

2021

|

**Malta
Budget**

TIMES  MALTA

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Real economic activity

Over the past few years, Malta's economy has grown at a relentless yet sustained pace, characterized by fast GDP and employment growth, propelled by a strong services sector. This positively impacted public finances as the deficit and rising debt were reversed, with fiscal surplus and declining debt ratios being registered.

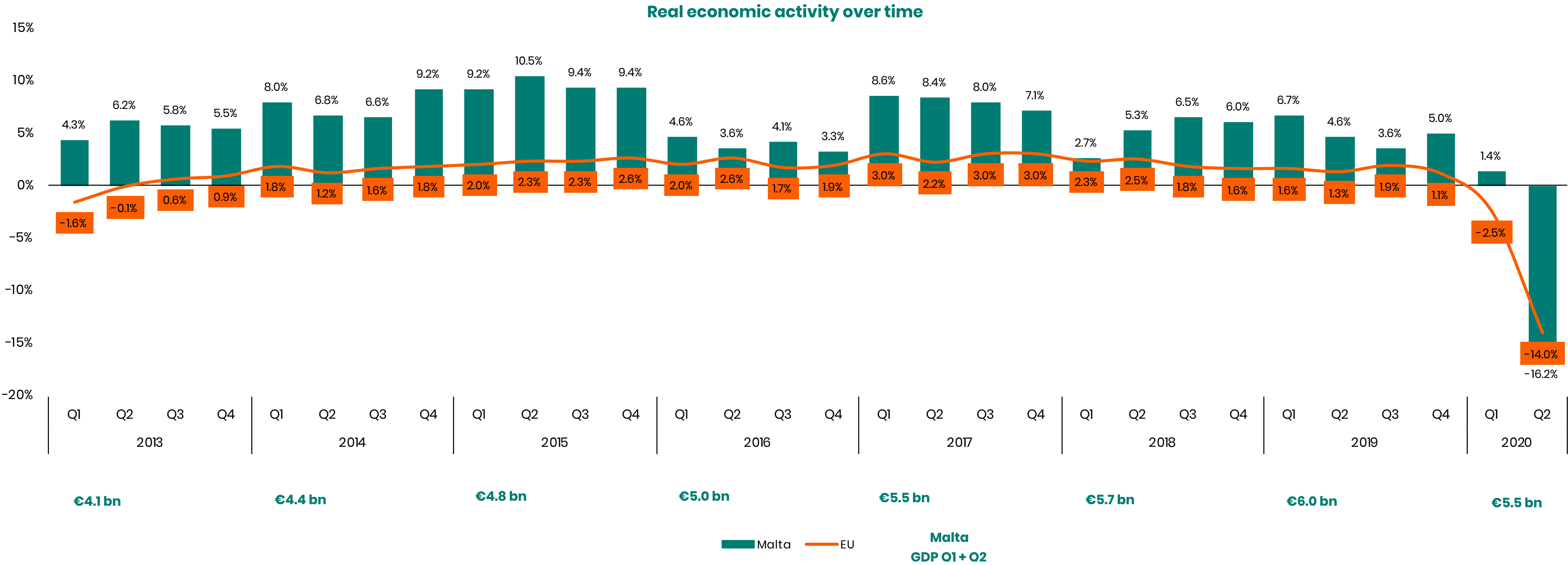
However, 2019 data had already started indicating that the economy was reaching its peak, with GDP growth in real terms in 2019 hovering around 4.4%, moderating from the 6.9% average reported in the previous two years.

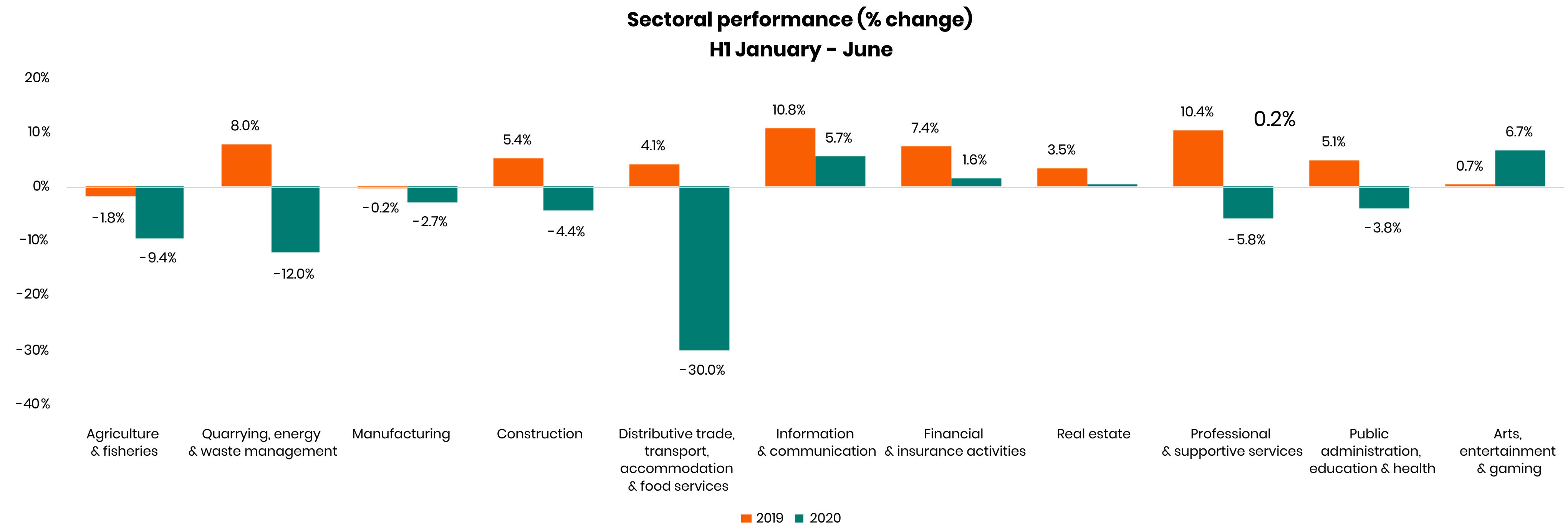
Latest statistics suggest that the Maltese economy has recorded an unprecedented contraction of 16.2% in the second quarter of 2020, when compared to the same quarter last year. Sectors such as wholesale and retail trade and hospitality have been the worse hit, shrinking by 30% during the first half (H1) of 2020. Gaming, ICT and financial services were the only sectors to register signs of growth.

