Malta:

Draft Budgetary Plan
2020

Ministry for Finance
October 2019

The following symbols have been used throughout this document:

. . .	to indicate that data are not available;
—	to indicate that the figure is negligible;
0	to indicate that the figure is zero;
-	to indicate that data are not applicable or cannot be determined;
n/c	to indicate that there is no change in the data.

Figures may not add up due to rounding.

This document is based on statistical information available up to the 14th of October, 2019

1. Overall Policy Framework and Objectives

1. Overall Policy Framework and Objectives

The year 2019 is expected to be the fourth consecutive year when a budget surplus will be recorded while the debt ratio continues to fall to 43.0 per cent of Gross Domestic Product (GDP). The consistent improvement in the fiscal position has allowed Malta to gain fiscal headroom which, in times of heightened international economic uncertainty, is conducive to the preservation of fiscal space over the short to medium-term. The budget balance is expected to remain well above 1.0 per cent of GDP in 2020 and beyond, with the debt ratio continuing to decline further over the medium-term. The structural budget balance is also expected to remain in surplus, suggesting that the achievement over the last two years and future projections are not dependent on cyclical conditions.

The strong economic performance of recent years has created new challenges with the most pressing being the need to invest and upgrade the existing infrastructure in order to support the increased economic activity and pave the way for future growth. Equally, the Government remains committed to address any emerging social imbalances and to provide the necessary support to the most vulnerable, while continuing to widen opportunities for individuals to explore their abilities and capabilities. It is the resolve of this Government to create a balance between these objectives in the Budget for 2020.

1.1 Macroeconomic Scenario

Economic growth over the last four years has averaged 7.4 per cent. This compares favourably to the corresponding 7.1 per cent growth in potential output, with the output gap reaching a positive 1.8 per cent of potential output in 2018. In the first half of 2019, growth moderated to 4.7 per cent, although it is expected to pick up momentum in the second half of the year. Growth in 2019 is estimated at 5.0 per cent, with the output gap declining to 1.2 per cent.

During 2020, the Maltese economy is expected to grow by 4.3 per cent in real terms, with domestic demand contributing 4.5 percentage points and net exports contributing negatively by 0.2 percentage points. Domestic demand will be sustained by private consumption on the back of robust labour market prospects and stronger wage growth. Furthermore, a number of large-scale investment projects in health, aviation, real estate and the tourism industry are expected to be launched in 2020, which will boost investment growth. However, weaker global economic prospects are expected to further weigh on exports reflecting the subdued growth in Malta's trading partners. Economic activity in 2019 and 2020 is expected to lag potential growth, estimated at an average of 5.7 per cent and contribute to close the positive output gap by the end of next year.

The growth outlook for 2020 is expected to be underpinned by moderate productivity gains, moderate wage growth, relatively low inflationary pressures and a surplus on the current account. Together with a more modest output gap, these indicators suggest that the positive outlook can be sustained over the medium-term. This notwithstanding, risks to the growth outlook cannot be underestimated. The sensitivity analysis and the alternative model projections suggest that risks are tilting on the downside.

1.2 Fiscal Policy Objectives

Given the present phase of the economic cycle and the healthy condition of public finances both in terms of the structural balances and debt ratio, the overall objective is to maintain fiscal stability by targeting a positive budget surplus in 2020 and ensuring a further reduction in the debt burden. The budget balance is expected to reach 1.4 per cent of GDP in 2019 and stabilise at that rate for 2020. This is also consistent with a structural budget target of 1.3 per cent of GDP in 2020, hence remaining in excess of Malta's medium-term budget objective of a balanced budget in structural terms. These intermediate fiscal targets will ensure that the debt ratio continues on its downward trend to reach 40.3 per cent of GDP by the end of 2020 compared to 43.0 per cent in 2019.

This objective is to be balanced with the need for further investment in infrastructure while at the same time addressing the Government's distributional objectives. Public investment is expected to reach a high of 4.4 per cent of GDP in 2019 and remain above 4.0 per cent of GDP during 2020. These targets compare favourably with the average public investment of 3.2 per cent of GDP recorded in the last fifteen years, clearly indicating Government's commitment to continue to support a sustainable rate of economic growth and address infrastructural bottlenecks.

The Government is aware that the pace of economic activity can create social pressures on vulnerable individuals and groups including senior citizens and low income households in our society. A number of budget measures are aimed at addressing these concerns. Economic growth has also brought to the fore both skill and labour market bottlenecks as well as a number of infrastructural constraints which need to be addressed in order to ensure that the present rate of potential economic growth can be maintained over the medium to long-term.

1.3 Fiscal Governance

The Fiscal Responsibility Act adopted by the Maltese Parliament in August 2014 marked a significant step in the strengthening of fiscal governance. In March 2018, further changes were made to the legislation to ensure full transposition of the budgetary requirements by Member States as outlined in the European Council Directive 2011/85/EU.

The further strengthening of the institutional capacity in Malta's fiscal framework has become a more significant priority now that public finances are in surplus. The Comprehensive Spending Reviews are a core element of the Maltese Government's strategy to ensure the achievement of a more effective approach to public spending, improving decision making and ensuring that public spending is meeting changing priorities and changing social needs. The Comprehensive Spending Reviews, which started in 2014, have so far covered the Department for Social Security, Mater Dei Hospital, Primary Health, Pharmacy of your Choice, the Ministry for Education and Employment, the Management and Efficiency Unit as well as the Malta College for Arts, Science and Technology and more recently the Malta Police Force. Furthermore, in line with the Country Specific Recommendation endorsed by the European Council in 2017 inviting the Maltese Government to "Expand the scope of the ongoing spending reviews to the broader public sector and introduce performance-based public spending", the process of institutionalising Comprehensive Spending Reviews has started through assistance from the Structural Reform Support Programme. In 2018, a Directorate was set up within the Budgetary Affairs Division (Ministry for Finance (MFIN)) and was tasked with the planning and coordination of reviews in collaboration with the respective ministry, department, entity or cost centre as required. This Directorate will be technically assisted by the Economic Policy Department. Draft operational guidelines have been formulated and a training programme for some 50 officials including MFIN's staff was completed during 2019.

The targets contained in this Plan fulfil the legal requirements established by virtue of the Fiscal Responsibility Act. In addition, the macroeconomic forecasts underlying this Plan and the 2020 Budget have been endorsed by the Malta Fiscal Advisory Council.

1.4 Conclusion

The strength and stability being exhibited by the Maltese economy, mainly underpinned by strong improvements in investment, continued positive developments in the labour market, and subdued inflationary pressures, are supported by the range of structural economic policies presented in various National Reform Programmes and budget measures. These structural reform measures are intended to address the country's main economic challenges, and in particular:

1. Continue to deliver Government's commitment of ensuring public finance sustainability in the short to medium-term, while also addressing the long-term dimension, in particular through reduction in Government debt.

2. Raising potential output, by continuing to direct Malta towards higher value-added, knowledge-based sectors comprising a range of activities including professional, financial, gaming, corporate and fiduciary services, increase the labour force participation, especially of women, raising skill and education levels, promoting lifelong learning and continue addressing labour market shortages.

3. Investing and upgrading the infrastructure in order to support the increased economic activity and pave the way forward for further sustainable growth.

4. Addressing other long-term challenges including transport, environment and housing.

5. Ensure a fair and equitable distribution of resources while also supporting the most vulnerable in society.

6. Continue to reduce unnecessary bureaucracy especially the length of the public procurement process and ensuring that the public service continues to improve on efficiency and effectiveness.

7. Safeguard Malta's reputation as quality jurisdiction of choice for business and thereby ensuring the ongoing sustainability of our various economic sectors through responsive, efficient, and effective regulatory frameworks and structures.

The forthcoming budget will continue to address the new challenges brought by the economic success, while at the same time addressing social obligations and future-proofing our country. Indeed, the Government will continue with its programme of upgrading Malta's infrastructure by investing in roads, ensuring sustainable development and providing incentives for alternative forms of commuting. The environment will be better protected with increased uses of greener and cleaner energy, sustainable water sources, as well as better waste management. The budget will continue focusing on improving Malta's housing stock while addressing the challenges of the household rental and property market. Concurrently, it will continue to target a fiscal surplus whilst ensuring that the debt burden on future generations continues to be minimised. Hence, the 2020 Budget will further support the robust growth momentum and insulate the economy from major economic imbalances while also promoting its long-term economic sustainability.

2. Economic Outlook

2. Economic Outlook

2.1 The Short-Term Scenario

Following the robust growth rates recorded in the last years, the Maltese economy continued with its positive performance in the first half of 2019, albeit at a more moderate pace. Indeed, during this period, the Maltese economy registered a real growth rate of 4.7 per cent, standing well above the average growth rates registered in other European Union (EU) Member States and the Euro Area (EA). The positive economic performance was driven by the domestic side of the economy, primarily attributable to growth in public consumption expenditure and gross fixed capital formation. Private consumption expenditure also contributed positively to growth. From an external standpoint, throughout the first six months of 2019, Malta recorded a negative contribution to Gross Domestic Product (GDP) growth from net exports of goods and services.

During the first half of 2019, total Gross Value Added (GVA) increased by 7.5 per cent over the same period in 2018. This growth was attributable mostly to the services sector which contributed 7.2 percentage points to growth, while the primary and secondary sectors together recorded a positive contribution to growth equivalent to 0.3 percentage points. The growth in GVA was underpinned by increases registered in all sectors of the economy, with substantial growth rates registered in Construction sector (14.8 per cent), the Real Estate Activities sector (12.2 per cent), the Professional, Scientific and Technical Activities sector (10.7 per cent), the Arts, Entertainment and Recreation sector (9.3 per cent), the Information and Communications sector (7.0 per cent) and the Financial and Insurance Activities sector (6.8 per cent).

On the income side, in comparison to the first half of 2018, the factor distribution of income gains was somewhat less balanced, with the compensation of employees rising by 5.7 per cent while the gross operating surplus and mixed income rising by 9.5 per cent. The increase in absolute values for compensation of employees was broad-based. The largest percentage increase during this period was registered in the Real Estate Activities sector, where compensation of employees increased by 17.6 per cent followed by increases in the Construction industry by 11.6 per cent, and the Arts, Entertainment and Recreation sector, where compensation for employees grew by 11.3 per cent.

The Maltese economy sustained its positive performance throughout the first half of 2019, recording a growth rate of 4.7 per cent. Real growth in the Maltese economy is expected to pick up further in the second half of 2019, implying that the economy could grow by 5.0 per cent in 2019. This growth continues to reflect strong domestic demand, which is expected to contribute 6.4 percentage points to growth, while net exports are expected to record a marginal negative contribution of 0.7 percentage points.

The strong contribution of domestic demand is expected to be driven by robust private and public consumption. Continued high levels of employment prospects are expected to partially offset the modest deceleration in wages, which will help generate positive private consumption growth of 4.6 per cent, while public consumption is anticipated to grow by 13.5 per cent in real terms and 16.2 per cent in nominal terms, mainly reflecting expenditure on intermediate consumption and compensation of employees. Netting out the Individual Investor Program (IIP) component of market output from total Government consumption expenditure, public consumption is expected to grow by 12.5 per cent.

The Maltese economy has continued to benefit from strong gross fixed capital formation growth. The expectation is that for 2019, the overall growth rate in investment will reach 11.7 per cent. This positive performance reflects the expected acceleration of public investment, investment related to telecommunications, as well as the materialisation of a number of large-scale investment projects of a construction nature particularly in health, real-estate and tourism. It is worth noting, that when forecasting investment, a relatively prudent approach is taken, factoring in only those projects which have a strong political commitment or a high probability of realisation. Also, a relatively high import content of investment is assumed.

From an external perspective, exports are forecasted to increase by 1.8 per cent, while imports growth of 2.7 per cent are expected to yield a marginal negative net trade contribution to growth of 0.7 per cent. These external dynamics reflect subdued external demand conditions, stemming from a weaker performance in Malta's main trading partners compared to the previous forecasting exercise performed last April[1], which fully offsets any positive effects stemming from the depreciation of the Euro against the US Dollar, in which 43.2[2] per cent of Malta's exports are invoiced. In addition, the Euro is expected to appreciate against the UK Pound Sterling. The stronger levels of imports relative to exports in 2019 is expected to occur as a result of the strong public and private investment which is anticipated to continue materialising by the end of the year.

From a socio-economic standpoint, the labour market is expected to continue registering positive developments, as employment is expected to rise by 4.8 per cent, while the unemployment rate is forecasted to drop further to 3.5 per cent by the end of the year. Lower expected wage growth relative to the historical average will be counteracted by the tighter labour market to bring about an increase of 1.5 per cent in nominal unit labour costs. However, a modest inflation forecast of 1.7 per cent will result in a decline in real unit labour costs by 0.2 per cent. The modest price growth of 1.7 per cent is expected to reflect strong gains in prices of unprocessed and processed foods, which overpowers the subdued growth in services inflation and the slight decline in the prices of non-energy industrial goods.

In 2020, the Maltese economy is expected to maintain its positive performance and grow by 4.3 per cent in real terms, with domestic demand contributing by 4.5 per cent and net exports contributing negatively by 0.2 per cent. Domestic demand is anticipated to be driven by a positive performance in private consumption on the back of robust labour market prospects and stronger wage growth. Following the strong growth in 2019, public consumption growth in 2020 is expected to remain strong at 4.9 per cent. Furthermore, a number of large-scale investment projects in health, aviation, real estate and the tourism industry are expected to materialise in 2020, which will sustain investment growth.

From an external perspective, weaker global economic prospects are expected to further weigh on export and import figures in 2020. Real exports are anticipated to grow at 1.6 per cent, which will be marginally lower compared to growth rate registered in 2019. This deceleration is expected as the Euro regains some strength against the US Dollar and as subdued growth in Malta's trading partners continues to prevail. Imports are expected to increase by 2.0 per cent, driven by modest growth in imports of capital goods, as private and public investment are expected to remain strong.

Main Macroeconomic Indicators

Table 2.1

	2016	2017	2018	2019f	2020f
GDP growth at current market prices (%)	7.1	9.2	9.0	7.5	6.5
GDP growth at Chain Linked Volumes by period (Reference year 2010) (%)[1]	5.7	6.7	6.8	5.0	4.3
Expenditure Components of GDP at Current Market Prices by period (%)					
Private final consumption expenditure[2]	3.1	4.4	8.1	6.2	5.4
General Government final consumption expenditure	-1.3	4.2	15.4	16.2	7.3
: net of Individual Investor Programme (IIP) proceeds	*5.7*	*7.7*	*10.9*	*12.5*	*7.8*
Gross fixed capital formation	2.0	-5.2	0.9	14.7	13.2
Exports of goods and services	5.8	7.7	5.5	4.0	3.9
: net of Individual Investor Programme (IIP) proceeds	*5.0*	*7.3*	*5.9*	*4.3*	*3.8*
Imports of goods and services	2.7	1.7	5.2	5.0	4.4
Expenditure Components of GDP at Chain Linked Volumes by period (Reference year 2010) (%)					
Private final consumption expenditure[2]	2.4	3.3	7.3	4.6	4.0
General Government final consumption expenditure	-3.0	2.5	12.6	13.5	4.9
Gross fixed capital formation	-0.3	-7.2	-1.8	11.7	9.7
Exports of goods and services	4.5	4.8	2.6	1.8	1.6
Imports of goods and services	1.6	-0.4	2.6	2.7	2.0
Inflation rate (%)	0.9	1.3	1.7	1.7	1.6
Employment growth (National Accounts Definition) (%)	4.5	4.6	5.4	4.8	4.1
Unemployment rate (Harmonised definition, Eurostat) (%)	4.7	4.0	3.7	3.5	3.5
Compensation per employee (% change)	2.6	2.7	2.0	1.7	2.8
Labour productivity (% change)	1.2	2.1	1.3	0.2	0.2
Nominal Unit Labour Cost (% change)	1.4	0.7	0.7	1.5	2.6
Real Unit Labour Costs (% change)	0.5	-0.6	-1.1	-0.2	1.0

[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.

Table 2.1 presents the main macroeconomic indicators for the period 2016 to 2020. The figures for the period 2016 to 2018 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 2019 and 2020 are forecasts produced by economists within the Ministry for Finance (MFIN).

2.1.1 Assumptions for Projections

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

1. Economic activity in Malta's main trading partners is expected to increase by 0.8 per cent in 2019 and 0.9 per cent in 2020.
2. Oil prices are expected to decline, reaching an average of 63.8 US Dollars per barrel in 2019 and 61.9 US Dollars per barrel in 2020.

3. The short-term interest rate is expected to remain at the current spot rate of 0.0 per cent in both 2019 and 2020. On the other hand, the long-term interest rate is expected to average at 1.0 per cent in 2019 and 0.9 per cent in 2020.
4. The USD/EUR exchange rate is expected to average 1.121 in 2019 and 1.137 in 2020, representing a depreciation of the Euro of 4.6 per cent in 2019 and an appreciation of the Euro of 1.4 per cent in 2020. The STG/EUR exchange rate is expected to average 0.895 in 2019 and 0.893 in 2020, representing an appreciation of the Euro of 1.0 per cent in 2019 and a slight deprecation of the Euro of 0.2 per cent in 2020.
5. It is assumed that, starting from the second half of 2019, changes in inventories will not contribute to GDP growth.

