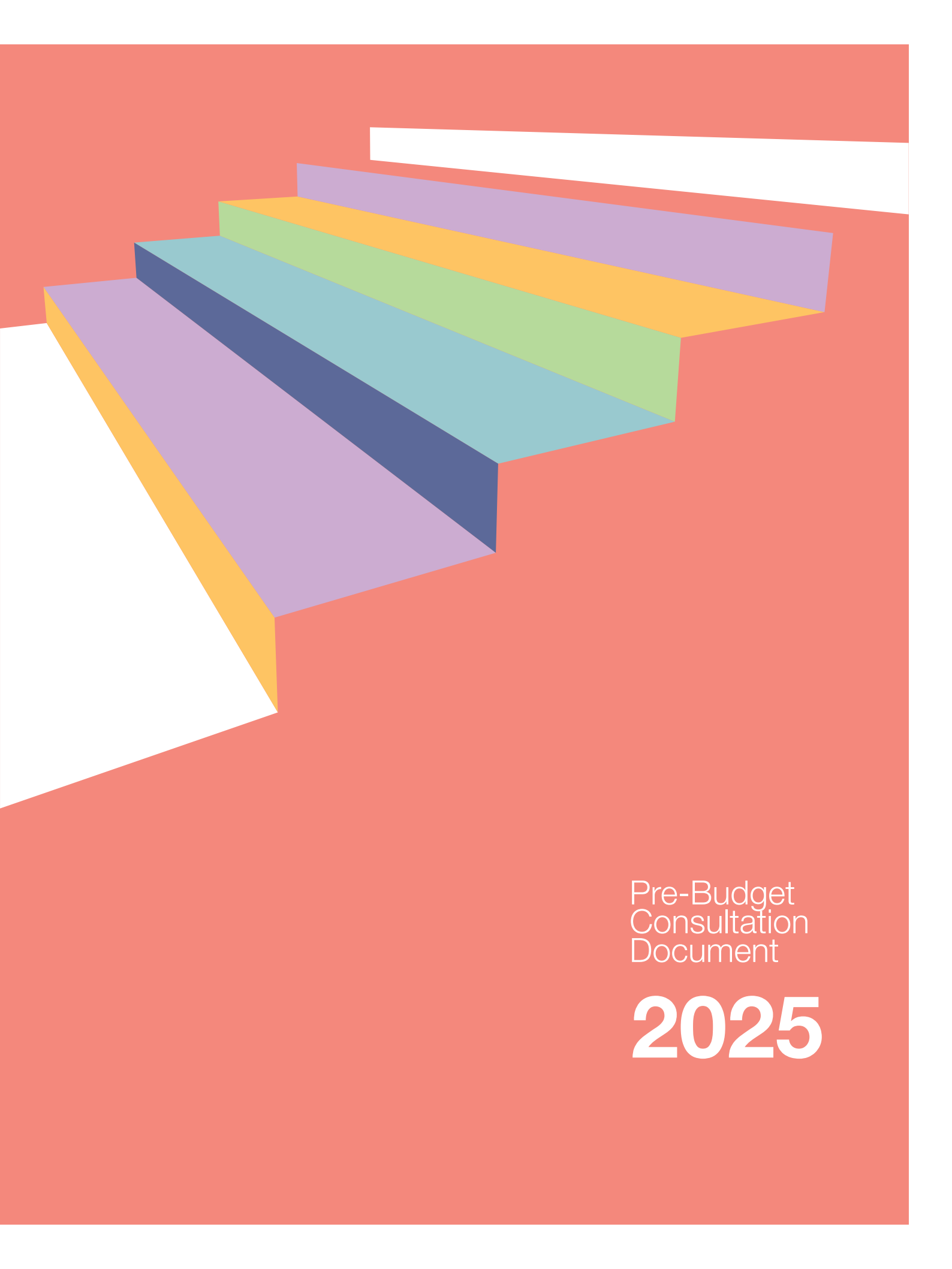




Pre-Budget
Consultation
Document

2025

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September 2024



GOVERNMENT OF MALTA
MINISTRY FOR FINANCE

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As we embark on another annual financial cycle, it is crucial to remember the significant influence of external factors in a globalised world on our economy.



Foreword

We continue to witness a complex and mixed economic landscape at a global level, with some regions demonstrating resilience while others are grappling with a deepened crisis. Inflation has remained another persistent concern, albeit this has also been cooling off in some countries.

In terms of surrounding politics, the ongoing conflicts and power struggles, particularly in Eastern Europe and beyond, in Asia, together with the complexity of the relationship between the United States and China, continue to leave lasting impacts on trade and competition. The disruption to traditional sectors and the implications on the labour market that emerge from technological advancements, including predominantly Artificial Intelligence, remain open and evolving debates.

Another persisting and pressing global matter with varying local implications is climate change. As extreme weather events become more frequent and severe, this subject retains its importance in various agendas, including those of governments and businesses, who are continually being pushed to reconsider their strategies and investments in sustainability and resilience, especially as ESG considerations take further prominence.

Despite the challenging global environment, the Maltese economy has proven its resilience. Reflecting on the economic activity of 2023, this increased by 7.5 per cent in real terms and 13.2 per cent in nominal terms, outpacing the growth rates of both the EU and the Euro area. The confirmation of Malta's credit rating at an A+ level by reputable credit rating agencies is another testament to the country's robust recovery from the pandemic, driven by high per capita income and solid economic growth. Over this year, the Maltese economy is projected to continue along its expansion path, with a real growth rate of 4.9 per cent, driven by strong exports, robust domestic demand, and significant tourism flows, offering a promising outlook for the future.

Malta's principal short- to medium-term vulnerabilities remain intrinsic to our design. Exposure to external shocks due to our small and open economy poses challenges unless managed carefully. The Government is also closely monitoring the expansion in low-wage sectors and labour and skills shortages, which could dampen economic growth. Additionally, and critical throughout the next financial cycle, is the Ministry of Finance's action to align its fiscal policies with the revised EU Economic Governance Framework.

Malta's current economic model, reliant on tourism, real estate, and professional, financial and gaming services, has served us well but also exposes us to vulnerabilities. Diversification is essential to future-proof Malta's economy. We aim to shift towards more sustainable and innovative sectors, such as green technology, renewable energy, and digital innovation. These areas promise sustainable growth while aligning with global decarbonisation and technological advancement trends. A diversified economy would also be more resilient to external shocks, providing stable, high-value job opportunities.

Investing in education and skills development is crucial to support a diversified economy. Focusing on technology, green jobs, and digital skills will prepare our workforce for future demands. A more inclusive economic model is also crucial, involving policies that promote fair wages, affordable housing, and enhanced social services to ensure broad-based economic benefits. We must continue to build upon the Government's strong commitment to social protection, which has been demonstrated in recent years by responding effectively to the challenges posed by the pandemic, high inflation, and other adverse international developments.

Our commitment to adequate infrastructure is evident in the substantial investments across key sectors, including energy, transport, waste management, and water management. In 2022, Enemalta launched a €90 million investment program to strengthen the energy distribution network, which was more than doubled in 2024 to accelerate its implementation. Investments in utility-scale Battery Energy Storage Systems (BESS) will support the integration of renewable sources, enhancing energy security and complementing the second interconnector project.

Urban greening projects and advanced waste management solutions, including the ECOHIVE complex, are integral to our sustainable future vision. These initiatives aim to reduce carbon emissions, bolster energy security, and create greener spaces.

Despite global uncertainties, we remain committed to economic growth, social well-being, and environmental sustainability. The strategies outlined in this Pre-Budget Document are designed to strengthen Malta's economic foundation while enhancing the prosperity of all citizens. By embracing diversification, sustainability, and inclusivity, we are positioning Malta to thrive in an increasingly complex global landscape, safeguarding the interests of future generations.

This fiscal planning cycle shall also take into consideration the new Excessive Deficit Procedure rules which have been introduced by the European Commission. My Ministry is very clear in its intentions of achieving these targets, since we have planned for their achievement, diligently and rigorously in the post-pandemic years. I can also state with confidence that our plan is to deliver yet another socially-just budget, which continues to provide our households and businesses with the right conditions to prosper. There shall be no shock to our economic trajectory but rather our Government's trademark peace of mind and continued stability.



Clyde Caruana
Minister for Finance





Sustaining a Robust and Resilient Economy

The world economy defied all warnings of a global recession in 2023, remaining relatively resilient in the face of persistent challenges.

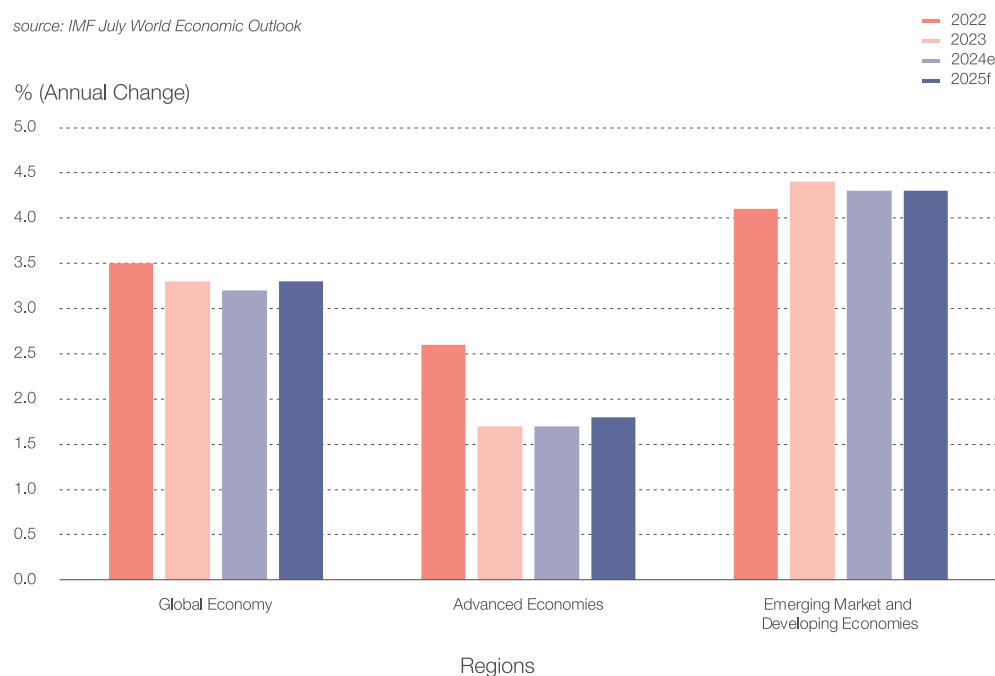
1.1 International Economic Scene

Despite geopolitical tensions and tight financial conditions, which continued to cause elevated uncertainty, global economic activity increased by 3.3 per cent in 2023, while first quarter data for 2024 surprised on the upside according to the International Monetary Fund (IMF) World Economic Outlook July 2024. The resilience of the global economy comes on the back of a strong recovery in services and favourable demand conditions, supported by strong labour markets.

Fig 1.1

Economic Growth by Region

source: IMF July World Economic Outlook



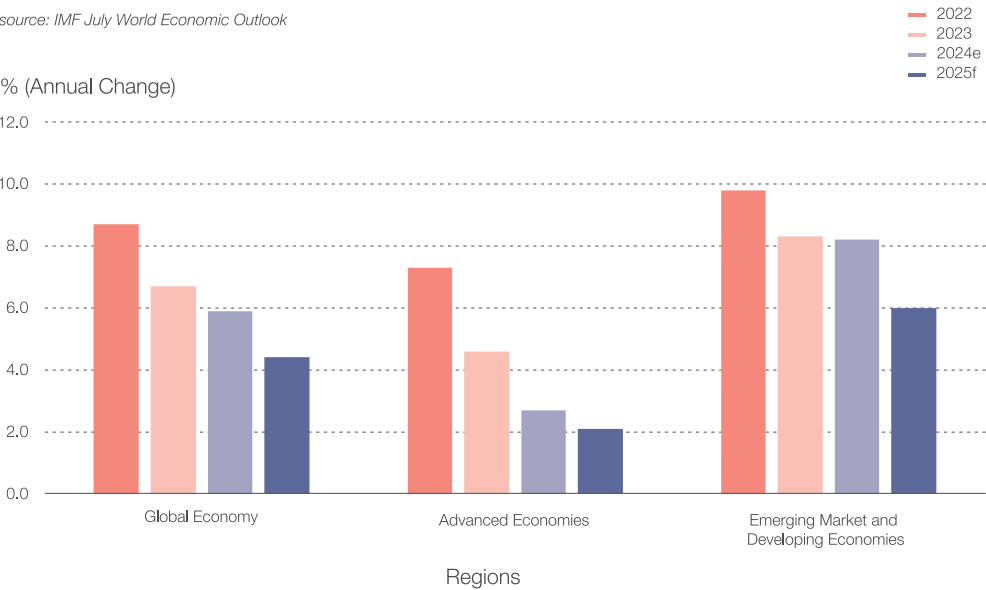
Financial conditions remained significantly tight when compared to historical standards, yet substantial savings accumulated during the pandemic limited the impact of higher borrowing costs on consumption. At the same time, monetary tightening, coupled with the declining effects of past commodity price shocks, brought down the elevated inflation, which in turn supported the recovery in household purchasing power. Nevertheless, manufacturing remained subdued, as suggested by sluggish growth in large industrial powerhouses such as Germany, affected by a normalisation in consumption patterns and trade restrictions.

While inflation is expected to continue on its downward trajectory, disinflation momentum appears to be slowing down due to persistent price pressures in services. Renewed trade or geopolitical tensions could reignite inflation and impinge on economic growth. This is evident in the rise in global transportation costs after attacks on commercial ships in the Red Sea.

Against this background, global economic activity is projected to increase by 3.2 per cent and 3.3 per cent in 2024 and 2025 respectively, according to the IMF. This indicates a stabilisation in the pace of expansion and is relatively low when compared to historical standards. The moderation in growth reflects the lagged transmission of high borrowing costs through the real economy, in addition to the expected withdrawal of sizable fiscal support as economies recover from the effects of past crises. Inflation is expected to return to the 2.0 per cent target in advanced economies, although upside risks to inflation, including labour costs and geopolitical tensions, are raising the prospect of higher-for-longer interest rates.

Fig 1.2
Global Consumer Prices by Region

source: IMF July World Economic Outlook



In 2023, economic activity in the European Union (EU) stagnated as some economies entered into a mild recession, partly due to the lingering effects of the energy price shock, which had a disproportionate impact on European economies. In turn, this led to weak consumer sentiment, while the external side also showed weakness in view of subdued manufacturing. During the first months of 2024, the EU economy started showing signs of a rebound, driven by private consumption helped by the rise in real income as inflation continued to moderate. In fact, the EU economy is projected to gradually pick up pace after a period of stagnation, growing by 1.0 per cent and 1.6 per cent in 2024 and 2025 respectively, according to the European Commission Spring 2024 Forecast. In addition, the disinflationary process in the EU has taken hold at a faster pace than previously anticipated, and inflation is expected to return to the 2.0 per cent target by the end of 2025.

1.2 Local Scene

1.2.1 Economic Growth

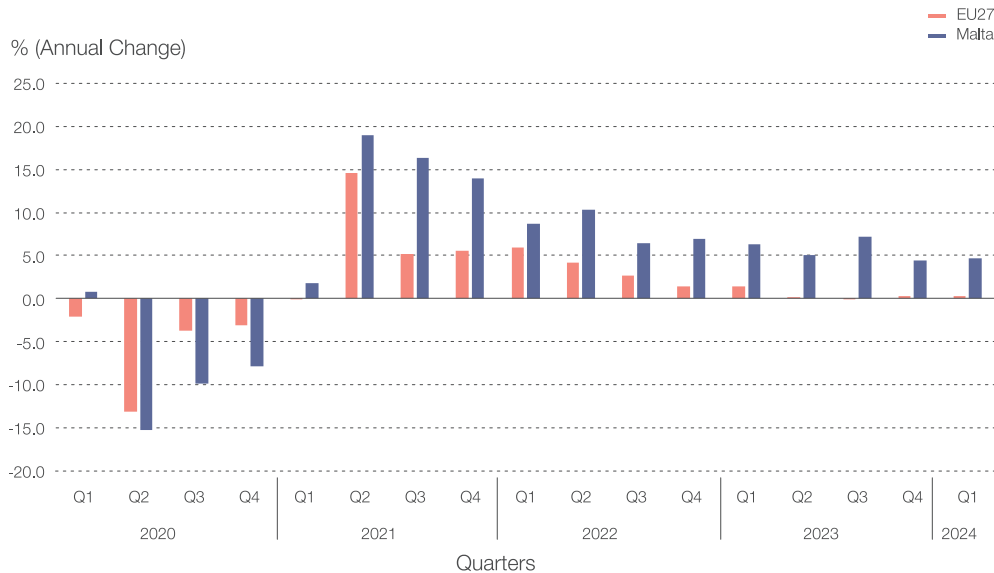
Despite the weak external environment, the Maltese economy proved resilient in 2023, as economic activity increased by 7.5 per cent in real terms and 13.2 per cent in nominal terms. Malta's real economic growth in 2023 stands out in comparison to a growth rate of 0.4 per cent recorded in both the EU and the Euro area (EA).

Malta's economic growth was primarily driven by the external side of the economy, contributing 6.5 percentage points to real GDP growth. Consequently, the external side of the economy was relatively unaffected by the external slowdown, as export-oriented sectors maintained their competitiveness, coupled with a strong recovery in tourism. Moreover, domestic demand contributed 1.0 percentage point to growth driven by private consumption which was supported by a resilient labour market. In contrast, investment declined due to substantial one-off investment in transport equipment during the previous year, producing a base effect.

Fig 1.3

Real GDP Growth

source: Eurostat



The Maltese economy continued to outperform in the first half of 2024 as real GDP increased by 5.9 per cent. Domestic demand was the primary driver of growth, contributing 3.3 percentage points, while net exports contributed 2.6 percentage points. Strong domestic demand reflects positive consumption developments as households' purchasing power is recovering in view of the disinflationary process while the labour market has remained buoyant. Nonetheless, consumption appears to be normalising, following a period of strong increases owing to temporary demand-side factors, including pent-up demand and the use of excess savings accumulated during the pandemic.

During the first half of 2024, Gross Value Added (GVA) increased by 7.7 per cent. Growth was broad-based across most sectors of the economy and was particularly led by the services sector which contributed 7.6 percentage points, reinforcing itself as the main source of growth of the Maltese economy. The best performing sector was the Real estate activities sector, which grew by 17.1 per cent, followed by Financial and insurance activities at 12.4 per cent and the Construction sector at 11.1 per cent.

1.2.2 The Labour Market

Employment growth in 2023, as measured by the Labour Force Survey, reached 5.3 per cent when compared to the previous year. Such employment growth is on the backdrop of strong economic activity and the Government's stance on active labour market policies.

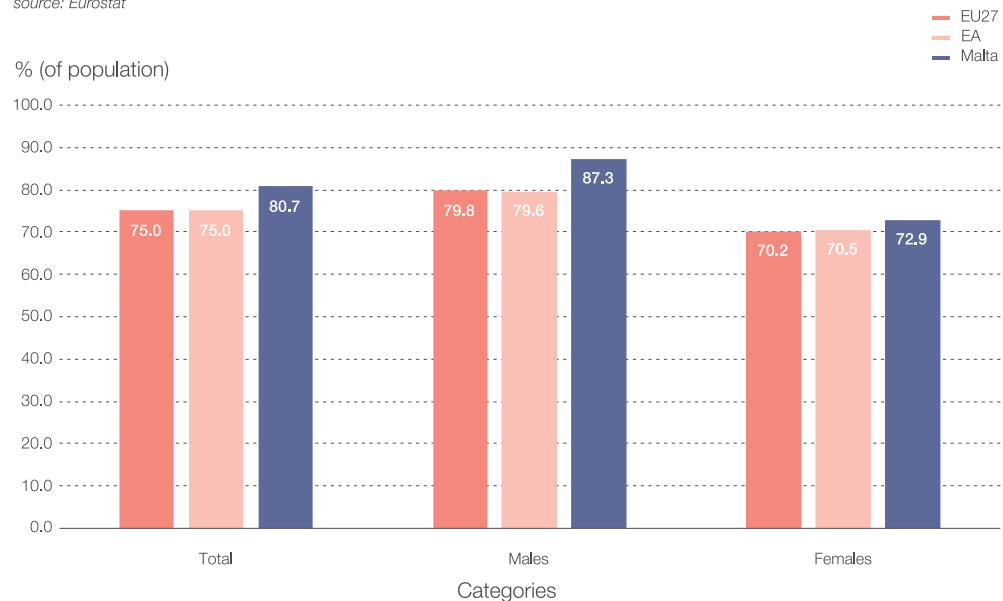
A decomposition of such a trend reveals that, the female participation rate remained relatively unchanged in comparison to 2022, whilst the male participation rate increased slightly by 1.1 percentage points.

The overall participation rate for Malta increased to 80.7 per cent in 2023 from 79.3 per cent in 2022, remaining significantly higher than the European average of 75.0 per cent and ranking fifth amongst the 27 EU member states. This trend persisted in the first quarter of 2024.

Fig 1.4

Participation Rates by Gender, 2023

source: Eurostat

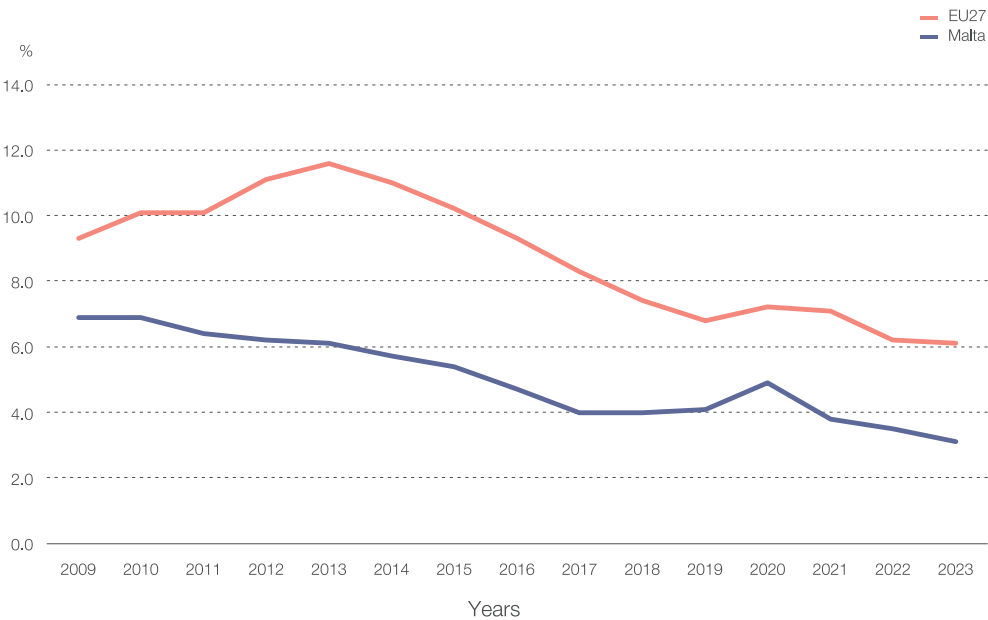


Employment remained strong in the first quarter of 2024, registering a growth rate of 4.6 per cent compared to the corresponding quarter in 2023. The unemployment rate demonstrated a consistent yet abating decline, and in 2023, the unemployment rate reached a low level of 3.1 per cent, 3.0 percentage points below the EU27 average.

This number illustrates the existence of a labour shortage while simultaneously reflecting a strong and resilient economy. With the lowest unemployment rate among its European peers, by July 2023, Malta continued its downward trend over the first half of this year, reaching 3.1 per cent. Malta also performed well in terms of youth unemployment in 2023 (ages 15 to 24), with a rate of 9.1 per cent as opposed to the EU average of 14.5 per cent.

Fig 1.5
Developments in the Unemployment Rate

source: Eurostat



Malta's economy has undergone significant transformation over the past decade, driving strong demand for labour, boosting productivity, and achieving full employment. With high participation rates, low inactivity, and an ageing population, labour migration has become crucial, with foreign workers now comprising a third of the workforce.

They fill critical skills gaps, support growth, and enable local workers to move into higher-skilled roles, contributing to Malta's sustained progress and its competitiveness.

After a decade of remarkable transformation, Malta is poised to take the next step in its economic development. In this context, the Government has begun revising its labour migration policies to meet future challenges. The new policy will seek to better align migration with the actual needs of the labour market.

The updated strategy will be guided by four key principles: prioritising the needs of those already contributing to the economy and encouraging the upskilling and reskilling of employees, safeguarding workers' dignity, promoting stability and retention, and by adopting a skills-based approach that identifies which industries need additional workers and which are adequately staffed, ensuring long-term sustainability.

1.2.3 Trade

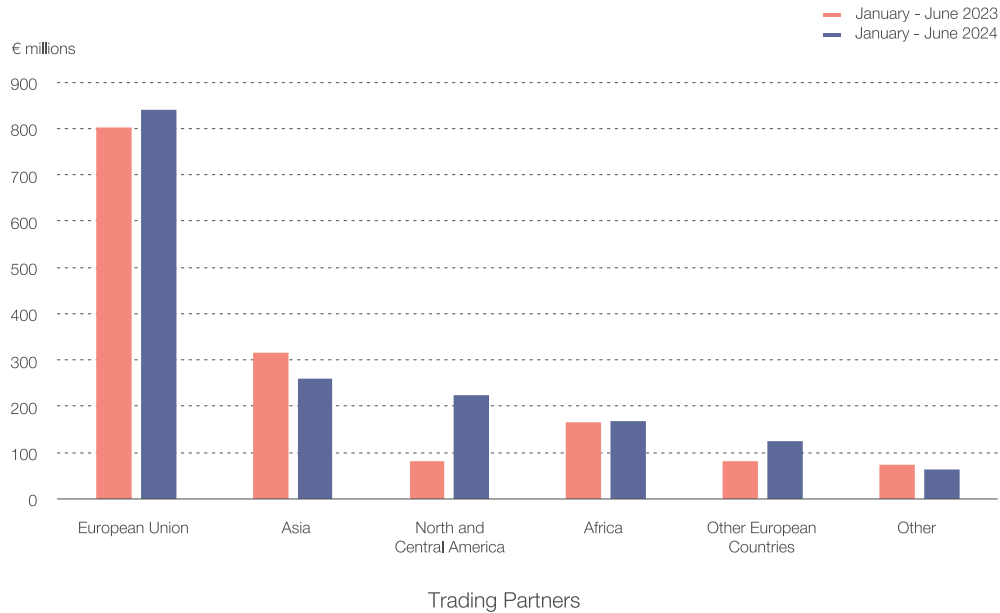
The balance of trade between January and June in 2024 improved by 6.9 per cent relative to the corresponding period of the previous year, with the improvement pertaining to a rise in exports by 8.3 per cent, a figure that outweighed the rise in imports of 0.8 per cent. Apart from the Mineral fuels, oils and products category, Electrical machinery and pharmaceutical products remained Malta's largest exports.

