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Ministry of Finance
BUDGET SPEECH
2003

Honourable John Dalli
Minister of Finance
Malta
25th November, 2002

Introduction

Mr. Speaker,

We have strengthened our country.

Notwithstanding that our country has an economy that is small and vulnerable to all that happens worldwide, we held our own, and not only did we not slump but we continued on our way forward.

The last fifteen months were extremely difficult for every country worldwide. Large and small countries, strong and weak, rich and poor, all felt the pressure on their economies that came both from the adaptations needed to be made after the fast changes in the previous year and from the big uncertainties of a future clouded by the fear of violence and terror.

We laboured on prudently.

We were not scared by the odds against us. We managed to overcome the negative effects that were thrown at us. We undertook measures, even at no small risks, so that we could overcome adversities and our people would continue to live better off.

At the same time, we continued with our structure building so that, like an orderly and modern society, we could share a place at the main European table where important decisions are taken that impact on our lives and on those of our present and future generations.

A major global change is taking place, a change that will accelerate in the future. Our country must face all this change with the difficulties and opportunities that it may bring. It would not be possible to stay still as if we were rooted to where we stand. We must undertake the necessary steps with determination, courage and judgement in order to go forward. We must choose the right road that leads to realistic opportunities and that is opening up in front of us, with all its uphill and down hills. If we are tempted to open up ourselves to a world of

fantasy than we are condemning our country to fall back. The wizard of Oz does not exist.

2002 – we held our own in a difficult year

After the devastation of the 11 September of last year and the shock on a major number of countries, consumption declined all round.

As if this was not enough, we are still going through global uncertainties with an ever worsening situation in the Middle East and with threats of an attack on Iraq. For instance, we saw an increase in oil prices from \$13 per barrel, as it was when this Government came to power four years ago, to \$30 per barrel. This pushed up inflation in many countries and continued to weaken consumption.

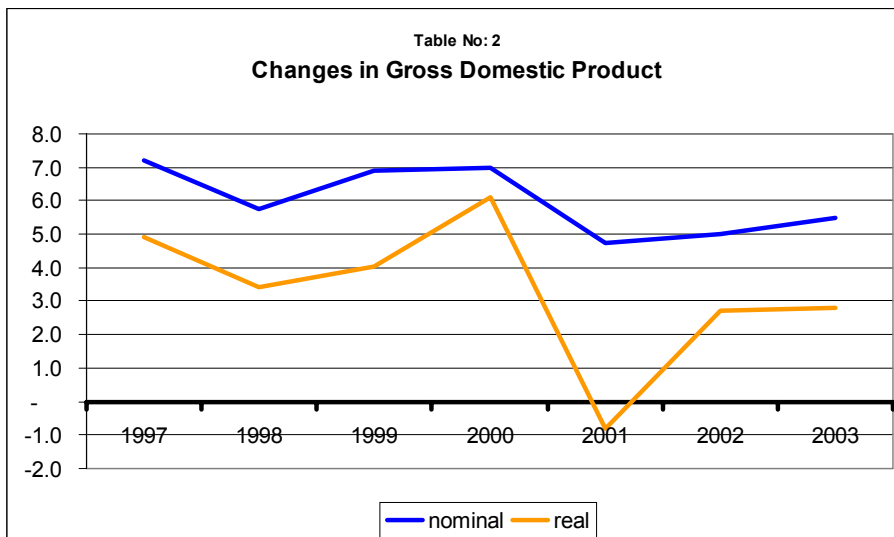
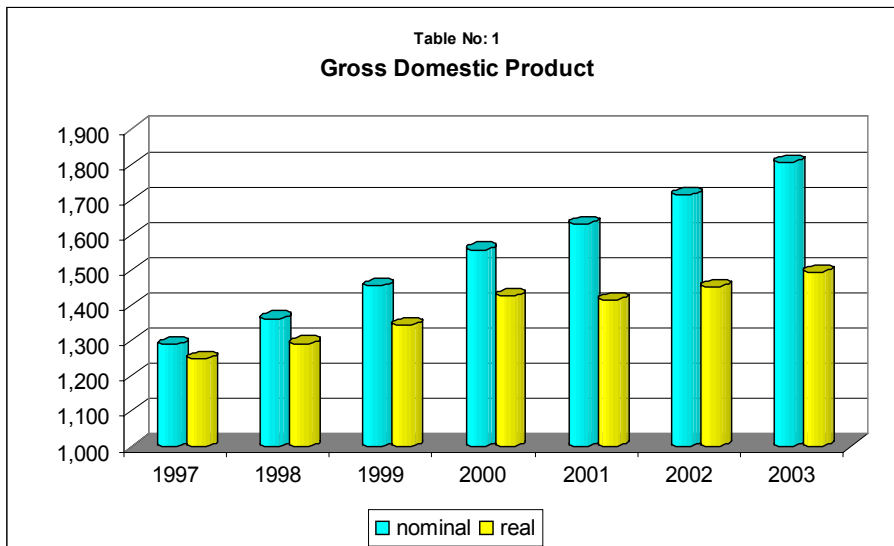
The economy in 2002

