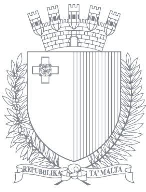


GOVERNMENT OF MALTA
MINISTRY FOR FINANCE
AND EMPLOYMENT

MALTA:
Draft Budgetary Plan
2024

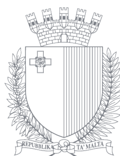
October 2023

MALTA:

Draft Budgetary Plan

October, 2023

Ministry for Finance and Employment
Maison Demandols,
Valletta.



Contents

CHAPTER 1 Overall Policy Framework and Objectives....3

CHAPTER 2 Economic Outlook....9

CHAPTER 3 General Government Budgetary Developments....29

CHAPTER 4 Distributional Implications of Budget Measures....55

CHAPTER 1

Overall Policy Framework and Objectives

1. Overall Policy Framework and Objectives

Amidst Malta's relatively stable economic environment, the primary objective of this plan is a continuation of the gradual fiscal consolidation. Whilst the various fiscal support measures that the Government was compelled to implement since the COVID outbreak were undeniably costly for public finances, they have been instrumental in keeping the economy stable, resilient and strong. The various policies were key to support the high potential growth which is ultimately keeping the debt-to-Gross Domestic Product (GDP) ratio relatively stable, safely below the 60.0 per cent Maastricht threshold.

In the past year, the international inflationary pressures heightened and persisted, the Government took the decision to embark on a more gradual loosening of the fiscal support measures. Over the course of 2023, it was becoming clearer that the global inflationary pressures were to persist for longer. The latest conflict between Israel and Palestine is expected to further exacerbate inflationary pressures and energy prices. Whilst initially this had a positive impact on the Government revenue, the effect on the Government expenditure was anticipated to materialise with some lag and to then persist for a longer time, as public contracts and collective agreements were gradually renegotiated to take into account the new inflationary environment. Whilst a clear commitment to reduce the deficit was maintained, the Government decided to lengthen the fiscal consolidation programme. In this Plan, the Government is committing to reduce the deficit from 5.0 per cent of GDP estimated for 2023 to 3.5 per cent in 2026.

These decisions are not anticipated to weaken public finance sustainability. On the contrary, by supporting potential growth well above the 4.0 per cent mark over the coming years, the public debt-to-GDP ratio is now anticipated to stay prudently below the 60.0 per cent of GDP threshold.

On similar lines as last year's Plan, the following are the main policy objectives of this Budget:

1. In the presence of grave risks and uncertainty the Government is committing itself unequivocally to support the economy. The political commitment to shelter households and firms from a temporary surge in essential commodities such as energy and food remains paramount in this Draft Budget Plan (DBP). Stabilisation remains the primary aim.

2. Secondly, this budget will aim to protect the most vulnerable. Whilst the price support measures will protect everyone, including the most vulnerable households and firms, several social support measures in the budget are aimed at specific groups of society.

3. The Government is however very conscious of the strain this will exert on public finances and this DBP is also committed to preserve fiscal sustainability. The

Government is committed to gradually reduce the deficit over the next four years with an average annual structural effort of 0.6 per cent of potential GDP per annum. This plan is also consistent with a control of national net primary expenditure growth below 5.9 per cent per annum. This will ensure that public finances remain under control and the public debt ratio remains safely below the 60.0 per cent of GDP.

4. This budget is also committed to strengthen the potential of the economy and undertake the necessary investments and reforms necessary to ensure an adequate supply of skills, manpower, knowledge, know-how and capital necessary for the economy to grow in a sustainable manner. Since Malta is almost completely dependent on imported energy, this objective includes the ability to procure access to an adequate and secure supply of energy at reasonable costs and thus preserve Malta's competitiveness and viability.

5. Finally, and related to the previous, is our quest to further improve the quality of life of every Maltese citizen. In particular, this budget will continue facilitating the Green Economy and Digital transitions.

1.1 Macroeconomic Scenario

In 2023, the global economy started to slow down after a robust post-pandemic recovery. Supply chain bottlenecks have been largely resolved marked by a decline in shipping costs and easing maritime congestion. However, inflation, albeit gradually declining from its peak, remains elevated in many economies, thereby constraining external demand conditions. Meanwhile, central banks increased the cost of borrowing to curtail aggregate demand and keep inflation expectations well-anchored. This is coupled by a slowdown in manufacturing activity and a weaker performance from China, which are weighing on external global demand.

Despite the external slowdown, the Maltese economy continued to outperform in the first half of 2023. Real GDP grew by 4.4 per cent, driven primarily by a strong growth in household consumption and despite the slowdown in the growth in exports. The services sector was the main driver. A very strong performance was exhibited by the Financial and insurance activities sector, the Industrial sector, Professional and administrative services, Real estate activities and Wholesale and retail trade. Tourism also outperformed expectations.

The Maltese economy is expected to maintain the positive momentum in the second half of the year, albeit with slower growth. This is consistent with an assumed slowdown in the global economy. In real terms, the Maltese economy is projected to grow by 4.1 per cent in 2023, above the 3.5 per cent growth projected in the DBP 2023. In 2024, the Maltese economy is projected to grow by 4.2 per cent in real terms, and by 7.4 per cent in nominal terms. Domestic demand is anticipated to be the primary driver of growth, contributing 3.7 percentage points, while net exports are expected to contribute 0.6

percentage points to growth, which is in line with the assumption of a deteriorating external environment.

The labour market is expected to remain strong but register marginally more moderate rates of growth in line with a moderation of economic growth expected over the medium-term. Whilst potential growth is expected to remain close to 4.5 per cent over the medium-term, growth is projected to slow down to around 4.2 per cent over the forecast horizon. This discrepancy is expected to result in a widening of the negative output gap over the medium-term, driven principally by the weakness in global demand conditions.

These conditions are expected to slow down inflationary pressures but only up to an extent. It is anticipated that inflationary pressures from abroad imported into Malta will moderate but persist. Furthermore, wages are expected to accelerate over the forecast horizon. This is partly expected to feed into domestic prices, particularly of certain service activities. Nevertheless, it is still anticipated that the pass-through from wages to prices to be partial and supported by the high and rising profit margins which businesses have enjoyed over the last two years. In this context, inflation is expected to reach 5.7 per cent this year and to decelerate to 3.7 per cent next year.

These projections continue to be surrounded by significant uncertainty particularly in the external environment. The risk assessment consistent with the analysis of alternative model forecasts indicates that growth may surprise on the upside in 2023, while risks are broadly balanced for 2024.

1.2 Fiscal Policy Objectives

The target deficit of 5.5 per cent of GDP set last Autumn for this year is expected to be over-achieved, with present estimates suggesting the deficit will reach 5.0 per cent of GDP. Whilst energy support measures were originally expected to reach 3.4 per cent of GDP, these are now estimated to cost 1.7 per cent of GDP. Social payments also lost pace with the economic expansion reaching 8.5 per cent of GDP, compared to the original target of 9.2 per cent projected last year. Overall expenditure is now expected to reach 40.0 per cent of GDP compared to the originally anticipated 42.5 per cent of GDP.

Despite the overall expenditure savings anticipated this year, and notwithstanding that tax revenue targets are expected to be exceeded as growth turned better than projected, the tax burden is expected to fall from an anticipated 31.2 per cent of GDP projected last year to 29.4 per cent of GDP. Total revenue for 2023 is now also expected to reach 35.0 per cent of GDP, down from the originally anticipated target of 36.9 per cent of GDP expected last year.

This means that the 2.5 percentage points reduction in the expenditure ratio was partly mitigated by a 1.9 percentage points reduction in the revenue ratio leading to an improvement of 0.5 percentage points of GDP in the deficit ratio.

In line with developments in the underlying macroeconomic projections, the budget balance is expected to improve to a deficit of 4.5 per cent of GDP in 2024. In structural terms, the general Government deficit is expected to improve from 4.7 per cent in 2023 to 4.2 per cent in 2024. Considering the full impact of energy support measures, the underlying deficit in 2024 would be clearly below the 3.0 per cent threshold indicating that the situation is temporary and conditional on external inflationary developments. The support to the economy is further being sustained by public investment which is expected to reach 3.8 per cent of GDP in 2024. Though lower than this year, this compares favourably to the average of 3.4 per cent in the decade leading to 2022, remaining well above the European Union (EU) and Euro Area (EA) average. This investment is supported by the Recovery and Resilience Facility as well as projects funded from the Multiannual Financial Framework (MFF) for the period 2021-2027, which are expected to fund additional high-quality investment projects and structural reforms. As the absorption of the MFF improves, public investment over the medium-term is expected to rise again to the record levels of 4.4 per cent of GDP to be reached this year.

Public debt is targeted to remain safely below the Treaty reference value. The debt ratio is expected to reach 55.6 per cent of GDP in 2024 and to stabilise around 57.2 per cent of GDP in the following two years.

1.3 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 has been endorsed by the Malta Fiscal Advisory Council.

CHAPTER 2

Economic Outlook

2. Economic Outlook

2.1 The Short-Term Scenario

In 2022, the Maltese economy achieved a remarkable 6.9 per cent real Gross Domestic Product (GDP) growth rate, surpassing the European Union (EU) average by 3.5 percentage points. Domestic demand was the main contributor to this growth, contributing 10.7 percentage points. By contrast, the external side of the economy contributed a negative 3.7 percentage points.

After a robust post-pandemic recovery, the global economy started to slow down in 2023. Supply chain bottlenecks have been largely resolved marked by a decline in shipping costs and easing maritime congestion. However, inflation, albeit gradually declining from its peak, remains elevated in many economies, thereby constraining household purchasing power. As high inflation proved persistent, central banks increased the cost of borrowing to curtail aggregate demand and keep inflation expectations well-anchored. To this end, tighter liquidity conditions are already slowing the provision of credit, thus weighing on consumption and investment activity, in addition to declining sentiment and increased financial stress. This is coupled by a slowdown in manufacturing activity and a weaker performance from China, which are weighing on external global demand.

Despite the external slowdown, the Maltese economy continued to outperform in the first half of 2023. Real GDP grew by 4.4 per cent, while nominal GDP grew by 10.3 per cent, driven primarily by net exports.

On the domestic front, consumption exhibited strong growth in the first half of 2023, growing at 7.0 per cent in real terms, reflecting a robust labour market, as well as an element of the release of excess savings accumulated during the pandemic. Public consumption during this period decreased by 1.0 per cent compared to the first half of 2022. Gross fixed capital formation (GFCF) declined by 17.5 per cent, mainly due to large one-off projects outlaid in the previous year that produced strong base effects. As a result, despite strong household consumption, domestic demand contributed negatively to growth in the first half of the year.

On the external front, during the first half of 2023, Malta exhibited a robust net export contribution of 5.8 percentage points, which was mostly a result of the decline in imports. Exports saw a modest increase of 0.5 per cent compared to the same period in 2022, despite the strong performance of tourism. In line with the decline in investment, which is relatively import-intensive in Malta, imports decreased by 3.3 per cent. Inventories contributed 0.1 percentage points to growth.

During the first half of 2023, nominal Gross Value Added (GVA) registered a growth rate of 12.0 per cent. The services sector was the main driver behind this expansion, contributing 10.1 percentage points, followed by the industrial sector (1.9 percentage

points), while the primary sector did not materially contribute to GVA growth. The top-performing sectors in the first half of 2023 were the Financial and insurance activities sector, which grew by 30.8 per cent, followed by the Industrial sector (21.6 per cent), the Professional and administrative services sector (17.0 per cent), the Real estate activities sector (13.6 per cent), and the Wholesale and retail trade, Transportation, and Accommodation and food services sectors (13.3 per cent).

The distribution of income gains during the first half of 2023 favoured corporations, with gross operating surplus growing by €476.8 million (11.6 per cent), compared to the €320.7 million (8.9 per cent) growth in compensation of employees. This resulted in corporate profits and mixed income accounting for 50.4 per cent of nominal GDP, while the percentage share of compensation of employees amounted to 43.1 per cent. Compensation of employees experienced broad-based growth, with the highest growth rates recorded in the Real estate activities sector at 17.2 per cent, followed by the Professional and administrative services sector at 16.2 per cent, the Financial and insurance activities sector at 14.3 per cent, and the Agriculture, forestry, and fishing sector at 10.5 per cent.

The Maltese economy is expected to maintain its positive momentum in the second half of the year, albeit with somewhat slower growth. This is consistent with an assumed slowdown in the global economy and the expected mechanical decline in investment due to base effects. In real terms, the Maltese economy is projected to grow by 4.1 per cent in 2023. Net exports are expected to be the main driver of economic growth, contributing 5.7 percentage points, while domestic demand is expected to have a negative contribution of 1.6 percentage points, in line with first half developments.

Private consumption is projected to increase by 6.1 per cent in 2023. Strong employment, consistent with short-term indicators, accumulated savings, and moderate income growth are expected to drive this increase in consumption. Although consumer confidence indicators suggest some slowdown, the financial situation of households remains sound. As a result, there is an expectation of a moderate deceleration in the second half of the year, also reflecting the deceleration observed in the second quarter of the year relative to the first quarter. Public consumption is expected to grow by 2.8 per cent, driven by compensation of employees and intermediate consumption.

GFCF is projected to contract by 18.9 per cent in 2023, primarily due to substantial base effects resulting from extraordinary investments expenditures in the private sector in 2022. It is worth mentioning that the inherently volatile nature of GFCF makes it relatively challenging to forecast, especially in the current circumstances of high uncertainty. Hence, when forecasting investment, a relatively prudent approach is normally followed, factoring in only those projects that have a strong political commitment or a high probability of realisation, while assuming a relatively high import content.

During the first half of this year, exports performed below expectations. Nevertheless, it is anticipated that export growth will improve in the second half of the year. This is

expected to be driven by a decline in inflationary pressures, the continued easing of supply disruptions, and a further strengthening of tourism demand. In particular, from January to August, the number of inbound tourists nearly reached 2.0 million, which amounts to 107.4 per cent of 2019 levels during the same period. As a result, exports are expected to increase by 2.6 per cent in 2023. On the other hand, imports are expected to decline by 0.9 per cent, reflecting a weak performance in the first half of the year and a continuation of investment base effects until the end of the year.

In 2024, the Maltese economy is projected to grow by 4.2 per cent in real terms, and by 7.4 per cent in nominal terms. Domestic demand is anticipated to be the primary driver of growth, contributing 3.6 percentage points, while net exports are expected to contribute 0.6 percentage points to growth, which is in line with the assumption of a persistently weak external environment.

Private consumption is projected to increase by 4.5 per cent, driven by a robust labour market, wage growth, and a sustained deceleration in inflation. While still robust, the projected slowdown in consumption growth can be attributed to the return of consumer demand to more typical levels following the rapid recovery in the wake of the post-COVID period, a result of pent-up demand which is now expected to start easing. Public consumption is expected to grow by 2.8 per cent. Moreover, investment is anticipated to grow by 5.5 per cent, as it is projected to return to its historical investment-to-GDP ratio following a substantial one-off increase in 2022.

On the international front, in 2024, exports are expected to regain some momentum and grow by 3.9 per cent, aligning with a slightly more optimistic global economic outlook. Nevertheless, in light of the expectation of subdued growth among our primary trading partners, and an expected stabilisation in certain export-oriented sectors, export growth has been revised downward from the Update of the Stability Programme (USP) projection of 5.2 per cent. Imports, on the other hand, are expected to rebound with a growth rate of 3.9 per cent in 2024, in harmony with sustained domestic demand and export growth.

Table 2.1 below presents the main macroeconomic indicators for the period 2020 to 2024. The figures for the period 2020 to 2022 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 2023 and 2024 are projections.

Main Macroeconomic Indicators

Table 2.1

	2020	2021	2022	2023p	2024p
GDP growth at current market prices (%)	-6.5	14.5	12.6	9.7	7.4
GDP growth at Chain Linked Volumes by period (Reference year 2010) (%)[1]	-8.1	12.3	6.9	4.1	4.2
Expenditure Components of GDP at Current Market Prices by period (%)					
Private final consumption expenditure[2]	-9.6	9.6	15.4	12.5	8.2
General Government final consumption expenditure	18.2	9.0	6.2	7.7	5.6
Gross fixed capital formation	-5.1	15.4	39.9	-13.9	7.3
Exports of goods and services	-0.9	9.7	11.8	6.2	6.9
Imports of goods and services	2.3	7.0	15.3	2.5	6.7
Expenditure Components of GDP at Chain Linked Volumes by period (Reference year 2010) (%)					
Private final consumption expenditure[2]	-10.6	8.3	9.5	6.1	4.5
General Government final consumption expenditure	14.9	6.5	2.3	2.8	2.8
Gross fixed capital formation	-5.8	12.7	31.2	-18.9	5.5
Exports of goods and services	-1.8	7.5	6.8	2.6	3.9
Imports of goods and services	1.5	5.0	10.1	-0.9	3.9
Inflation rate (%)	0.8	0.7	6.1	5.7	3.7
Employment growth (Full-Time Equivalents) (%)	3.6	3.2	6.4	4.7	4.4
Unemployment rate (Harmonised definition, Eurostat) (%)	4.4	3.4	2.9	2.7	2.7
Compensation per employee (% change)	-1.3	4.7	3.5	4.1	4.3
Labour productivity (% change)	-11.3	8.8	0.5	-0.5	-0.2
Nominal Unit Labour Cost (% change)	11.2	-3.7	3.0	4.7	4.6
Real Unit Labour Costs (% change)	9.3	-5.6	-2.2	-0.6	1.5

[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.

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 increase by 0.5 per cent in 2023 and accelerate slightly to 0.7 per cent in 2024.
2. Oil prices are expected to drop from $100.8 per barrel in 2022 to $84.3 in 2023 and $84.2 in 2024.
3. The short-term interest rate is expected to increase to 3.7 per cent in 2023. It is then assumed to increase slightly to 4.1 per cent in 2024. The long-term interest rate is assumed to reach 3.7 per cent in 2023 and 3.9 per cent in 2024.
4. The USD/EUR exchange rate is expected to appreciate to 1.0840 and 1.1078 in 2023 and 2024 respectively, representing a 3.5 per cent appreciation of the Euro in 2023

and 2.2 per cent in 2024. The STG/EUR exchange rate is expected to average 0.8656 in 2023 and 0.8677 in 2022, representing a depreciation of 0.3 per cent in 2023 and an appreciation of 0.4 per cent in 2024.

