strategy for Palliative Care. Furthermore, the upskilling of staff as well as the training of healthcare professionals in the field of prevention will remain high on the agenda since such initiatives are of paramount importance for the continued drive towards the provision of a Healthcare Service of Excellence.

Throughout the forthcoming financial year, more efforts in promoting sport, youth and voluntary activities will be undertaken to offer greater opportunities towards a more inclusive and diverse society.

Promoting and safeguarding the interests of young people will continue to intensify through the renewal of the youth strategy. The goal is the creation of new spaces and facilities at local community level to support the development of young people through their active involvement and participation in non-formal learning opportunities.

The Government's approach is to invest in driving forward a nation towards a new culture of physical activity and sport by promoting an inclusive framework for participants at all levels.

In addition, further investment in the refurbishment of existing and construction of new sports venues and facilities will take place in preparation for the hosting of the Games for the Small Nations of Europe.

Further endeavours will strengthen the voluntary sector, both from the aspect of governance, as well as transparency of operation. The Annual Returns and Annual Accounts Regulations (2020) were introduced to ensure this but there are other legislations in the pipeline to ensure good practice and to protect public interest.

## 4.6 Social Welfare and the Communities

The Government's social policy since 2013 has sought, and succeeded, in responding to the challenges of social, demographic and economic change as they have evolved.

The emergence of the Covid-19 pandemic threatened to undo a lot of the social and economic progress achieved over the last few years. The social measures introduced at short notice included additional benefits catering for employed parents with dependent children, employed persons with disability and others with medical conditions as well as for those who lost their job.

Since 2013, spending on social benefits has grown by nearly 35 per cent to over €1 billion. The family continues to be the fulcrum of the Government's work. A healthy contribution to family welfare continued to come from the increasing number of mothers who have joined the labour force on a full-time basis, 14 percent more in number, thanks to the in-work benefit scheme.

The EU's Sustainable Development Report for 2020 confirms the progress Malta is making. Malta's no poverty goal is now at the higher positive end of the range, whilst positive results have been achieved in the decent work and economic growth and the good health and wellbeing goals.

On the Gender-based Violence and Domestic Violence front, there will be a one-year research project that seeks to identify a number of areas that need to be improved in the interface between justice and domestic violence. This research should come up with a comprehensive report outlining the research findings, timeframes for implementation and draft legislative amendments. The main objective of this project is to improve the service provision to the vulnerable victims of Domestic Violence whilst improving the overall efficiency of the justice system in this sphere of operation.

There will be the continuation of a training programme for professionals working in the field of gender-based violence and domestic violence.

Identity Malta will continue the drive to simplify and speed up the process of issuing work permits as well as introducing online systems, in order to move towards paperless processes and cover more services.

Block-chain technology will be introduced as part of the public registry digital identity ecosystem, which shall combine strengthened authentication capabilities, transaction integrity and enhanced individual privacy protection.

Furthermore, planned improvements to online services are envisaged within the Expatriates Unit while the Persons Register will be integrated with the Government Common Database in the form of a central common repository linking it to an individual's identity.

As a step towards continued service improvement, a new eID management platform will be introduced and integrated with the single permit online platform, thereby reducing the processing times.

In order to safeguard the Maltese citizenship, making sure that the best talent is attracted to the Islands, whilst maintaining the highest standards of due diligence, a new legislation will be enacted to introduce stricter due diligence processes. This legislation will be complemented with the installation of a new software, serving as a general database for all applicants. Concurrently, there will be further training of the personnel in due diligence and anti-money laundering procedures to mitigate the associated risks of the sector.

When it comes to the Land Registry, one will be looking at the land registration methodology and making the necessary changes in law to ensure fairness in the process involved and to have an electronic system which will facilitate the registration of property.

The Census of Population and Housing is an official data collection project covering all persons, households and dwellings, carried out in Malta and Gozo every ten years. The next census in Malta, in conjunction with all other EU Member States, will be held next year, with 10th October 2021 designated as census night.

For the first time, preparations are underway to allow the dissemination of census results on spatial mapping at the 1km<sup>2</sup> grid. The National Statistics Office (NSO), which is responsible to carry out this census, is also working on an information campaign that includes both traditional and innovative communication and dissemination methods, so as to reach as many residents as possible.

Contrary to previous census projects, respondents will be allowed to fill in the questionnaire online, which will make it possible for NSO to eventually disseminate the results earlier than usual, through dedicated publications and spatial statistics.

The Medicines Authority has managed to advance the pharmaceutical industry sector through innovative and optimised focus on the patient.

