

Malta's National Reform Programme 2023

Ministry For Finance and Employment

March 2023



Macroeconomic developments and policy response

Macroeconomic Context

The Maltese economy sustained its strong growth performance throughout 2022, as the economy grew by 6.9% in real terms.



Labour market developments remained buoyant, with the unemployment rate decreasing to a historic low of 3.0%.



The tight labour market and improving real household disposable income should be supportive of domestic demand conditions, yet tighter financial conditions and strong base effects from 2022 may be headwinds for investment



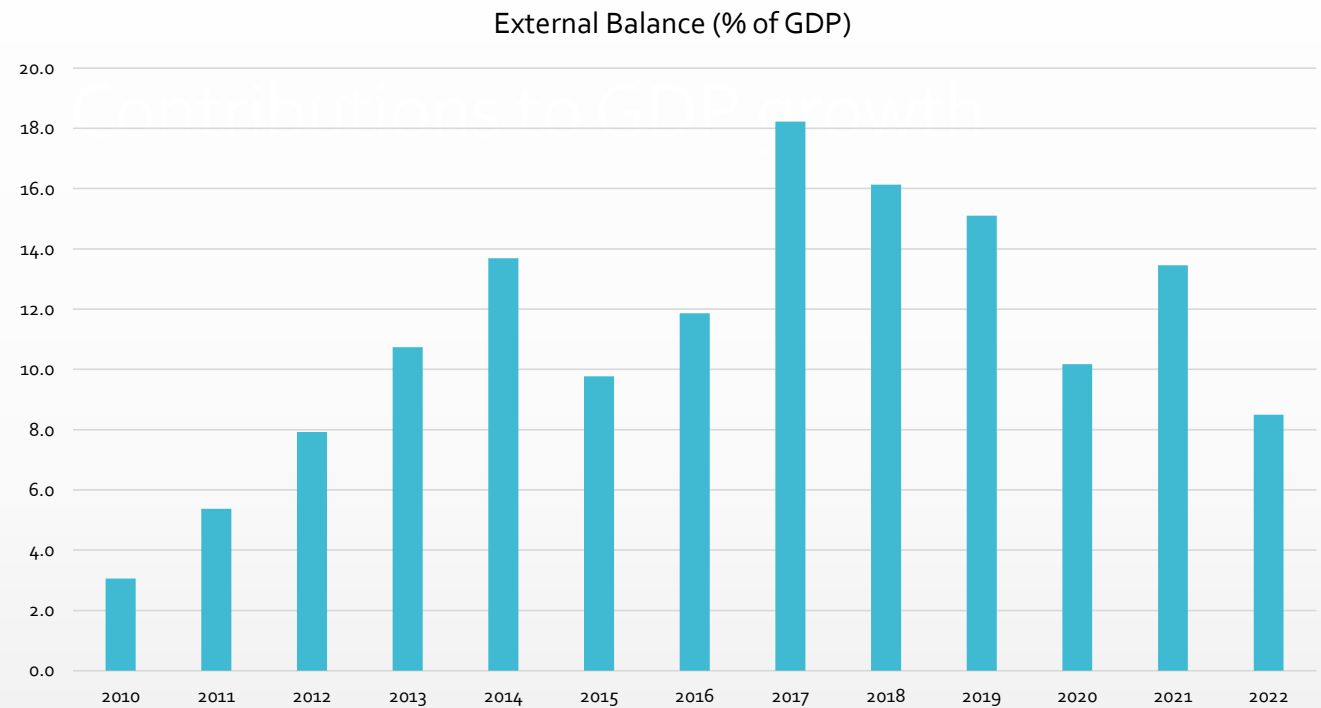
Economic growth is expected to decelerate in 2023, as higher world prices and tightening global liquidity conditions are expected to produce a challenging external environment.

Contributions to GDP Growth



- Domestic Demand was the primary contributor to growth in 2022, supported by strong growth in consumption, investment, and to a lesser extent, Government consumption.

