



# **Malta: Draft Budgetary Plan 2016**

**Ministry for Finance  
October 2015**

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  
12th of October, 2015

## **1. Overall Policy Framework and Objectives**

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# 1. Overall Policy Framework and Objectives

Over the last two years, Government's growth friendly fiscal consolidation approach enabled Malta to progressively lower the fiscal deficit while becoming one of the fastest growing economies in the Euro Area. Government believes that sound economic policies which address Malta's growth potential and competitiveness will strengthen the sustainability of public finances.

In the 2016 Budget, Government reiterates its commitment to a healthy underlying budgetary position over the economic cycle and to gradually reduce the debt ratio. Notwithstanding these ambitious targets, a number of fiscal measures outlined in the 2016 Budget aim to further enforce the concept of making work pay. Government is also supplementing existing measures to strengthen social cohesion and reduce poverty for families with children with low income.

The 2016 Budget also highlights the importance of investment, both in enhancing human capital by increasing incentives for training and education, as well as for productive investment by streamlining procedures and announcing a number of incentives for businesses.

## 1.1 Macroeconomic Scenario

The Spring macroeconomic and fiscal projections presented in the Update of the Stability Programme 2015-2018 and in Malta's Medium-Term Fiscal Strategy 2015-2018 have been revised upwards, taking into account a better than expected outcome for the first half of 2015 and more positive expectations over the medium-term.

Overall growth in 2015 is expected to reach 4.2 per cent in real terms, supported primarily by positive developments in the domestic sector of the economy. During 2016, economic growth is set to moderate, growing by 3.6 per cent in real terms, with the external side of the economy largely accounting for all the expected growth. Growth in headcount employment is expected to remain strong and increase by 1.9 per cent in 2015, and to stabilise at 2.0 per cent in 2016. Inflationary pressures are expected to marginally increase by 0.2 percentage points in 2015 to 1.0 per cent, and to increase to 1.8 per cent in 2016.

## 1.2 Fiscal Policy Objectives

After Malta took effective action to bring down the Government deficit below the 3.0 per cent threshold by the end of 2013, the deficit is targeted to decline further to 1.6 per cent of Gross Domestic Product (GDP) in 2015 and to 1.1 per cent in 2016. This is consistent with a structural effort of around 0.5 percentage points of GDP in 2016. Meanwhile, the general Government gross debt ratio is expected to decrease by 1.7 percentage points of GDP in 2015 and by a further 1.3 percentage points in 2016, reaching 65.2 per cent of GDP.

## 1.3 Fiscal Governance

The Fiscal Responsibility Act was adopted by the Maltese Parliament in August 2014. This Act establishes fiscal rules which bind national fiscal authorities in achieving a balanced structural budget, or in its absence, converge towards the medium-term budgetary objective. Moreover, the Act also establishes the medium-term budgetary framework and strengthens the role of the Ministry for Finance in the budgetary process and the multi-annual fiscal planning.

The Act also establishes a Fiscal Council that is tasked with assessing and endorsing macroeconomic and fiscal forecasts, and monitoring compliance with fiscal rules according to the provisions of this Act. The Malta Fiscal Advisory Council (MFAC) is operational following its appointment earlier this year. The MFAC holds regular meetings with the main stakeholders (the Economic Policy Department and the Budgetary Affairs Office of the Ministry for Finance, the National Statistics Office, the Treasury and the National Audit Office) and receives regular reports and data on fiscal issues. Since its inception, the Council has published three reports. In April and May, the Council carried out an assessment and an endorsement of Government's macroeconomic and fiscal projections as published in the Update of the Stability Programme, respectively. In September, the Council issued an Assessment of the Medium-Term Fiscal Strategy 2015-2018, Annual Report 2014 and Half Yearly Report 2015 published earlier by the Ministry for Finance.

It is to be noted, that 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 2016 Budget have been submitted to the Fiscal Advisory Council for its endorsement.

## 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 sustained by the range of structural economic policies presented in this year's National Reform Programme (NRP) and the Budget 2016 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;
2. Raising potential output, in particular by continuing to increase the labour force participation, especially of women, raising skill and education levels, promoting lifelong learning, and increasing productive capital investment;
3. Enhancing the competitiveness and transparency of the products and services markets whilst strengthening consumer protection, including the holistic justice reform;
4. Effectively reducing bureaucracy especially the length of the public procurement process, and ensuring that the public service is efficient and cost effective;

5. Safeguarding the successes achieved by the Maltese financial sector by reducing macroeconomic imbalances related to the financial sector and ensuring it continues to follow rigorous practices; and
6. Prioritising the promotion of a diversified and balanced economy.



## **2. Economic Outlook**

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## 2. Economic Outlook

### 2.1 The Short-Term Scenario

Following the robust growth registered in 2014, the Maltese economy continued to grow at an average rate of 5.1 per cent in real terms in the first half of 2015, outperforming growth in the European economy by nearly three times. Over the same period, labour market developments strengthened markedly as gains in employment were coupled with a falling unemployment rate.

During the first half of this year, the Maltese economy expanded by 5.1 per cent in real terms. Specifically, Gross Value Added (GVA) increased by 7.0 per cent attributed to increases registered in all sectors of the economy with the exception of the manufacturing sector which decreased by 0.9 per cent. The latter was the result of a fall in the manufacture of computer, electronics, and optical products registered in the first quarter. Indeed, in the second quarter of 2015, the manufacturing sector grew by 4.7 per cent. Significant increases were recorded in the professional, scientific and technical activities sector, real estate activities, in the public sector, in the arts, entertainment and recreation sector, in the wholesale and retail trade, transportation and accommodation sector, in the financial services sector, and in the information and communication sector. During the same period of 2015, both compensation of employees and gross operating surplus exhibited positive performance, expanding by 4.1 per cent and 10.4 per cent, respectively. Meanwhile, net taxes on production and imports increased by an average rate of 7.5 per cent.

The Maltese economy is expected to retain a positive momentum in the second half of 2015. Overall growth in 2015 is expected to reach 4.2 per cent in real terms, supported primarily by positive developments in the domestic sector of the economy, while the external side of the economy is expected to act as drag on economic growth, reflecting the surge in imports of energy investment goods. Indeed, private consumption is expected to increase by 3.5 per cent in real terms, sustained by a moderate growth in employment and growth in disposable income which is in turn being driven by an appreciation in wages. Government expenditure is projected to rise by 1.0 per cent in 2015, reflecting increases in compensation of employees and intermediate consumption. Gross fixed capital formation is expected to remain strong over the second half of the year and increase by 21.4 per cent in 2015, largely on the back of a large-scale project in the energy sector. Exports are expected to remain at the same level of 2014 while the strong domestic demand (particularly investment) is expected to drive up imports by 1.4 per cent, resulting in a negative net trade contribution to growth.

During 2016, economic growth is set to moderate, growing by 3.6 per cent in real terms, with the external side of the economy largely accounting for all the expected growth. Domestic demand is expected to contribute positively to economic growth by 0.3 percentage points as the positive performances expected in both private and public consumption expenditure more than offset the declines in gross fixed capital formation. It is however worth noting that the drop in gross fixed capital formation is predominantly a base effect from 2015 reflecting the surge in energy investments. The investment to Gross Domestic Product (GDP) ratio is expected to remain at a healthy 19.6 per cent of GDP in real terms, 1.5 percentage points higher than the investment ratio characterizing the Maltese economy since the 2009 recession. Positive external developments are expected to be primarily

## Main Macroeconomic Indicators

Table 2.1

	2012	2013	2014	2015 <sup>(1)</sup>	2016
GDP growth at current market prices (% change)	4.5	4.6	5.4	6.5	6.2
GDP growth at chain linked volumes (2010) prices (% change)	2.5	2.6	3.5	4.2	3.6
<b>Expenditure Components of GDP</b>					
<b>at chain linked volumes (2010) prices (% change)</b>					
Private final consumption expenditure <sup>(2)</sup>	-0.2	1.9	2.9	3.5	2.9
General government final consumption expenditure	6.3	0.2	7.5	1.0	1.9
Gross fixed capital formation	4.5	-0.7	9.1	21.4	-8.0
Exports of goods and services	7.0	-0.2	-0.3	0.0	3.9
Imports of goods and services	5.2	-1.2	0.6	1.4	1.7
<b>Contribution to GDP growth (in percentage points):</b>					
Domestic Demand	1.9	1.0	4.7	6.1	0.3
Inventories	-2.4	-0.0	0.1	0.0	0.0
Net Exports	3.0	1.7	-1.3	-1.9	3.3
Inflation rate (%)	3.2	1.0	0.8	1.0	1.8
Employment growth (Resident population concept, LFS definition) (%)	2.2	3.3	3.1	1.9	2.0
Unemployment rate (Harmonised definition) (%)	6.3	6.4	5.9	5.8	5.6

(1) Forecasts from 2015 onwards

(2) Includes NPISH final consumption expenditure

underpinned by the stronger performance of Malta's main trading partners and the protracted effect of the significant depreciation of the Euro against the currency of our main trading partners. In particular, the projected depreciation of the Euro against the US\$ is expected to contribute to a recovery in exports in 2016, particularly reflecting a strong performance expected in pharmaceuticals, other business, tourism and remote gaming sectors. Other export-oriented sectors are expected to register moderate increases in exports whilst the electronics subsector is anticipated to recover in 2016, although still registering subdued growth rates.

Table 2.1 presents the main macroeconomic indicators for the years 2012–2016. The figures for the 2012-2014 period are based on the latest data released by the National Statistics Office (NSO) under the new European System of National and Regional Accounts (ESA 2010) whereas the figures presented for 2015 and 2016 are based on the autumn forecasts.

