Malta:

Draft Budgetary Plan

2014

Ministry for Finance
October 2013

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.

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1. Overall Policy Framework and Objectives

1. Overall Policy Framework and Objectives

The Maltese economy has proved to be resilient and fundamentally sound in the midst of major international economic and financial shocks. The fact that the banking sector was left unscathed during one of the most severe international financial crisis indeed contributed to this stability. An increasingly diversified economy with a healthy balance between manufacturing and several services sectors also helped in this regard. The 2009 recession was therefore short lived and while economic growth remained sluggish and anemic up till now, the growth rate did not fall into negative territory. In the meantime employment also held up its pace.

And yet, the political and electoral uncertainty during 2012 led to substantial weakening of domestic demand which in turn led to a deterioration of the public finances. As a result, Malta exceeded its deficit targets for that year.

The Government believes that the expected recovery in domestic demand following the election of a new government, together with stricter control on projected expenditures would help Malta to reach a deficit target of 2.7 per cent of GDP in 2013 and continue to reduce it further in subsequent years. Indeed the Government is aiming towards a balanced budget position in the medium term.

The Economic Partnership Programme presented by the Government of Malta on 1st October 2013 clearly delineates a two-pronged strategy based on structural economic reforms leading to greater investment and economic growth whilst placing revenues and expenditures on a sustainable path.

1.1 Major Structural Reforms: Addressing Malta's CSRs

The Government's economic and fiscal strategy rests on a number of key policy planks, which while vital for the development of the economy, are primarily meant to address the weak factors as laid out in the country's CSRs by implementing their respective recommendations:

1. Ensuring public finance sustainability in the short to medium term, while also addressing the long term;
2. Raising potential output, in particular through the increasing of the labour force participation, especially of women, raising skill and education levels, promoting lifelong learning, and increasing productive capital investment;
3. Enhancing the competitiveness and transparency of the products and services markets whilst strengthening consumer protection, including a holistic justice reform;
4. Effectively reduce bureaucracy especially significantly reduce the length of public procurement process, and ensuring that the public service is efficient and cost-effective:
5. Safeguarding the successes achieved by the Maltese financial sector as based on sound regulation and ensuring it continues to follow rigorous practices;
6. Prioritising the promotion of a diversified and balanced economy, with renewed importance given to the maritime sector.

These reforms together with others including those addressing the energy sector, are presented in more detail in Table 6.a in Appendix and in the Economic Partnership Programme submitted to the European Commission and the ECOFIN Council earlier this month.

1.2 Budgetary Targets

This Draft Budgetary Plan presents the budgetary measures aimed at reaching Malta's fiscal targets in 2014. In particular the Government aims to continue reducing the deficit to 2.1 per cent of GDP, in line with the targets presented in the April's Budget Speech 2013 and earlier in the Stability Programme. Government is also committed to stabilise the debt ratio in 2014. In addition a structural effort of around 0.5 per cent of GDP in 2014 is being targeted, within the context of an economy which is still recovering from a negative output gap. In order to achieve these targets a number of permanent discretionary tax measures are contemplated in this Draft Budget Plan aimed at ensuring that the correction in the deficit achieved in 2013 is permanent.

The fiscal consolidation effort is supported from both revenue and expenditure. Any expansionary measures are neutralized or counterbalanced by other contractionary ones.

The main fiscal consolidation measures for 2014 include the 2006 pension reform initiatives, through additional revenue and expenditure savings, a number of indirect tax measures to be announced in the budget, a measure introducing a non-domestically paid fee for a new service, and measures which restrict recruitment in the public sector. In addition the equity injection in Air Malta will be almost two-thirds less than this year. The expansionary measures are aimed mainly to spur growth and employment. Other measures are aimed at distribution of income towards the most needed households in the Maltese society.

These measures will be sustained by stronger drives against tax avoidance and tax evasion, and the control of public expenditure through an ongoing Spending Review aimed at identifying efficiency gains in public expenditure and controlling the rise in its discretionary elements.

1.3 Endorsement of the Macroeconomic Projections

The fiscal projections have been carried out on the basis of macroeconomic projections prepared in June 2013. When compared to similar projections carried out by independent institutions such as the European Commission, the Central Bank of Malta, the International Monetary Fund and a number of rating agencies, the government's forecasted figures are generally more conservative.

In the absence of a fiscal council, the macroeconomic projections have been submitted for the scrutiny of the National Audit Office (NAO), an independent institution established by the Constitution of Malta. The National Audit Office Report was submitted in September. It concluded that the methodology employed by the Economic Policy Department within the Ministry for Finance was sound, and the assumptions plausible. Growth forecasts were deemed to be prudent. However the National audit Office identified some risks to the composition of growth in view of the more recent release of national accounts data where domestic demand is taking longer to recuperate though over-all growth was not affected.

2. Economic Outlook

2. Economic Outlook

2.1 The Short-Term Scenario

In the first half of 2013 the Maltese economy continued to grow at an average rate of 1.8 percent despite weaker than expected developments in the Euro Area. Furthermore employment continued to grow at a substantial rate of 3.6 per cent in the second half of 2013. The world economy which continues to suffer from the fallout of the financial and the sovereign debt crisis has not been able to revive the growth conditions of the preceding decade.

During the first half of the year, GVA at basic prices increased by 5.5 per cent compared with a 1.6 per cent in the same period of 2012. Growth in GVA at basic prices is attributable to increases registered in all sectors of the economy with the exception of the construction activities sector. Significant increases were recorded in the financial and insurance activities sector, in the information and communication sector, in the professional, scientific and technical activities sector, in the public sector, in the manufacturing sector, and in the mining and quarrying, electricity, gas, steam and air conditioning supply, water supply, sewerage, waste management and remediation activities sector, the latter is largely the result of a base effect over the same preceding period.

From the income side, the growth in GDP was mainly driven by the growth in compensation of employees and gross operating surplus and mixed incomes as they grew by 5.4 per cent and by 5.8 per cent, respectively. On the other hand, the taxes on production and imports over the first half of the year decreased by 8.7 per cent

Main Macroeconomic Indicators

Table 2.1

	2010	2011	2012	2013(1)	2014
GDP growth at current market prices (%)	7.1	3.9	3.1	3.7	3.8
GDP growth at constant (2000) prices (%)	4.0	1.6	0.8	1.2	1.7
Expenditure Components of GDP at constant (2000) prices (% change)					
Private final consumption expenditure(2)	2.4	4.2	1.6	1.2	1.3
General government final consumption expenditure	4.9	4.8	7.0	-0.4	1.3
Gross fixed capital formation	12.0	-10.9	0.7	0.7	3.5
Exports of goods and services	21.5	11.4	6.2	1.9	1.9
Imports of goods and services	18.1	7.2	4.5	1.5	1.8
Contribution to GDP growth:					
Domestic Demand	4.6	1.6	2.5	0.8	1.4
Inventories	0.1	-1.6	-1.3	0.0	0.0
Net Exports	2.4	3.9	1.8	0.4	0.2
Inflation rate (%)	2.0	2.5	3.2	1.7	2.3
Employment growth (%)	1.8	2.6	2.4	1.8	1.8
Unemployment rate (%)	7.0	6.6	6.5	6.3	6.3

(1) Forecasts from 2013 onwards

(2) Includes NPISH final consumption expenditure

while the subsidies on production and imports increased by 0.5 per cent. It is noteworthy that compensation of employees and gross operating surplus and mixed incomes both contributed 2.5 percentage points. On the other hand, taxes on production and imports contributed negatively by 1.2 percentage points while the contribution from subsidies on production and imports were negligible.

In 2013, the Maltese economy is expected to keep its growth momentum, rising by 1.2 per cent in real terms[1]. Growth is expected to be underpinned by positive developments in both the domestic and the external sectors of the economy. Private consumption is expected to increase by 1.2 per cent supported by strong employment, return of consumer confidence and moderate appreciation of wages. Government expenditure is expected to decrease by 0.4 per cent during 2013, reflecting efforts to consolidate public finances. Gross fixed capital formation is forecasted to increase marginally by 0.7 per cent. The positive development in net exports is expected to persist during 2013 with both exports and imports expected to register positive growth rates[2]. In 2013, exports are expected to increase by 1.9 per cent while imports are expected to grow by 1.5 per cent in real terms. In 2014 growth is expected to increase to 1.7 per cent supported by a stronger domestic demand component.

Table 2.1 presents the main macroeconomic indicators for the years 2010-2014. The figures for the 2010-2012 period and the January-June figures for 2013 have been published by the NSO, whilst annual figures for 2013 and 2014 are forecasts underlying the budgetary projections.

2.1.1 Assumptions for Projections

The macroeconomic forecasts presented in this Stability report are based on the following assumptions:

- Economic activity in Malta's main trading partners is expected to increase by 0.3 per cent in 2013 followed by a positive growth rate of 1.4 per cent in 2014.

- Oil prices are assumed to remain relatively stable for 2013 at an average of US$106.9 per barrel and to decrease marginally to US$105.4 per barrel in 2014.

- Both short-term and long-term interest rates are assumed to remain broadly stable during the forecast period. The real effective exchange rate is also assumed to remain broadly constant for the remaining forecast period.

- Government employment follows a downward trajectory as Government restricts recruitment in non-essential categories.

- Changes in inventory are assumed not to contribute materially to GDP growth.

2.1.2 Risks to Outlook

The medium-term outlook for the global economy is one of steady growth. Nevertheless, there are a number of factors that could restrain growth prospects.

The independent report presented by the National Audit Office about the assessment of the macroeconomic forecasts on the Maltese economy presented by the Ministry for Finance presents both downside and upside risks to economic growth. Among the most immediate downside risks is the possibility that the recovery in domestic demand will not take place whilst export recovery may also be weaker due to the degree of uncertainty in the global economy at this current juncture. Furthermore, there is also the possibility of heightened geopolitical uncertainty that could trigger a sharp increase in the price of oil. On the other hand, there are also upside risks which can bolster economic growth such as a stronger recovery in private investment through the capital projects in the energy sector and a stronger performance in private consumption assuming the reduction in households' energy tariffs. Moreover, greater confidence stemming from successful policy measures and waning supply-side disruptions, if the risk premium in oil prices dissipates, could foster a more forceful rebound in investment whilst a weaker euro exchange rate against the US Dollar and the UK Sterling would also make Maltese exports more competitive and boost external demand for Maltese output. Furthermore, stronger than expected growth in Malta's main trading partners will result in positive export prospects and thus translate to economic growth. Overall the risks surrounding the forecasts remain significant and are broadly balanced.

2.1.3 Employment Prospects

The labour force survey recorded an employment growth rate of 3.6 per cent in the second quarter of 2013, higher than the average growth of 2.4 per cent in 2012. Employment is expected to continue to grow at 1.8 per cent in 2013 and 2014. This is expected to support a higher female employment rate, partly reflecting increased efforts from Government to increase female participation, and an increase in employment flexibility.

Growth in output is expected to be supported by the emerging growth sectors with the possibility of gaining market shares in industries such as pharmaceuticals, aircraft maintenance, information and communication and the financial and related business services. These sectors will increasingly offset the decline of more traditional sectors of the Maltese economy and are likely to increase further the openness of the economy.

In 2013, the unemployment rate (based on the Harmonised definition) is expected to decrease by 0.2 percentage points to 6.3 per cent and to remain broadly the same in 2014.

2.1.4 Inflation

The inflation rate (HICP, twelve month moving average) which during 2012 stood at 3.2 per cent started falling during the first half of the year with the latest report showing it at 1.8 percent. Annual inflation is expected to decelerate to 1.7 per cent in 2013 and to increase again to 2.3 per cent in 2014.

2.2 Comparison to Commission's Spring Forecast

The spring forecasts published by the European Commission project a growth rate for Malta of 1.4 per cent in 2013 and to 1.8 per cent in 2014, as domestic demand gradually strengthens to become the main driver of growth. Forecasts for real GDP growth in 2013 presented in this draft budgetary plan are 0.2 percentage points and 0.1 percentage points lower than the rate forecasted by the European Commission for 2013 and 2014, respectively. This is attributed mainly to a higher expected net contribution from the external sector in 2013 and a lower contribution from domestic demand to economic growth than that recorded in the Commission's spring forecasts for 2013 and 2014, respectively, with the exception that in 2014 both institutions are expecting a contribution of 0.2 percentage points from net exports to overall real economic growth. Both sets of forecasts are consistent with a domestically-led growth scenario. Forecasts presented in this draft budgetary plan are also lower compared to the latest forecasts published by the Central Bank of Malta. The Central Bank projects real growth rate of 1.4 per cent and 1.9 per cent for 2013 and 2014, respectively.

With regards to nominal GDP, the MFIN is expecting a growth rate of 3.7 per cent and 3.8 per cent for 2013 and 2014, respectively, being marginally higher by 0.1 percentage points in 2013 but relatively cautious by 0.3 percentage points in 2014, respectively when compared to the European Commission's spring forecasts.

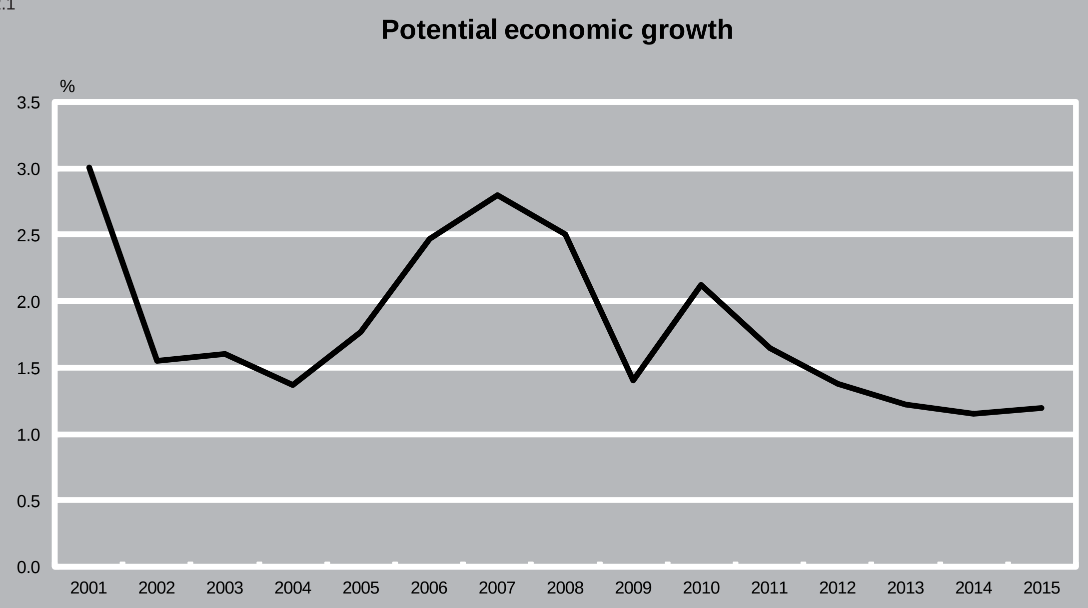
The European Commission will be updating its forecasts in the coming weeks by its autumn round of forecasts.

2.3 Potential Output and the Output Gap

Average potential economic growth, which is a measure of the growth potential of the economy, stood at 2.0 per cent during the period 2006–2012. This rate of growth is marginally lower than the average potential growth rate pertaining to the period 2000 – 2005. It is pertinent to point out that the rate of growth of potential output has decelerated markedly from the year 2009 onwards. This deceleration in potential output is expected to reach a through in 2014, and exhibit a marginal gradual increase over the forecast period. This slower growth rate in potential output compared to the pre-crisis levels is underpinned by a lower contribution from the capital factor and a lower contribution from the labour factor input. Over the forecast period 2013–2016, average potential growth is expected to hover around 1.2 per cent level, mainly underpinned by a positive contribution from labour and total factor productivity, with the contribution of capital expected to remain largely subdued in the short term. This is illustrated in Chart 2.1.

The output gap, is defined as the difference between actual and potential output, expressed as a ratio of potential output. The gap is indicative of the cyclical developments prevailing in the Maltese economy. Following a number of years in which the Maltese economy operated with a negative output gap, the output gap turned positive in 2007. This however proved to be short-lived, since during 2009, following the international recession and the subsequent contraction of the domestic economy, the output gap turned negative yet again. Indeed, in 2009 the output gap is estimated to have declined to a negative of 2.0 per cent. In the subsequent years, although the negative gap between potential and actual output contracted, the output gap remained negative and is estimated to have stood at a negative 1.1 per cent in 2012. The output gap is estimated to continue closing down steadily until the year 2015.

Chart 2.1



Footnotes:

[1] Macroeconomic forecasts were carried out in June 2013 and submitted to the National Audit Office for endorsement in July 2013. The NAO report, published in September 2013 is included with this Draft Budgetary Plan.

[2] These forecasts are based on the June release of National Accounts and Balance of Payments data and therefore do not include the most recent information. At that time, a stronger recovery in domestic and external demand was expected.