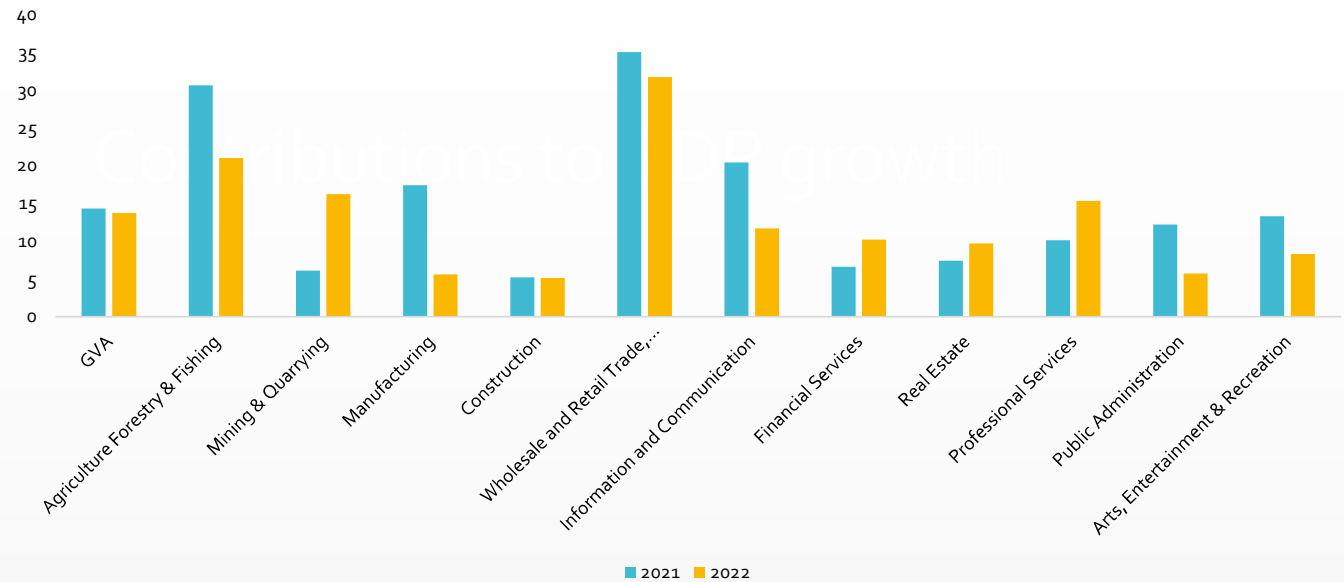
External Balance as a % of GDP



In 2022, the external balance of goods and services as a share of GDP dropped to 8.5% from 13.5% in 2021, driven by international supply disruptions and extraordinary imports of capital goods.