2.1.2 Employment Prospects

The Labour Force Survey (LFS) reported an employment rate of 73.1 per cent in the second quarter of 2019, which is 1.9 percentage points higher than for the corresponding period last year. Growth in headcount employment is expected to remain strong and increase by 4.8 per cent in 2019 and 4.1 per cent in 2020. Moreover, the unemployment rate (based in the Harmonised definition) is expected to decrease to 3.5 per cent in 2019 and 2020, which is well below the EU average rate. This reflects the buoyant state of the economy as well as ongoing efforts in promoting and sustaining active labour market policies.

In 2019, all sectors are expected to register growth in employment, with the highest rates of growth expected to be in the Professional, Scientific and Technical services sector, the Remote Gaming sector, as well as the Real Estate and Construction sectors. The overall positive performance is mainly supported by the inflow of foreign workers, in conjunction with the increasing female and older worker participation rates which reflect ongoing Government policies aimed at strengthening the supply side of the labour market. These include work-life balance measures, family-friendly measures, in-work benefit, the tapering of benefits, lower taxes on labour, and various tax incentives.

2.1.3 Inflation

The Harmonised Index of Consumer Prices (HICP) inflation rate (twelve-month moving average) increased by 1.5 per cent in the first half of this year, reflecting growth in the prices of unprocessed food and energy prices, which partly offset the lower growth in prices registered in services and the decline in non-energy industrial goods. The HICP is expected to average 1.7 per cent by the end of this year and 1.6 per cent in 2020. The depreciation of the Euro is expected to increase inflationary pressures, but the relatively lower oil prices along with the lower expected services inflation in 2019 and 2020 are expected to partially alleviate the effect.

2.1.4 Sectoral Balances

Appendix Table 1.d gives an overview of the current account forecast up till 2020. A slightly lower current account surplus is expected in 2019 due to a lower expected goods and services balance. This development is associated with external assumptions related to uncertainties with respect to Malta's main trading partners such as Germany, Italy and the United Kingdom (UK). Furthermore, a lower depreciation of the Euro with respect to other currencies is projected. The decrease in net payments in the primary income account is primarily showing the effect of a higher interest rate in the United States

(US) relative to other global yields, which ultimately results in an increased outflow of portfolio investment assets and a slowdown in direct investment liabilities flowing to Malta.

2.2 Comparison to Commission's Latest Forecast

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

The Spring forecasts published by the EC projected a growth rate for Malta of 5.5 per cent and 4.8 per cent in 2019 and 2020, respectively, with domestic demand expected to be the main driver of growth in both years. The interim Summer forecasts were relatively comparable, since a more moderate expansion of 5.3 per cent was forecasted for 2019, whilst the growth forecast for 2020 was kept unchanged at 4.8 per cent. MFIN forecasts for 2019 and 2020 are marginally lower by 0.3 and 0.5 percentage points respectively when compared to the rate of economic expansion forecasted by the EC for 2019 and 2020 in the two latest forecast vintages.

The EC did not produce nominal GDP growth forecasts in the interim Summer forecast, so the last available comparison had to be taken from the Spring projections.

Nominal GDP growth presented in this Draft Budgetary Plan is projected at 7.5 per cent for 2019 and 6.5 per cent for 2020. This represents a lower growth of 0.3 percentage points and 0.5 percentage points for 2019 and 2020, respectively over the baseline presented by the EC in its Spring forecast. Moreover, MFIN forecasts a slightly higher growth in the GDP deflator for 2019, but lower in 2020, when compared to the EC spring forecasts.

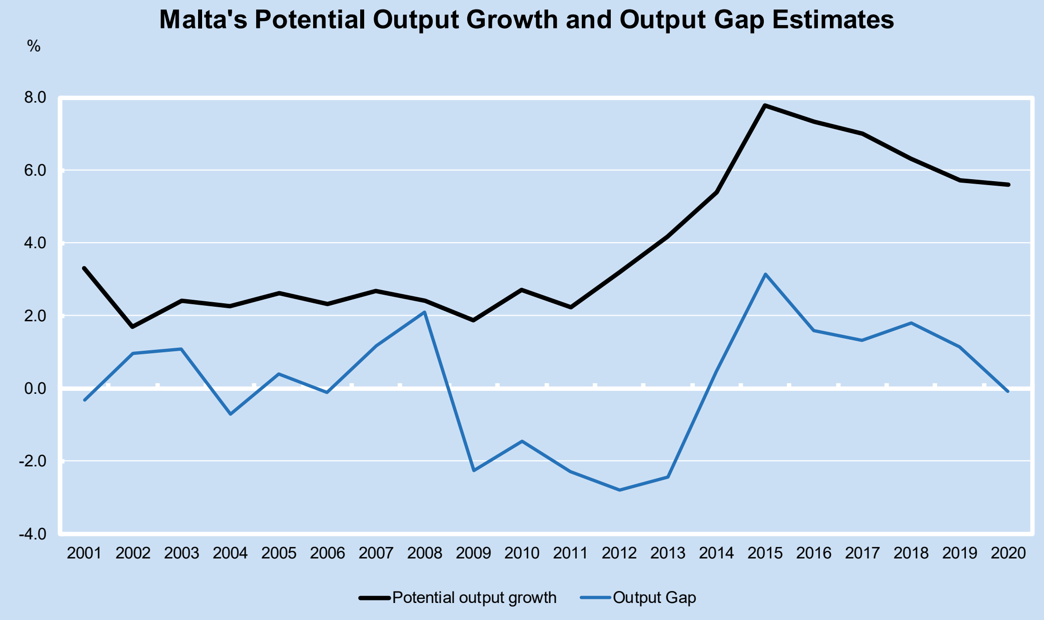
2.3 Potential Output and the Output Gap

The developments in potential output and in the output gap, both historically and those expected over the forecast horizon are illustrated in Chart 2.1. The average potential output growth stood at 5.1 per cent during the period 2010 to 2018. Over 2019 and 2020, potential output growth is expected to increase to an average growth rate of 5.7 per cent, mainly underpinned by positive employment growth and higher labour market participation rates followed by improvements in capital accumulation and total factor productivity. The output gap is expected to remain positive for 2019 and to close in 2020.

2.4 Comparison with the MFIN Spring Forecasts

The economic outlook in this Draft Budgetary Plan has been revised downwards by 1.2 and 1.4 percentage points in 2019 and 2020, respectively, when compared with the earlier Spring forecast. The contribution from the external side of the economy has been revised downwards for 2019, reflecting a more moderate growth in exports due to more subdued external demand conditions. These stem from a somewhat weaker economic activity by Malta's main trading partners than that originally anticipated in MFIN Spring

Chart 2.1



forecasts, which fully offsets any positive effects stemming from the weakness of the Euro. The contribution from domestic demand has also been revised slightly downwards to reflect the data turnout for the first half of 2019. However, domestic demand remains the main contributor to growth in the Maltese economy.

Growth in 2020 has also been revised downwards from MFIN Spring forecasts, mainly reflecting a weaker contribution from external demand stemming from subdued growth in Malta's main trading partners than that expected in Spring, which has further weighed on the net export balance. These adverse external developments have been partly offset by a slight increase in the contribution to growth from the domestic side of the economy, including a further pick-up in investment, and stable private household consumption. Relatively lower expected inflationary pressures are to result in a weaker GDP deflator and hence a lower growth in nominal GDP than forecasted in Spring.

2.5 Sensitivity Analysis

The macroeconomic forecast is the economic foundation of the Government's fiscal policy targets. Consequently, the macroeconomic forecasts seek to balance the need to strive for forecast accuracy against the need to maintain a measure of prudence. This is complemented by the assessment of past forecasting performance and a rigorous and scientific quantification of macroeconomic risk, based on research carried out by the Economic Policy Department (EPD) within the MFIN. This section provides an assessment of forecast uncertainty and the balance of risk surrounding the macroeconomic forecasts in this Draft Budgetary Plan. The analysis is in line with the requirements of Council Directive 2011/85/EU of the EU on the requirements for budgetary frameworks of the Member States.

2.5.1 The Accuracy of Past Forecasting Performance

The updated analysis shows a tendency to underestimate GDP growth and hence a downward bias in the GDP growth projections in previous years. However, this is primarily a result of upward statistical revisions in the national accounts data. While the one-year ahead forecasts display a root-mean squared error (RMSE) of 3.9, it is notable that the sample size employed is rather small and the earliest available forecast is that of 2004. The small sample size, the recession of 2009, the subsequent recovery and the statistical revisions play an undue influence on this evaluation and limit comparability with the forecast accuracy displayed by other economies.

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

2.5.2 The Balance of Risks

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

1. Improved global economic growth based on the upper bound of the Consensus forecasts.
2. Weaker global economic growth based on the lower bound of the Consensus forecast.
3. Lower than expected growth in world prices, rising by 0.8 per cent and 0.2 per cent in 2019 and 2020 respectively in contrast to the baseline growth of 1.4 per cent assumed for both years. This scenario is further augmented with a 5.50 US Dollar per barrel and 3.60 US Dollar per barrel decline in the price of oil prices in 2019 and 2020, respectively.
4. Lower interest rate scenario, in view of the prevalent decline in bond yields.
5. Trade protectionism scenario, where a strong US Dollar coupled with higher GDP growth in the US, higher world prices resulting from the imposition of tariffs, and lower GDP growth among Malta's European trading partners is modelled.
6. Stronger than anticipated manufacturing growth scenario.
7. Higher wage inflation scenario where a growth rate of 3.5 per cent is assumed for 2019 and 2020.
8. Stronger medium-term investment scenario.
9. Weaker medium-term investment scenario.
10. Weaker growth in services exports, particularly in the remote gaming and financial services sectors;
11. Stronger Euro exchange rate against the UK Pound Sterling, coupled with weaker global economic growth for Malta's main trading partners and weaker growth in Malta's main trading partners weighted by inbound tourists.
12. Model-based scenario, removing any form of economic judgement underlying the baseline forecast thus generating a purely model-based forecast, however still based on a number of exogenous assumptions such as world prices, international economic conditions, interest rates and exchange rates.

These scenarios are considered to be plausible alternatives to the baseline projections. While economic judgement influences the choice of these scenarios, this judgement is also underpinned by the constant monitoring of economic conditions prevailing at the time and also informed by the various meetings with economic stakeholders and regulators operating within the Maltese economy. Moreover, the scenarios are assigned probabilities based on the likelihood that such scenarios will materialise. The exercise is therefore based on expert judgment of a number of economists working within the EPD and other economists working in public sector institutions which regularly deal with economic issues. Among the alternative forecasts, 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

In this scenario, global growth is assumed to be higher, where Malta's key trading partners will have stronger growth than originally anticipated; an increase of 0.2 percentage points in 2019 from the 0.8 per cent growth assumed in the baseline, and an increase of 0.5 percentage points in the period 2020-2022 from the 1.0 per cent growth assumed in the baseline. The relatively higher than expected economic growth in Germany, Italy, France, the UK, and the US is based on the Consensus Forecasts September 2019 publication, assuming the most optimistic growth figures for each trading partner. Although the outcome of this scenario is marginal in 2019, real GDP growth is revised upwards by 0.9 percentage points in 2020, reaching a real growth rate of 5.2 per cent. The budget balance has been revised slightly upwards by 0.1 percentage points in both 2019 and 2020.

2.5.2.2 Weaker Global Economic Growth

This scenario models the downside risk of a weaker than expected economic growth rate in Malta's main trading partners on the Maltese economy; a decline of 0.2 percentage points in 2019 from the 0.8 per cent growth assumed in the baseline, and a decline of 0.6 percentage points in the period 2020-2022 from the 1.0 per cent growth assumed in the baseline. The relatively lower than expected growth projections for Germany, Italy, France, the UK, and the US are based on the Consensus Forecasts September 2019 publication, assuming the lowest growth figures for each trading partner. The outcome of this scenario is that the Maltese economy will continue yielding the same development in real GDP growth and the budget balance for 2019 as in the baseline forecast. In contrast, real GDP growth is lowered by 0.7 percentage points in 2020, to reach 3.6 per cent, while the budget balance is revised marginally downwards by 0.2 percentage points.

2.5.2.3 Interest Rate Scenario

This scenario assumes that Malta's long-term interest rate[3] maintains the spread with the yield on the 10-year German bund, which declined by 60 basis points in 2019 and 2020 compared to the baseline, as a result of recently increased appetite for safe-haven assets and growing expectations of a slowdown. This dip in yields is consistent with the recent inversion of the yield curve and translates into lower borrowing costs, which results in stronger investment. As a result, this scenario produces a real GDP increase of 0.4 percentage points in 2019 and by 1.9 percentage points in 2020. The budget balance marginally declines by 0.1 percentage points in 2019 but improves by 0.2 percentage points in 2020.

2.5.3 Alternative Model Forecasts

Moreover, the EPD has developed seven alternative forecasting models ranging from model-free statistical forecasts (Random Walk and Holt-Winters Seasonal Smoothing Method), model-based univariate forecasts (2 ARIMA models) and model-based multivariate forecasts (2 VAR models and one VECM model). These models help EPD benchmark the results inferred from STEMM and can be used to generate alternative growth forecasts. On average, these models suggest a slightly lower GDP growth for 2019 of 4.9 per cent, which is very close to the baseline forecast. This confirms the slight downside risk for 2019. For 2020, the alternative models also suggest lower GDP growth, which on average is around 4.1 per cent, indicative of a more profound downside risk for 2020.

Of special interest are the two VAR models, one which is demand driven with exogenous assumptions whilst the other is mainly supply driven based on employment and prices. The former is closest to the Keynesian-type baseline model underlying the baseline projections, while the latter captures better supply side conditions which in recent years have predominantly determined growth conditions in the Maltese economy. For 2019 and 2020, the demand-driven VAR with exogenous assumptions suggests a growth of close to and less than 4.0 per cent, respectively, whilst the supply-driven VAR is indicating a growth slightly more than 5.0 per cent. This indicates the potential downside risks from the former, but upside risks from the latter model. The overall VAR average of the two models suggests a lower GDP growth of 4.7 per cent and 4.2 per cent for 2019 and 2020, respectively.

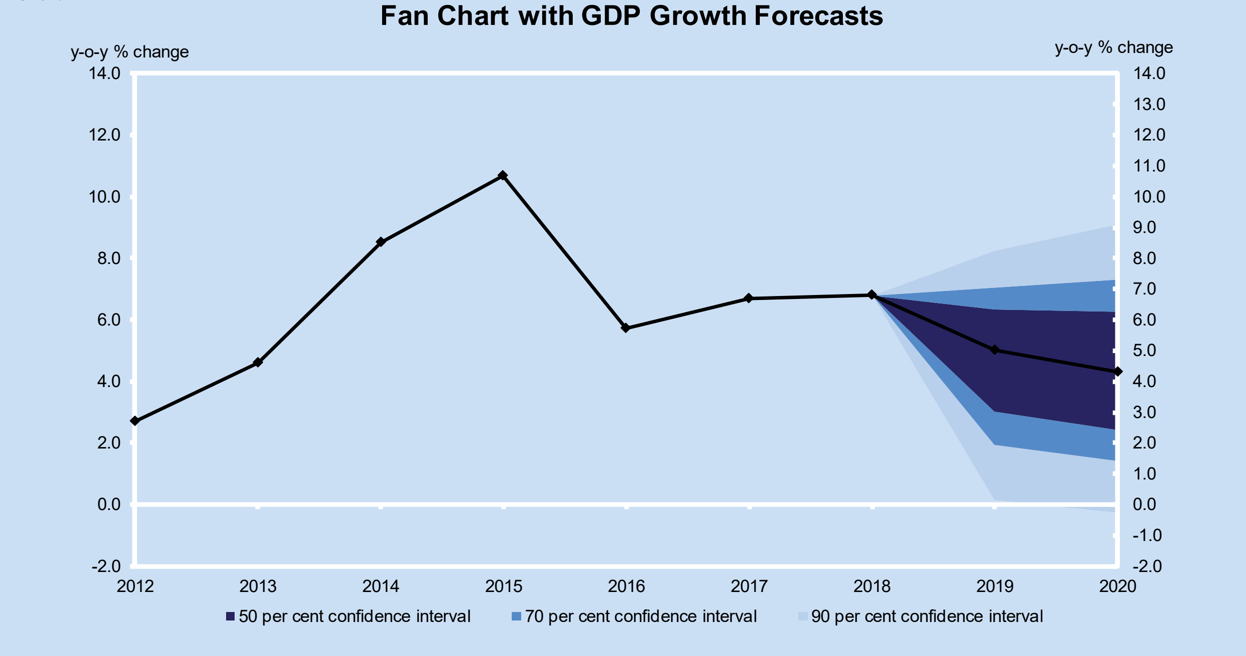
2.5.4 Uncertainty and the Balance of Risk Underlying the Macroeconomic Projections

The uncertainty surrounding the macroeconomic projections is based on the past forecast error variance of GDP. This is equal to 2.5 for the current year forecast, and 2.8 for the one-year ahead forecast. The balance of risk is based on the Pearson skewness indicator of the model generating alternative forecast for GDP documented above. The indicator points towards downside risks for both 2019 and 2020. The result is consistent with the analysis of alternative model forecasts highlighted earlier. Chart 2.2 represents the uncertainty and the balance of risk surrounding the macroeconomic forecasts presented in this Draft Budgetary Plan.