### 2.1.1 Assumptions for Projections

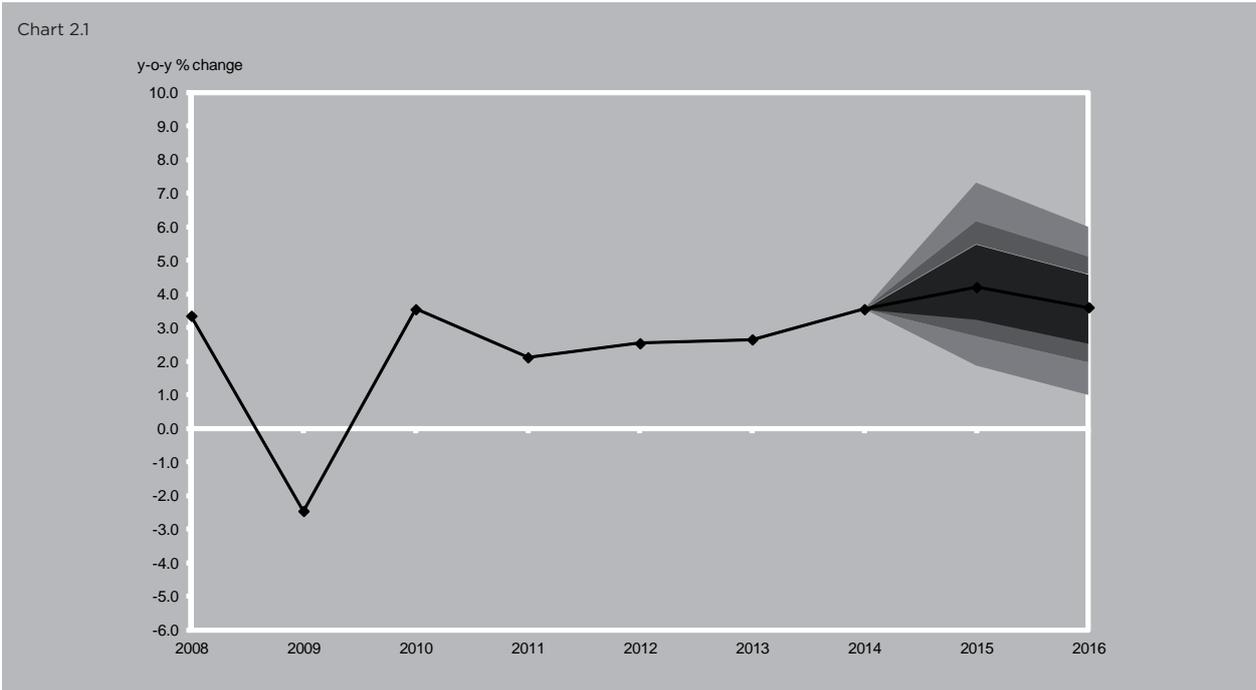
The macroeconomic forecasts presented in this Draft Budgetary Plan are based on the following assumptions:

1. Economic activity in Malta's main trading partners is expected to increase by 1.5 per cent and 2.0 per cent in 2015 and 2016, respectively.

- 2. Oil prices are expected to decrease to US\$57.1 per barrel in 2015 and to increase to US\$63.0 per barrel in 2016.
- 3. Short-term interest rate is expected to average 0.05 per cent in 2015 and to remain the same thereafter. On the other hand, the long-term interest rate is expected to average at 1.6 per cent in 2015 and to remain the same in 2016.
- 4. The nominal effective exchange rate is expected to fall to an average of 0.975 in 2015, reflecting the expected depreciation of the Euro exchange rate to both the Dollar and the Sterling, and to marginally decrease to 0.9502 in 2016. Specifically, the USD/EUR exchange rate is expected to average 1.0897 in 2015 and to 1.0718 in 2016, whilst the STG/ EUR exchange rate is expected to average 0.7103 and 0.7075 in 2015 and 2016, respectively.
- 5. It is being assumed that, Government expenditure moderates in the second half of 2015.
- 6. Changes in inventory are assumed not to contribute materially to GDP growth.

**2.1.2 Risks to Outlook**

The economic outlook in this Draft Budgetary Plan is more positive than the one projected in Spring 2015. This is attributable to the higher than expected economic growth rate registered in the first half of 2015 coupled with a more favourable outlook in the exchange rate. Nevertheless, an element of prudence is still present in this forecast. Any growth in excess of 3.3 per cent in the second half is expected to result in a stronger than anticipated growth by the end of 2015. This indicates that the risk is primarily on the upside. Whilst the volatility of investment may be a risk factor, this is primarily mitigated by the assumption of high import content and therefore no material impact on GDP is expected.



For 2016, downside risk related to external conditions is offset by upside risk on the domestic front. In particular, the growth forecast for 2016 is based on a relatively moderate growth in employment. A stronger element of growth in employment coupled by consumer confidence and a low interest rate environment could stimulate private consumption beyond these relatively prudent forecasts. Private investment could also be stronger than expected. On the downside, risks to the growth of services exports may materialize if the impact of the favourable exchange rate is weaker than anticipated, growth in the Euro Area fails to materialize or due to a protracted slowdown in emerging markets.

Risks on the downside include weaker than expected economic activity in Malta's main trading partners following renewed uncertainty in the Euro Area and an increased level of geopolitical risks. On the other hand, upside risk relates mainly to a stronger than expected private investment. The effect of new developments in oil production could go either way depending on how fast the adjustments in oil prices take place. It is notable that these forecasts include the impact of lower commercial energy prices on private investment which could further boost private investment.

The effect on real GDP growth from these risks scenarios have been quantified based on internal estimates and are illustrated through the use of a fan chart in Chart 2.1.

### **2.1.3 Employment Prospects**

The Labour Force Survey (LFS) recorded an employment rate of 63.9 per cent in the second quarter of 2015, a 1.4 percentage point increase when compared to the corresponding quarter in 2014. Growth in headcount employment is expected to remain strong and increase by 1.9 per cent in 2015. On the other hand, growth is expected to remain broadly at the same pace in 2016 as it is expected at 2.0 per cent. Moreover, the unemployment rate (based on Harmonised definition) is expected to decrease by 0.1 percentage points to 5.8 per cent in 2015 and to further decrease by 0.2 percentage points to 5.6 per cent in 2016. This is well below the expected EU average rate and reflects efforts in ongoing active labour market policies.

In 2015, all sectors are expected to register positive growth rates with the exception of the construction sector. On the other hand, employment within the manufacturing sector, the public sector and the wholesale and retail trade sector are expected to grow by less than 2.0 per cent. All the other sectors are expected to grow in excess of 2.0 per cent, with the highest rates of growth expected in the tourism sector. This overall positive performance is expected to be largely supported by a higher female employment rate, reflecting increased efforts from Government to increase female participation, and increased employment flexibility.

### **2.1.4 Inflation**

The HICP inflation rate (twelve month moving average) which during 2014 stood at 0.8 per cent remained subdued during the first half of this year and stood at 0.8 per cent in the latest report, mainly due to the negative growth rates registered in energy prices. Inflationary pressures are expected to marginally increase by 0.2 percentage points in 2015 to 1.0 per cent on the back of higher expected unprocessed food prices after having declined in 2014. As oil prices are expected to increase relative to 2015 while the USD/Euro exchange rate is expected to remain broadly the same, inflation is expected to

increase to 1.8 per cent in 2016. The latter is also the result of higher expected processed food prices when compared to 2015.

## 2.2 Comparison to Commission’s Spring Forecast

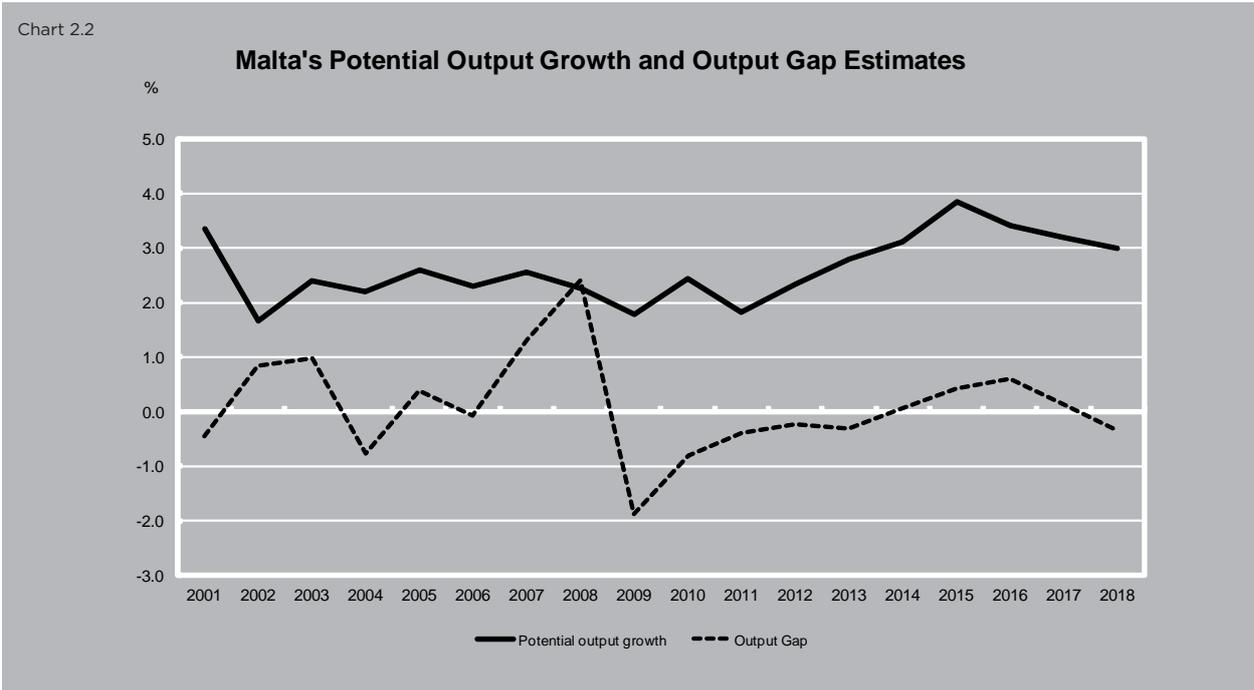
The Spring forecasts published by the European Commission project a growth rate for Malta of 3.6 per cent and 3.2 per cent in 2015 and 2016, respectively, with domestic demand being the main driver of growth in both years. Therefore, forecasts for real GDP growth presented in this Draft Budgetary Plan are 0.6 and 0.4 percentage points higher than the rate forecasted by the Commission for 2015 and 2016, respectively. This is mainly attributed to a higher than expected contribution from domestic demand for 2015, while for 2016 the composition of growth differs with that of the Commission. The latter is expecting growth to be primarily generated by the domestic side of the economy. On the other hand, the Ministry for Finance is expecting growth for 2016 to be generated mainly from the external side of the economy.

