Malta:

Draft Budgetary Plan

2021

Ministry for Finance and Financial Services
October 2020

The following symbols have been used throughout this document:

. . . to indicate that data are not available;

— to indicate that the figure is negligible;

0 to indicate that the figure is zero;

- to indicate that data are not applicable or cannot be determined;

n/c to indicate that there is no change in the data.

Figures may not add up due to rounding.

This document is based on statistical information available up to the 30th of September, 2020

1. Overall Policy Framework and Objectives

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Following four years of consecutive fiscal surpluses and a declining Government debt the Covid-19 pandemic has had an unprecedented impact on the economy and public finances. This called for unprecedented measures on the part of Government to support the economy and ensure no lasting damage is sustained after the pandemic which in turn could jeopardise public finance sustainability. Such intervention has been facilitated by the triggering of the General Escape clause. In this context, the build up of public savings in the last few years have proved to be quite opportune and allowed the Government to provide the necessary support without putting financial stability at risk.

Against the background of the unprecedented and extraordinary circumstances surrounding the Covid-19 situation, backed by a solid financial position, the Maltese Government immediately launched 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 builds on this recovery plan and seeks to ensure that Malta would return to the path of economic growth witnessed in recent years. The budgetary measures are governed by five principles on which the Government's economic vision rests.

1. 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.

2. The second principle will be that of ensuring that economic growth translates into a higher quality of life for all citizens.

3. 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.

4. The fourth principle is that of continuing upgrading Malta's infrastructure through the ongoing investments in roads, transport and technology.

5. 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.

The targets underlying the 2021 Draft Budget remain subject to a significant degree of uncertainty in light of the ongoing impact of the pandemic on the global economy. Nevertheless, cognisant of the positive bearing that fiscal consolidation and sustainable debt levels have on potential growth, once economic conditions allow, the Government will continue to pursue policies aimed at achieving prudent medium-term fiscal positions whilst supporting investment.

1.1 Macroeconomic Scenario

During the first half of 2020, the Covid-19 pandemic led to a series of unprecedented stresses on the global economy, including Malta. The effect of this shock distinguishes itself from previous global crises because the declines in demand were also complemented with supply disruptions resulting from the mandatory imposition of various country-wide lockdowns and social distancing measures which severely impacted economic activity, particularly in the hospitality sectors, mass transport networks and cultural activities. The pandemic further resulted in unanticipated strains on public health care systems. International and domestic institutions hastily responded to the outbreak by loosening monetary policies and providing fiscal stimulus to cushion the economic setback.

Whilst Malta was not immune from the same adverse effects, and despite the reliance of the Maltese economy on the hospitality industry, other important sectors proved to be notably resilient and mitigated some of the economic repercussions of the pandemic. Sectors such as remote gaming, information and communications, pharmaceuticals, electronics, construction and real estate surprised on the upside and in some cases benefitted from favourable changes in consumer behaviour. In addition, the economy was sustained by an unprecedented level of Government support at a time when a significant liquidity squeeze could have put Malta's corporate sector in jeopardy. Furthermore, the robust growth rates registered in previous years must also have strengthened corporate balance sheets such that no major corporate insolvencies were recorded. Government support also prevented mass unemployment or a significant deterioration in labour market conditions, thus preventing major social disruptions in society. Banks were also well capitalised before the crisis and hence could respond by providing moratoria on loan repayments which so far have prevented a significant increase in non-performing loans.

In the first half of 2020, the pandemic caused a contraction in economic activity of 6.1 per cent in nominal terms and 7.7 per cent in real terms. Despite the extent of the decline, these growth rates stood above the average growth rates of -8.3 per cent and -9.0 per cent recorded in the EU27 and EA. The situation going forward continues to be 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 Maltese economy is expected to contract by 7.4 per cent in real terms during 2020.

The outlook for 2021 is subject to a high degree of uncertainty and is contingent on the severity of the virus, behavioural changes of domestic consumers and firms and the availability of a vaccine. The baseline projection is consistent with a gradual recovery in economic activity from the third quarter of 2020, and a modest recovery in 2021 assuming that an effective vaccine becomes available during the first half of next year. As a result, the Maltese economy is expected to resume its positive performance and grow by 5.0 per cent in real terms in 2021. Growth in the headline components are expected to turn positive, although the recovery is assumed to be gradual. The recovery is expected to be well balanced, supported by both domestic and external demand. Whilst the uncertainty surrounding these projections is extremely high, our analysis now suggests that following the downscaling of growth prospects over the course of the year, a mild upside risk for 2020 and a marginal downside risk for 2021 is projected.

1.2 Fiscal Policy Objectives

The central role played by Government in mitigating the severe impact of the crisis in 2020 is evident. In total during 2020 Government stimulus measures, including the 2021 budget measures amounted to 7.4 per cent of GDP, of which Covid related measures add up to 5.4 per cent of GDP. These exclude 1.5 per cent of GDP in tax deferrals aimed at further supporting corporate liquidity. The structural effort in 2020 is estimated at 5.0 per cent of GDP, the magnitude of which is indicative of the extent to which fiscal policy was expansionary in 2020.

Such unprecedented support precluded mass corporate insolvencies or significant layoffs which could have seriously damaged the economy and undermined fiscal sustainability.

Nevertheless, the effect on public finances of the Covid-19 pandemic was quite severe. From the revenue side, a substantial fall in tourist expenditure and household spending led to a deterioration in the indirect tax revenue whilst corporate losses underlined a significant drop in direct tax revenue. Furthermore, Government expenditure increased substantially reflecting the fiscal impact of Covid-19 related measures as well as measures legislated by means of the 2020 Budget. As a result of these factors, the 2020 fiscal target for general Government has been revised to a deficit of 9.4 per cent of GDP.

Against the background of the strong underlying macroeconomic fundamentals, the Maltese Government is well-positioned to put in place further emergency measures to minimise the impact of the Covid-19 pandemic, whilst supporting the economic recovery in the short to medium term. Hence, the Budget for 2021 will build on the economic regeneration plan of 2020. The general Government balance is expected to improve to a deficit of 5.9 per cent of GDP in 2021. In structural terms, the general Government deficit is expected to improve from 6.9 per cent of GDP in 2020 to 4.3 per cent in 2021. The general Government gross debt ratio is expected to increase by 3.6 percentage points of GDP to 58.6 per cent of GDP in 2021.

1.3 The Recovery and Resilience Plan

Against the above background, Malta is currently preparing its Recovery and Resilience Plan that will support Government's ambitions to put the economic recovery on a sounder footing and achieve higher social resilience, whilst establishing the conditions to restore the long-term economic potential of the country in line with the economic principles outlined above. More specifically, the Plan will outline Government's strategy to improve the economy's resilience and adjustment capacity, mitigating the social and economic impact of the crisis whilst outlining structural reforms that address relevant priorities emanating from the European Semester. This will be achieved through investments, especially in the green and digital transitions.

1.4 Endorsement by the Malta Fiscal Advisory Council

The targets contained in this Plan fulfil the legal requirements established by virtue of the Fiscal Responsibility Act. In addition, the macroeconomic forecasts underlying this Plan and the 2021 Budget have been endorsed by the Malta Fiscal Advisory Council.

2. Economic Outlook

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2.1 The Short-Term Scenario

In recent years, Malta has continued to register robust economic growth driven by buoyant domestic demand and also the structural rebalancing of the economy toward high value activities. During the first half of 2020, the Covid-19 pandemic led to a series of unprecedented stresses on the global economy, including Malta. The effect of this shock distinguishes itself from previous crises because the declines in demand were also complemented with supply restrictions resulting from the mandatory imposition of various country-wide lockdowns in countries with which Malta trades. The pandemic resulted in unanticipated strains on health care systems. International and domestic institutions hastily responded to the outbreak by loosening monetary policies and providing fiscal stimulus to cushion the economic setback. Despite these efforts, the situation going forward continues to be overshadowed with uncertainty with respect to both the duration of the virus as well as the intensity at which it reproduces.

In Malta, while the outbreak of the pandemic exerted adverse effects on the broad economy, the sectors most severely impacted by the partial-lockdown measures were the tourism industry, wholesale and retail trade, transport and storage and the accommodation and food services sectors.

In the first half of 2020, the pandemic caused a contraction in economic activity of 6.1 per cent in nominal terms and 7.7 per cent in real terms. Despite the extent of the decline, these growth rates stood well above the average growth rates of -8.3 per cent and -9.0 per cent recorded in the EU27 and Euro Area (EA).

The slowdown in economic performance recorded during the first half of 2020 was mostly the result of the negative contribution from the domestic side of the economy, primarily attributable to declines in both private consumption and gross fixed capital formation. Private consumption expenditure registered a decline of 11.1 per cent in the first half of 2020, reflecting the effects of partial lockdown measures due to extensive business closures encouraged consumers to stay home. Gross Fixed Capital Formation (GFCF) contracted by 12.9 per cent as a result of heightened uncertainty surrounding the outlook for the economy. Public consumption expenditure exhibited a different path, recording growth rate of 12.4 per cent in the first half of 2020. This increase reflected additional healthcare expenditures as a result of the outbreak of the pandemic. From an external standpoint, in the first half of 2020, Malta recorded a negative contribution from net exports of goods and services. In the first six months of 2020, imports declined by 3.7 per cent, while exports also fell by 5.2 per cent, the latter being reflective of subdued external conditions and weak tourism exports.

During the first half of 2020, total Gross Value Added (GVA) in nominal terms experienced a decline of 5.2 per cent over the same period in 2019. The declines in GVA were predominantly reflected in the services sector, which contributed a 4.7 percentage point drop, followed by negative contributions of 0.4 and 0.1 percentage points in the secondary and primary sectors, respectively. The Wholesale and Retail Trade, Accommodation and Food services sector experienced the largest decline of 29.8 per cent, while other significant declines were recorded in the Mining, Quarrying, Electricity and Water sector (-12.5 per cent), the Agriculture and Fishing sector (-11.0 per cent) and the Professional, Scientific and Technical Activities sector (-4.6 per cent). However, some sectors still managed to record positive growth rates, including the Information and Communications sector (7.5 per cent), the Arts, Entertainment and Recreation sector (6.6 per cent), the Real Estate sector (5.7 per cent), as well as the Public Administration sector

(2.6 per cent). The highest contribution to GVA was recorded in the Arts, Entertainment and Recreation sector (0.6 percentage points).

The factor distribution of income gains throughout the first half of 2020 were somewhat less balanced when compared to the same period last year. Essentially, the decline in Gross Domestic Product (GDP) was entirely absorbed by corporate profits, as gross operating surplus and mixed income witnessed a decline of 9.5 per cent compared to the first half of 2019, while compensation of employees confirmed increases of 5.8 per cent, supported by the Government support measures in response to the pandemic. Notable increases in compensation for employees were recorded in the Construction sector (24.5 per cent), the Agriculture and Fishing sector (14.1 per cent), the Professional, Scientific and Technical Activities sector (12.1 per cent) and the Real Estate sector (10.4 per cent).

Against this background, the Maltese economy is expected to contract by 7.4 per cent in real terms during 2020. Given the high degree of openness of the economy, international developments are projected to weigh heavily on Malta's net export performance. Indeed, the main contributor to the decline in real GDP for 2020 is a negative net exports balance of 6.7 percentage points. Domestic demand is also expected to act as a headwind to growth, contributing negatively by 1.1 percentage points. On the other hand, inventories were accumulated during the first half of the year and are assumed to contribute 0.4 percentage points to growth.

Private consumption is projected to decline by 6.0 per cent, on the back of adverse employment and weak wage dynamics on the demand side, as well as the supply side restrictions inflicted in the second quarter of 2020. Public consumption is anticipated to grow by 18.7 per cent in real terms and by 20.6 per cent in nominal terms, partly absorbing the negative shock to aggregate demand. Underpinning this growth are the Government support measures, particularly those aimed at sustaining employment and ensuring that businesses remain liquid, which are reflected in significant increases in expenditure on intermediate consumption and compensation of employees. Netting out the Individual Investment Program (IIP) component of market output from total Government consumption expenditure, public consumption is expected to grow by 14.5 per cent.

It is worth mentioning that the inherently volatile nature of gross fixed capital formation makes it relatively challenging to forecast. However, a number of investment projects that had been put on hold during the first half of the year have now been resumed. Therefore, the capital projects which were planned to occur throughout 2020 albeit deferred by a few months, will still take place. Nevertheless, due to the prevailing uncertainty underlying the economic landscape, a conservative approach to projecting investment was preferred. As a result, gross fixed capital formation is projected to decline by 6.3 per cent in 2020, while the ratio of imports of capital goods to overall investment was maintained at its secular trend.

From an external perspective, the continued subdued outlook in Malta's main trading partners is reflected in the anticipated decline of 10.5 per cent in exports for 2020. Despite the worsening external assumptions on growth in Malta's main trading partners and a stronger Euro compared to last April, the pandemic triggered an adaptation of spending behaviour. This resulted in the outperformance of some sectors which partially offset the decline in overall exports fuelled by most sectors. This was particularly evident in the remote gaming sector which has registered a notable expansion as the demand for games increased.

Imports are expected to decline by 6.4 per cent in 2020. This is reflective of lower domestic demand for external production as well as subdued investment. It is worth mentioning that in Malta, investment activity tends to be highly import-intensive, and thus, year-on-year movements in investment are partially offset by imports of capital goods, thereby minimising the impact of volatile investment flows on GDP in the medium-term.

Employment is expected to show modest decline of 0.7 per cent when compared to 2019, as the Government wage supplement encouraged employers to retain employees on their books in anticipation of a rebound in economic activity throughout the second half of 2020. Combined with a decline in the labour supply following the voluntary repatriation of several workers, the unemployment rate is forecast to reach 4.8 per cent by the end of the year. Compensation of employees is expected to record a marginal increase of 0.1 per cent for the year.

The outlook for 2021 is subject to a high degree of uncertainty and is contingent on the severity of the virus which, in turn, may instigate a reintroduction of international and/or domestic supply restrictions, as well as the speed at which the confidence and behaviour of domestic consumers and firms will return to normality and the availability of a vaccine. The baseline projection is consistent with a gradual recovery in economic

Main Macroeconomic Indicators

Table 2.1

	2017	2018	2019	2020p	2021p
GDP growth at current market prices (%)	10.4	7.3	7.2	-6.3	6.4
GDP growth at Chain Linked Volumes by period (Reference year 2010) (%)[(1)]	8.0	5.2	4.9	-7.4	5.0
Expenditure Components of GDP					
at Current Market Prices by period (%)					
Private final consumption expenditure[(2)]	4.5	9.4	7.3	-5.2	5.0
General Government final consumption expenditure	3.7	14.6	14.1	20.6	1.1
: net of Individual Investor Programme (IIP) proceeds	*9.3*	*10.0*	*10.3*	*14.5*	*1.8*
Gross fixed capital formation	0.1	4.0	10.0	-5.0	8.8
Exports of goods and services	10.2	1.6	8.0	-9.5	6.8
: net of Individual Investor Programme (IIP) proceeds	*9.7*	*1.9*	*8.4*	*-9.4*	*6.8*
Imports of goods and services	5.8	1.9	9.5	-5.3	5.7
Expenditure Components of GDP					
at Chain Linked Volumes by period (Reference year 2010) (%)					
Private final consumption expenditure[(2)]	3.4	8.5	5.2	-6.0	3.7
General Government final consumption expenditure	1.7	12.0	11.5	18.7	-1.2
Gross fixed capital formation	-0.7	3.1	8.8	-6.3	7.5
Exports of goods and services	8.1	-0.5	6.1	-10.5	5.5
Imports of goods and services	4.4	0.4	7.9	-6.4	4.5
Inflation rate (%)	1.3	1.7	1.5	0.9	1.3
Employment growth (National Accounts Definition) (%)	3.7	7.2	6.5	-0.7	2.3
Unemployment rate (Harmonised definition, Eurostat) (%)	4.0	3.7	3.4	4.8	4.0
Compensation per employee (% change)	0.1	3.7	2.8	0.8	2.3
Labour productivity (% change)	-0.1	-0.8	-0.8	-8.1	2.6
Nominal Unit Labour Cost (% change)	0.2	4.5	3.7	9.7	-0.2
Real Unit Labour Costs (% change)	-2.7	2.5	1.8	8.5	-1.7

[(1)] 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.

[(2)] Includes NPISH final consumption expenditure.

activity from the third quarter of 2020, and a modest recovery in 2021 assuming the distribution of an effective vaccine throughout the first and second quarters of next year.

As a result, the Maltese economy is expected to resume its positive performance and grow by 5.0 per cent in real terms in 2021. Growth in the headline components are expected to turn positive, although the recovery is assumed to be gradual. Indeed, domestic demand is anticipated to contribute 2.6 percentage points to growth, while net exports shall contribute 2.4 percentage points.

Domestic demand is anticipated to be driven by a positive growth in private consumption of 3.6 per cent on the back of a return to growth in employment and accelerating wage growth. Base effects resulting from the supply restrictions imposed in 2020 will also contribute to the recovery in private consumption. On the back of a substantial base effects from the significant growth in 2020, public consumption growth is projected to decline by 1.2 per cent in 2021. As firm and investor sentiment is gradually restored, gross fixed capital formation is projected to grow by 7.5 per cent, as several large-scale investment projects particularly in transport and aviation, tourism, real estate and health sectors are assumed to materialise.

From an external perspective, a steady recovery in Malta's main trading partners is anticipated to result in an increase in exports by 5.5 per cent in 2021. Moreover, the improvement in investment activity coupled with improved domestic activity prospects and a strong Euro currency, will lead to a growth in imports of 4.5 per cent in 2021.

Table 2.1 presents the main macroeconomic indicators for the period 2017 to 2021. The figures for the period 2017 to 2019 are based on the latest data released by the National Statistics Office (NSO) under the European System of National and Regional Accounts (ESA 2010), whereas the figures presented for 2020 and 2021 are projections produced by economists within the Ministry for Finance and Financial Services (MFIN).

2.1.1 Assumptions for Projections

The macroeconomic forecasts presented in this Draft Budgetary Plan are based on the following assumptions:

1. Economic activity in Malta's main trading partners is expected to decrease by 6.3 per cent in 2020, then recover at a rate of 4.6 per cent in 2021.
2. Oil prices are expected to decline, reaching an average of US $41.3 per barrel in 2020 and US $47.6 in 2021.
3. The short-term interest rate is expected to remain at the current spot rate of 0.0 per cent in both 2020 and 2021. On the other hand, the long-term interest rate is expected to average at 0.6 per cent in 2020 and 0.7 per cent in 2021, consistent with an upward sloping yield curve.
4. The USD/EUR exchange rate is expected to average 1.1396 in 2020 and 1.1910 in 2021, representing an appreciation of the Euro of 1.9 per cent and 4.5 per cent in 2020 and 2021, respectively. The STG/EUR exchange rate is expected to average 0.9045 in 2020 and 0.9001 in 2021, representing an appreciation of the Euro of 3.6 per cent in 2020 and a deprecation of the Euro of 0.5 per cent in 2021.
5. It is assumed that, starting from the third quarter of 2020, changes in inventories will not contribute materially to GDP growth.