Malta's short-term economic trajectory is still highly uncertain, with signs of recovery contingent on the size and duration of the pandemic, the economic recovery of Malta's trading partners and how quickly domestic consumers' confidence rebounds. As it stands today, Malta's GDP in the first six months of 2020 is at par with levels registered back in 2017. The Central Bank of Malta expects Malta's GDP to contract by 6.6% in 2020, growing by around 6.1% and 4.2% in the following two years. While this projection is significantly better than that of other EU member states, it is expected to take until mid-2022 for Malta's GDP to return to 2019 levels.

Economic Context









Expenditure patterns

The largest contributor to the projected decline in GDP in 2020 is net exports, underpinned by decreased foreign demand, restrictions on travel related activities and disruptions to the global supply-chain.

On the domestic front, household consumption and private investment have both been adversely affected, amidst the complete shutdown of various activities and heightened levels of uncertainty, leading to an increased preference for saving rather than spending or investment.

The declines reported in restaurants and hotels, transport, recreation and culture are mostly explained by the sudden drop in tourist arrivals resulting from the travel restrictions imposed worldwide. Likewise, the forced closure of all but essential retail activity resulted in a decrease of 28.8% in clothing and footwear and an 8.5% drop in expenditure on furnishings and household appliances during the first half of 2020. On the other hand, expenditure on utilities increased by 5.2% reflecting the reality of households spending more time indoors.

Government expenditure increased by more than 12% during this period, explained by the increase in health-related expenses and the first tranche of COVID-19 industry supportive measures.

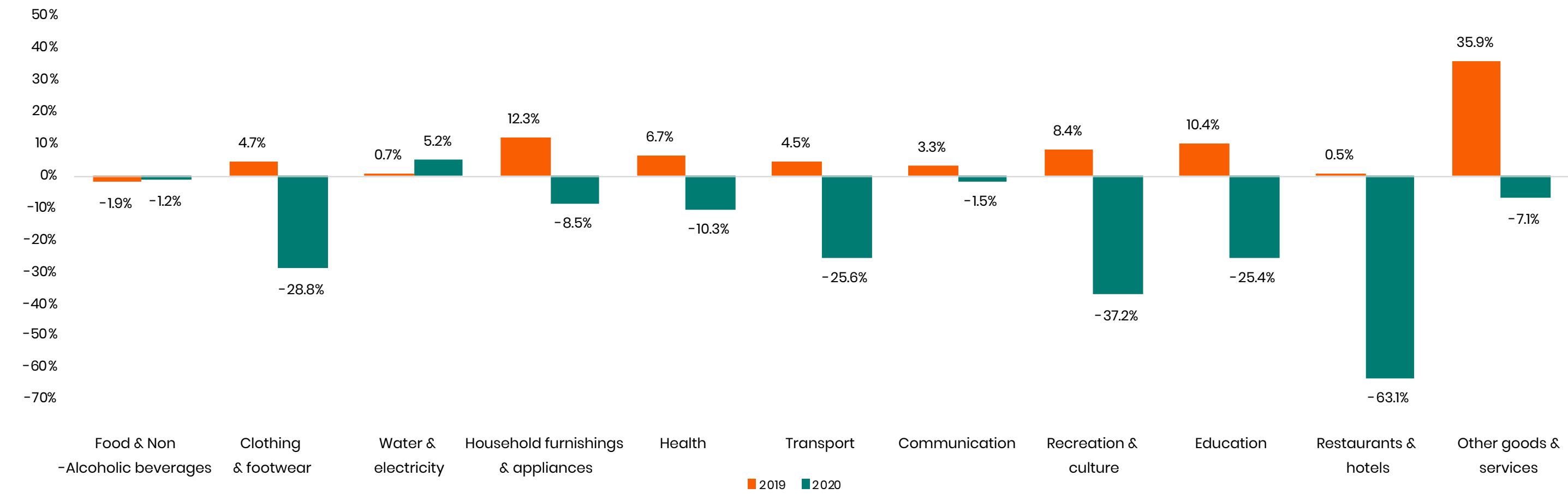
Economic Context

Real economic activity (% change)	2019	2020	2021	2022
GDP	4.7	-6.6	6.1	4.2
Household consumption expenditure	2.9	-2.4	6.1	3.7
Government consumption expenditure	12.9	13.6	1.7	3.1
Investment	6.2	-10.8	16.1	4.7
Exports	2.5	-17.2	7.4	2.5
Imports	3.0	-15.4	8.5	2.0

Source: Central Bank of Malta: Economic Projections 2020 Q3

Household consumption expenditure at 2015 prices (% change)