Macroeconomic forecasts
(Basic assumptions)

Appendix Table 0.i

	2012	2013	2014
Short-term interest rate[1] (annual average)	0.8	0.8	0.8
Long-term interest rate (annual average)	4.1	4.1	4.1
USD/€ exchange rate (annual average)	0.759	0.772	0.770
Nominal effective exchange rate	1.03	1.04	1.041
World excluding EU, GDP growth	0.4	0.3	0.5
EU GDP growth	-0.3	-0.1	0.9
Growth of relevant foreign markets	0.3	0.3	1.4
World import volumes, excluding EU	n/a	n/a	n/a
Oil prices (Brent, USD/barrel)	111.6	106.9	105.4

[1] *If necessary, purely technical assumptions*

Macroeconomic forecasts
(Macroeconomic prospects)

Appendix Table 1.a		€000s	rate of change		
	ESA Code	**2012**	**2012**	**2013**	**2014**
1. Real GDP	B1*g	5,040.7	0.8	1.2	1.7
Of which					
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth [1]		---	---		
2. Potential GDP			1.4	1.2	1.2
contributions:					
- labour					
- capital					
- total factor productivity					
3. Nominal GDP	B1*g	6,829.5	3.1	3.7	3.8
Components of real GDP					
4. Private final consumption expenditure	P.3	3,196.8	-0.2	1.2	1.3
5. Government final consumption expenditure	P.3	1,023.0	5.0	-0.4	1.3
6. Gross fixed capital formation	P.51	661.5	-3.9	0.7	3.5
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	-72.6	-1.4	0.0	0.0
8. Exports of goods and services	P.6	5,430.3	7.0	1.9	1.9
9. Imports of goods and services	P.7	5,198.4	4.5	1.5	1.8
Contributions to real GDP growth					
10. Final domestic demand		4,881.3	0.3	0.8	1.5
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	-72.6	-1.2	0.0	0.0
12. External balance of goods and services	B.11	231.9	1.7	0.4	0.2

[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	€000s 2012	rate of change 2012	2013	2014
1. GDP deflator		120.5	2.3	2.5	2.1
2. Private consumption deflator		116.5	1.8	1.4	2.3
3. HICP		118.9	3.2	1.7	2.3
4. Public consumption deflator		118.8	1.9	3.4	1.6
5. Investment deflator		146.6	4.8	1.8	4.6
6. Export price deflator (goods and services)		130.4	-0.8	2.3	2.4
7. Import price deflator (goods and services)		131.3		2.4	2.3

Macroeconomic forecasts
(Labour market developments)

Appendix Table 1.c	ESA Code	€000s 2012	2012	2013	rate of change 2014
1. Employment, persons[1]		172.6	2.4	1.8	1.8
2. Employment, hours worked[2]		346,442.7	2.1	1.8	1.8
3. Unemployment rate (%)[3]		11.8	6.5	6.3	6.3
4. Labour productivity, persons[4]		29,204.0	-1.5	-0.6	-0.1
5. Labour productivity, hours worked [5]		14.5	-1.3	-0.6	-0.1
6. Compensation of employees	D.1	3,040.5	4.1	2.1	3.8
7. Compensation per employee		17,616.0	1.7	0.8	2.5

[1] Total employment, resident population concept, labour force survey definition.
[2] National accounts definition.
[3] Harmonised definition, Eurostat; levels.
[4] Real GDP per person employed.
[5] Real GDP per hour worked.

Macroeconomic forecasts
(Sectoral balances)

Appendix Table 1.d				% GDP
	ESA Code	**2012**	**2013**	**2014**
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	2.9	4.4	4.3
of which:				
- Balance on goods and services		6.7	7.3	7.5
- Balance of primary incomes and transfers		-5.1	-4.7	-4.6
- Capital account		1.3	1.8	1.4
2. Net lending/net borrowing of the private sector	B.9	0.0	7.1	6.4
3. Net lending/net borrowing of general government	B.9	-3.3	-2.7	-2.1
4. Statistical discrepancy		6.2	0	0

3. General Government Budgetary Developments

3. General Government Budgetary Developments

In 2012, a worsening of economic conditions caused by the protracted electoral uncertainty led to weaker domestic demand and postponed private consumption. This impinged negatively on public finances. As a result, the actual fiscal imbalance recorded in 2012 increased by 1.0 percentage point over the original 2.3 per cent Budget estimate and with an end of year reported figure of 3.3 per cent of GDP, exceeding the 3 per cent of GDP reference value of the Treaty. In addition, in 2012 the debt ratio increased to 71.3 per cent of GDP, above the 60 per cent of GDP reference value, and Malta did not make sufficient progress towards compliance with the debt reduction benchmark, in line with the requirements of the transition period.

Against this background, on 21st June 2013, the ECOFIN Council decided that an excessive deficit existed in Malta and recommended that Malta takes action to reduce the excessive deficit by 2014. Furthermore, the Council set headline deficit targets of 3.4 per cent of GDP for 2013 and 2.7 per cent of GDP for 2014, consistent with an improvement of the structural balance of 0.7 per cent of GDP in both years whilst also setting a deadline of 1st October 2013 for taking effective action. The Council called on Malta, to continue progress towards its medium-term objective of a balanced budget in structural terms following the correction of its deficit.

3.1 Budgetary Targets

The increase in the general Government balance above the 3 per cent of GDP reference value, is considered by the Government to be temporary and exeptional. Malta remains committed to reach a deficit target of 2.7 per cent of GDP in 2013, supported by a number of structural reforms and on the assumption of a recovery in domestic demand conditions in the second half of the year. The decline in the ratio of general Government deficit-to-GDP is expected to be sustained and the fiscal imbalance is expected to be reduced further from 2.7 per cent in 2013 to 2.1 per cent in 2014. Furthermore, Government's fiscal policy objective remains that of ensuring a sustainable fiscal position by gradually but consistently reducing the fiscal imbalance, to reach a balanced budget in the medium-term.

In line with the requirements of the revised Stability and Growth Pact, Malta will continue to aim for a balanced budgetary position net of one-off and temporary measures over the cycle as its medium-term objective (MTO). The achievement of a balanced structural position in the medium-term is necessary in order to ensure a stable and sustainable debt-to-GDP ratio and to make adjustments necessary to finance the future cost of ageing. As indicated in Table 2.a, when one corrects for the cyclical effects, the budget deficit is expected to decline from 2.9 per cent of GDP in 2012 to 1.9 per cent of GDP in 2014. This should be seen in the context of a negative output gap. At this juncture, it is pertinent to note that since there is significant uncertainty surrounding the potential output and output gap estimates, a certain degree of caution is warranted in the analysis of the structural adjustment over the forecast period. The structural balance[1] is expected to decline from 3.0 per cent of GDP in 2012 to 2.0 per cent by 2014, as reliance on one-off deficit reducing measures is expected to remain contained.

Government’s debt strategy remains that of ensuring that the financing needs of the public sector are met at the lowest possible cost while concurrently minimising medium and long-term interest rate risk. The negative primary balance and moderate economic growth relative to the interest paid on the debt had an expansionary impact on the debt ratio in 2012. Furthermore during 2012, stock flow transactions are estimated to have resulted in a 0.7 percentage point increase in the debt-to-GDP ratio. These transactions were in relation to an equity injection in Malita plc and the European Stability Mechanism (ESM), a sizeable European Financial Stability Facility (EFSF) re-routing and a notable decline in cash holdings. In 2013, the expected recovery in the underlying economic growth momentum is expected to contribute to a 2.5 percentage point decline in the debt-to-GDP ratio which, together with a positive primary surplus are expected to compensate for the upward pressure of interest expenditure on the debt-to-GDP ratio. Nevertheless, during 2013, stock flow transactions are expected to result in a sizeable 1.7 percentage points expansion in the debt ratio. This is expected to be largely underpinned by an expansion of cash holdings. In 2014, the ‘snowball effect’ is expected to result

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

Table 2.a			% GDP
	ESA Code	**2013**	**2014**
Net lending (+) / net borrowing (-) (B.9) by sub-sector [1]	B.9		
1. General government	S.13	-2.7	-2.1
2. Central government	S.1311	-2.7	-2.1
3. State government	S.1312	—	—
4. Local government	S.1313	0.0	0.0
5. Social security funds	S.1314	—	—
6. Interest expenditure	D.41	3.1	3.1
7. Primary balance [2]		0.4	0.9
8. One-off and other temporary measures [3]		0.3	0.2
9. Real GDP growth (%) (=1 in Table 1.a)		1.2	1.7
10. Potential GDP growth (%) (=2 in Table 1.a)		1.2	1.2
11. Output gap (% of potential GDP)		-1.19	-0.70
12. Cyclical budgetary component (% of potential GDP)		-0.48	-0.28
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		-2.22	-1.85
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		0.88	1.23
15. Structural balance (13 - 8) (% of potential GDP)		-2.5	-2.0

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

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

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

Budgetary Targets
(General government debt developments)

Table 2.b			% GDP
	ESA Code	**2013**	**2014**
1. Gross debt [1]		73.2	73.2
2. Change in gross debt ratio		1.9	-0.0
Contributions to changes in gross debt			
3. Primary balance (= item 7 in Table 2.a)		0.4	0.9
4. Interest expenditure (= item 6 in Table 2.a)	D.41	3.1	3.1
5. Stock-flow adjustment		1.7	0.5
p.m.: Implicit interest rate on debt [5]		4.6	4.3

[1] As defined in Regulation 479/2009.

[2] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

[3] Liquid assets (currency), government securities, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

[4] Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

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

in a decline in the debt ratio of around 0.5 percentage points as the rate of nominal GDP growth and the primary surplus are expected to more than offset the expansionary impact of interest expenditure. This will be completely offset by stock flow transactions of 0.5 percentage points of GDP, such that the debt ratio will stabilise at a level of 73.2 per cent of GDP in 2014. Developments in the debt ratio and the contributors to the trajectory of the debt-to-GDP ratio are presented in Table 2.b

3.2 Expenditure and Revenue Projections under the no-policy change Scenario

In the absence of policy intervention, as illustrated in Table 3, the revenue ratio would increase by 0.9 percentage points to 42.8 per cent of GDP in 2014. Of this increase, 0.4 percentage points is attributable to EU grants. The dynamism in tax revenue relative to economic growth is also related to the rather tax rich composition of growth, particularly in view of the expected recovery in domestic demand. It also reflects strong ongoing efforts to recover tax revenue arrears through various administrative measures supported by legislative changes which give further powers to the Minister for Finance towards this aim. Administrative reforms aimed at consolidating the revenue departments and thus increasing the efficiency of revenue collection are also at a very advanced stage.

Meanwhile, in the absence of policy intervention, the expenditure ratio is expected to increase marginally by 0.3 percentage points to 44.9 per cent of GDP by 2014.

Developments in revenue and expenditure at unchanged policies mainly reflect developments in capital projects financed from EU investment grants, such that revenue flows correspond to similar increases in expenditure, as well as the impact of discretionary revenue and expenditure measures announced and adopted

Expenditure and Revenue Projections under the no-policy change scenario [14]
(General government expenditure and revenue projections at unchanged policies broken down by main components)

Table 3 — % GDP

	ESA Code	2013	2014
General government (S13)			
1. Total revenue at unchanged policies	TR	41.9	42.8
Of which			
1.1. Taxes on production and imports	D.2	14.0	14.2
1.2. Current taxes on income, wealth, etc	D.5	14.2	14.4
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	7.4	7.5
1.5. Property income	D.4	1.3	1.2
1.6. Other [1]		4.8	5.2
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)[2]		36.1	36.7
2. Total expenditure at unchanged policies	TE[3]	44.6	44.9
Of which			
2.1. Compensation of employees	D.1	13.5	13.4
2.2. Intermediate consumption	P.2	6.4	6.5
2.3. Social payments	D.62[4] D.632	13.6	13.7
of which Unemployment benefits [5]		0.5	0.5
2.4. Interest expenditure	D.41	3.1	3.1
2.5. Subsidies	D.3	1.3	1.2
2.6. Gross fixed capital formation	P.51	3.3	3.8
2.7. Capital transfers	D.9	1.2	1.1
2.8. Other [6]		2.1	2.2

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

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

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

[3] TR-TE = B.9.

[4] Under ESA95: D6311_D63121_D63131pay; in ESA2010 D632pay.

[5] Includes cash benefits (D.621 and D.624) and in kind benefits (D.631, under ESA2010 D.632) related to unemployment benefits.

[6] D.29pay + D.4pay (other than D.41pay) +D.5pay +D.7pay +P.52+P.53+K.2+D.8.

in previous years and which are expected to have an impact on public finances during 2013 and 2014.

3.3 Expenditure and Revenue Targets

During 2014, the general Government deficit is projected to decline by a further 0.6 percentage points of GDP from 2.7 per cent to 2.1 per cent. The more restrictive fiscal stance projected for the next fiscal year is mainly attributable to an increase in the revenue-to-GDP ratio which is expected to more than offset the increase in the ratio of total expenditure to GDP.

On the expenditure side, lower expenditure on compensation of employees will be offset by higher expenditure on gross fixed capital formation and intermediate consumption. The increase in gross fixed capital formation from 3.3 per cent of GDP to 3.8 per cent of GDP primarily reflects higher expenditure related to capital projects financed from EU funds under the 2007-2013 Financial Framework and thus corresponds to analogous increases in revenue. Meanwhile, the increase in intermediate consumption, compensation of employees, subsidies, social benefits, capital transfers and 'other expenditure' in Table 4.a primarily reflects the impact of an allowance provided under these categories to allow for the fiscal impact of expansionary measures to be announced in the Budget of 2014, including measures that are intended to spur growth and employment. These will be in part offset by a lower capital injection in the national airline, which is expected to decline from €40 million in 2013 to €15 million in 2014. Other discretionary expenditure measures include expenditure savings from the pension reform initiative and savings from Government's restrictive policy on recruitment in the public sector, which help to limit the growth pressures from social benefits and compensation of employees, respectively. In total, as indicated in Table 3.1, this combination of expansionary measures and expenditure consolidation measures are expected to contribute marginally to the improvement in the deficit ratio by 0.25 percentage points of GDP.

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

Table 4.a — % GDP

	ESA Code	2013	2014
General government (S13)			
1. Total revenue target	TR	41.9	43.1
Of which			
1.1. Taxes on production and imports	D.2	14.0	14.5
1.2. Current taxes on income, wealth, etc	D.5	14.2	14.2
1.3. Capital taxes	D.91	0.2	0.2
1.4. Social contributions	D.61	7.4	7.5
1.5. Property income	D.4	1.3	1.2
1.6. Other [1]		4.8	5.5
p.m.: Tax burden		36.1	36.8
(D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure target	TE[3]	44.6	45.3
Of which			
2.1. Compensation of employees	D.1	13.5	13.3
2.2. Intermediate consumption	P.2	6.4	6.6
2.3. Social payments	D.62[4] D.632	13.6	13.7
of which Unemployment benefits [5]		0.5	0.5
2.4. Interest expenditure	D.41	3.1	3.1
2.5. Subsidies	D.3	1.3	1.3
2.6. Gross fixed capital formation	P.51	3.3	3.8
2.7. Capital transfers	D.9	1.2	1.2
2.8. Other [6]		2.1	2.3

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

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

[3] TR-TE = B.9.

[4] Under ESA95: D6311_D63121_D63131pay; in ESA2010 D632pay.

[5] Includes cash benefits (D.621 and D.624) and in kind benefits (D.631, under ESA2010 D.632) related to unemployment benefits.

[6] D.29pay + D.4pay (other than D.41pay) +D.5pay +D.7pay +P.52+P.53+K.2+D.8.