2.1.2 Employment Prospects

The Labour Force Survey (LFS) reported an employment rate of 73.0 per cent in the second quarter of 2020, which is 0.2 percentage points higher than the corresponding period last year. Despite the severity of the drop in output, employment is expected to decrease marginally by 0.7 per cent in 2020. This reflects the effectiveness of Government support measures to encourage employee retention. In 2021, a 2.3 per cent growth in employment is expected as the economy starts to recover. Moreover, the unemployment rate (based in the Harmonised definition) is expected to increase to 4.8 per cent in 2020 and decrease to 4.0 per cent in 2021, still standing well below the European Union (EU) average rate.

2.1.3 Inflation

The Harmonised Index of Consumer Prices (HICP) inflation rate (twelve-month moving average) which in 2019 stood at 1.5 per cent, decreased to 1.3 per cent in the first half of this year, reflecting downward price pressures from processed and unprocessed food, non-energy industrial goods and energy which was partly offset by growth in prices registered in services.

The HICP is expected to average 0.9 per cent by the end of this year as the appreciation of the Euro and subdued domestic demand instigate downward price pressures particularly in energy and industrial goods. In 2021, an increase in HICP of 1.3 per cent is anticipated as domestic and external demand gradually recover.

2.2 Comparison to Commission's Latest Forecast

Prior to comparing the MFIN's Autumn forecasts with those published by the European Commission (EC), it is worth mentioning that the EC's forecast does not include the latest national accounts data published by the NSO which also includes a benchmark revision, while the MFIN's forecasts are based on this data. Furthermore, MFIN's forecasts incorporate the latest data and forecasts in the external environment which are important for a small and open economy.

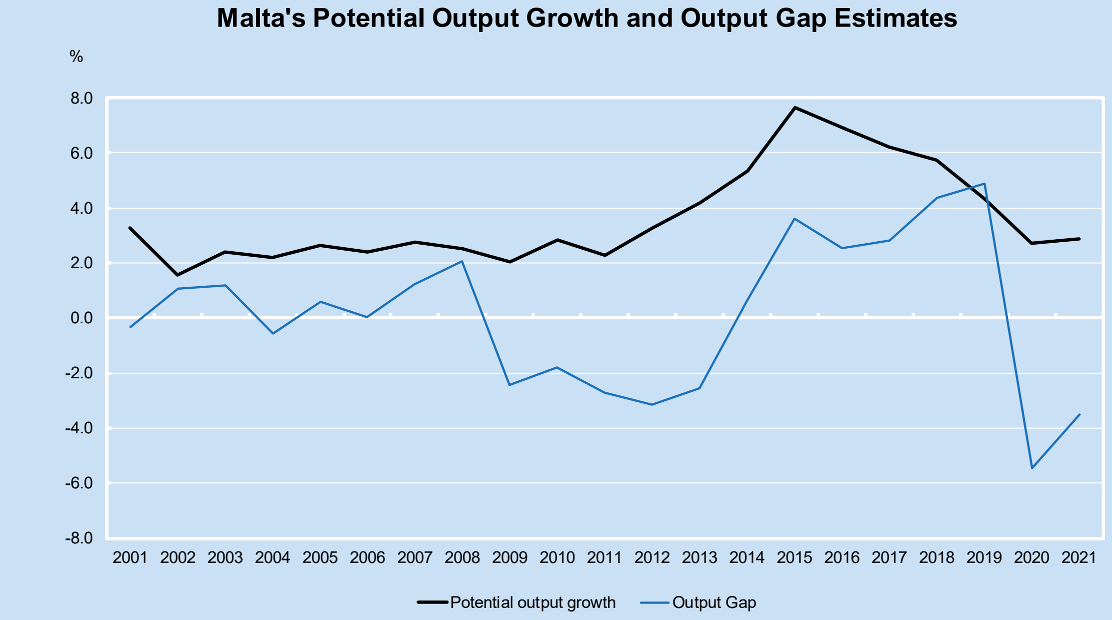
The Spring forecasts published by the EC projected that Malta's GDP should fall by -5.8 per cent for 2020 and a recovery of 6.0 per cent in 2021. Net exports are expected to be the main driver of this contraction but will also be the main driver of the subsequent recovery in 2021 respectively. Nevertheless, the Interim summer forecast projected by the EC suggest a marginally larger decline of -6.0 per cent in 2020, and a stronger recovery of 6.3 per cent in 2021. In Autumn, the MFIN forecasts have been revised downwards by 2.0 percentage points when compared to the Spring forecasts, as a result of a more subdued external conditions and weaker tourism exports than expected for the second half of 2020.

MFIN projects a decline of 6.4 per cent in nominal GDP of 2020, and an increase 6.5 per cent in 2021, while the EC projected a decline of 4.0 per cent in 2020 and a recovery of 7.3 per cent in 2021. This represents a more substantial decline in 2020, and a more modest recovery in 2021, over the baseline presented by the EC in its Spring forecast.

2.3 Potential Output and the Output Gap

The developments in potential output and in the output gap, both historically and those expected over the forecast horizon are illustrated in Chart 2.1. The average potential output growth stood at 4.9 per cent during the period 2010 to 2019. As a result of the impact of the pandemic, over 2020 and 2021, potential output growth is expected to decrease to an average growth rate of 2.8 per cent. The main contributions to potential output are the labour input supported to a lesser extent by capital accumulation. Total

Chart 2.1



factor productivity is projected to contribute negatively. The output gap is expected to remain negative in 2020 and 2021.

2.4 Comparison with the MFIN Spring Forecasts

The economic outlook in this Draft Budgetary Plan has been revised downwards for 2020 following a second surge in local outbreaks in conjunction with a worsening global outlook and weaker tourism exports.

The contribution from the external side of the economy has been revised downwards for 2020, reflecting a further decline in exports due to deteriorating external demand conditions. These stem from weaker economic conditions in Malta's main trading partners than those originally anticipated in the MFIN Spring forecasts as well as a stronger Euro relative to the Dollar and the Pound. The decline in exports also reflect a more adverse outlook for tourism exports than initially taken in the MFIN Spring forecasts. The contribution from domestic demand has also been revised downwards, with the actual decline registered in the first half of the year contributing to a further decline in private consumption expenditure and investment than initially anticipated in the Spring forecasts.

Growth in 2021 has also been revised upwards from the MFIN Spring forecasts mainly due to the higher base effects from the stronger contraction anticipated in 2020. The recovery in 2021 is expected to be stronger on the back of a larger base effect, while hinging on the assumption that a vaccine will be found in the first quarter of 2021.

2.5 Sensitivity Analysis

The macroeconomic forecast is the economic foundation of the Government's fiscal policy targets presented in this Plan. In this context, the macroeconomic forecasts prepared for the budget balance the need to strive for forecast accuracy with the need to maintain a measure of prudence. This is complemented by the assessment of past forecasting performance and a rigorous and scientific quantification of macroeconomic risk, based on research carried out by the Economic Policy Department (EPD) within the MFIN. While the Maltese economy has proved to be very resilient to the international economic crisis, GDP forecast errors are relatively higher for Malta than those observed for larger and less open economies within the EU[1]. This section provides an assessment of forecast uncertainty and the balance of risk surrounding the macroeconomic forecasts in this Programme. The analysis is in line with the requirements of Council Directive 2011/85/EU of the EU on the requirements for budgetary frameworks of the Member States.

2.5.1 The Accuracy of Past Forecasting Performance

The updated analysis shows a tendency to underestimate GDP growth and hence a downward bias in the GDP growth projections in previous years. However, this is primarily a result of significant statistical revisions in the national accounts data. In comparison to past years, the impact of revisions is more severe in view of the benchmarking revision implemented by NSO. While the one-year ahead forecasts display a root-mean squared error (RMSE) of 3.9, it is notable that the sample size employed is rather small and the earliest available forecast is that of 2004. The small sample size, the recession of 2009, the subsequent recovery and the statistical revisions play an undue influence on this evaluation and limit comparability with the forecast accuracy displayed by other economies. It is noteworthy that over successive vintages of forecasts, the RMSE has widened primarily attributed to the relatively large forecast errors in 2014, 2015 and 2017 which are symptomatic of significant upward revisions in the national accounts data.

The evaluation of the risk and uncertainty of the current macroeconomic projections underlying this Programme is based on both an ex ante analysis of past forecast errors which determine the level of uncertainty and an ex post assessment of the balance of risk based on a number of alternative but plausible economic scenarios generated with the forecasting model used by the EPD.

2.5.2 The Balance of Risks

To determine the balance of risks surrounding the macroeconomic forecasts, seven alternative model-based growth projections were carried out as follows:

1. Improved global economic growth based on the upper bound of the Consensus forecasts.
2. Weaker global economic growth based on the lower bound of the Consensus forecast.
3. Higher investment scenario, which assumes that investor certainty is restored in the beginning of 2021 and that the projects which were postponed in the baseline will resume.
4. Higher interest rate scenario, which reflects a reluctance to hold fixed income assets as a result of heightened economic uncertainty.
5. Quick recovery scenario, which assumes that the structural damage caused by the pandemic will rapidly reverse following the dissemination of a vaccine in early 2021. This scenario incorporates the fact that tourism will recover at a more rapid pace than the baseline scenario, and that Malta will focus on attracting tourists with a higher expenditure per head. This increased value added will translate into the Wholesale and Retail Trade, Transport and other tourism-ancillary services.
6. Prolonged Covid-19 scenario, which assumes that the pandemic causes permanent structural damage to certain industries. In 2021, tourism will recover at a slower pace than the baseline case, such that tourist numbers remain at 60 per cent of 2019 levels. Meanwhile, the sectors which depend on tourism such as Wholesale

and Retail Trade, Accommodation and Transport, will permanently operate at 80 per cent of 2019 levels.

7. A scenario with stronger employment growth in 2020 but a decline in wages in 2021, which assumes that the Government measures to support employment turn out better than expected in 2020 and leads to a mild growth in employment rather than the decline suggested in the baseline. However, the loss of productivity and the escalating labour costs will trigger a downward revision in wages in 2021.

These represent scenarios that are plausible alternatives to the baseline projections. While economic judgement influences the choice of these scenarios, this judgement is also underpinned by the constant monitoring of economic conditions prevailing at the time and also informed by the various meetings with economic stakeholders and regulators operating within the Maltese economy, carried out in the early stages of the forecasting exercise.

Among the alternative forecasts, a more detailed description is provided for the alternative growth and interest rate scenarios as required by the Directive. In the light of the prevailing uncertainty surrounding the global economy, two contrasting growth scenarios are modelled.

2.5.2.1 Improved Global Economic Growth

In this scenario, the growth rates of Malta's key trading partners are assumed to be higher than originally anticipated in the baseline scenario, where the global growth rate is increased by 1.8 percentage points in 2020, and by 2.9 percentage points in 2021. The relatively higher than expected economic growth in Germany, France, Italy, the United Kingdom (UK), and the United States (US) is based on the Consensus Forecasts September 2020, assuming the most optimistic growth figure for each trading partner for the forecast years 2020 and 2021. The outcome of this scenario is a marginal upward revision to the budget balance in 2020, while real GDP growth would be revised upwards by 0.5 percentage points. In 2021, real GDP growth would increase by 4.1 percentage points, reaching a real growth rate of 9.1 per cent, while the budget balance would ameliorate by 0.5 percentage points.

2.5.2.2 Weaker Global Economic Growth

This scenario models the downside risk of a weaker than expected economic growth rate in Malta's main trading partners on the Maltese economy. The relatively lower than expected economic growth in Germany, France, Italy, the UK, and the US is based on the Consensus Forecasts September 2020, assuming the lowest growth figure for each trading partner for the forecast years 2020 and 2021. In this analysis, global growth declines by 1.6 percentage points in both forecast years. The outcome of this scenario is that the Maltese economy would contract by 0.5 percentage points more than the baseline scenario in 2020. The budget balance would decline by 0.1 percentage points relative to the baseline. In 2021, the effect of lower global growth is more significant, with real GDP growth decreasing by 2.3 percentage points, and budget balance declining by 0.4 percentage points.

2.5.2.3 Interest Rate Scenario

This scenario assumes that long-term interest rates are assumed to increase by 25.0 basis points in the third quarter of 2021, thereby steepening the yield curve compared to the baseline scenario. This scenario attempts to reflect a reluctance of investors to hold fixed income assets due to heightened uncertainty on medium-term growth prospects. In response to higher interest rates, the Euro will appreciate relative to competing currencies. The effect of this scenario would be lower real investment growth leading to a decline of 0.1 percentage points in real GDP in 2021 and a virtually unchanged budget balance.

2.5.3 Alternative Model Forecasts

Moreover, the EPD has developed seven alternative forecasting models ranging from model-free statistical forecast (Random Walk and Holt-Winters Seasonal Smoothing Method), model-based univariate forecasts (2 ARIMA models) and model-based multivariate forecasts (2 VAR models and one VECM model). These models help EPD benchmark the results inferred from STEMM and can be used to generate alternative growth forecasts. For 2020, the alternative models give a range of growth forecasts from -2.9 per cent to -12.4 per cent. The average of all models suggested GDP is set to fall by approximately 8.1 per cent, while the average of VAR models produced an estimate of -7.2 per cent, which is very close to the baseline forecast. For 2021, growth forecasts range from -3.8 per cent to 5.4 per cent. The average of all models suggests a growth rate of 1.5 per cent while the VAR model average indicates GDP growth of 4.8 per cent. The latter is consistent with the baseline forecast.

2.5.4 Uncertainty and the Balance of Risk Underlying the Macroeconomic Projections

The uncertainty surrounding the macroeconomic projections is based on the past forecast error variance of GDP. This is equal to 0.4 for the current year forecast, and 2.8 for the one-year ahead forecast. The balance of risk is based on the Pearson skewness indicator of the model generating alternative forecast for GDP documented above. The indicator shows a mild upside risk for 2020, but a marginal downside risk for 2021. The result is consistent with the analysis of alternative model forecasts highlighted earlier. Chart 2.2 represents the uncertainty and the balance of risk surrounding the macroeconomic forecasts presented in this Draft Budgetary Plan.

Chart 2.2

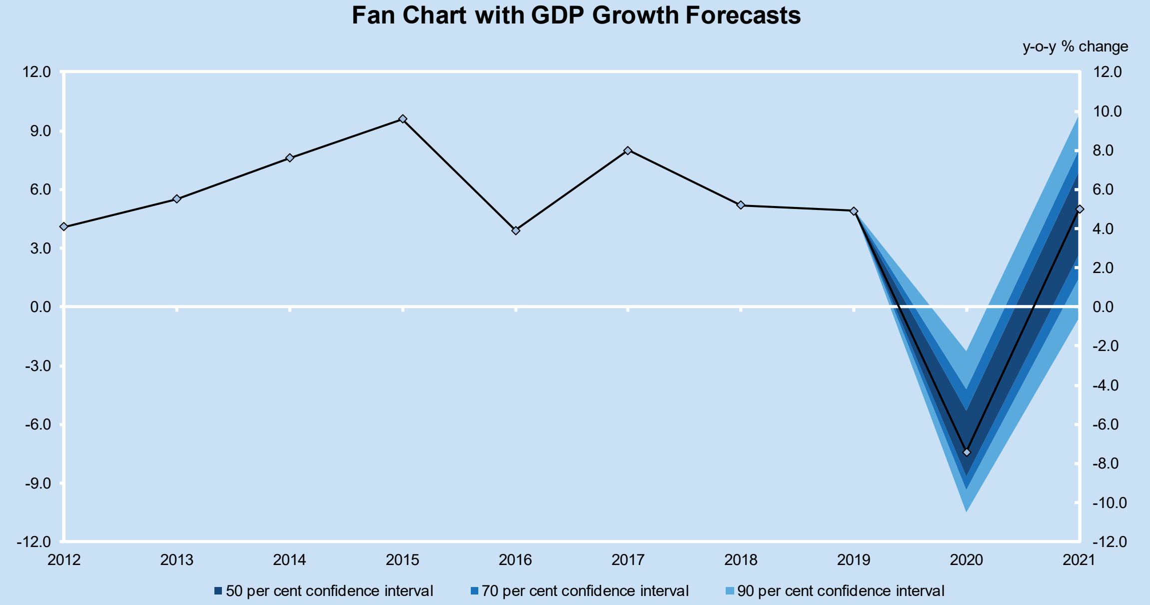
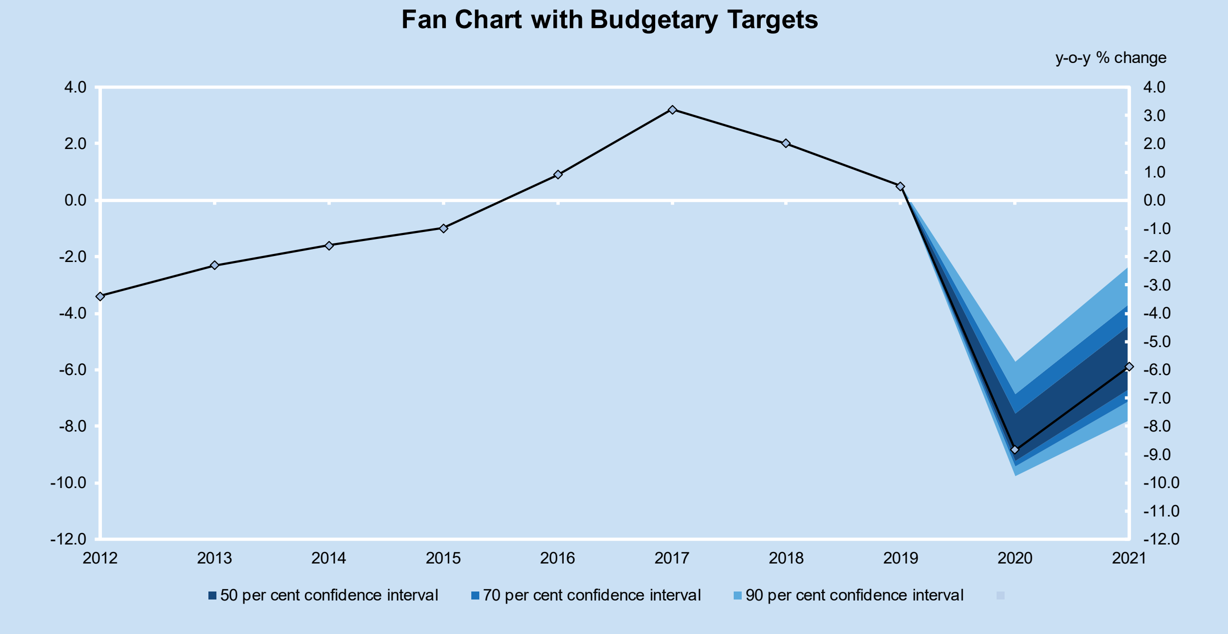


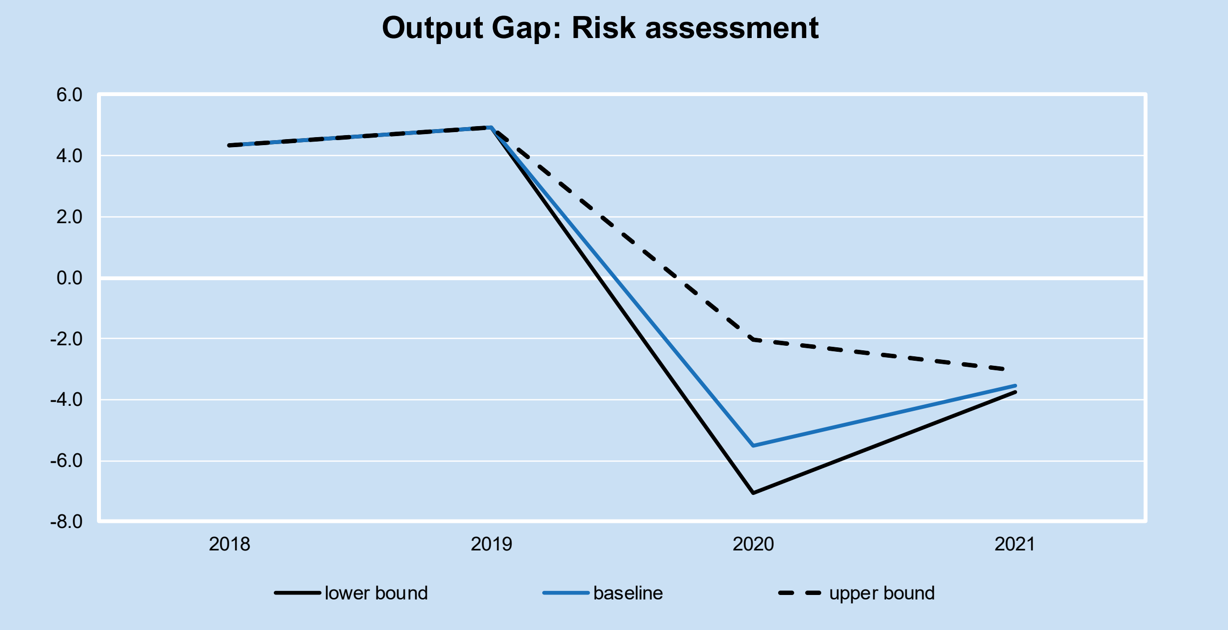
Chart 2.3



2.5.5 Risks to Fiscal Targets

The alternative macroeconomic scenarios documented above, can influence the attainment of the deficit targets thus underpinning alternative fiscal conditions. Chart 2.3 illustrates the range of possible budget balance outcomes conditional upon the realisation of these alternative scenarios. This year, the evaluation of fiscal risk conditional on macroeconomic risks also incorporates the variance resulting from the past forecast error of fiscal projections, based on a methodology similar to that used for deriving

Chart 2.4



the macroeconomic risk assessment. As a result, the risk assessment is presented in the form of a probabilistic fan-chart rather than point estimates. There seems to be an upside risk for the attainment of a lower budget deficit in both 2020 and 2021.

