NOĦOLQU OPPORTUNITAJIET MHUX DIPENDENZI

PRE-BUDGET DOCUMENT **2015**

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SEPTEMBER 2014

MINISTRY FOR FINANCE

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FOREWORD

The Government's commitment to achieve macro-economic stability and a higher level of certainty for local and foreign investors is paying off in terms of growing business activity, job creation and higher aggregate consumption.

During the past year, the Maltese economy enjoyed robust economic growth with record growth rates in employment, declining unemployment rates, a reduction in the cost of living and higher valued added recorded by the majority of industries. On the fiscal side, the deficit was reduced below the threshold as set by the European Commission while the Fiscal Responsibility Act, a milestone in the responsibility of public finances, was enacted.

In this 2015 pre-budget document, besides remaining committed to a growth oriented strategy through 'making work pay', we intend to enforce this philosophy in the social security system by ensuring that the system guarantees the necessary level of social protection, while minimising the dependency effect. In this way, the system will encourage the creation of opportunities, rather than dependencies.

We are confident that, in partnership with key stakeholders in our country and civil society in general, we can continue to create a society that empowers and creates the right opportunities for all.

Hon. Prof. Edward Scicluna
Minister for Finance

01

MACROECONOMIC CONDITIONS

During 2013, the rate of economic growth in Malta was well above that registered in both the European Union (EU) and the Euro Area (EA). Indeed, the Maltese economy grew by 2.9 per cent compared with a marginal growth rate of 0.1 per cent recorded in the EU and a contraction of 0.4 per cent in the EA

As a result, Malta's economic performance exceeded the various international credit rating agencies' and other institution's projections for 2013.

On a further positive note, the labour market continued to display highly encouraging signs, with a strong growth in employment of 3.1 per cent while unemployment was stable at around 6.4 per cent. These dynamics in the labour market helped sustain growth in aggregate consumption.

The positive developments of 2013 appear to be persisting also in 2014. Sustained by a higher level of certainty, greater consumer and business confidence and a more stable economic climate, economic growth for the first half of this year accelerated to 3.4 per cent with employment growth increasing by 1.9 per cent while unemployment continued with its declining trajectory, registering a rate of 5.7 per cent in June of this year. Against this background, projections point towards a stable and positive performance over the forecast horizon.

01.1
Economic Developments

01.1.1
International Scene

Economic Growth and Growth Prospects of the Global Economy

According to the European Commission Spring 2014 Economic Forecast, growth in the global economy averaged 2.9 per cent in 2013, down from 3.2 per cent recorded a year earlier. Despite this de-acceleration in the world economy, global trade was robust, especially in the second half of 2013. Global activity is expected to improve further in 2014-2015, underpinned by good performance in most of the advanced economies. Still, emerging markets are expected to be the main drivers of growth in the global economy although geopolitical developments might dampen growth. The European Commission predicts global growth to accelerate from 2.9 per cent in 2013, to 3.5 per cent in 2014, and by 3.8 per cent in 2015. A similar outlook is projected by the International Monitary Fund (IMF).

Economic Growth and Growth Prospects in the EU

In the first quarter of 2014, real GDP data continued to support the central scenario of a gradual recovery in the EU and the EA. In fact, the EU and EA economies grew by 1.4 per cent and 0.9 per cent respectively during the first quarter of this year. Economic growth is projected to continue improving moderately in both economies on the back of a sustained recovery in domestic demand, improving sentiments, lower uncertainty and further normalisation of funding conditions.

Positive performance is also expected in the labour market for 2014. At both EU and Euro Area level, employment growth will be more contained reflecting the usual lagged response of employment to growth in GDP. Indeed, growth in employment is only expected to grow by 0.6 per cent and 0.4 per cent in the EU and Euro Area respectively. Consequently, unemployment rates are also expected to decline slightly during 2014.

In terms of exchange rate, the last two years have witnessed the appreciation of the Euro against the US Dollar and the British Pound by around 4.6 per cent and 2.1 per cent respectively. This strengthening of the Euro added competitiveness pressure on EA economies, especially southern European economies.

During the same period, the price of crude oil in euro declined by 6.6 per cent and despite strong demand, a significant rebound in oil prices is not expected, due to sufficient supply and more efficient use in consumption.

TABLE
01.1

Key Economic Indicators

Source: *European Commission Economic Forecast Spring 2014*

	2012	2013	2014(f)	2015(f)
REAL GDP GROWTH (%)				
EU	-0.4	0.1	1.6	2.0
Euro Area	-0.7	-0.4	1.2	1.7
USA	2.8	1.9	2.8	3.2
Japan	1.4	1.5	1.5	1.3
Malta[1]	1.1	2.9	2.3	2.3
INFLATION (%)				
EU	2.6	1.5	1.0	1.5
Euro Area	2.5	1.3	0.8	1.2
USA	2.1	1.5	1.7	1.9
Japan	0	0.4	2.5	1.6
Malta	3.2	1.0	1.2	1.9
UNEMPLOYMENT (%)				
EU	10.4	10.8	10.5	10.1
Euro Area	11.3	12.0	11.8	11.4
USA	8.1	7.4	6.4	5.9
Japan	4.3	4.0	3.8	3.8
Malta(1)	6.3	6.4	6.5	6.5
Employment Growth (%)				
EU	-0.3	-0.4	0.6	0.7
Euro Area	-0.8	-0.9	0.4	0.7
USA	1.8	1.0	1.8	1.6
Japan	0.0	0.4	0.5	0.3
Malta	2.4	3.1	2.1	2.1
GENERAL GOVERNMENT BALANCE (% of GDP)				
EU	-3.9	-3.3	-2.6	-2.5
Euro Area	-3.7	-3.0	-2.5	-2.3
USA	-9.2	-6.2	-5.4	-4.7
Japan	-8.7	-9.0	-7.4	-6.2
Malta	-3.3	-2.8	-2.5	-2.5
GENERAL GOVERNMENT DEBT (% OF GDP)				
EU	86.7	88.9	89.5	89.2
Euro Area	92.7	95.0	96.0	95.4
USA	102.4	104.5	105.9	105.4
Japan	237.3	244.0	243.7	244.1
Malta	70.8	73.0	72.5	71.1

[1] *Actual figures revised in line with revisions made in latest releases*

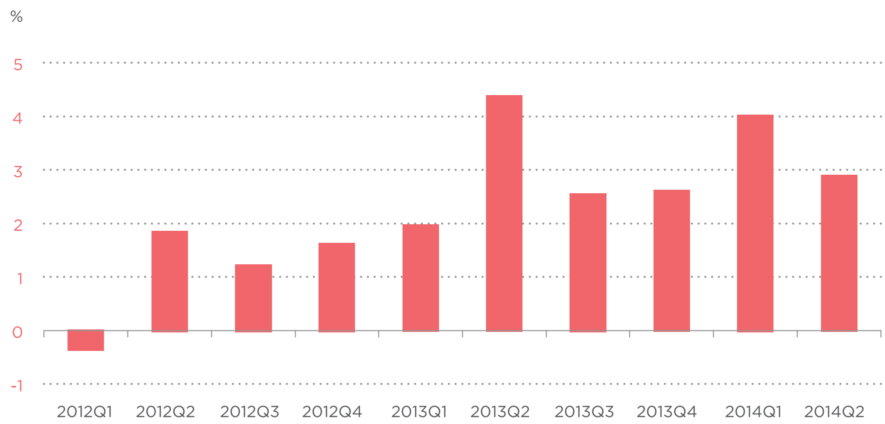
01.1.2

Local Scene

Economic Growth

Latest data released by the NSO shows that in the first half of 2014, the Maltese economy registered a robust growth rate of 3.4 per cent, supported primarily by positive developments in the domestic sector and, albeit to a lesser extent, the external sector. Growth in domestic demand was largely underpinned by a substantial increase in gross fixed capital formation which increased by 18.5 per cent, coupled by positive growth in both public and private consumption. Furthermore, a marginally positive external contribution was also recorded.

FIGURE
01.1
Real GDP Growth, 2012Q1-2014Q2



In nominal terms, total incomes grew by 4.9 per cent in the same first half of this year, driven by positive performance in both compensation of employees and gross operating surplus, which expanded by €95.6 million or 6.0 per cent and €33.5 million or 2.2 per cent, respectively.

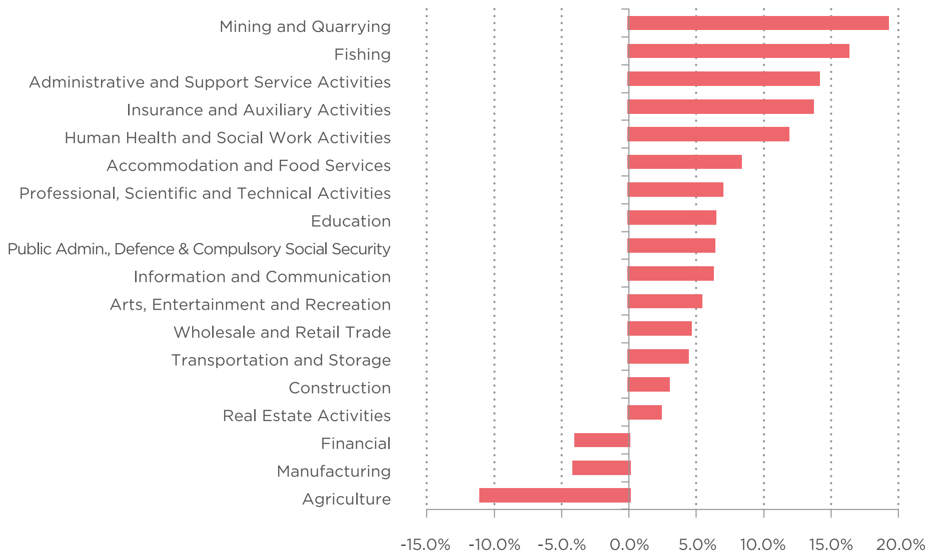
Furthermore, total gross value added increased by €124.6 million, or 4.0 per cent in the first half of 2014 when compared to the corresponding period of the previous year.

Growth was underpinned by an affirmative performance in nearly all sectors of the economy, particularly in the mining and quarrying (19.2 per cent), fishing sector (16.3 per cent), administrative and support services activities (14.0 per cent), insurance and auxiliary activities (13.6 per cent), health and social work activities (11.8 per cent), accommodation and food services (8.3 per cent), professional, scientific and technical activities sector (6.9 per cent) and education (6.4 per cent). These positive developments helped in mitigating the decline in the agriculture (-11.0 per cent), manufacturing (-4.1 per cent) and the financial activities (-3.9 per cent) sectors.

It is worth noting that with regards to the manufacturing sector, during 2013 there was an increase of €90.1 million in foreign direct investment in this sector. This is expected to boost the local manufacturing sector in the coming months.

FIGURE
01.2

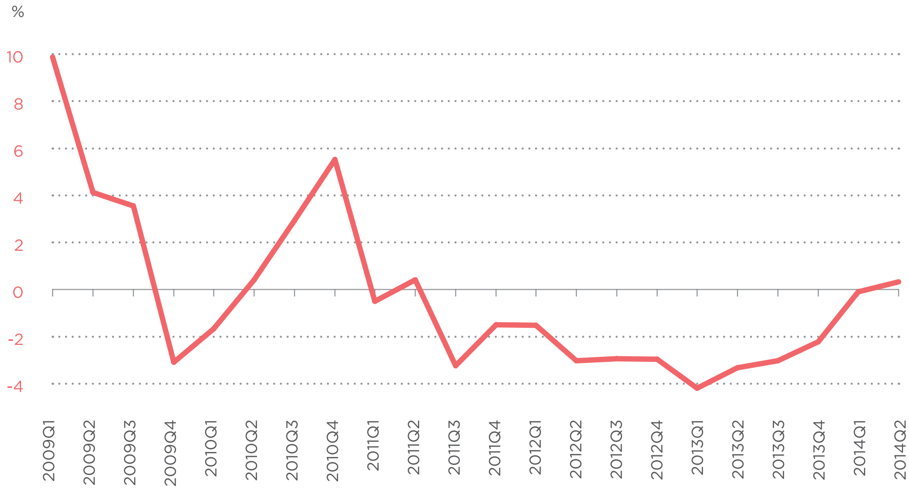
Growth in Gross Value Added, 2014Q1-Q2



Of particular note is the fact that the construction sector which, as shown in figure 01.3, has been following a declining trend since 2009, registered a healthy 2.9 per cent growth in gross value added in the first half of this year, with production turning positive and increasing by 0.3 per cent over that recorded a year earlier. These positive indicators show signs of a recovery in this sector.

FIGURE
01.3

Production in Construction, 2009Q1 – 2014Q2



Labour Market

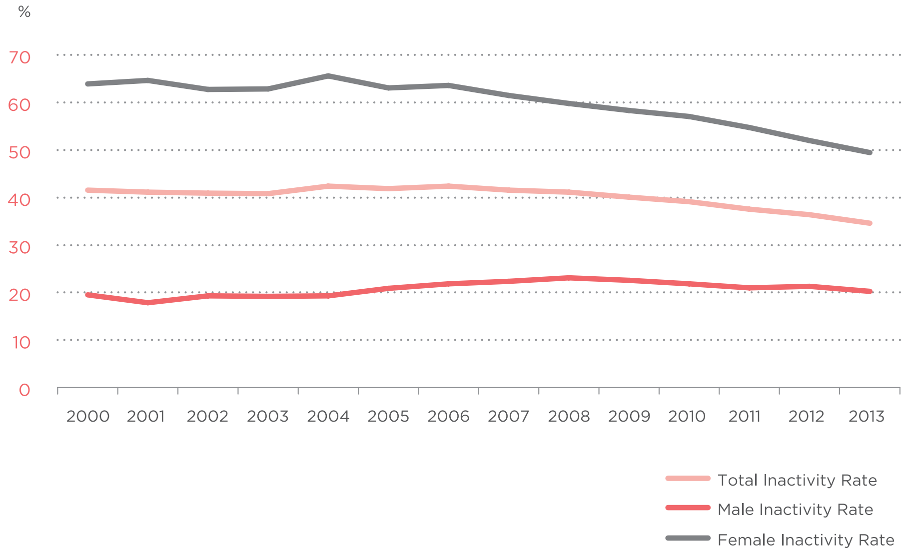
The labour market continued to exhibit very encouraging results. Indeed, employment growth accelerated to 3.1 per cent in 2013, the largest annual increase over the last decade. Most of this growth occurred between April and September 2013. Consequently, the annual employment rate increased by 1.6 p.p. in 2013, rising from 59.0 per cent in 2012 to 60.6 per cent in 2013. During the same year, the female participation rate increased by 2.7 p.p. to 50.2 per cent, from 47.5 per cent registered in the previous year, while the male participation rate increased by 1.1 p.p. to 79.4 per cent, after decreasing by 0.3 p.p. in 2012.