When comparing the first six months of 2023 with those in 2024, whilst the Electrical machinery category registered a decline of 5.2 per cent, those related to pharmaceutical products registered an increase of 7.0 per cent. Additionally, in 2024 a surge in exports of Aircraft/spacecraft and parts thereof and Ships, boats and floating structures were noticed, relating to one-off large transactions which impact the figures substantially. For the period January to June 2024, excluding the Mineral fuels, oils and products category, Malta's largest imports were registered from the Electrical machinery and Ships, boats and floating structures categories. These increased by €51.1 million and €112.1 million respectively relative to the same period in 2023.

Fig 1.6

Exports by Trading Partners

source: National Statistics Office (NSO)

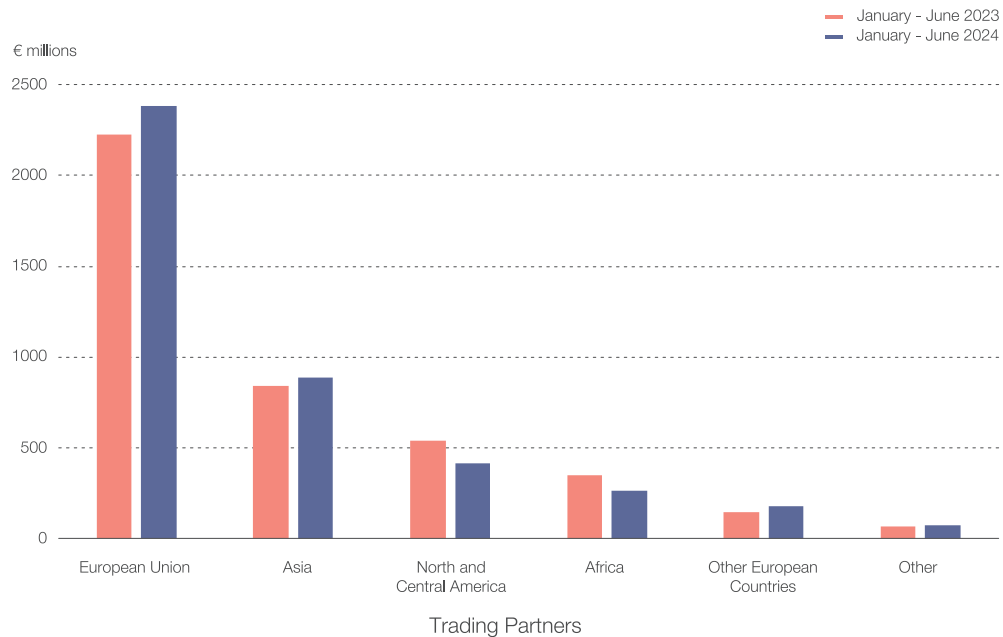


Statistics by trade partner, as shown in Figures 1.6 and 1.7, indicate that the EU remains the largest trading partner for Malta, with both imports and exports increasing in the January to June period of 2024 over the corresponding period in 2023. Trade patterns have not changed to any significant extent in this case. While increases in exports to North and Central America can be noted, these are with respect to one-time transactions relating to the Aircraft/Spacecraft and parts thereof category.

Fig 1.7

Imports by Trading Partners

source: NSO



The balance of payments account shows the receipts and payments between Malta and the rest of the world for a particular period. International transactions are a result of different flows attributed to:

1. The Current Account
2. The Capital Account
3. The Financial Account

The Current Account shows the change in net foreign wealth as a result of inflows and outflows of exports, imports, and incomes. Over the years, given Malta's location, size and specialisation in terms of the services sector, Malta has persistently recorded net exports in the services sector and net imports in the goods sector.

Despite the current account deficit recorded in the first quarter of 2024, there was a significant improvement of 1.7 percentage points of GDP from the corresponding period in 2023. Such developments relate to improvements in the goods and primary income balances of 1.7 percentage points and 0.6 percentage points respectively. On the other hand, the services balance worsened by 0.5 percentage points.

The fall in the services net export balance is a result of a fall in exports of Personal, cultural and recreational activities and Transport. Financial services contributed positively to the services balance where net exports as a percentage of GDP increased from 2.2 per cent in 2023 Q1 to 3.8 per cent in 2024 Q1. Net payments in the Primary Income Account fell by 0.6 percentage points from the same quarter a year ago, largely owing to a decline in the direct investment net payment balance which contributed to the reduction of the current account deficit.

Fig 1.8
Current Account Balance
and its Components

source: NSO, Ministry for Finance (MFIN)



1.2.4 Tourism

Malta's tourism industry has rebounded strongly. It's exceeding pre-pandemic levels earlier than forecasted with further growth prospects in the upcoming months. The hospitality sector has provided the necessary impetus for Malta's economic growth which is expected to outperform other Member States in 2024 and 2025.

In 2023, the tourism sector exceeded pre-pandemic levels with inbound tourists amounting to 3.0 million. This translates to a 30.1 per cent increase on the previous year, and an 8.1 per cent increase on 2019 levels. Such growth was underpinned by tourists from Italy, Germany and the United Kingdom, accounting for almost half of the total increase. Moreover, expenditure per tourist stood at €897.8 in 2023, while the average length of stay decreased to 6.8 days.

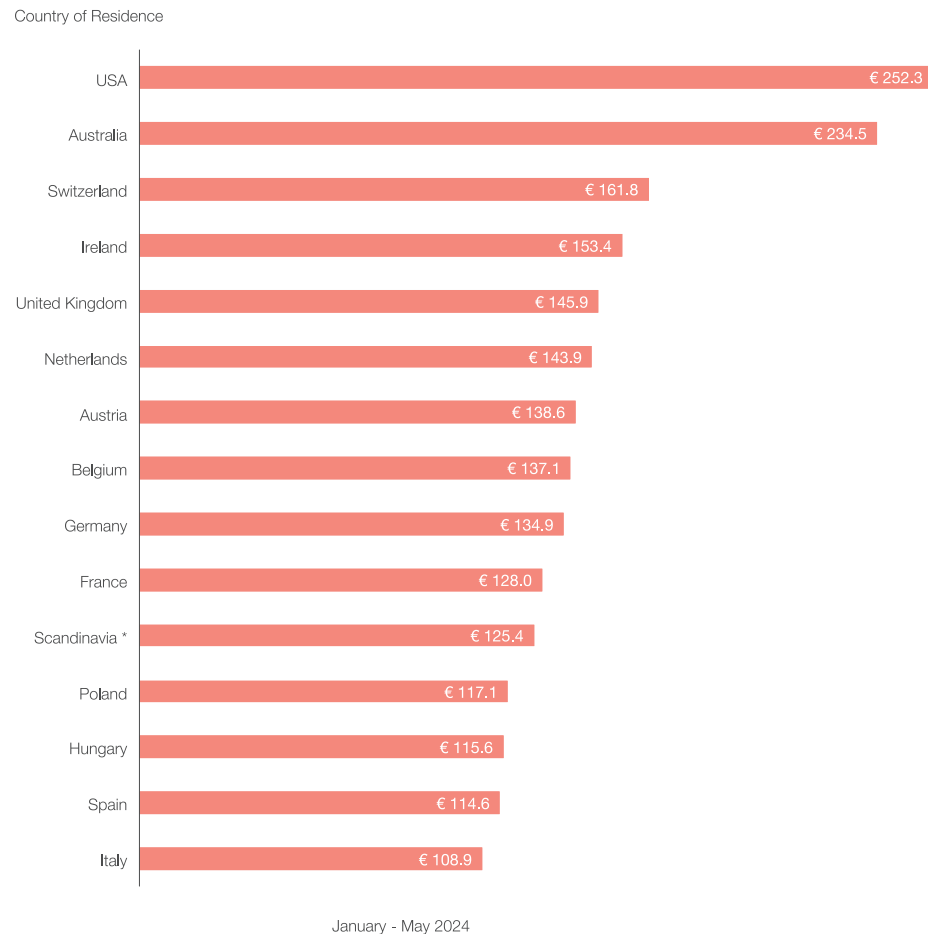
The tourism sector continued to exceed expectations in the first months of 2024. Inbound tourism surpassed 1.2 million in the period between January and May 2024, which represents a significant increase of 24.6 per cent on the corresponding period in 2023. When compared to pre-pandemic levels, inbound tourism in the first five months of 2024 was higher by 33.3 per cent. This growth was predominantly driven by holiday travellers, while business and professional travel has only slowly recovered to pre-pandemic levels due to the lasting impact of the pandemic on business travel with the increased adoption of virtual meetings and teleconferencing.

The estimated total expenditure by tourists for the first five months of the year amounted to €957.5 million, reflecting a 27.6 per cent rise from 2023. Consequently, the average tourist spent €772.2 during their stay in Malta. The average length of stay was approximately 5.7 days, down from 6.2 days during the same period in 2023. The distribution of average expenditure per night according to country of residence is portrayed in Figure 1.9. Tourists from the USA had the highest expenditure per night in the first five months of 2024, with an average of €252.3 spent per night.

Fig 1.9

Average Expenditure per Night, by Country of Residence

source: NSO, Ministry for Finance (MFIN)



* Scandinavia includes Denmark, Finland, Norway and Sweden

With the Government's increased emphasis on the importance of quality tourism, KM Malta Airlines is proving to be the right catalyst in fulfilling this objective. Whilst the number of inbound tourists travelling with KM Malta Airlines is lower than Low Cost Airlines, it is higher than the number of tourists travelling with Other Airlines. Both the length of stay and expenditure per tourist are higher for individuals travelling with KM Malta Airlines than with Low Cost Airlines. The average length of stay for tourists travelling with KM Malta Airlines is 7.2 nights (compared to 6.3 for Low Cost Airlines) and expenditure per tourist is over €1000 (compared to €780 for Low Cost Airlines).

Air Connectivity

Air connectivity remains the lifeline of Malta's tourism industry - it is Malta's gateway to the world. In this regard, the Government shall continue negotiating with more airlines to ensure more air connectivity especially before and after the peak season for sustainability purposes.

While Malta entrenches its position in primary source markets, there is a strategy in place to push for diversification in the sector - by targeting business travel, sports, diving, activity holidays, religious tourism, wellness, gastronomy, and education. Furthermore, work on targeting luxury tourism clientele has commenced which includes the drive to attract new international top brand investments that upscale shopping districts and accommodation, together with the well-established reputable local brands in Malta.

The Government, through the Malta Tourism Authority (MTA), has made substantial investments in marketing programmes in the USA, Japan, Australia and the Gulf countries to ensure a consistent flow of tourists all year round. This shall put Malta in the driving seat to present stronger arguments as to why Malta has the potential to be air-connected with these markets.

Hospitality

Malta is making ample progress to ensure that the hospitality industry continues to be one of Malta's main economic drivers. Whereas a decade ago, this sector used to depend on the summer season for visitor activity, this trend has changed to the extent that Malta has become one of the least seasonal destinations in the Mediterranean.

Significant decisions are being taken to raise the bar in the country's tourism offer. In 2024, the Government kicked-off a project aimed at integrating a mandatory skills pass within the Tourism and hospitality industry. In 2025, this programme shall continue to ensure that the overarching goal of the skills pass is achieved through the recognition of national minimum standards in collaboration with the parties involved.

Through the implementation of this measure, third country nationals who are seeking a job in the tourism and hospitality industry in Malta must apply for an online course within their country and undergo a series of assessments, including English proficiency, basic customer care, and specific courses related to Maltese tourism products and hospitality. This is a crucial step forward in maintaining the competitiveness of Malta's hospitality and tourism industry while consistently delivering exceptional experiences to visitors.

The priorities for 2025 and beyond are that of attracting higher quality tourists by strengthening Malta's hospitality offer, improving public cleanliness, solidifying the primary source markets, targeting long-haul markets, integrating sustainability practices and preserving Malta's heritage.

1.2.5 The Aviation Sector

The aviation industry proves to be a central cog in Malta's economic prospects, serving as a crucial aspect of the Island's tourism industry, which continues to be one of the main economic pillars of the nation. Looking into the aviation industry specifically, one must highlight its substantial growth in recent years. The aircraft registration sector in Malta has also seen a notable increase, with the number of aircraft on the Maltese register rising to 896 aircraft as of July 2024 whilst Air Operating Certificate (AOC) holders stood at 52 at the end of July 2024.

Moreover, the Government sought to strengthen the legislative framework of this sector through the publication of the Air Navigation Act (ANA), published in December 2023. The Act primarily aims to govern aircraft navigation within the Maltese airspace and establishes technical compliance standards.

Air Navigation

In 2023, Malta Air Traffic Services (MATS) controlled a record 132,000 flight movements, surpassing the 131,000 flights controlled in 2019. The expected flight movements to be controlled during 2024 are expected to reach another record of 144,000. For 2025, the trend is expected to increase, with the number of flight movements reaching 151,000.

In 2024, Malta Air Traffic Services continued to invest in its operations, with the planned acquisition of a new tower simulator that will allow the company to train its air traffic controllers locally. Preparations are being undertaken to commence the infrastructural works on extending the new premises and building a new air traffic control centre. The new premises are required to house the new Air Traffic Management System, which is earmarked to be commissioned in the coming years.

1.2.6 The Gaming Sector

The Arts, entertainment and recreation sector recorded a growth rate of 5.1 per cent in Gross Value Added (GVA) during the first half of 2024. Growth in this sector is primarily driven by the Gaming industry, which holds a significant presence within this sector. While still recording positive increases in GVA, sectoral growth started to normalise after double-digit increases at the outset of the pandemic, reflecting a stabilisation in the gaming industry with most of the major global operators already situated in Malta.

Sectoral performance in the labour market remained robust, as employment increased by 3.5 per cent in the gaming sector for the first half of 2024, while average nominal wages grew by 1.8 per cent in this same period.

The sector increased its productivity, thus maintaining its competitiveness, as value added outpaced the increase in labour inputs, which is a long-standing trend within this sector as evidenced by Figure 1.10.

Fig 1.10

Developments in Arts, Entertainment and Recreation

source: NSO, MFIN



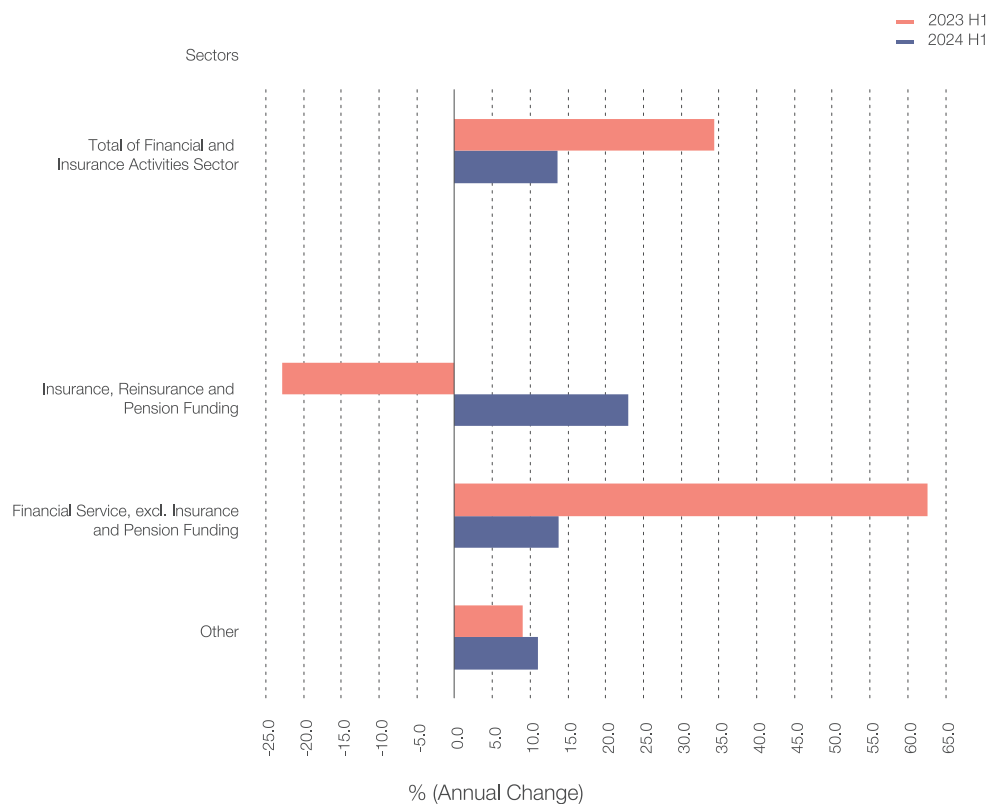
1.2.7 The Financial Services Sector

In 2023, the Financial and insurance activities sector generated 9.0 per cent of Malta's Gross Value Added (GVA), while employing 5.1 per cent of the workforce, solidifying itself as a particularly productive sector. Between 2010 and 2023, GVA increased by an average annual growth rate of 10.2 per cent, and it was one of the few sectors that recorded growth during the pandemic, highlighting the sector's resilience. The robustness of the Financial services sector can be attributed to Malta's professional and multilingual workforce, reputable legacy in providing services to support businesses, specifically in auditing and legal spheres, improved tax competitiveness, as well as a strong regulatory and supervisory framework. Moreover, the sector benefits from access to the EU market and the adoption of a stable currency, further attracting foreign investors.

Fig 1.11

GVA Developments in the Financial Services

source: NSO



During the first half of 2024, the Financial and insurance activities sector recorded an increase in its GVA of 13.6 per cent when compared to the corresponding period in 2023. This increase could largely be attributed to financial services activities (excluding insurance and pension funding) sub-component which grew by 13.7 per cent.

Moreover, labour productivity, as measured by nominal GVA generated per unit of labour, increased by 8.9 per cent in the first half of 2024, relative to the same period in the previous year. This significant productivity gain reflects continued sectoral growth offsetting increases in employment, driven by financial market developments due to the tightening of monetary policy.

The average compensation per employee for the first half of the year increased by 5.2 per cent. Furthermore, in 2023 there were 948 new registrations to open a business unit in the Financial and insurance activities sector, that is 81 more registrations than in 2022.

1.2.8 The Manufacturing Sector

The Manufacturing sector showed significant resilience in the first half of 2024, achieving a growth rate of 9.2 per cent in Gross Value Added (GVA). This follows a strong annual growth rate of 9.7 per cent in 2023. The continued positive performance of this sector must be viewed in the context of a global manufacturing slowdown, a result of a normalisation in consumption patterns and higher interest rates weighing down on international demand. During the same period, the Manufacturing sector also experienced a 2.3 per cent increase in employment levels. This means that the sector improved its labour productivity by 6.8 per cent, boding well for sectoral competitiveness.

Growth was broadly observed across almost all sub-sectors of the manufacturing sector. The largest growth rate was registered in the Manufacture of furniture, repair and installation of equipment (31.1 per cent), followed by the Manufacture of rubber, plastic, products, metals and non-metallic mineral products (8.9 per cent) and the Manufacture of food and beverages (7.2 per cent). The only sub-sector which experienced a contraction is the Manufacture of computer, electronic, electrical equipment and transport equipment (decline of 2.2 per cent), reflecting a normalisation in international demand for semiconductors, a prominent industry in Malta. This comes after a surge in demand for electronics during the pandemic, owing to an increased uptake of digitalised products, creating a shortage of semiconductors, and leading to a large inventory build-up. Excess inventories amidst a slowdown in global demand, have led to a subdued short-term outlook for this year, albeit the GVA generated by the sector remained around 58.9 per cent higher than pre-pandemic levels during the first half of 2024. Moreover, the sector is expected to recuperate going forward, driven by an increasing shift towards electric vehicles and the digitalisation of economies, which will increase demand for semiconductors.

1.2.9 Monetary Developments

As inflation reached record levels in 2022, central banks around the world raised interest rates to tighten monetary policy, with the aim of increasing borrowing costs, thus curtailing aggregate demand and controlling inflation.

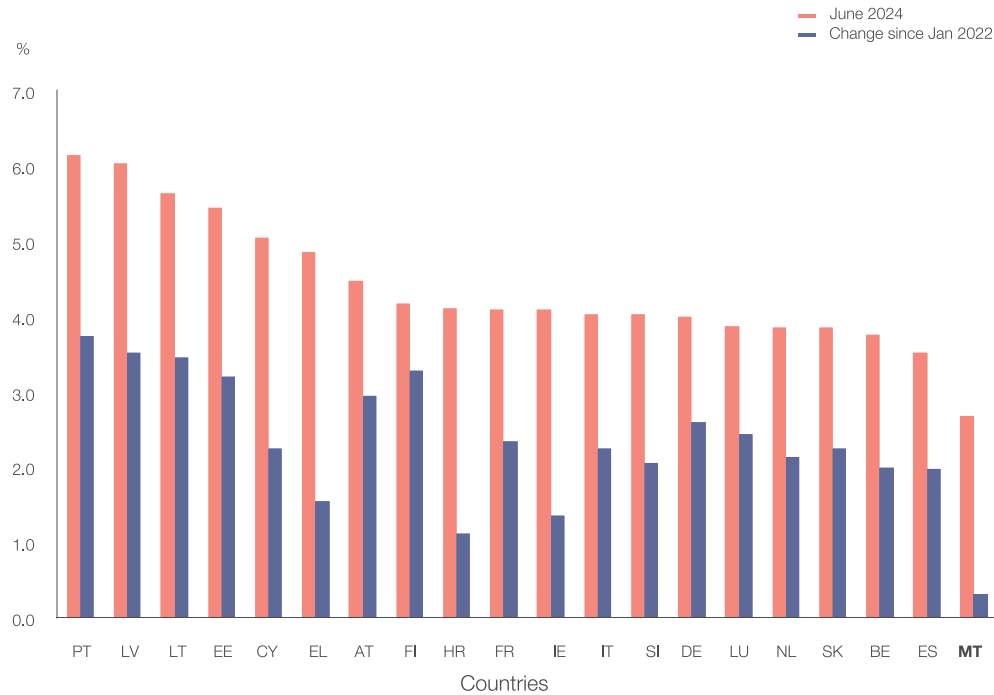
In view of moderating inflation, central banks started to adjust their monetary policy stance in 2024, depending on country-specific price pressures and economic momentum. At the same time, global financial conditions continue to be tight, as central banks remain cautious, mostly due to rising labour costs in advanced economies which could cause a resurgence in price growth. For instance, while the ECB announced a cut in benchmark interest rates of 25 basis points in June, the US Federal Reserve maintained policy rates unchanged throughout the first half of 2024, in view of stubborn inflation and strong economic growth.

Domestically, the transmission of monetary policy via the bank lending channel has been very limited. In fact, despite the increase in ECB rates, the passthrough to domestic lending rates has been very limited when compared to other euro area Member States. This trend is visible across both mortgage rates (Figure 1.12) and corporate financing (Figure 1.13).

Fig 1.12

Annual Percentage Rate of Charge - Lending for House Purchases

source: European Central Bank (ECB)



Mortgage rates have remained broadly unchanged, only increasing by 31 basis points. Consequently, while borrowing costs for households were higher than the euro area average at the start of 2022, in June 2024 mortgage rates in Malta were the lowest amongst its European peers. A similar trend is observable for corporate financing. The limited passthrough of monetary policy to domestic rates can be attributable to ample bank liquidity, owing to large deposit increases and strong capital buffers of Maltese banks, as well as a high concentration in the banking sector.

Fig 1.13

Cost of Borrowing for Corporations

source: ECB



Private debt as a share of GDP has fallen to pre-pandemic levels, mainly due to the rapid economic recovery. As the economy recovered, household debt as a share of GDP started to converge back to the levels witnessed in the period leading to the pandemic, where the household debt had stabilised around 60.0 per cent of GDP.

In 2023, the household debt to GDP ratio declined to 58.6 per cent, reflecting the rapid economic rebound. Similar dynamics can be observed when household debt is compared to compensation of employees, where incomes were supported by the Government measures during the pandemic, leading to a stable share of household debt to income during the crisis, and maintained a stable share thereafter.

At the same time, the level of indebtedness increased due to household borrowing to finance house purchases, supported by Government initiatives during the pandemic.

In fact, in nominal terms, consumer credit and other lending declined during the pandemic, while lending for house purchases remained strong, growing by 7.8 per cent and 9.5 per cent in 2020 and 2021. Consumer credit recovered substantially in 2022 and 2023, and remained strong in the first half of 2024, increasing by 25.4 per cent in nominal terms. House lending also maintained previous trends, increasing by 8.7 per cent.

Fig 1.14
Household Debt

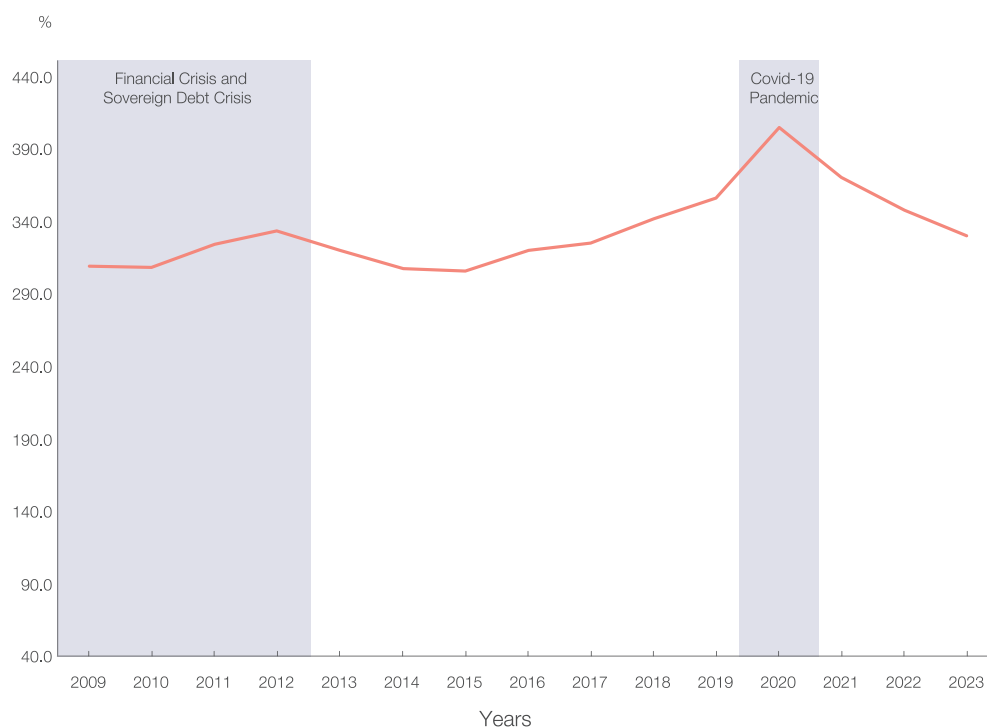
source: Central Bank of Malta (CBM)



Fig 1.15

NFC to GDP

source: CBM



One should note that Figure 1.15 is based on non-consolidated financial balance sheets of Non-Financial Corporations (NFCs), meaning that transactions and positions within the same sector are also recorded, thus including intra-company loans. Private debt of NFCs as a share of GDP declined significantly during the past two years, decreasing by 26.2 percentage points when compared to 2019. This decline reversed the increasing trend in corporate debt before the pandemic, where corporates faced accommodating financial conditions amidst positive economic prospects, resulting in a higher return on investment. In the first months of 2024, credit to resident corporations continued to be largely driven by the Real estate activities and Construction sectors. By contrast, lending lost momentum in the Transportation and information and communication, Manufacturing and Accommodation and food services sectors.

