

BUDGET 2023 ANALYSIS



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INTRODUCTION

On the 24th of October, the Minister for Finance and Employment Hon. Clyde Caruana delivered his second budgetary speech, as he presented the 2023 budget, entitled “Certainty and Stability”. As indicated by the title, the budget focused on conveying a message of stability during a highly turbulent economic period. The Maltese economy has performed relatively well when compared to the rest of Europe amidst the geo-political turmoil associated with the Russian invasion of Ukraine.

During the first half of 2022, the country recorded an annual real GDP growth that was higher than the EU average, while employee compensation grew 8% from the previous year. However, rising inflation has still affected the Maltese islands due to high energy prices, supply chain disruptions, and a persistent increase in aggregate demand.


In his budgetary speech, the Finance Minister focused on the government’s willingness to protect businesses and the private sector in general from incurring significant increases in their utility bills in order to retain their external competitiveness.

Given that it is unlikely that energy prices will return to their pre-pandemic levels in the foreseeable future, the government intends to keep water and electricity bills unchanged, offsetting the increase in energy costs from public funds. As expected, the announced €9.90 weekly cost of living adjustment (COLA) was more than three times the 2000-2021 average (€3.10).



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The 2023 Budget included various incentives to diversify the aggregate business portfolio of Maltese enterprises, aiming to minimise the impact of international volatility on local prices. A new government platform, 'Start in Malta,' will be introduced, serving as a one-stop shop for start-ups while a new business incubation centre will also be developed through EU funding for innovative start-ups.

In addition, the Micro Invest scheme will be extended such that social enterprises will be eligible for a maximum €70,000 tax refund over three years. The government has also extended the grant scheme for purchasing various electric vehicles, ranging from motorcycles and mopeds to pedal electric cycles and motorised bicycles.

Looking ahead, the Finance Minister claimed that in 2023, the Maltese economy is expected to maintain the positive momentum observed in the second half of 2022. Employment growth is forecasted to stand at 3.4% in the upcoming year, with the unemployment rate hovering around 3.1%. Real economic growth is expected to slow down from 6% to 3.5% in 2023. Inflation is also expected to fall from 5.7% in 2022 to 3.7% in 2023. When addressing the sustainability of public finances, the Finance Minister claimed that the fiscal deficit as a percentage of the GDP is expected to decline from 5.8% in 2022 to 5.5% in 2023.

In general, the 2023 Budget was positively welcomed from a social welfare perspective. However, there are some issues that the government has either totally ignored or partially considered. The debt-to-GDP ratio is expected to increase further to 59.1% albeit the projected decline in the deficit-to-GDP metric.

The repayment of the fiscal debt in the long term was also not mentioned during the speech. Instead, as mentioned by both Malta Employers Association (MEA) and ADPD, the budget focused on maintaining short-term stability during a time of increasing inflation and blurred economic expectations. The Malta Chamber of Commerce has claimed that the budget showed the intention to preserve the business model of our current economy, with all its strengths and weaknesses. In this regard, the government did not provide any information on how it expects our existing economic segments to transform in the near future, or which business segments shall be needed in the coming years for the Maltese economy to grow sustainably. Therefore, the long-term trajectory of the economy was partially ignored in the budget.

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The budget focused on social measures supporting and protecting vulnerable people such as low-income earners, to bridge the gap between the increase in prices and the income received. However, measures for improving human capital investment were not mentioned. The budget has failed to address the existing skills gap in the labour market which is directly impacting productivity, as it remains a pressing issue for local employers.

Attracting new high-skilled workers into our economy as well as ensuring the retention of human capital should have been highlighted, considering the limited natural resources of the country. In this regard, a long-term strategy to gradually lay off a proportion of the publicly employed workers can also be considered to free up human resources in the private sector and reduce the government's wage expenses. The government should also ensure that the increase in COLA shall not lead to a wage-price spiral leading to a worsening of the inflation level in the economy.

To help control price inflation, the government could lower taxes on retail and restaurant services. That would soften the blow for both industries that are facing higher costs and as a result they would keep their prices more stable or even lower them. Through lower taxes, the government would control for the increase in inflation by shifting the burden away from the consumers.

Measures concerning the healthcare sector were also few in the budget. The Malta Union of Midwives and Nurses (MUMN) expected that new wards in Mater Dei Hospital would be a priority investment since a lot of admitted patients are placed in areas such as the corridors, staff canteen or the medical library.

Apart from that, the government failed to address the shortage of nurses. In addition, given that mental health is important for the wellbeing of our society, the government proposed to credit lost social security contribution to those people that spent time out of work due to mental health issues. However, MUMN is still disappointed that no funds were allocated to Mount Carmel Hospital, considering the rise in the refurbishment needs of the hospital due to increasing demand.