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. This year the evaluation of fiscal risk conditional on macroeconomic risks also incorporates the variance resulting from the past forecast error of fiscal projections, based on a methodology similar to that used for deriving the macroeconomic risk assessment. As a result, the risk assessment is presented in the form of a probabilistic Fan Chart rather than point estimates. Looking at point estimates, under the worst possible cyclical scenarios contemplated, the budget balance would remain in surplus for the period under review.

Chart 2.2



2.5.6 Alternative Output Gap projections and risks to Structural Fiscal Targets

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

Chart 2.3

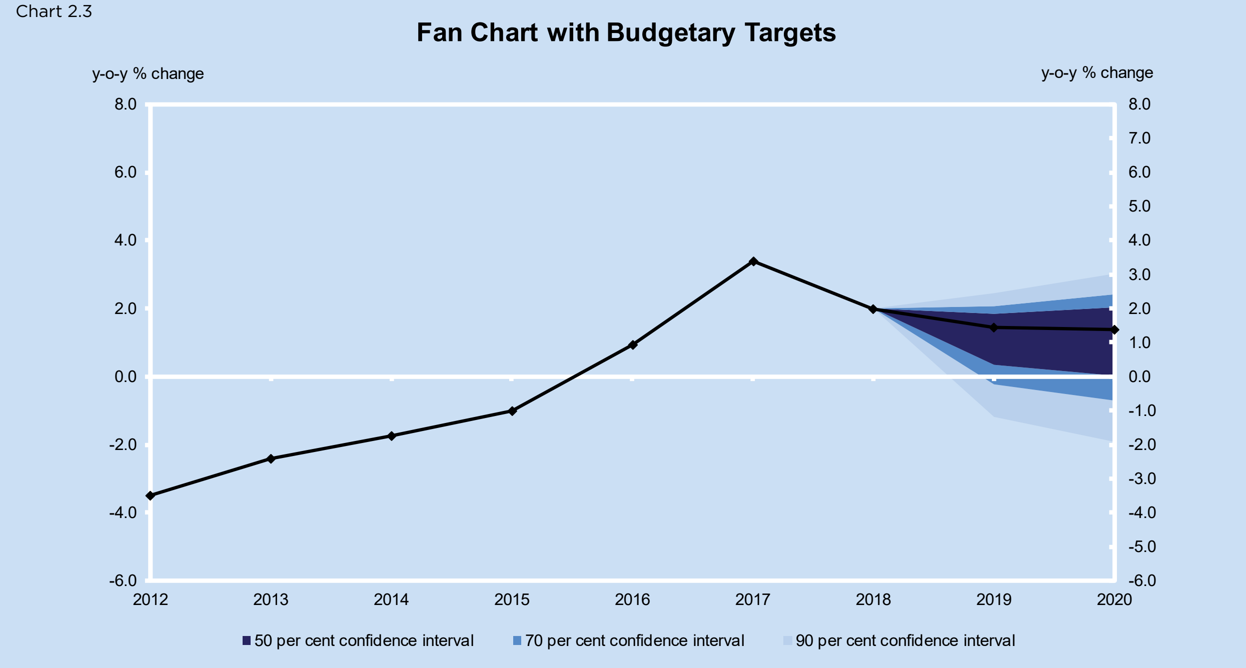
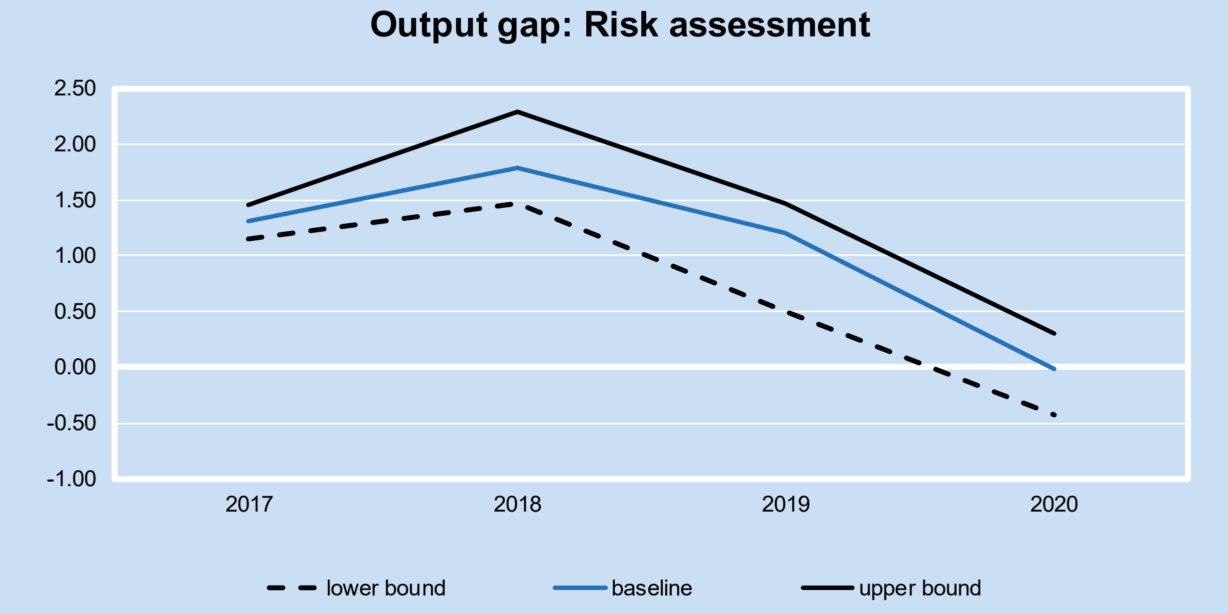


Chart 2.4



Compared to the baseline scenario, as shown in Chart 2.4, alternative output gap projections range from 0.5 to 1.5 in 2019 and from -0.4 to 0.3 in 2020.

Footnotes:

[1] Medium-Term Fiscal Strategy for Malta: Update of the Stability Programme 2019-2022.

[2] Source: Eurostat International trade in goods database.

[3] The long-term interest rate is taken to be the yield on Malta Government bonds with a 10-year maturity.

Macroeconomic forecasts

(Basic assumptions)

Appendix Table 0.i

	Data Source	2018	2019	2020
Short-term interest rate (annual average)	**ECB**	0.00	0.00	0.00
Long-term interest rate (annual average)	**ECB**	1.40	1.00	0.90
USD/€ exchange rate (annual average)	**ECB + Consensus Economics (September 2019)**	1.175	1.121	1.137
STG/€ exchange rate (annual average)	**ECB + Consensus Economics (September 2019)**	0.886	0.895	0.893
Real GDP Growth of main trading partners	**Eurostat + Consensus Economics (September 2019)**	1.5	0.8	0.9
Nominal GDP Growth of main trading partners	**Eurostat + Consensus Economics (September 2019)**	3.3	2.1	2.3
Oil prices (Brent, USD/barrel)	**US Energy Information Administration (EIA) + Consensus Economics (September 2019)**	71.10	63.82	61.90

Macroeconomic forecasts

(Macroeconomic prospects)

Appendix Table 1.a		€ million *CLV 2010 Prices*	rate of change		
	ESA Code	**2018**	**2018**	**2019f**	**2020f**
1. Real GDP[1]	B1*g	10,429.1	6.8	5.0	4.3
2. Potential GDP			6.3	5.7	5.6
contributions:					
- labour			3.4	2.9	3.0
- capital			1.2	1.5	1.7
- total factor productivity			1.6	1.3	0.9
3. Nominal GDP	B1*g	12,323.8	9.0	7.5	6.5
Components of real GDP					
4. Private final consumption expenditure[2]	P.3	4,867.2	7.3	4.6	4.0
5. Government final consumption expenditure	P.3	1,732.9	12.6	13.5	4.9
6. Gross fixed capital formation	P.51	1,838.0	-1.8	11.7	9.7
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		0.6	-0.1	-0.1
8. Exports of goods and services	P.6	14,972.9	2.6	1.8	1.6
9. Imports of goods and services	P.7	13,062.4	2.6	2.7	2.0
Contributions to real GDP growth					
10. Final domestic demand		8,438.1	4.8	6.4	4.5
11. Changes in inventories and net acquisition of valuables	P.52 + P.53		1.5	-0.7	0.0
12. External demand	B.11	1,910.6	0.5	-0.7	-0.2

[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	ESA Code	Index[1] 2018	rate of change 2018	2019f	2020f
1. GDP deflator		118.2	2.1	2.4	2.1
2. Private consumption deflator		110.8	0.7	1.5	1.4
3. HICP		103.0	1.7	1.7	1.6
4. Public consumption deflator		115.7	2.5	2.4	2.3
5. Investment deflator		127.2	2.8	2.8	3.2
6. Export price deflator (goods and services)		119.2	2.8	2.2	2.2
7. Import price deflator (goods and services)		117.0	2.5	2.4	2.2

[1] Index (base 2010 unless otherwise indicated)

Macroeconomic forecasts
(Labour market developments)

Appendix Table 1.c	ESA Code	€000s 2018	rate of change 2018	2019f	2020f
1. Employment, persons[1]		230.3	5.4	4.8	4.1
2. Employment, hours worked[2]		465,125.4	5.4	4.8	4.1
3. Unemployment rate (%)[3]			3.7	3.5	3.5
4. Labour productivity, persons[4]		45.2	1.3	0.2	0.2
5. Labour productivity, hours worked [5]			1.3	0.2	0.2
6. Compensation of employees	D.1	4,979.0	7.5	6.6	7.0
7. Compensation per employee		21.6	2.0	1.7	2.8

[1] National accounts definition.

[2] National accounts definition.

[3] Harmonised definition, Eurostat; levels.

[4] Real GDP per person employed.

[5] Real GDP per hour worked.

Macroeconomic forecasts

(Sectoral balances)

Appendix Table 1.d				% GDP
Percentages of GDP	ESA Code	**2018**	**2019f**	**2020f**
1. Net lending/ borrowing		12.2	10.8	12.9
vis-à-vis the rest of the world	B.9			
of which:				
Balance on goods and services		20.9	19.1	18.1
Balance of primary incomes and transfers		-9.6	-9.0	-5.7
Capital account		0.9	0.7	0.5
2. Net lending/ borrowing of the private sector	B.9	10.0	10.0	12.0
3. Net lending/ borrowing of general Government	EDP B.9	2.2	0.5	1.0
4. Statistical discrepancy		0.1	-0.1	-0.1
Current Account		11.3	11.1	13.2

3. General Government Budgetary Developments

3. General Government Budgetary Developments

Public finances have been put on a sound footing with a general Government surplus recorded in the last three consecutive years, while a decline of over 20 percentage points in the general Government debt ratio to Gross Domestic Product (GDP) has been registered over the last five years. The achievement of the Medium-Term Objective (MTO) is also an important step in the preservation of long-term sustainability of public finances. These developments were primarily supported by a strong and sustainable rate of economic growth. Economic prosperity coupled with sound public finances have enabled the Government to increase investment in priority sectors and address the challenges brought by the increased level of economic activity, thereby ensuring that economic growth is sustained.

In the Budget outlined for 2020, the Government will continue to ensure higher quality in healthcare services, while prioritising investment in education. It will also continue with its drive to strengthen the regulatory and supervisory institutions while investing in emerging niches such as blockchain and AI. In the coming years, policies will be directed towards ensuring an inclusive economy that achieves Government's distributional objectives within the framework of sustainable development.

Cognisant of challenges and risks in the external environment, the 2020 Draft Budget continues to promote fiscal prudence with the creation of additional buffers and is targeting a surplus, both in nominal and structural terms. Indeed, the budget balance is targeted to remain at 1.4 per cent of GDP in 2020, which also includes an allocation of over 4 per cent of GDP towards gross fixed capital formation in 2020. These investments do not include additional investment earmarked for the improvement of human capital to meet the challenges of a changing economy, which are generally classified elsewhere in the European System of Accounts (ESA) categorisation. Meanwhile, the debt ratio is also expected to decrease by 2.7 percentage points of GDP to 40.3 per cent of GDP in 2020. Further improvements in the underlying debt dynamics are expected to be secured through positive growth prospects, sustained investor confidence, and an efficient and effective debt management system.

This Chapter provides an analysis of planned developments in revenue, expenditure and debt during 2020, including details of the main discretionary measures underpinning the expenditure and revenue targets for 2020, and is based on the ESA 2010 methodology. Indeed, data provided in this Chapter covers the general Government sector, which is composed of the central and local Government subsectors. In turn, the central Government subsector comprises the operations of Government Ministries and Departments and Extra Budgetary Units (EBUs). Appendix Table 6a provides an overview of how the measures outlined in the Draft Budget Plan address Country Specific Recommendations (CSRs) and the targets set by the Union's Strategy for growth and jobs. Additionally, Appendix Table 6b provides a list of established EBUs as at 31 December 2018.

3.1 Budgetary Targets

Revisions were carried out to the components of both revenue and expenditure for 2020, compared to the projections outlined in the Medium-Term Fiscal Strategy (MTFS). In spite of more subdued macroeconomic developments projected for 2020, higher revenue primarily reflects a higher than expected outturn foreseen for 2019. On the expenditure side, higher than expected outlays on intermediate consumption and capital expenditure are anticipated, and to a lesser extent, higher expenditure on compensation of employees and social payments. On account of these revisions, in 2020, the budget balance is expected to remain relatively unchanged at 1.4 per cent of GDP. In structural terms, the general Government balance is expected to increase from 0.8 per cent in 2019 to 1.3 per cent in 2020. General Government budgetary targets are outlined in Table 2a.

The general Government gross debt ratio is expected to decrease by 2.7 percentage points of GDP annually in both 2019 and 2020 to 40.3 per cent of GDP, significantly below the 60 per cent Maastricht Treaty threshold. The positive impact of nominal growth and the projected primary surplus will more than offset the upward pressure that the interest burden and the stock flow adjustment are expected to have on the debt ratio. Developments in gross Government debt are presented in Table 2b. A detailed account of the Stock-Flow adjustments can be found in Appendix Table 7.

Budgetary Targets

(General Government budgetary targets broken down by subsector)

Table 2.a — % GDP

	ESA Code	2019	2020
Net lending (+) / net borrowing (-) by sub-sector [1]	B.9		
1. General Government	S.13	1.4	1.4
2. Central Government	S.1311	1.4	1.4
3. State Government	S.1312	-	-
4. Local Government	S.1313	-0.0	-0.0
5. Social security funds	S.1314	-	-
6. Interest expenditure	D.41	1.3	1.2
7. Primary balance [2]		2.7	2.6
8. One-off and other temporary measures [3]		0.1	0.1
9. Real GDP growth (%) (=1 in Table 1.a)		5.0	4.3
10. Potential GDP growth (%) (=2 in Table 1.a)		5.7	5.6
11. Output gap (% of potential GDP)		1.2	-0.1
12. Cyclical budgetary component (% of potential GDP)		0.6	-0.0
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		0.9	1.4
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		2.2	2.6
15. Structural balance (13 - 8) (% of potential GDP)		0.8	1.3

[1] TR-TE= B.9.

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

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

Budgetary Targets
(General Government debt developments)

Table 2.b % GDP

	2019	2020
1. Gross debt [1]	43.0	40.3
2. Change in gross debt ratio	-2.7	-2.7
Contributions to changes in gross debt		
3. Primary balance	-2.7	-2.6
4. Interest expenditure	1.3	1.2
5. Stock-flow adjustment	1.9	1.3
of which:		
- Differences between cash and accruals [2]		
- Net accumulation of financial assets [3]		
of which:		
- privatisation proceeds		
- Valuation effects and other [4]		
p.m.: Implicit interest rate on debt [2]	3.0	3.1
Other relevant variables		
6. Liquid financial assets [6]		
7. Net financial debt (7=1-6)		
8. Debt amortization (existing bonds) since the end of the previous year		
9. Percentage of debt denominated in foreign currency		
10. Average maturity		

[1] As defined in Regulation 479/2009.

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

[6] Liquid assets are here defined as AF.1, AF.2, AF.3 (consolidated for general Government, i.e. netting out financial positions between Government entities), A.F511, AF.52 (only if quoted in stock exchange).

3.1.1 Discretionary Measures

A list of the main discretionary measures included in the Draft Budgetary Plan and underpinning the expenditure and revenue targets for 2020 is presented in Table 5a. The net impact on the budget balance of temporary and permanent discretionary revenue measures for 2020 (including those implemented in previous budgets but which will still have an impact in 2020) is estimated at 0.02 per cent of GDP. Meanwhile, incremental discretionary expenditure measures (including those implemented in previous budgets but which will still have an impact in 2020), are expected to have a negative impact on the budget balance of 2020 of -0.43 per cent of GDP.