All this impacted negatively on our exports of goods and services. The electronics sub-sector and the tourism sector were mostly hit.

Because we acted judiciously and undertook timely corrective measures, the negative impact did not exert undue pressure on us as it did on our neighbouring countries and on small states like ours.

The Gross Domestic Product

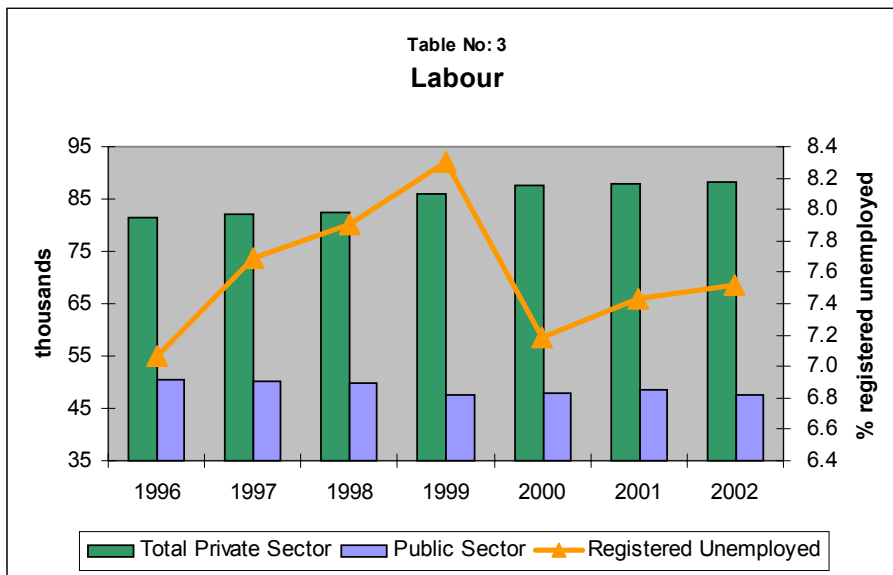
After we experienced a decline of 0.8% last year, our Gross Domestic Product this year is projected to increase by 2.7% in real terms mainly as a result of an increase in public and private consumption as net exports may take longer than expected to pick up. Hence, private consumption is expected to increase by 1.8%, public consumption by 3.1%, investment by 1.4%, exports by 1.9% and imports are expected to go up by 2.3%. In nominal terms, the Gross Domestic Product is projected to go up by 5.0%, from Lm1.632 billion in 2001 to Lm1.714 billion this year.



Employment

We have also succeeded to increase employment even in such difficult times. In the first nine months of this year, 300 new jobs were created

in the private sector so that at present we have 88,268 employed full time in the sector. During the same period, permanent employment in the public sector went down by almost 800 jobs so that we now have a total of 47,651 persons employed in this sector full time. This decrease is due to the early retirement scheme that was successfully implemented in the shipyards and to Government's recruitment policy of filling only essential vacancies. At present, public sector employment makes up 34.8% of those gainfully employed. This represents around 2.4 percentage points less than when this Government came in power four years ago.