This strong increase in the female participation rate reflects the positive impacts of the many policies being implemented in order to encourage female participation in the labour market.

The inactivity rate, which measures the number of people of working-age who are inactive as a percentage of the working-age population, decreased by 1.7 p.p., thus falling from 36.3 per cent in 2012 to 34.6 per cent in 2013. The sharp fall in the inactivity rate reflected the substantial fall in the female inactivity rate, which declined from 51.9 per cent to 49.4 per cent, and also the decline in the male inactivity rate which decreased from 21.3 per cent in 2012 to 20.3 per cent in 2013.

FIGURE
01.4

Inactivity Rates, 2000-2013



Administrative Labour data produced by ETC shows that in 2013, the number of people in full-time employment increased by 4,981 or 3.3 per cent, of which 3,570 found jobs in the private sector. During the same period, the number of people holding a part-time job as their primary job increased by 1,585, or 5.0 per cent.

The share of public sector full-time employment stood at 26.7 per cent in 2013, down from 27.7 per cent in 2010 and 28.7 per cent in 2008.

During the first quarter of 2014, the growth in employment remained robust, increasing by 1.9 per cent over the corresponding quarter of last year. As a result, the employment rate increased further by 0.9 p.p. to 60.8 per cent, with the employment rates of males and females increasing by 0.6 p.p. and 1.3 p.p. respectively.

Moreover, the activity rates among men and women increased by 0.8 and 1.3 percentage points respectively. As a result, the total activity rate increased by 1.1 percentage points, from 63.7 per cent in the first quarter of 2013 to 64.8 per cent in the first quarter of this year.

During the first quarter of this year, the public sector employment share remained stable at 26.6 per cent. This figure excludes the temporary classification of 700 Arriva jobs pending the re-privatisation of public transport.

The unemployment rate has been following a sustained declining trend in the recent months, falling from 6.6 per cent in October 2013 to 5.7 in June of this year. It should be highlighted that this is the lowest monthly unemployment rate recorded in at least the past fourteen years. It is also the third lowest rate in the EU. The youth unemployment rate has also decreased to 13.7 per cent during the same month and it is currently the fourth lowest rate in the European Union.

FIGURE
01.5

Unemployment rate, 2011M01-2014M06

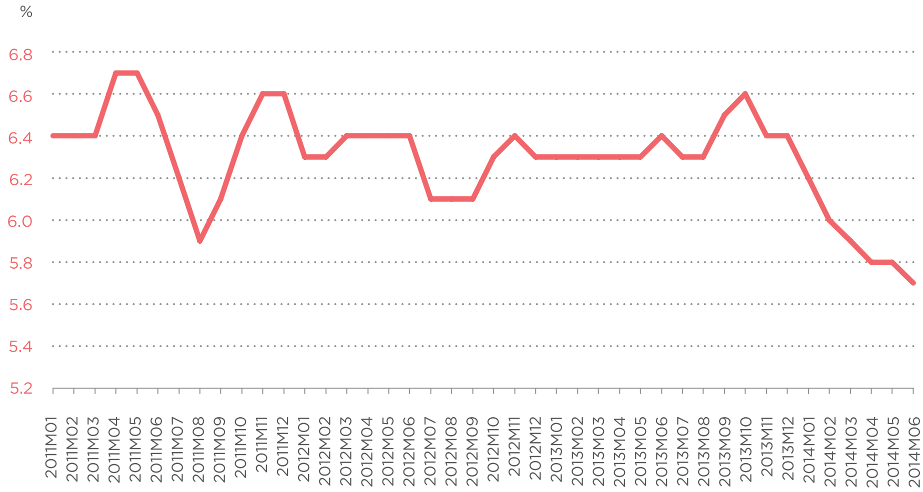


Table 01.2 represents the main labour market indicators for the years 2013 to 2015. According to last MFIN forecast in March of this year, employment growth is expected to remain strong and to increase by 2.1 per cent and 1.8 per cent in 2014 and 2015 respectively, in line with the expected improvements in the economic environment. Over the same forecast horizon, the unemployment rate has been projected to remain broadly stable at the 6.5 per cent level. Understandably updated figures would be produced by the forthcoming model projections. Labour productivity measured as real GDP per person employed is expected to turn positive to 0.2 per cent and 0.3 per cent in 2014 and 2015 respectively. Meanwhile, average wages are expected to grow moderately, with compensation per employee forecasted to grow by 1.1 per cent in 2014 and then to pick-up to 2.0 per cent in 2015.

TABLE
01.2

Labour Market Indicators

Source: *Labour Force Survey*

	2013	2014(f)	2015(f)
Employment growth (%) [2]	2.6	2.1	1.8
Labour productivity (% change)	0.0	0.2	0.3
Compensation of employees (% change)	4.4	3.2	3.9
Compensation per employees (% change)	1.7	1.1	2.0
Unemployment Rate (%)	6.4	6.5	6.5

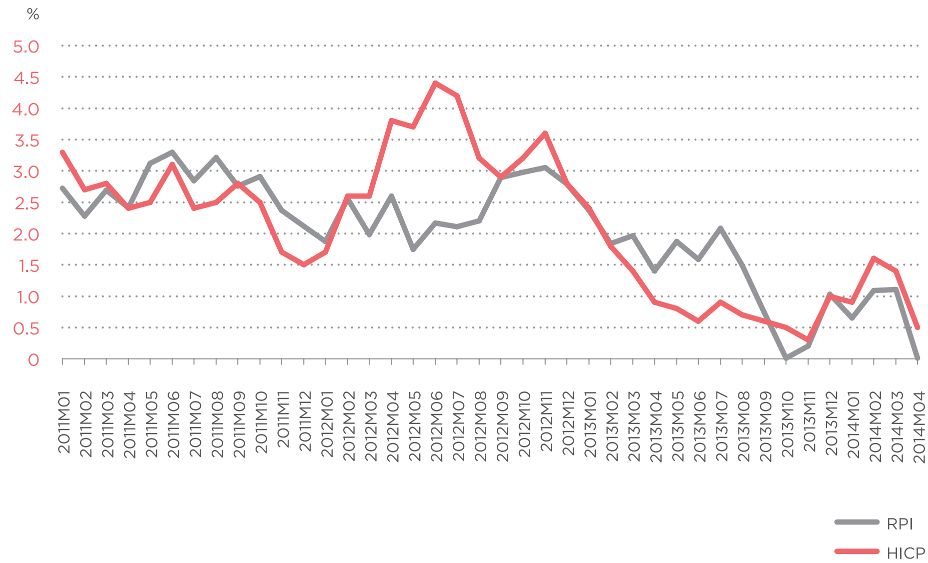
[2] LFS resident population concept. It should be noted that LFS domestic concept employment growth was equal to 3.1 per cent in 2013.

Inflation

After showing gradual increases during the course of 2012, HICP inflation rate declined steadily from 4.4 per cent in June 2012 to 0.5 per cent in April 2014. Similarly the RPI inflation rate declined from 3.1 per cent in November 2012 to 0.01 per cent in April 2014.

FIGURE
01.6

HICP and RPI inflation rates

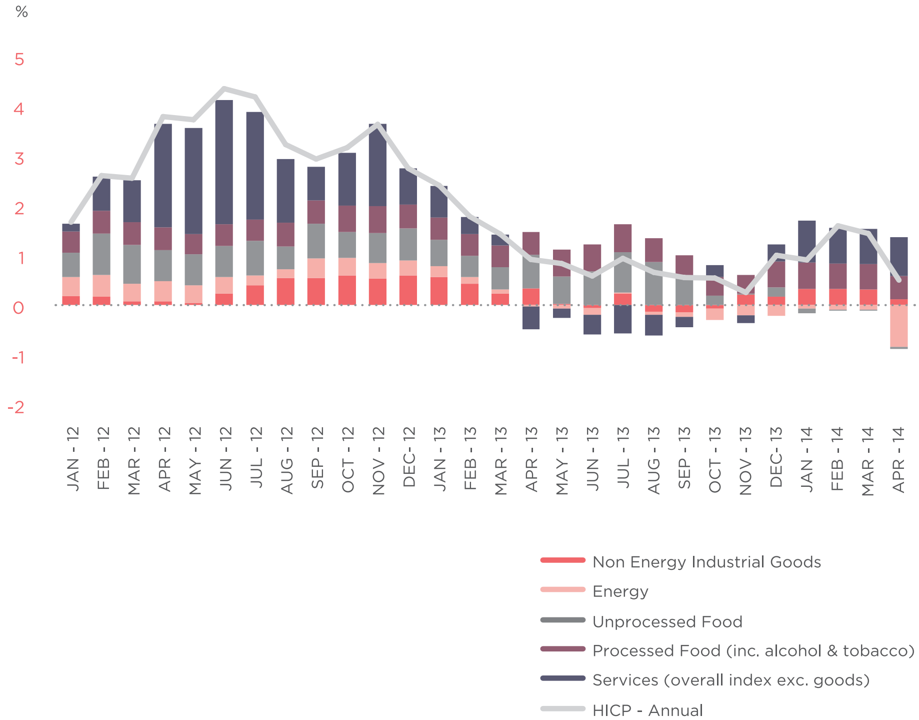


Although the decline in inflation in Malta recorded between early 2013 and the first few months of 2014 followed similar trends in the EU and the EA, the disinflation process in both the EU and EA had started a year earlier; that is in March 2012. As a result, whereas in Malta inflation was relatively higher than that experienced in the rest of the continent in early 2013, the rate of inflation dropped in line with the rest of the continent in the second half of 2013.

The Government's measures contributed to reduce inflation in Malta during past months in contrast with what happened in the EU. For instance, whilst electricity prices in Malta declined by around 25 per cent, they rose by around 3 per cent in the EA. A decline of almost 3 per cent in the price of fuel for personal transport use was also recorded in Malta, following a number of hedging agreements. Other declines were registered in the prices of non-energy industrial goods and unprocessed food. The annual decline in the price level of these components was partly mitigated by increases in the price level of processed food which include alcohol and tobacco and in services

FIGURE
01.7

HICP inflation rate and its components



International Trade

The current account surplus amounted to 1.4 per cent of GDP during 2013 with net current transfers' contributing positively to this development, while a reduction in the trade surplus and an increase in the income account deficit contributed negatively to the current account dynamics.

For 2014 and 2015, the current account is expected to revert back to a deficit position in view of increased imports of capital goods. In the medium term, the current account position is expected to register a surplus.

International trade figures for the period January to May 2014 show that, when excluding net exports of mineral fuels, lubricants and other related materials, the trade deficit declined by €93.6 million to €340.5 million.

The decline in the trade deficit was the result of a decline in imports which more than compensated for the decline in exports.

The performance in the tourism sector has continued to register an all-time high with increases in expenditure, nights spent, and hotel occupancy rates. In fact between January and May of this year, the total number of tourists visiting Malta increased by 8.6 per cent over the corresponding period in 2013. During the same period, total tourist expenditure increased by 7.6 per cent rising to €429.6 million, while the total number of nights spent in Malta increased by 6.7 per cent, reaching €3.9 million nights.

01.2
Growth Prospects

The Maltese economy is expected to continue registering a robust rate of economic growth in the short to medium term, with real GDP forecasted to increase by 2.3 per cent and 2.1 per cent in 2014 and 2015 respectively.

Economic growth is expected to be broad based with both domestic demand and exports contributing positively. After registering a positive growth rate of 2.3 per cent in 2013, private consumption expenditure is set to remain substantially strong in 2014 with a growth rate of 2.3 per cent, sustained by a strong and resilient labour market and growth in disposable income. The reduced utility tariffs to households are also expected to help growth in private consumption. Similar developments are expected in 2015 for this expenditure category.

Government final consumption expenditure is projected to expand by 1.9 per cent in 2014. Furthermore, the declining trend in gross fixed capital formation is expected to be reversed, increasing by a significant 15.6 per cent and 3.4 per cent in real terms in 2014 and 2015 respectively. These positive projections for investment are largely the result of a sizeable investment in the energy sector and other major infrastructural projects. In addition, the budgetary measures announced for 2014 are expected to support private investment, particularly in tourism and non-dwelling construction.

For 2014 and 2015, exports in real terms are forecasted to increase by 2.3 per cent and by 4.2 per cent respectively, while real imports are expected to increase by 3.9 per cent and 4.3 per cent respectively.

The tourism sector is expected to continue growing at moderate rates, supported by increases in airline and cruise ship seat capacity, the investments in hotels, and employment expectations in the tourism sector.

Over the short-term, real GDP growth is expected to be above potential, with the output gap closing down in the outer years of the forecast period. Nevertheless, no major inflationary pressures on prices and wages are expected to be generated domestically.

01.3
Conclusion

The Maltese economy managed to record highly encouraging macroeconomic results during 2013 and the first half of this year. Malta enjoyed robust economic growth rates, lower inflation rates, higher employment and particpation rates as well as lower unemployment rates. Positive performance in the majority of industries and in services sub-sectors such as tourism were also recorded.

This performance reflected the new direction that has been adopted by the Government with renewed focus on safeguarding economic stability, keeping the country's finances on track, and gaining further credibility of the established leading international institutions. The Government is committed to maintain and improve this outlook in the years to come.

02

FISCAL SUSTAINABILITY

The Maltese Government is delivering on its promise to rein in the deficit below 3 per cent and gradually reduce the debt ratio below 60 per cent.