5. Starting from the third quarter of 2023, changes in inventories are not expected to materially contribute to GDP growth.
6. World prices, weighted by Malta's main trading partners, are assumed to decrease by 0.3 per cent in 2023 and to increase by 0.5 per cent in 2024.
7. While inflationary pressures are assumed to be persistent throughout 2023 and 2024, albeit at a decelerating rate, a wage-price spiral is not anticipated. This is because the substantial profit margin growth in 2021 and 2022 should enable businesses to absorb wage increases without having their profit-margin falling below pre-pandemic profit levels. Some pass-through of higher wages to consumer prices in domestic services is however anticipated.
8. The interest-rate passthrough is assumed to remain very limited, in line with the historic standard and ample bank liquidity.

2.1.2 Employment Prospects

Throughout the first half of 2023, the employment rate (15-64) stood at 78.8 per cent, reflecting a 1.3 percentage point increase compared to the corresponding period in the previous year. Expectations point towards the persistence of strong labour demand owing to employment shortages and continued growth, which is projected to sustain employment growth during the latter half of this year, albeit at a more gradual pace in alignment with a slightly moderated outlook. Subsequently, a 4.7 per cent rise in employment (full-time equivalents definition) is projected for 2023, while the unemployment rate is projected at 2.7 per cent. Moving into 2024, employment is expected to grow by 4.4 per cent, reflecting the anticipated resilience of labour demand, with the unemployment rate projected to remain stable at 2.7 per cent.

2.1.3 Inflation

In August 2023, Harmonised Index of Consumer Prices (HICP) inflation stood at 5.0 per cent in Malta, while the 12-month moving average stood at 6.6 per cent. This indicates that inflation has been declining gradually after peaking at the end of 2022. In the Euro Area, the HICP inflation rate stood at 5.2 per cent in August, while the 12-month moving average stood at 7.7 per cent. Therefore, while Malta has observed lower inflation during the past year when compared to other European countries, domestic inflation is now converging towards the European average.

Inflationary pressures appear to be abating across most categories, albeit core inflation, which excludes energy and volatile food, remains high. Although high inflation is broad-based, it is mostly being driven by the prices of services and food, partly reflecting the lagged transmission of added costs across the economy. Moreover, inflation in housing services remains sticky, which can be partly attributable to continued domestic demand, while food prices are only declining gradually. In this context, HICP inflation is expected to reach 5.7 per cent this year.

In 2024, a moderation in food inflation is expected, in line with the expected stabilisation in global commodity prices, while the strengthening of the Euro should put downward pressures on imported inflation. However, services inflation is set to remain elevated, partly owing to strong wage growth in a context of a tight labour market, in addition to resilient domestic demand. To this end, inflation is anticipated to decelerate to 3.7 per cent in 2024.

2.1.4 Sectoral Balances

Appendix Table 1.d provides an overview of the projections of the goods and services balance. Current account projections will not be produced as part of this forecast round due to expected substantial revisions in the December news release for the Balance of Payments.

2.2 Comparison to Commission's Latest Forecast

It is noteworthy that the European Commission (EC)'s forecast does not incorporate the most recent national accounts data released by the NSO. This data has revealed positive surprises in the first half of the year, partly owing to significant revisions in the first quarter figures. The Ministry for Finance and Employment (MFE)'s forecasts, on the other hand, are grounded on this updated data. Additionally, the MFE's forecasts encompass the latest external data and projections, which hold great significance for a small and open economy, particularly in light of the current dynamic circumstances.

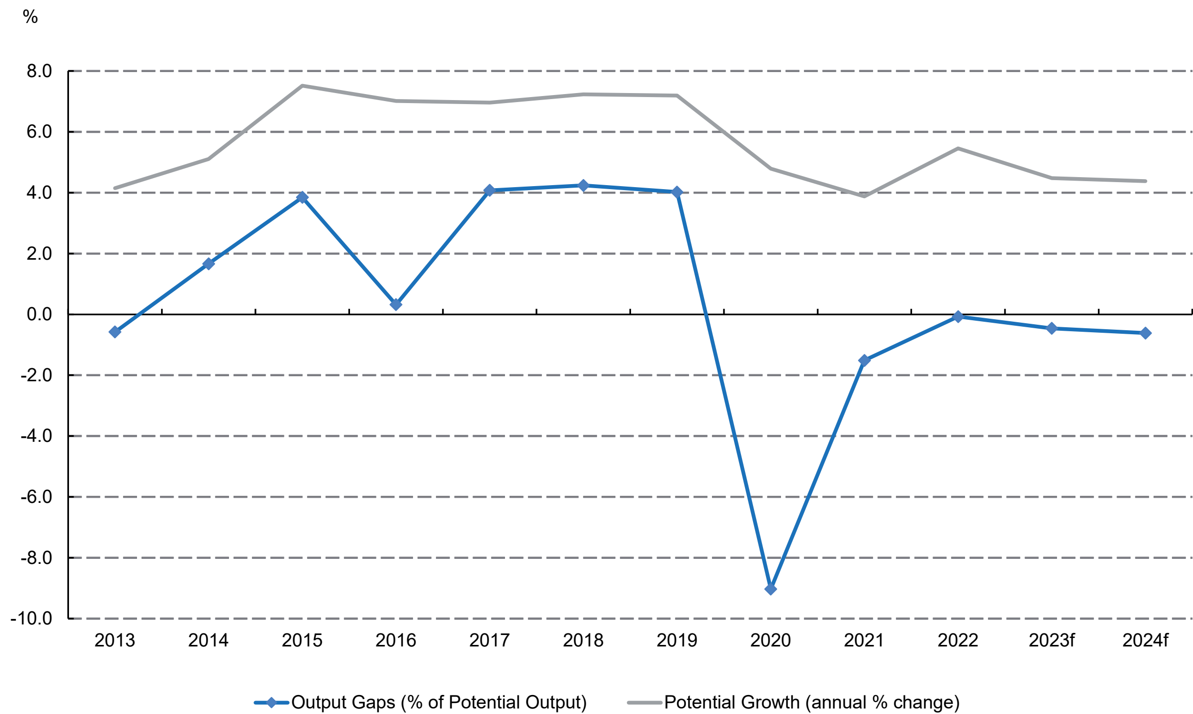
In the EC's Spring forecast, Malta's GDP growth rate was projected to reach 3.9 per cent in 2023 and 4.1 per cent in 2024, with net exports anticipated to drive growth in 2023 and domestic demand in 2024, which is in line with MFE's projections. This implies that the MFE's real GDP forecast is 0.2 percentage points higher in 2023 and 0.1 percentage point higher in 2024. Nevertheless, it's worth highlighting that the MFE's projections for 2023 indicate a negative domestic demand contribution, whereas the EC foresees a positive contribution. This contrast predominantly stems from the EC's earlier anticipation of a less significant decline in investment. In contrast, in 2024, both sets of projections align closely both in terms of growth and composition.

2.3 Potential Output and the Output Gap

The estimation of potential output and the output gap relies on the widely accepted Production Function methodology. Any disparities between the estimates from the EC and MFE can be attributed to variations in macroeconomic expectations.

Chart 2.1 depicts recent potential output and output gap developments, as well as projections. From 2013 to 2022, the average growth in potential output stood at 5.9 per cent. A gradual stabilisation is anticipated over the forecast horizon, with potential output growth expected to average 4.4 per cent. Consequently, the output gap (expressed as a percentage of potential GDP) is projected to be negative at -0.5 per cent in 2023 and

Chart 2.1
Malta's Potential Output Growth and Output Gap Estimates



-0.6 per cent in 2024, indicating that the Maltese economy will operate slightly below its potential. The primary contributors to potential growth are expected to be labour, followed by capital accumulation, and total factor productivity.

2.4 Comparison with the MFE Spring Forecasts

In the first half of this year, the Maltese economy continued to display resilience and growth, aligning with the USP projections, registering a growth rate of 4.4 per cent, surpassing our initial projection of 4.1 per cent. It is worth noting that the composition of this growth has exhibited some variations from the USP projections. Consumption levels have surpassed initial expectations, investment has taken a more negative turn due to base effects, and export growth has proven to be considerably more subdued compared to initial expectations.

The economic outlook presented in this version of the Draft Budgetary Plan maintains GDP growth at 4.1 per cent. The contribution of domestic demand is now expected to be negative, in contrast to the slightly positive outlook in the USP. This shift is attributable to a substantial downward revision in the investment projection coupled with a relatively small downward revision in Government consumption, despite a more robust outlook for consumption. Correspondingly, net exports are expected to strengthen largely due to a downward revision in imports driven by investment base effects. Exports, while revised downward from 4.3 per cent in Spring to 2.6 per cent in this forecast round, are anticipated to improve in the final quarters of the year owing to an optimistic tourism

outlook, decreasing inflationary pressures, and improved prospects for global economic growth.

The growth projection for 2024 has been revised downwards from 4.5 per cent in MFE's Spring forecast to 4.2 per cent. This revision is primarily attributed to a diminished contribution of net exports to GDP growth driven by more stable exports, in view of a more subdued outlook for the global economy due to the lagged effects of monetary policy tightening. On the other hand, the downward revision in imports is smaller compared to the revision in exports. Imports are expected to be supported by stronger consumption and a faster investment recovery, while the downward export revision would reduce demand for imports.

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 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 MFE.

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 reveals a tendency of underestimating GDP growth, resulting in a downward bias in the GDP growth projections from previous years. This is primarily a result of significant statistical revisions in the national accounts data, and exogenous shocks that cannot be predicted by the macroeconomic forecasting model.

While the one-year ahead forecasts, excluding the 2020 crisis, display a root-mean squared error (RMSE) of 4.4, 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 2020 and the subsequent recovery, in addition to statistical revisions, play an undue influence on this evaluation and limit comparability with the forecast accuracy displayed by other economies with a longer forecast horizon.

The evaluation of risk and uncertainty in the current set of macroeconomic projections presented in this Programme relies on 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 several 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, eight alternative model-based growth projections were carried out:

1. Improved economic activity in Malta's main trading partners, as indicated by the upper bound projections of the Consensus Forecasts publication.
2. Weaker economic activity in Malta's main trading partners, as indicated by the lower bound projections of the Consensus Forecasts publication.
3. Higher interest rate scenario, reflecting persistent inflationary pressures, leading to a tighter monetary stance by the European Central Bank (ECB). In this scenario, short-term interest rates peak at a higher rate, and are maintained at this level for a longer period than assumed in the baseline. Long-term interest rates are gradually increased throughout the forecast horizon.
4. Downside tourism scenario, which assumes that inbound tourism starts to moderate in 2024, as pent-up demand for travel services following the pandemic eases off and high fuel costs constrain tourism demand especially from distant source markets.
5. Euro appreciation scenario, reflecting a strengthened Euro in 2024, such that the USD/EUR exchange rate returns to the long-term average at a faster pace when compared to the baseline.
6. A lower competitiveness scenario, which assumes that some services sectors which have been observing notable growth in recent years reach a peak maturity phase.
7. Higher consumption scenario, where private consumption is more resilient than the conservative projection in the baseline scenario, supported by a stronger labour market and a faster recovery in household purchasing power.
8. A scenario that assumes that subdued global economic activity, lagged effects of monetary policy tightening, and stronger euro, leads to a faster decline in inflation when compared to the prudent estimate in the baseline.

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 prevailing economic conditions and is supported by various meetings with stakeholders and regulators operating within the Maltese economy.

Among the alternative forecasts projections, a more detailed description is provided for the alternative growth and interest rate scenarios, as required by the Directive.

2.5.2.1 Improved Global Economic Growth

This scenario models the risk that economic growth in Malta's main trading partners turns out higher than anticipated in the baseline. The global growth rate, weighted by Malta's trade with partner countries, is increased by 0.3 percentage points in 2023, and by 0.8 percentage points in 2024. The higher economic growth rates in Germany, France, Italy, the UK, and the US are based on the Consensus Forecasts of September 2023, assuming the most optimistic growth figure for each trading partner in 2023 and 2024.

Overall, stronger external demand would lead to a 0.3 percentage points increase in real GDP growth followed by an upward revision of 1.0 percentage point in 2024. In this risk scenario, the budget balance would be relatively unaffected in 2023, and it would improve by 0.4 percentage points in 2024.

2.5.2.2 Weaker Global Economic Growth

In this scenario, lower growth rates for Malta's main trading partners are assumed compared to the baseline. The lower economic growth rates in Germany, France, Italy, the UK, and the US are based on the Consensus Forecasts of September 2023, assuming the lowest growth figure for each trading partner for the forecast years 2023 and 2024. In this scenario, global economic growth, weighted by Malta's main trading partners, declines by 0.3 percentage points in 2023 and by 1.0 percentage point in 2024.

The deterioration in external demand leads to a more pronounced weakening of export growth compared to the decline in imports. This subdued performance would result in a downward revision in real GDP growth of 0.3 percentage points in 2023, and by 1.1 percentage points in 2024. The budget balance would be relatively unaffected in 2023, but it would weaken by 0.5 percentage points in 2024.

2.5.2.3 Interest Rate Scenario

The underlying monetary assumption in the baseline is that the ECB increases its main policy rates to a peak by 2023, before gradually lowering borrowing costs at the end of the second quarter of 2024, in line with market expectations. This scenario attempts to model stickier inflation in the Euro Area, leading to a tighter monetary policy stance by the ECB. Therefore, in this scenario, policy rates are hiked further in 2023 and are kept at their peak throughout 2024. This implies that short-term rates are increased by 25.0 basis points in the last quarter of 2023, while revised upwards by an average of 50.0 basis points in 2024. Moreover, long-term rates are assumed to rise by 50.0 basis points in 2024 when compared to the baseline.

Rising interest rates would dampen investment and alter consumption patterns, increasing debt repayments and savings, which hampers household spending. However, it is worth noting that historical data and the latest monetary policy tightening both show incomplete interest rate pass-through to domestic lending rates. The effect of this scenario on real GDP growth would be marginal for 2023, while it would decline by

0.2 percentage points in 2024 relative to the baseline. The budget balance would be unaffected in 2023, before deteriorating by 0.1 percentage points in 2024.

It is important to note that, given the exogenous nature of exchange rates in the forecasting model, the influence of higher interest rates does not affect the exchange rate assumption.

2.5.3 Alternative Models Forecasts

The MFE has developed eight alternative forecasting models, which encompass model-free statistical forecasts (two Holt-Winters Seasonal Smoothing Methods), model-based univariate forecasts (two ARIMA models, and one least squares model), and model-based multivariate forecasts (three VAR models). These models assist the MFE in benchmarking the results derived from the main macro-econometric model.

For 2023, the simple average of all models including VAR models suggests that GDP is expected to increase by approximately 4.3 per cent, while the average of VAR models also produces an estimate of 4.3 per cent. In contrast, for 2024, the simple average of all models suggests a growth rate of 3.8 per cent, while the VAR model average indicates GDP growth of 5.0 per cent. Consequently, the baseline GDP forecast for 2023 falls within the range produced by the alternative models, whereas for 2024, the alternative models are generally less optimistic than the baseline, except for the VAR models, which, on average, are more optimistic. However, given the prevailing risks and uncertainties, a degree of caution has been incorporated into the baseline projections. In fact, the alternative models provide a wide range within which the growth outcome for 2024 could fall.

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. For the Autumn forecast, the standard deviation is equal to 2.4 for the current year forecast, and 3.1 for the one-year ahead forecast. The alternative model scenarios documented above are used to assess the balance of risks based on the Pearson skewness indicator. This indicator shows that there are upside risks for 2023, while risks are broadly balanced for 2024. Chart 2.2 represents the uncertainty and the balance of risks surrounding the macroeconomic forecasts presented in this Draft Budgetary Plan.