Analysis of Improvement in the Deficit-to-GDP Ratio

(percentage points)

Table 3.1

	2014
Discretionary factors underpinning fiscal consolidation (1)	0.44
Revenue increasing measures	0.62
Revenue reducing measures	(0.18)
Tax revenue buoyancy	0.45
Other	0.32
Change in revenue ratio	**1.22**
Discretionary factors underpinning fiscal consolidation (1)	0.25
Expenditure increasing measures	(0.08)
Expenditure reducing measures	0.33
Change in Gross Fixed Capital Formation	(0.42)
Other expenditure	(0.48)
Change in expenditure ratio	**(0.65)**
Adjustment in deficit ratio	**0.57**

Note: positive represents a decline in the deficit-to-GDP ratio

(1) *Includes the incremental impact of measures announced and adopted in previous years*

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

Table 4.b % GDP

	ESA Code	2012 Level	2012	2013	2014
1. Expenditure on EU programmes fully matched by EU funds revenue		131.0	1.9	2.6	3.1
2. Cyclical unemployment benefit expenditure [1]		0.5	0.0	0.0	0.0
3. Effect of discretionary revenue measures [2]		14.3	0.2	-0.2	0.4
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 should not be included in the effect of discretionary revenue measures: data reported in rows 3 and 4 should be mutually exclusive.*

Description of discretionary measures included in the draft budget
(Discretionary measures taken by General Government)

Table 5.a €000s

List of measures	Detailed description [1]	Target (Expenditure/Revenue component) ESA Code	Accounting principle (c)	Adoption Status	Budgetary impact 2012	2013	2014
Introduction of a Bunkering Tax	The introduction of excise duty on fuel for bunkering of ships outside territorial waters	D2 - R	Cash	Adopted	0.2	0.0	0.0
Revision in excise duty on mobile telephony	Revision in excise duty on mobile telephony	D2 - R	Cash	Adopted	0.5	0.1	0.0
Revision in excise duty on fuel	Revision in excise duty on fuel	D2 - R	Cash	Adopted	0.0	3.9	1.3
Revision in excise duty on cement	Revision in excise duty on cement	D2 - R	Cash	Adopted	1.2	1.0	0.4
Revision in excise duty on cigarettes and tobacco	Revision in excise duty on cigarettes and tobacco	D2 - R	Cash	Adopted	3.7	4.0	1.4
Other Indirect Tax Measures	A series of Indirect tax measures to be announced in the Budget 2014	D2, Other - R	Cash	Approved	0.0	0.0	23.9
Fees of Office	Revenue measure to be announced in the Budget 2014 that would provide a service against a fee	Other - R	Cash	Approved	0.0	0.0	15.0
Revision in the registration tax of private vehicles	This incentive is to promote cleaner private vehicles, as a result of which the amount of tax payable upon registration of private vehicles will be based on the Euro standard of the vehicle, in addition to carbon dioxide, particulate matter, length and value of the car according to the make	D2 - R	Cash	Adopted	7.8	-3.0	0.0
Removal of TV Licenses	Removal of TV Licenses	D5 - R	Cash	Adopted	-1.5	-2.5	0.0
Adjustments in Income Tax Rate	Revision in the income tax rate for parents supporting children who are not gainfully employed up to 18 years of age	D5 - R	Cash	Adopted	-10.0	0.0	0.0
Widening of the income tax rates	A revision in the tax rate from 35 per cent to 32 per cent for those on a single or joint computation for up to eur 60,000 from 2013. In 2014, the top income tax rate will go down to 29 per cent and drop further to 25 per cent in 2015. The rate of 35 per cent will apply for those earning over eur 60,000	D5 - R	Cash	Adopted	0.0	-11.5	-13.0
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	Cash	Adopted	11.5	11.5	11.5
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.	D2, D5, D6 - R	Cash	Adopted	0.9	-20.6	-8.2
Restrictions on recruitment	Resignations and retirees in the public sector (excluding health and education) will be replaced by new employees on a ratio of 2:3	D1 - E	Cash	Approved	n/a	n/a	4.9
Control of Intermediate Consumption	Control on intermediate consumption with various measures targeting specific components	P2 - E	Cash	Adopted	0.0	21.2	0.0
Pension reform initiatives	The pension reform initiative legislated in 2006 is expected to lead to lowering pension expenditure	D6 - E	Cash	Adopted	6.6	18.9	19.7
Revision in the minimum rate of children's allowance	Children's allowance increases from €350 to €450, and to €527 for families dependent on a minimum wage	D6 - E	Cash	Adopted	-2.8	-2.3	0.0
Extension of maternity leave	The maternity leave has been extended from 14 weeks to 16 weeks as from the beginning of 2012, and increased by a further two weeks in 2013	D6 - E	Cash	Adopted	-0.5	-0.5	0.0
Assistance to the Elderly	Assistance to help the elderly live independently	D6 - E	Cash	Adopted	-3.5	-1.5	-3.3
Equity acquisition in Airmalta plc	The investment was carried out in Air Malta to support the national airline's restructuring programme	D9 - E	Cash	Adopted	-20.0	-20.0	25.0
Other Measures	Other expansionary measures to be announced in the Budget of 2014, including measures that are intended to spur growth and employment	D1, P2, D3, D6, D9, P51, Other - E	Cash	Approved	0.0	0.0	-27.7
				TOTAL	**-5.9**	**-1.4**	**50.9**

[1] Please describe in further detail in case of major fiscal policy reform plans with potential spillover effects for other Member States in the Euro Area.

Meanwhile, increases in the main items of tax revenue are expected to keep pace with the projected macroeconomic developments. In particular, the ratios-to-GDP of current taxes on income and wealth, capital taxes and social contributions are expected to remain relatively stable. The ratios of 'other revenue' and taxes on production and imports are expected to increase by 0.6 percentage points of GDP. These developments are mainly driven by the impact of a series of indirect tax measures to be announced in the Budget 2014. Meanwhile, the higher ratio of ‘other’ revenue to GDP is mainly on account of higher revenue from EU investment grants.

As indicated in Table 3.1, the noteworthy increase in the revenue ratio, which is expected to increase by 1.22 percentage points of GDP to 43.1 per cent in 2014, is mainly on account of the impact of discretionary revenue measures. The main revenue increasing measures to be announced in the 2014 Budget and the additional revenue from social contributions as a result of the 2006 pension reform will more than offset the negative impact of the gradual widening in the income tax bands. In aggregate, the discretionary revenue measures underpinning fiscal consolidation are expected to contribute to a net 0.44 percentage point improvement in the deficit-to-GDP ratio.

As the domestic demand led economic recovery becomes more sustained as from 2014, revenue is also expected to rebound, as reflected in a positive tax revenue buoyancy of 0.45 percentage points of GDP. Meanwhile, the ‘other’ revenue category is expected to contribute to a 0.32 percentage point decline in the 2014 deficit-to-GDP ratio, mainly on account of EU investment grants, reflecting the expected timing of implementation of projects financed from the Financial Framework for the period 2007-2013. However, such inflows correspond to similar increases in outlays and thus have a predominantly neutral impact on the budget balance.

A list of discretionary measures included in the draft budget and underpinning the expenditure and revenue targets for 2014 is presented in Table 5.a. Given that these measures are all undertaken at central Government level, Table 5.b would be identical to Table 5.a and is thus not replicated in this report.

3.4 Divergence from the April 2013 Stability Programme

The targets for the general Government balance have remained unchanged since the April 2013 Update of the Stability Programme. Meanwhile, the targets for the general Government balance at unchanged policy have been revised by 0.3 and -0.3 in 2013 and 2014, respectively. These revisions are mainly attributable to both deviations stemming from changes in the projected macroeconomic scenario, as well as to the fact that the no-policy change scenario is defined differently for the purpose of the Draft Budgetary Plan as compared to the Stability Programme.

Divergence from latest SP

Table 7				% GDP
	ESA Code	**2012**	**2013**	**2014**
Target general government net lending/ net borrowing	B.9			
Stability Programme		-3.3	-2.7	-2.1
Draft Budgetary Plan		-3.3	-2.7	-2.1
Difference		0	0.0	0.0
General government net lending projection at un-changed policies	B.9			
Stability Programme		-4.3	-2.4	-2.5
Draft Budgetary Plan		-	-2.7	-2.1
Difference [1]		-	0.3	-0.4

[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.

Footnote:

[1] MFIN estimate of revenue from one-off and temporary measures

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

Main objectives and relevant CSRs	Information on planned and already enacted measures				Foreseen impacts
	List of measures	**Description of the measure**	**Timetable on upcoming steps**	**Specific challenges/risks in implementing the measures**	**Qualitative elements**
1. Ensuring Public Finance Sustainability					
1.1. Fiscal policy					
CSR 1: ***"Specify and implement the measures needed to achieve the annual sructural adjustment effort set out in council recommendations under the excessive deficit procedure in order to correct the excessive deficit by 2014 in a sustainable and friendly manner, limiting recourse to oneoff/temporary measures. After correcting the excessive deficit, pursue structural adjustment effort and an appropriate pace so as to reach the MTO by 2019..."***	**a) Correct the Excessive Deficit in a sustainable manner**	Latest figures suggest that Malta is on track to reach the deficit target of 2.7%. Structural reforms and consolidation measures, both revenue and expenditure based, are being implemented in 2013 and will be intensified in 2014 to support a further reduction in the structural deficit in line with the Medium Term Budget Objective and the appropriate adjustment path towards it in compliance with the SGP requirements. More details are available in the Report on Effective Action submitted in conjunction with this Programme	2013/2014	A small open economy is vulnerable to external shocks which can limit the accuracy of forecasts on which fiscal policy is based. Having said this, Government is following very prudent macroeconomic and fiscal projections. Structural reforms are likely to have a positive impact on growth even in the short-term. However macroeconomic projections are largely based on a no policy change scenario and do not take into account the full impact of these reforms for prudential considerations.	The reduction in the deficit is primarily backed by structural measures, including the ongoing reforms in pensions, indirect tax revenue measures and expenditure consolidation measures. Second-round effects on growth are expected to be marginal in view of the size of the multiplier in a very open economy.
	b) Shift from direct to indirect taxation	i) Widening of the income tax bands for single and joint tax computations, and for parents supporting minors who are not gainfully employed ii) Revisions to indirect taxation based on excise duties increases	i) The second phase will be effective as from 1 Jan 2014 ii) These measures are planned in the context of the budgetary process for the upcoming year		Lower direct tax rates encourage work effort and labour participation whilst indirect taxation is less detrimental to growth, despite its negative effect on prices. It also tends to increase the net rate of return on savings boosting the stock of capital, thus increasing productivity.
1.2. Reforming the fiscal frameworks					
CSR 1: ***"...Put in place a binding, rule based multinannual fiscal framework in 2013..."***	**a) Fiscal Rules**	A Fiscal Responsibility Act will be presented to Parliament, which Act will incorporate the rules of the Stability and Growth Pact (SGP), namely the establishment of the Medium Term Budget Objective and the Adjustment path towards that objective, coupled with the necessary escape clauses consistent with the SGP, automatic correction mechanisms and reputational consequences in the event of non-compliance.	end of 2013	A rules-based fiscal framework is a necessary but on its own insufficient condition for ensuring long-term fiscal sustainability. The success of the fiscal rules depends on the successful implementation of the other reforms in the fiscal framework and the political commitment at any point in time to such a framework. A mechanical interpretation of the the fiscal rules presents an additional risk to a small open economy like Malta. It is imperative that the fiscal institution responsible for the monitoring of fiscal rules employs an economic interpretation of the rules and escape clauses rather than a mechanical interpretation.	This is part of the reform of the Fiscal Frameworks ensuring the necessary institutional reform is in place to support a binding rules-based framework which encourages sustainable public finances in the long term but which also preserves a necessary degree of counter-cyclical fiscal policy subject to underlying fiscal conditions.
	b) Setting up of a Fiscal Council	The functions of an Independent Fiscal Council are envisaged to be undertaken by the Audit Office in Malta which is already backed by a legal framework to ensure its independence and adequacy of resources. The functions of the Audit Office acting as the Fiscal Council will be delineated in the Fiscal Responsibility Act and will include the assessment of official macroeconomic and fiscal projections, the evaluation of the fiscal stance conditional on the fiscal rules and subject to escape clauses and automatic correction mechanisms, the communication of its assessment to Parliament and the publication of that assessment through a report at least twice a year, in Autumn after the publication of the budget and in Spring after the publication of the Stability Programme. Amendments to the Auditor General and Audit Office Act will be made to ensure consistency with respect to the Fiscal Responsibility Act.	For the 2014 Budget, the Government has appointed the National Audit office to undertake the endorsement of the Ministry for Finance macroeconomic forecasts underlying the 2014 Budget. The report was completed and presented to the Government at the beginning of September.	Duplication of resources in such a small administration can present a risk. Political polarisation can also test the credibility of the Audit Office acting as a fiscal council. Communication with the public on such an important yet complex policy as the budget requires the build up of additional resources including resources to enhance financial literacy in Malta coupled with investment in financial journalism.	The fiscal council will be responsible to ensure the appropriate balance between the adherence to fiscal targets and the operation of the budget as a macroeconomic stabilisation tool. In other words it will safeguard long-term fiscal sustainability by ensuring fiscal prudence and also by promoting counter-cyclical fiscal policy. It also supports the functioning of the fiscal rules by interpreting them in such a way that the appropriate balance between fiscal consolidation and growth objectives is maintained.
	c) Putting in place a binding rule mutiannual fiscal framework in 2013	A rules based framework will govern the setting up of a 3-year budget, incorporating rules for the determination of budgetary allocations by ministry and by function, subject to the political priorities of the Government. It will establish an expenditure ceiling to ensure that the medium-term budget will be preserved and overruns prevented. Furthermore, a star chamber at cabinet level composed of the Prime Minister, the Deputy Prime Minister and the Minister for Finance will be established . The star chamber will be tasked with finalising a compromise between the line ministries or entrusting the Ministry for Finance to come up with appropriate revenue measures to address the funding gap. In addition, legislative proposals for the setting up of a contingency reserve fund and the regulation of supplementary estimates are also being formulated.	end of 2013	A rules based framework can lack credibility if it is too rigid. In this context a multi-annual framework will assit the Government in committing to fiscal targets whilst leaving room to implement its political commmitments in a reasonable time frame. On the other hand too much flexibility can undermine the effectiveness of such a framework. The credibility of such a framework is enhanced if the institutional rforms are in place, conditional on the political commitment towards fiscal prudence and also if the administrative apparatus is in place to sustain the rather more complex framework. The success of this multi-annual budget framework requires the strengthening of the Ministry for Finance including its ability to forecast as accurately as possible future budgetary demands and resource availability.	Compliance with the SGP requirements requires a medium term budget framework which supports the achievenet of fiscal targets and ensures the appropriate administrative apparatus to translate the aggregate fiscal targets into the business plans of every ministry and the projections of expenditure relating to statutory commitments.
	d) Introduction of a structural budget balance rule into national law	This will be incorporated in the Fiscal Responsibility Act and will be in line with the provisions of the Fiscal Compact.	end of 2013		The Medium Term Budget Objective will safeguard long-term fiscal sustainability given the ageing population and its implications on public finance sustainability.
	e) Reaching the MTO	Refer to Stability Programme 2013-2016.	Refer to Stability Programme 2013-2017.	Refer to Stability Programme 2013-2018.	Refer to Stability Programme 2013-2019.
	f) Comprehensive Spending Review	A Comprehensive Spending Review will form the basis for the evaluation of budgetary plans with the aim of identifying a better utilisation of public resources and possibly identify expenditure savings if and where appropriate. The spending review will also provide a guide to the Government in setting out its political priorities when devising the muti-annual budget.	Ongoing	The administrative capacity to carry out and follow up on such a review needs further strengthening. The linkage with the top-down budget process is also to be improved.	The comprehensive spending review will assist the Ministry for Finance to prepare credible and realistic fiscal targets whilst maximising the best use of scarce resources. This will also support a growth friendly fiscal stance.
1.3. Reforming Expenditure Programmes					
CSR 2: ***"To ensure the long term sustainability of public finances, continue to reform the pension system to curb the projected increase in expenditure, including by measures such as accelerating the increase in the statutory retirement age, increasing the effective retirement age by aligning the retirement age or pension benefits to changes in life expectancy and by encouraging private pension savings..."***	**a) 2006 Pension Reform**	In December 2006, the House of Representatives adopted a series of reforms (Act No. XIX of 2006) including; raising the pension age from 61 to 65; reducing retirement before pension age; adopting changes to the two-thirds pension, calculation formula, the maximum pensionable income and the crediting of contributions as provided for under the preceding legislative framework. The 2006 reform constitutes the main policy supporting the structural effort as conceived in the Stability Programme.	Ongoing	The parametric changes introduced in the pension reform also contribute to raise expenditure in the long term.	The increase in the pension age, the increase in the contribution period for full pension eligibility and the changes to the benefit formula contribute to lower the projected increase in pension expenditure. The pension reform initiative legislated in 2006 is expected to contribute more in terms revenue, equivalent to 0.16 per cent of GDP in 2013, 0.15 per cent of GDP in 2014, 0.13 per cent of GDP in 2015, and 0.12 per cent of GDP in 2016. In addition, pension reform initiatives are expected to reduce expenditure by 0.27 per cent of GDP in 2013, 0.26per cent of GDP in 2014, 0.25 per cent of GDP in 2015, and 0.24per cent of GDP in 2016. This implies that higher revenue in terms of national insurance contributions as well as lowering pension expenditure are expected to put public finances on a more sustainable footing in the short to medium term. Public pension expenditure to GDP is expected to fall mainly due to lower coverage ratio, lower employment ratio and lower benefit ratio effect, while the dynamics of the ageing process is the main driver behind higher public pension expenditures. However, at the same time, the more dynamic indexation of the ceiling on pensionable income, the statutory changes to indexation for old-age pensions and the introduction of the guaranteed national minimum pension for persons retiring from 2026 onwards contribute to increase the expenditure pressure.