This process will continue over the next year through initiatives aimed at extending the mandate of the Medicines Authority to medical devices. It is also foreseen, that the experience and expertise of the Medicines Authority in the field of medicines regulation, will aid in attracting Notified Bodies in the field of medical devices to establish themselves in Malta.

The MCCA will continue to strengthen market surveillance and enforcement through the establishment of competence to carry out digital based investigations to safeguard consumers buying products online and ensure fair competition. The function will be able to support compliance to the relative consumer protection and internal market legislation by monitoring traders offering online shopping and investigating and addressing cases for both national and cross-border cases.

Work will continue on the Local Government Reform which is ensuring the effective implementation of the legislative amendments as well as the introduction of new processes that are aimed at sustaining the well-being of the local communities. This includes assistance to the Regional and Local Councils to increase and ameliorate their resources, and the introduction of an ICT Strategy for Local Government that would ensure that the local authorities are technologically able to be part of the future technological growth. This would enable them to deliver services more efficiently and effectively to the communities.

## 4.7 National Security and Foreign Affairs

During challenging times, as experienced this year, the importance of having security forces well-prepared becomes increasingly evident. The ongoing investment that has been undertaken for the past years will be strengthened during the year 2021.

The Malta Police Force (MPF) will be reformed with the implementation of the transformation strategy. This strategy goes beyond the usual investment in police fleets or premises. This will change the way the police think and work, with the main emphasis being on the service offered to the public who is also a partner within the renewed concept of policing that the MPF wants to adopt. Extending the project of community policing, investing in new specialised units to cater for the most vulnerable and recruiting expertise will also be crucial for the Malta Police Force to increase its trust amongst the general public. These changes will be complemented with other initiatives that will see the police working with other important stakeholders.

This year has shown how cooperation between the different disciplined forces is essential for the well-being of citizens. This is a concept that will be further evolved with the planning of the first regional hub built conjunctly between the Civil Protection and the Malta Police Force. The Civil Protection will continue to enhance its investment in marine vessels and in new equipment especially considering new scenarios such as high-rise buildings.

After managing to establish a successful disciplinary regime, the Correctional Facility authorities will be looking towards new changes, including legislative ones, to facilitate the transition of prisoners back into society.

Malta continues to face significant challenges related to illegal migration. The country needs to continue to push forward for concrete solidarity in the form of relocation. Support from other Member States will help Malta reduce pressure on its reception facilities and be in a better position to address the backlog of asylum claims.

Malta is also exploring other effective solutions which seek to reduce the number of people who risk their lives at sea. Stronger collaboration with Libya leads to the prevention of a significant number of irregular crossings. Libya is a transit country and Malta will support its neighbouring country to fight criminal smuggling groups. In this respect, Malta will work to see more EU funds channelled to support Libya manage its borders, including its southern borders.

The Government is determined to manage the asylum process through a holistic approach. Actions have been taken to strengthen asylum laws as well as the expediency of the asylum process. Plans are at hand to intensify the work on returns of rejected asylum seekers, mainly through an improved dialogue with countries of origin and better coordination of assisted voluntary return initiatives.

In the area of national security, Malta will pursue a more focused approach of implementing solid reforms which will bring about the change Maltese citizens need.

As a small-island state, Malta is committed to uphold the values of international law and multilateralism. The socio-economic well-being of the people is crucial for the island's livelihood. Security is also a key aspect in managing threats and opportunities generated by Malta's geographical partners in the Mediterranean between Europe and Africa.

Malta will be officially launching its campaign for a non-permanent seat on the UN Security Council for 2023-24. If elected, Malta will act as an honest broker and use its time on the Council to promote international peace and security through diplomacy and dialogue. It will highlight the importance of addressing the root causes of conflict and instability, as well as the impact of new challenges and phenomena such as climate change, cybersecurity, and pandemics.

Building on its already strong brand within the UN system, the chosen themes for Malta's tenure on the UNSC are: Oceans and Climate; Women, Peace and Security; Children and Armed Conflict; and Literacy. As a committed multilateralist, Malta will also use its time on the Council to promote deeper cooperation between the UN and regional organisations.

The Government will continue to work relentlessly, both in multilateral and bilateral fora, to ensure that migration flows are controlled through an intergovernmental effort aimed at ensuring that the borders are securely controlled. Dialogue with EU member states which are willing to contribute in this regard is already in place and cooperation with the Libyan Government of National Accord has already reaped fruits. No effort will be spared in actively seeking peace in conflict zones which contribute to forced displacement and in strengthening the fight against irregular migration on the same principles adopted by means of the Valletta Declaration in 2015.