2.5.5 Risks to Fiscal Targets

The alternative macroeconomic scenarios documented above, can influence the attainment of the general Government fiscal 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. The evaluation of fiscal risk conditional on macroeconomic risks also incorporates the variance resulting from

Chart 2.2
Fan Chart with GDP Growth Forecasts

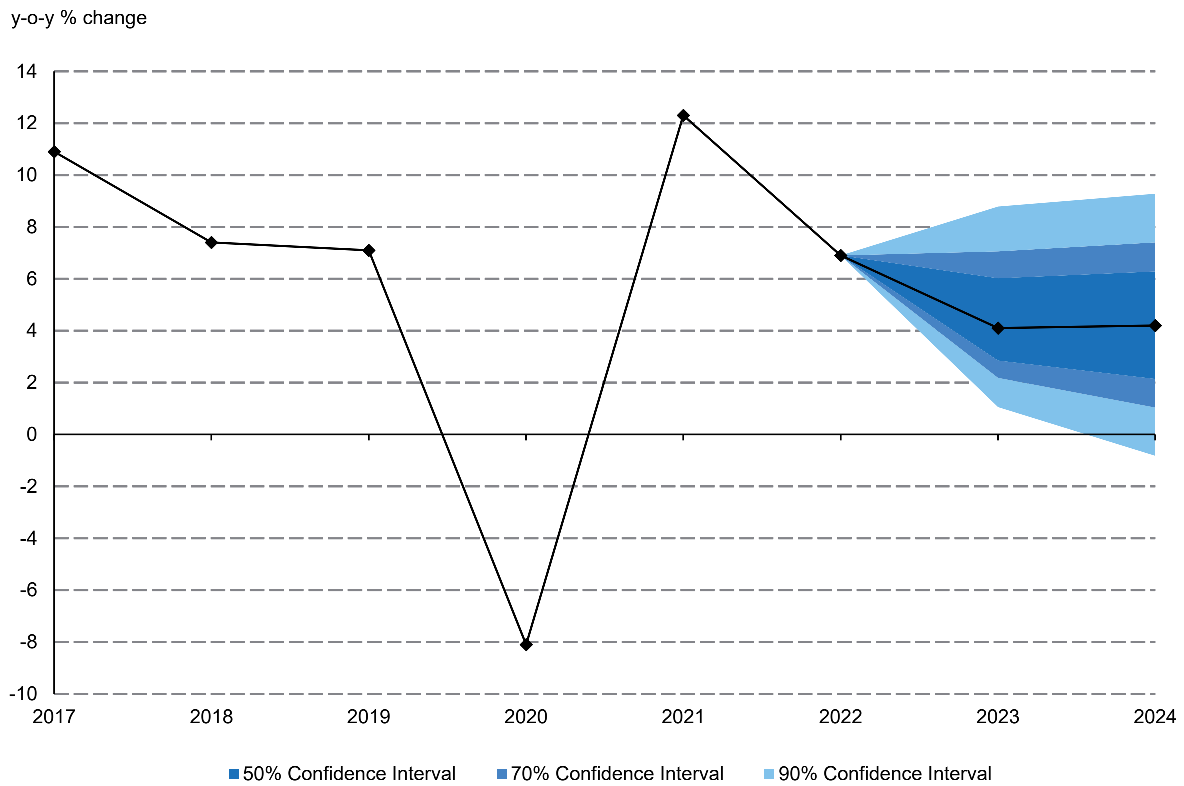
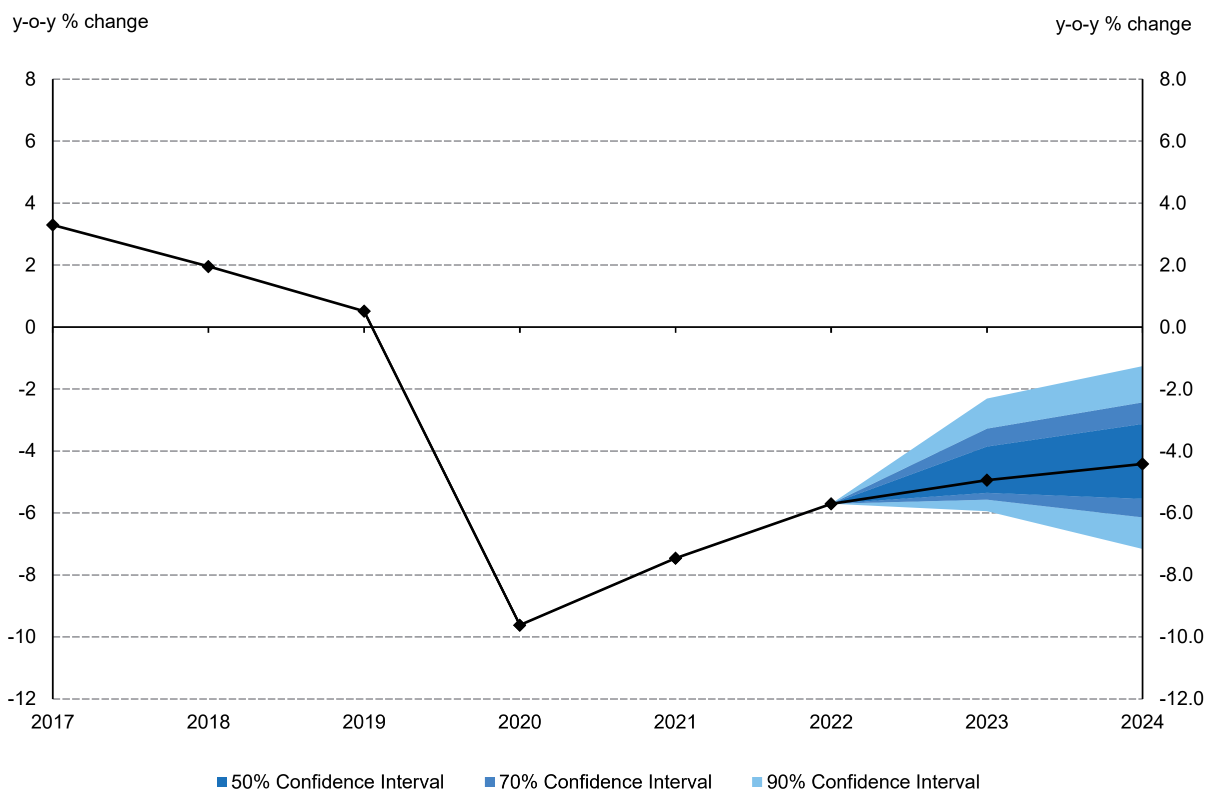


Chart 2.3
Fan Chart with Budgetary Targets



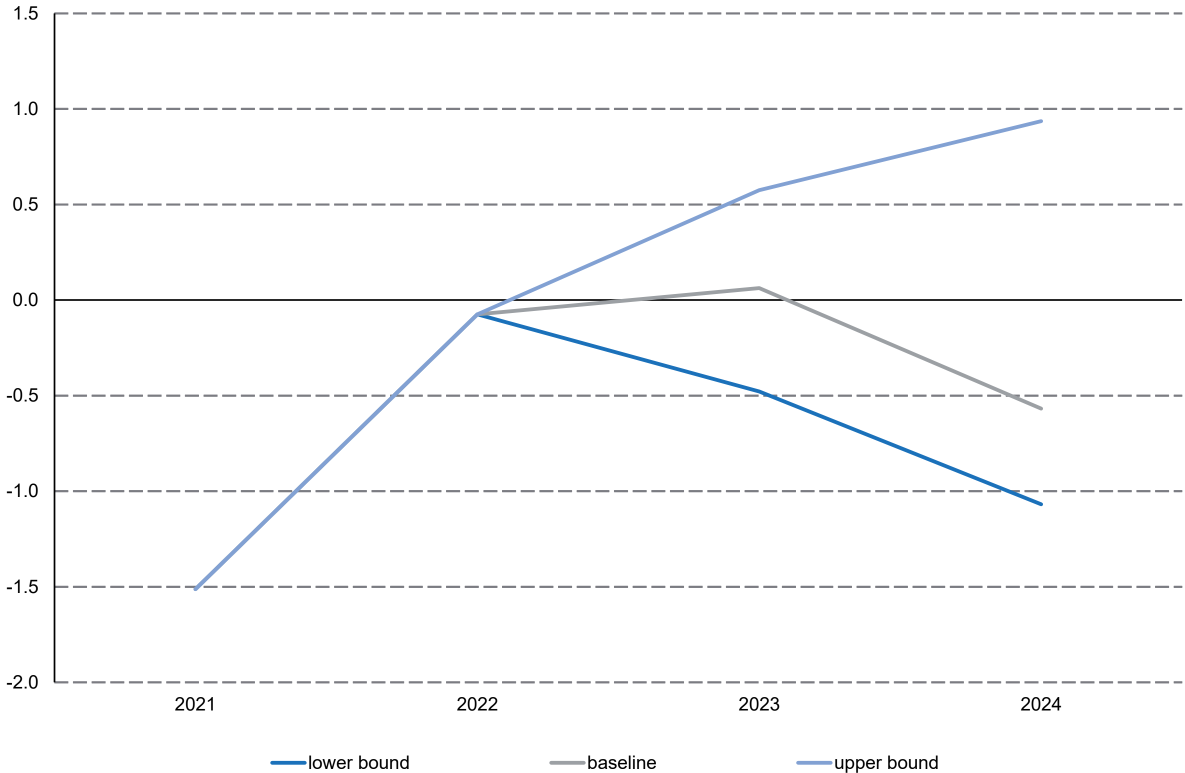
the past forecast error of fiscal projections, based on a methodology similar to that used for deriving the macroeconomic risk assessment. As a result, the risk assessment is presented in the form of a probabilistic fan chart rather than point estimates. The budget balance risk is skewed towards the upside in both 2023, and to a lesser extent in 2024. From the alternative scenarios produced in this chapter, the worst-case scenario suggests a downward revision of 0.1 and 0.5 percentage points in 2023 and 2024 respectively, when compared to the baseline projection.

2.5.6 Alternative Output Gap projections and risks to Structural Fiscal Targets

This assessment has been extended to include risks to output gap projections and subsequently the structural commitments outlined in this Programme. Accordingly, alternative output gap forecasts corresponding with the sensitivity scenarios have been conducted.

Alternative output gap forecasts range from -0.5 per cent of potential output to 0.6 per cent in 2023 and from -1.1 per cent of potential output to 0.9 per cent in 2024, as illustrated in Chart 2.4.

Chart 2.4
Output Gap: Risk Assessment



Macroeconomic forecasts
(Basic assumptions)

Appendix Table 0.i

	Data Source	2022	2023p	2024p
Short-term interest rate (annual average)	**ECB**	0.5	3.7	4.1
Long-term interest rate (annual average)	**ECB**	2.4	3.7	3.9
USD/€ exchange rate (annual average)	**ECB + Consensus Economics (September 2023)**	1.048	1.084	1.108
STG/€ exchange rate (annual average)	**ECB + Consensus Economics (September 2023)**	0.869	0.866	0.868
Real GDP Growth of main trading partners	**Eurostat + Consensus Economics (September 2023)**	1.8	0.5	0.7
Nominal GDP Growth of main trading partners	**Eurostat + Consensus Economics (September 2023)**	8.4	6.1	3.3
Oil prices (Brent, USD/barrel)	**US Energy Information Administration (EIA) + Consensus Economics (September 2023)**	100.78	84.27	84.18

Macroeconomic forecasts
(Macroeconomic prospects)

Appendix Table 1.a

	ESA Code	€ million *CLV 2010 Prices*	rate of change		
	ESA Code	**2022**	**2022**	**2023p**	**2024p**
1. Real GDP[1]	B1*g	14,542.4	6.9	4.1	4.2
2. Potential GDP		14,538.4	5.5	4.5	4.4
contributions:					
- labour			2.1	2.6	2.6
- capital			2.8	1.5	1.5
- total factor productivity			0.6	0.4	0.4
3. Nominal GDP	B1*g	17,212.5	12.6	9.7	7.4
Components of real GDP					
4. Private final consumption expenditure[2]	P.3	6,440.1	9.5	6.1	4.5
5. Government final consumption expenditure	P.3	2,635.2	2.3	2.8	2.8
6. Gross fixed capital formation	P.51	3,707.6	31.2	-18.9	5.5
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	-	1.0	1.0	1.0
8. Exports of goods and services	P.6	24,476.2	6.8	2.6	3.9
9. Imports of goods and services	P.7	22,883.3	10.1	-0.9	3.9
Contributions to real GDP growth					
10. Final domestic demand		12,782.9	10.7	-1.6	3.6
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	166.6	-0.1	0.0	0.0
12. External demand	B.11	1,592.9	-3.7	5.7	0.6

[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		
	2022	**2022**	**2023p**	**2024p**
1. GDP deflator	133.4	5.3	5.4	3.1
2. Private consumption deflator	123.3	5.4	6.0	3.5
3. HICP (Index = 2015)	113.7	6.1	5.7	3.7
4. Public consumption deflator	135.2	3.8	4.7	2.7
5. Investment deflator	127.5	6.7	6.3	1.6
6. Export price deflator (goods and services)	130.5	4.7	3.5	2.9
7. Import price deflator (goods and services)	126.1	4.7	3.4	2.7

(1) Index (base 2010 unless otherwise indicated)

Macroeconomic forecasts
(Labour market developments)

Appendix Table 1.c

		€000s	rate of change		
	ESA Code	**2022**	**2022**	**2023p**	**2024p**
1. Employment[1]		283.3	6.4	4.7	4.4
2. Employment, hours worked[2]		532,793.2	4.2	4.7	4.4
3. Unemployment rate (%)[3]		8.5	2.9	2.7	2.7
4. Labour productivity, persons[4]		48.6	0.5	-0.5	-0.2
5. Labour productivity, hours worked[4]			0.5	-0.5	-0.2
6. Compensation of employees	D.1	7,390.7	9.9	9.0	8.9
7. Compensation per employee[4]		29.8	3.5	4.1	4.3

[1] Levels expressed in headcount employment (National Accounts Definition). Growth rates in Full-Time Equivalents (FTEs).

[2] Forecasts based on FTEs, assuming no change in hours worked.

[3] Harmonised definition, Eurostat; levels.

[4] Based on FTEs.

Macroeconomic forecasts (Sectoral balances)				
Appendix Table 1.d				% GDP
Percentages of GDP	**ESA Code**	**2022**	**2023**	**2024**
1. Net lending/ borrowing		-1.5	-	-
vis-à-vis the rest of the world	B.9			
of which:				
Balance on goods and services		11.1	17.6	17.7
Balance of primary incomes and transfers		-14.2	-	-
Capital account		1.5	-	-
2. Net lending/ borrowing of the private sector	B.9	3.2	-	-
3. Net lending/ borrowing of general Government	EDP B.9	-5.7	-	-
4. Statistical discrepancy		1.0	-	-
Current Account		-3.0	-	-

CHAPTER 3

General Government Budgetary Developments

3. General Government Budgetary Developments

In the context of the deactivation of the general escape clause as of 2024 and the need for prudent fiscal policies, the 2024 Draft Budget Plan (DBP) ensures convergence to the 3.0 per cent of Gross Domestic Product (GDP) deficit reference value and for debt to be kept at prudent levels in the medium-term. The fiscal targets comply with the fiscal adjustment criteria set out in the Commission reform orientations.

For the coming year, the Government intends to continue to pursue a gradual and sustainable consolidation, combined with investment and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position. Nevertheless, the general Government balance continues to be impacted by fiscal policy measures adopted to mitigate the economic and social impact of the increase in energy prices, including cuts to indirect taxes on energy consumption and subsidies on petroleum products and energy production to compensate for the price increase of imported fuels, electricity and other basic commodities. In spite of this, the fiscal targets ensure that the structural deficit is brought down to 3.0 per cent of potential GDP over the medium-term, by also limiting the nominal increase in nationally financed net primary expenditure in 2024 to less than 5.9 per cent.

It is the intent of the Maltese Government to preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility (RRF) grants and other European Union (EU) funds, in particular to foster the green and digital transitions over the medium-term. The Government's approach centres around a long-term socio-economic vision based on five core principles: good governance, improving the quality of life for all citizens, investing in education, revitalizing Malta's infrastructure, and achieving a carbon-neutral economy by 2050. The 2023 National Reform Programme (NRP) outlined the Government's overarching strategy, emphasizing the interconnectedness of these key areas. By adopting complementary policies, the Government aims to achieve multiple objectives simultaneously.

This strategy is reinforced by the implementation of the national Recovery and Resilience Programme (RRP), which encompasses major national policies for sustainable growth and enhancing competitiveness. Projected receipts and expenditure financed from the RRF are outlined in Appendix Table 9.a and Appendix Table 9.b. Funding for high-quality investment projects is also sourced from the Multiannual Financial Framework (MFF) covering the period 2021-2027. EU funds will specifically support the green transition, energy security, and digital transformation initiatives. Additionally, funds will be allocated to foster a sustainable blue economy, enhance the resilience of the fishing and aquaculture sectors, and provide support for individuals to acquire new skills, employment opportunities, and social inclusion.

3.1 Budgetary targets

The general Government deficit ratio for 2023 is expected to decrease to 5.0 per cent of GDP. This reduction primarily stems from lower expenditure on subsidies relative to GDP. Whilst the 2023 Government balance is set to benefit from the discontinuation of the COVID-19 temporary emergency measures, which are expected to improve the budget balance by 1.3 percentage points of GDP, the Government's fiscal position in 2023 continues to be affected by the economic and social repercussions of increased energy prices. These measures, an extension from 2022, include reductions in indirect taxes on energy consumption and subsidies to compensate for the higher cost of imported fuels and electricity, and other basic commodities. The total cost of these support measures is expected to amount to 1.7 per cent of GDP in 2023, 0.8 percentage points lower than in 2022. Meanwhile, higher 'other' revenue has a broadly neutral impact on the general Government balance, reflecting a higher ratio-to-GDP for gross fixed capital formation and capital transfers.

The general Government debt-to-GDP ratio is expected to increase from 52.3 per cent at the end of 2022 to 53.1 per cent by the end of this year. The expected increase in the debt-to-GDP ratio in 2023 is mainly on the back of the expansionary contribution stemming from the stock flow adjustment (SFA), in part offset by an improvement in the primary balance. Furthermore, the debt-to-GDP ratio is expected to increase by a further 2.5 percentage points in 2024 to 55.6 per cent, though still below the 60.0 per cent threshold. Developments in the gross Government debt and the contributors to developments in the debt-to-GDP ratio are presented in Table 2.b.

Budgetary Targets
General Government debt developments

Table 2.b | % GDP

	2022	2023	2024	2025	2026
1. Gross debt [1]	52.3	53.1	55.6	56.6	57.2
2. Change in gross debt ratio	-1.7	0.8	2.5	1.0	0.6
Contributions to changes in gross debt					
3. Primary balance	4.8	3.8	3.2	2.6	2.0
4. Interest expenditure	1.0	1.1	1.3	1.4	1.5
5. Stock-flow adjustment	-1.4	0.4	1.6	0.4	0.5
p.m.: Implicit interest rate on debt [2]	2.0	2.3	2.7	2.7	2.9

[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 2023

The 2023 general Government balance was revised downwards by €36.3 million, compared to the estimated deficit of €972.0 million outlined in the 2023 DBP. While the total revenue component was revised upwards from €6,475.8 million projected in the DBP 2023 to €6,614.9 million, the total expenditure component was revised upwards from €7,447.8 million being reported in the DBP 2023 to €7,550.6 million.