Nominal GDP growth presented in this Draft Budgetary Plan is projected at 6.5 per cent and 6.2 per cent for 2015 and 2016, respectively. For 2015 and 2016, this represents a higher growth of 1.5 percentage points and 1.2 percentage points, respectively over the baseline presented by the Commission in its Spring forecast.

The European Commission will be updating its forecasts in the coming weeks by its Autumn round of forecasts.

## 2.3 Potential Output and the Output Gap

The average potential output growth stood at 2.4 per cent during the period 2006 to 2014. Over the forecast period 2015 to 2018, potential output growth is expected to exhibit a gradual increase. In fact, average potential growth is expected to be 3.4 per



cent, mainly underpinned by strong investment, positive employment growth, higher labour market participation rates and improvements in the total factor productivity.

The output gap is expected to remain positive between 2015 and 2017 as the Maltese economy is expected to register a rate of economic growth that is above potential. The output gap is expected to turn negative in 2018.

The developments in potential output and in the output gap, both historically and those expected over the forecast horizon, are illustrated in Chart 2.2.

**Macroeconomic forecasts  
(Basic assumptions)**

Appendix Table 0.i

	2014	2015	2016
<b>Short-term interest rate<sup>1</sup> (annual average)</b>	0.18 ***	0.05	0.05
<b>Long-term interest rate (annual average)</b>	1.70	1.60	1.60
<b>USD/€exchange rate (annual average)</b>	1.304	1.090	1.072
<b>STG/€exchange rate (annual average)</b>	0.797	0.710	0.708
<b>Nominal effective exchange rate</b>	1.055	0.975	0.950
<b>Real GDP Growth of main trading partners</b>	1.20	1.50	2.00
<b>Nominal GDP Growth of main trading partners</b>	3.20	3.30	3.10
<b>World import volumes, excluding EU</b>	...	...	...
<b>Oil prices (Brent, USD/barrel)</b>	99.02	57.11	63.00

<sup>1</sup> If necessary, purely technical assumptions

\* 0.25 with effect from 13/Nov/2013

\* 0.15 with effect from 11/Jun/2014

\* 0.05 with effect from 10/Sept/2014

**Macroeconomic forecasts  
(Macroeconomic prospects)**

Appendix Table 1.a		€ million CLV 2010 Prices	rate of change		
	ESA Code	2014	2014	2015	2016
<b>1. Real GDP</b>	B1*g	7,343.0	3.5	4.2	3.6
<b>2. Potential GDP</b>			3.1	3.8	3.4
<b>3. Nominal GDP</b>	B1*g	7,941.3	5.4	6.5	6.2
<b>Components of real GDP</b>					
<b>4. Private final consumption expenditure</b>	P.3	4,108.4	2.9	3.5	2.9
<b>5. Government final consumption expenditure</b>	P.3	1,530.3	7.5	1.0	1.9
<b>6. Gross fixed capital formation</b>	P.51	1,305.7	9.1	21.4	-8.0
<b>7. Changes in inventories and net acquisition of valuables (% of GDP)</b>	P.52 + P.53	-20.9	-0.3	-0.3	-0.3
<b>8. Exports of goods and services</b>	P.6	11,015.0	-0.3	0.0	3.9
<b>9. Imports of goods and services</b>	P.7	10,605.0	0.6	1.4	1.7
<b>Contributions to real GDP growth</b>					
<b>10. Final domestic demand</b>		6,944.6	4.7	6.1	0.3
<b>11. Changes in inventories and net acquisition of valuables</b>	P.52 + P.53	-20.9	0.1	0.0	0.0
<b>12. External balance of goods and services (% of Nominal GDP)</b>	B.11	410.0	-1.3	-1.9	3.3

### Macroeconomic forecasts (Price developments)

Appendix Table 1.b	ESA Code	Index		rate of change	
		2014	2014	2015	2016
<b>1. GDP deflator</b>		108.1	1.9	2.3	2.5
<b>2. Private consumption deflator</b>		106.0	-0.1	0.8	2.0
3. HICP		121.0	0.8	1.0	1.8
4. Public consumption deflator		105.3	1.4	1.8	3.2
5. Investment deflator		114.8	2.8	4.4	1.9
<b>6. Export price deflator (goods and services)</b>		107.7	0.4	2.5	1.7
<b>7. Import price deflator (goods and services)</b>		107.1	-0.3	2.4	1.3

### Macroeconomic forecasts (Labour market developments)

Appendix Table 1.c	ESA Code	€000s		rate of change	
		2014	2014	2015	2016
<b>1. Employment, persons<sup>1</sup></b>		181.4	3.1	1.9	2.0
2. Employment, hours worked <sup>2</sup>		390,129.1	4.5	1.9	2.0
<b>3. Unemployment rate (%)<sup>3</sup></b>			5.9	5.8	5.6
<b>4. Labour productivity, persons<sup>4</sup></b>		40,479.6	0.4	2.3	1.6
5. Labour productivity, hours worked <sup>5</sup>		18.8		2.3	1.6
<b>6. Compensation of employees</b>	D.1	3,561.8	5.4	4.7	5.3
<b>7. Compensation per employee</b>		19,635.3	2.2	2.7	3.2

<sup>1</sup> Total employment, resident population concept, labour force survey definition.

<sup>2</sup> National accounts definition.

<sup>3</sup> Harmonised definition, Eurostat; levels.

<sup>4</sup> Real GDP per person employed.

<sup>5</sup> Real GDP per hour worked.

**Macroeconomic forecasts  
(Sectoral balances)**

Appendix Table 1.d	% GDP			
	ESA Code	2014	2015	2016
<b>1. Net lending/net borrowing vis-à-vis the rest of the world</b>	B.9	4.2	3.0	8.7
<i>of which:</i>				
- Balance on goods and services		6.4	4.4	8
- Balance of primary incomes and transfers		-3.9	-3.3	-0.9
- Capital account		1.8	1.9	1.6
<b>2. Net lending/net borrowing of the private sector</b>	B.9	10.5	8.5	13.5
<b>3. Net lending/net borrowing of general government</b>	B.9	-2.1	-1.6	-1.1
<b>4. Statistical discrepancy</b>		-4.2	-3.9	-3.7

### **3. General Government Budgetary Developments**

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### **3. General Government Budgetary Developments**

Malta took effective action to bring down the Government deficit below the 3.0 per cent threshold by the end of 2013. Subsequently, Government continued on the path of fiscal consolidation and the deficit declined further to 2.1 percent of Gross Domestic Product (GDP) in 2014, which is an improvement in the deficit-to-GDP ratio of 0.6 percentage points. The debt ratio for 2014 embarked on a downwards trajectory which is expected to continue in the coming years. The debt ratio for 2014 stood at 68.3 per cent.

The general Government balance is expected to decline further in 2015, with further gradual reductions envisaged over the medium-term horizon. Consistent with the calendar of convergence established by the European Commission, Government is targeting the attainment of the Medium-Term Budgetary Objective (MTO) in 2019.

#### **3.1 Budgetary Targets**

In 2015, the deficit is targeted to decline to 1.6 per cent of GDP. While absolute levels of both revenue and expenditure are expected to be higher than what was projected in the Update of the Stability Programme submitted earlier on this year, these increases are expected to be more than outweighed by stronger GDP growth, such that their ratios are expected to be marginally lower as a share of GDP. Nevertheless, the deficit target remains unchanged. The indications and data available up to September 2015 are broadly consistent with this target, in particular since these developments are expected to persist over the last quarter of 2015.

In structural terms, the deficit is expected to register an improvement of 0.5 percentage points of GDP annually in both 2015 and 2016. While in 2015, the anticipated narrowing of the deficit is expected to be mainly revenue-based, supported by buoyant economic growth, fiscal consolidation in 2016 is primarily expenditure-based, reflecting the expiry of temporary expenditure measures implemented in 2015. Government budgetary targets are presented in Table 2a.

The general Government gross debt ratio is expected to decrease by 1.7 percentage points of GDP in 2015 and by a further 1.3 percentage points in 2016, reaching 65.2 per cent of GDP. In particular, 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. The sizeable stock-flow adjustment, especially in 2016, is mainly due to the contribution to the Malta Government Stock sinking fund, and also complemented, to a lesser extent, by an increase in the cash holdings on the part of Government. Developments in gross Government debt are presented in Table 2b.

**Budgetary Targets**  
(General government budgetary targets broken down by subsector)

Table 2.a		% GDP	
	ESA Code	2015	2016
<b>Net lending (+) / net borrowing (-) by sub-sector<sup>1</sup></b>	B.9		
1. General government	S.13	-1.6	-1.1
2. Central government	S.1311	-1.6	-1.1
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	2.6	2.4
7. Primary balance <sup>2</sup>		1.1	1.3
8. One-off and other temporary measures <sup>3</sup>		0.23	0.09
9. Real GDP growth (%) (=1 in Table 1.a)		4.2	3.6
10. Potential GDP growth (%) (=2 in Table 1.a)		3.8	3.4
11. Output gap (% of potential GDP)		0.42	0.60
12. Cyclical budgetary component (% of potential GDP)		0.19	0.27
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		-1.77	-1.41
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		0.86	1.02
15. Structural balance (13 - 8) (% of potential GDP)		-2.0	-1.5

<sup>1</sup> TR-TE= B.9.

<sup>2</sup> The primary balance is calculated as (B.9) plus (D.41, item 6).

<sup>3</sup> A plus sign means deficit-reducing one-off measures.