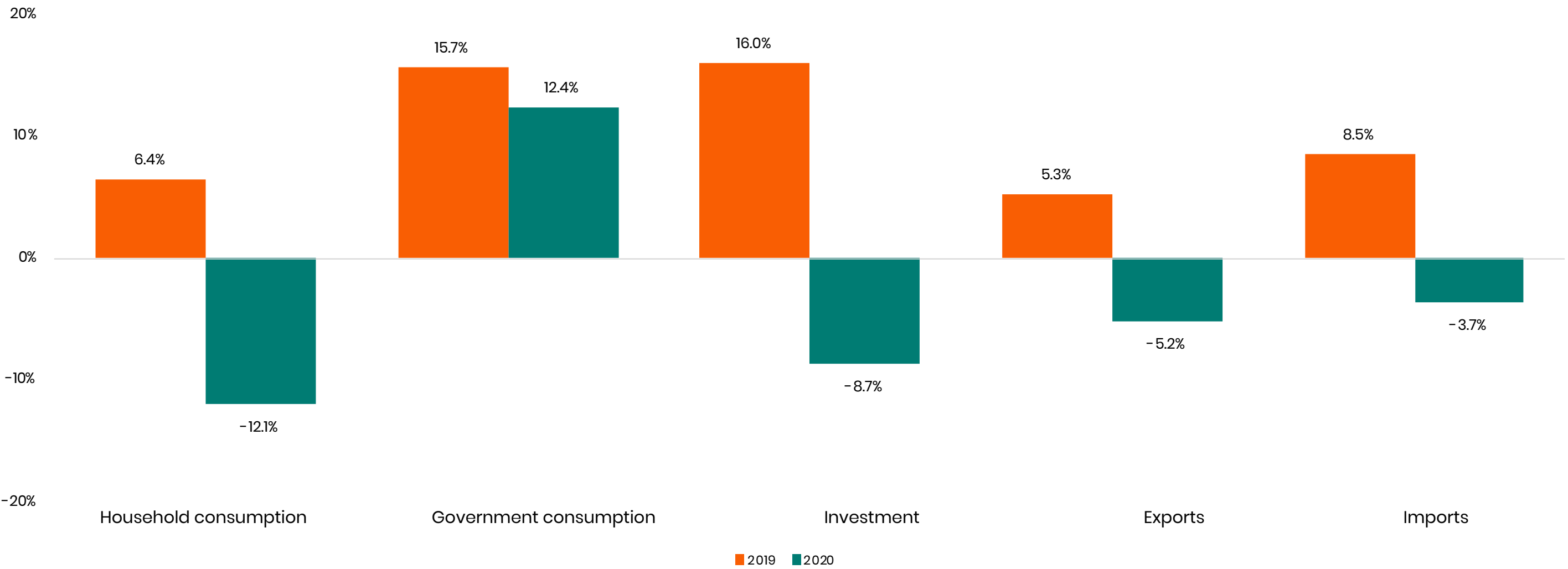
HI January – June



Source: National Statistics Office, Eurostat

Expenditure patterns at 2015 prices (% change)

HI January – June



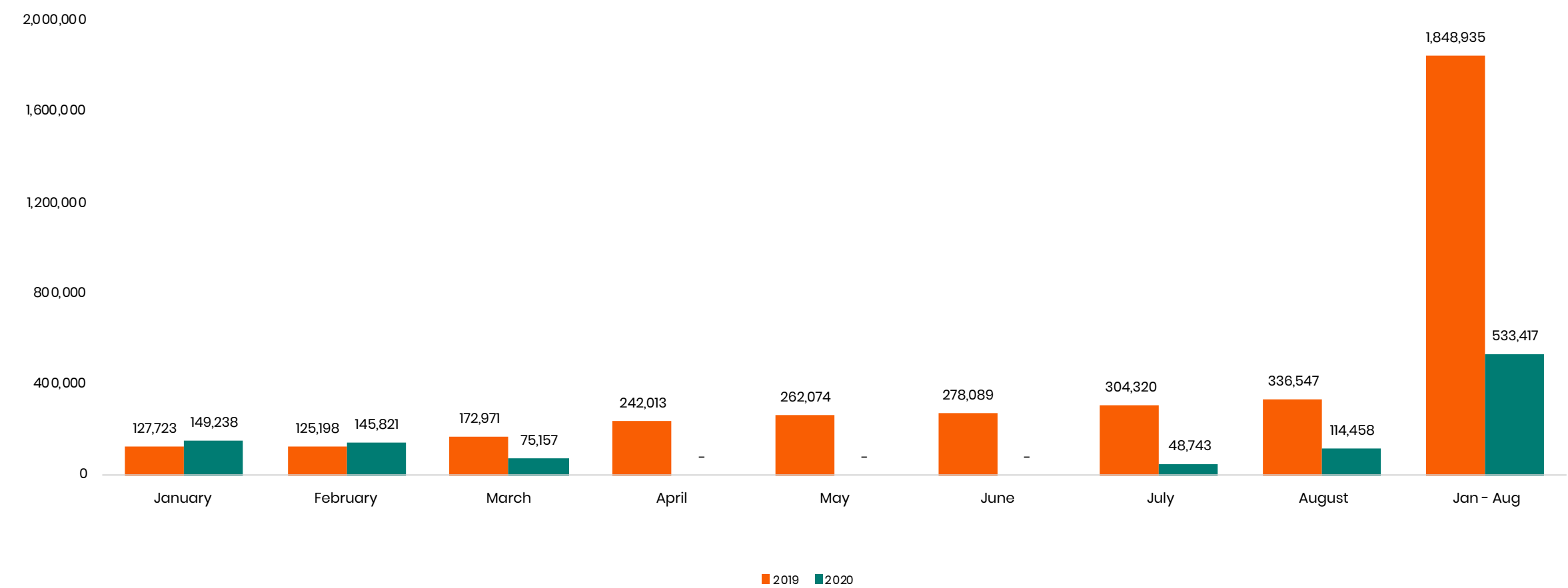
Tourist numbers

In the midst of worldwide travel bans and closure of both airports and seaports between April and June, coupled with the confusion that still reigns in the travel industry, tourist expenditure plummeted.