Fig 1.16

Residential Deposit Growth

source: CBM

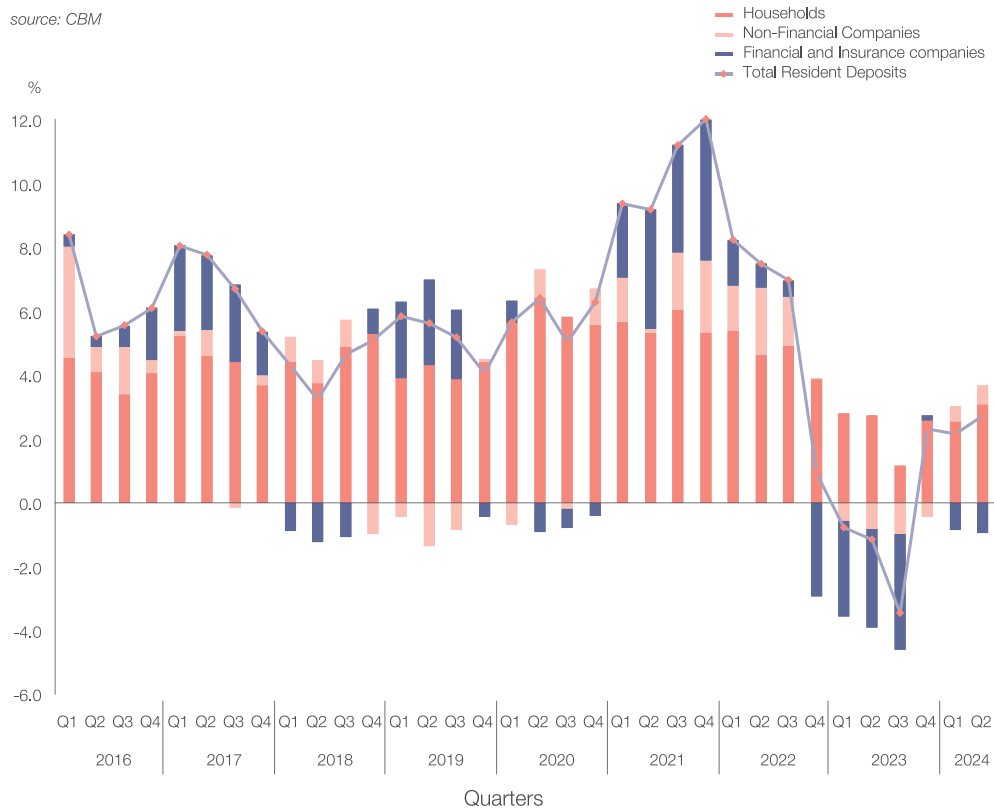


Figure 1.16 portrays total deposits held by Maltese residents with Monetary Financial Institutions (MFIs). Deposits in the past decade grew continuously, driven by positive economic developments which generated liquidity in the economy. Resident deposits surged during the pandemic, as incomes were supported while consumption opportunities were limited, resulting in an element of savings. As the economy re-opened, household deposits moderated in 2023, while deposits from both NFCs and Financial and insurance companies declined, which could be explained by a shift towards more attractive returns. Nevertheless, total deposits started to recover in the first half of 2024, reaching €25.1 billion as at June 2024.

1.3 Inflation

1.3.1 External Developments

Supply chain bottlenecks have subsided following large trade disruptions, mostly induced by the pandemic and a primary cause of underlying price pressures in the recent inflationary shock. Accordingly, the US Global Supply Chain Pressure Index remained stable around the long-term average in the first months of 2024, indicating that global supply chains have normalised.

However, new risks related to supply chain disruptions have emerged, centred around geopolitical tensions in the Middle East. The tensions in the Red Sea, a key trading route especially for trade between Asia and Europe, led to shipping lines disruptions. Longer trade routes had an immediate impact, resulting in longer delivery times and higher freight rates. In fact, global average freight rates, as measured by the Kiel Institute for the World Economy, increased by 144.7 per cent in January 2024, while freight costs on routes from China to Europe increased substantially further.

Renewed geopolitical tensions have also resulted in some volatility in energy markets, although prices remain well below previous peaks reached during the war in Ukraine. Since the escalations in the Middle East, the price of a barrel of Brent crude stabilised between \$80 to \$90, below the monthly peak of \$122.7 per barrel at the height of the war in Ukraine. This indicates that so far, the instability in the Middle East had a limited impact on oil markets, despite being an important region for global oil and natural gas supply, especially when Europe reduced its dependence on Russian energy.

Against the background of weak demand, in part also driven by an international drive towards cleaner energy, oil prices are expected to remain stable in the coming months. These factors have also led to some stabilisation in consumer prices of diesel in the EU, although diesel prices remain around 18.6 per cent higher than pre-war levels, in part driving the negative consumer confidence in European economies.

Fig 1.17

Energy Prices

source: EAI, European Commission (EC)



Natural gas prices stabilised during the first months of 2024, with a slight uptick in the second quarter. Following the energy crisis, European initiatives to diversify the energy supply were instrumental in exerting downward pressures on natural gas prices, including by expanding renewable energy sources, new liquified-natural gas (LNG) terminals and a significant increase in the importation of LNG from strategic partners. Moreover, two consecutive mild winters, voluntary consumption reductions and subdued consumer demand led to substantial levels of gas reserves. In this view, gas-storage levels in the EU were sufficient to hold European gas prices stable, offsetting the impact from supply disruptions. In fact, in the first quarter of 2024, the price of natural gas declined to levels last seen before the pandemic.

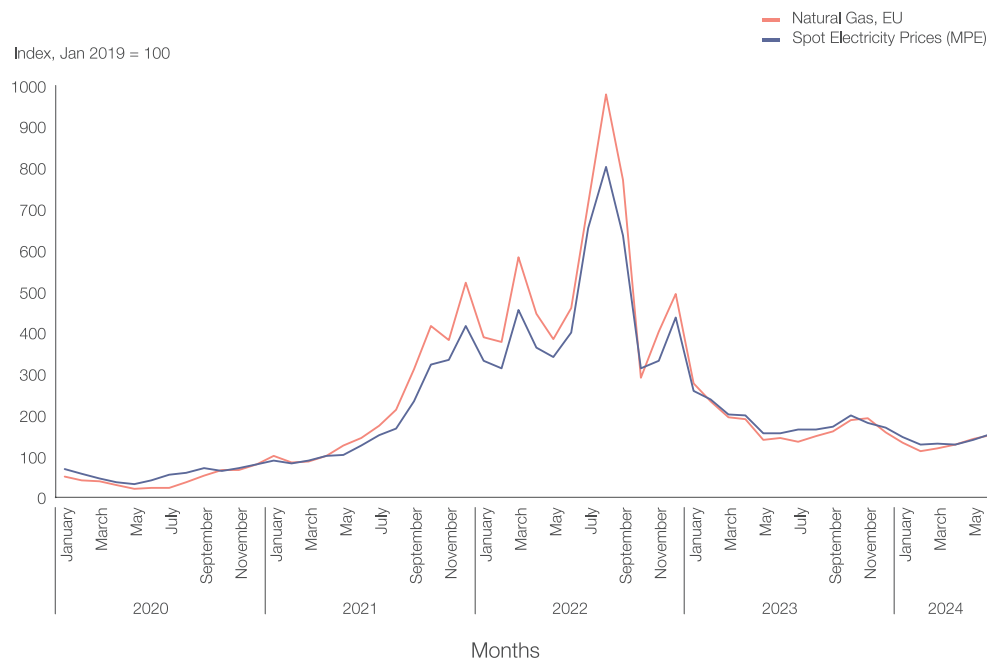
However, natural gas prices moved upwards again in the second quarter, over concerns regarding supply disruptions in trading partners, thus indicating that despite the efforts made, the EU remains somewhat exposed to supply-induced price volatility.

These movements are mirrored in the average electricity prices as quoted by the Gestore Mercati Energetici (GME), which is the only body responsible for managing physical energy trading platforms in Italy, and thus determines the price of electricity bought from the interconnector in Malta. Prices reached €111.7 per MWh of electricity in July 2024, down from the peak of €543.2 in August 2022. However, electricity prices are still elevated, more than twice as high as they were in the same period in 2019.

Fig 1.18

Natural Gas and Electricity Prices

source: Gestore Mercati Energetici (GME), FRED

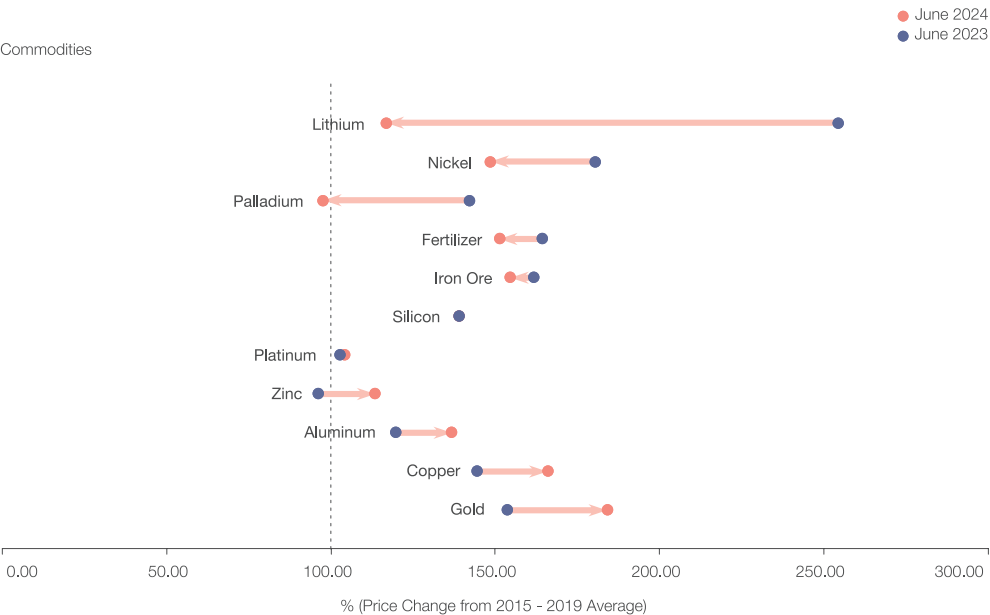


Overall, prices of key industrial commodities and metals dropped significantly, converging towards pre-crisis levels. The fall in global commodity prices helped the ongoing disinflationary process with lower producer prices. The price of Lithium, for instance, has dropped to a quarter of its historically elevated levels in 2022. Such decline comes on the back of sluggish Chinese demand amid large-scale investments in green energy industries and related material, leading to large stockpiles of the commodity.

By contrast, a slight upward movement is observed from some commodities over recent months, including Aluminium and Copper due to trade restrictions and sanctions. Going forward, demand for commodities is expected to recover, especially for key input materials in the energy sector, in addition to a supply correction in response to falling prices and profits, providing some support for commodity prices.

Fig 1.19
Average Global Price in Selected Commodities
Compared to 2015 - 2019 Average

source: IMF



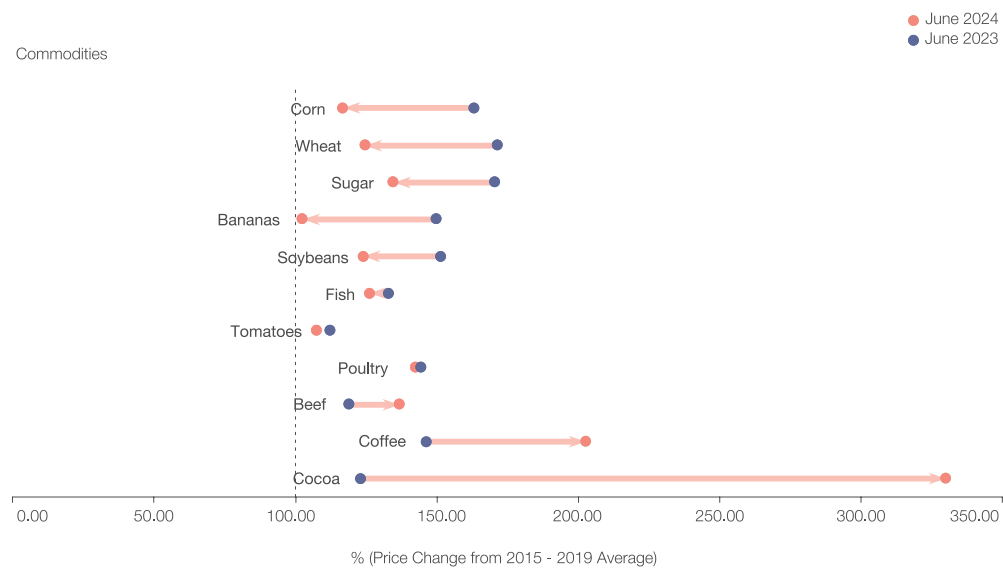
Downward price pressures have also shaped food commodity markets, with prices broadly stabilising to normal levels. Food prices continued on a downward trend since mid-2022, as evidenced by the IMF's Food index which declined by 4.1 per cent in the first half of 2024 when compared to the same period in 2023, as strong crop yields corrected the deficit which had resulted from the disruptions caused by the war in Ukraine. While prices have largely returned to the levels observed prior to the war, unpredictable geopolitical tensions and adverse weather conditions continue to pose upside risks to prices.

This is evident in the disruptions caused by climate events early in 2024, which pushed the prices of certain commodities upwards. For example, the prices of Cocoa and Coffee surged in the first quarter of 2024, and in June they were 168.2 per cent and 38.6 per cent higher when compared to the same month in 2023.

Fig 1.20

Average Global Price in Agricultural Commodities Compared to 2015 - 2019 Average

source: IMF



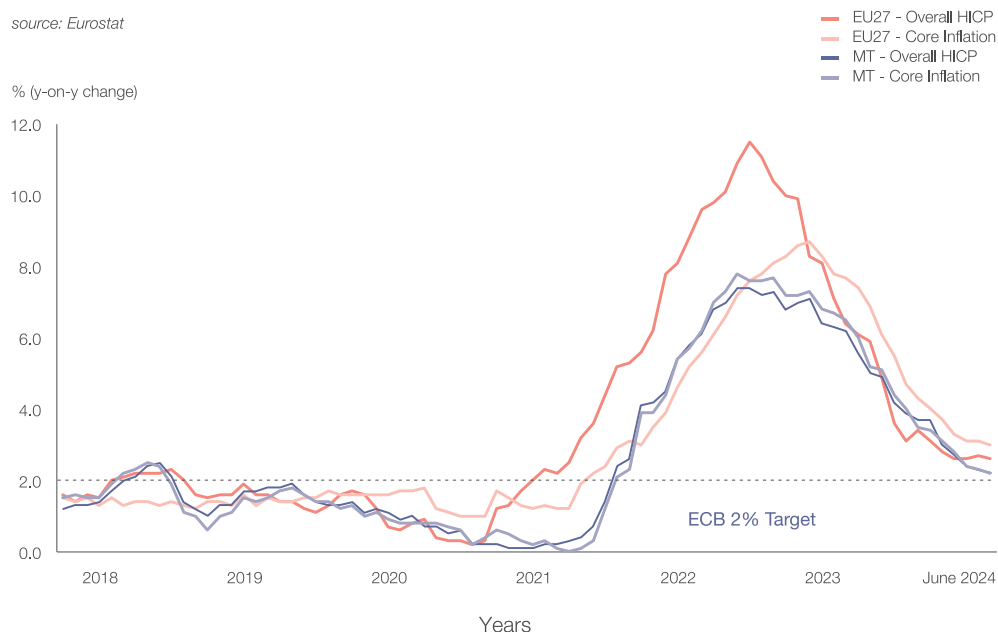
1.3.2 EU and Domestic Inflation

In the EU, the disinflationary process continued in the first months of 2024, reflecting the diminishing impact of past commodity price shock and weak growth momentum, a result of higher interest rates and subdued trade in manufactured goods. Downward price pressures are evident in the EU, where inflation as measured by the Harmonised Index of Consumer Prices (HICP) reached 2.6 per cent in June 2024, down from 6.4 per cent in the same month of 2023. This trend was also observed in core inflation, a measure that excludes energy and volatile food components, although remaining elevated above 3.0 per cent for the EU in recent months, due to persistent price pressures in services.

Fig 1.21

HICP Inflation

source: Eurostat

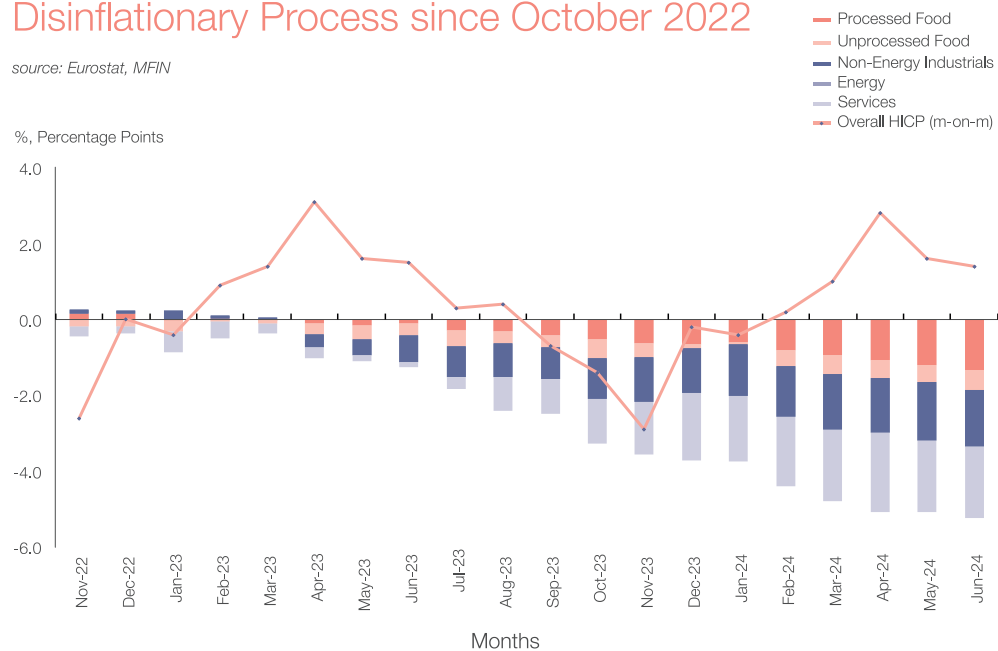


Inflation in Malta continued to moderate, converging towards the 2.0 per cent ECB target. Since mid-2022, inflation maintained a continuous downward trajectory, such that in June 2024, the HICP inflation, as well as core inflation, stood at 2.2 per cent, below the EU average. Therefore, underlying price pressures as measured by core inflation slowed down at a faster pace than the EU average as services inflation proved less persistent. Moreover, the moderation in core inflation is also a result of large base effects, where inflation had reached elevated levels due to significant pent-up demand in some services during 2022 and 2023, while processed food and consumer goods inflation continued to reflect the stabilisation in global commodity markets.

Fig 1.22

Cumulative Contributions to the Disinflationary Process since October 2022

source: Eurostat, MFN

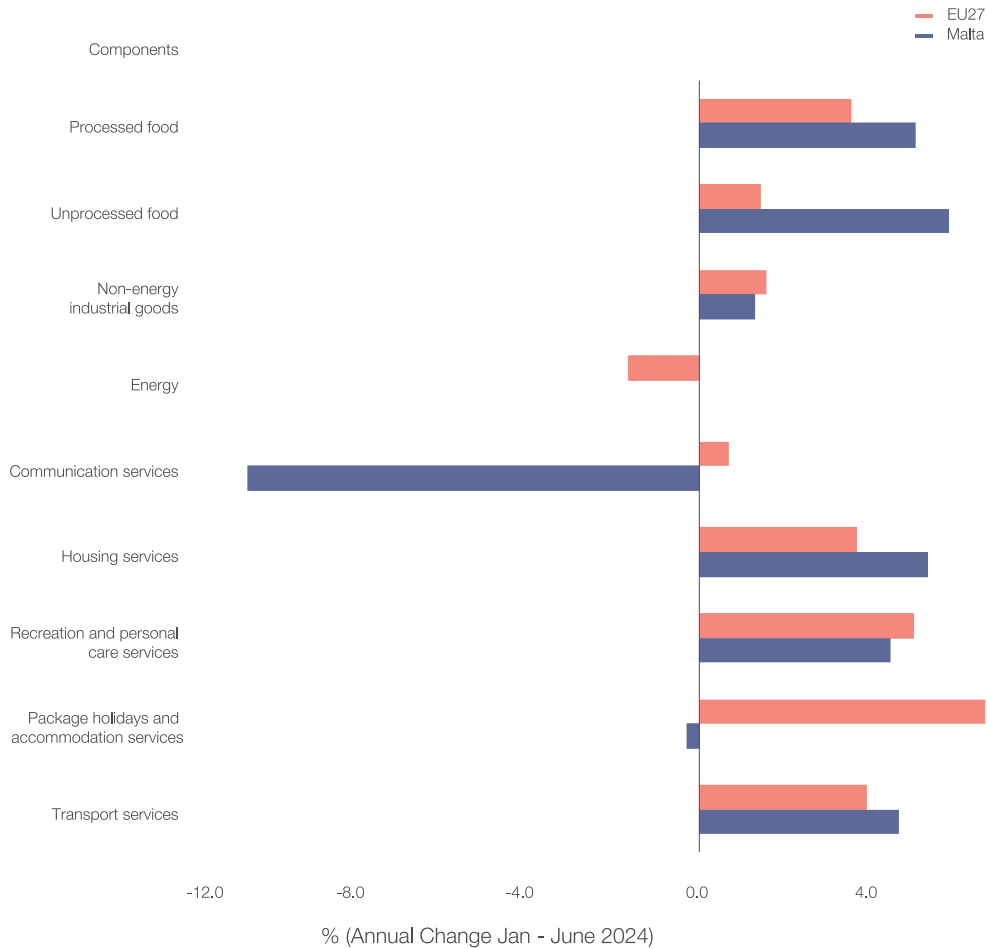


From the second half of 2023, services inflation became the primary contributor to the disinflationary process for Malta. While relatively elevated during 2022, services inflation decelerated from 7.5 per cent in August 2022 to 2.3 per cent in June 2024, driving most of the decline in inflation. This was followed by a deceleration in inflation of non-energy industrial goods, reflecting the price decline in critical input materials, while also suggesting the limited passthrough of higher freight rates on consumer goods. Processed and unprocessed food inflation also contributed to declining inflation, reflecting the stabilisation in agricultural commodity prices. In fact, food inflation detracted 1.1 percentage points from headline inflation in the first six months of 2024.

Fig 1.23

HICP Inflation by Component

source: Eurostat



The disinflationary process in the EU, amongst other factors, is also attributable to energy deflation, especially in 2023 where energy was the primary contributor to the decline in inflation. By contrast, energy inflation in Malta was maintained steady, owing to the Government measures to shelter the economy from the energy price shock. Consequently, when excluding energy, underlying pressures in Malta are relatively less pronounced, especially in services. At the same time, as depicted in Figure 1.23, during the first half of 2024, domestic inflation was higher than the EU average for food, housing services and transport services, the latter partly reflecting higher prices for air transport.

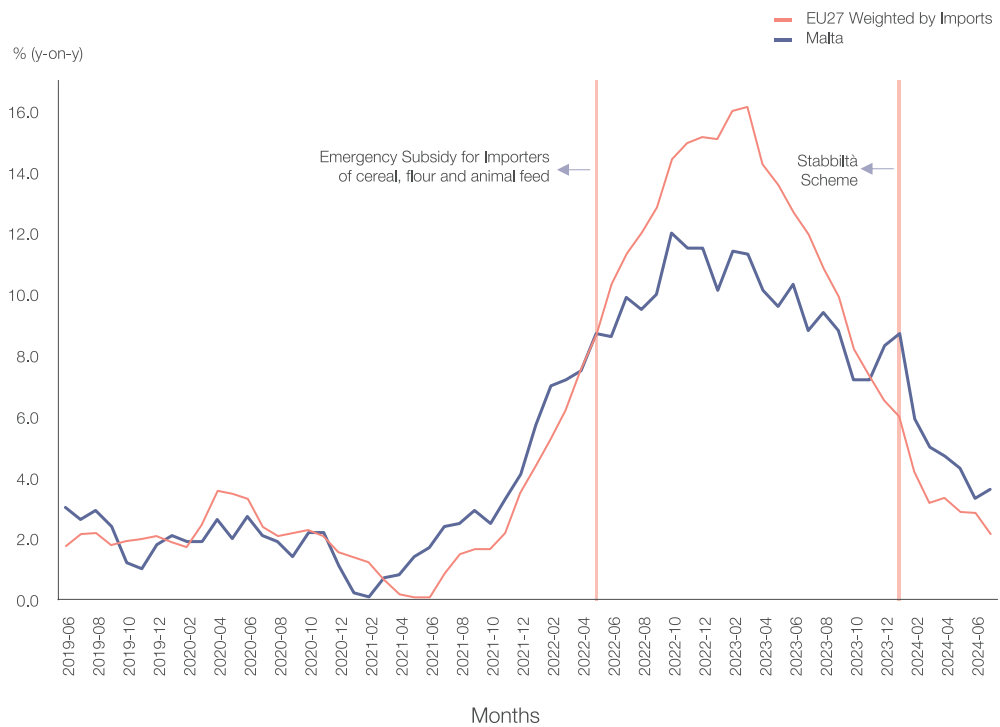
Food Inflation

Food inflation in Malta is stabilising towards lower levels, in line with the fall in international food prices. The introduction of the Stabbiltà scheme in February 2024, whereby participating food importers and retailers were required to reduce the recommended retail prices of staple food products, also contributed to the downward pressures in food prices.

Fig 1.24

Food Inflation in Malta and Main Trading Partners

source: Eurostat, MFIN



Due to its insularity, Malta imports a significant portion of its food, making it susceptible to shocks in the supply of agricultural products in trading partner economies. The waning impact of past agricultural commodities price increases, including that of key agricultural inputs such as energy and fertilisers, helped in stabilising consumer food prices in Malta's main trading partners. In turn, easing pipeline pressures from the EU helped the domestic disinflationary process, as evidenced by Figure 1.24. The temporary price stabilisation subsidy to mitigate the increase in prices of food products introduced by the Maltese Government was also instrumental to control food inflation.

