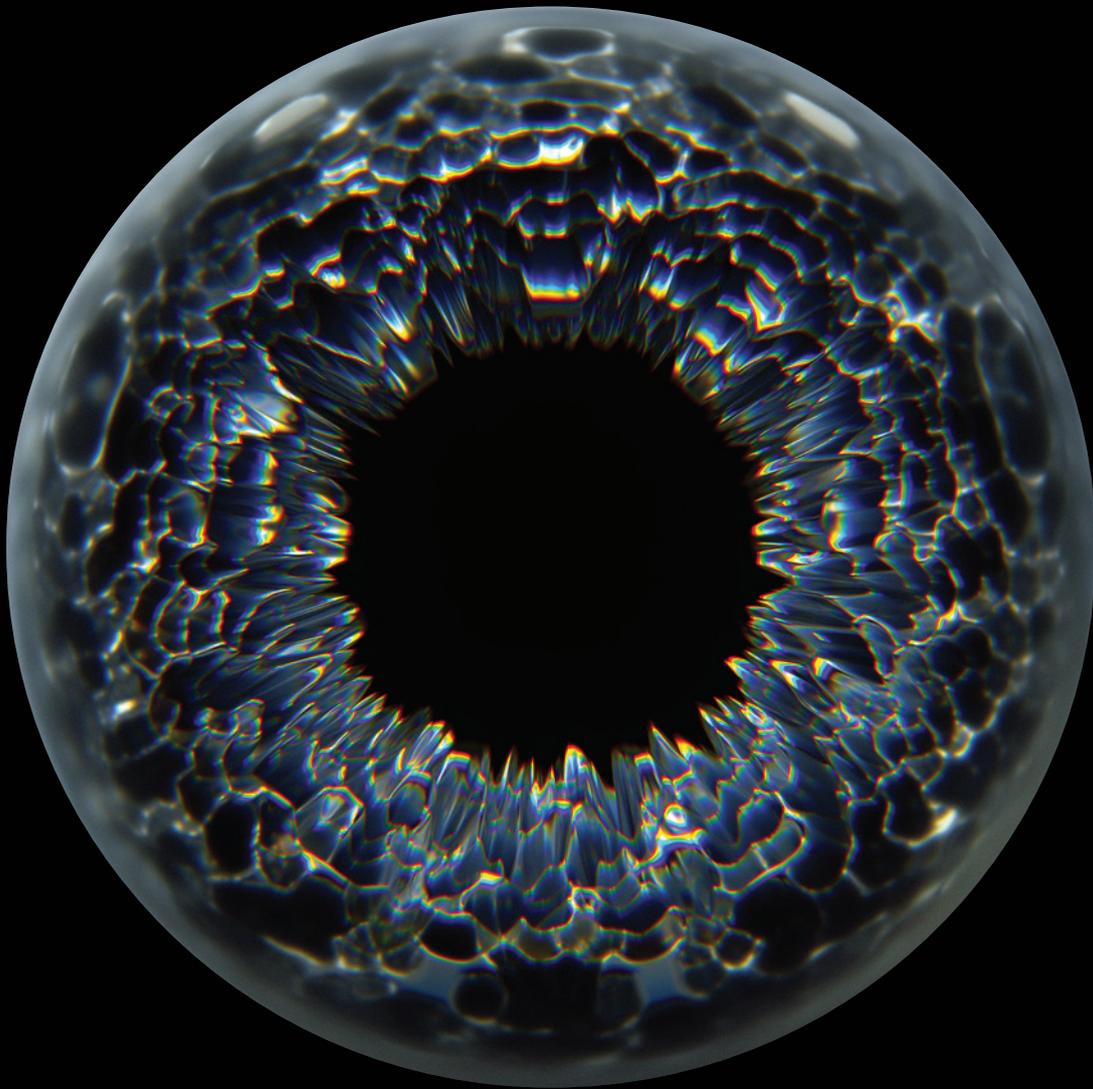


**Deloitte.**

# The full picture

**MALTA BUDGET 2021**



**MAKING AN  
IMPACT THAT  
MATTERS**  
*since 1845*



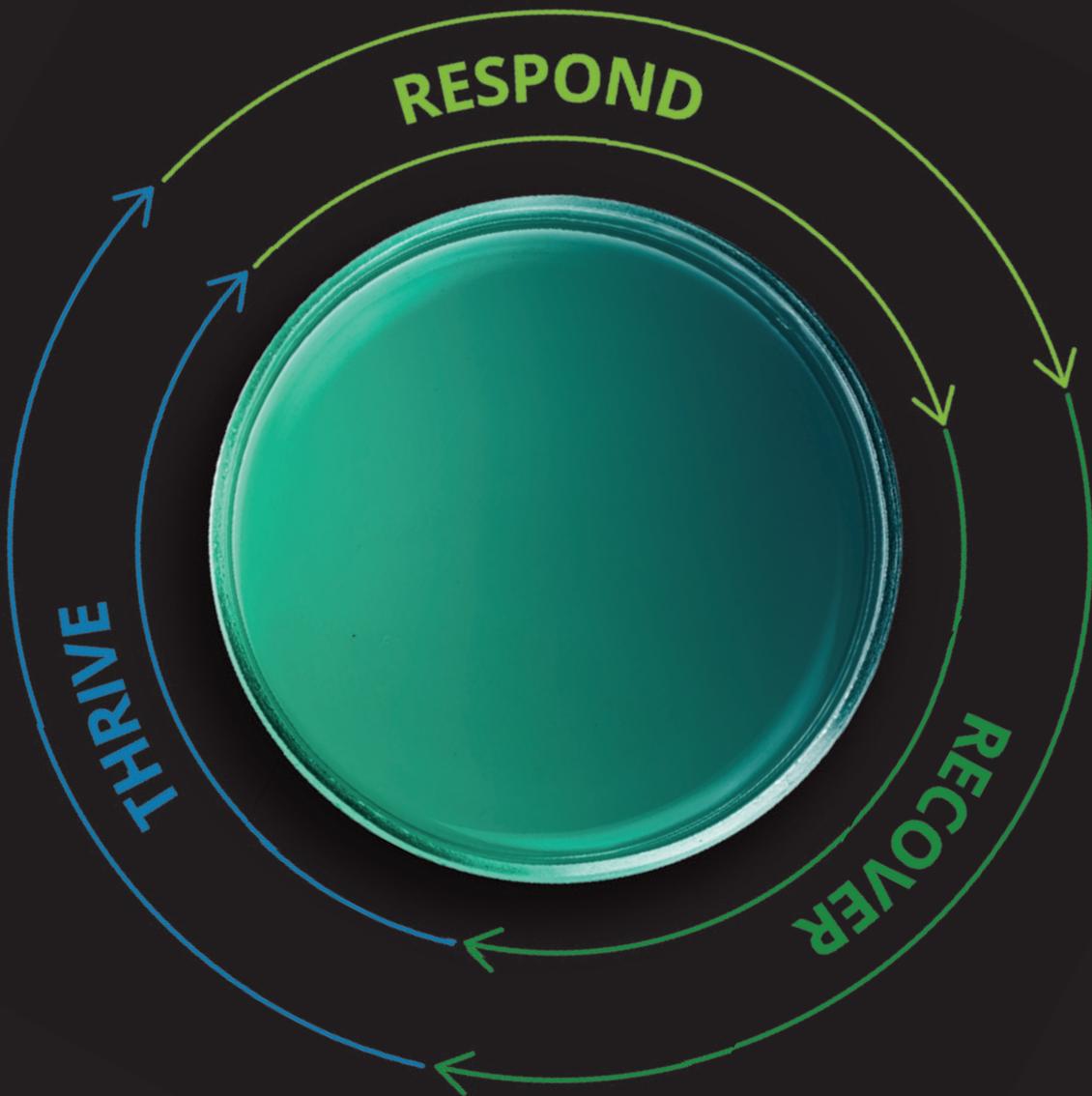
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# Economic overview

## Government's fiscal priorities

Main targets for 2021:



# Key economic performance indicators for 2019

Despite a slower growth rate economic performance was relatively robust.