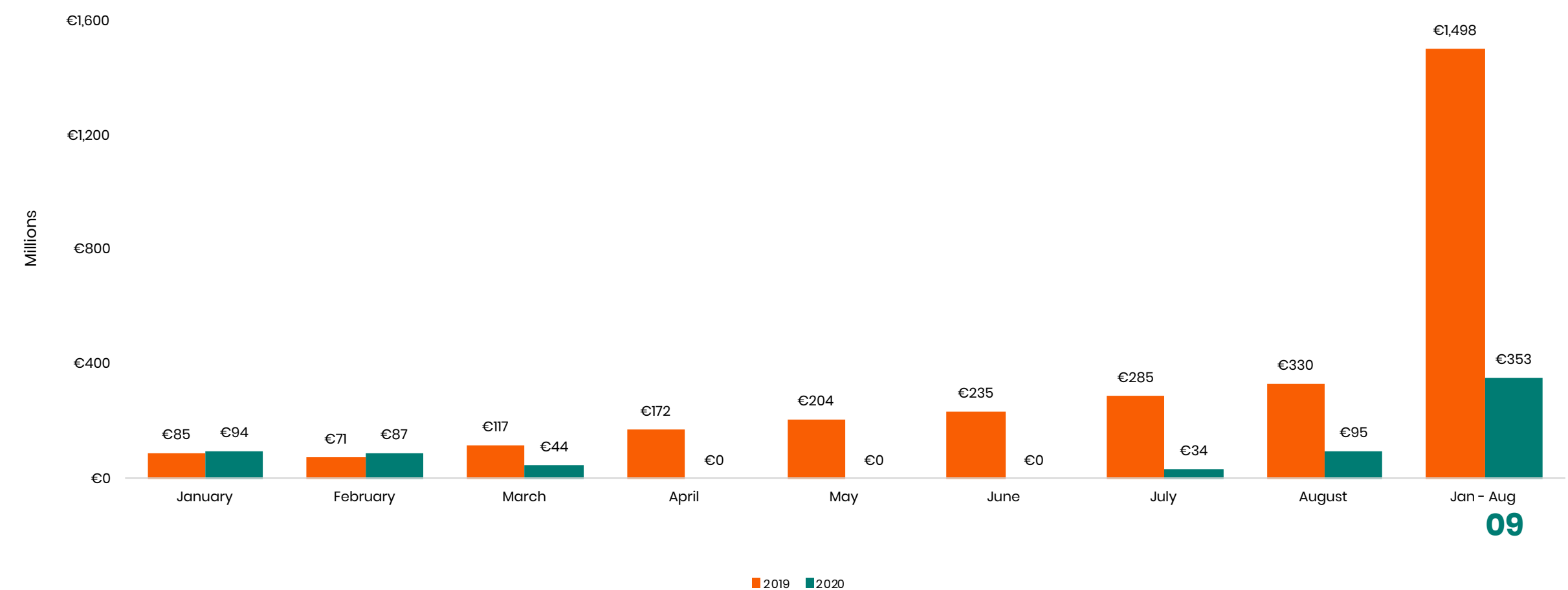
As a key pillar of the Maltese economy, receiving more than 2.8 million tourists in 2019 which directly contributed €2.2 billion towards the local economy, the tourism and hospitality industry have seen unparalleled drops from the very early days of this pandemic.

By the end of August, the number of tourist arrivals for the year fell by 71% or by more than 1.3 million when compared to the same period last year. As a result, tourist expenditure for the first eight months of 2020 amounted to roughly €353 million which is more than €1.1 billion short of that recorded in 2019.

Tourist arrivals



Tourist expenditure



Source: National Statistics Office

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Labour market

On the back of strong and sustained economic growth, the labour market pre-COVID was upbeat. Employment growth in 2019 stood at 5.8%, reflecting strong labour market conditions, driven by improved business prospects and an influx of foreign workers. The unemployment rate reached a historically new low at 3.5% in 2019, which was 3 percentage points lower than the EU average.

However, as COVID-19 continues to stifle economic activity and ravage human lives, labour market expectations going into Q4 2020 are bleak for most sectors. Despite signs of a buoyant labour market way into the first quarter of 2020, the unemployment rate in quarter 2 eventually increased to 4.5%. Notwithstanding,

government COVID measures, targeted specifically at protecting jobs, seem to have so far paid off. Expected losses in headcount employment for the first half of 2020 are rather mild, particularly in the distributive trade, transport, accommodation and food services, which were the worse hit.

Average basic salaries and operating profits, however, have not been left unscathed, as they appear to have absorbed the rest of the impact not cushioned by the reach of government support, in exchange for job security. As a result, average salaries and operating profits in the first half of 2020 fell, respectively, by 8.7% and 9.5% when compared to the same six months last year. Almost every sector reported lower average salaries, but the worst hit were those that had to rely exclusively on the COVID wage supplement, such as the accommodation sector, and those that had to cut down their operations to 4 or 3 day weeks, such as the manufacturing industry.

In line with the projected improvement in economic activity levels, the labour market is expected to rebound over the next two years.

Economic Context

Labour market (% change)	2019	2020	2021	2022
Total employment	5.8	-0.7	1.9	2.2
Unemployment rate (% of labour supply)	3.4	4.9	4.6	4.4