1.3.3 Income Forces

Although energy prices were the main driver of the recent inflation shock, domestic forces have also been contributing towards elevated inflation. This is particularly the case in the EU, where tight labour markets, coupled with a deterioration in household purchasing power, pushed wages upwards. Strong wage increases during 2022 and 2023 raised concerns about a self-reinforcing cycle of price increases by producers to cover increasing costs.

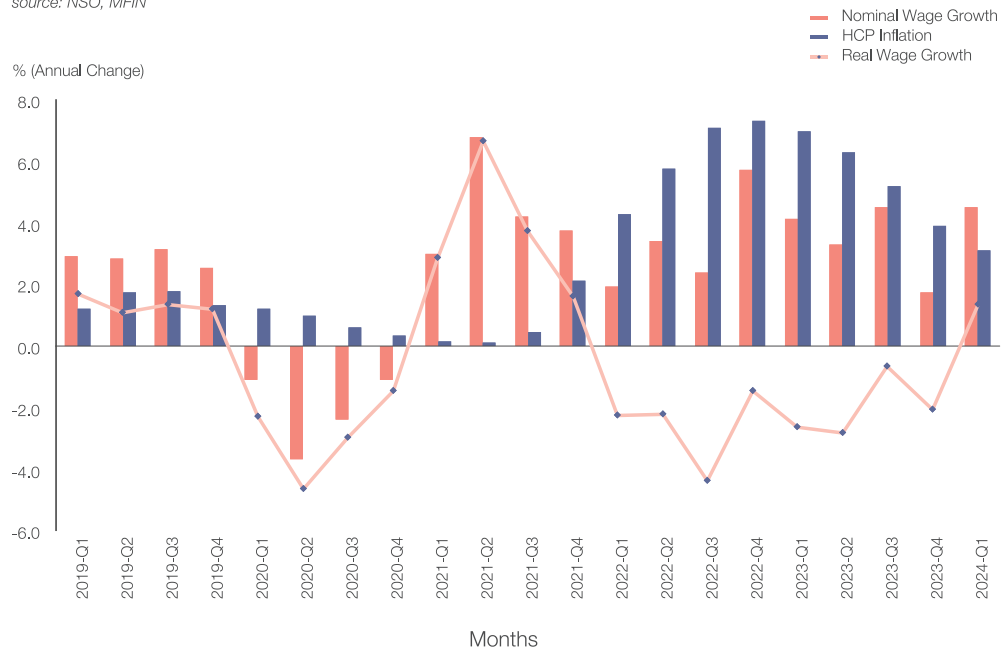
It is evident that underlying price pressures, as measured by core inflation, appear to have been largely linked with an increase in labour costs. In the EU, those Member States that recorded the largest wage growth between 2022 and 2023, also observed the highest increase in inflation when excluding energy and volatile foods. However, the risks of a wage-price spiral were mitigated as inflation continued converging towards normal levels.

This is primarily because wages have been reacting to rising prices and falling household purchasing power, rather than pre-empting future price increases as inflation expectations remained stable. Moving forward, wage growth in Europe is expected to ease, in line with moderating inflation as suggested by the European Central Bank's (ECB) Survey of Professional Forecasters.

Fig 1.25

Real Wage Growth - Malta

source: NSO, MFIN



Note: Wages per employee are calculated for Full-Time Equivalents

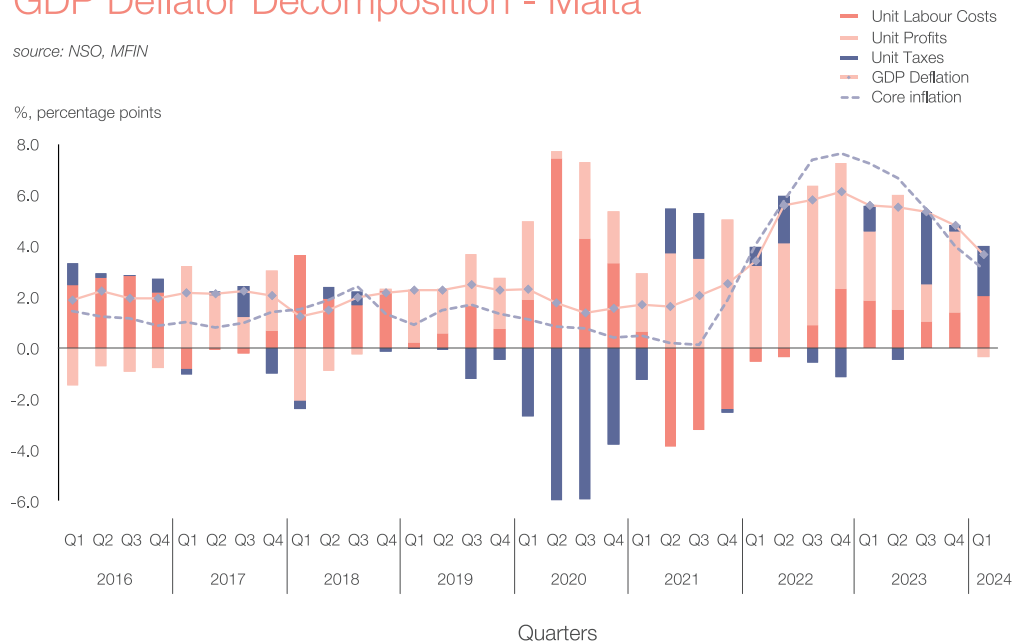
Real wages started to recover in the first quarter of 2024, with nominal wages increasing by 4.5 per cent, as wages continue to react with a lag to previous falls in household purchasing power. This recovery in real wages bodes well for private consumption. In a context of labour market shortages and an improvement in productivity, real wages are expected to continue recovering over the second half of 2024 and in 2025.

Following two years of strong increases, profits started to slow down in the first quarter of 2024. Between 2021 and 2023, corporate profits rebounded strongly after a decline during the pandemic. This was driven by a recovery in demand amid shortages in some sectors, allowing firms to make up for increased costs by raising prices without affecting output. This is reflected in developments of the GDP deflator.

Fig 1.26

GDP Deflator Decomposition - Malta

source: NSO, MFN



The rapid recovery from the pandemic, aided by the Government support schemes to cushion the impact on incomes and employment, came in an environment characterised by significant shortages, affirming firms' pricing power. In this view, resilient profits were the most prominent driver of domestic price pressures as measured by the GDP deflator. By contrast, unit labour costs remained relatively subdued, which can be explained by a rapid recovery in productivity as the economy re-opened in 2021 and 2022.

Even if unit labour costs picked up in 2023, in line with a productivity slowdown, unit profits maintained their strong performance, supported by resilient domestic demand. This is consistent with firms having the ability to pass on the higher costs more quickly, while wages take longer to adjust. As wages start to catch-up, unit labour costs reappeared as the main contributor to the GDP deflator in the first quarter of 2024. With a tight labour market and subdued productivity, labour costs are expected to continue increasing in the short-term. At the same time, these costs should be absorbed by elevated profit margins reached in the recovery period, without having a material impact on consumer prices.

1.3.4 The Property Market

Property Price Index

The Property Price Index (PPI) is an index published by the National Statistics Office (NSO) and is used to monitor property price developments in Malta. The methodology behind such index consists of an aggregation of median prices for three main dwelling types:

1. Apartments
2. Maisonettes
3. Terraced Houses

Fig 1.27

Property Price Index

source: NSO



The aggregation process makes use of a Laspeyres-type formula, where current prices are compared to base year prices (in this case the base year chosen is 2015). Figure 1.27 shows the annual developments of the PPI from 2022 Q1 up to 2024 Q1.

The compounded average rate of growth in the property price index during this period was at 1.5 per cent. This indicates that the property market in Malta has remained buoyant during the period under review.

As illustrated in the chart, the year-on-year growth rate of the PPI has ranged between 5.3 per cent and 7.6 per cent between 2022Q1 and 2024Q1.

When comparing the month of July 2024 with the same month of the previous year, the number of final deeds of sale has decreased slightly. However, when comparing the total number of deeds in the first half of 2024 with the corresponding period in 2023, there has been an increase of 4.0 per cent. Out of the 6,354 final deeds registered in Q2/2024, 92.0 per cent involved private households.

Active registered contracts in the rental market stood at 60,339 at the end of 2023, an increase of around 23.0 per cent over the year 2022. Around 90.0 of registered contracts were for long-term leases (at least one year), with a further 9.4 per cent classified as shared spaces.





Ensuring Sustainability in Public Finances

The EU fiscal stance turned neutral in 2023, after significant expansion in the 2020-22 period.

2.1 Fiscal Developments in 2023¹

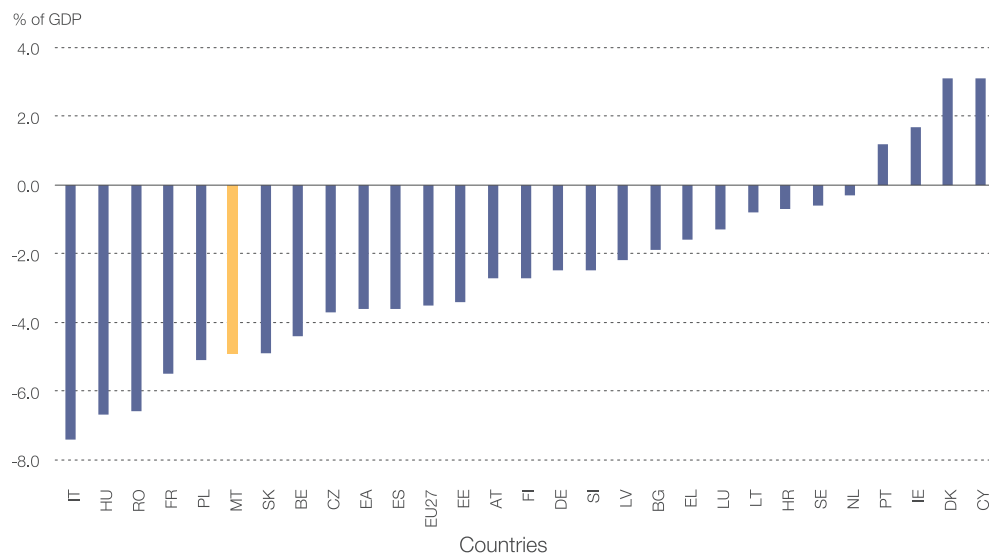
Consequently, the EU aggregate Government deficit in 2023 declined to 3.5 per cent of GDP, while the EU debt-to-GDP ratio declined to 81.7 per cent in 2023, from 83.4 per cent in 2022.

Similar developments were noted locally, whereby in 2023, the general Government balance declined from a deficit of 5.5 per cent in 2022 to a deficit of 4.9 per cent in 2023. Meanwhile, the general Government debt increased to €9,767.8 million in 2023, although the debt-to-GDP ratio decreased to 50.4 per cent, down by 1.2 percentage points. This was underlined by an improvement in the primary balance and the stock flow adjustment partly offset by an increase in interest expenditure.

Fig 2.1

General Government Balance, 2023

source: Eurostat



1. The fiscal data available on the Eurostat website did not include the latest NSO revisions to Malta's GDP figures at the cut-off date for data in the PBD 2025.

In 2023, the general Government balance improved by €14.4 million compared to the deficit in 2022. Total Revenue increased by 9.8 per cent to €6,484.8 million, whilst expenditure amounted to €7,435.2 million, reflecting an 8.3 per cent increase.

Despite an increase in the general Government revenue, its ratio to GDP declined by 0.4 percentage points in 2023. Tax revenue (excluding social contributions) decreased by 0.7 percentage points to 22.7 per cent of GDP, but increased in absolute terms, with increases in most components of tax revenue, other than capital taxes. Current taxes on income and wealth decreased by 0.4 percentage points, while taxes on production and imports declined by 0.3 percentage points. Capital taxes remained unchanged at 0.2 per cent of GDP but recorded a slight absolute decline. The ratio of social contributions to GDP decreased by 0.2 percentage points. Conversely, 'other' revenue increased by 0.3 percentage points due to higher market output, while property income increased by 0.2 percentage points.

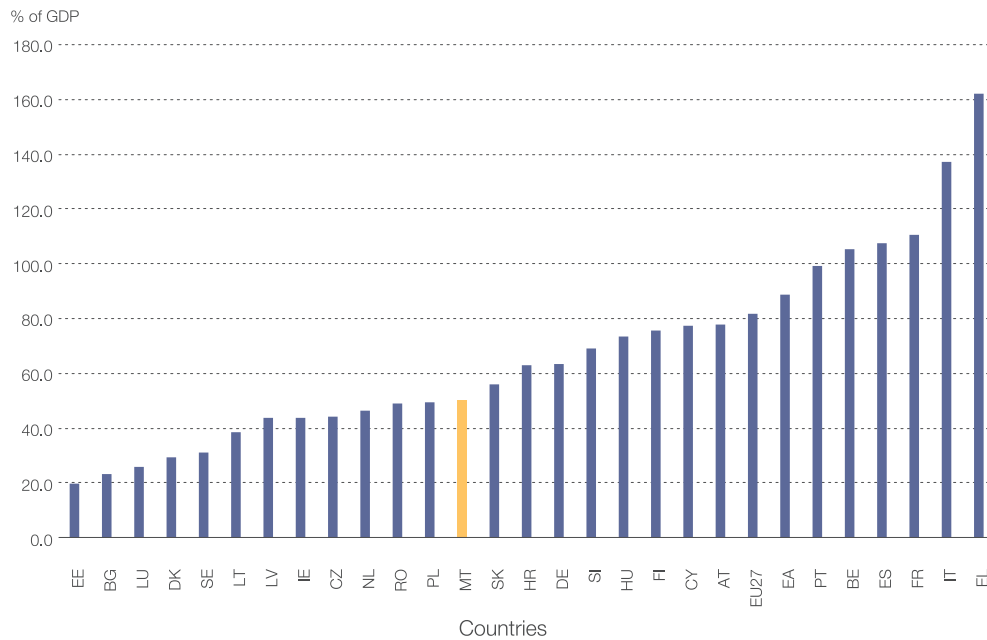
The ratio of the general Government expenditure to GDP decreased by 1.0 percentage point to 38.4 per cent in 2023, although expenditure increased in absolute terms due to higher capital transfers. The capital transfers ratio to GDP increased by 0.9 percentage points to 1.7 per cent, driven by Malta Enterprise schemes, including tax credits, a higher contribution to a main utility provider, renewable energy initiatives, and housing-related schemes. There was a slight increase in the ratios for interest expenditure, intermediate consumption, and gross fixed capital formation. Conversely, expenditure ratios for other components decreased, notably subsidies, which were €89 million lower in 2023, reflecting the phasing-out of the wage supplement scheme and lower energy subsidies.

At the end of 2023, the EU's public debt-to-GDP ratio was 81.7 per cent, with the euro area at 88.6 per cent. Although this marks a significant reduction from the peak levels at the end of 2020 driven by strong nominal GDP growth, these figures are still around 4.0 percentage points higher than pre-COVID-19 levels. In 2023, Malta's debt to GDP ratio remained well below the EU's average debt-to-GDP ratio and 60.0 per cent benchmark and decreased by 1.2 percentage points to 50.4 per cent, driven by strong nominal growth despite a high primary deficit.

Fig 2.2

General Government Debt, 2023

source: Eurostat



2.2 Strengthening and Safeguarding Public Tax Revenue

2.2.1 MTCA - Towards a Data Driven and Customer-Centric Organisation

During the past year, the Malta Tax and Customs Administration (MTCA) under the Ministry for Finance continued with the implementation of the Administration's vision of being more customer-centric and being there to assist individuals, companies, small businesses, family businesses and employers to find the adequate repayment terms that would keep them fiscally compliant. This has resulted in an increase in revenue and repayment programmes.

Modernising the Tax and Customs Administration through investment in IT technology

During this year, the Government has continued with a comprehensive reform programme to modernise the Maltese Tax and Customs Administration. Part of this process is to modernise the current legacy systems in order to address short term pitfalls so that the Tax and Customs Administration will be able to improve its performance and reaching-out programme to all taxpayers to improve voluntary compliance and improve its revenue collection.

- i. The Ministry is investing more than €68 million to replace the legacy systems with one Integrated Tax and Customs Administration System wherein all the different tax types and supporting processes will be integrated into one system, that will be fully digitised with inbuilt compliance by design concept and moving towards becoming a data-driven organisation. The Tax administration platform will be integrated with the Customs platform so that the two systems will be interoperable and feed into one taxpayer account holder. MTCA has received four bids that are at the evaluation stage, and it is being planned that the chosen bidder will be able to start the implementation of the new off-the-shelf system during the first quarter of 2025.
- ii. The MTCA has also continued with the implementation and investment of the €3 million AI project through the use of the SAS system. The project is on track and is in its second phase. Through this technology, staff will be able to identify patterns, detect anomalies, and focus on high-risk areas more efficiently. The plan is that the Tax and Customs Administration will be able to create taxpayer profiling of all types of taxpayers and sectors. The key objective of MTCA is to use AI to assist it in developing a comprehensive compliance risk management system across the whole functions of its Administration.

Business re-engineering at the Tax Operations and a new Consolidated Revenue Management Act

In parallel with the implementation of the new Integrated Tax and Customs Administration System, MTCA will be undergoing a re-engineering of its processes to meet the operational requirements of the new system.

Furthermore, at present, MTCA is undergoing a review of the Revenue Management Acts, including those for Customs, to develop one Consolidated Revenue Management Act to ensure consistency, alignment and uniformity in the administration of all types of taxes, including any interest and penalties.

Setting up of a Large Taxpayer Office (LTO)

The MTCA is in the process of setting up an LTO that will provide support and monitor large taxpayers and High Value Network Individuals (HVNI). Such an office is critical for the sustainability of Public Finances since LTOs and HVNIs represent about 80.0 per cent of the total revenue collected. At present, the MTCA is establishing eligibility criteria and plans to engage with the relevant stakeholders to help them understand this new function and to receive their feedback.

2.2.2 Modernising Customs

i. Facilitating Trade

Customs has embarked on an ambitious initiative aimed at drastically reducing the number of physical controls over a period of one year. This effort seeks to lower the current control rates, which stand at 15.0-20.0 per cent, down to a mere 5.0 per cent, all while ensuring that the high standards of compliance are steadily maintained. This strategic decision is driven by the desire to enhance operational efficiency and expedite the release process of goods, thereby benefiting all economic operators.

ii. Implementing EU – Union Customs Code (UCC) Directive

Customs Operations is currently working intensively to implement the UCC Directive through the development and implementation of a number of IT programmes that have to be operational by the end of this year. These include the Arrival Notification, Presentation Notification and Temporary Storage, Import Control, Export Control and Transit systems. All these changes should lead to more digitisation of the Customs processes with the aim of facilitating trade and giving a better service to the economic operators and the public.

iii. Business Process Re-engineering at Customs

MTCA is undergoing a full-blown business process re-engineering of all its processes. The aim is to evaluate all its processes and procedures, to come up with a recommended organisational design structure, operating processes and procedures that will meet its EU and International standards. The main objective of this exercise is the full transformation of the Customs operations into a smart and fully digitised organisation that will facilitate trade and ensure effective control at the border to guarantee safety and security for citizens and society.

For the implementation of the business re-engineering of the Customs Operations, the MTCA has engaged foreign consultants who have extensive experience at both the EU and member state levels. The project is expected to be completed by the first quarter of 2025.

2.2.3 EU and IMF Assistance

EU Assistance through DG Reform

Through DG Reform, the MTCA has secured four TSI Projects namely:

- i. Strengthening tax compliance through the implementation of real-time reporting in Malta;
- ii. Enhancing quality and use of tax information exchanged between Member States in the context of DAC;
- iii. Enhance strategic tax administration reforms through the Tax Administration Diagnostic Assessment Tool; and
- iv. Building capacity in Cyprus and Malta to fight aggressive tax planning.

The first 3 projects have already started and have a duration of 18 months. The fourth project is waiting for the green light from the Commission's DG Reform to commence.

International Monetary Fund (IMF) Assistance

The IMF is assisting the MTCA to set international standards and to act as quality assurance in the modernisation of the Administration. In fact, the IMF has been providing technical expertise in the areas of risk management, debt management and the setting up of an LTO. They are also providing technical advice in the evaluation of the new ITCAS.

2.2.4 Taxation at International Level

In recent years, significant changes to international tax rules have affected multinational companies. There are two so-called “pillars” of this reform: Pillar One which changes where large companies pay taxes and Pillar Two that introduces the global minimum tax of 15.0 per cent, which would increase taxes on companies having low-taxed profits.

Pillar One contains “Amount A” which constitutes a limited redistribution of tax revenue from countries where large multinationals operate to countries where they have customers and an “Amount B” which provides a simpler method for companies to calculate the taxes on foreign operations such as marketing and distribution. For Pillar One “Amount A” to work, all countries must adopt the rules in the same fashion (through a multilateral convention) and override their existing tax treaties. As of 7th June 2024, significant progress on these rules has been made and negotiations are still ongoing.

Pillar Two is the global minimum tax. It includes three main rules (referred to as the Global Anti-Base Erosion Rules (“GloBE”) and a fourth for tax treaties. GloBE rules are meant to apply to companies with more than €750 million in revenues. Together, the three main rules i.e. the domestic minimum tax, the income inclusion rule, and the undertaxed profits rule create a minimum tax both on companies investing abroad and foreign companies investing domestically. As of 7 June 2024, 45 countries have either introduced draft legislation or adopted final legislation transposing Pillar Two’s model rules into their national laws. Within the European Union, Member States are in the process of implementing the Pillar Two rules in line with the agreed directive.

However, Member States with fewer than 12 in-scope multinational groups (companies with an annual turnover of at least €750 million) can elect to defer implementing both rules for 6 years. Malta falls within this category and has taken up this election to defer implementation. In the meantime, work is being carried out to introduce measures that are in line with Pillar Two and compatible with EU State Aid rules with a view to retaining Malta's competitiveness while at the same time safeguarding revenue.

From an indirect tax perspective, significant changes are also foreseen with regard to Value Added Taxation with the EU VAT in the Digital Age Package which envisages: (1) an overhaul in VAT reporting with the introduction of mandatory e-invoicing and real-time digital reporting for EU cross-border business-to-business transactions; (2) new rules for platforms intermediating supplies of short-term accommodation and passenger transport; and (3) new measures intended to achieve the goal of only requiring one single VAT registration for businesses operating within the EU.

In May 2023, the Commission also put forward its proposals on the Customs Union Reform Package. This reform seeks to establish a more cost-efficient and effective cooperation framework, based on a new partnership among EU customs authorities and between customs and businesses, reducing compliance costs through modern procedures and enabling protection of financial and non-financial interests based on harmonised controls. The next steps include the discussion of clusters in September, as the basis for the first revision.

2.2.5 Getting Results

Through the integration into one administration as MTCA, declaring voluntary compliance as its target objective and through a number of initiatives to reach out to different types of taxpayers, the MTCA has successfully registered positive results.

In fact, during the past year it has succeeded to secure:

- an increase in the tax rates compliance rates (e.g. personal income tax returns rate increased from 73.0 per cent to 90.0 per cent).
- an increase in the availability of online services.
- an increase in the submission of online returns (e.g. submission of online personal income tax returns increased from 41.0 per cent to 52.0 per cent when compared to 2022 submissions).

During 2023, a strong performance was also registered as regards collection of past dues where €375 million of tax arrears were collected during the year, being €30 million more than that of 2022.

Way Forward

All this is being carried out within the framework of the MTCA published strategy 'Delivering Transformation', with the objective of transforming it into a modern organisation that will be able to ensure the effective collection of all taxes, to contribute towards the sustainability of public finance and to guarantee the provision of the highest levels of service delivery to all taxpayers and the general public.

2.3 Fiscal Outlook: EC and Malta (EC forecasts)

As highlighted in the European Commission Spring forecast 2024, the continued phasing out of energy related measures, lower subsidies and improvement in economic activity will foresee the average EU deficit-to-GDP ratio in 2024 and 2025 declining to 3.0 per cent and 2.9 per cent, respectively. In view of this, the EU fiscal stance is targeted to be contractionary in 2024 turning to neutral over 2025. The number of Member States with a deficit above 3.0 per cent of GDP is presumed to decrease to nine countries in 2025 from eleven in 2024.

The debt-to-GDP ratio is expected to stabilise in both the EU and the euro area in 2024, and slightly increase in 2025. Indeed, in the current year, the debt-to-GDP ratio is expected to increase slightly to 90.0 per cent in the euro area and 82.9 per cent in the EU. Subsequently in 2025, it is projected to increase slightly further to 90.4 per cent in the euro area and to 83.4 per cent in the EU. This projected increase is due to a less favourable interest-growth-rate differential, which results from higher debt servicing costs and lower nominal GDP growth. Additionally, the stock-flow adjustment is expected to become debt-increasing. Although primary deficits are anticipated to be smaller, they will still impact debt developments in 2024 and 2025.

The European Commission forecasts for Malta estimates that the Government deficit will decline from 4.9 per cent of GDP in 2023 to 4.3 per cent in 2024, and to gradually decrease to 3.9 per cent in 2025. The main factor driving the deficit reduction in 2024 is the restricted growth in intermediate consumption expenditure and the phasing out of the national airline's restructuring costs. Energy related measures will increase from 1.7 per cent in 2023 to 2.0 per cent in 2024, and eventually decrease to 1.0 per cent in 2025.

The European Commission projects Malta's general Government debt to increase to 52.0 per cent of GDP in 2024, influenced by a positive stock-flow adjustment related to an equity injection in the national airline. In 2025, on the basis of a smaller primary deficit and a favourable interest-growth differential, the Commission estimates a modest increase in public debt to 52.6 per cent of GDP.

2.4 Macroeconomic and Fiscal Forecasts for Malta

Table 2.1

Macroeconomic Projections Headline indicators

source: MFIN

Growth in main indicators (%)	15-19 average	2022	2023	2024	2025
Real GDP	7.6	4.1	7.5	4.9	4.3
Nominal GDP (%)	10.3	9.4	13.2	8.1	7.0
Inflation rate (%)	1.3	6.1	5.6	2.5	2.1
Potential Output	7.5	6.7	5.2	5.1	4.8
Output Gap (% of Potential Output)	2.4	-2.1	0.1	-0.1	-0.5

The Maltese economy is expected to maintain a positive momentum over the short-term, with some moderation from the strong post-pandemic recovery. In nominal terms, GDP growth is expected to be 8.1 per cent and 7.0 per cent in 2024 and 2025 respectively, whilst real GDP is expected to increase by 4.9 per cent in 2024 and 4.3 per cent in 2025.