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 2019 % of GDP	2020 % of GDP
VAT	Impact from VAT directive on electronic commerce	D2 - R	Accruals	Permanent & Adopted	2019	-0.11	0.01
Duty on documents	Extension of reduced rate of stamp duty chargeable on the transfer of immovable property	D2 - R	Accruals	Temporary & Adopted	2014 - 2020	-0.00	-0.01
Personal income tax	Change in income tax thresholds for minimum wage earners and pensioners	D5 - R	Accruals	Permanent & Adopted	2017 - 2019	-0.01	0.00
	Fiscal incentives for private pensions	D5 - R	Accruals	Permanent & Adopted	2019	-0.01	0.00
	Fixed rate on overtime	D5 - R	Accruals	Permanent & Adopted	2020	0.00	-0.03
Individual Investor Programme	Revenue from the International Investor Programme	P10 - R	Accruals	Permanent & Adopted	2014	-0.49	0.09
Other revenue measures legislated in previous budgets			Accruals	Permanent & Adopted		-0.05	-0.04
Tapering of Social Benefits	Tapering of Social Benefits to beneficiaries who become engaged in employment or start working as self-occupied	D6 - E	Accruals	Permanent & Adopted	2015	0.02	-0.01
Re-distribution measures	Measures to address housing affordability, pension adequacy and the integration of vulnerable individuals in society	D6 - E	Accruals	Permanent & Adopted	2016 - 2020	-0.15	-0.25
School transport	Extension of the school transport network to children in independent and church schools	D6 - E	Accruals	Permanent & Adopted	2018 - 2019	-0.11	0.01
Annual tax rebate and one-time compensation payment by Government		D7 - E	Accruals	Temporary & Adopted	2018 - 2020	0.01	-0.02
Compensation payments		D7 - E	Accruals	Permanent & Adopted	2017 - 2019	0.05	0.00
Projects financed from the National Development and Social Fund		D7 - E P5111 - E	Accruals	Permanent & Adopted	2018 - 2020	-0.07	-0.17
Affordable housing	Specialised Housing Programmes and Dilapidated Schemes and other Affordable Housing Schemes	D7 - E P5111 - E	Accruals	Permanent & Adopted	2020	0.00	-0.02
Other expenditure measures legislated in previous budgets			Accruals	Permanent & Adopted		-0.01	0.04
						-0.94	**-0.41**

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.

This Budget is introducing measures that ensure a fair judicial system, an accessible and inclusive education system, greater social protection and integration, and sustainable economic development, as follows:

1. The Government's aim is to contribute towards sustainable development by continuing investment in the country's infrastructure and flood relief interventions, while investing in the creation of recreational spaces;

2. Extending measures that incentivise more accessible and sustainable environmental-friendly transport modes;

3. Introducing measures to address the issue of affordable housing by continuing on the programme of building affordable homes and assisting households who are renting, while also broadening benefits targeting first-time buyers;

4. A number of initiatives will be in place to continue to reduce the risk of poverty mainly by enhancing the adequacy of pensions and sustaining the integration of disabled persons through improved social benefits;

5. Further increase the disposable income of young and working families by strengthening incentives intended to make work pay, while also broadening assistance to families bearing or adopting children;

6. The Government will continue investing in the national healthcare system to ensure that the high-quality healthcare services being given is maintained, by means of improvements in the primary healthcare facilities and the introduction of new medicines to the National Formulary to increase the availability of free medicine treating a wider range of diseases and conditions;

7. Enhance economic resilience through sustained economic diversification, particularly through the promotion of new economic activities, whilst continuing to incentivise and sustain full employment.

As established by the National Development and Social Fund (Establishment as an Agency) Order of 2015, its available funds, will be used for the advancement of education, research, innovation, social purposes, justice and the rule of law, employment initiatives, the environment and public health. Towards this end, the Fund is projected to allocate €35 million in expenditure in 2020 for such projects, of which the majority are expected to finance projects of a capital nature.

In terms and for the purposes of Article 31 of the Fiscal Responsibility Act, a 'Contingency Reserve' account was established within general Government (outside the Consolidated Fund). In 2019, the annual contribution to the 'Contingency Reserve' account amounted to €13.2 million and is expected to increase to €14.1 million in 2020. No activity may take place within this account unless duly authorised by the Permanent Secretary at the Ministry for Finance (MFIN), following a proposal from MFIN and with the approval of the Prime Minister.

3.2 Expenditure and Revenue Projections under the No-Policy Change Scenario

In 2020, tax revenue is expected to broadly follow economic developments. Tax revenues are expected to grow by around 8 per cent, with an implied elasticity of tax revenue to GDP under the no-policy change scenario estimated at 1.2. This broadly emulates historical developments in elasticity estimates for revenue components relative to their respective tax base. As a result, the tax burden would increase by 0.4 of a percentage point to 33.7 per cent of GDP under a no-policy change scenario, as shown in Table 3. This development mainly reflects a higher ratio for taxes on production and imports and for current taxes on income, as the ratios to GDP of social contributions and of capital taxes are expected to remain relatively stable. At unchanged policies, ‘other revenue’ would decline by 0.6 of a percentage point of GDP.

At unchanged policies, total expenditure would decline from 37.9 per cent of GDP in 2019 to 37.3 per cent in 2020. In spite of the ongoing projects addressing infrastructural bottlenecks and further investments in human capital and technology, the decline in the expenditure to GDP ratio mainly reflects lower gross fixed capital formation, which

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	**2019**	**2020**
General Government (S13)			
1. Total revenue at unchanged policies	TR	39.3	39.2
Of which			
1.1. Taxes on production and imports	D.2	12.7	13.0
1.2. Current taxes on income, wealth, etc	D.5	14.1	14.2
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	6.2	6.2
1.5. Property income	D.4	0.5	0.5
1.6. Other [2]		5.7	5.1
p.m.: Tax burden		33.3	33.7
(D.2+D.5+D.61+D.91-D.995)[3]			
2. Total expenditure at unchanged policies	TE[3]	37.9	37.3
Of which			
2.1. Compensation of employees	D.1	11.2	11.1
2.2. Intermediate consumption	P.2	7.2	7.5
2.3. Social payments	D.6M	9.3	9.0
of which Unemployment benefits [4]		0.3	0.3
2.4. Interest expenditure	D.41	1.3	1.2
2.5. Subsidies	D.3	1.4	1.4
2.6. Gross fixed capital formation	P.51	4.4	3.9
2.7. Capital transfers	D.9	1.0	1.1
2.8. Other [5]		2.1	2.1

[1] Data for 2018 (current year) is equivalent to the data presented in Table 4.a. The no-policy change scenario for the forthcoming year (2019) 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.

would be 0.2 percentage points lower when excluding projects to be financed from the NDSF. Meanwhile, social payments as a share of GDP would decrease by 0.3 percentage points, primarily reflecting low inflationary developments as well as measures legislated in previous years encouraging further participation in the labour market.

3.3 Expenditure and Revenue Targets

General Government expenditure and revenue targets are presented in Table 4a. Both the revenue and expenditure ratios to GDP are expected to decline marginally in 2020, such that the general Government balance is expected to remain stable at 1.4 per cent of GDP.

Total revenue is expected to decline by 0.2 of a percentage point to 39.1 per cent of GDP in 2020 as a higher tax revenue ratio is expected to be in part offset by lower 'other' revenue, the latter primarily reflecting lower capital transfers and investment grants receivable. The ratio of current taxes on income and wealth is expected to increase by 0.1 of a percentage point of GDP, mainly on account of anticipated wage developments. Meanwhile, the ratio of taxes on production and imports is also expected to increase marginally by 0.1 of a percentage point of GDP as domestic demand conditions are expected to continue to support macroeconomic developments.

The ratio of general Government expenditure to GDP is expected to decline by 0.1 of a percentage point to 37.8 per cent in 2020. Alongside a lower ratio of gross fixed capital formation, which is expected to decline by 0.3 of a percentage point of GDP, other less marginal declines are expected in the ratios of social payments and compensation of employees. These developments are expected to be in part offset by a higher ratio to GDP for intermediate consumption, which is expected to increase by 0.3 of a percentage point to 7.5 per cent of GDP, reflecting added outlays towards the health and elderly care sectors. Meanwhile, compensation of employees as a share of GDP is expected to decrease by 0.1 percentage points, mainly as a result of a lower wage growth compared to GDP growth, as well as the planned recruitment as envisaged in the Ministries and Departments' Business and Financial Plans, including HR Plans, within the parameters of the approved budgetary estimates. Against the background of historically low interest rates, interest expenditure is also expected to decline by 0.1 of a percentage point of GDP.

Expenditure and Revenue Targets

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

Table 4.a

% GDP

	ESA Code	**2019**	**2020**
General Government (S13)			
1. Total revenue target	TR	39.3	39.1
Of which			
1.1. Taxes on production and imports	D.2	12.7	12.8
1.2. Current taxes on income, wealth, etc	D.5	14.1	14.2
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	6.2	6.2
1.5. Property income	D.4	0.5	0.5
1.6. Other [1]		5.7	5.2
p.m.: Tax burden		33.3	33.5
(D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure target	TE[3]	37.9	37.8
Of which			
2.1. Compensation of employees	D.1	11.2	11.1
2.2. Intermediate consumption	P.2	7.2	7.5
2.3. Social payments	D.6M	9.3	9.3
of which Unemployment benefits [3]		*0.3*	*0.3*
2.4. Interest expenditure (= item 6 in Table 2.a)	D.41	1.3	1.2
2.5. Subsidies	D.3	1.4	1.4
2.6. Gross fixed capital formation	P.51G	4.4	4.1
2.7. Capital transfers	D.9	1.0	1.1
2.8. Other [4]		2.1	2.1

[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	2018	2018	2019	2020
		Level (€ millions)			
1. Expenditure on EU programmes fully matched by EU funds revenue		234.8	1.9	2.2	1.5
1.a of which 'Investment fully matched by EU funds revenue		53.8	0.4	1.3	0.9
2. Cyclical unemployment benefit expenditure [1]		-2.0	-0.0	0.0	0.0
3. Effect of discretionary revenue measures [2]		-64.5	-0.8	-0.7	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.

Divergence from latest SP

Table 7 % GDP

	ESA Code	2018	2019	2020
Target general Government net lending/ net borrowing	B.9			
Stability Programme		2.0	0.9	1.0
Draft Budgetary Plan		1.9	1.4	1.4
Difference		-0.1	0.5	0.4
General Government net lending projection at unchanged policies	B.9			
Stability Programme		1.2	1.2	1.1
Draft Budgetary Plan		1.4	1.4	2.0
Difference [1]		0.2	0.2	0.9

[1] This difference refer 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.

Stock Flow Adjustment Statement

Appendix Table 7		€ million
	2019	**2020**
General Government balance	**-190.0**	**-193.0**
ESA adjustments	141.5	79.0
Contribution to Sinking Fund (Local)	0.0	0.0
Contribution to Sinking Fund (Foreign)	0.1	0.1
Contribution to Special MGS Sinking Fund	50.0	50.0
Equity Acquisition	19.2	10.1
EFSF/ESM Credit Line Facility	4.5	4.5
Stock Premium paid to Church	1.4	0.0
Repayment of Loans to Government	0.0	-0.7
Sale of Assets	-0.9	-0.9
Sale of Non-Financial Assets	-	-
EBUs	9.8	0.0
Currency	10.6	7.8
Movement in Bank Account	-	-
ESA Re-routed Debt	4.2	37.0
Other Statistical Discrepancies	-	-
Increase/(Decrease) in cash balance	18.5	1.5
Increase/(Decreaese) in Non-Consolidated Debt	**68.9**	**-4.6**
MGS Consolidation	*-6.3*	*-8.3*
Increase/(Decreaese) in Consolidated Debt	**62.6**	**-12.9**
SFA	**252.6**	**180.1**

Appendix Table 6.a

Indications on how the measures in the DBP address CSR and the targets set by the Union's Strategy for growth and jobs

CSR recommendations

CSRs	Relevant measures
CSR 1: Ensure the fiscal sustainability of the healthcare and the pension systems, including by restricting early retirement and adjusting the statutory retirement age in view of the expected gains in life expectancy.	The Maltese Government is committed to address the projected increase in age-related expenditure notably by strengthening the labour market, raising potential output, and the continuation of the pension reform process in Malta. To note that the starting position for pensions and health-care expenditure in Malta is significantly lower than the EU average in reflection of the robust economic and employment growth recorded over recent years that exceeded the rate of increase in expenditure
	Pension Reform
	Improved life expectancy has put pressure on the sustainability of the Maltese pension system. The pensions' strategic review, which will be submitted to the House of Representatives by the end of 2020, will be reviewing the state of public pensions, while putting forward proposals and recommendations with a view to achieve further adequacy, sustainability and social solidarity in such manner that a stable proportion is kept between the contribution periods and the periods of time during which it is expected that the pension will be paid. Over recent years, the Government has introduced numerous measures intended to lengthen the duration of working lives with some of these measures already generating results. The pension age has increased gradually and will reach 65 years by 2027. The contributory period has also been lengthened from 30 years to 41 years. In addition, the Government has also introduced stricter rules on the access to the 'early exit' option by capping the number of credited contributions for persons born on or after 1969. Individuals beyond the retirement age who choose to continue working can do so without forfeiting their pension while in employment. Incentives to defer early retirement and lengthen working careers were also implemented, whereby persons who are eligible for retirement at the age of 61 years, are awarded a financial incentive for each additional year that they choose to continue working up to the age of 65 years. This incentive mechanism was initially intended for private sector employees but has now been extended also to those in the public sector. Labour market statistics clearly show the impact of these reforms. Indeed, the duration of working life in Malta has increased by 6.1 years over the period 2009-2018, the largest increase in the EU. This effectively closed the gap between duration of working life for Malta and the EU average to just 0.3 years, from 4.6 years in 2009. In addition, employment rate of older workers (55-64 years) has improved, increasing by 21.1 percentage points between 2009-2018, the second largest increase in Europe.

	Diversifying Retirement Income
	The Government has also focused on diversifying retirement income and reducing the sole dependency on state pensions. This year, the Government strengthened the incentives for both the Third Pillar Pension Scheme as well as the Voluntary Occupational Pension Scheme, in order to encourage further take-up of these products. The incentive in the form of a tax credit was increased from 15% (up to a max of €150) to 25% (up to a max of €500) in 2019. By the end of 2018, there were 3,609 third pillar pension scheme members. Meanwhile, take up of the Voluntary Occupational Pension Scheme, that was launched in 2017, has also gained traction with 10 employers participating in the scheme and 843 benefiting employees by the end of 2018. Recently, the Government launched the Home Equity Release which is a voluntary scheme that allows home-owner pensioners to raise their annual financial income and improve their standard of living by accessing the equity tied to their home. This will serve as a financial supplement, together with the pension they receive, by allowing pensioners to convert a part of their residential value into a stream of income. Government has also launched the *ĠEMMA* (save) platform which is responsible for the implementation of the retirement and financial capability strategy. Over the past 18 months, a number of initiatives have been underway, including a multi-media campaign; the setting up of an accredited Level 3 programme on financial capability; and initiatives directed towards late primary students. A calendar of activities is planned for the next 18 months. The Malta Stock Exchange (MSE) has also taken an increasingly active role in increasing the level of financial literacy through the publication of educational material and by organising annual investor education conferences with the aim of improving the level of financial literacy for individual investors, especially small investors. Moreover, the MSE is promoting financial education through the MSE Institute which is offering over sixty courses on various aspects of financial services and is aimed at retail investors.
	The sustainability of the healthcare system
	Free healthcare at the point of care for its citizens has always been a tenet of the Maltese Government and one clear area of bipartisan agreement. Needless to say, this pushes the Government to innovate and find ways how to continually improve efficiency and effectiveness in the delivery of health care and to counteract health expenditure growth that always occurs due to increases in the cost of health care provision and evolution in medical technology and of best practices. The growing population, not only with

the older age brackets, but also a large migrant workers population has also put pressure on the provision of public healthcare.

The National Health System Strategy (NHSS) was launched in 2014 with the aim of maintaining universal access to increasingly high-quality healthcare and doing so sustainably in a fast-changing environment. It also identified policy gaps and laid the foundations for a number of sectoral strategies such as the National Cancer Plan (2017-2021); the Diabetes Strategy (2015-2020); the Hepatitis Strategy (2018-2025); the National Breastfeeding Policy (2015-2020); the Food and Nutrition Policy and Action Plan (2015-2020); and the Healthy Lifestyle in Schools: Healthy Eating and Physical Activity Policy (2015) and the most recent Mental Health Strategy 2020-2030.

A series of policy initiative are being planned, some of which are sectoral whilst others are cross-cutting, such as a policy document to guide health workforce planning and another to guide healthcare services development. These two documents are expected to be completed in 2020. In the meantime, investment in the health sector continues, guided by this policy and strategy framework.

Primary care remains a major priority in Government's healthcare services strategy. The development of the Southern Primary Care hub and the electronic patient record within Primary Care are both well advanced. The latter forms part of a much larger development that should result in a national eHealth infrastructure linking sectoral systems together for the exchange of health data. It is expected that through the introduction and the utilisation of innovative ICT solutions, the cost of the healthcare service and the present administrative burden will markedly decrease, while the healthcare provision will improve considerably. In addition, the primary health record could potentially help to reduce the gap between private and public sector primary healthcare, and between primary and secondary healthcare. At the same time, the investment in the national eHealth infrastructure is likely to facilitate the primary sector's role as a gateway to other services, which services are facilitated by newer models such as the said Primary Care hubs. The overarching intent is to ensure that primary or community care becomes the first choice of patients, thus relieving pressure on acute hospital services.

