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EUROPEAN
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Brussels, 18.11.2020
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COMMISSION STAFF WORKING DOCUMENT

Analysis of the Draft Budgetary Plan of Malta

Accompanying the document

COMMISSION OPINION

on the Draft Budgetary Plan of Malta

{C(2020) 8514 final}

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EXECUTIVE SUMMARY

- The Draft Budgetary Plan projects the Maltese economy to contract sharply in 2020 by 7.4 % before rebounding by 5 % in 2021. The Commission 2020 autumn forecast projects only marginally lower contraction in 2020 at 7.3 %, while the recovery in 2021 is expected to be shallower with economy growing at 3%.
- The Draft Budgetary Plan expects general government deficit reaching 9.4 % of GDP in 2020. In 2021, the deficit is projected to decrease to 5.9 % of GDP. The Commission 2020 autumn forecasts projects an identical deficit in 2020, and a less pronounced improvement in 2021, putting the deficit at 6.3 % of GDP. On 20 May 2020, the Commission has therefore prepared a report under Article 126(3) TFEU analysing whether Malta was compliant with the deficit criterion of the Treaty. Overall, the analysis suggested that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 was not fulfilled. In the context of the activation of the General Escape Clause, and in light of the exceptional uncertainty, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.
- The macroeconomic and fiscal outlook continue to be affected by high uncertainty due to the COVID-19 pandemic. To address its negative impact, the government adopted measures amounting to 5.8 % of GDP in 2020. They include the wage supplement scheme to sustain employment, assistance to the healthcare sector to ensure necessary capacity, a voucher scheme to support domestic demand, and direct subsidies covering rental and utility costs to most affected sectors. Liquidity constraints were alleviated through a loan guarantee scheme and tax deferrals.
- In 2021, the Draft Budgetary Plan does not present any new major measures to address the pandemic but rather builds on the existing ones. The wage supplement scheme was extended and a new round of the voucher scheme is planned. Liquidity will continue to be supported by the guarantee scheme and interest rate subsidies. In addition, the government envisages measures to support families and pensioners. The retained and new measures amount to some 2.2 % of GDP. Although not classified as discretionary measures, the government also plans to continue improving physical infrastructure.
- Public debt-to-GDP ratio is projected to increase in both the Draft Budgetary Plan and the Commission 2020 autumn forecast, putting a halt to the downward trend observed since 2012. The Draft Budgetary Plan expects the government debt to reach 55 % of GDP in 2020 and 58.6 % of GDP in 2021. Under the Commission 2020 autumn forecast, the debt-to-GDP ratio would increase to 55.2 % in 2020 and further to 60 % in 2021.
- Most measures set out in the Draft Budgetary Plan of Malta are supporting economic activity against the background of considerable uncertainty. At the same time, it will be useful to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

1. INTRODUCTION

This document assesses the economic and budgetary projections contained in the 2021 Draft Budgetary Plan of Malta (hereafter called the Plan), which was submitted on 15 October 2020 in compliance with Regulation (EU) No 473/2013.

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact and on 23 March 2020 the Ministers of Finance of the EU Member States agreed with the Commission assessment. The clause facilitates the coordination of budgetary policies in times of severe economic downturn. As indicated in the Annual Sustainable Growth Strategy 2021[1] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[2], the activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, which should continue to provide targeted and temporary fiscal support in 2021, provided that this does not endanger fiscal sustainability in the medium term. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

Public finances in 2021 are also expected to be influenced by the proposed establishment of the Recovery and Resilience Facility (RRF), alongside the proposal for the reinforced long-term budget of the EU for 2021-2027. RRF is envisaged to provide a total envelope of EUR 672.5 billion in loans and non-repayable financial support (grants) to support the implementation of investments and reforms in the EU Member States. The 2021 Draft Budgetary Plan of Malta does not take into account the implementation of the reforms and investments, and their associated costs, envisaged under the RRF.