General Government Budgetary Execution and Prospects

Table 3.1 | € millions

	ESA Code	2023			2024	
		USP 2022 Forecast	**DBP 2023 Forecast**	**DBP 2024 Forecast**	**USP 2023 Forecast**	**DBP 2024 Forecast**
Net lending (+)/net borrowing (-)						
1. **General Government**	S.13	**-759.0**	**-972.0**	**-935.7**	**-847.2**	**-919.7**
2. Central Government	S.1311	-757.8	-970.8	-934.5	-846.0	-918.5
3. State Government	S.1312	-	-	-	-	-
4. Local Government	S.1313	-1.2	-1.2	-1.2	-1.2	-1.2
5. Social Security funds	S.1314	-	-	-	-	-
For the General Government						
6. **Total Revenue**	TR	**6,288.0**	**6,475.8**	**6,614.9**	**6,751.2**	**6,901.9**
Of which						
Taxes on Production and Imports	D.2	1,967.4	1,985.7	1,981.4	2,035.7	2,161.1
Current Taxes on Income, Wealth, etc.	D.5	2,383.4	2,423.1	2,483.7	2,617.2	2,636.2
Capital Taxes	D.91	24.4	25.8	27.5	26.5	29.4
Social Contributions	D.61	991.4	1,021.8	1,046.9	1,128.0	1,124.4
Property Income	D.4	79.1	84.2	57.7	61.0	63.2
Other [a]		842.3	935.2	1,017.6	882.8	887.6
7. **Total Expenditure**	TE	**7,047.0**	**7,447.8**	**7,550.6**	**7,598.4**	**7,821.6**
Of which						
Compensation of employees	D.1	2,006.6	1,952.1	1,988.8	2,087.5	2,138.1
Intermediate Consumption	P.2	1,529.1	1,408.8	1,536.7	1,610.5	1,568.9
Social Payments	D.6	1,580.9	1,621.5	1,612.8	1,730.9	1,736.8
Interest Expenditure	D.41	174.7	227.1	209.2	288.6	273.1
Subsidies	D.3	478.7	859.1	721.4	572.1	666.6
Gross Fixed Capital Formation	P.51	693.6	681.6	843.6	616.8	778.2
Capital Transfers	D.9	199.7	198.3	179.6	189.5	129.6
Other [b]		383.7	499.3	458.4	502.5	530.4
8. **Gross Debt** [c]		**9,812.9**	**10,372.3**	**10,024.5**	**10,992.0**	**11,273.9**

Notes:

[a] P.11 + P.12 + P.131 + D.39rec + D.7rec + D.9rec (other than D.91rec).

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

[c] As defined in Council Regulation (EC) No 479/2009 (OJ L 145, 10.6.2009, p. 1).

Total revenue is expected to turn out €139.1 million more than projected last autumn. The better-than-expected outcome in revenue mainly reflects higher 'other' revenue and current taxes on income and wealth, the latter reflecting a stronger than anticipated growth in wages and corporate profits. This positive performance is expected to be partly offset by lower revenue from property income.

Meanwhile, higher than targeted expenditure compared to the estimates outlined in the 2023 DBP of €102.8 million is mainly attributable to higher than anticipated gross fixed capital formation (GFCF) and higher intermediate consumption. It is pertinent to note that higher outlays on GFCF are partly attributed to a different methodology in working out projections of GFCF, while higher intermediate consumption is mainly due to the fiscal impact of inflationary pressures. These higher outlays were partly compensated by lower than projected outlays on subsidies which declined due to the stabilisation in energy prices at lower prices. Developments in the general Government budgetary execution in 2023, between subsequent forecasts, are outlined in Table 3.1.

Budgetary Targets

General Government budgetary targets broken down by subsector

Table 2.a — % GDP

	ESA Code	2022	2023	2024	2025	2026
Net lending (+) / net borrowing (-) by sub-sector [1]	B.9					
1. General Government	S.13	-5.7	-5.0	-4.5	-4.0	-3.5
2. Central Government	S.1311	-5.7	-4.9	-4.5	-4.0	-3.5
3. State Government	S.1312	-	-	-	-	-
4. Local Government	S.1313	-0.0	-0.0	-0.0	-0.0	-0.0
5. Social security funds	S.1314	-	-	-	-	-
6. Interest expenditure	D.41	1.0	1.1	1.3	1.4	1.5
7. Primary balance [2]		-4.8	-3.8	-3.2	-2.6	-2.0
8. One-off and other temporary measures [3]		0.1	0.0	0.0	0.0	0.0
8.a Of which one-offs on the revenue side: general Government		0.1	0.0	0.0	0.0	0.0
8.b Of which one-offs on the expenditure side: general Government		0.0	0.0	0.0	0.0	0.0
9. Real GDP growth (%) (=1 in Table 1.a)		6.9	4.1	4.2	4.3	4.1
10. Potential GDP growth (%) (=2 in Table 1.a)		5.5	4.5	4.4	4.5	4.6
11. Output gap (% of potential GDP)		-0.1	-0.5	-0.6	-0.8	-1.3
12. Cyclical budgetary component (% of potential GDP)		-0.0	-0.2	-0.3	-0.4	-0.6
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		-5.7	-4.7	-4.2	-3.6	-2.9
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		-4.7	-3.6	-2.9	-2.2	-1.4
15. Structural balance (13 - 8) (% of potential GDP)		-5.7	-4.8	-4.3	-3.7	-3.0

[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.

3.2 Budgetary plans for 2024

In line with developments in the underlying macroeconomic projections, the budget balance is expected to improve to a deficit of 4.5 per cent of GDP in 2024. In structural terms, the general Government deficit is expected to improve from 4.8 per cent in 2023 to 4.3 per cent in 2024. General Government budgetary targets are outlined in Table 2.a. Table 7 compares the budgetary targets and projections at unchanged policies in the DBP with those of the latest Update of the Stability Programme (USP).

The general Government balance for 2024 was revised slightly upwards by €72.5 million, compared to the estimated deficit of €847.2 million outlined in the 2023 USP. This reflects higher estimated expenditure in 2024 (€223.5 million), in part offset by the upward revision in general Government revenue of €150.7 million, when compared

Divergence from latest SP

Table 7 — % GDP

	ESA Code	2022	2023	2024	2025	2026
Real GDP growth						
Stability Programme		6.9	4.1	4.5	4.6	4.2
Draft Budgetary Plan		6.9	4.1	4.2	4.3	4.1
Difference		0.0	0.0	-0.3	-0.3	-0.1
General Government net lending/ net borrowing	EDP B.9					
Stability Programme		-5.8	-5.0	-4.3	-3.6	-2.9
Draft Budgetary Plan		-5.7	-5.0	-4.5	-4.0	-3.5
Difference		0.1	0.0	-0.2	-0.5	-0.7
General Government net lending projection at unchanged policies	EDP B.9					
Stability Programme		-5.8	-5.0	-5.0	-4.1	-3.3
Draft Budgetary Plan		-	-5.0	-2.6	-3.0	-2.8
Difference [1]		-	0.0	2.4	1.1	0.5
Total Revenue	TR					
Stability Programme		35.1	35.7	34.2	34.0	33.7
Draft Budgetary Plan		34.2	35.0	34.0	33.5	0.0
Difference		-0.9	-0.7	-0.2	-0.5	-33.7
Total Expenditure	TE					
Stability Programme		40.9	40.7	38.5	37.6	36.6
Draft Budgetary Plan		39.9	40.0	38.6	37.6	0.0
Difference		-1.0	-0.7	0.0	-0.0	-36.6
General Government gross debt						
Stability Programme		53.4	54.5	55.7	56.2	56.1
Draft Budgetary Plan		52.3	53.1	55.6	56.6	57.2
Difference		-1.1	-1.4	-0.1	0.4	1.1

[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.

to the projections outlined in the 2023 USP. Higher than targeted expenditure is mainly attributable to gross fixed capital formation (+€161.4 million) and subsidies (+€94.5 million), reflecting upward revisions to the estimated cost of energy measures in view of anticipated inflationary pressures during the coming year. Additionally, higher expenditure on compensation for employees of €50.6 million is also anticipated, reflecting the expected impact of various public sector collective agreements. Downward revisions in expenditure are mainly foreseen for capital transfers (-€59.9 million), intermediate consumption (-€41.6 million) and interest expenditure (-€15.5 million).

The main revision in general Government revenue compared to the estimates outlined in the 2023 USP relates to taxes on production and imports (€125 million) as for the other revenue categories, a minimal revised change is estimated. Around half of the upward revision reflects the base effect of the revised expected outturn in 2023. Higher indirect tax revenue is also anticipated due to an upward revision in private consumption expenditure and tourism exports, as well as revisions to the estimated sensitivity of revenue streams to the underlying macroeconomic conditions. In addition, the use of digital tools and data-led intelligence is expected to facilitate and increase the efficiency and effectiveness of tax collection. Table 3.1a distinguishes the changes to the 2024 forecasts between successive reports due to the impact of the estimated outturn in 2024 (base effect), macroeconomic determinants, and other changes.

The general Government gross debt ratio is expected to increase by 2.5 percentage points to 55.6 per cent of GDP in 2024, remaining below the 60.0 per cent Maastricht Treaty threshold. The upward pressure emanating from the projected stock flow adjustment and interest payments are expected to offset the positive impact of nominal GDP growth. Developments in the general Government debt are presented in Table 2.b. Debt developments data, consistent with the detailed budgetary targets and macroeconomic forecasts, is complemented with data on contingent liabilities in Table 2.c. 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 DBP and underpinning the expenditure and revenue targets for 2024 is presented in Table 5.a. The net incremental impact on the budget balance of temporary and permanent discretionary revenue measures for 2024 (including those implemented in previous budgets but which will still have an impact in 2024) is estimated to amount to 0.09 per cent. Meanwhile, incremental discretionary expenditure measures (including those implemented in previous budgets but which will still have an impact in 2024), are expected to improve the budget balance of 2024 by 0.21 per cent of GDP. Overall, in 2024, the net impact of discretionary revenue and expenditure measures, is expected to improve the budget balance by 0.30 percentage points of GDP.

The economic and social impact of rising energy prices continues to influence the Government's fiscal stance in 2024 by means of lower indirect taxes on energy consumption and subsidies to counter the increased expenses related to imported fuels,

General Government Budgetary Developments in 2024
Divergence from previous forecasts

Table 3.1a — € millions

	ESA Code	USP 2023 compared to DBP 2024: Divergence due to expected outturn in *t-1*	Divergence due to updated macro-economic projections	Other revisions	**Total forecast revision**
Net lending (+)/net borrowing (-)					
1. **General Government**	S.13	**84**	**31**	**-84**	**31**
2. Central Government	S.1311	84	31	-84	31
3. State Government	S.1312	-	-	-	-
4. Local Government	S.1313	-0	-0	-0	-0
5. Social Security funds	S.1314	-	-	-	-
For the General Government					
6. **Total Revenue**	TR	**89**	**35**	**27**	**255**
Of which					
Taxes on Production and Imports	D.2	63	13	49	125
Of which					
Value Added Type Taxes (VAT)	D.211	40	14	42	96
Taxes on Financial and Capital Transactions	D.214C	-21	0	4	-17
Current Taxes on Income, Wealth, etc.	D.5	18	14	-13	19
Of which					
Taxes on Individual or Household Income	D.51M	16	15	52	83
Taxes on the income or profits of Corporations	D.51O	6	-1	-27	-22
Capital Taxes	D.91	10	0	-8	3
Social Contributions	D.61	-2	7	-8	-4
Of which					
Employers' Actual Pension Contributions	D.611	-5	4	-5	-6
Households' actual social contributions	D.613	-4	4	-6	-6
Property Income	D.4	0	0	2	2
Other [(a)]		0	0	5	5
7. **Total Expenditure**	TE	**5**	**3**	**215**	**223**
Of which					
Compensation of employees	D.1	27	0	24	51
Intermediate Consumption	P.2	0	0	-42	-42
Social Payments	D.6	-4	3	6	6
Of which					
Unemployment expenditure		1	3	-1	3
Interest Expenditure	D.41	-16	0	1	-16
Subsidies	D.3	35	0	59	94
Gross Fixed Capital Formation	P.51	0	0	161	161
Capital Transfers	D.9	0	0	-60	-60
Other [(b)]		-37	0	65	28

Notes:

[(a)] P.11 + P.12 + P.131 + D.39rec + D.7rec + D.9rec (other than D.91rec).

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

Contingent Liabilities

Table 2.c		% GDP
	2023	**2024**
Public guarantees	6.1	**5.5**

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				
						2022	**2023**	**2024**	**2025**	**2025**
Property-related taxation	Reduced tax on the transfer of immovable property	D2, D5 - R	Accruals	Temporary & Adopted	2014-2024	0.05	0.21	-0.01	-0.01	-0.01
Excise duty	Energy support measures	D2 - R	Accruals	Permanent & Adopted	2021	-0.13	0.02	0.01	0.01	0.01
Efficiency in Revenue Collection	Digital tools and data-led intelligence to facilitate and increase the efficiency and effectiveness of tax collection	D2, D5 - R	Accruals	Permanent & Adopted	2022	0.12	-0.01	0.12	-0.01	-0.01
Personal Income Tax	Reduced tax rates on income from overtime work and part-time employment	D5 - R	Accruals	Permanent & Adopted	2022	-0.03	0.00	0.00	0.00	0.00
	Granting of Citizenship for Exceptional Services	P10 - R	Accruals	Permanent & Adopted	2014	-0.33	0.20	-0.03	-0.08	-0.02
Other revenue measures, including measures legislated in previous budgets			**Accruals**	**Permanent & Adopted**		-0.06	-0.01	-0.01	-0.01	-0.01
COVID-19 Support Measure	Various medical supplies and equipment in relation to COVID-19	P2 - E	Accruals	Temporary & Adopted	2020	0.27	0.19	0.05	0.02	0.00
COVID-19 Support Measure and Post COVID-19 Economic Regeneration Plan	COVID-19 Business Assistance Programme and the Economic Regeneration Voucher Scheme	D3 - E	Accruals	Temporary & Adopted	2020	1.98	0.72	0.00	0.00	0.00
COVID-19 Support Measure	Government-guaranteed loans schemes	D3 - E	Accruals	Temporary & Adopted	2020	0.01	0.06	0.00	0.00	0.00
COVID-19 Support Measure	Support to the agricultural sector	D3 - E	Accruals	Temporary & Adopted	2021	0.01	0.02	0.00	0.00	0.00
AirMalta restructuring plan	Financial support to the national airline	D3 - E	Accruals	Temporary & Adopted	2021	-0.84	0.28	0.56	0.00	0.00
Price stabilisation support	Energy support measures and commodity price and supply security measures		Accruals	Temporary & Adopted	2020	-1.68	0.76	-0.29	0.81	0.41
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 - 2023	-0.25	-0.38	0.01	0.27	0.13
Budget 2024 Measures	Social Support Measures	D6 - E	Accruals	Permanent & Adopted	2024	0.00	0.00	-0.13	0.13	0.00
	Allocation for budgetary measures over the medium-term	D7 - E	Accruals	Planned		0.00	0.00	-0.02	-0.10	-0.10
COVID-19 Support Measure	Tourism Support Schemes	D9 - E	Accruals	Temporary & Adopted	2021 & 2022	0.05	0.04	0.00	0.00	0.00
NDSF	Projects financed from the National Development and Social Fund	D7, P5111 - E	Accruals	Permanent & Adopted	2018	-0.05	-0.09	0.07	0.01	0.01
Other expenditure measures, including measures legislated in previous budgets			**Accruals**	**Permanent & Adopted**		0.02	0.01	-0.03	0.02	0.02
						-0.89	**2.04**	**0.30**	**1.06**	**0.43**

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.

electricity, and essential goods. The overall expenditure on these support initiatives is anticipated to reach 2.0 per cent of GDP in 2024, an increase of 0.3 percentage points compared to 2023.

Fiscal support related to Air Malta's restructuring is not expected to accrue again in 2024, resulting in an improvement in the general Government balance of 0.56 per cent of GDP in 2024.

By means of measures included in the 2024 Budget, the Government will further enhance the overall well-being and quality of life through policies, programs, and initiatives aimed at promoting social equality and inclusion. The expense associated with these diverse support measures is projected to raise social spending by 0.13 per cent of GDP. This does not include the added fiscal cost of measures enacted in previous Budgets, which will be sustained and renewed by means of the 2024 Budget.

3.3 Expenditure and Revenue Targets

General Government expenditure and revenue targets are presented in Table 4.a, while Table 4.b outlines the components necessary for the computation of the expenditure benchmark. A breakdown of the general Government expenditure by function is contained in the corresponding Table 4.c.i and Table 4.c.ii.

As a share of GDP, both revenue and expenditure are expected to decrease in 2024. The revenue-to-GDP ratio is estimated at 34.0 per cent decreasing from 35.0 per cent in 2023, while the expenditure ratio to GDP is projected to decline to 38.6 per cent, from 40.0 per cent estimated in 2023. The decline in the revenue-to-GDP ratio mainly reflects developments in 'other' revenue, which is expected to decline by 1.0 percentage point from 5.4 per cent of GDP in 2023 to 4.4 per cent in 2024, mainly reflecting developments in capital transfers and investment grants. This is reflected in similar declines in expenditure on gross fixed capital formation and capital transfers, as expenditure on EU-funded capital projects is more moderate in the early years of the programming period. Indeed, these developments are broadly deficit neutral, such that the improvement in the general Government balance is mainly on account of lower expenditure on subsidies relative to GDP, reflecting the phasing out of support to the national airline. It is worth noting that the planned assistance in 2024 will be in the form of a financial transaction not impacting the general Government balance, although it will be recorded as a positive stock flow adjustment resulting in an increase in the debt ratio.

Expenditure and Revenue Targets

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

Table 4.a — % GDP

	ESA Code	2022	2023	2024	2025	2026
General Government (S13)						
1. Total revenue target	TR	34.2	35.0	34.0	33.5	**33.3**
Of which						
1.1. Taxes on production and imports	D.2	10.4	10.5	10.7	10.5	**10.4**
1.2. Current taxes on income, wealth, etc	D.5	13.1	13.1	13.0	12.8	**12.9**
1.3. Capital taxes	D.91	0.2	0.1	0.1	0.1	**0.1**
1.4. Social contributions	D.61	5.8	5.5	5.5	5.5	**5.4**
1.5. Property income	D.4	0.5	0.3	0.3	0.4	**0.4**
1.6. Other [1]		4.3	5.4	4.4	4.2	**4.0**
p.m.: Tax burden		29.6	29.4	29.4	29.0	**29.0**
(D.2+D.5+D.61+D.91-D.995)[2]						
2. Total expenditure target	TE[3]	39.9	40.0	38.6	37.6	**36.8**
Of which						
2.1. Compensation of employees	D.1	10.7	10.5	10.5	10.6	**10.4**
2.2. Intermediate consumption	P.2	7.8	8.1	7.7	7.4	**7.2**
2.3. Social payments	D.6M	8.6	8.5	8.6	8.6	**8.5**
of which Unemployment benefits [3]		*0.1*	*0.1*	0.1	0.1	**0.0**
2.4. Interest expenditure (= item 6 in Table 2.a)	D.41	1.0	1.1	1.3	1.4	**1.5**
2.5. Subsidies	D.3	4.8	3.8	3.3	2.8	**2.0**
2.6. Gross fixed capital formation	P.51G	3.4	4.5	3.8	4.2	**4.7**
2.7. Capital transfers	D.9	0.8	1.0	0.6	0.3	**0.2**
2.8. Other [4]		2.8	2.4	2.6	2.4	**2.3**

[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	2022 Level (€ millions)	2022	2023	2024	2025	2026
1. Expenditure on EU programmes fully matched by EU funds revenue		122.0	0.7	1.6	0.8	0.9	0.8
1.a of which 'Investment fully matched by EU funds revenue		32.1	0.2	0.7	0.4	0.4	0.4
2. Cyclical unemployment benefit expenditure [1]		-0.56	-0.03	-0.02	-0.02	-0.02	-0.02
3. Effect of discretionary revenue measures [2]		-105.9	-0.4	0.4	0.1	-0.1	-0.0
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.