Main objectives and relevant CSRs	Information on planned and already enacted measures				Foreseen impacts
	List of measures	Description of the measure	Timetable on upcoming steps	Specific challenges/risks in implementing the measures	Qualitative elements
	b) Pension Reform Process	Following the election of the new administration in March 2013, Government has expressed its commitment for the continuation of the pension reform process in Malta. A Joint Pensions Working Group - the **Pensions Strategy Group** - between the Ministry for Finance and the Ministry for the Family and Social Solidarity was set up to review the work carried out by the Pensions Working Group, in particular the recommendations outlined in the Post-Consultation Report submitted to Government in August2012. Furthermore it has been tasked to draw up a holistic strategy aimed at addressing the adequacy and sustainability of pensions in Malta and develop a communications strategy directed towards raising the level of public awareness on pensions issues in Malta and the need to ensure that future pension incomes are adequate in order to sustain a high standard of living in retirement.	Drawing up of a holistic strategy by October 2013 aimed at addressing the adequacy and sustainability of pensions in Malta on the basis of the assessment of the recommendations of the Pensions Working Group;Development of a communications strategy directed toward raising the level of public awareness on pensions issues in Malta and the need to ensure that future pension incomes are adequate in order to sustain a high standard of living in retirement, by October 2013; The drawing up a final report,shall be submitted to the Minister for the Family and Social Solidarity for its and Government's consideration by the end of September 2014.	Resistance by the Employers' Association to the introduction of a second-pillar pension scheme	
	c) Third Pillar Private Pensions	An Advisory Group on Third Pillar Pensions has been set up with the view to make recommendations relative to the introduction of such voluntary schemes in Malta. The group's remit was to come up with a set of eligibility criteria that financial products would need to meet in order for fiscal incentives to be granted. The group also evaluated different types of fiscal incentives which would be offered to savers, and possibly their employers, if they also help support voluntary retirement saving provision. The group also considered different options of providing the in which way to provide the fiscal relief. The group also recommended the introduction of tax-favoured accounts, where interest earned on these accounts would be tax-free, with the option of converting such accounts into personal retirement schemes. Such tax-favoured accounts would supplement the introduction of voluntary third pillar pensions in Malta.	The Advisory Group has delivered its report to Minister. Possible implementation for Budget 2014. The legislative framework is already in place. However, new regulation may be needed.	There would be added resource requirements at the appointed regulator. The group is evaluating different types of fiscal incentives for personal retirement schemes. Depending on the fiscal incentive regime, this could mean an immediate fiscal costs.	It is to be noted that at present, in Malta, most financial investments are taxed on a TTT or TTE approach. Going for an EET regime, as recommended by the Group, will mean that there will be immediate fiscal costs as tax revenue will be lost on contributions made into schemes. Some revenue will also be lost on future investment income, assuming that individuals would have carried out the investments in the absence of tax incentives. However, the impact of the second is deemed to be negligible in the short term. Under a cautious scenario where take-up is partial and in line with current saving behaviour, the cost of tax relief could be in the range of€3.3 - €9.9 million, depending on the type of tax relief to be adopted by the Authorities.
CSR 2:...Pursue healthcare reforms to increase the cost of effectiveness of the sector, in particular by strengthening public primary care provision. Improve the efficiency and reduce the length of public procurement procedures."	**d) Improving Cost Effectiveness in the Health Sector:**	Measures identified by Government to increase cost-effectiveness of the health system include: i) Centralisation of stores ii) Faster Procurement Procedures resulting from the study undertaken by the Management and Efficiency Unit	The new administration is currently taking stock of the situation and planning the way forward.	Challenges include HR , Financial Restrictions, IT, Capacity Constraints and general resistance to change.	Cost effective use of medicines including increased use of generics. Streamlined medicines and medical devices procurement practices to gain better pricing and improve reliability and dependability and reduce buraucracy. This also includes a review of of the current distribution processes. Improved governance on the deployment of resources and bed management practices to ensure better utilisation of resources and avoid wastage.
	e) Reducing the cost of "social" beds in hospital	A Business process re-engineering exercise is planned at MDH to ensure that acute beds are used truly for acute care and day surgery is utilised. At Mater Dei Hospital there are approximately 70 "social" beds occupied by elderly persons needing long term care. These beds are costing the Ministry for Health approximately€200 per day. The aim is to move some of these occupants into community nursing homes where the cost is significantly lower.	The Ministry for Health is working closely with the Ministry for the Family and Social Solidarity to increase the capacity of beds in the community both within the private and the public sector.	The major challenge is the creation of new capacity in care homes. The aim therefore is to provide both a short and long term strategy. The major risk is a flu epidemic that will put pressure on the hospital system and the government having to respond to find hospital beds in the private sector.	The policy change will reduce the cost of long term care in hospitals to a lower cost community care. Malta's elderly population is growing and the Government is committed to find a longer term solution.
1.4. Restructuring State Owned Enterprises					
CSR 4: ***"Continue efforts to diversify the energy mix and energy sources, in particular through increasing the take up of renewable energy and the timely completion of the electricity link with Sicily..."***	**a) Strategic Partenship between Enemalta and Shanghai Electric Power**	Government recently announced that it had signed a **Memorandum of Understanding with the China Power Investments Corporation (CPIC)**, one of the five largest state-owned electricity producers in China with an AAA credit rating. As part of the agreement, Shanghai Electric Power, a subsidiary of CPIC will become a minority shareholder in Enemalta, providing the Maltese utility company with a cash injection of around€200 million which will improve its financial position and reduce the Government's contingent liabilities.			The partial privatisation will support the restructuring process, inject the necessary liquidity in the corporation. A strategic parner will also assist enemalta to restructure its operations, provide technical assistance and allow Enemalta to become a profitable and productive company also by tapping new markets for instance in the renewable energy sector. This could also provide an opportunity for high value added employment generation.
	b) Financial Restructuring	A plan to restructure Enemalta's debt was approved by Parliament on December 2012. The plan allowed Enemalta to smooth out its repayments on outstanding obligations and better align them with cash flows from tariff income. As part of the transaction, the company sold assets to a Special Purpose Vehicle, refinanced its loans from the proceeds and leased the assets back at a rent of about €20 million a year, which is equivalent to the capital and interest payments due on the refinanced loans. The restructuring enabled Enemalta to spread out€318.5 million in loan repayments over 25 years in place of three bullet repayments due in 2011, 2015 and 2018. The transaction allowed Enemalta to continue its operations.	2012		as above
	c) Structural reforms addressing Enemalta's cost and revenue base	i) The company expects to generate€36 million in savings from the recently installed **diesel-run power plant**. This has cut the cost of electricity generation to 11 cents/unit, from 17-18 cents.	ongoing		as above
		ii) The 200MW 230kV HVAC **sub-sea interconnector between Malta and Sicily** is expected to be completed before the end of 2014. It includes the manufacture and laying of 100km of the sub-sea HVAC cable, the construction of a new 230kV substation at Maghtab in Malta together with all necessary switch gear, transformers and reactors to connect to the Maltese 132kV distribution system and upgrading of the Terna 230kV substation at Ragusa in Sicily together with 20km of underground cable in Sicily.	2014	Further delays in the implementation of the process especially in Sicily	The interconnector will also enable Enemalta to broaden its energy mix and make it less vulnerable to fluctuations in oil prices. Access to the European grid will also allow Enemalta to benefit from the more competitive prices associated with a larger market.
		iii) **Smart meters** are being installed for every electricity consumer in Malta. This is expected to lead to a reduction in energy consumption by changing consumer behaviour through information on energy consumption. This project was started in 2009 and it is expected that the complete replacement of all 275,000 electricity meters (originally 245,000 but increased due to new consumers and PV systems) should be completed within three years. A total of 204,000 meters are currently installed.	mid 2014	Unlocated or closed premises and problem consumers can hinder the full implementation of the installation programme.	Moreover the investment in smart metres would enable the government owned energy provider to reduce the extent of electricity supply that goes unbilled. Any gains in this regard, has beneficial effects on the cost of production.
		iv) Management sees further revenue boosting potential through an ongoing **cost-reduction exercise**, settling and resolving a number of **locked and past-due accounts**, greater **billing efficiency**, and the benefits derived from the **PPPs**, savings from the **new generation engines**, the **interconnector** and **potential sale of non-strategic assets** which could generate nearly€75 million.	Ongoing		Some of the ongoing restructuring measures such as the new diesel-powered plant, the gradual closure of the Marsa Power plant and the introduction of smart meters have already improved Enemalta's cash-flow situation. By 2014, Enemalta should register an underlying loss of approximately€17 million, excluding the sale of plant assets to a private partner which would result in a shift to profitability for the year. By 2015, forecasts envision the company producing a small profit.
	d) Energy Reforms	The Government's plan is to switch Malta's energy generation facilities from Liquid Fuel Oils to **Natural Gas** through the construction of a new highly efficient generating plant and Liquefied Natural Gas (LNG) infrastructure. The plan is at advanced stage where three consortia out of nineteen bidders where short-listed which are: ElectroGas Malta Consortium, Yildrim Tecnicas Power and Gas Consortium and Endeavor Energy, Exodus Crussing and BB Energy Consortium. This project is expected to reduce the cost of electricity making them in line with EU levels.			The investment in a new gas fired generating plant will lead to considerable improvements in respect of efficiencies in the generation of electricity. This has direct and indirect benefits on public finances. Moreover, the higher efficient plant would reduce the likelihood that the energy provider would need to resort to government subventions in situations where it is not able to cover its cost of production when the price of oil exhibits elevated levels. Historically such subventions have been a source of negative variance in public finances.
	i) Natural Gas Plant	The gas plant is expected to be an LNG storage and re-gasification facility which will meet the total gas supply requirements of: the new circa 200MW gas-fired baseload generating plant; and Enemalta's gas requirements to operate its 149MW Diesel Engine plant which will be converted to operate on Gas.	mid 2015		as above

Main objectives and relevant CSRs	Information on planned and already enacted measures				Foreseen impacts
	List of measures	Description of the measure	Timetable on upcoming steps	Specific challenges/risks in implementing the measures	Qualitative elements
	iii) Gas Interconnection	A comprehensive study that includes a cost-benefit analysis to determine the commercial viability of gas interconnection, as well as its effect on the Maltese economy, is currently being prepared. The study will also look into other externalities of the project such as security of supply, competitiveness, sustainability, and shall identify those aspects that make it a potential Project of Common Interest (PCI) as defined by the proposed Regulation on guidelines for trans-European energy infrastructure (which repeals Decision 1364/2006/EC on TEN-E). The study may be used to support an application to the European Commission for financial assistance from the 'Connecting Europe Facility' funding instrument under the Commission's energy infrastructure package.	2013		as above
	e) Restructuring of Air Malta	The Air Malta Reform is focused on two main areas namely cost cutting measures and initiatives to boost revenue. Measures to cut costs include amongst others initiatives to reduce inflight catering costs in particular on economy class travel. Other initiatives are being introduced to promote fuel efficiency and better deployment of resources without affefting safety and quality of service. Contract negotiations with thirdparties should also result in a reduction in ground handling and landing costs. Initiatives to reduce cost include also aircraft subleasing and savings on insurance premiums in particular on low risk policies. Futhermore a number of ongoing measures are being implemented to ensure a better revenue. These include amongst others Network planning and fleet deployment optimisation together with an effective pricing strategy supported by marketing tactics. The signing of new charter flight contracts will also contribute to increase Air Malta's revenue. Moreover a better process control particularly in Outstations together with Initiatives to increase onflight sales (meals and other products) shall also contribute to rasie revenue. New contracts were also signed in relation to Handling and Engineering Services offered to third parties.	Ongoing as per budget time plan	The challenges may include resistance to change by empoyees,collective agreement negotiations, contract constaints and willingness by third parties to negotiate terms. Futher challenges may be posed by other market forces (Competition; geopolitical environment; currency movement).	These measures will result in considerable increase in revenue and also savings on current costs.
1.5. ReformingTax Administration					
CSR 1: ***"...Ensure concrete delivery of measures taken to increase tax compliance, fight tax evasion, and take action to reduce the debt bias in corporate taxation..."***	**a) Consolidating the various functions of Government Revenue into one authority**	Certain services which are presently given by different departments in different locations will be provided by one merged entity to provide centralised control in measures to combat tax evasion and tax avoidance and to gain economies in administration leading to substantial cost reductions.	a) consolidation of access to online portals of the VAT Department and Inland Revenue Department (IRD) (December 2013) b) implementation of new Accounting systems (December 2013) c) implementation of the document imaging system of IRD within VAT Department(February 2014) d) development of interfaces to improve Taxpayer Services (March 2014) e) implementation of Debt collection procedures (March 2014) f) consolidation of Cash Office Systems (April 2014) g) User Management (April 2014) h) Revenue Risk Management (IRD and VAT Department to consolidate with Tax Compliance Unit (TCU)) (September 2014)	(a) Budgets for IT implementation to the Malta Information Technology Agency (MITA) must be allocated at the earliest such that MITA will procure the necessary resources. (b) Consolidation of procedures may require shifting of offices from VAT Department to IRD. This may be a challenge in view of the office space availability and re-organisation of duties within the new directorates.	Commissioner for Revenue is simplifying and harmonising the legislation of VAT Department and IRD together with the supporting processes. This will result in simpler compliance processes and more effective taxpayer services.
	b) Increase tax compliance and fight tax evasion	A planned strategy is being prepared to improve methods adopted in carrying out tax audits. This strategy includes the following measures:	Processes are underway	A simplified fiscal legislation will lead to more compliance and cost cutting; Enforcement officers need to be trained in order to be knowledgable and effective; The Technical and Legal Sections are collaborating towards a holistic tax legislation.	A simplified tax law should reduce the overall burden of taxation and promoted compliance; Timely collection will eliminate the risk of prescription; Tax legislation is to move alongside current trends.
		(i) Risk assessment	Sept 2013 : analysis of reduction in administrative burden through this measure.		Transparency and equity
		(ii) encourage use of electronic forms	2014: costings of reduction in administrative burden using the Standard Cost Model will be perfomed by the Better Regulation Unit (BRU).	Some taxpayers still prefer to use standard paper and mail formats for corresponidng with IRD.	Transparency and equity
		Audit case selection through liaison with other Government departments and entities such as Treasury. create new in-house audit tools enhancement of data warehouse	Ongoing	Full case details cannot be divulged by the Financial Intelligence Analysis Unit (FIAU) to IRD (law restrictions);data held in different format than that analysed by IRD.	Difficulty in acquiring specific data from certain sources.
		Increase tax inspections and enhance tax collection through the recruitment of revenue officers whose duties will include field audits/inspections. The human resource complement will also be supported by the recruitment of accountants to strengthen the Tax Compliance Unit.	The call is in the process of being issued in order to have a complete complement.	Field inspections/audits need to be performed on a professional basis in order to acquire the desired results.	Timely and effective field audits and inspections in view of limited resources; investment in human resources will ease the burden of management by crisis.
		Provide better guidance and information to taxpayers through the tax audit booklet. The tax audit booklet lists rights and responsibilities of taxpayers, objection procedures, information on the penalties incurred after an audit and redress procedure of complaints.	The issue of frequent and simplified information to taxpayers through different media sources.	Discussions on how to introduce the concept of a Public Relations office within the integration process.	A Public Relations Office is a strategic move in the right direction for the benefit of all.
		Training and seminars will be provided to audit staff.	Timetable of training runs through the end of 2013.	Attendance of audit staff to training and seminars.	Tax Audits/Tax Compliance Unit personnel need to be aware of legislation updates and current business/fiscal trends.
		Liaison with foreign tax authorities is being strengthened. Provisions that allow the exchange of information between the Maltese government and the governments of other countries were strengthened, in line with Malta's international obligations. This is another way through which the Commissioner of Inland Revenue may acquire information from foreign tax authorities that could be used to combat tax evasion. In addition, Malta also provides information to foreign tax authorities. Double tax agreements will be maintained as an ongoing process by the International Tax Unit.	Completed - Amending the ITMA by inserting a new article 10A (18/01/2008) and rules entitled "Cooperation with Other Jurisdictions on Tax Matters Regulations" (22/07/2011).	Possible issues with respect to access to third party information; Issues related to resources and time constraints to negotiate tax treaties.	Wider treaty network promotes investment; timely provision of information exchange.
		The Commissioner of Inland Revenue will make use of new legal tools which enable him to request information from the taxpayer, and in case the taxpayer refuses to cooperate, the information can be requested from third parties who have assets, property, accounts, etc of the taxpayer.	Completed - Amendments to Art.14 of the ITMA (Income Tax Management ACT) made through the Budget Measures Implementation Act, 2011 (22/3/2011).		
		The provisions on transfer of shares which are subject to capital gains were strengthened through specific measures that were introduced to tax so-called "value shifting" and "degrouping". The abuse in this area has thus been substantially reduced. The same measures were introduced against simila abuses when transferring shares in a partnership.	Completed - Amendments to Art. 5 and 5A of the ITA were introduced through the Budget implementation Act 2009, 2010. and 2011 (4/3/2009, 16/4/2010 and 22/3/2011)	N/A	
		The Inland Revenue Department begun criminal proceedings against those employers that do not provide details on the tax deducted from the salaries of their employees to the Commissioner. This step was undertaken after having given these employers a last chance to regularise their position with the department and pay the FSS tax for their employees through a scheme that gave them a specified period to pay and avoid a significant part of the fines imposed.	Completed - From 2010 the provisions of court proceedings started being applied as per Art. 23(13) of the ITMA (and FSS related regulations).	N/A	