In 2013, the Government reduced the deficit-to-GDP ratio from 3.3 per cent in 2012 to 2.8 per cent. Moreover, the deficit is expected to decrease further to 2.1 per cent and 1.6 per cent in 2014 and 2015 respectively. The sustainable corrections will be attained through the ongoing spending review, fiscal consolidation measures and the Fiscal Responsibility Act.

02.1

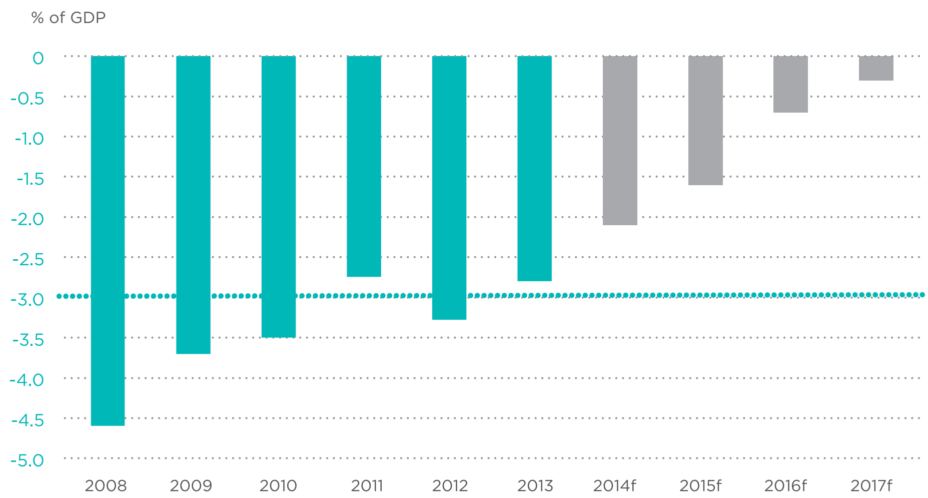
Correcting the Excessive Deficit

In 2013, Malta took effective action to bring down the general Government deficit below the three per cent threshold, a year prior to the deadline set by the European Commission. Indeed during 2013, the revenue ratio increased by 1.2 percentage points, offsetting the increase in the ratio of general Government expenditure to GDP of 0.8 percentage points. As a result the fiscal imbalance recorded in 2013 was 2.8 per cent of GDP, in line with the target outlined in the Update of the Stability Programme (2013-2016).

In 2014, the deficit as a percentage of GDP is forecasted to decline by 0.7 percentage points, to 2.1 per cent of GDP. It is projected to further decline by 0.5 percentage points, from 2.1 per cent to 1.6 per cent in 2015, and to reach 0.7 and 0.3 per cent of GDP, in 2016 and 2017 respectively.

FIGURE
02.1

General Government Balance



02.1.1
Budget 2013 Outcomes

The Government managed to reach the ambitious target of reducing the deficit-to-GDP ratio below 3.0 per cent in 2013. In fact, the deficit for 2013 was recorded at 2.8 per cent, which was only 0.1 percentage points higher than the 2.7 per cent deficit-to-GDP ratio projected in the Budget estimates.

From the revenue side, indirect tax revenue in 2013 was 1.0 per cent of GDP lower than forecasted, mainly stemming from the effect of electoral uncertainty on the purchase of some consumer durables, such as motor vehicles, during the initial months of the year. In contrast, revenue from current taxes on income and wealth was higher than expected (0.6 percentage points of GDP), reflecting the stronger than anticipated labour market conditions, salaries and corporate profits.

Capital transfers sourced from EU funding under the European Regional Development Fund (ERDF) and European Social Fund (ESF) programmes were 0.7 per cent of GDP lower than target. However the effect on the deficit was predominantly neutral as this was mitigated by an equivalent shortfall in public investment expenditure.

TABLE
02.1

General Government Finance, 2013

Source: *Stability Programme Update April 2013, April 2014, MFIN*

	Forecast	Actual	Difference
			% of GDP
REVENUE	**42.1**	**41.1**	**-1.1**
Components of revenue			
Taxes on production and imports	14.4	13.5	-1.0
Current taxes on income and wealth	13.9	14.5	0.6
Capital taxes	0.2	0.2	-0.1
Social contributions	7.4	7.3	-0.1
Property income	1.3	1.3	0.1
Market Output	1.7	1.9	0.1
Current transfers	0.4	0.5	0.0
Capital transfers	2.6	1.9	-0.7
EXPENDITURE	**44.9**	**43.9**	**-1.0**
Components of Expenditure			
Compensation of employees	13.5	13.5	0.0
Intermediate consumption	6.7	6.3	-0.4
Social benefits and social transfers in kind	13.7	13.5	-0.2
Interest expenditure	3.2	3.0	-0.2
Subsidies	1.2	1.1	-0.1
Gross fixed capital formation	3.5	2.7	-0.8
Capital Transfers Payable	1.1	1.3	0.2
Current Transfers Payable	1.9	2.3	0.4
Other expenditure	0.1	0.1	0.0
Deficit	**-2.7**	**-2.8**	**-0.1**
Primary Balance	**0.5**	**0.2**	**-0.3**

TABLE
02.2

Central Government Finances, January-June 2014

Source: *NSO, MFIN*

	Jan-June 2013 Actual € million	Jan-June 2014 Actual € million	Jan-June 2014 Estimate € million	**Jan-June 2014 Variance € million**
Total Recurrent Revenue	**1,307.5**	**1,414.3**	**1,426.6**	**-12.2**
Customs and Excise Duties	75.6	69.5	110.9	**-41.4**
Licences, Taxes and Fines	114.1	118.7	127.3	**-8.6**
Income Tax	411.5	425.6	398.2	**27.4**
Value Added Tax	258.8	289.8	284.0	**5.7**
Social Security	283.5	310.9	294.7	**16.1**
Fees of Office	16.2	18.2	29.6	**-11.4**
Reimbursements	10.4	10.7	11.2	**-0.5**
Public Corporations	0.0	0.0	0.5	**-0.5**
Central Bank of Malta	36.0	37.0	37.0	**0.0**
Rents	14.0	15.9	15.9	**0.0**
Dividends on Investment	4.6	3.7	3.7	**0.0**
Repayment of Interest on Loans	1.4	1.0	0.5	**0.5**
Grants	68.4	101.0	101.0	**0.0**
Miscellaneous Receipts	13.0	12.4	12.0	**0.4**
Total Expenditure	**1,560.8**	**1,692.3**	**1,657.5**	**34.8**
Personal Emoluments	297.0	321.6	309.9	**11.7**
Operations and Maintenance	63.3	69.1	70.4	**-1.3**
Programmes and Initiatives	785.8	852.4	840.5	**11.9**
Contributions to Government Entities	112.5	133.7	121.3	**12.5**
Capital Expenditure	190.9	204.3	204.3	**0.0**
Interest Payments	111.2	111.2	111.2	**0.0**
Central Government Balance	**-253.3**	**-278.0**	**-230.9**	**-47.0**

Table 02.2 displays the central Government revenue and expenditure, classified by components, as reported for the first six months of the year for 2013 and 2014. Actual values are compared to the estimated monthly figure consistent with the respective annual targets using a set of monthly seasonal indices. The resulting variance is presented in the last column. It should be noted with regard to non-tax revenues from Central Bank of Malta, rents, dividends on investment and interest payment will be accrued at end-of-year and hence the variance is set as zero. Also, since revenue from grants and capital expenditure tend to cancel each other, the variance of the two is not taken into account.

On the revenue side, for the period January to June of this year, direct tax revenue was €43.5 million higher than that projected. Both types of direct tax revenue, specifically income tax and social security contributions, recorded an increase when compared to projections with revenue from social security contributions recording an increase of €16.1 million and revenue from income tax increasing by €27.4 million.

Conversely, indirect tax revenue was €44.3 million lower than forecasted, however this was mainly due to a temporary €41.4 million shortfall in revenue from customs and excise duties which should correct itself in the coming months as Enemalta effects payment. Revenue from other non-tax revenue sources were broadly in line with projections, with the exception of revenue from fees of office which was €11.4 million lower than that projected. Overall, when accounting for revenue from customs and excise duties, Government tax revenue was higher than projected by €29.2 million.

On the expenditure side, total expenditure was €34.8 million higher than that projected mainly due to higher-than projected expenditure on contributions to Government entities (€12.5 million), personal emoluments (€11.7 million) and programmes and initiatives (€11.9 million). On the other hand, operations and maintenance was slightly lower than that projected.

In 2013, the new government entered office committed to revitalising the public sector and bringing about a much-needed shift in the quality of government services. To this end, additional manpower was required in priority areas, primarily health care and education. This is in line with the government's priorities to assure better quality service to the Maltese and Gozitan public. General Government employee compensation as a percentage of GDP stood at 13.6 per cent during the first quarter of 2014[3], marginally higher (0.2 p.p.) than 2013 but significantly lower than 2008 and 2009, when it stood at 13.9 per cent. Furthermore, latest published NSO figures show that the share of public sector full time employment remained stable at 26.6 per cent during the first quarter of 2014.

As a result, the Central Government deficit is estimated to be €47.0 million higher than forecasted. Of this amount as explained above, €41.4 million reflects the shortfall in revenue from customs and excise duties due by Enemalta, leaving a net negative variance of €5.6 million.

The Government is confident that once Enemalta is returned to financial viability through restructuring and foreign strategic investment, the shortfall in revenue from customs and excise duties will be corrected. The Government will continue to monitor closely both the revenue and expenditure components in the coming months.

02.2
Fiscal Projections

In 2014, the deficit as a percentage of GDP is forecasted to decline by 0.7 p.p. to 2.1 per cent of GDP. The targeted reduction in the deficit-to-GDP ratio is the result of a projected increase in the revenue-to-GDP ratio of 1.1 p.p, which will offset a forecasted marginal increase in the expenditure-to-GDP ratio of 0.3 p.p.

On the revenue side, the revenue-to-GDP ratio for 2014 is forecasted to increase from 41.1 per cent in 2013, to 42.2 per cent in 2014. The increase of 1.1 percentage points is mainly the result of a forecasted increase in revenue from production and imports and an expected increase in revenue from absorption of EU funds. On the expenditure side, the budget estimates project an increase in the expenditure-to-GDP ratio of 0.3 percentage points, from 43.9 per cent in 2013 to 44.2 per cent in 2014.

The increase primarily reflects an increase in capital expenditure and subsidies which are partly mitigated by fiscal consolidation measures.

[3] At the time of publication of this document General Government employee compensation as a percentage of GDP was only available until the first quarter of 2014.

TABLE
02.3

General Government Finance, 2012-2014

Source: *Stability Programme Update April 2013, April 2014, MFIN*

	2012	2013	2014 f
		% of GDP	
REVENUE	**39.9**	**41.1**	**42.2**
Components of revenue			
Taxes on production and imports	13.3	13.5	14.1
Current taxes on income and wealth	13.6	14.5	14.2
Capital taxes	0.2	0.2	0.2
Social contributions	7.3	7.3	7.4
Property income	1.3	1.3	1.2
Market Output	1.6	1.9	1.9
Current transfers	0.5	0.5	0.5
Capital transfers	2.0	1.9	2.6
EXPENDITURE	**43.1**	**43.9**	**44.2**
Components of Expenditure			
Compensation of employees	13.3	13.5	13.2
Intermediate consumption	6.7	6.3	6.5
Social benefits and social transfers in kind	13.5	13.5	13.5
Interest expenditure	3.1	3.0	3.0
Subsidies	1.1	1.1	1.5
Gross fixed capital formation	3.0	2.7	3.2
Capital Transfers Payable	1.0	1.3	0.9
Current Transfers Payable	1.8	2.3	2.2
Other expenditure	-0.4	0.1	0.2
Deficit	**-3.3**	**-2.8**	**-2.1**
Primary Balance	**-0.2**	**0.2**	**0.9**

02.3
Debt Reduction

Gross Government debt reached a level of 73.0 per cent of GDP. However, the increase of 2.2 percentage points of GDP from the level recorded in 2012 was largely underpinned by an expansionary impact of the stock-flow adjustment equivalent to 2.4 per cent of GDP.

The main stock flow transactions during 2013 included EFSF re-routing (0.5 per cent of GDP), ESM (0.3 per cent of GDP), an increase in the accruals owed to Government by Enemalta (0.7 per cent of GDP), accruals adjustment (0.6 per cent GDP) and an increase in cash holdings (0.7 per cent of GDP), which increased the debt more than the deficit. This is expected to be offset in 2014, largely underpinned by the full payment of the arrears accumulated by Enemalta, complemented by a sizeable decrease in aggregate cash holding on the part of Government.

Beyond 2015, stock flow transactions are expected to have a marginal impact on the debt ratio, and the projected reduction in the gross debt is mainly driven by a growing primary surplus and by nominal GDP growth. In the other years of the forecast horizon, the debt-to-GDP ratio is expected to maintain a downward trajectory to attain an envisaged level of 63.9 per cent by 2017.

02.2.1
Contingent Liabilities

Contingent liabilities are liabilities that may be incurred by Government depending on the outcome of an uncertain future event, such as a call on Government guarantees. In the evaluation of risk, credit rating agencies tend to combine contingent liabilities with gross public debt ratios as one measure of credit risk.