Income from employment continued to increase and the average per capita wage went up from Lm90.57 to Lm109.43 since when this Government came in power four years ago. This represents a weekly increase of about Lm19 or 21%. During the first nine months of the year, income from employment was Lm558 million, that is, Lm108 million or 24% more than what it was four years ago when this Government came to power. This was not only due to wage increases but also to continual changes in our economic activity, which was generating more income than when under the previous administration.

These are the results of a bold Government that never shunned to push change forward.

Economic Activity

Income from the private sector also went up. Since this Government came in power four years ago, income increased by Lm48 million, when compared with the first nine months of this year. Those with acumen, instead of giving in to fear that is spread around by those who, because of lack of vision, fear change, recognize that the upcoming change will bring about opportunities that we can all take advantage of.

The manufacturing sector retained its employment level: however, while domestic sales increased by around Lm9 million during the year, exports went down by Lm29.5 million. Figures show a decrease of Lm33.3 million in the electronic sub-sector and an increase of Lm3.8 million in other sectors. The figures for these recent months show that the electronics sub-sector is regaining ground and this will have positive bearing on overall results.

Tourism

Government showed foresight particularly in the tourism sector as this was mostly and negatively hit by the worldwide recession and by the events of the 11 September 2001. Here, Government increased its investment so that the Tourism Authority would be in a better position to market the local product internationally. This served, so that, in the critical months, Malta did not lose out as much as other destinations and now heads the list with the positive results it is achieving.

The Freeport

As a result of managerial efforts, we expect that this year will end up better than when it started – with contracts worth around Lm1.5 million TEUs annually. This has been achieved in spite of the fact that

the Freeport experienced some difficulties when it lost an important client during the year.

Privatisation

We continued our work on privatisation and we succeeded to finalise the choice of a strategic partner for the Malta International Airport plc and the sale of 40% shareholding. We are pleased with the way the negotiations were concluded, mostly when we compare what we achieved with what the previous Government had tried to achieve.

The Malta International Airport plc

One may recall that the previous Government was about to transfer 40% of the Malta International Airport plc., with all its pertaining assets, that is, the Air Traffic Control Services and the Airport Security Services, as well as the full ownership of the terminal building. The price tag for all these assets was Lm12 million.

What we did was to take back the title of full ownership of the property and we gave back to the Company on temporary emphyteusis, we removed from the company the Air Traffic Control Services and the Security Section, and we undertook transactions which, between the asset yield, fiscal dues and the payment of a special dividend generated an income of Lm40 million.

A few days ago, we launched the second stage through an IPO of another 20% shareholding of the Malta International Airport plc. These shares were offered to the public and wholly taken up.

Malta Freeport Terminals Ltd.

In the case of the privatisation of Malta Freeport Terminals Ltd., Heads of Agreement, that relate mainly to commercial issues, were recently signed with a bidder. We must ensure the best deal that would secure employment and good management for the company. And this in everyone's interests.

Public Lotto

Negotiations on the privatisation of Public Lotto are about to be finalised and discussions are currently in place with Lotto Receivers. The consortium at the other side of the table is a highly quoted shareholder in a company listed on a European stock exchange and operating world wide including in the US defence sector.

We are at present analysing all the information available to us so that with expert advice we take decisions that are based on facts.

Mediterranean Offshore Bunkering Company Ltd.

We have now launched the privatisation process of Malta Offshore Bunkering Company Ltd., and, only recently, a call for interest was published.

Economic Survey

A detailed account of the country's economy is found in the *Economic Survey* of which I am placing a copy on the Table of the House. An overview of the economy this year, and of our forecast for next year, is being provided in Appendix A with this Speech.