Main objectives and relevant CSRs	Information on planned and already enacted measures				Foreseen impacts
	List of measures	Description of the measure	Timetable on upcoming steps	Specific challenges/risks in implementing the measures	Qualitative elements
		Fines were increased substantially and a marker for fuel sold on the local market was established.	Completed - Act No 1 of 2010 implementing various estimate measures and other administrative measures. Section VI- Amendments to the Excise Duty Act CAP.382 Articles 54,55, 57,58, 59, 60, 61, 62, 63, 64, 65.; Completted - Excise Duty Act (Cap.382)- L.N. 96 of 2010, Excise Duty Act (Amendment of Sixth Schedule) Regulations,2010- Articles 2, 3, 4, 17B; Completted - Excise Duty Act (Cap.382)- L.N. 96 of 2010, Excise Duty Act (Amendment of Sixth Schedule) Regulations,2010- Articles 2, 3, 4, 17B.	N/A	
		A new fee was introduced for the issuing of a stamp to be affixed on drink bottles or packets of cigarettes to replace the original stamp that was lost, stolen or for some other reason went missing.	Completed - Excise Duty Act (Cap.382)- L.N 207 of 2012, Excise Duty Act (Amendment of Sixth Schedule) Regulations,2012- Articles 2 and 3 para (h) (iii) (c).	N/A	
		A new concept was introduced for the seizing of mobile and immobile property, when items on which excise duty due has not been paid are found. In case of ships used in the contraband, with a net weight of more than 250 tonnes, a deposit of €25,000 shall be requested instead of the seizure of the ship until the sentence is finalised.	Ongoing	N/A	
		Enhancing the risk analysis programme which identifies cases of potential tax evasion/avoidance to be referred for investigation. This programme analyses VAT declarations, allocates points according to established parameters and subsequently ranks cases to be investigated according to tax risk.	The project is temporarily on hold as it would then be integrated under one framework with IRD risk analysis in the ambit of the merger.	Risk Analysis - Currently the only risk which is envisaged is the lack of resources (at MITA) to enable the Department to proceed with this project.	Risk Analysis - more targeted performance.
		Addressing risks related to the Point of Sales System and ECRs as outlined in recommendations made which include the setting up of a pool of IT skills at the Ministry for Finance to commence specific audits on POS systems, training of VAT inspectors in forensic work and period checks on ECRs and POSs.	Meetings are being held regularly and the project is envisaged to be concluded in the region of twelve months from now.	POS - The new procedures will be seen as increasing the burden (both financial and administrative) on businesses.	POS - better controls
		Amendment of the VAT Act, Article 48(5): The power to request and remove from any person records including electronic data.	Completed - Amending Act: Act IV. 2007.37	N/A	This measure is expected to lower the VAT gaps - as stated in the study commissioned by the Commission which was issued this month, Malta has in fact one of the lowest VAT gaps in the EU, proportionately speaking, as a percentage of Gross Domestic Product.
		Amendment of the VAT Act Article 52(2): An obligation on transporters of goods to be in possession of identification documents and invoices, delivery notes, etc. indicating the details of the goods being transported.	Completed - Amending Act: Act XIX. 2007.2	N/A	This measure is expected to lower the VAT gaps - as stated in the study commissioned by the Commission which was issued this month, Malta has in fact one of the lowest VAT gaps in the EU, proportionately speaking, as a percentage of Gross Domestic Product.
		Amendment of the VAT Act Article 53(a): To stop, enter and inspect any means which is transporting goods or any means for the transport of goods, to direct the delivery of the said means to another location and to open the said goods and to verify the quantity and value of goods with invoices, book records or documents relating to such goods.	Completed - Amending Act: Act XIX. 2007.3	N/A	This measure is expected to lower the VAT gaps - as stated in the study commissioned by the Commission which was issued this month, Malta has in fact one of the lowest VAT gaps in the EU, proportionately speaking, as a percentage of Gross Domestic Product.
		Amendment of the VAT Act Article 63(5): Gives power to the Commissioner where it appears necessary to protect revenue to request a guarantee from someone to supply goods or services so a to secure the payment of the tax.	Completed - Amending Act: Act IV. 2007.40	N/A	This measure is expected to lower the VAT gaps - as stated in the study commissioned by the Commission which was issued this month, Malta has in fact one of the lowest VAT gaps in the EU, proportionately speaking, as a percentage of Gross Domestic Product.
		Amendment of the VAT Act Article 77(p): An obligation on credit institutions to supply the details of suppliers of construction/refurbishing projects whom the credit institution would have paid on behalf of a loan account holder.	Completed - Amending Act: Act IV. 2007.42	N/A	This measure is expected to lower the VAT gaps - as stated in the study commissioned by the Commission which was issued this month, Malta has in fact one of the lowest VAT gaps in the EU, proportionately speaking, as a percentage of Gross Domestic Product.
		Amendment of the VAT Act Article 77(d): Provides for criminal conviction if a person is in possession of or supplies to another person any software application that would erase, destroy, damage or conceal any stored information or any such records, documents or accounts.	Completed - Amending Act: Act IV. 2011.76	N/A	This measure is expected to lower the VAT gaps - as stated in the study commissioned by the Commission which was issued this month, Malta has in fact one of the lowest VAT gaps in the EU, proportionately speaking, as a percentage of Gross Domestic Product.
		Amendment of the VAT Act Article 77(e): Provides for criminal conviction if a person fails to provide to the Commissioner, without any valid reason, all copies of any used or unused manual fiscal receipts where required by the Commissioner.	Completed - Amending Act: Act IV. 2011.76	N/A	This measure is expected to lower the VAT gaps - as stated in the study commissioned by the Commission which was issued this month, Malta has in fact one of the lowest VAT gaps in the EU, proportionately speaking, as a percentage of Gross Domestic Product.
		Amendment of the VAT Act Article 77(o): Provides for criminal conviction if a person fails to provide to the Commissioner, without any valid reason, all copies of any used or unused manual fiscal receipts where required by the Commissioner.	Completed - Amending Act: Act V. 2012.66	N/A	This measure is expected to lower the VAT gaps - as stated in the study commissioned by the Commission which was issued this month, Malta has in fact one of the lowest VAT gaps in the EU, proportionately speaking, as a percentage of Gross Domestic Product.
2. Raising potential output, in particular through productive capital investment, raising skill and education levels, promoting lifelong learning and increasing labour force participation.					
2.1. Raising labour productivity					
2.1.1. Investing in human capital (raising skill and education)					
CSR 3: ***"Continue to pursue policy efforts to reduce early school leaving, notably by setting up a comprehensive monitoring system, and increase the labour market relevance of education and training to address skill-gaps, including through the announced reform of the apprenticeship system."***	**a) Early School Leaving Strategy**	• Setting up of inter ministerial committee. • Introducing a screening process of all Form I students by Guidance teachers. • Introduction of tablets to improve literacy and engagement of students • National Literacy strategy • Implementation of Job Plus scheme	• October 2013 • October 2013 • October 2014 • January 2014 • January 2014	Lack of human resources to refer students at risk	Better co-ordination of initiatives. Students at risk will be helped to engage in education.
	b) Comprehensive Monitoring System in relation to early school leavers	The analysis of tracer study on 5th Formers. The monitoring of Youth Inc and MCAST dropouts for academic year 2012/2013.	December 2013 October 2013	Low response rate to tracer study	Identify the dropouts and encourage them to join Jobs plus Scheme
	c) National Literacy Strategy	The intention of the Government is to do its utmost to ensure that Maltese citizens are provided with the best opportunities to acquire the required literacy skills. This goal will be achieved through a National Literacy Strategy for All.	Q4 2013: Drawing up the policy from reports submitted by different working groups Public consultation about the policy Drawing up of action plans according to the different age groups Dissemination of the strategic framework with educators	Ensuring the necessary capacity building for the implementation of the measures Funding – for initiatives in line with the NSL and action plans Ensuring adequate ownershiip of strategy by stakeholders	International studies reports and local (national and school based) assesments should indicate improvement in levels
	d) Scholarship Schemes	In a small island state where education continues to play an important part of the economic and social agenda, Government has continued to invest in the people's continuing professional development via a number of scholarship programmes:			
	i) Master it!	Master it! is aimed to support an increase in the number of students following post-graduate courses at Masters level. The scheme improves the framework conditions and access to finance for research and innovation so as to ensure that innovative ideas learnt can be turned into products and services that create growth and jobs.	First call was issued in May 2013. Rankings and award of scholarships are expected to be announced by the end of September 2013.	The main challenge is that as ESF funds 2007-2013 come to an end in 2015 and that projects for the 2014-2020 period are not likely to be approved before Q1 2015, there is a possibility that in 2014 such opportunities for scholarships will be lacking.	Priority areas of study were identified. The areas identified are: High-End Manufacturing; Life Sciences; Educational Services; Financial Services; Transportation & Advanced Logistics ; Higher Quality Tourism; Creative Industries; Environment; and ICT.

Main objectives and relevant CSRs	Information on planned and already enacted measures				Foreseen impacts
	List of measures	**Description of the measure**	**Timetable on upcoming steps**	**Specific challenges/risks in implementing the measures**	**Qualitative elements**
	ii) Strategic Educational Pathways Scholarship Scheme (STEPS)	The Strategic Educational Pathways Scholarship Scheme (STEPS) was launched in January 2009. This ESF funded scheme was intended to offer bursaries to address areas of national priority. The four priority axis of the said programme were: Capacity Building in Education; Addressing Skill Mismatches; Research and Innovation in Science and Technology; and Information and Communications Technology. The funds allocated to the STEPS scheme amounted to 9,948,433 Euros.	Completed: This scheme came to a closure with the issuance of the eight and final call in May 2012.	N/A	During the eight calls, a total of 863 scholarships were awarded, of which 82 scholarships were awarded to applicants who wished to pursue studies at doctoral level and 781 scholarships were awarded to applicants who wished to pursue studies at Masters Level.
	iii) Malta Government Scholarship Scheme (MGSS) Post Graduate	The MGSS PG was launched in 2006. The key objectives of this scheme are to: assist exceptional applicants to pursue further levels of academic research; encourage and promote more participation at a postgraduate level of academic research both locally and internationally; contribute towards research in identified areas of national priority; increase research activity at the University of Malta; and increase the capacity and level of research, innovation and development activity in Malta.	Ongoing	The MGSS scheme has a relatively low budget. In fact in 2013, it is likely that 10% only of the applications can be awarded a scholarship. Those opting to continue their studies at doctoral level are more at risk.	Since 2006, 148 scholarships were awarded leading to PhD and 169 scholarships were awarded leading to Masters.
	iv) Malta Government Scholarship Scheme (MGSS) Undergraduate programme	This scheme allows for portability of student support in the form of a scholarship, for students attending degree level studies in the private higher education sector both locally and abroad. The MGSS Regulations were changed to allow those over the age of thirty and those who already started an undergraduate course to be eligible for the scheme. Limits to the number of applicants for this scheme were also removed along with the point system of rankings.	Ongoing		Since it was launched in 2007, 622 students were supported under this scheme.
	v) Malta Arts Scholarship Scheme	This scheme aims to provide more opportunities to support individuals who are exceptionally talented in the promotion of professional performance specialisation in the arts. Theatre, music, dance, design, creative writing, film, the visual arts or any combination thereof are being given priority.	Ongoing. Call for Applications for 2013 has now been closed and a next call for applications is envisaged to be launched in 2014.	N/A	A vibrant arts sector underpins a healthy, open, contemporary society. An energised, growing and sustainable arts community, which spans all art forms and delivers quality outcomes, will sustain an even more demanding leisure industry and is vital to ensure the future cultural, social, intellectual and economic wellbeing of Malta.
	vi) Sport Scholarships scheme	This scheme was introduced in February 2012.	Ongoing. Call for Applications for 2013 has now been closed and a next call for applications is envisaged to be launched in 2014.	N/A	The promulgation of sports at a professional level will promote the development of high performance athletes who will eventually represent Malta in international competitions. The elevation of the status of sport in Malta will not only bring about a wider international recognition with positive economic benefits for the tourism industry but will also encourage the uptake of sport and physical activity across the country resulting in overall improvements in health and well-being of the population as a whole.
	2.1.2. Lifelong learning and Training				
	a) Training Pays	Training will be offered to employees who are on low-income and with no or low skills. An allowance will be provided to all eligible participants who want to improve their job mobility prospects. Through this initiative, beneficiaries will have the opportunity to avail themselves of training while receiving the equivalent of the minimum wage, or pro-rata depending on the duration of the course.	This measures is expected to start in 2014.	The implementation of the measure depends on the allocation of both national and European funds.	Through this initiative, employees who have low income with no or low skills will gain through both a financial incentive for the training followed, and through increased job mobility prospects by developing further their skills and competences.
	b) Lifelong Learning Strategy	The Lifelong Learning Strategy is aimed to provide a framework for the provision of adult education; bring about coordination in this sector by making optimal use of diverse lifelong learning opportunities.	A draft Lifelong Learning Strategy is planned by Q4 of 2013.	The main challenges and risks are to bring about the major service providers in line with this strategy and the stakeholders (mainly employers) to participate.	The Strategy is planned to offer second chance education and together with the ESL Strategy propose new pathways to reduce the number of early school leavers.
	c) Investing in Skills	This training initiative is expected to encourage firms to invest more in their workforce though training activities. Grants will be provided according to the specific course accreditation.	This initiative is expected to commence in 2014.	The implementation of this measure depends on the allocation of both national and European funds.	Apart from the financial benefits, employers will also benefit from a higher skilled workforce, and employees will have the opportunity to increase the skills and competences needed in the labour market.
	d) Enhancing Employability through Training Programme	The aim of this measure is the reintegration of job seekers and inactive persons into the labour market. However, this programme also offers the opportunity to actively employed persons as well as persons of pensionable age to further their existing skills in order to adapt to changing labour market demands and to increase their job mobility prospects.	Calls for the Training Subsidy Scheme and Training Subsidy Scheme Academic were re-issued in the third week of August 2013. The new programme is expected to start in the first quarter of 2014 .	The forseen potential challenge includes matching the heterogenous skills of the applicants with the demand of the labour market. A potential risk may be an inadequate demand fo courses, or an inadequate qualified eligible trainers.	Through this programme, participants will acquire the skills needed to further their employability prospects whilst also enabling older persons to be provided with the opportunity to increase their competences and skills and take an active part in society.
	e) Work and Training Exposure Scheme (Gozo)	The Work and Training Exposure scheme is specifically targeted at the Gozo Labour Market. Person who are inactive and/or registering on part one will be given the opportunity to gain work and training experience with the private sector.	a) Applications were closed in June 2013 due to the high amount of applications and absorption of funds	The envisaged challenge is the matching of the demand and supply in employment in Gozo following participation in this scheme.	Through this scheme participants will increase their employability prospects through the training and practical experience achieved at the place of work.
	f) Employability Programme	The Employability Programme consisted of a number of training initiatives aimed to assist jobseekers, the inactive, and the employed who are interested in upgrading their knowledge. The initiatives will consist of basic skills, work orientation, retraining programmes, traineeships, a training subsidy scheme and a skills assessment system.	Applications have closed. Disbursements to take place till December 2014.	N/A	Through this programme, participants acquired the skills needed to further their employability prospects.
	g) Training Aid Framework	The Training Aid Framework gave financial assistance to those companies that invested in the training of their workforce. This scheme is available for companies in the private sector and the subsidy will vary according to the type of training and the size of the enterprise.	Applications have closed. Disbursements to take place till December 2014.	N/A	Apart from the financial benefits, employers benefited from a higher skilled workforce, and employees had the opportunity to increase the skills and competences needed in the labour market.
2.2. Increasing Labour Force Participation					
2.2.1. Raising Female Participation					
CSR 3: "...Continue supporting the improving labour market participation of women by promoting flexible working arrangements, in particular by enhancing the provision and affordability of childcare and out of school centres."	**a) Universal and free Childcare Centres**	At present, there is a mixture of fee-paying private childcare centres and Government-subsidised childcare centres. Childcare services are offered to children aged between three months and three years. Through a public private partnership, government will offer free childcare to those parents who are in work.	A Cost-Benefit Analysis was presented in September 2013 with the aim to study the financial and economical feasibility of free childcare centres. The measure will be announced in the Budget for 2014.	Reaching out to the target population.	Make-work-pay for low income earners. Improve work-life balance for those who are in work. The CBA finds that if childcare centres are free, mothers in employment will increase hours of work by 22% (or 279,292 hours), and 40.3% (or 489,096 hours) will increase childcare hours. The CBA also discloses: that 51.5% of inactive mothers will work if childcare centres are free, of which 60.4% will work less than 15 hours. After factoring in the required extra carer hours, free child care increases the number of hours worked per annum by 325,841 hours or 173 full-time equivalent jobs. The CBA estimates that offering free childcare to all those who are in work would require a budget allocation of €6.1m while under the scenario where free childcare centres are available to full-timers only, it will cost €2.6m.
	b) Family-friendly measures in the public and private sector aimed at encouraging the use of childcare facilities and thus reducing the employment impact of parenthood - Current and New measures	Maternity leave has been increased from 14 to 16 weeks in 2012 and further increased from 16 to 18 weeks in 2013. Employees are entitled to their full salary for the first 14 weeks. The extra weeks are payable from public finances with a fixed weekly rate of EUR 160. In addition, employees who were on maternity leave on 1 January 2013 but have commenced the maternity leave before the said date were also automatically entitled to this increase. In addition, Government has also adopted a number of family-friendly measures including parental leave.	All family-friendly measures are currently in force.	Although it may minimise inconvenience to some of the employers who benefit from the mentioned family-friendly measures; other workers may feel unfairly treated	Entities are assessed on a set of criteria in order to be awarded the 'Equality Mark'. These criteria include the provision of family friendly measures for employees with caring responsibilities; policies and initiatives on equality and sexual harassment; employee equality representatives; equality in career and personal development opportunities; gender equality in the access to and supply of goods and services. With regard to family-friendly measures, these need to be continuously supported with the infrastructure to pursue policy efforts to encourage the use of childcare facilities and thus reducing the employment impact of parenthood.
	c) Afternoon School Service/Programmes in the Community	An after-school care service – **Klabb 3-16** - which aims to provide an after-school hours' service within school structures; to bridge the gap between day school and regular working hours of parents in employment; and to utilise schools after regular school hours. It is a service for school-age children (3 to 16 years old) which runs throughout the year.	September / October 2013: Opening a further 9 centres to have a total of 30 Klabb 3-16 centres in Malta and Gozo. Recruitment of Homework Tutors to assist children with their homework whilst at Klabb 3-16. Playworker Course at MCAST to be offered to current playworkers employed with FES. October - December 2013: Consolidate the service by developing National Standards for After-School Care. Outreach work with parents to promote the service.	Recruitment of homework tutors (qualified teachers): the challenge is finding enough tutors to cover all the centres. Playworker course: since this is optional, there is a risk that not many playworkers would be willing to take up the course. Outreach work: risk is low participation of parents.	The increase in the number of Klabb 3-16 centres means that the service became more accessible to parents who could not or would not use the service in other localities. Having a network of 30 centres (including 3 in Gozo), will provide an opportunity for parents who had difficulty with balancing their working arrangements with the official school hours. This might lead to an increase in parents changing their working hours (for example, from reduced hours to full-time) or parents who would seek employment or attending training/studies whilst their children are being taken care of.