FIGURE
02.2

Gross Consolidated Debt with Contingent Liabilities as a % of GDP, 2013

Source: *Consolidated Gross Debt, Eurostat; Contingent Liabilities, MFIN workings*

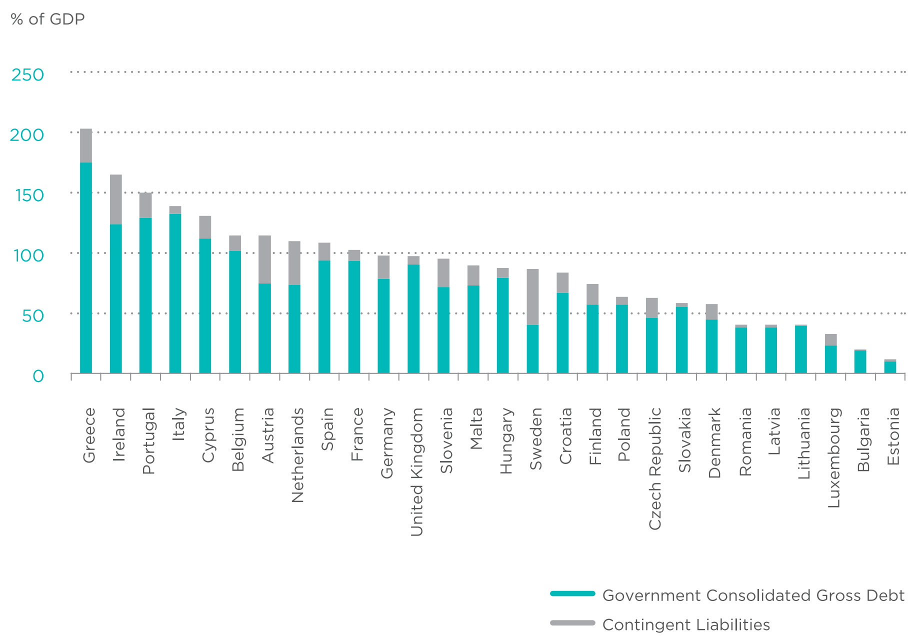


Figure 2.2 presents estimates of the impact on the debt-to-GDP ratio of the inclusion of contingent liabilities in the worst case scenario where all Member States face a situation in which all their guarantees are called upon. The scenario assumes that all countries share the same probability that such liabilities occur.

In such a scenario, the debt-to-GDP would deteriorate substantially for most member states. The differences in these turn out to be extremely large, ranging from 45.9 percentage points for Sweden and 41.4 percentage points for Ireland to 0.8 percentage points for Lithuania. Malta ranks together with Croatia, Czech Republic, and Finland recording contingent liabilities of approximately 17 per cent to GDP. This is lower than the Euro Area average of around 19 per cent of GDP. The Baltic States and the majority of Central Eastern European countries register the lowest contingent liabilities-to GDP-ratio. Given the uneven distribution among member states, this may have a considerable effect on the ranking of countries. Indeed, Greece would rank the most indebted country at approximately 203.0 per cent to GDP, followed by Ireland (165.1per cent), and Portugal (149.9per cent). Malta's debt position relative to the average would not be altered if one were to incorporate the entire stock of guarantees in Government debt, indicating that government-guaranteed debt in Malta compares favourably to the EU average.

02.4

A Strengthened Fiscal Framework

Whilst years of fiscal consolidation and favourable growth have supported the convergence towards a 3.0 per cent of GDP deficit, Malta has already faced three excessive deficit procedures since EU membership: in 2004, 2009 and 2012. To ensure a lasting correction of the national deficit and to safeguard future generations by sustainably reducing the level of the country's debt, the Fiscal Responsibility Act has been presented to Parliament. This Act ensures that Malta is in line with its EU obligations stemming from a revamped Stability and Growth Pact as well as the 2012 Treaty on Stability, Coordination and Governance (TSCG). The Fiscal Responsibility Act establishes a legal basis for the creation of an independent fiscal council tasked with overseeing a rule-based approach to fiscal discipline.

The main features of the Fiscal Responsibility Act are to:

1. Establish fiscal rules which ensure that the main principles of fiscal responsibility are adhered to
2. Set out the main tasks of the fiscal council and the monitoring of fiscal policy against fiscal rules
3. Strengthen the budgetary process through a rules-based medium term budget framework
4. Bolster accountability and transparency in the management of public finances
5. Safeguard independence in the application of the rules

02.5
Conclusion

The new Government managed to sustainably reduce the deficit-to-GDP ratio below the 3.0 per cent threshold within just one year. Furthermore, consolidated Central Government financial figures for January to June this year indicate that the Government is broadly on track with respect to reaching the revenue and expenditure targets for 2014. The Government remains vigilant in its constant monitoring of public finances to continue ensuring that the deficit and debt follow a sustained downward trend in line with its targets.

03

COMPETITIVENESS

For a nation to attain a sustained higher living standard, its economy has to constanty innovate itself. A competitive environment that is conducive to private initiative and private investment is fundamental for this aim.

This is particularly important for small open economies such as that of Malta, in light of their greater reliance on foreign direct investment and export-led growth. This necessitates that the country is competitive not only in terms of prices but also in its ability to supply the necessary skills demanded in thriving labour markets.

Competitiveness can be measured by the productivity with which a country utilises its human, capital and natural resources. In fact, productivity depends on the efficiency with which products and services can be produced and the ability of an economy to mobilise and make efficient use of its human resources. Higher productivity levels enable an economy to be more competitive globally and hence maintain a more favourable external trade position. In this way, the economy is better able to achieve better results in the external balance of goods and services, foreign direct investment net flows and current account balance. Within this context; Section 3.1 reviews price competitiveness and labour costs and productivity levels, and Section 3.2 assesses Malta's external trade and foreign investment position.

03.1

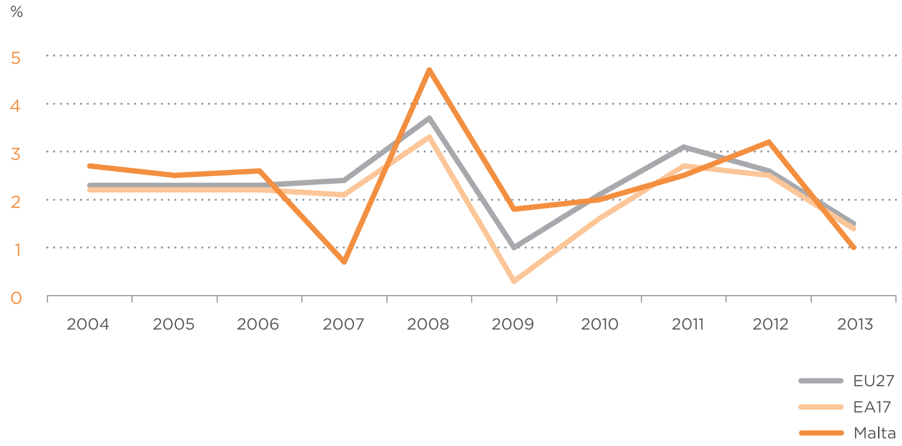
Price and Labour Market Competitiveness

03.1.1

Price Competitiveness

A historical comparison of Malta's annual inflation rate to that of the EU and EA average, points towards a marginally higher inflation in Malta. However, the differential has narrowed in the recent years as the HICP moved closer to the EU and EA average. Moreover, from 2013 onwards Malta's inflation rate followed a sustained downward trend reflecting the decline in the general price levels in the EU, a reduction in accommodation prices, and also more recently, the reduction in water and electricity tariffs.

FIGURE
03.1
HICP Inflation rate in the EU and Malta



03.1.2

Labour Market Competitiveness

Labour Costs

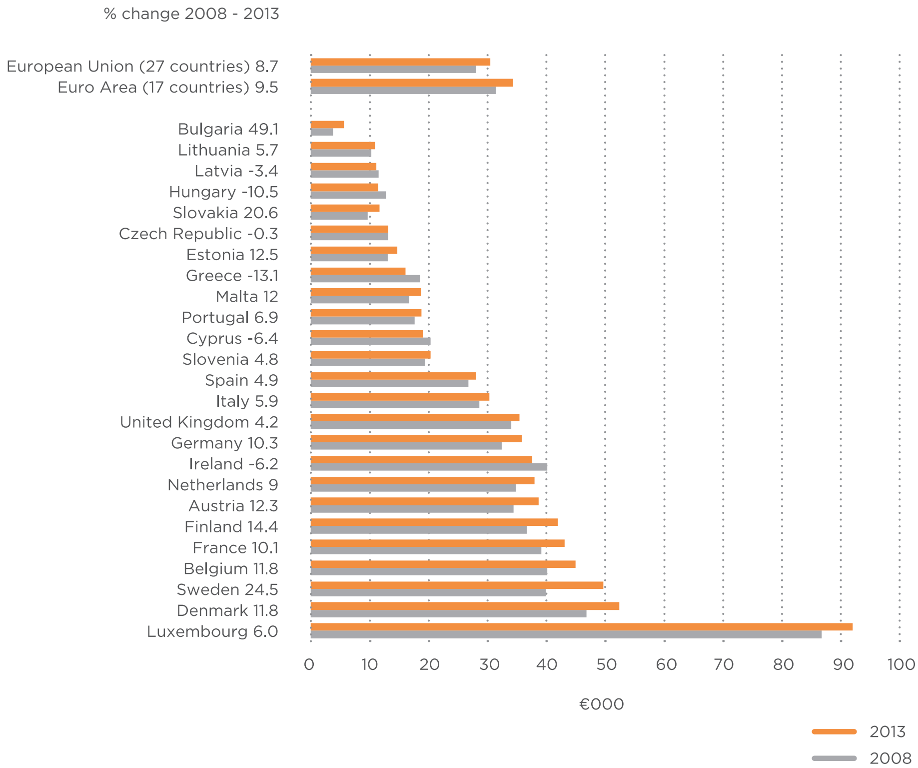
Labour costs typically represent the single largest location-sensitive cost factor, representing between 46.0 to 60.0 per cent of total location sensitive costs for manufacturing operations and some 74.0 to 85.0 per cent of non-manufacturing operations (KPMG, 2010).

During the period 2008 to 2013, Malta's average compensation per employee increased by 12.0 per cent, broadly the same increase as registered in Austria, Belgium, and Denmark but higher than the average increase registered in the EU and EA, which amounted to 8.7 per cent and 9.5 per cent respectively.

FIGURE
03.2

Average Compensation per employee

Source: *Eurostat*



The services sector was one of the main contributors towards this increase since during the same period the average increase in compensation of employees in the services industry stood at 13.2 per cent, while the EU recorded an increase of 6.3 per cent. The average compensation per employee in manufacturing also increased (4.1 per cent) however the increase was lower than that recorded in the EU, which was equal to 12.9 per cent. Despite the higher growth rates, Malta remains well below the average level of compensation of employees of the EU, suggesting that average compensation of employees in Malta has remained competitive when compared to the EU average.

Real Unit Labour Costs (RULC) developments reflect the difference between growth in compensation per person on one hand and commodity price changes and productivity developments on the other. Hence, an increase in the wage rate does not necessarily translate into higher unit labour costs provided that labour productivity increases and/or the market price of the commodities sold rise accordingly. The real unit labour costs are presented in Table 03.1 for a selection of EU Member States over the 2005-2013 period.

TABLE
03.1

Real Unit Labour Costs

Source: *Eurostat*

	2005	2006	2007	2008	2009	2010	2011	2012	2013
									%
EU-27	-0.8	-1.1	-0.9	1.1	3.2	-1.4	-0.8	0.8	-0.4
EA-17	-0.7	-1.1	-1.0	1.8	3.3	-1.4	-0.4	0.6	-0.2
Czech Republic	-0.4	-0.1	-0.7	1.5	-0.1	1.2	1.4	1.7	-2.0
Germany	-1.5	-2.3	-2.3	1.5	4.4	-2.1	-0.2	1.6	-0.1
Greece	2.5	-3.4	-0.7	0.3	3.8	-1.3	-2.9	-4.8	-4.9
Spain	-1.0	-1.0	0.8	3.2	1.3	-1.8	-1.0	-3.0	-2.3
France	0.0	-0.3	-0.9	0.7	3.0	-0.2	0.0	0.6	0.1
Italy	0.6	0.2	-0.7	2.0	1.9	-0.6	-0.3	0.6	-0.2
Cyprus	-1.3	-2.4	-3.1	-2.7	4.0	-0.9	0.2	-4.2	-4.3
Malta	**-2.8**	**0.7**	**-1.5**	**-0.2**	**3.1**	**-4.3**	**0.7**	**1.9**	**-0.9**
Portugal	1.0	-1.8	-1.6	1.9	2.2	-2.1	-1.1	-2.7	0.1
Slovenia	-0.2	-1.0	-1.6	2.1	5.1	1.5	-1.9	0.5	-1.8
Slovakia	1.5	-1.2	-0.6	1.5	7.0	-1.4	-0.8	-0.2	-1.4
United Kingdom	-0.6	0.5	-0.3	0.0	3.9	-1.4	-1.2	1.5	-0.4

The developments in the relative RULC in Malta has compared well with those registered in the EU27 suggesting that Malta is relatively competitive in unit labour costs. In fact, as can be noted from table 03.1, from 2005 to 2010, RULC in Malta were generally lower than those of the EU average. Nevertheless, some deterioration in relative RULC can be noted from 2011 to 2012.

This trend was however reversed in 2013 as Malta registered an improvement of 0.9 per cent in RULC which was higher than the improvement recorded by the EU average.

The picture may be somewhat less positive when evaluating the RULC of certain member states, particularly those countries such as Greece and Spain which had lost their momentum in the aftermath of the recent recession but regained their strength after implementing various austerity measures and structural reforms, with the possibility of becoming more robust than they originally were. This indicates that Malta needs to monitor the developments in the real unit labour costs of its economy if it wants to remain competitive.