Monetary Policy

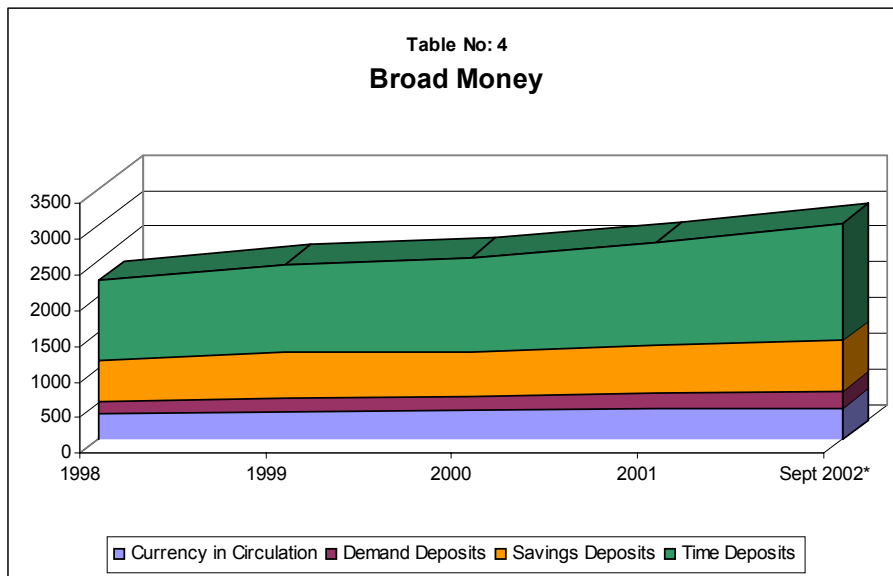
We took the last step towards full autonomy for the Central Bank in the management of monetary policy. In this way, another function, this time in the economic evolution of our country, passed from the politician to the technocrat. In this way, the economic stability of the country will be underpinned by objective management.

For a long number of years, now, we have been pegging the Maltese lira to a basket of currencies that reflects our external trade relations. We have, this year, reviewed this currency basket so that a share of the

US\$ weighting was passed on to the Euro. Therefore, now, the Euro makes up 70% of the Maltese lira, the British pound 20%, and the US\$ the remaining 10%.

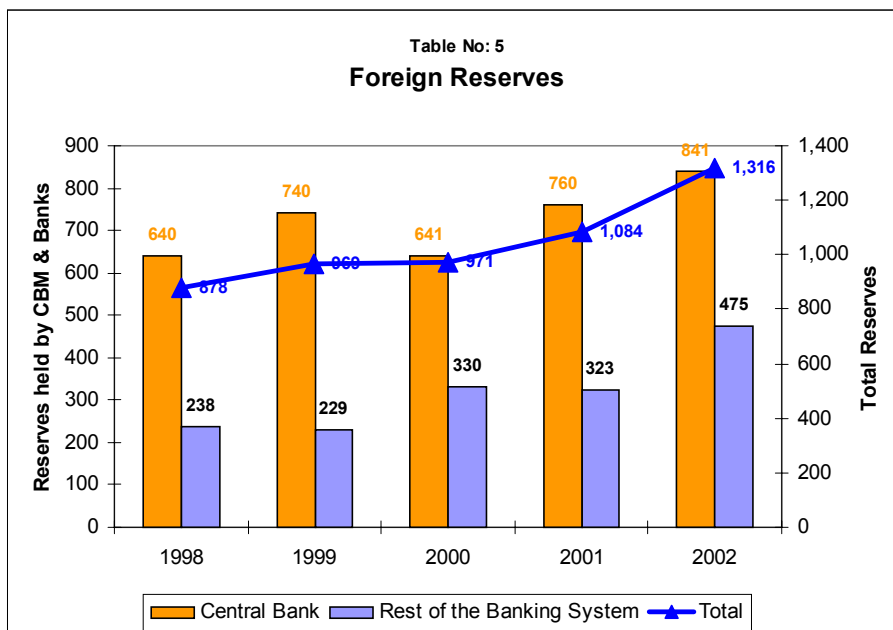
The Monetary Sector

Bank deposits increased substantially and have now reached Lm2.3 billion. This represents an increase of Lm289 million for this year and an increase of Lm702 million since this Government first came to power four years ago.



