Malta:

Draft Budgetary Plan 2017

Ministry for Finance
October 2016

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 17th of October, 2016

1. Overall Policy Framework and Objectives

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Over the last three years, Government's main policy objective focused on ensuring macroeconomic stability and increasing potential output. Towards this end, Government implemented various measures aimed at reforming priority sectors, increasing labour force participation, improving educational output and enhancing Malta's competitiveness. Government has successfully increased potential output such that, today, the Maltese economy is one of the fastest-growing economies in Europe. This objective has been met whilst pursuing a growth friendly fiscal consolidation strategy.

In the Budget for 2017, Government reiterates its commitment to a healthy underlying budgetary position over the economic cycle and to a gradual reduction of the debt ratio. Notwithstanding these ambitious targets, the forthcoming Budget aims to continue to build on earlier initiatives with the scope of ensuring that the proceeds of economic growth are distributed more fairly amongst all groups of society, whilst at the same time, making sure that the incentives to work so important in previous Budgets remain intact.

The Budget for 2017 also highlights the importance of investment, both in enhancing human capital by increasing incentives for training and education, as well as for productive investment by streamlining procedures and announcing a number of incentives for businesses. Whilst the exceptional inflow of European Union (EU) funds has allowed significant public investments to materialise in 2016, new sources of investment opportunities are being tapped in this Plan in order to finance public investment.

1.1 Macroeconomic Scenario

In the context of a more uncertain and challenging external environment, the Spring macroeconomic and fiscal projections presented in the Medium-Term Fiscal Strategy for Malta 2016-2019, have been revised marginally downwards in 2016, however, the Ministry of Finance (MFIN) remains confident of a robust growth in actual and potential output growth. Overall growth in 2016 is expected to reach 3.9 per cent in real terms, supported primarily by more positive developments in the domestic sector of the economy which is expected to mitigate the challenges of a weaker external environment. For 2017, this rate of economic expansion is expected to persist and reach 3.5 per cent. The labour market is also expected to continue growing by 2.7 per cent which is consistent with a stable unemployment rate of around 5.0 per cent. As the positive output gap is expected to close gradually in 2017, the inflation rate is expected to remain well below the 2.0 per cent.

1.2 Fiscal Policy Objectives

We are confident that in 2016, the deficit will reach 0.7 per cent of Gross Domestic Product (GDP), that is, 0.4 percentage points of GDP lower than the target outlined a year ago in the Draft Budgetary Plan 2016. The achievement of a balanced budget in structural terms by 2019 is now within reach. In 2017, Government is committed to achieve a structural effort exceeding 0.6 percentage points of GDP, thus bringing the structural deficit down to 0.3 per cent of GDP. This should allow a comfortable margin for Government to pursue the Medium-Term Objective over the course of the following two years. Meanwhile, the General Government gross debt ratio is expected to decrease further to reach 61.9 per cent of GDP, thus being very close to the 60 per cent threshold.

This Plan is presenting an update of the fiscal risk assessment conditional on the macroeconomic risk assessment. Under the worst possible plausible macroeconomic scenario, the deficit would remain close to 1.2 per cent of GDP in 2017, thus remaining well below the 3.0 per cent threshold. On the other hand, the deficit could go down further to 0.3 per cent of GDP under more favourable macroeconomic conditions considered to be plausible in this assessment.

1.3 Fiscal Governance

The Fiscal Responsibility Act adopted by the Maltese Parliament in August 2014, marked a significant step in the strengthening of fiscal governance. Beyond the strengthening of the institutional aspects of the budgetary process, one of the cornerstones of this Act has been the heightened level of transparency and accountability. Apart from the extensive reporting requirements, the Malta Fiscal Advisory Council (MFAC) is doing a significant effort in promoting accountability of fiscal policy. In addition, the Comprehensive Spending Review is gradually adding a new dimension in fiscal policy making, strengthening the fiscal consolidation effort whilst ensuring greater value for money and improving the consistency of fiscal and long-term economic policy objectives.

It is to be noted, that the targets contained in this Plan fulfil the legal requirements established by virtue of the Fiscal Responsibility Act. In addition, the macroeconomic forecasts underlying this Plan and the 2017 Budget have been endorsed by the MFAC.

1.4 Conclusion

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

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

2. Raising potential output, in particular by continuing to increase the labour force participation, especially of women, raising skill and education levels, promoting lifelong learning, and increasing productive capital investment;

3. Enhancing the competitiveness and transparency of the products and services markets, whilst strengthening consumer protection, including the holistic justice reform;

4. Effectively reducing bureaucracy especially the length of the public procurement process, and ensuring that the public service is efficient and cost effective;

5. Safeguarding the successes achieved by the Maltese financial sector by reducing macroeconomic imbalances related to the financial sector and ensuring it continues to follow rigorous practices; and

6. Prioritising the promotion of a diversified and balanced economy.

The Government is confident that in the current international economic climate, structural reforms have been key in ensuring that Malta continues to experience a sustainable rate of growth. Indeed, the growth-oriented strategy and the creation of employment have been key to the successful fiscal consolidation effort and to stem the rise in poverty. With this Budget, Government is renewing its effort at redistributing gains from economic growth with the aim of sustaining an environment that is conducive for social mobility, whilst ensuring that specific vulnerable groups in society are not left behind.

2. Economic Outlook

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2.1 The Short-Term Scenario

Following the exceptional growth achieved in 2015, the Maltese economy continued to grow also during the first half of 2016 at a relatively moderate pace of 4.1 per cent, which is equivalent to 6.1 per cent growth in nominal terms. Such growth outperformed that of the European economy by more than two times. The consistently robust growth rate reflects the continued improvements in the labour market consisting of a combination of rising employment and declines in the unemployment rates.

During the first half of this year, Gross Value Added (GVA) in the Maltese economy increased by 5.7 per cent. This growth can be attributed to the vast majority of the sectors, with the exception of the construction sector which reported a decrease in GVA of 3.9 per cent. The latter development reflected a slowdown in public investment which is attributable to the high absorption of European Union (EU) funds in 2015 under the 2007-2013 Financial Framework, with absorption declining in 2016 as the 2014 -2020 Financial Framework started to unfold. Significant increases were recorded in the professional, scientific and technical activities sector which increased by 11.2 per cent, the information and communication sector which increased by 10.7 per cent as well as the real estate sector which rose by 8.7 per cent. During the same period, compensation of employees increased by 6.5 per cent over the same comparable period last year, while gross operating surplus increased by 5.2 per cent. Meanwhile, net taxes on production and imports increased by 7.6 per cent.

The Maltese economy is expected to retain a positive momentum in the second half of 2016. Overall growth in 2016 is expected to reach 3.9 per cent in real terms, supported primarily by positive developments in domestic demand while the external side of the economy is expected to contribute marginally positively to economic growth. Private consumption is expected to increase by 3.5 per cent in real terms, sustained by strong growth in employment, and growth in real disposable income is consistent with an appreciation in wages and moderate inflationary pressures. Government consumption expenditure is projected to increase by 2.8 per cent in 2016 due to increases in intermediate consumption and compensation of employees. Gross fixed capital formation is expected to remain positive over the course of 2016, following the base effect related to the large-scale energy projects and developments in the aviation industry in 2015. Exports are expected to increase by 1.9 per cent, driven primarily by a strong performance in pharmaceuticals, financial services, other business, tourism and other services. Underlying export prospects include a marginally stronger Euro against main currencies and weakened economic activity in main trading partners. Domestic demand is expected to drive up imports by 1.9 per cent, resulting in a marginally positive contribution to growth.

During 2017, economic growth is expected to moderate further, growing by 3.5 per cent in real terms, largely driven by the domestic side of the economy, while the external side of the economy is expected to act as a drag on economic growth. In fact, domestic demand is expected to contribute positively by 5.4 percentage points reflecting increases in gross fixed capital formation and to a lesser extent private and public consumption. It is worth noting, that the increase in gross fixed capital formation is largely due to the fact that there are a number of capital projects which are expected to start in 2017.

Main Macroeconomic Indicators

Table 2.1

	2013	2014	2015	2016[1]	2017
GDP growth at current market prices (% change)	6.4	5.5	8.6	5.7	5.8
GDP growth at chain linked volumes (2010) prices (% change)	4.5	3.5	6.2	3.9	3.5
Expenditure Components of GDP at chain linked volumes (2010) prices (% change)					
Private final consumption expenditure[2]	2.3	2.3	5.5	3.5	3.2
General government final consumption expenditure	0.1	7.0	4.6	2.8	5.9
Gross fixed capital formation	-1.4	8.7	43.1	2.2	10.8
Exports of goods and services	0.1	-0.2	2.1	1.9	2.8
Imports of goods and services	-0.9	-0.4	5.6	1.9	4.2
Contribution to GDP growth (in percentage points):					
Domestic Demand	1.1	4.1	11.7	3.0	5.4
Inventories	1.7	-0.9	-0.8	0.8	0.0
Net Exports	1.7	0.2	-4.7	0.1	-2.0
Inflation rate (%)	1.0	0.8	1.2	1.0	1.5
Employment growth (National Accounts definition) (%)	3.7	5.1	3.4	3.3	2.7
Unemployment rate (Harmonised definition) (%)	6.4	5.8	5.4	4.9	5.0

(1) Forecasts from 2016 onwards

(2) Includes NPISH final consumption expenditure

In fact, over the coming two years, the investment to Gross Domestic Product (GDP) ratio is expected to surpass the investment ratio that prevailed in Malta since the 2009 recession by 4.2 percentage points.

In 2017, exports are expected to increase by 2.8 per cent, particularly reflecting a strong performance in financial services, other business services, remote gaming and in the tourism industry. Imports are expected to grow by 4.2 per cent in support of the surge in investment activity and higher payments for business and professional services.

Table 2.1 presents the main macroeconomic indicators for the years 2013 to 2017. The figures for the 2013 to 2015 period are based on the latest data released by the National Statistics Office (NSO) under the new European System of National and Regional Accounts (ESA 2010), whereas the figures presented for 2016 and 2017 are forecasts.

2.1.1 Assumptions for Projections

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

1. Economic activity in Malta's main trading partners is expected to increase by 1.5 per cent in 2016 and by 1.3 per cent in 2017.

2. Oil prices are expected to decrease to US$43.36 per barrel in 2016 and to increase to US$50.30 per barrel in 2017.

3. Short-term interest rate is expected to remain at the current spot rate of 0.00 in 2016 and to remain at the same level for 2017. On the other hand, the long-term interest rate is expected to average at 1.03 in 2016 and at 0.99 in 2017, which is the same average level which is expected for the second half of 2016.

4. The USD/EUR exchange rate is expected to average 1.1163 in 2016 and 1.094 in 2017, while the STG/EUR exchange rate is expected to average 0.8342 in 2016 and 0.8627 in 2017, respectively.

5. It is being assumed, that Government expenditure in the second half of 2016 decelerates when compared to the first half of the year.

6. Changes in inventories over the forecast horizon starting from the third quarter of 2016 are assumed not to contribute materially to GDP growth. However, it is noteworthy, that the level of changes in inventories for the first half of 2016, as recorded in national accounts, is assumed to prevail for the full year.

2.1.2 Employment Prospects

The Labour Force Survey (LFS) recorded an employment rate of 65.7 per cent in the second quarter of 2016, 1.8 percentage points higher when compared to the corresponding quarter in 2015. Growth in headcount employment is expected to remain strong and increase by 3.3 per cent in 2016, while for 2017 it is expected to reach 2.7 per cent. Moreover, the unemployment rate (based on the Harmonised definition) is expected to settle at 4.9 per cent in 2016, increasing only marginally by 0.1 percentage points in 2017. This unemployment rate is well below the expected EU average rate and reflects efforts in ongoing active labour market policies.

In 2016, all sectors are expected to register positive growth rates with the exception of employment in the manufacturing sector which is expected to remain broadly at the same level of 2015. Employment within the public sector is expected to grow by less than 2.0 per cent. All the other sectors are expected to grow in excess of 2.0 per cent, with the highest rates of growth expected in the other business services and the remote gaming sectors. The overall positive performance is expected to be largely supported by a higher female employment rate, reflecting efforts by Government to increase female participation, and increased employment flexibility.

2.1.3 Inflation

The Harmonised Index of Consumer Prices (HICP) inflation rate (twelve month moving average) which during 2015 stood at 1.2 per cent, remained subdued during the first eight months of this year and stood at an average annual rate of 0.9 per cent, mainly due to the negative growth rates registered in energy prices. Inflationary pressures are expected to remain subdued for the remaining months and to stand at 1.0 per cent in 2016. In 2017, as oil prices are expected to marginally increase relative to 2016, while the USD/Euro exchange rate is expected to marginally decrease, inflation is expected to increase to 1.5 per cent. The latter is also the result of marginally higher expected services inflation when compared to 2016.