Main objectives and relevant CSRs	Information on planned and already enacted measures				Foreseen impacts
	List of measures	**Description of the measure**	**Timetable on upcoming steps**	**Specific challenges/risks in implementing the measures**	**Qualitative elements**
	d) Child Development Centre in Gozo	Construction, Servicing, Finishing and commissioning of a centre offering child and youth related services in Gozo.	MEPA permits have been approved and turn-key tendering procedures were issued and successfully completed. Contract signed and contractor instructed to commence works on site. Excavation works are currently in progress, with construction works commencing in the coming weeks. FInishing works and servicing of the building shall then commence. Once the buildign nears completion, tenders for the furnishing of the building shall be issued.	Constant monitoring of the project is essential to ensure that the project is commissioned within specified timeframes. To date, delays have been encountered in the Commissioning phase and due to Archaeological monitoring on site.	It is envisaged that since part of the buildign shall house a child care centre, this would encourage and increase female participation in the Gozitan labour market. The building shall also help on the social formation of youths and adoloscents and thus will contribute to a continued social developmen of the island.
	e) Parenting Credits	Parents born between 1952 and 1961 who took/take a career break to care for their children while under the age of 6 will be entitled to one year of credit per child given they return to employment at least for the number of years entitled to credits. Parents of severly disabled children who take said career break will be entitled to two years of credits per child.	Completed	N/A	Through this measure, parents will increase the contribution average and therefore will be entitled to a higher rate of pension.
	f) Revision of Means Testing for Social Assistance	Before 2011, women whose husbands receive social assistance were discouraged from entering the labour market, even on a part time basis, since income from such a part time job was considered in their means test for social assistance, and so the social assistance they receive would be reduced or in some cases even discontinued should they decide to seek employment. The system was creating disincentives for women to seek employment opportunities or enter into the formal economy. Therefore, in order to address this situation, as from January 2011, part of the income from work for people who are receiving social assistance started not to be considered any longer in the financial means test for the family to qualify for social assistance. The amount of wages which started to be exempted from the means test is equal to the difference between the national minimum wage and the full social assistance rate applicable for two people.	Completed: This measure was implemented by means of a legal amendment introduced by Act IV of 2011.	N/A	The potential impact of this measure was estimated at 300 employees. Due to the employment potential, the measure was expected to be revenue enhancing, potentially generating around €180,000 per annum.Up to end of July 2011, over 68 women whose husband was in receipt of social assistance have benefited from this measure.
	g) Pro-Rata NI Contribution for Part-Time Self-Employed Women	Before 2011, the obligatory minimum national insurance contribution for self-employed people was resulting in a number of women either choosing not to enter the labour market or to work in the informal market to their own detriment in the event of sickness or injury at the workplace. In order to encourage these women to enter the formal labour market, as from 2011, self-employed women working on a part-time basis started to be given the opportunity to choose to pay a 15% pro rata contribution on their income, as in the case of employed persons, instead of the minimum currently stipulated by law. This pro rata contribution also grants pro rata rights for some social benefits benefits being retirement, survivors, invalidity pensions and unemployment, special unemployment, sickness and injury benefits.	Completed	N/A	This measure was projected to increase the number of women in part-time self-employment by around 375. Because of the significant employment potential of this measure, its net fiscal cost was expected to reach€216,000 per annum.
2.2.2. Making Work Pay Measures					
	a) Making Work Pay	In Malta there are approximately 12,000 unemployed persons – 41% of which are defined as long term unemployed. The aim of this measure is to reduce the duration of long term unemployment through the tapering of the benefit system so that claimants do not loose 100% benefit as they enter the labour market.	Both the Ministry for Employment and Education and the Ministry for the Family and Social Solidarity are studying the impact of this proposal with the aim of introducing a system during 2014.	The measures might give rise to anomalies between low-income earners that are already in the labour market and the new entrants because of the tapering system.	The aim is to reduce long term unemployment and reduce the burden of claimants.
		Families where the primary earner is a minimum wage earner, will benefit from an€850 in-work benefit for every child (the benefit can be given a different name) if the spouse takes up a job (working for a minimum of 20 hours and earns a minimum wage or less). This measure is intended to address families with children who are at-risk-of-poverty . Families where both parents are already in-work and are on a minimum wage would still benefit from this measure. The measure also applies to single parents who are in-work.	Under consideration by the Authorities with the possibility of introducing this iniative in 2014.	This measure is not expected to have a negative budgetary impact because the additional social security contributions paid by the employee and the employer are enough to cover the increase of €850 (assuming they have only 1 child). However to ensure 'social fairness' it is advisable that families where both parents are already at work and are on minimum wage, would still benefit from this measure. This benefit could be also extended to single parents in-work and on low income.	This measure is aimed at increasing the aggreggate employment level and hence reducing dependence on social assistance in the long run.
		Primary earners whose spouses are over 40 years of age and enter into work after an absence of 5 years or more from the labour market, would still be eligible to make use of married tax rates, while the income of the spose is not taken into consideration for income tax purposes. This measure is intended to eliminate the increase in the implicit tax rate faced by the primary earner because of a change in tax computation (from married to single tax rates). This measure will last for 5 years	Under consideration by the Authorities with the possibility of introducing this iniative in 2014.	This measure is not expected to have a negative budgetary impact.	This measures is aimed at increasing the aggreggate employment level.
	b) Parent Income Tax Computation	In its budget for 2012, Government carried out an important reform of the income tax system in order to make the labour market more attractive to women. Hence, besides the single and joint computations, Malta has introduced a new category called the "Parent Computation". In order to qualify for this new parent computation, a parent must satisfy these conditions: • Maintained under his/her custody a child or paid maintenance (established or authorised by courts) in respect of his or her child. • Such child was not over 18 years of age, or not over 21 years if receiving full-time instruction at a tertiary education establishment. • Such child did not earn income in excess of€2,400 from gainful occupation.	Completed: This fiscal measure was introduced through Act V of 2012 enacted on 14 May 2012. This is the Act to implement Budget measures for the financial year 2012 and other administrative measures.	N/A	It was estimated that married couples with children will save between€150 and €840 in income tax yearly payments and that more than 55,000 families will benefit through this measure which will result in a decrease of €10 million in government tax revenue. However, the actual impact of this measure can only be effectively gauged in the last quarter of 2013 when the relative tax returns for the year 2012 are processed.
2.2.3. Labour Activation Programmes					
CSR 2: "...Take measures to increase the employment rate of older workers by finalising and implementing a comprehensive active ageing strategy..."	**a) Active Ageing Policy**	On 3rd May 2013, a national Commission for Active Ageing was set up to advise the Government with regards to the National Policy for Active Ageing: Malta 2014-2020. The Commission will be following a 'bottom-up', participatory approach with all relevant stakeholders, as well as the general public. The policy paper is planned to be finalised by the fourth quarter of 2013.	A final draft document is being completed and will be presented to the Parliamentary Secretary for the Rights of Persons with Disability and Active Ageing, and subsequently, to the Cabinet for approval.	The key challenges in implementing the recommendations in the Active Ageing Policy include the efficient coordination of various Ministries and stakeholders in working together towards meeting the government's vision, and the allocation of public funds for the enactment of some of the recommendations.	The implementation of the recommendations inherent in the Active Ageing Policy will ensure that Maltese citizens experience better levels of successful and productive ageing. This will ensure that the quality of life of ageing and older persons improves during the coming years.
	b) Community Work Scheme	This scheme provides the long-term unemployed the opportunity to undertake community work under the direction of local councils, NGOs and Government entities.	Ongoing measure: Interviews and engaging more registrants to perform community work.	Although it is acknowledged that this scheme assists the long-term unemployed to re-integrate into the labour market through a work experience, it is recognised that it is still a challenge for these people to find employment following participation in the scheme.	Through this scheme older workers will be able to upgrade or obtain further skills and improve their employability chances which will indirectly expand the country's economic potential.
	c) Removal of capping on earnings from a gainful occupation for persons in receipt of a retirement pension	Through this measure, pensioners started to benefit from a full pension rate without any deductions irrespective of the rate of earnings from such gainful occupation.	As from January 2014, the gradual increase in pension age will effectively start for persons born between 1952 and 1955 when both male and female persons will reach pension at age 62. Furthermore, the contribution accumulation for the award of a full pension will increase from 30 to 35 years as well.	To attract older workers in legal employment and away from the black eceonomy.	More older workers remain in employment.
	d) Pensioners working part-time for the government will pay 15% income tax	The aim of this measure was to encourage older people to remain active by working longer and retiring later. In this regard, amendments were introduced in the part – time tax rules so that pensioners working part-time with the Government will also become entitled to the 15% income tax rate which is already available to those working part – time in the private sector.	Completed: All the necessary tasks related to this measure are now completed. The legislation regulating part-time work was also amended. This was done through the publication of a Legal Notice 320 of 2012 on 28 September 2012.	N/A	The impact of this measure can only be effectively gauged in the last quarter of 2013 when the relative tax returns for the year 2012 are processed.

Main objectives and relevant CSRs	Information on planned and already enacted measures				Foreseen impacts
	List of measures	Description of the measure	Timetable on upcoming steps	Specific challenges/risks in implementing the measures	Qualitative elements
	e) Broadening Access to Education	The Cottonera Resource Centre, University of Malta, was officially inaugurated in January 2013. Its remit is to empower residents in a socially deprived area, namely Cottonera and Kalkara, so that they consider continuing with their education beyond the compulsary stage.	**Youths:** The academic year 2103-2014 will feature a drive to find more sponsors willing to give money for a library with reading and other audio-visual material which might encourage youth to help educate themselves. If the necessary funds are found, a small internet cafe might be set up since this will enable youth from the area to further their education on their own initiative. **Adults & Elderly:** Non-Credit courses will still be offered to the community for personal development and interest. During 2013-2014 there will be discussions with the University of Malta to find out whether there is the possibiity that those adults who attend a number of courses might be given a form of educational accreditation. In October 2013 a preparatory course, comprising information, relevant skills, some guidance and other support will be given to adults who are interested in furthering their education at university but do not have the necessary entry requirements. In October 2013 elderly residents from the area will be given the opportunity to attend the University of the Third Age at the Cottonera Resource Centre. The Cottonera Resource Centre is aware of the strong role grandparents play in the lives of their children and grandchildren. By educating this age group we might encourage some of these elderly adults to further their education and/or instill the love of education among their kin. The fear is that since a good portion of the residents cannot afford the fee, a good number of them will not even think about signing up.	The implementation of the measure depends on the availability of funding.	To increase participation in post-secondary and tertiary education in regions with low level of participation, with a particular focus on Cottonera, thereby improving the skills profile of a segment of the labor force. The area being targeted is a socially deprived area and hence any improvements in employability are bound to decrease the burden on public coffers through a decrease in the number of benefit claimants.
	f) Access to Employment	Partial wage subsidisation for disadvantaged people with no, or limited skills, in particular those aged over 40.	This measure is expected to start in 2014.	The implementation of this measure depends on the allocation of both national and European funds.	This scheme will assist people who are more at risk of being excluded from the labour market to acquire the skills and experience needed to facilitate their integration into the formal economy. Hence this would enable a sustainable reduction over the long-term of the number of benefits being paid to disadvantaged persons.
3. Prioritising the promotion of a diversified and balanced economy					
3.1. Diversification and Competitiveness					
	a) Maritime Strategy	Develop an Integrated national strategy for Malta. In collaboration with the relevant stakeholders, the Integrated Maritime National Strategy working	Develop the strategy by June 2014	None	The strategy will provide a clear framework for blue growth
	b) Maritime Hub	Development of former Marsa shipbuilding site as a Maritime Hub. (a) Call for Expression of Interest (EOI) Concession for the Development, Operation and Management of the former Marsa shipbuilding site to be developed as a Maritime Hub; (b) Commence evaluation and adjudication of EOI; (c) Formulate utilisation policy of former Marsa Shipbuilding site; (d) Finalise EOI adjudication process; (e) Issue Request for Proposals.	(a) 5th August 2013; (b) 22 August 2013; (c) 16 September 2013; (d) 14 October 2013; (e) 25 October 2013.	(a) The unavailability of complete and full information from proponents may delay process.	(a) Utilisation of unused resources (i.e. former Marsa Shipbuilding site); (b) Employment opportunities for skilled and unskilled persons; (c) Generation of economic activity; and (d) Facilitation of the green economy through the possible partial utilisation of the site for the generation of alternative energy.
	c) Land reclamation	Land reclamation is integral to furthering the infrastructural development of the country. Hence an International Call for EOI for Land Reclamation will be issued.	(i) Collection of EOI by the 6/9/13; (ii) 30/9/13 - Closing date for enquiries and requests for clarifications; (iii) 30/10/13 - Deadline for replies to clarifications;	Maritime and environmental constraints	a) to encourage socially and economically viable projects that may continue to enhance Malta's pre-existing infrastructural setup; (b) to enhance development of local industry and create employment opportunities in Malta;
	d) SME Financing				
	i) MicroGuarantee	The Micro Guarantees scheme shall provide eligible undertakings with the possibility to access funds required for the acquisition of tangible investments, intangible assets and working capital linked to such acquisitions. The Micro Guarantee may only be used to support a new loan, used to finance investment costs approved by the Malta Enterprise, which in total do not exceed €100,000. The scheme is made possible through the collaboration of participating banks that will provide the loan facilities covered by the Micro Guarantee Scheme. Malta Enterprise will not require any security from the beneficiary in respect of the guarantee that will be issued to the bank. However, the bank granting the loan may require that the beneficary secures up to 10% of the loan amount.	To be determined	In order to improve the availability of funds for SMEs and to achieve maximum outreach to such enterprises, such support instruments must be attractive for the financial intermediaries. In this regard, the obligations and the benefits for the financial intermediaries would have to be well-balanced in order to attract them to apply for such instruments.	Limited availability of funds many times prohibits small business from carrying out new investment projects and may consequently lead to the loss of business opportunities. The Micro Guarantee Scheme has the objective to accelerate the growth by facilitating access to debt finance for smaller business undertakings.
	ii) B. Start	As per budget speech, the scheme was intended to encourage existing businesses to benefit from a tax reduction of up to €30,000 for the investment in a new start-up company (seed capital).	To be determined	In order to improve the availability of funds for SMEs and to achieve maximum outreach to such enterprises, such support instruments must be attractive for the financial intermediaries. In this regard, the obligations and the benefits for the financial intermediaries would have to be well-balanced in order to attract them to apply for such instruments.	Limited availability of funds many times prohibits small business from carrying out new investment projects and may consequently lead to the loss of business opportunities.
	iii) Quality+	The Quality+ scheme has been established to encourage Small and Medium-sized Enterprises (SMEs) to continuously improve the quality of their products, services and processes. Malta Enterprise may approve tax deductions (a reduction of the income subject to tax) representing one hundred and fifty percent (150%) of the eligible expenditure incurred for achieving the required improvement. The objective of this incentive is to support undertakings in: a. implementing quality management procedures b. enhancing planning and performance; c. increasing customer satisfaction or d. improving efficiency of functions and processes.	This incentive will be available until the 31st December 2013, yet applications for the applicable fiscal benefit will be accepted by Malta Enterprise until the 31st March 2014.	N/A	The fiscal support that will be available through this scheme should make it easier for businesses to carry out investments that lead to superior products, services of higher value or more efficient processes.