Unemployment

**4.4%**



Inflation (HICP)

**1.5%**



Property prices

**6.5%**

Fiscal position



Fiscal surplus:

**0.5%**

of GDP



Fiscal debt:

**44%**

of GDP

Value added



Wage bill:

**+8.4%**



Profits:

**+7.3%**

Tourism



Arrivals:

**2.7mn**

(+ 5.7%)



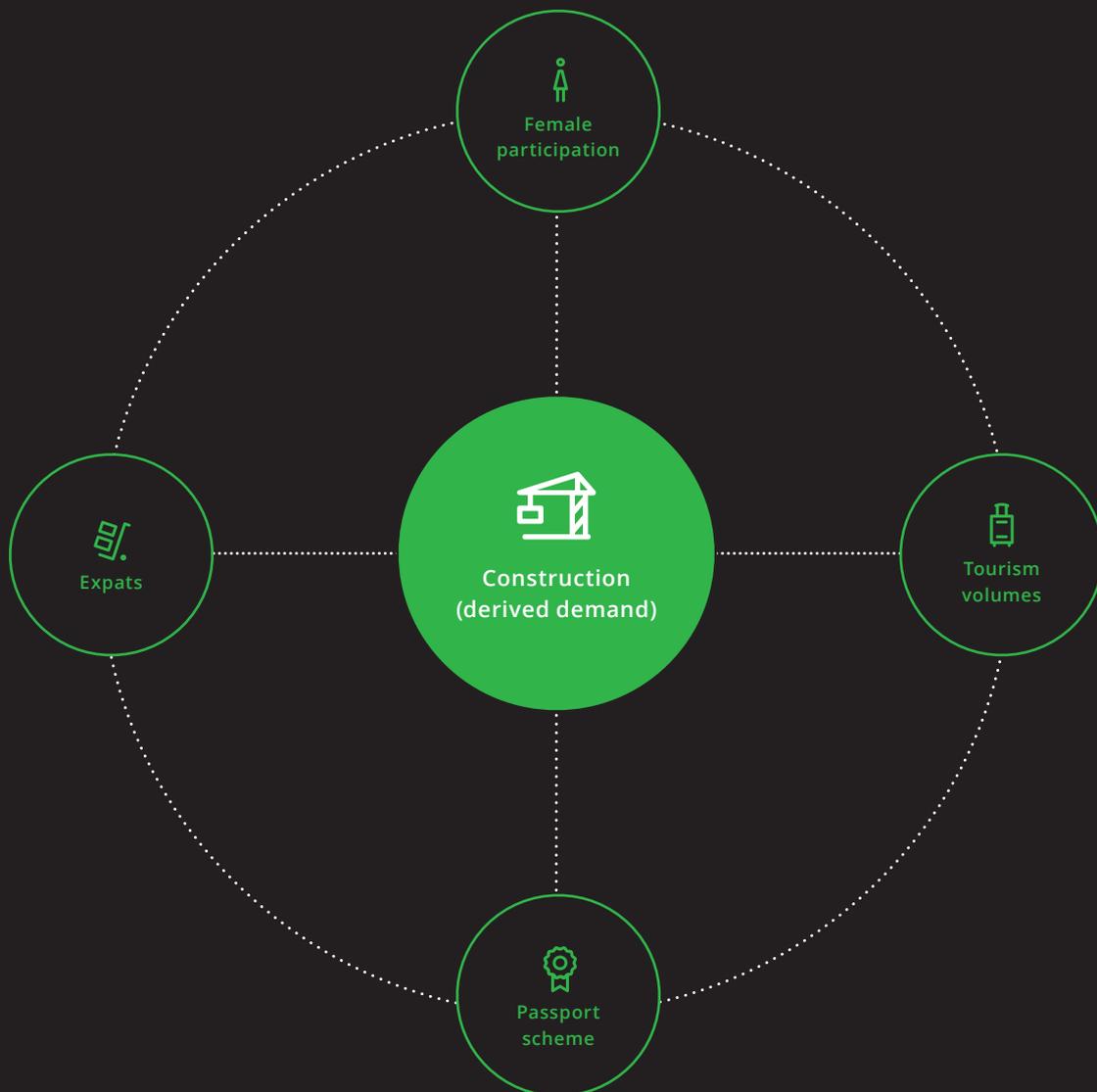
Expenditure:

**€2.2bn**

(+5.7%)