2.2 Comparison to Commission's Spring Forecast

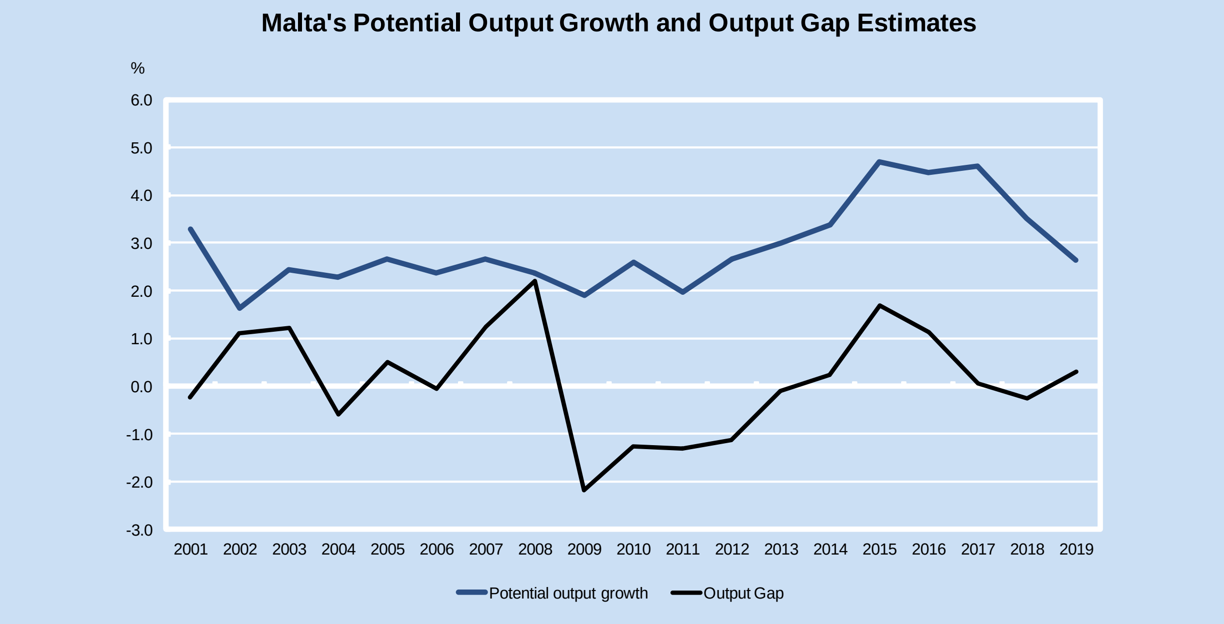
The spring forecasts published by the European Commission (EC) project a growth rate for Malta of 4.1 per cent and 3.5 per cent in 2016 and 2017, respectively, with domestic demand being the main driver of growth in both years. Therefore, forecasts for real GDP growth presented in this Draft Budgetary Plan are 0.2 percentage points lower than the rate forecasted by the EC for 2016 but the same for 2017. For 2016, this difference is mainly attributable to the less positive external contribution to growth expected by the Ministry for Finance (MFIN) when compared to the positive contribution by the EC. This is underpinned by the downward revision in exports projected by MFIN as explained earlier. Meanwhile, a higher contribution to growth from the inventories is expected for 2017, primarily reflecting actual figures for the first half of 2016. On the other hand, for 2017, while both institutions are expecting the same real GDP growth rate, the composition at expenditure component level differs as MFIN is expecting a higher contribution from domestic demand but a lower contribution from the external side of the economy when compared to the projections of the EC.

Nominal GDP growth presented in this Draft Budgetary Plan is projected at 5.7 per cent and 5.8 per cent for 2016 and 2017, respectively. For 2016 and 2017, this represents a lower growth of 0.7 percentage points and 0.2 percentage points, respectively over the baseline presented by the Commission in its spring forecast. This is consistent with a lower growth in the GDP deflator projected by MFIN after taking into account figures for the first half of 2016 which were not available to the EC at the time of the spring forecasts. The difference between forecasts is significantly less in 2017 and also emanates primarily from marginal differences in the dynamics of the GDP deflator.

2.3 Potential Output and the Output Gap

The average potential output growth stood at 3.1 per cent during the period 2010 to 2015. Over 2016 and 2017, potential output growth is expected to increase to an

Chart 2.1



average growth rate of 4.5 per cent, mainly underpinned by strong investment, positive employment growth, higher labour market participation rates and improvements in the total factor productivity.

The positive output gap in 2015 is expected to remain positive but decrease in 2016 and close in 2017.

The developments in potential output and in the output gap, both historically and those expected over the forecast horizon, are illustrated in Chart 2.1.

2.4 Sensitivity Analysis

The economic outlook in this Draft Budgetary Plan has been revised downwards for 2016 but revised upwards for 2017 when compared to the spring round of forecasts. This is attributable to the lower than expected economic growth rate registered in the second quarter of this year and to the increased base effects in the second half of 2015, following the data revisions that have taken place after the spring forecast issue. Furthermore, the contribution from the external side of the economy has also been revised downwards following downward revisions in the growth rate of world GDP and the relative appreciation of the Euro against the Sterling and the Dollar. Furthermore, the upward revisions in Government consumption and gross fixed capital formation have also led to upward revisions in imports which in turn decreased the contribution to growth of the external side of the economy. Nevertheless, one has to bear in mind, that an element of prudence is still present in this forecast. For 2017, the upward revisions are emanating from stronger domestic demand due to the inclusion of new investment projects relative to spring and stronger private consumption on the back of stronger expected developments in the labour market and in disposable income.

Given that macroeconomic forecasts form the basis of Government economic policy formulation, analysis and decision-making process, the assessment of past forecasting performance is important to improve the accuracy of the forecasts and lend credibility to the forecasting exercise.

In recognition of the risks surrounding macroeconomic forecasts, this section provides an assessment of forecast uncertainty and the balance of risk surrounding the macroeconomic forecasts in this Programme, in line with the requirements of Council Directive 2011/85/EU of the EU specifically, to guide their macroeconomic and budgetary forecasts by the performance of past forecasts and endeavour to take into account relevant risk scenarios.

2.4.1 Assessing Past Forecasting Accuracy

The evaluation of the risk and uncertainty of the current macroeconomic projections underlying this Programme is based on the past forecast errors which determine the level of uncertainty and a number of alternative but plausible economic scenarios generated with the forecasting model.

The evidence does not indicate any systematic or significant bias in real GDP growth projections.[1] Furthermore, it is noteworthy, that if one excludes the recession of 2009 (which bears a disproportionate weight in the small sample of observations) and the subsequent recovery in 2010, Malta's forecasting performance is comparable to much larger and less open economies and becomes the best performer among small and open economies namely, Luxembourg and Ireland.

In addition, forecast accuracy is comparable with that of other institutions which carry out regular forecasts of the Maltese economy, namely the EC and the Central Bank of Malta. Whilst the one-year ahead forecasts display a Root-Mean Squared Error (RMSE) of 2.4, it is notable that the sample size employed is rather small and the earliest forecast available is that of 2004. As a result of the sample size, the recession of 2009 and the subsequent recovery, play an undue influence on this evaluation and limits comparability with the forecast accuracy analysis carried out for other economies. Indeed, if these two years are excluded, the RMSE declines to 1.9 and is much more comparable to that observed in other EU economies.[2]

2.4.2 The Balance of Risks and Uncertainty surrounding the Macroeconomic Projections

To determine the balance of risks surrounding macroeconomic forecasts, a number of alternative model-based scenarios were carried out. These represent alternative scenarios which the economists within the MFIN judge to be plausible alternative scenarios to the baseline projections. Whilst a measure of economic judgement is deemed necessary in the choice of these scenarios, this is typically underlined by the constant monitoring of economic conditions prevailing at the time and also informed by the various meetings carried out by the Economic Policy Department (EPD) with major operators and institutions which operate in the Maltese economy. The alternative scenarios include:

2.4.2.1 Model-Based Scenario

This scenario involves the removal of any form of economic judgement underlying the baseline forecast thus generating a purely model-based forecast. Nevertheless, the forecasts generated are still conditional on a number of exogenous assumptions such as world prices, international economic conditions, interest rates and exchange rates and still features the one-off investment projects and the respective one-off import content attributed to such projects which are present in the baseline forecasts.

2.4.2.2 Elevated Downside Risks in Global Economic Growth

In the light of the considerable uncertainty surrounding the global economy at the current juncture, this scenario models the impact of weaker than expected growth in Malta's main trading partners on the Maltese economy. The relatively lower expected economic growth for our main trading partners is based on the Consensus Forecasts September 2016 issue and assumes the low-end range survey growth figure for each trading partner for 2016 and 2017.

2.4.2.3 Improved Global Economic Growth Scenario

Although the probability of having an improved global economic growth over the forecast horizon is remote in the light of the uncertainty in the global economy, this scenario models the impact of stronger than expected growth in Malta's main trading partners, on the Maltese economy. The relatively higher then expected economic growth for our main trading partners is based on the Consensus Forecasts September 2016 issue and assumes the high-end range survey growth figure for each partner for 2016 and 2017.

2.4.2.4 Stronger Remote Gaming Scenario

Based on meetings conducted with stakeholders in the remote gaming sector, this scenario models a stronger than anticipated growth in 2016 and 2017 similar to that registered in 2015 which is seen as a plausible scenario compared to the rather prudent scenario foreseen in these projections.

2.4.2.5 No Structural Change in Private Consumption

Over the past two years, private consumption increased at a higher rate than the fundamental long-run average growth observed over the past fifteen years. This could indicate a permanent change in the savings behaviour. A scenario quantifying the impact on economic growth if private consumption had to return back to the long-run average growth rate is simulated.

2.4.2.6 Higher Consumption for 2017

The forecasts from a VAR model of aggregate expenditure components indicate that household consumption could be stronger than anticipated in the forecasting model underlying the baseline projections. This scenario was replicated to yield a higher rate of growth in consumer spending.

2.4.2.7 Imports Content for One-off Investment Projects

In the baseline scenario, for one-off investment projects, a share of 95 per cent is assumed for the machinery component part and 75 per cent for the construction part as import content of any major investment project. As a result, the effect on GDP from any one-off investment project is limited as the MFIN also takes a prudent stance in this aspect. However, from discussions held with other major players undertaking macroeconomic forecasts, a 75 per cent share as import content for the construction part of the investment project is assumed to be on the high-side while a 50 per cent share was seen as more realistic.

2.4.2.8 Exchange Rate Appreciation Scenario

The uncertainty surrounding exchange rate movements can have a significant influence on an open economy such as Malta. This scenario contemplates exchange rates to remain at the spot rate observed in October 10th, 2016 for 2016Q3 rather than at the rate forecasted by Consensus Economics in their Consensus Forecast September 2016 issue. For the outer quarters, the same growth rates as expected by Consensus Economics are assumed.

2.4.2.9 Stronger Tourism Growth Scenario

Based on meetings with stakeholders in the tourism industry, this scenario models a stronger than anticipated growth in 2016 and 2017 similar to that registered in 2015 which is seen as a plausible scenario compared to the rather prudent scenario foreseen in these projections.

2.4.2.10 Forecasts from Alternative Models

The forecasts from a study by experts within the EPD on the development of six alternative forecasting models, ranging from purely statistical models such as the Holt-Winters model to models which are more structural in nature such as VAR models, are being used as inputs in the alternative risk scenarios. It is noteworthy, that the real GDP forecasts are within the range of these alternative models and only marginally higher than the simple average of all six alternative models.

2.4.2.11 Interest Rate Scenario

Whilst in the baseline forecasts we assume a constant spread between the short-term and long-term interest rates, which would be broadly in line with the relatively flat yield curve, an alternative scenario which considers a further decline of 0.25 percentage points in the long-term interest rate is simulated. This is consistent with a further flattening of the yield curve and a decline in interest rate spreads in the short-term and a very gradual rise in the long-term interest rates and spreads over the medium-term as expected growth conditions improve.

The uncertainty surrounding the macroeconomic projections is based on an ex ante analysis of GDP forecast errors in line with the methodology documented above. Furthermore, an ex post analysis in the form of simulations of alternative scenarios was also conducted to determine the balance of risk over the forecast horizon. Over the forecast horizon, the Pearson coefficient of skewness is equal to 2.1 for the current year and 2.0 for the one-year ahead forecasts. On balance, the indicator shows balance risks for 2016 while downside risk for 2017. Chart 2.2 depicts a representation of the uncertainty and the balance of risk surrounding the macroeconomic forecast presented in this programme.

