Malta:

Draft Budgetary Plan

(Update)

2015

Ministry for Finance
October 2014

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 7th of October, 2014

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1. Overall Policy Framework and Objectives

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Ten year after Malta's entry in the EU and seven years after adopting the euro, the Maltese economy has undergone significant structural changes. The economy has been significantly diversified, with emerging services sectors and high end manufacturing firmly entrenched and creating employment opportunities. These developments were supported by a strong and stable banking sector which provided ample credit particularly in recessionary periods thus contributing to the resilience of the Maltese economy. Nevertheless, other factors principally among them the low labour participation rate and the inefficient provision of energy, have constrained Malta's growth potential.

1.1 Macroeconomic Scenario

This Draft Budget Plan constitutes the first annual budget plan within the context of the National Medium-Term Fiscal Plan presented last April which is also being presented in the context of the recently enacted Fiscal Responsibility Act. The April macroeconomic and fiscal projections presented in the Update of the Stability Programme 2014-2017 have been revised, in order to take into account the more recent economic data and expectations. In particular this Draft Budget Plan is based on stronger economic growth projections underlined by a better than expected macroeconomic outcome for the first half of 2014.

Economic growth is expected to reach 3.0 per cent in 2014 and accelerate further to 3.5 per cent in 2015. Employment growth is also expected to maintain a strong momentum and rise by an average of 2.0 per cent in 2014 and 2015. Inflation is expected to be relatively low in 2014 and to moderate to 1.5 per cent in 2015. Revised fiscal projections for 2015 were thus carried out in the context of a stronger real growth but a weaker inflationary environment.

1.2 Fiscal Policy Objectives

A number of structural reforms, particularly in the transport and energy sector are expected to exert a positive impact on public finances. These reforms include the privatisation of the local public transport, the ongoing restructuring of Air Malta and the service level agreements with Enemalta. These reforms include non-repeatable expenditure, such as the final capital injection to Air Malta as part of its restructuring plan, as agreed with the European Commission.

A number of fiscal consolidation measures (beyond what was contemplated in the Stability Programme of April 2014) are being envisaged for the 2015 Budget. This complements Government's commitment to further shift direct taxation on labour towards indirect taxation without increasing VAT. This is expected to encourage further labour market participation.

By the end of 2015, Government is aiming to reach a deficit target of 1.6 per cent of GDP. The debt-to-GDP ratio is expected to decline to 69.0 per cent mainly as a result of the primary surplus of 1.2 percent of GDP, being targeted.

1.3 Fiscal Governance

The Fiscal Responsibility Act will strengthen the commitments contained in this Plan and provide the necessary tools for enabling the framework which will allow Government to meet its fiscal targets. It will do so by enshrining the fiscal rules contained in the SGP into national rules and setting up a functionally independent fiscal council to act as a fiscal watchdog. The Act will also strengthen the role of the Ministry for Finance in the budgetary process and the multi-annual fiscal planning.

1.4 Conclusion

The fiscal targets to be presented in the 2015 Budget shall also be supported by a range of structural economic policies as presented in this year's National Reform Programme. The Government's economic and fiscal strategy rests on a number of policy objectives, primarily meant to address the country's main economic challenges, 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 a 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.

In order to continue fulfilling these policy objectives, the Government, as outlined in the Economic Partnership Programme, is implementing a number of supply-side policies which are aimed at raising the country's potential growth whilst also ensuring responsible environmental management and social cohesion.

Government believes that sound economic policies which address Malta's growth potential and competitiveness can also strengthen the sustainability of public finances.

The Draft Budget for 2015 is also complementing the strategy to make work pay by ensuring that the social security system positively incentivises work effort and discourages dependency. Government is also introducing measures to strengthen social cohesion and reduce poverty for families with children with low income. These measures reflect the principle that economic prosperity and wealth should be felt and enjoyed by all.

2. Economic Outlook

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2.1 The Short-Term Scenario

Following the robust growth registered in 2013, the Maltese economy continued to grow at an average rate of 3.2 per cent in real terms in the first half of 2014, outperforming growth in the European economy. 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 4.6 per cent in nominal terms. Specifically, gross value added increased by 3.6 per cent during this period attributable to a positive performance in the majority of the sectors of the economy particularly in the service sectors including, the professional, scientific and technical activities, the administration and support services activities and the information and communication activities. During the same period of 2014, both compensation of employees and gross operating surplus exhibited positive performance, expanding by 5.6 per cent and 1.7 per cent, respectively. Meanwhile, taxes on production and imports increased by an average rate of 12.2 per cent while subsidies on production and imports increased by 19.9 per cent.

The Maltese economy is expected to retain the positive momentum in the second half of 2014. Overall growth in 2014 is expected to reach 3.0 per cent in real terms, supported primarily by positive developments in the domestic sector of the economy. Indeed, private consumption is expected to increase by 2.1 per cent in real terms, sustained by a robust 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 6.0 per cent in 2014, 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 14.3 per cent in 2014, largely on the back of a large-scale project in the energy sector. Exports are expected to grow marginally by 0.7 per cent during 2014, reflecting the subdued external demand counter-balanced by a weaker exchange rate. The strong domestic demand (particularly investment) is expected to drive up imports by 1.9 per cent, resulting in a negative net trade contribution to growth.

During 2015, economic growth is set to accelerate, growing by 3.5 per cent in real terms, with domestic demand remaining the main driver. However, the negative trade gap forecasted for 2014 is expected to be reversed with net exports contributing positively to economic growth. Domestic demand is expected to be supported by a positive performance in both private and public consumption expenditure and gross fixed capital formation. Positive external developments are expected to be primarily underpinned by 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 significant growth in exports, particularly those attributed to the remote gaming sector. Other export-oriented sectors are expected to register only moderate increases in exports whilst a recovery of 8.0 per cent in the electronics sub-sector is anticipated in 2015.

A foreseen recovery in imports is largely reflecting strong domestic and external demand conditions. Robust growth is being envisaged for both imports of capital and intermediate goods, primarily reflecting the growth in investment and consumption. Imports of consumer goods and of services are also expected to register strong growth rates.

Table 2.1 presents the main macroeconomic indicators for the years 2011–2015. The figures for the 2011-2013 period and the January–June figures for 2014 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).

2.1.1 Assumptions for Projections

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

Main Macroeconomic Indicators

Table 2.1

	2011	2012	2013	2014(1)	2015
GDP growth at current market prices (%)	4.5	4.1	4.6	5.1	4.8
GDP growth at chain linked volumes (2010) (%)	2.2	2.0	2.5	3.0	3.5
Expenditure Components of GDP at constant (2000) prices (% change)					
Private final consumption expenditure(2)	2.5	0.5	1.7	2.1	2.1
General government final consumption expenditure	2.9	6.2	0.5	6.0	2.5
Gross fixed capital formation	-17.1	-0.8	2.2	14.3	4.8
Exports of goods and services	1.8	6.3	-1.6	0.7	5.9
Imports of goods and services	-0.5	4.2	-1.7	1.9	5.5
Contribution to GDP growth:					
Domestic Demand	-1.7	1.4	1.5	5.0	2.7
Inventories	...	...	...	0.0	0.0
Net Exports	3.5	3.3	-0.0	-2.0	0.7
Inflation rate (%)	2.5	3.2	1.0	0.7	1.5
Employment growth (%)	1.3	3.5	2.4	2.1	1.9
Unemployment rate (%)	6.5	6.4	6.4	6.0	5.9

(1) Forecasts from 2014 onwards

(2) Includes NPISH final consumption expenditure

1. Economic activity in Malta's main trading partners is expected to increase by 1.6 per cent and 1.8 per cent in 2014 and 2015 respectively.

2. Oil prices are assumed to average US$106.9 per barrel in 2014. In 2015, oil prices are expected to decrease to US$103.7 per barrel.

3. Short-term interest rate is expected to average 0.18 per cent in 2014 and to further decline to 0.05 per cent in 2015. The long-term interest rate is set to follow a similar pattern.

4. The nominal effective exchange rate is expected to average 1.0226 in 2014 and to gradually fall to 1.004 in 2015, reflecting the recent depreciation of the Euro exchange rate. Specifically, the USD/EUR exchange rate is expected to average 1.3444 in 2014 and to decline to 1.2789 in 2015, whilst the STG/EUR exchange rate is expected to average 0.8097 and 0.7822 in 2014 and 2015 respectively.

5. It is being assumed that, Government restricts recruitment in non-essential categories. The privatization of Malta's public transport system is also taken into account.

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 Budget Plan is more positive than the one projected in spring 2014. This is attributable to the higher than expected economic growth rate registered in the first half of 2014 coupled with a more favourable outlook in the exchange rate.

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. These forecasts do not include the impact of lower commercial energy prices on private investment which could further boost private investment.

2.1.3 Employment Prospects

The Labour Force Survey (LFS) recorded an employment rate of 61.6 per cent in the second quarter of 2014, a 1.0 percentage point increase when compared to the corresponding quarter in 2013. Growth in employment is expected to remain strong and increase by 2.1 per cent and by 1.9 per cent in 2014 and 2015, respectively. As a result, the unemployment rate (based on Harmonised definition) is expected to decrease by 0.4 percentage points to 6.0 per cent and to remain broadly stable in 2015. This is well below the expected EU average rate and reflects efforts in ongoing active labour market policies.