**Budgetary Targets**  
(General government debt developments)

Table 2.b		% GDP	
		2015	2016
1. Gross debt <sup>1</sup>		66.6	65.2
2. Change in gross debt ratio		-1.7	-1.3
<b>Contributions to changes in gross debt</b>			
3. Primary balance		-1.1	-1.3
4. Interest expenditure		2.6	2.4
5. Stock-flow adjustment		0.9	1.4
p.m.: Implicit interest rate on debt <sup>2</sup>		4.1	3.9

<sup>1</sup> As defined in Regulation 479/2009.

<sup>2</sup> Proxied by interest expenditure divided by the debt level of the previous year.

### 3.1.1 Discretionary Measures

A number of revenue and expenditure measures are to be taken by Government in 2016 on the back of strong economic growth being achieved.

Permanent discretionary revenue measures particularly include:

1. Continuing the shift from direct to indirect taxation:
  - a. Further revenue in indirect taxation equivalent to 0.23 per cent of GDP will be levied on consumer goods including revisions in excise on fuel, cement, cigarettes and tobacco, plastic bags and chewing gum. The impact from higher excise duties will be partially offset by lower revenue from Eco-contribution equivalent to 0.06 per cent of GDP as the latter scheme is being phased out and replaced by specific excise duties.
  - b. The lowering of income tax bands is estimated to cost the Government 0.13 per cent of GDP. This is in line with Government policy to shift the tax burden away from labour income while still keeping the same Value Added Tax (VAT) rates.
  - c. As of 1st April 2016, an environmental contribution will be paid by all tourists aged 18 or over, the proceeds of which will go to upgrade, improve and maintain main public spaces and tourist zones. The contribution will be €0.50 per night and capped to €5 for each visit. This is expected to yield 0.07 per cent of GDP.
2. The increase in pensionable age announced as part of the 2006 pension reform is expected to contribute an additional negligible amount as a per cent of GDP in national insurance contributions (equivalent to an incremental amount of €3.2 million in level terms). The Government has also announced that the years of contributions to pensions will be increased from 40 to 41 years for those born after 1968. For the private sector, the retirement age is no longer mandatory if the employer consent to an extension. Furthermore, incentives to encourage late retirements in the private sector, were also announced in the 2016 Budget which could further improve pension sustainability.
3. The International Investor Programme is expected to render an additional €5 million in revenue in 2016 over and above the revenue recorded in 2015. However, in terms of GDP, the expected impact is negligible.

The net impact of temporary and permanent discretionary revenue measures for 2016 (including those implemented in previous budgets but which will still have an impact in 2016), is estimated at €16.3 million, equivalent to 0.08 per cent of GDP. It is noteworthy, that the estimated impact of discretionary revenue measures excludes the impact of a reduced final withholding tax rate on rental income of commercial property from 25 per cent to 15 per cent, which measures are expected to increase revenue by improving the tax base due to higher declared income.

Incremental discretionary expenditure measures (including those implemented in previous budgets but which will still have an impact in 2016), are expected to improve the budgetary balance of 2016 by €45.5 million, equivalent to 0.55 per cent of GDP particularly due to temporary expenditure in 2015 which will not to be affected in 2016, including:

**Description of discretionary measures included in the draft budget <sup>1</sup>**  
**(Discretionary measures taken by General Government)**

Table 5.a

List of measures	Detailed description	ESA Code	Accounting principle	Adoption Status	Introduced in Budget for...	Incremental Budgetary impact	
						2015 % GDP	2016 % GDP
Efficiency in Revenue Collection	VAT Anti Avoidance Measures	D211 - R	Accruals	Permanent & Adopted	2015	0.045	-0.003
Impact on VAT revenue from revised Excise Duties	Impact on VAT from the aforementioned revisions in Excise Duties	D211 - R	Accruals	Permanent & Adopted	2016	0.000	0.035
Financial support to first-time buyers	First-time buyers that have never owned an immovable property before 1st of January 2014 and that are going to finalise their contract in 2014, will be exempt from paying the 3.5 per cent duty on the first €150,000 of the property bought	D214 - R	Accruals	Temporary & Adopted	2014	0.006	0.000
Financial support to first-time buyers	The Scheme for first-time buyers have been extended to 2015	D214 - R	Accruals	Temporary & Adopted	2015	-0.003	0.003
Revision in excise duty on fuel	Revision in excise duty (incl. indirect impact on VAT) of 2c for diesel and 1c for petrol	D214 - R	Accruals	Permanent & Adopted	2015	0.049	-0.003
Revision in excise duty on cement	Revision in excise duty (incl. indirect impact on VAT) from €27 per tonne to €35 per tonne	D214 - R	Accruals	Permanent & Adopted	2015	0.031	-0.002
Revision in excise duty on cigarettes and tobacco	Revision in excise duty (incl. indirect impact on VAT) of 30c increase in retail price for cigarettes 6% increase for tobacco	D214 - R	Accruals	Permanent & Adopted	2015	0.065	-0.004
Excise duty on wine	An introduction of an excise duty on wine of 20c per litre	D214 - R	Accruals	Permanent & Adopted	2015	0.022	-0.001
Licence fee on explosive material	A revision in the AFM charges for Mosta depot on explosive material (incl. impact on VAT) in order to enhance security and safety	D214 - R	Accruals	Permanent & Adopted	2015	0.006	-0.000
Excise duty on tyres	An introduction of an excise duty on tyres to replace the eco-contribution	D214 - R	Accruals	Permanent & Adopted	2015	0.017	-0.001
Excise duty on ammunition	An introduction of an excise duty on ammunition to replace the eco-contribution	D214 - R	Accruals	Permanent & Adopted	2015	0.002	-0.000
Excise duty on petroleum oils	An introduction of an excise duty on petroleum oils to replace the eco-contribution	D214 - R	Accruals	Permanent & Adopted	2015	0.002	-0.000
Excise duty on mobile telephony	Revision in excise duty (incl. indirect impact on VAT) on mobile telephony of a 1% increase	D214 - R	Accruals	Permanent & Adopted	2015	0.016	-0.001
Revision in the swimming pool tax	Increase to €6 per m3 for domestic and €10 for commercial & increase maximum rate from €2,329 to €2,500 for domestic and €3,500 for commercial	D214 - R	Accruals	Permanent & Adopted	2015	0.009	-0.001
Revision in the duty on documents on insurance products	An increase of 1% in the stamp duty on insurance products & increase minimum amount from €11.65 to €13	D214 - R	Accruals	Permanent & Adopted	2015	0.014	-0.001
Revision in the road licence fee	An increase of €5/€10/€15 depending on the CO2 emissions/size of engine, that is based on a polluter pays principle	D29 - R	Accruals	Permanent & Adopted	2015	0.026	-0.002
Efficiency in Revenue Collection	Duty on Documents Anti Avoidance Measures	D214 - R	Accruals	Permanent & Adopted	2015	0.021	-0.001
Revision in excise duty on fuel	Increase of 3c excise both on petrol and diesel and all other fuels	D214 - R	Accruals	Permanent & Adopted	2016	0.000	0.078
Revision in excise duty on cigarettes and tobacco	Increase specific excise by €0.15 & €0.20 minimum. Ad valorem remains 25%. Increase in price per packet is likely to be €0.30	D214 - R	Accruals	Permanent & Adopted	2016	0.000	0.065
Revision in excise duty on cement	Increase of 0.05c/kg from current rate of eur35/1000kg to eur40/1000kg	D214 - R	Accruals	Permanent & Adopted	2016	0.000	0.016
Excise duty on chewing gum	€9 excise per kg of chewing gum. Excise will bring an additional rise of around 6c replacing Eco-contribution	D214 - R	Accruals	Permanent & Adopted	2016	0.000	0.008
Environmental Contribution	Environmental contribution: tourists accommodation (excluding under 18s)	D214 - R	Accruals	Permanent & Adopted	2016	0.000	0.070
Excise duty on containers made of plastic, glass or metal containing beverage	An increase of €0.02/ltr on all beverages excluding milk, water & wine. Bottled Water & Wine @ 0.005c/ltr. Milk Exempt replacing Eco-contribution	D214 - R	Accruals	Permanent & Adopted	2016	0.000	0.021
Revision in excise duty on plastic bags	Plastic bags/sacks will be subject to an excise of 0.02c to address a legislative loophole replacing Eco-contribution	D214 - R	Accruals	Permanent & Adopted	2016	0.000	0.006
Eco-Contribution	Estimated Revenue lost from the phasing out of the Eco-Contribution	D214-R	Accruals	Permanent & Adopted	2016	0.000	-0.064
Financial support to first-time buyers	The duty exemption for first-time buyers will be extended retrospectively from 1st July 2015 till the end of 2016	D2 - R	Accruals	Temporary & Adopted	2016	0.000	-0.008
Widening of the income tax rates	A revision in the tax rate from 35 per cent to 32 per cent for those on a single or joint computation for up to eur 60,000 from 2013. In 2014, the top income tax rate will go down to 29 per cent and drop further to 25 per cent in 2015. The rate of 35 per cent will apply for those earning over eur 60,000	D5 - R	Accruals	Permanent & Adopted	2013	-0.208	0.030
Investment Registration Scheme	The impact on the increase in income tax base for tax purposes following the Investment Registration Scheme	D5 - R	Accruals	Permanent & Adopted	2014	0.071	-0.004
Tax Credit for School Transport	School Transport Incentives	D5 - R	Accruals	Permanent & Adopted	2014	-0.006	0.000
Investment Registration Scheme	A scheme which encourages declaration of funds for tax purposes thereby increasing the income tax base for tax purposes in a permanent manner. Individuals residing in Malta who hold eligible assets without the necessary exchange control permits and/or, without declaring the relevant income (including capital gains) for the purposes of the Income Tax Act, will be given the opportunity to regularise their position.	D5 - R	Accruals	Temporary & Adopted	2014	-0.400	0.000
Efficiency in revenue collection and Tax Arrears Collection Schemes	The consolidation of the various functions of Government revenue into one authority will improve efficiency in tax collection. In addition a number of schemes were announced to facilitate the recovery of tax arrears.	D5 - R	Accruals	Temporary & Adopted	2012	-0.015	-0.009
Efficiency in Revenue Collection	Income Tax Anti Avoidance Measures	D5 - R	Accruals	Permanent & Adopted	2015	0.059	-0.003