Economic growth is set to be primarily driven by domestic demand and to a lesser extent net exports, due to the weak external demand. Inflation has been revised downwards for 2024, as the disinflationary process is taking place at a faster pace than initially anticipated. This is mostly due to developments relating to prices in services, as well as food products. For 2025, inflation is expected to gradually converge towards normal levels, reaching 2.1 per cent.

During 2024 and 2025, it is anticipated that potential output will increase by 5.1 per cent and 4.8 per cent respectively. The anticipated primary driver of potential GDP growth is the labour contribution, which is expected to remain robust owing to a resilient labour market, with capital accumulation expected to be the second most significant contributor, followed by an upward trajectory in the total factor productivity contribution. As a result, the output gap is expected to be negative in both 2024 and 2025, reflecting some level of caution in the macroeconomic forecast. Over the medium-term, real GDP growth is also expected to continue to be robust, averaging 4.5 per cent over the next 4 years.

Recognising the need to gradually reduce the deficit while continuing to support economic stability, the Government is taking proactive steps to improve the deficit-to-GDP ratio. Specifically, the Government plans to limit the growth in net expenditure to a rate consistent with reducing the general Government deficit by at least 0.5 percentage points annually, on average. This would ensure that Malta would attain the target of 3.0 per cent of GDP Treaty reference value by 2026 and maintain the general Government debt at a prudent level over the medium term. This commitment aligns with the agreed Economic Governance Framework.

In line with the above, the budget deficit is projected to decrease to 4.0 per cent in 2024 and further decline to 3.5 per cent of GDP in 2025. The debt ratio is expected to amount to 49.2 per cent of GDP in 2024. Over the medium-term horizon, developments in the debt-to-GDP ratio are expected to be mainly driven by the projected primary deficits, as the interest-growth differential ('snowball effect') is set to continue decreasing the debt ratio. On this basis, the debt-to-GDP ratio is expected to stabilise at around 49.7 per cent of GDP over 2025-2027.

2.5 Malta's Medium Term Fiscal Structural Plan

The European Council has adopted a legislative package reforming the EU Economic Governance Framework, effective from 30 April 2024. The reforms aim to ensure sound and sustainable public finances, promote growth through reforms and investments, and support the EU's digital, green, and resilient future, enhancing competitiveness and strategic autonomy whilst achieving macroeconomic convergence, and addressing macroeconomic imbalances.

The reformed framework adopts a medium-term focus, tailored to the specific characteristics of each country. Medium-term fiscal targets are set at the national level based on public debt levels and fiscal sustainability risks. These differentiated fiscal strategies aim to enhance the credibility and national ownership of the framework. Moreover, by taking a medium-term approach, the framework allows for a more gradual, risk-based reduction in public debt, thereby promoting inclusive growth through growth-enhancing reforms and investments.

The new framework focuses on implementing national medium-term fiscal-structural plans. Each Member State will present a plan, committing to a ceiling on nationally-financed net primary expenditure growth (net expenditure path), over four to five years depending on the national legislature.

The country-specific net expenditure path aims to reduce debt or maintain it at prudent levels over the medium term while keeping the deficit below 3.0 per cent of GDP.

Following the Council's adoption of the medium-term fiscal-structural plan, the net expenditure path will serve as the primary operational rule in the coming years. The European Commission will monitor adherence to this path, tracking any deviations in a control account. This account will serve as a basis for enforcement mechanisms, specifically the debt-based Excessive Deficit Procedure.

The fiscal adjustment period can be extended by up to three years if a country's medium-term plan includes reforms and investments that ensure sustainable debt reduction. These measures must align with EU priorities, promote economic growth and fiscal sustainability, and address country-specific issues identified in the European Semester. The reforms and investments underpinning an extension should be time bound and verifiable, to allow for monitoring of their implementation.

Malta's fiscal policy for 2025 will align with the revised EU Economic Governance Framework. By the end of September, Malta will present a Medium-Term Fiscal-Structural Plan outlining the fiscal constraints for the next four years. Specifically for Malta, the fiscal strategy shall ensure a minimum structural effort of 0.5 per cent of GDP in order for the deficit to fall below 3.0 per cent of GDP, while the structural deficit decreases to 1.5 per cent of GDP in line with the new EU fiscal rules.

The medium-term plan must include projections of key macroeconomic and fiscal variables. The plan should also detail nationally financed public investments and interest expenditure. Precise policy measures will be confirmed in annual budgets, enhancing the plan's credibility and reducing implementation risks.

In line with the above, the forthcoming Budget 2025 will be aligned with the Medium-Term Fiscal Structural Plan aimed at reducing the deficit over the coming years whilst keeping the debt-to-GDP ratio below the 60.0 per cent target.





Enhancing the
Well-being and
Quality of Life

The Government
firmly believes
that education is
the cornerstone
of a socially just,
sustainable, and
progressive society.

3.1 Sustaining the Investment in Education

Education is key in enhancing the quality of the labour force, which in turn improves the well-being of the country's citizens. Indeed, this Government has prioritised and invested significantly in the educational infrastructure and the quality of education in the past years.

Investing in Education through the RRP and EF

Different EU funding programmes have provided investment and support towards the development of the educational sector in Malta over the past years to promote efforts towards economic development, social cohesion and improving the quality of education. These primarily include, but are not limited to, the Structural Funds Operational Programmes covering the programming period 2004-2007, 2007-2013, 2014-2020, programming period 2021-2027 as well as the Recovery and Resilience Plan (RRP).

Two significant projects supported through such Programmes are the One Device Per Child (ODPC) and the Endeavour II scholarship scheme. Moreover, several measures targeting different aspects of the educational sector are currently being implemented through Malta's RRP. These include investment towards education infrastructure, IT-related projects to support data analysis and platforms and the reading recovery programme amongst others. In terms of examples of education infrastructural projects, these include school renovation projects carried out in St Benedict's College, Għaxaq Primary School and Gozo College Nadur Primary School and the construction of a new near-carbon neutral school in Msida. The development of a Data warehouse project aimed at focusing on State School data, with the possibility to also include data from non-state schools towards further policy monitoring and guidance, is also another commitment taken by the Government, amongst others.

Sectoral Agreement

The Government acknowledges educators' pivotal role in shaping the aims and outcomes of Malta's educational system. To this end, the Government has invested in prioritising educators' well-being along with that of students, increasing their job satisfaction and minimising attrition – through the renewal of the Sectoral Agreement. The agreement, signed on 15th July 2024, is based on a number of principles agreed between the Government of Malta and the Malta Union of Teachers, which include the cultivation of a research and evaluation culture, a commitment to processes of digitalisation and simplification, educational attainment and the promotion of well-being, amongst others. The agreement covers educational grades, with a total of approximately 8,600 educators affected.

The average increase in salary in the first year of the agreement is 12.7 per cent and this goes up to an average increase of 24.9 per cent over the period of the entire agreement. Moreover, all educators covered by the agreement will benefit from a one-time cash payment of €1,000. When compared to the Eurydice report on teachers' salaries (2021-2022), Malta's new agreement demonstrates a positive trend, showing that teacher salaries in 2024 will average nearly 10.0 per cent higher than those in other countries. This advantageous difference is expected to increase further, reaching almost 15.0 per cent by 2027.

There are other benefits emanating from this sectoral agreement, including amongst others expedited progression and an increase in the number of hours of special leave. The role of a School Administrator will be introduced gradually, so as to alleviate the School Leadership Team from administrative duties. The number of Learning Support Educators in Reach Units and (ex) Resource Centres will increase to four per eight students and the number of First Aiders in schools has also increased. The possibility for supervision has also increased and the rate of payment has been pegged to the maximum of salary Scale 8. Teachers may voluntarily have more than 25 lessons and these extra lessons will be carried out against payment.

Digital Education

Malta is achieving positive results in digital education as demonstrated in Table 3.1, which provides a comparative analysis of Malta's standing in relation to the European Union Average. Nonetheless, the Government through the Digital Education Strategy 2024-2030 is committed to continue building on the successes by equipping students with the essential skills to thrive in an ever-evolving digital environment and to prepare them for the demands of the modern workforce. The expansion of the "One Tablet per Child" initiative to the provision of laptops (ODPC) to all secondary school students represents a significant stride towards bolstering digital education.

Table 3.1

Comparative Analysis of Malta's standing in relation to the EU Average

source: DESI 2023 Report, Eurostat

Metric	Malta	EU Average
Basic Digital Skills	61%	54%
Above Basic Digital Skills	33%	26%
Individuals with No Digital Skills	10%	19%
ICT Specialists in the Workforce	5.40%	4.50%
Women ICT Specialists	1.60%	1.40%
ICT Graduates per 1,000 Individuals	3.3	3.9
Enterprises Providing ICT Training	27%	23%
Enterprises Using Cloud Computing	55%	45%

Early Leaving from Education and Training

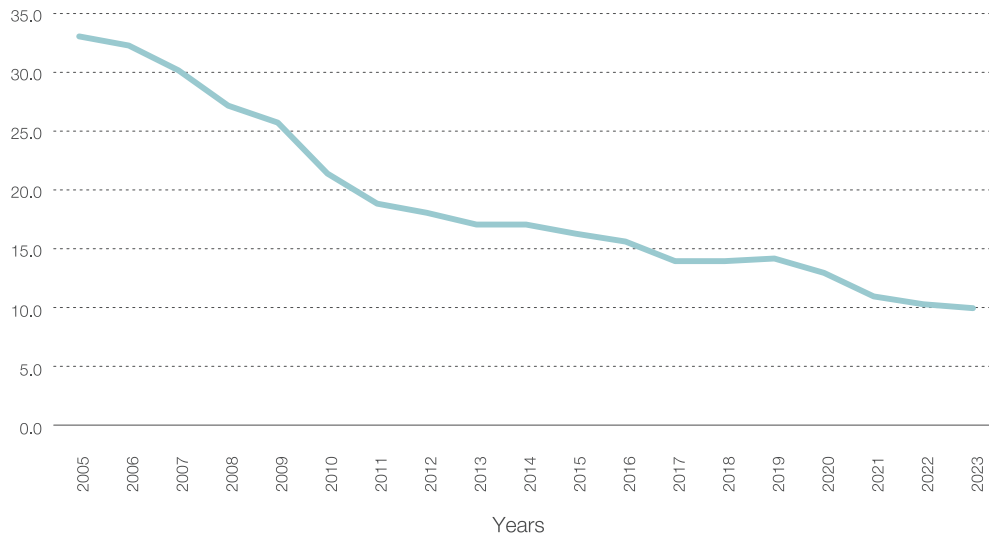
The Government has undertaken several proactive steps to reduce the rate of early leaving from education and training by investing in education and training programmes and providing essential support and resources to students and communities at risk. As a result, Malta has witnessed a significant drop in the early leaving from education and training rate, decreasing from 33.0 per cent in 2005 to 10.0 per cent in 2023 (see Figure 3.1).

Fig 3.1

Early Leavers from Education and Training, Malta

source: Eurostat

% (of population aged 18-24)

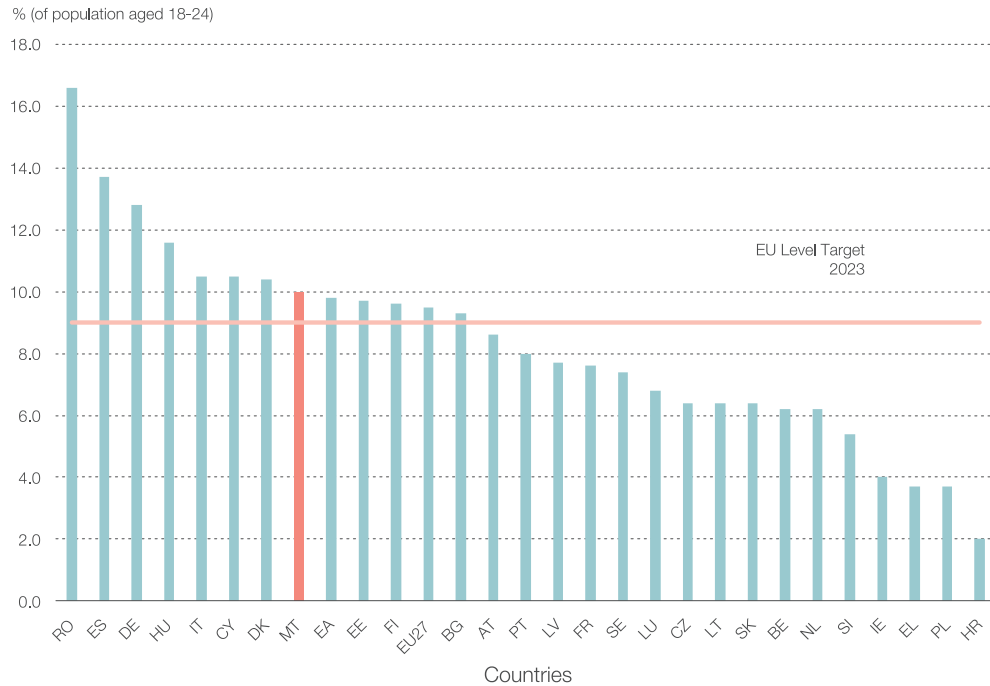


Latest data indicates that 16 EU countries have already met the EU-level target of 9.0 per cent for 2030. Malta's national strategy for reducing Early Leaving from Education and Training (ELET), aligned with the EU2030 agenda, aims to decrease the ELET percentage rate to 9.0 per cent by 2030. Consequently, and on the bases of extensive evidence-informed research, the policy is composed on three strategic pillars which target prevention, intervention and compensation measures respectively. The primary emphasis is on the prevention pillar, which ensures a solid investment in early years' education, along with a strong focus on intervention within compulsory schooling.

Fig 3.2

Early Leavers from Education and Training, 2023

source: Eurostat



In an effort to give students the opportunity to continue education and pursue a career in trades, as well as improving the skills of existing tradesmen, a new technical centre for trades will be opened at MCAST in 2025. This new centre will also help address the industry's skills gap given that the offered courses will be based on the needs of the respective industries. The centre will start welcoming students as from the scholastic year 2025-2026.

Tertiary Education

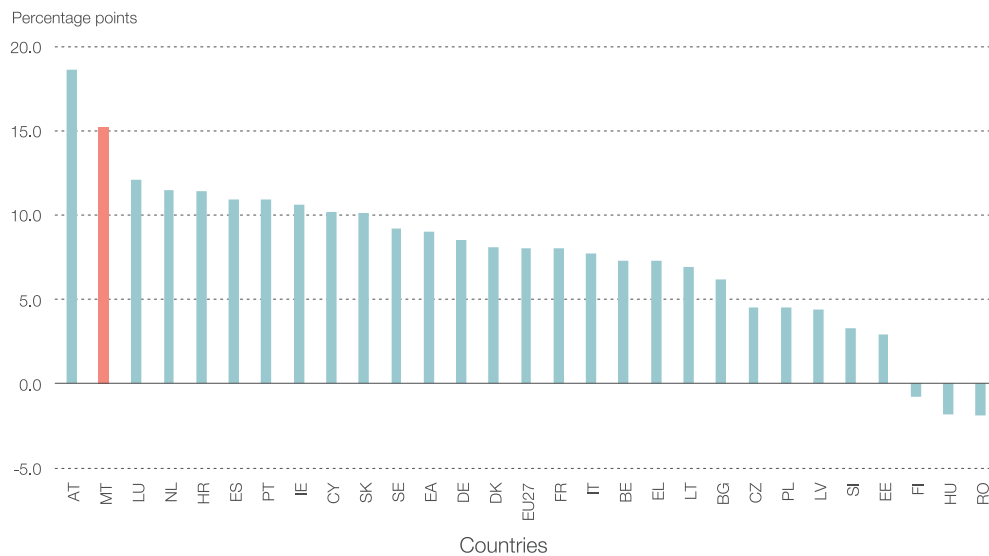
Reducing the early school leaving rate is only one side of the story. In order for Malta to remain competitive and meet today's skills gap challenges, it is crucial to motivate individuals to continue pursuing further studies beyond the compulsory school years.

Figure 3.3 indicates that over the past ten years (2013-2023), Malta experienced the second largest increase in the share of tertiary educational attainment amongst individuals aged 25-34 in the EU. During this period, the share of individuals with a tertiary educational attainment increased from 31.1 per cent in 2013 to 46.3 per cent in 2023, equivalent to an increase of 15.2 percentage points.

Fig 3.3

Change in the Share of Tertiary Educational Attainment (aged 25-34)

source: Eurostat

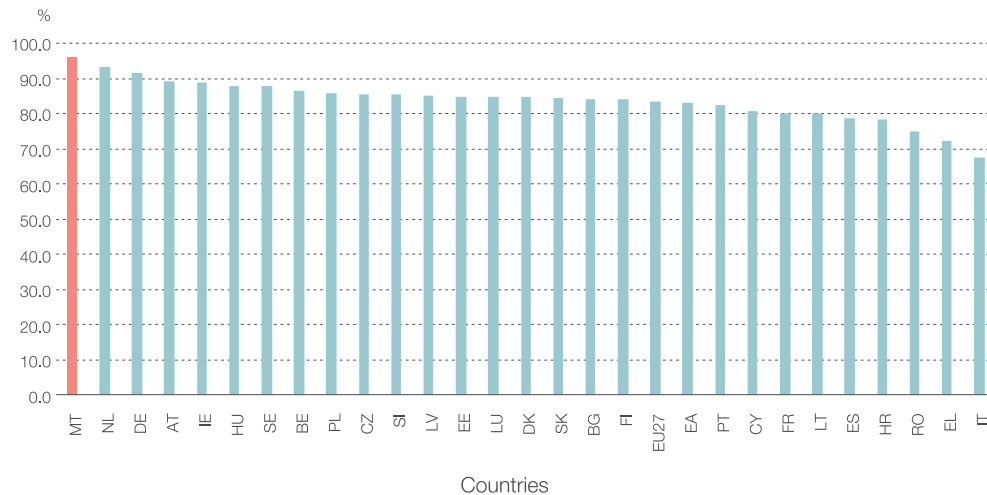


Moreover, the EU strives to increase the employment rates for recent graduates (of medium vocational education and higher) to 82.0 per cent by 2025. In the EU, this rate stood at 81.0 per cent in 2023, with 10 member states having already reached the target level. At the forefront of these member states is Malta where the employment rate from recent graduates stood at 95.6 per cent in 2023.

Fig 3.4

Employment Rates of Recent Graduates, 2023 (aged 20-34, ISCED 2011 levels 3-8)

source: Eurostat



All these achievements are a testament to the Government's investment in education through the consistent increases in Government expenditure on education in the past decade. The latest available data shows that in 2022, Government expenditure on education amounted to €872.9 million or 12.7 per cent of total Government expenditure, the latter being significantly higher than the EU and EA average rates of 9.5 per cent and 9.2 per cent, respectively.

Moreover, the Government is also directing substantial investment towards adult learning with the Directorate for Lifelong Learning and Employability currently offering over 400 courses annually to assist individuals in upskilling and reskilling according to their needs.

Strategic Foresight

Going forward, in the coming Budget and years ahead, the Government is committed to sustaining the investment in the quality of education in Malta by working diligently to implement forward-thinking strategies and policies outlined in the National Education Strategy 2024-2030, with the aim of continuing to transform Malta's education system for the benefit of current and future generations.

- The National Education Strategy 2024-2030 is structured for a six-year duration, focusing on immediate and impactful changes. Concurrently, the national strategy, crafted in collaboration with experts from the OECD, carries a long-term vision extending to 2050. This comprehensive approach ensures that immediate actions are aligned with future goals, fostering sustainable development and continuous improvement in the education system.
- A new Directorate dedicated to 'Planning and Strategic Foresight' has been set up within the relevant Ministry with the aim to develop a shared vision and purpose for the future, identify future challenges, map new solutions, detect early warning signs and enhance educational policies.
- Following a mapping exercise in April 2023, a working group was set up to transform initiatives into structured programmes with clear learning objectives and accreditation by the Directorate for Quality and Standards in Education. The programmes which will be available during and after school hours vary from consolidation of numeracy and literacy basic skills to STEM, global citizenship education, well-being, sustainability and life skills whilst employing digital skills.
- Furthermore, an extensive exercise to revise the curriculum in terms of content overload and overlapping to allow more time for deep learning, mastering key skills and nurturing concepts such as socio-emotional well-being and active lifestyles, is currently being undertaken. A new National Assessment Strategy will be developed targeting both the school-based assessment and the controlled assessment whereby 60.0 per cent will be awarded for the exam (controlled) and 40.0 per cent for the continuous assessment (school based), providing a more comprehensive evaluation of student performance.

- The Family Community School link programme will be launched, which includes the development of an early warning system that will monitor and target children at-risk from a young age. The engagement of liaison officers will bridge the family, community and school contexts, ensuring direct intervention and support for families of children at-risk by working directly with social workers, educators, senior leadership teams and other stakeholders.

3.2 Continuing to Prioritise Social Security and Protections

The Government's strong commitment to social protection has been amply demonstrated in recent years when the Maltese economy and society were severely tested by adverse international developments and unusually high inflation, so soon after the Covid pandemic from which the country was still recovering. Malta's social protection system rose to the occasion and overcame the challenges.

A significant measure was the introduction of the Additional Cost of Living (ADCL) benefit designed to support low to medium income households to better cope with inflationary pressures. On its launch, 41,000 households received pay-outs amounting to about €14 million, with a further €3 million in payments to other eligible households made in the first months of 2023.

The mechanism was consequently fine-tuned to take into consideration the higher incidence and impact of the cost of food and medicine on low-income and retired households. As a result, the number of benefitting households during 2024 shot up to nearly 100,000. They received pay-outs varying between €100 and €1,500, reckoned on the basis of household's equivalised income, totalling around €34 million.

Further budgetary initiatives enacted during 2024 were primarily targeted at pensioners, the elderly, and families with children. These measures included pension increases, higher child benefits, increased childbirth and adoption bonus, and the launch of a special student allowance for families with children in post-secondary education.

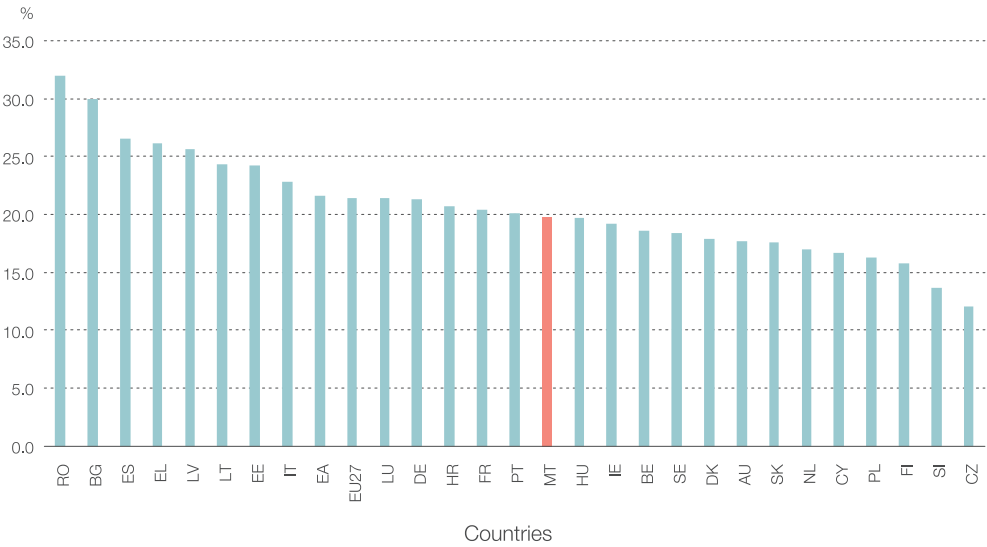
Notably, a start was given to a process aimed at bridging the pension gap between persons born before and after 1962. While the pension indexation mechanism is now the same for all pensioners, the pension cap of those born before 1962 is being gradually brought at par with that of those born after. The combined initiatives are expected to have a further positive impact on income distribution and poverty levels. The cost of this and other support measures was around 1.7 per cent of GDP.

3.2.1 Poverty Indicators

In general, poverty indicators in Malta are below the EU average. The share of Maltese people at risk of poverty or social exclusion stood at 19.8 per cent in 2023 (almost 5 percentage points less than a decade ago) compared to the EU and EA averages of 21.4 and 21.6 per cent, respectively.

Fig 3.5
AROE, 2023

source: Eurostat



As the European Commission pointed out in its Country Report 2023, households' budgets were not affected by the rises in energy prices, given their stability due to the Government's timely actions. The fraction of individuals living in households which spend more than 10.0 per cent of their budget on energy remained stable for the whole population and for the At-Risk-of-Poverty (AROP) population, while it increased by more than one-third in the EU.

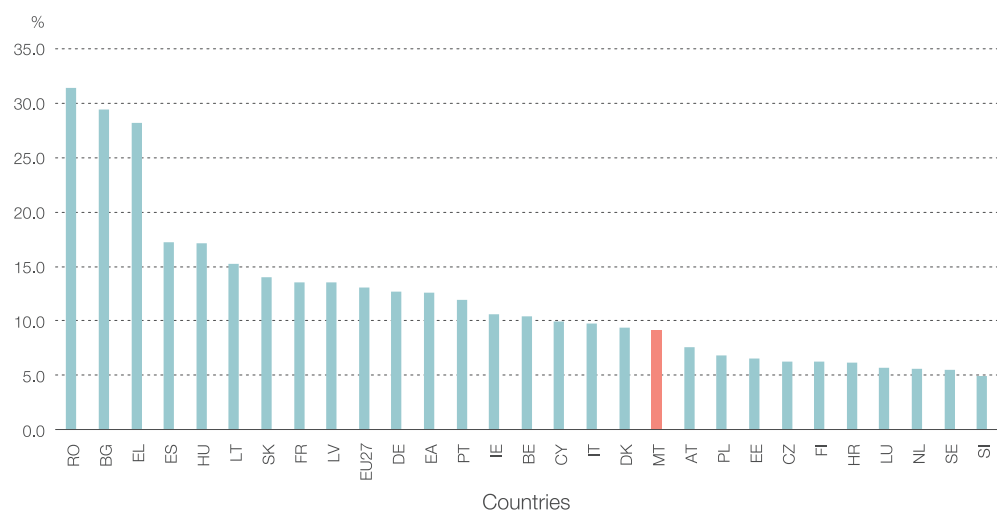
Although, according to the latest SILC children's AROPE increased (after declining by 10.0 percentage points since 2013), that for persons with severe disability and that for persons with some disability declined. There was also a reduction in the AROPE of persons aged 65 and over. Children's AROPE is expected to decline again once the increases in family benefits in 2023 and 2024 are taken into account in the reference data.

The material and social deprivation rate decreased further in 2023 standing at 9.2 per cent, 3.9 percentage points lower than the EU average. The severe material and social deprivation rate declined even further in 2023 to 4.1 per cent, while the EU average stood at 6.8 per cent.