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The announced budgetary measures also have provisions that are aimed to support the property market. A new grant scheme of €10,000 over 10 years for first-time buyers to assist in loan repayments shall be introduced. However, a €1000 annual subsidy will most probably only be enough to keep up with the inflation of that particular year. Also, the Finance Minister highlighted the increased importance that is being given to quality and aesthetics in the development of buildings, through tax breaks and subsidies for eligible property owners.

An independent candidate, Arnold Cassola, stated that, in the budget, nothing was mentioned about the Msida and Cospicua social housing that has been longing for completion given the limited supply. Hence, more robust policies should be in place to bridge the gap between buyers and sellers in the property market.

As for transportation, the government shall undertake further investment in this sector as a response to the persisting congestion and increasing road traffic. The current transportation crisis needs immediate solutions, as it is stressing an increasing proportion of the Maltese population daily.

The ADPD argued that the energy crisis should serve as an opportunity to reduce the overdependence on cars, and cleaner modes of transport should be developed to lower overall emissions, ultimately improving the environment and people's well-being. In connection with this, the government showed the intention to stimulate private spending on new electric vehicle (EV) charging stations. However, the budget failed to introduce new incentives to encourage EV purchases and fasten the transition towards a low-carbon economy.

The metro project was also fully excluded from the budget, which delivered another blow to hopes for an improved public transport system in Malta. The 2023 Budget was the first true opportunity for the public to learn where the Malta metro project stood on the government's list of priorities since the metro plans were only released to the public a few days before the 2022 Budget last year.

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To keep energy prices stable, the €600 million fiscal effort to prevent households and business from incurring significantly higher energy costs is recognised. Apart from simply providing the energy subsidy, the government is encouraged to further study the actual level of fuel consumption required in Malta to avoid subsidising over-consumption. Subsidising a negative externality could incentivise people to consume more of it. In this context, the fiscal subsidy could serve as a form of negative tax against the polluter pays principle. The latter term is a notion which suggests that the polluter should bear the expenses of preventing pollution.

The provision of such subsidy could convey the message that the consumption of current energy levels are acceptable, even though there are huge pressures worldwide to not only reduce fossil fuel energy consumption, but shift towards renewable energy source. The government should therefore consider the long-term effects of the provision of such subsidy on the attitudes of future generations. In adopting a long-term approach, policy makers should also analyse whether part of the public funds being allocated to stabilise energy prices could otherwise be directed to projects which actually generate positive externalities, such as renewable energy projects.

A plan for capital spending on the provision of renewable energy was only partially included in the Budget speech, as the Finance Minister claimed that a consultation process to identify ideal zones for the development of offshore renewable energy farms is underway.

The budget also features a provision of around €700 million to be spent over seven years to implement the government's greening projects including public gardens, parks, and open spaces as a response to the existing environmental challenges. Moreover, the government highlighted its commitment to further invest in improving water and waste management.

Nonetheless, even though further Environmental, social, and governance (ESG) investing was encouraged in the 2023 Budget, education on the subject is still lacking. Local enterprises should be further informed about the importance of adopting an ESG approach, and its relevance to future business. In addition, the initiatives relating to the €60 million investment in sustainable urban development in Gozo were not specifically provided.

BUDGET 2023 HIGHLIGHTS



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ECONOMY

- Launch of 'Start in Malta' in 2023 which shall serve as a one-stop shop offering aid to start-ups in establishing themselves in the local economy.
- Inflation is forecasted to fall from 5.7% this year to 3.7% in 2023.
- New business incubation centre will be developed through EU funding for innovative start-ups, to incentivise the diversification of the portfolio of Maltese businesses.
- A €40 million investment through cash grants will be provided to SMEs
- Enterprises investing in digital and sustainable business models will now be eligible for a cash grant equal to 50% of the eligible investment, capped at €100,000.
- A €5 million investment in research and innovation through a new program called Technology Extension Support.
- Extension of the Micro Invest scheme. Social Enterprises will be eligible for a maximum €70,000 tax refund over three years.



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WORKERS & PARENTS

- The cost-of-living adjustment is of €9.90 per week for employees.
- For those workers earning less than the median-equivalised income, the government will give out cheques to compensate for the increase in rising prices. The average grant is €300.
- Workers with salaries less than €20,000 who work atypical hours in certain industries benefit from an in-work benefit of €150.
- Employees earning an annual salary less than €60,000 will continue to benefit from tax refunds ranging from €60 to €140.
- The tax rebate to parents for children's sports, arts, and cultural activities increases from €100 to €300.
- Children's annual allowance to increase by €90.