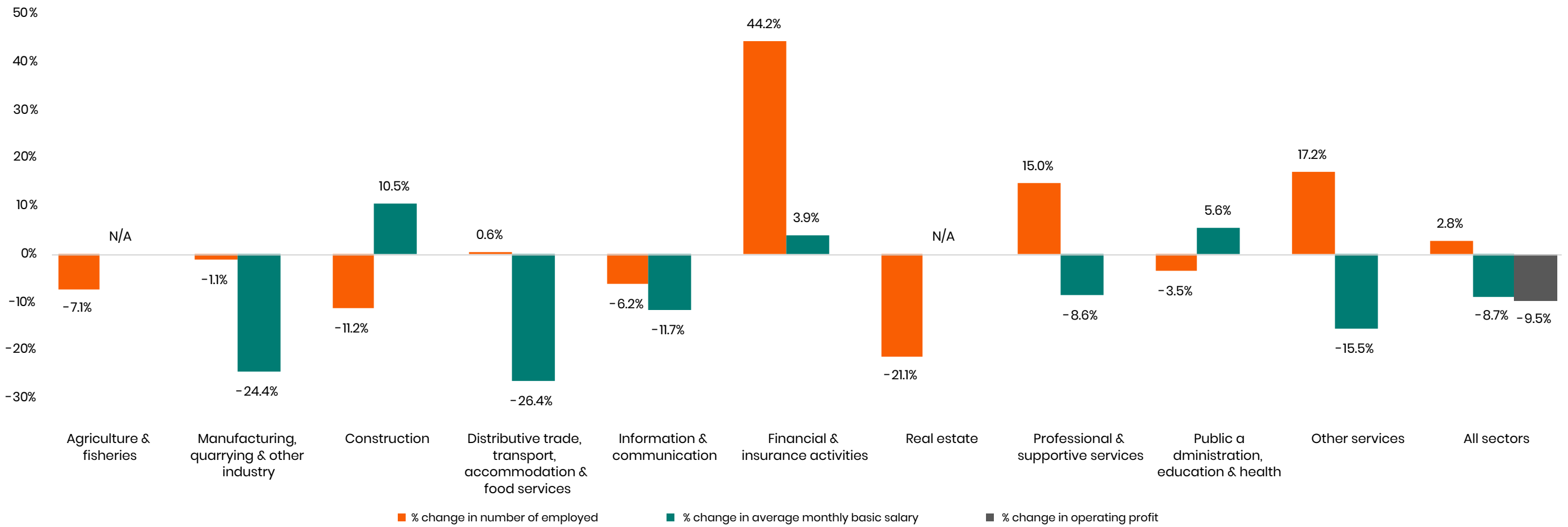
Source: Central Bank of Malta: Economic Projections 2020 Q3

Unemployment rate over time



Source: National Statistics Office, Labour Force Survey

Number of employed and average basic salaries by sector, and operating profits (% change)



H1 January - June 2020/2019



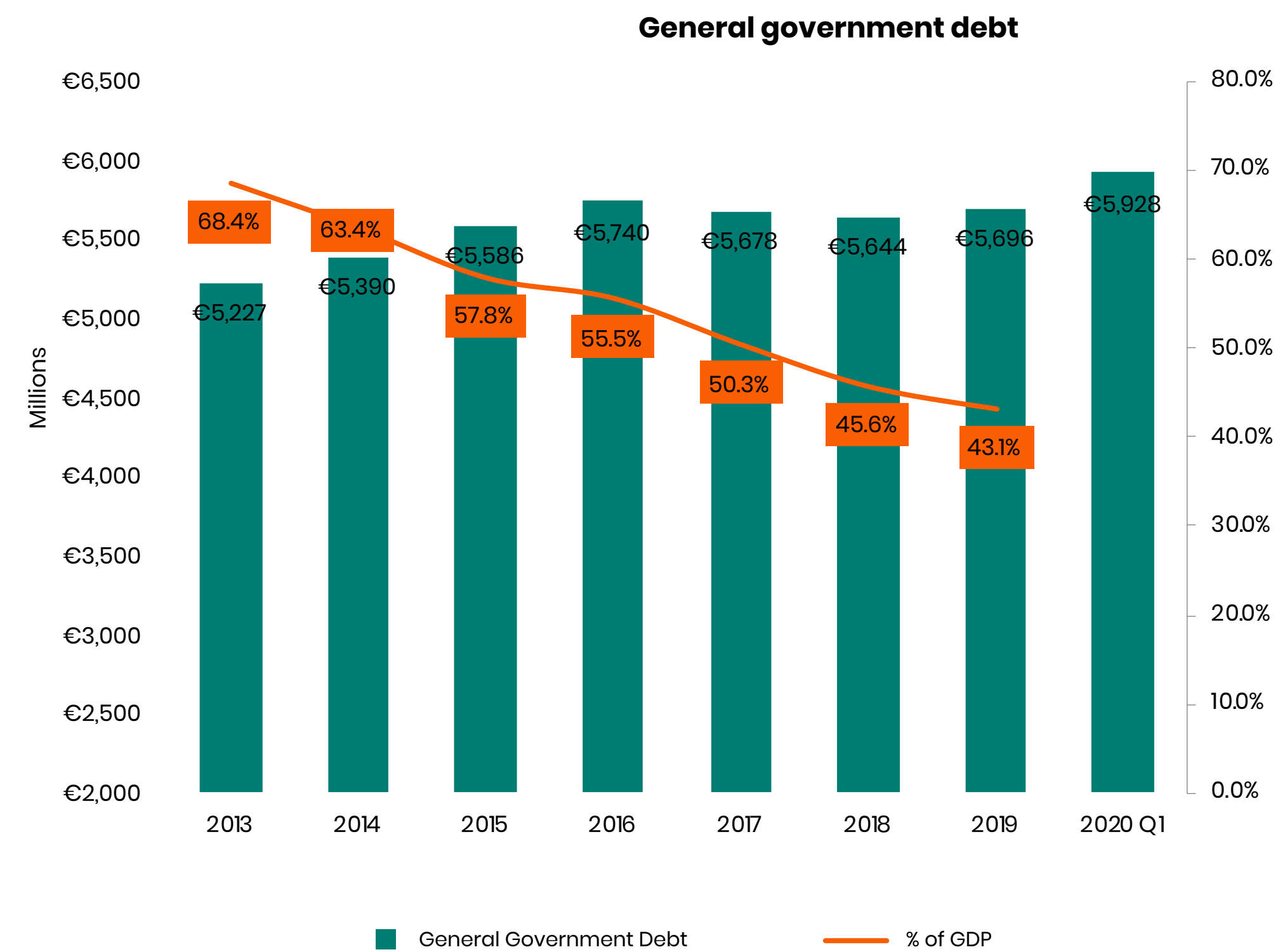
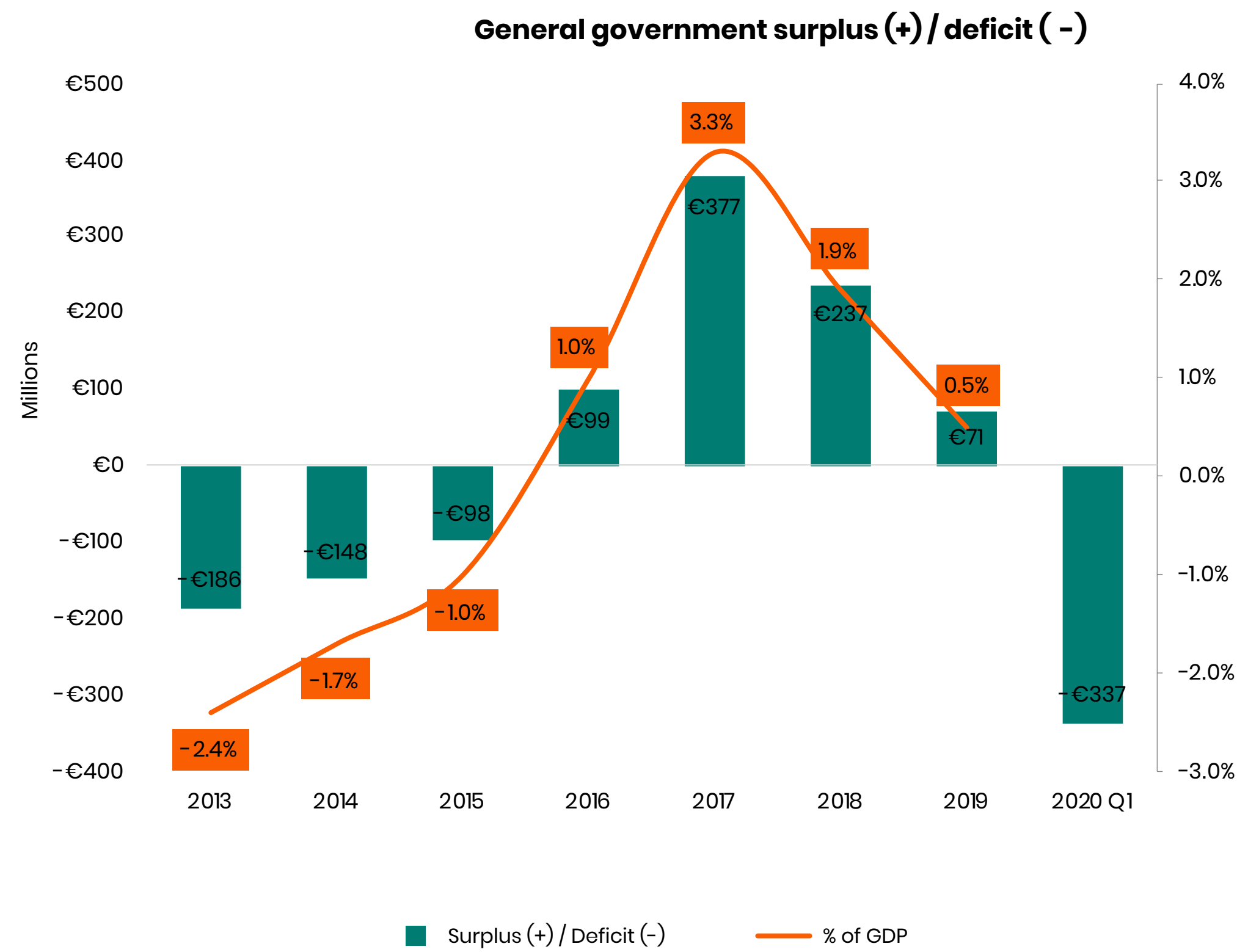
Public finance