2020 is proving to be an important year for EU-Africa relations with the launch of the EU's strategy for Africa, the Commonwealth Heads of Government Meeting in Kigali, the launch of the Africa Continental Free Trade Agreement and negotiations to replace the Cotonou Agreement.

Anticipating the launch of a new dialogue with Africa, in January 2020, the Government launched a public consultation process on Malta's engagement with the continent of Africa. The Strategy highlights the importance of bolstering Malta's diplomatic presence in Africa to address challenges while creating new opportunities for in a growing continent of economic and diplomatic importance.

The Government managed to secure a record €2.250 billion package for Malta for the next seven years. This includes €1.923 billion allocated to Malta from the EU budget, as well as €327 million in grants from the newly established Recovery Instrument which was set-up following the coronavirus-caused economic slowdown. These funds will translate into further investment in the economy and would finance measures aimed at hurdling Malta's economic recovery.

By end of this current year, Malta should have successfully absorbed the available funds and implemented the 2014-2020 ESI funding programmes.

In the case of the Cohesion and the European Regional Development funds; and the European Social Fund, the private sector had also benefited through these Aid Schemes, with a total of 101 proposals approved for funding, covering areas in the hospitality sector, the wholesale and retail sectors and the manufacturing of food products.

In the case of the Rural funds, 30 different measures/schemes have been launched covering training to farmers, support for participation in quality schemes, on and off-farm investments, support to young farmers and projects linked to the LEADER programme. As for the Fisheries fund, interventions targeted, amongst others, enhancing the competitiveness and viability of fisheries enterprise and protecting and restoring aquatic biodiversity.

With respect to the Asylum and Migration funds, the fund provided support in managing migration flows, including in the fields of asylum, integration, legal migration and return.

## 4.8 Protecting and Preserving the Environment

The Government's vision for well-being is one that creates opportunities, builds a strong green economy, and meets the needs of generations to come. It will adopt the European Green Deal as a roadmap to transform Malta into a modern, resource-efficient and competitive economy.

Such vision should lead to an increase in demand for environmental quality of life improvements through clean air and green open spaces, as well as a demand for products and services that reduce pressure on the environment through energy efficiency technologies and public transport, amongst others.

Once implemented, this strategy will help Malta to reduce greenhouse gas emissions and assure that there are no net emissions of greenhouse gases by 2050. It will also help in decoupling economic growth from resource use and minimizing waste in order to move to a clean, circular economy. It will aid in restoring biodiversity and healthy ecosystems and scaling up Green and Blue infrastructure.

The policies which are currently being drafted or are being implemented, such as the National Strategy for the Environment 2050; the Strategic Plan for the Environment and Planning; the Low Carbon Development Strategy; Malta's 2030 National Energy and Climate Plan; and Malta's long term Waste Management Plan, form part of this holistic strategy approach to this challenge.

But it is not just drafting of policies, indeed the Government has already started to undertake projects which will implement this vision. The spadework on the ECOHIVE project on recycling plants, which will take Malta to the next level in recycling, is just one example of such projects.

To achieve all this, the collaboration among the Government, citizens and stakeholder groups in decision-making will continue to be prioritised.

The Government will continue to promote sustainability of the energy and water sectors by developing national policies and programmes to address the challenges which Malta and Gozo are facing in this sector.

Malta's Energy Efficiency Efforts remain a priority and thus it will continue to improve the final energy consumption and the implementation of programmes to increase the Renewable Energy Sources.

In order to continue strengthening the Island's security of supply, the Government will continue working on the studies related to the Malta-Italy Gas Pipeline project.

In the water sector, protecting, conserving and enhancing this natural resource shall remain a priority. In line with the 2030 action plan, the Water Services Corporation shall continue to improve the water distribution network through upgrading and renewal of various reservoirs and key transfer mains, together with the necessary upgrading of the seawater Reverse Osmosis Plants' production capacities.

Studies and planning to upgrade the wastewater collection system and optimise the treatment infrastructure to address the associated increase in demand for wastewater services, would be undertaken.

There will be the continuation of the programme to implement a national groundwater monitoring framework. Raising awareness shall continue in the form of ensuring adequate involvement of stakeholders in the development process through the organisation of public awareness and information events as well as publications on water management and use.

We will continue to develop a national planning framework for the identification of flood mitigation practices and measures, necessary to ensure a high level of national flood risk preparedness.

The Government shall also continue to implement an R&I strategy aimed at increasing competition and progress in both the energy and water sectors.