On 20 May 2020, the Commission has prepared a report under Article 126(3) TFEU analysing whether Malta was compliant with the deficit criterion of the Treaty. Overall, the analysis suggested that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 was not fulfilled. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

The Maltese government has introduced, in several phases, numerous measures to counter negative impacts of COVID-19 outbreak. Nevertheless, the pandemic is taking a toll on the economy. In the first half of 2020 partial lockdown measures in Malta depressed private consumption while investment plunged in reaction to uncertainty surrounding the economic outlook. Lockdown measures of Malta's trading partners and closure of the Valletta airport

[1] Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

[2] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2021_en

halted tourism sector for several months, slashing exports of tourism services. As a result, after growing by almost 5 % in 2019, the Draft Budgetary Plan (DBP) projects GDP to plummet by 7.4% in 2020 – a 2 percentage point downward revision compared to the 2020 Stability Programme. In 2021, the Draft Budgetary Plan projects a partial rebound. GDP is expected to grow by 5 %. The macroeconomic and fiscal outlook continue to be affected by high uncertainty due to the COVID-19 pandemic.

The main impulse to the economy in 2020 is expected to come from public consumption, which is expected to grow by close to 19 %, reflecting support measures and health-related outlays. Other parts of the economy are not expected to recover losses from the first half of the year. Employment is set to decline, but the increase in the unemployment rate is expected to be limited thanks to the government's short-time working scheme and a decline in the labour supply as foreign workers leave Malta. In 2021, both domestic and external side are projected to contribute positively to growth. Private consumption is set to rebound on back of improving employment outlook and accelerating wage growth. Investment growth would be supported by several large-scale investment projects in transport and aviation. Public consumption is projected to fall mainly due to a substantial base effect. Lifting of COVID-19-related restrictions by Malta's trading partners is expected to support exports while accelerating investment activity will lead to a growth of imports.

Table 1. Comparison of macroeconomic developments and forecasts

	2019	2020			2021		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	4.9	-5.4	-7.4	-7.3	3.9	5.0	3.0
Private consumption (% change)	5.2	-0.8	-6.0	-9.8	1.8	3.7	4.2
Gross fixed capital formation (% change)	8.8	-4.0	-6.3	-10.1	8.6	7.5	8.0
Exports of goods and services (% change)	6.1	-12.1	-10.5	-10.4	6.8	5.5	2.3
Imports of goods and services (% change)	7.9	-8.0	-6.4	-8.4	5.6	4.5	2.4
Contributions to real GDP growth:							
- Final domestic demand	6.1	1.8	-1.1	-3.6	1.8	3.3	3.5
- Change in inventories	0.0	0.0	0.4	0.3	0.0	0.0	-0.5
- Net exports	-1.3	-7.2	-6.7	-4.1	2.1	1.7	0.0
Output gap[1]	4.5	-4.5	-5.6	-5.3	-3.8	-3.4	-5.4
Employment (% change)	5.8	-3.3	-0.7	-0.8	3.2	2.3	1.9
Unemployment rate (%)	3.6	5.9	4.8	5.1	3.7	4.0	4.7
Labour productivity (% change)	-0.8	-2.2	-8.1	-6.6	0.7	2.6	1.1
HICP inflation (%)	1.5	1.0	0.9	0.8	1.4	1.3	1.3
GDP deflator (% change)	2.2	1.8	1.1	0.6	2.0	1.4	1.5
Comp. of employees (per head, % change)	2.8	1.6	0.8	1.0	2.8	2.3	2.0
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	5.2	1.8	-5.2	1.5	4.0	-4.4	1.1

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

The projections underpinning the Draft Budgetary Plan are largely in line with the 2020 Commission 2020 autumn forecast, which projects Malta's GDP to contract by 7.3 % in 2020 and to expand somewhat less briskly by 3 % in 2021. According to the Commission's forecast the negative contribution from domestic and external side in 2020 would be more balanced as the fall in private consumption and investment would be larger, translating into much weaker imports. In 2021, the Commission's forecast expects growth to be driven by the domestic demand as exports' recovery remains rather shallow.