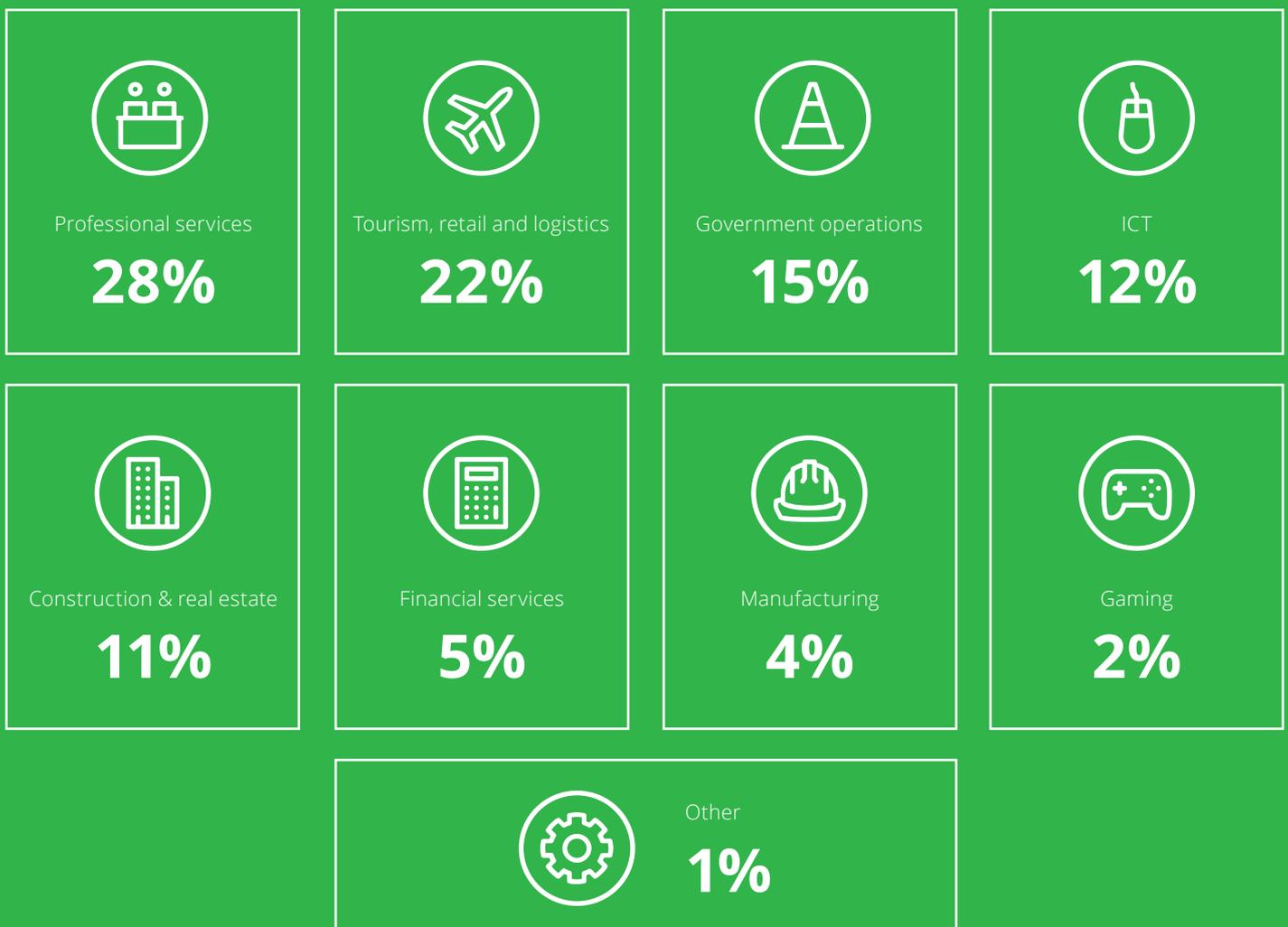
# Economic drivers pre-COVID-19

Pre-COVID-19, economic growth was being driven primarily by the increase in tourism and the marked increase in expat and female working population.



Professional services, tourism, retail and logistics accounted for 50% of economic growth.

Main economic sectors and respective contribution to growth in 2019

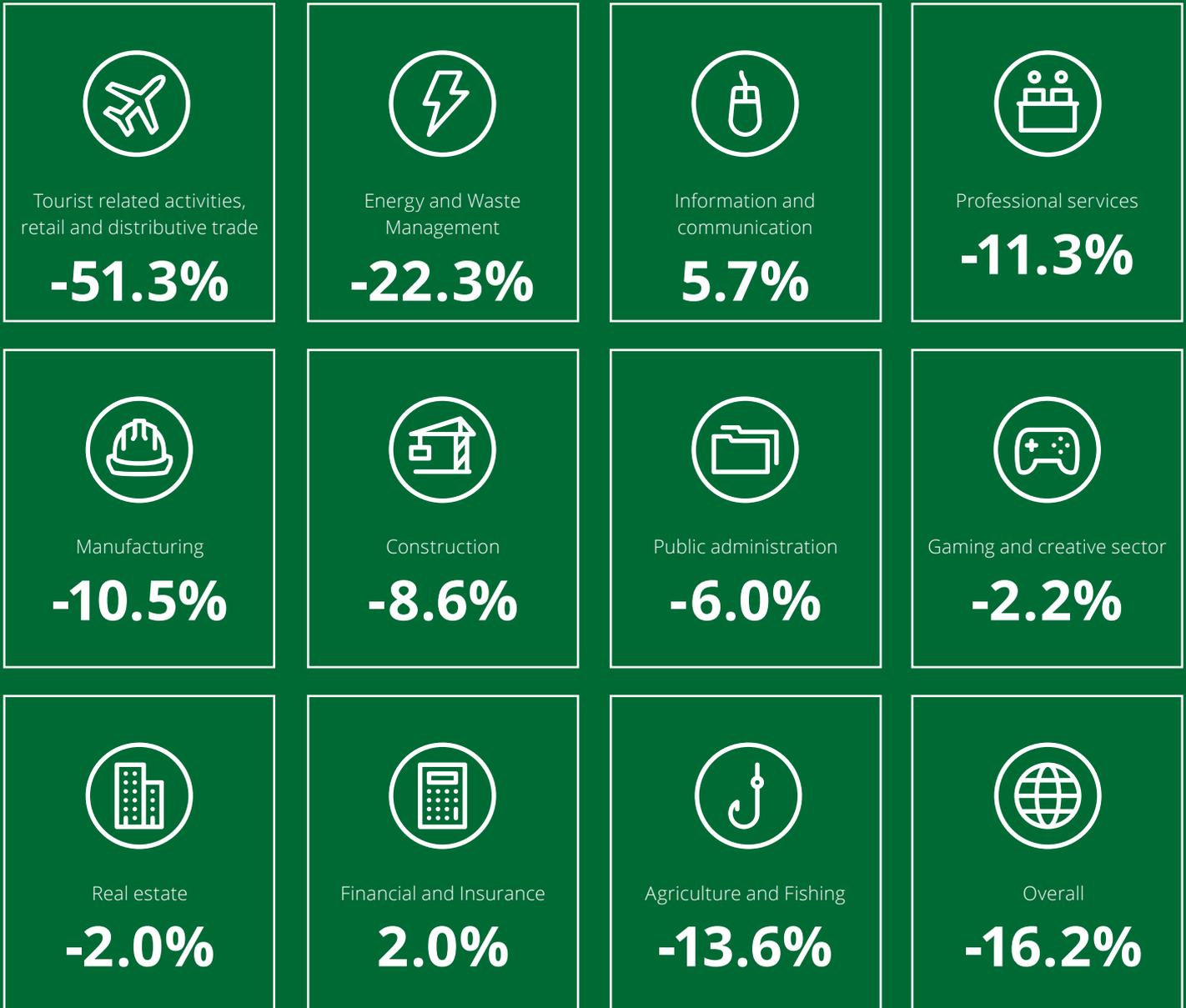


# Economic impact of COVID-19

The pandemic has caused real economic activity in Q2 to contract by more than 16%, with tourism related activities, retail and transport logistics being the hardest hit.