Fig 3.6

Material and Social Deprivation Rate, 2023

source: Eurostat



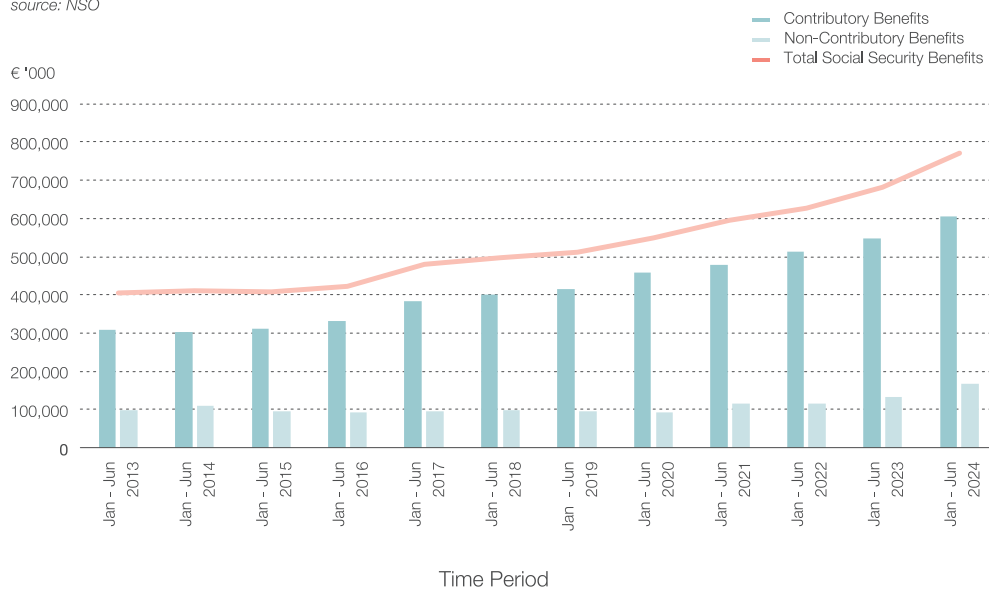
3.2.2 Social Benefits

The expenditure on social benefits in the first half of 2024 was the highest-ever recorded in the last 12 years, amounting to €772.5 million. Compared to 2023, the increase in 2024 was 13.5 per cent. Since 2013, contributory benefits paid have almost doubled and now account for 78.3 per cent of total benefits. On the other hand, from 2013 to 2024 non-contributory benefits have increased by 72.2 per cent and now account for 21.7 per cent of the total.

Fig 3.7

Social Security Benefits Expenditure

source: NSO



Looking at the evolution of social benefits expenditure over the years, one can observe that there were also substantial improvements in child benefits, supplementary allowances, In-work Benefits, Carers' Benefits, disability allowances, other benefits, and bonuses. Of course, the additional COLA measure also features prominently. It is relevant to point out that the decrease in social assistance was due to the fact that unemployment declined drastically (those claiming unemployment assistance are down to just 445 from 6,119 a decade ago) and also thanks to the Making Work Pay measures introduced in 2014. Material and social deprivation also decreased so that fewer families needed special assistance.

The main factor behind this positive result is undoubtedly the fact that the activity rate of females has increased by 20.0 percentage points over 11 years and has involved 57,000 women joining the labour force and securing their economic independence. As a result, the number of single parents claiming social assistance has decreased by 1,120.

Table 3.2

The Upswing in Social Outlays

source: NSO, MSPC estimates for 2024

	2013	2018	2023	2024 (est)
	€ '000			
Pensions in respect of Retirement	410,958	531,145	722,266	792,900
Pensions in respect of Invalidity	25,533	21,716	18,761	19,300
Pensions in respect of Widowhood	113,246	139,678	176,145	192,450
Age Pension	20,281	22,016	22,129	23,400
Child Allowances	43,353	39,312	52,193	71,900
Disability Pensions/ Allowance	13,702	23,849	39,864	43,556
Total Social Assistance	75,317	55,442	46,364	48,800
Supplementary Allowance	6,480	8,986	17,179	16,900
Additional COLA Household Mechanism	-	-	20,150	43,500
Medical Assistance	18,308	18,334	18,100	19,250
Total In-work Benefit	-	3,754	14,588	15,300
Carers Allowances/ Grants	1,825	6,345	14,288	15,800
Other Benefits	14,759	11,378	26,486	31,386
Bonus - Contributory	59,346	74,061	109,007	134,500
Bonus - Non-Contributory	10,989	9,213	10,690	12,400
	€ '000			
Total Expenditure	814,457	965,229	1,308,165	1,481,342
Contributory	624,928	778,936	1,038,668	1,155,000
Non-Contributory	189,529	186,293	269,497	326,342

Overall, according to NSO, those who at any time in 2023 were relying on social assistance (including unemployment assistance) declined by a staggering 12,027 since 2013 to just 6,800.

Although, the ratio between social outlays and Gross Domestic Product had gone down between 2013 and 2023 – due to the very high growth in GDP – in 2024 it is expected to improve over that in 2023.

The welfare safety net was shown to be resilient to the sudden shocks, which came on top of evolving long-term trends that are also posing their own risks.

The Government is working on a vision that responds to the ongoing and new challenges, in the medium to long-term, looking ahead to the next decade or so. In essence, the objectives are; participation in social protection for all; quality jobs and enabling working environments throughout the life cycle; and social services.

In terms of the objectives for Budget 2025, the Government remains committed to reducing AROPE by 3.1 percentage points by 2030 and to a targeted decrease of approximately 6.0 per cent in the number of children at risk of poverty or social exclusion by the same year (from 2019 baseline). With respect to the latter objective, the Government will launch a public consultation on its new poverty strategy later this year. A public consultation on a Social Plan for Families is currently in course. As far as pensions are concerned, the Government is also committed to continuing to build on the substantial improvements made in the last few years on pension adequacy and sustainability.

3.2.3 Persons with Disability

The Government is committed to enhancing the quality of life for persons with disability through the implementation of various measures and reforms.

In light of this, the Personal Assistant Reform kicked off with a public consultation exercise in 2023, and a €3.2 million injection into the Independent Community Living Scheme fund which in 2024 increased to €5.2 million.

This increase resulted in an additional 150 persons with disability benefitting from such a scheme amounting to a total of over 400 persons with disabilities who are entitled to engage a personal assistant of their own choice. In line with this, the relevant Ministry is also drafting a legislation on “Personal Assistance and Personal Budgets Reform” to create a right to Personal Assistance, creating a legal structure and State funding in respect thereof, allowing this service to proliferate.

The concept of personal assistance is also a means to address the deinstitutionalisation strategy. In fact, during 2024 CRPD conducted a study with all relevant stakeholders and persons with disabilities who currently live in residences to provide the base position for the de-institutionalisation. The research highlighted gaps in service provisions which would need to be addressed as well as discovering the opinions of current residents about their current situation and how this could be improved. Recommendations were made for national authorities, service providers, parents, Organisations of Persons with Disability (OPDs) and NGOs who were all stakeholders in the de-institutionalisation process.

A testament of the local efforts in respect of the de-institutionalisation process is the opening of an independent living transitional facility with the intention of training persons with disabilities who had been institutionalised and wish to move into living in the community.

In respect of 16-year-old persons with disability and younger, Aġenzija Sapport is in the process of creating family support schemes providing packages of hours which will be funded by the Agency to employ a carer. This action is expected to be taken up given that the Personal Assistant scheme is applicable to 17- to 61-year-olds.

One of the major milestones in the disability sector acquired during 2024 was the confirmation of ex-gratia payments to Maltese victims of Thalidomide. Further to the issuance of calls for applications, an independent board of medical experts was appointed to determine eligibility and the percentage of disability caused by the drug. The final amount of compensation was determined based on this assessment. A total of 25 individuals will benefit from a total of €1 million in compensation spread over a period of three years.

Furthermore, the Government continued working on several legislative documents and reforms that safeguard the rights of persons with disabilities and to ensure equality.

Moreover, the Government's commitment towards people with disabilities is evident through the implementation of a number of 2024 Budget measures. Amongst others, these include increases in the carers' grant, increases in disability assistances, and an increase in tax credit for therapy of children with disabilities.

3.3 Social Implications of Selected 2024 Budget Measures

The Government has consistently undertaken comprehensive efforts to enhance the social protection system in Malta, prioritising support for pensioners and low-income families. These initiatives are crucial for providing a reliable safety net to vulnerable households, particularly in the face of recent economic and social crises. Recognising the imperative to address poverty and reduce social inequality, the Government has been committed to implementing a series of policy reforms each year. These reforms, focused on the tax and benefits framework, are designed to ensure a more equitable distribution of resources. By continually refining these policies, the Government aims to significantly improve the quality of life of vulnerable households, fostering a more inclusive and supportive community for all members of society.

To this end, this section examines how selected policy measures announced in the 2024 Budget affect the income distribution and poverty levels of households². These measures include the weekly pension increase of €2.19, the €50 increase in the elderly grant, the tax rebate for pensioners, an increase in the children's allowance, the increase in childbirth and adoption bonus, allowance for post-secondary students, as well as the additional cost-of-living (COLA) mechanism. To evaluate the impact of these initiatives, simulations were modelled using EUROMOD, an EU-wide static tax-benefit microsimulation model and 2022 EU-SILC microdata³.

² The measures are selected based on what can be modelled within EUROMOD using the EU-SILC micro-data. For further detail on what is modelled in EUROMOD, see the latest Country Report.

³ EUROMOD is a tax-benefit microsimulation model for the EU that enables researchers and policy analysts to calculate, in a comparable manner, the effect of taxes and benefits on household incomes and work incentives for the population of each country and for the EU. These simulations are based on the 2023 tax and benefit system of Malta using EUROMOD version 16.0+ and the 2022 EU-SILC microdata. The EU-SILC data represents the national population and provides data on income, poverty, social exclusion and living conditions of households.

The simulations consist of four policy scenarios:

- **‘Baseline’ Scenario**⁴ which represents the 2023 tax and benefit policy rules, excluding the additional COLA mechanism and increase in pension of that year.
- **‘Benefits Targeted to Elderly’** Scenario which models a pension increase of €2.19 per week, an increase of €50 in the elderly grant and the tax rebate for pensioners to the base scenario.
- **‘Benefits Targeted to Families with Children’** Scenario which models the increase in the children allowance, the increase in childbirth and adoption bonus and allowance for post-secondary students to the base scenario.
- **‘Additional COLA Mechanism’** Scenario which models only the Additional COLA Mechanism announced in the 2024 budget to the base scenario.

In each policy scenario, the difference between the policy scenario and the baseline highlights the distributional impact of that specific policy reform.

⁴ The baseline scenario is based on the 2023 tax and benefit system of Malta excluding the additional COLA mechanism introduced in 2022. Thus, the results presented for the additional COLA mechanism are assessed against a no-policy scenario. The same methodology applies to the analysis of the increase in pension reform.

Table 3.3

Distributional Impact of Reforms

source: Economic Policy Department Workings using EUROMOD and 2022 EU-SILC data

	Benefits Targeted to Elderly	Benefits Targeted to Families with Children	Additional COLA Mechanism
Poverty rate⁵ of Total Population	-0.18pp	-0.26pp	-0.65pp
Poverty rate by Household Type			
One adult < 65, no children	0.00pp	0.00pp	-0.45pp
One adult >= 65, no children	-0.82pp	0.00pp	-1.02pp
One adult with children	0.00pp	-2.59pp	-2.13pp
Two adults < 65, no children	0.00pp	0.00pp	-0.13pp
Two adults, at least one >= 65, no children	-1.06pp	0.00pp	-1.69pp
Two adults with one child	0.00pp	-0.59pp	-0.79pp
Two adults with two children	0.00pp	0.00pp	-0.44pp
Two adults with three or more children	0.00pp	-4.49pp	-4.49pp
Three or more adults, no children	0.00pp	0.00pp	-0.11pp
Three or more adults with children	-0.07pp	-0.07pp	-0.23pp
Income Inequality - Gini Coefficient	-0.0006	-0.0009	-0.0032

Measures targeted to the Elderly Population

In the 2024 Budget, the Government continued to target pensioners through a set of additional measures, which are collectively analysed through simulation analysis. These measures include a weekly increase of €2.19 in contributory and non-contributory pensions (over and above the increase in the statutory COLA), a €50 increase in the elderly grant for individuals aged 80 years and over who are still living in the community or in a private care home, and an increase in the tax rebate on pension income.

⁵ The poverty rate calculations are based on a fixed 60 per cent poverty threshold, set at €11,663

These combined initiatives are expected to reduce the overall at-risk-of-poverty rate (AROP) by around 0.18 percentage points, as shown in Table 3.3. Notably, this decline is primarily attributed to the decrease in poverty rates among individuals aged 65 and over, as shown in the breakdown of poverty rates by household type. Additionally, the Gini coefficient, an indicator of income inequality, also showed a decline, suggesting that these measures help in alleviating income inequality. Moreover, as illustrated in Figure 3.8, it is evident that these policies are expected to have a positive impact on the disposable income of all income brackets, particularly benefiting those at the lower end of the income distribution.

Measures targeted to Families with Children

The Government implemented several measures pertaining to child benefits. One of these measures involves an annual increase of €250 in the children's allowance ensuring that parents of dependent children⁶, regardless of their income, receive an additional €250 per child as part of their respective benefit. Additionally, the Government increased the childbirth and adoption bonus by €100 for the first child and €600 for any subsequent children in the family. Another measure introduced in this context is a special allowance for parents whose children pursue education beyond the compulsory age. This allowance amounts to €500 per year for children aged 16 to 18 who continue living with their parent(s) and are full-time students.

EUROMOD simulations conducted to evaluate the effects of these measures, indicate that the overall at-risk-of-poverty rate is expected to decrease by around 0.26 percentage points, primarily affecting households with children. When looking at the AROP by household type, the highest decline is observed in the households with two adults and three or more dependent children, recording a decrease of 4.49 percentage points (Table 3.3). The Gini coefficient also registered a decline, indicating that these measures help alleviate income inequality. Furthermore, Figure 3.8 illustrates a positive and progressive impact on disposable income across all income brackets.

⁶ Dependent children are assumed to be children under the age of 16 in line with the eligibility conditions of the children allowance benefit.

Additional COLA Mechanism

The additional COLA mechanism was developed to compensate low to medium-income families for the recent increase in the cost of living due to high inflation. The most affected households receive the highest allowance, as the mechanism ensures that the pay-out is highest among families with more persons living in the same household and those households with the lowest equivalised income. The benefit can vary between €100 and €1,500 per household.

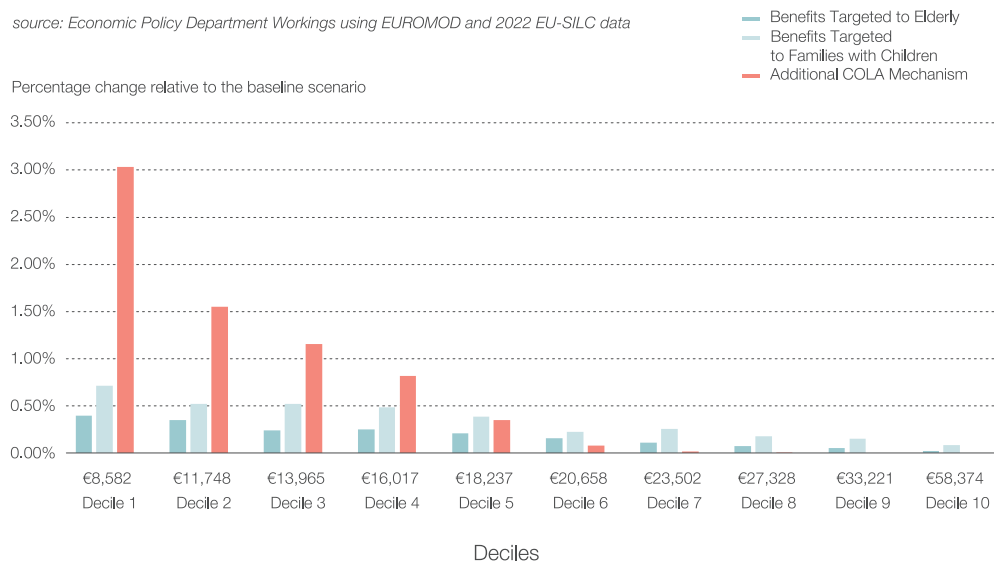
This mechanism is expected to reduce the overall at-risk-of-poverty rate by approximately 0.65 percentage points, as shown in Table 3.3. The most substantial decline is expected within households consisting of two adults with three or more children, single-parent households, and households with individuals aged 65 years and older. Consequently, this initiative is expected to have a substantial positive distributional impact on the elderly cohort and families with dependent children.

Additionally, Figure 3.8 illustrates a substantial increase in equivalised disposable income among the bottom three deciles, reflecting the targeted nature of this measure. This result is reinforced by the improvement in the Gini coefficient, affirming the effectiveness of the measure in addressing income inequality.

Fig 3.8

Percentage Change in Equivalised Disposable Income from Baseline Scenario of the Selected Measures by Decile Groups

source: Economic Policy Department Workings using EUROMOD and 2022 EU-SILC data



3.4 The Provision of Social and Affordable Accommodation

3.4.1 Social Accommodation

One of the main objectives of the present Government is to assist social housing cases, providing all beneficiaries with a decent and dignified home. In fact, at present the robust social housing policy supports more than 7,000 families in Malta. The current social housing waiting list has been reduced from approximately 3,000 applications to nearly 1,700 applications.

Various social housing projects are currently being developed and projected to be completed by the year 2026. Moreover, the Government has also introduced a Care Plan for social housing applicants who also require welfare aid, with 61 applicants in 2024.

Further in this regard, in recent years, the Government has launched the Rent to Assist Scheme, better known as Nikru biex Nassistu, whereby homeowners may lease their property for ten years to the Housing Authority for social accommodation purposes. During the year 2023, more than 1,000 apartments were registered under this scheme with a further 864 apartments during the first half of 2024. Additionally, owners who lease their residence at affordable rents and are interested in selling the property to their tenants are exempt from paying tax on the first €200,000.

On the other hand, Government-owned properties leased to tenants benefiting from social housing may be purchased through the Sir Sid Darek Scheme at a subsidised price. The subsidy granted by the Housing Authority has amounted to more than €11 million since 2022, with nearly 300 tenants becoming homeowners.

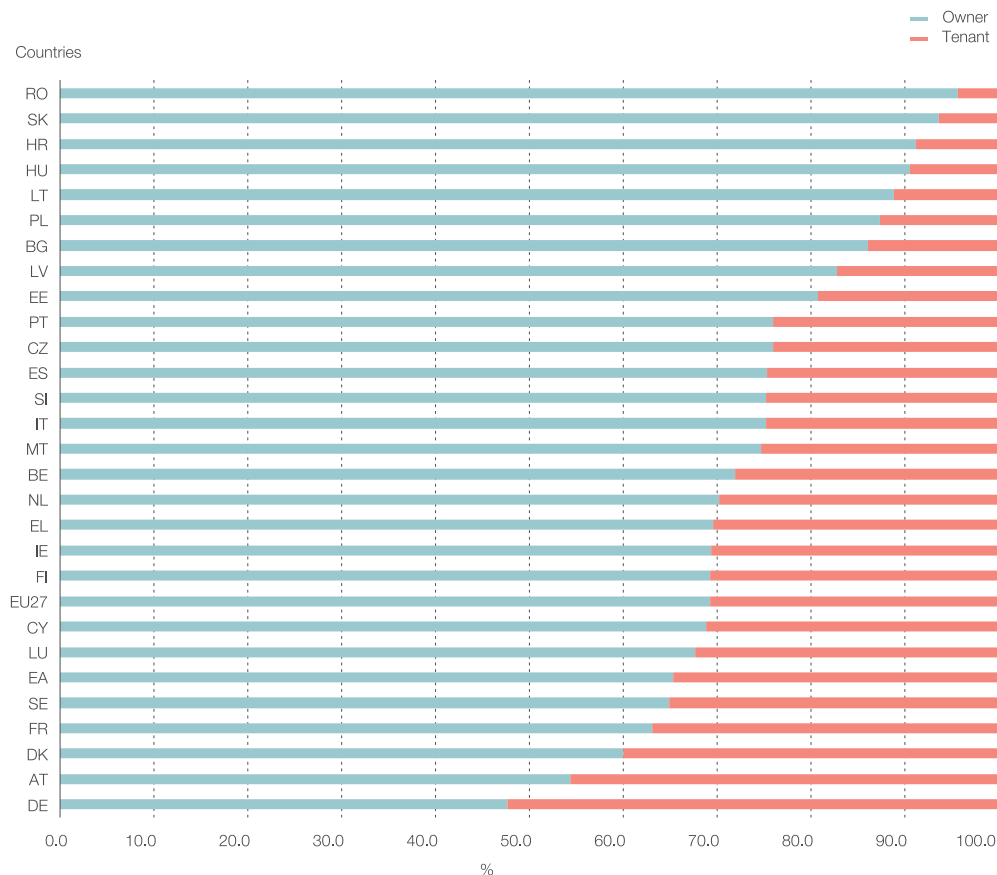
3.4.2 Affordable Accommodation

Despite Malta's homeownership rate currently standing at 74.7 per cent, 5.5 percentage points higher than the EU average, the Government still faces challenges to affordable housing. In view of this, the Government has committed to address these challenges through the launch of various affordable housing schemes.

Fig 3.9

Share of People Living in Households Owning or Renting their Home, 2023

source: Eurostat



In 2022, the First-Time Buyers Scheme was launched for homeowners who were purchasing their first property, with the Government granting €10,000 over a period of 10 years to each application. In 2024, 2,767 beneficiaries received their second payment whilst in June 2024, 2,084 beneficiaries received their first payment. The Government has paid more than €7 million since 2023. Furthermore, the Grant on First Residence Scheme assisted nearly 1,000 first-time buyers in finishing their homes.

First-time buyers are also exempt from paying stamp duty on the first €200,000 of the value of their property, which means that they can save up to €7,000 in taxes. Since its inception in 2014, around 38,000 individuals benefited from this scheme saving around €135 million in taxes when buying their first residence. Meanwhile second-time buyers, who have been benefitting from the exemption in stamp duty offered under the second-time buyer scheme, received a combined total of €3.3 million in tax refunds from 2018 up until July of this year.

In addition, 16,393 beneficiaries took advantage of the UCA Buyers and Sellers Tax Exemption for properties valued up to €750,000 introduced in 2022, with total tax saved reaching €113 million. The Vacant Property Tax Exemption, also for properties valued up to €750,000, provided €6.1 million in tax savings to 1,099 recipients.

Moreover, first-time buyers opting for properties in Urban Conservation Areas (UCA) or vacant properties can receive a cash grant of €15,000, while those purchasing in Gozo are eligible for a grant of €40,000. As of 15th August 2024, approximately 488 applications have been approved under this scheme, resulting in a total expenditure of €8.5 million. These initiatives align with the Government's broader efforts to revitalise localities across Malta and Gozo. Property owners can also benefit from VAT grants, capped at €54,000, on the first €300,000 spent on restoration and finishing costs. As of the same date, 187 applicants have benefited from these VAT grants, receiving nearly €1.9 million.

The Private Rent Housing Benefit Scheme provides financial assistance for rent payments. The scheme ensures that no one would pay more than 25.0 per cent of their income in rent. As of January 2024, the rent subsidy was increased, with more than €5 million paid by the Government to more than 3,000 beneficiaries at present.

The 10.0 per cent Deposit Payment Scheme is intended for people under 39 who are eligible for a loan but have not yet saved the 10.0 per cent of the property's value that the loan does not cover. In a personal loan for this sum, the Housing Authority serves as guarantor, allowing recipients to buy homes up to €225,000. The Housing Authority pays the interest on this personal loan. Applications under the 10.0 per cent Deposit Payment Scheme doubled when compared to the year 2022, with the total expenditure for the latter two years totalling nearly €4 million.

The Government's assistance for affordable housing is also reflected in Loan Facilities and their repayments. The Equity Sharing Scheme is intended for people over thirty years who are unable to obtain a loan enough to buy a home because of their age and income. By buying up to 50% of a property valued at up to €250,000, the Housing Authority lowers the amount of the loan taken by the beneficiaries. When the beneficiaries' financial circumstances improve, the Housing Authority sells the remaining portion to them. The Government is committed to aiding other individuals who will benefit from this scheme and are currently ineligible. Since 2022, more than €12 million have been allocated to support the Equity Sharing Scheme and its beneficiaries.

Moreover, low-income earners who are not able to finance a home loan may receive a monthly grant to finance part of the loan repayment of their purchased property, through the Social Loan Scheme, with more than 500 beneficiaries since 2022.

The Foundation for Affordable Housing is also committed to addressing the challenges of affordability. Its first product launched in March 2024, the LoanUp, enables greater access to the homeownership market for young individuals or couples earning less than €30,000.

Moreover, more than €5 million were granted to more than 1,000 beneficiaries for the New Hope Scheme, which enables individuals who cannot take life insurance due to a medical condition to purchase their residence, and the Disability Scheme, which provides financial assistance so that a property may be adapted for the needs of disabled persons.

3.4.3 Repair and Adaptation Schemes

Various schemes to assist owners and tenants in repairing or adapting their dwellings to make them habitable and suitable for their needs are also being provided, reflecting the Government's objectives toward decent and dignified homes, whilst promoting energy efficiency.

Each year, the Government allocates a budget for the Regeneration of Facades and Common Parts of social housing blocks, ensuring that gradually all social housing blocks are restored. Since 2023, 1,000 families within twelve localities have benefitted from such initiatives. Additionally, 99 Lifts have also been installed since January 2019, providing further accessibility within these communities.

Older homes that have been unoccupied for a year or more can receive financial support for renovations through the Rehabilitation of Vacant Dwellings Scheme, Adaptation Scheme and Structural Alterations Scheme. When the work is finished, the property must be leased to the Housing Authority for ten years to qualify for a grant of up to €25,000. The Authority then subleases the property for use as social housing. More than €2.4 million has been granted to prospective beneficiaries since 2022.

3.4.4 Pre-1995 Protected Leases

Since the legislative amendments enacted in 2021 for properties leased before the 1st of June 1995, the Government has been committed to providing assistance to approximately 10,000 families who are at risk of being evicted. Apart from the Housing Authority providing tenants with the services of a lawyer without charge to assist them in court cases, various schemes were also launched including the Pre-95 Rent Subsidy scheme coupled with the Alternative Accommodation in a property owned or administered by the Government for those who cannot afford to pay the difference between the maximum subsidy and the new rent. Moreover, the Adaptation of Pre-95 Properties and the Subsidy on Adaptation Works provide financial assistance for structural repairs and refurbishment of old dwellings respectively.

In the 2025 Budget, the Government is committed to continue strengthening the social and affordable accommodation schemes and initiatives to ensure that all segments of society have access to adequate and affordable housing.