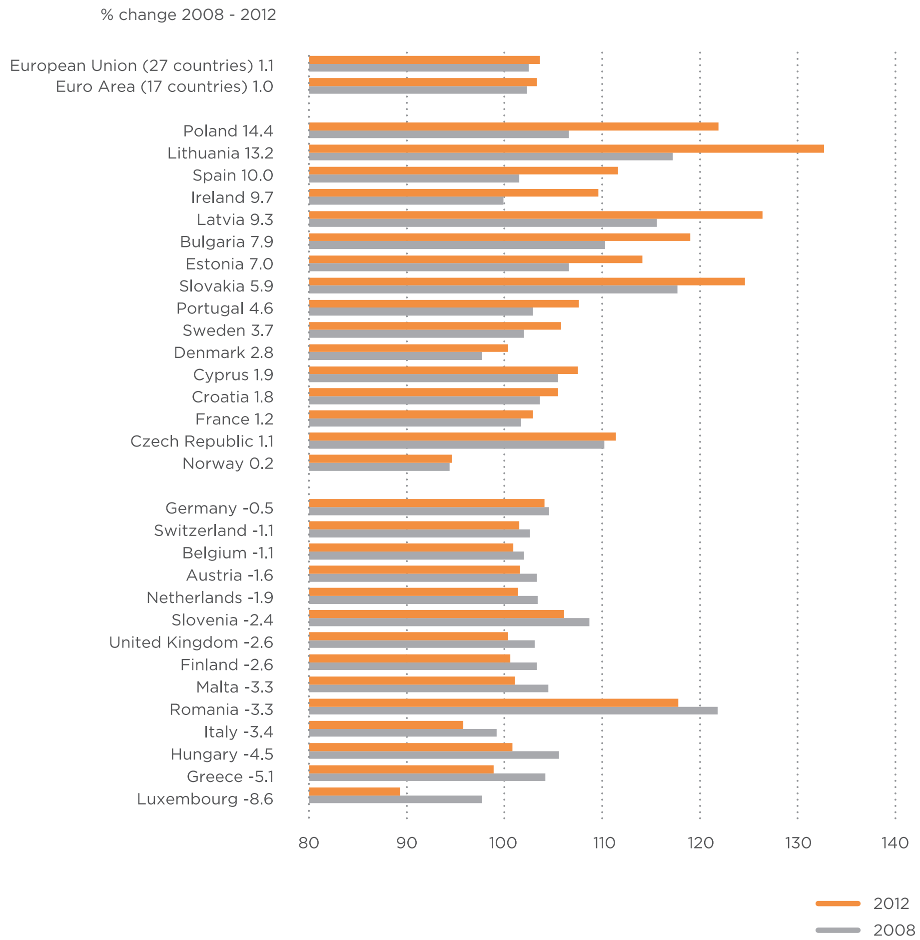
Labour Productivity

Labour productivity is a measure of the average amount of output that an employee can produce. Figure 03.3 shows that Malta has a higher real productivity per person employed when compared to advanced economies such as the UK, Denmark, Norway, Finland, and Luxembourg, albeit lower than that of the EU27. Nonetheless, Malta's labour productivity has deteriorated since 2008. However, this negative trend initially reflected labour hoarding during the recession years and later reflected the strong growth in employment relative to GDP growth, which occurred as the economy became more service oriented and presumably more labour intensive. Thus, recent productivity developments have to be interpreted with caution in the case of Malta.

FIGURE
03.3

Real Labour Productivity per Person Employed

Index (Base 2005 = 100)



03.1.3

The Nominal and the Real Effective Exchange Rate

The Nominal Effective Exchange Rate (NEER) tracks changes in the value of a country's currency relative to the currencies of its main trading partners. It is essentially a trade-weighted average value of a country's currency relative to the exchange rate of its main trading partners. However, changes in cost and price competitiveness depend not only on exchange rate movements but also on cost and price trends. In this light the Real Effective Exchange Rate (REER) assesses a country's price or cost competitiveness relative to its main competitors in international markets. It corresponds to the NEER deflated by nominal unit labour costs (total economy) and/or consumer prices (CPI/HICP).

The Figure 03.4 below displays the nominal effective exchange rate, the real effective exchange rate deflated by the CPI and the real effective exchange rate deflated by the unit labour costs, of EA countries vis-à-vis the EER-20 group of trading partners . The euro generally appreciated throughout 2013, with the nominal effective exchange rate gaining 4.9 per cent following a slight decline in 2012.

This strengthening generally reflected the improved economic outlook in several EA economies and tight liquidity conditions in money markets. However, the strengthening of the euro has caused the NEER to appreciate, threatening the competitiveness of European exports and causing the REER to appreciate. Furthermore, the strengthening of the euro may be particularly concerning for member states where labour costs are on the rise.

FIGURE
03.4

Effective Exchange Rates of Euro Area countries

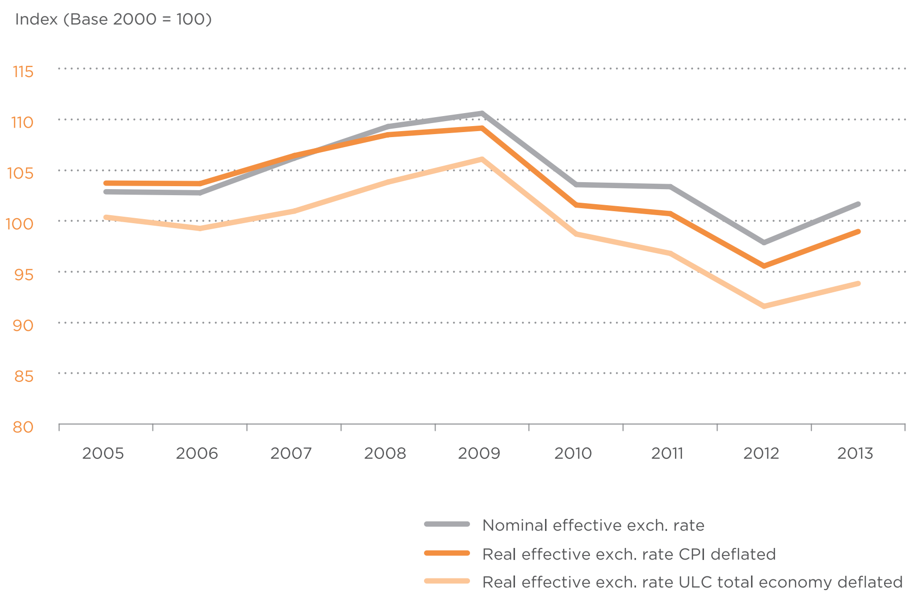


FIGURE
03.5

NEER and REER,
37 trading partners

Malta's NEER and REER experienced an overall appreciation during the period under analysis. Despite the continued appreciation of the REER in the 2006-2009 period, no decline in the exports market share was recorded as the significant increase in the exports of services helped maintain a stable share in total world exports. On the other hand, the weakening of the REER following the financial crisis which caused the nominal depreciation of the euro in 2010 and 2012 coincided with higher market shares in exports of both goods and services, suggesting that the depreciation in the REER improved Malta's competitiveness. Currently, the strengthening and hence the nominal appreciation of the euro has caused the REER to appreciate.

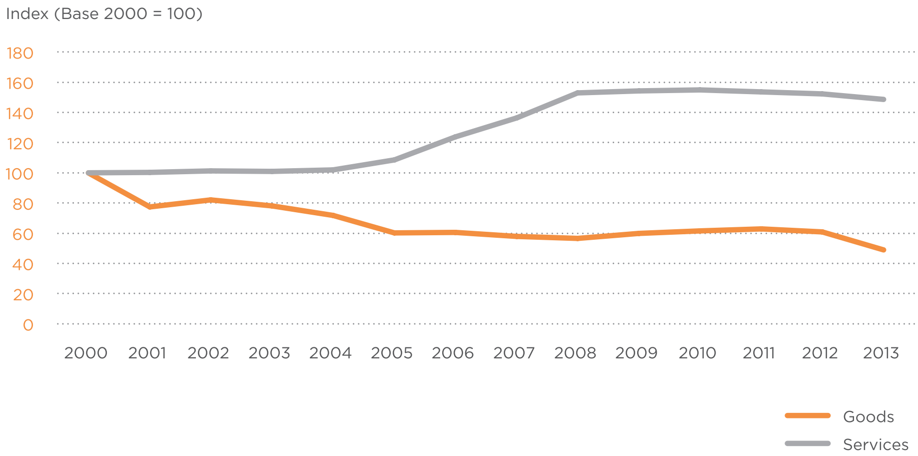
03.2
Malta's External Trade Position and Foreign Investment Performance

03.2.1
External Trade Position

Figure 03.6 shows that the improvement in Malta's external balance was sustained by a stabilisation of the goods exports markets share and an improvement in services exports markets shares, particularly since 2005. This suggests that the improvements registered are underpinned by competitiveness gains.

FIGURE
03.6

Exports as a share in the world economy



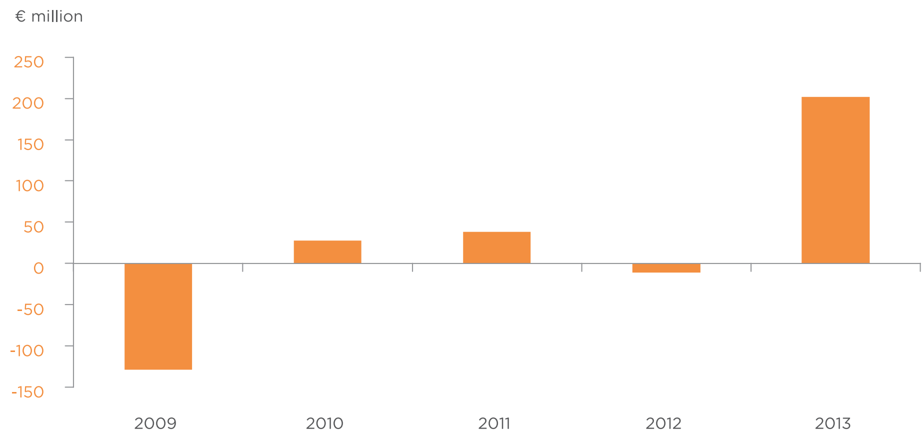
03.2.2
Foreign Direct Investment

The stock of foreign direct investment (FDI) in Malta stood at € 9.6 billion in December 2013, of which 70.6 per cent of total stock of FDI, related to financial and insurance activities. This was followed by transportation, accommodation and real estate activities (11.8 per cent) and manufacturing (9.2 per cent). Chart 3.7 shows the flows of FDI in Malta excluding Financial and Insurance flows over the period 2009-2013.

When excluding financial and insurance flows, which are rather volatile and have limited links with the local economy, FDI flows in Malta turned positive in 2013 and rose to €201.8 million from a negative €11.3 million in 2012. The drop in total registered foreign direct investment in 2013 was triggered by the sale of assets belonging to a non Maltese Bank which were held at its Maltese unit.

FIGURE
03.7

Total Inward FDI exluding Financial and Insurance Flows (2009 - 2013)

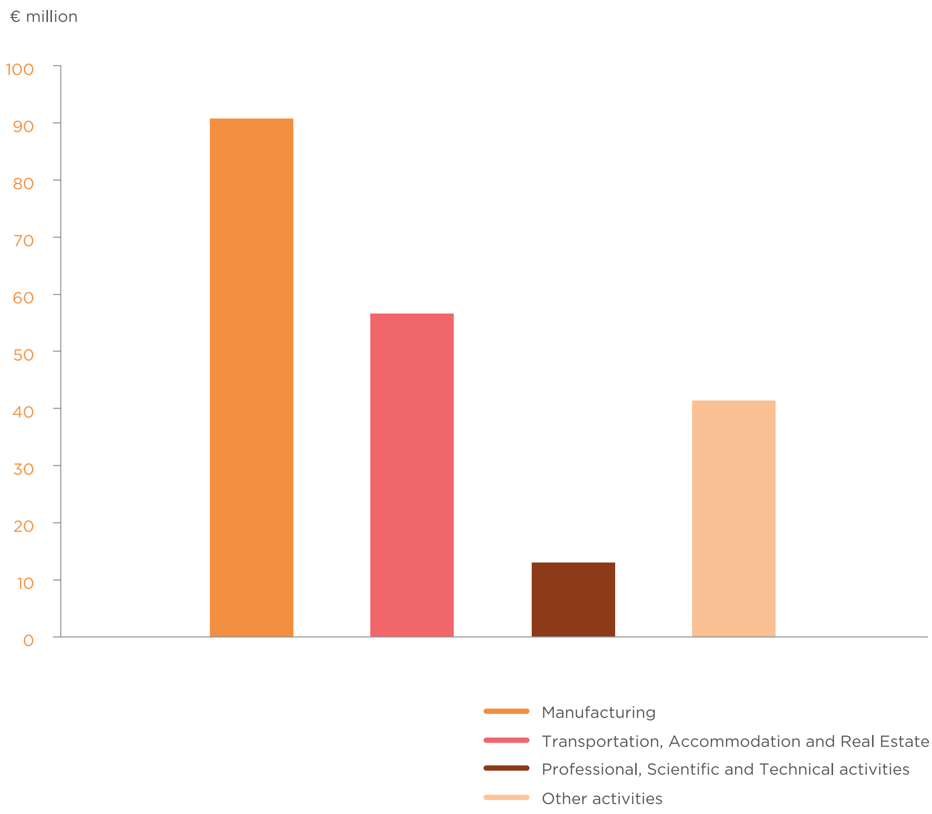


Despite this drop in financial and insurance flows, investment in productive sectors, which are linked to economic growth and employment, increased considerably during the same period. In fact, while transportation, accommodation and real estate activities increased by €56.6 million in 2013, professional, scientific and technical inflows increased by €13.0 million in 2013 from a negative of €8.5 million in 2012. Chart 3.8 shows the inflows of FDI according to main economic activities.

When looking at Malta's FDI inflows by economic activity, one can note that the majority of sectors recorded increases in inward FDI with the manufacturing sector being the largest contributor towards the turnaround in FDI inflows to Malta in 2013. In fact in 2012, FDI inflows in the manufacturing sector decreased and turned negative by €82.0 million while in 2013 this declining trend was reversed as FDI in Malta's manufacturing sector not only turned positive but became the largest contributor in FDI inflows, recording an increase of 90.1 million.

FIGURE
03.8

Inward FDI exluding Financial & Insurance Activities (2013)



03.2.3
Return on FDI

The return on FDI, which is computed using the income on FDI outflows divided by the stock of inward FDI, was on average at 8.3 per cent between 2010 and 2013. As shown in Table 03.2, the return on FDI increased from 7.1 per cent in 2010 to 9.8 per cent in 2013.