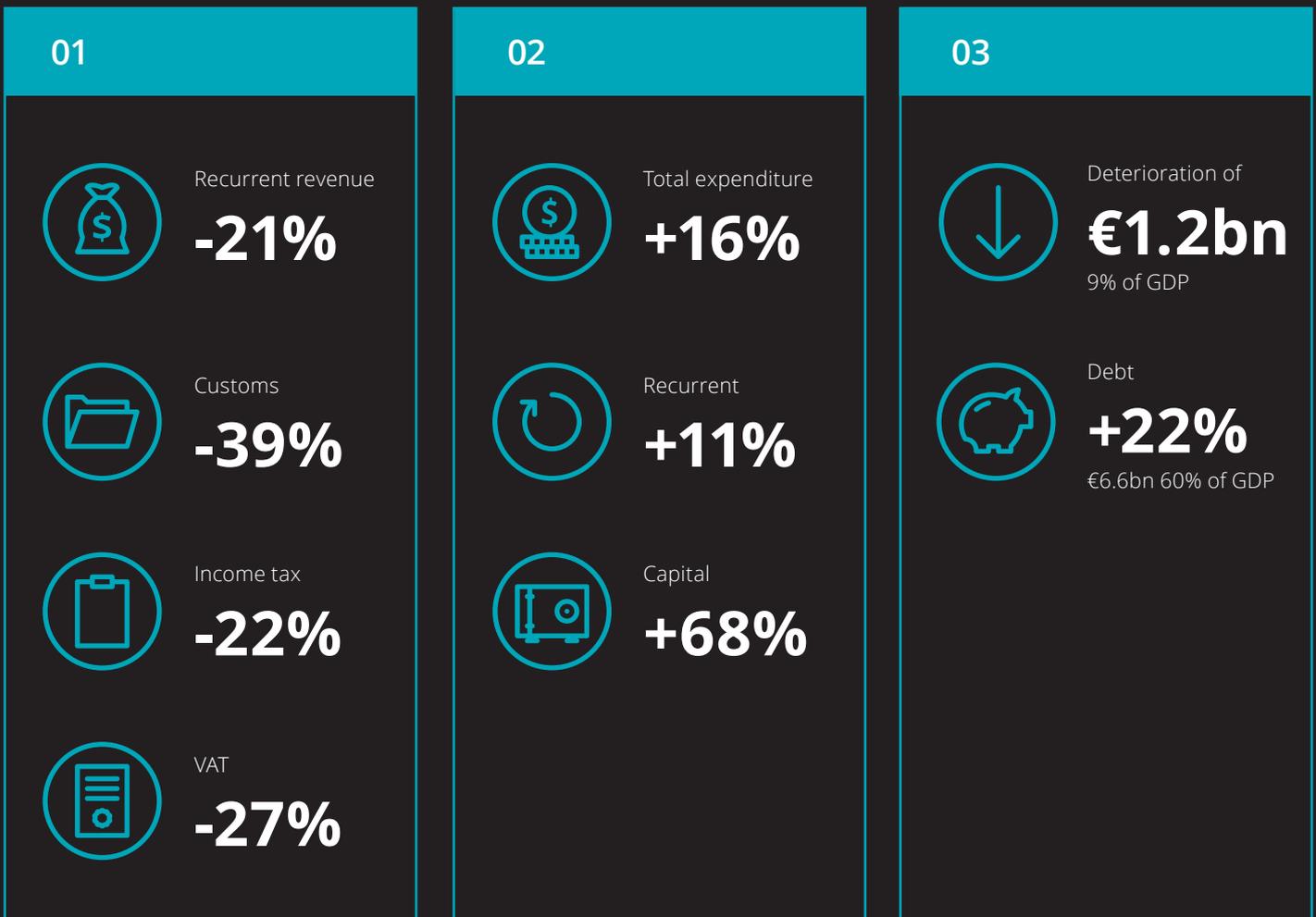


# Tourism, retail and distribution sectors most heavily impacted



# Impact of COVID-19 on Government finances

During the first 8 months of 2020, the country's fiscal deficit has spiked and reached 9% of GDP and has exceeded €1bn.



For the year as a whole Government is forecasting revenue in 2020 to be down by 6% and expenditure up by 19%

Revenue	2019	2020	2020	Variance	Variance	Variance	Variance
	Actual	Budget	Actual	vs 2019	vs 2019	vs budget	vs budget
	€'mn	€'mn	€'mn	€'mn	%	€'mn	%
<b>Tax revenue</b>	4,486	4,954	4,088	-398	-9%	-866	-17%
<b>Other revenue</b>	487	498	593	106	22%	95	19%
<b>Total revenue</b>	4,973	5,452	4,681	-292	-6%	-771	-14%

Expenditure	2019	2020	Variance	Variance
	Actual	Budget	Actual	vs 2019
	€'mn	€'mn	€'mn	%
<b>Recurrent expenditure</b>	-4,216	-4,727	-511	12%
<b>Capital expenditure</b>	-555	-993	-438	79%
<b>Finance costs</b>	-192	-182	10	-5%
<b>Total expenditure</b>	-4,963	-5,902	-939	19%

Government is forecasting revenue in 2021 to increase by 11% and expenditure to remain at 2020 levels

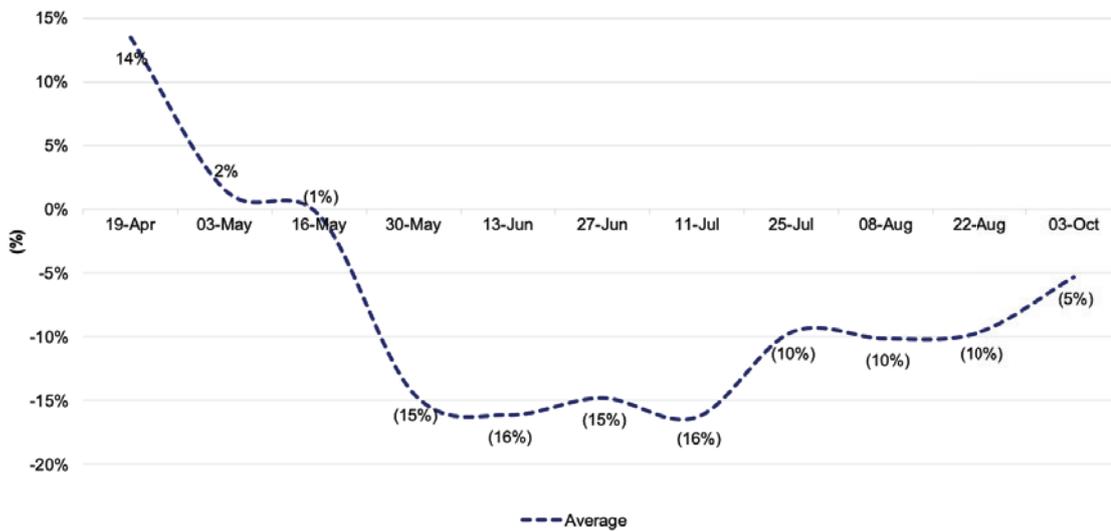
2020 vs 2021	2020	2021	Change	Change
	€'mn	€'mn	€'mn	%
<b>Tax revenue</b>	4,088	4,599	511	13%
<b>Other revenue</b>	593	599	6	1%
<b>Total revenue</b>	4,681	5,198	517	11%
<b>Recurrent expenditure</b>	-4,727	-4,967	-240	5%
<b>Capital expenditure</b>	-993	-793	200	-20%
<b>Finance costs</b>	-182	-189	-7	4%
<b>Total expenditure</b>	-5,902	-5,949	-47	1%
<b>Surplus / shortfall in consolidated fund</b>	-1,221	-751	470	