2.5.6 Alternative Output Gap projections and risks to Structural Fiscal Targets

This assessment has been extended to cover risks to the output gap projections and hence the structural commitments presented in this Programme. Alternative output gap projections consistent with the above economic scenarios have been carried out.

Compared to the baseline scenario, as shown in Chart 2.4, alternative output gap projections range from -1.6 percentage points in 2020 up to -0.3 percentage points in 2021 under the lower-bound scenario and from 3.5 percentage points in 2020 down to 0.6 percentage points in 2021 under the upper-bound scenario.

Footnote:

[1] Camilleri, G., and Vella, K. (2015). "Interpolating Forecast Errors for Assessing Uncertainty in Macroeconomic Forecasts: An Analysis for Malta." EPD Working Paper Series, No. 1/2015, Mach 2015. http://mfin.gov.mt/en/epd/Documents/Working_Papers/Working_Paper_Full.pdf

Macroeconomic forecasts
(Basic assumptions)

Appendix Table 0.i

	Data Source	2019	2020p	2021p
Short-term interest rate (annual average)	**ECB**	0.0	0.0	0.0
Long-term interest rate (annual average)	**ECB**	0.7	0.6	0.7
USD/€ exchange rate (annual average)	**ECB + Consensus Economics (September 2019)**	1.118	1.140	1.191
STG/€ exchange rate (annual average)	**ECB + Consensus Economics (September 2019)**	0.873	0.905	0.900
Real GDP Growth of main trading partners	**Eurostat + Consensus Economics (September 2019)**	1.9	-6.3	4.6
Nominal GDP Growth of main trading partners	**Eurostat + Consensus Economics (September 2019)**	3.7	-5.3	5.9
Oil prices (Brent, USD/barrel)	**US Energy Information Administration (EIA) + Consensus Economics (September 2019)**	64.40	41.20	47.60

Macroeconomic forecasts (Macroeconomic prospects)					
Appendix Table 1.a		€ million *CLV 2010 Prices*	rate of change		
	ESA Code	**2019**	**2019**	**2020p**	**2021p**
1. Real GDP[(1)]	B1*g	12,379.6	4.9	-7.4	5.0
2. Potential GDP			4.3	2.7	2.9
contributions:					
- labour			2.7	2.1	2.0
- capital			1.4	1.0	1.2
- total factor productivity			0.2	-0.3	-0.3
3. Nominal GDP	B1*g	13,390.0	7.2	-6.3	6.4
Components of real GDP					
4. Private final consumption expenditure[(2)]	P.3	5,939.3	5.2	-6.0	3.7
5. Government final consumption expenditure	P.3	2,114.6	11.5	18.7	-1.2
6. Gross fixed capital formation	P.51	2,798.2	8.8	-6.3	7.5
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		0.7	1.2	1.1
8. Exports of goods and services	P.6	18,002.6	6.1	-10.5	5.5
9. Imports of goods and services	P.7	16,560.0	7.9	-6.4	4.5
Contributions to real GDP growth					
10. Final domestic demand		10,852.2	6.3	-1.1	3.3
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	84.7	0.0	0.4	0.0
12. External demand	B.11	1,442.6	-1.4	-6.7	1.7

[(1)] 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.

[(2)] Includes NPISH final consumption expenditure.

Macroeconomic forecasts (Price developments)					
Appendix Table 1.b		Index[(1)]	rate of change		
	ESA Code	**2019**	**2019**	**2020f**	**2021f**
1. GDP deflator		121.3	2.3	1.1	1.4
2. Private consumption deflator		114.1	2.0	0.9	1.1
3. HICP		115.0	1.5	0.9	1.3
4. Public consumption deflator		121.1	2.4	1.6	2.4
5. Investment deflator		113.0	1.1	1.3	1.2
6. Export price deflator (goods and services)		120.2	1.7	1.2	1.1
7. Import price deflator (goods and services)		115.4	1.5	1.1	1.1

[(1)] Index (base 2010 unless otherwise indicated)

Macroeconomic forecasts (Labour market developments)					
Appendix Table 1.c		€000s	rate of change		
	ESA Code	**2019**	**2019**	**2020f**	**2021f**
1. Employment, persons[1]		249.3	6.5	-0.7	2.3
2. Employment, hours worked[2]		492,207.2	6.5	-0.7	2.3
3. Unemployment rate (%)[3]			3.4	4.8	4.0
4. Labour productivity, persons[4]		49.7	-0.8	-8.1	2.6
5. Labour productivity, hours worked [5]			-0.8	-8.1	2.6
6. Compensation of employees	D.1	5,803.4	8.4	0.1	4.8
7. Compensation per employee		26.6	2.8	0.8	2.3

[1] National accounts definition.

[2] National accounts definition.

[3] Harmonised definition, Eurostat; levels.

[4] Real GDP per person employed.

[5] Real GDP per hour worked.

Macroeconomic forecasts (Sectoral balances)				
Appendix Table 1.d				% GDP
Percentages of GDP	ESA Code	**2019**	**2020**	**2021**
1. Net lending/ borrowing		5.2	-5.2	-4.4
vis-à-vis the rest of the world	B.9			
of which:				
Balance on goods and services		13.9	7.9	9.9
Balance of primary incomes and transfers		-9.5	-13.7	-14.4
Capital account		0.8	0.6	0.1
2. Net lending/ borrowing of the private sector	B.9	4.6	-6.3	-5.5
3. Net lending/ borrowing of general Government	EDP B.9	0.0	0.0	0.0
4. Statistical discrepancy		0.7	1.2	1.1
Current Account		4.8	-7.4	-4.5

3. General Government Budgetary Developments

3. General Government Budgetary Developments

Four years of consecutive fiscal surpluses and a declining Government debt burden put public finances on a sound footing. This improvement in Government's finances driven by favourable economic conditions and the strengthening of Malta's fiscal framework has provided the necessary fiscal space to allow fiscal policy to act in a countercyclical manner. It is 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.

Against the background of the unprecedented and extraordinary circumstances surrounding the Covid-19 situation, backed by a solid financial position, the Maltese Government immediately launched 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 builds on this recovery plan and seeks to ensure that Malta would return to the path of economic growth witnessed in recent years. The budgetary measures are 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. The Maltese Government's economic vision goes beyond short-term priorities but is oriented towards addressing medium-term structural challenges.

The targets underlying the 2021 Draft Budget remain subject to a significant degree of uncertainty in light of the ongoing impact of the pandemic on the global economy. Nevertheless, cognisant of the positive bearing that fiscal consolidation and sustainable debt levels have on potential growth, the Government will continue to prioritise fiscal consolidation once the pandemic is over. Indeed, the budget balance is expected to improve to a deficit of 5.9 per cent of Gross Domestic Product (GDP) in 2021, which also includes an allocation of over 5 per cent of GDP towards gross fixed capital formation in 2021. Meanwhile, the debt ratio is expected to increase by 3.6 percentage points of GDP to 58.6 per cent of GDP in 2021.

This Chapter provides an analysis of planned developments in revenue, expenditure and debt during 2021, including details of the main discretionary measures underpinning the expenditure and revenue targets for 2021, and is based on the European System of Accounts (ESA) 2010 methodology. Indeed, data provided in this Chapter covers the general Government sector, which is composed of the central and local Government subsectors. In turn, the central Government subsector comprises the operations of Government Ministries and Departments and of Extra Budgetary Units (EBUs). Appendix Table 6b provides a list of established EBUs as at 31 December 2019.

3.1 Budgetary targets

The final outcome in 2019, the evaluation of general Government budgetary developments during the current year, as well as the revised macroeconomic projections, constitute the basis for the revised projections. In addition, revisions also reflect fiscal policy measures put in place to cushion the economic impact of the Covid-19 pandemic on revenues, incomes and liquidity during the current year, as well as the fiscal impact of the measures underlying the 2021 Draft Budget.

As of 2020, the general Government gross debt is expected to increase by 12.3 percentage points to 55.0 per cent of GDP, reflecting the impact of the Covid-19 pandemic. The debt-to-GDP ratio is expected to increase by a further 3.6 percentage points in 2021 to reach 58.6 per cent, thereby still below the European Commission's (EC) 60 per cent Maastricht threshold. Developments in gross Government debt and the contributors to developments in the debt-to-GDP ratio are presented in Table 2b. The expected increase in the debt-to-GDP ratio in 2020 is mainly on the back of the negative primary balance together with an expansionary contribution stemming from the nominal growth, interest expenditure and the stock-flow adjustment (SFA) which is mainly due to the contribution to the Malta Government Stock sinking fund. Additionally, in 2020 part of the positive stock flow is attributed to the positive balance in the revenue accruals which is not included in the central Government deficit.

Budgetary Targets

General Government budgetary targets broken down by subsector

Table 2.a — % of GDP

	ESA Code	2020	2021
Net lending (+) / net borrowing (-) by sub-sector [1]	B.9		
1. General Government	S.13	-9.4	-5.9
2. Central Government	S.1311	-9.4	-5.9
3. State Government	S.1312	-	-
4. Local Government	S.1313	-0.0	-0.0
5. Social security funds	S.1314	-	-
6. Interest expenditure	D.41	1.0	1.2
7. Primary balance [2]		-8.4	-4.8
8. One-off and other temporary measures [3]		0.1	0.1
9. Real GDP growth (%) (=1 in Table 1.a)		4.3	4.3
10. Potential GDP growth (%) (=2 in Table 1.a)		5.6	5.6
11. Output gap (% of potential GDP)		-5.5	-3.5
12. Cyclical budgetary component (% of potential GDP)		-2.6	-1.7
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		-6.8	-4.3
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		-5.8	-3.1
15. Structural balance (13 - 8) (% of potential GDP)		-6.9	-4.3

[1] TR-TE= B.9.

[2] The primary balance is calculated as (B.9) plus (D.41, item 6).

[3] A plus sign means deficit-reducing one-off measures.

Budgetary Targets (General Government debt developments)		
Table 2.b		% GDP
	2020	2021
1. Gross Debt [1]	55.0	58.6
2. Change in gross debt ratio	12.3	3.6
Contribution to changes in gross debt		
3. Primary Balance	8.4	4.7
4. Interest Expenditure	1.0	1.2
5. Stock-flow adjustment	0.1	1.1
p.m. Implicit interest rate on debt [2]	2.2	2.3

[1] As defined in Regulation 479/2009

[2] Proxied by interest expenditure divided by the debt level of the previous year

3.1.1 Updated budgetary plans for 2020

While the outbreak of the pandemic exerted adverse effects on the broad economy in general, some sectors were more severely hit than others by the partial-lockdown measures. In particular, tourism-related industries and the wholesale and retail trade sectors have been adversely impacted by the pandemic. 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 to an extent expected to mitigate the severity of the downturn on compensation of employees, such that the anticipated drop in employment is expected to be modest compared to the drop in output. In addition, the support measures aimed at sustaining corporate liquidity and profitability are aimed at reducing the risk of corporate insolvencies and expected to minimise the timeframes within which the more severely hit sectors recover. As a result of these factors, the 2020 fiscal target for general Government has been revised to a deficit of 9.4 per cent of GDP.

The general Government revenue to GDP ratio is expected to remain stable compared to 2019, at 37.7 per cent of GDP. The projections for general Government revenue were revised downwards by 1.5 percentage points, to reflect lower anticipated proceeds of 0.8 percentage points from taxation. Against the background of the anticipated negative macroeconomic developments in 2020, taxes on production and imports were revised downwards by 0.3 percentage points. In the revised forecasts, revenues from current taxes on income and wealth were also revised downwards, such that as a share to GDP, the ratio is expected to remain relatively unchanged compared to 2019. The lower impact on direct taxation is on account of the expected success of Government support in shoring up employment during the pandemic. It is worth noting, that as per Eurostat's note on statistical implications of some policy measures in the context of the Covid-19 pandemic[1], 'when payment deadlines are changed (lengthened) or the submission deadlines for tax declaration are postponed, for taxes where the accrual is implemented using time-adjusted cash, the time-lag used for time-adjusted cash should be reviewed so as to still reflect well the time when the economic activity generating the tax liability took place.' Indeed, the estimated fiscal impact of deferred is accrued entirely to 2020.

The ratio of general Government expenditure to GDP is expected to increase by 9.8 percentage points to 47.4 per cent in 2020. The increase in the expenditure-to-GDP ratio is mainly set to come from the fiscal impact of Covid-19 related measures as well as measures legislated by means of the 2020 Budget. The projections for general Government expenditure have been revised significantly upwards by 0.4 percentage points, compared to projections outlined in the 2020-2021 Update of the Stability Programme. Higher ratios to GDP for subsidies of 1.1 percentage points, and higher ratios for intermediate consumption and social payments of 0.3 percentage points each are anticipated. The main changes to the expenditure forecast in 2020 are mainly on account of fiscal measures introduced to mitigate the effects of Covid-19 pandemic.

3.1.2 National policy response to Covid-19 and budgetary implications

A broad range of policy measures was implemented to limit the impact of the pandemic. The initial policy response sought to lower the number of infections, to avoid an overloading of the acute health system and to limit the number of casualties. To this end, in an initial response, the Maltese Government intervened to contain the spread of the virus through a series of prevention, containment, control and treatment measures, implemented and enforced across sectors and within society. In addition, further healthcare funding was necessary to address hospital capacity, medical equipment and protective gear. Subsequently, fiscal policy measures were put in place to cushion the economic impact on revenues, incomes and liquidity, consisting of discretionary polices with a direct impact on the budget, as well as liquidity-oriented measures. Following the lifting of several restrictions imposed as a result of the pandemic and the re-opening of non-essential retail establishments and services, the Maltese Government provided support to the rebound and recovery. The budgetary implications of the Covid-19 related measures are outlined in Table 5a.

3.2 Budgetary plans for 2021

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. Indeed, the easing in general restrictions is expected to relaunch domestic demand and investment, supported by the recovery packages announced by the Maltese Government. Net exports are also set to contribute to the rebound as global trade gradually normalises. On account of these developments, the general Government balance is expected to improve to a deficit of 5.9 per cent of GDP in 2021. In structural terms, the general Government deficit is expected to improve from 6.9 per cent in 2020 to 4.3 per cent in 2021. General Government budgetary targets are outlined in Table 2a.

The general Government gross debt ratio is expected to increase by 3.6 percentage points of GDP to 58.6 per cent of GDP in 2021, and to remain below the 60 per cent Maastricht Treaty threshold. The positive impact of nominal growth will be more than offset by the upward pressure that the projected primary deficit, interest payments and the stock flow adjustment are expected to have on the debt ratio. Developments in gross Government debt are presented in Table 2b. A detailed account of the Stock-Flow adjustments can be found in Appendix Table 7.