While the growth last year was pushed up by the increase in local debt, the major thrust this year for the increase came from foreign reserves.

Foreign reserves expanded substantially and currently amount to Lm1,304 million: an increase of about Lm220 million from last year and of Lm440 million since this Government came to power four years ago. The increase was registered both in the reserves held by the Central Bank and in those held by commercial banks.



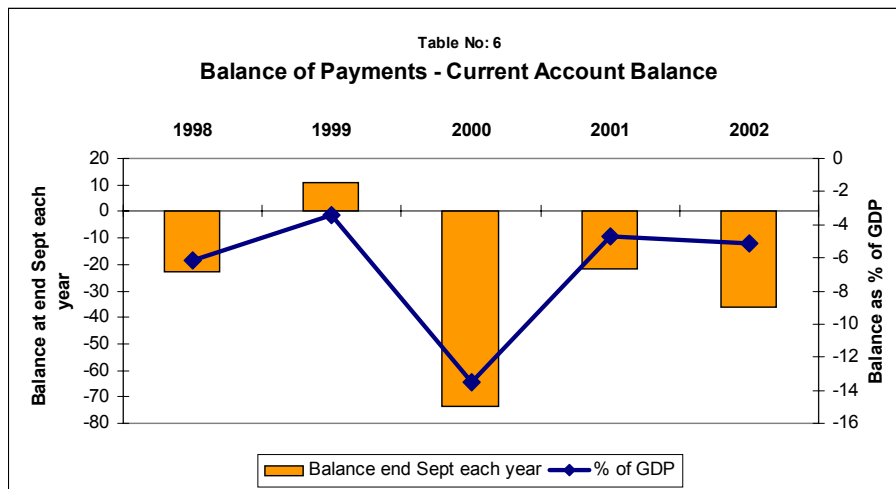
This result was achieved both because local interest rates were somewhat higher when compared with those abroad and, because of the international uncertainty which kept investments from flowing overseas. Another factor that had an impact was the successful Registration Scheme for Investments held overseas by Maltese residents which I had launched in my Budget Speech last November. Those who have not yet taken advantage from this scheme can do so up by the end of December.

All I can say is, that over last year, the pressure to introduce among tax authorities worldwide an information exchange system on non-residents continued to pick up rather than to recede.

The Balance of Payments

In the first nine months of this year, the current account or that which shows the difference between the outflows and inflows of foreign exchange in the balance of payments, has registered a decrease of around Lm14 million when compared with the same period last year.

This is the result of less income from services and current transfers that was partially offset by an increase in trade transfers and from income from investments.



Inflation

Inflation is also under control and compares well with the levels found in advanced economies and in the European Union. Inflation started to raise its head at the end of last year; however, it is now showing signs of receding. For the twelve months up to September 2002, the average inflation rate was 2.9%. According to the current method of calculation in adoption since 1990, this inflation rate translates into a cost of living increase of Lm1.75c per week.

This year, the inflation rate is expected to be 2.6%, while that for next year it is projected to retain the same level at 2.5%.

Developments in the Financial Sector

Financial Services

The financial services sector is rapidly growing and presently, this sector contributes 12% of the GDP while it provides work to about 4,900 employees excluding another 250 on a part-time basis. These do not include audit firms that operate in this sector.

We managed to gain everyone's esteem as a dynamic and serious jurisdiction that offers a wholesome and efficient environment for trade activity and for international investment. This is the wisest way to open up new sources of income that benefit our people and of earning tax revenue that does not come from people's income. In fact we have earned Lm7.0 million in taxes from this sector.

While the Central Bank will retain its role in monetary policy and in the payment system, the Malta Financial Services Authority will concentrate on supervision over all those operating within the sector, that is, the banks, the Malta Stock Exchange, financial intermediaries and those requiring a license to operate in the sector.