Main objectives and relevant CSRs	Information on planned and already enacted measures				Foreseen impacts
	List of measures	**Description of the measure**	**Timetable on upcoming steps**	**Specific challenges/risks in implementing the measures**	**Qualitative elements**
	iv) Extension of JEREMIE	A further EUR 2m were allocated to the JEREMIE initiative. It is estimated that this addition will translate into a pot of around EUR 11.36m. (EUR 2m -2% EIF administrative fee x 5.8, which is our multiplier effect). JEREMIE loans can range from as little as EUR 25,000, up to the maximum allowed amount EUR 500,000, however average loans are normally of around EUR 70,000 to EUR 80,000. Therefore this additional pot will potentially translate into an additional 140 facilities.	The addendum to the original funding agreement was signed on 19 September 2013 and the financial intermediary was selected.	There should not be any immediate risks since the system is 'tried and tested' with the current JEREMIE allocation.	The foreseen impacts are the availability of more favourable loans for SMEs and start ups. The first JEREMIE initiative was a runaway success and the current allocation was exhausted by June 2013, that is well before the end of the projected implementation period and therefore there was a need and demand for a further allocation to be able to accomodate new loans.
	e) Family Business Act	Developing and drafting the Family Business Act: (a) Consultation Exercise (b) Committee discussions and evaluations (c) Drafting and revision of legislation (d) Consultation and approval from relevant quarters (e) White Paper (f) Redrafting and final amendments if necessary (g) Presentation of Bill to Parliament	(a) July-September 2013 (b) October – December 2013 (c) January – June 2014 (d) July – September 2014 (e) October 2014 (f) November – December 2014 (g) January 2015	Delays or limited feedback at each process	(a) Recognition of family business (b) Curtailment of abuse (c) Security and longevity of family business (d) More economic and financial stability, regulation and control
	f) Global Residence Programme	Proposal to introduce a new tax programme for individuals from non-EU, non-EEA and non-Swiss (third-country nationals) who satisfy minimum criteria as established and who are not in an employment relationship. Such individuals may also hold non-executive posts on the board of a company registered in Malta or partake in activities related to any institution, trust or foundation of a public character or of any similar organisation or body of persons, also of a public character, which is engaged in philanthropic, educational, research and development work in Malta. The proposed legislation should kick start the residence process with non-EU nationals.	Done	None	It will have undoubtedly a beneficial effect on SMEs in Malta and Gozo as it is well known that these type of residents inject funds the economy.
4. Enhancing the competitiveness and transparency of the products and services markets whilst streghtening consumer protection.					
4.1. Addressing skill-gaps					
CSR 3: **"...Increase the labour market relevance of education and training to address skill-gaps, including through the announced reform of the apprenticeship system."**	**a) MCAST ESF-funded projects**	Between the period 2008 and 2015 MCAST has benefited from a number of European Social Fund (ESF) projects with a total allocation of over EUR 30 million. Through these projects, MCAST is making a tangible contribution towards the reduction of the early school leaving rate and the bridging of gaps in the labour			
	i) ESF 1.34 - Addressing Skills Mismatches in the Aviation Maintenance Industry	The aim of this project was that of offering a number of courses in the aviation maintenance sector.	The training and implementation of the project were completed by March 2013.	A principal challenge, which has been successfully overcome, was the creation of the necessary teaching capacity in Aviation Maintenance at MCAST.	This project had a direct impact on the creation of the appropriate human resource base in aviation maintenance industry in Malta.
	ii) ESF 2.85 - Industrial Needs and VET to Optimise Human Capital	Through this project, MCAST is providing targetted training to address current skills shortages in 10 key economic sectors.	Training opportunities will be provided until Q1 2015.	Low participation rate of trainees mitigated through the implementation of extensive publicity measures.	Project is addressing skills shortages in 10 key economic sectors: Pharmaceuticals and Chemicals, Financial Services, ICT, Furniture, Printing, Infrastructure, Food, Beverages, Maritime and Plastics.
	iii) ESF 1.33 – Increasing ICT Student Capacity in Malta	The overall objective of this project is that of ensuring that there is a skilled and trained workforce that is capable of fulfilling the market needs in the ICT sector.	It is envisaged that the project will be completed in 2014.	A challenge, which has been overcome, was linked to the procurement of the training services.	Through this project, MCAST will ensure the availability of a skilled human resource base in the ICT sector.
	iv) ESF 1.36 – Professional Development Programmes for MCAST Staff and Students' Top-Up Degrees	The aim of this project is that of enhancing the professional development of academic and administrative staff at MCAST and the launching of vocational degree programmes for students.	The last two degree programmes have been completed during the last academic year.	The coordination and the effective implementation of these activities.	Through the implementation of this project MCAST is now in a position to offer vocational degrees and as a result provide an additional progression route for students.
	b) Job Practice Scheme for young graduates	Young graduates often find it difficult to make the transition from education to work because they lack the work experience required by employers. This initiative will provide graduates/students a portfolio of skills and experience to improve their job finding prospects.	An Employability Index will be published next year. It will serve to identify underemployment and trends in labour market demand. The index's outcome will provide the basis for the scheme's design.	Funding is subject to ESF.	Improved returns on the human capital investment.
	c) Tapping Future Demand for high skilled jobs	The forecasting of skill gaps is essential to reduce labour market mismatches. The availability of a skilled workforce is paramount to ensure good quality demand for labour. This scheme is intended to identify and address future skills gaps of particular value added.	An Employability Index will be published next year. It will serve to identify underemployment and trends in labour market demand. The index's outcome will provide the basis for the scheme's design.	Funding is subject to ESF.	Improved returns on the human capital investment.
4.2. Raising efficiency in the generation and use of energy					
CSR 4: ***" Continue efforts to diversify the energy mix and energy sources, in particular through increasing the take up of renewable energy...Maintain efforts to***	**a) Financial incentives in particular for solar technology**				
	(i) Feed-in tariffs for PVs not supported through other funding	In its budget for 2013, the government has announced a FIT for PVs not supported through other funding (ERDF or otherwise). These are published on the MRA website: http://mra.org.mt/regulated-tariffs/feed-in-tariffs/	Latest FITs published as per LN 253/2013 published on 27 August 2013.	Lack of awareness.	Help Malta achieve its RES and EE targets, thereby reducing risk of infirngement proceedings. Through increased generation of electricity from RES reduce (if minimally) reliance on fossil fuels.
	(ii) New scheme for PV panels in households	Government provides financial incentives in the form of grants on the initial capital investment made through grant schemes launched from time to time.	Last scheme published in May 2013 and will run up to the end of December 2013.	Low take-up. Scheme runs along same lines of previous schemes.	as above
	b) Wind	This measure addresses two components of wind energy: **a) Macro-wind energy:** There are three proposed wind farms: A 72MW-95MW offshore wind farm at Sikka l-Bajda. The identified site itself faces environmental challenges. The environmental impact assessment has indicated that the proposed development might have a negative environmental impact on avifauna, the site being a main rafting site for the protected Yelkouan Shearwater. In order to address this issue, further studies have been recommended and government has applied for ERDF funds to finance a prototype wind turbine for measuring potential impacts. However, funds for this project have not been approved. The comments that were raised by the local environment and planning authority to the submitted environmental impact assessment were submitted in February 2013. The other two windfarms will be located inĦal Far and Wied Rini. On the former, concerns have been expressed on the impact of its development on birds and bats. An appropriate assessment for birds has expressed concern about the shearwater species.Since the level of knowledge of the interaction of species and wind turbines is low, the precautionary principle applies. The main concerns relate to the displacement/disturbance effects during the operational phase of the project. The appropriate assessment for this project is ready for submission to the Malta Environment and Planning Authority (MEPA). The environmental impact assessment for Wied Rini have been completed in February and have been submitted to MEPA. **(b) Micro-wind energy:** Micro-wind (less than 20 KW) as defined by MEPA guidelines.	With regard to the wind farm at Sikka l-Bajda, MEPA has issued a second set of review comments, indicative timeframes, and a memo highlighting EPD's position on latest EIA and AA submissions. The memo also highlights the emerging difficulties vis-a-vis the project, some of which are relatively clear despite the incomplete EIS, with a view toward assisting the Ministry in deciding whether to proceed further with the project and to what extent. A definite EIA certification date is premature, since this largely depends on the eventual decisions on the way forward, and the sufficiency of the consultants' submissions. With regards to the wind farm at Ħal Far an AA has been recently submitted by Ministry for Energy and is currently being reviewed. MEPA plans to complete its feedback in the coming 2 weeks. For the wind farm at Wied Rini, the Case is still pending the submission of a 1st draft EIS. Ministry representatives have recently been updated on the status of the required submissions.	Environmental Concerns with a strong risk that project may have to be shelved.	as above

Main objectives and relevant CSRs	Information on planned and already enacted measures				Foreseen impacts
	List of measures	**Description of the measure**	**Timetable on upcoming steps**	**Specific challenges/risks in implementing the measures**	**Qualitative elements**
	c) Energy Efficiency in Buildings	BRO to take the necessary measures to ensure that minimum energy performance requirements for buildings or building units are set with a view to achieving cost-optimal levels.	The Building Regulation Office (BRO), on behalf of the Building Regulation Board (BRB) has commissioned cost-optimal studies on the existing national minimum requirements. These studies will be carried out as per methodology described in Commission Delegated Regulation (EU) 244/2012. The following tenders have been issued by the BRO: • Commissioning of study to establish cost-optimal energy performance levels in new and existing residential buildings (Advert 18/2013, closing date 22/02/2013). • Commissioning of study to establish cost-optimal energy performance levels in new and existing Office buildings (Advert 22/2013, closing date 01/03/2013).	Further delays in producing cost-optimality studies	as above
		The Government plans to compile an inventory of central government buildings as required by Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC.	Presentations on the subject were made to all Permanent Secretaries and the information is in the process of being complied service-wide.	In order to meet with the necessary provisions required to implement the EU Directive in gaining 3% annual energy efficiency increase from government-owned properties being used by Government Departments as administrative offices, it is proposed that a new unit to cater for this work manned by employees who have expertise in this field be set up. The Government Property Department (GPD) will also be exploring the possibility of obtaining EU funds to implement the EU directive on other government owned-properties which are not covered by EU Directive 2012/27/EU.	If the information requested is given and the Department is equipped with the necessary expertise and resources it could move to gain an energy efficiency increase from Government-owned buildings
		Build Up Skills Malta project Pillar I, "National Qualification Platforms and roadmaps to 2020": National Status Quo report completed. Pre-final draft of "Roadmap for Energy Training of Workers in the Building Industry" completed. Project identifies extent of training need requirements and proposed measures. Documents and other information available from: www.buildupskillsmalta.com	Final draft of <Roadmap for Energy Training of Workers in the Building> to be concluded in October. Build Up Skills Malta project (Pillar I) will close in December 2013.		Help Malta achieve its RES and EE targets, thereby reducing risk of infirngement proceedings. Through increased generation of electricity from RES reduce (if minimally) reliance on fossil fuels.
		Build Up Skills Malta project (Pillar II): "Qualification and Training Schemes"; The Building Industry Consultative Council (BICC) together with other partners to submit application. Project funded under Intelligent Energy Europe.	Deadline for submission of applications is 28 November 2013.	It is a competitive process. Selection subject to the submission of a good application and competition from other countries.	as above
		Training for Workers in the construction industry: BICC intends to seek funding through ESF using the outcome of Build Up Skills - Pillar I and eventually Pillar II, to support and justify requests for funds.	Seeking of ESF funds for training - ongoing.	(i) Insufficient awareness of the importance of vocational training to enable Malta to achieve 2020 targets. (ii) significant number of people for whom training will be required and hence the amount of resources required. Note: Build Up Skill Project funds are not for the actual training courses; Training will have to be funded from other sources like for example ESF (iii) Reluctance of contractors and building industry workers to spend time and resources on training.	as above
		Malta Enterprise provides interested firms (free of charge) the services of an expert to carry an energy audit of the applicant firms and identify opportunities for energy saving. Auditors would provide advise on potential energy saving measures, indicative implementation costs, and estimated savings that may be gained from the implementation of the recommended measures.	Ongoing.	Low take-up	as above
		NEEAP being revised.	June 2014.	HR limitations	as above
4.3. Transport Policy					
	Energy Efficiency in Transport				
	i) Biofuels in road transport	A biofuel substitution obligation has been imposed on importers/wholesalers of fuel for the transport sector (EN590 and EN228) to place on the market, as a minimum, an increasing share of sustainable biofuel as a percentage of the total energy content of petrol and diesel. The obligatory share for 2012 was equal to 2.5% and that for 2013 is equal to 3.5%. The goal to achieve 10% by 2020.	LN 278/2010 as amended.	Importers may face difficulties in the future. Low Vapour Pressure petrol is not developed and made available in the Mediterranean area; the small market requirement of Malta makes the delivery of biofuel to Malta more expensive; the ISO standard for marine fuels does not suggest biofuels for marine use, resulting in the current anomaly that there are no official guidelines for biofuel use in the marine sector; the average age of the vehicle fleet in Malta is higher than EU average which presents a further challenge relating to compatibility of these new fuels to older vehicles.	Help Malta achieve its RES and EE targets, thereby reducing risk of infirngement proceedings. Through increased generation of electricity from RES reduce (if minimally) reliance on fossil fuels.
	(ii) Encouraging smaller and cleaner modes of transport	The aim of the reformed tax is to further incentivise a younger, smaller and less polluting fleet of vehicles in the Maltese Islands, without causing unnecessary distortions in the market. It is also a main source of revenue for the Government.	This measure is an ongoing one and does not have an end date, as it is the Government's belief that the Motor Vehicle Registration Tax is a tool to mitigate the negative environmental impact and congestion problems posed by motor vehicles.	N/A	It is envisaged that there will be an increase in the demand for Euro 5/6 M1 vehicles and motorcycles This is expected to be coupled with a reduction in the demand of Euro 4 or older cars and an increas in Euro V/VI light commercial vehicle registrations, resulting in lower CO2 emissions.
	(iii) Scrappage scheme	The scheme aims to incentify owners of old passenger cars (M1) and old light commercial vehicles (N1) to scrap these old vehicles and buy a new vehicle in the same category as the one scrapped with the new purchased vehicle being Euro 5/6 and meeting established lower CO2 emissions. The old vehicle must be at least ten years old. The scheme takes the form of grant of €500 and the scheme is open to a maximum of 1,000 new puchased vehicles on a first come first served basis.	The starting date of such a scheme is 01/01/2013 and the end date is 31/12/2013 or earlier when 1,000 valid applications for the grant are received.	None; as long as there is sufficient take up of the scheme.	Less CO2 emissions coming from vehicles.
	(iv) Autogas conversion scheme	This measure involves a one-time grant of EUR 200 to cover part of the Autogas conversion costs.	This measure is in the process of being implemented and is planned to be launched by the end of September 2013.	Discussions are currently underway between Transport Malta, the Finance Ministry and the Malta Resources Authority to finalise the launch of the scheme.	Increase shift to Autogas use to promote cleaner transport.
	(v) Public Transport Reform	Following the launch of the current public transport system in 2011 the number of passengers carried has increased (2010 - 31.3 million passengers to 2012- 34 million passengers). Further improvements to the system should aim at increasing passengers. The Government has entered into discussion with the operator in order to try and find areas where the service can be improved.	Ongoing	Passenger confidence, public resistance to bus priority measures, including limits in road space.	Improved service resulting in modal shift, thereby addressing general road congestion and improving transport efficiency and contributing further to air quality improvements.
	4.4. Justice System Reform				
CSR 5: ***"...Improve the overall efficiency of the judicial system, for example by reducing the time needed to resolve insolvency cases."***	**Justice Reform**	A review of the national judicial system with the aim of recommending reforms as necessary. The recommended measures include: investment in ICT technology and capacity planning; refurbishment of existing courts and the building of a new court in Gozo.	The final recommendations on the Justice Reform to be presented to Government for it to take corresponding decisions is planned for end of October 2013. The Justice Reform is on track with the set target dates.	Government is trying to tap funds from the 2014 - 2020 funding in relation to the national justice reform. If MT does not obtain the full funds, the Maltese Government will have to provide for from its own financial resources.	The recommendations which emerged from the public Consultation with all stakeholders will focus on reforms on all the administrative aspect of the Justice system.