Efficiency in Revenue Collection	Capital Gains Tax Anti Avoidance Measures	D5 - R	Accruals	Permanent & Adopted	2015	0.018	-0.001
Reduction of final withholding tax	A reduction of the final withholding tax rate on rental income of commercial property from 25% to 15%	D5 - R	Accruals	Permanent & Adopted	2016	0.000	n/a
Revision in Income Tax Bands for Low Income Earners	The tax band for low income earners will be revised so that every working citizen will benefit from reduced income taxes	D5 - R	Accruals	Permanent & Adopted	2016	0.000	-0.126
Pension reform initiatives	The pension reform initiative legislated in 2006 is expected to lead to revenue increases in terms of national insurance contributions	D6 - R	Accruals	Permanent & Adopted	2006	0.109	0.004
Efficiency in revenue collection and Tax Arrears Collection Schemes	The consolidation of the various functions of Government revenue into one authority will improve efficiency in tax collection. In addition a number of schemes were announced to facilitate the recovery of tax arrears.	D6 - R	Accruals	Temporary & Adopted	2012	-0.010	-0.006
Efficiency in Revenue Collection	National Insurance Anti Avoidance Measures	D6 - R	Accruals	Permanent & Adopted	2015	0.012	-0.001
International Investor Programme	International Investor Programme	P10 - R	Accruals	Permanent & Adopted	2014	0.729	0.004
Fees of Office	A 10% increase in 'fees of office'	P10 - R	Accruals	Permanent & Adopted	2015	0.035	-0.002
Cost Recovery of Alcohol Banderoles	Cost recovery of current free banderoles on alcohol (not implemented in 2014)	P10 - R	Accruals	Permanent & Adopted	2015	0.011	-0.001
Scrappage Scheme	A grant given to scrapped cars of more than 10 years when a new car is bought	D319-E	Accruals	Permanent & Adopted	2014	-0.005	0.006
Pension reform initiatives	The pension reform initiative legislated in 2006 is expected to lead to lower pension expenditure primarily as the increase in retirement age leads to lower retirees	D6 - E	Accruals	Permanent & Adopted	2006	-0.005	-0.004
Assistance to the Elderly	Assistance to help the elderly live independently	D6 - E	Accruals	Permanent & Adopted	2012	-0.005	0.001
Free Child Care	Free child care for all children whose parents are working or still studying	D6 - E	Accruals	Permanent & Adopted	2014	-0.051	-0.004
Supplementary Children's Allowance	In 2015 an annual supplementary children's allowance was given which will be conditional on attendance to school, health checkups and psycho-social attention	D6 - E	Accruals	Temporary & Adopted	2015	-0.100	0.100
Bonus for non-eligible pensions	Bonus for non-eligible pensions	D6 - E	Accruals	Permanent & Adopted	2015	-0.027	0.002
Elimination of Pension Anomalies (incl. ex Shipyard Employees)	Elimination of Pension Anomalies (incl. ex Shipyard Employees)	D6 - E	Accruals	Permanent & Adopted	2015	-0.012	0.001
Service Pension	Additional €200 to be excluded from exempt sum for the purpose of calculating the 2/3 Service Pension	D6 - E	Accruals	Permanent & Adopted	2015	-0.019	0.001
One-Time Additional Bonus	One-Time Additional Bonus to compensate those employees, pensioners and other beneficiaries who will not benefit from the reduction in income tax	D6 - E	Accruals	Temporary & Adopted	2015	-0.095	0.095
Tapering of Social Benefits	Tapering of Social Benefits given for a three year period to those beneficiaries who become engaged in employment or start working as self-occupied	D6 - E	Accruals	Permanent & Adopted	2015	0.018	0.036
Youth Gaurantee	Youth Gaurantee is aimed at shifting young people on social assistance under the age of 23 to an ESF co-financed project	D6 - E	Accruals	Permanent & Adopted	2015	0.031	0.011
In-Work Benefit	In-Work Benefit for low-income households with children when both parents work to encourage labour market participation and reduce dependency on social benefits	D6 - E	Accruals	Permanent & Adopted	2015	-0.018	0.004
In-Work Benefit	For 2016, the In-Work Benefit is to be extended for low-income households with only one working individual with dependent children less than 23 years	D6 - E	Accruals	Permanent & Adopted	2016	0.000	-0.009
Minimum Pension for Married Couples	An increase of €2.40 (€4.15 inclusive of COLA) will be given to married couples who are receiving the minimum marriage pension. 4,000 individuals will benefit from this measure	D6 - E	Accruals	Permanent & Adopted	2016	0.000	-0.006
Minimum Pension	An increase in the Minimum Pension for those under €140 per week	D6 - E	Accruals	Permanent & Adopted	2016	0.000	-0.060
Widows Pension	Workers that have lost their retirement pension when they widowed because they were receiving the widows pension will start receiving the full pension of their partner and no longer 5/6 as is today.	D6 - E	Accruals	Permanent & Adopted	2016	0.000	-0.019
Excluding child's income from Means Test for Social Assistance	In families where children are working, their income will not be considered when calculating the means test of the head of family	D6 - E	Accruals	Permanent & Adopted	2016	0.000	-0.017
Live-in Carers Fund	A fund (pilot project) created to offer subsidies to the elderly who employ a qualified full-time or part-time carer	D6 - E	Accruals	Permanent & Adopted	2016	0.000	-0.011
Hotel Energy Efficiency Scheme	Investment in sustainable schemes towards hotels for schemes which render efficient energy consumption. A PPP will issue 'white certificates' depending on the amount of energy saved by the hotel as a result of the investment carried out. More info in Budget	D6 - E	Accruals	Permanent & Adopted	2016	0.000	-0.011
Environmental Schemes (Car Related)	Commercial Vehicles Euro 5 Conversion (Dual Diesel Fuel), Electric Commercial Vehicle Grant, Charging Points for Electric Vehicles and Autogas Conversion	D6 - E	Accruals	Permanent & Adopted	2016	0.000	-0.003
Expropriation Compensation	All expropriation cases up to €50,000 will be paid in full subject to proof of title. Government is also estimated to increase expenditure towards Home Ownership Schemes	D6 - E	Accruals	Permanent & Adopted	2016	0.000	-0.050
Equity acquisition in Airmalta plc	The investment was carried out in Air Malta to support the national airline's restructuring programme	D9 - E	Accruals	Permanent & Adopted		-0.319	0.508
Ex-Gratia Payment	A grant given to those who paid extra registration tax when they registered their vehicle between 1 May 2004 and 31 December 2008	D92 - E	Accruals	Permanent & Adopted	2014	0.013	-0.021
<b>TOTAL <sup>2</sup></b>						<b>0.121</b>	<b>0.634</b>

<sup>1</sup> 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 positive. 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.

<sup>2</sup> Figures do not add up due to rounding.

1. The final equity injection to Air Malta in 2015, equivalent to 0.5 per cent of GDP, will exert a positive impact on the budgetary balance in 2016 due to the temporary nature of this transaction.
2. A one-time additional bonus to compensate those employees, pensioners and other beneficiaries who did not benefit from the reduction in income tax of previous budgets also equivalent to 0.1 per cent of GDP will not take place in 2016.

These improvements to the budget balance will be partially offset by an estimated 0.18 per cent of GDP increase in expenditure in respect of 2016 Budget Measures initiatives, particularly the increase in the minimum pension for those under €140 per week and the Expropriation Compensation. The Minimum Pension measure is expected to gradually lift a number of pensioners from the risk of poverty in line with EU2020 objectives. This initiative is estimated to cost Government an equivalent of 0.06 per cent of GDP in 2016. Other initiatives aimed at supporting low income households include the changes to the widows' pension, the exclusion of child's income from the means test for social assistance, the setting up of a live-in carers fund and the extension of the in-work benefit. These 2016 Budget initiatives which exclude the mentioned tax cut together total 0.12 per cent of GDP will replace the supplementary children benefit equivalent to 0.1 per cent of GDP given in 2015.

For 2016, all expropriation cases up to €50,000 will be paid in full subject to proof of title. In addition, Government is estimated to increase expenditure towards cases where families cannot finalise their final purchasing contract because the expropriation, which has been pending for decades, has not been finalised by the Government. The expropriation compensation and the Home Ownership Schemes initiatives are estimated to cost Government 0.05 per cent of GDP.

A description of discretionary measures is illustrated in Table 5a.

Furthermore, for 2016 and in line with the Fiscal Responsibility Act (July, 2014), a contingency reserve of 0.1 per cent of GDP has been established by the Ministry for Finance to ensure that unforeseen expenditure or revenue slippages do not jeopardise the compliance with fiscal rules enshrined in the same Act. If unused this will contribute towards further improvement in the budget balance and the structural balance, beyond what is being targeted in this Plan.

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

Under the no-policy change scenario, revenue is expected to grow by 0.5 per cent in 2016. Projected increases in revenue relative to GDP for 2016 under the no-policy change scenario are primarily driven by increased economic activity, the composition of economic growth and improvements in the efficiency of revenue collection. It is therefore essential to underline the growth projections which sustain revenue growth under the no-policy change scenario.

Economic activity in 2016 is expected to have a positive effect on the tax buoyancy of the fiscal system with a strong performance in the indirect tax revenue base, a strong increase in employment income and an even stronger increase in corporate income.

Despite the strength of the economic environment underpinning the fiscal projections, tax revenue elasticity assumptions are rather conservative thus ensuring a measure of prudence in the fiscal projections.

Revenue from taxes on income is anticipated to be stronger than nominal GDP growth in 2016 as a result of the expected factor distribution of income gains which is balanced more in favour of corporate profits. Moreover, employment income is expected to grow at a marginally slower rate of growth than the nominal growth rate of the economy. Coupled with the assumed elasticity of social contributions less than unity, social contributions are expected to grow at a slower pace than nominal economic growth.