# Deloitte Consumer Tracker

## Global anxiety

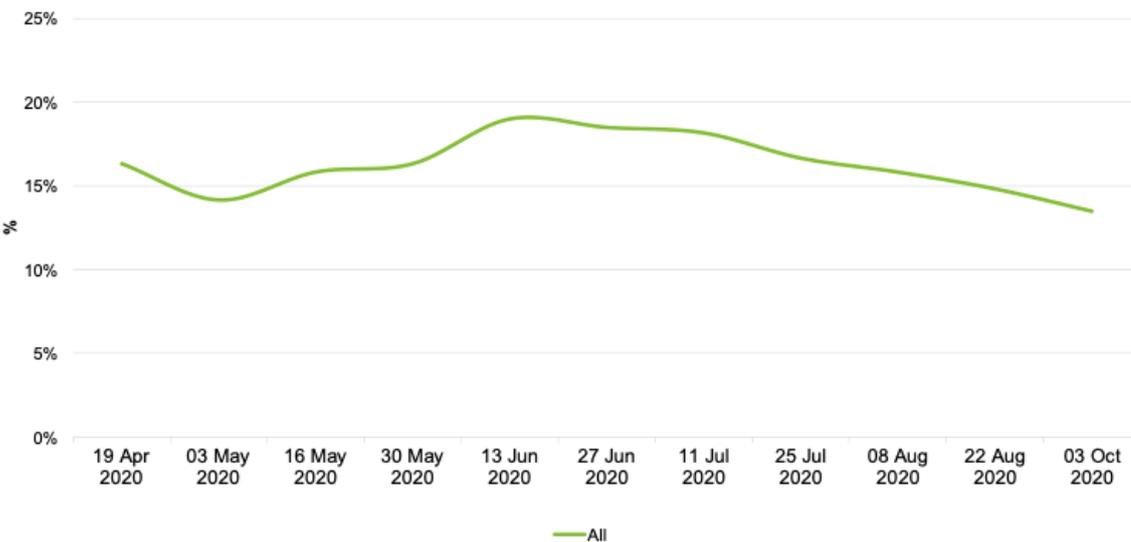
Notwithstanding the spike in the number of cases across the world, general anxiety levels have been improving.

### Global Anxiety Index



## Planning to book an international flight

Prospective travellers are not showing an increase in their propensity to book a holiday

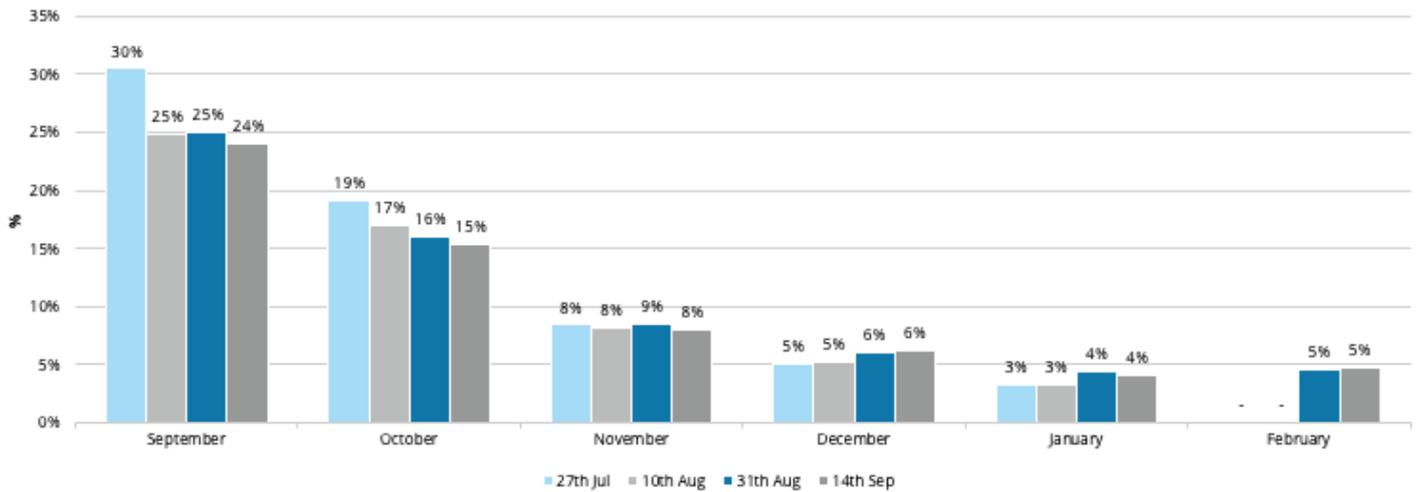


Source: Deloitte State of Consumer Tracker

### Malta hotel booking pace

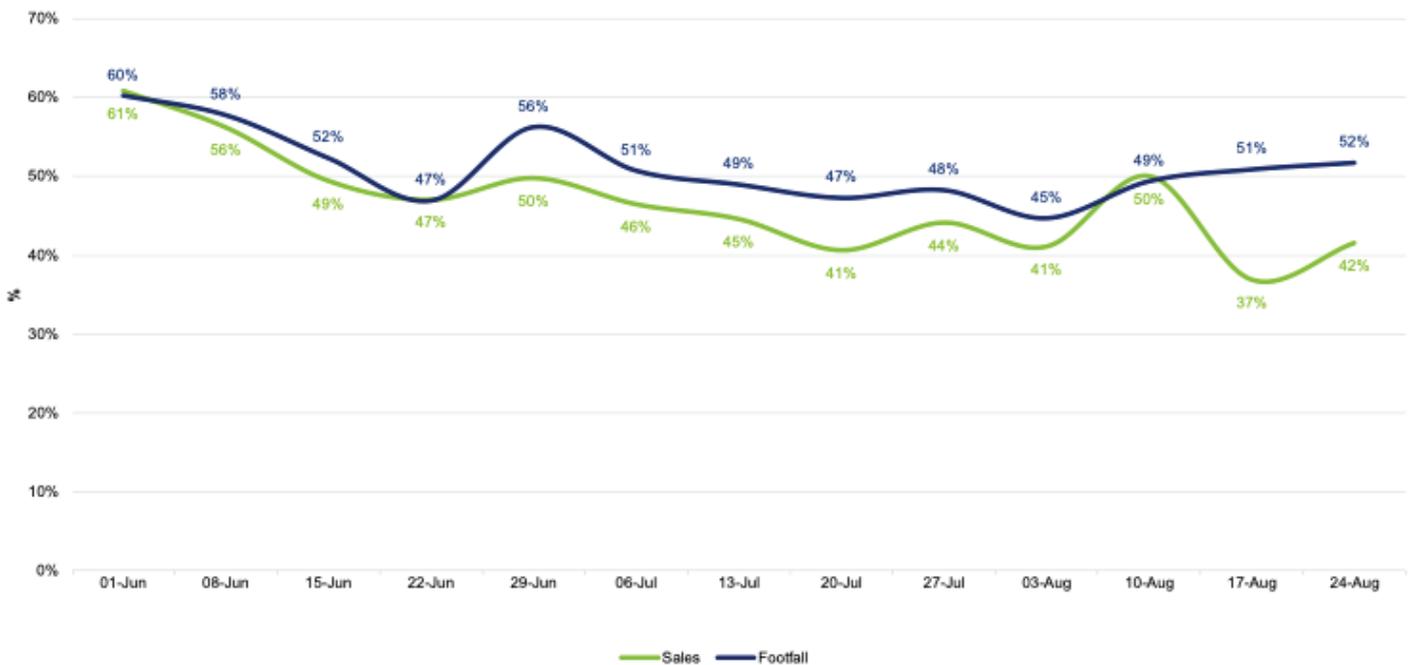
Confirmed bookings have remained flat as cancellations are effectively cancelling out new bookings and will result in a decrease of more than 75% in tourist arrivals for 2020