General Government Expenditure by Function

General Government Expenditure on Education, Healthcare and Employment

Table 4.c.i

	2023		2024	
	% of GDP	% of gG expenditure	% of GDP	% of gG expenditure
Education (= item 9 in table 4.c.ii)	5.4	13.5	5.3	13.7
Health (= item 7 in table 4.c.11)	5.6	14.1	5.4	14.0
Employment	n.a.	n.a.	n.a.	n.a.

General Government Expenditure by Function

Table 4.c.ii

Percentages of GDP		COFOG Code	2023	2024
1.	General public services	1	5.6	6.2
2.	Defence	2	0.7	0.7
3.	Public order and safety	3	1.2	1.2
4.	Economic affairs	4	7.9	4.9
5.	Environmental protection	5	1.6	1.3
6.	Housing and community amenities	6	0.4	0.4
7.	Health	7	5.6	5.4
8.	Recreation, culture and religion	8	1.4	1.0
9.	Education	9	5.4	5.3
10.	Social protection	10	10.1	12.1
11.	Total Expenditure (=item 2 in Table 4.a)	TE	40.0	38.6

3.4 Expenditure and Revenue Targets under the No-Policy Change Assumption

When excluding the fiscal impact of discretionary revenue measures in 2024, the tax burden would have remained unchanged, with an implied elasticity of tax revenue to GDP under the no-policy change scenario estimated at 1.0. As shown in Table 3, developments mainly relate to taxes on production and imports, as growth in the underlying macroeconomic base substantially exceeds overall GDP growth, thereby raising temporarily the implicit elasticity to GDP in 2024. At unchanged policies, total expenditure would decline by 3.5 percentage points of GDP, mainly reflecting a lower ratio for underlying subsidies (when excluding the energy subsidies).

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	2023	2024	2025	2026
General Government (S13)					
1. Total revenue at unchanged policies	TR	35.0	33.9	33.5	33.3
Of which					
1.1. Taxes on production and imports	D.2	10.5	10.6	10.4	10.4
1.2. Current taxes on income, wealth, etc	D.5	13.1	13.0	12.8	12.9
1.3. Capital taxes	D.91	0.1	0.1	0.1	0.1
1.4. Social contributions	D.61	5.5	5.5	5.5	5.4
1.5. Property income	D.4	0.3	0.3	0.4	0.4
1.6. Other [2]		5.4	4.4	4.3	4.1
p.m.: Tax burden		29.4	29.4	29.0	29.0
(D.2+D.5+D.61+D.91-D.995)[3]					
2. Total expenditure at unchanged policies	TE	40.0	36.5	36.5	36.2
Of which					
2.1. Compensation of employees	D.1	10.5	10.5	10.6	10.4
2.2. Intermediate consumption	P.2	8.1	7.7	7.4	7.2
2.3. Social payments	D.6M	8.5	8.3	8.6	8.6
of which Unemployment benefits [4]		0.1	0.1	0.1	0.0
2.4. Interest expenditure	D.41	1.1	1.3	1.4	1.5
2.5. Subsidies	D.3	3.8	1.5	1.8	1.4
2.6. Gross fixed capital formation	P.51	4.5	3.9	4.2	4.7
2.7. Capital transfers	D.9	1.0	0.6	0.3	0.2
2.8. Other [5]		2.4	2.5	2.2	2.0

[1] Data for 2023 is equivalent to the data presented in Table 4.a. The no-policy change scenario for the forthcoming year (2024) 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.

Stock Flow Adjustment Statement

Appendix Table 7 — € million

	2022	2023	2024	2025	2026
General Governemnt deficit (-) / surplus (+) (ESA10)	**-982.2**	**-935.7**	**-919.7**	**-872.5**	**-815.5**
ESA Adjustments	-61.6	32.9	72.4	60.1	55.8
Contribution to Sinking Funds (Foreign loans)	0.1	0.1	0.0	0.0	0.0
Contribution to Special MGS Sinking Fund	25.0	30.0	30.0	30.0	30.0
Equity Acquisition	45.0	12.5	215.0	0.0	0.0
Courts and other deposits	0.0	0.0	0.0	0.0	0.0
Stock Premium paid to Church	0.1	0.2	0.1	0.2	0.1
Advances made by Government	0.0	0.0	0.0	0.0	0.0
Repayment of Loans to Government	-2.8	-2.8	-2.8	-2.8	-2.8
Sale of Assets	-0.9	-0.9	-0.9	-0.9	-0.9
Sale of Non-Financial Assets	-	-	-	-	-
EBUs	0.0	0.0	0.0	0.0	0.0
Currency	12.5	6.1	6.7	7.4	8.1
Movement in Bank Account	-94.9	-	-	-	-
ESA Rerouted Debt	18.1	20.0	20.0	5.0	0.0
Increase/(Decrease) in cash balance	-87.5	-20.7	-5.0	-7.2	39.7
Increase/(Decrease) in Non-Consolidated Debt	835.3	1,016.1	1,277.4	966.0	947.8
Total Consolidation	*-95.8*	*5.0*	*-28.0*	*-1.5*	*-22.2*
Increase/(Decrease) in Consolidated Debt	739.5	1,021.1	1,249.4	964.5	925.6
SFA	-242.7	85.4	329.7	92.0	110.1

RRF Impact on Projections - Grants

Appendix Table 9a — % of GDP

	ESA Code	2020	2021	2022	2023	2024	2025	2026
Revenue from RRF GRANTS								
RRF GRANTS as included in the revenue projections		0.0	0.1	0.3	0.4	0.4	0.4	0.1
Cash disbursements of RRF GRANTS from EU[1]		0.0	0.3	0.0	0.5	0.4	0.0	0.0
Expenditure financed from RRF GRANTS								
Total Current Expenditure		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Capital Expenditure		0.0	0.1	0.3	0.4	0.4	0.4	0.1
of which:								
Gross fixed capital formation	P.51g	0.0	0.1	0.3	0.4	0.4	0.4	0.1
Capital transfers	D.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other costs financed by RRF GRANTS [2]								
Financial transactions		0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which:								
Reduction in tax revenue		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other costs with impact on revenue		0.0	0.0	0.0	0.0	0.0	0.0	0.0

[1] As per MT RRP

[2] This covers costs that are not recorded as expenditure in national accounts

RRF Impact on Projections - Loans

Appendix Table 9b — % of GDP

	ESA Code	2020	2021	2022	2023	2024	2025	2026
Cash flow from RRF loans projected in the programme								
Disbursements of RRF LOANS from EU		-	-	-	-	-	-	-
Repayments of RRF LOANS to EU		-	-	-	-	-	-	-
Expenditure financed from RRF loans								
Total Current Expenditure		-	-	-	-	-	-	-
Total Capital Expenditure		-	-	-	-	-	-	-
of which:								
Gross fixed capital formation	P.51g	-	-	-	-	-	-	-
Capital transfers	D.9	-	-	-	-	-	-	-
Other costs financed by RRF loans[1]								
Financial transactions		-	-	-	-	-	-	-
of which:								
Reduction in tax revenue		-	-	-	-	-	-	-
Other costs with impact on revenue		-	-	-	-	-	-	-

[1] This covers costs that are not recorded as expenditure in national accounts

Appendix Table 6.a Indications on how the measures in the DBP address the Recommendations[1]

Recommendations	List of Measures	Description of direct relevance
Recommendation 1: Wind down the emergency support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that such support measures are targeted at protecting vulnerable households and firms, are fiscally affordable and preserve incentives for energy savings.	Wind down the emergency support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that such support measures are targeted at protecting vulnerable households and firms, are fiscally affordable and preserve incentives for energy savings.	The Maltese Government is set to ensure policy continuity towards fiscal responsibility and economic sustainability, by reducing its deficit while consistently supporting and sheltering households and businesses from commodity price hikes. Whilst these price support measures have a broad impact across society, including the most vulnerable households and firms, several social support measures in the budget are targeted at specific groups of society. Malta deems that its current energy policy remains appropriate for the current macroeconomic environment, but future developments will continue to be monitored closely. Malta continues to believe that structural reforms and investments in the energy transition are more effective in targeting the energy and environmental objectives than measures which are aimed at allowing prices to increase.
Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 5.9 per cent[1]	Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 5.9 per cent.	For the coming year, the Government intends to continue to pursue a gradual and sustainable consolidation, combined with investment and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position. The fiscal targets ensure that the structural deficit is brought below 3 per cent of potential GDP over the medium term, by also limiting the nominal increase in nationally financed net primary expenditure in 2024 to less than 5.9 per cent. During 2024, the Government is targeting a deficit of 4.5 per cent of GDP, down from 5.0 per cent in 2023. The deficit reduction in 2024 is mainly on account of lower expenditure on subsidies relative to GDP, reflecting the phasing out of support to the national airline. A structural effort of 0.6 percentage points is targeted in 2024.
Preserve nationally financed public investment and ensure the effective absorption of grants under the Facility and of other Union funds, in particular to foster the green and digital transitions. **For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher**	Preserve nationally financed public investment and ensure the effective absorption of grants under the Facility and of other Union funds, in particular to foster the green and digital transitions.	The Government has a longstanding practice of actively engaging with stakeholders at different stages of the budgetary process. The launch of the 2024 pre-Budget document opens a period of public consultation in preparation of next year's Budget. In addition to ongoing consultations, a dedicated quarterly monitoring exercise is conducted to oversee the implementation of national reforms. This exercise includes a thorough review of each measure listed in the National Reform Programme (NRP), including those co-funded through European Union's Multiannual Financial Framework (MFF). Public investment towards these measures and projects is further sustained by the Recovery and Resilience Facility, which funds additional high-quality investment projects and structural reforms. The Ministry for Finance and Employment played a central role in coordinating input from relevant Ministries and key stakeholders. This collaborative approach has increased ownership of the country's specific recommendations (CSRs) with a view to ensure the effective absorption of EU funds. The Maltese Government remains committed to realising its vision of achieving climate neutrality. Malta is actively promoting and supporting private investments while simultaneously reducing reliance on non-renewable energy sources. To achieve these goals, Malta is focusing on improving energy connectivity, diversifying its energy sources, facilitating sustainable investments in local businesses, and prioritising green infrastructure. The investment in enhancing Malta's energy connectivity and diversification will

[1] Which is estimated to correspond to an annual improvement in the structural budget balance of at least 0.5 per cent of GDP for 2024, as described in recital 23.

sustainable growth, in order to achieve a prudent medium-term fiscal position.		pave the way for the development of large-scale renewable energy projects. Moreover, it will open up opportunities to explore innovative markets, including offshore renewable energy technologies and cleaner energy solutions. It will also focus on waste management and achieving recycling targets and increasing energy efficiency in buildings. To this end, central for the Government's long-term vision is upgrading Malta's waste management facilities and improving its waste management performance with the largest ever investment in Malta's waste management infrastructure, partially supported through EU funding. The budget for 2024 aims to empower households, businesses, and non-governmental organizations to make smarter, greener, and more sustainable choices. It also encourages waste reduction and proper waste separation practices. As more small and medium-sized enterprises (SMEs) transition toward digitised and environmentally friendly business models, and as more citizens make sustainable choices, the overall quality of life in Malta improves. The upcoming budget will build upon the foundations of sustainable development, green infrastructure, urban greening, afforestation, and sustainable economic growth. In this context, the Recovery and Resilience Facility (RRF) and European Union (EU) funds play a crucial role in ensuring that Malta not only continues its path to recovery but also solidifies its commitment to achieving the 2030 targets for a more sustainable and resilient economy. Discussions on the implementation of the REPower EU were concluded earlier this year whereby the revised RRP, including the REPowerEU Chapter, was approved by the European Commission in June 2023 and by the Council in July 2023. Malta's Recovery and Resilience Plan (RRP) includes a broad range of climate-related measures, including building renovations, reforms establishing car-free spaces, and free access to public transport to Maltese nationals and residents to reduce congestions costs. Moreover, the RRP will continue to finance the renovation of public schools to increase energy efficiency and the construction of a near-carbon-neutral school pilot. The Plan also contributes towards digital objectives, including public services digitalisation and adoption of digital technologies in companies, and the health and justice sectors. On the digital front, most notably Malta's Shipping Registry is undergoing an important digitisation project, financed through RRF. The investment in digital services and a cloud-based infrastructure shall help to ensure more efficient regulatory practices and improve the internal operations, customer relations and administration within Malta's Merchant Shipping Directorate. With respect to the RePowerEU, the investment's objective is to strengthen and widen the electricity distribution network through investments in the grid, distribution services and battery storage. The investment aims to contribute to addressing internal electricity transmission distribution bottlenecks, facilitating the integration of renewable energy through a more suitable grid. The Government is also committed to reform and help accelerate permit-granting procedures for renewable energy projects and introduce the obligation to install rooftop solar panels on certain new buildings. This reform aims to increase the share of renewables in Malta's energy mix, thus contributing to the green transition.
	For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, in order to achieve a prudent medium-term fiscal position.	In anticipation of the lifting of the General Escape Clause in Spring 2024, the Government is targeting an improvement in the structural balance marginally exceeding the minimum effort of 0.5 per cent. The average annual decline in the structural budget balance targeted by the Government over the next three years is 0.6 percentage points of GDP, such that the structural deficit is brought below 3 per cent of potential GDP over the medium term.

Recommendation 2: Continue the steady implementation of its recovery and resilience plan, and, following the recent submission of the addendum, including the REPowerEU chapter, rapidly start the implementation of the related measures. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.	Continue the steady implementation of its recovery and resilience plan, and, following the recent submission of the addendum, including the REPowerEU chapter, rapidly start the implementation of the related measures.	The implementation of Malta's RRP in terms of the milestones and targets included in the Council Implementing Decision is underway. Reporting on FENIX is ongoing and follows reporting requirements, updated biannually. The second payment request corresponding to the milestones and targets due in 2022 is envisaged to be made by the end of this year. Work is well underway on the milestones and targets due in 2023, with the third payment request planned to be submitted in 2024, further to the completion of all these targets.
	Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.	The European Commission approved Malta's Partnership Agreement in September 2022 with reference to the Cohesion Policy Programmes. The Partnership Agreement outlines the strategic direction for investments made during the MFF from the Cohesion Policy Funds (ERDF, ESF+, and Cohesion Fund), the JTF, and the EMFAF. The Partnership Agreement also describes the policy decisions for the aforementioned programmes and explains how these decisions will help the nation accomplish its socio-economic objectives as stated in pertinent national policy documents and strategies. Additionally, all Cohesion Policy Programmes had been formally submitted for negotiations with the Commission services as of the end of July 2022, and by November 2022, all programmes and plans were adopted. Malta will benefit from €817 million in Cohesion Policy funding in 2021-2027 to support the sustainable development of the economy. EU funds will support green transition and energy security and digital transformation. Along with fostering the development of a sustainable blue economy and enhancing the resilience of the fishing industry, the funding will also help individuals obtain additional skills, employment opportunities, and social inclusion. An important share of the funds will be invested in ensuring energy efficiency and energy storage capacity though the development of a second electricity interconnector. Moreover, funding from the Just Transition Fund will be invested in electricity power supplies to help decarbonising the Grand Harbour and Malta Freeport.
Recommendation 3: Effectively address features of the tax system that may facilitate aggressive tax planning by individuals and multinationals, including by ensuring sufficient taxation of outbound payments of interests, royalties and dividends, and amend the rules for non-domiciled companies.	Take action to effectively address features of the tax system that may facilitate aggressive tax planning by individuals and multinationals.	Since 1 January 2022, the Community Malta Agency, which is responsible for administering all Maltese citizenship-related matters is assisting the Office of the Commissioner for Revenue in meeting its international obligations regarding Spontaneous Exchange of Information in relation to Residence by Investment (RBI)/Citizenship by Investment (CBI). The Budget Measures Implementation Act had also introduced limitations to the participation exemption with respect to certain inbound payments from bodies of persons resident in jurisdictions included in the EU list of non-cooperative jurisdictions for a period of at least three months. This legislative defensive measure supplements the administrative defensive measures that had been introduced as part of Code of Conduct (Business Taxation) commitments in connection with scrutiny related to transactions with jurisdiction in the Code of Conduct Group list of non-cooperative jurisdictions. Furthermore, Malta has assigned dedicated staff to scrutinise taxpayers that emanate from the Code of Conduct Group list of non-cooperative jurisdictions. As from 1 January 2024, Malta is introducing transfer pricing legislation. A draft Legal Notice was issued to the public for consultation on 22 December 2021 for a consultation period up till 28 February 2022 and this had been made law by virtue of Legal Notice 284 of 2022. The above have to be seen in the context of work streams related to other ongoing initiatives in international tax reforms more generally (e.g., notably the upcoming application of Pillar Two rules, Subject to Tax Rule (STTR) changes, etc.) and work in connection with commitments related to administrative cooperation initiatives (e.g., supplementary review on Malta's Exchange of Information on Request standard during 2022/3; VISit Directive Administrative Cooperation (VISDAC), etc.).