3.2.1 Discretionary measures

A list of the main discretionary measures included in the Draft Budgetary Plan and underpinning the expenditure and revenue targets for 2021 is presented in Table 5a. The net impact on the budget balance of temporary and permanent discretionary revenue

Description of discretionary measures included in the draft budget
(Discretionary measures taken by General Government)

Table 5.a

List of measures	Detailed description	Target (Expenditure / Revenue component) ESA Code	Accounting principle	Adoption Status	Introduced in Budget for…	Incremental Budgetary Impact	
						2020 % of GDP	2021 % of GDP
Post Covid-19 Economic Regeneration Plan	Reduced tax on the transfer of immovable property	D2, D5 - R	Accruals	Temporary & Adopted	June 2020 Economic Regeneration Plan	-0.34	0.20
Post Covid-19 Economic Regeneration Plan	Reduced Excise Duty	D2 - R	Accruals	Temporary & Adopted	June 2020 Economic Regeneration Plan	-0.06	0.06
Budget measures enabling business activity		D2 - R	Accruals	Permanent & Adopted	2019 - 2021	0.00	-0.06
Personal income tax	Fiscal incentives for private pensions	D5 - R	Accruals	Permanent & Adopted	2019 - 2021	-0.00	-0.03
Individual Investor Programme	Revenue from the Individual Investor Programme	P10 - R	Accruals	Permanent & Adopted	2014	-0.30	-0.04
Other revenue measures, including measures legislated in previous budgets			Accruals	Permanent & Adopted		-0.04	0.01
COVID-19 Support Measure	Various medical supplies and equipment in relation to COVID-19	P2, P51 - E	Accruals	Temporary & Adopted	2020 - 2021	-0.88	0.85
COVID-19 Support Measure	Cargo Transportation and Repatriation	P2 - E	Accruals	Temporary & Adopted	COVID-19 Support Measure	-0.40	0.40
COVID-19 Support Measure and Post Covid-19 Economic Regeneration Plan	Malta Enterprise and MIMCOL Schemes	D3 - E	Accruals	Temporary & Adopted	2020 - 2021	-3.34	2.06
COVID-19 Support Measure	Government-guaranteed loans schemes	D3 - E	Accruals	Temporary & Adopted	COVID-19 Support Measure	0.00	-0.09
COVID-19 Support Measure	Short Term Social Measures	D6 - E	Accruals	Temporary & Adopted	COVID-19 Support Measure	-0.14	0.14
Re-distribution measures	Measures to address housing affordability, pension adequacy and the integration of vulnerable individuals in society; cash payments by Government to households	D6 - E	Accruals	Permanent & Adopted	2016 - 2021	-0.38	-0.12
Other expenditure measures, including measures legislated in previous budgets and projects financed from the National Development and Social Fund			Accruals	Permanent & Adopted		-0.54	0.36
						-6.42	**3.74**

The impact is recorded in incremental terms - as opposed to levels - compared to the previous year's baseline projection. The total figure is the Total impact on the budget balance, as a revenue increasing measure is listed as positive, while an expenditure decreasing measure is also positive. The contrary applies for negative figures, such that a revenue decreasing measure is negative and an expenditure increasing measure is also negative. Simple permanent measures are recorded as having an effect of +/- X in the year(s) they are introduced and zero otherwise (the overall impact on the level of revenues or expenditures does not cancel out). If the impact of a measure varies over time, only the incremental impact is recorded in the table. By their nature, one-off measures are recorded as having an effect of +/- X in the year of the first budgetary impact and -/+ X in the following year, i.e. the overall impact on the level of revenues or expenditures in two consecutive years is zero. The measures may not add up to the total due to the marginal impact of measures legislated in previous' years Budget, but which might nonetheless have a marginal impact on the budget balance.

measures for 2021 (including those implemented in previous budgets but which will still have an impact in 2021) is estimated at 0.14 per cent of GDP. Meanwhile, incremental discretionary expenditure measures (including those implemented in previous budgets but which will still have an impact in 2021), are expected to improve the budget balance of 2021 by 3.6 per cent of GDP.

Guarantees adopted/announced in response to COVID-19 outbreak				
Table X				
List of measures	**Description**	**Adoption Status**	**Maximum amount of contingent liability** (% of GDP)	**Current take-up (actual contingent liability)** (% of GDP)[2]
Malta Development Bank 'COVID-19 Guarantee Scheme'	The MDB COVID-19 Guarantee Scheme (CGS) provides guarantees to commercial banks in order to enhance access to bank financing for the working capital requirements of businesses in Malta facing a sudden acute liquidity shortage as a result of the COVID-19 outbreak.[1]	Approved	2.8	0.4

[1] A Guarantee Fund of €350 million has been allocated by Government, through the Malta Development Bank (MDB), for the purpose of guaranteeing loans granted by commercial banks in Malta to offer up to €780 million in loans to businesses affected negatively by the pandemic. The scheme shall only impact the general Government balance in the eventuality of a call on the guarantees.

[2] Actual contingent liability as at end August 2020

The 2021 Budget aims to continue to sustain the economic recovery, post pandemic; safeguard employment; ensure social protection and invest in sustainable development. This will be achieved through the introduction of measures, as follows:

1. Assisting companies to retain employment, bolstering their investment initiatives and helping start-ups with the implementation of innovative technology projects;
2. Reducing further the risk of poverty for the most vulnerable in society, including by enhancing the adequacy of pensions;
3. Incentivising the circular economy, by seeking circular consumption and production patterns; exploring waste prevention and management while ensuring the responsible re-use of resources and enhancing green procurement to safeguard the environment;
4. Creating opportunities to build a strong green economy to transform Malta into a modern, resource-efficient and competitive economy – in line with the European Green Deal vision;
5. Continuing to invest in the Island's infrastructure to be able to meet, both the current and the future economic, social and environmental challenges.

In addition, in terms and for the purposes of Article 31 of the Fiscal Responsibility Act, the annual contribution to the 'Contingency Reserve' account is expected to amount to €13.3 million in 2021.

3.3 Expenditure and Revenue Targets

General Government expenditure and revenue targets are presented in Table 4a. Whilst the revenue to GDP ratio is expected to recover in 2021, the expenditure ratio to GDP is expected to decline in 2021, such that the general Government balance is expected to improve to -5.9 per cent of GDP.

Total revenue is expected to increase to 39.0 per cent of GDP in 2021, primarily reflecting an increase of 1.3 percentage points of GDP in the tax revenue ratio. The ratio of taxes on production and imports is expected to increase by 1.2 percentage points of GDP as domestic demand conditions commence their recovery. The ratio of current taxes on income and wealth is expected to increase by 0.2 of a percentage point of GDP, mainly on account of anticipated wage developments.

Expenditure and Revenue Targets

(General Government expenditure and revenue targets, broken down by main components)

Table 4.a			% GDP
	ESA Code	**2020**	**2021**
General Government (S13)			
1. Total revenue target	TR	37.7	39.0
Of which:			
1.1. Taxes on production and imports	D.2	11.3	12.5
1.2. Current taxes on income, wealth, etc	D.5	13.7	13.9
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	6.3	6.1
1.5. Property income	D.4	0.6	0.6
1.6. Other [1]		5.6	5.6
p.m.: Tax burden		31.6	32.9
(D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure target	TE[3]	47.1	44.9
Of which:			
2.1. Compensation of employees	D.1	12.6	12.5
2.2. Intermediate consumption	P.2	9.8	9.1
2.3. Social payments	D.6M	10.9	10.4
of which Unemployment benefits [3]		*0.5*	*0.4*
2.4. Interest expenditure (= item 6 in Table 2.a)	D.41	1.0	1.2
2.5. Subsidies	D.3	5.0	3.0
2.6. Gross fixed capital formation	P.51G	4.8	5.1
2.7. Capital transfers	D.9	0.4	0.9
2.8. Other [4]		2.5	2.7

[1] P.10 + D.39rec + D.7rec + D.9rec (other than D.91rec).

[2] Tax revenue, including those collected by the EU and including an adjustment for uncollected taxes and social contributions D.995), if appropriate.

[3] Includes cash benefits (D.621 and D.624) and in kind benefits (D.632) related to unemployment benefits.

[4] D.29pay + D.4pay (other than D.41pay) + D.5pay + D.7pay + P.5M + NP + D.8.

Expenditure and Revenue Targets

(Amounts to be excluded from the expenditure benchmark)

Table 4.b					% GDP
	ESA Code	**2019**	**2019**	**2020**	**2021**
		Level (€ millions)			
1. Expenditure on EU programmes fully matched by EU funds revenue		147.2	1.1	1.8	2.0
1.a of which 'Investment fully matched by EU funds revenue		55.8	0.4	0.9	1.0
2. Cyclical unemployment benefit expenditure [1]		-3.7	-0.1	0.0	0.0
3. Effect of discretionary revenue measures [2]		-63.0	-0.6	-0.7	0.1
4. Revenue increases mandated by law		-	-	-	-

[1] The cyclical unemployment benefit expenditure is calculated by multiplying the gap between the Non-Accelerating Wage Rate of Unemployment (NAWRU) and the unemployment rate (expressed in terms of the unemployment rate) by the total unemployment benefit expenditure. Data for the NAWRU and the unemployment rate is obtained from the latest update of the AMECO Database, while data for the total unemployment benefit expenditure is as defined in COFOG under the code 10.5.

[2] Revenue increases mandated by law is not included in the effect of discretionary revenue measures: data reported in rows 3 and 4 are mutually exclusive.

Expenditure and Revenue Projections under the no-policy change scenario [1] (General Government expenditure and revenue projections at unchanged policies broken down by main components)			
Table 3			% GDP
	ESA Code	**2020**	**2021**
General Government (S13)			
1. Total revenue at unchanged policies	TR	37.7	39.3
Of which:			
1.1. Taxes on production and imports	D.2	11.3	12.7
1.2. Current taxes on income, wealth, etc	D.5	13.7	14.1
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	6.3	6.1
1.5. Property income	D.4	0.6	0.6
1.6. Other [2]		5.6	5.6
p.m.: Tax burden		31.6	33.3
(D.2+D.5+D.61+D.91-D.995)[3]			
2. Total expenditure at unchanged policies	TE[3]	47.1	46.1
Of which:			
2.1. Compensation of employees	D.1	12.6	12.5
2.2. Intermediate consumption	P.2	9.8	9.1
2.3. Social payments	D.6M	10.9	10.6
of which Unemployment benefits [4]		0.5	0.4
2.4. Interest expenditure	D.41	1.0	1.2
2.5. Subsidies	D.3	5.0	4.0
2.6. Gross fixed capital formation	P.51	4.8	5.0
2.7. Capital transfers	D.9	0.4	0.9
2.8. Other [5]		2.5	2.7

[1] Data for 2020 is equivalent to the data presented in Table 4.a. The no-policy change scenario for the forthcoming year (2021) involves the extrapolation of revenue and expenditure trends after deducting the impact of temporary measures of the current year and before adding the impact of the measures included in the forthcoming year's budget.

[2] P.10 + D.39rec + D.7rec + D.9rec (other than D.91rec).

[3] Tax revneue, Including those collected by the EU and including an adjustment for uncollected taxes and social contributions D.995), if appropriate.

[4] Includes cash benefits (D.621 and D.624) and in kind benefits (D.632) related to unemployment benefits.

[5] D.29pay + D.4pay (other than D.41pay) + D.5pay + D.7pay + P.5M + NP + D.8.

The ratio of general Government expenditure to GDP is expected to decline by 2.2 percentage points to 44.9 per cent in 2021, largely reflecting a decline of 2.0 percentage points in the subsidies to GDP ratio as Covid-19 related measures are phased out during 2021. A lower ratio for intermediate consumption is offset by added capital outlays.

3.4 Expenditure and Revenue Targets under the No Policy Change Assumption

In 2021, tax revenue is expected to broadly follow economic developments. Tax revenues are expected to grow by around 12 per cent, with an implied elasticity of tax revenue to GDP under the no-policy change scenario estimated at 1.2. As a result, on a no-policy change basis, the tax burden would increase by 1.6 percentage points to 33.3 per cent of GDP, as shown in Table 3. This development mainly reflects a higher ratio for taxes

Divergence from latest SP			
Table 7			% GDP
	ESA Code	2020	2021
Real GDP growth			
Stability Programme		-5.4	3.9
Draft Budgetary Plan		-7.4	5.0
Difference		-2.0	1.1
General Government net lending/ net borrowing	EDP B.9		
Stability Programme		-7.5	-3.6
Draft Budgetary Plan		-9.4	-5.9
Difference		-1.9	-2.3
General Government net lending projection at unchanged policies	EDP B.9		
Stability Programme		-	-
Draft Budgetary Plan		-9.4	-6.7
Difference [1]		-	-
Total Revenue	TR		
Stability Programme		39.2	38.8
Draft Budgetary Plan		37.7	39.0
Difference		-1.5	0.2
Total Expenditure	TE		
Stability Programme		46.7	42.4
Draft Budgetary Plan		47.1	44.9
Difference		0.4	2.5
General Government gross debt			
Stability Programme		54.5	55.5
Draft Budgetary Plan		55.0	58.6
Difference		0.5	3.1

[1] This difference refers to both deviations stemming from changes in the macroeconomic scenario and those stemming from the effect of policy measures taken between the submission of the SP and the submission of the DBP. Differences are also due to the fact that the no-policy change scenario is defined differently for the purpose of this Code of Conduct with respect to the Stability Programme.

on production and imports and for current taxes on income, as the economic recovery in 2021 is expected to be tax-rich.

At unchanged policies, total expenditure would decline by 1 percentage point of GDP, as lower ratios for subsidies and intermediate consumption are in part offset by higher capital outlays.

Footnote:

[1] Eurostat (European Commission) Directorate D: Government Finance Statistics (2020) 'Note on statistical implications of some policy measures in the context of the COVID-19 pandemic', 30 March 2020 (updated 9 April 2020).

Stock Flow Adjustment Statement		
Appendix Table 7		€ million
	2020	**2021**
Deficit (ESA)	**1,180.0**	**788.0**
ESA Adjustments	40.8	-36.9
Contribution to Sinking Fund (Local)	0.0	0.0
Contribution to Sinking Fund (Foreign)	0.1	0.1
Contribution to Special MGS Sinking Fund	50.0	30.0
Equity Acquisition	37.1	10.5
EFSF/ESM Credit Line Facility	4.5	4.5
Stock Premium paid to Church	0.0	0.3
Repayment of Loans to Government	-0.9	-2.2
Sale of Assets	-0.9	-0.9
Sale of Non-Financial Assets	-	-
EBUs	0.0	0.0
Currency	6.5	7.0
Movement in Bank Account	-	-
ESA Re-routed Debt	32.2	60.1
Other Statistical Discrepancies	-	-
Increase/(Decrease) in cash balance	0.0	-0.2
Increase/(Decreaese) in Non-Consolidated Debt	**1349.4**	**860.3**
Total Consolidation	*-162.6*	*69.4*
Increase/(Decreaese) in Consolidated Debt	**1186.8**	**929.7**
SFA	**6.8**	**141.7**

Appendix Table 6.a **Indications on how the measures in the DBP address CSR and the targets set by the Union's Strategy for growth and jobs**

CSR recommendations 2020

CSRs	Relevant Measures
CSR 1: In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the resilience of the health system with regard to the health workforce, critical medical products and primary care.	*In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery.*
	Health aspect The measures that were introduced during the pandemic crises, were introduced in a staggered manner starting from early May while travel restrictions were lifted on the 1st of July. The approach also included a strategy to restart elective medical services, including preventive care, which was temporarily stopped during the acute phase of the first wave, to avoid possible serious complications or higher mortality rates in non-communicable disease (NCD) sufferers. Once there was the removal of the travel ban, with a view to minimize the importation of COVID cases, passengers on incoming flights, coming from countries placed on Malta's amber list, were required to have a negative PCR swab test before boarding the plane. Malta has also been very active and supportive, at EU circles, to come up with a common criteria of measures, to be taken for travellers. There are a number of testing centres around Malta and Gozo to take swabs and for the laboratory analysis. Positive cases are mandatorily followed-up by public health authorities. MFH has been following ECDC advice to identify persons having COVID, followed by isolation and treatment. Indeed, Malta has had a consistently high testing rate per capita and is still performing the second highest rate of testing per capita in the EU. Malta has increased the available number of isolation beds and Intensive Therapy Unit beds, while separate COVID and non-COVID accident and emergency (A&E) areas have been created within the acute hospital for segregation purposes. There has been redeployment and re-training of medical staff. Malta has also joined the EU joint procurement process for PPEs, laboratory reagents and tests and ventilators. *Economic aspect* Backed by a solid financial position, the Maltese Government immediately launched a series of financial packages to address the health emergency needs, ease liquidity pressures on businesses and the safeguarding of jobs and household incomes. The Wage Supplement measure provides funds to business and the self-employed and is intended to support enterprises in retaining their employees. Latest estimates indicate that by end September 2020, a total of €225.5 million were disbursed in relation to this measure. Initiatives aimed to ease liquidity problems, include the deferral of tax payments, loan guarantees and interest rate subsidies to support access to credit, while also supporting business to facilitate remote working through measures supporting investment in telework equipment. By 1st October, €0.9 million were approved for this measure. All these measures were approved by the Commission in view of their state aid implications. A one-off lump sum grant was also provided with respect to those employees on mandatory quarantine. A total of €1.4 million was paid in this regard by the 28th September 2020. On the social side, a number of measures were introduced for individuals who were made redundant or who are now unable to work. In June, the Government also launched a comprehensive recovery plan to regenerate the Maltese economy upon the gradual reopening of the economy from its partial

	lockdown. 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. The 2021 Budget builds on this recovery plan and seeks to ensure that Malta resumes the path of economic growth as witnessed in recent years. The budgetary measures shall 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.
	When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.
	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, the Government is committed that once exceptional circumstances no longer prevail, it 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).
	Strengthen the resilience of the health system with regard to the health workforce, critical medical products and primary care.
	The number of intensive care (ITU) beds were increased significantly, from 20 to over 100 beds during the pandemic. The investments in acute bed occupancy in critical care units together with the acquisition of medical equipment will benefit contingency planning in future pandemics or national disasters. To address the issue of social distancing and other crisis response measures, tele-consultations measures at both primary and secondary care levels were introduced to facilitate the medical community to help patients manage their health conditions even when in isolation. IT services are also now more focused on facilitating remote delivery of healthcare services. During the pandemic, digital health has provided a unique opportunity to accelerate digitalisation capabilities to be implemented for the benefit of healthcare service delivery. There was the development and deployment of websites and mobile apps that assist in the control and management of the pandemic. The experience thus gained will surely enhance the potential uptake of any remote patient surveillance technologies in the future.

<table>
<tr><td rowspan="4">CSR 2: Consolidate short-time work arrangements and ensure the adequacy of unemployment protection for all workers. Strengthen the quality and inclusiveness of education and skills development.</td><td>Consolidate short-time work arrangements and ensure the adequacy of unemployment protection for all workers</td></tr>
<tr><td>Through the COVID wage supplement, employees are financially supported, as follows:
• full-time employees of enterprises operating in sectors that suffered drastically due to the COVID-19 pandemic or had to temporarily suspend operations on the order of the Superintendent of Public Health (Annex A) are entitled to up to five days' salary based on a monthly wage of €800.
• full-time employees in other adversely affected sectors (Annex B) are entitled to one days' salary per week equivalent to €160 per month. The scheme covers also part-time employee and the self-employed.

The scheme has undergone a number of changes since its introduction, where the parameters were adjusted to continue supporting the hardest-hit sectors and provide a tapering of aid to all other activities even after the containment measures started to be de-escalated. It is estimated that at the end of July, 69,538 full-time and 10,038 part-time/casual employees had benefited from this measure.

Through such measures, Malta has managed to maintain a low unemployment rate, which is one of the lowest among its European peers. By July 2020, Malta's unemployment rate stood at 4.3 per cent which was well below the EU average of 7.2 per cent.

The Government has also ensured inclusion and equality through specific interventions aimed at supporting households that were unable to work due to the pandemic. In particular, these measures targeted the following groups:
• Parents who both work in the private sector and who had to stay home to take care of their school-aged children.
• Persons with disability that work in the private sector and who were received medical advice to stay at home for health and safety reasons.
• Employees in the private sector that were unable to work because they are ordered by the Public Health Authorities to stay home.
• Government also increased the benefit rates of the Contributory Unemployment Benefit.

These measures were of temporary nature and were wound down once the containment measures started to be lifted.

The Government has also announced their intention to extend the wage supplement beyond its present deadline of October 2020 and stands ready to effect the necessary changes to ensure that through this measure and other instruments, its efforts at preventing job losses remain effective as the economic impact of COVID-19 continues to linger.</td></tr>
<tr><td>Strengthen the quality and inclusiveness of education and skills development</td></tr>
<tr><td>Malta's efforts to enhance the quality of the 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 whilst the proportion of people aged 30-34 with tertiary level qualifications, increased by 11.5 percentage points since 2012. The statistics now show that adult learning is at par with the EU average at 12.0 per cent participation compared to 7.2 per cent in 2012 while the employment rate of recent graduates is equivalent to 93.1 per cent, the highest in the EU, with NEET percentage is at 7.5 per cent, compared to the EU's average of 12.6 per cent.</td></tr>
</table>

The ‘*My Journey: Achieving through different paths*’ reform, based on both the values of inclusion, social justice, equity and diversity, and the four main targets of the Framework for the Education Strategy for Malta 2014-2024, is the focus of this strategy. The reform was implemented in lower secondary schools as from scholastic year 2019/2020.