<table>
<tr><th>CSRs</th><th>Relevant measures</th></tr>
<tr><td rowspan="2">CSR 2:
Address features of the tax system that may facilitate aggressive tax planning by individuals and multinationals, in particular by means of outbound payments.
Strengthen the overall governance framework, including by continuing efforts to detect and prosecute corruption.
Continue the ongoing progress made on strengthening the anti-money laundering framework, in particular with regard to enforcements.
Strengthen the independence of the judiciary, in particular the safeguards for judicial appointments</td><td>Address features of the tax system that may facilitate aggressive tax planning by individuals and multinationals, in particular by means of outbound payments</td></tr>
<tr><td>Malta has taken the following actions in relation to aggressive tax planning:
Malta implemented ATAD 1 in 2018. This legislation included new concepts to our law such as the interest limitation rules, exit taxation and CFC legislation. It also included a GAAR rule that complements existing anti-abuse legislation;
Malta has also ratified the OECD Multilateral Instrument which contains provisions like the Principal Purpose Test that allow the possibility for the limitation of benefits under Malta's tax treaties where schemes attempt to obtain any undue advantage.
Meanwhile, in 2019 Malta will be implementing:
ATAD 2 that deals with hybrid mismatches;
Council Directive (EU) 2018/822 concerning Mandatory Disclosure Rules, providing for the disclosure of potentially tax aggressive schemes by intermediaries.
To mitigate the debt bias issue, the National Interest Deduction (NID) rules, which have only been implemented recently, have been assessed as not harmful by the EU Code of Conduct Group. To claim the NID, taxpayers have to fill in an ad hoc attachment included as part of the company tax return. This facilitates the monitoring of the deductions claimed through the disclosure of information in the said attachment.

In order to mitigate the high risk of potential circumvention of the Common Reporting Standard (CRS) using Citizenship by Investment/Residence by Investment (CBI/RBI) schemes concerning the Malta Individual Investor Programme and the Malta Residence and Visa Programme, the following position/actions were taken, whilst continuously ensuring the proper application of the Standard:
The local CRS guidelines have been amended, to give a more comprehensive explanation to Financial Institutions (FIs) of such schemes and their potential misuse for CRS circumvention. Moreover, said guidelines now assist FIs in ensuring that due diligence obligations under the Standard are observed and enhanced, with additional questions which can be used during accounting</td></tr>
</table>

and dismissals, and establish a separate prosecution service.	opening procedures to ensure that all relevant jurisdictions of tax residence are captured and verified. 2. It is pertinent to note, that Malta's CRS regulations and guidelines contain adequate instructions to FIs regarding the documentation required to determine the appropriate jurisdiction(s) of tax residence in carrying out due diligence obligations. The guidelines also place an obligation on FIs to confirm the reasonableness of self-certifications, including cross-checking this with AML/KYC documentation and certificates of residency and/or government-issued valid identification. 3. The Competent Authority in Malta will spontaneously exchange information about individuals that have obtained residence/citizenship through such schemes; 4. As per local CRS regulations and guidance, in order to determine whether a self-certification is correct/reliable, an FI must consider all relevant information which is available to it, including information collected and maintained for AML/KYC purposes. Consultations are under way by the Financial Intelligence Analysis Unit (FIAU) with respect to Amendments to its Implementing Procedures Part I. These amendments reflect the legislative amendments which took place between December 2017 and January 2018 to the Prevention of Money Laundering Act (PMLA) and the Prevention of Money Laundering and Funding of Terrorism Regulations (PMLFTR) and focuses amongst other things also on consumer risk. In particular, one of the situations where customer risk is to be considered as high is with respect to situations where 'the customer has benefitted from citizenship or residency by investment schemes or is a prospective applicant for such a scheme'. Should the overall risk resulting following the carrying out of the customer risk assessment be high, then a subject person would have to apply Enhanced Due Diligence measures. As one may note, the definition of subject persons as contained within local AML regulations is wide and comprehensive enough to incorporate any type of Financial Institution as defined under CRS. 5. Both local CBI and RBI scheme operators will, going forward, include the following wording as part of the application documentation, respectively: - *By signing this form, I confirm that I am fully aware that the Individual Investor Programme and the acquisition of citizenship*

	of Malta through this programme does not provide any tax related status or benefits. - *By signing this form, I confirm that I am fully aware that the Permanent Residency granted under the Malta Residency Visa Programme does not provide any tax related status or benefits.* A minimum amount of tax liability amounting to €5,000 was introduced for persons that are resident but non-domiciled in Malta. The minimum tax liability for such non-domiciled individuals does not apply to individuals whose foreign income is less than €35,000.
	Strengthen the overall governance framework, including by continuing efforts to detect and prosecute corruption
	The FIAU in its capacity as a National AML/CFT Supervisor and its role as an FIU, continued to strengthen its technical and human resources. The FIAU pursued its commitment to increase human resources. Such efforts are complemented by a Human Resources Plan which was agreed with the Government of Malta in 2018 and which will see the FIAU grow to 138 officers by the end of 2021. Such initiatives are coupled with the introduction of various IT tools which will automate and render more effective the current work flows at the FIAU. More specifically, the FIAU, in close liaison with the European Commission (EC) and the European Banking Authority (EBA), has managed to implement a detailed action plan designated at strengthening its AML/CFT supervisory function by March 2019. This achievement was acknowledged by both the MONEYVAL Report and the EU Commission in its Country Specific Recommendations issued in June 2019. This detailed action plan included: • The launch of sector-specific Risk Evaluation Questionnaires to enhance the FIAU's understanding of ML/FT risks posed by different sectors and individual subject persons. This has been complemented by the deployment of a new software CASPAR which automates various processes, upgrading the supervisory databases to another level of optimisation. • The strengthening of the FIAU's enforcement and governance framework, by enhancing the procedures of the Compliance Monitoring Committee (CMC) to foster more transparency and accountability in decision making. • The provision of additional sanctioning tools to enforce the domestic AML/CFT framework in a more effective manner, including the implementation of remedial actions to ensure adherence with compliance obligations by the private sector.

	• The setting of a Strategy, Policy and Quality Assurance function within the FIAU. • Issued a record number of guidance papers and organised multiple outreach activities in order to ensure better awareness and understanding by the regulated sectors. The Intelligence Analysis section of the FIAU has also embarked on a number of initiatives. The FIAU acquired and kicked off the necessary process to implement the GoAML project. The GoAML application is a fully integrated software solution developed specifically for use by FIUs and is one of the United Nations Office on Drugs and Crime (UNODC)'s strategic responses to financial crime, including ML and TF. The Malta Financial Services Authority (MFSA) has continued to strengthen its human resource capacity with further increases in personnel recruitment since the beginning of 2019, particularly within its newly set up financial compliance team as well as within its authorisation, regulatory and supervisory functions. Besides local talent, this recruitment drive is also targeting international applicants to complement the international nature of the business being supervised. In addition, MFSA has continued to upgrade its IT systems in order to ensure an ongoing level of rigorous supervision which can keep up with the technological developments in the financial services industry. Following feedback from stakeholders to a consultation held in the second half of 2017, the Government of Malta tabled legislative amendments to reflect the objective of reorganising the authority by separately and clearly framing both roles of regulation and supervision in the financial services sector. Greater levels of efficiency and effectiveness of the MFSA were called for during the consultation, in line with the views of international authorities. These additional amendments envisaged in Bill no. 49 of 2018 were passed into law by Act of Parliament, Act VIII of 2019. The resulting changes in the structure of the MFSA are intended to strengthen the MFSA and to make it a more efficient, proactive and dynamic regulator. Previous amendments to the Act had seen the creation of a Chief Executive Officer responsible for the MFSA's overall performance in terms of the achievement of its objectives and implementation of its strategy and policies as set out by the Board of Governors. Cooperation with foreign regulatory authorities remains ongoing. The MFSA regularly participates in cooperation meetings and conference calls with host supervisory authorities, particularly where an applicant for licence intends to operate exclusively (or almost exclusively) in another Member State. This also extends to co-operation with other

	European insurance supervisors which enables the MFSA to increase its understanding of the situation and the circumstances of an insurance undertaking before the Authority decides on its authorisation. This practice is also in line with the Decision issued by the European Insurance and Occupational Pensions Authority (EIOPA) on the collaboration of the insurance supervisory authorities, which is applicable to all Member States. In addition, close cooperation platforms are being established with EIOPA and other supervisory authorities which, apart from facilitating the supervision of cross border business, include other initiatives such as the sharing of good practices, training and exchange of staff. Meanwhile, following discussions with the International Monetary Fund's (IMF) Malta FSAP team held last year, the MFSA's macroprudential surveillance approach has also been extended to the insurance sector with capacity being developed within the Authority's financial stability team to allow for better identification of sector-wide risk and other risks affecting or impacting the wider financial sector. Conduct supervision of insurance entities has also been further consolidated with the Authority's Conduct team taking over supervisory responsibilities in this area from 1 January 2019. Following its first year in operations, the Asset Recovery Bureau (ARB) continued to strengthen its asset tracing capabilities both on the local level and abroad through cross-border cooperation with Europol and other Asset Recovery Offices (EU Network). This has resulted in the identification of assets pertaining to the investigated person/s located abroad, and which directly or indirectly are considered as potentially originating from proceeds of crime. Moreover, the ARB has experienced its first disposal mechanism through international auctions, whereby confiscated assets from Malta were disposed in the UK and the amount of which is transferred in favour of the Government of Malta. These sales are now set to a wider market which is accessible to both local and foreign consumers and accompanied by a clear audit trail. By 2020, the Asset Recovery Bureau shall continue to invest in its human resources capacity, specialised training to staff, screening of relevant legislation, cooperation with other competent authorities and the construction of an ARB Compound which would increase the ARB capacity to collect, preserve and manage seized assets in a way that the best possible value is retained.
	Upholding Good Governance
	The World Governance Indicators (WGI) suggest that the level of governance indicators in Malta is inherently high. This was also confirmed by Fitch, which claimed that Malta outperforms the 'A'

median on governance indicators in their latest credit rating report. These results reflect a strong rule of law and Government effectiveness.

The Government has continued to pursue a number of reforms aimed to strengthen good governance. These reforms aim at targeting issues such as improving efficiency and independence of the national justice system; safeguarding whistle-blowers; removing the prescriptive period over corruption offences committed by politicians; the regulation of public appointments; further regulation of judicial appointments and judicial accountability.

Since 2013, the Government of Malta has embarked upon an ambitious project intended to reform the national Justice system through several measures intended to address backlogs and to further facilitate access to Justice. In 2018, extensive use of ICT technologies has made the Interdiction and Incapacitation Registers and the scanning of certain judicial acts, available to advocates, notaries and legal procurators. Other E-Justice initiatives were undertaken to reduce bureaucracy and delays in the civil courts.

Other reforms include the promotion of alternative methods of dispute resolution; an increased number of members of the judiciary, and an improved and accurate system of data collection and data analysis of the case load faced by the judiciary.

In order to improve the efficiency of civil courts, each Judge has been assigned an experienced full-time lawyer chosen by the judiciary, with the duty of assisting the Judge in drafting of judgments (an average of 3 different judgements per week); writing memoranda on pending lawsuits and assisting the Judge in the drafting of court orders. All new court staff is given in-house training upon engagement and a number of training sessions and seminars have been carried out throughout the year for staff already present.

Furthermore, on 19 January 2018, the amendment to the Code of Organization and Civil Procedure Act 1 of 2018 provided for a Commercial Section of the Civil Court. Therefore, the Civil Court seized with the exclusive jurisdiction to hear all those cases that are instituted in terms of the Companies Act (Chapter 386 of the Laws of Malta). This means that Malta now has a specialised Court presided over by a specialised member of the judiciary who hears and decides the cases falling within its jurisdiction. At this stage, the benefits of specialisation of the Commercial Section are already being felt from the judgments that have been given by this section, bringing about enhanced judicial certainty. Addressing the Court administration with the aim of making this administration more autonomous from the Government, is also

	something that the Government is actively currently working upon. Legislation has been promulgated in order to enable the building of a stronger structure which permits certain decisions to be taken without any bureaucracy thereby ensuring efficiency in the Court and in the field of justice. The creation of this Agency will lead to the modernisation of the Courts, thus offering a more efficient and effective service to citizens who need to use Court services and enhanced support to the judiciary. Some of the recent key legislative and constitutional developments in Malta, include the enactment of the Media and Defamation Act of 2018, intended at updating and rewriting the Maltese law on libel and slander in a manner which strengthens respect for the right to freedom of expression. Apart from this, the enactment of the *Standards in Public Life Act* through Act 13 of 2017, would also be worth mentioning. This Act provides for the appointment of a Commissioner and a Standing Committee with power to investigate breaches of statutory or ethical duties of categories of persons in public life, and for matters ancillary or related thereto. The Commissioner for Standards in Public Life is a highly respected lawyer who enjoys the respect of both sides of the House and was appointed Commissioner for Standards in Public Life with unanimous approval in the second half of 2019 right after the law was enacted an entered into force. Another point worth mentioning is the fact that since August 2018, Malta also joined in on the enhanced cooperation project setting up the European Public Prosecutor's Office (EPPO). This bears testimony to Malta's commitment to fight crimes including those affecting the Union's financial interests. Malta is currently in the process of finalising its internal procedures in submitting its list of three names in connection with the post of European Prosecutor within the EPPO. In line with Article 36 of the United Nations Convention Against Corruption, which states that: "*each State Party shall … ensure the existence of a body or bodies or persons specialized in combating corruption through law enforcement*", the Permanent Commission Against Corruption (PCAC) was set up and rendered competent to investigate cases which fall under the thirteen articles of the Criminal Code specified in section 6 of Chapter 326 of the Laws of Malta and also to investigate attempts, complicity and conspiracy when these are connected with the thirteen articles indicated. The Commission has dealt with a number of reports filed by private persons and has carried out its investigations in accordance with the provisions of Chapter 326. The main principles are secrecy, the observation of the rules of natural justice and reporting to the Minister responsible for Justice. In its activity, the Commission is guided by the application of the principle of 'beyond reasonable doubt'. It is worth pointing out that the current structure of the

	PCAC in practice ensures political neutrality. This can be seen through the provisions set out in the Permanent Commission Against Corruption Act (Chapter 326 of the Laws of Malta) which states that: "*there shall be a Commission, to be known as the Permanent Commission Against Corruption, which shall consist of a chairman and two other members, appointed by the President of Malta acting in accordance with the advice of the Prime Minister, given after he has consulted the Leader of the Opposition.*" In 2018, the Government also amended the Public Administration Act with a view to provide for pre-appointment parliamentary hearings with respect to important public appointments to Ambassadorships and to leading roles in regulatory authorities, thus enhancing transparency and accountability. Moreover, the Government intends to update and replace the Public Administration Act through the introduction of the revolving door policy. The revolving doors practice refers to the ease that allow persons to move from private employment to public office and vice versa, thus increasing the opportunity for private companies to activate their networks of former collaborators once they become public policy makers or increasing the concerns on the integrity of governmental decisions that are made by public officials seeking to leave government service for private employment. The proposed policy aims to address this issue and affirm the values of public administration as an instrument for the common good. Since May 2018, the Individual Investor Programme (IIP) is being administered by an independent Government entity specifically focused on the operations of Malta's citizenship by investment programme. The Malta Individual Investor Programme Agency (MIIPA) is the sole entity responsible for the processing of applications, the carrying out of an in-depth due diligence, involving law enforcement authorities, and international renowned due diligence service providers. Following a multi-tiered evaluation, the Agency puts forward recommendations to the Government regarding the granting of citizenship. In the coming weeks, a new legal notice will be enacted to continue enhancing the Malta IIP. Amongst the several elements it will tackle, the legal notice will: 1. Make it clearer that the Agency has to conduct due diligence on the source of funds – whilst this is already being done, it will now be given legal powers; 2. Make it clearer that the Agency has to conduct a risk analysis on every applicant – similar to point 1, this is already being done, but now it is being given legal powers; 3. It gives the power to the Agency to conduct due diligence on its agents;

	4. It lists a number of responsibilities and conditions that the agents should abide with; 5. It gives the power to the Agency to sanction and or revoke licenses to agents in cases of misconduct; 6. It provides for protected disclosures for individuals (whistle-blowers) who have information on applicants, at any stage of the application; 7. It puts a responsibility on agents to provide all material information to the Agency during the application period; 8. It puts an obligation on agents to inform the Agency if they become aware of any material breaches, fraud, misinformation or any adverse information that may have an impact on the eligibility of an individual to hold Maltese citizenship, for the period of five years after the granting of citizenship; 9. It gives authority to the Agency to collaborate with the MFSA, FIAU, the Police and the Commissioner for Revenue in cases of investigations; 10. All applicants will, by law, be scrutinised against international sanctions and restrictive measures, taking into consideration EU, UN and US lists. These changes, amongst many others, will continue to strengthen the Agency's powers to investigate and collaborate with competent authorities on its findings. The role of the regulator remains there to oversee the overall process of the Agency and ensure that it is evaluating applications according to law. Furthermore, the Office of the Regulator of the IIP is, inter alia, tasked with monitoring the correct implementation of the IIP as well as any other functions that may be assigned to the Regulator by the Prime Minister, through regulations, in relation to citizenship. In the discharge of his functions, the Regulator, who is appointed by the Prime Minister after consultation with the Leader of the Opposition, shall act in his individual judgment and shall not be subject to the direction or control of any other person or authority.
	Continue the ongoing progress made on strengthening the anti-money laundering framework, in particular with regards to enforcements
	Malta is deeply committed to preventing, detecting and prosecuting money laundering and terrorist financing activities. Financial crime threatens the safety of a society, the integrity of its financial system, and

the stability of its economy. In Malta, the National Coordinating Committee on Combating Money Laundering and Funding of Terrorism (NCC) is the governing body responsible for the general oversight of Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) policy. The purpose of the NCC is to oversee the national effort on AML/CFT. The objectives of the NCC are to ensure full transparency on Malta's AML/CFT risks, to provide a comprehensive, coordinated and communicated strategy for managing the risks, have an effective execution of and follow-through on decisions made, as well as effective ongoing cooperation and intelligence sharing among stakeholders.