Despite the strength of the indirect tax revenue base reflecting the further strengthening of domestic demand and another strong performance in the tourism sector, the growth in taxes on production and imports is still expected to lag nominal GDP growth, primarily reflecting relatively conservative elasticity assumptions. The gaming and lotteries sector, and car registrations are also expected to influence positively indirect tax revenue.

Overall, despite the relatively strong and tax rich composition of economic growth forecast for 2015, tax revenue is expected to grow at 5.5 per cent, compared to a 6.2 per cent increase in nominal GDP growth. Indeed, the implied elasticity of tax revenue to GDP under the no-policy change scenario is estimated at 0.9. This is underlined by prudent elasticity estimates for the revenue components with their respective tax base.

As a result, the tax burden is expected to decrease from 34.1 per cent of GDP to 34.0 per cent of GDP under a no-policy change scenario as shown in Table 3. This decrease is primarily due to revenue from social contributions which is expected to decrease by 0.13 percentage points of GDP. Taxes on production and imports are also expected to decline by 0.12 percentage points of GDP. Capital taxes are expected to maintain a relatively unchanged ratio to GDP. On the other hand, current taxes on income are expected to increase by 0.09 percentage points of GDP.

Property income is expected to decline by 0.07 percentage points of GDP, however, the largest decline in the revenue ratio is due to a decline of 1.93 percentage points of GDP in other revenue as a result of lower European Union (EU) fund utilisation and as the revenue from the guarantee fee moderates.

Total expenditure under the no-policy change scenario is expected to decline from 43.8 per cent of GDP in 2015 to 41.8 per cent in 2016. The major decline in the expenditure to GDP ratio is set to come from lower GFCF due to lower EU-financed capital investment projects which is estimated to decline by 1.1 percentage points. Social payments as a share of GDP at unchanged policies are expected to decrease by 0.3 percentage points, primarily reflecting the expiry of temporary expenditure initiatives in the 2015 Budget and to the various making-work-pay initiatives including the tapering of social benefits. Together, interest expenditure and intermediate consumption are also expected to decline by 0.5 percentage points of GDP.

**Expenditure and Revenue Projections under the no-policy change scenario <sup>1</sup>**  
**(General government expenditure and revenue projections at unchanged policies**  
**broken down**  
**by main components)**

Table 3		% GDP	
	ESA Code	2015	2016
<b>General government (S13)</b>			
<b>1. Total revenue at unchanged policies</b>	TR	42.2	40.0
<b>Of which</b>			
<b>1.1. Taxes on production and imports</b>	D.2	13.7	13.6
<b>1.2. Current taxes on income, wealth, etc</b>	D.5	14.1	14.2
<b>1.3. Capital taxes</b>	D.91	0.2	0.1
<b>1.4. Social contributions</b>	D.61	7.0	6.9
<b>1.5. Property income</b>	D.4	1.1	1.1
<b>1.6. Other <sup>2</sup></b>		6.1	4.1
<b>p.m.: Tax burden</b>		34.1	34.0
<small>(D.2+D.5+D.61+D.91-D.995)<sup>3</sup></small>			
<b>2. Total expenditure at unchanged policies</b>	TE <sup>3</sup>	43.8	41.8
<b>Of which</b>			
<b>2.1. Compensation of employees</b>	D.1	13.1	13.0
<b>2.2. Intermediate consumption</b>	P.2	6.8	6.5
<b>2.3. Social payments</b>	D.6M	12.3	12.0
<b>of which Unemployment benefits <sup>4</sup></b>		0.4	0.4
<b>2.4. Interest expenditure</b>	D.41	2.6	2.4
<b>2.5. Subsidies</b>	D.3	1.3	1.2
<b>2.6. Gross fixed capital formation</b>	P.51	4.3	3.2
<b>2.7. Capital transfers</b>	D.9	1.4	1.4
<b>2.8. Other <sup>5</sup></b>		2.1	2.1

### 3.3 Expenditure and Revenue Targets

General Government expenditure and revenue targets are presented in Table 4a. Notwithstanding the favourable macroeconomic conditions, and the measures highlighted in Section 3.1.1, both the revenue and expenditure ratios are planned to decline significantly in 2016, mainly reflecting lower EU-financed investments, prudent elasticity assumptions and budgetary measures.

Total revenue is expected to decline by 2.1 percentage points of GDP, from 42.2 per cent of GDP to 40.1 per cent of GDP. Despite the strong and relatively tax-rich composition of growth, and the positive net impact of temporary and permanent discretionary revenue measures, prudent elasticity assumptions underline a relatively stable tax burden, which is expected to decline marginally by 0.1 percentage points of GDP. Nevertheless, other revenue is set to decline from 6.1 per cent of GDP in 2015 to 4.1 per cent of GDP

**Expenditure and Revenue Targets**  
(General government expenditure and revenue targets, broken down by main components)

Table 4.a		% GDP	
	ESA Code	2015	2016
<b>General government (S13)</b>			
<b>1. Total revenue target</b>	TR	42.2	40.1
<b>Of which</b>			
<b>1.1. Taxes on production and imports</b>	D.2	13.7	13.8
<b>1.2. Current taxes on income, wealth, etc</b>	D.5	14.1	14.1
<b>1.3. Capital taxes</b>	D.91	0.2	0.1
<b>1.4. Social contributions</b>	D.61	7.0	6.9
<b>1.5. Property income</b>	D.4	1.1	1.1
<b>1.6. Other <sup>1</sup></b>		6.1	4.1
<b>p.m.: Tax burden</b>		34.1	34.0
<i>(D.2+D.5+D.61+D.91-D.995)<sup>2</sup></i>			
<b>2. Total expenditure target</b>	TE <sup>3</sup>	43.8	41.2
<b>Of which</b>			
<b>2.1. Compensation of employees</b>	D.1	13.1	13.0
<b>2.2. Intermediate consumption</b>	P.2	6.8	6.5
<b>2.3. Social payments</b>	D.6M	12.3	11.9
of which Unemployment benefits <sup>3</sup>		0.4	0.4
<b>2.4. Interest expenditure (= item 6 in Table 2.a)</b>	D.41	2.6	2.4
<b>2.5. Subsidies</b>	D.3	1.3	1.2
<b>2.6. Gross fixed capital formation</b>	P.51G	4.3	3.2
<b>2.7. Capital transfers</b>	D.9	1.4	0.9
<b>2.8. Other <sup>4</sup></b>		2.1	2.1

<sup>1</sup> P.10 + D.39rec + D.7rec + D.9rec (other than D.91rec).

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

<sup>3</sup> Includes cash benefits (D.621 and D.624) and in kind benefits (D.632) related to unemployment benefits.

<sup>4</sup> 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	2014	2014	2015	2016
	Level (€ millions)			
<b>1. Expenditure on EU programmes fully matched by EU funds revenue</b>	209.8	2.6	3.0	1.2
<b>2. Cyclical unemployment benefit expenditure <sup>1</sup></b>	2.5	0.0	0.2	0.3
<b>3. Effect of discretionary revenue measures <sup>2</sup></b>	57.2	0.7	0.7	0.1
<b>4. Revenue increases mandated by law</b>	-	-	-	-

<sup>1</sup> The cyclical unemployment benefit expenditure is calculated by multiplying the output gap with the sensitivity to the budget balance of 0.456.

<sup>2</sup> 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.

in 2016 as a result of lower EU fund utilisation and as the revenue from the guarantee fee moderates.

The ratio of general Government expenditure to GDP is expected to decline by 2.5 percentage points, from 43.8 per cent in 2015 to 41.3 per cent in 2016. The major decline in the expenditure to GDP ratio is set to come from lower EU-financed capital investment projects, and to a lesser extent from no further equity injections envisaged towards Air Malta.

### 3.4 Divergence from the April 2015 Stability Programme

The targets for the general Government budget balance have remained unchanged since the latest Update of the Stability Programme. Meanwhile, as can be noted in Table 7, the estimates for the general Government balance at unchanged policy have been revised by -0.1 and +0.2 per cent of GDP in 2015 and 2016, respectively. These revisions are mainly attributable to both deviations stemming from changes in the projected macroeconomic scenario, as well as the fact that the no-policy change scenario is defined differently for the purpose of the Draft Budgetary Plan as compared to the Stability Programme.

## Divergence from latest SP

Table 7

% GDP

	ESA Code	2013	2014	2015
<b>Target general government net lending/ net borrowing</b>	B.9			
<b>Stability Programme</b>		-2.8	-2.1	-1.6
<b>Draft Budgetary Plan</b>		-2.7	-2.1	-1.6
<b>Difference</b>		-0.1	-0.0	-0.0
<b>General government net lending projection at unchanged policies</b>	B.9			
<b>Stability Programme</b>		-2.4	-2.7	-1.5
<b>Draft Budgetary Plan</b>		-	-2.1	-2.0
<b>Difference <sup>1</sup></b>		-	-0.6	0.5

<sup>1</sup> 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.