The macroeconomic projections underlying the Draft Budgetary Plan have been endorsed by the Malta Fiscal Advisory Council, an independent fiscal body. The endorsement took the form of a letter addressed to the Minister of Finance published on the Malta Fiscal Advisory Council's website.[3] It concludes that the macroeconomic forecast for 2020 and 2021 prepared by the Ministry for Finance 'lies within its endorsable range'.

3. Recent and planned fiscal developments

On 20 July 2020 the Council addressed recommendations to Malta in the context of the European Semester. In the area of public finances *and in line with the general escape clause*, the Council recommended Malta to take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery, when economic conditions allow, Malta should pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

3.1. Deficit developments

The Draft Budgetary Plan estimates the headline deficit to reach 9.4 % of GDP in 2020. This is worse compared to the expected headline deficit of 7.5 % of GDP in the 2020 Stability Programme. The revision comes exclusively from the revenue side, where weaker consumption and yields from income taxes reflect a more negative economic outlook. In addition, the expected intake of the Malta's passport scheme for foreigners was also revised downwards. Expenditures are expected to decline somewhat compared to the 2020 Stability Programme as the additional fiscal measures adopted by the government to contain the economic effects of the lockdown are outweighed by lower interest payments and capital spending.

The Commission 2020 autumn forecast projects the same deficit of 9.4 % of GDP against a similar economic outlook. Nevertheless, revenue and expenditure ratios are higher in the Commission forecast due to a lower projected GDP deflator, which explains about a half of the difference in fiscal ratios compared to the Draft Budgetary Plan. The remaining small differences in the revenue-to-GDP ratio are explained by discrepancies in the macroeconomic assumptions on private consumption and compensation of employees, which translate in varying projection of consumption and income taxes.

In 2021, the Draft Budgetary Plan targets a general government deficit of 5.9 % of GDP, an upward revision compared to the deficit of 3.6 % of GDP presented in the 2020 Stability Programme. The Draft Budgetary Plan does not assume revenues from and expenditures under the Recovery and Resilience Facility. Compared to the 2020 Stability Programme, the revenue-to-GDP ratio is expected to remain broadly stable although with a different composition. The deficit revision is hence almost fully due to the projected higher spending linked to the extension of some of the COVID-19 measures.

The projected fiscal improvement in 2021 is driven by the gradual economic recovery translating mainly into growing revenues from indirect taxes thanks to upswing in private consumption. Phasing out of the temporary mesures adopted to contain negative impacts of

[3] Publication available at: https://mfac.org.mt/publications/reports/reports-2020/

the pandemic will dampen primary expenditure, while capital outlays are projected to accelerate.

The Commission 2020 autumn forecast projects for 2021 a higher headline deficit of 6.3 % of GDP. Higher fiscal ratios in the Commission forecast are largely explained by the projected lower nominal GDP. The discrepancy between the two forecasts is driven mainly by the revenue side. While the Commission assumes somewhat higher revenues from indirect taxes due to a projected stronger rebound in private consumption, this is more than outweighed by weaker income taxes given expected overall slower economic recovery. On the expenditure side, the Commission forecast mirrors the budgeted amounts.