The NCC is responsible for promoting effective collaboration between regulators and law enforcement agencies, and for monitoring interaction between them. The NCC was established within the Ministry for Finance through Subsidiary Legislation S.L. 373.02, enacted on the 13th April 2018. The NCC is composed of board members as prescribed by the Maltese legislation and includes as board members the Ministry for Finance (acting as chairperson of the NCC), the Asset Recovery Bureau (ARB), the Central Bank of Malta (CBM), the Commissioner of Revenue, the Financial Intelligence Analysis Unit (FIAU), the Malta Financial Services Authority (MFSA), the Malta Gaming Authority (MGA), the Malta Police Force (MPH), the Ministry for Justice, Culture and Government, and the Office of the Attorney General (AG).

The National Strategy Plan was formulated in April 2018 with actions deliverable by 2020, including the related initiatives to improve the national AML/CFT framework. This was set out in seven key initiatives designed to improve the national AML/CFT framework, and mainly included the initiative to: (1) establish a National Coordination Committee; (2) strengthen and clarify the supervisory framework; (3) enhance internal capabilities of the FIAU; (4) enhance investigation and prosecution capabilities; (5) establish an effective Asset Recovery Unit; (6) increase transparency of legal entities and arrangements; and (7) build on existing international coordination setup. The implementation phase of the AML/CFT Strategy has already commenced and is well in progress. There is a huge overall commitment from the competent authorities to implement the strategy and action plan, as well as to address the various actions, which emanate from the seven key pillars. It is to be mentioned that, so far, 35 per cent of the measures have been implemented.

With regards to the completion of thematic risk assessments, the NCC in 2018 has started working on the risk assessments concerning terrorism financing, legal entities and voluntary organisations, as well as on the

	virtual financial assets, with the contributions from the concerned competent authorities. For competent authorities, the risk assessments will help prioritise efforts and resources using a risk-based approach. For the private sector, it will allow for the development of proportionate and effective controls. The NCC is now in the process of finalizing the action plan aimed at mitigating the risks outlined in the terrorism financing risk assessment. The NCC also has an active role in preparing and coordinating the MONEYVAL evaluation. The NCC has the role of coordinating with the relevant departments involved in the MONEYVAL evaluation, in order to highlight the deficiencies, establish the required action, as well as coordinating the drafting and submissions of any required feedback. In fact, in view of the Mutual Evaluation Report drawn up following the assessment of Malta's system as at November 2018 for AML/CFT, the NCC, in collaboration with twenty Maltese competent institutions, will be preparing a one-year action plan to implement the fifty-eight MONEYVAL recommendations. Each MONEYVAL recommendation will be entrusted to a competent institution, with a proposed set of actions in respect of each recommendation, a time frame for implementation, the resource requirements, including support and expertise, and, where required, an appointed project leader. Some of institutions that will be involved in this action plan are listed and defined more broadly below. In Malta, the Financial Intelligence Agency Unit (FIAU) is assisted by other Supervisory Authorities including the Malta Financial Services Authority (MFSA) and the Malta Gaming Authority (MGA), in carrying out AML/CFT supervisory examinations of financial and gaming services operations. All Authorities follow common supervisory procedures that were developed by the FIAU as part of the overhaul of the Supervisory Framework. In connection with the supervision of AML/CFT, the FIAU finalised the implementation of a detailed action plan consisting of 138 action points, in March 2019. The FIAU has overhauled and enhanced its entire supervisory policies and procedures, including the methodology for conducting risk assessments. This will ensure better governance, sanctioning, enforcement, follow up actions and record keeping. Also undertaken was the adoption of a new overarching supervisory strategy to deploy effective risk-based supervision in line with the highest international standards. The action plan was discussed and agreed with both the European Commission and the European Banking Authority (EBA) and was coupled with an increase in technical and human resources. Furthermore, both the European Commission and EBA were kept fully informed on the actions being implemented by the FIAU

	through ongoing one-to-one meetings and correspondence. To this effect, the European Commission acknowledged the improvement made by the FIAU in its Country Specific Recommendations issued in June 2019. Outreach initiatives form part of other measures being taken by the FIAU and MFSA to improve the overall AML/CFT framework. The FIAU has regularly – and especially throughout 2018/2019 – organised various training sessions, including for the financial sector, which were all highly attended. The sessions included sector specific AML/CFT training on typologies and on carrying out the institutional risk assessment; seminars and training sessions to explain the results of Malta's National AML/CTF Risk Assessment to subject persons, as well as sessions on the revised Implementing Procedures Part I (IPs) which reflect the recent legislative amendments to the PMLA and the PMLFTR brought about by the transposition of the Fourth Anti-Money Laundering Directive (AMLD), and provide subject persons with additional in-depth qualitative guidance on the AML/CFT obligations in all areas, including, for example, the implementation of the risk-based approach, or for instance the outsourcing and dealing with Politically Exposed Persons (PEPs). In addition, the FIAU issued a series of guidance documents, many of which are particularly relevant to credit and financial institutions. In parallel, the MFSA published their AML/CFT strategy which focused on enhancing the MFSA's approach towards its role in AML/CFT supervision as well as boosting its supervisory standards in order to safeguard the integrity and trust in the Maltese financial services sector. Furthermore, the MFSA has set out the applicable procedures and principles which regulated firms are expected to adhere to. The MFSA's main role is to support national AML/CFT supervision by ensuring that all regulated firms have in place effective systems and adequate controls to counter potential money laundering activities. For this to be achieved, the MFSA works closely with other national competent authorities and through on-site and off -sites examinations on subject persons, continuous oversight is maintained. Firms are expected to demonstrate robust AML and CFT arrangements from set-up through their entire lifecycle in business while the MFSA's responsibility is to monitor all these stages and make sure that wrongdoing is minimised. Furthermore, , the MFSA has continued to strengthen its anti-money laundering procedures with the publication of Guidance on PEPs. This is yet another step in the MFSA's efforts to enhance AML supervision and tackle international challenges posed by money laundering in line with

	international best practices and commitments with international counterparts and supervisory bodies. With effect from 2018, the MFSA Prudential Supervisory Units (PSUs) have started and will continue to provide on an annual basis (during the last quarter of every year) to the AML Team - Enforcement Unit, by means of an established template, risk-oriented information on each licensed person/entity under the supervision of that PSU. The information is relevant for the AML/CFT risk assessment and AML/CFT supervision purposes. This information contains risk scores determined by the PSUs which are then entered into the risk-assessment tool used by the AML Team - Enforcement Unit. The results of the AML/CFT risk assessment carried out by the AML Team – Enforcement Unit, are then communicated to the PSUs for information purposes. This has been implemented with effect from 2018. Prior to finalising the annual programme of AML/CFT supervision, including the onsite supervision visits schedule, the AML Team - Enforcement Unit once again requests the PSUs whether they have any AML-related concerns, on any licensed person/entity which should be brought to the attention of the MFSA AML Team - Enforcement Unit. This process has been in place since the MFSA AML/CFT supervision team was set up. The established annual AML/CFT supervision program, including an on-site visit schedule, is usually communicated during the months of December/January. PSUs also communicate their prudential supervision program to the AML Team - Enforcement Unit. Prior to conducting an on-site examination, the MFSA AML Team - Enforcement Unit notifies the relevant PSU and requests any up-to-date information which could be relevant for their supervisory work. If necessary, meetings are held between the MFSA AML Team - Enforcement Unit and the PSU concerned to discuss relevant issues. PSUs may also contact the MFSA AML/CFT supervision team for any relevant information prior to conducting prudential examinations. This process has been in place ever since the setting up of the MFSA AML/CFT supervision team. It has always been normal practice for PSUs and the MFSA AML Team – Enforcement Unit to alert each other at any time during the year should they identify any AML-related concerns with respect to any licensed person/entity under their supervision. Any perceived serious findings of the MFSA AML Team - Enforcement Unit following any form of AML/CFT supervision, including on-site examinations, are communicated to the relevant PSU. The PSU is copied with relevant correspondence between the MFSA AML Team - Enforcement Unit and

	the supervised person/entity such as the findings letter following an on-site examination. If necessary, meetings are held between the AML Team - Enforcement Unit and the PSU concerned to discuss relevant findings. Consequently, the PSU takes note of the AML/CFT findings and assesses the seriousness and relevance of the findings from a prudential point of view. The PSU can either: decide not to take any immediate action if the AML findings are deemed not to be serious or not of prudential concern, but still follow developments by means of regular contact with the AML Team - Enforcement Unit until the matter is finally determined by the FIAU; or else, if the AML findings are serious and raise immediate prudential concerns, the PSU will want to assess whether the AML/CFT deficiencies discovered by the MFSA AML Team - Enforcement Unit are the result of weaknesses or failures that might be relevant from a prudential point of view and/or whether and to what extent they pose a risk from a prudential aspect. Furthermore, among other key changes implemented over the past year, the MFSA has: • Established a dedicated Financial Crime Compliance (FCC) function to better reflect the strategic importance of AML/CFT supervision as an intrinsic part of the MFSA's prudential and conduct oversight. The setup was strengthened further through the engagement of a team of international experts, enabling the MFSA to achieve greater depth and quality in AML/CFT-related supervision of licence holders, working closely with the FIAU to increase the quality and intensity of its investigations. The additional resources have resulted in a substantial increase in the number of inspections carried out; • Introduced more in-depth and extensive AML/CFT checks throughout the supervisory lifecycle process – in particular the authorisation process has been made more stringent, with a focus on the shareholding structure, governance framework (including key functions), internal controls and business models presented. As a result of these rigorous checks, the number of applications refused in the first half of 2019 increased to 25% from the 10% pushed back in 2017; • Published guidance with respect to "fit and proper" procedures to be applied at all stages of on-boarding processes, setting out due diligence expectations for licence applicants;

	• Set up a Register of Trust Ultimate Beneficiary Owners as envisaged in the National Strategic Action Plan with beneficial ownership information on trusts. This is being populated in two phases. The first phase, relating to trusts having tax consequences, is already in place. The second phase, extending the obligation to register UBO information with respect to all trusts, comes into effect on 1 January 2020. The MFSA, in conjunction with the FIAU, will seek to bring the outcomes of the various sectorial risk assessments and thematic compliance reviews to the attention of the relevant industry sectors to create greater awareness of the particular risks to which their activities may become exposed to from an ongoing AML/CFT perspective. Work is also ongoing to further integrate the AML/CFT component into the Authority's wider prudential and conduct supervisory programme, providing another feedback loop to the FIAU. This requires additional capacity building within the prudential and conduct supervisory functions which is being given attention within the Authority's recruitment, management and training programmes. The level of co-operation and information sharing with the FIAU is also increasing on a number of levels ranging from the sharing of information on outcomes of supervisory reviews and inspections to co-ordination related to the enforcement of remedial actions and sanctioning of compliance breaches. Meanwhile the MFSA has also taken on board the recommendations of the IMF's Financial System Stability Assessment (FSSA) published in March 2019 following a comprehensive and in-depth analysis of a country's financial sector. This was also complemented by a further review carried out by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) and published on 12 September 2019, whose recommended actions are also being aligned with other actions being implemented as part of the National Strategic Action Plan. As from 1 January 2018, all gaming operators became subject persons under the PMLFTR. To this effect, the Malta Gaming Authority (MGA) has completed a sectoral ML/TF risk assessment of the gaming sector, as part of a National Risk Assessment for the Gaming Industry in Malta. The MGA has embarked on a number of initiatives in order to ensure that the identified risks are effectively managed. These include: the publication of the AML/CFT Implementing Procedures for the Remote Gaming Sector – Part 2; establishing its own risk-based approach at

	regulation and supervision, with AML/CFT forming a crucial part of the risk analysis conducted on operators; and furthering strengthening its internal AML unit tasked with the monitoring of 'Subject Persons' in terms of AML/CFT compliance by executing off site and onsite examinations. A Supervisory Plan for examining operators for 2019 was compiled from a Risk-Evaluation Questionnaire for both remote and land-based operators. This supervisory plan has now been completed, and apart from the 33 examinations conducted by the MGA (8, jointly with the FIAU) in 2018, a total number of 42 examinations are now scheduled for the next 12 months. In order to cope with the increase in demand and also to ensure examinations are conducted in the most effective way, the MGA is planning to increase the staff complement of the AML unit to 20, hence doubling the team. By the end of 2019, MGA and FIAU will formalise the already strong collaboration there is between the two authorities by signing the MOU aimed at increasing the efficiency and effectiveness in the way AML/CFT supervision is conducted. Added to this, the MGA is currently preparing to launch another SRA, with specific focus on the land-based sector, which report is aimed to be concluded in 2020. Training to the industry through the various conferences organised for the gaming industry is ongoing, with the MGA taking an active role on a number of informative panels. Together with the FIAU, the MGA is also planning an AML workshop for subject persons, early in 2020. In addition, both the MGA and FIAU jointly attended Gaming AML/CFT training with international compliance associations. Other similar sessions are being planned to take place in 2020. ***Law Enforcement*** Earlier this year Government announced major reforms to strengthen the fight against financial crime. This included the: • Creation of new Financial Organised Crime Agency to investigate and prosecute the most serious cases of money laundering and financial crime; • New Police Prosecution Unit to accelerate the prosecution of serious cases; • Enhanced powers for the Asset Recovery Bureau; • State Advocate Bill to separate Attorney General's civil and prosecution functions. During 2019, the Financial Crime Investigations Department strengthened their human capacity with the enrolment of further inspectors, sergeants and constables. In addition, a new Superintendent has been assigned to the department with the sole purpose to focus on

	Money Laundering. This will allow the other Superintendent in the Department to focus on Economic Crimes. A Financial Analyst was also recruited to contribute towards the analytical needs of the Department. In order to accommodate the increased human capacity, the Financial Crime Investigations Department will be moving into new premises at the start of 2020. The new premises will be equipped with modern investigative tools and upgraded equipment. The Malta Police Force is in the process of purchasing the i2 software, a project financed by the Hercule III European Funding. This software will be able to cross check different data into a centralised database and will also make it easier for the Force to coordinate with other Maltese entities in order to facilitate financial crime investigations and reduce criminal activity such as fraud and money laundering, among others. This project is expected to be finalised within 18 months and will also include four types of training, which will be given to 30 Police Officers. The training will be related to the use of the software and other areas within this sector.
	Strengthen the independence of the judiciary, in particular, the safeguards for judicial appointments and dismissals, and establish a separate prosecution service
	During 2016 the House of Representatives unanimously adopted Act 44 of 2016, *Constitutional Reforms (Justice Sector) Act*. This Act seeks to promote the separation of powers between the executive and the judiciary through a new and more transparent system of judicial appointments; and through an enhanced accountability of the judiciary as a result of the extension of disciplinary proceedings in case of breach of ethics. This further upholds the independence of the judiciary also through the improved remuneration and a service pension scheme that honours the service of retired members of the judicial bench and their widows/widowers. The legislation also makes provision for the setting up of two new Committees working under the remit of the Commission for the Administration of Justice, namely: - the sub-Committee on the appointment of members of the Judiciary (which Committee is composed of the Chief Justice; the Attorney General; the Auditor General; the Ombudsman; and the President of the Chamber of Advocates; and - the sub-Committee on the discipline of the Judiciary (which Committee is composed of members of the judiciary themselves).

	Since 1964 and up to 2016: there was no set structure on the method of appointment of members of the judiciary. Being entrenched in the Constitution, this law required two-thirds of Parliament to be enacted and enjoyed the support of all major stakeholders working in the Justice sector. This Act also attracted unanimity in the House and public endorsement by the Judiciary. Apart from this, in July 2019, the State Advocate Act was promulgated (through Act XXV of 2019). This Act will continue implementing the reform in the justice sector by providing numerous measures so that the Attorney General's present functions as the primary public prosecutor, and as the primary Government consultant in legal matters, are separated and carried out by different officials and institutions which are independent from one another. The newly enacted State Advocate Act requires that appointments of both the Attorney General and the State Advocate to be made after a public call for applications and recommendations of a Board. The public call for the post of State Advocate was published in the Government Gazette of 1 October 2019, with a deadline for applications set till Tuesday 15 October 2019.