Public finances are expected to deteriorate in 2020 due to the expected decline in economic activity and the introduction of COVID-19 related support measures. The government balance in the first quarter of this year is already in deficit by 337 million and projected to go up to an equivalent 8.6% of GDP by the end of year. The Central Bank of Malta expects this shortfall to narrow in 2021, and to stand at 3.5% of GDP by 2022. The government debt to GDP ratio is forecasted to rise from 43.1% in 2019 to 57.9% by 2022, remaining below the 60% threshold value of the Stability and Growth Pact.

Given the persistent uncertainty surrounding this pandemic, the Central Bank of Malta has also published a more severe scenario in which the current predicament drags for longer than expected. Under this scenario, GDP would fall by 9.3% this year, rebounding to 5.5% and 3.7% in 2021 and 2022, respectively. Government deficit would reach 11.3% in 2020 before narrowing to 5.4% over the next two years, while the debt to GDP ratio would rise to 66% by the end of 2022.

Economic Context

	Baseline			Severe		
	2020	2021	2022	2020	2021	2022
GDP	-6.6	6.1	4.2	-9.3	5.5	3.7
Unemployment rate	4.9	4.6	4.4	5.1	4.9	4.8
Fiscal						
General goverment balance (% of GDP)	-8.6	-3.5	-3.5	-11.3	-5.4	-5.4
General goverment debt (% of GDP)	56.0	56.1	57.9	60.7	62.8	66.0



Seed

Budgetary flows

Economic Context

INCOME

€5.20 Bn (+11%)



INCOME TAX

€ 1.79 bn



SOCIAL SECURITY

€ 1.09 bn



CUSTOMS & EXCISE DUTIES

€ 344 m



LICENSES, TAXES AND FINES

€ 381 m



VAT

€ 994 m



NON TAX REVENUE

€ 599 m

BORROWING
€ 1.26bn

SPEND

€5.95 Bn (+0.8%)



SOCIAL SPENDING AND PENSIONS

€ 1.92 bn



EDUCATION

€ 819 m



HEALTH

€ 824 m



PUBLIC DEBT SERVICING

€ 707 m



TRANSPORT AND INFRASTRUCTURE

€ 288 m



OTHERS

€ 1.39 bn

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COVID-19 Measures

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COVID-19 Measures

Wage supplement related to COVID-19 will be extended to end of March 2021 and will be tied to the reduction in the turnover of the company.