This reform sees the educational sector move from a 'one size fits all' system to a more inclusive and comprehensive learning system which equitably support all children's individual talents and needs through quality academic, vocational and applied learning programmes. In this regard, Malta introduced learning outcomes instead of prescribed syllabi.

Complementarily, vocational and applied learning programmes leading up to MQF Level 3, are also made available to all students. Following compulsory education, students can now opt to continue their studies at the University of Malta (UoM), Malta College of Arts, Science and Technology (MCAST), Institute of Tourism Studies (ITS) or another higher education institution of their choice.

The introduction of equitable learning programmes has allowed more quality time for in-depth learning while at the same time increasing learning opportunities. ‘My Journey’ seeks to promote increased links between education and industry.

In 2019, the National Inclusion Policy and relevant Framework set clear targets and timelines to achieve and ensure quality inclusion across all schools in Malta. The four main Policy Benchmarks include:

1. All learners have access to opportunities for participation in educational systems and structures.
2. All educators employ effective teaching approaches that are more representative of and responsive to diversity that foster a Universal Design for learning Environment.
3. All schools are supported through well organised support structures that embrace shared cultures and ethos of diversity.
4. All educators have access to flexible education and training that supports their work in delivering quality inclusive education.

Other services, such as Early Intervention, Teacher of the Hearing Impaired, Teacher of the Visually Impaired, Home Tuition, Guidance, Counselling, Anti-bullying, Anti-Substance, Child Safety and Career Guidance. Nurture Groups and Learning Support Zones, offer in-house school support in terms of emotional literacy. Moreover, there is also collaboration with various stakeholders to strengthen service provision in order to ensure that all learners with disability receive adequate support as needed.

The Career Guidance Services within the Ministry for Education and Employment implements a number of career guidance initiatives for students who attend compulsory education in order to make them become aware of, and instil in them, skills which can facilitate their transition towards further education and/or the world of work. Particular attention is also given to students who are at risk of becoming Early School Leavers (ESLs).

There is also continuous investment in the training of our educators both to prepare them better in the use of modern technologies that can be used in our classrooms but also to use these technologies to extend education out of the classroom and out of class hours.

	For those already in employment, we are providing training opportunities through a mix of online and physical courses. Unemployed, inactive and people in employment can participate in the different courses offered. Furthermore, companies are encouraged to offer training to their staff through the *Investing in Skills scheme* which is co-financed through the European Social Fund. The 'Training Pays' scheme, which is also co-financed through the European Social Fund, offers individuals the possibility to participate in a training initiative not offered by Jobsplus (MQF 1-5). A similar programme is in place to assist disabled persons and vulnerable inactive individuals to find and retain suitable employment. The Programme provides a holistic assessment to participants through multiple training options and professional support which might lead to several employment opportunities. Training opportunities include: pre-employment training (PET) and sheltered employment training (SET). The VASTE Programme is a €13 million project part-financed by the European Social Fund under Operational Programme II (2014-2020). In the context of the crisis, in order to ensure inclusion and access to education for all, free internet access to students to Scheme 9 students, was provided during the pandemic. A free computer/laptop or tablet was also provided for the duration of schools' closing down, to ensure that students that may not have the means to have a device to continue their online studies.
CSR 3: Ensure effective implementation of liquidity support to affected businesses, including the self-employed. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, sustainable transport, waste management,	Government's economic policy is focused on enhancing the business environment in Malta with a view to support a diversified and competitive economic base that creates wealth and jobs. The overall outcome is evidenced in the share of investment in GDP that stood at 21 per cent over the last three years, around 3 percentage points higher than the rates recorded earlier this decade.
	Ensure effective implementation of liquidity support to affected businesses, including the self-employed.
	Government introduced a number of measures aimed at retaining individuals in employment and support economic activity. A comprehensive recovery plan aimed at regenerating the Maltese economy, is also in place. To improve business liquidity, there was 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. 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, has also launched the COVID-19 Guarantee Scheme (CGS). This measure provides guarantees to commercial banks to provide loans to established businesses operating in Malta that have been affected by the pandemic, to finance their working capital requirements (up to €10 million for SMEs and €25 million for large enterprises). This scheme is backed by a guarantee fund, in the form of a Government guarantee of €350 million, whereby it offers a 90 per cent guarantee for each eligible working capital loan subject to a cap of 50 per cent on the overall loan portfolio. The guarantee fund of €350 million can be leveraged up by the participating banks to a potential maximum portfolio of almost €780 million. Furthermore, the Government is subsidising the interest rates of these loans for a period of two years, up to a maximum of 2.5 per cent. The borrower can pay an interest rate as low as 0.1 per cent, net of the guarantee fee. By end August 2020, 412 facilities were approved under the CGS, covering total sanctioned lending of €285.0 million. In terms of the number of facilities, the sector

research and innovation.	comprising wholesale and retail activities, applied and secured the largest value of sanctioned loans at €71.9 million. This was followed by accommodation and food services activities, with 95 facilities making up a total of €59.5 million sanctioned loans, and the sector comprising transportation and storage, which had a total of €38.3 million. The Small Loans Guarantee Scheme aims to reduce the need for soft collateral, ensuring that businesses who are not in a position to offer guarantees to banks will still be able to benefit from cheap credit made available under the first two complementary instruments. On 3 July 2020 the MDB also introduced a Temporary Bond Subscription Facility to support the rolling over of bonds of a local company maturing on 31 July 2020. Through this facility, the MDB would cover the part of the bond issue, if any, that remains unsubscribed by the market – up to a maximum of €18.7 million, with an annual interest rate of 5.5 per cent. Eventually this facility was not taken up as the market responded very favourably and the bonds were fully subscribed by the market. A number of businesses and households, applied with MFIs in Malta for a moratorium on loan repayments. As at end July, there were 9,624 loans subject to a moratorium on repayments. The total value of loans subject to a moratorium stood at €1.8 billion, or 16.0 per cent of total outstanding loans to Maltese residents. The largest number of loans covered by moratoria was held by households, with the sector accounting for around 77.0 per cent of the total volume of loans subject to a moratorium. Maltese households held €642.0 million, or 35.4 per cent, of the total value of loans subject to a moratorium, equivalent to 10.4 per cent of outstanding household loans. Meanwhile, the real estate sector held €319.4 million in loans subject to a moratorium, or around 17.6 per cent of such loans and equivalent to a third of this sector's outstanding loans. This was followed by the accommodation and food services activities, which held €230.3 million in loans subject to a moratorium. The latter was the sector most affected by the containment measures and, indeed, more than half – 51.4 per cent – of the loans held by this sector were subject to a moratorium by the end of July. Moreover, as at end July, the wholesale and retail trade sector held €113.0 million in loans subject to a moratorium, making up 6.2 per cent of such loans subject to a moratorium, or 17.1 per cent of loans held by the sector. Applications closed on 30 September 2020. Malta Enterprise is currently planning two measures for SMEs which will provide (i) guarantees for investment projects and (ii) soft loans for expansions in new markets on the basis of a business plan.
	Front-load mature public investment projects and promote private investment to foster economic recovery
	In recent years, gross fixed capital formation has averaged 3.2 per cent of GDP, and stood at 3.9 per cent of GDP in 2019. By means of the June 2020 economic regeneration plan, the Government is assisting local businesses carrying out digital promotion in new markets, including through an export credit guarantee scheme for the establishment of new export markets, and incentivising the construction sector to modernise its machinery and equipment. The 2021 Budget provides for the continued upgrading of Malta's infrastructure through the ongoing investments on roads, transport and technology. In addition, over the medium-term, the Government shall carry out several capital and infrastructural projects in industrial areas, including the extension of the Life

	Sciences Park, the upgrade of the Kordin Business Incubation Centre, investment at the Marsa ex-landfill and a new logistics hub. In view of the forthcoming programming period (2021-27) some €2.1 billion in the form of grants will be invested over the coming 7 years in order to support in the addressing Malta and Gozo's challenges as well as to enable the country to make a leap forward, particularly in areas which are of strategic national and European importance. Such investments will primarily aim to combat the socio-economic effects of the pandemic, foster recovery and resilience and support Malta in reaching its green and digital ambitions, including its transition towards a zero-carbon economy. EU funds shall also aim to contribute towards other ambitions outlined in the Common Agricultural Policy, Cohesion Policy and Common Fisheries Policy, as well as migration and security based on Malta's needs, national sectoral policies as well as in line with the challenges identified through the European Semester process.
	Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, sustainable transport, waste management, research and innovation
	Clean and efficient production and use of energy Schemes, such as the 'Investment Aid for Energy Efficiency Projects' and 'Energy Efficiency for Sports Organisations', have been launched with the aim of reducing the commercial use of fossil-fuel based energy. Malta shall be supporting undertakings in carrying out investments leading to improved energy efficiency. The assistance is intended to facilitate investments in technological solutions that provide higher energy efficiency and contribute directly towards a reduction in the energy requirements of the beneficiaries. The Government's effort to green the Maltese economy has also focused on Solar Farms, restoration and preservation of Urban Conservation Areas (UCAs), the restoration of rural roads and the greening of the tourism industry through awards like the Green Mobility Hotel Award and Labelling Scheme in 2019. Meanwhile, investments in the power generation sector has led to higher energy efficiency reflecting the Energy Efficiency First principle, increasing the overall conversion efficiency from 25-30 per cent to more than 50 per cent. ***Sustainable transport*** In the context of sustainable transport and reducing traffic congestion, the Government is promoting incentives to reduce private vehicle use and emissions, through: • a more effective public transport; • incentivising alternative modes such as car sharing, maritime transport and cycling; • electrification of cars; • support to local mobility through the development of sustainable and accessible modes of transport; and • intelligent transport systems. In line with Malta's 2017 national transport strategic vision for 2050 and operational plan to 2025, the general approach aims at achieving more sustainable mobility through improving Malta's strategic road network (particularly the TEN-T roads) by

removing traffic bottlenecks and introducing measures aimed at achieving more sustainability to the way we travel.

The removal of traffic bottlenecks is also a priority as this will reduce traffic congestion in urban areas; thus, giving prominence to more sustainable transport as well as promoting further modes of transport including cycling and pedestrian facilities. In this regard, Malta will therefore aim to include investment in roads as part of potential investment under Cohesion policy for the upcoming programming period. In order to address congestion and pollution, Government has committed an investment of €700 million over 7 years from national budget to upgrade the road network, starting in 2019. This upgrade is part of a holistic approach towards sustainability, air quality, reduction in cars and traffic congestion and modal shift.

Other investments include the deployment of infrastructure to support digitalisation and the decarbonisation of road and maritime transport. These include using technology to improve the efficiency of travel, for example: by promoting the use of alternative fuels (such as zero emission electric vehicles over internal combustion engine (ICE) vehicles) through incentives and infrastructure; through the use of intelligent transport systems (ITS); and through the introduction of integrated ticketing between different modes to create seamless mobility. As a result of an investment of €1.5 million in incentive grants in 2019, 299 electric vehicles and 280 pedelecs were registered. Finally, through The Grand Harbour Clean Air Project, the Government is also committed to provide shore supply in the Grand Harbour to enable berthed vessels to switch off their gas- or heavy-fuel-oil-fired engines and plug in to shore side electricity to power their on-board systems.

Waste Management

Waste management has continued to be a policy priority for this Government. An investment needs plan was announced earlier this year aimed at modernising and upgrading the current waste infrastructure and to centralise in one location in order to maximise economies of scale as much as possible.

The development of the National Waste Management Plan (WMP) 2021-2030 is underway and will be launched by the end of 2020. It will comprise Malta's policy measures to help it meet its 2030 obligations when it comes to recycling and diversion of waste from landfills, as well as supporting the transition to a more circular and resource-efficient economy.

The WMP will place emphasis on waste prevention, outlining new policy measures to extend Extended Producer Responsibility Schemes (EPR), regulate commercial waste to increase separation at source, reform waste collection in the form of regionalisation, and significant investment into sustainable waste management infrastructure. The plan aims to facilitate waste prevention and reuse of materials and correct management of waste by industry, Government, citizens and tourists.

In terms of EPR, the WMP aims to identify options for waste management arising from products subject to extended producer responsibility, which includes packaging and packaging waste, end-of-life vehicles, waste electric and electronic equipment and batteries and accumulators. Investment will also be made in the regulation of the commercial sector for waste separation and management. This will enable Malta to benefit from the significant potential of organic waste and recyclables as resources rather than waste.

As per amendments made in Maltese legislation last year, as of 2022 waste management responsibilities will be organized by regions as groups of localities rather than each local council being responsible for their area. This will enable a reform to streamline of waste collection and the opportunity to benefit from economies of scale.

Waste management infrastructure

Presently an advanced Multi Material Recovery Facility (MMRF) and storage facility as an expansion to WasteServ's current infrastructure is being built in Ħal-Far. This will assist WasteServ in deviating as much waste as possible away from the landfill. Moreover, following the success of the source separation of household organic waste, the Government is committed to high-quality compost to be used in the agricultural sector as well as biogas. This facility will lead to the utilisation of food waste resources in the local environment. The plan aims to facilitate waste prevention and reuse of materials and correct management of waste by industry, government, citizens and tourists.

There are several plans for investment in upgrading the waste management infrastructure. These plans include the setting up of a 'Waste to Energy' facility in Malta. This project is intended to reduce landfill dependency and assisting the Maltese Islands in reaching the EU targets without resorting to exporting waste at high costs. In fact, this facility will manage non-recyclable facility outputs such as Refuse Derived Fuel from a number of household and commercial waste streams.

In addition, there are also plans to invest in a new Material Recovery Facility intended to sort recyclable waste such as paper, plastic and metals and direct them for export for recycling, thus making the Maltese Islands adhere with the principles of circular economy. The Government is also planning to build a thermal treatment facility. This facility shall accept a range of hazardous waste fractions for treatment which may be potentially harmful to human health or the environment, and that may not be landfilled. These include abattoir waste, clinical waste, and pharmaceutical waste amongst other hazardous waste streams.

Public awareness raising campaign

In 2019, there was the launch of the Saving Our Blue campaign. Now in its second edition, the campaign aims to raise public awareness on marine litter - especially single-use plastics - and the harm this causes.

We embarked on an EU Funded project 'Encouraging Sustainable Waste Practices in Households and Beyond' in order to focus on waste separation at source. The project has a total cost of around €8 million part-financed through Cohesion Funds. The project includes: a nationwide campaign targeting organic waste separation in households; promotion of the separation of waste at source through kerbside collection vehicles; raising awareness on hazardous waste separation with a focus on expired medicine; introducing waste separation in the public sector; and provision of stackable bins to households, schools and other entities in Malta and Gozo. These activities were accompanied by an educational campaign themed 'Sort it Out' that aimed to educate the public on the above-mentioned areas.

A Strategy, on Single-Use Plastics 2020-2030, is being finalised following a public consultation exercise. Moreover, considering the importance of the construction industry in Malta and the waste management challenges that come with it, the Government commissioned a study to develop a Construction and Demolition Waste Strategy, in line with the circular economy principles. Government has also launched a Beverage Container Refund System to be implemented by the end of 2021.

Research and Innovation

Malta's R&I policy is currently driven by the National Research and Innovation Strategy 2020 intended to address deficits and gaps in the R&I ecosystem, including

	more investment in research and development, addressing skill gaps, facilitating science-business links, and including the set-up of a more effective governance of the research and innovation system. Work is currently being done on the development of the National R&I Strategic Plan post 2020 and the preparation of the Smart Specialisation Strategy (RIS3) 2021-2027. With regard to Horizon 2020, by August 2020, 209 Maltese entities had participated/or were participating in a total of 154 projects and received €29.9 million in EU net funding with participants ranging from higher education, public and private as well as non-profit research organisations. Other investment projects to improve R&I in Malta have been implemented by the MCST, such as the National R&I Fund which is comprised of 2 programmes under the FUSION branding: the Commercialisation Voucher Programme (CVP) and the Technology Development Programme (TDP). The FUSION programme offers support to eligible Maltese Research Entities to assess the feasibility of their idea through the CVP, and subsequently, providing funds for research through the TDP. The total FUSION allocated budget between June 2014 and September 2020 is €12.1 million. As of September 2020, 269 Maltese entities had participated in the CVP Programme, of which 126 CVP applications were funded, with a total allocated budget of €2.2 million. Also, as of September 2020, MCST received a total of 95 TDP applications for funding, of which 48 TDP projects were funded, with a total allocated budget of €9.9 million. Since 2018 – and the launch of the Space Research Fund – MCST funded 7 projects in total, with a duration of 20 months and a funding budget of €150,000 per project, totalling €1.05 million to date. The funded projects address several thematic areas including super resolution imagery processing, efficient agriculture monitoring using Earth Observation (EO) with *in situ* data, coastal erosion monitoring, and development of EO toolboxes, amongst others. Most of the awarded projects consist of consortia between academia and public entities. MCST will open another two competitive calls in the years 2021 and 2022 and shall disburse another €750,000 for Earth Observation related projects. In the field of education, the Space Education Programme introduced capacity building activities to jump start the space sector in Malta, beginning from Primary to Secondary level schools. MCST supported local schools by introducing ESA-related initiatives such as CanSat, Astro Pi, Climate Detectives and several space-related outreach activities. These initiatives have given teachers and students the opportunity to participate at European level. Through the Mediterranean R&I flagship programme, PRIMA – Partnership for Research and Innovation in the Mediterranean Area – 3 projects with Maltese participation have been awarded. PRIMA supports transnational R&I in the fields of agriculture, food and water management. MCST also participates on a yearly basis in the R&I Funding Initiative, MarTERA, an initiative that funds R&I in the fields of marine and maritime technologies. ***Artificial Intelligence*** During 2018 the Government launched the Malta AI Task Force with the aim of laying the foundation to position Malta as a centre for excellence for AI, including AI Ethics Guidelines and AI specific enhancements to the Innovative Technology Regulatory Framework. In March 2019, a policy document was launched by the Malta AI Task Force, which sharpened the national focus as a cornerstone to Malta's National AI Strategy. The main aims of the document were to set out the focus of national resources across both the public and private sectors to ensure that the Maltese economy and citizens fully participate in, benefit from and where necessary

<table>
<tr><td></td><td>are protected from a new global economic landscape and social landscape influenced, if not reshaped, by AI. The Malta National AI Strategy was launched in October 2019 and builds on three strategic pillars, which are a) Investment, Start-ups and Innovation, b) Public Sector Adoption and c) Private Sector Adoption. Underpinning these pillars are three enablers that cut across all aspects of the National AI Strategy, which are a) Education and workforce, b) Ethical and Legal and c) Ecosystem Infrastructure. The strategy is built on the Malta Ethical AI Framework, which builds on the European Commission's AI HLEG Ethics Guidelines for Trustworthy AI and the Recommendation of the Council on Artificial Intelligence adopted by the OECD countries. Such framework sets out four Ethical AI Principles, which are a) Human autonomy, b) Prevent harm, c) Fairness and d) Explicability. In terms of the Innovation, start-ups and innovation pillar, the Strategy sets out initiatives to generate investment and position the country as a hub for AI application and niche areas of research and development, supported by a vibrant start-up community. Following the launch of the National AI Strategy, which received huge interest both locally and internationally, the Malta Digital Innovation Authority (MDIA) published for consultation the AI Innovative Technology Arrangements (ITA) Guidelines, the AI System Auditor Control Objectives, the AI ITA Nomenclature and the AI ITA Blueprint Guidelines.</td></tr>
<tr><td rowspan="2">CSR 4: Complete reforms addressing current shortcomings in institutional capacity and governance to enhance judicial independence. Continue efforts to adequalty assess and mitigate money-laundering risks and to ensure effective enforcement of the anti-money laundering framework. Step up action to address features of the tax system that facilitate aggressive tax planning by</td><td>Complete reforms addressing current shortcomings in institutional capacity and governance to enhance judicial independence</td></tr>
<tr><td>Addressing institutional capacity as well as enhancing judicial independence continues to be a topmost priority for Malta. Over the past few months, since the early days of 2020, this Government has undertaken ambitious efforts in order to implement an unprecedented set of reforms, focusing mainly on the judiciary, governance mechanisms, as well as institutional reforms. In so doing, Government's openness in continuously engaging with many of the recommendations made by the Council of Europe's Venice Commission as well as Government's readiness to cooperate across party lines was starkly evident and the Venice Commission itself welcomed the efforts of the Maltese authorities.