Annual Performance of key sectors in 2022

GVA growth by sector



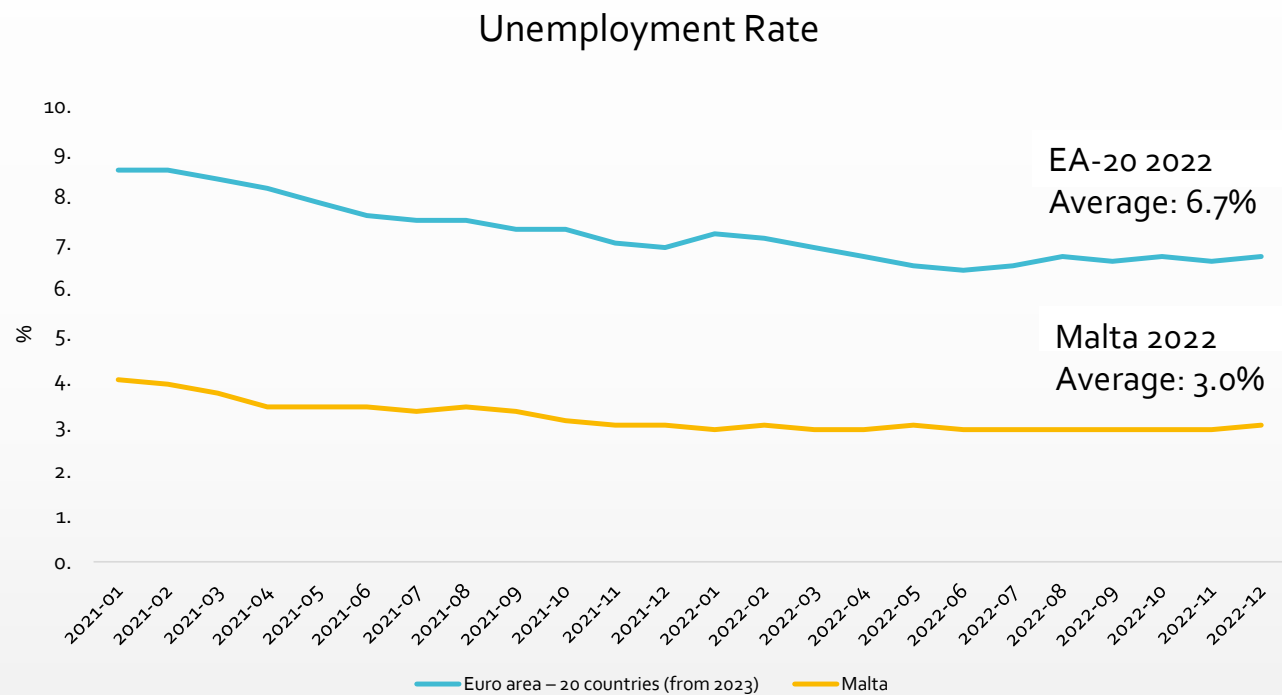
- GVA grew by 13.7% during 2022.
- Growth was broad based with the highest growth was recorded in the wholesale and retail trade sector (31.7%), followed by the agriculture, forestry and fishing sector (21.0%), the manufacturing sector (16.2%), the professional services sector (15.3%) and the information and communication sector (11.7%).
- The financial services sector, the real estate sector, and the arts, entertainment and recreation sector, also recorded strong growth at 10.2%, 9.7% and 8.3%, respectively.

Income Approach

Growth in the main components (%)	2021	2022
Total compensation of employees	7.8	9.4
Gross operating surplus and mixed income	19.1	16.2
Taxes less subsidies on production and imports	23.7	5.8

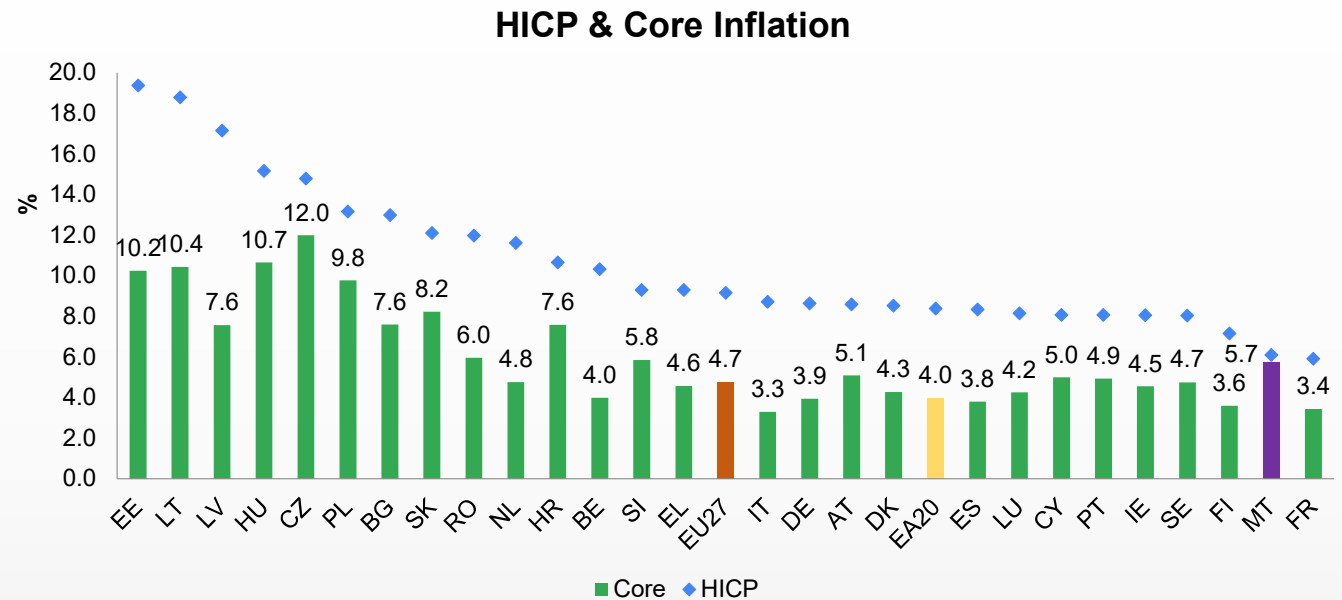
- Growth in corporate profits continued to outpace growth in compensation of employees, as businesses benefitted from the robust demand and raised selling prices over and above the rising production costs