Confirmed bookings as a % of total rooms available



### Fashion Retail Tracker – Sales & Footfall

Fashion retailers are operating at 40% – 50% below 2019

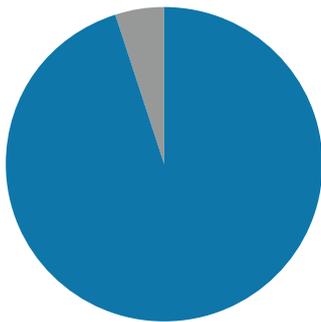
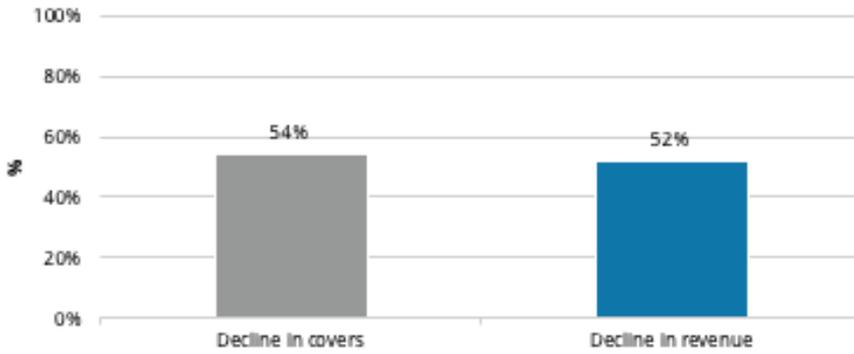


Source: Deloitte State of Consumer Tracker

### Restaurant tracker - results as at 7 September

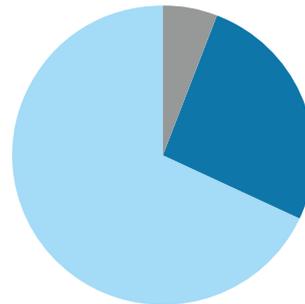
Respondents reported a 52% decline in revenue and 54% decline in covers

#### Performance as at 7th September



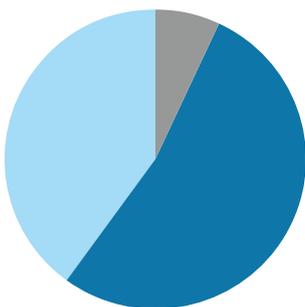
#### Gainers vs Losers

- 5%
- 95%



#### Revenue mix

- 6%
- 26%
- 68%



#### Have you managed to negotiate a rent reduction

- 7%
- 53%
- 40%





# Tax matters

## Fiscal measures

### Tax refunds

Tax refunds granted over the last 3 years to individuals earning less than €60,000 shall also be granted in 2021. These refunds range from between €45 and €95, depending on the level of income as indicated below:

Single		Married		Parent	
Income (€)	Benefit (€)	Income (€)	Benefit (€)	Income (€)	Benefit (€)
0 – 15,000	80	0 - 20,000	95	0 – 15,000	90
15,001 – 30,000	65	20,001 – 40,000	80	15,001 – 30,000	75
30,001 – 59,999	45	40,001 – 59,999	50	30,001 – 59,999	45

### Exemption on pension income

The amount of exempt annual pension income shall be increased as follows:

	2020 (€)	2021 (€)
Single rates or parent rates	13,798	14,058
Married rates	13,798 (+2,000 derived from other sources)	14,058 (+3,600 derived from other sources)

### Reduced duty rate on intra-family business transfers

The reduced stamp duty rate of 1.5% currently in place for qualifying business transfers effected by parents to their children shall be extended for qualifying donations effected in 2021.

### Royalties derived from sale of books

With effect from 2021, any royalty income derived by authors and co-authors from the sale of their books shall be subject to tax at a final reduced tax rate of 15%.

### Improving local incentives for private pensions

During 2021, the maximum tax benefit with respect to contributions made to the Third Pillar Pension Scheme and/or the Voluntary Occupation Pension Scheme by individuals and companies shall increase to €1,500 on an annual investment of €3,000.

### VAT threshold for small enterprises

With effect from 2021, the annual turnover threshold below which small businesses engaged in the provision of certain categories of services may opt to register as a VAT exempt person (typically referred to as an article 11 type of VAT registration) shall increase from €20,000 to €30,000.

# Property related measures

## **Duty exemption for First-Time Buyers**

The duty exemption currently available for first-time home buyers on the first €175,000 shall be increased to €200,000 and extended for another year with immediate effect.

## **Duty on acquisition/inheritance of ordinary residence**

Individuals who inherit property in which they reside, currently pay duty at the rate of 3.5% on the property inherited, up to a maximum property value of €175,000. Such maximum value shall increase to €200,000. This reduction shall also be applicable to individuals buying their residential property, even if such individuals are not first time buyers.

## **Reduction in duty for Second-Time Buyers**

Individuals who sell their first residential property to acquire another residential property are currently eligible to a refund of duty of up to €3,000 (or €5,000 in the case of persons with special needs) provided that they do not own any other property at that time. This measure is being extended to qualifying acquisitions made during 2021.

## **Duty on acquisition of property in an Urban Conservation Area (UCA)**

Acquisitions of property located in a UCA are subject to a reduced duty rate of 2.5% instead of 5%. This reduced rate shall also continue to apply during 2021.

## **Duty on Acquisition of Property in Gozo**

Individuals who acquire their residential property in Gozo are currently subject to a reduced duty rate of 2% instead of 5%. This reduced rate shall continue to apply during 2021.

## **Measures introduced in the Economic Regeneration Plan**

The reduced tax rate of 5% on the first €400,000 of the transfer value of the property and reduced duty rate of 1.5% on the first €400,000 of the transfer value of the property which have been introduced in the Economic Regeneration Plan shall continue to apply in respect of promises of sale registered until 31 March 2021 and in respect of which the contract is concluded by 31 December 2021.

## **Duty on donations of qualifying property**

The duty exemption currently applicable on the first €200,000 of value of immovable property donated by parents to their descendants for the purpose of establishing therein or constructing thereon their sole, ordinary residence shall be increased to €250,000. Any additional value of the immovable property over and above the €250,000 shall be subject to duty at the rate of 3.5%.

## **Final tax on the transfer of a promise of sale**

Currently, the first €100,000 of gains or profits derived upon the transfer of any right acquired through a promise of sale agreement is subject to a final tax at a reduced rate of 15%. This reduced rate of tax shall be applicable to the full amount of gains or profits derived, for assignments effected during 2021.





# A Green Recovery

## **Combatting climate change**

The Government committed to releasing its Low Carbon Development Policy by year's end. The strategy will encompass clean energy, clean transport, energy efficient buildings, and waste management.

## **Green bonds**

During 2021 the Malta Stock Exchange shall offer investors an attractive package for 'Green Bond' issuances. These financial products are targeted at investors seeking opportunities in the renewable energy sector.