Chart 2.2

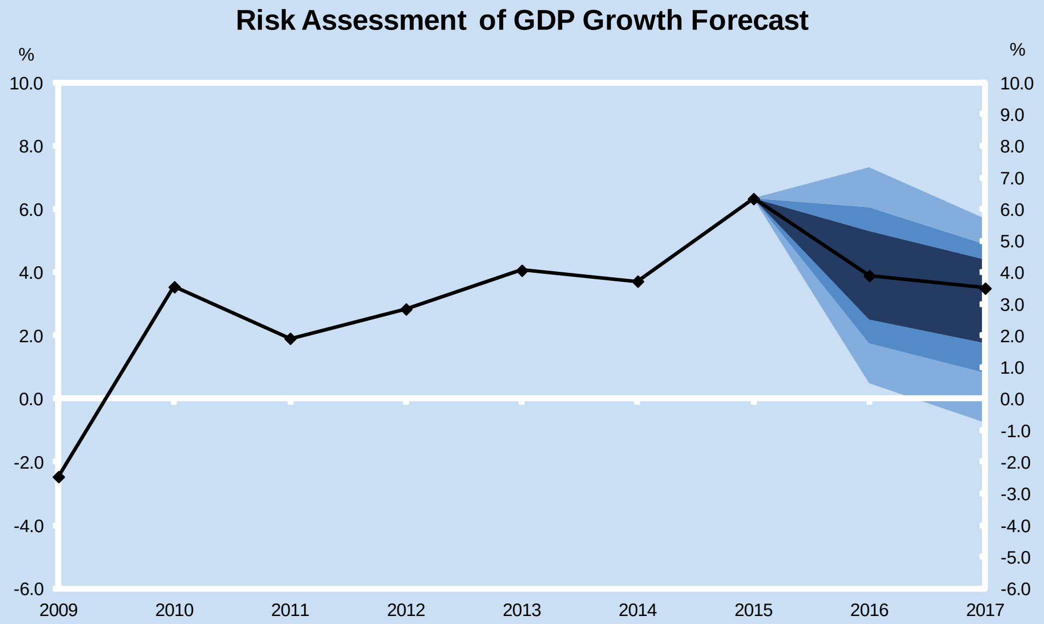
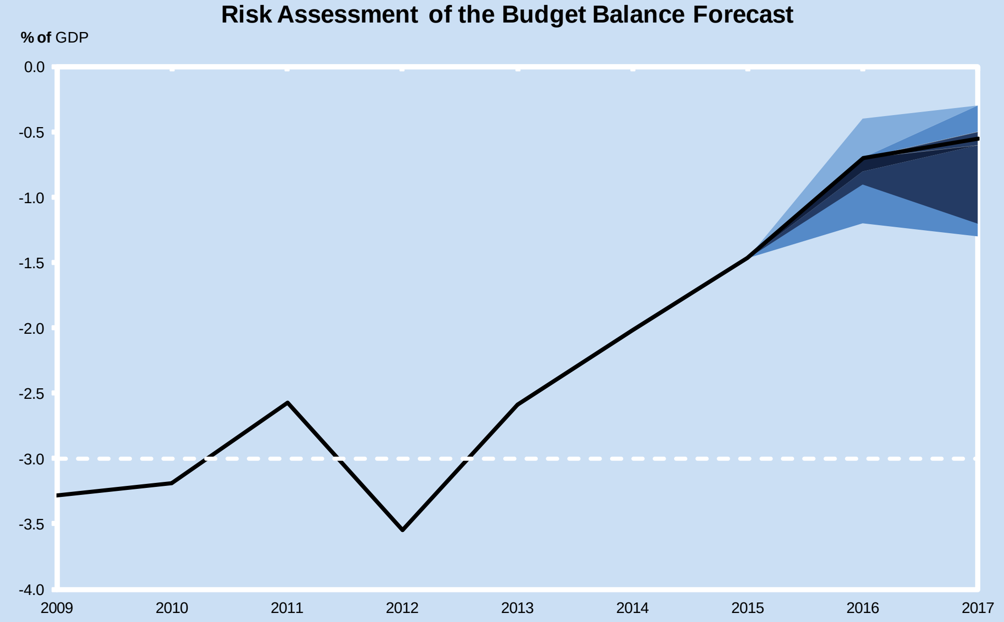


Chart 2.3



2.4.3 Risks to Fiscal Targets

The alternative scenarios can influence the attainment of the deficit targets reflecting alternative fiscal conditions. Chart 2.3 illustrates the range of possible budget balance outcomes conditional on these alternative scenarios. The balance of risk is tilted towards the downside in 2016 and 2017. Under the worst possible scenarios, the deficit would still remain close to 1.2 per cent of GDP in the 2016 to 2017 period, whilst under more favourable growth scenarios, the budget deficit could reach 0.4 per cent of GDP in 2016 and 0.3 per cent of GDP in 2017.

Footnotes:

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

[2] Note that the analysis on past forecast errors has been updated with last year's Update of the Stability Programme while actual data has been updated with the latest national accounts data according to NSO Release 041/2016, dated 8th March 2016.

Macroeconomic forecasts

(Basic assumptions)

Appendix Table 0.i

	Data Source	2015	2016	2017
Short-term interest rate (annual average)	ECB	0.05	0.00	0.00
Long-term interest rate (annual average)	ECB	1.49	1.03	0.99
USD/€ exchange rate (annual average)	ECB + Consensus Economics (September 2016)	1.101	1.116	1.094
STG/€ exchange rate (annual average)	ECB + Consensus Economics (September 2016)	0.728	0.834	0.863
Real GDP Growth of main trading partners (%)	Eurostat + Consensus Economics (September 2016)	1.80	1.50	1.30
Nominal GDP Growth of main trading partners (%)	Eurostat + Consensus Economics (September 2016)	4.50	2.20	2.70
Oil prices (Brent, USD/barrel)	US Energy Information Administration (EIA) + Consensus Economics (September 2016)	52.35	43.36	50.30

Macroeconomic forecasts

(Macroeconomic prospects)

Appendix Table 1.a		€ million *CLV 2010 Prices*	Rate of change		
	ESA Code	**2015**	**2015**	**2016**	**2017**
1. Real GDP	B1*g	7,930.2	6.2	3.9	3.5
2. Potential GDP			4.7	4.5	4.6
3. Nominal GDP	B1*g	8,788.4	8.6	5.7	5.8
Components of real GDP					
4. Private final consumption expenditure	P.3	4,338.2	5.5	3.5	3.2
5. Government final consumption expenditure	P.3	1,592.9	4.6	2.8	5.9
6. Gross fixed capital formation	P.51	1,850.2	43.1	2.2	10.8
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		-0.4	0.9	0.8
8. Exports of goods and services	P.6	11,281.7	2.1	1.9	2.8
9. Imports of goods and services	P.7	11,138.1	5.6	1.9	4.2
Contributions to real GDP growth					
10. Final domestic demand		7,781.3	11.7	3.0	5.4
11. Changes in inventories and net acquisition of valuables	P.52 + P.53		-0.8	0.8	0.0
12. External balance of goods and services (% of Nominal GDP)	B.11	143.6	-4.7	0.1	-2.0

[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	ESA Code	Index 2015	rate of change 2015	2016	2017
1. GDP deflator		110.8	2.3	1.8	2.3
2. Private consumption deflator		107.3	1.1	1.1	1.2
3. HICP (2015=100)		100.0	1.2	1.0	1.5
4. Public consumption deflator		106.3	1.0	1.1	1.2
5. Investment deflator		120.5	6.0	3.1	4.1
6. Export price deflator (goods and services)		109.5	1.5	1.0	1.2
7. Import price deflator (goods and services)		108.6	1.6	0.9	1.1

Macroeconomic forecasts

(Labour market developments)

Appendix Table 1.c	ESA Code	€000s 2015	Rate of change 2015	2016	2017
1. Employment, persons[1]		194.9	3.4	3.3	2.7
2. Employment, hours worked[2]		380,589.6	3.4	3.3	2.7
3. Unemployment rate (%)[3]			5.4	4.9	5.0
4. Labour productivity, persons[4]		40.7	2.7	0.6	0.8
5. Labour productivity, hours worked [5]				0.6	0.8
6. Compensation of employees	D.1	3,861.1	6.3	6.2	5.6
7. Compensation per employee		19.8	2.8	2.8	2.8

[1] National accounts definition.

[2] National accounts definition.

[3] Harmonised definition, Eurostat; levels.

[4] Real GDP per person employed.

[5] Real GDP per hour worked.

Sectoral Balances

Table 1d

Percentages of GDP	ESA Code	2014	2015	2016	2017
1. Net lending/ borrowing		8.7	4.9	2.2	3.3
vis-à-vis the rest of the world	B.9				
of which:					
Balance on goods and services		7.9	2.9	2.8	1.0
Balance of primary incomes and transfers		-0.9	0.0	-1.7	0.9
Capital account		1.7	1.9	1.1	1.4
2. Net lending/ borrowing of the private sector	B.9	18.2	20.7	9.7	9.7
3. Net lending/ borrowing of general Government	EDP B.9	-2.1	-1.4	-0.8	-0.6
4. Statistical discrepancy		-7.4	-14.4	-6.6	-5.8

3. General Government Budgetary Developments

3. General Government Budgetary Developments

In 2016, the General Government budget balance is targeted to improve to a deficit of 0.7 per cent of Gross Domestic Product (GDP), consistent with this year's Update of the Stability Programme, but 0.4 percentage points of GDP lower than the target outlined a year ago in the Draft Budgetary Plan 2016. The indications and data available up to September 2016 are broadly consistent with this target. Nevertheless, the composition is expected to change as higher than anticipated expenditure on intermediate consumption and compensation of employees in 2016 will be offset by an upward revision in revenue from the International Investor Programme. This fiscal effort is consistent with a notable structural effort of 1.2 percentage points of GDP. Meanwhile, the debt ratio is also expected to decrease by 0.7 percentage points of GDP to 63.3 per cent of GDP in 2016.

The Government considers the fiscal developments during the last three years as being of central importance. Nevertheless, there are still challenges ahead so as to ensure long-term public finance sustainability that would generate the necessary fiscal space for fiscal policy to act in a countercyclical manner. Consistent with the requirements of the national fiscal rules, the Maltese Government plans to further reduce the deficit over the medium-term, with the attainment of a balanced budgetary position in structural terms by 2019.

Further improvements in the underlying debt dynamics are expected to be secured through an improvement in the primary surplus, positive growth prospects, sustained investor confidence, and an efficient and effective debt management system. As a consequence, the debt-to-GDP ratio is expected to exhibit a downward trajectory and fall below the 60 per cent target over the medium-term.

3.1 Budgetary Targets

For 2017, Government is aiming for a deficit target of 0.5 per cent of GDP, 0.04 percentage points lower than the target in this year's Update of the Stability Programme. Nevertheless, several revisions have also been carried out in relation to the components of both revenue and expenditure in 2017, compared to the projections outlined in the Stability Programme. Indeed, in 2017, in view of a more buoyant than expected macroeconomic environment, higher proceeds are expected from direct taxation. These are, nevertheless, offset by higher outlays on intermediate consumption and the compensation of employees while lower expenditure is expected on capital transfers.

In structural terms, the General Government balance is expected to improve from -1.1 per cent in 2016 to -0.3 per cent in 2017, consistent with an improvement of 0.8 percentage points in the structural balance. In 2017, the anticipated fiscal effort is expected to be mainly expenditure-based, although to a lower magnitude compared to 2016. General Government budgetary targets are outlined in Table 2.a.

The General Government gross debt ratio is expected to decrease by a further 1.4 percentage points in 2017, reaching 61.9 per cent of GDP. In particular, the positive impact of nominal growth and the projected primary surplus will more than offset the upward pressure that the interest burden and the stock-flow adjustment are expected to have on the debt ratio. The sizeable debt-increasing stock-flow adjustment, especially in 2017, is mainly due to the contribution to the Malta Government Stock sinking fund.

Budgetary Targets

(General Government Budgetary Targets broken down by Subsector)

Table 2.a % GDP

	ESA Code	**2016**	**2017**
Net lending (+) / net borrowing (-) by sub-sector [1]	B.9		
1. General government	S.13	-0.7	-0.5
2. Central government	S.1311	-0.7	-0.5
3. State government	S.1312	-	-
4. Local government	S.1313	-0.0	-0.0
5. Social security funds	S.1314	-	-
6. Interest expenditure	D.41	2.3	2.1
7. Primary balance [2]		1.6	1.6
8. One-off and other temporary measures [3]		-0.1	-0.2
9. Real GDP growth (%) (=1 in Table 1.a)		3.6	3.6
10. Potential GDP growth (%) (=2 in Table 1.a)		4.5	4.6
11. Output gap (% of potential GDP)		1.1	0.1
12. Cyclical budgetary component (% of potential GDP)		0.5	0.0
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		-1.2	-0.5
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		1.1	1.6
15. Structural balance (13 - 8) (% of potential GDP)		-1.1	-0.3

[1] *TR-TE= B.9.*

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

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

Additionally, part of the positive stock-flow is attributed to the positive balance in the National Development and Social Fund of the Individual Investor Programme (IIP) which does not feature in the central Government deficit. Developments in gross Government debt are presented in Table 2.b. A detailed account of the Stock-Flow adjustments can be found in Appendix Table 7.