In 2014, all sectors are expected to register notable growth in employment in excess of 2.0 per cent, except for manufacturing and construction where employment growth is expected to be lower. In 2015, employment growth is expected to be more moderate in the majority of the sectors. 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 2013 stood at 1.0 per cent continued in its downward trajectory during the first half of this year and stood at 0.8 per cent in the latest report. Inflationary pressures are expected to remain subdued at 0.7 per cent in 2014, on the back of lower inflationary pressures in the energy sector stemming from the reduction in utility tariffs for households. In 2015, inflation is expected to rise moderately to 1.5 per cent, underpinned by price pressures emanating from processed and unprocessed food as well as services.

2.2 Comparison to Commission's Spring Forecast

The Spring forecasts published by the European Commission projected a growth rate for Malta of 2.3 per cent in both 2014 and 2015, with domestic demand being the main driver of growth. Therefore, forecasts for real GDP growth presented in this draft budgetary plan are 0.7 and 1.2 percentage points higher than the rate forecasted by the Commission for 2014 and 2015, respectively. This is attributed mainly to a higher than expected contribution from domestic demand. At the same time, the Commission's forecast expected the net contribution from the external sector to be 1.4 percentage points higher in 2014 and 0.2 percentage points lower in 2015. Both sets of forecasts are consistent with a domestically-led growth scenario and are both envisaging a recovery to take place in the external component in 2015.

Nominal GDP growth presented in this draft budgetary plan is projected at 5.1 per cent and 4.8 per cent for 2014 and 2015, respectively. For 2014, this represents a higher growth of 0.8 percentage points over the baseline presented by the Commission in its Spring forecast for 2014 while it is unchanged for 2015.

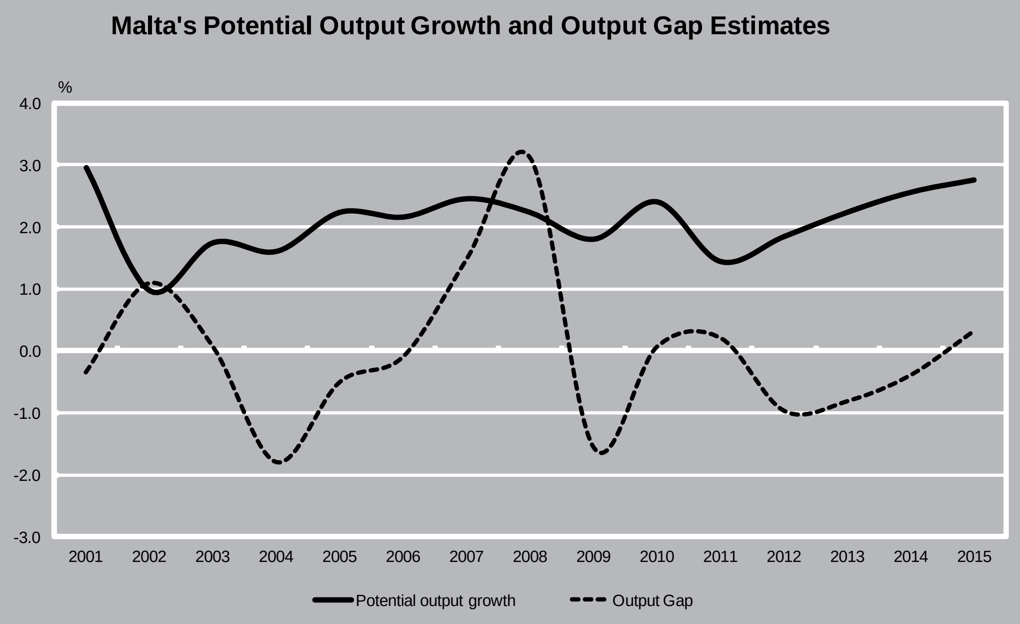
The European Commission will be updating its forecasts in the coming weeks by its autumn round of forecasts.

2.3 Potential Output and the Output Gap

The average potential output growth stood at 2.1 per cent during the period 2006 to 2013. Over the forecast period 2014 to 2017, potential output growth is expected to exhibit a gradual increase. In fact, average potential growth is expected to hover around the 2.9 per cent level, mainly underpinned by positive developments in the labour market through higher participation rates, improvements in investment and improvements in the total factor productivity.

The output gap is expected to remain negative in 2014. However, in 2015 the output gap is expected to turn positive and to remain so over the forecast horizon with the Maltese economy registering a rate of economic growth that is above potential.

Chart 2.1



Macroeconomic forecasts
(Basic assumptions)

Appendix Table 0.i

	2013	2014	2015
Short-term interest rate[1] (annual average)	0.50, 0.25 *	0.18	0.05
Long-term interest rate (annual average)	3.80	3.48	3.35
USD/€ exchange rate (annual average)	1.328	1.344	1.279
STG/€ exchange rate (annual average)	0.849	0.810	0.782
Nominal effective exchange rate	1.038	1.025	1.004
Real GDP Growth of main trading partners	1.20	1.56	1.82
Nominal GDP Growth of main trading partners	2.81	2.49	3.10
World import volumes, excluding EU	...	...	...
Oil prices (Brent, USD/barrel)	108.64	106.94	103.70

** 0.50 with effect from 8/May/2013*

** 0.25 with effect from 13/Nov/2013*

Macroeconomic forecasts
(Macroeconomic prospects)

Appendix Table 1.a		€000s *CLV 2010 Prices*	rate of change		
	ESA Code	**2013**	**2013**	**2014**	**2015**
1. Real GDP	B1*g	7,052.5	2.5	3.0	3.5
Of which					
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth [1]			...		
2. Potential GDP			2.3	2.6	2.8
contributions:					
- labour					
- capital					
- total factor productivity					
3. Nominal GDP	B1*g	7,510.1	4.6	5.1	4.8
Components of real GDP					
4. Private final consumption expenditure	P.3	3,992.6	1.7	2.1	2.1
5. Government final consumption expenditure	P.3	1,413.4	0.5	6.0	2.5
6. Gross fixed capital formation	P.51	1,187.3	2.2	14.3	4.8
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	...	...	1.2	1.1
8. Exports of goods and services	P.6	10,776.4	-1.6	0.7	5.9
9. Imports of goods and services	P.7	10,379.4	-1.7	1.9	5.5
Contributions to real GDP growth					
10. Final domestic demand		6,593.4	1.5	5.2	2.7
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	...	...	0.0	0.0
12. External balance of goods and services (% of Nominal GDP)	B.11	430.0	5.7	5.0	5.3

[1] Please report here the estimated impact on real GDP growth of the aggregated budgetary measures contained in the DBP.

Macroeconomic forecasts
(Price developments)

Appendix Table 1.b	Index	rate of change		
	2013	**2013**	**2014**	**2015**
1. GDP deflator	106.5	2.1	2.0	1.2
2. Private consumption deflator	106.1	1.2	0.5	2.1
3. HICP	120.1	1.0	0.7	1.5
4. Public consumption deflator	105.2	2.5	1.6	3.2
5. Investment deflator	105.8	2.1	0.1	-1.2
6. Export price deflator (goods and services)	107.8	0.3	-0.5	-1.1
7. Import price deflator (goods and services)	107.8	-0.1	-1.5	-0.8

Macroeconomic forecasts
(Labour market developments)

Appendix Table 1.c			rate of change		
	ESA Code	**2013**	**2013**	**2014**	**2015**
1. Employment, persons ('000 pers) [1]		176.7	2.4	2.1	1.9
2. Employment, hours worked ('000 hrs) [2]		393,226.3	2.4	2.1	1.9
3. Unemployment rate (%) [3]		6.4	6.4	6.0	5.9
4. Labour productivity, persons (€/pers) [4]		39,907.2	0.1	0.9	1.5
5. Labour productivity, hours worked (€/hr) [5]		17.9	0.1	0.9	1.5
6. Compensation of employees (€ '000)	D.1	3,340.3	4.0	6.8	4.2
7. Compensation per employee (€/pers)		18,901.6	1.6	4.6	2.3

[1] Total employment, resident population concept, labour force survey 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
	ESA Code	**2013**	**2014**	**2015**
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	...	...	...
of which:				
- Balance on goods and services		5.7	5.0	5.3
- Balance of primary incomes and transfers		...	...	...
- Capital account		...	...	...
2. Net lending/net borrowing of the private sector	B.9	...	...	...
3. Net lending/net borrowing of general government	B.9	...	...	...
4. Statistical discrepancy		...	...	...

3. General Government Budgetary Developments

3. General Government Budgetary Developments

Following the reduction in the deficit from 3.7 per cent of GDP in 2012 to 2.7 per cent of GDP in 2013, Government is continuing with its fiscal consolidation strategy to ensure that the deficit is kept permanently and in a sustainable manner well below the 3.0 per cent threshold and respects the agreed deficit and debt trajectory.