TABLE
03.2
Return on FDI

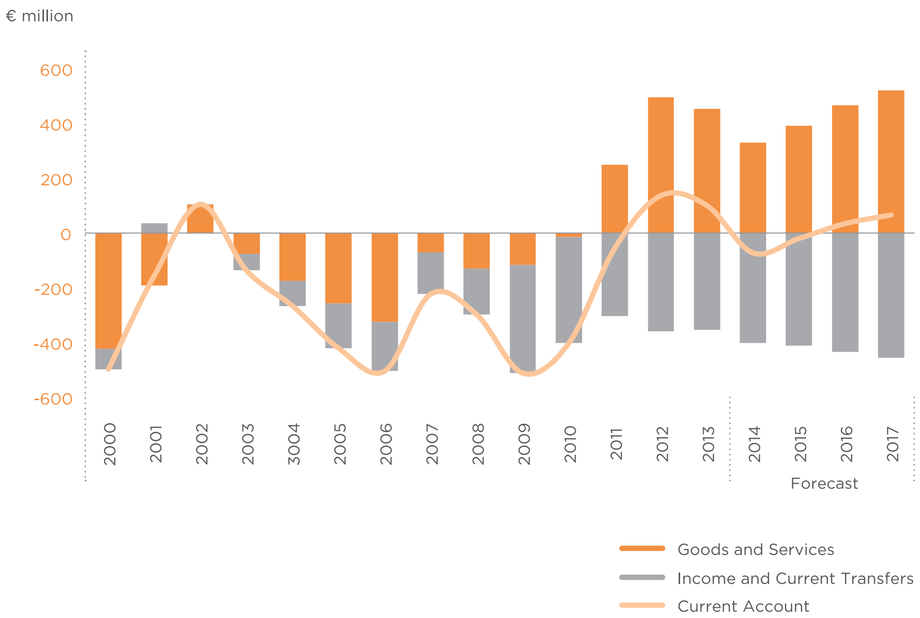
Source: *Eurostat*

	2010	2011	2012	2013
Czech Republic	12.1%	11.8%	11.4%	13.0%
Ireland	17.6%	18.9%	16.8%	14.7%
Greece	-2.5%	-6.8%	-14.4%	-2.2%
Croatia	4.5%	4.6%	4.1%	2.5%
Cyprus	7.0%	4.8%	5.4%	2.8%
Poland	8.3%	9.2%	7.9%	6.8%
Portugal	10.1%	7.2%	4.7%	4.2%
Slovenia	2.7%	3.3%	2.4%	2.8%
Slovakia	10.2%	11.2%	7.5%	7.4%
Average	**7.8%**	**7.1%**	**5.1%**	**5.8%**
Euro area-18	4.6%	4.7%	4.8%	4.3%
Malta	7.1%	6.9%	9.4%	9.8%[P]

[P] *Provision data, using Stock position as at June 2013.*

A cross-country comparison for 2013 indicates that Malta's return on FDI is relatively high when compared to its peer group, achieving the third highest rates, following Ireland and Czech Republic. In fact, as shown in Table 03.2 the return on FDI is well above the peer groups' average and FDI returns within EA 18, which suggests a strong growth potential for FDI in the coming years.

FIGURE
03.9
Current Account



The current account balance turned into surplus in 2012 after being in deficit for the period 2003 to 2011. In 2013, the current account surplus rose to 1.4 per cent of GDP. The correction in the current account was supported by competitive gains, as evidenced by the rising export markets shares particularly in services, coupled with growth in consumption and investment expenditure. The surplus is expected to be maintained over the medium term, albeit experiencing a slight deficit over 2014 and 2015 as a result of higher imports of capital goods associated with the substantial investment in the energy sector.

03.3
Global Competitiveness Index

The World Economic Forum computes the Global Competitiveness Index as a measure of the level of competitiveness of a particular country. The Global Competitiveness Index is based on 12 main pillars including, the macroeconomic environment; institutions and infrastructure; health and education; goods and labour market efficiency and market size; as well as financial market development; technology and innovation.

FIGURE
03.10

Global Competitiveness Index for Malta: Score (LHS), Rank (RHS)

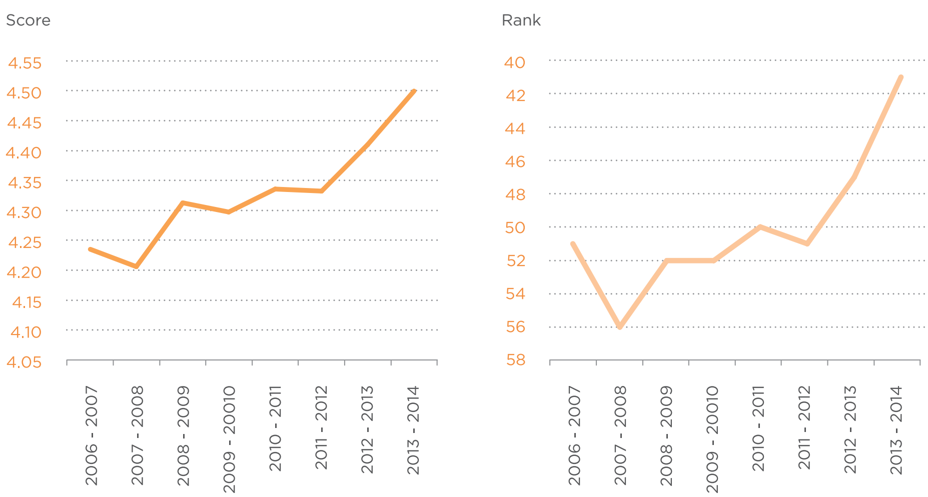


Figure 3.10 depicts the score and rank of Malta in the Global Competitiveness Index. The Figures show that Malta has managed to improve its score and rank from 2008 onwards and hence became more globally competitive along the years. The highest score was attained in the 2013-2014 period where the score rose to 4.5 and hence Malta also recorded the biggest improvement in its ranking advancing by six places from 47th place in the 2012-2013 period to 41st place out of 148 economies.

03.4
Conclusion

The decline in the cost of living, competitive labour costs and the positive external trade and investment positions, suggest that overall the Maltese economy is managing to remain globally competitive. Nevertheless, in order to sustain its level of competitiveness in today's global economy and in view of the fact that economies emerging from the recession are rapidly becoming stronger and more competitive, Malta needs to constantly improve its productivity and efficiency of its resources.

04

STRIKING THE RIGHT BALANCE BETWEEN WELFARE AND WORK

Social protection systems promote a more equitable and inclusive society. Furthermore, they aid in reducing poverty levels. However, such systems may also give rise to unintended consequences such as dependency and passivity where social security payments become a life time benefit entitlement for some claimants.

In addition, the system has proved to be vulnerable to fraud and other abuse. Hence, the Government will be working on initiatives which will ensure that individuals face clear incentives to work and contribute to society and encourage them to steer away from dependency, whilst ensuring the attainment of value for money in public expenditure, as well as the long term sustainability of social protection in Malta.

04.1

Principles of Social Protection

From an economic perspective, the welfare state fulfils a number of important functions, namely, insurance, consumption smoothing and poverty relief. Over their lifetime, people face uncertainties over a number of risks such as unemployment, sickness and life expectancy. Indeed instruments such as pensions, unemployment, sickness and disability benefits provide an insurance function and help in mitigating the impact of such risks. Furthermore, instruments such as retirement pensions also serve the function of smoothing consumption over a lifetime, thus enabling a person to transfer consumption from his or her economically active years to the years spent in retirement. Another function of welfare systems is that of relieving poverty in view of the fact that some people will, for one reason or another, be poor on a lifetime basis. Apart from cash benefits, the welfare state provides a number of in-kind benefits that are important from a social justice point of view. These include health, long-term care and education.

Social protection systems around the world, including Malta, face challenges in light of the continuous evolution of needs and expectations. People now live longer; they seek dignity and independence in old age, while systems need to deal with the complexity of new household arrangements. Demographic changes arising from an ageing population, mobility and international migration are leading to greater vulnerabilities. At the same time there is a broad reluctance from taxpayers to accept higher tax burdens. Current systems of social welfare have to adapt to reflect government's objective of creating opportunities while discouraging dependencies and ensuring sustainable social protection.

04.2

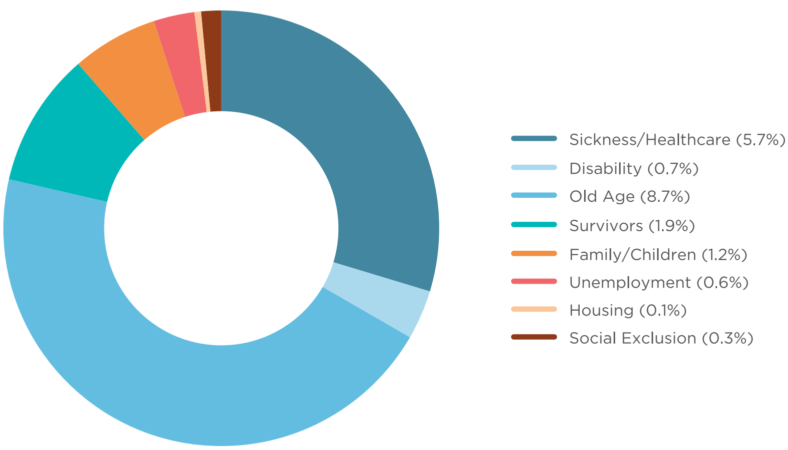
Social Security in Figures

According to the Budget Estimates for 2014, in Malta the cost of Social Security is approximately €828 million, disaggregated into over €643 million as contributory benefits and €185 million as non-contributory within a total government spending of €2.8 billion. Social security is by far the largest spending programme of the government and meets the daily needs of around 140,000 claimants. For 2014, around €144.3 million were allocated to 19,551 claimants dependent on unemployment assistance, social assistance and single unmarried parent allowances.

Data on social protection expenditure by Eurostat indicates that total social protection expenditure in Malta amounted to €1,320 million or 19.2 per cent of GDP in 2012. The largest share of social protection expenditure was on the Old Age category, where expenditure was equal to €601 million or 8.4 per cent of GDP, followed by Sickness/Health care with an expenditure of €392 million or 5.7 percent of GDP, and Survivors where expenditure was equal to €129 million or 1.9 per cent of GDP.

FIGURE
04.1

Social Protection Expenditure as a % of GDP, 2012



The other functions of social protection expenditure include, the family/children category where expenditure was equal to €82 million (1.2 per cent of GDP), Unemployment with an expenditure of €39 million (0.6 per cent of GDP), Social Exclusion with an expenditure of €19.5 million (0.3 per cent of GDP), and Housing where expenditure was equal to €5.5 million (0.1 per cent of GDP).

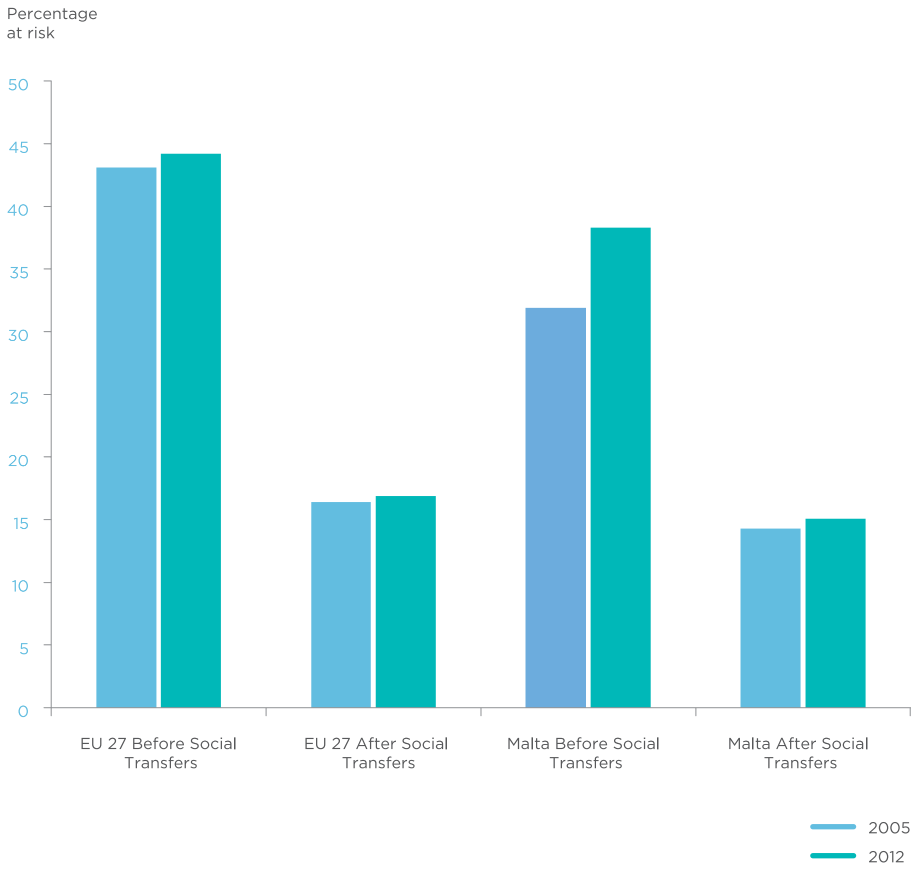
04.3
Poverty Reduction

One of the key functions of the welfare state is poverty relief. According to SILC data, during 2012, the monetary 'at-risk-of-poverty' (ATRP) threshold stood at €6,869, implying that for the year under review 61,689 persons, or approximately 15 per cent, had an equivalised income below this threshold, thus being classified at-risk-of-poverty. Data for the ATRP rates for different household types revealed that for 2012, persons living in households with dependent children tended to be more prone to being at-risk-of-poverty, as opposed to those living in households without dependent children.

FIGURE
04.2

Per cent of the Total Population at Risk of Poverty Rate (%)

Source: *Eurostat*



As indicated in Figure 04.2, in 2012, the ATRP before social transfers (pensions included in social transfers) stood at 38.3 per cent for the total population (EU27: 44.2 per cent), whereas it stood at 15.1 per cent (EU: 16.9 per cent) after social transfers. Hence, from 2005 to 2012 the ATRP after social transfers increased but remained lower than the EU average, thus indicating that Malta upholds a relatively well entrenched social welfare system that actively protects those at risk-of-poverty.