Budgetary Targets

(General Government Debt Developments)

Table 2.b		% GDP
	2016	**2017**
1. Gross debt [1]	63.3	61.9
2. Change in gross debt ratio	-0.7	-1.4
Contributions to changes in gross debt		
3. Primary balance	-1.6	-1.6
4. Interest expenditure	2.3	2.1
5. Stock-flow adjustment	2.1	1.6
p.m.: Implicit interest rate on debt [2]	3.8	3.5

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

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

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

3.1.1 Discretionary Measures

Government acknowledges the importance of a sound fiscal stance to foster macroeconomic stability, promote a growth-supportive environment, and achieve progress in poverty reduction. In this context, in order not to jeopardise fiscal sustainability and in part to finance the budgetary impact of other expansionary budgetary measures, Government is increasing the excise duty on goods which are harmful to health and the environment, including revisions in excise on construction-related material, cigarettes and tobacco, non-alcoholic beverages, toiletries and washing preparations, glass and ceramic tiles, and non-biodegradable plastic bags used for waste collection. Permanent revisions to indirect taxation outlined in the 2017 Budget are expected to yield €10.4 million in additional revenue in 2017 which, in addition to the impact of measures implemented in previous budgets but which will still have an impact in 2017, are expected to result in an increase of €12.5 million in revenue. A list of discretionary measures included in the Draft Budgetary Plan and underpinning the expenditure and revenue targets for 2017 is presented in Table 5.a.

Contributions to the National Development and Social Fund, as required by applicants for the naturalisation of foreign individuals and their families who contribute to the economic development of Malta to qualify for citizenship, are expected to decline by €33.0 million in 2017, as the number of successful main applicants moderates.

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	
						2016 % of GDP	2017 % of GDP
Impact on VAT revenue from revised Excise Duties	Impact on VAT from revisions in Excise Duties	D211 - R	Accruals	Permanent & Adopted	2016 & 2017	0.033	0.016
Reduced VAT rate on domestic crafts	The applicable VAT rate on domestic crafts has been reduced from 18% to 5%	D211 - R	Accruals	Permanent & Adopted	2017	n/a	-0.002
Financial support to first-time buyers	The duty exemption for first-time buyers will be extended till the end of 2017	D214 - R	Accruals	Temporary & Adopted	2015, 2016 & 2017	-0.005	0.003
Fee on the caging of blue fin tuna	Fee on the caging of blue fin tuna	D214 - R	Accruals	Permanent & Adopted	2015	-0.001	0.000
Excise duty on fuel	Anti-abuse diesel measure	D214 - R	Accruals	Permanent & Adopted	2016 & 2017	0.075	0.004
Revision in excise duty on cigarettes and tobacco	Increase specific excise by €0.14 & €0.10 minimum. Ad valorem decreased by 1.6%. Increase in price per packet is likely to be €0.30	D214 - R	Accruals	Permanent & Adopted	2016 & 2017	0.063	0.052
Introduction of excise duty on construction-related material	Introduction of excise duty on precast concrete, steel structures, and mesh, bars and rods for construction	D214 - R	Accruals	Permanent & Adopted	2016 & 2017	0.016	0.014
Excise duty on chewing gum	€9 excise per kg of chewing gum. Excise will bring an additional rise of around 6c	D214 - R	Accruals	Permanent & Adopted	2016	0.008	-0.002
Environmental Contribution	Environmental contribution including all type of accomodation (excluding under 18s)	D214 - R	Accruals	Permanent & Adopted	2016	0.016	0.020
Excise duty on non-alcoholic beverages	An increase of €0.02/ltr to €0.04/ltr on non-alcoholic beverages charged on the beverage volume	D214 - R	Accruals	Permanent & Adopted	2016 & 2017	0.021	0.002
Excise duty on plastic bags, including black garbage bags	An increase of €0.012/bag in excise duty on black garbage bags, excluding biodegradeable bags and bags used for recyclable waste	D214 - R	Accruals	Permanent & Adopted	2016 & 2017	0.006	0.009
Eco-Contribution	Estimated Revenue lost from the phasing out of the Eco-Contribution	D214 - R	Accruals	Permanent & Adopted	2016	-0.074	-0.006
Toiletries and Washing Preparations	Introduction of excise duty on toiletteries and washing preparations, including perfumes, deodorants, make up, shampoos, soap, hand and shower gels	D214 - R	Accruals	Permanent & Adopted	2017	n/a	0.012
Glass and ceramic tiles	Introduction of excise duty on glass of €0.016c/kg and on ceramic tiles of €0.0075c/kg	D214 - R	Accruals	Permanent & Adopted	2017	n/a	0.004
Stamp duty	Partial one-year concession on Stamp Duty for the transfer of business from parents to their children	D214 - R	Accruals	Temporary & Adopted	2017	n/a	0.051
Efficiency in revenue collection and Tax Arrears Collection Schemes	The consolidation of the various functions of Government revenue into one authority will improve efficiency in tax collection. In addition, a number of schemes were announced to facilitate the recovery of tax arrears.	D5 - R	Accruals	Temporary & Adopted	2012	-0.008	0.000
Reduction of final withholding tax	A reduction of the final withholding tax rate on rental income of commercial property from 25% to 15%	D5 - R	Accruals	Permanent & Adopted	2016	n/a	n/a
Revision in Income Tax Bands for Low Income Earners	The tax band for low income earners will be revised so that every working citizen will benefit from reduced income taxes	D5 - R	Accruals	Permanent & Adopted	2016	-0.122	0.000
Income tax incentives	Capped Tax Incentive for Businesses sponsoring local council projects	D5 - R	Accruals	Permanent & Adopted	2017	n/a	-0.002
Income tax rebate	Income Tax Rebate for Pensioners	D5 - R	Accruals	Permanent & Adopted	2017	n/a	-0.036
Pension reform initiatives	The pension reform initiative legislated in 2006 is expected to lead to revenue increases in terms of national insurance contributions	D6 - R	Accruals	Permanent & Adopted	2006	0.034	0.000
Efficiency in revenue collection and Tax Arrears Collection Schemes	The consolidation of the various functions of Government revenue into one authority will improve efficiency in tax collection. In addition a number of schemes were announced to facilitate the recovery of tax arrears.	D6 - R	Accruals	Temporary & Adopted	2012	-0.005	0.000
International Investor Programme	International Investor Programme	P10 - R	Accruals	Permanent & Adopted	2014	0.891	-0.336
2016 SP expenditure consolidation measures	Restriction in recruitment growth	D1 - E	Accruals	Permanent & Adopted	2016	0.044	0.000
2016 SP expenditure consolidation measures	Lower expenditure towards intermediate consumption	P2 - E	Accruals	Permanent & Adopted	2016	0.018	0.000

Table 5.a continued

EU Presidency	Intermediate consumption in respect of Malta's EU Council Presidency in 2017	P2 - E	Accruals	Permanent & Adopted	2016 & 2017	-0.172	-0.105
Tourism Environmental Trust	Expenditure financed from the environmental contribution for the maintenance and upgrading of tourism areas	P2 - E	Accruals	Permanent & Adopted	2017	n/a	-0.036
Scrappage Scheme	A grant given to scrapped cars of more than 10 years when a new car is bought	D319 - E	Accruals	Permanent & Adopted	2014	0.005	0.000
Pension reform initiatives	The pension reform initiative legislated in 2006 is expected to lead to lower pension expenditure primarily as the increase in retirement age leads to lower retirees	D6 - E	Accruals	Permanent & Adopted	2006	0.010	0.010
Assistance to the Elderly	Assistance to help the elderly live independently	D6 - E	Accruals	Permanent & Adopted	2012	0.001	-0.001
Free Child Care	Free child care for all children whose parents are working or still studying	D6 - E	Accruals	Permanent & Adopted	2014	0.002	-0.005
Tapering of Social Benefits	Tapering of Social Benefits given for a three year period to those beneficiaries who become engaged in employment or start working as self-occupied	D6 - E	Accruals	Permanent & Adopted	2015	0.036	0.037
Youth Gaurantee	Youth Gaurantee is aimed at shifting young people on social assistance under the age of 23 to an ESF co-financed project	D6 - E	Accruals	Permanent & Adopted	2015	0.012	0.000
Expiry of temporary social benefits	Expiry of temporary social benefits, including the supplementary children's allowance and one-time additional bonus	D6 - E	Accruals	Temporary & Adopted	2015	0.162	0.000
Live-in Carers Fund	A fund (pilot project) created to offer subsidies to the elderly who employ a qualified a full-time or part-time carer	D6 - E	Accruals	Permanent & Adopted	2016	-0.011	0.000
	Measures addressing pensioners, including Married National Minimum Pension and compensation for non-beneficiaries, service pension, and gender equality pension increases	D6 - E	Accruals	Permanent & Adopted	2016 & 2017	-0.082	-0.024
Anti Poverty Strategy	Measures addressing the working poor, including an extention of the in-work benefit scheme, a social fund for students in difficulty and Tal-linja card to 18 year olds	D6 - E	Accruals	Permanent & Adopted	2016 & 2017	-0.010	-0.033
	Measures addressing social benefits, including the Single Means Test, disability and supplementary allowances, and increases in Carers and Assistant Carers allowance	D6 - E	Accruals	Permanent & Adopted	2016 & 2017	-0.016	-0.048
	Measures addressing the high cost of rent	D6 - E	Accruals	Permanent & Adopted	2017	n/a	-0.023
2016 SP expenditure consolidation measures	A restriction in other current transfers to be paid by Government for 2016	D7 - E	Accruals	Permanent & Adopted	2016	0.005	0.000
Compensation payments	Compensation of €8 million for past grievances in 2017	D7 - E	Accruals	Permanent & Adopted	2017	-0.043	-0.041
IIP expenditure	Projects financed from the National Development and Social Fund	D7 - E	Accruals	Permanent & Adopted	2017	-0.022	-0.061
Hotel Energy Efficiency Sceheme	Investment in sustainable schemes towards hotels for schemes which render efficient energy consumption. A PPP will issue 'white certificates' depending on the amount of energy saved by the hotel as a result of the investment carried out. More info in Budget	D9 - E	Accruals	Permanent & Adopted	2016	-0.004	-0.001
Equity acquisition in Airmalta plc	The investment was carried out in Air Malta to support the national airline's restructuring programme	D9 - E	Accruals	Permanent & Adopted		0.334	0.122
Ex-Gratia Payment	A grant given to those who paid extra registration tax when they registered their vehicle between 1st May 2004 and 31st December 2008	D9 - E	Accruals	Permanent & Adopted	2014	-0.020	-0.005
2016 SP expenditure consolidation measures	Lower expenditure on capital transfers	D9 - E	Accruals	Permanent & Adopted	2016	0.094	0.000
IIP expenditure	Projects financed from the National Development and Social Fund	P5111 - E	Accruals	Permanent & Adopted	2017	0.000	-0.244
Expropriation Compensatipon	All expropriation cases up to €50,000 will be paid in full subject to proof of title. Government is also estimated to increase expenditure towards Home Ownership Schemes	NP - E	Accruals	Permanent & Adopted	2016	-0.048	0.000
						1.243	**-0.651**

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.

The net impact of temporary and permanent discretionary revenue measures for 2017 (including those implemented in previous Budgets but which will still have an impact in 2017) is estimated at -€19.1 million, equivalent to -0.19 per cent of GDP. Indeed, further to the permanent discretionary revenue measures outlined above, Government is granting a partial one-year concession on stamp duty for the transfer of business from parents to their children, and will extend the stamp duty exemption for first-time buyers until the end of 2017.

Incremental discretionary expenditure measures (including those implemented in previous Budgets but which will still have an impact in 2017), are expected to have a negative impact on the budgetary balance of 2017 of €44.9 million, equivalent to 0.46 per cent of GDP. The final equity transaction in respect of Air Malta in 2016 and the tapering of social benefits will exert a positive contribution on the budget balance. These will be partially offset by an increase in expenditure in respect of 2017 Budget Measures initiatives.

In the Budget for 2017, Government continues to be committed to the principle that economic prosperity and wealth should be felt and enjoyed by all. A number of measures targeting this objective are explained in more detail in Chapter 4. These measures seek to address the working poor, young people, senior citizens, and other vulnerable groups including persons with a disability. Taken together, these measures are expected to increase expenditure by €13.0 million.