Table 2. Composition of the budgetary adjustment

(% of GDP)	2019		2020			2021			Change: 2019-2021
	COM	DBP	SP	DBP	COM	SP	DBP	COM	DBP
Revenue	**37.7**	**37.7**	**39.2**	***37.7***	**38.1**	**38.8**	***39.0***	**39.6**	**1.3**
of which:									
- Taxes on production and imports	12.0	12.0	11.5	*11.3*	11.2	11.8	*12.5*	12.8	0.5
- Current taxes on income, wealth,	13.6	13.6	14.3	*13.7*	14.0	14.3	*13.9*	14.0	0.3
- Capital taxes	0.2	0.2	0.1	*0.2*	0.2	0.1	*0.2*	0.2	0.0
- Social contributions	6.0	6.0	6.3	*6.3*	6.4	6.1	*6.1*	6.3	0.1
- Other (residual)	5.9	5.9	7.0	*6.2*	6.2	6.5	*6.3*	6.3	0.4
Expenditure	**37.2**	**37.2**	**46.7**	**47.1**	**47.5**	**42.4**	**44.9**	**45.9**	**7.7**
of which:									
- Primary expenditure	35.9	35.9	45.3	46.1	46.5	41.0	43.7	44.7	7.8
of which:									
Compensation of employees	11.0	11.0	12.4	12.6	12.7	12.0	12.5	12.8	1.5
Intermediate consumption	7.2	7.2	9.5	9.8	9.8	9.0	9.1	9.4	1.9
Social payments	9.2	9.2	10.8	10.9	11.0	10.3	10.4	10.7	1.2
Subsidies	1.5	1.5	3.9	5.0	5.1	1.5	3.0	3.1	1.5
Gross fixed capital formation	3.9	3.9	5.3	4.8	4.9	4.9	5.1	5.1	1.2
Other (residual)	3.0	3.0	3.4	3.0	2.9	3.3	3.6	3.6	0.6
- Interest expenditure	1.4	1.4	1.4	1.0	1.1	1.4	1.2	1.2	-0.2
General government balance (GGB)	**0.5**	**0.5**	**-7.5**	**-9.4**	**-9.4**	**-3.6**	**-5.9**	**-6.3**	**-6.4**
Primary balance	**1.9**	**1.9**	**-6.1**	**-8.4**	**-8.4**	**-2.2**	**-4.8**	**-5.1**	**-6.7**
One-off and other temporary measures	0.0	0.0	0.1	0.1	0.0	0.1	0.1	0.0	0.1
GGB excl. one-offs	**0.5**	**0.5**	**-7.6**	**-9.5**	**-9.5**	**-3.7**	**-6.0**	**-6.3**	**-6.5**
Output gap[1]	4.5	4.6	-4.5	-5.6	-5.3	-3.8	-3.8	-5.4	-8.5
Cyclically-adjusted balance[1]	-1.7	-1.7	-5.4	-6.7	-6.9	-1.8	-4.1	-3.7	-2.5
Structural balance (SB)[2]	**-1.7**	**-1.7**	**-5.5**	**-6.8**	**-6.9**	**-1.9**	**-4.2**	**-3.7**	**-2.5**
Structural primary balance[2]	-0.3	-0.4	-4.1	-5.8	-5.8	-0.5	-3.0	-2.5	-2.7

Notes:

[1] Output gap (in % of potential GDP) and cyclically-adjusted balance according to the DBP/Programme as recalculated by Commission on the basis of the DBP/Programme scenario using the commonly agreed methodology.

[2] Structural (primary) balance corresponds to cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

Risks related to the fiscal targets appear more on the positive side as the evolution of the deficit in 2021 could turn out more favourable as a result of the higher growth from the implementation of measures financed by the Recovery and Resilience Facility, which the Draft Budgetary Plan does not include in the macroeconomic projections.

Based on the government plans, the recalculated structural balance[4] is projected to decline by 2.7 percentage points between 2020 and 2021. The Commission forecast suggests an improvement of over 3 percentage points. The difference between the two estimates is mostly explained by different assumption of the cyclical position and to a smaller extent by the differences of estimates of nominal balance. However, a mechanical reading of traditional indicators is not well suited at the current juncture to assessing the fiscal stance. The introduction and subsequent withdrawal of sizeable temporary emergency measures distort the picture, as the corresponding changes in the level of public spending from one year to the next affect the indicators used to assess the fiscal stance.[5] Excluding the temporary emergency measures from the calculation of the fiscal stance indicators provides a more representative assessment of the underlying fiscal support to economic activity.[6]

3.2. Debt developments

Based on the Draft Budgetary Plan, in 2020 the general government debt-to-GDP ratio is projected to revert from the previous downward trend and surge by 12.4 percentage points to 55 % of GDP. The primary balance and contracting GDP will be the main drivers of this rise. In 2021, ongoing primary deficit will push up public debt further to 58.6 % of GDP. An additional contribution will come from the stock-flow adjustment. Renewed GDP growth will, on the other hand, prevent an even larger rise of the debt-to-GDP ratio. The debt projections are higher compared to the 2020 Stability Programme, which is explained mainly by higher primary deficits.