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PROPERTY

- A €10,000 grant to first-time property buyers will come into effect, while other property schemes, including tax breaks for buying old properties, and the first- and second-time buyer schemes to be extended will be retained.
- Interest-free loans on a 10% down payment to continue, with the maximum property value raised to €225,000.
- Rent subsidies for enterprises renting industrial spaces. The financial assistance will be raised from €25,000 to €50,000 per annum, over a maximum period of six years.
- Current reduced rates for first-time buyers, second-time buyers and acquisitions of property in Gozo shall be extended by another year.
- A board will be established to make regulations specifying the aesthetic and structural standards for buildings, the transfer of which will benefit from decreased tax and duty. The entity shall be the approving body of the property measure, also applicable until the end of 2024, providing for duty refunds on the acquisition of properties built in a traditional Maltese style and architecture.



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PENSIONS AND THE ELDERLY

- Apart from the cost-of-living adjustment, pensioners will receive an additional €2.60, a total of €12.50 per week.
- Eligible widows will be getting an additional maximum increase of €3.54 per week.
- The taxable ceiling on pensions will increase from €14,318 to €14,968.
- Pensioners who opt to continue working will be entitled to tax breaks.
- Police, army, and civil forces will receive a 23% pension increase if they provide an additional 4 years of service following their 25-year retirement period.
- Pensioners will receive payments ranging from €450 to €550 if they have not completed all of their social security contributions.

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TRANSPORT

- Extension of schemes incentivising the purchase of EVs, ranging from motorcycles to mopeds, pedelecs and motorised bicycles.
- Extension of grants for the conversion of petrol vehicles to gas.
- Plug-in hybrid & electric vehicles will be exempt from registration tax.
- Increase in the number of electric vehicle charging points from 340 to 1,200 by 2024.
- Interest-free borrowing to enterprises investing in EVs and new charging stations.



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EDUCATION

- Students will also receive an increase to their stipend as per COLA which is estimated to be an increase of €50 a year.
- Existing scholarship programmes and tax credits for students pursuing Masters and PhDs will be strengthened, including through the European Social Fund.
- Works on Hal Ghaxaq, Msida and Rabat schools, as well as on a new sports facility for the Santa Lucija school will be finished.
- Free fruit and vegetables to be distributed in primary schools.
- From next scholastic year, a new laptop will be given to students from Year 7 upwards and the one-tablet-per-child measure will be extended.
- Constructions on the new ITS campus at Smart City to commence.
- Discussions to begin concerning new sectoral agreement with educators.

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ENERGY

- A €600 million fiscal subsidy to keep energy prices stable. For 2023, this will be around 10% of the government's recurrent expenditure. The Finance Minister claimed that without such a subsidy, household energy bills would have risen by 130%.
- Roll-out schemes targeted at incentivizing the installation of solar panels, batteries for the storage of renewable energy, and restoration of wells in old dwellings.
- Additional investment in Enemalta distribution network.

INDUSTRY & INFRASTRUCTURE

- Investment in road infrastructure such as the new plans for the Msida creek project. Imriehel Underpass and the airport intersection project are other major projects that will be continued.
- Investment in maritime infrastructure such as the dredging works in Grand Harbour, to make it accessible to larger vessels.
- Continuation of studies on land reclamation.

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ENVIRONMENT

- €700 million to be spent over seven years to implement the government's greening projects including public gardens, parks, and open spaces.
- €50 million project for organic processing plant.
- Subsidies under the Recovery and Resilience Plan are to be extended for green renovations of commercial buildings.
- ESG guidelines will be developed by Malta Enterprise to assist companies in meeting their ESG obligations.
- Consultation process for offshore wind farm.
- Multi-Material Recovery Facility in Hal Far to become operational.
- New gate fees are to be introduced to help reduce the amount of waste ending up in landfills.
- Government commits to further investment in waste and water management.

ARTS & CULTURE

- Royalty income derived from qualifying literary work by authors and co-authors will be subject to a reduced rate of 7.5%.
- Works on crafts village in Ta'Qali to continue.



HEALTH

- People aged between 18 and 30 who spent time out of work due to mental health issues will be credited with two years of lost social security contributions.
- Introduction of chemotherapy pumps to cancer patients for use at home.
- Individuals suspected to be suffering from or diagnosed with cancer are to receive necessary treatment within 12 weeks.
- Provision of medicines for people suffering from multiple sclerosis.

PEOPLE WITH DISABILITIES

- Subsidies for parents who opt out of working to take care of a child with disabilities will increase to €4,500 yearly, up from €500.
- Tax credits of €200 per child will be given to parents of children with disabilities.
- Subsidies for the purchase of vehicles adapted for persons with a disability.
- Means testing for social housing will no longer include income government allowances.

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TOURISM & GOZO

- Investment of €60 million in sustainable urban development initiatives in Gozo.
- 10% tax credits for start-ups and businesses operating in Gozo are to be increased to 20% if the business invests in projects that reduce their carbon footprint.
- Partnering with the Gozo Tourism Association to attract tourism in Gozo.



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Accountants &
business advisers

CONTACT US



15, levels 3-4, Mannarino Road Bkara, BKR9080, Malta



+356 2148 4373



+356 2149 3041



www.pkfmalta.com



info@pkfmalta.com