	Ensuring sufficient taxation of outbound payments of interests, royalties, and dividends, and amening the rules for non-domiciled companies.	In order to strengthen its existing mechanisms Malta is looking at measures relating to inbound and outbound dividend, interest and royalty payments with a view to legislative changes in 2024. Following changes that had been introduced in the corporate tax return, information has been gathered on the incidence of non-remitted income in non-domiciled companies with a view of conducting an internal review on the matter.
Recommendation 4: Reduce reliance on fossil fuels by accelerating the deployment of renewable energies, including offshore wind and solar energy, and upgrade and expand the capacity of the electricity grid system, including transmission, distribution and battery storage. Reduce energy demand through improved energy efficiency, in particular in residential buildings. Reduce emissions from road transport by addressing traffic congestion through improved service quality in public transport, intelligent transport systems and investment in ‘soft mobility’ infrastructure. Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.	Reduce reliance on fossil fuels by accelerating the deployment of renewable energies, including offshore wind and solar energy, and upgrade and expand the capacity of the electricity grid system, including transmission, distribution and battery storage.	There are a number of grant schemes in place for households promoting the use of renewable energy, mainly the use of photovoltaic (PV) panels, as well as the use of battery storage systems. These schemes are complemented by a number of feed-in tariff schemes such as that available for PV systems with a capacity of less than 40kWp. Additionally, the Government is also providing support schemes for medium- and large-scale renewable energy installations through a competitive bidding process. All the 10 programmed bidding sessions were held according to schedule, with three of these ITBs still in evaluation stage. Several NGOs have also benefitted from ERDF funding under the 2014-2020 Programme for the installation of PV panels on their respective buildings. In February 2022, a scheme to promote the installation of PV panels on Government buildings was launched, receiving expressions of interest from Ministries, departments, and public entities, with a number of applications being currently processed. A second electrical cable interconnection between Malta and Sicily is planned to be commissioned by the end of 2026 in order to cater for the increased demand in electricity resulting from economic growth and from the electrification of road transport and shore-to-ship supply. This second cable link will not only double the electrical interconnectivity capacity with the EU, but it will also increase the uptake of indigenous and large-scale renewable energy generation. Malta is also conducting the necessary design studies to implement two large-scale Battery Energy Storage Systems (BESS) Projects, one funded through ERDF 2021-2027 and another one through the RRF. Battery storage is expected to provide flexibility in terms of the ability of the electricity system to accommodate additional renewable energy capacity, including offshore, whilst also being able to provide ancillary services to the electricity Distribution System Operator (DSO). As part of Malta's forward outlook and ambition in increasing the share of renewable energy, the Maltese Government is also focusing on the development of its offshore (floating) renewable potential. This is being done with a view of establishing the necessary administrative and regulatory frameworks, which will enable the future deployment of larger-scale projects. For this scope in 2022, the Maltese Government issued a Preliminary Market Consultation (PMC) for Proposals of Economic Activities within Malta's Exclusive Economic Zone (EEZ) and subsequently a 'National Policy for the Deployment of Offshore Renewable Energy' was launched for public consultation in September 2023. In parallel, Malta is preparing to issue an international call for expression of interest for the deployment of large-scale Offshore Renewable Energy projects in Malta's EEZ.
	Reduce energy demand through improved energy efficiency, in particular in residential buildings.	The Government has launched several schemes aimed at increasing energy efficiency for both households and enterprises, such as the relaunch of the roof insulation and double-glazing scheme in mid-2022. By the end of 2022, approximately 1,150 inefficient appliances have been replaced for low income and vulnerable households. Schemes encouraging the promotion of energy audits in SMEs to identify actions within the enterprise's operation that can lead to energy efficiency improvement will also continue. Malta Enterprise, in collaboration with the Energy & Water Agency (EWA) and through the Investment Aid for Energy Efficiency Projects scheme, has facilitated investments in technological solutions that provide improved energy efficiency and contribute directly towards a reduction in the energy requirements of the beneficiaries. The "*Irrinova Darek*" scheme, launched by the Building and Construction Authority (BCA) focuses primarily on the Energy Efficiency First principles. It enables the renovation of dwellings to reach the dual aims of saving energy in homes and turning these into cost-effective units. The renovations may be adjusted to the unique demands of the household and are flexible enough to allow for

		multiple energy-saving measures, the integration of renewable energy sources, and associated interventions. This programme specifically focussed on properties located in the Grand Harbour district. A number of organisations benefited from allocated funds under ERDF funding for the installation of different energy efficiency measures aimed at reducing dependence on fossil fuels for the use of public buildings, and additional funds have been made available to new calls in 2023. A number of other measures are currently in place with the aim of increasing energy efficiency and renewable energy uptake. Such investments include: the upgrading of the primary water network with transfer energy efficiency gains and enhanced blending capacity of the distribution network with the aim of completion by Q2 2024, the installation of more energy-efficient process aeration equipment on the Ta' Barkat Urban Wastewater Treatment Plant to be completed by Q3 2024 and installation of PV panels on over 20,000 square meters of available roof space at the Water Services Corporation (WSC), by Q4 2024. Through the first component of its RRP, Malta aims at addressing climate neutrality through enhanced energy efficiency, clean energy and a circular economy. Relevant reforms included amongst others, the training of professionals in the industry to contribute towards achieving the decarbonisation of the building stock by 2050. A number of investments are also in place to complement these reforms. Investment C1-I1 will aim towards reducing the reliance and demand on fossil fuels through the renovation and greening of public and private sector non-residential buildings, including deep retrofitting through energy and resource efficiency measures. The public buildings to be renovated have been selected and works are expected to be completed by 31 December 2025. The Scheme for private non-residential buildings was launched in June 2022. While the investment in RES is not supported by the scheme, the renovation shall achieve a reduction of primary energy demand (PED) of at least 30 per cent. It is expected that 40,605m^2 of private non-residential property will be renovated by 31 December 2025. Investment C1-12 also provides for the deep retrofitting of at least 5,600m^2 of Mount Carmel Hospital. Works are underway with an expected completion date by 30 June 2026. Investment C1-I3 aims at the renovation, deep retrofitting and renewable energy in two public schools, increasing the use of renewable energy in these schools by 31 December 2023. Investment C1-I4 relates to the construction of a carbon neutral school, namely St. Theresa College Msida Primary School, that shall also include the use of renewable energy systems. Works are well underway taking into account the timeframe for completion, that is, by 31 December 2023. Investment C1-I5 will result in the installation of photovoltaic infrastructure in roads and public spaces with implementation foreseen by 30 June 2024.
	Reduce emissions from road transport by addressing traffic congestion through improved service quality in public transport, intelligent transport systems and investment in 'soft mobility' infrastructure.	The Government is committed to attain the GHG 2030 target, first and foremost with investment towards the decarbonisation of transport. Investments will also continue to decarbonise the ports as much as possible. In the coming year, co-funded investments with EU funds will continue to support environmental investment by inter alia, providing shore-to-ship electricity infrastructure to cruise liners, container and cargo ships. The electrification of the Maltese fleet is an absolute priority in the next ten years in order to continue reducing emissions. The target as established in Malta's Low Carbon Development Strategy is to reach over 10 per cent of the fleet electrified by 2030. Malta's 2017 national transport strategic vision for 2050 and operational plan to 2025 identifies and sets a plan in addressing major transportation issues like traffic congestion, air quality, safety and public transport punctuality. In line with these policy documents, the Government is improving the road network (particularly the TEN-T roads) by removing traffic bottlenecks and introducing measures aimed at achieving more sustainability in the way we travel. Looking ahead, Transport Malta is currently conducting a review of its 2025 Transport Master Plan. Through the Sustainable Multi Intermodal Transport Hubs (SMITHS) Project, the Government shall facilitate intramodality and address cleaner air through the introduction of various intermodal choices particularly by upgrading the inner-harbour ferry network (Buġibba, Bormla, Sliema, Marsamxett Valletta) and promoting walking and cycling as a clean and sustainable mode for commuting, through the introduction of segregated cycling lanes (Buqana Road, Triq Bormla, Central Link) and pedestrian paths along the road network (Blata l-Bajda Bridge, MCAST Bridge, Luqa Bridge).

		Following the introduction of the fast ferry between Malta and Gozo, works will continue to increase the number of quays so that other coastal connections can be created, thus reducing dependence on private vehicles through new ferry services in Buġibba/St. Paul's Bay. The reconstruction of the Buġibba breakwater commenced, with completion foreseen for end 2025. An integrated Intelligent Transport System (ITS) services platform will be developed further with the aim to address public bus transport and traffic efficiency indirectly by providing close to real- time traffic data and travel information. To address congestion and pollution, the Government has committed an investment of €700 million over 7 years to upgrade the road network, starting in 2019. By the end of 2022, the Government has invested a total of €507 million in road infrastructure improvements in Malta. The works related to Santa Luċija Underpass, Marsa-Ħamrun Bypass, Luqa Road, Central Link Project and the Mrieħel Underpass project (Node WA7) are all complete. Additionally, a study on the traffic and effects of the projects will be held to assess the results of the investment. Road infrastructure works continued at the Airport Intersection and Luqa Junction Projects. In order to contribute towards the finalisation of the TEN-T network and to ensure safe, climate-resilient roads, TEN-T road investments are also foreseen as part of potential investment under the Cohesion Policy for the 2021-2027 programming period. In 2023, Government strengthened its efforts to reduce the transport sector's carbon footprint via the electrification of vehicles through €10 million (RRP funds)[2] and €13.4 million (national funds). Furthermore, the Energy Efficiency and Renewable Energy (EERE) financial instrument is also being financed under the 2014-2021 Cohesion Policy Programme, offering a capped guarantee as well as subsidised interest rates in case of loans for the purchase of EVs and other green modes of transport. The Government has continued to offer grants on the purchasing of bicycles/pedelecs. As a result, by mid-September 2023, 3,732 applications for EV grants have been received with 2,170 applications taking the scrappage scheme. By the end of December 2022, there were 3,046 electric vehicles, 200 pedelecs, and 5,594 electric motorcycles licensed. The Government is also supporting the shift towards decarbonisation of the transport sector by committing towards the gradual introduction of charging pillars, including investments co-funded under the Cohesion Policy 2014-2022. By the end of September 2023, 260 charging points are available to the general public. As part of its budget measures for 2023, the Government has extended the measures relating to the purchase of EVs including relief from registration tax and exemption from the annual road licence fee for a period of five years from the date of first registration, for EVs and electric plug-in vehicles. In addition, the shift towards EVs is also being incentivised through lower cost per unit of electricity consumed for owners of electric cars during off-peak hours. Furthermore, as from 2023, plug-in hybrid vehicles with battery autonomy of 50 kilometres became eligible for registration tax relief, an increase from the present electric autonomy of 30 kilometres. However, grants schemes for plug-in hybrid vehicles (PHEVs) and any other non-battery electric vehicles (non-BEV) vehicles were discontinued as from 2023. Four applications were submitted to receive financial support from a new grant for the installation of PV panels on minibuses and coaches. An additional scheme was introduced to encourage operators of heavy duty vehicles to reduce exhaust from their vehicles through the installation of diesel particulate filters (DPF) and selective catalytic reduction (SCR) systems. Another scheme which is garnering some interest is promoting the repowering of vehicles with an electric drive train. The Government is in the process of acquiring a new ferry to permanently join the current fleet which operate the Malta-Gozo Channel, using cleaner energy. Moreover, 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. The first phase of the project is largely expected to be completed by end 2023.

[2] This refers to Investment C2-I2 in Malta's Recovery and Resilience Plan.

		Component 2 of Malta's RRP includes a number of reforms aiming at addressing carbon-neutrality by reducing traffic and decarbonising transport through awareness-raising, free public transport for all holders of personalised Tal-Linja cards, implementing a Sustainable Urban Mobility Plan (SUMP) for the Valletta Region, creating more car free spaces, promoting remote working in the public service and enhancing mobility management in the Public Service. These reforms are complemented by investments focusing on the replacement of fuel-dependent vehicles with zero emission vehicles, in the public service and public transport, as well as those aforementioned in the private sector. Investment C2-I2 will enhance the uptake of electric vehicles and bicycles in the private sector, through a grant scheme which was launched in March 2022 and aims to fund 5,600 vehicles/bicycles by Q4 2025. Investment C2-I3 will decarbonise the public sector fleet, by investing in the purchase of electric vehicles for the public service, with an aim to achieve a fleet of 262 electric vehicles by Q3 2025. Investment C2-I4 will partly replace the Public Transport Fleet, funding the purchase of 102 fully electric buses by Malta Public Transport by Q2 2025.
	Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.	Malta, through the Ministry for Education, Sport, Youth, Research, and Innovation (MEYR), is actively advancing green skills and sustainable development. More specifically, scholarships and grants with a focus on green skills and sustainability are available for students in areas like the green economy, technology, environmental studies, sustainable development, and STEM disciplines. At the level of compulsory schooling, the Government, in alignment with Education for Sustainable Development (ESD) and Global Citizenship Education (GCED), is working with schools to implement standardised learning outcomes. The Eco-Schools Programme (EkoSkola) empowers students with transferable skills for active citizenship and decision-making through student-led sustainability actions, community resource audits, and discussions with national policymakers on sustainable development and climate change. A school-based beekeeping initiative was also piloted among early years students and plans to expand to more schools, including secondary schools as part of the Prince's Trust International Achieve Programme. Malta's two main higher educational establishments, the University of Malta and Malta's College of Arts, Science and Technology (MCAST) are at the forefront of promoting green skills and sustainability. Both institutions offer various courses that include the acquisition of green skills, environmental stewardship, sustainability and science and community social responsibility. Furthermore, both institutions undertake projects and initiatives that promote these competences, often delving on a particular focus, such as the maritime sector, microplastics, transport, youth and agriculture. Furthermore, MCAST's strategic plan for 2022-2027 underscores the significance of sustainability across all levels of education and sets a clear vision for a greener, more sustainable future. Meanwhile, the Institute for Education offers two modules for teachers, covering STEM and Active Citizenship, as well as Creative Approaches to Addressing Controversial Issues in STEM, emphasising the significance of these subjects in education and professional development. Additionally, the National Skills Council, in collaboration with the Ministry for Environment, Energy, and Enterprise, is focused on mapping training opportunities to ensure workforce readiness for the green and digital transition. From an enterprise perspective, Malta's economic development agency, Malta Enterprise, administers the 'Business Re-Engineering and Transformation Scheme' which supports SME's in realigning their business activities so as to embrace green technology and practices. Furthermore, Malta Enterprise also administers the 'Smart and Sustainable Investment Grant Scheme' which supports undertaking adopting more sustainable processes and optimising the use of resources. Through the Skills Development Scheme, Malta Enterprise also supports businesses in developing and updating the skills and knowledge of their workforce through training focused to new employees to acquire the necessary skills (including green and digital skills) and knowledge of workforce. As the national Public Employment Services, Jobsplus aims to equip individuals with the necessary transversal skills, including green skills, to help them integrate in the Maltese labour market, ensuring sustainable economic growth by having a level playing field among the working age population. In order to help individuals, both those who are seeking employment and those who are already in employment and wish to increase their skills in line with the ever-changing labour market, Jobsplus administers a number of schemes.

<table>
<tr>
<td></td>
<td></td>
<td>Jobsplus offers a vast array of training courses both online and in class in accounting, business skills, care work, green skills, clerical work, health, safety and security, ICT, hospitality and customer services, language and numeracy, technical work, and trades amongst others. All of Jobsplus' courses are offered free of charge to all individuals residing in Malta and who meet the eligibility criteria. It should be noted that Jobsplus courses are also pegged to the National Qualification Framework and aim to help in equipping participants with the necessary transversal skills to enter and retain gainful employment. Through the ‘Investing in Skills Scheme’, local employers interested in upskilling their workforce, including on green skills, are also being incentivised by financial aid covering costs related to training, wages and travel expenses.

In 2021, Jobsplus launched the INTERCEPT project aiming to motivate, mobilise and support youths who are Not in Education, Employment or Training (NEETs) (aged 25-29 years) through a Green Career Pathway. The training programme consists of a paid training including a 25-hour introductory training component, followed by a 240-hour work placement experience with sustainable employers. As the greening of the economy will increase in importance, the scheme will boost the pipeline of specialised skills needed for the new green sectors, as well for modified roles in other key economic sectors. The priority of the programme is to adapt vocational education and training to labour market needs while strengthening the employability of young people in a changing world of work. An expansive national outreach campaign was also implemented to involve both youths and employers in connecting them to the green economy.

In 2022, Jobsplus also launched the Smartly Project. The project works towards increasing Malta’s supply of required green and digital skills while at the same time increasing youth employability in key sectors. The first phase of the project, which included a survey and needs analysis, has been completed. The main trends have been extracted through thorough data analyses and findings have been presented to the partners. This has triggered the subsequent phases of the project, which included the development of two training programmes, one focusing on green skills and the other on digital skills. The training programmes are presently being reviewed for validation and mainstreaming, in preparation for accreditation submission from the Malta Further and Higher Education Authority (MFHEA) at MQF level 3 with 5 ECTS. Furthermore, a comprehensive comparative analysis of the project partners' profiling tools, along with further research, has contributed to the development of a new profiling tool to assess youths' competences and skills relevant to green and digital skills. The online profiling tool is currently undergoing testing with 100 NEETs across Malta, Croatia, and Cyprus. This testing phase aims to gather feedback and suggestions for improvements. Upon completion of the testing phase, a comprehensive analysis and improvement process will follow, leading to the finalisation of the profiling tool.