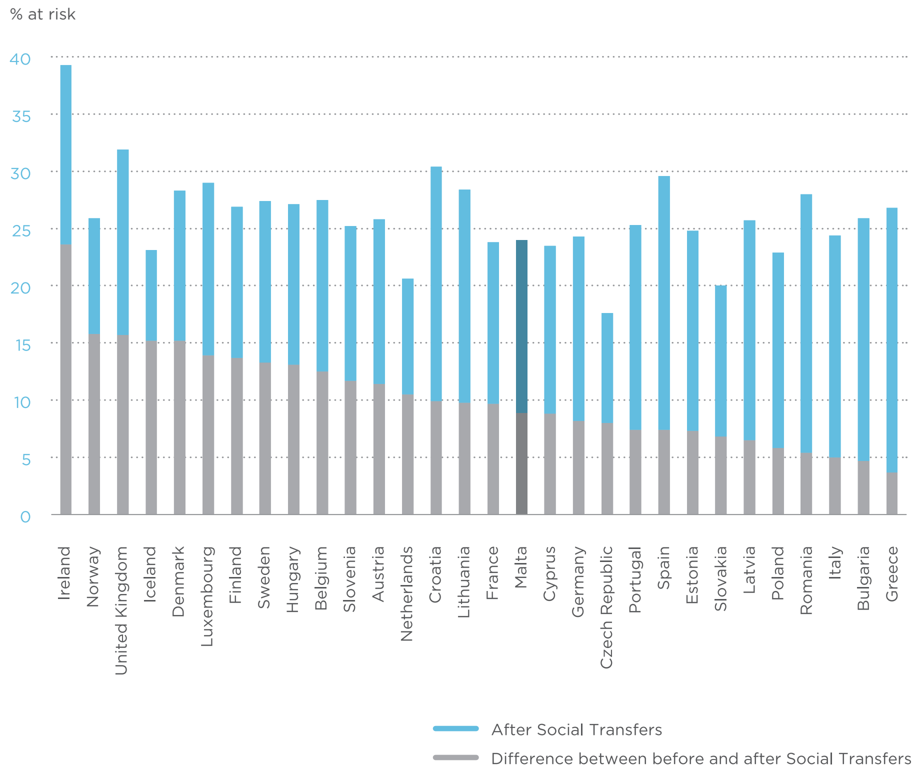
Figure 04.3 shows the ATRP after social transfers for the EU member states as well as the difference between the ATRP before social transfers (except old-age and survivors' benefits) and the ATRP after social transfers. The figure shows that social transfers in Malta are indeed effective in addressing the situation of persons that are at risk of poverty.

FIGURE
04.3

At Risk of Poverty Before and After Social Transfers (2012)

Source: *SILC, Eurostat*

Notes: *Ranked on the difference between before and after social transfers*



Nevertheless, when the performance is ranked relative to other EU member states, the effectiveness of the welfare system in Malta ranks 17th out of 30 countries. This indicates scope for better, more targeted welfare spending. Data on at-risk-of-poverty rates by work intensity is shown in table 04.1. The table shows a negative relationship between work and monetary poverty. This means that households that have worked more months during a reference year, and therefore recorded higher work intensities, tend to have a lower at risk of poverty rate. In other words, the more hours worked by a family, the less monetary poor they will be. According to the SILC indicators, in 2012 the ATRP for persons living in households without dependent children and having very low work intensity stood at around 49 per cent, while that for households without dependent children and very high work intensity resulted as marginally low at 0.5 per cent. A similar trend was observed in the case of households with dependent children.

SILC data in respect of 2012 indicate that 23.1 per cent of children under 18 years of age were at-risk-of-poverty. 72.8 per cent of those mostly at risk lived in households with a Work Intensity of zero. On the other hand, the at-risk-of-poverty rate of children in households with five or more persons was calculated at 27.0 per cent and at 49.5 per cent for children who lived in single-parent households.

TABLE
04.1

At-risk-of-poverty rate by Work Intensity[4]

Source: *Eurostat, SILC database*

WORK INTENSITY	Households without dependent children		Households with dependent children	
				%
Very high (0.85 - 1)				
EU-27	4.0	4.7	5.4	5.4
Malta	0.4	0.5	1.2	0.8
High work intensity (0.55 - 0.85)				
EU-27	6.3	8.3	9.0	9.8
Malta	0.8	1.3	0.7	2.0
Medium work intensity (0.45 - 0.55)				
EU-27	10.4	12.8	20.2	24.3
Malta	1.6	5.4	13.7	22.6
Low work intensity (0.2 - 0.45				
EU-27	23.7	31.9	37.8	45.7
Malta	8.9	21.0	28.5	40.8
Very low work intensity (0 - 0.2)				
EU-27	41.3	48.0	62.0	66.6
Malta	46.6	49.0	65.4	75.1

[4] The work intensity of the household refers to the number of months that all working age household members have been working during the income reference year as a proportion of the total number of months that could theoretically be worked within the household. Individuals are classified into work intensity categories that range from 0 (jobless household) to 1 (full work intensity).

04.4
Well-being and Health

International studies indicate that the reasons for unmet need for healthcare are highly correlated with low income. Table 04.2 indicates this correlation in the EU-27 where 10 per cent of the first quintile (lowest income) report missed medical examinations compared to 4 per cent of the fifth quintile (highest income).

TABLE
04.2

Healthcare and Income for Malta and EU-27 (%)

Source: *Eurostat, National Health Authorities*

WORK INTENSITY	Malta		EU 27	
				%
	2005	2011	2005	2011
First Quintile Equivalised Income	4.2	4.2	13.6	10.1
Fifth Quintile Equivalised Income	2.6	2.4	6.8	4.3

In Malta, as indicated in Table 04.2, largely due to the provision of free medical services, a principle which this Government is committed to maintain, the comparative percentages between Malta and EU 27 are lower.

According to the European Health Interview Survey (EHIS) for 2008, significantly lower employment rates are observed amongst those suffering from chronic disease. In addition, research by the National Health Authorities indicates that persons suffering from injuries and mental illness encounter significant barriers for employment.

04.5
Unintended Consequences of Social Protection

Social protection is designed so that people in need at certain periods of their life cycle are able to receive from government direct cash transfer payments to deal with risks of unemployment, sickness or injury or in responding to issues of single parenthood to family break ups. The intended design is to support for a specific time period.

However, while the social protection system is primarily designed to enhance the well being of individuals, it is also the case that such a system may be creating dependency and passivity. The social security system may in certain cases create a series of perverse effects, whereby once claimants get into the benefit system they are then reluctant to move out of a system that at present seems to be guaranteeing them an income.

The possibility of breaking up of households and the ability to claim benefits as separate households impacts on the attractiveness to claim benefits as a form of income. Furthermore, there is also the tendency for young people to claim the forming of new households, to be able to claim unemployment assistance. These young persons have no obligations to seek training or education and can continue to claim benefit for a lifetime. Hence, the unintended consequence is that these young claimants are not investing in their human capital to explore their capacities or their abilities that will give them pathways to long term sustainable lifestyles.

Another case applies to the long term unemployed who have been unemployed for longer than two years. Such individuals continue to receive social assistance without having to register for work. This creates the unintended consequence of discouraging long-term unemployed from taking-up education or training in order to become more employable and find a job, with the end-result that long-term unemployed end-up dependent on the social welfare system.

A third case is that of young single unmarried parents who had exited from work or education to take care of their children, but have not re-entered as they keep on relying on social assistance as their main source of income. The aim of the government is that for these young mothers to return to education or training and again fulfil their potential, rather than becoming dependent on the benefit system.

The Government will be working on initiatives which will create clear incentives for individuals to work and contribute to society and to encourage them to steer away from dependency, whilst ensuring the attainment of value for money in public expenditure, as well as the long term sustainability of social protection in Malta.

04.6

Sustainability of Social Welfare

Ageing populations will pose economic, budgetary and social challenges. As indicated in Table 04.3, according to the 2012 Ageing Report 4, assuming a no-policy change scenario, Malta is projected to record an increase in public pensions of 5.5 p.p. of GDP between 2010 and 2060, together with an increase of 2.9 p.p. of GDP in health care and 1.6 p.p. of GDP in long-term care during the period 2010-2060. Public spending on unemployment benefits in Malta is not projected to record a change between 2010 and 2060, while education spending is projected to decrease by 1.0 p.p. of GDP between 2010 and 2060. These projections point towards a 10.2 per cent change in the total age-related public expenditure for Malta for the period 2007-2060, as compared with an average of 4.7 per cent increase for the EU-27.

Public expenditure on pensions is presently the most significant age-related government expenditure item, and is projected to remain so also in the future. Over the projection period 2010-2060, pension expenditure in Malta is projected to rise from 10.4 per cent of GDP in 2010 to 15.9 per cent of GDP by 2060.

The increase in old-age pension expenditure is driven by the ageing process, in reflection of projected demographic developments. Another important contributor to the increase in age-related spending is healthcare.

Projections indicate that Malta is projected to record an increase of 2.9 percentage points of GDP in health care and an increase of 0.8 percentage points of GDP in long-term care during the period 2010-2060. This increased spending on health care and long-term care is primarily due to an ageing society and an increase in life-expectancy at birth over the projection period.

The Government is aware of the challenges posed by these demographic developments on healthcare and is actively working on implementing a holistic strategy that will ensure the long-term sustainability of the free health sector.

TABLE

04.3

Age-Related Spending for Malta[5]

Source: *2012 Ageing Report, Ageing Working Group*

MALTA	2010	2060	2010-2060
			% of GDP
Pensions	10.4	15.9	5.5
Health Care	5.4	8.3	2.9
Long-term Care	0.7	1.5	0.8
Unemployment Benefits	0.4	0.4	0.0
Education	5.1	4.0	-1.1
Total	22.0	30.1	8.2

[5] *EUROSTAT have recently carried out a new population projection exercise, EUROPOP2013, which will be used as a primary input in the forthcoming long-term age-related expenditure projections that are used by the European Commission in the assessment of the sustainability of public finances. For Malta, this new set of population projections led to new demographic assumptions, where such projections will have an impact on Malta's policies aimed at addressing the long-term sustainability of public finances.*

04.7
Conclusion

Malta does have a social fabric which still values strong community and family ties that uphold a well entrenched social welfare system that actively protects those at risk-of-poverty. In 2011, the ATRP rate before social transfers except old-age and survivors' benefits stood at 22.9 per cent for the total population (EU27: 26.3 per cent), whereas it stood at 15.4 per cent (EU: 16.9 per cent) after social transfers.

Moreover, the welfare system endows citizens with rights but at the same it entails an obligation to give something back to society. Social security reforms need to be directed towards enabling and empowering individuals currently depending on benefits to find life strategies that are more sustainable in the longer term.

It is in the interest of the individual to seek employment and self-improvement through training. The application of mechanisms such as tapering of social benefits, as announced in the Budget for 2014, provide more of an incentive to individuals in this sense. The close integration of the anti-poverty strategy with Government's labour market policies is bound to yield more sustainable and effective results.

A holistic education strategy which increases literacy rates, combats early school leaving and promotes lifelong learning and on-the-job training also plays an important role in enabling to participate productively in the labour market.

05

DELIVERING OUR VISION

Upon taking Office, this Government showed its determination to ensure that the right level of stability and certainty prevails in the economy. This environment spurred confidence and subsequently encouraged work effort and investment.

Government was equally determined to carry out fundamental reforms in the various national institutions in order to guarantee the long term sustainability of its various economic and social programmes.

The positive macroeconomic results witnessed during the past months were a consequence of these objectives. Public finance sustainability and the enrichment of the supply side of the economy through increased incentives for employment participation, provided the right platform for such performance.

In this relative short period of time, several reforms and initiatives were launched across all sectors of our society. Reduced utilities tariffs were announced for all households, with those for business set to kick in next March. This helped to boost certainty in terms of price stability. The incentives to participate in the labour market were also strengthened by the introduction of a set of measures, ranging from the provision of free childcare, to tapering of social benefits. The results were immediately visible as employment continued to increase with higher participation rate of female and older workers. The drive to ensure the long term sustainability of our free health services was given high priority. A comprehensive review of Malta's health system intended to serve as a starting point for the improvements in efficient and effective resource utilisation was undertaken. Government has also continued to put in place the right incentives and structures for Gozo to enable to reach its growth potential.

05.1

Institutions that Work

This Government is determined to reform the justice system and to reduce excessive bureaucracy across its various operational units.

The Commission for the Holistic Reform of the Justice System, tasked with compiling a review for the holistic reform of the Justice system published its Final Report which included recommendations to Government on measures to improve the efficiency of the judicial system and the proposed way forward. The implementation process is structured over the period 2014-2016.

Specific action will be taken to address the time it takes to resolve insolvency cases and to expedite court matters, in particular through the increase in the members of the judiciary, the introduction of the Jurist system, and investment in a secure IT system. Furthermore, a Justice Reform Implementation Committee (JuRIC) has been set up, composed of senior officials from the key stakeholder organisations, to work on the areas of the reform process with a view to monitor the progress and iron out possible difficulties.

Government remains committed on achieving a 25% reduction in existing bureaucratic procedures. A Commissioner for Simplification and Reduction of Bureaucracy was appointed. In the past few months, various successful initiatives were taken, including Energy Vouchers directly deducted from issued bills and the lowering of fees and streamlining of classifications at MEPA.

The new government is adopting the open government concept which is a process that strengthens the principles of transparency and accountability. This process will give all citizens the opportunity to participate and directly influence the decisions taken by the government. All proposed legislations are open to comments, suggestions, questions and consultation. This feedback is then used to amend the proposed laws. In its continued efforts to fight corruption, Government has also enacted the Whistle Blower's Act, offering full protection to all those who are honest, and guaranteeing safety and reassurance against any retribution. In addition, Government is also working on Party Financing Law which will regulate party financing and shall contribute towards setting a transparent framework for Maltese politics.

05.2

Employment: Creating the Right Incentives

The Government is committed to further encourage the increase in the rate of employment through a set of specific labour market programmes aimed at addressing particular challenges and bottlenecks which are currently discouraging entry in the labour market.