CSRs	Relevant measures
CSR 3: Focus investment-related economic policy on research and innovation, natural resources management, resource and energy efficiency, sustainable transport, reducing traffic congestion and inclusive education and training.	Government's economic policy is focused on enhancing the business environment in Malta with a view to support a diversified and competitive economic base that creates wealth and jobs. The overall outcome is evidenced in the share of investment in Gross Domestic Product that stood at 21% over the last three years, around 3 percentage points higher than the rates recorded earlier this decade. This section will outline the developments underway in some of the key areas of activity for Government
	Research and Innovation
	Malta's R&I policy is currently driven by the National Research and Innovation Strategy 2020 intended to address deficits and gaps in the R&I ecosystem, including more investment in research and development, addressing skill gaps, facilitating science-business links, and including the set-up of a more effective governance of the research and innovation system. By August 2019, 162 Maltese entities had participated/or were participating in a total of 119 projects and received €22.7 million in EU net funding from Horizon 2020 with participants ranging from higher education, public and private as well as non-profit research organisations. Other investment projects to improve R&I in Malta have been implemented by the Malta Council for Science and Technology (MCST). MCST is currently working on the development of the National R&I Strategy post-2020 and the updating of the smart specialization strategy (RIS3). This strategy will be paired with a National R&I Fund which is comprised of 2 programmes under the FUSION branding: the Commercialisation Voucher Programme (CVP) and the Technology Development Programme (TDP). The FUSION programme offers support to researchers and to SMEs to assess the commercial and market potential through the CVP, and subsequently, providing research aid through the TDP. In parallel, a funding and support scheme was developed for recent graduates to establish start-ups that can enhance innovations by younger persons. Moreover, MCST signed an Implementing Agreement with the European Space Agency (ESA) in March 2018 for the establishment of the National Space Fund. This National Space Fund, with guidance from ESA, provides focus on a Space Education Programme and a Space Research Fund in Malta. In 2018, the Government also launched the Malta AI Task Force entrusted to develop a National AI Strategy. This will lay the foundations to position Malta as a centre of excellence for AI and develop AI Ethics Guidelines,

	and AI specific enhancements to the Innovative Technology Regulatory Framework. The policy document launched by this Task Force in March 2019 lays out the foundations and sharpens the national focus as a cornerstone to Malta's National AI Strategy which will be developed over the next months. The main aims of the document are to set out the focus of national resources across both the public and private sectors to ensure that the Maltese economy and citizens fully participate in, benefit from and where necessary are protected from a new global economic landscape and social landscape influenced, if not reshaped, by AI. The Policy is built on 3 Strategic Pillars: a) Investment, Start-ups & Innovation b) Public Sector Adoption and c) Private Sector Adoption. Underpinning these pillars are three enablers that cut-across all aspects of the National AI Strategy, which are a) Education and Workforce, b) Legal and Ethical Framework and c) Infrastructure.
	Natural Resource Management
	Ensuring that Malta continues protecting the environment and effectively addresses the environmental pressures remains a vital aspect on the country's agenda as this has a direct impact on its performance given its restricted size and limited natural resources. Since its establishment in 2018, *Ambjent Malta* has been entrusted with the coordination and support relative to the protection of natural capital. *Ambjent Malta* has submitted several proposals for EU funding related to coastal wetlands, natural habitat restoration and afforestation projects. Further efforts are being made in optimising the 2nd River Basin Management Plan. *Ambjent Malta* has also worked on conserving Malta's green infrastructure including the Rainwater integrated infrastructure network. Projects financed through the European Agricultural Fund for Rural Development (EAFRD) are also underway in various localities with a focus on rehabilitation of valleys and building of new rubble walls. Malta's policy framework in the area of water resource management is outlined in the 2nd Water Catchment Management Plan. The objectives of this plan are to ensure the optimal use of water resources and broaden Malta's Resource base sustainably. Key measures in this regard include the wide-ranging National Water Conservation Campaign which was launched in 2019, the development of information tools for stakeholders on water efficient practices and appliances. Additionally, educational initiatives are promoted through *GĦAJN*, the national water conservation awareness centre funded by the EEA and Norway Grants 2009-2014.

	Malta has invested substantially in the development of alternative water resources to broaden its resource base and hence enable national water demand to be met, whilst ensuring the sustainable use of its scarce natural resources. Such investments include: • the development and upgrading of sea-water desalination plants, which ensure high energy efficiency levels in the desalination process; • the development of water reclamation plants providing safe second-class water for the agricultural and industrial sectors with funding of €16 million by the EARFD; and • the harvesting of rainwater runoff – in particular at user level in the agricultural sectors.
	Resource and Energy efficiency
	Waste management has continued to be a priority on Government's policy agenda. An important development in this regard was the launching of the National Waste Management Plan in 2014-2020. The policy will pave the way for another strategy to run till 2030 that will run on the provisions of the new Waste Package. WasteServe ran a national awareness-raising campaign on recycling and repurposing waste called 'Don't Waste Waste'. Government also embarked on educational campaigns with respect to waste separation and the introduction organic waste collection whilst strengthening fines in case of transgressions. There are several plans for investment in upgrading its waste management infrastructure. These plans include the setting up of 'Waste to Energy' Facility in Malta as well as plans to invest in a new Material Recovery Facility (MRF), an advanced Multi Material Recovery Facility (MMRF) and storage facility as an expansion to WasteServ's current infrastructure in order to continue to deviate as much waste as possible away from the landfill. Work to support bio-resource material is also being actively pursued through the Agency for the Governance of Agricultural Bio-resources (GAB). Government launched a scheme to test and draw up a holistic approach to the sustainable management of livestock manure which enshrines circular economy principles. In conjunction with this, the GAB ventured into further studies which were concluded in February 2019 and which concentrated on the design and implementation of a project to provide a national solution to the management of biomass generated on livestock farms. This research identified a number of innovative

	technologies that can provide a circular approach by converting waste into a resource. The Regulator for Energy and Water Services (REWS) is tasked with administering various national and EU funded schemes which seek to encourage the use of systems for residential purposes that are either energy efficient or generate renewable energy as a means to lower household's dependency on the electrical grid. Schemes like 'Investment Aid for Energy Efficiency Projects' and "Investment Aid for High-Efficiency Co-Generation" have been introduced with the aim of reducing the commercial use of fossil-fuel-generated electricity and increase the production and use of thermal energy and electrical and/or mechanical energy. The Government's effort to green the Maltese economy has also focused on Solar Power Farms, restoration and preservation of Urban Conservation Areas (UCAs), the restoration of rural roads and the greening of the tourism industry through awards like the Green Mobility Hotel Award and Labelling Scheme in 2019. Nevertheless, investments in the power generation sector have improved the energy efficiency reflecting the Energy Efficiency First principle, increasing the overall conversion efficiency from 25-30% to more than 50%. The Government has also drafted a Strategy on Single-Use Plastics including a policy on a Beverage Container Refund System to be implemented by the end of 2019. Moreover, considering the importance of the construction industry in Malta and the waste management challenges that come with it, the Government will be unveiling a 'Construction and Demolition Waste Strategy', in line with the circular economy principles.
	Sustainable Transport and Reducing Traffic Congestion
	Malta is highly dependent on road transport for its internal mobility needs. Since Malta has no rail network or inland waterway systems, the only alternative to road transport is the internal maritime transport. This however can only have the potential to capture around 5% of all trips carried out on a typical day and this is limited to transport between accessible coastal areas. Therefore, given the spatial and demographic specificities of Malta, most mobility continues to be road-based. In the context of sustainable transport and reducing traffic congestion, the Government is promoting incentives to reduce private vehicle use and emissions. This was done through the Sustainable Urban Mobility Plans, by: • a more effective public transport;

	• incentivising alternative modes such as car sharing, maritime transport and cycling; • electrification of cars; • support to local mobility through the development of sustainable and accessible modes of transport; and • intelligent transport systems. In line with Malta's 2017 national transport strategic vision for 2050 and operational plan to 2025, the general approach aims at achieving more sustainable mobility through improving Malta's strategic road network (particularly the TEN-T roads) by removing traffic bottlenecks and introducing measures aimed at achieving more sustainability to the way we travel. The removal of traffic bottlenecks is also a priority as this will reduce traffic congestion in urban areas; thus, giving prominence to more sustainable transport as well as promoting further modes of transport including cycling and pedestrian facilities. In this regard, Malta will therefore aim to include investment in roads as part of potential investment under Cohesion policy for the upcoming programming period. In order to address congestion and pollution, Government has committed an investment of €700 million over 7 years to upgrade the road network, starting in 2019. This upgrade is part of a holistic approach towards sustainability, air quality, reduction in cars and traffic congestion and modal shift. Other investments include the deployment of infrastructure to support digitalisation and the decarbonisation of road and maritime transport. These include using technology to improve the efficiency of travel, for example: by promoting the use of alternative fuels (such as zero emission electric vehicles over internal combustion engine (ICE) vehicles) through incentives and infrastructure; through the use of intelligent transport systems (ITS); and through the introduction of integrated ticketing between different modes to create seamless mobility. As a result of an investment of €1.43 million in incentive grants in 2018, 267 electric vehicles and 185 pedelecs were registered.
	Inclusive education and training
	National Inclusive Education Framework is the main strategy towards inclusive education and training. This framework is in line with Government's education strategy as outlined in the Framework for the Education Strategy for Malta 2014-2024 that promotes the setting of an inclusive school environment. This ensures that all learners have the opportunity to obtain the necessary skills and attitudes to be active citizens

	and to succeed at work and in society. The National School Support Services (NSSS) also helps to minimise the delays and reach developmental milestones and skills required for formal schooling. The NSSS intervenes on all areas of development including Physical (gross and fine motor skills), Social Communication and Language, Cognitive, Numeracy and Literacy development. Government has in recent years invested in quality educators to cater for students with special needs. In particular, the Foundation for Social Welfare Services (FSWS), in conjunction with the University of Malta, the Manchester Metropolitan University, and the Malta College for Arts Science and Technology (MCAST), had applied for European Social Fund financing, to train all their employees and improve front-line and professional services for disability issues. The NSSS also holds ongoing training for its professionals in areas related to disability and is an active member of the European Agency for Special Needs and Inclusive Education. The Institute for Education provides training modules on Disability in general, and also on specific themes such as Autism. Furthermore, intense training was given to 50 educators on developing and utilising effective strategies and resources for learners with Autism Spectrum Disorder (ASD). NSSS provides services according to the specific needs of students to assist them in their holistic development: • Access to Communication & Technology Unit (ACTU); • Developmental Assessments and Interventions; • Individual Educational Programmes (IEPs) and Statements of Needs; • Services for Students with Social, Emotional and Behavioural Difficulties (SEBD); • Measures for Hearing and Visually-impaired Students; • Resource Workers, Youth Workers and Specialised Support Staff (for delivery of above services); • Resource Centres. The extensive and diverse policies mentioned above, tackle different needs of different students including: • Students with physical disabilities, specific communication needs and learning difficulties; • Students that would benefit from more technical skills; • Students with autism spectrum disorder; • Children with developmental delay;

	• Students with social, emotional and behavioural difficulties (SEBD); • Gifted and talented children; • Migrant and foreign student inclusion, including through the setting of a Migrant Learner's Unit.

Extra Budgetary Units as at 31 December 2018

Appendix Table 6.b

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

Notes:

1. *This list does not include entities which are already accounted for within the Departmental Accounting System (DAS) of Central Government.*

2. *General Classification of economic activities within the European communities. Industries are grouped into 64 categories (A64) based on NACE Rev 2.*

4. Distributional Implications of Budget Measures

4. Distributional Implications of Budget Measures

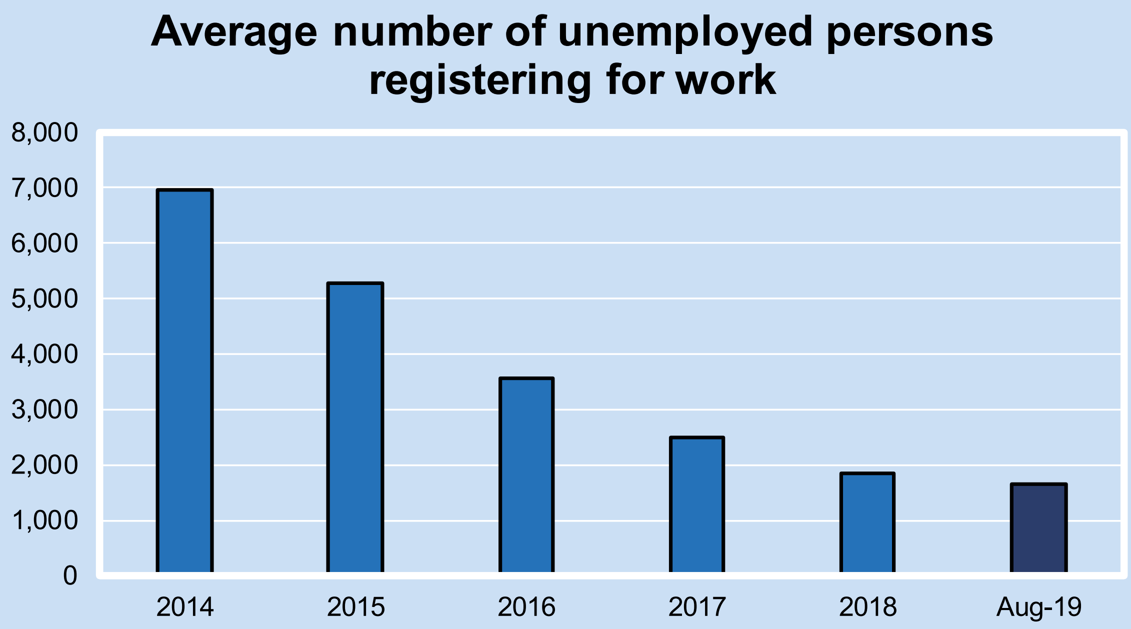
Cognisant of the fact that maintaining high levels of economic growth does not necessarily result in sustained improvements in welfare, the Government is ensuring that the current robust economic growth is both sustainable and inclusive. Indeed, several budget measures have been implemented to ensure that the generated wealth is distributed fairly across individuals and social groups. Various measures were also directed towards increasing opportunities and discouraging unnecessary dependencies on the State with the aim of enhancing household incomes and achieve a more equitable income distribution.

Benefits for those with disability have also increased and incentives have been provided to increase the participation rates of vulnerable people willing and able to work. Furthermore, initiatives aimed at enhancing the incomes of pensioners and elderly people and supporting the provision of informal long-term care are also in place.

4.1 Government Initiatives

One of the aims of several policy reforms in recent years has been to strengthen the labour force and to encourage vulnerable groups in society to enter the labour market. As a result of such policies, employment growth has maintained its positive momentum. Indeed, administrative records held by Jobsplus confirm that the number of persons registered as unemployed had fallen to 1,645 persons by the end of August 2019 compared to nearly 7,000 in 2014.

Chart 4.1



Source: National Statistics Office based on Jobsplus database

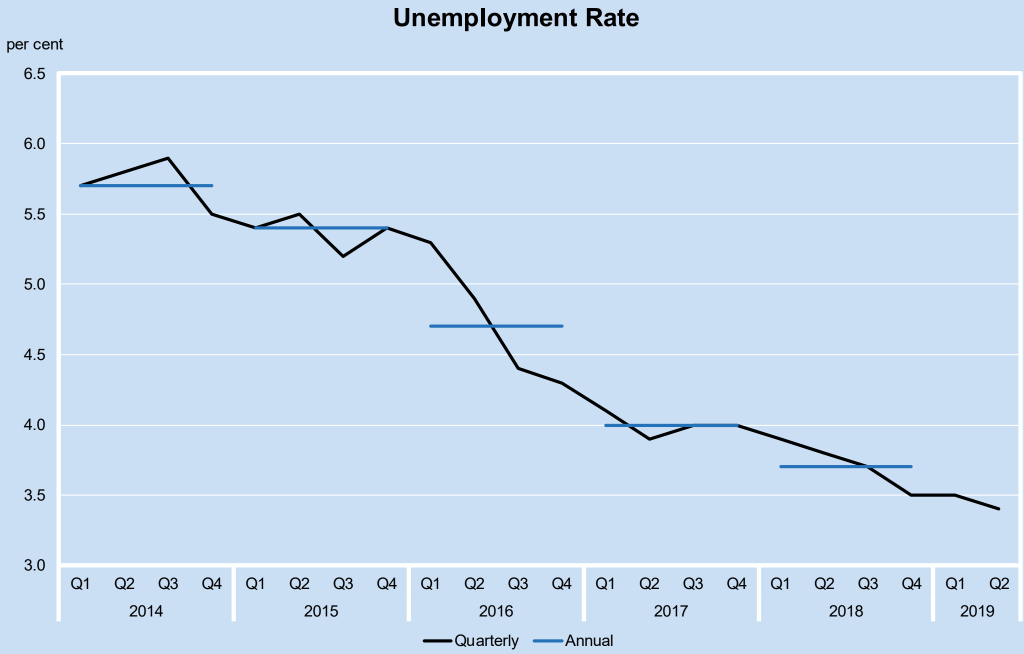
Corroborating this trend is the Labour Force Survey (LFS), which is showing a declining unemployment rate, reaching 3.4 per cent at the end of the second quarter of 2019, 0.4 percentage points lower than the corresponding period in 2018. Both female and male unemployment rates, at 3.7 per cent and 3.2 per cent respectively, are well below the European Union (EU) averages of 6.0 per cent and 6.4 per cent respectively.

In 2018, the number of employed persons (aged 15-64) increased by around 13,000 persons on average when compared to the previous year. Employment growth in the first quarter of 2019 stood at 5.8 per cent.

In the first quarter of 2019, the employment rate stood at 72.2 per cent out of the total working age population. On average, out of every 100 persons aged between 25-54 years, 84 were employed. The male employment rate for this age bracket was 93.6 per cent while that for females was 73.6 per cent. As can be seen in Charts 4.4 and 4.5, the gender gap is observed to increase with age, ranging from a narrow gap of 1.4 percentage points for the 15-24 age bracket to a difference of 34 percentage points for those aged between 55 and 64 years.