The Commission 2020 autumn forest projects almost identical public debt-to-GDP ratio in 2020. However, debt is projected to reach 60 % of GDP in 2021. The difference stems mainly from the slower GDP growth and to a smaller extent from different projection of the primary deficit. In addition, the Commission forecast assumes the 10 % pre-financing of Recovery and Resilience Facility grants[7] amounting to some EUR 20 million as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact, which translates into a somewhat lower stock-flow adjustment.

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4 Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology. The estimates of the structural budget balance are affected by high uncertainty due to the economic consequences of the COVID-19 pandemic.

5 COVID-19 related emergency measures are not considered one-offs, although most of them have been introduced for a temporary period in order to complement automatic stabilisers.

6 This is no denial that the emergency measures are essential to preserve the health sector and keep households and businesses afloat, with a further positive impact on the economy. However, they are likely to be less efficient to support the recovery when the health-related emergency gradually vanes. Indeed, because of their very nature, the short-term multipliers of temporary emergency measures are likely to be low in the context of restrictions in economic activity, as confirmed by the sharp rise in the private sector’s propensity to save (rather than consume) in 2020.

7 The amount of the pre-financing is still under negotiation, but the draft Regulation quantifies the grants’ pre-financing at 10% of the legal commitment in 2021, which can be assumed to be 10% of the first envelope for grants (70% of the total Recovery and Resilience Facility allocation).

Table 3. Debt developments

(% of GDP)	2019	2020			2021		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**42.6**	**54.5**	**55.0**	**55.2**	**55.5**	**58.6**	**60.0**
Change in the ratio	-2.6	11.9	12.4	12.6	1.0	3.6	4.8
Contributions[2]:							
1. Primary balance	**-1.9**	**6.1**	**8.4**	**8.4**	**2.2**	**4.8**	**5.1**
2. "Snow-ball" effect	**-1.6**	**2.9**	**3.8**	**4.2**	**-1.6**	**-2.1**	**-1.2**
Of which:							
Interest expenditure	1.4	1.4	1.0	1.1	1.4	1.2	1.2
Real growth effect	-2.1	2.4	3.4	3.4	-2.0	-2.6	-1.6
Inflation effect	-0.9	-0.8	-0.5	-0.3	-1.0	-0.7	-0.8
3. Stock-flow adjustment	**1.0**	**2.8**	**0.1**	**0.1**	**0.4**	**1.0**	**0.9**
Of which:							
Cash/accruals difference		0.0	0.0		0.0	0.0	
Net accumulation of financial		0.0	0.0		0.0	0.0	
of which privatisation proceeds		0.0	0.0		0.0	0.0	
Valuation effect & residual		0.0	0.0		0.0	0.0	

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

4. MEASURES UNDERPINNING THE DRAFT BUDGETARY PLAN

The Draft Budgetary Plan focuses on the policy response undertaken in the context of the COVID-19 outbreak in 2020 and the measures planned to sustain the recovery in 2021. Supportive fiscal measures should be tailored to the specific situation of each Member State, but as a rule, they should be well targeted and temporary. Their use and effectiveness should be regularly reviewed by the national authorities. Depending on the development of the pandemic, emergency fiscal measures should be adjusted and combined with other measures that improve economic fundamentals, support the green and digital transition and have a positive impact on demand.

4.1. Measures in 2020

The Maltese government has adopted a broad range of temporary measures to contain the negative impacts of the COVID-19 pandemic, focusing on increasing capacity in the healthcare system and supporting employment as well as on sectors affected by the crisis. According to the Draft Budgetary Plan, these measures amount to 5.8 % of GDP in 2020 and are concentrated on the expenditure side (5.4 % of GDP). Among the most important ones are wage supplement to sustain employment; financing of various medical supplies and equipment to strengthen the resilience of the healthcare system, a voucher scheme to support domestic demand and measures providing a direct support to most affected businesses, such as rent and utility subsidies. Concerning revenue-side measures, reduction of transaction taxes on immovable property is expected to help rebound in the real estate market.