Extension of tax deferrals, moratorium, loan guarantees and interest rate subsidy till be extended will end of March 2021.

Vouchers of €100 will be distributed to all those persons aged 16 or more. The vouchers are split into two: €60 to be spent on accommodation, hotels and restaurants and €40 to be spent on retail.

The immovable property COVID-related measures will also be extended to 31 December 2021, these relate to the reduced rate of stamp duty of 1.5% on the first €400,000 and the reduced rate of tax from 8% to 5%, will remain in force until the 31 December 2021.

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Tax Measures

Property
VAT
Other

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Property

Extension of current schemes in relation to the acquisition and sale of immovable property.

- An extension of the reduction of stamp duty on the acquisition of immovable property for First Time Buyers, Second Time Buyers, acquisition of vacant properties within Urban Conservation Areas and acquisition of property in Gozo.
- In relation to acquisition of immovable property for First Time Buyers, as from tomorrow, the first €200,000 will be exempt from stamp duty (this has been increased from €175,000). A reduced rate of 3.5% is being introduced in relation to the acquisition of immovable property acquired for residential purposes, even if

this is not the first property being acquired for this purpose. This rate will also apply to the first €200,000 on inherited property being used for residential purposes.

Reduced tax rate on donated property

The tax-exempt amount on donations of property from parents to their children, for residential purposes, is being increased from €200,000 to €250,000. The additional amount will be taxed at a rate of 3.5%.

Tax on assignment of promise of sale

During 2021, the 15% rate on gains or profits from the assignment of rights on a promise of sale will be extended to the full amount of the said profits or gains.

VAT

The threshold for exemption from VAT will be increased from €20,000 to €30,000.

Other

- The reduced stamp duty rate of 1.5% on the transfer of a family business is being extended for another 12 months.
- Any royalties received, by an author or co-author, in relation to the publication of books, will be taxed at a reduced final tax of 15%.

- A tax refund, ranging between €45 and €95, will be given to individuals earning less than €60,000 per year.
- In relation to private pensions, the amount of financial investment on which there would be a tax exemption is being increased by €1,000, to €3,000.
- As from 2021, profits of all registered voluntary organisations whose annual income does not exceed €50,000 will be tax exempt.
- Increase in the amount of exempt pension income to €14,058.

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Environmental Measures

Waste Management
Renewable Energy

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Waste management

A Low Carbon Development Strategy and national action plan will be finalized by the end of 2020, focusing on clean energy, clean transport and more holistic means of waste management. Malta aims to become carbon neutral by 2050.

Throughout the coming year 'Green Bonds' will be launched by the Malta Stock Exchange to facilitate the financing of projects which promote renewable energy and clean air solutions, thus furthering the transition to a green economy.

- A waste management plan will be fully launched by the end of the year.
- Investment in the EcoHive complex will continue as launched.
- Start addressing separation of waste from commercial sector.
- Installation of infrastructure which is required for the collection and refunding of plastic bottles.
- Along with this infrastructure, there will also be an aim of reducing single-use plastics. As of the 1st of January 2021, there

will be a stop to the importation of single-use plastics. These same items will be banned from being sold in Malta as of 2022.

Seed



Renewable Energy

- Continuation of incentive schemes for renewable energy such as installation of solar panels, heat pump water heaters, solar water heaters and batteries to store renewable energy.
- Extension of various schemes for the restoration of residential wells, change in appliances for vulnerable families and purchase of reverse osmosis appliances.
- Installation of a mixture of 130 “medium-fast” and “fast-charging pillars” for electrical vehicles to be used by the public.
- Implementation of a government study in 2021 for the conversion of Public service vehicles using fossil fuel to electric vehicles.
- Increased investment in research and innovation in energy and water.

Environmental Measures

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Social Measures

Work related
Family
Pensions & the Elderly
Health & Disabilities

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Work related

- The cost of living allowance will increase by €1.75 per week. This increase will be given to all employees, pensioners and those persons availing of social security benefits. Students' stipends will also increase pro rata.
- Leave entitlement will increase by a day to 28 days per year.

Family

- Children's Allowance will increase by €70 per child per year for those families whose income does not exceed €25,318. For all other families, the increase will be of €50.
- In Work Benefits threshold will increase to €35,000 for couples where both persons work, €23,000 for single parents and €26,000 for couples where one person works.
- Increase of €520 in the Foster Care Allowance.

- A maximum allowance of €1,000 will be given to couples who adopt a child locally.
- Status of widow or widower will be given to those persons in cohabitation or in a civil union who lose their partner.

Seed



Pensions & the Elderly

- Pensioners will receive an additional €5 per week, inclusive of the COLA, resulting in an annual increase of €260.
- Couples who receive a pension and opt for a joint tax computation will have an additional €3,600 of income tax free.
- The rates for Supplementary Assistance will be increased to a maximum of €70 to €108 and a supplement of €150 will be paid to all persons over 65 years who qualify for Supplementary Assistance.
- Increased number of beds in public hospitals.

- Opening of more centres for activities for the elderly throughout the day as well as throughout the night, focused primarily on elderly with special conditions such as disability and dementia.
- Improvement of Home Help service and Telecare as well as having an extension of service of Silver T and phlebotomy.
- Persons who paid social security contributions before the age of 19 may become eligible for a pension if they reach the contributions threshold when taking into account what was paid before they were 19 years old.

Social Measures

- Carer at Home benefit will increase by €700 to €6,000 per year and the eligibility criteria to qualify as a Carer at Home will be broadened to allow more persons to benefit.
- Government Savings Bonds for pensioners are being issued once again.
- Free 'Tal-linja' cards for individuals above the age of 70 – this has been reduced from the age of 75.