From 1st January to 30th June 2017, Malta will assume the Presidency of the Council of the European Union. As a small Member State at the periphery of the European Union (EU), this task gives rise to a number of temporary administrative and logistical challenges and a noteworthy fiscal cost. Malta's responsibility for the EU Presidency is expected to reach €20 million in 2016 and €34.0 million in 2017. Expenditure of a recurrent nature in respect of the Presidency of the Council of the EU, excluding expenditure on compensation of employees, is expected to amount to €16 million in 2016, and to increase by a further €10.3 million to €26.3 million in 2017. Although these outlays are within the norm that Member States spend on average to run the Presidency, in view of Malta being the smallest economy in the EU, as a share of GDP, these costs amount to 0.17 per cent and 0.27 per cent in 2016 and 2017, respectively. These outlays are considered to be of a temporary nature. As a consequence, outlays in respect of the Presidency of the Council of the EU (excluding expenditure on compensation of employees) are being considered as one-off expenditure in the estimation of the structural budget balance, since such expenditure has a significant, albeit transitory, budgetary effect.

As established by the National Development and Social Fund (Establishment as an Agency) Order of 2015, the funds received by the Fund shall be used for the advancement of education, research, innovation, social purposes, justice and the rule of law, employment initiatives, the environment and public health. Towards this end, Government has included an additional allowance of €32 million in expenditure in 2017, compared to 2016 levels, for projects financed from the National Development and Social Fund, the great majority of which shall finance projects of a capital nature.

In 2017, revenue received from the environmental contribution will be used for the maintenance and upgrading of tourism areas. In addition, by means of the 2017 Budget, Government will be voting €8 million to compensate for past grievances related to pensions.

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

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	**2016**	**2017**
General Government (S13)			
1. Total revenue at unchanged policies	TR	40.3	39.9
Of which			
1.1. Taxes on production and imports	D.2	13.6	13.3
1.2. Current taxes on income, wealth, etc	D.5	14.0	14.1
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	6.8	6.7
1.5. Property income	D.4	1.0	1.1
1.6. Other [2]		4.7	4.7
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)[3]		34.7	34.4
2. Total expenditure at unchanged policies	TE[3]	41.0	39.8
Of which			
2.1. Compensation of employees	D.1	12.7	12.6
2.2. Intermediate consumption	P.2	7.0	6.8
2.3. Social payments	D.6M	11.4	11.1
of which Unemployment benefits [4]		0.3	0.3
2.4. Interest expenditure	D.41	2.3	2.1
2.5. Subsidies	D.3	1.2	1.1
2.6. Gross fixed capital formation	P.51	3.5	3.3
2.7. Capital transfers	D.9	0.6	0.6
2.8. Other [5]		2.3	2.2

[1] Data for 2016 (current year) is equivalent to the data presented in Table 4.a. The no-policy change scenario for the forthcoming year (2017) involves the extrapolation of revenue and expenditure trends after deducting the impact of temporary measures of the current year and before adding the impact of the measures included in the forthcoming year's Budget.

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

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

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

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

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

Considering the strength of the macroeconomic environment underpinning the fiscal projections, the tax revenue elasticity assumptions are rather conservative, thus ensuring a measure of prudence in the fiscal projections. Notwithstanding the relatively strong and tax rich composition of economic growth forecast for 2017, tax revenue is expected to grow at 5.3 per cent, compared to a 5.8 per cent increase in nominal GDP. Indeed, the implied elasticity of tax revenue to GDP under the no-policy change scenario is estimated at 0.9. This is underlined by prudent elasticity estimates for the revenue components relative to their respective tax base. As a result, the tax burden would decline to 34.4 per cent of GDP under a no-policy change scenario as shown in Table 3. This development mainly reflects a lower revenue ratio for taxes on production and imports in part offset by a higher ratio for current taxes on income, as capital taxes and social contributions are expected to remain relatively stable. At unchanged policies, 'other revenue' would remain relatively unchanged.

Total expenditure under the no-policy change scenario is expected to decline from 41.0 per cent of GDP in 2016 to 39.8 per cent in 2017. At unchanged policies, social payments as a share of GDP would decrease by 0.3 percentage points, primarily reflecting the impact of the various making-work-pay initiatives implemented in previous years and the low inflationary environment which translates into a low cost of living adjustment relative to growth. Other noteworthy declines would result from intermediate consumption which, excluding the impact of expenditure in respect of the Presidency of the Council of the EU and the tourism environmental trust would decline by 0.2 percentage points of GDP in 2017. Against the background of historically low interest rates, interest expenditure is also expected to decline by 0.2 percentage points of GDP. In addition, expenditure on Gross Fixed Capital Formation and 'other' expenditure are also set to fall by 0.1 percentage points of GDP when measures are excluded.

3.3 Expenditure and Revenue Targets

General Government expenditure and revenue targets are presented in Table 4.a. Both the revenue and expenditure ratios to GDP are expected to fall marginally in 2016, although a more pronounced decline in expenditure is expected to result in an overall improvement of the budget balance.

Total revenue is expected to decline by 0.5 percentage points of GDP, from 40.3 per cent of GDP in 2016 to 39.8 per cent of GDP in 2017. Less buoyant growth in private consumption expenditure and tourism earnings compared to GDP, the negative net impact of discretionary revenue measures, and prudent elasticity assumptions will be reflected in a relatively stable tax burden, which is expected to decline marginally by 0.1 percentage points of GDP. Meanwhile, the 'other' revenue category is set to decline from 4.7 per cent of GDP in 2016 to 4.3 per cent of GDP in 2017 as a result of lower market output as proceeds from the International Investor Programme starts to moderate.

Meanwhile, the ratio of General Government expenditure to GDP is expected to decline by 0.7 percentage points, from 41.0 per cent in 2016 to 40.3 per cent in 2017. The decline in the expenditure to GDP ratio is set to come from lower expenditure on interest expenditure which, alongside less buoyant increases in social payments and

Expenditure and Revenue Targets

(General Government Expenditure and Revenue Targets, broken down by Main Components)

Table 4.a — % GDP

	ESA Code	**2016**	**2017**
General Government (S13)			
1. Total revenue target	TR	40.3	39.8
Of which			
1.1. Taxes on production and imports	D.2	13.6	13.5
1.2. Current taxes on income, wealth, etc	D.5	14.0	14.0
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	6.8	6.7
1.5. Property income	D.4	1.0	1.1
1.6. Other [1]		4.7	4.3
p.m.: Tax burden		34.7	34.6
(D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure target	TE[3]	41.0	40.3
Of which			
2.1. Compensation of employees	D.1	12.7	12.6
2.2. Intermediate consumption	P.2	7.0	7.0
2.3. Social payments	D.6M	11.4	11.1
of which Unemployment benefits [3]		*0.3*	*0.3*
2.4. Interest expenditure (= item 6 in Table 2.a)	D.41	2.3	2.1
2.5. Subsidies	D.3	1.2	1.1
2.6. Gross fixed capital formation	P.51G	3.5	3.6
2.7. Capital transfers	D.9	0.6	0.5
2.8. Other [4]		2.3	2.3

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

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

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

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

compensation of employees compared to GDP, are expected to more than offset higher expenditure on Gross Fixed Capital Formation. The increase in the latter is mainly attributable to higher outlays from the National Development and Social Fund which are expected to start being utilised.

Expenditure and Revenue Targets

(Amounts to be excluded from the Expenditure Benchmark)

Table 4.b % GDP

	ESA Code	2015	2015	2016	2017
		Level (€ millions)			
1. Expenditure on EU programmes fully matched by EU funds revenue		253.1	2.9	1.1	1.2
1.a of which 'Investment fully matched by EU funds revenue		151.9	1.7	0.8	0.9
2. Cyclical unemployment benefit expenditure [1]		-0.8	-0.0	-0.0	0.0
3. Effect of discretionary revenue measures [2]		41.8	0.5	0.9	-0.2
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	**2015**	**2016**	**2017**
Target General Government net lending/ net borrowing	B.9			
Stability Programme		-1.5	-0.7	-0.6
Draft Budgetary Plan		-1.4	-0.7	-0.5
Difference		-0.1	0.0	-0.04
General Government net lending projection at unchanged policies	B.9			
Stability Programme		-1.3	-1.5	-0.4
Draft Budgetary Plan		-	-0.7	0.1
Difference [1]		-	-0.8	-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.

Stock Flow Adjustment Statement

Appendix Table 7 € million

	2016	2017
Deficit (ESA)	**67.0**	**50.0**
EBUs accrual adjustment	-0.9	-10.0
Own Resources	-15.0	8.0
Revenue Time Adjustments	15.0	20.0
TCF Advance & BL Accounts	20.0	20.4
Malta Shipyards Up Front	-2.0	-2.0
Maltco Concession fee	3.9	3.9
IIP Revenue	93.0	70.0
IIP Expenditure	-2.0	-32.0
Contribution to Sinking Fund (Local)	3.3	3.3
Contribution to Sinking Fund (Foreign)	6.5	1.7
Contribution to Special MGS Sinking Fund	50.0	50.0
Equity Acquisition(incl. Air Malta)	2.6	32.6
EFSF Credit Line Facility	4.5	4.5
Courts and other deposits	17.6	
Stock Premium paid to Church	0.3	1.1
Advances made by Government		
Repayment of Loans to Government	-12.0	0.0
Sale of Assets	-1.1	-0.9
Sale of Non-Financial Assets	-	-
EBUs	1.0	0.0
Currency	9.0	9.8
Movement in Bank Account	-22.4	-
Other Statistical Discrepancies	-	-
Increase/(Decrease)in cash balance	31.1	-10.5
Increase/(Decreaese) in Non-Consolidated Debt	**269.4**	**219.9**
MGS Consolidation	*-7.3*	*-10.9*
Increase/(Decreaese) in Consolidated Debt	**262.1**	**209.0**
SFA	**195.1**	**159.0**