In addition, Malta adopted measures without an immediate fiscal impact to alleviate liquidity constraints of corporate sector. Tax deferrals are estimated to reach some 1.5 % of GDP while the COVID-19 guarantee scheme serviced by Malta Development Bank amounts to 2.8 % of GDP. According to the Draft Budgetary Plan, at the end of August 2020 the take-up of this guarantee scheme reached some 0.4 % of GDP.

Overall, the measures taken by Malta in 2020 were in line with the guidelines of the Commission Communication of 30 March 2020 on a coordinated economic response to the COVID-19 outbreak.

4.2. Measures in 2021

For 2021, the Draft Budgetary Plan does not present any major new measures to sustain the recovery but rather builds on already existing ones extending their duration and continues with further social-oriented measures. The retained and new measures amounting to some 2.2% of GDP are concentrated on the expenditure side (1.9% of GDP).

Some of the most important COVID-19 measures were extended until the end of March 2021. The wage supplement scheme will continue supporting employment although it will be reviewed to become more targeted. A new round of the vouchers worth EUR 100 will be distributed to each person older than 16 years. In addition, the reduction of transaction taxes on immovable property will require that only the promise of sale is signed by the end of March 2021, while the final contract may be concluded by the end of the year. The property market will be supported also by a series of other measures that make it cheaper to buy (e.g. a higher ceiling for tax-free property value) or transfer property (e.g. higher duty-free portion on the donation of property by parents to their children).

In the social area, the 2021 budget envisages a number of initiatives targeting pensioners of a permanent nature including (i) an increase of pensions above the Cost of Living Adjustment index, (ii) an increase of the subsidy for elderly who have a carer at home, and (iii) reduction of eligibility age from 75 to 70 years for free transport. An increase in income tax exemption relating to the third pension pillar and voluntary occupational pension schemes is expected to strengthen private pension savings. Family-oriented measures include a newly introduced children’s allowance supplement and EUR 1000 adoption grant, and a foster care allowance.

Although the Draft Budgetary Plan does not single out among the discretionary measures specific investments, the budget envisages a more permanent increase in investment by allocating EUR 450 million over 7 years to change Malta’s industrial infrastructure and create spaces for new offices for businesses. In addition, some EUR 11 million expenditure over a 3-year period on new sports facilities was also announced. Moreover, the government plans further investments in the island’s infrastructure including maritime projects, modernisation of health centres and modernisation of schools.

The Draft Budgetary Plan states intention to incentivise the circular economy and plans to transform Malta into a resource-efficient economy in line with the European Green Deal.

Government guarantees are expected to continue ease liquidity constraints of businesses as the ceiling of allocated government resources has not yet been reached given a relatively low take-up so far. The interest rate subsidy envisaged to last for two years will also provide further liquidity support.

The measures presented in the Draft Budgetary Plan are fully reflected also in the Commission 2020 autumn forecast. In line with its no-policy change assumption, in 2021 the

Commission forecast includes no expenditure related to the Recovery and Resilience Facility, as the corresponding measures were not sufficiently specified at the cut-off date of the forecast.[8] Social measures, especially pension increases and additional support for families, and tax incentives for private pensions amounting to some 0.1 % of GDP are considered to be of a permanent nature.

Overall, based on the information presented in the Draft Budgetary Plan and taking into account the Commission 2020 autumn forecast, the measures planned by Malta in 2021 are supporting economic activity against the background of considerable uncertainty. The measures set out in the Draft Budgetary Plan are mostly temporary.

At the same time, it would be useful to regularly review the effectiveness of the support measures and stand ready to adapt them as necessary to changing circumstances.

It is anticipated that Malta will submit its Recovery and Resilience Plan in 2021. The Regulation establishing a Recovery and Resilience Facility will set out how the Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament.

