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Malta Budget 2011 Highlights

The Performance of the Maltese Economy - 2010 at a Glance

The performance of the Maltese economy registered a marked improvement across most areas during 2010, following the negative performance of 2009.

Economic Growth

4%
GDP growth

The gross domestic product grew by 4% in real terms in the first six months of 2010 when compared to the first six months of 2009. In the first half of 2009 the Maltese economy had experienced a contraction of 3.2%. The growth this year was mainly driven by exports, which registered an increase of 25.9% in real terms. Household consumption increased by 0.9% in real terms, investment increased by 3.0%, while government expenditure increased by 0.5%. Nominal GDP growth for the whole of 2010 is forecasted at 6.7%.

Inflation

0.8%
inflation rate

The annual inflation rate for the twelve months ending in September 2010 was 0.8%.

Foreign Trade

Exports increased in the first eight months of 2010 by 353.7 million Euros to reach 1,419.1 million Euros. Imports increased to 2,275.5 million Euros. As a result the trade gap narrowed to 856.4 million Euros from 1,035.7 million Euros a year earlier.

A collaboration between



Balance of Payments

The deficit on the current account of the balance of payments decreased from 75.2 million Euros to 51.4 million Euros in the first six months of this year.

Labour Market

4.4%
unemployment

The number of persons in full-time employment increased by 0.2% in June of this year compared to June 2009, while part-time employment as a primary job increased by 6.1%. The rate of unemployment decreased to 4.4% in June 2010 from 4.8% a year earlier.

Tourism

During the period January – August 2010, tourist departures increased by 12.1% over the same period in 2009. As a consequence gross foreign exchange earnings registered an increase of 15.6% during the first half of 2010.

Monetary Developments

Resident deposits increased to just over eight billion Euros in August 2010.

Investment

Private investment increased by 9.8% in the first half of this year when compared to the same period in 2009.

Public Finance

3.5%
deficit-to-GDP

During the first nine months of this year, the deficit between government's recurrent revenue and total expenditure stood at 299.8 million Euros, compared to 333.9 million Euros for the corresponding period in 2009, mainly as a result of an increase in revenues. The deficit-to-GDP ratio for the period January – June 2010 declined by 0.9 percentage points to 3.5% of GDP when compared to the corresponding period in 2009.

Budget 2011 Overview

In the Budget Speech delivered in Parliament by the Minister of Finance, the Economy and Investments, Tonio Fenech, highlighted the strategic economic and financial priority areas for the coming year. Government shall be working on achieving economic growth while reducing the public sector deficit to below 3% and investing further in education, health, job creation, the environment and the social welfare system.

He proposed a total expenditure of 2.9 billion Euros, of which 340 million Euros will be invested in education and training, 378 million Euros in

health, 858 million in pensions and social welfare, and 440 million in capital projects.

Government revenue is expected to reach 2,791 million Euros, recurrent expenditure is expected to reach 2,547 million Euros, while capital expenditure is expected to reach 440 million Euros. The deficit is estimated to reach 195 million Euros by the end of 2011. The deficit-to-GDP ratio is expected to be 2.8% at the end of end of next year.

In an effort to strengthen public finances the following initiatives shall be launched within the public sector:

- Government departments and public entities are expected to increase their efficiency levels by at least 2% and have been asked to submit plans in this regard by 15 December this year;
- Efforts will be enhanced to combat tax evasion and benefit fraud;
- A policy of natural wastage in the headcount whereby, whenever possible, only one person will be employed for every two that resign or retire;
- A review of the purchasing processes;
- A review of the way transport is managed;
- An audit of the system of free medicines.

The initiatives supporting economic activity include:

- One million Euros will be spent to support companies in their exporting activities;
- 250,000 Euros will be spent to increase the need for quality awareness;
- A tax rebate of 150% up to a maximum of 10,000 Euros, will be given to companies who invest in product and service improvements;
- The development of a Micro Business Park in Gozo that will accommodate 39 companies, for an expenditure of 8 million Euros;
- The development of the Hutment Area in Corradino that will accommodate 66 unit, for an expenditure of 10 million Euros;
- Improvements at the industrial estates of Bulebel, Xewkija Hal Far and Corradino for an expenditure of 16 million Euros;
- An expenditure of 800,000 Euros on training of public sector employees to strengthen a pro-business culture.

Government shall also be spending 35 million Euros on the tourism sector, with 10 million Euros to be spent as assistance to operators to enhance their product and 11 million Euros being spent in the construction of gardens in Pembroke and an Aquarium in Bugibba. Another 6.5 million Euros will be spent in tourist zones and a further 3 million Euros in the training of persons working in the sector. Expenditure on heritage sites will reach 14 million Euros over three years.

Expenditure on road construction will be 41 million Euros, mainly on arterial roads in Mellieha, Luqa, Marsa and Gozo.

In the maritime sector, 10.6 million Euros will be spent to enhance facilities for cruise liners in Valletta and Senglea, for the construction of a lift from the Grand Harbour to Valletta, on works in the Deep Water Quay and works on the breakwater at the entrance of the Grand Harbour.