3.1 Budgetary Targets

Government is targeting a deficit of 2.1 per cent of GDP for 2014. The indications and data available up to September 2014 are broadly consistent with this target. Whilst expenditure is expected to be higher than what was projected in the Update of the Stability Programme submitted in April of this year, revenue is also expected to be stronger than anticipated. If these developments persist over the last quarter of this current

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

Table 2.a — % GDP

	ESA Code	2014	2015
Net lending (+) / net borrowing (-) by sub-sector [1]	B.9		
1. General government	S.13	-2.1	-1.6
2. Central government	S.1311	-1.9	-1.4
3. State government	S.1312	-	-
4. Local government	S.1313	-0.1	-0.1
5. Social security funds	S.1314	-	-
6. Interest expenditure	D.41	2.8	2.8
7. Primary balance [2]		0.7	1.2
8. One-off and other temporary measures [3]		0.2	0.2
9. Real GDP growth (%) (=1 in Table 1.a)		3.0	3.5
10. Potential GDP growth (%) (=2 in Table 1.a)		2.6	2.8
11. Output gap (% of potential GDP)		-0.37	0.31
12. Cyclical budgetary component (% of potential GDP)		-0.17	0.14
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		-1.89	-1.71
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		0.91	1.06
15. Structural balance (13 - 8) (% of potential GDP)		-2.1	-1.9

[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
	ESA Code	**2014**	**2015**
1. Gross debt [1]		70.1	69.0
2. Change in gross debt ratio		0.3	-1.1
Contributions to changes in gross debt			
3. Primary balance (= item 7 in Table 2.a)		0.7	1.2
4. Interest expenditure (= item 6 in Table 2.a)	D.41	2.8	2.8
5. Stock-flow adjustment		1.6	0.6
p.m.: Implicit interest rate on debt [2]		4.2	4.1

[1] *As defined in Regulation 479/2009.*

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

year, Government is confident that the deficit ratio would be kept well below the 3.0 per cent target for the second consecutive year.

This target is expected to be achieved on the back of a strong performance in economic activity as well as significant fiscal effort. It is to be noted that over the last two years Malta has undertaken an average structural effort of 0.6 percentage points of GDP with the effort being frontloaded in 2013. This is in line with Council recommendations to correct the excessive deficit procedure. Government budgetary targets are presented in Table 2a.

Due to the timing of the settlement of Enemalta's repayment of arrears related to excise on fuel, the expected decline of the debt ratio will mostly take place in 2015. By the end of 2015, Malta is expected to reach a debt of 69.0 per cent of GDP. For 2015, the projected reduction in the gross debt is mainly driven by a growing primary surplus and by nominal GDP growth, which are expected to more than compensate for the upward pressure that the interest burden is expected to have on the debt ratio. Meanwhile, stock flow adjustments are expected to have a rather muted impact on the underlying ratio in 2015. Developments in gross Government debt are presented in Table 2b.

3.1.1 Discretionary Measures

The reduction in the debt ratio is also supported by further fiscal consolidation in 2015 with an ambitious deficit target of 1.6 per cent of GDP. This is underlined by a number of permanent discretionary revenue measures which in particular include:

1. The International Investor Programme which is expected to render 0.57 per cent of GDP in 2015.

2. Further revenue in indirect taxation equivalent to 0.30 per cent of GDP will be levied on consumer goods and services and 0.06 per cent of GDP consisting of a revision in fees on market output, to compensate

for the revenue foregone due to the lowering of income tax bands. This in line with Government policy to shift tax burden away from labour income while still keeping the same VAT rates.

3. The asset registration scheme launched this year is expected to increase the income tax base through the newly declared assets and is expected to contribute additional income tax revenue per annum.

4. The increase in pensionable age announced as part of the 2006 pension reform is expected to contribute an additional 0.14 per cent of GDP in national insurance contributions.

These measures total 1.11 per cent of GDP and will be partly offset by the further reduction of 4.0 percentage points in the middle income tax bracket estimated at 0.24 per cent of GDP, the lost revenue stemming from the one-off investment registration scheme fee received in 2014 ammounting to 0.13 per cent of GDP and lower temporary revenue amounting to 0.02 per cent of GDP. Thus the net impact of discretionary revenue measures (including those implemented in previous budgets but which still have an impact in 2015) is estimated at 0.7 per cent of GDP.

Discretionary expenditure measures are expected to be relatively neutral on the deficit. Measures which will exert an upward pressure to the budgetary balance of 2015 include:

1. Higher expenditure over 2014 equivalent to 0.08 per cent of GDP towards an annual supplementary children's allowance which is conditional on attendance to school, health check-ups and psycho-social attention. The increase over 2014 is due to the measure being only affected as of September 2014.

2. A higher equity injection to Air Malta in 2015 equivalent to 0.34 per cent of GDP. This will show as a reduction in structural effort although by its very nature the impact of this injection is temporary in nature and cannot be repeated in 2016.

In order to control for Government expenditure increases, these upward pressures will be mainly offset through better control of the public sector wage bill. These are expected to yield 0.12 percentage points of GDP in lower expenditure, by attaining to the target of lowering the replacement rate in non-priority areas and better control on the non-wage component of the personal emoluments.

In aggregate, expenditure measures are expected to exert a negative effect of 0.3 percentage points of GDP on the fiscal deficit.

Furthermore, 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.

A description of discretionary measures is illustrated in Table 5a. It is to be noted, that none of the measures to be introduced in the Budget for 2015 exceed 0.05 per cent of GDP and in line with Article 6(3) of Regulation EU No 473/2013 the description provided is less detailed than that of measures exceeding 0.1 per cent of GDP. Furthermore, this is also in line with the "Guidelines on the format and content of draft budgetary plans, economic partnership programmes and debt issuance reports" (July 2013).

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 2014 % of GDP	Incremental Budgetary impact 2015 % of GDP
Revision in excise duties & Efficiency in Revenue Col-leciton	The incremental impact from revisions in excise duty on mobile telephony, and cement, together with revenue collected from enanced efficiency in revenue collection from the VAT scheme and from Motor Vehicle Licenses	D2 - R	Accruals	Adopted	2012	-0.03	-
Revision in excise duties	The incremental revenue impact from revisions in excise duties on cigarettes and tobacco & fuel announced in the Budget for 2013	D2 - R	Accruals	Adopted	2013	0.03	-
Revision in a number of excise duties & Financial Support to First Time Buyers	A revision in the: bunkering tax, registration tax on motor cycles, duty on cement, duty on beer and spirits, annual circulation licence fee & drivers' licence fee. Also includes financial support to first-time buyers	D2 - R	Accruals	Adopted	2014	0.09	0.01
Revision in excise duty on fuel	Revision in excise duty on fuel	D2 - R	Accruals	Adopted	2014	0.08	-
Revision in excise duty on cigarettes and tobacco	Revision in excise duty on cigarettes and tobacco	D2 - R	Accruals	Adopted	2014	0.08	-
Revision of excise duties	Revision in a number of excise duties on products to be announced in the Budget for 2015.	D2 - R	Accruals	Approved	2015	-	0.18
Introduction of excise duties on new products	Introduction of number of excise duties on products to be announced in the Budget for 2015.	D2 - R	Accruals	Approved	2015	-	0.06
Revision of non-office fees	Revisions in licences and Stamp duties	D2 - R	Accruals	Approved	2015	-	0.06
Widening of income tax rates & Efficiency in revenue collection	The impact on 2014 and 2015 of the widening of the income tax rates introduced in 2013 together with revenue stemming from efficiency in revenue collection and Tax Arrears Collection Schemes.	D5 - R	Accruals	Adopted	2012 & 2013	-0.19	-0.26
Various measures effecting the tax base of current taxes on income	The increase in the income tax base for tax purposes following the Investment Registration Scheme, a revision in Income Tax Bands for Family Computation, COLA Tax Exemption on Minimum Wage & Pensions, Third Pillar Pension Incentive and a Tax Credit extension for Child Care	D5 - R	Accruals	Adopted	2014	-0.05	0.03
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	Adopted	2014	0.13	-0.13
Pension reform initiatives & Social Security Exemption for Carers & Efficiency in revenue collection	The incremental impact on national insurance contributions stemming from the 2006 pension reform intiative, together with the exemption of social security contributions for carers announced in the 2014 budget & revenue stemming from efficiency in revenue collection and Tax Arrears Collection Schemes.	D6 - R	Accruals	Adopted	2006 & 2012 & 2014	0.13	0.14
International Investor Programme	International Investor Programme	P10 - R	Accruals	Adopted	2014	0.06	0.57
Fees of Office	A 5% increase in 'fees of office'	P10 - R	Accruals	Adopted	2014	0.02	-
A number of measures impacting Market Output	An increase in 'fees of office' together with the cost recovery of current free banderoles on alcohol (not implemented last year)	P10 - R	Accruals	Approved	2015	0.00	0.06
Pension reform initiatives & Assistance to the Elderly & Supplementary Children's Allowance	The incremental impact from lower pension expenditure stemming from the 2006 pension reform, together with expenditure towards assistance to help the elderly live independently and a supplementary children's allowance as from September 2014.	D6 - E	Accruals	Adopted	2006	-0.07	-0.07
Equity acquisition in Airmalta plc	The investment was carried out in Air Malta to support the national airline's restructuring programme	D9 - E	Accruals	Adopted		0.32	-0.35
Savings on Public Sector Wage Bill	Restrictions on recruitment in the public sector non priority areas and maintaining overtime and allowances on their 2014 average	D1 - E	Accruals	Approved	2015	-	0.11
					TOTAL	0.61	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 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.

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

Projected revenue increases for 2015 under the no policy change scenario are primarily driven by increased economic activity, the composition of economic growth and any 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 2015 is expected to be characterised by a relatively strong real GDP growth but a somewhat more subdued inflationary environment particularly with respect to import and export prices, but less so in the case of domestic consumption. Such a strong recovery is consistent in the macroeconomic projections underlying the Draft Budget with a stronger growth in profits compared to wages and salaries. As a result of the expected distribution of income gains, revenue from taxes on income is anticipated to be stronger than nominal GDP growth in 2015. Moreover, this distribution of income where wages are growing at a slower rate than the rate of economic growth is consistent with a slower growth in social security contributions than the pace of nominal economic growth.