During the year, we have set up the Financial Intelligence Analysis Unit (FIAU) with the competence of analysing reports of suspected transactions that may involve money laundering. This will continue to increase the respect that Malta enjoys in the international financial sector.

Another important development that happened this year was the publication by the Malta Stock Exchange of principles of corporate governance. I encourage everyone to observe these principles and adapt to them. The trend in the financial world is for these principles to become mandatory.

The Stock Exchange

Corporate bonds placed on the market during the year that were immediately over-subscribed. This is evidence of the excess liquidity that exists in the market.

Share trading on the Stock Exchange was subdued although the recent share issue of MIA shares was wholly subscribed. We continued to observe that many investors buy shares but only a few trade in them. This lack of activity leads to prices quoted on the Exchange to reflect in a distorted manner both the performance of the company whose shares are being traded and that of the economy.

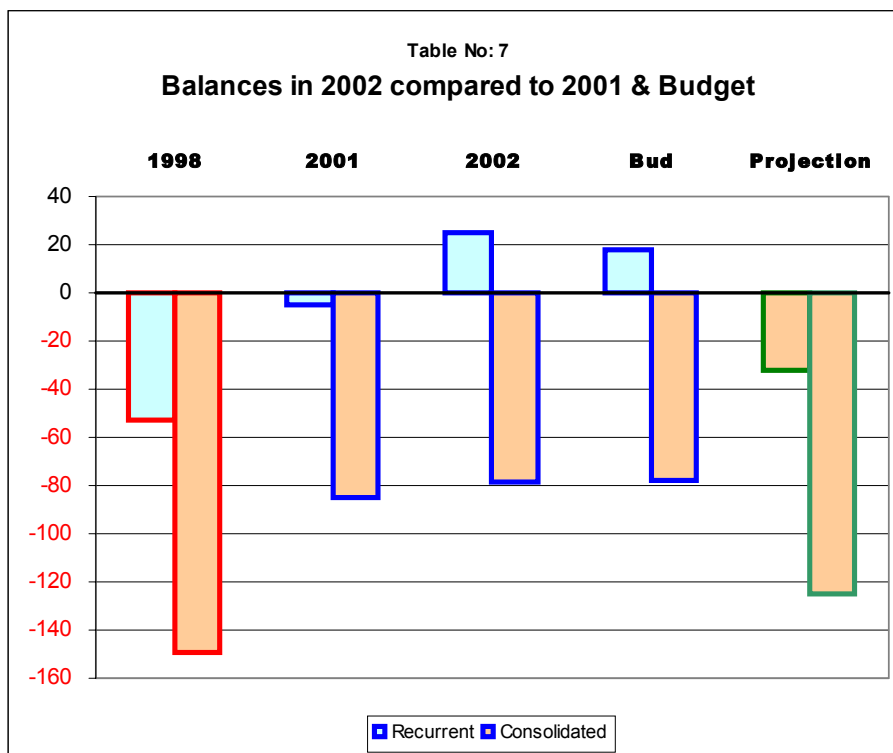
As we compare the Share Index of our Exchange over these last five years with those of others worldwide we observe that, while our Index has not been similarly hit, it does not move in line with international trends.

The Financial Situation in 2002

A look at the financial situation reveals that even in difficult times, we retained control over the fiscal deficit and we have kept it at the level we had targeted for.

Hence, the imbalance in the Consolidated Fund this year is expected to be Lm78 million, this is within the limits of our projections made in November last year. This imbalance represents 4.6% of the Gross Domestic Product. It means further that the deficit was reduced by more than Lm7 million from the previous year.