Appendix Table 6.a

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

CSR recommendations

CSRs	List of Measures	Description of direct relevance
CSR 1: In view of the high risk of a significant deviation, achieve an annual fiscal adjustment of 0.6% of GDP towards the medium-term budgetary objective in 2016 and in 2017 by taking the necessary structural measures. Step up measures to ensure the long-term sustainability of public finances.	Ensuring public finance sustainability in the short to medium-term, while also addressing the long-term is a key Government objective.	The General Government balance is expected to continue declining in 2016, with further gradual reductions envisaged over the medium-term horizon. Consistent with the calendar of convergence established by the European Commission, the Government is targeting the attainment of the MTO by 2019. In 2016, the General Government budget balance is targeted to decline to 0.7 per cent of GDP, consistent with an improvement of 1.2 percentage points in the structural balance. During the eight months to August 2016, the shortfall between central Government recurrent revenue and total expenditure declined by €61.9 million to €79.1 million. The deficit for the eight months to August 2016 is currently broadly in line with projections.
	Review of ministerial spending allocations	A Government spending review is ongoing process aimed towards ensuring the achievement of a more effective approach to public spending, improving decision making and ensuring that public spending is meeting changing priorities and changing social needs. This means that processes are created that phase out unnecessary expenditure, reducing waste and inefficiencies. In February 2014, the Government started an in-depth Comprehensive Review in the Department for Social Security which was duly completed in August 2014 with some of the recommendations being implemented in the Budget for 2015. The reforms outlined in that Budget required that all young people under the age of 23 years of age, had to register under a youth guarantee scheme rather than applying for social assistance. This meant that young people were encouraged to undertake training education or employment. Secondly, the Government introduced a system of the tapering of benefits and in-work benefits to encourage employment especially for young single parents where the taper of benefits meant that they would not lose their benefit at the 100 per cent rate once they found employment. The monthly reviews of the reforms have confirmed that between January 2015 and August 2015, over 3,000 claimants have left the benefit system and found employment. Approximately 2,000 of those claimants have taken advantage of the tapering of benefits. In terms of follow-up, the Ministry responsible for Social Security carries out monthly reviews on the implementation of the reform and reports are forwarded to the Minister for the Family and Social Solidarity and the Minister for Finance. The second review focused on the Mater Dei Hospital which accounts for nearly 40 per cent of the total health budget. The report was completed in June 2015. The main recommendations included the better scrutiny of the payroll system, working overtime, sick leave and allowances, the introduction of new technology at the hospital and to allow for single dosage dispensing to patients in a bid to reduce the expiry of drugs. In addition, the report outlined a process of decentralising of budgets to departments to create greater transparency in decision making. During 2016, the process of budget decentralisation was being implemented in the Departments for Surgery, Medicines, Pathology and Imaging. A process of notional billing between departments has now also been established. Mechanisms have also been set up to ensure that for contractual obligations including hospital cleaning clerical support and the employment of nurses aides produces greater value for money. In terms of follow-up, senior management meetings are held on a monthly basis in the Medicine, Surgery, Pathology and Imaging Departments to review the process of decentralisation with the hope that the process of budget decentralisation is launched for the entire hospital during 2017. Also in 2016, a review was undertaken at the Ministry for Education and Employment with a focus on primary and secondary schools in the Government sector. The final report was duly submitted in August 2016, recommending reforms in teaching and learning making better use of existing teaching resources, decentralising budgets to college principals responsible for school clusters and the reform of Quality Assurance. A monitoring and evaluation team is being set up under the guidance of the permanent Secretary at Education will be launched during 2017.
	2006 Pension Reform	In December 2006, the House of Representatives adopted a series of reforms (Act No. XIX of 2006) including: raising the pension age from 61 to 65; lengthening the contributory period from 30 to 40 years; adopting changes to the two-thirds pension, calculation formula, the maximum pensionable income and the crediting of contributions as provided for under the preceding legislative framework.
	Ongoing Pension Reform	The Pension Strategy Group (PSG) submitted the post-consultation report, including the final recommendations, for the attention of Government during September 2015. A number of these measures were adopted by Government as from the Budget for 2016: As from 2016, the Minimum Pension for a person with a full contributory record shall be no less than € 140 per week. This measure will contribute to address the problem of poverty amongst the elderly. Better credits for child rearing and family growth Introduction of credits for human capital development and lifelong learning; Maximum Years of Crediting (including child rearing) subject to capping equivalent to 12 yrs for persons born on or after 1/1/1962 and at 6 yrs for persons born between 1/1/1952 and 31/12/1961. The latter is aimed to ensure public finance sustainability. Service pensioners will continue to be given a € 200 annual additional abatement. Survivors will be entitled to the highest full pension, whether it is their own pension or the pension of their deceased spouse, if they are entitled to a contributory pension in their own right. In order to ensure a fair balance between the contributory period and the period spent in retirement across generations, the contribution period for a full pension will be based on a stable ratio between years contributing and years drawing pension. Consequently, the contributory period is being raised from 40 to 41 years for persons born after 1968. The contributory period will be reviewed every 5 years to ensure that stable proportion is kept between the contribution period and the periods of time during which it is expected that the person will be in receipt of a pension. Employees in the private sector will be incentivised to continue working beyond age of 61 years once they have fulfilled the contributory requirements for pension eligibility. This incentive takes the form of a percentage increase in the pension benefit rate with the scale increasing every year, for every year up to age of 65 years with respect to which retirement is deferred. A Legal notice LN289/16 concerning this incentive mechanism was published in August. Additionally, in order to lengthen careers and deter early retirements, an amendment to Article 64A was made stating that for persons born on or after 1/1/1969, in order to access the early exit option, will require 35 years of paid contributions with a maximum of 6 years of credits.
	Budget 2017 Measures	The Budget for 2017 is introducing a number of measures intended to address the distribution of income amongst senior citizens. In particular one notes the following: Persons aged 62 and older will not be taxed on income coming from any type of pension amounting up to a maximum of €13,000 for both single and married taxpayers. Pensioners whose income is taxed at the married rates, will retain a differential of a further €1,000 (arising from any source) on top of the €13,000. This measure shall be implemented over a period of 2 years. Beneficiaries of the minimum pension for married couples and to a non-contributory age pension will experience an increase in their pension of €4 per week. The Budget for 2017 is also raising the amount of service pension that is not taken into consideration for Social Security pension assessment purposes by another€200. The Budget for 2017 will be addressing the gender inequality in the pension benefit rate, with females benefiting from an increase in the pension rate of up to €20 per week. In addition, Carers Allowance will be increased from €75.66 per week up to €90 per week whilst the Assistant Carers Allowance will be increased from €109.13 up to €140 per week. These measures are intended to assist the elderly to continue living at home and at the same time reduce the pressure on Government care homes thus contributing to the sustainability of public finances.
	Third Pillar Pensions	With regard to the third pillar pensions in Malta, it is to be noted that the first pension products were launched on the market during November 2015. A Working Group was set up with the scope of bringing to the consideration of Government, proposals relative to the introduction of fiscal incentives for employers that opt to introduce occupational pensions on a voluntary basis. As a result, Government will be also introducing fiscal incentives with the aim of facilitating the introduction and take up of voluntary occupational pensions. A National Strategy for Retirement Income and Financial Literacy which is now repositioned as Retirement and Finance Capability is to be launched in November 2016. This repositioning is a result of adding more focus on financial capability as an instrument of poverty prevention during the lifecycles and retirement of vulnerable groups.

CSRs	List of Measures	Description of direct relevance
	Sustainability of Health Care expenditure	Government has embarked on the implementation of various measures to ensure the delivery of a cost-effective and sustainable use of available resources over the past few years. This has been mainly driven by strategic investments to underpin the revision of existing processes whilst shifting the focus of care away from hospital and towards the primary health care setting. Progress has also been registered with respect to strengthening health promotion and disease prevention. These developments reflect the adoption and implementation of a new National Health Systems Strategy (NHSS) covering 2014-2020 focusing on three pillars: Improving Governance; Health promotion and Disease Prevention; and Strengthening of Primary Care. Additionally, in order to monitor the implementation of the NHSS, a Health system performance report (HSPA) was published. The HSPA Framework serves as a monitoring system to regularly monitor and review the indicators linked to the implementation of the NHSS and the performance of the Maltese health system as a whole. Government is also actively seeking the involvement of the private sector in the health sector.
	Healthy Lifestyle Act	A major legislative breakthrough during 2016 was the enactment of the Healthy Lifestyle Act which established an inter-ministerial body authorised to propose legislative instruments with the aim to reducing the burden of non-communicable disease on the country.
	Expenditure control mechanisms	Over the course of 2016 and carrying on in 2017, Government has implemented a number of measures aimed at controlling expenditure from an operation perspective. These include: Curtailment and containment of costs. Efforts to better manage payroll costs. Efforts to reduce in patient length of stay in hospital. Efforts to improve collection of dues. Accountability for budgets through decentralized budgetary approach. Introduction of Malta based services to avoid patients having to travel abroad. Internal expenditure control mechanisms and monitoring of operational costs including financial and structural audits of providers are in place.
CSR 2: Take measures to strengthen labour supply, in particular through increased participation of low-skilled persons in lifelong learning.	Framework for the Education Strategy for Malta 2014-2024	As clearly highlighted in the National Reform Programme, in order to improve basic skills and prevent Early School Leaving (ESL), Malta launched the Framework for the Education Strategy for Malta 2014-2024 which seeks to improve students' learning experiences by encouraging creativity, critical literacy, entrepreneurship and innovation at all levels by reducing the gaps in educational outcomes, decrease the number of low achievers and raise the bar in students' literacy, numeracy, and science and technology achievement; raise levels of students retainment and attainment in further, vocational, and tertiary education and training; support educational achievement of children at-risk-of-poverty and from low socio-economic status, and reduce the relatively high incidence of early school-leavers and increase participation in lifelong learning and adult learning. In the first quarter of 2015 a Strategy Unit was set up to support and facilitate implementation. The Unit focuses its work on Action Plans provided by the responsible departments or directorates split into three-year periods.
	Lifelong Learning Strategy and Policy Initiatives	The National Lifelong Learning Strategy for Malta 2020 focuses on adult learning, specifically the participation of people aged 25 to 64 years in lifelong learning. The strategy was published for consultation in November 2014 and adopted as final in January 2015. It embraces post-compulsory education, vocational education and training (VET), higher education, adult education. The Lifelong Learning Strategy consolidates and builds on ideas and processes already taking shape in different organisations and institutions in Malta, such as to ensure a single, coherent place to guide actions in lifelong learning. In February 2015, a task force was set up to monitor the implementation of the strategy. An action plan was submitted to the Ministry for Education and Employment on the separation of lifelong learning policy and strategy functions from the actual delivery of courses.
	Adult Learning Provision	The Directorate for Lifelong Learning continued providing adult learning in Malta and Gozo.
	Professional Staff Development, Training and Quality Assurance	In order to identify the strengths and weaknesses of the adult teaching profession within the Directorate for Lifelong Learning, during 2015 and 2016, further in-service training and staff development sessions were organised. The training focused on the National Qualifications Framework (NQF), its impact on the adult learning sector, the drafting of course descriptions and the assessment procedures of the learning outcomes for new subjects on MQF and VET. This is an ongoing process. The Continuous Professional Development (CPD) for Centre Coordinators is still taking place on a regular basis. Moreover, over the past two years, the Directorate introduced the National Diploma in Teaching Adults in order to improve the quality of adult learning in Malta.
	Breaking Barriers – Enhancing Literacy through Digital Media	The DLL ESL is currently implementing a 3 year project from the ERASMUS+ Programme (Key Strategy 2). This project aims to tackle the need of the cohort of low-skilled literate adults aged between 25 and 65 and to help learners build new skills and improve career prospects.
	European Platform for Adult Learning (EPALE)	The digital platform was launched in September. This is another way of helping adult educators to access relevant information and resources on adult learning and to encourage European exchange amongst the adult learning community.
	EU Agenda for Adult Learning	The work programme which has been approved and is based on the following framework: (i) policy coherence initiative; (ii) baseline research; (iii) essential skills in disadvantaged communities; (iv) targeted awareness raising; and (v) European exchange on adult educator up-skilling.
	Work Programme Initiative	This initiative is assisting long-term unemployed individuals to re-enter into the labour market. It is based on a process that should lead the beneficiary (i.e. participant) to improve his/her employability skills, with the final aim of placing the participant in sustainable employment.
	Work Placement Scheme	The scheme provides training to participants following a course offered by JobsPlus, which includes a practical component. Through this Scheme participants are given the opportunity to acquire both theoretical and practical training.
	Work Exposure Scheme	The aim of this scheme is to facilitate transition into employment by providing jobseekers with initial hands on training that will help individuals obtain the knowledge, skills and competences required to find and retain employment. This scheme is designed to mirror contemporary labour market demand, whereby the job preferences of the jobseekers are matched with employers' requests.
	Traineeship Scheme	This scheme provides jobseekers with initial vocational training that will help individuals obtain the knowledge, skills and competence required to find and retain employment. Traineeships are based on the dual system of vocational training providing a combination of on-the-job and off-the-job training. The programmes offered are labour market driven, whereby the job preferences of the jobseekers are matched with the requests made by employers participating in the scheme.
	Training Pays Scheme	The aim of the scheme is to increase the number of adults participating in lifelong learning. Persons will be refunded 75% of the training costs (to a maximum of €1,000) that they may incur, for attending a training programme with the aim of upping their level of competence or acquiring new skills. Both the training programme followed and the training provider need to be accredited and licensed respectively, by the NCFHE.
	National Youth Policy Towards 2020	The National Youth Policy Towards 2020 describes two specific strategies and actions that fall within two 2 pillars. The first strategy is directed towards services, programmes, projects and activities which support young people and youth organisations. The second strategy which falls within this policy is cross-sectoral support to enhance social participation, learning and social prospects.
	Youth Guarantee	Aims to provide a second chance education to individuals with a low level of education and to help them enter the labour market with the aim of retaining their employment and further the employment ladder. A number of ESF-funded projects are targeted at NEETs. Through the NEET Activation Scheme, NEETs are individually profiled by experts and have direct contact with a youth worker and training intervention that consist of motivation and behavioural, labour market orientation sessions (including guidance on employment). Training is offered over a span of six weeks. Then, youths will be offered the opportunity to benefit from twelve weeks of work exposure and if the employer decides to retain them, the JobsPlus will offer a traineeship of up to six months, during which the employee undergoes training to increase his or her own productivity. This Guarantee will continue to be provided in the upcoming years.
	SEC revision classes	Classes were offered free of charge in Maltese, English Language, Mathematics and Physics to students who failed, obtained low grades (6,7 or unclassified) or were absent
	Ġużè Ellul Mercer 16+ Extended Secondary School (GEM 16+)	Students who did not obtain the necessary academic qualifications are given an opportunity to follow a one year revision course in core subjects.
	Alternative Learning Programme	Targets students who are not sitting for any Secondary Education Certificate (SEC) examinations at the end of compulsory schooling and which are potential early school leavers and thus with lower prospects of higher skilled employment

CSRs	List of Measures	Description of direct relevance
	Alternative Learning Programme +	Students continued their learning experience at a post secondary level. Such students will be following courses in either Hospitality and Customer Care or Welding and Fabrication at MQF Level 3. The intake of students in this particular post secondary course if of 25.
	Core Curriculum Programme	This includes the development of an in-house programme for students who find difficulty in following mainstream programmes and who may benefit from a vocational pathway
	XL programme	The main aim of such a programme is to reduce the early school leaving rate and the increase of lifelong learning participation. This programme is currently running in 7 secondary schools in Malta, where young people aged 13 to 16 who are at risk of underachievement or exclusion are offered a personal development programme as an opportunity for re-engagement in education.
	Budget 2017 measures	The 2017 Budget also maintains the free provision of childcare services, aimed at assisting the economic participation of parents that afford them, greater flexibility. Building on the free child care and other measures introduced earlier in this legislature with the scope of making work pay, the Budget for 2017 will introduce measures to incentivise labour market participation. The main measures include: Extension in the eligibility and the higher rates of the In-Work Benefit scheme. The aim of extending this benefit is to strike a balance between incentivising individuals to enter in employment and improve further distribution of income. Focusing specifically on lower income earners, Government is extending the provision of supplementary allowance to minimum wage earners. In terms of activation programmes, Jobs plus will continue delivering the Work Exposure, Traineeships, Access to Employment, Investing in Skills, Work Placement Scheme, Training Pays and Community Work Scheme programmes. Through the Work Programme Initiative, young persons that have been looking for work for 12 months or more shall be assisted through a programme that comprises the participation of the private sector. Meanwhile the Youth Guarantee programme shall remain in place also in 2017 with the scope of combating youth unemployment.