## 4.9 Continue Upgrading the Infrastructure

This Government is committed to continue with its commitment to revolutionise the islands' infrastructure to be able to meet, both the current and the future economic, social and environmental challenges.

The €700 million investment in road infrastructure both in arterial, urban and rural roads, will be continued. Apart from the completion of the current major projects, such as the Marsa Multi-Level Junction, the Central Link and the Sta Lucia Junction Projects, next year will see the start-up works on new projects that will ensure increased accessibility to strategic sections in the Ten-T Core Network.

New initiatives will include the re-generation of Valletta and its coastline while there will be more greening of public spaces by the planting of more trees, the creation of green public spaces in the communities and by revamping the core of towns and villages.

A major project that will contribute towards having the largest public space to be enjoyed by the general public, is the continuation of the Ta' Qali National Park that will include open spaces, camping and entertainment areas.

Further initiatives will be implemented to enhance inter-modality by including more cycle lanes and by offering incentives for the use of bicycles and scooters as an alternative mode of transport.

Clean transport initiatives for the use of less polluting vehicles and to encourage more use of public transport will be in the offing.

Plans are also underway to exploit the potential of the Grand Harbour, through the regeneration of the different sites of the harbour in order to maximise its economic potential. In order to address the prime polluter within the Grand Harbour, the Shore Supply Project, targeting the cruise liner industry, will be undertaken.

The potentials of sea connectivity, whereby ferry services connecting different localities, including Gozo by sea, will be further strengthened.

Aware of the potential that the aviation industry can contribute towards a more diversified economy, efforts will continue to strengthen Malta's position by tapping the potential and opportunities in Aircraft leasing.

When it comes to the maritime industry, initiatives will be taken to retain Malta's strong position as regards Shipping Registrations.

In the coming year, the Government shall develop a holistic National Housing Strategy ("NHS"). This strategy shall bring together all policy initiatives, schemes and strategies into one document outlining the broader vision of this Government for the Housing Sector. The NHS shall identify key issues and challenges in the sector and introduce detailed recommendations and action points following extensive consultation with stakeholders, academia and operators in the third sector.

The Government shall continue with its initiatives to increase the social and affordable housing stock through the construction, development and allocation of new housing units in various localities across Malta; the lease of units from the private sector; and the regeneration of dilapidated Government buildings. Furthermore, there will be new initiatives for affordable accommodation through innovative policy instruments.

The maintenance on dwellings and the embellishment of the Housing Estates will be continued.

The Government will continue supporting initiatives to assist low-to-middle income individuals and families to become homeowners.

The Ministry for Social Accommodation shall continue to act as the regulator of the private residential lease market in Malta and Gozo. Apart from the legal responsibilities associated with rent registration and the operation of a dispute resolution panel, the regulator will seek to act as the catalyst to improve the relationship between the landlord and the tenant.

## 4.10 Collaboration with the Constituted Bodies

The Malta Council for Economic and Social Development (MCESD) will continue to foster social dialogue and carry out public consultation on all matters relating to sustainable economic development and beyond.

The Malta-EU Steering Action Committee (MEUSAC) will be strengthening its efforts to better inform its clients of new funding opportunities and assist practically in the offering of personalised assistance throughout the application and post-application processes. This will ensure sustained and effective use of such funds.

Inspired by the United Nations' Sustainable Development Goals (SDGs) and the European Green, a national strategy for Sustainable Development will be developed.

Employment conditions will continue to be improved through policies which further ensure the adoption of the principle of Equal Pay for Equal Work; improved female participation rates; the adoption of new employment conditions to facilitate the future evolution of jobs and the increased resilience of the labour market.

Discussions will be concluded to implement the management re-organisation of the Public Broadcasting Services to provide the country with a new and improved unbiased media source, which is an important pillar of democracy.

## **4.11 Governance, Rule-of-Law and Combatting Financial Crime**

This Administration is committed to continue to strengthen and promote Good Governance and the Rule of Law.

These priorities underscore the important roles that these two areas have in ensuring national stability, trust in institutions and economic growth. These strategic priorities have been translated into the setting up of a Cabinet Committee on Governance tasked with ensuring that Malta complies with the recommendations on good governance and rule of law forwarded by the Venice Commission and GRECO.

As part of a holistic framework to continue with the Justice Reform, the year 2021 should see the further strengthening of the Office of the Attorney General and the Office of the State Advocate. Under the guidance of the World Bank, there will be a business process reengineering of these two offices in order to align internal structures and processes of the Offices to the level of professionalism requested both locally and at international level. This process will ensure that the separation of these two offices is not merely cosmetic but reflects the highest levels of accountability, transparency and interoperability expected out of these important justice institutions.