Growth from the expenditure components of GDP are driven by strong consumer demand and a further increase in tourism activity such that the growth in taxes on production and imports is expected to marginally exceed the growth in nominal GDP. Imports of goods (excluding fuel and industrial supplies) is also expected to rise faster than nominal GDP in 2015, further contributing to a stronger increase in taxes on production and imports. 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 only marginally faster than nominal GDP growth. Indeed the implied elasticity of tax revenue to GDP under the no policy change scenario is estimated at 1.2. 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 rise from 34.8 per cent of GDP to 35.2 per cent of GDP under a no policy change scenario as depicted in Table 3. This increase is primarily due to taxes on income which are expected to rise by 0.56 percentage points of GDP. Taxes on production and imports and capital taxes are expected to maintain an unchanged ratio to GDP. On the other hand, social security contributions as a share of GDP, under the no policy change scenario, are expected to decline by 0.15 percentage points. Similarly, a drop of the same magnitude is expected in the share of other revenue.

Total expenditure under the no policy change scenario is expected to increase marginally from 43.0 per cent of GDP in 2014 to 43.1 per cent in 2015. The categories with the highest expenditure increase are intermediate consumption and capital transfers (a 0.2 percentage points increase for each category). On the other hand, social payments as a share of GDP, at unchanged policies, are expected to decrease by 0.3 percentage points to 12.4 per cent of GDP, primarily reflecting lower Cost of Living Adjustment resulting from a low inflationary environment.

Higher expenditure for subsidies in 2014 was due to the temporary takeover of the Public Transport Services by the Government. In the 2014 Update of the Stability Programme, subsidies were expected to return to their ratio prior to the temporary take over in 2015. Government remains committed to divest itself off the transport operation.

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	2014	2015
General government (S13)		-2.1	-2.0
1. Total revenue at unchanged policies	TR	40.9	41.1
Of which			
1.1. Taxes on production and imports	D.2	13.7	13.7
1.2. Current taxes on income, wealth, etc	D.5	13.8	14.3
1.3. Capital taxes	D.91	0.2	0.1
1.4. Social contributions	D.61	7.1	6.9
1.5. Property income	D.4	1.2	1.2
1.6. Other [2]		5.0	4.9
p.m.: Tax burden		34.8	35.2
(D.2+D.5+D.61+D.91-D.995)[3]			
2. Total expenditure at unchanged policies	TE[3]	43.0	43.1
Of which			
2.1. Compensation of employees	D.1	12.8	12.8
2.2. Intermediate consumption	P.2	6.4	6.6
2.3. Social payments	D.62 D.632	12.8	12.4
of which Unemployment benefits [4]		0.4	0.4
2.4. Interest expenditure	D.41	2.8	2.8
2.5. Subsidies	D.3	1.4	1.6
2.6. Gross fixed capital formation	P.51	3.3	3.5
2.7. Capital transfers	D.9	1.0	1.1
2.8. Other [5]		2.4	2.3

[1] Please note that the no-policy change scenario involves the extrapolation of revenue and expenditure trends before adding the impact of the measures included in the forthcoming year's budget.

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

[3] Tax revenue including those collected by the EU (Own Resources) 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.

3.3 Expenditure and Revenue Targets

General Government expenditure and revenue targets are presented in Table 4a. Revenue targets are supported by the favourable macroeconomic conditions highlighted in Section 3.2 and also the revenue measures highlighted in Section 3.1. In particular, total revenue is expected to rise by 0.9 percentage points of GDP, from 40.9 per cent of GDP to 41.8 per cent of GDP. The tax burden is expected to rise by 0.5 percentage points of GDP to reach 35.3 per cent of GDP in 2015. The increase in tax revenue is underlined by tax buoyancy whilst the net impact of discretionary measures is estimated at 0.1 per cent of GDP. The International Investor Programme is expected to contribute a further 0.6 percentage points of GDP to the increase in total revenue.

The ratio of general Government expenditure to GDP is expected to increase from 43.0 per cent in 2014 to 43.4 per cent in 2015. Discretionary expenditure measures are expected to exert a negative effect of 0.3 percentage points of GDP on the fiscal deficit, particularly stemming from the increase in capital transfers

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

Table 4.a			% GDP
	ESA Code	**2014**	**2015**
General government (S13)		-2.1	-1.6
1. Total revenue target	TR	40.9	41.8
Of which			
1.1. Taxes on production and imports	D.2	13.7	14.0
1.2. Current taxes on income, wealth, etc	D.5	13.8	14.0
1.3. Capital taxes	D.91	0.2	0.1
1.4. Social contributions	D.61	7.1	7.0
1.5. Property income	D.4	1.2	1.2
1.6. Other [1]		5.0	5.5
p.m.: Tax burden		34.8	35.3
(D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure target	TE[3]	43.0	43.4
Of which			
2.1. Compensation of employees	D.1	12.8	12.7
2.2. Intermediate consumption	P.2	6.4	6.6
2.3. Social payments	D.6M	12.8	12.5
of which Unemployment benefits [3]		0.4	0.4
2.4. Interest expenditure (= item 6 in Table 2.a)	D.41	2.8	2.8
2.5. Subsidies	D.3	1.4	1.6
2.6. Gross fixed capital formation	P.51G	3.3	3.5
2.7. Capital transfers	D.9	1.0	1.5
2.8. Other [4]		2.4	2.3

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

[2] Tax revenue including those collected by the EU (Own Resources) 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.

of 0.3 percentage points relate to the higher equity injection in Air Malta when compared to 2014.

Meanwhile, changes in the other components of expenditure, net of the impact of the discretionary expenditure measures and of gross fixed capital formation, are expected to have a neutral effect on the deficit ratio (refer to Table 4a).

Expenditure and Revenue Targets
(Amounts to be excluded from the expenditure benchmark)

Table 4.b % GDP

	ESA Code	2013 Level	2013	2014	2015
1. Expenditure on EU programmes fully matched by EU funds revenue		104.7	1.4	2.5	2.2
2. Cyclical unemployment benefit expenditure [1]		0.5	0.0	0.0	0.0
3. Effect of discretionary revenue measures [2]		-20.0	-0.3	0.4	0.7
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 is obtained from the AMECO Database, updated May 2013, data for the unemployment rate is per Table 1.c of this report, and data for the total unemployment benefit expenditure is per Table 4.a in this report 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	2013	2014	2015
Target general government net lending/ net borrowing	B.9			
Stability Programme		-2.8	-2.1	-1.6
Draft Budgetary Plan		-2.7	-2.1	-1.6
Difference		-0.1	-0.0	-0.0
General government net lending projection at un-changed policies	B.9			
Stability Programme		-2.4	-2.7	-1.5
Draft Budgetary Plan		-	-2.1	-2.0
Difference [1]		-	-0.6	0.5

[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.

3.4 Divergence from the April 2014 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 -0.6 and +0.5 per cent of GDP in 2014 and 2015, 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.

Expenditure and Revenue Targets
(General government expenditure by function)

Appendix Table 4.c.ii % GDP

Classification of the functions of the Government

Functions of the Government	COFOG Code	2014	2015
1. General public services	1	8.0	7.3
2. Defense	2	0.7	0.7
3. Public order and safety	3	1.3	1.3
4. Economic affairs	4	4.6	5.5
4. Environmental protection	5	1.5	1.6
6. Housing and community amenities	6	0.5	0.5
7. Health	7	5.5	5.6
8. Recreation, culture and religion	8	1.1	1.2
9. Education	9	6.0	6.1
10. Social protection	10	13.8	13.6
11. Total Expenditure (= item 2 in Table 4.a)	TE	43.0	43.4