4. Distributional Implications of Budget Measures

4. Distributional Implications of Budget Measures

The Government's top priority in this legislature was that of increasing Malta's potential output. This was achieved through measures aimed at increasing labour force participation, restructuring priority sectors and enhancing competitiveness. Government then focused on redistributing economic growth with the aim of creating greater social justice and social inclusion.

Indeed, the past three Budgets introduced a number of measures which aimed to make work pay while reducing unneccesary dependencies and providing social assistance to those in most need. Some of these policies included the tapering of benefits and the in-work benefit scheme. Charts 4.1, 4.2 and 4.3 illustrate the decline in unemployed and inactive persons in receipt of unemployment assistance and social assistance recorded in 2015 as a result of these two measures. Latest figures for this year show that the number of persons shifting to the tapering of benefits now amount to around 2,200 persons, meaning that such individuals became economically active while still receiving part of the benefit, as opposed to remaining dependent on the benefit system. Furthermore, the past Budget improved the income of low income groups including the elderly who benefitted from an increase in the minimum pension and households who benefitted from a reduction in the non-taxable income tax bracket.

The overall distributional impact of these measures, namely the income tax reduction, in-work benefit scheme and the minimum pension is illustrated in Chart 4.4. The Chart represents the percentage increase in income relative to the base year by income deciles. Indeed, the Chart shows that the three measures mostly affected the bottom part of the income distribution which includes low income households such as pensioners on low pensions, minimum wage earners and persons on social benefits. A further disaggregation of these measures are depicted in Charts 4.5 to 4.7, which show the

Chart 4.1

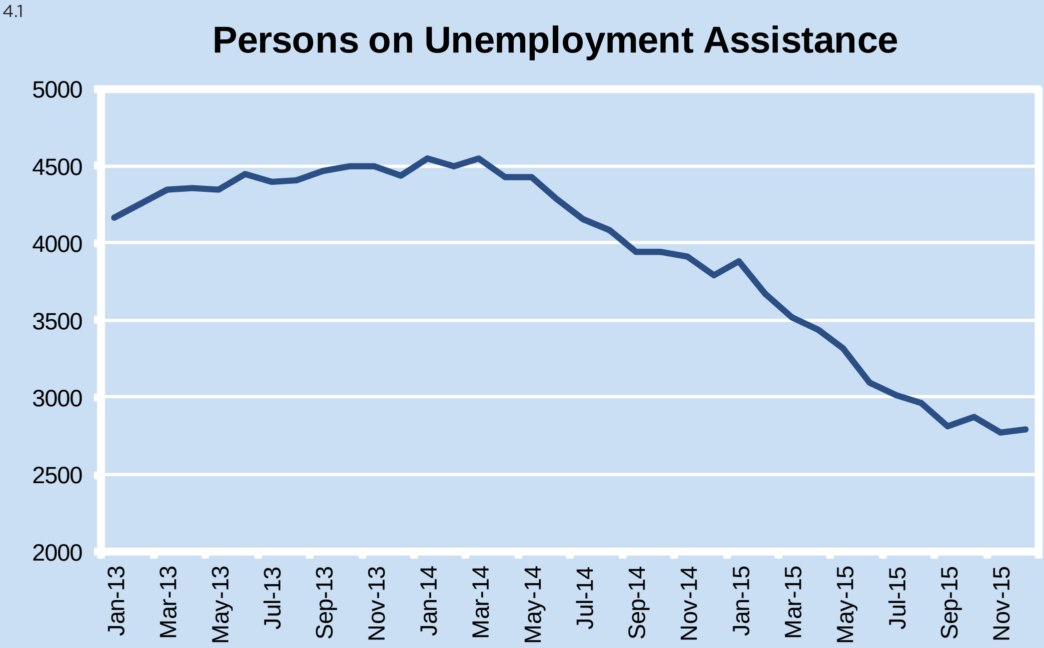
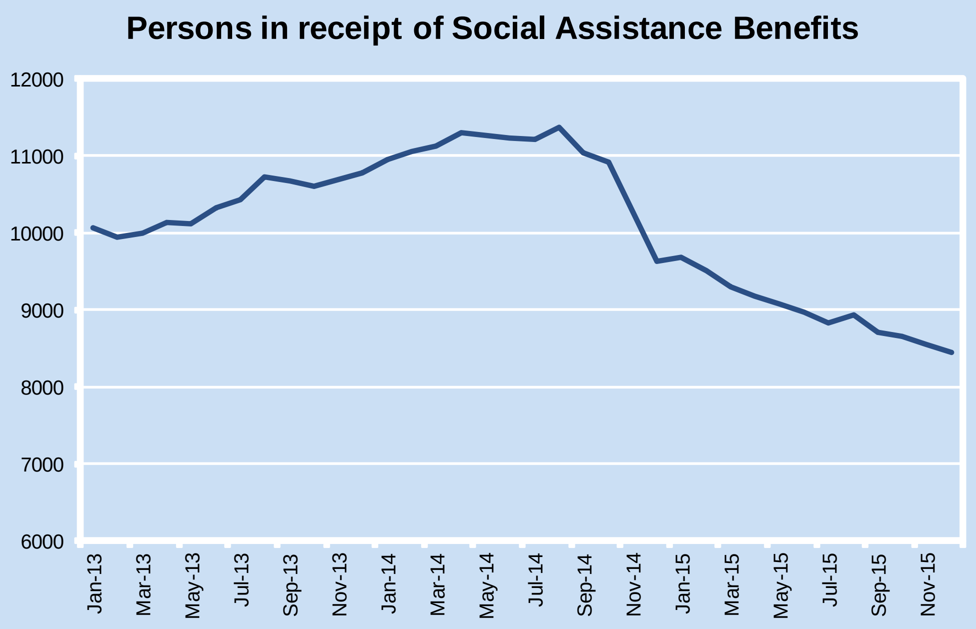


Chart 4.2



separate impact of the increase in minimum pension, reduction in income tax, and the extension in the in-work benefit measure.

The forthcoming Budget aims to continue to build on these initiatives with the scope of ensuring that the proceeds of economic growth are distributed more fairly amongst all groups of society. At the same time, Government is keen to see that any interventions to the tax-benefit system in Malta should not undo the efforts made to ensure that the right incentives to work are in place.

Chart 4.3

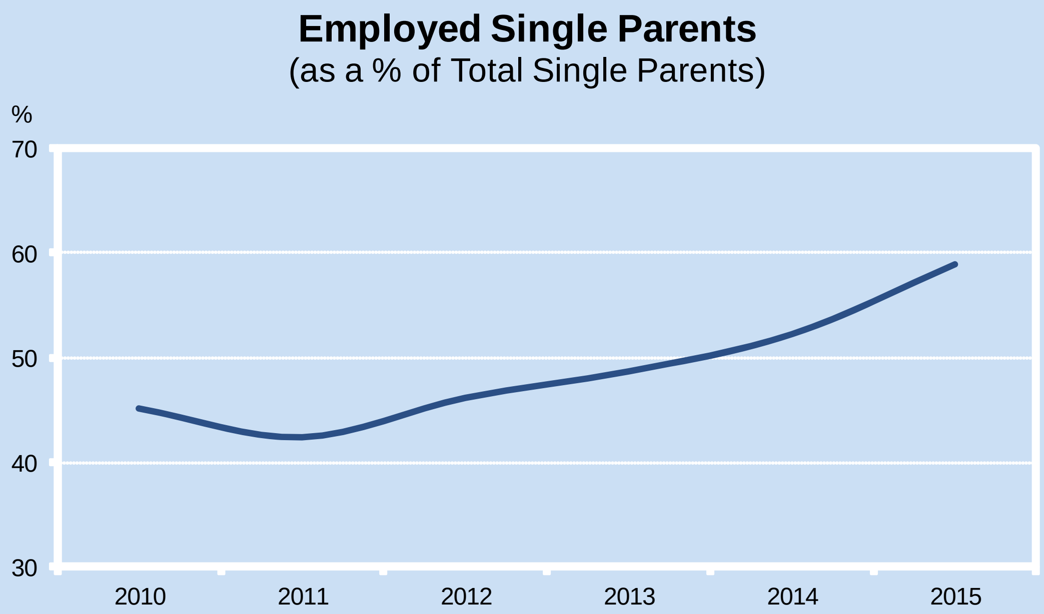
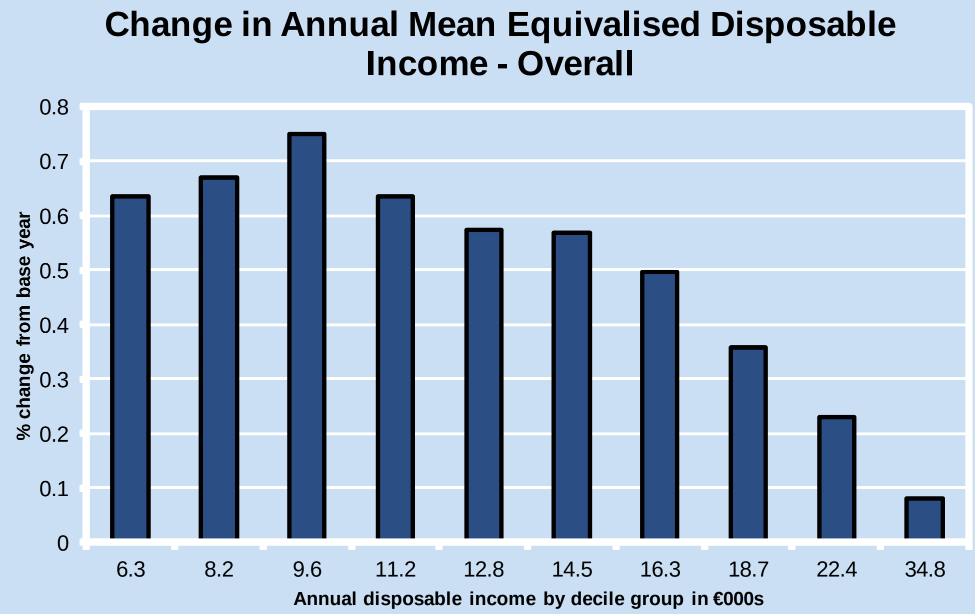


Chart 4.4



The Statistics on Income and Living Conditions (SILC) for 2015, confirm a drop in the people at risk of poverty or social exclusion over the period 2014 and 2015 after constant increases from 2006 onwards. Indeed, the figure for 2015 for the at-risk-of-poverty or social exclusion rate decreased to 22.4 per cent, down from 23.8 per cent in 2014. This drop was driven by two factors: the drop in the severe material deprivation rate and the drop in people living in households with very low work intensity. Chart 4.8 comprehensively shows these developments over time.