Efficiency in the judicial procedure will remain a priority. In the coming year, the premises housing the members of the Judiciary and their staff will continue to be upgraded. Concurrently, work will start on the digitisation process to scan all criminal proceedings both in the inferior and the superior jurisdiction, an initiative that is intended to enhance quality service offered to facilitate better access to the acts of proceedings. This initiative will result in better distribution of Court workloads which should expedite pending cases and improve the quality of the services provided.

Through a restructuring of the Department of Justice, the Department will have a more pivotal role as well as additional responsibilities with the incorporation of the Office of Conducts and Criminal Records (Fedini Penali). It will become responsible for the European Criminal Records Information System (ECRIS) as well as the European Criminal Records Information System-Third Country Nationals (ECRIS-TCN).

The primary objective for this shift is to allow more room for the Police to focus more on criminal investigations and the enforcement of law.

There will be the drafting of the first digital justice strategy to provide a unified strategic direction for digitisation across all justice stakeholders, a clear delineation of strategic goals and a roadmap for implementing the strategy based on action plans set within specific timeframes.

The Asset Recovery Bureau (ARB) shall continue with its efforts to strengthen itself in line with the recommendations as expressed by the National Risk Assessment for Malta, the 5th Moneyval Evaluation for Malta and the newly proposed legislation for an Act of Parliament. This new proposed act provides the ARB with better tools to work with and at the same time, harmonizing relevant Court Orders scattered in different laws while enhancing the whole confiscation regime.

The Asset Recovery Bureau shall hold to its commitment in ensuring crime does not pay and shall also consider the threats and challenges originating from a rapid and constantly changing criminal environment. New methodologies and techniques will be introduced together with the strengthening of the internal staff capacity, complemented with the provision of adequate and specialised training to the Bureau Officers.

In the meantime, the Bureau shall continue to invest in new technologies for the exchange, management and retrieval of information and continue with the other ambitious project relating to the construction of the ARB Facility.

As part of the continuous national and sectorial risk assessments focussing on combatting anti-money laundering and financing of terrorism (AML/CFT) issues, during this current year, the National Coordinating Committee (NCC), has been working on compiling, a comprehensive, relevant and evidence-based intelligence statistical database. The database is being collected from all competent authorities, to complement the work being carried out on the qualitative risk assessment of the relevant economic sectors.

During the coming year, the 2017 National Risk Self-Assessment will be updated based on the MoneyVal assessment report.

Furthermore, there will be the continuation of the outreach initiatives, targeting both the public and private economic operators, for them to have a better risk understanding of money laundering and funding of terrorism. International Anti Money Laundering experts will be delivering these training programmes. As part of this effective outreach programme, Government, through NCC, has entered into an agreement with the University of Malta, to sponsor lectures on forensic accountancy to the accountancy students.

AML/CFT issues require a constant need to remain vigilant to newly emerging money laundering and terrorism financing risks. This ensures that there is an effective outreach for information so that the competent authorities would continue to effectively address and mitigate risks as well as to detect and report suspicious money-laundering activity.

The institutions are committed to continue to effectively regulate, supervise and investigate, where cases dictate, with the aim of maintaining the high professional operating standards, achieved by the stakeholders operating in the various economic sectors.

When it comes to the combating tax evasion and aggressive tax avoidance schemes, the legislation will be amended to impose harsher sanctions, both in terms of fines and criminal prosecution, on persons found guilty of such offences.

Moreover, the Commissioner for Revenue will be given increased powers of investigation and allowed the sharing of information with other institutions, involved in the fight against tax evasion, money laundering and other crimes.

The Government acknowledges that having an effective Customs Department is dependent on an efficient data collection mechanism, possessing the right tools and recruiting and retaining skilled officials. During 2021, the Government will continue to strengthen the Customs Department, in terms of capacity building, improvement of its systems and the acquisition of new equipment. This will ensure that Customs have the adequate resources to continue to combat tax evasion, tax avoidance, fraudulent activities and organised crime, as well as protecting society from the illegal importation of controlled, prohibited and restricted goods, while collecting the dues that are owed by way of duties.

## 4.12 Conclusion

The Government's efforts will be directed towards achieving a complete recovery in economic activity in the coming year. This target will be attained through measures which find a balance between public health and the economy.

All initiatives and measures will be governed by the Government's economic vision for Malta in the coming years based on the five main principles of good governance, higher quality of life for all, education to sustain growth, better infrastructure and a Carbon Neutral economy by 2050 for sustainable long-term growth.