Main objectives and relevant CSRs	Information on planned and already enacted measures List of measures	Description of the measure	Timetable on upcoming steps	Specific challenges/risks in implementing the measures	Foreseen impacts Qualitative elements
5. Ensuring that the public service is not only efficient and cost-effective, but delivers a quality service.					
5.1. Enhancing the efficiency and cost-effectiveness of public service					
CSR 2: "...Improve the efficiency and reduce the length of public procurement procedures."	**a) Simplification Process**	Government clearly stated its intentions that it is not only going to continue with the drive to reduce administrative burdens but it is going to step up gear and see that it looks at all the facets of bureaucracy. Upon taking office Government appointed a Parliamentary Secretary responsible for Planning and Simplification of Administrative Processes. Simplification remains on top of the agenda, thus the decision to retain the simplification activities within the Office of the Prime Minister. Government opted to go a step further by appointing a Commissioner for Simplification so as to focus specifically on this drive. To complement this drive, Government intends to introduce the Sunset Clause for any new legislation which it will be enacting. Government is also working on the introduction of the one-in-one-out principle for legislation.	25% reduction in existing bureaucratic procedures through the better use of ICT and through the elimination of repeated requests for information from different government entities Revision of laws relating to the commercial sector will be undertaken in order to ensure that any dead wood is eliminated. Revision of all existing legislation with the aim of repealing any irrelevant legislation and modifying the other legislation so as to reflect present realities Elimination of unnecessary burdens on the business sector through the re-engineering of processes to reduce the time to obtain permits In order to reduce delays Government will enhance the efficiency and consolidation of its revenue streams through the amalgamation of the various entities into a single authority without compromising the privacy rights of the citizen.	N/A	Reduction in existing bureaucratic procedures will support the Government's overarching objective of achieving sustainable economic growth.
		The administrative burden on businesses in ten select priority areas was measured in accordance with a pan-EU methodology, called the Standard Cost Model. Ministries, Departments, and Authorities agreed on simplification measures and their associated reductions in accordance with the same methodology. As part of the European Social Fund (ESF) project, Malta carried out all the measurements of the administrative burden costs in a number of chosen priority areas. This revealed that the costs involved for the compliance with legislative obligations amounts to €116 million. Administrative costs in the area of environment, company law and value added tax (VAT) represented 66% of the total administrative costs in the selected priority areas.	Achieved	Malta had committed itself to reduce burdens by 15%.	Reduction in administrative burdens was reduced by 15.6%.
	b) National Health Systems Strategy	The drawing up a National Health Systems Strategy (NHSS) for the period 2014 to 2020. The overarching aim of this strategy is to enable every individual to benefit from quality healthcare offered through an accessible, sustainable health system thus contributing to the opportunity to lead a healthy and active life.	To date the National Health Systems Strategy (NHSS) has not been launched. The NHSS is in an advanced stage of development. Political and financial clearance will be sought during October 2013.	Challenge delaying its publication & adoption include outcome of consultations;reaction from stakeholders and general political considerations.	Malta will have a comprehensive strategy document for its national health system for the period 2014 2020.
	c) Monitoring of health system performance	The setting up of a Health System Performance Assessment Framework in collaboration with the World Health Organisation (WHO).	The Ministry is in the process of setting up a meeting with WHO experts to kick-start work on this project.	Challenges include HR , Financial Restrictions, IT, Capacity Constraints.	A health system performance agreement framework providing Government with updated and granular health information that is necessary to ensure that resources are being efficiently utilised.
	d) Improve the efficiency and reduce the length of public procurement procedures:				
	i) Full transition to electronic procurement across Government	Whereas the introduction to e-procurement commenced in late 2011 and continued in 2012, this year all tenders published by the Department of Contracts were e-tenders.	By the end of 2013 all tenders above the EU threshold will be published electronically. In fact, Contracts Circular 9/2013 has already conveyed this message to all Government Departments and in the coming weeks a further Contracts Circular will explicitly target particular Contracting Authorities which until now had no obligation to issue e-tenders.	The risks are particularly related to the sensitivity of the subject itself, being public procurement. The transition is progressing relatively smoothly and one should not expect all stakeholders to embrace the initiative immediately.	The complete transition will modernise the way in which the Government procures its supplies, services and works.
	ii) Improve the efficiency of public procurement	The full transition to e-procurement will undoubtedly bring about increased efficiencies over a number of years. Through e-procurement, effectiveness in terms of savings and reduced litigations will be achieved.	In terms of e-procurement the intention is to complete the transition in the shortest time possible but this must not be done at the cost of good governance. Therefore, planned steps will be taken to complete the transition by the end of 2014. In respect of the other complimentary measures to increase efficiency tools will be in place early next year to monitor the progress.	Risks are related to the deadlines for transition to e-procurement the Department has set on itself and the various Government Organisations. This is particularly related to the availability of the right staff at the right time to deal with the transition in an efficient and effective way.	By measuring the performance of e-procurement, Government will have the necessary information in hand implement the right policies. Also, progress can be benchmarked with that achieved by other EU Member States. A main indicator in terms of effectiveness is the savings made by Government through public procurement, that is, the actual price paid against the reserve price.

Main objectives and relevant CSRs	Information on planned and already enacted measures: List of measures	Description of the measure	Timetable on upcoming steps	Specific challenges/risks in implementing the measures	Foreseen impacts: Qualitative elements
	iii) Reduce the award lead time	Government intends to reduce the award lead time by means of several administrative measures, including as a last resort, the cancellation of a call for tenders in the absence of a recommendation for award within a reasonable time. These actions reflect Government's vision to develop further the strategic capabilities, technologies and leadership in public procurement. To this end, in April 2013 Government commissioned a report which examined the current strategy and operations of the Department of Contracts and identified a number of actions intended to improve the efficiency and capability of the Department and public procurement in general. The report attributes poor efficiency in public procurement processes to lengthy evaluation times, poor procurement planning, quality of tender documents and of evaluation boards, lack of knowledge of procurement regulations, missing capability in both Contracting Authorities and the Department of Contracts, as well as customer service.	The report is proposing the following solutions: • a demand planning process should be put in place • simplification of procedures • setting internal timeframes for delivery in the tender vetting and process chain • establishing an internal quality assurance • set a target to significantly reduce the process time • increase performance-orientation across the board and develop ICT-enabled management systems, scorecards, and time-based service charter • enforce the six-week limit on 'normal' tender evaluations • re-engineer review processes to minimise review time • set a target to reduce drastically the re-evaluation time • resource Contracting Authority procurement managers and missing positions within the Department of Contraacts • start developing a Quality Management System • Improve rotation of tender evaluation committee members • On an ongoing basis, increase eProcurement take up.	The main potential risk is related to the non-compliance or lack of compliance by Contracting Authorities.	The potential benefits of this measure include: • the reduction in the length of the entire procurement process, including the evaluation and review and re- evaluation timeframes • more management control • reduction of errors and rework • a basis for improving capability maturity • better performance monitoring on internal and external stakeholders • reduction in the time taken to collect annual public procurement statistics.
6. Safeguarding the successes achieved by the Maltese financial sector and ensuring it continues to follow rigorous practices.					
6.1. Main regulatory effort in financial services supervision					
CSR 5: ***"Take measures to further strengthen the provisions for loan impairment losses in the banking sector to mitigate potential risks arising from exposure to the real estate market. Maintain policy effort to ensure strict banking sector supervision, including the non-core domestic and internationally oriented banks..."***	**a) Strengthening the banking sector**	The Banking Supervision Unit's remit encompasses oversight over potential risk areas within the local banking sector which could demonstrate heightened levels of risk and which could possibly have a negative impact on the banking system should such risk events materialise. To this effect currently both the MFSA and the CBM are undertaking due analysis within the areas of loan loss provisioning and concentration risk stemming principally from exposures to real estate lending, particularly within the area of commercial and speculative real estate lending.	The envisaged measures will be introduced through changes to current Banking Rules BR/09 and BR/12. Draft texts have already been discussed between the MFSA and the CBM and it is expected that these will be distributed for a one month consultation period with the industry during September 2013. Following this consultation period, the Banking Rules and the provision thereof will come into force by the end of the current calendar year for application by banks for financial year 2013.	The main challenge posed by theamendments is to create a balance between applying a more stringent approach to credit risk without exerting undue pressure on the banks' intermediation role in the economy.	These measures will serve to increase the banks' provisions and the allocation of capital buffers where required to support the relevant risks.
	b) Ensure strict banking sector supervision including for the non core domestic and internationally oriented banks	The MFSA does not distinguish between the different categories of banks and the regulatory and prudential requirements are identical for all the credit institutions, irrespective of their category. In this regard, the process and procedures applied to the domestically oriented banks with regard to the MFSA's oversight, are also applied similarly to the non-core banks and the internationally oriented institutions.	N/A	N/A	N/A
6.2. Strengthening provisions for loan impairment losses					
	Further strengthening the provisions for loan impairment losses	Draft measures within the BR/09 are intended to further strengthen the impairment allowances against impaired facilities to cover the uncollateralised portions. Within the methodology of BR/09, banks will be required to apply more conservative valuations of such collateral backing impaired loan facilities. As indicated, collateral is a determining factor in establishing the extent of impairment allowances that need to be created whenever recovery of a credit facility is in serious doubt. This aspect may be considered as the first pillar which has been set within the draft BR/09 which dictates that banks should apply caution and be conservative when taking into consideration the valuations of the immovable property.	The expected implementation dates are in line with what has been stated above. Amendments to the Central Bank Act to appoint deputy Governor on financial stability and recognised by law the current fiancial stability board between the MFSA and the CBM.	As above	As above
	f) Global Residence Programme	Proposal to introduce a new tax programme for individuals from non-EU, non-EEA and non-Swiss (third-country nationals) who satisfy minimum criteria as established and who are not in an employment relationship. Such individuals may also hold non-executive posts on the board of a company registered in Malta or partake in activities related to any institution, trust or foundation of a public character or of any similar organisation or body of persons, also of a public character, which is engaged in philanthropic, educational, research and development work in Malta. The proposed legislation should kick start the residence process with non-EU nationals.	Done	None	It will have undoubtedly a beneficial effect on SMEs in Malta and Gozo as it is well known that these type of residents inject funds the economy.

Expenditure and Revenue Targets
(General government expenditure by function)

Appendix Table 4.c.i

General government expenditure on education, healthcare and employment

	Year t		Year t+1	
	% GDP	% general government expenditure	% GDP	% general government expenditure
Education [1]	6.2	13.9	6.3	13.9
Health [1]	5.9	13.3	6.0	13.3

[1] These expenditure categories should correspond respectively to items 9 and 7 in table 4.c.ii)

Expenditure and Revenue Targets
(General government expenditure by function)

Appendix Table 4.c.ii — % GDP

Classification of the functions of the Government

Functions of the Government	COFOG Code	2013	2014
1. General public services	1	7.0	7.1
2. Defense	2	0.9	0.9
3. Public order and safety	3	1.5	1.6
4. Economic affairs	4	5.1	5.2
4. Environmental protection	5	1.4	1.4
6. Housing and community amenities	6	0.3	0.3
7. Health	7	5.9	6.0
8. Recreation, culture and religion	8	0.9	0.9
9. Education	9	6.2	6.3
10. Social protection	10	15.3	15.5
11. Total Expenditure (= item 2 in Table 4.a)	TE	44.6	45.3

4. Distributional Implications of Budget Measures

4. Distributional Implications of Budget Measures

The new Government is committed to the principle that economic prosperity and wealth should be felt and enjoyed by all. This principle underpins the plans for fiscal consolidation outlined in the Draft Budget for 2014. The Budget is presenting a set of tax-benefit measures which address the social dimension by addressing the following policy objectives.

4.1 Improving Employability

Being in employment is a key factor in determining the standard of living of households and helps reduce poverty. Statistics from the Survey on Income and Living Conditions 2011 indicate that the risk of poverty rate is negligible for households in employment. This Government is proposing a series of policy changes in the benefit system aimed to reduce disincentive to work for specific groups, in particular widows, single parents, the long term unemployed and older workers. The Government is seeking to introduce the tapering-off of benefits for the long-term unemployed to remove the high marginal tax rate for persons entering the labour market. Government is also continuing, with the widening of the income tax bands for the 25 per cent tax bracket to include a proportion of those who were previously in the 35 per cent tax bracket. This measure will also contribute to raise incentive to work, by raising post-tax disposable income of many middle income earners.

Investment in human capital is also important in determining the employability of the workforce. In this regard, Government is planning specific work and training programmes addressing particular groups with a specific emphasis on the problems of the Gozitan labour market. Government is also committed to raise the number of persons in tertiary education through the development of scholarship schemes and the launching of Lifelong Learning Strategy.

Enabling a better work-life balance is also important in enabling specific groups, notably parents, to remain in the labour market, whilst fulfilling their family responsibilities. In this regard, Government is widening access to childcare facilities to allow working mothers to enter the labour market and the introduction of initiatives to open school earlier and provide support for longer hours to help working parents with childcare.

4.2 Improving Quality of Life for Senior Citizens

Government is committed to improve the quality of life for our senior citizens, in particular by supporting the income of specific groups of pensioners as well as the services offered for the care of elderly. In this regard, Government is investing in the facilities for the care of the elderly, both the long-term care residences as well as day care centres. Many of the social measures are intended to assist the elderly to stay at home thus helping ease the burden on government institutions.

4.3 Improving Quality of Life for Persons with Disability

Government is also committed to enhance the quality of life for persons with disability. This will be carried out by supporting the benefits received by parents of children with disability, as well as enabling households to continue providing care to disabled persons within the confines of their home. Any provision in home will not only benefit the person with special needs but will also lower the cost of the care required.

Government is also extending the services provided by public agencies in investing further in facilities, extending the provision of community-based residences, extending the capacity of day centres and expanding respite care for parents of persons with disability.

4.4 Improving Quality of Life for Families

The Government makes it its priority to improve services aimed at addressing the family by consolidating existing services, the provision of crisis intervention, other support beyond office hours and the development of further community-based services. Government is providing additional resources for public housing. This Administration is also introducing taxation measures intended to incentivise voluntary third pillar pension savings, thus enabling individuals to enhance the future adequacy of their retirement incomes.

Government is also enhancing the quality of life of Maltese families and households through the extension of incentives aimed at raising energy efficiency as well as measures to reduce the use of energy at home. Such measures will help reduce household expenditure on energy and thus support disposable income.

4.5 Illustration of the Quantitative Impact of a Selection of Budget Measures

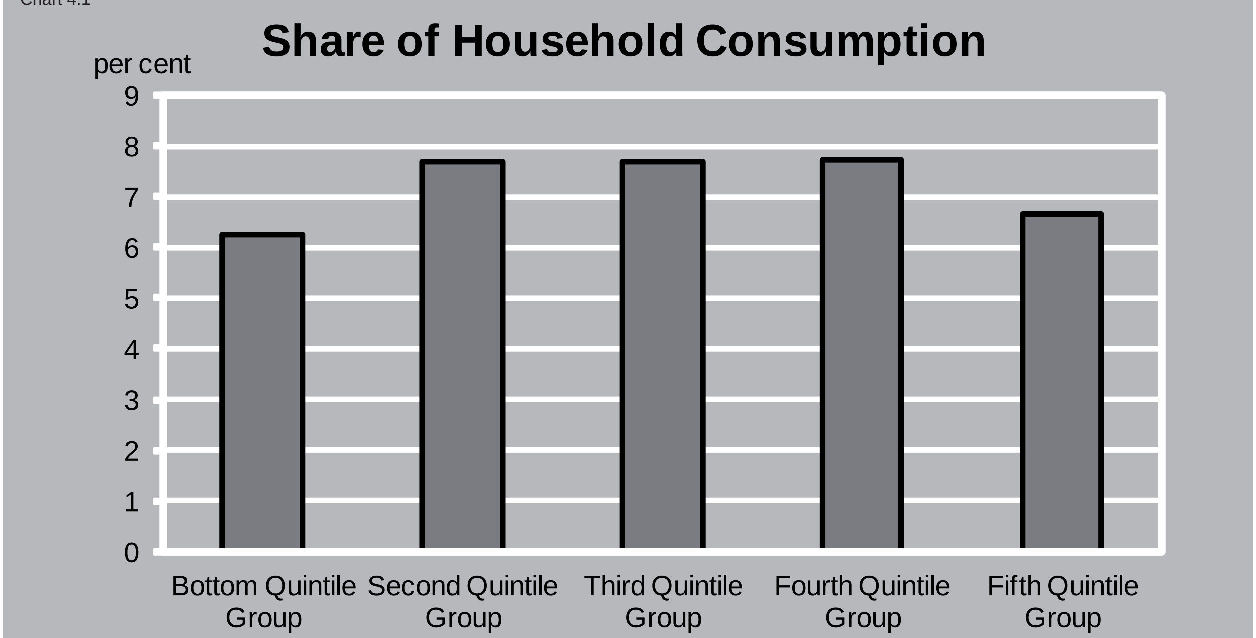
4.5.1 Revenue Measures

Focusing on a selection of indirect tax measures being proposed in this document, data from the latest Household Budgetary Survey indicates that the share of consumption for the product categories affected by the tax measures is the lowest amongst households in the bottom quintile of the income distribution, with the strongest impact being for persons in the fourth quintile. As illustrated in Chart 4.1, these statistics indicate that the incidence of taxation for a selected group of products for which quantification could be applied, finds that this selection of indirect tax measures is rather progressive.

At the same time, Government is continuing, with the gradual marginal widening of the income tax band announced in the original 2013 Budget. This widening in the income tax bands, programmed over three years, will not affect household income after taxation for persons living in households in bottom and the second quintile. In fact, the majority of the benefits from the widening in the income tax bands will accrue to persons living in households in the top quintiles of the income distribution.

Government is aware of the regressivity of this measure and has partly mitigated its impact by ensuring that as from 2013, persons earning a chargeable income from employment not exceeding the national minimum wage, including the statutory bonus, would be excludable from income taxation.

Chart 4.1



Source: NSO, Household Budgetary Survey

4.5.2 Expenditure Measures

The impact of a selection of expenditure measures addressing social cohesion is assessed on the basis of a simulation based on SILC 2012. It is estimated that the bottom 20 per cent household income earners (P20) and the P40 household income earners will experience a relatively stronger increase in income when compared to households in the top quintiles of the distribution, as shown in Chart 4.2. This finding indicates that these measures will have a progressive impact on the distribution of income. Furthermore, the upper threshold of income of the bottom 20 per cent household income earners will increase more sharply than that the bottom thresholds of richest 20 per cent households. From this we can expect that relative poverty stands a good chance to decrease a little bit because of these measures. In addition, simulations indicate that these measures are expected to be effective in lifting some elderly persons (living in households) out of poverty.

Excluded from this analysis is the promised measure whereby Enemalta, a government owned corporation, would be reducing the electricity tariff by 25 per cent. While this will be carried out without any funding from the government it will have a significant progressive effect on disposable income.

As indicated above, this quantitative analysis is partial since not all measures could be included. Further work will be carried out in this field.

Chart 4.2