Expenditure in education will reach 330 million Euros, with the building of new child centres, the introduction of e-learning facilities and further investment in the Colleges. Expenditure on church schools will reach 43.2 million Euros. The subvention to the University of Malta will increase by 3.5 million Euros.

Just over a million Euros shall be spent on the creative arts, a sector that contributes 4.4% to the gross domestic product.

Budget initiatives in the area of social welfare include an increase in supplementary help for families amounting to 800,000 Euros and an expenditure of 400,000 Euros to provide alternative arrangements for children that cannot go into fostering or existing residential homes.

The tax measures announced by the Minister of Finance in the Budget are limited to an increase in the excise tax for cigarettes by 3%, an increase in the excise tax for tobacco by 4% and an increase in the excise tax for spirits by 13%. VAT on tourist accommodation shall increase by 2 percentage points.

The other fiscal and financial measures

- A weekly wage increase of €1.16 to compensate for the increase in the cost of living with full compensation applicable also for pensioners.
- Further sustaining of schemes currently offered by the Employment Training Corporation (ETC) including Training Aid Framework, Employment Aid Programme, Apprenticeship Scheme and Work Trial Scheme.
- Allowance of €25 per week for individuals who earn minimum wage and enrol themselves for a special training scheme to be offered by ETC (details to be announced).
- Part of the income from part-time work earned by women whom their spouses benefit from a form of social benefit, would not be taken into account in the means test applicable to determine the level of social benefits receivable by that family. The exempt portion will be the result of the difference between the minimum weekly wage and the full rate of social benefit applicable in the case of a couple.
- Option for self-employed women to select a pro-rata rate of 15% national insurance contributions in lieu of the current minimum rate of €26.37 per week.

- Government's participation in the EU Fund "Eurostarts" to enable local small and medium-sized enterprises engage into joint projects with foreign EU companies in the research and development sector.
- Extension of 7 days to the filing due date of the VAT return if this is filed through the VAT Department's on-line service facilities.
- Persons, whose turnover does not exceed €7,000 per annum, would not be required to register for VAT.
- Set-up of fund for Entrepreneurial Training to be managed by the educational Colleges for the financing of education programmes related to finance.
- Centralisation of common surveying by Government Departments to avoid local enterprises providing the same data more than once to different departments.
- Soft loan schemes for hotel and restaurant establishments to encourage investment in cleaner technologies.
- Rebate of 15.25% of the value of the new motor vehicle (up to a maximum of €2,000) if the old vehicle is scrapped. If the old vehicle is not scrapped, the benefit entitlement would amount only to 7.625%. Scheme effective from 15th November 2010 for one year.
- Registration tax attributable to carbon dioxide portion for hybrid motor vehicles will decrease from 30% to 20%.
- Persons investing in electric vehicle would be eligible for the "Grid-connected renewable energy sources subsidy" with a maximum of €5,000. Companies investing in electric vehicles would earn a tax rebate of 125% of the value of the vehicle. These schemes are being offered in addition to the scrap benefit listed above.
- Annual motor vehicle license for electric motor vehicles will decrease from €75 to €10.
- Grants on training to incentivise technical personnel providing maintenance service on electric vehicles.
- Introduction of depreciation element (made up of age and mileage) in the registration tax formula of commercial motor vehicles.
- Increase in excise tax of €0.03 per litre on all fuels with immediate effect.
- Removal of excise tax exemptions on mineral oils to encourage the consumption of renewable fuel such as biodiesel.
- Increase in income tax rebate for parents sending their children to private schools to €1,200 for primary/kindergarten schools and €1,600 for secondary schools.
- Refund of 15.2% of qualifying expenditure relating to new school buildings by private school entities.

- Proposed funding for collaboration between Government, employers and tertiary education institutions to financially assist promising sport athletes in their sports training.
- Grants of 15.25% of the value of new sports equipment acquired by non-profit making sports organisations recognised by the Malta Sports Council.
- Refund scheme of 15.25% (with a maximum of €150) on purchases of new bicycles.
- Removal of 6.5% registration tax for motor sport vehicles wholly and exclusively used on racing tracks or other authorised areas by Transport Malta.
- Grants in total amounting to €250,000 in assistance to local sports organisations utilised in the attraction of sports tourism in Malta.
- The introduction of a scheme whereby credits of €15 are given to students at secondary level for artistic, cultural and historical activities.
- Exemption for families with more than one disabled person when purchasing one wheelchair accessible vehicle. Exemption is also extended to families with one disabled person when purchasing the second wheelchair accessible vehicle.
- Removal of license payable on wheelchair accessible vehicles.
- Increase in excise tax on beer by less than €0.01 per 25cl bottle.
- Introduction of excise tax of €9 per tonne on construction cement.
- Full-time farmers will benefit from a reduction in their payment of Social Security Contributions from 15% to 12%.

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