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

GOVERNMENT POLICY OBJECTIVES		
CSR NUMBER	**LIST OF MEASURES**	**DESCRIPTION OF DIRECT RELEVANCE**
1. Ensuring Public Finance Sustainability		
1.1. Fiscal policy		
CSR 1: Correct the excessive deficit in a sustainable manner by 2014. In 2015, significantly strengthen the budgetary strategy to ensure the required structural adjustment of 0.6 % of GDP towards the medium-term objective. Thereafter, pursue a structural adjustment of at least 0.5 % of GDP each year, and more in good economic conditions or if needed to ensure that the debt rule is met in order to keep the general government debt ratio on a sustained downward path.	Correct the excessive deficit in a sustainable manner by 2014	The fiscal consolidation effort undertaken in2013 was successful in bringing the deficit down below the 3% of GDP threshold. The Government aims to maintain its efforts to reduce the nominal deficit over the course of 2014 in line with its Medium Term Objective. Moreover this will ensure that Malta remains well within the requirements of the EDP deficit threshold for 2014. Government remains committed to attain the deficit target of 2.1% of GDP and to reduce the deficit further to 1.6% of GDP in 2015.
	Review of ministerial spending allocations	A Government spending review is ongoing to ensure the achievement of improved efficiency in oublic spending, reduce waste and ensure value for money, thus ensuring greater financial discipline and fiscal accountability in the public sector in particular public entities and Local Councils. This should ensure that spending reflects changing priorities and changing needs.
	Ensuring an appropriate structural effort of at least 0.5 % of GDP each year	The Maltese Government is pursuing an average annual improvement of its cyclically-adjusted budget balance of more than 0.5% per year. This objective is being met through expenditure consolidation via an ongoing spending review together with discretionary revenue and expenditure measures announced in the budget.
1.2. Reforming the fiscal frameworks		
CSR 1: Finalise the adoption of the Fiscal Responsibility Act with a view to putting in place a binding, rule-based multiannual fiscal framework and establishing an independent institution charged with the monitoring of fiscal rules and endorsing macroeconomic forecasts underpinning fiscal planning.	Introduction of the Fiscal Responsibility Act and implementation of a rules-based fiscal framework	To guarantee the sustainability of fiscal consolidation measures, Parliament has unanimously approved the Fiscal Responsibility Act and the Act was signed by the President, thus introducing the fiscal rules underlying the SGP into national legislation. This legislation foresees the creation of an independent Fiscal Council principally tasked with monitoring, budgetary execution against targets, operation of fiscal rules and adequacy of corrective action when the structural effort necessary to achieve the MTO deviates from the required path. The Fiscal Responsibility Act envisages to promote fiscal responsibility and strengthen the role of the Ministry for Finance. The main measures include the constitution of a binding topdown budgeting approach, the establishment of a spending ceiling conditional on the independently endorsed macroeconomic and fiscal projections and the fiscal rules contemplated by the Fiscal Responsibility Act.
	Creation of a medium term budgetary framework under supervision of the Fiscal Council	The Fiscal Responsibility Act envisages a medium term budgetary framework which strengthens the role of the Ministry for Finance and introduces flexibility instruments such as the contingency reserve which increase the credibility of fiscal rules and minimises the risk of fiscal slippages due to temporary and unforeseen circumstances.
1.3. Reforming Expenditure Programmes		
CSR 2: 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.	**a) 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; reducing retirement before pension age; 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. The 2006 reform constitutes the main policy supporting the structural effort as conceived in the Stability Programme.
	b) Pension Reform Process	Following the election of the new administration in March 2013, Government has expressed its commitment for the continuation of the pension reform process in Malta. A Joint Pensions Working Group – the Pensions Strategy Group – between the Ministry for the Family and Social Solidarity and the Ministry for Finance, was set up to review the work carried out by the Pensions Working Group, in particular the recommendations outlined in the Post-Consultation Report submitted to Government in August 2012. Furthermore it has been tasked to draw up a holistic strategy aimed at addressing the adequacy and sustainability of pensions in Malta and develop a communications strategy directed towards raising the level of public awareness on pensions issues in Malta and the need to ensure that future pension incomes are adequate in order to sustain a high standard of living in retirement. The Pensions Strategy Group is also studying fundamental first pension design issues including but not limited to whether the pension system should optimise poverty alleviation effectiveness, the smoothing of income over the life course of a person, how best to balance contributions to benefits, and how the system can be made more responsive to demography and other risks.
	c) Third Pillar Private Pensions	An Advisory Group on Third Pillar Pensions has been set up with the view to make recommendations relative to the introduction of such voluntary schemes in Malta. The group's remit was to come up with a set of eligibility criteria that financial products would need to meet in order for fiscal incentives to be granted. The group also evaluated different types of fiscal incentives which would be offered to savers, and possibly their employers, if they also help support voluntary retirement saving provision. The group also considered different options of providing the in which way to provide the fiscal relief. The group also recommended the introduction of tax-favoured accounts, where interest earned on these accounts would be tax-free, with the option of converting such accounts into personal retirement schemes. Such tax-favoured accounts would supplement the introduction of voluntary third pillar pensions in Malta.
	d) Active ageing	One of the key goals of the National Strategic Policy for Active Ageing is to increase the number of older and ageing workers in Malta by acting as catalyst for maximising healthlife 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.
CSR 2: Ensure that a comprehensive reform of the public health system delivers a cost-effective and sustainable use of available resources, such as strengthening primary care.	Investment in ICT systems and technologies	eHealth can benefit citizens, patients, health and care professionals but also health organisations and public authorities. It can increase sustainability and efficiency of health systems by unlocking innovation, enhancing the quality of care and citizen empowerment and encouraging organisational changes.

GOVERNMENT POLICY OBJECTIVES		
CSR NUMBER	**LIST OF MEASURES**	**DESCRIPTION OF DIRECT RELEVANCE**
	Design and Implementation of the Food and Nutrition Policy and Action Plan	The aim of these studies is to gain new insight in behaviours of teenage school children and the population in general. Such information is necessary to inform policies aimed at tackling risk factors and health determinants with the aim of lessening the burden of chronic diseases on the health system.
	Design and Implementation of a Communicable Disease Strategy	The elimination, prevention and control of communicable diseases are necessary to reduce social and financial impacts, both in terms of health service provision and through increasing productivity.
	Conduct the Health Behaviour in School Children study	A cross-national research survey which is conducted every four years. The study aims to gain new insight into, and increase the understanding of young people's health and well-being, health behaviours, and their social context.
	Design and Implementation of National Breast Feeding Policy	Increasing breastfeeding rates is conducive to better health for newborns and infants and their mothers. The aim of the policy is to achieve optimal infant and young child feeding by supporting all mothers who decide to: initiating breastfeeding, breastfeeding exclusively for six months; and continuing breastfeeding with appropriate complementary foods until two years and beyond, or as long as the mother and baby wish. A draft policy document was issued for consultation in June 2014. It is envisaged that the policy will be finalised and published in the last quarter of 2014.
	Publication of the National Diabetes Strategy	Government has identified diabetes as a chronic disease which merits particular attention. In this regard, planning work leading to the drafting of a National Diabetes Strategy has started. A Working Group was set up to lead the focus, identify priorities and draft the strategy document.
	Conduct a Maltese National Food Consumption Survey	The aim of this survey is to collect comparable and high quality data on the dietary habits of children and adults residing in Malta. The data collected will then be used to develop national dietary guidelines that accurately reflect the latest evidence and will be invaluable in the planning and evaluation of health policies, health promotion and research.
	Strengthen Cancer Screening Services	Together with the investment in cancer treatment services made in recent years for the new Oncology hospital, specialised equipment such as PET scanner and innovative cancer drugs, Government is committed to strengthen the cancer prevention programme.
	Addressing Gozo's accessibility challenges	Gozo's peripherality to the mainland gives rise to its double insularity, which, in turn, leads to constraints on the movement of persons, goods and services. The issue of double insularity impacts negatively on all sectors of the economy and also undermines the quality of life on the island, given the limitations on accessibility to and from the main island for important services, including, specialised health services centralised in hubs in Malta. Addressing accessibility challenges becomes even more important when considering that the biggest client group for health services in Gozo are the elderly, who face even bigger mobility issues.
1.5. Reforming Tax Administration		
CSR 1: Continue improving tax compliance and fighting tax evasion by ensuring the continued roll-out and evaluation of measures taken so far, while taking additional action, in particular by promoting the use of electronic means of payment.	Tax evasion awareness campaign	To improve taxpayers' compliance, a campaign will be held to increase awareness on how money collected from taxes is being used by Government and what each citizen receives in return from the state in terms of infrastructure, services, health, education, and social security.
	Electronic payment system for payment of taxes	A report has been drawn to implement a number of initiatives within the taxation sector to encourage the increase in take of electronic payments to the tax authorities.
	Consolidating the various functions of Government revenue into one Authority	The establishment of the Office of Commissioner for Revenue (CFR) whas the primary objective of merging the Revenue Departments of the Ministry for Finance into one organisation to provide better services to taxpayers, resulting in less bureaucracy as per Government's policy, and collect tax revenue more efficiently and effectively. Recent changes/processes effected in respect of the merger include: • a new accounting process in the VAT system, • alignments in the tax return process, • improvements in the collection systems (via the aligning of due dates and enforced collection procedures). Enact legislation to minimise the impact of interest on tax arrears for both VAT and Direct Taxation in order to support business, • improvements in taxpayer registration process and improvements in taxpayer services, • consolidation of cash office functions, as well as • consolidation of compliance functions of the Tax Compliance Unit. Furthermore, the Government will be seeking expert advice from IMF experts on this merger and also on the Budgetary process.