Greening Malta’s economy will increase in importance over this decade in line with national sustainability goals and international climate obligations. Collectively, these initiatives underscore Malta's commitment to fostering a sustainable and well-prepared workforce for the future.</td>
</tr>
</table>

Extra Budgetary Units as at 31 December 2022

Appendix Table 6.b

	NACE CODE		NACE CODE
Arts Council Malta	90	Malta Government Technology Investments Ltd	84
Agency for Infrastructure Malta	71	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 Resources Authority	84
Commonwealth Trade Finance Facility Ltd	64	Malta Statistics Authority	84
Community Malta Agency	84	Malta Tourism Authority	84
Court Services Agency	84	Manoel Theatre Management Committee	90
Correctional Services Agency	84	Medicines Authority	84
Depositor Compensation Scheme	64	Mental Health Services	87
Environment and Resources Authority	84	MSE (Holdings) Ltd	64
Environment and Development funds	84	National Audit Office	84
Film Finance Malta Ltd	84	National Commission Persons with Disability	84
Fort Secuirty Services Ltd	84	National Development and Social Fund	84
Foundation for Educational Services	84	Occupational Health and Safety Authority	84
Foundation for Medical Services	84	Office of the Ombudsman	84
Foundation for Social Welfare Services	88	Planning Authority	84
Foundation for Tomorrow's Schools	84	Projects Malta Ltd	84
Gozo Channel (Holdings) Co. Ltd	77	Projects Plus Ltd	84
Grand Harbour Regeneration Corporation	71	Property Management Services	84
Heritage Malta	91	Protection and Compensation Fund	64
House Maintenance and Embellishment Co. Ltd	41	Regulator for Energy and Water Services	84
Housing Authority	84	Residency Malta Agency	84
Identity Malta	84	Resources Support and Services Ltd	78
International Institute on Ageing	85	Safe City Malta Ltd	84
Investor Compensation Scheme	64	Sapport	88
Jobsplus	78	Selmun Palace Hotel	84
Lands Authority	84	SportMalta	93
Libyan Arab Maltese Holdings Ltd	64	St James Cavalier Creativity Centre	90
Malta College of Arts, Science and Technology	85	Superintendence of Cultural Heritage	84
Malta Communications Authority	84	The Rehabilitation Hospital Karin Grech	86
Malta Competition and Consumer Affairs Authority	84	Trade Malta Ltd	73
Malta Council for Economic and Social Development	84	University of Malta	85
Malta Council for Science and Technology	84	Transport Malta	84
Malta Enterprise Corporation	84	Valletta Cultural Agency	91
Malta Gaming Authority	84	WasteServ Malta Ltd	38
Malta Government Investments Ltd	84	Yachting Malta Ltd	73

Notes:

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

CHAPTER 4

Distributional Implications of Budget Measures

4. Distributional Implications of Budget Measures

Ensuring a sustainable pace of economic growth requires the improvement in the standard of living and ensuring that the benefits reach all members of society, particularly vulnerable households. The Government is committed to establish policies that promote equity and inclusivity. One of its top priorities is addressing social disparities, promoting social justice, and fostering inclusiveness. Every year, the Government refines its tax and benefit policy framework, enhancing existing policies and introducing new measures to ensure that wealth generated is distributed equitably among individuals and various social groups.

Over the past decade, initiatives have included reducing direct taxes through tax rebates, expanding the in-work benefit scheme, offering free childcare, and gradually tapering benefits to encourage greater workforce participation while discouraging unnecessary reliance on the social protection system. The Government has consistently raised pensions and provided tax incentives to benefit those with low income. It has also supported informal long-term care by increasing caregiver allowances and reforming means-tested criteria to expand eligibility for free prescription drugs and other medical treatments. Additionally, the Government has enhanced benefits for individuals with disabilities and increased the opportunities for them to enter the labour market. Furthermore, it has increased rates of supplementary allowance, extended housing benefits, raised stipends, and improved children's allowances.

Moreover, the combination of the COVID-19 pandemic and the ongoing war in Ukraine has resulted in increased pressures on the prices of energy and food. This has caused disruptions in both the economy and society as a whole, ultimately leading to higher inflation, notwithstanding the subsidies on energy and food. To address this situation and provide support to vulnerable households, the Government has introduced the Additional Cost of Living Adjustment (COLA) Vulnerable Household Mechanism. This measure aims to create a safety net for pensioners and low-income families during times of high inflation. Looking ahead, the Government remains committed to ensure that the economy generates enough wealth to allow the Government to continue to help all strata of society.

4.1 Government Initiatives in the Employment Field

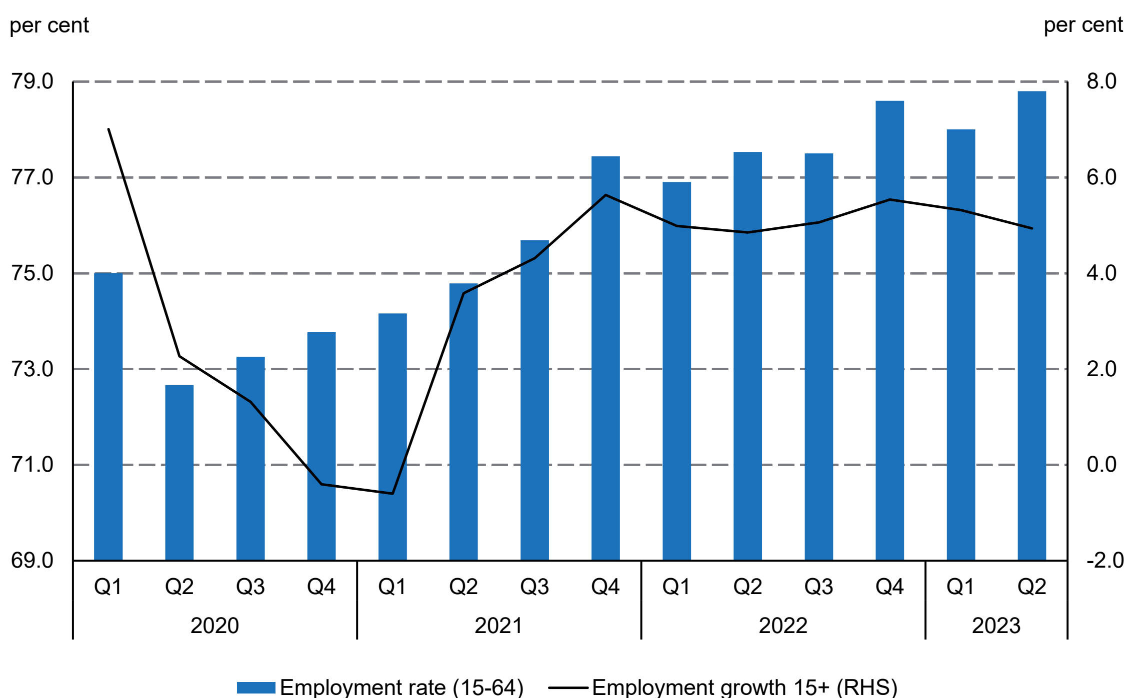
Each year, the Government's aim remains consistent: to enhance the workforce and promote increased involvement of marginalized groups in the job market. Despite the challenges brought about by the war in Ukraine and the aftermath of the COVID-19 crisis, recent Labour Force Survey (LFS) data indicates continual labour market expansion. Specifically, for the second quarter of 2023, the overall activity for the 15-64 age bracket registered a 1.0 percentage point increase over the corresponding quarter of 2022; now standing at 80.9 per cent.

Using quarter-to-quarter data, the overall male participation rate has risen by 0.8 percentage points, going from 86.5 to 87.3 per cent by the second quarter of 2023. Similarly, the female participation rate has also increased by 1.2 percentage points, reaching 73.5 per cent. Alternatively, disaggregating the data by age, the 55-64 age group saw the most significant rise in activity rates, with an increase of 3.0 percentage points, bringing the rate to 56.5 per cent. At the same time, the 25-54 age group reported a 1.1 percentage points increase, reaching 92.0 per cent. In contrast, individuals aged 15 to 24 witnessed a decrease of 5.3 percentage points in their activity rates. This decline was driven by reductions of 5.2 and 5.5 percentage points in the activity rates of both males and females, setting them apart from the other age groups.

The reported overall and case-specific increases can be attributed to a combination of factors affecting both demand and supply in the labour market, all of which are influenced by contemporary and long-term labour market policies based on the principles outlined in the new national employment strategy. These principles include the promotion of flexible skills, active employment measures, and the attraction and retention of foreign workers.

According to the LFS data, the total employment figure for 2022 was 290,995 individuals. In the second quarter of 2023, the number of employed individuals increased by 13,844 compared to the same period in the previous year, reaching a total of 294,313 people in employment. This resulted in a historic high employment rate for the second quarter of

Chart 4.1
Employment Growth and Employment Rate



Source: National Statistics Office based on Jobsplus database

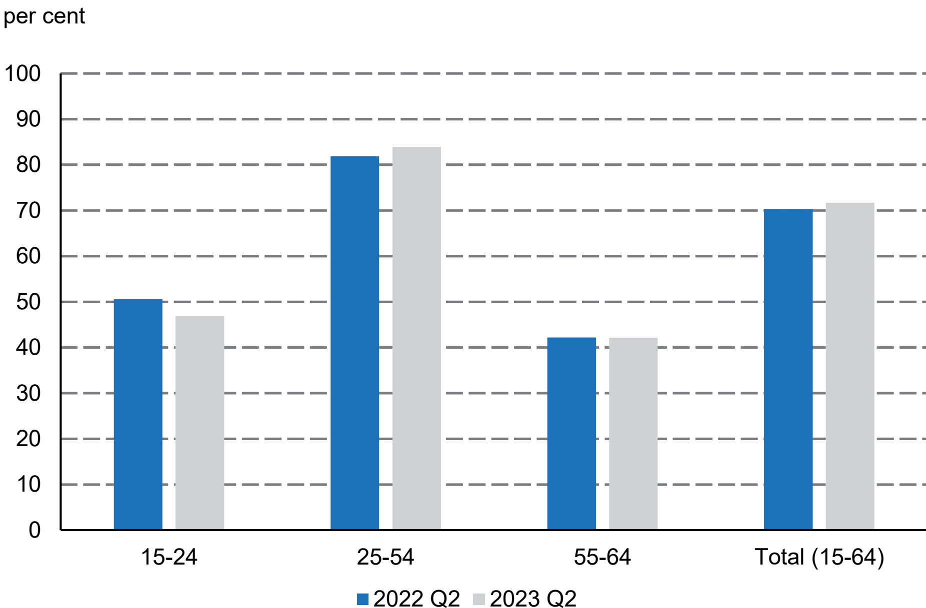
2023 of 78.8 per cent, marking a 1.3 percentage points increase from Q2 2022. When compared to the European Union (EU), Malta's employment rate for the same age group (15-64) in the second quarter of 2023 was considerably higher, surpassing the EU-27 average by 8.2 percentage points.

Breaking down total employment by age, the highest employment rate was observed in the 25-54 age group, with approximately 90 out of every 100 individuals employed. This represents a 1.6 percentage points increase compared to the same quarter in the previous year. The 55-64 age group saw the largest increase, with a 2.2 percentage point rise. However, the employment rate for individuals aged 15-24 decreased by 4.7 percentage points, dropping to 47.6 per cent.

Analysing the age brackets by gender (in reference to Chart 4.2 and 4.3), the increase in the employment rate for the 25-54 age group was driven by a 1.3 percentage points increase for males and a 2.1 percentage points increase for females. Conversely, in the 55-64 age group, the increase was primarily due to males, with a 4.1 percentage points rise, while females in this age group saw a marginal decrease of 0.1 percentage points. Finally, the decline in the employment rate for the 15-24 age group was mainly attributed to a 5.6 percentage points drop for males and a 3.6 percentage points decrease for females.

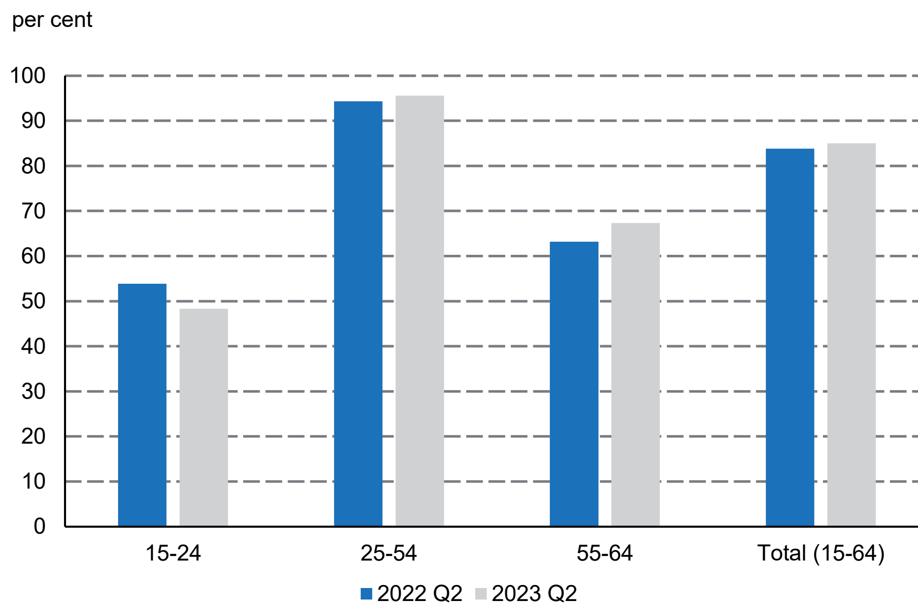
In terms of unemployment, Malta continued to not only outperform its European peers, but to also reach historically low figures consistently. As evidenced in Chart 4.4, Malta's

Chart 4.2
Employment Rates, Females



Source: National Statistics Office

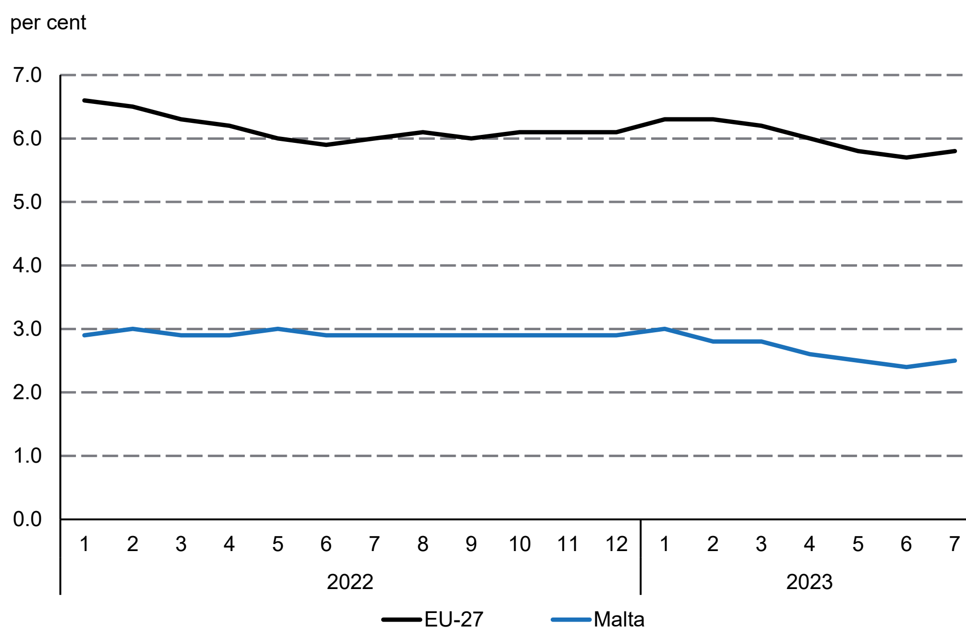
Chart 4.3
Employment Rates, Males



Source: National Statistics Office

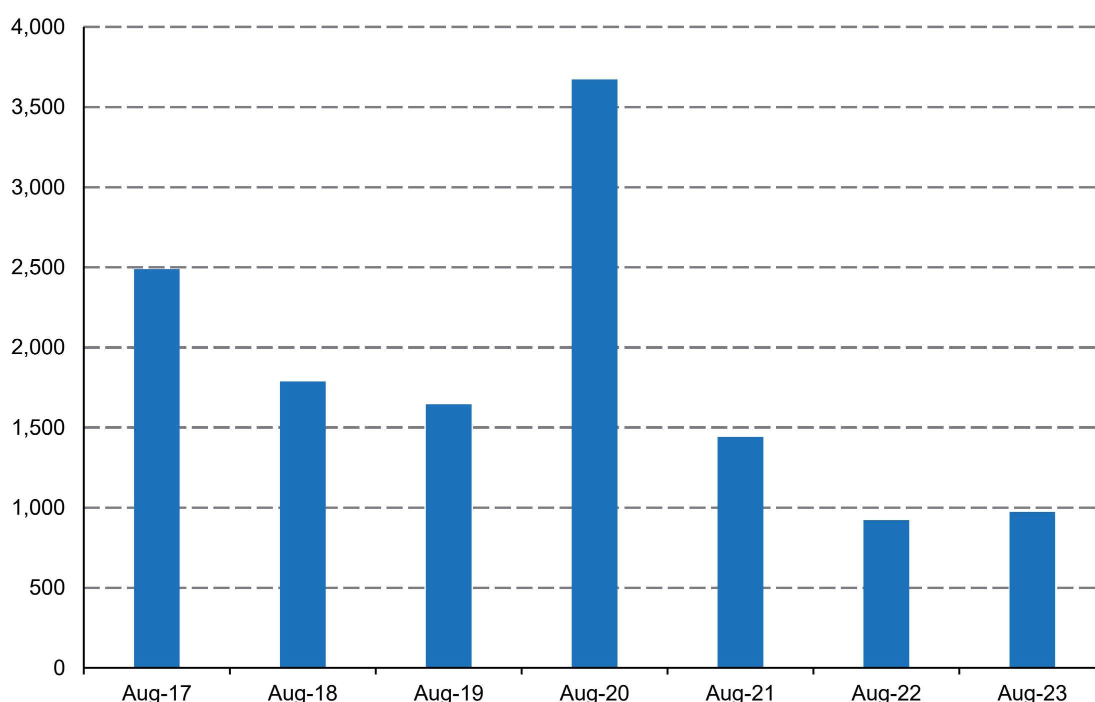
post-pandemic period is characterised with a very pronounced decline in unemployment, even below pre-pandemic levels, consistent with the trend of other EU Member States.

Chart 4.4
Unemployment Rate (15-74)



Source: National Statistics Office

Chart 4.5
Average number of unemployed persons registering for work



Source: National Statistics Office

Chart 4.5 shows that the number of unemployed persons registering for work in August 2023 amounted to 974, an increase of 52 individuals from the same month of the previous year.

4.2 Indicators measuring Poverty, Social Exclusion and Inequality

In this section, the indicators analysed are sourced from the European Union Statistics on Income and Living Conditions (EU-SILC[1]) survey, with the most recent data being from EU-SILC 2022. Consequently, it is important to note that the indicators related to the at-risk-of-poverty (AROP) rate, income distribution, the Gini coefficient[2], and S80/S20 indicators continue to reflect the influence of the pandemic, as they are grounded on income data from the reference year 2021. The primary metric for tracking progress towards the EU's 2030 target on poverty and social exclusion is the at-risk-of-poverty-

[1] The aim of the EU-SILC is to collect timely and comparable cross-sectional and longitudinal multidimensional microdata on income, poverty, social exclusion and living conditions of households. The non-income components reported in the EU-SILC such as material deprivation and work intensity are based on the reporting year (t) while the income statistics refer to the previous year (t-1).