Table 4.1.a. Main discretionary measures adopted/announced with budgetary impact reported in the Draft Budgetary Plan

List of measures	Description	ESA Code (Expenditure / Revenue component)	Adoption Status	Budgetary impact (% of GDP - change from previous year - positive sign for deficit-increasing measures)		
					2020	2021
1	COVID-19: Reduced tax on the transfer of immovable property	D.2, D.5	Adopted		0.33	-0.17
2	COVID-19: Reduced excise duty rate on petroleum products	D.2	Adopted		0.06	-0.05
3	Reduced rate of stamp duty for business transfer	D.2	Adopted		0.00	0.06
4	COVID-19: Reimbursement of	D.5	Adopted		0.04	-0.04

[8] Given the limited information on the use of Recovery and Resilience Facility (RRF), the approach to its incorporation in the 2020 autumn forecast is based on technical assumptions, following to the extent possible the customary no policy-change assumption that the Commission uses in its forecast. The approach is explained in detail in Box I.4.3 of the European Commission's Economic Forecast Autumn 2020 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en.pdf). The forecast only incorporates those measures that are credibly announced and sufficiently detailed in the Draft Budgetary Plans, irrespective of whether they are planned to be part of the (forthcoming) draft Recovery and Resilience Plans. Thus, in principle only measures planned for 2021 were included. No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing of RRF grants is included in the forecast for 2021. The assumptions on expenditure measures linked to the RRF in the Commission forecast are without prejudice to the assessment of the Recovery and Resilience Plans.

	commercial licences					
5	Fiscal incentives for private pensions	D.5	Adopted		0.00	0.03
6	Revenue from the Individual Investor Programme		Adopted		0.38	-0.01
7	Fixed rate on overtime	D.5	Adopted		0.03	0.00
8	COVID-19: Various medical supplies and equipment	P.2, P51	Adopted		0.88	-0.80
9	COVID-19: Cargo Transportation and Repatriation	P.2	Adopted		0.40	-0.37
10	COVID-19: Malta Enterprise - Sustainable Enterprise Schemes	D.3	Adopted		2.94	-1.86
11	COVID-19: Economic Regeneration Voucher Scheme	D.3	Adopted		0.40	0.00
12	COVID-19: Short-term benefits	D.6	Adopted		0.14	-0.13
13	COVID-19: Government-guaranteed loans schemes	D.3			0.00	0.09
14	COVID-19: Other pandemic-related measures		Adopted		0.34	-0.23
15	Measures to address housing affordability, pension adequacy and the integration of vulnerable individuals in society, cash payments by government to households	D.6	Adopted		0.31	0.20
16	Other expenditure measures, including measures legislated in previous budgets and projects financed from the National Development and Social Fund	D.9	Adopted		0.20	-0.02
				Total	6.44	-3.31

Table 4.1.b. Guarantees adopted/announced in response to COVID-19 outbreak

List of measures	Description	Adoption Status	Maximum amount of contingent liability* (% of GDP)		Current take-up (actual contingent liability, % of GDP)
Malta Development Bank 'COVID-19 Guarantee scheme'	This scheme provides guarantees to commercial banks in order to enhance access to bank financing for the working capital requirements of businesses in Malta facing a sudden acute liquidity shortage as result of the COVID-19 outbreak	Adopted		**2.8**	**0.4**
			Total	**2.8**	

* Any budgetary impact related to expected losses or actual calls should be provided in the standard table **5.1 Description of discretionary measures included in the draft budget** *(see Code of Conduct,* https://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/2014-11-07_two_pack_coc_amended_en.pdf)

Annex: Mandatory variables not included in the Draft Budgetary Plan

The following mandatory data were not explicitly provided (although they were provided to the Commission electronically):

- Table 2.c: Contingent liabilities
- Table 4.c.ii: Classification of the functions of the Government

Not included mandatory variables do not impede the Commission's ability to assess the Draft Budgetary Plan based on the plan's assumptions.