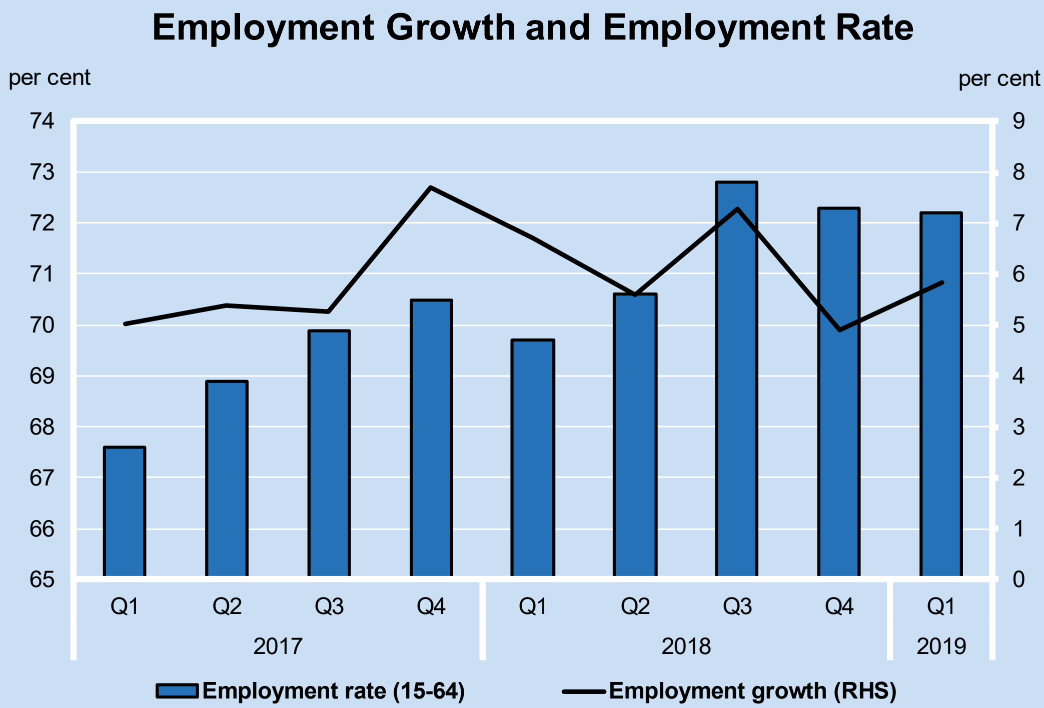
Additional measures have continued to improve the financial situation of low-income earners while contributing to an increase in labour supply. Employment was encouraged through reforms in the social security system aimed at making work pay and through initiatives that increased both male and female participation rates in the labour market. Furthermore, measures that reduced households' expenses and enhanced employment income including the reduction in utility tariffs, the provision of free childcare, the breakfast club, the maternity leave fund, the reductions in the income tax rates, the widening of the non-taxable income tax bracket and extension of the in-work benefit, made employment more attractive.

Chart 4.2



Source: Eurostat

Chart 4.3



Source: Eurostat

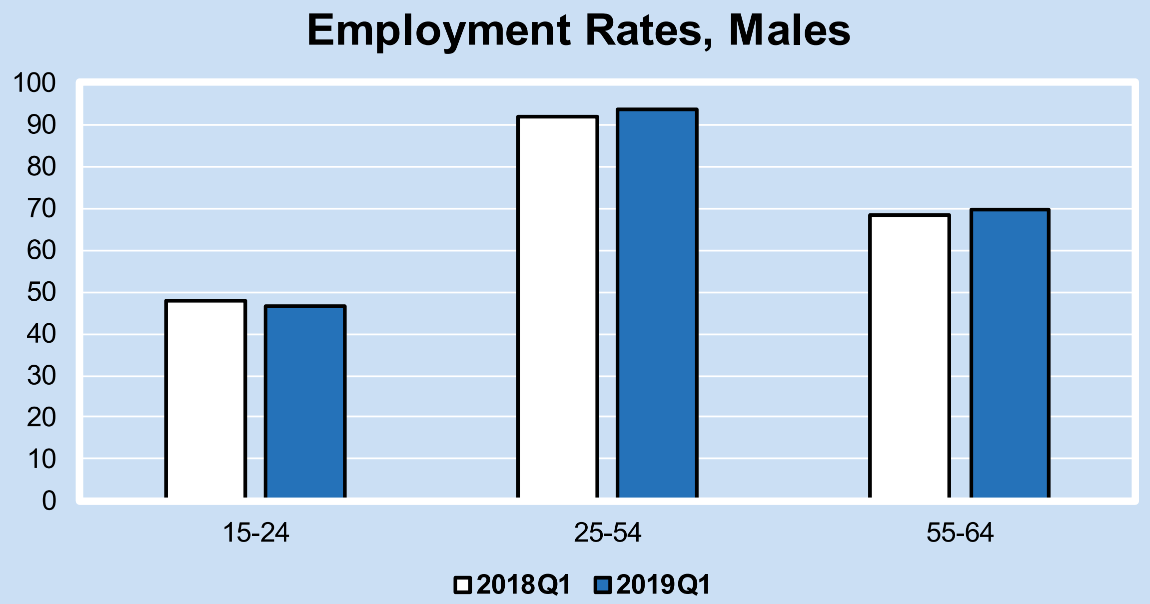
During 2019, employees will continue to benefit from the April 2017 National Agreement between the trade unions and employers on the Minimum Wage, aimed at striking a balance between competitiveness and social justice. As stipulated in the agreement, employees are benefitting from increases in their minimum wage upon completion of the first year of employment with the same employer. Employees are entitled to mandatory increases of €3.0 per week during the second year of employment, and an additional €3.0 per week in the third year of employment. This agreement also secures a supplement in the form of weekly Cost of Living Adjustment (COLA) of €1.00 per week for 2018 and 2019.

4.2 Indicators measuring Poverty, Social Exclusion and Inequality

One of the headline indicators of the Europe 2020 targets on poverty and social exclusion is the people at-risk-of-poverty-or-social-exclusion (AROPE) rate. This indicator corresponds to the sum of persons who are: at risk of poverty or severely materially deprived or living in households with very low work intensity. The indicator for Malta stood at 19.0 per cent in 2018, which is the lowest AROPE rate registered over this past decade. According to the latest data available, in 2017, Malta's AROPE was more than 3 percentage points lower than the rate recorded at EU level.

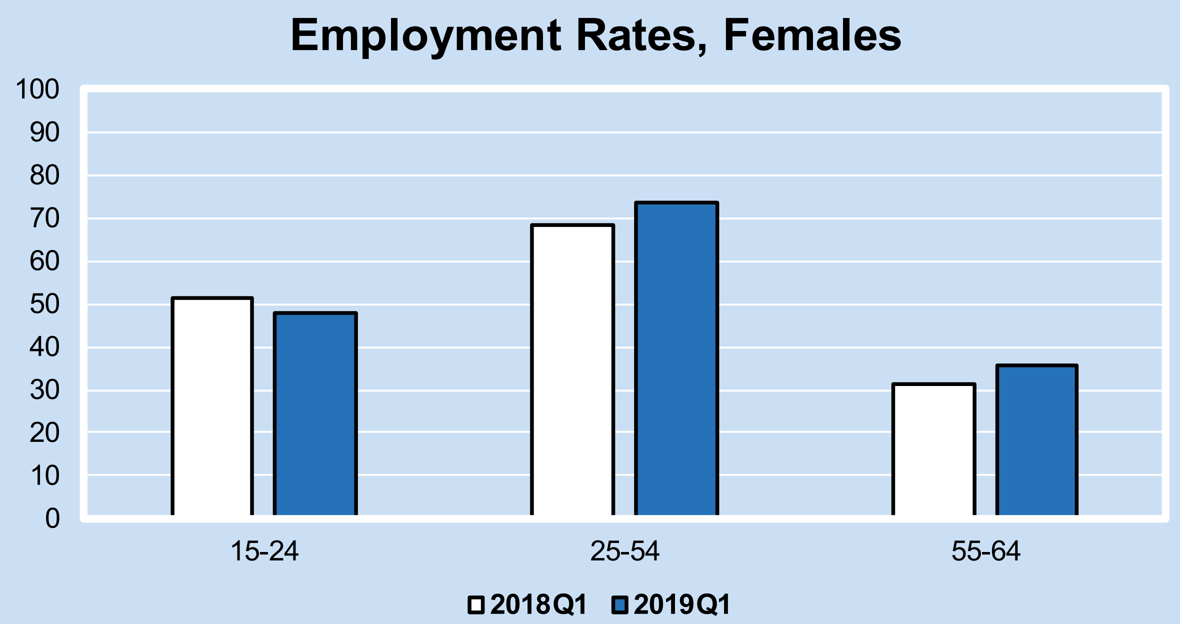
The at-risk-of-poverty (ARP) rate before social transfers stood at 23.6 per cent in 2018 for Malta. In the EU, the rate was 23.7 per cent in 2017, with Malta's corresponding rate

Chart 4.4



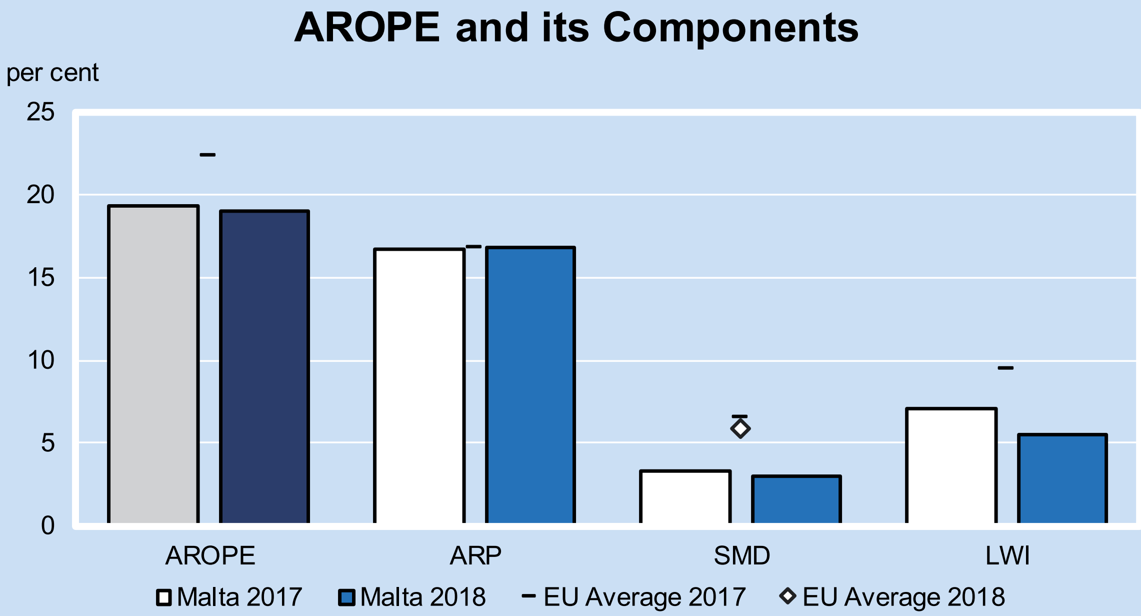
Source: Eurostat

Chart 4.5



Source: Eurostat

Chart 4.6



Source: Eurostat

standing at 22.8 per cent. After the inclusion of social transfers, the ARP rate, dropped by nearly 7 percentage points for Malta reaching 16.8 per cent in 2018. In 2018, the severe material deprivation rate (SMD) among persons living in households was equal to 3.0 per cent, 2.9 percentage points lower than the EU average and 0.3 percentage points less than the rate in 2017. This drop was mainly brought about by improvements in the households' ability to spend one week's annual holiday away from home and face unexpected financial expenses. Similarly, the share of persons residing in a household with low work intensity (LWI) decreased from 7.1 per cent in 2017 to 5.5 per cent in 2018. When compared to the EU average, the low work intensity in Malta was 2.4 percentage points lower than the EU rate in 2017.

The income quintile share ratio (S80/S20) has been stable, indicating that income of the wealthiest 20 per cent of the population is on average 4.3 times higher than the income of the bottom quintile. This figure, although marginally higher than the ratio recorded in 2017, is still 0.8 percentage points lower than the EU average.

The Gini-coefficient for Malta remains below the EU average despite the rapid pace of economic transformation experienced over the past decade. The Gini coefficient after social transfers, has also remained relatively stable, hovering around 28. At EU level, both ratios are higher, suggesting that income inequality is less pronounced in Malta. The gap between the values of the EU and Malta, have also slightly increased during 2017, indicating a further relative improvement for Malta.

The EU-SILC survey indicates that in 2018, nearly three fifths (or 58.9 per cent) of Maltese households were home owners with no outstanding loan or mortgage, while nearly one

Income Distribution

Table 4.1

	EU	Malta	
	2017	2017	2018
S80/S20 ratio	5.1	4.2	4.3
Gini-coefficient	30.7	28.2	28.7

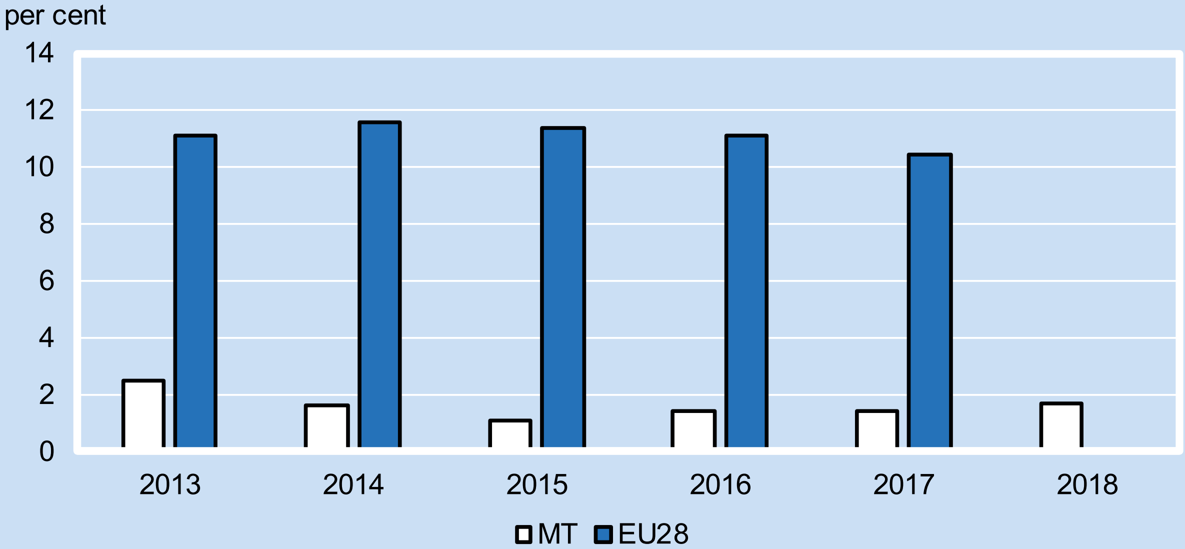
Source: Eurostat

in every five (or 22.7 per cent) lived in an owner-occupied house with a loan or mortgage. The rest lived in rented dwellings, with 6.8 per cent renting at the prevailing market rate and 11.6 per cent were tenants paying reduced rates.

The proportion of the Maltese population that spent 40 per cent or more of their equivalized disposable income on housing stood at 1.7 per cent in 2018. The rate was consistently below 2 per cent after 2013. In 2017, the EU average rate of people living in households with a housing cost overburden was 10.4 per cent (Chart 4.7). In 2018, the

Chart 4.7

Housing Cost Overburden Rate



Source: Eurostat

overburden rate for the Maltese population below the poverty line (below 60 per cent of the median equivalized income) stood at 5.6 per cent. The EU average figure is not available for the year 2018, but in 2017 the rate reached 37.9 per cent.

4.3 Measures targeting inclusive growth in 2020 Budget

The Budget for 2020 aims to continue to build on distributional policies enacted in recent years with the aim of strengthening social cohesion and social justice while supporting the appropriate conditions for the economy to continue to grow and creating jobs within the framework of inclusive economic growth.

Making Work Pay

The Government will continue supporting measures which enhance the disposable income of low and middle-income earners by extending measures which are aimed at making work pay such as the In-Work Benefit Scheme, the taper of benefits and the increase in the minimum wage and by reducing the tax burden on workers.

Supporting Families

The Government will continue ensuring that families with children on low income are shielded from the risk of poverty. Indeed, Eurostat statistics show that the number of persons living in households with children at risk of poverty or social exclusion decreased by 10,100 from 2013 to 2018.

In this regard, the Government will continue to support incomes through income supplements and bonuses linked to child birth or adoption. Furthermore, building on measures introduced in previous years, the support to disabled persons will be increasing further to a level equivalent to the minimum wage.

The Government is continuing with its work in the area of affordable and social housing. Following the launch of the housing benefit in 2019, the income eligibility will be widened to ensure that more households benefit from this assistance. In addition, various affordable housing budget measures which were introduced in previous budgets will be extended, while the First-Time Buyer Scheme will be enhanced.

Elderly

The Government will continue to adopt measures intended to reduce the risk of poverty amongst the elderly. The 2020 Budget includes a number of measures aimed at financially enhancing the pensioners' and the elderly's income. Several other measures are directed towards supporting and encouraging the elderly to continue living in their homes.