During this current year, Government started implementing the reduction in income tax for long-term unemployed women who are over 40 years of age and are going to start employment. Furthermore, the long-term unemployed who join the labour market will not lose all their welfare entitlement as social benefits will see a gradual tapering. In addition, single parents on social assistance who choose to enhance their employability prospects by undergoing training or full-time education are given tax credits.

Government is committed to support the rise in the labour force participation of all groups. The Active Labour Market Policy Counselling and Action Committee was set up, amongst other, to design a holistic active labour market policy that addresses the long-term needs of the labour market and to ensure that there is adequate funding to promote an on-going active labour market policy. Additionally, an employment policy for Malta was launched.

Furthermore, Government is supporting the labour market participation of parents, especially females, by introducing free childcare centres to help working and studying parents, opening schools earlier through the 'Breakfast Club' programme, providing after-school care services within school structures for longer hours, organising activities at youth service centres, extending the parents' income tax computation to parents with children under 23 who are still in tertiary education, and extending tax deduction for parents sending their children to private childcare centres.

Mismatches in supply and demand in the labour market can persist longer than expected. A dynamic economy requires a flexible workforce which could be swiftly re-deployed across economic sectors in response to shifts in labour demand. Conscious of this fact, a set of initiatives were announced to facilitate and shorten such transitions. The reintegration of unemployed or inactive individuals into the labour market is being supported by a wide range of training programmes offered under the Enhancing Employability Through Training' Programme. The Average Wage Training Allowance supports employees who earn less than the national average wage of €300 per week from their full-time or part-time work to participate in further training through which they can develop their skills and thus improve their job and career prospects. In addition, the Alternative Learning Programme, the JOB BRIDGE Programme, and the Embark for Life Programme, are in place to facilitate labour market integration of youth.

The human capital present in the labour market is fundamental for economic growth. It arguably represents the single most important factor in the development of a country. Thus, programmes and initiatives that encourage the accumulation of human capital through acquisition of skills and knowledge play an increasing important role.

The ‘Youth Guarantee Programme’, launched in March 2014, aims to enhance employability amongst younger persons by increasing the number of youth who continue to study after the compulsory age and to improve their capabilities through relevant training. The ‘Youth Entrepreneurship Scheme’ was launched which aims to combat problems that youngsters face when starting a business, and the development and enactment of a ‘Youth Entrepreneurship Act’ was introduced to promote and support entrepreneurship in the younger generation.

In an economy with an ageing population, the participation of older workers is essential. Raising the participation of older workers is one of the labour market policy priorities of the Maltese Government. To continue enticing the participation of older workers under the active ageing strategy, Government has introduced the extension of the 15 per cent contribution to all pensioners whose annual earnings from self-employment do not exceed the minimum earnings threshold.

Gainful employment represents more than just a financial reward for one’s effort. Apart from economic benefits, there are also social and ethical considerations. In view of this, the Employment Aid Programme was launched where vulnerable groups who are at-risk of becoming detached from the labour market are assisted in finding employment. Similarly, the Employment in the Social Economy Project and the Sheltered Employment Training for Disadvantaged Groups initiatives were also embarked upon to encourage employers to recruit persons from disadvantaged categories and persons with disability.

05.3

Education: Key to Employment Opportunities

An integral part of Government vision is to offer first class education which is open to all. It is this Government’s firm belief that sound education and training are key to success at work and in society at large. As part of this vision, a coherent strategy for lifelong learning opportunities is being drawn up to ensure that all children, young people, and adults have the opportunity to obtain the necessary skills and aptitude to be active citizens and succeed at work and in society. Once completed, existing learning programmes and modes of assessment will be updated and support shall be extended to the modernisation of the country’s vocational system.

As noted earlier, the accumulation of human capital through acquisition of skills and knowledge play an increasing important part in today’s reality. Such enrichment of skills is impossible if young persons opt out of school earlier. The Government is committed to reduce the Early School Leaving rate to achieve the newly-set target of 10% by 2020. To achieve this target, the Government has set up a Monitoring Unit to have an overarching view of what is being proposed and implemented to address this phenomenon.

Government envisages an educational experience unlimited by age. Consistent with this, the Framework for the Education Strategy for Malta 2014-2024 was launched, presenting a coherent strategy for lifelong learning opportunities from early childhood education and care to adult learning.

In addition to this, the Reform of the National Curriculum Framework (NCF) is also underway, while the teaching of vocational subjects is expected to be rolled out in all state secondary schools by September 2015

Skills gaps in the labour market are being addressed, to ensure that the demand for skills being generated by the economy is being met by the supply of skills coming on stream from educational institutions. Educational entities are continuously ensuring that the courses offered are attractive, relevant and are continuously addressing the needs of the labour market. In this regard, Malta Enterprise is co-operating with the Malta College for Arts, Science and Technology (MCAST) to provide new courses on the repair and maintenance of airplanes.

05.4

Energy: An Efficient Provision through Reform

Mindful of the burden placed on Maltese families and businesses due to high electricity tariffs, Government has actively been pursuing a reform in the energy sector. Government has sought the participation of a strategic partner, Shanghai Electric Power, in Enemalta Corporation, a move intended to strengthen the financial position of the corporation whilst also providing new job opportunities in both conventional and alternative forms of energy. Furthermore, Government is committed to switch Malta's energy generation facilities from Liquid Fuel Oils to Natural Gas through the construction of a new highly efficient generating plant and Liquefied Natural Gas infrastructure.

The conversion of the BWSC plant will be part of the framework agreement reached between Enemalta and the Chinese-state owned company Shanghai Electric Power. Through this agreement, the Chinese Company will be buying a majority stake in the BWSC plant. This is in line with the country's strategic decision to liberalise completely the generation market whilst Enemalta maintains control over dispatch and distribution. Furthermore, as a result of this agreement, a five year business plan has been drawn up to see that Enemalta becomes profitable within three years.

The need to have a diverse mix of energy continues to assume added urgency. For this purpose, Malta continued to diversify its energy mix and improve its security of supply through a number of actions. A power purchase agreement and a Gas-supply Agreement were awarded to ElectroGas Malta Consortium following an expression of interest. The consortium is tasked with the building, owning, operating, and maintaining of a new LNG delivery, storage, re-gasification and natural gas supply facility, and a new natural gas-fired combined cycle gas turbine electricity generation plant, together with all necessary infrastructure connections to Enemalta's electricity distribution network, at Delimara.

Government is also assessing the feasibility of a connection to the trans-European Natural Gas Network to deliver natural gas for the generation of electrical power and explore its potential for use for domestic, commercial and industrial purposes. Additionally, in light of the progress recorded in recent months, the electricity interconnector with Sicily is expected to become operational by end of 2014. Connection to the European energy grid will thus increase energy supply security and enable the phased switching off of the highly inefficient Marsa power station.

Furthermore Malta is continuing to pursue the development of its internal electricity distribution network, both to meet increased consumer demand and to enable the connection of increased renewable energy installations. A new distribution centre has been constructed and is intended to receive the electricity imported from the interconnector and to distribute it throughout Malta's network.

Optimal usage of energy from the user's end is an essential part of the Government vision for energy. Smart meters are being installed for every electricity consumer in Malta. This is expected to lead to a reduction in energy consumption by changing consumer behaviour through information on energy consumption. Government is also incentivising the installation of energy efficiency systems through a number of capital assistance schemes. Attractive feed-in tariffs remained the main support tool to incentivise PV deployment unless benefiting from a grant.

05.5

Health: Quality, access and Sustainability

Government is committed to continue improving health outcomes and enhance access, quality and the sustainability of the Maltese free health care system. To guarantee the delivery of these objectives, Government is adopting a realistic and gradual multi-pronged approach to health reform. Malta, as a country, invests large part of its resources in the national health services. But this is only one part of the equation. The other consists of having the best practices, the right management structures and the proper allocation of resources, both financial and human. Cognisant of this fact, Government has launched a comprehensive review of Malta's health system intended to serve as a starting point for the systematic monitoring framework for health system performance.

Government is committed to continue investing in overall good governance of the public health services. The focus will be on ensuring better leadership, oversight, management and co-ordination of policy, services, supplies and resources. A number of initiatives have been already undertaken. A clear cost-effective National Health Systems Strategy (NHSS) for the period 2014 to 2020 was published for consultation in February 2014.

Additionally, a working group to work on Performance Assessment Framework was set up and is currently working in line with an implementation plan approved by the Ministry Management Board with a target of having this Framework in place by the end of 2014. There has also been a review of the medicines and medical devices procurement, management, and distribution processes in order to streamline procurement practices and cut waste.

Increasing demand and challenges posed by demographic changes, together with a growing burden of chronic disease represents a major challenge for the long term sustainability of our free health care system. Government has therefore continued to work to ensure that people adopt health lifestyles that are conducive to healthy ageing. Work on the implementation of policy and strategy document issued in the past years such as the National Cancer Plan, A Strategy for the Prevention and Control of Non-Communicable Disease in Malta; and A Healthy Weight for Life and a National Strategy for Malta have continued. New measures in this area are mainly focused on tackling obesity and diabetes which are both identified as a national health challenges.

Government has identified the strengthening of Primary Healthcare as a priority. This because a more efficient use of primary healthcare services will alleviate pressure from more costly acute care provision and increasing the interaction between public and private primary care provision with the aim of enhancing access.

A programme of upgrading and refurbishment of the Gozo General Hospital and Health Centres/peripheral clinics is currently underway and work has already started on the compilation of the Medical Briefs for Regional Health Centre Hubs with a view of submitting a project proposal for EU funding consideration in the New Programming period 2014-2020.

05.6

Gozo: Investing in infrastructural and Human Capital

The added constraints imposed on Gozo have long been established. Their identification is only a first step. It is our belief that Gozo identity is a strength that must be promoted and enhanced. This Government strongly believes that with the right investment and incentives, Gozo can maximise its potential and continue to prosper.

Several initiatives have been proposed aimed at making Gozo more attractive to investment. An expression of interest for the construction of a Yacht Marina and Cruise linear Terminal has been issued and it now at the stage where proponents have to submit detailed technical studies. Plans to have a modern home for the elderly are underway. A site has been identified and studies submitted to MEPA for approval. Government has also announced the setting up of Barth Medical School in Gozo. Once fully functional, this initiative has the potential of fostering positive synergy with the Gozo General Hospital in creating additional activities.

The targeting of specific industries to Gozo necessitates a fast and reliable broadband connection. Technical and financial documents have been submitted for the feasibility study for a second Submarine Fibre optic data cable between Malta and Gozo under the EU co-funded Malta Enterprise Call for Tenders for a Digital Hub in Malta.

This Government is fully committed to continue promoting the potential of Gozo as a prime tourist location. Efforts have been increased to regenerate the Cittadella. Tenders for the restoration of Cittadella, including the facade of the present Law Courts, the Governor' Palace, the Old Prison, and the Arched Walkway among others have all been issued. The tourism industry has also been supported through Travel to Gozo Scheme, whereby commuters are offered special prices during specific weekends.

Government is committed to create the right environment for the creation of productive employment opportunities in Gozo. Private employment is fundamental for this aim. Malta Enterprise has announced incentives where Gozitan based enterprises can benefit from tax credits for a maximum of €50,000 over any period of three consecutive years.

The drive to create employment opportunities for Gozitans in Gozo has also been sustained by the reallocation of back office duties to Gozo, among them the migration of salaries section pertaining to MFSS, the migration of VAT returns, and that of the eResidence Unit. The National Office of Statistics also opened a new section based in Gozo for the compiling of Gozo related data and indicators.

The Government commitment to improve the provision of education services in Gozo has also resulted in the construction of a new MCAST campus. Once completed, it will enable the provision of a more comprehensive and diverse range of courses.

05.7

Promoting Social Inclusion

A building of a society based on solidarity and social inclusion is one of this Government's main aims. It is only by providing the right environment that the potential of the various segments of our society can be unleashed. To make this possible, the empowerment of disadvantaged members of our society and access of opportunities is a fundamental part of Government strategy.

Poverty reduction has been high on the agenda. Government has launched a series of initiatives, chief among them the Green Paper for Poverty Reduction and for Social Inclusion.

Efforts to continue creating the the right level of protection to young members of our society has been increased. The necessary services and support provided to children under Care Order were extended to all children in Out-of-Home Care, irrespective of their legal status. Combating child poverty is one of the linchpins of Government's poverty strategy. A new measure whereby single parents who are on social assistance and who choose to enhance their employability prospects by undergoing intensive training or full-time education, was also introduced.

In addition, Government will be embarking on a programme of support to youths through the measure Residential Home for Youth so that they will not only be provided with temporary residential homes, but also with a permanent residential home.

Government continued to sustain the elderly persons' ability to live as independently as possible, either in their own home or in accommodation with carers on site. Concurrently, the Government has extended the coverage of the Home Help Service Scheme. Schemes to support home adaptation works were also implemented. These included schemes for persons with disability, providing financial aid and technical assistance to persons with disability to carry out the necessary adaptations to their place of residence.

05.8
Conclusion

We are committed to create a social and economic environment which is conductive to economic growth. Stability and a high level of certainty are prerequisite for this aim. Government measures undertaken during the last year and a half ensured that these were attainted.

The Government also delivered on its promise to rein in the deficit below 3 per cent and gradually reduce the debt ratio below 60 per cent. Several institutional reforms were undertaken, chiefly among them those in the energy sector.

A growth enhancing strategy was also sustained through various initiatives that encourage work effort. Government is also committed to strike the right balance between social protection that promote an equitable and inclusive society, and the enhancement of incentives to work.

The Government is aware that while the welfare state fulfils a number of important functions, namely, insurance, consumption smoothing and poverty relief it may also give rise to unintended consequences such as dependency and passivity.

Thus, this Government is committed to put in place the right initiatives which will ensure that individuals face clear incentives to work and contribute to society and encourage them to steer away from passive inactivity.

In other words, the welfare state will create opportunities and not dependencies. This will not only ensure the sustainability of the system but will be a tool for further economic growth.

We are confident that all this is achievable. It will be achievable if there is commitment from all to put in place the necessary incentives for the creation of a society that empowers and encourages the individual to work and succeed.