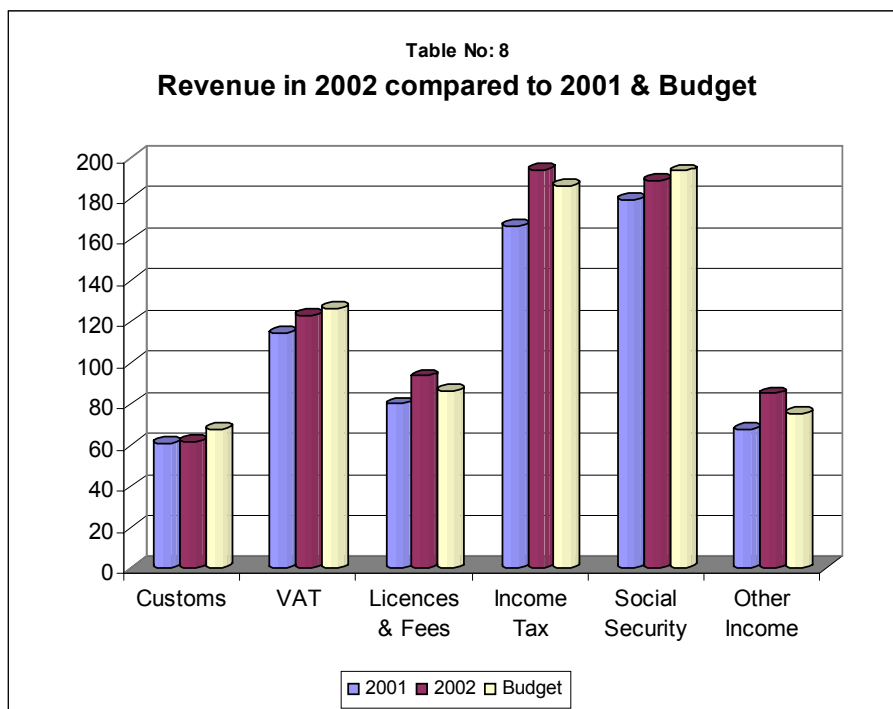
One should note, that in the plan that we drew up in 1998 for the following six years, this year's deficit had been projected at Lm125 million. This means that we improved the position by Lm47 million.



All this goes to show how wrong are those who weep and wail with the sole purpose of discouraging us and the people’s will. They continually and presumptuously make up damaging and unfounded statements. They have not yet come to terms with the considerable change in the way things are done. Just to give one example which, however, is important: 50% of provisional tax is paid with the end-of-year declaration. This change was introduced so that we ease the cashflow constraints of local enterprises.

Government’s revenue in 2002

The receipts this year, notwithstanding the tax deductions of last year, will go up by Lm78 million. This makes up Lm11 million more than we had projected in November of last year.



How is this increase accounted for? This increase is the result of the Government's ability to administer and negotiate well. It is the result also of the fact that, notwithstanding, like in all other countries, we had a great pressure on Government's revenues as a consequence to economic slowdown, we succeeded to stand our ground, as this Government is not one that shudders and shuns away from problems.

This is a bold Government that faces problems with determination as they arise. This is the way to overcome them. This is the way of expressing loyalty to those who trusted you with the Government of the country.

An overview of the revenue figures shows that, in all instances, receipts were in excess of last year, even deducted the one-off payments.

Receipts from tax on income were Lm28 million more than last year, or Lm8 million more than last November's projections. This is because we are seeing increases in income and in profits and because tax declarations have become more realistic. We observe, moreover, that revenue sources, such as tax from companies that operate in the financial sector is slowly increasing. It is worth noting that this year we had Lm5.4 million receipts from the MIA privatisation process.

VAT receipts are expected to amount to Lm123 million, that is about Lm8 million more than last year, but about Lm3 million less than which we had projected. Primarily, this resulted from less imports than had been forecast and from the decline in tourism from the last quarter of 2001 up to September of this year. Duties on imports that are expected to be Lm12 million, represent a slight decrease over last year, and will, in fact, be Lm5 million short of our original projections.