3.5 Maintaining a Robust Health and Elderly Care Sector

The sustainment of a robust health and elderly care system and the promotion of active ageing have been at the forefront of the Government's strategic vision. Unparalleled budgetary and financial allocations have invariably supported the provision of free health and elderly care, the introduction of new medicines, treatments and services, complementary cutting-edge technologies, as well as capital investments ranging from state-of-the-art medical equipment to infrastructural undertakings. The total general government expenditure on health amounted to €966.1 million in 2022.

3.5.1 Primary Healthcare

Throughout the past few years Primary HealthCare has collaborated with Mater Dei Hospital through the availability of clinic space to secondary/tertiary care consultants for their outpatient clinics. Up to now, this has led to the following new clinics being run:

- 5 Neurology Clinics
- 5 Orthopaedic Clinics
- 2 Cardiology Clinics
- 1 Ophthalmic Clinic

As a way of improving community services, Primary HealthCare has spread its services by way of 29 Community Clinics distributed throughout Malta and Gozo. Besides offering care through Allied Health Clinics and Nursing Services by appointment, a GP Appointment Clinic was set up as an alternative to the walk-in GP service offered in Health Centres. Additionally, the Diabetes Centre of Excellence within the newly refurbished Qormi Health Centre offers a holistic approach to care for patients diagnosed with Diabetes Mellitus.

Since 2022 patients requiring surveillance following a history of cancer are now being seen in the community instead of Mater Dei Hospital and SAMOC. Eligible patients are given a medical review as part of their appointment by a small group of specially trained GPs. This frees up hospital appointments and gives patients appointments in the community – in fact the service has already seen over 260 appointments since its inception.

3.5.2 Medicines

The provision of free medicines is essential for securing health, recovery and well-being, and for providing reliable and timely treatment to those in need. In 2024, the Government Formulary List was extended further to include treatments for pulmonary fibrosis, psychiatric disorders, multiple sclerosis and oncology medicines for various cancer types.

The refund of expenses for IVF medications used by patients receiving fertility treatment at Mater Dei Hospital (MDH) and in private clinics, in Malta, was also introduced in 2024.

3.5.3 Capital Projects

Several capital projects to support the infrastructural requirements generated by rising demands and service expansion, have been undertaken. Such projects include amongst others, the construction of a state-of-the art facility for Blood Tissues and Cells, and the relocation of the Central Procurement and Supplies Unit (CPSU) and the Pharmacy of your Choice (POYC) into a central building, for improved service efficiency and timeliness.

In 2024, the Government also invested heavily in a comprehensive programme which saw the refurbishment and upgrading of numerous Health Centres and Community Clinics across Malta and Gozo.

The programme, aimed at repositioning Primary Healthcare at the heart of the National Health System, included the following upgrades:

- a. New Multidisciplinary Community Clinics in the localities of Siggiewi, Birżebbuġa, Qala, St Julian’s and Għargħur;
- b. The modernisation of the Qormi Health Centre;
- c. The establishment of a new Diabetes Centre;
- d. The introduction of GU services in the community;
- e. Blood donation at the primary care level.

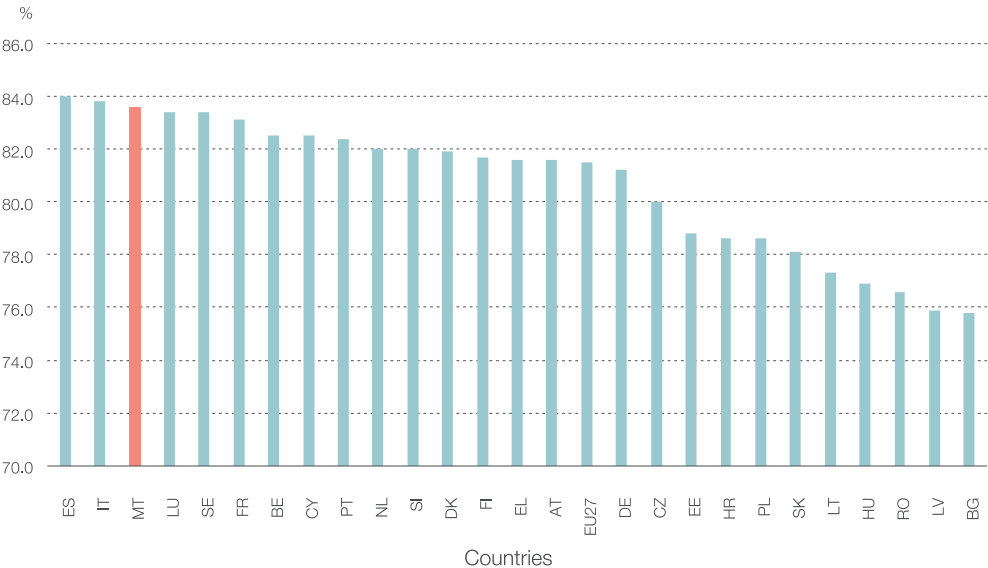
In the coming years, plans to meet the required capacity and, at the same time, reduce waiting times at Mater Dei Hospital include the expansion of the Emergency Department.

3.5.4 Elderly Care

With Malta having one of the highest life expectancy rates in the EU, ensuring the provision of quality health care for the elderly remains a top priority for the Government.

Fig 3.10
Life Expectancy Rate, 2023

source: Eurostat (provisional estimates)



Early in 2024, the Older Persons Standards Authority (OPSA) was brought into effect with its main objective to establish regulatory standards that provide the necessary safeguards in the area of elderly care. In 2024, OPSA embarked upon the process of revising two regulatory standards: High Dependency Chronic Services for Older Persons and Residential Services for Persons living with Dementia in Homes for Senior Citizens.

To ensure that elderly day-centre services are of optimal quality, a standard that regulates Day-Centre Services, for elderly persons, is being developed. Furthermore, in 2024 the Authority increased the frequency of its inspections to a full week – thereby ensuring the monitoring of all the Authority’s licensed services, during and outside normal working hours, on weekends and Public Holidays.

Owing to the increase in the number of OPSA-licensed geriatric services offered in Gozo, the Authority also plans to have a fixed presence in Gozo, to meet the island’s needs in a more effective and efficient manner and to facilitate the inspectorate function outside normal working hours.

In 2024, SVP residents and older adults living in the community experienced a marked increase in the quality of care through improved clinical, therapeutic, and operational services. Service improvement was enabled through the implementation of six key budget measures which included preparations for the installation of the first new CT scan within SVP’s Medical Imaging Unit; the procurement of additional ophthalmic equipment and cardiac monitors; the refurbishment of St Francis Wards 1 and 2; increased storage capacity for pharmaceutical and medical products; the introduction of new out-patient clinics at the new Geriatric Day Hospital; the opening of a new Therapeutic Farm which enables interaction with friendly animals and provides a holistic aspect of care; and the Dementia-friendly garden where elderly people and their loved ones can enjoy quality time, in a safe environment.

Moreover, SVP maintained ongoing collaboration with various NGOs to facilitate residents’ activities. Amongst others, these include activities with the Malta Dementia Society, Mind Games, Pet therapy, collaboration with parishes and the Sovereign Order of Malta. Furthermore, with the help of FITA, SVP introduced sessions to promote ICT skills amongst residents.

Owing to the growth in services being provided by SVP, the human resource requirements had to increase accordingly. It is estimated that the increase in human resources within SVP amounts to approximately 15.0 per cent year-on-year. All new SVP recruits undergo an induction programme in which all facility's SOPs are explained, including those related to elderly abuse, whilst continuous training programmes are also provided to retained staff.

Cognisant of the demographic shifts and care challenges, in the coming years, the Government will remain committed to ensuring a sustainable and effective health and elderly care system by sustaining the upkeep of current health and elderly care facilities as well as investing in new facilities in an effort to minimise waiting lists, while working to ensure quality service to all.

3.5.5 Active Ageing

Malta has always been at the forefront of active ageing policy and as a matter of fact it was one of the first countries to include a Ministry responsible solely for active ageing.

During 2023 and 2024, Active Ageing and Community Care (AACC) continued to evolve and modernise its systems to promote active ageing and an improved quality of life for older adults. This was achieved through the introduction of innovative models of care and services, and within an evolving context of demographic shifts, social changes and a longer life-expectancy.

The major milestones achieved in this area included:

- the opening of a multi-disciplinary clinic in Dar Padova, Għajnsielem Gozo, for the provision of a quality service to Gozitan older adults.
- the provision of free transport to older adults with mobility challenges through the Silver T Service. Since its extension on a national scale in 2023, 31,164 trips were made in 2023 and 26,015 up to June 2024.
- an increase in the 'Home Helper of Your Choice' benefit and a marked increase of €1,000 per annum to the 'Carer at Home' Scheme.

- the opening of eight new Active Ageing Centres in Pembroke, Ғaḓ-Żebbuġ, Għargħur, Kalkara, Birgu, Bormla, Marsa, and Fgura.
- the significant capital renovation of Dar il-Mistrieħ (Floriana Home) to meet the contemporary standards of residential care. This home now enjoys a new multidisciplinary clinic, equipped with specialised medical equipment to ensure that all residents receive holistic and personalised care in a private and dignified environment.
- the establishment of a new Dementia Care Directorate to supervise and coordinate the implementation of the National Dementia Strategy (2024-2031) which was launched in 2024.

Going forward, the Government is committed to building on its past achievements in this field through the continued implementation of the National Strategic Policy for Active Ageing (2023-2030).

3.6 Ensuring a Just and Equitable Society

During 2024, the Government embarked on several initiatives and will continue to do so in the forthcoming financial year to address the continuation of various reforms both in the Justice and the Construction sectors.

Justice Reforms and Initiatives

In the Justice area, priority is being given by this administration to further strengthen the rule of law, promote access to justice and people-centricity. These priorities underscore the important roles that these two areas have in ensuring national stability, trust in institutions and economic growth.

During 2025, the Government will be embarking on initiatives and a series of reforms focused mainly on providing a more people-centric access to justice. In this respect, the administration has responded to calls for reforms, particularly in the family court system.

Following research, consultations with stakeholders and a public dialogue, a set of recommendations have been developed to address the first phase of this comprehensive reform that specifically targets the civil court procedure. These recommendations and feedback gathered will form the basis of an upcoming public consultation.

In addition to the Family Court Reform, the Legal Aid Malta Agency will be spearheading the Child Advocate reform in order to further enhance the legal service to be provided to children whose guardians/parents are undergoing court litigation. Additionally, the Legal Aid Management System was launched in 2024 with a view of providing effective citizen-centric legal aid service through digitisation. The Agency is also being strengthened further with an increase in its staff complement.

The Compilation of evidence reform is well underway, and it is expected that the Bill will be tabled for the First reading when Parliament reconvenes. Furthermore during 2024, new laws on arrest and detention and on reforming the procedure related to the proceeds of crime were approved for effective, proportionate and efficient justice.

During 2024, the Ministry continued with the implementation of the Digital Justice Strategy by introducing management information systems in several entities, installation of digital equipment and providing automated online services. This investment is all financed by the EU Recovery and Resilience Programme.

Strengthening the Justice Institutions and Upholding the Rule of Law

The year 2025 will bring about further reforms that will see the setting up of a fully-fledged Commercial Court and further strengthening of the Inquiring Magistrate section. Additionally, with a view to reducing further the Court's caseload and addressing the issue of space, in 2024, a new Court Hall was finalised and is being used to hold court sittings, whereas, it is expected that work on the demolition and construction of the building in Strait Street, which will house amongst others three court halls, will commence in 2025.

The independence of Malta's judiciary will also be further strengthened through a constitutional reform to involve the Judiciary in the appointment of the Chief Justice. The forthcoming constitutional reform will mandate consultations with the incumbent Chief Justice, prior to the appointment of the new Chief Justice.

The Ministry for Justice has been collaborating with the Council of Europe to implement an action plan aimed at reorganising the business processes of the Office of the Attorney General and the Office of the State Advocate. This collaboration is aimed at strengthening these two offices and making them in line with European standards. Concurrently, the Office of the Attorney General has seen an increase in its prosecution staff to cater for the taking over of prosecutions from the Police. The Office of the State Advocate has managed to enter into its first ever collective agreement offering better employment conditions thus ensuring that the staff at the State Advocate are given the commensurate conditions reflective of their remit as Counsel to the State.

Further collaboration has also been established with the OECD to initiate a multi-country project on people-centred justice. This 3-year project will be launched in October 2024 and will seek to review and strengthen the role of mediation as an alternative dispute resolution option within the local justice system, carry out the first legal needs survey, work closely with key stakeholders to improve access to justice for persons with different abilities and set up key justice indicators to ensure the sustainability of the people-centric policies within the entities and institutions that make up the justice sector.

The Asset Recovery Bureau has continued its efforts in the identification, tracing, seizure and recovery of assets which is an effective way to tackle crime and prevent such proceeds from being re-invested for further criminal activities. The significant increase in staff, complemented by the engagement of a pool of lawyers to assist the Bureau, including the new and revised amendments in the Proceeds of Crime Act has contributed to substantial efforts in the execution of asset recovery practices.

As part of the Government's commitment to uphold the Rule of Law, Malta was the first EU Member State to transpose the EU anti-SLAPP Directive. As a next step, the Government will be launching a public consultation on the report of the Media Expert Committee to further strengthen the framework to protect media freedom and journalism. Furthermore, the Whistle Blower Act is being reviewed and legislative amendments are expected.

The Construction Sector

The continuous reform in the Construction industry has seen several legislative interventions intended to continue raising standards in the construction sector, further clarify the responsibility and provide peace of mind to all stakeholders.

Various legislative amendments that deal with various Legal Notices related to the Building and Construction Act have been carried out during 2024, in particular, the new regulations on the licensing of masons. Furthermore, the introduction of various initiatives such as the launching of the Helpline 138, providing a centralised 24/7 system for all inquiries related to construction, health and safety, and the introduction of a pool of lawyers and architects to aid third parties affected by construction free of charge, continued to provide more access to people-centred justice.

In order to ensure a safer working environment for everyone involved and continue building a resilient and responsible construction sector, the introduction of the new Health & Safety Act and the collaboration to perform joint inspections on construction sites is a step forward to maintain more rigorous health and safety standards on construction sites.

In this regard, the restructuring exercise being undertaken by an independent reviewer on the Building Construction Authority and the Occupational Health & Safety Authority is instrumental in equipping the two entities with the necessary resources.

In addition, the new Property Market Act enacted to set up an Agency on the property market and the newly established Construction & Occupational Health Directorate shall ensure the promotion of effective communication and coordination between government and private entities involved in the property sector.





Working Towards a Sustainable Infrastructure

Following consistent increases in energy demand, in 2022, Enemalta launched a €90 million investment programme spread over six years. This investment includes intervention at all levels of the distribution system.

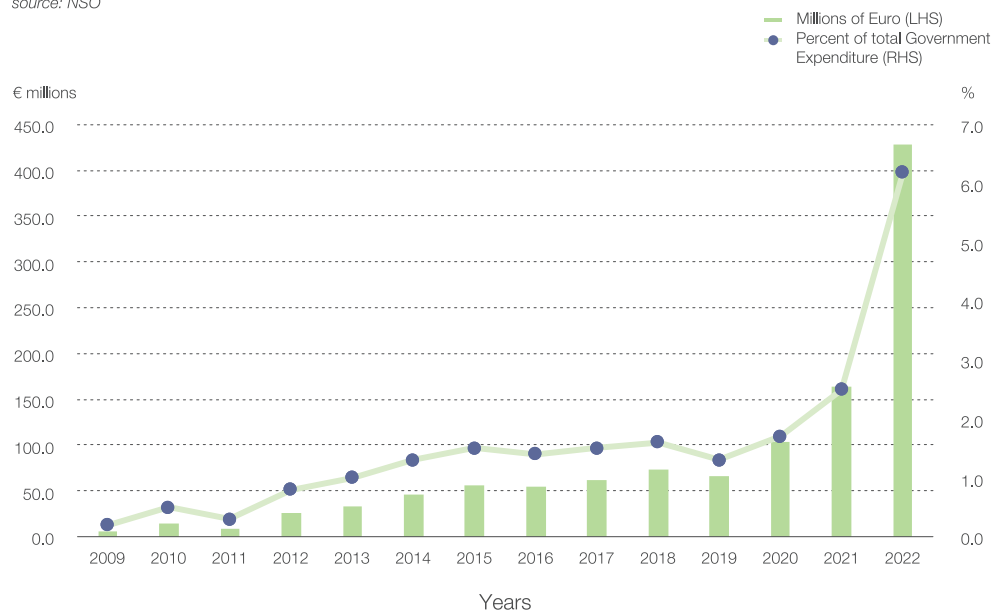
4.1 Investing in Energy Infrastructure

Government expenditure on the provision and distribution of energy, including on investments in the energy infrastructure and distribution grid, has increased significantly over the past years. Indeed, according to the NSO news release Government expenditure on energy and fuel, which incorporates the total amount of public funds allocated to the energy sector, amounted to €5.3 million or 0.2% of total expenditure in 2009, while this figure stood at €428.7 million, equivalent to 6.2 per cent of Government's total expenditure in 2022. When excluding around €300 million in expenditure for the provision of subsidies on electricity and fuel in order to keep energy prices stable in 2022, the figure would still be more than €100 million higher than the Government expenditure in the energy sector from 2009 to 2012.

Fig 4.1

Government Expenditure on Energy and Fuel

source: NSO



4.1.1 Strengthening the Energy Distribution Network

To accelerate the implementation of the distribution network reinforcement plan, the Government has more than doubled this investment in 2024. Apart from the normal ongoing reinforcement works, the distribution system operator has embarked on a €55 million extensive undertaking to reinforce the country's medium voltage network infrastructure. Starting from the beginning of this year, the first phase of this network reinforcement, concentrated particularly on the areas most adversely affected by outages last summer. In the first 6 months of 2024, eighty-two (82) kilometres of new medium voltage cables have been laid and connected to the grid, thirty-two (32) new substations have been commissioned, thirty-six (36) transformer upratings have been affected, and twenty-two (22) medium voltage switchgear replacements have been completed. This will increase the flexibility and resilience of the network.

Also, in the first 6 months of 2024, a total of 115 low voltage feeders were laid where 98 of these cables have already been energised.

In the next phases, the next phase of network reinforcements to further improve the robustness and reliability of the network shall be undertaken. Apart from the laying of additional medium voltage underground network cables, these reinforcements shall be complemented by the commissioning of further new substations, the uprating of transformers of existing substations, and the continued replacement of medium voltage switchgear. Moreover, work is being carried out for the construction and commissioning of two (2) new distribution centres in Naxxar and Siġġiewi, the extension and upgrading at the St Andrews distribution centre and at the Buġibba distribution centre which will double the capacity of these two distribution centres, the rehaul and upgrading of the Imsida distribution centre and the upgrading of the 33 kilovolt switchgear at the Mosta DC. These investments will provide additional flexibility and resilience to the grid, as well as further improve the reliability of electricity supply to consumers.

In order to mitigate the risk of generation insufficiency if one of the main generation sources were to be subject to an unplanned outage during seasonal peak demand, an emergency generation plant with a capacity of 60MW has been leased and installed in Delimara. This plant will be leased until the new second Malta-Sicily interconnector is commissioned.

4.1.2 The Diversification of Malta's Energy Sources

Diversification of energy sources is a key pillar in Malta's Energy Vision. While Malta's current energy mix relies primarily on LNG combined cycle gas turbines (CCGT), an interconnector with Italy, and photovoltaic (PV) panels, the nation is poised to enhance its energy strategy by incorporating offshore floating wind technologies and potentially expanding solar power capabilities.

A Second Electricity Interconnector Cable

As pledged in the Government's Manifesto, preparations for the installation of a second 200MW electricity interconnector cable between Malta and Italy continue progressing. The new source will provide additional power to the Maltese islands increasing security of supply and facilitating the integration of large-scale renewable energy generation whilst contributing to Malta's decarbonisation and climate targets.

Battery Energy Storage Systems (BESS)

To align with Malta's mid-term and long-term climate and energy objectives Malta is planning to invest in and support utility-scale Battery Energy Storage Systems (BESS) to be integrated into the Maltese distribution network. This initiative will complement the second cable interconnection project.

Offshore Energy Resources

One of the Government's commitments towards cleaner sources of energy was to increase the percentage of renewable energy in the local energy mix and diversify its sources. As a result, Malta has set its sight on floating offshore energy resources within its Exclusive Economic Zone (EEZ).

In this regard, a national policy for offshore RES which highlighted Malta's potential outside the 12 nautical mile territorial waters and within the EEZ, has been prepared. The Government then started the process of evolving its vision into a concept by employing multi-national consultants to identify which sites identified in the national policy are the most suited for the implementation of floating offshore wind farms.

Furthermore, the Government is currently finalising preparations to issue a pre-qualification questionnaire to attract parties interested in supplying renewable energy through floating wind turbine technology.

Additionally, in January 2024, the Regulator for Energy and Water Services (REWS) initiated a preliminary market consultation (PMC) to evaluate market readiness for nearshore floating solar technologies.

4.2 Investing in Road Infrastructure

Infrastructure plays a crucial role in enabling mobility and shaping how we commute. Over the last few years, the Government allocated unprecedented investment in major infrastructural projects to offer better roads in all localities. Indeed, from 2018 to July 2023, the Government spent a total of €605.2 million upgrading the road infrastructure in Malta and Gozo.

The Government is committed to developing innovative solutions which do not focus solely on road construction but on resilient infrastructure which improves the holistic environment and enhances the people's quality of life.

In the final quarter of last year, Infrastructure Malta completed two major infrastructural projects – the Kirkop Tunnels and Airport Intersection Project and the Luqa Junction Project. The Kirkop Tunnels and Airport Intersection Project, with an investment of over €20 million, offers direct connections at three different levels to various routes that meet at this junction. Spanning 88,000m², the project introduced numerous facilities for alternative travel methods, including public transport.

The Luqa Junction Project spans 34,000m², with an investment of over €10 million. The roundabout has been transformed into a multi-level junction featuring a flyover, an underground tunnel, and additional lanes to provide direct and safer connections. The project also includes an open space of approximately 5,900m², now primarily developed into a public and recreational area with trees and pathways.

In line with the Government's commitment to transform the road infrastructure into a greener and safer environment for all users, more than 700 trees and 50,000 shrubs and plants were planted, and 4 kilometres of cycling and walking infrastructure were developed across the two projects, which are situated just a short distance apart.

The project on St Andrew's Road is another significant investment by Infrastructure Malta. This project will now be extended to include the Paceville Junction aimed at reducing traffic congestion in the area. For active mobility users, the project will also deliver new footpaths and an enhanced pedestrian link replacing the current vehicle underpass.

Prior to the summer months, Infrastructure Malta completed an infrastructure project aimed at better organising traffic management around the Ċirkewwa Terminal.

With this €7 million investment, the journey for individuals travelling to Gozo is being facilitated without restricting access to the terminal for workers, public transport, and non-Gozo-bound traffic. This project also addresses the record number of trips being registered to and from Gozo.

The infrastructure project on Triq il-Marfa in Mellieħa, also known as Triq tal-Għadira, has been completed. This project involved an investment of approximately €10 million, including reconstructing the road and regenerating the promenade along the bay. It was executed in collaboration with the Tourism Authority. During these works, the Tourism Authority focused on rebuilding the promenade from the roundabout where Għadira Bay begins to the Armier parking area.

Another important infrastructural project in the pipeline is the Msida Creek Project which will usher the infrastructural projects into an era in which community life is more prioritised than ever before. In total, it is estimated that around 60 per cent of the Msida Creek Project will be dedicated to open public spaces, creating a more pleasant environment in the centre of this locality while improving air quality. Furthermore, the Msida Creek Project includes the construction of a new flyover to replace the Msida Creek traffic lights junction, thus creating a more efficient flow of traffic.

Infrastructure Malta has engaged in planning and detailing a project for the improvement of pedestrian paths and the introduction of shared pedestrian and cycle infrastructure, with the first phase being proposed to link the towns of Ħamrun, Marsa and Blata l-Bajda, the heart of the Sustainable Urban Mobility Plan (SUMP) area.

This project shall encourage the use of active mobility infrastructure and the aim is to expand this active mobility network to other towns and villages and integrate various initiatives and interventions with other entities. The project's ultimate goal is to provide better infrastructure for pedestrians and cyclists, which will act as an incentive for commuters to use alternative modes of transportation.

Furthermore, in May and July of 2023, the Government issued additional regulations to address traffic congestion by better managing and keeping up with the technological developments of the carriage of passengers via small vehicles, the sector known as 'Y plates'. The Government is looking at this important service in a holistic fashion with a view to effecting reforms that safeguard the consumers and workers whilst ensuring that a competitive environment prevails.

Work on the National Transport Master Plan, which will guide policy and decisions for a safer, greener, and more sustainable transport system in the Maltese Islands for the coming years, is ongoing. The updated Plan will introduce several measures to address traffic congestion and lower greenhouse emissions while encouraging the use of alternative modes of transport.

Additionally, we will be investing in modern and sustainable roads that encourage more walking and the use of alternative methods of transport. For this purpose, Infrastructure Malta will be launching a new initiative that will lead to more roads and squares in our towns and villages that are not only there for the exclusive use of cars but instead promote a culture of alternative mobility and pedestrianisation that makes sense for residential and commercial community. To achieve this objective the agency will be working hand in hand with local councils and other associations.

4.3 Investing in Maritime Infrastructure

The Government recognizes the maritime sector as highly significant to Malta's economic landscape with the industry now accounting for around 14 per cent of the Gross Domestic Product. Apart from creating employment either directly in areas such as maritime logistics or shipbuilding or indirectly through professional services, the presence of this sector enables international connectivity through various services, thus providing access to routes and markets that would otherwise be prohibitively expensive for Maltese economic operators and consumers. The introduction of the Emissions Trading System (ETS) in the Maritime Industry therefore presents itself as a major downside risk for the maritime industry and Malta's overall connectivity.

However, despite the evolving stringent regulatory environment, in 2023, the Malta Ship Registry maintained its position as the largest register in Europe and the sixth largest in the world.

As of December 2023, the number of vessels registered under the Merchant Shipping Act was 9,542, for a total gross tonnage of 81.74 million.

Moreover, in line with the overall policy direction of the Government, the Merchant Shipping Directorate within the Authority for Transport in Malta is currently undergoing an ambitious digital transformation project, financed through the Recovery and Resilience Funds (RRF). This investment in digital services and a cloud-based infrastructure will help ensure more efficient regulatory practices and improve internal operations, customer relations, and administration within Malta's Merchant Shipping Directorate.

Malta's connection with the sea is indissoluble. The country's connectivity with other countries, both for commerce and travel, depends on the sea. Conscious of its importance, the Government continues investing in maritime infrastructure.