GOVERNMENT POLICY OBJECTIVES		
CSR NUMBER	**LIST OF MEASURES**	**DESCRIPTION OF DIRECT RELEVANCE**
	Improve the functioning of the tax audits/tax compliance unit so as to continue combating tax evasion and avoidance and to improve the Unit's performace	Streamlining and enhancements include: • Identification of an optimal system of risk analysis and targeting of taxpayers for investigations through the focus on data capturing and subsequent analysis • Initiating primary investigations and other ancillary or related actions as required • Engage in a wide spectrum of limit scope/aspect audits to reach a broader number of taxpayers and thus promote compliance • continue to engage on further fully-fledged investigations which will be complemented with other risk areas audits • collate and analyse data arising from third parties and Government Departments and Entities and plan audits and investigations according to established timeframes ensuring the least administrative burden possible via the implementation of workflow management practices • assisting in enhancing of tax audit software • electronic printing of postal registration cards to facilitate the audit process and elevate efficiency • monitoring and refinement of applied risk analysis methods and documentation which helps identify areas for improvement • liaise with other Government departments and foreign tax authorities to carry out local audits and foreign multilateral controls • review objections and conduct further investigations as required • in-house training for audit officers • simplification of fiscal legislation and increase effectiveness and enforcement of sanctions • Continuous review and updating of tax legislation and methods adopted in carrying out tax audits, taking into account changes in business processes and transactions • audit of case selection exercises through liaison with other government departments and entities • Increase off site income tax inspections and enhance enforcement of collection • Provide more guidance and information to citizens explaining their rights and obligations under the relevant laws through a tax evasion awareness campaign • Maintain double tax agreements with EU/Non EU countries.
	Improve the functioning of the VAT Department so as to continue combating tax evasion and avoidance and to improve the Department's performace	Streamlining and enhancements include: • Enhancements to the risk analysis programme which identifies cases of potential tax evasion/avoidance to be referred for investigation • Analysing and evaluating the work processes which are in place in order to improve the Department's performance thereby resulting in increased efficiency and effectiveness • Reviewing of the information systems requirements for the VAT Risk Analysis in view of the merger process • Examining recommendations of a study which was commissioned to evaluate the current situation regarding the use of phantom-ware and zappers in Malta
	Revisions to the VAT legislation	These will empower the Minister responsible for finance to revise as necessary the penalties and interest payable on taxation due in order to increase tax compliance and ease the recovery of amounts due.
	Curb undeclared work and encouraging more people to enter the formal economy	This entails the completion of a plan of action for the promotion of services from: • the Maltese Public Employment Service (which strives to ensure that persons registering for primary employment and employers engaging local and foreign employees abide to their respective legal obligations) • the Law Compliance system at ETC which (which carries out desk investigations and more targeted inspections) • the Law Compliance Unit (LCU) (which works hand in hand with the Department of Social Security, Tax Compliance Unit, Vat Department as well as the Police Force in order to ensure better law enforcement). In this regard, inspections were also carried out on a continuous basis by the ETC, identifying law infringements with the additional intervention of the Benefit Fraud and Investigations Department (BFID) in cases involving social security fraud. The Community Work Scheme is also contributing towards tackling the problem of undeclared work.
	Investment Registration Scheme	Persons 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. The scheme was launched bt the Central Bank of Malta and it closes on 30th November 2014.
	Auditing of construction values	In order to reduce VAT evasion in the construction sector, if a property developer does not have available the VAT receipts to substantiate the estimated valuation of works he will be liable to pay the VAT due. This measure will also create a level playing field and promote transparency in the construction industry.
2. Raising potential output, in particular through productive capital investment, raising skill and education levels, promoting lifelong learning and increasing labour force participation.		
2.1. Raising labour productivity		
2.1.1. Investing in human capital (raising skill and education)		
	a) Early School Leaving Strategy	Preventative measures against ESL will include the implementation of the National Curriculum Framework; 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. 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.
	b) Reform of the National Curriculum Framework (NCF) in Malta	The National Curriculum Framework in Malta aims at developing 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.

GOVERNMENT POLICY OBJECTIVES		
CSR NUMBER	**LIST OF MEASURES**	**DESCRIPTION OF DIRECT RELEVANCE**
CSR 3: Further improve basic skills attainment and reduce early school leaving, in particular by finalising and implementing the announced national literacy strategy.	**c) Framework for the Educational Strategy for Malta 2014-2024**	This framework seeks to improve students' learning experiences by encouraging creativity, critical literacy, entrepreneurship and innovation at all levels by - reduce the gaps in educational outcomes between boys and girls and between students attending different schools, decrease the number of low achievers and raise the bar in literacy, numeracy, science and technology competence, and increase student achievement; increase participation in lifelong learning and adult learning; - 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 - raise levels of student retainment and attainment in further, vocational, and tertiary education and training.
	d) Follow up exercise with 4th and 5th Formers	The aim is to encourage students to register with the Youth.Inc Programme or other post-secondary institutions and to explore different careers/work options.
	e) Stipends for repeaters	Students are encouraged to further their education. Whoever has a problem should be encouraged and not discouraged. For this reason, students who are repeating one year in their course are receiving their stipend. This measure came into effect on 1st January 2014.
	f) Tablets for Primary School Teachers and Students (Pilot Project)	In the process of implementing the 'One Tablet Per Child' initiative, a pilot project is currently being held to assess the introduction of tablet computing devices in all primary schools. The scope of the pilot project is to carry out an assessment on a small scale in view of the national implementation of the 'One Tablet Per Child' initiative as from 2015-2016. The pilot project will involve 22 classes in State, Church and Independent Schools in Malta and Gozo containing a total of around 400 students including students with special needs.
CSR 3: Further improving the labour market participation of women, in particular those wishing to re-enter the labour market by promoting flexible working arrangements.	**g) Scholarship Schemes**	In a small island state where education continues to play an important part of the economic and social agenda, Government has continued to invest in the people's continuing professional development via a number of scholarship programmes.
	i) Master it!	Master it! aims to provide more opportunities to promote further specialisation at higher levels of education at a Masters level. The scheme identifies nine priority areas for the Maltese economy.
	ii) MGSS (Post-Graduate and Under-Graduate)	The key objectives of the MGSS-PG are to: • encourage and promote further participation at PG level both locally and abroad; • assist exceptional applicants to pursue further levels of academic research; • contribute towards research in identified areas of national priority; • increase the capacity and level of research, innovation and development activity in Malta. The key objectives of the UG scheme are: • To encourage more student participation at an undergraduate level in Malta and abroad; • To promote academic excellence in the private tuition sector; • To increase student choice of degrees and institutions.
	f) Get Qualified	A new version of this scheme was launched earlier this year and will cover the period 2014-2018. This Get Qualified is an initiative that supports the personal development of individuals for the achievement of qualifications and certifications required by industry. The incentive is applicable to individuals following a course of studies leading to a certification, diploma, degree or post-graduate degree courses. Upon successful completion the student will benefit from a tax credit thus recovering part of the costs incurred.
	h) Alternative Learning Programme	To provide alternative learning pathways for form 5 students not sitting for any SEC examinations and therefore, almost de facto early school leavers.
2.1.2. Lifelong learning and Training		
CSR 3: Continue policy efforts to address the labour market relevance of education and training and by stepping up on the reform of the apprenticeship system.	**a) Enhancing Employability through Training Programme**	One of the overall objectives of this Programme is the reintegration of registered unemployed or inactive individuals into the labour market through training programmes, and the provision of assistance to employed persons to secure and advance their position within the labour market. In addition, it also provides the opportunity for men and women who have been absent from the formal economy for a relatively long period of time to regain their confidence and brush up on their skills through a series of training programmes that will ultimately facilitate their reintegration to employment.
	b) Training Aid Framework	The Training Aid Framework (TAF) was co-funded through the European Social Fund and aimed to address the challenges faced by Malta in the provision of Lifelong Learning (LLL), while at the same time providing training that is most relevant to the labour market. The objective of this scheme was to promote access to training of persons actively participating in the Maltese labour market.
	c) National Apprenticeship Scheme	The Apprenticeship Scheme is based on the dual system of vocational training; a combination of on-the-job and off-the-job training.
	d) Lifelong Learning Strategy	The Lifelong Learning Strategy is aimed to provide a framework for the provision of adult education; bring about coordination in this sector by making optimal use of diverse lifelong learning opportunities.
	e) Training for average wage earners	The initiative follows the Training Allowance for Minimum Wage Earners and is targeted towards employees who earn less than the national average wage of € 300 per week from their full-time or part-time work. It aims to provide a grant to low wage earners when they participate in further training through which they can develop their skills and thus improve their job and career prospects.
2.2. Increasing Labour Force Participation		
2.2.1. Raising Female Participation		
	a) Universal and free Childcare Centres	To improve the affordability of childcare services families with both parents in employment benefit from free childcare. Free childcare is also provided to parents who are in education or part-time employment. This initiative is financed by Government through a public private partnership. A reduction on income declared by parents who send their children to childcare is applied. The reduction increased from € 1,300 to € 2,000 and benefits those parents who currently utilise private childcare centres. Parents in employment or education will benefit from the equivalent of their working hours as well as one hour daily for commuting and an additional 10% of their total working hours in child care services per month.
	b) Family-friendly measures in the public sector and the private sector	Government is committed to continue fostering a better balance between the workplace and the workforce, and in this regard, the family-friendly measures that were reported in last year's NRP are still ongoing.