## **Waste management**

Announcement of plans to construct several facilities targeted at processing recyclable waste and organic waste, and extracting energy from certain waste sources. The Government further committed itself to developing additional measures regarding waste separation in the commercial sector.

## **Single-use plastics**

Measures shall be introduced to diminish reliance on single-use plastics. The importation of single-use plastics shall be prohibited as of 1 January 2021, whereas the sale of single-use plastics shall be prohibited in 2022.

## **Improving air quality**

Efforts to improve air quality shall be ramped up in the coming years. Government will continue to invest in urban green spaces.

## **Vehicle scrappage schemes**

Vehicle scrappage schemes shall be extended, with the maximum available grant amounting to €7,000.

## **In support of eco-friendly automobiles**

Exemptions from vehicle registration tax, as well as annual circulation licence fees for a period of 5 years, both of which are applicable to electric/hybrid vehicles, shall be renewed for another year. The special night-time tariff for charging such vehicles at one's residential home shall also be retained. The grant available to persons who convert their vehicles to gas engines shall be increased to €400, so long as the vehicle's CO<sub>2</sub> emissions decrease by 25%. The grant shall be increased to a maximum of €800 where the vehicles in question are used for the transport of passengers and/or goods.

## **In support of alternative means of transport**

The grant of up to €400 upon the purchase of motorcycles, scooters and electric

bikes shall be renewed for a further year. Similarly, the grant scheme on the purchase price of bicycles and electric bicycles (pedelec bicycles), equivalent to a full VAT refund on the purchase price, shall also be renewed. Furthermore, as from 2021, the annual circulation licence fees applicable to 125cc - 250cc motorcycles shall be reduced from €65 to €25.

## **Weekend drivers**

Owners of registered motor vehicles, including motorcycles, can licence their vehicle for exclusive use on weekends and public holidays (i.e. with registration plates carrying red characters) in order to avail of a 35% reduction in the relative annual circulation licence fees.

## **Accessible taxicabs**

New taxi vehicles that are wheelchair-friendly may, subject to certain conditions, be eligible to a €10,000 grant upon registration.

# COVID-19 measures

## **Vouchers**

€100 vouchers to be supplied to persons over 16 years of age; €60 of which can be used on accommodation, hotels and restaurants, whereas the remaining €40 are to be used in shops and services.

## **COVID Wage Supplement**

The COVID Wage Supplement shall be extended until the end of March 2021. This scheme and other measures announced as part of the Economic Regeneration Plan shall be evaluated during the first quarter of 2021 following consultation with social partners.

## **European Union funds**

€120 million of the €2.25 billion of European Union funds secured in July 2020 shall be deployed in support of employees impacted by COVID-19, whereas an additional €220 million shall be invested in supporting digital transformation, as well as environmental and climate change initiatives.

## **Air Malta EU State Aid application**

The Government announced that it shall be submitting a further EU State Aid application with respect to Air Malta.



# Social measures

## **COLA increase**

The cost of living adjustment agreed with social partners within the MCESD for 2021 shall be €1.75 per week.

## **Pension increases**

Pensioners shall benefit from a weekly increase of €3.25 with effect from 2021. This increase is in addition to the COLA, resulting in a total weekly increase of €5 for pensioners.

## **Additional day of leave**

An additional day of vacation leave shall be added to the current leave entitlement of employees.

## **Children's annual allowance**

An additional supplement to be given for every child. The supplement shall consist of €70 per year per child for families with income not exceeding €25,318 and €50 per year per child for families with income exceeding the foregoing threshold.

## **In-work Benefit**

The threshold for the eligibility of the in-work benefit shall increase to €35,000 for working couples, €23,000 for single working parents and €26,000 for couples with a single working parent.

## **Allowance for the care of children under a protection order**

With effect from January 2021, this benefit shall increase by €520 to a total of €5,720 per year.

## **Adoption grant**

The grant for couples adopting children locally shall benefit from an increase of up to a maximum of €1,000.

## **Carer at home subsidy**

The annual subsidy for expenses incurred by the elderly who employ a full-time or part-time carer shall increase from €5,291 to €6,000.

## **Free Tal-Linja card**

The scheme granting free public transport to the elderly shall be extended to persons aged 70 years or older.

## **Free medicines**

The Government renewed its pledge to continue supplying certain medicines free-of-charge, whilst introducing new medicinal products that target chronic illnesses.

## **Investment in palliative care**

Announcement of the Saint Michael Centre, a facility designed to provide professional palliative assistance. The project is the result of cooperation between the Government, Hospice Malta and the National Strategy on Palliative Care.

## **National Youth Policy**

Announcement of a National Youth Policy to focus on youths aged between 13 and 30 years old.



# Investment and growth

## **Investment in tomorrow's industrial infrastructure**

€450 million in investment over 7 years for the purpose of changing Malta's industrial infrastructure and creating spaces and new offices for businesses.

## **Investment in sport facilities**

€11 million expenditure over a 3 year period on new sport facilities as part of Malta's preparations to host the Small Nations Games.

## **New Building and Construction Authority**

A new authority shall be set up to enable the construction industry to operate more professionally and reduce risks associated with the industry.

## **Digital Transformation**

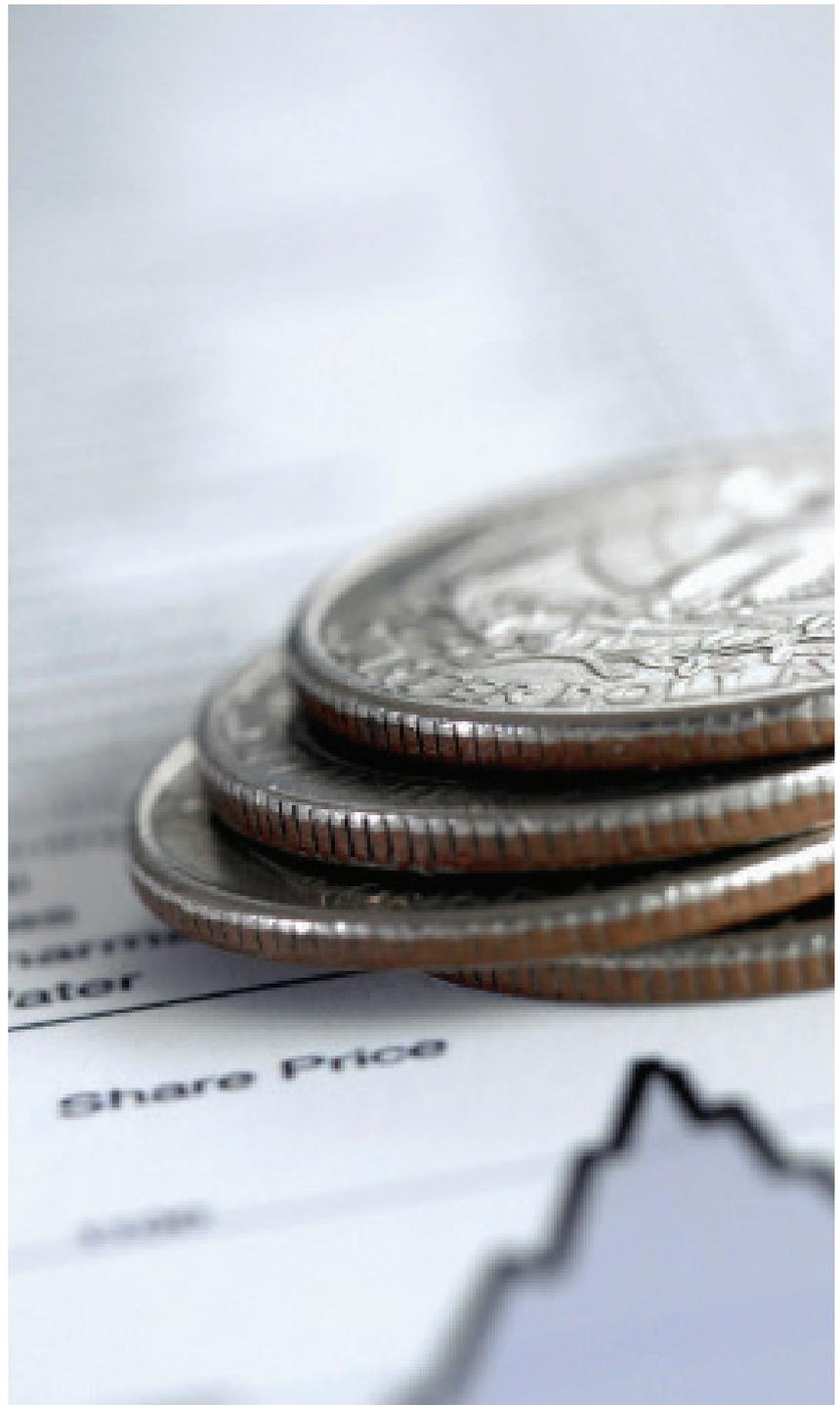
The Government reaffirmed its commitment to renewing Malta's digital strategy and shall be investing in cybersecurity as well as encouraging private investment in innovative technologies.