Labour Market Developments



- The labour market remains tight, employment growth remains robust, and the unemployment rate fell to record lows

Inflation Developments



- Malta has one of the lowest inflation rates in Europe, supported by Government's intervention in the energy markets and also by contained wage pressures.
- However, core inflation is notably higher than in other member states, driven primarily by housing services and recreational services, which reflect the strong domestic demand.

Distributional Impact of two 2023 Budget Measures

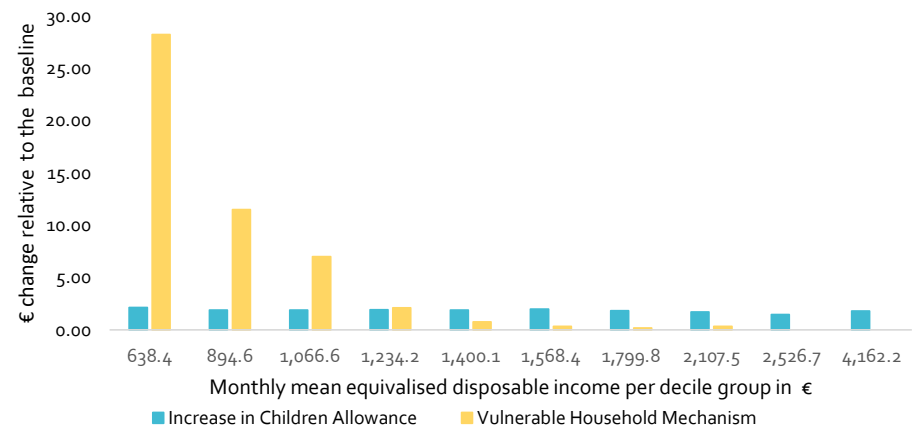
- Using EUROMOD, the distributional impact of the €90 increase per child in the Children Allowance and the Additional COLA Mechanism was analysed.

Impact on at-risk-of-poverty (AROP) rate and Income Inequality

	Increase in the Children's Allowance	Vulnerable Household Mechanism
AROP rate by Cohort:		
Population	-0.03pp	-0.58pp
Children	-0.11pp	-0.74pp
Working Age	-0.01pp	-0.43pp
Working Age Economically Active	-0.01pp	-0.32pp
Elderly	-0.02pp	-0.99pp
Income Inequality - Gini Coefficient	-0.0004	-0.0030

Source: EPD Workings

Distributional Impact of the Policy Measures - based on Equalised Disposable Income





Addressing Country Specific Challenges

Environment

Productivity

Macroeconomic Stability

Fairness

Governance and Tax System

Five dimensions



Environment

Key Policy Response



Additional Measures: The Green Transition

Energy Efficiency

- Sustain Energy and Water Efficiency within Voluntary Organisations scheme
- Upgrade of primary water network

Alternative Sources of Energy

- PV panels schemes (for households, NGOs and Government buildings)
- Feed-in-tariff schemes
- Support schemes for medium- and large- scale renewable energy installations
- Hydrogen Ready Pipeline

Sustainable Transport and Waste Management

Sustainable Transport

- Updating of the National Transport Model and extension of the time horizon of the Transport Master Plan to be consistent with the national GHG emission reduction targets
- Developing an Integrated Intelligent Transport System (ITS)
- Incentivising the uptake of EVs in the private sector through financial grants and further deployment of EV charging pillars