[2] The Gini coefficient measures the inequality of income distribution. It may take values ranging from 0 per cent, which implies perfect equality in the income distribution, to 100 per cent, which signifies absolute inequality.

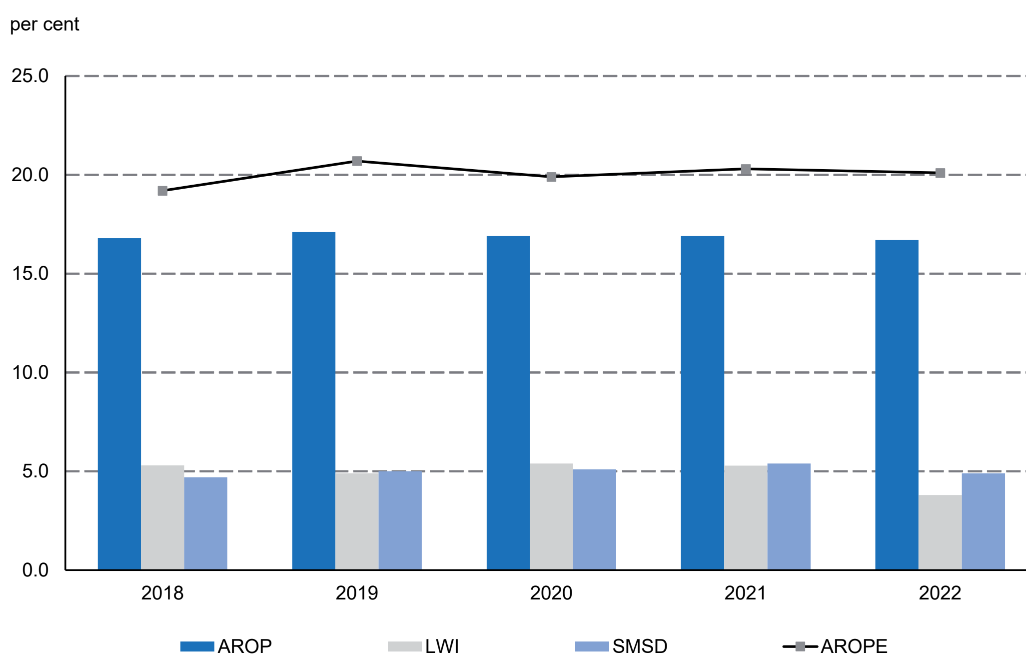
or-social-exclusion (AROPE[3]) rate. This rate signifies the portion of the total population considered AROP or social exclusion.

The AROPE can be decomposed into three main indicators, namely:

1. AROP: This indicator reveals the number of households falling below a threshold set at 60.0 per cent of the median household disposable income.
2. Severe material and social deprivation (SMSD): This reflects the number of households unable to afford certain basic necessities from a predefined list of goods and services.
3. Low Work Intensity (LWI): This indicator measures households' work intensity in terms of hours worked per week.

In 2022, as displayed in Chart 4.6, Malta's AROPE stood at 20.1 per cent, which is 0.2 percentage points lower than 2021 but 0.9 percentage points higher when compared to the rate in 2018. In comparison to the EU average, Malta's AROPE in 2022 was 1.5 percentage points lower, with the EU average standing at 21.6 per cent.

Chart 4.6
At Risk-of-Poverty Indicators



Source: EUROSTAT

[3] Further detail on the AROPE can be found in the following link: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:At_risk_of_poverty_or_social_exclusion_(AROPE)

Malta's AROP rate before social transfers stood at 35.1 per cent in 2022, while the EU's rate for the same year was 43.6 per cent, indicating an 8.5 percentage point difference in favour of Malta. Malta has a lower percentage of its population at risk of poverty before social transfers compared to the EU, highlighting that, based on income and financial circumstances alone, Malta has a relatively lower risk of poverty compared to the EU. After incorporating social transfers, Malta's AROP rate is reduced by 18.4 percentage points to 16.7 per cent in 2022. This confirms that social transfers provide additional income and resources to individuals and households, reducing their vulnerability to poverty. A similar, albeit larger, reduction was observed at the EU level, with a drop of 27.1 percentage points in the AROP due to social transfers in the same year.

Malta has seen a relatively stable AROP rate after the inclusion of social transfers in recent years. It increased from 16.8 per cent in 2018 to 17.1 per cent in 2019 but then decreased back to 16.7 per cent in 2022. It is important to highlight that the AROP thresholds, also known as the poverty line, for single-person households and households with two adults and two children under 14 years old, rose by 22.8 per cent over the five-year period under review, reflecting the increase in the median equivalised income[4]. This increase is mainly attributed to income from employment, which grew at a faster rate than social benefits and other income sources. As a result, this may have exacerbated the AROP rate with the increase in the poverty line capturing more households below the threshold.

Chart 4.6 also illustrates trends in SMSD and LWI, the other two components of the AROPE rate. In 2022, the SMSD rate among individuals living in households was 4.9 per cent, equivalent to approximately 25,370 individuals. This rate decreased by 0.5 percentage points when compared to the previous year's 5.4 per cent. Moreover, in 2022, when compared to the EU average, Malta's SMSD rate was 1.8 percentage points lower. This suggests that on average, there was a lower proportion of individuals experiencing severe material and social deprivation in Malta than in the EU27. The share of people residing in households with LWI in 2022 was 3.8 per cent, which is 1.5 percentage points lower than the rate in 2021 and notably 7.0 percentage points lower than the rate in 2018. This indicates improved work involvement for some households, including a positive long-term trend. Furthermore, Malta's rate of individuals residing in households with LWI in 2022 is 4.5 percentage points lower than that of the EU in the same year.

The distribution of income in Malta can be assessed using the income quintile share ratio and the Gini coefficient, as highlighted in Table 4.1. The income quintile share ratio, denoted as S80/S20, compares the income of households in the 80th percentile to those in the 20th percentile by dividing the former by the latter. In the past year, this indicator has seen a slight decrease, dropping from 5.0 in 2021 to 4.8 in 2022. This suggests that for 2022 those in the top 20th percentile in terms of income, earn on average 4.8 times more than those in the 80th percentile. The S80/S20 ratio compares similarly to the EU27 average, which recorded a ratio of 4.7 in 2022, indicating a decrease in income inequality over that time period in both Malta and the EU27. Decomposing this indicator to reflect those above the age of 65 and those below, one can note that the decrease in the ratio

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

Income Distribution				
Table 4.1				
	EU27		Malta	
	2021	2022	2021	2022
S80/S20 ratio	5.0	4.7	5.0	4.8
Less than 65 years	5.2	4.9	5.2	4.8
65 years or over	4.2	4.1	3.4	3.6
Gini-coefficient	30.2	29.6	31.2	31.1

Source: Eurostat

is primarily led by those aged less than 65. In fact, the ratio for the cohort of persons aged less than 65 years decreased by 0.4 in 2022 from a ratio of 5.2 in 2021. Meanwhile, the ratio for individuals aged 65 years and over increased, resulting in a ratio of 3.6 for the same year. Nevertheless, at a ratio of 4.1 for the 65 years or over for the EU27, the ratio for Malta is still below the EU27 average. This suggests that for this cohort, there is a greater income disparity among older individuals in the EU27 compared to Malta.

The Gini coefficient after social transfers, remained relatively stable over the past year, with a slight decrease from 31.2 per cent in 2021 to 31.1 per cent in 2022, 1.5 percentage points higher than the EU27 average.

4.3 Distributional Impact of selected 2023 Budget Measures

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

The distributional analysis of these reforms on household disposable income and poverty level, is carried out using EUROMOD[5], an EU-wide static tax-benefit microsimulation model, and 2021 EU-SILC microdata. The assessment considers three policy scenarios:

- **'Baseline' Scenario** which represents the status quo based on the 2022 tax and benefits policy rules.

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

- **'Additional COLA Household Mechanism' Scenario** models only the Additional COLA Household Mechanism to the base scenario.
- **'Children Allowance' Scenario** models the annual €90 per child increase in children allowance to the base scenario.

Distributional impact of reforms (in percentage points)

Table 4.2

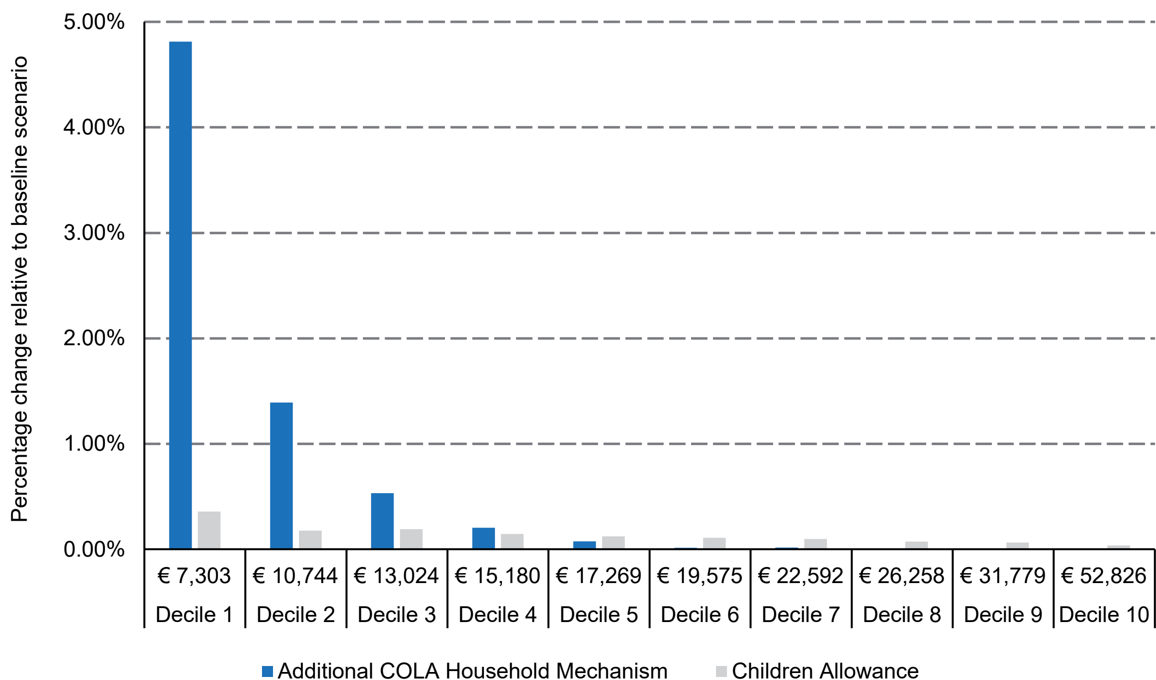
	Children Allowance	Additional COLA Household Mechanism
Poverty Indicators[1]		
Population	-0.03pp	-0.40pp
Children	-0.08pp	-0.48pp
Working Age	-0.02pp	-0.32pp
Working Age Economically Active	-0.02pp	-0.20pp
Elderly	-0.00pp	-0.63pp
Gini Coefficient	-0.0003	-0.0031

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

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

Chart 4.7

Percentage change in Equivalised Disposable Income from Baseline by Decile Groups



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

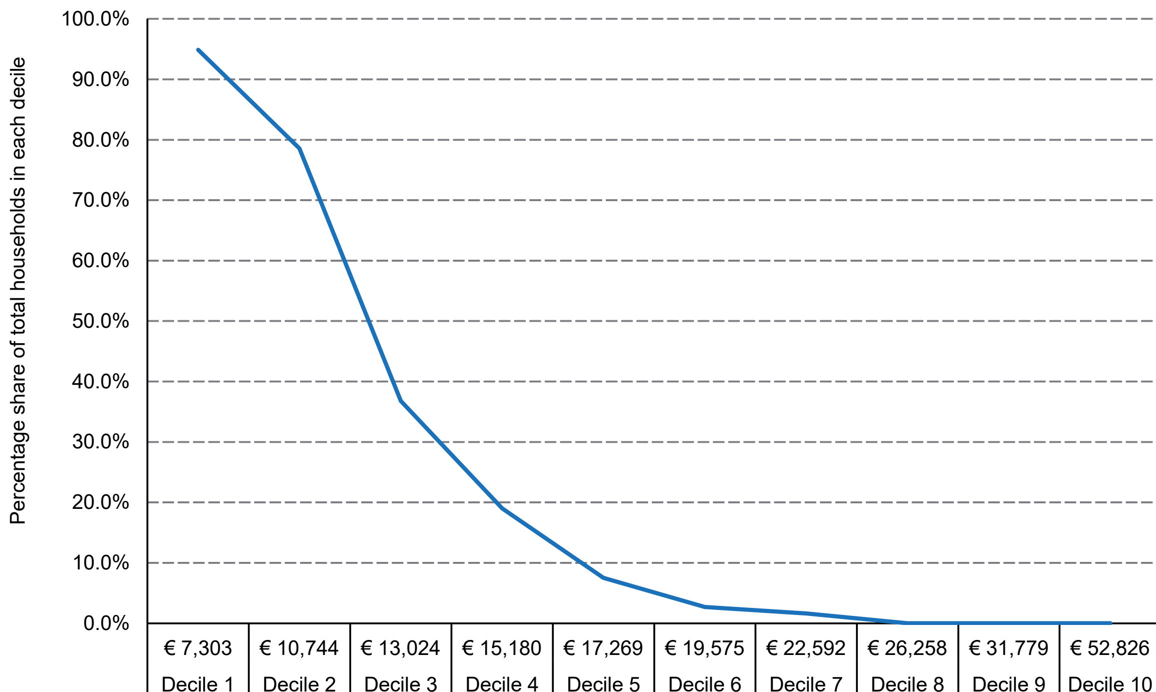
By comparing the outcomes of these scenarios to the baseline, the distributional impact of each reform is illustrated.

4.3.1 Additional COLA for Vulnerable Household Mechanism

The Government introduced the Additional COLA for Vulnerable Household Mechanism as the current COLA mechanism was not deemed to be properly compensating certain vulnerable households with consumption patterns, which differ from those identified in the Household Budgetary Survey (HBS), particularly in periods of high inflation. As a result, a separate mechanism directed to compensate low-income families for the recent increase in the cost of living due to high inflation was created. The mechanism is triggered when two circumstances occur:

- The inflation rate in the previous 12 months was higher than 2.0 per cent.
- Individual inflation in the last 12 months, in three of the five basic components in the RPI (which include Food; Accommodation; Electricity, Water, Gas and Fuel; Costs related to home maintenance and household appliances; and private healthcare) exceeds the average of the previous five years.

Chart 4.8
Share of Number of Beneficiaries of the Additional COLA Vulnerable Household Mechanism by Distribution



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

If both conditions are met, the mechanism is triggered and households who receive social benefits and who earn less than the household median equivalised disposable income[6] will benefit from a pay-out based on the household earnings and household size. The affected households will receive the highest allowance, as the mechanism ensure that the pay-out is highest among families with more persons living in same household and whose household equivalised income is low.

According to the EUROMOD simulation, around 28.0 per cent of Malta's household population should have benefited from this mechanism. Out of these beneficiaries, 94.9 per cent are in the first decile (households with an average equivalised disposable income of €7,303 per year) of the income distribution. Chart 4.8 depicts the share of beneficiaries that benefited from this policy reform by deciles.

The Additional COLA for Vulnerable Household Mechanism is expected to have a positive impact in alleviating poverty, as shown in Table 4.2. The overall AROP rate is expected to decrease significantly, with a decline of 0.40 percentage points compared to the 'Baseline' scenario. The elderly cohort is expected to experience the highest decline in relative poverty, with a decrease of 0.63 percentage points, indicating that this policy is particularly beneficial for this segment of the population. Furthermore, when examining poverty rates by household type, single parents are expected to benefit the most, with a substantial drop of 2.14 percentage points in relative poverty compared to the baseline. Additionally, households with two adults, at least one elderly member, and no children are expected to incur a decline of 1.10 percentage points in relative poverty.

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

Additionally, Chart 4.7 illustrates the percentage gains of equivalised household disposable income by decile when compared to the 'Baseline' scenario. The data shows a progressive pattern, with the first decile experiencing the highest percentage increase in equivalised disposable income, amounting to a growth of 4.81 per cent. On the other hand, the higher deciles, up to decile 7, benefit from a progressively smaller increase with the smallest improvement registered for the seventh decile at 0.02 per cent. This progressive distribution of gains indicates that the simulated measure has a positive impact on lower- and middle-income groups, effectively benefiting those who are more vulnerable.

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

Overall, the analysis reveals that the Additional COLA for Vulnerable Household Mechanism has the potential to positively impact poverty rates, particularly among vulnerable groups such as the elderly and single-parent households. Additionally, it has a marginal effect on reducing income inequality, highlighting its importance in promoting social welfare and addressing economic disparities within the population.

4.3.2 Increase in the Children's Allowance

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

The results from the EUROMOD simulations suggest that the overall AROP rate is expected to decrease by approximately 0.03 percentage points, primarily benefiting children who were at-risk-of-poverty, resulting in a decrease of around 0.08 percentage points (Table 4.2). Notably, households comprising two adults and two children are expected to experience the most substantial decline in relative poverty compared to the base scenario, with a decrease of 0.35 percentage points.

Additionally, the Gini Coefficient recorded a drop, indicating that this measure effectively improves income equality. The impact of the reform on households' equivalised disposable income by decile is depicted in Chart 4.7. The results reveal a positive distributional impact across all income brackets, indicating that the measure has beneficial effects on households at various income levels.

4.4 2024 Budget Measures

In the upcoming Budget, the Government will continue supporting the economy by insulating it from the rise in energy prices and the increase in price of basic commodities. This is expected to contain inflation and ease the cost-of-living pressures on Maltese and Gozitan families. Social support measures are also envisaged aimed at supporting vulnerable households in times of higher inflationary pressures. The Government will also implement measures that continue to reinforce its commitment towards a climate-neutral economy. Investment will also be directed towards healthcare, education, and the upgrading of skills of the workforce. Moreover, the 2024 Budget will ensure that the overall impact of the Budget measures is in line with the SGP rules by targeting an improvement in the structural balance exceeding the minimum effort of 0.5 per cent which is expected to be sustained over the medium-term.