GOVERNMENT POLICY OBJECTIVES		
CSR NUMBER	**LIST OF MEASURES**	**DESCRIPTION OF DIRECT RELEVANCE**
CSR 3: Further improving the labour market participation of women, in particular those wishing to re-enter the labour market by promoting flexible working arrangements.	**c) Afternoon School Service/Programmes in the Community**	An after-school care service – Klabb 3-16 – which aims to provide an after-school hours' service within school structures; to bridge the gap between day school and regular working hours of parents in employment; and to utilise schools after regular school hours. It is a service for school-age children (3 to 16 years old) which runs throughout the year.
	d) Incentives to Attract More Inactive Women to the Labour Force	The National Commission for the Promotion of Equality (NCPE) encourages entities to actively foster gender equality at the workplace. This is carried out in various ways such as:
	i) Awareness raising and training	Awareness raising and training which is carried out by NCPE, which training may be requested by the entities in the private and public sector as well as NGOs, Civil Society Organisations and Educational Institutions.
	ii) Consultation on policy drafting	Consultation on policy drafting provided to private and public entities for drafting equality and sexual harassment polics.
	iii) Equality Mark	Another initiative is the 'Equality Mark' certification, which is awarded following an assessment of the policies and measures of organisatio whose management is based on the recognition and promotion of the potential of all employees irrespective of their gender and caring responsibilities.
	e) Breakfast Club	The Breakfast Club is intended to provide care for children before the schools' official opening hours, from 7.00am till 8.30a.m.
2.2.2. Making Work Pay Measures		
	a) Lowering the tax wedge	Government is continuing the gradual shift from direct taxation towards indirect taxation while keeping the VAT rate unchanged, with the aim of making work pay and hence further increasing employment growth, competitivness and ultimately boosting ecoomic growth. Revenue losses from the revision in the income tax regime will be offset y enhanced efficiency in revenue collection as well as through revisions in indirect taxation. It is estimated that these will contribute positively to fiscal consolidation.
2.2.3. Labour Activation Programmes		
	a) Broadening Access in Education	Broadening Access to Education Initiative was set up at the University of Malta to increase participation in post-secondary and tertiary education in regions with low level of participation.
	i) Cottonera Resource Centre	The main aims of the Cottonera Resource Centre are to promote higher and tertiary education among these communities by building on existing skills and resources, providing information as well as support and guidance to those interested in furthering their education. At the same time, the Centre's remit is to promote the area's potential, in the form of skills, trades and other forms of heritage that are particular to the region.
	ii) Public Lectures	The objective of these talks was twofold. On one hand they were conducted to empower the community, especially adults who did not have the opportunity to further their education. At the same time the idea was to encourage people from outside the area to visit it, and become more familiar with the tangible and intangible heritage found there.
	iiii) Mentoring	The aim of this initiative is to create mentoring projects. The mentors were University of Malta students. The mentees had one-to-one and/or group sessions on a weekly basis.
	iv) Kids on Campus	The objective was for children from deprived socio-economic backgrounds to interact with children deriving from other socio-economic classes, thus increasing their social capital.
	v) Summer revision groups	Through this programme, students who applied for the SEC Exams had the opportunity to work in groups and discuss shared fields of study under the supervision of University students as their tutors.
	vi) University of the Third Age	The Cottonera Resource Centre introduced the University of the Third Age to residents who are 60.
3. Prioritising the promotion of a diversified and balanced economy		
3.1. Diversification and Competitiveness		
CSR no. 5: Continue efforts to increase the efficiency and reduce the length of public procurement procedures; encourage alternatives to debt-financing of companies through facilitating access to capital markets and developming venture captial funds; and increase efficiency of the judicial system by ensuring a timely and efficient implementation of the planned judicial reform.	i) Review of the start-up scheme	Malta Enterprise is currently reviewing the start up scheme. The new scheme will be aimed at facilitating access to finance. The beneficiaries from this programme will receive financing, part of which may be repayable according to the success achieved by business.
4. Enhancing the competitiveness and transparency of the products and services markets whilst streghtening consumer protection.		
4.1. Addressing skill-gaps		
CSR 3: Continue policy efforts to address the labour-market relevance of education and training and by stepping up on the reform of the apprenticeship system.	**a) MCAST ESF-funded projects**	
	i) ESF 2.85 - Industrial Needs and VET to Optimise Human Capital	The project addresses the current and anticipated education needs of ten industrial sectors and identifies potential skills gaps and shortages of present workforce.
	ii) ESF 3.102 - Inclusion for Employmet	The aim of ESF 3.102 is that of conducting a review of the Pathway to Independent Living Programme and courses between MQF Levels 1-3 through the Embedded Learning methodology and the Universal Design for Learning approach.
	iii) ESF 1.130 – Making VET Education more Relevant and Attractive	The aim of ESF 1.130 is that of conducting a substantial upgrading exercise within the context of Vocational Education at MQF Levels 4 and 5.
	iv) ESF 2.139 – Increasing Accessibility, Flexibility and Innovation to MCAST Lifelong Learning Course Offer	This project will be introducing a Blended Learning approach to a number of MCAST courses through the integration of e-learning components with traditional teaching elements. The project also aims to introduce a system of Accreditation of Prior Learning.

GOVERNMENT POLICY OBJECTIVES		
CSR NUMBER	**LIST OF MEASURES**	**DESCRIPTION OF DIRECT RELEVANCE**
	v) ESF 1.34 - Addressing Skills Mismatches in the Aviation Maintenance Industry	The aim of this project was that of offering a number of courses in the aviation maintenance sector.
	b) Job Practice Scheme for young graduates	Young graduates often find it difficult to make the transition from education to work because they lack the work experience required by employers. This initiative will provide graduates/students a portofolio of skills and experience to improve their job finding prospects.
	i) Employability Index	The Employability Index will offer more guidance to students on the choices of jobs that are available for the various lines of studies by indicating to the student the potential of ?nding a job with the line of study being chosen.
	ii) Additional Employment Advisors	ETC's vote is being strengthened such that the Corporation would be in a position to recruit additional employment advisors. A higher complement of advisors will make it possible to offer better quality service to jobseekers.
CSR 3: Further improving the labour market participation of women, in particular those wishing to re-enter the labour market by promoting flexible working arrangements.	**c) Youth Guarantee**	Government has allocated funds for a Youth Guarantee project proposed as an ESF co-financed project (ESF: € 1,911,065.05, Local: € 337,246.77). Malta's youth guarantee will primarily focus on individual empowerment. Together with ongoing initiatives being undertaken by the different stakeholders, an ESF project will be launched for NEETs. NEETs will be individually profiled by experts and will receive thirty hours of direct contact with a youth worker and another ninety hours of training intervention that will consist of motivation and behaviour, labour market orientation sessions.
	d) Labour Market Trends Research	In 2012 and 2013, the Employment and Training Corporation (ETC) conducted research to capture labour market trends and forecast the skills and competences needed in the industry. Following this study, ETC is committed to continue strengthening its evidence-base to ensure that ETC is cognisant of both the supply and demand of the labour market. To this effect, ETC is presently discussing the framework to be used for the development of future periodic forecasting surveys, together with a study on the existing skills available in the labour market.
	e) ETC Calloboration to Address Skills Mismatches	The Employment and Training Corporation, together with education providers and other entities seeks to address the labour market needs and skills mismatches through the assistance that it provides youths through a number of employment and training services, including occupational guidance services and work exposure schemes.
CSR 2: Ensure that a comprehensive reform of the public health system delivers a cost-effective and sustainable use of available resources, such as strengthening primary care.	Training of Healthcare Professionals for Integrating Acute and Community Care	The aim of this measure is to equip healthcare workers with the capacity to take on new innovative practices when discharging patients hence enhancing the integration and continuity of care from the acute to the community services whilst enhancing the quality of service provided.
4.2. Raising efficiency in the generation and use of energy		
	i) implementation of the National Renewable Energy Action Plan	Priority will be given tothose technologies which are already widely available mainly solar PV systems and solar water heating. Financial incentives for Solar Technology are aimed at making these technologies more affordable, are being made available to the general public as well as to organisations. . This will be facilitated by further measures to reduce administrative burden within MEPA.
	ii) Feed-in Tariffs	Attractive feed-in tariffs remained the main support tool to incentivise PV deployment unless benefiting from a grant. As a result of these efforts, the total capacity of PVs allocated a feed-in-tariff by MRA as at 28 February 2014 increased to 68.8MWp, out of which 27.2MWp are already commissioned and connected to the grid.
	iii) Solar farm Policy	The policy is intended to provide the definition of a solar farm and sets out the fundamental criteria to guide the planning and consideration of solar farm development. The guidelines shall provide appropriate siting for solar farms development with priority given to large scale rooftops, car parks, industrial areas and quarries.
	iv) Wind farms	Since the energy policy was published in 2012, the conclusions of several studies on wind farms (EIA and AA reports) became available. There were also several changes in the national energy priorities, driven by new initiatives in conventional energy generation being undertaken by Government. Environmental studies are also under way on two other onshore sites, Ħal Far and Wied Rini but in both cases results show that development of wind farms shall face environmental issues.
CSR 4: Diversify the energy mix in the economy, and energy sources, in particular throughincluding by increasing the share of energy produced from take up of renewable sources	v) Electricity interconnector	the electricity interconnector with Sicily is expected to become operational in 2014. This will bring about an important change to the energy system, since Malta will no longer be an isolated island, in terms of energy supply, thus increasing energy security. The increase in capacity as a result of the interconnector shall result in the switching off of the Marsa power station and thus improving the overall efficiency.it is estimated that the electrical interconnection to the European energy grid will only be commissioned and placed in commercial operation by the end of 2014.
	vi) Developing electricity distribution network	Malta is continuing to pursue the development of its internal electricity distribution network, both to meet increased consumer demand and to enable the connection of increased renewable energy installations. A new 132kV primary distribution centre (sub-station) in Kappara has been constructed and is intended to receive the electricity imported from the Interconnector and to distribute it to the network for distribution throughout Malta.
	vii) Smart metering	meters are being installed for every electricity consumer in Malta. This is expected to lead to a reduction in energy consumption by changing consumer behaviour through information on energy consumption. The current target is to complete the installation of meters by the end of the third quarter of 2014. By 31 July 2013, 218,815 electricity meters were installed of which 146,192 were commissioned.
	viii) Gas interconnector	This is also expected to reduce Malta's CO2 emissions. In fact, it is estimated that the interconnector and natural gas projects will result in CO2 emissions reductions of over 300Gg per annum.The outcome of the cost-benefit analysis is expected by 2014. This analysis should determine the commerical viability of such a project and its effect on the Maltese economy.
	viiii) Switching from Liquid Fuel Oils to Natural Gas	This new source will reduce Malta's dependence on electricity produced from oil, and will result in corresponding reductions in both electricity costs and environmental emissions, in line with the European Union roadmap. Consequently reductions in electricity costs will reflect in reduced tariffs to the end consumer thus channelling more money into the economy.