Chart 4.5

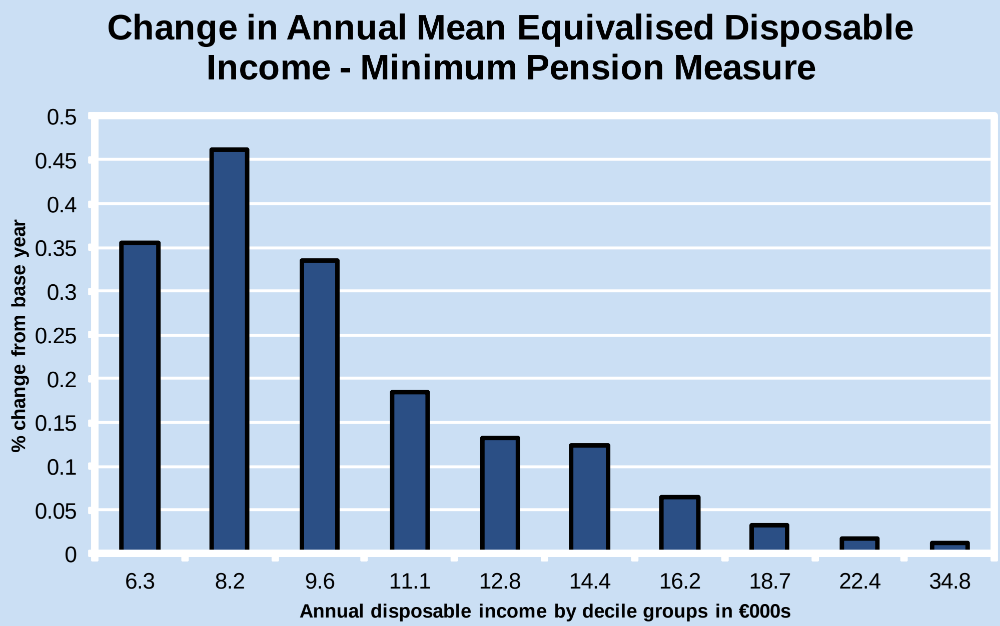
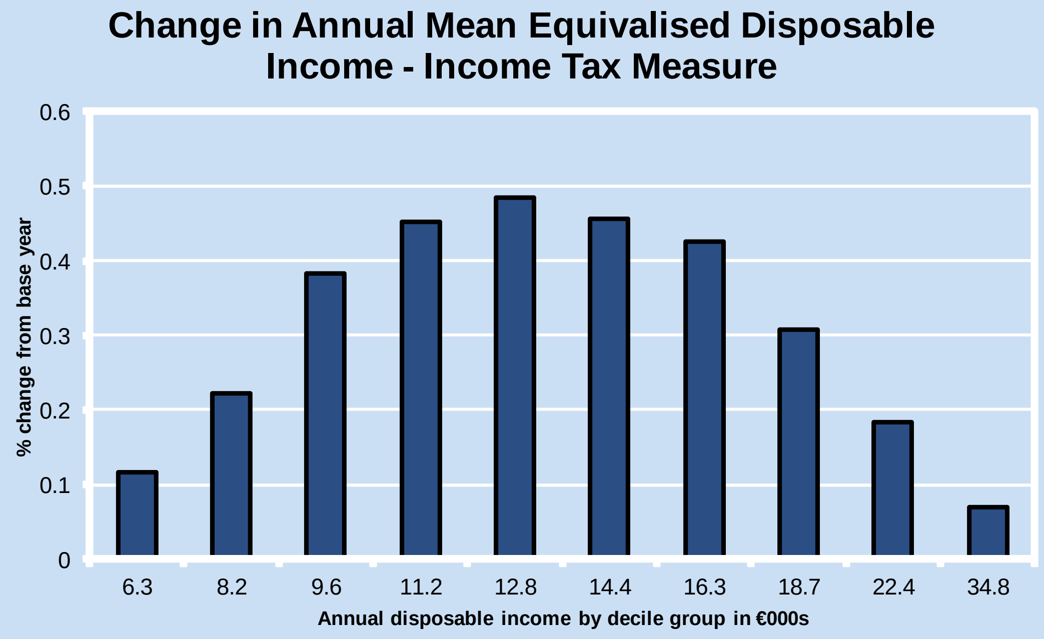


Chart 4.6



In the Budget for 2017, Government continues to be committed to the principle that economic prosperity and wealth should be felt and enjoyed by all. A number of measures targeting this objective are presented in the following sections, with the focus of these measures being that of addressing the working poor, youths, pensioners, and other vulnerable groups, such as the disabled.

Chart 4.7

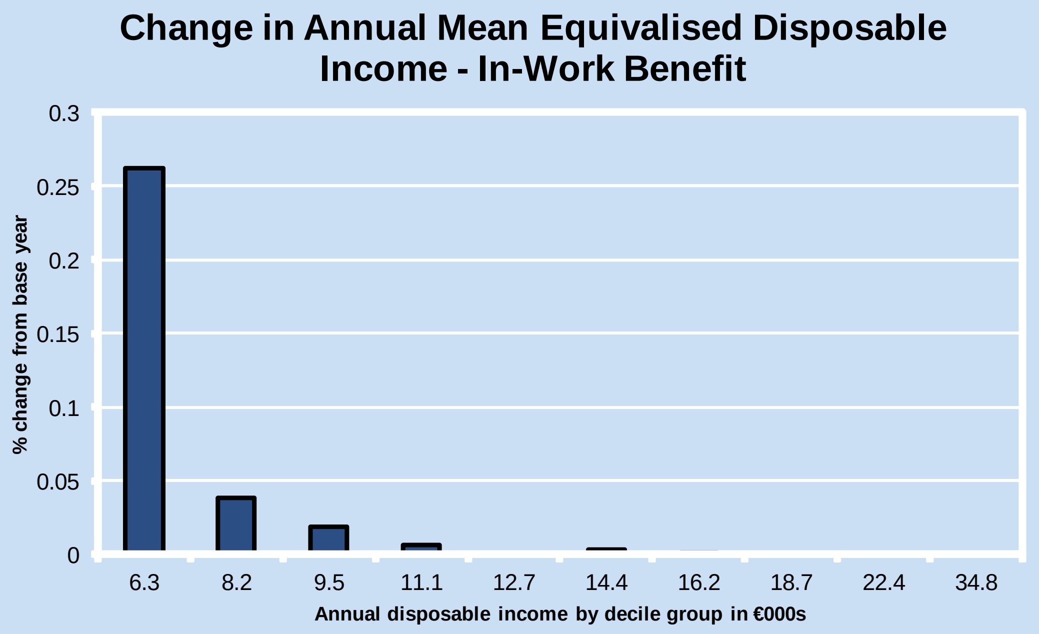
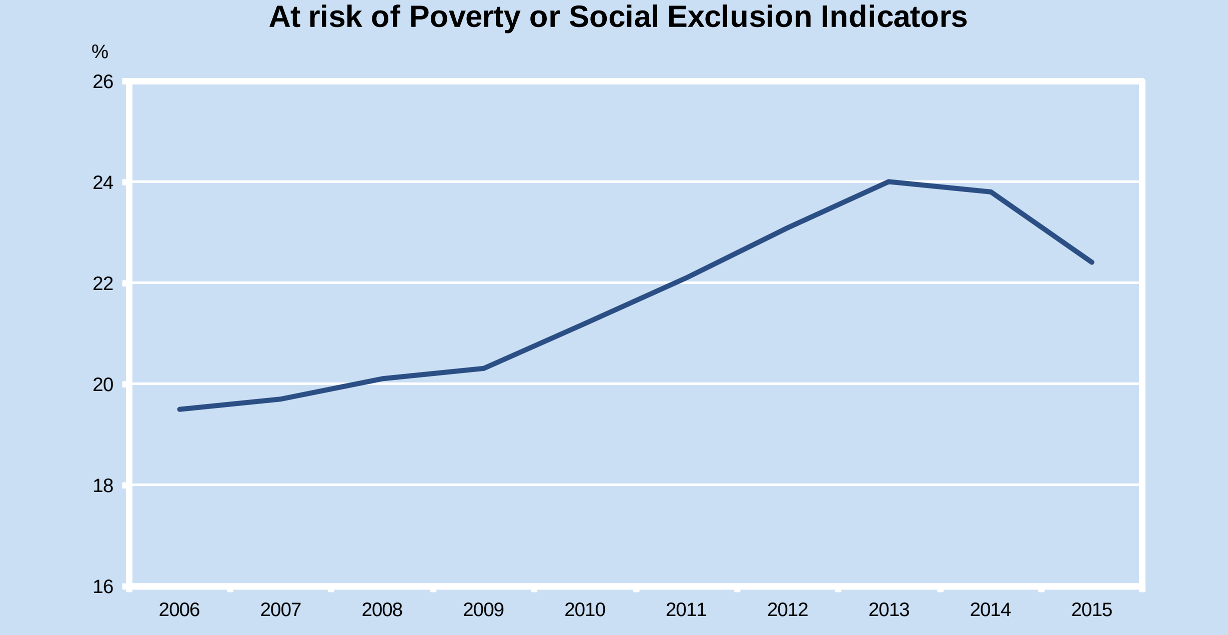


Chart 4.8



4.1 Working Poor

One of the main pillars of Government's policy has been that of reducing tax on work. Indeed, in the 2013, 2014 and 2015 Budgets, Government had implemented income tax reductions, from which a large number of households improved their take home pay while at the same time encouraged work and enterprise, and discouraged dependency. After increasing the tax-free income thresholds in the Budget for 2016, the 2017 Budget is further addressing the burden on the working poor by a number of specially-targeted measures.

This year's Budget is increasing both the eligibility and the rates of the in-work benefit scheme. The benefit for families with one working parent will reach a maximum of €350 per child. Meanwhile, the benefit rate and the coverage for single parents in employment and both parents in employment will be extended. In the case of one parent households, coverage is being extended to cover persons earning an income in the range between €15,000 and €16,500, while in the case of households where both parents are in employment, the top income to be reckoned will be raised from €20,400 to €24,000.

The aim of extending this benefit is to strike a balance between incentivising individuals to enter in employment and improve further the distribution of income.

These increases are expected to exert a positive impact on one working-parent, and two-working parent households, for which the former tend to be at a relatively higher risk of poverty or social exclusion, while at the same time resisting the pressure to raise the minimum wage beyond the statutory increases.

Focusing specifically on lower income earners, Government is extending the provision of the supplementary allowance to minimum wage earners.

Furthermore, the Budget for 2017 is introducing a widening in the income ceiling for the supplementary allowance in respect of married couples from €11,089 to €13,000, leading to a maximum increase in the benefit rate of €4.41 per week, and benefitting approximately 22,000 individuals.

Government is also conscious that the buoyant economic environment has resulted in an increase in residential rental rates, which is creating difficulties for specific household groups. For this reason, Government is extending the eligibility as well as raising the rent subsidy, for social housing programmes intended to assist households that live in private rental housing and fulfil the criteria for eligibilty to assistance programmes.

In terms of parents' households, the 2017 Budget also maintains the free provision of childcare services, aimed at assisting the economic participation of parents that afford them, greater flexibility. This measure is attracting more parents in the labour market to seek employment and continue working. It is estimated that there are 5,400 children benefitting from the free childcare initiative.

Government will be also introducing fiscal incentives with the aim of facilitating the introduction and take up of voluntary occupational pensions. The introduction of such pension products complements the reforms to the contributory pension and the introduction of the third pillar, thus ensuring that retirement income of today's present working population is well-diversified whilst reducing the dependence on public expenditure.

4.2 Young People

The Government, in the Budget for 2017, is also looking towards responding to increasing demand for greater attention towards mobility and inclusion. To achieve this, the Budgetary Plan is seeking to address the quality of life for students in difficulty, in the areas of sports and culture, through the setting-up of a specific social fund. The 2017 Budget is voting funds for free public transport to youths whose 18th birthday falls in 2017 to encourage the use of public transport amongst the youth. This is expected to help ease traffic congestion by decreasing the use of private vehicles. Government will also be extending the exemption from stamp duty on property for first time buyers, in order to relieve some of the burden that is borne by young adults in setting up a home. It is estimated that this measure will relieve first time buyers up to €5,000 worth of taxes.

4.3 Pensioners

According to the SILC survey, the at-risk-of-poverty rate for persons aged 65 years and over, stood at 21.0 per cent during 2015 compared to 16.9 per cent in 2014. Furthermore, households with no dependent children with a one person above the age of 65 years or two persons, one of which is 65 years or older, tend to experience a relatively higher risk of poverty or social exclusion when compared to the national benchmark. Government is committed to improve the quality of life for our senior citizens, in particular by supporting the income of specific groups of pensioners. In fact, through the Budget for 2017, pensioners will not be taxed on income arising from any type of pension amounting up to a maximum of €13,000. Pensioners whose income is taxed at the married rates, will retain a differential of a further €1,000 (arising from any source) on top of the €13,000. This measure shall be implemented over a period of 2 years.

It is estimated, that 22,000 single pensioners and 6,000 married pensioners will benefit from this measure. With respect to entitled beneficiaries of a minimum pension for married couples and to a non-contributory age pension, these will experience an increase in their pension of €4 per week. This measure is going to be beneficial to 1,540 married beneficiaries of the national minimum pension and 460 beneficiaries of the non-contributory age pension. The Budget for 2017 is also raising the amount of service pension that is not taken into consideration for Social Security pension assessment purposes by another €200. This measure enhances the adequacy of pensions for this group of pensioners, with the number of beneficiaries of this measure amounting to 5,000. In addition, the Budget for 2017 will be addressing the gender inequality in the pension benefit rate, with females benefiting from an increase in the pension rate of up to €20 per week.

4.4 Other vulnerable groups

The Budget for 2017 is raising the thresholds in the means testing for free medical aid such that around 900 persons are expected to become eligible to free medicine.

Government is also committed to enhance the quality of life of persons with disability, in particular disabled persons that are confined at home and are highly dependent on care. Hence, through the 2017 Budget, Government will be increasing the disability allowance given to extremely dependent disabled persons. The aim is, for the allowance to become equivalent to the minimum wage so that such vulerable groups would not be at risk of poverty. The Goverment will also introduce a disability allowance for the amputees to ensure that disabled persons can afford to live decently and in dignity.

It is also noteworthy, that the Carers Allowance will be increased from €75.66 per week up to €90 per week whilst the Assistant Carers Allowance will be increased from €109.13 up to €140 per week.