On 1 July 2020, the House of Representatives, the Minister for Justice, Equality and Governance tabled the following Bills for the First Reading:

i. an Act to provide for the amendments of the Constitution of Malta relative to the appointment of the President of Malta;
ii. an Act to provide for the amendment of the Constitution of Malta relative to the appointment of judges and magistrates;
iii. an Act to provide for the amendments of the Constitution of Malta and to the Commission for the Administration of Justice Act, Cap. 369, relative to the removal from office of judges and magistrates;
iv. an Act to amend various laws aimed at reforming the procedure by which appointments to the Permanent Commission Against Corruption are made;
v. an Act to amend laws which regulate the Office of the Ombudsman;
vi. an Act to continue implementing reforms in the Justice Sector by providing for the judicial review of decisions not to prosecute and other decisions of the Attorney General;
vii. an Act to provide for the amendment of the Auditor General and the National Audit Office Act;</td></tr>
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individuals and multinationals.	viii. an Act to amend various laws to reform the procedure by which the appointments of the Principle Permanent Secretary and Permanent Secretaries are made; ix. an Act to provide for the amendments of the laws relative to the appointment of persons of trust; x. an Act to provide for the amendment of various laws to reform the procedure for the making of various appointments. On 29 July 2020, the first six Bills mentioned above were unanimously voted upon in Parliament. This marked an important and historical milestone in national Constitutional history. Government plans on taking the last four Bills through the parliamentary process by the end of 2020. This would close the first set of most crucial Institutional and Constitutional reforms, to then continue the discussions in the Constitutional Convention being led by the President of the Republic. In another unprecedented agreement between Government and the Opposition, in April 2020, Mr Justice Mark Chetcuti was nominated and appointed as Chief Justice. His nomination was moved in a joint motion between the Government and the Opposition in the House of Representatives on 1 April 2020. Moreover, Dr Victoria Buttigieg was appointed as Attorney General in September 2020 after being unanimously recommended to the post by an Appointment Commission, following a public call. Apart from this, as from 1 October 2020 and by virtue of the Prosecution of Offences (Transitory Provisions) Regulations, 2020 (Legal Notice 378 of 2020), issued under the State Advocate Act (Chapter 603 of the Laws of Malta), all criminal offences attracting a punishment of more than two years imprisonment have now started being prosecuted by the Attorney General (and no longer by the Police). These include crimes such as homicide, money-laundering, bribery or evasion of customs duty. In view of this, the Office of the Attorney General has moved to a much larger building in Valletta, whilst the head count within the Office also continues to increase. On 29 July 2020, the Proceeds of Crime Bill was tabled in Parliament for first reading. This Bill provides for the enhanced recovery of proceeds of crime not only through the restructuring of the Asset Recovery Bureau, but also through the establishment of a section of the Civil Court for the purpose of regulating disputes relative to the confiscation of the proceeds of crime and for civil procedures for the recovery of assets constituting proceeds of crime. Provision is also made for *in rem* proceedings on property consisting of proceeds of crime. Following the establishment of the Court Services Agency (CSA), work is currently underway to further extend the building of the law courts. Finances have already been allocated for this project. Institutional capacity has also continued to be enhanced not only through the continued increase in the number of court attorneys (from 16 to 20), but also through the continued further use of IT intended to facilitate procedures within the law courts; the continued investment in alternative methods of dispute resolution and the continued investment in legal aid and in the Legal Aid Agency. All this, to strengthen the rule of law, good governance and the institutions in Malta, even further.

	Upholding Good Governance
	• A very constructive process, based on a structured dialogue, led to the preparation and implementation of a first set of constitutional and institutional reforms mentioned in the previous section. • Following the favourable opinion on proposed legislative changes, by the Venice Commission in June 2020, the Government tabled 10 Bills in Parliament on 1 July 2020, faithfully translating the agreed concepts into legislative texts with a view to their adoption before the summer recess. • A structured and transparent dialogue with all interested stakeholders resumed throughout July, leading to the unanimous vote in the House of Representatives in favour of six of ten bills presented. These significant reforms, mentioned in the previous section, are unprecedented in Malta's recent constitutional history. These reforms were described as 'significant' in the first Rule of Law report adopted by the Commission on 30 September 2020.The four remaining Bills are being discussed in Parliament, which has now resumed its work. These concern: • the Auditor General and the National Audit Office. • the appointments of the Principal Permanent Secretary and the Permanent Secretaries. • reform of the procedure for making various appointments. • appointment of persons of trust. The recommendations contained in the additional Opinion of the Venice Commission, published on 8 October 2020 will be considered within the framework of the structured dialogue in the House of Representatives. These reforms also compliment other recent reforms carried out over the past months, such as that which splits the office of the Attorney General from the office of the State Advocate, with the former taking on the prosecution role. Judicial Review of decisions by the Attorney General not to prosecute, and other reforms regarding the Ombudsman were also adopted. The method of appointment of the Commissioner of Police was also changed through amendments to the law by Parliament. A new Commissioner of Police was appointed. Significant resources are being invested into the Malta Police Force, that has now also announced a transformation strategy. It is pertinent to recall that a discussion on these constitutional and institutional reforms have been ongoing at least since 2010, including but not limitedly, in public for a under the auspices of the then President of the Republic through the President's Forum. This included contributions by members of academia, experts – foreign and local, as well as civil society. There are also other issues which merit due attention for good governance, including issues identified in the 2018 Venice Commission Opinion, the GRECO recommendations and as well as home grown initiatives. Some of these will be dealt with in the regular Parliamentary work, while other reforms are will be considered in the framework of the Constitutional Convention. The Constitutional Convention, presided by the President, is another development in good governance. As noted in the Opinion, the first phase of collecting material from society at large has been concluded and the submissions are available online. A report analysing these proposals will be published soon. The Convention will be able to propose its recommendations. It will not have executive powers and it would ultimately be up to Parliament to adopt any recommended constitutional or legislative amendments. The President is envisaging that the Convention would have a tentative size of 120 members. Some 40 per cent of delegates would represent institutional

	bodies and organs, education organisations, work related organisations and academia, whereas 60 per cent of the delegates would represent civil society. A process to select representatives from 1,700 civil society organisations in Malta is necessary. Parliament would ned to call the Convention through a resolution.
	Continue efforts to adequately assess and mitigate money- laundering risks and to ensure effective enforcement of the anti-money laundering framework
	Malta continues to be committed to preventing, detecting and prosecuting money laundering and terrorist financing activities. Financial crime undermines the safety of society, the integrity of its financial system, and the stability of the economy. The National Strategy Plan was formulated in April 2018 with actions deliverable by 2020, including the related initiatives to improve the national AML/CFT framework. This was set out in seven key initiatives designed to improve the national AML/CFT framework, and mainly included the initiative to: (1) establish a National Coordination Committee; (2) strengthen and clarify the supervisory framework; (3) enhance internal capabilities of the FIAU; (4) enhance investigation and prosecution capabilities; (5) establish an effective Asset Recovery Unit; (6) increase transparency of legal entities and arrangements; and (7) build on existing international coordination setup. Several actions out of the 48 actions were successfully implemented by the competent authorities. Out of the 30 completed actions, and 18 actions that are work in progress. During 2019, the NCC completed three sector-based risk assessments regarding the financing of terrorism: legal entities, legal arrangements (LEA) and voluntary organisations (VOs), as well as on the virtual financial assets (VFAs), with the contributions from the concerned competent authorities. The sector-based risk assessment on the financing of terrorism was endorsed in July 2019 by the NCC members. This assessment has the objective of evaluating Malta's exposure to financing of terrorism, improving the national understanding of the financing for terrorism risks (e.g. typologies and patterns), and identifying measures that would strengthen the countering of the financing for terrorism regime. The sector-based risk assessment on Legal Entities, Legal Arrangements and Voluntary Organisations (LEAs and VOs) was endorsed by the NCC members in July 2019. This sector-based risk assessment focused on all legal entities and arrangements that are established or operating in Malta. The Virtual Financial Assets (VFA) sector-based risk assessment was endorsed by the NCC members in December 2019. This sector-based risk assessment includes an assessment that takes into consideration the updates to the FATF recommendation guidelines, where such an assessment considers to what extent the domestic legislative framework would need to be revisited to ensure that Malta would be compliant with the revised FATF Recommendations. Further to the three sector-based risk assessments, the NCC has finalised the key results document of each sector-based risk assessment. These are now publicly available. The NCC has also prepared the related action plan documents which aim to address the risks outlined in the sector-based risk assessments. These will help the competent authorities to prioritise efforts and resources, as well as to better address the private sector through appropriate outreach techniques. For the private sector, these will allow for the development of proportionate and effective controls within their remit by developing their own risk assessments and mode of mitigation.

	Since the publishing of the Mutual Evaluation Report, for the 58 recommendations that were identified, an action plan was drawn up and circulated to the competent authorities so that they would report their plans and give timeframes as to when the deficiencies would be effectively addressed. Currently there are 17 completed actions (29.3 per cent). A further 41 (70.7 per cent) actions related to MONEYVAL recommendations are in the progress phase, many of which are at an advanced stage. 19 of the actions categorised as 'in progress' are of an ongoing nature, and 22 of these actions are not continuous in nature. During 2019, the FIAU was vested with a further additional responsibility – to establish, manage and administer the Centralised Bank and Payment Account Register. *Use of Cash Restrictions* During 2019 and 2020, Malta transposed the 5AMLD. In connection with its AML/CFT supervisory function, the FIAU, assisted by other Supervisory Authorities, including the Malta Financial Services Authority (MFSA) and the Malta Gaming Authority (MGA), carries out AML/CFT supervisory examinations on subject persons, including credit/financial and gaming services entities respectively. All Authorities follow common supervisory procedures that were developed by the FIAU as part of the overhaul of the Supervisory Framework. During 2019, the FIAU applied for the first time a new risk-based supervisory strategy – with the first annual supervisory plan based on this strategy carried out between July 2019 and June 2020. Earlier in 2020, legal officials of the FIAU held a face-to-face meeting with their foreign counterparts in preparation of Malta's policy in restricting the use of cash in certain sectors of the economy. In 2019, the FIAU (together with the assistance of the MFSA and MGA), concluded a total of 37 AML/CFT compliance examinations, with a further 28 supervisory meetings taking place up until December 2019. During 2020 (up until 31 August 2020), the FIAU (together with the assistance of the MFSA and MGA), concluded a total of 132 AML/CFT compliance examinations, a sharp increase when compared to 2019. The FIAU has also been active in taking enforcement action against subject persons found to be in breach of their obligations. During 2019, the FIAU issued no less than 12 written reprimands and 20 administrative penalties to subject persons found to have breached their AML/CFT obligations, the total value which amounted €3,932,801. In 2020 (up until 9 September 2020), the FIAU issued no less than 14 remediation directives (4 of which have been concluded), 6 written reprimands, 3 follow-up directives, and 160 administrative penalties to subject persons found to have been in breach of their AML/CFT obligations, the total value of which amounted to €3,469,022. In 2019, the Intelligence Analysis Section received a total of 2,778 Suspicious Transaction Reports (STRs) from reporting entities. In 2020, the FIAU already received a total of 2,558 STRs. The FIAU sent 61 analytical reports to the Malta Police in 2019, with a further 50 analytical reports sent until 9 September 2020.

	As a result of the cooperation between the FIAU and the Commissioner for Revenue (CfR) on tax evasion cases, the FIAU has since 1 January 2018 sent 520 reports to the CfR on potential tax evasion cases. As at January 2020, the CfR had initiated 127 tax audits out of 362 reports (involving 497 taxpayers) sent by the FIAU by then. Out of these 127 audits, 33 were concluded (with the rest ongoing). These 33 completed audits led to the recovery of approximately €1.1 million in evaded taxes and related charges. FIAU has regularly during 2019 and 2020, through its Guidance and Outreach team provided training sessions, webinars and informative material, to assist subject persons with implementing their AML/CFT obligations and to enhance their understanding of the ML/FT risks specific to their sector, especially during the COVID period. A number of binding explanatory procedures and guidance notes have been issued and will continue to be issued by FIAU, to target the distinct needs of the various sectors, but also to ensure that obliged entities are clearly aware of the risk factors, typologies and red flags associated with their particular sectors. In parallel, the MFSA published their AML/CFT Strategy in February 2019, which focused on enhancing the MFSA's approach towards its role in AML/CFT supervision as well as boosting its supervisory standards in order to safeguard the integrity and trust in the Maltese financial services sector. Over the past two years, the MFSA has undergone a transformative process, including organisational restructuring, changes in senior management, a significant increase in staffing and in training provided to staff, investments in technological systems, an overhaul of most supervisory procedures, including a complete shift towards risk-based methodology, and an increased focus on AML/CFT. These measures were taken on board in parallel with reviews and subsequent recommendations submitted by MONEYVAL, the European Banking Authority and IMF. The FCC acts as an agent of the FIAU in order to perform supervisory visits on their behalf. The FIAU, in consultation with the MFSA, draws up a Supervisory Plan for each sector, and the FCC is allocated with its share of visits. Over the past two years, there has been a substantial increase in AML/CFT focused visits, in view of the increased staffing of the FCC. The below figures exclude prudential/conduct visits.

FIAU-sponsored visits carried out by FCC	**Number of Scheduled Visits**
July 2018 – June 2019	18
July 2019 – June 2020	60
July 2020 – June 2021	75

	The FCC also assesses sanctions monitoring deficiencies. The FCC maintains a communication line with the Sanctions Monitoring Board (SMB) with responsibility for enforcement of sanctions screening obligations. The MFSA maintains a MoU with the SMB, setting out procedures whereby reports of deficiencies from the MFSA are used by the SMB to investigate and take enforcement action, therefore further complementing the national priority to combat ML/TF.

	Throughout 2020 up till July, the MFSA's Prudential functions have performed 262 prudential visits, 157 of which include an assessment of AML/CFT compliance. The MFSA is expected to perform 350 on-site inspections in total throughout 2020, as opposed to 227 in 2019 and 168 in 2018. Each of the MFSA Prudential units have their own sectoral risk models (SRMs) that are used to rate the level of risk associated with each entity within the respective supervisory sector. These have been updated to include an AML/CFT risk assessment element, to generate the MFSA Integrated Risk Score. The Integrated Sectoral Risk Score (ISRS), aligned to the NRA and the supplementary sectoral AML/CFT risk profile developed by the MFSA, attributes a higher weighted score for AML/CFT to sectors such as Banking, TCSPs, Virtual Financial Assets and Financial Institutions. The underlying AML/CFT element is based on FIAU CASPAR risk score. Apart from AML/CFT, the ISRS implements international standards by sector (for example, the European Banking Authority risk rating methodology is used for Credit and Financial Institutions) and includes prudential elements such as conduct risk; effectiveness of governance and risk management practices; cyber risk; adverse reputational impact from exposure to non-reputable jurisdictions, profitability, capital, credit and market risk, and criticality of services offered. The FCC has also developed a Key Risk Indicator Dashboard, which is fed data derived from a yearly questionnaire that was first launched in April 2020, which permits the MFSA to look at ML/TF risk exposure by firm, and by sector. These ISRS outcomes are currently used to drive all MFSA prudential supervisory programmes. Licensed firms are subject to prudential/conduct supervisory visits, and which include an AML/CFT component. Therefore, depth and frequency of a prudential/conduct visit with an AML/CFT component depends on the Integrated Risk Score, the FCC's KRI Dashboard, and whether it has already been subject to an FIAU/FCC compliance visit. The efforts above have also been supported by initiatives which include significant investment in technology, data management and business intelligence. This includes a new Data Management and Business Intelligence Function which is working to improve data governance, data quality and business intelligence, and the development of new platforms and tools that will automate certain parts of the supervisory process and allow for advanced analytics. Another initiative is in the upskilling staff awareness of AML/CFT risks. The MFSA has also increased outreach to deliver targeted messages and guidance to the industry. AML/CFT has been a key message throughout 2020, and the MFSA has organised workshops, webinars, as well as published key guidance documents, which include a joint publication with FIAU on Guidance for Credit Institutions, Payment Institutions and Electronic Money Institutions Opening Accounts for FinTechs, a Circular to Trustees and CSPs in relation to results from a Sectorial Risk Assessment and Guidance on the Treatment of PEPs and Expectations around MLROs. Other outreach events include publication of articles on newspapers as well as speaking engagements in events organised by third parties, as well as meetings with representative associations. As from 1 January 2018, all gaming operators became subject persons under the PMLFTR. This notwithstanding, the Malta Gaming Authority (MGA) had already completed a sectoral ML/TF risk assessment of the gaming sector in 2016, as part of

	a National Risk Assessment for the Gaming Industry in Malta. The MGA has embarked on a number of initiatives in order to ensure that the identified risks are effectively managed. These include: the joint publication of the AML/CFT Implementing Procedures for the Remote Gaming Sector – Part 2 in July 2018 (which will also be updated in 2020) in conjunction with the domestic FIAU; establishing its own risk-based approach at regulation and supervision, with AML/CFT forming a crucial part of the risk analysis conducted on operators; and further strengthening its internal AML unit tasked with the monitoring of 'Subject Persons' in terms of AML/CFT compliance by executing off site and onsite examinations. The Supervisory Plan for gaming operators for 2019/2020 (1st July 2019 – 30th June 2020) has been concluded by the FIAU (with the assistance of the MGA), with a total of 44 AML/CFT compliance examinations (2 land-based casinos and 42 remote gaming operators) taking place between the said period. 7 AML/CFT compliance examinations on gaming operators have already taken place as part of the 1st July 2020 – 30th June 2021 supervisory plan. Furthermore, in order to meet with the demands of AML/CFT examinations, the MGA increased its resource headcount from 8 full-time AML officers to a total of 15 full-time AML officers, between 2019 and 2020. In April 2020, the MGA and the FIAU signed an updated MoU aimed at increasing the efficiency and effectiveness of AML/CFT supervision and the manner in which it is conducted. In addition, the MGA is currently preparing to launch another sectoral risk assessment which will focus both on the land-based sector as well as the remote gaming sector. Training to the industry through the various conferences organised for the gaming industry is ongoing, with the MGA taking an active role in delivering numerous lectures, presentations training sessions during seminars and conferences. Another development relates to the cooperation and collaboration between the FIAU and the Central Bank of Malta which cooperation was formalised through the signing of an MoU between the two authorities providing for a more structured and regular exchange of information on participants in payment systems.
	Law Enforcement
	The Malta Police Financial Crimes Investigations Department (FCID) has prioritised its actions following the National Risk Assessment, in particular vis-à-vis its risks and threats. All financial intelligence emanating from incoming requests for assistance is being recorded in the intelligence database that is available to the department, and it is being used for future investigations as from 2019. When the case requires, national investigations are being/will be conducted. Also, an AML strategy has been drafted to have formal guidelines and procedures on the strategy of the Malta Police Force in relation to AML. This strategy will also assist the FCID in prioritising its duties. Eight new investigators have been identified and assigned with the AML Squad and shall receive adequate and ongoing training in order for the AML squad to enhance its capabilities. Additionally, the ML capabilities within the Malta Police Force will be enhanced initially by 200per cent in the first phase and by a further 90per cent in the second phase. In relation to Human Resources there was a huge increase in officers in every rank assigned to the Financial Crimes Investigations Department.