Waste Management

- An invitation to tender has been sent to the first five short-listed operators for the completion of the Waste to Energy plant
- Cost Benefit analysis and feasibility study to the Material Recovery Facility nearing completion
- Implementation of the Beverage Contained Refund Scheme
- Thermal Treatment Facility
- An advanced Multi-Material Recovery Facility and storage facility
- Encouraging Sustainable Waste Practices in Households and Beyond Project: encouraging waste separation at sources as well as extensive education campaign



Productivity

Key Policy Response



Other measures (1)

Area	Measure and description
Digital Transition	(European) Digital Innovation Hub (EDIH);
	Digit-X and Connected eGovernment (CONvErGE) projects
Research and innovation	Smart Specialisation Strategy for the period 2021-2027;
	National R&I Strategic Plan for the period 2023-2027;
	Extended participation in Horizon Europe programme for the period 2021-2027.
Promotion of private investment	MDB's SME Invest Scheme;
	MDB's SME Guarantee Scheme (SGS);
	MDB's Guaranteed Co-Lending Scheme (GCLS)
Tourism	Digital Tourism Roadmap: Officially launched in April 2022
	Supporting Marketing Initiatives for the Accommodation Sector in Gozo.
Enterprise	Tech.mt: continual support towards local businesses in their innovative tech solutions.
	Digitisation reform of the Malta Business Registry (MBR).



Macroeconomic Stability

Key Policy Response

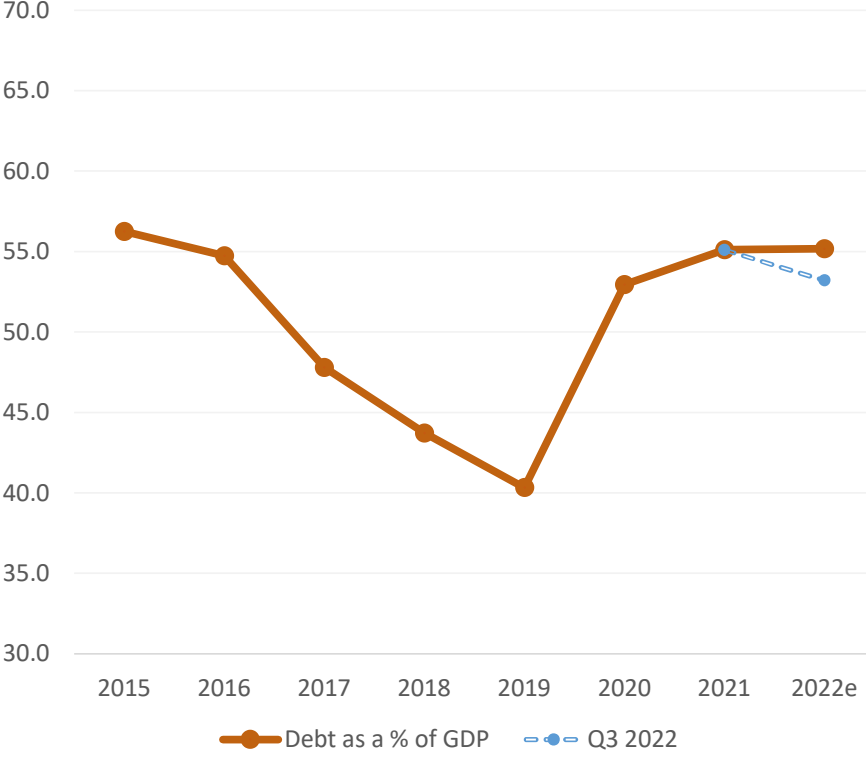
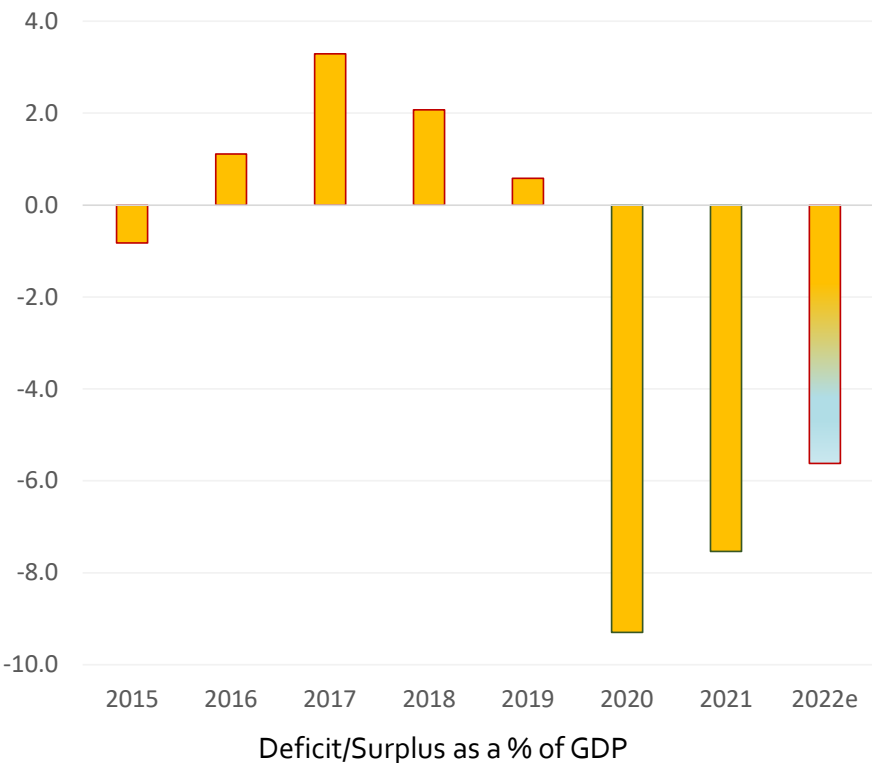