**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	List of Measures	Description of direct relevance
CSR1: Following correction of the excessive deficit, achieve a fiscal adjustment of 0,6 % of GDP towards the Medium-Term Budgetary Objective in 2015 and 2016.	Achieve a Fiscal Adjustment of 0,6 % of GDP towards the Medium-Term Budgetary Objective in 2015 and 2016.	In structural terms, the deficit is expected to register an improvement of 0.5 percentage points of GDP in both 2015 and 2016. In 2015, the anticipated narrowing of the deficit is expected to be mainly revenue-based, supported by buoyant economic growth. Meanwhile, fiscal consolidation in 2016 is primarily expenditure-based, with the major decline in the expenditure to GDP ratio set to come from lower EU-financed capital investment projects, and to a lesser extent from no further equity injections envisaged towards Air Malta.
CSR 2: Take measures to improve basic skills and further reduce early school-leaving by promoting the continuous professional development of teachers.	Framework for the Education Strategy for Malta 2014-2024	As clearly highlighted in the National Reform Programme, in order to improve basic skills and prevent ESL, Malta launched the Framework for the Education Strategy for Malta 2014-2024 which seeks to improve students' learning experiences by encouraging creativity, critical literacy, entrepreneurship and innovation at all levels by reducing the gaps in educational outcomes, decrease the number of low achievers and raise the bar in students' literacy, numeracy, and science and technology achievement; raise levels of students retention and attainment in further, vocational, and tertiary education and training; support educational achievement of children at-risk-of-poverty and from low socio-economic status, and reduce the relatively high incidence of early school-leavers and increase participation in lifelong learning and adult learning. A draft public comprehensive plan for action was completed and will be published in the near future for public consultation. During the first quarter of 2015, a Strategy Steering Committee was also set up.
	Reform of the National Curriculum Framework (NCF) in Malta	Aims to develop learners who are capable of successfully developing their full potential as lifelong learners; learners who are capable of sustaining their chances in the world of work; and learners who are engaged citizens in constantly changing local, regional and global realities. New initiatives are being taken in 2015 including the enhancement of National Literacy Strategy.
	A Strategic Plan for the Prevention of Early School Leaving (ESL) in Malta	As already highlighted in NRP, the Government's aim is to develop policies that motivate ESLs to continue with their studies under the Strategic Plan for Early School Leaving. Preventive measures against ESL include the implementation of the NCF; the provision of more opportunities for VET in compulsory secondary education; strengthening of the validation of informal and non-formal learning; and development of new forms of teaching and learning, such as e-Learning. Furthermore, intervention measures will include the review of existing measures with a focus on school-parent-teacher collaboration; the development of a multi-stakeholder approach to address the needs of particular groups of students at risk of ESL; and further strengthening of guidance throughout compulsory secondary education. Compensation measures will include the review of second chance and re-integration programmes and the provision of comprehensive support.
	Paid Study Leave Scheme for Teachers	The 'Paid Study Leave' scheme announced last year is to be extended and broadened. This offers the opportunity of paid leave to the officers within the education class with the aim of supporting teachers to invest in their professional development and improve their professional or academic achievement.
	Broadening Access in Education: An Initiative by the University of Malta	Aims to increase participation in post-secondary and tertiary education in regions with low level of participation. The main initiatives carried out from 2013 till 2015 are the setting up of the Cottonera Resource Centre, mentoring, Kids on Campus, Public Lectures, STEM summer School 2014, 2015 and the University of third Age.
	Construction and Modernisation of Schools	Aims to have educational buildings that respond to today's needs since a good school raises students' and parents' expectations which would generally lead to improved staying-on rates (and a consequent drop in absenteeism), improved examination performances and better employment prospects for the school leaver; attracts and retains motivated staff; promotes curriculum innovation in all disciplines with a particular emphasis on science and technology while fosters an ethos of commitment, motivation and success. Furthermore, Barts and The London School of Medicine School and Dentistry will be opening its doors in Gozo in September 2016. As from next year applications and work related to the American University of Malta will also commence. An investment in the building of a new Institute for Tourism Studies in Smart City is going to be made. This relocation will be providing a new opportunities to students. A new school for the 16 year old students who attained only one SEC exam will be opened. In this way, these students will be given another chance to continue with their studies. These students will also be provided with a stipend.
	Youth Guarantee	Aims to provide a second chance education to individuals with a low level of education and to help them enter the labour market with the aim of retaining their employment and further the employment ladder. A number of ESF-funded projects are targeted at NEETs. Through the NEET Activation Scheme, NEETs are individually profiled by experts and have direct contact with a youth worker and training intervention that consist of motivation and behavioural, labour market orientation sessions (including guidance on employment). Training is offered over a span of six weeks. Then, youths will be offered the opportunity to benefit from twelve weeks of work exposure and if the employer decides to retain them, the ETC will offer a traineeship of up to six months, during which the employee undergoes training to increase his or her own productivity. This Guarantee will continue to be provided in the upcoming years.
	Work Exposure and Traineeships	ETC will be offering 500 work exposures and trainships per year for the coming 7 years.
	Breaking Barriers: Embracing literacy through digital media - Lifelong Learning	Aims to tackle the need of the cohort of low-skilled literate adults aged between 25 and 65 and to help learners build new skills and improve career prospects. The project aims to introduce cutting-edge techniques to tackle literacy challenges in adult learning across cultures.
	Investing in Skills and Training Pays	These initiatives will be co-funded through the European Social Fund. Training Pays will be launched next year with the aim to encourage people to undertake the necessary training. Through this scheme, those undertaking training can apply for a subsidy to part finance their training.
Prince's Trust	With collaboration with HSBC Malta, Prince's Trust will be introduced so to help students that fall behind in their studies. This will help students to improve and gain the necessary skills needed to integrate with the rest of the society.	

CSRs	List of Measures	Description of direct relevance
CSR 3: To ensure the long-term sustainability of public finances continue the ongoing pension reform, such as by accelerating the already enacted increase in the statutory retirement age and by consecutively linking it to changes in life expectancy.	2006 Pension Reform	In December 2006, the House of Representatives adopted a series of reforms (Act No. XIX of 2006) including; raising the pension age from 61 to 65; lengthening the contributory period from 30 to 40 years; adopting changes to the two-thirds pension, calculation formula, the maximum pensionable income and the crediting of contributions as provided for under the preceding legislative framework.
	Pension Reform Process	Following the presentation of the report to Cabinet of Ministers, the Pensions Strategy Group (PSG) published its report in June 2015. Subsequently, the Group prepared a post-consultation report that took into consideration the feedback received (till the end of August 2015) from social partners, political partners & the general public. The post-consultation report, including the final recommendations were submitted by the Group for the attention of Government during September 2015. A number of these measures were adopted by Government as from the Budget for 2016:
		As from 2016, the Minimum Pension for a person with a full contributory record shall be no less than Eur140 per week. This measure will contribute to address the problem of poverty amongst the elderly.
		Introduction of credits for human capital development.
		Better credits for child rearing and family growth.
		Introduction of credits for human capital development and life long learning.
		Service pensioners will continue to be given a Eur 200 annual additional abatement.
		Survivors will be entitled for the full pension of the higher between their own pension and the pension of their deceased spouse, if they are entitled to a contributory pension in their own right.
		In order to ensure a fair balance between the contributory period and the period spent in retirement across generations, the contribution period for a full pension will be based on a stable ratio between years contributing and years drawing pension. Consequently, the contributory period is being raised from 40 to 41 years for persons born after 1968.
		The retirement age shall not be increased further than 65 years, but to incentivise people in the private sector to continue working, for every year post the pension age the pension rate will increase by a percentage increase, where such an increase will be given permanently.
Third Pillar Private Pensions		Following the entry into force of the Retirement Pensions Act (RPA) (Chapter 514 of the Laws of Malta) on 1st January 2015, a number of legal notices under the RPA were published in the Government Gazette No. 19,364 on 6th January 2015. In addition, the Pension Rules for Occupational Retirement Schemes, Personal Retirement Schemes, Retirement Funds and Service Providers, were issued by the MFSA under the Retirement Pensions Act.
		Meanwhile, Legal Notice 468 of 2014 issued under the Income Tax Act deals with the Personal Retirement Scheme Rules which will be effective from the year of assessment 2015. A new Article 57 has been introduced to the Income Tax Act which provides for a tax credit with respect to contributions paid to personal retirement schemes or premium payments in relation to a policy of insurance. Legal Notice 469 of 2014 issued under the Income Tax Act deals with the Individual Savings Account Rules which will be effective from the year of assessment 2015. The purpose of the Regulations and Pension Rules is to supplement the legal framework for the licensing and regulation of retirement schemes, retirement funds and service providers related thereto, as well as for the requirement of recognition for persons carrying on back-office administrative activities and includes more detailed regulatory requirements by which persons licensed or recognised under the RPA are required to comply.
		As announced in the Budget for 2016, a Working Group shall be set up with the scope of bringing to the consideration of Government, proposals relative to the introduction of fiscal incentives for employers that opt to introduce occupational pensions on voluntary basis.
National Strategy Policy for Active Ageing		Aims to increase the number of older and ageing workers by acting as catalyst for maximising health life expectancies for women and men, reducing dependency levels through the implementation of health promotion and disease prevention, and providing further opportunities for physical activity in later life.
CSRs	List of Measures	Description of direct relevance
CSR 4: Improve small and micro- enterprises' access to finance, in particular through non-bank instruments	Business START (B.Start) Scheme	Aims to provide funding for small start-ups that have a viable business concept, through a lump sum grant to be paid once the project is approved, and subsequently offering quarterly payments in line with the progress made by the business. This scheme is a pilot measure which will be available until 30th June 2016.
	Venture Capital Malta	Venture Capital Malta was introduced in February 2015 and is aimed at the provision of venture capital to SMEs and to facilitate the development of a venture capital ecosystem in Malta. As a result, private seed investors and venture capital providers will consider investment opportunities presented by SMEs. This initiative will seek also to facilitate the provision of deal flow via coordination of existing measures taken by a number of stakeholders like ME, University, Malta Stock Exchange and other entities.
	National Development Bank (NDB)	Will be set up by the end of 2015, with the aim to address market failures and to provide complementary services to those provided by commercial banks. The NDB will aid private sector development especially in technology, infrastructure, the green economy, social enterprises and other strategic projects. Currently the Government is finalising talks with the European Commission on the setting up of this institution.
	SME Initiative - Stimulating Private Sector Investment for Economic Growth	Launched in July 2015, this initiative aims to stimulate SME financing by providing partial risk cover for SME loan portfolios.
	Operational Programme 1 - Fostering a Competitive & Sustainable Economy to meet our Challenges	The ERDF- CF Programme of Malta for the period 2014-2020 aims to support enterprises through financial engineering instruments aimed at enhancing access to finance and attracting new-business investments.
	Export Credit Guarantee Scheme	Aims to establish an assurance agency in order to reduce any non-commercial risks associated with exports to other countries. This would aid in curtailing risks associated with exportation to other high risk countries such as lesser developed countries, and encourage local businesses to export more. Such a scheme was announced in the Budget speech 2016
	Malta Stock exchange	Malta Stock Exchange is working on developing a new market aimed at financing SMEs. Such a market is going to take form of a multilateral trading facility aimed at aiding SMEs to obtain direct financing from investors in a structured and efficient way.
Other Measures		As outlined in the 2016 Budget, Government is committed to invest through grants, Eur 50 million on industries willing to expand their operations. Such funds are going to be spread across different initiatives to reach out to various industries in Malta. Those benefiting from the said grants include family owned businesses and start-ups.
		As outlined in the 2016 Budget, Malta Enterprise will incentivise small firms to rent additional space from the private sector and will also be compensated for their relocation.
		In the 2016 Budget, reference was made to the Malta Enterprise which will be extending existing schemes such as Microinvest, Investment Aid, Get qualified, Research and Development, Certify and Gozo transport.