	Greater emphasis is being placed on MLAs, and these are being used to obtain timely assistance. Also in May 2020, the Malta Police Force issued an internal circular with guidelines on when and how parallel financial investigations are to be initiated and carried out. An internal policy is to be drafted on when parallel local investigations should be initiated from incoming MLAs. Subsequently, there has been an increase of investment in equipment of €1 million. This project, to enhance the intelligence capabilities, will soon to be completed. This will allow more parallel financial investigations to be carried out. Legislative amendments are being drafted so that the police do not resort to the issuance of Investigation Orders or require authorisation from the Prime Minister to obtain the necessary tax information for investigations. The Police have engaged two officers in its Economic Crimes department specialising in remote gaming. Moreover, the police have been recently granted access to the GoAML system currently in use by the FIAU. A working platform between the AG's Office, FIAU, Police, Customs & MSS has been planned so that FT risks and cases will be discussed, and the details of investigations exchanged within a legal framework. In addition, access to the CBAR (Centralised bank Account Register) will be granted by the FIAU, once the system from their end is up and running. This will allow the police to have direct access to this register and which will allow the police to work more efficiently.
	Strengthen the overall governance framework, including by continuing efforts to detect and prosecute corruption
	In 2019, the FIAU pursued its commitment to increase human resources – by the end of December 2019, the FIAU had 70 officials on its books. Up until 22 September 2020, the number of employees now stands at 94 officials. Such efforts are complemented by a Human Resources Plan which was agreed with the Government of Malta in 2018, which was updated in 2019, and will see the FIAU grow to 154 officers by the end of 2021. Such initiatives are coupled with the introduction of various IT tools which will automate and render more effective the current workflows at the FIAU, including from an operations point of view. The FIAU acquired and successfully went live with the GoAML application on 22 June 2020. The GoAML application is a fully integrated software solution developed specifically for use by FIUs and is one of the United Nations Office on Drugs and Crime's (UNODC's) strategic responses to fight financial crime, including ML and TF. In addition, in an effort to further ensure that it keeps abreast with developments, the FIAU has also acquired a series of tools that allow *inter alia* for the analysis of transactions carried out over the blockchain and to automate the data collation process over the internet. The Malta Financial Services Authority (MFSA) has continued to strengthen its human resource capacity, increasing by 37.5 per cent since 2018, and currently standing at 421 (July 2020). Increases were particularly significant within the newly set up financial crime compliance team as well as within its supervisory, enforcement, due diligence, risk management, data management and technology functions. Besides local talent, this recruitment drive is also targeting international applicants to complement the international nature of the business being supervised.

	An intensive local and overseas training programme remains ongoing. In addition, MFSA has continued to upgrade its IT systems and a major project is underway in order to ensure a progressive level of rigorous supervision which can keep up with the technological developments in the financial services industry. The adoption of Act VIII of 2019 which amended the Financial Services Authority Act provided for the further strengthening of the MFSA's structure and processes which include the establishment of the Statutory Committee focused on Supervision, the Statutory Committee focused on Enforcement, the Risk Committee, the Audit Committee and five directorates including Supervision, Enforcement, Strategy and Policy and Operations. The MFSA has also recently set up an intra-departmental AML/CFT Committee, and included new checks and balances in the authorisations process, which has the direct involvement of the Authorisations Unit of the relevant Supervisory Unit, the Financial Crime Compliance Unit and the Due Diligence Function which sits within the Enforcement Directorate. Publications relating to the MFSA's expectations on AML/CFT controls at licensing stage, the MLRO's role, Shareholding Policy, Fitness and Propriety requirements, as well as source of wealth and source of funds expectations have also been circulated. Cooperation with European Supervisory Authorities (ESAs) and counterpart regulatory authorities of both EU Member States and beyond, remains ongoing. Meanwhile, following discussions with the International Monetary Fund's (IMF) Malta FSAP team held during its mission in 2018 and the publication of the FSAP recommendations in February 2019, the MFSA embarked on the systemic implementation and embedding of these recommendations which are in various stages of completion. The MFSA's supervisory work is underpinned by the Supervisory Priorities which are published in advance. For 2020, this included six cross-sectorial themes, which included Governance & Culture, Financial Crime Compliance, Retail Investor Protection, Cybersecurity, Cross-border operations and financial soundness. The MFSA has also highlighted the way it is implementing Risk-based Supervision, as well as the Risk Appetite Statement. A key regulatory development relates to the proposed changes to the Company Service Providers Act, which will see the removal of existing exemptions from authorisations, and therefore introduce market entry requirements as well as supervisory powers over a wider array of entities providing CSP services. Following its first year in operations, the Asset Recovery Bureau (ARB) continued to strengthen its' asset tracing capabilities both on the local level and abroad through cross-border cooperation with Europol and other Asset Recovery Offices (EU Network). This has resulted in the identification of assets pertaining to the investigated person/s located abroad, and which directly or indirectly are considered as potentially originating from proceeds of crime. The Asset Recovery Bureau shall continue to invest in its human resources capacity, specialised training to staff, screening of relevant legislation, cooperation with other competent authorities and the construction of an ARB Compound which would increase the ARB capacity to collect, preserve and manage seized assets in a way that the best possible value is retained. Moreover, the ARB is continuing 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 as prepared by the ARB Board provides the ARB with better tools to work with and at the same time, harmonizing relevant Court Orders scattered in different laws and enhancing the whole confiscation regime. It has also embarked on a campaign to strengthen mutual co-operation for the exchange of information with local competent authorities and even foreign asset recovery offices.
	Step up action to address features of the tax system that facilitate aggressive tax planning by individuals and multinationals
	Malta has taken the following actions in relation to aggressive tax planning: • Malta implemented ATAD 1 in 2018 and ATAD 2 in 2019; • Malta implemented Council Directive (EU) 2018/822 concerning Mandatory Disclosure Rules, providing for the disclosure of potentially tax aggressive schemes by intermediaries in 2019; Malta has also ratified the OECD Multilateral Instrument which contains provisions like the Principal Purpose Test that allow the possibility for the limitation of benefits under Malta's tax treaties where schemes attempt to obtain any undue advantage. To mitigate the debt bias issue, the National Interest Deduction (NID) rules, have been assessed as not harmful by the EU Code of Conduct Group. In order to mitigate the high risk of potential circumvention of the Common Reporting Standard (CRS) using Citizenship by Investment/Residence by Investment (CBI/RBI) schemes concerning the Malta Individual Investor Programme and the Malta Residence and Visa Programme, the following position/actions were taken, whilst continuously ensuring the proper application of the Standard: 1. The local CRS guidelines have been amended, to give a more comprehensive explanation to Financial Institutions (FIs) of such schemes and their potential misuse for CRS circumvention. 2. Malta's CRS regulations and guidelines contain adequate instructions to FIs regarding the documentation required to determine the appropriate jurisdiction(s) of tax residence in carrying out due diligence obligations. The guidelines also place an obligation on FIs to confirm the reasonableness of self-certifications, including cross-checking this with AML/KYC documentation and certificates of residency and/or government-issued valid identification. 3. The Competent Authority in Malta will spontaneously exchange information about individuals that have obtained residence/citizenship through such schemes; 4. As per local CRS regulations and guidance, in order to determine whether a self-certification is correct/reliable, an FI must consider all relevant information which is available to it, including information collected and maintained for AML/KYC purposes. Annex III to Directive (EU) 2015/849 (i.e. the 4th Anti-Money Laundering Directive) lays down a non-exhaustive

	list of factors and types of evidence of potentially higher risk situations when it comes to ML/FT. 5. Both local CBI and RBI scheme operators will include the following wording as part of the application documentation, respectively: - *By signing this form, I confirm that I am fully aware that the Individual Investor Programme and the acquisition of citizenship related status or benefits.* - *By signing this form, I confirm that I am fully aware that the Permanent Residency granted under the Malta Residency Visa Programme does not provide any tax related status or benefits.* A minimum amount of tax liability amounting to €5,000 was introduced for persons that are resident but non-domiciled in Malta. The minimum tax liability for such non-domiciled individuals does not apply to individuals whose foreign income is less than €35,000.

CSR recommendations 2019

CSRs	Relevant measures
Ensure the fiscal sustainability of the healthcare and the pension systems, including by restricting early retirement and adjusting the statutory retirement age in view of the expected gains in life expectancy.	The Maltese Government is committed to address the projected increase in age-related expenditure, notably by strengthening the labour market, raising potential output, and the continuation of the pension reform process in Malta. This is evident from a further improvement in the S2 Sustainability indicator, from 3.3 per cent in 2017 to 3.0 per cent of Gross Domestic Product (GDP) in 2019. This improvement follows changes in the initial budgetary position, as a result of the robust economic and employment growth recorded over recent years which outpaced the rate of increase in expenditure. This implies that the starting position for pensions and healthcare expenditure in Malta is significantly lower than the EU average.
	The sustainability of the healthcare system
	Free healthcare at the point of care for its citizens has always been a tenet of the Maltese Government. A sharp rise in health expenditure is inevitable during 2020 due to the COVID-19 pandemic. Nevertheless, once the impact of the crisis is over, Malta remains committed to counteract health expenditure growth arising from increases in the cost of healthcare provisions and developments in medical technology and best practices. The growing population, not only within the older age brackets, but also the large migrant workers' population, has also put pressure on the provision of public healthcare. A series of policy initiatives are being planned and expected to be concluded in 2021. Government's plans to expand primary care in its healthcare strategy and the planned capital projects will continue. A case in point is the development of the Southern Primary Care hub. The recruitment of specialists in Primary Care has also been ongoing through 2019, in line with Government's plan to shift from outpatients to primary care. The national eHealth infrastructure linking sectoral systems together for the exchange of health data is also at an advanced stage. It is expected that through the introduction and the utilisation of innovative ICT solutions, the cost of the healthcare service and

	the present administrative burden will markedly decrease, while the healthcare provision will improve considerably. Systems developed as part of the initiative, such as the patient registry system, helped bring together parts of health records (hospital records, POYC records), within the legal parameters of Maltese legislation for secondary processing of health data, and helped to identify vulnerable persons at risk of severe morbidity/mortality due to COVID-19. In addition, the same e-Health solution facilitated delivery of certain care through telemedicine, for example, mental health and primary care. In addition, the primary health record could potentially help to reduce the gap between private and public sector primary healthcare, and between primary and secondary healthcare. At the same time, the investment in the national eHealth infrastructure is likely to facilitate the primary sector's role as a gateway to other services, which services are facilitated by newer models such as the said Primary Care hubs. The overarching intent is to ensure that primary or community care becomes the first choice of patients, thus relieving pressure on acute hospital services.
	Pension Reform
	Over recent years, the Government has introduced numerous measures intended to lengthen the duration of working lives. The pension age has been gradually increased and will reach 65 years by 2027 while the contributory period has also been lengthened from 30 years to 41 years. In addition, the Government has also introduced stricter rules on the access to the 'early exit' option by capping the number of credited contributions for persons born on or after 1969. Individuals beyond the retirement age who choose to continue working can do so without forfeiting their pension while in employment. Incentives to defer early retirement and lengthen working careers were also implemented, whereby persons who are eligible for retirement at the age of 61 years, are awarded a financial incentive for each additional year that they choose to continue working up to the age of 65 years. This incentive mechanism was initially intended for private sector employees but has now been extended also to those in the public sector. Preliminary analysis using administrative data has already shown that this measure has been effective in encouraging deferred retirement. New tax parameters were introduced for pensioners over the age of 61 years where any income from pension up to the maximum rate of contributory pension is not taxable. New rebates were also introduced for pensioners over the age of 61 years where income is derived from more than one pension, which is over the maximum rate of the contributory pension. There was also an increase in contributory and non-contributory pensions which is over and above the yearly cost of living adjustment increase. Labour market statistics clearly show the impact of these reforms. Indeed, the duration of working life in Malta has increased by 6.2 years during the period 2010 to 2019 confirming the largest increase in the EU. As a result, in 2019 the duration of working life in Malta exceeded he EU average by 0.6 years. In addition, the employment rate of older workers (55-64 years) has improved, increasing by 19 percentage points during the period 2010 to 2019, the third highest increase in Europe.
	Diversifying Retirement Income
	The Government's policy efforts have also focused on diversifying retirement income and reducing the sole dependency on state pensions. Over the past four years, tax incentives were introduced for individuals who invest in the Third Pillar Pension Scheme and for employers who offer their employees a

	Voluntary Occupational pension scheme. In the 2020 Budget, it was announced that the tax benefits for the Third Pillar Pension Scheme will be strengthened and further extended to certain insurance products. As a result, there are now several providers offering personal pension plans. These tax credits were also made available for employers implementing a voluntary occupational pensions scheme. In 2020, the reduction in taxes increased from 15 per cent (up to a maximum of €150) to 25 per cent (up to a maximum of €500). By the end of 2019, a total of 6,449 taxpayers were enrolled in a personal retirement scheme and during 2019, there were 950 employees whose contribution to a Voluntary Occupational Pension Scheme (VOPS) was paid for by their employer whilst 875 employees contributed to a VOPS. In 2019, the Government launched the Home Equity Release which is a voluntary scheme that allows home-owner pensioners to raise their annual financial income and improve their standard of living by accessing the equity tied to their home. This will serve as a financial supplement together with the pension they receive, by allowing pensioners to convert a part of their residential value into a stream of income. The Malta Financial Services Authority (MFSA) is currently in the process of evaluating a Home Equity Release product. A credit institution has shown interest in developing Equity Release Financial Products and discussions with the MFSA had initiated earlier this year. The Malta Stock Exchange (MSE) Institute, a subsidiary of the Malta Stock Exchange, continues to take an active role in increasing the level of financial literacy. The Institute is licenced by the NCFHE and promotes financial education through the organisation of over sixty affordable courses on various aspects of financial services that are aimed at retail investors as well as practitioners. In 2019, over 1,350 persons attended an MSE Institute course, an increase of over 40 per cent over the previous year. In April 2020, because of the pandemic, the Institute converted its courses to the online environment and has managed to attract almost 800 students in the first 9 months of the year.

Extra Budgetary Units as at 31 December 2019

Appendix Table 6.b

	NACE CODE		NACE CODE
Arts Council Malta	90	Malta Individual and Investor Programme Agency	84
Agency for Infrastructure Malta	84	Malta Information Technology Agency	63
Bord tal-Koperattivi	84	Malta Investment Management Co. Ltd	84
Broadcasting Authority	84	Malta Philharmonic Orchestra	90
Business First Ltd	84	Malta Residency and Visa Programme Agency	84
Commonwealth Trade Finance Facility Ltd	64	Malta Resources Authority	84
Depositor Compensation Scheme	64	Malta Statistics Authority	84
Environment and Resources Authority	84	Malta Tourism Authority	84
Environment Protection Fund	84	Manoel Theatre Management Committee	90
Film Finance Malta Ltd	84	Medicines Authority	84
Fort Secuirty Services Ltd	84	Mental Health Services	87
Foundation for Educational Services	84	MSE (Holdings) Ltd	64
Foundation for Medical Services	84	National Audit Office	84
Foundation for Social Welfare Services	88	National Commission Persons with Disability	84
Foundation for Tomorrow's Schools	84	National Development and Social Fund	84
Gozo Channel (Holdings) Co. Ltd	77	Occupational Health and Safety Authority	84
Grand Harbour Regeneration Corporation	71	Office of the Ombudsman	84
Heritage Malta	91	Planning Authority	84
House Maintenance and Embellishment Co. Ltd	84	Projects Malta Ltd	84
Housing Authority	84	Projects Plus Ltd	84
Identity Malta	84	Property Management Services	84
Infrastructure Malta	84	Protection and Compensation Fund	64
International Institute on Ageing	85	Regulator for Energy and Water Services	84
Investor Compensation Scheme	64	Resources Support and Services Ltd	78
Jobsplus	78	Safe City Malta Ltd	84
Lands Authority	84	Sapport	88
Libyan Arab Maltese Holdings Ltd	64	Selmun Palace Hotel	84
Malta College of Arts, Science and Technology	85	SportMalta	93
Malta Communications Authority	84	St James Cavalier Creativity Centre	90
Malta Competition and Consumer Affairs Authority	84	Superintendence of Cultural Heritage	84
Malta Council for Economic and Social Development	84	The Rehabilitation Hospital Karin Grech	86
Malta Council for Science and Technology	84	Trade Malta Ltd	73
Malta Enterprise Corporation	84	University of Malta	85
Malta Gaming Authority	84	Valletta Cultural Agency	84
Malta Government Investments Ltd	84	WasteServ Malta Ltd	38
Malta Government Technology Investments Ltd	84	Yachting Malta Ltd	73

Notes:

1. This list does not include entities which are already accounted for within the Departmental Accounting System (DAS) of Central Government.
2. General Classification of economic activities within the European communities. Industries are grouped into 64 categories (A64) based on NACE Rev 2.

4. Distributional Implications of Budget Measures

4. Distributional Implications of Budget Measures

Maintaining a sustainable rate of economic growth is essential for providing continuous increases in living standards but also to ensure that the benefits of economic growth are enjoyed by all social groups, in particular the most vulnerable cohorts. Economic prosperity provides the means for greater social inclusion. Such outcome is the result of careful calibrations to the tax-benefit framework aimed towards addressing social imbalances whilst ensuring that wealth is distributed equitably. Over the past years, the Government adopted various measures such as the reduction in direct taxes, the in-work benefit scheme, the provision of free childcare and the tapering of benefits that were directed to incentivise more individuals to join the labour market whilst discouraging unnecessary dependency on the State.