Seed



Health & Disabilities

- Barthel Index parameters will increase from 8% to 9% and will also include intellectual disabilities so that more persons can benefit for the severe disability allowance.
- Parents who leave work to take care of a disabled child over the age of 16 who are entitled to receive the severe disability allowance will receive a Carer's allowance of €300 per year.
- Continuation of provision of free medicines for chronic diseases.
- Increased investment on the treatment of osteoporosis.
- Introduction of new psychiatric medicines as well as additional care services for mental health in the community.

Social Measures

- Opening of San Mikiel Centre for the provision of professional palliative care for cancer patients.
- Extension of programme for Remote Patient Monitoring to cater for higher number of patients with chronic illness.
- Introduction of new systems of Clinic Management Systems and Telemedicine Client Support Centre, to facilitate doctor-patient communication virtually.
- Increased investment in educational measures to increase awareness on sexual health.
- Investment targeted towards businesses to increase awareness of overall health such as eating disorders and childhood obesity.



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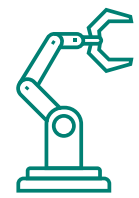
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Industrial transformation

A new scheme will be launched by Malta Enterprise to support innovative investments undertaken by companies that employ less than 50 employees. The scheme will be open for one year and each company can benefit from a 50% grant on its investment not exceeding €200,000. Collaboration with local or foreign industries will increase this aid by €35,000.



Foreign investment

Malta Enterprise will continue supporting and issuing new schemes to support investments. It is expected that schemes like Micro Invest, Business Development and Continuity Scheme, R&D Feasibility Study Schemes and Business Start will be continued.

Seed



Start-ups

A framework for start-ups will be launched including the setting up of a Venture Capital Fund.

Other Measures



System for mass transportation

A second-phase of detailed studies including geotechnical and a utility needs assessment will be launched next year following which a decision will be taken.

Seed



Education

- One year free internet for every student that continues their post secondary studies.
- Introduction of online sessions targeted towards parents to improve their children's education.
- Introduction of accredited courses for all adults and workers to increase their skills for career advancement.
- Investment towards increasing reach for the Reading Recovery programme to more students.
- Further investment towards Autism units in secondary and middle schools.
- Implementation of pilot project to have students carry out their SEC exams in the school they currently attend.

Other Measures

Seed

Gozo

- Focus to diversify Gozo's economy and reduce dependence on public sector with a focus on developing Gozo as a research and innovation centre whilst focusing on environmental sustainability.
- Focus on supporting and incentivising agricultural development in Malta.
- Extension of Gozo-specific schemes such as Employment Refund Scheme, Teleworking Scheme, MICE events.

Other Measures

- Additional support is to be given for back office work as well as companies operating in the innovation, digital and technology sectors.
- AI and IoT-based project for smart parking to be introduced in Gozo.
- Continuation of works on the indoor pool and other sports facilities including the horse racing track.
- A revision of the diving master plan will be undertaken together with the investment in an underwater cultural museum.
- A pilot project on renewable energy generation from organic and farm waste will be launched.
- The fast-ferry service will be launched.
- The 4th Gozo Channel vessel will become permanent.
- Work on the tunnel will also continue as the preferred bidder will be selected.

Tourism

- A new strategy will be developed and launched that will focus on tourism in a post-COVID world which will focus on the regeneration of the industry till the year 2030.
- Focus on making the tourism industry a net zero carbon neutral sector.
- Various schemes will be introduced to facilitate the digital transformation in the tourism sector.
- Support given to event organisers to bring various large-scale events to Malta, especially in shoulder months.
- A Design Contest will be launched next year to develop a holistic plan on the regeneration of various tourism zones.
- The concept of safe city, with a focus on Paceville, will be launched.



Seed



Infrastructure

- **Road infrastructure**

The Government will continue rolling out its investment programme in road infrastructure.

A Safe Cycles Route Project will also be launched.

- **Maritime infrastructure**

Further investments in quay and facilities for ferries will be launched in Sliema, Bormla, Ta Xbiex, Birgu and Bugibba.

Finalisation of plans to launch the Grand Harbour Clean Air Project so that cruise liners can utilise from shore side electricity.

- **Industrial infrastructure**

Launch of a €450 million investment programme in improving the industrial infrastructure of the Maltese island sin particular industrial parks and estates including a new Life Sciences Park, a new SME park in Marsa and a logistics hub.

Other Measures

Works on the Lima taxiway will commence to upgrade Malta's aviation infrastructure.

- **Health infrastructure**

Works will commence on a new outpatients block including parking area at Mater Dei; refurbishment of Mount Carmel Hospital, a new Regional Health Centre and a refurbishment of the health centres around Malta and Gozo.

Through EU Funds a new specialised blood bank will be built which will introduce new services including stem cells.

A new acute psychiatric hospital will be built.

- **Sports infrastructure**

A €11 million investment in sports infrastructure to prepare Malta host the Small Nations Competition. This will include an indoor rowing tank in Cottonera and an Outdoor Velodrome in Pembroke.

Improving Governance

- Establishment of a Cabinet Committee for Governance to ensure Malta's conformance with recommendations made by Venice Commission, GRECO and Moneyval.
- Increased investment in digital infrastructure, additional offices for the Agency of Court Services to offer a more efficient service to all citizens.
- Investment in Asset Recovery Bureau through improvements in technological infrastructure for asset tracing and preservation of confiscated assets.
- Modernisation of Office of the Notary of the Government and main government archives.

Disciplinary Forces

- More investment targeted towards having a larger police presence in local communities, especially in higher risk localities.
- Continued investment in disciplinary forces including the police force, army and correctional services.

Equality and Reform

- Further investment towards incentivising work-life balance, especially for males.
- Implementation of Strategy for Equality between sexes as well as introduction of first National Plan against Racism and Xenophobia.

Citizenship

- More rigorous criteria to be implemented for Residency and Citizenship programmes.

International Collaboration

- Search for opportunities for new embassies in Ethiopia and Latin American countries.

Candidacy for UN Security Council

- Malta presented its candidacy for a seat in the Security Council of the UN for a term of two years between 2023 and 2024.