## **Foreign direct investment**

A commitment to extend, strengthen and release new schemes targeted at foreign direct investment.

## **Mass-transit system**

Feasibility studies in connection with a local mass-transit system shall continue into 2021.



# Other measures

## Government savings bonds

During 2021, people aged 62 years and over will once again be able to subscribe to Government savings bonds yielding a more favourable return than fixed term bank deposits, following their successful uptake during the previous 4 years.

## Good governance practices

The Government has renewed its pledge to improve the effectiveness and efficiency of the judiciary and also to increase the resources currently available to authorities in their fight against money laundering and financing of terrorism.

## Resources available to the police force

The Government has further pledged to resource the police force appropriately as part of its transformation strategy. Investment is expected in police stations,

completion of the Command and Control Rooms, modernisation of the forensic unit and in the infrastructure of the correctional facilities.

## Civil Protection Department

During the course of 2021, investment shall be undertaken in the maritime section while the land vehicles currently in use shall also be replaced.

## Equality and reforms

The Government shall be introducing additional measures to incentivise employers to assist their employees in achieving a work-life balance and to support male participation in family life.

## Citizenship

Increased effort on the protection of the identity of individuals. In this regard,

the new identity cards shall contain technological features that make theft and falsification harder. The Government is also in the process of revising the various residence and citizenship programs by introducing additional rigorous processes in order to ensure the good faith of the beneficiaries.



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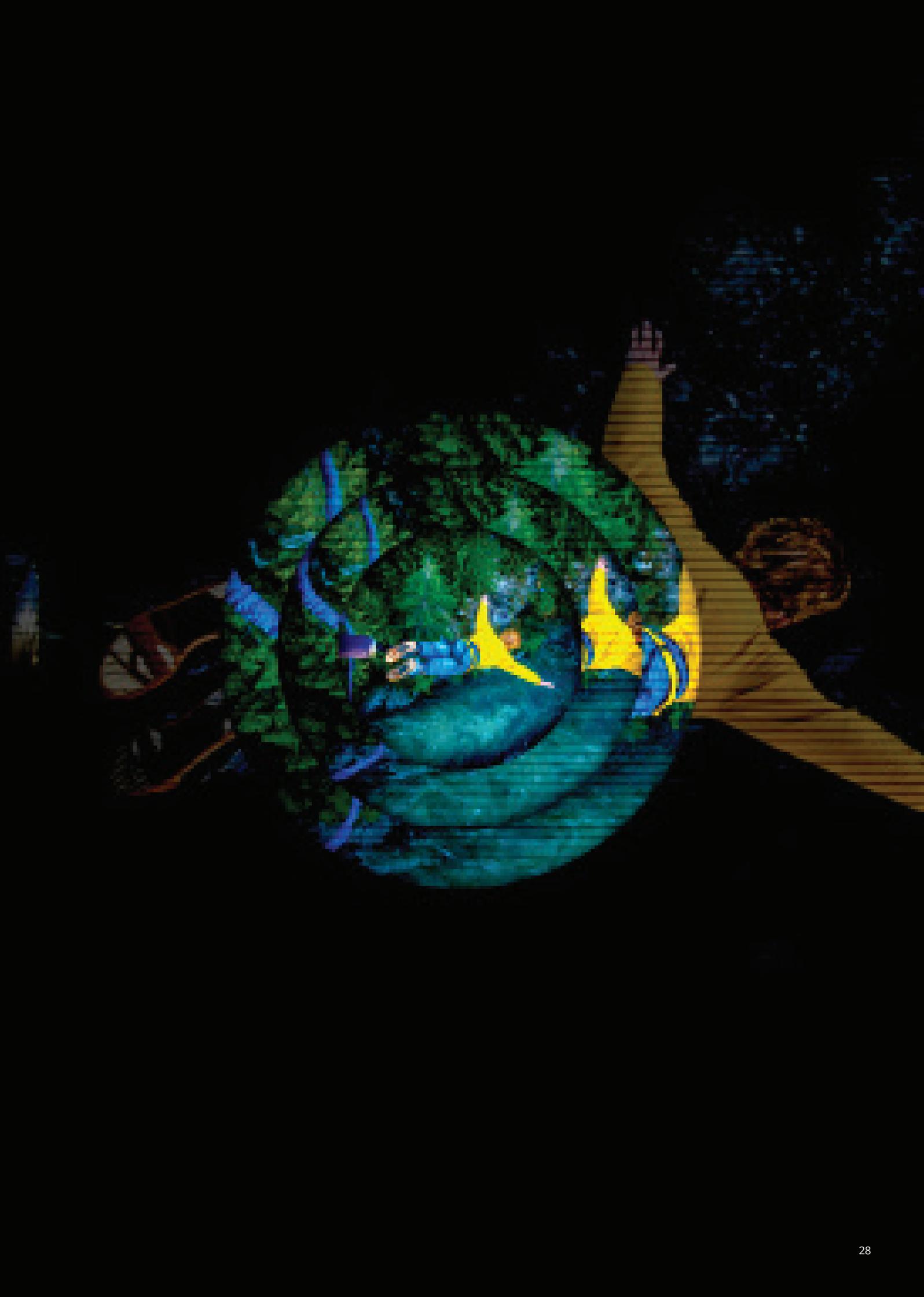


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