In the commitment to create a more inclusive society, the Government has provided additional benefits for those with disability while increasing their opportunities to enter the labour market. Furthermore, it also enhanced the adequacy of pensions while also introducing measures that allow for older persons to remain active in the labour market and defer retirement. It supported the provision of informal long-term care and reformed the means tested criteria to enhance eligibility of free prescription drugs and other medical treatments.

The onset of Covid-19 pandemic posed risks to the pace of social development achieved in recent years. In seeking to minimise such risks, the Government implemented several measures, targeted to households and businesses, with the aim of sustaining consumer demand, safeguarding jobs and easing liquidity pressures on sustainable businesses that found themselves in difficulty.

4.1 Government Initiatives in the Employment Field

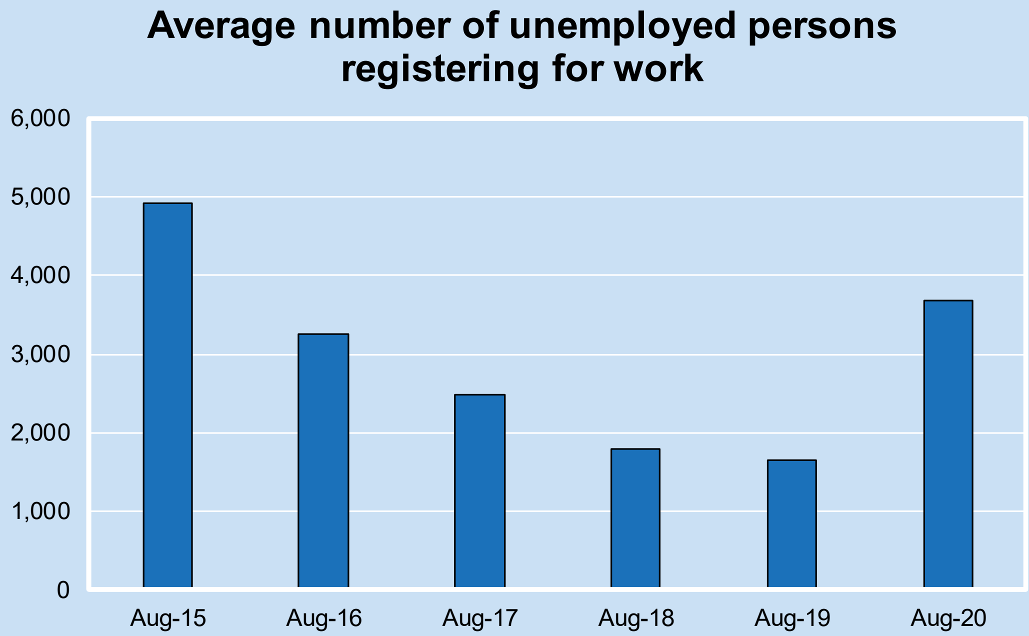
Over the recent past, several policy reforms were enacted with the aim to strengthen the labour force and to encourage participation of vulnerable groups. The Government policy framework has provided incentives that encourage older workers to remain in the labour force, as well as policies to help workers strike a better balance between work and family life. As a result, increases in employment rates were observed with notable increases in the participation of females, older workers and persons with disability.

Data that is collated by Jobsplus continues to show that the number of persons registering for work has declined by 1,242 since 2015. The effect on unemployment is further corroborated with data from the Labour Force Survey, which shows a downward trend in the unemployment rates since 2015.

Government launched several rounds of assistance measures to protect employment with the principal measure being the wage supplement. Such assistance measures, alongside the resilience of the Maltese labour market itself, ensured that high levels of employment were preserved. As a result, Malta has managed to maintain an unemployment rate which is one of the lowest among its European peers. In August 2020, Malta's unemployment rate stood at 4.1 per cent, well below the European Union (EU) average of 7.4 per cent.

In the second quarter of 2020, the number of employed persons increased by around 7,017 individuals over the same period in 2019, reaching a total of 259,253 persons. Overall, employment rates for people aged 15-64 stood at 73.0 per cent, 0.2 percentage points higher than the 72.8 per cent recorded in the corresponding quarter of 2019. The highest employment rates were recorded for people aged between 25-54 where out of every 100 individuals, 84 were in employment.

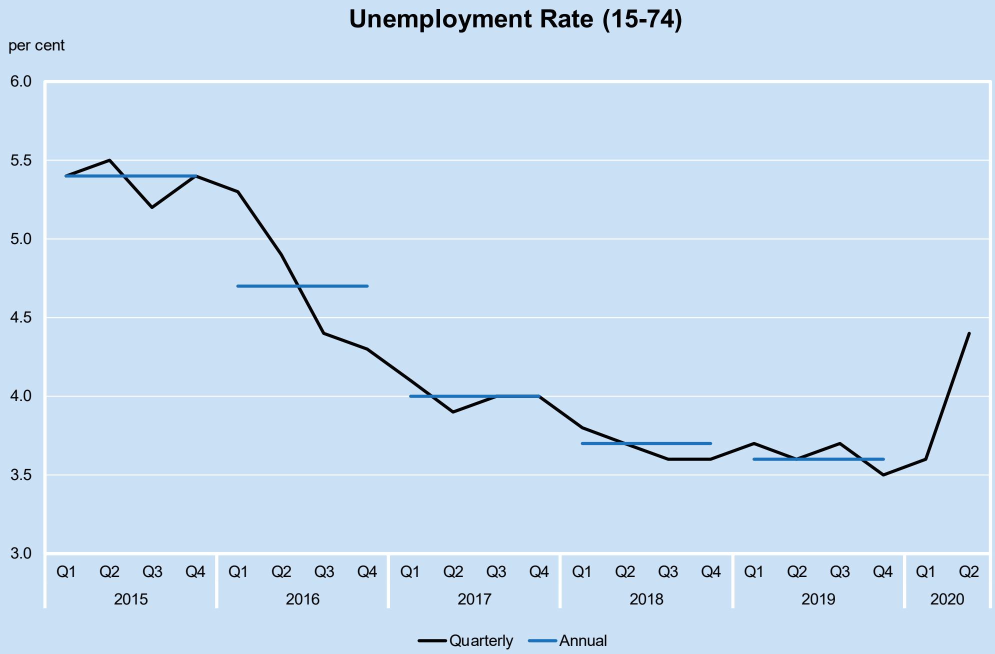
Chart 4.1



Source: National Statistics Office based on Jobsplus database

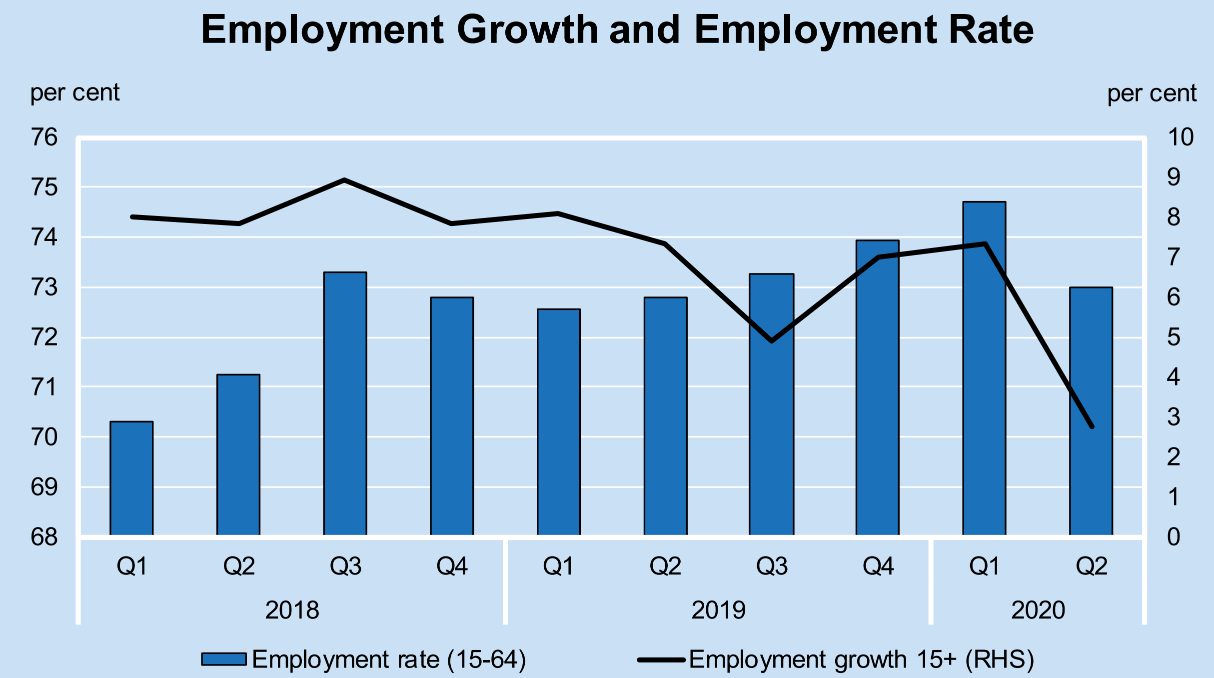
Over the years, budget measures have continued to improve the financial situation of low-income earners while contributing to an increase in labour supply. Reforms in the social security system, aimed at making work pay have encouraged increases in the participation rates for both males and females. Furthermore, measures that reduced households' expenses and enhanced employment income including the reduction in

Chart 4.2



Source: National Statistics Office

Chart 4.3



Source: National Statistics Office

utility tariffs, the provision of free childcare, the breakfast club, the maternity leave fund, the reductions in the income tax rates, the widening of the non-taxable income tax bracket and the extension of the in-work benefit made employment more attractive.

Furthermore, during 2020, employees continued to benefit from the April 2017 National Agreement between the trade unions and employers on the Minimum Wage, aimed at striking a balance between competitiveness and social justice. As stipulated in the agreement, employees are benefitting from increases in their minimum wage upon completion of the first year of employment with the same employer. Employees are entitled to mandatory increases of €3.00 per week during the second year of employment, and an additional €3.00 per week in the third year of employment.

Distributional impact of the wage supplement scheme

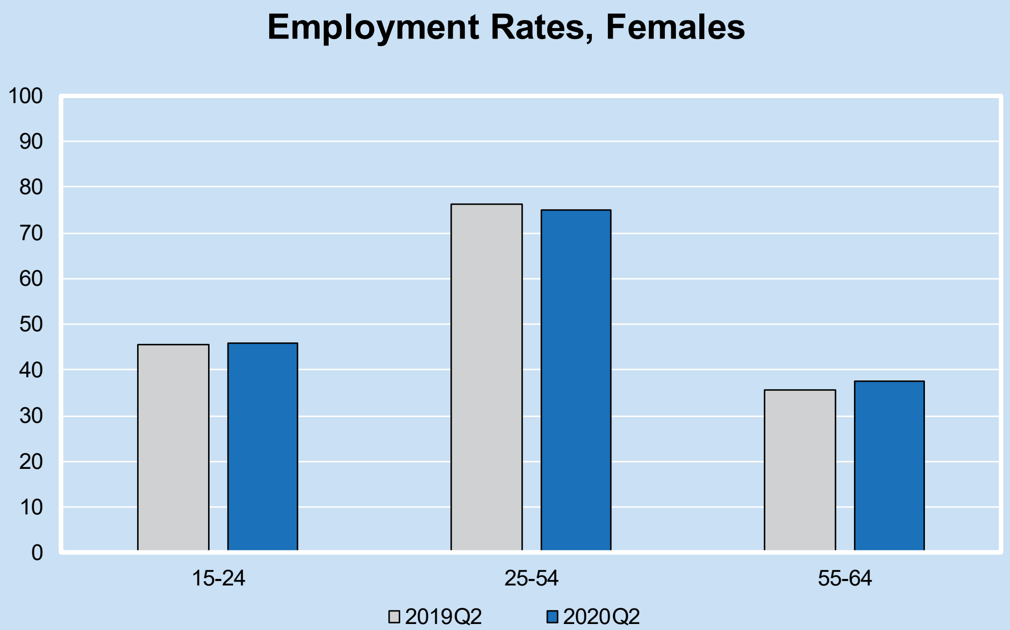
The wage supplement scheme was the centrepiece of Government efforts, the aim of the policy was twofold; first to deal with possible short-term disruptions in the labour market and secondly encourage the retention of employees. The scheme provided financial assistance for both employees and the self-employed who operated in economic sectors that were negatively affected by the pandemic.

To assess the effectiveness of the wage supplement and its estimated impact on the rate of poverty, simulations were modelled using EUROMOD[1]. EUROMOD is a static model. The study seeks to illustrate the impact of the reform measure presuming that everything else remained unchanged. The simulations consist of a baseline scenario, whereby the specific reform is excluded from the simulation, and a scenario where the reform is included. The difference between these two scenarios is the impact of that specific policy reform[2].

Chart 4.4

Source: National Statistics Office

Chart 4.5



Source: National Statistics Office

Distributional impact of wage supplement scheme (in percentage points)	
Table 4.1	
Poverty Indicators	**Change in Poverty Rates (p.p)**
Population	-2.27
Children	-3.01
Working Age	-2.54
Economically Active	-2.32
Elderly	-0.59
Gini Coefficient (ratio)	-0.008

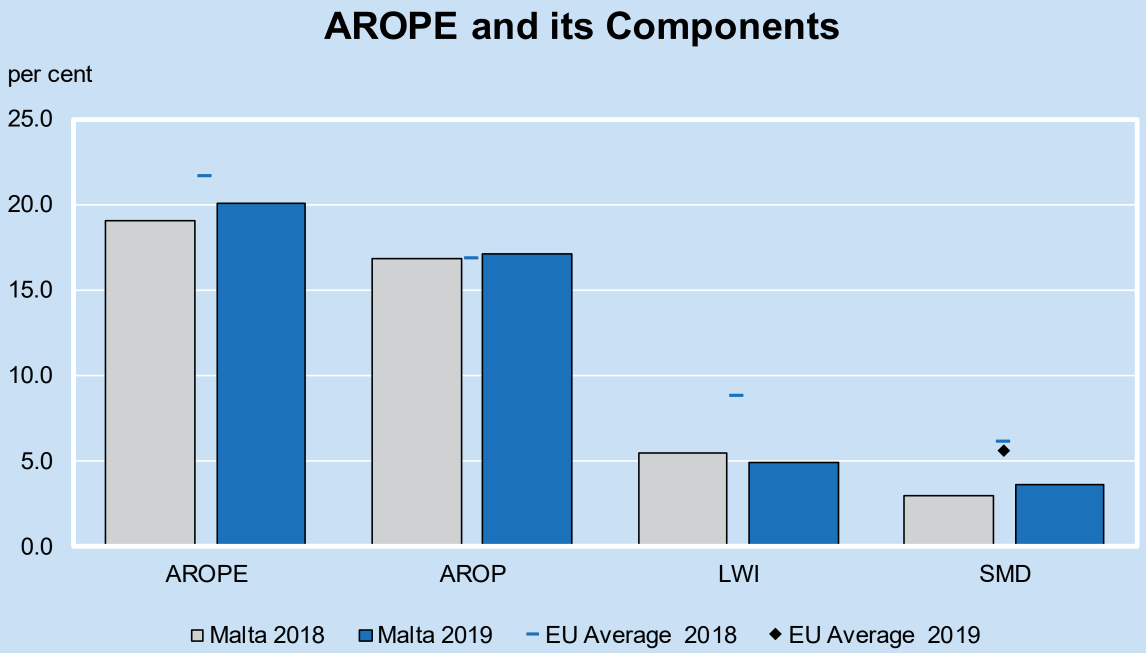
This wage supplement scheme is expected to leave a positive impact in terms of the overall at-risk-of-poverty rate, which is estimated to decline by around 2.27 percentage points relative to the baseline scenario, whereby the beneficiaries are assumed to be unemployed or furloughed or on reduced hours. 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.

4.2 Indicators measuring Poverty, Social Exclusion and Inequality

The at-risk-of-poverty or social exclusion (AROPE) indicator is one of the main indicators used to measure inequality and social exclusion. This indicator corresponds to the sum of persons who are at risk of poverty or severely materially deprived or living in households with very low work intensity. The AROPE for Malta stood at 20.1 per cent in 2019, which is 1.1 percentage points higher when compared to 2018. According to the latest data available, in 2018, Malta's AROPE was 2.6 percentage points lower than the rate recorded at EU level.

The at-risk-of-poverty (AROP) rate before social transfers for Malta stood at 36.8 per cent in 2019. In the EU, the rate was 43.7 per cent in 2018, which was 6.7 percentage points higher when compared to Malta's corresponding rate for the same year. After the inclusion of social transfers, the AROP rate for Malta, dropped by 19.7 percentage points reaching a rate of 17.1 per cent in 2019. In 2019, the severe material deprivation rate (SMD) among persons living in households was equal to 3.6 per cent, 2.0 percentage points lower than the EU average. Furthermore, the share of persons residing in a household with low work intensity (LWI) declined from 5.5 per cent in 2018 to 4.9 per cent in 2019. When compared to the EU average, the LWI in Malta was 3.3 percentage points lower than the EU rate in 2018.

Chart 4.6



Source: Eurostat

The income quintile share ratio (S80/S20) has remained relatively stable indicating that income of the wealthiest 20 per cent of the population is on average 4.2 times higher than the income of the bottom quintile. The gap decreases to 3.1 times for persons aged 65 and over. The ratio in 2019 was marginally lower that the ratio recorded in 2018 and 0.9 percentage points lower than the EU average.

The Gini coefficient, after the inclusion of social transfers, has slightly declined in the past two years, from a ratio of 28.7 in 2018 to 28.0 in 2019. At EU level, both the S80/S20 ratio and the Gini-coefficient are higher, indicating that in relative terms, income inequality in Malta is less pronounced. The gap between the values of EU27 and Malta, have also slightly increased during 2018, suggesting a further relative improvement for Malta. This indicates that in spite of increases in market income brought about by the rapid rate of economic growth, the Maltese Government was successful in sustaining improvements in distributional outcomes.

4.3 Measures targeting inclusive growth in 2021 Budget

The Budget for 2021 aims to continue to build on distributional policies enacted in recent years with the aim of strengthening social inclusion, while ensuring to provide the conditions for the economy to recover from the impact of Covid-19 and creating employment within the framework of inclusive economic growth.

Making Work Pay

The Government will continue supporting measures which enhance the disposable income of low and middle-income earners by extending measures which are aimed at

Income Distribution			
Table 4.2			
	EU27	**Malta**	
	2018	**2018**	**2019**
S80/S20 ratio	5.1	4.3	4.2
Less than 65 years	5.3	4.4	4.3
65 years or over	4.1	3.1	3.1
Gini-coefficient	30.4	28.7	28.0

Source: Eurostat

making work pay such as the In-Work Benefit Scheme, the taper of benefits and the increase in the minimum wage and by reducing the tax burden on workers.

Supporting Families

The Government will continue ensuring that families with children on low income are shielded from the risk of poverty. In this regard, the Government will continue to support incomes through income supplements and bonuses with a specific focus on low-income households.

Elderly

The Government will continue to adopt measures intended to reduce the risk of poverty amongst the elderly. The 2021 Budget includes a number of measures aimed at financially enhancing the pensioners' and the elderly's income.

Footnotes:

[1] 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.

[2] 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.

[3] AROP threshold is defined as 60 per cent of median national equivalised income.