Government's response to conflict in Ukraine

Intervention to shield households from the increases in the international price of oil which affects both the cost of **energy** as well as **fuel** for transportations purposes.

Intervention to ensure stability in the price of **cereals** (including wheat) as well as **security of supply**.

State of Public Finances



Other Social Protection Measures

- Increased contributory and non-contributory pensions
- Increased the Carers Grant and Carer at Home Scheme
- Increased Tapering of Benefits payment by 10%.
- Introduced Additional COLA Mechanism
- Increased Children Allowance by €90 per child per year
- Extension of the Equity Sharing Scheme and New Hope Guarantee Scheme



Fairness

Key Policy Response



*Addressing training
outcomes, quality
and access*

- Established a National Skills Council to address skills gaps ;
- The implementation of the Strategy entitled 'Early Leaving from Education and Training (ELET) – The Way Forward 2020-2030' launched in 2021;
- Extension of Wage Supplement Scheme for worst-hit companies (May 2022);
- Gender Corrective Mechanism;
- Gender Equality and Mainstreaming Strategy and Action Plan (GEMSAP) for the period 2022-2027;
- NCPE's Equal Pay Tool (EPT);

Governance and Tax System

Key Policy Response

Rule of Law, Money Laundering and Aggressive Tax Planning

- Training in AML/CFT/TFS
- Study related to inbound and outbound dividend, interest, and royalty payments
- Investments in the digitalization of the Justice system
- Updating of the National Risk Assessment (NRA)
- Launch of FIAU four-year strategy
- Prudential supervision audits carried out at the MGA
- Limitations to the participation exemption regarding certain inbound payments
- In 2024 Malta intends to introduce transfer pricing legislation
- Revised Corporate tax return for transparency reasons
- Focus on scrutiny on taxpayers that emanate from non-cooperative jurisdictions in terms of the Code of conduct group

Sustainable Development Goals

Progress towards United Nations Sustainable
Development Goals (SDGs)

*Progress towards
United Nations
Sustainable
Development Goals
(SDGs)*

- Budget measures are aligned with the SDGs.
- The Government is incorporating SDG principles in its operations
- A genuine effort is made to quantify their contribution to the 2030 Agenda targets.
- Government has recently Launched Malta's Sustainable Development Strategy for 2050 for public consultation
 - Aims to mainstream actions across all workings of Government
- National Reform Programme provides an overview of progress towards the SDGs, covering forward-looking measures



Thank you