GOVERNMENT POLICY OBJECTIVES		
CSR NUMBER	LIST OF MEASURES	DESCRIPTION OF DIRECT RELEVANCE
	ix) Energy efficiency in buildings	The Building Regulation Office (BRO), on behalf of the Building Regulation Board (BRB) has commissioned cost-optimal studies in order to check the levels of the existing national minimum requirements. The Malta Resource Authority in collaboration with the Building Regulation Board and the Building Regulation Office amongst others shall draw up the NEEAP and other national plans in order to increase the number of nearly zero-energy buildings and measures concerning the use of energy from renewable sources in new buildings and existing buildings undergoing major renovation.
	x) Implementation of Malta's national strategy for policy and abatement measures realting to the reduction of greenhouse gas emissions.	The organisational framework set out in the Strategy was partially established with the Climate Change and Policy Unit (CCPU) of the Malta Resources Authority. A June 2013 Cabinet decision has built upon this organisational structure to establish climate change as a horizontal, cross-cutting, policy framework. An Inter-Ministerial Committee involving different ministries has been established to ensure synergy between the different governmental policies having a bearing on climate change or which may be impacted by climate change and the effects thereof. Measures within the energy sector as mentioned above and the project of gas management at non-hazardous landfills impact of the progress on the abatement measures. The efficiency of Reverse Osmosis plants is essential to achieve high quality water with a low emission footprint. Finally, Projects related to Waste and Agriculture (capping and extraction of gases from Magħtab and other landfills, Sant'Antnin Waste Treatment Plant and the implementation of the Nitrates Action Plan) are also contributing further to a reduction of emissions from this sector.
4.3. Transport Policy		
CSR 4: Diversify the energy mix in the economy, and energy sources, in particular throughincluding by increasing the share of energy produced from take up of renewable sources	i) Biofuels in Road Transport	The introduction of the biofuel substitution obligation (described above) has proved to be a valuable tool in the promotion of sustainable biofuels, decreasing lifecycle greenhouse gas emissions from fuels used in the transport sector.
	ii) Energy efficiency in Transport	The public transport reform is a key contributor to reduce emissions. This process led to an overhaul in the bus fleet which has increased vehicle efficiency. Action is now focused to instil an effective modal shift which should bring about a perceptible contribution to the reduction of greenhouse gas emissions from passenger transport.1. In depth review of current processes. 2. Publication and Implementation of White Paper – 'Ensuring your rights to entitlement medicines at the time you require them'.
	vi) Autogas conversion scheme	This scheme makes it mor attractive for car owners to conert their cars to autogas. The indirect effects will be a healthier local population due to cleaner air (therefore less expenditure on pollution-related ailments) and less CO2 emissions hence enabling Malta to reach its climate change targets.
4.4. Justice System Reform		
CSR 5: Continue efforts to increase the efficiency and reduce the length of public procurement procedures; encourage alternatives to debt-financing of companies through facilitating access to capital markets and developming venture captial funds; and increase efficiency of the judicial system by ensuring a timely and efficient implementation of the planned judicial reform.	implementation of judicial reform	The implementation process of the reform measures are structured over a three-year period: 2014-2016. During the first half of 2014, the necessary Constitutional and legal amendments are enacted and the implementation is envisaged of those measures that have legal endorsement and are deemed as urgent for the benefit of the general public, good administration and the elimination of undue bureaucracy. In particular, action will be taken to address the time it takes to resolve insolvency cases. Given that the ownership of the reform measures rests on the respective entities directly responsible for their implementation, a seminar held in late February was followed by the setting up of a Justice Reform Implementation Committee (JuRIC) that will meet on a regular basis under the chairmanship of the Parliamentary Secretariat for Justice to monitor the progress and iron out difficulties relating to the implementation of the reform process. The works on the new premises for the Judiciary have been finalised.
5. Ensuring that the public service is not only efficient and cost-effective, but delivers a quality service.		
5.1. Enhancing the efficiency and cost-effectiveness of public service		
CSR 5: Continue efforts to increase the efficiency and reduce the length of public procurement procedures; encourage alternatives to debt-financing of companies through facilitating access to capital markets and developming venture captial funds; and increase efficiency of the judicial system by ensuring a timely and efficient implementation of the planned judicial reform.	i) Transition to e-procurement	The transition to e-procurement will certainly contribute to increase the efficiency of public procurement in Malta. However, while it must certainly be considered as a very important tool to increase efficiency, other aspects of the procurement cycle need to be addressed in parallel in order to increase efficiency. The full transition to e-procurement will make the procurement syste, simpler, more efficient and effective, both for Economic Operators and for Contracting Authorities. E- procurement aims to increase the visibility and accessibility of tenders. It will be less costly both in terms of bidding and process costs. It is expected to also reduce the number of litigations over time.registration by foreign Economic Operators in the e-procurement system has increased over the last few months of 2013. On 1 April 2013, there were 82 foreign EOs registered; these had gone up to 199 as at end July 2013. Until 31 December 2013, the number of foreign EOs registered with the system had increased to 409. This figure continued to increase from 466 at the end of January 2014 to 743 as at end September 2014, that is, an increase of 59%.
	ii) Reduction in time periods of tendering	It is expected that there would be a reduction in time for Contracting Authorities to prepare and publish a call for tenders and a reduction in the time employed by Economic Operators to implement e-tendering. Time reductions are foreseen also with regards to the tendering period and the average adjudication period. In fact, further streamlining public procurement whereby tenders whose value exceeds a certain amount,will fall under the three package procedure. This will translate in an automatic reduction of 20 days of the period required to award a tender.
CSR no. 2: Ensure that a comprehensive reform of the public health system delivers a cost-effective and sustainable use of available resources, such as strengthening primary care.	Review of the medicines and medical devices procurement and distribution processes	Review of the procurement, management and distribution processes practices with the aim of streamlining these processes to persistently improve their reliability, dependability and reduce bureaucracy.
	National Health Strategy	Publication of a National Health Systems Strategy providing an overarching framework that seeks to attain good quality and accessible healthcare, but above all sustainability in healthcare provision. The overall objectives of the NHSS are to: - respond to increasing demand and challenges - achieve timely access - improve quality of care secure the sustainability of the Maltese Health System.

GOVERNMENT POLICY OBJECTIVES		
CSR NUMBER	**LIST OF MEASURES**	**DESCRIPTION OF DIRECT RELEVANCE**
	Health System Performance Assessment Framework	The Health Systems Performance Assessment Framework is a joint initiative between Government and the WHO. The aim of the framework is also to provide for regular surveillance on the performance of the health system towards its set objectives. The periodic epidemiological and clinical information will provide feedback on the value generated by the resources being invested in the health system.
	Increasing the range of services offered at primary level	Initiatives under this measure are aimed at increasing the effectiveness of the primary care sector by decreasing the load on the acute sector and increasing the interaction between public and private primary care provision with the aim of enhancing access.
	Upgrading of current primary healthcare facilities	Government is committed to reduce the unnecessary use of specialist and hospital services by re-orienting existing services to primary, rehabilitation and community services. Reducing unnecessary use of specialist and hospital services is widely accepted as one of the methods to make the system more efficient and cost effective. Upgrading is necessary to keep abreast with the increasing demand and the constant advancement in medical technology.
	eHealth (inc. Electronic Health Records)	Aim to increase sustainability and efficiency of health systems by unlocking innovation, enhancing the quality of care and citizen empowerment and encouraging organisational changes.
	Opening of new regional centres	Government intends to build a New Regional Centre which will serve as a hub for a number of satellite health clinics. This new build is necessary as current premises are not suitable to accommodate the new more specialised services Government intends to devolve from the acute sector to the primary sector.

4. Distributional Implications of Budget Measures

4. Distributional Implications of Budget Measures

Building on the robust economic performance and the fiscal consolidation results attained over the past year, the Draft Budget for 2015 is complementing the strategy to make work pay by ensuring that the social security system positively incentivises work effort and discourages dependency. This also reflects the principle that economic prosperity and wealth should be felt and enjoyed by all.

Government shall legislate the final tranche of the widening of the income tax brackets originally announced in the Budget for 2013. This widening in the income tax bands will not affect post-tax household income for households living in the lower quintiles of the income distribution, with the majority of the gains being accrued to households in the top quintiles of the income distribution. As noted in the Draft Budgetary Plan 2014, Government is conscious of this fact, nevertheless, it is to be noted that the scope of such measure is intended to encourage the supply of effort especially amongst the most productive elements of the labour force.

The fiscal consolidation effort will continue to reflect Government's commitment to shift away from direct taxation on labour towards indirect taxation with the aim of making work pay and hence further increasing employment growth, competitiveness and ultimately economic growth. In this light, the fiscal consolidation effort is based on the contribution of a number of indirect tax measures. An analysis of the consumption patterns of different households indicates that the share of consumption of the product and services categories affected by the tax measure is highest amongst higher income brackets, with the highest proportion being for households in the 4th income quintile. The lowest proportion is noted among households in the bottom income quintile. Consequently, in the case of this particular selection of indirect tax measures, the incidence of taxation is rather progressive.

Government is also introducing a measure to strengthen social cohesion through the introduction of an income support measure for families with children with low income. The measure is means-tested so as to ensure better targeting of benefits and is conditional upon positive outcomes such as regular school attendance and regular health checks. This increase in child benefits is expected to benefit 22,000 children living in 9,000 households. This measure is expected to address positively the poverty challenges faced by low-income working families and children more generally.