## **4. Distributional Implications of Budget Measures**

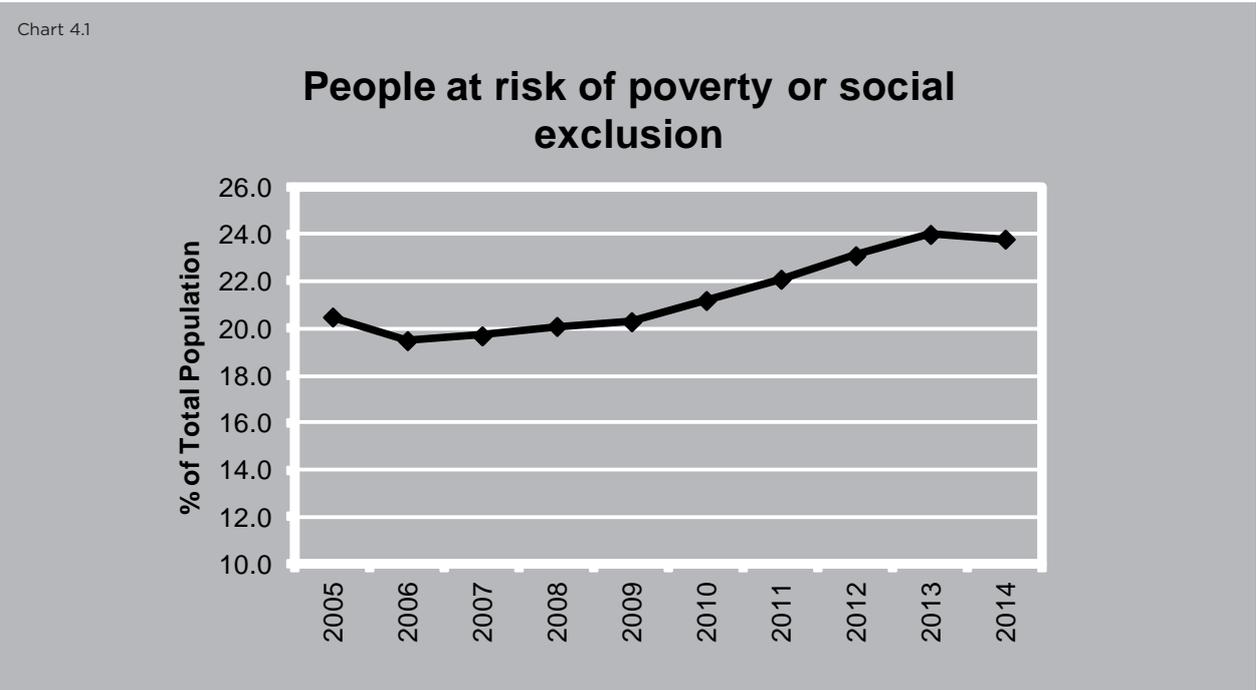
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# 4. Distributional Implications of Budget Measures

The Budget for 2016 seeks to consolidate on the success registered by measures introduced over the earlier years of this legislature and build on the robust economic performance and the fiscal consolidation results attained over the past year. Indeed, the first two Budgets of this legislature had the aim to strengthen the strategy to make work pay and ensuring that the social security system positively incentivises work effort and discourages dependency. In fact, as a result of the measures introduced in earlier Budgets, Government was successful in reducing dependence on unemployment benefits, social assistance and single parent benefits. Between December 2014 and September 2015, the number of beneficiaries decreased by more than 2,100 persons who voluntarily opted to enter an appropriate scheme. In addition, around 1,000 recipients of social assistance have now opted to join the tapering system, whereby benefits are not immediately withdrawn upon entering employment; instead these benefits are reduced gradually.

Whilst Government remains resolute in incentivising work effort and reducing dependency, the Budget for 2016 is also focused on ensuring that the benefits of economic growth are felt by the widest possible spectrum of the Maltese society. Government is aware of the challenges posed by the increase in the number of households that are considered to be at risk of poverty. Over the period 2010-2014, the at risk of poverty rate or social exclusion has increased by 2.6 percentage points to 23.8 per cent, even though as illustrated in Chart 4.1 below, in 2014 the rate has decreased marginally when compared to the previous year. Consequently, a number of measures outlined below are aimed at ensuring a better distribution of income, focusing on the more vulnerable groups, such as the single earner families with children, youths and the elderly.



## **Families**

One of the measures which broadly affects the redistribution of income, is the adjustment to the income tax. After widening the income tax brackets in the Budget for 2013-15, the Budget for 2016 is raising the tax-free income thresholds for the single, married and parental computations. This measure is specifically designed to reduce the burden of taxation on persons that have not benefited from the widening in the income tax brackets legislated in 2013-2015. By specifically targeting lower to middle income earners, this measure ensures that more working individuals with a relatively lower income will be exempt from paying any income tax over a larger portion of chargeable income whilst supporting the work effort of the low to middle income earners. Persons that benefited from past widening in the income tax brackets, such as single persons above the €19,501 threshold, will remain unaffected by the change thereby this measure will favour those who earned less than the mentioned threshold, giving the system a more progressive element.

The In-Work Benefit (IWB) is going to be extended to those families who are dependent on a single earner, declaring an income in the range between €6,600 and €12,700. The scope of extending this benefit is to further reach a balance between increasing equality through redistribution whilst also incentivising individuals to enter employment. It is estimated that around 3,700 will benefit from this extension. Indeed, if both parents enter work, the benefit would increase substantially. Both the income tax measure and the extension of the IWB are expected to impact positively single earner families with children, which according to statistics from the Survey on Income and Living Conditions (SILC), tend to be at a relatively higher risk of poverty or social exclusion.

Another measure which is expected to have a positive impact on families' incomes, relates to the entitlement to Social Assistance. Indeed, as from the Budget for 2016, the children's income will not feature in the means test of the main earner. This measure is targeting lower income households with the objective of supporting efforts to continue working whilst remaining entitled to welfare, subject to satisfying the other means testing conditions. This measure is estimated to affect around 2,000 families. Other redistributive measures include the extension of unemployment benefits to cater for those individuals living with their parents and an extension of unemployment benefits for those who wish to continue studying. These are all aimed at ensuring the fair treatment of those unable to find a job whilst ensuring that sufficient opportunities are being given to those who are truly unable to find work.

Furthermore, the extension of assistance is being given in the form of social security contributions credits to persons that left their in order to take care of their children and for those who continued to study and specialise. This measure will ensure that future pensioners will not be penalised in terms of their pension entitlement.

Government is also encouraging more persons to take up voluntary third pillar pensions. In particular, the tax incentive is being extended for persons making contributions on behalf of their partner and children under the age of sixteen.

## ***Youths***

With respect to youths, Government shall continue to adjust stipends in line with a pro-rata increase in COLA. Furthermore, mature students will now also be entitled to receive a stipend. Such measures, including also the grant being given to ITS students, are aimed at promoting participation in higher education and also to serve to support students who, due to their studies, are unable to engage in a full-time job.

The Budget for 2016 shall also extend the exemption from stamp duty on property for first time buyers in order to relieve some of the burden that is borne by young adults in setting up a home. It is estimated that this measure will relieve first time buyers up to €5,000 worth of taxes. Furthermore, Government is also reducing stamp duty on property purchased in an 'Urban Conservation Area' from 5 per cent to 2.5 per cent. Government is planning to develop new housing estates to meet the increasing demand for social accommodation.

## ***Elderly***

Statistics for SILC also indicate that households with no dependent children with a one person above the age of 65 years or two persons, one of which is 65 years or older, tend to experience a relatively higher risk of poverty or social exclusion when compared to the national benchmark. Consequently, the Budget for 2016 is raising the minimum pension to €7,280 per annum in the case of a person that fulfils the contributory record. With respect to beneficiaries who are entitled to a minimum pension for married couples, these will experience an increase in their pension of around €4.15 per week. This measure is going to be beneficial to more than 12,000 beneficiaries.

In addition, survivors will be entitled for the full pension of the higher between their own pension and the pension of their deceased spouse, if they are entitled to a contributory pension in their own right. The Budget for 2016 is also raising the amount of service pension not taken into consideration for Social Security pension assessment purposes by another €200, thus enhancing the adequacy of pensions for this group of pensioners.

Furthermore, the Carers Pension and the Social Assistance for Carers schemes shall be merged with the objective of extending the number of persons eligible for assistance and thus ensuring more elderly persons remain living in their homes.

A pilot project is also being launched, whereby in the case of families with a dependent elderly requiring constant care, Government subsidises up to half the minimum wage upon engaging a qualified carer. Such measure is intended to ensure that elderly remain living in their community whilst reducing the pressure on state long-term care institutions.

## ***Other vulnerable groups***

Various measures are being introduced to cater for persons with disabilities. For instance, as from the Budget for 2016, persons entitled to the disability pension will now receive a pension equivalent to non-contributory old age pension. Furthermore, other measures include the establishment of a call centre by the National Commission Persons with Disability aimed at enhancing the delivery of services as well as the development of a hub aimed towards the holistic provision of services, based on a one-stop shop.

Other efforts at the redistribution of income are planned through improved access to healthcare services. Such measures include improving the primary healthcare services, reducing waiting lists, screening for cervical cancer, increasing the bed stock at the acute care hospital, improving access to medicines for those suffering from diabetes and rare diseases and an increase in the financial assistance to persons suffering from coeliac disease.