A major €25 million project is presently underway with the scope of extending and connecting Pinto 4 and 5 with Lascaris Wharf, forming a new continuous berth along both areas, measuring 350 metres in length, of which 208m was completed at Pinto. Another project is planned with the aim of reducing the wave impacts within the Grand Harbour port area. Studies are currently being undertaken to develop a berm and revetment together with the construction of a new breakwater arm under Fort St Elmo.

A new €55 million cargo facility between Laboratory Wharf and Fuel Wharf - a 360-metre quay for cargo handling in the Ras Hanżir area of Corradino, at the Grand Harbour - will introduce much-needed additional berthing space for Ro-Ro (Roll-on/Roll-off) ships and other cargo vessels in the Grand Harbour. The new quay will also meet the specifications of future-generation Ro-Ro vessels and could provide the civil infrastructure for future shoreside electricity to ships for increased environmental sustainability. Works to provide this much-needed new cargo quay facility are underway with the new quay expected to become operational by 2027.

With an investment of €5 million, Malta completed the regeneration of the dilapidated Sally Port quays, turning a neglected seafront area in Cottonera into a new promenade, hard standing area as well as safer quays with improved mooring facilities.

Over the past year, the Government has continued encouraging and supporting ferry connections connecting coastal areas to encourage a modal shift. One such connection is a fast ferry passenger service between Malta and Gozo. This encourages an efficient car-free connection between the port of Mgarr in Gozo and Valletta.

Works on the reconstructed ferry landing place for Bormla were completed, and the ferry commenced operations on this new quay in the latter half of 2023. Furthermore, the newly reconstructed ferry landing place in Sliema became operational in the 1st quarter of 2024.

An investment of circa €14 million will finance the rebuilding of the breakwater in Bugibba, which will introduce a new terminal with safer facilities for ferry passengers. This project will ensure that the breakwater has all the necessary facilities to support sea transport service to other locations around the island.

Furthermore, works on the Bugibba breakwater have advanced steadily, exceeding 40.0 per cent by the end of May 2024. Once this facility is completed, a new ferry landing place will be provided, enabling mobility without using private vehicles.

The Onshore Power Supply (OPS) inaugurated in July 2024, is a significant initiative in Malta, particularly for the maritime industry. The project, which cost circa €33.2 million, was co-financed through the EU's Connecting Europe Facility. It will improve the surrounding environment and the quality of life for all persons living and working within the region of the Grand Harbour.

The South Harbour and Lascaris project will extend shore-side electricity to the other side of the Harbour. The investment envisions the provision of high and low voltage on-shore power supply at Palumbo Shipyard on Dock 6 and Parlatorio Wharf, Malta Maritime Hub (MMH), Laboratory Wharf, Ras Hanżir and Lascaris Wharf on the outer region of the Harbour. This project will cost €44.6 million. There are also plans to implement a similar project in Birżebbuġa's Freeport.

4.4 Investing in Waste Management Infrastructure

Waste management remains a top priority for the Government with significant strides in 2023, following the implementation of various ambitious measures. These include the introduction of regionalised waste collection, mandatory waste separation, revision of gate fees, and the introduction of a deposit refund scheme. These efforts were further supported by new infrastructures to enhance recycling capabilities, such as the Multi Material Recovery Facility and the Material Recovery Facility.

Continuing these efforts into 2024, a new automated glass sorting line also started operating in June, with the capacity to process 52,000 glass bottles an hour. The use of transparent black bags for the mixed waste regional collection also became mandatory in July, aimed at promoting separation practices and aiding enforcement.

The Government's investments in this field are bearing fruit. Indeed, a notable achievement in 2023 was a 23.0 per cent reduction in the generation of mixed waste from households, marking the lowest amount received by WasteServ in the last 20 years. Compared to the 2010-2013 average, Malta is now generating 31.5 per cent less household black bag waste.

Concurrently, 2023 saw a 35.0 per cent increase in the organic waste received from households and the commercial sector compared to 2022. This organic waste was converted into 4.1 million units of energy, sufficient to power 570 homes for a year.

Further improvements in waste separation are also evident in 2024, with a 12 per cent increase in organic waste collection during the first six months compared to the same period last year.

Following the inauguration of the Multi Material Recovery Facility last year, Malta began exporting various bulky waste materials for recycling. In 2023, 142 tonnes of wood, 350 tonnes of gypsum, and 297 tonnes of foam were exported for recycling.

The beverage container refund scheme achieved a collection rate of 80.0 per cent in its first full year of operation, surpassing the 70.0 per cent target, and collecting almost 214 million beverage containers. This achievement continues into 2024, with the operator reporting an 81.0 per cent collection rate as of June.

To further promote waste reduction and reduce reliance on single-use plastics, the Government increased grants for the purchase of home water purification equipment in 2023, benefitting almost 4,800 households.

An additional 1,700 households have also benefited from this scheme in 2024 to date. This year, Circular Economy Malta introduced the “Bring Your Own Container” initiative in April, encouraging consumers to use reusable containers when purchasing products from registered local establishments, with over 260 establishments registered for this initiative.

ECOHIVE Project

At the heart of the Government’s long-term vision is the ambitious ECOHIVE complex, allowing Malta to move away from its historical reliance on landfilling and towards a circular economy. This facility will divert over 190,000 tonnes of non-recyclable waste from landfills, converting it into green energy, which will meet approximately 4.5 per cent of Malta’s total energy needs.

In addition, the project has reached advanced stages in the design and tender preparation for the new Organic Processing Plant. This plant will process 74,000 tonnes of organic waste, transforming it into high-quality compost and renewable energy in the coming years. Furthermore, as part of the ECOHIVE initiative, WasteServ will also construct a Skip Management Facility, expected to divert 47,000 tonnes of mixed waste from landfills.

4.5 Investing in Water Management Infrastructure

The sustainability of water resources is key for Malta given the challenges it faces due to the scarcity of water resources. In 2024 the Government, through the Water Services Corporation (WSC), has actively invested in the latest technology and innovative measures to provide sustainable, high-quality water and wastewater services.

Notably, the Sant' Antnin Urban Wastewater Treatment Plant and trenchless sewer feeder project, which concluded in June 2024, significantly boosted the wastewater treatment capacity and resilience in the South of Malta. This project, part of the EU 2014-2020 Cohesion Programme, involved a total investment of €7.5 million.

Significant progress has also been made on a seawater RO Plant Upgrades programme aimed at achieving a 20.0 per cent increase in production compared to 2022 levels. These upgrades are expected to be operational by Q1 2025.

Following the successful issuance of Green Bonds by ClearFlowPlus, a subsidiary of the Water Services Corporation, €7.7 million will be invested to install solar farms on WSC-owned buildings and reservoirs. This project is expected to be completed by Q2 2025, with a renewable energy generation potential of 2.7 Megawatt peak.

In an effort to address water issues, a number of investment and infrastructural projects have been undertaken. Over 41 per cent of the replacement of 50 kilometres of ageing potable water mains has been completed by July 2024. Furthermore, work is underway on the St Paul's and Xemxija Sewage Network and a major upgrade of the transfer line between the Ċirkewwa RO and Ta' Qali group of reservoirs is underway, with the latter project entailing an investment of around €16 million. Furthermore, an investment of €50 million is being made to upgrade the Ċumnija and Gozo Urban Wastewater Treatment Plants.

Finally, the New Water Southwest Extension project, co-funded by the EU, involves the upgrading of the Barkat polishing plant and extending the New Water network by approximately 16 km. This project, estimated at €26 million, includes the installation of over 350 new water dispensers across the Maltese islands.

In line with the Government's efforts to protect and strengthen potable water reserves, €3 million has been allocated for the rehabilitation of the Naxxar reservoir. The rehabilitation works are scheduled to commence in 2024 and conclude next year.

WSC is also gearing up to strengthen the network in the eastern parts of Malta by upgrading the trunk main that supplies parts of Gżira, Sliema, and St Julians. This upgrade will also establish redundancy in the distribution network serving these areas and will be connected to the trunk mains from the Ta' Qali Reservoirs, with an investment of €1.5 million. The project is currently in the design phase and is set to begin in 2025, with completion expected in 2026.

4.5.1 The National Flood Relief

The 2024 Country Report – Malta, published by the European Commission, notes that Malta remains vulnerable to coastal floods, droughts, and heatwaves with a low but improvable climate protection action gap. The Public Works Department is the key player in implementing projects to mitigate flooding in the Maltese islands.

Major projects for the extension of the National Flood Relief entail the excavation of a gallery of 450m to mitigate flooding in Triq Sir Anthony Mamo (in front of Mater Dei Hospital), to be implemented in 2025-2026. Other major projects to mitigate flooding are being planned at Swieqi/Pembroke and Valley Road, Msida. In urban areas, minor relief schemes entail extending the existing stormwater network in various localities to collect and divert water to valleys and/or reservoirs.

Setting up the necessary policies and projects for Green Stormwater Infrastructure and water harvesting in the urban area through the restoration and rehabilitation of existing cisterns and the construction of new water reservoirs for water harvesting, are key.

Reservoir projects for 2025-2026 entail reconstructing an existing reservoir at Ta' Mlit, Mosta, with a capacity of 3,000 cubic metres of water. Other water harvesting reservoirs, with a capacity of 30,000 cubic metres, will be constructed at Ta' Qali. Interventions will also be carried out on existing reservoirs in Gudja, Santa Luċija, and Żejtun to increase their retention capacity by 30,000 cubic metres.

Coastal flooding will become a major concern in low-lying areas. Further studies for developing masterplans and projects shall be undertaken in 2025 in order to formulate the best way forward to address this challenge.

4.6 Investing in Infrastructural Projects Within the Community

Sustainable infrastructural projects within Malta's towns and villages remain crucial to support economic growth and enhance the quality of life of the residents.

Local Councils

A vast array of projects intended to ameliorate road and dovetailing infrastructure within residential areas have been undertaken. These projects addressed proposals and priorities previously submitted by each of the 54 Local Councils and included active mobility or open spaces, separated or partially separated from vehicular areas, that may be used by pedestrians or cyclists, or where people can spend time for rest and recreation.

An initiative was launched in April 2024 to assist the local councils around the island in carrying out infrastructural works in the respective localities. A Memorandum of Understanding was signed between the Public Works Department and the Local Councils while an online portal was created to enable each local council to submit the locality's requests to the Department. The works vary between upgrading of pavements, paving works, construction of culverts, and minor embellishment works.

Malta National Park at Ta' Qali

The Malta National Park Project at Ta' Qali comprised an extensive upgrading of the former national park, the upgrading of the Adventure Park, the construction and finishing of a new Concert Area ground, and the upgrading of the road infrastructure around the park.

Proġett KomunitArja

Proġett KomunitArja aims to create an open, safe, inclusive, and environmentally friendly space, primarily for children.

During the first half of this year, the first inclusive playground in Ġnien il-Kunsill Birżebbuġa was open to the public and aimed at providing ample accessibility to children with autism. A similar project inaugurated this year was the refurbishment of Joanne Gardens in Tarxien.

Furthermore, the following sites were identified for the construction of two public open spaces: Ġnien Indipendenza in Żebbug and Misraħ San Nikola in Żabbar. Works on Ġnien Indipendenza in Żebbug are underway and will be completed in 2025, while works on an unused portion of land in Misraħ San Nikola in Żabbar will be undertaken in 2025.





A Healthier Environment

Climate change
is posing great
challenges to all
countries across
the globe.

Such challenges are even more concentrated on small islands like Malta, hence the need for the consistent implementation of mitigation and preventive measures. Opting for alternative renewable energy sources as well as reducing the carbon footprint must remain key priorities in achieving the set targets in this area.

We are at a critical moment, with the nation's broader vision of reducing reliance on imported fossil fuels, enhancing energy security, and fostering economic growth through new technologies.

5.1 Towards 2050: A Climate-Neutral Malta

The EU is working towards achieving climate neutrality by 2050, aiming for an economy with net-zero greenhouse gas emissions. Beyond the 2030 targets, efforts need to be ramped up in order for Malta to achieve its 2050 decarbonisation objective as well as the intermediate energy and climate targets. Malta's priority is ensuring a just transition where no one is left behind.

5.1.1 Decarbonising Transport

The demand for mobility has increased phenomenally over these past years, due to economic growth, an increase in employment rates and higher tourist volumes. Decoupling economic growth from increasing levels of motorisation, like in most countries, is indeed a challenge in particular in densely populated countries like Malta with a high private vehicle ownership rate.

The Maltese islands have started the progression towards transport electrification both when it comes to vehicles and ship vessels alike. In fact, Malta offers one of the highest grants when it comes to electric vehicles as well as offering onshore Power Supply to ship vessels that will ultimately result in a significant reduction in air pollution and greenhouse gas emissions.

Conscious of the negative impact of land transport on environmental emissions, the Government has embarked on a plan to support the electrification of the current fleet, dedicating €50.3 million from Malta's Recovery and Resilience Fund (RRF) to drive the shift towards electric mobility. This plan has been successful with the target of 5,600 reached and exceeded. In 2023 alone, there were more than 3,700 New Electric Vehicles.

Apart from the EV schemes, the Government has also launched additional schemes aimed at promoting sustainable mobility, such as retrofitting of Diesel Particulate Filters (DPFs) and Selective Catalytic Reduction (SCR) Systems on Heavy Duty Vehicles; grants to modify petrol motor vehicles to use LPG; retrofitting of photovoltaic panels on passenger transport vehicles; and, retrofitting of battery electric powertrains on motor vehicles. Other incentives not only contribute towards cleaner air quality but aim to reduce congestion by encouraging people to opt for smaller, more fuel-efficient modes of transport, such as the grants for the purchase of e-scooters and new petrol-powered motorcycles and the grants to convert bicycles into pedelecs.

As part of the strategy to decarbonise transport and reduce the number of private motor vehicles on the roads during rush hour, the Government currently provides free transportation to students in compulsory schooling and kindergarten, attending State, Church and Independent Schools. School transport for state schools currently services over 980 routes daily, providing transport to approximately 14,700 students.

5.1.2 Malta's Charging Infrastructure

The Government has been working on the deployment of a further 1,200 charging points, as well as the operation and maintenance of existing ones.

The Government's vision is to have charging pillars operators (CPOs) managing Publicly Accessing EV charging infrastructure.

In deploying the 1,200 charging points, a Dynamic Purchasing System (DPS) for Civil, Electrical and Preparatory Works for the installation of Charging Pillars across Malta and Gozo is required. This DPS has been established and the first work package was issued in mid-July 2024. An EU Funds application has been submitted for these works and is awaiting approval.

5.1.3 Public Transport

Public Transport is critical in increasing transport efficiency and reducing pollution. Following the introduction of various measures aimed at encouraging travel by bus, including the launch of Free Public Bus Transport in 2022, there has been a staggering 56 per cent increase in annual bus passengers in 2023 compared to 2016. As of the end of 2023, there were 545,305 Personalised Travel Cards users, while the number of Unique Users (persons who have used the service at least once during 2023) stood at 271,669. Bus patronage during the first half of 2024 stood at 36,250,952, a considerable increase compared to 31,372,606 in the same period last year.

In an effort to motivate users to use the free bus service, its service frequency and number of routes have been extended. An additional 30 new 12-metre buses were introduced in September 2023 to meet increased demand, and a further 30 buses were added to the fleet in April 2024.

Earlier this year, the Tallinja mobile app was successfully upgraded to include real-time information and real-time bus tracking, among other new features. Discussions are underway to identify areas for dedicated bus lanes or priority lanes, cognisant of the limitations imposed by the road network.

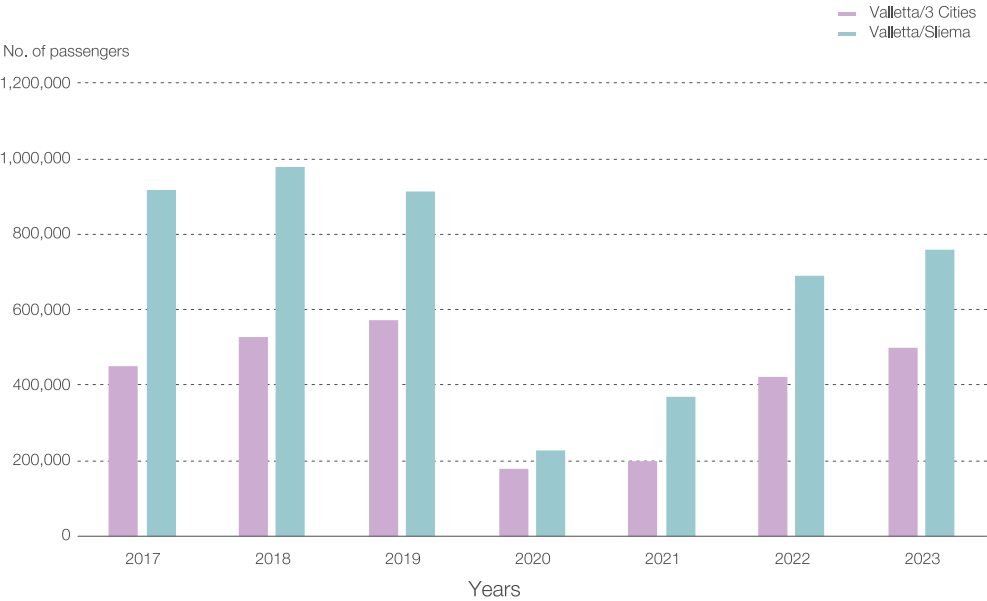
2023 also saw a record number of passengers and vehicles crossing between Mġarr and Ċirkewwa, with a total of 5,883,487 passengers crossing the Malta-Gozo channel in 2023, as compared to 5,218,624 in 2022. The number of passengers crossing the Mġarr to Ċirkewwa channel in the first half of 2024 stood at 2,831,562, compared to 2,730,956 during the same period last year (i.e. an increase of 100,606 passengers). From January to June 2024, 993,039 vehicles crossed the Malta-Gozo channel, an increase of 32,630 vehicles over the same period in 2023.

The Gozo Fast-Ferry Service has been a remarkable addition to the transportation system between Malta and Gozo, providing a fast and efficient connection between the two islands. The number of passengers opting to use the fast-ferry services between Mġarr (Gozo) to Valletta went up to 693,361 total passengers in 2023, from 476,180 total passengers in 2022.

The usage of harbour ferries, which were badly affected during the COVID pandemic, has also shown strong signs of recovery. Since these ferry services became free of charge to all holders of the Tal-Linja Travelcard in January 2024, the service is heading for record patronage levels by the end of the year, whilst already showing robust year-on-year increases each month.

Fig 5.1
Valletta Inner Harbour Ferry Trips

source: MTIP



	2017	2018	2019	2020	2021	2022	2023
Valletta/3 Cities	451,764	528,635	572,646	179,249	200,149	421,944	497,998
Valletta/Sliema	916,438	978,754	911,527	227,589	368,354	688,487	760,385

5.2 Energy Efficient Households and Businesses

As part of the plan to achieve the EU efficiency targets, reducing emissions from buildings is crucial. According to the latest statistics published by the National Statistics Office (NSO), in 2023, the stock of Photovoltaic (PV) installations reached 33,818, with 85.4 per cent located on the island of Malta and 14.6 per cent in Gozo and Comino. Additionally, an increase in energy generation from grid-connected PVs by 6.7 per cent over the previous year was observed, totalling an estimated 309.3 GWh. The Government remains committed to supporting the expansion of renewable energy resources across the islands.

In fact, in 2024, the government allocated €4.8 million to Renewable Energy Source (RES) schemes, which include support for battery storage and photovoltaics grants schemes with standard or hybrid inverters. The decision to enhance the attractiveness of this year's RES schemes led to a significant uptake, with the Regulator for Energy and Water Services (REWS) receiving nearly three times more applications by July 2024 than in all of 2023, just for the battery storage systems alone. Given the overwhelming response, particularly to the battery schemes, an additional €5 million was added to the 2024 budget. These schemes are pivotal for integrating more domestic renewable energy sources into Malta's electricity system. Besides these grants, the government also allocated a total of €23 million over a spread of 20 years for the allocation of feed in tariffs in renewable energy production.

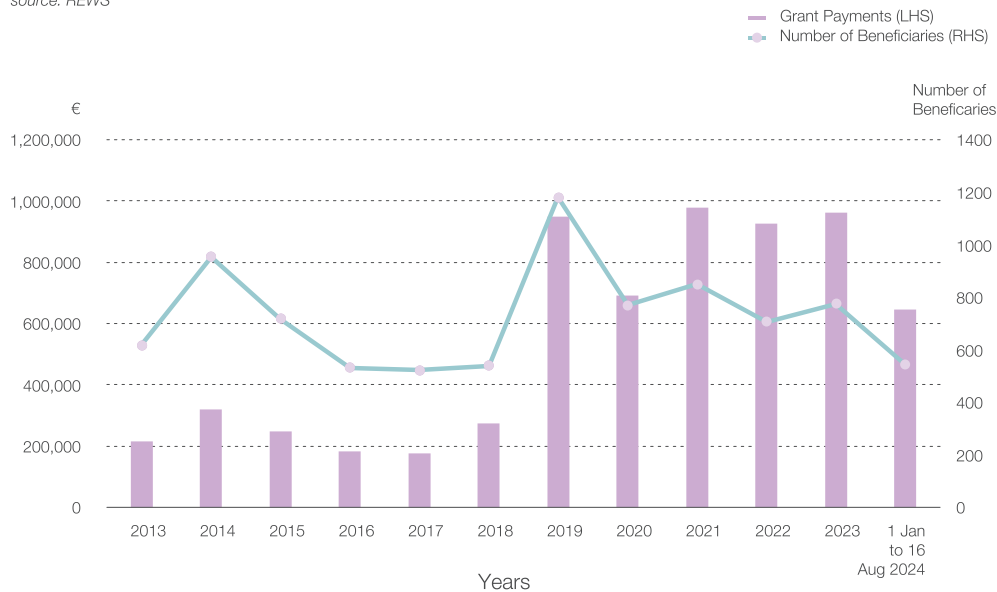
From January 2023 to June 2024, Malta saw considerable interest in commercial renewable energy systems. REWS received over 65 proposals for medium to large-scale solar energy installations, which have a total potential capacity of more than 97,700 kW. This capacity is sufficient to supply energy to approximately 35,600 households and would contribute to a reduction of 60,000 tons of CO₂ emissions annually. This growth in renewable energy installations underscores the national commitment to reducing carbon footprint and enhancing energy sustainability.

The Government has also embarked on a series of schemes providing financial support to cover part of the costs of solar water heaters, roof insulation, double glazing and air to water heat pump systems installed for domestic use.

Fig 5.2

Energy Efficiency Expenditure and Beneficiaries

source: REWS



The uptake by many households has been positive where in 2023, a total of 776 beneficiaries benefitted from the Solar Water Heater (SWH), Heat Pump Water Heater (HPWH), and Roof thermal Insulation and Double Glazing (RIDG) schemes. The total Government allocation amounted to €0.96 million.

5.3 Urban Greening

Investing in urban green open spaces is key to increasing Malta's biodiversity capital through the establishment of certain flora and fauna. Moreover, such projects aid communities to combat the impacts of climate change, since they serve to reduce ambient temperature, and thus reduce the urban heat island effect, given that trees cover and vegetation cool the area through the evaporating moisture.

Since its launch in January 2023 until today, Project Green has successfully completed 24 projects, giving the public 54,000m² of new green open spaces and 8 regenerated valleys. Apart from the 3 new projects already completed in the first months of 2024, in the remaining months of this year Project Green is set to complete another 6 green open space projects as well as 12 valley projects. Projects completed in 2024 will give around 13,000m² of green open space to the public.

As announced by the Prime Minister in February 2024, four urban open spaces in Luqa, Kirkop, Lija and St Julians have been transferred to Project Green in order to turn them into public parks. These four projects will give the public over 200 trees, and they will reach almost 12,000 residents in over 5,000 households who can get to one of the locations within less than 10 minutes of walking distance.

In the coming years, Project Green remains committed to continue working on the ongoing urban greening projects, while investing in new projects across various localities in Malta and Gozo.

In addition, Ambjent Malta continued to follow the implementation of various environmental projects in different localities such as those at Ġhajnsielem, Rabat (Malta), Reġjun Nofsinhar Hamrun, Mtarfa, Żejtun, Paola, Santa Luċija, H'Attard and Hal Safi. Other interventions were conducted at the historic gardens in Floriana (Malta National Botanic Gardens), which is composed of the Argotti Gardens, the Maglio Garden (Mall), Tal-Milorda and St Philip's Garden.

Ambjent Malta has also continued to intervene in other green open spaces along the Victoria Lines, Mizieb and Ahrax as well as Bidnija Olive Grove. The interventions in these areas included the implementation of management actions aimed at clearing the tracking routes from overgrown plants and clearing specific areas of litter and dumped waste.

Moreover, GreenServ is working on a significant greening project, within the limits of Marsaskala. The planned green public space, which will incorporate a range of sustainable measures, will form a continuation of the already existing Family Park that was carried out by WasteServ following the rehabilitation of the landfill.

5.4 Conclusion

The Maltese economy has continued to prove its resilience, as economic activity increased by 7.5 per cent in real terms in 2023 and by 5.9 per cent in the first half of this year. This has been coupled with a robust labour market, with employment growth in 2023 standing at 5.3 per cent complemented by a low unemployment rate. All this is a testament to the Government's sustained investment in the economy and the implementation of several labour market policies which strengthened the labour force.

In light of the global turmoil brought about by the war in Ukraine following the Covid-19 pandemic, the Government continued protecting households, especially vulnerable ones, and businesses by providing all the necessary financial support through substantial and wide-reaching measures such as the additional COLA mechanism, subsidising the energy and fuel prices, and stabilising food prices, amongst others. This did not come at the expense of the investment in other sectors crucial for enhancing the well-being and quality of life of the country's citizens, as evidenced by the increase in Government expenditure on education, housing, health and elderly care.

As the Maltese economy continues to thrive year after year, elevating the standard of living of Maltese and Gozitan families, infrastructural upgrades become crucial. In this regard, going forward, the Government will sustain the infrastructural investment across different areas including roads, energy, marine, water and waste management, and transport.

In order to diversify Malta's energy sources and ensure the provision of cleaner energy, along with the investment in the second interconnector project and the energy distribution, the Government is assessing the potential of floating offshore energy resources, while investing in utility-scale Battery Energy Storage Systems (BESS). In parallel, Malta is investing in sustainable infrastructure projects within the community and several urban greening projects. These initiatives, together with the investments in waste and water management, collectively contribute to Malta's vision of a sustainable future, characterised by a higher share of renewable energy sources, enhanced energy security, and the availability of green public spaces in urban areas.

Fiscal sustainability will remain a key priority for all EU member states in the coming years, including Malta. In this regard, Malta's fiscal policy for 2025 will align with the revised EU economic governance framework. Specifically, Malta's fiscal strategy shall ensure that the deficit falls below 3.0 per cent of GDP whilst keeping the Debt-to-GDP ratio below 60.0 per cent.



GOVERNMENT OF MALTA
MINISTRY FOR FINANCE