From social security contributions we shall register receipts amounting to about Lm189 million, or Lm10 million more than last year. This is also about Lm4 million less than what we had projected. This shows that, as wage incomes continued to increase, the impact on tax revenue continued also to be felt as a consequence to the structural reforms in some of the state enterprises such as the Shipyards and Maltacom, and in private enterprises which as they opted for cautious restraint, clamped down on recruitment.

Receipts from licenses and fees were about Lm7 million more than those originally projected. From this amount, Lm5.5 million were paid in stamp duty on the transfer of property of which Lm4 million came from transactions with MIA. Receipts from levies on imports are estimated to be Lm3 million more than projected as the reduction in the rates for levies was offset by a huge increase in the imports of products that were originally subject to levies.

Income from other sources is expected to amount to Lm85 million by the end of the year. This represents about Lm17 million more than last year and Lm10 million more than our projections in November of last

year. This increase is mainly due to the payment of a special dividend of just over Lm11 million made by MIA.

This is evidence of Government's efficiency in the collection of revenue. One can also see that what was said about the MIA transactions were empty words. The way these transactions were recorded in the Treasury accounts was totally in accordance with our financial regulations. For those who premised that these receipts had been used to make up for shortfalls in Government revenue, we have drawn up Table Number 9, which I ask the House to take as read, in order to show that even excluding these receipts, Government will be exceeding the revenue figures both for last year and for those projected for this current year.

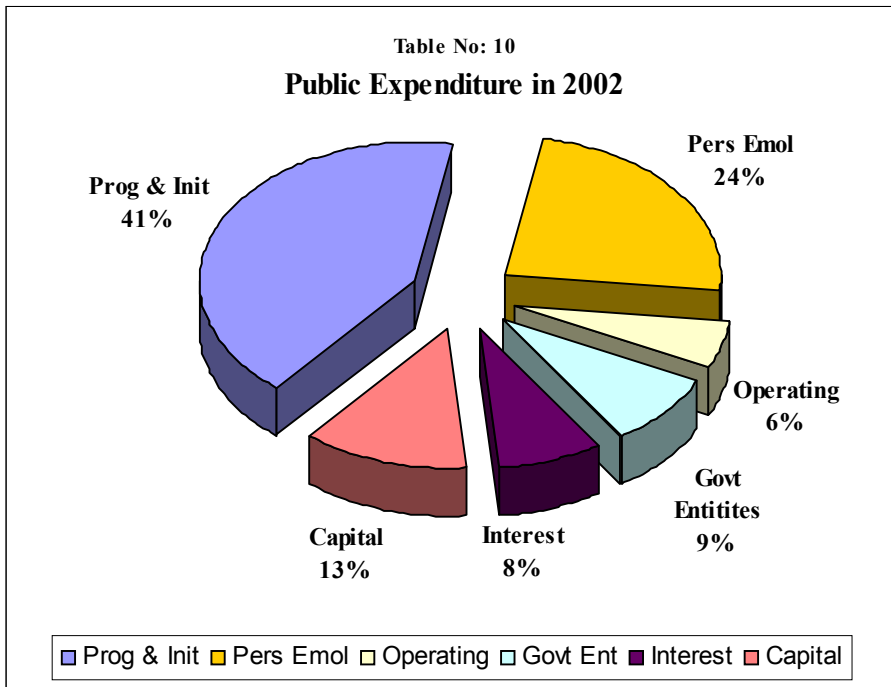
Table No 9

Lm milioni

	2002					2001	
	Revised Income			Approved Estimate		Actual Income	
	Total	MIA	Net	Total	Diff	Total	Diff
Income Tax	194.0	5.4	188.6	186.1	2.5	166.3	22.3
Duty on Documents	27.0	4.0	23.0	21.5	1.5	19.4	3.6
Fees of Office	13.8	0.3	13.5	13.7	-0.2	6.1	7.4
Dividends	14.2	11.3	2.9	2.2	0.7	5.3	-2.4
	249.0	21.0	228.0	223.5	4.5	197.1	30.9

Public Expenditure in 2002

Public expenditure is also under control. Total recurrent costs went up to Lm721 million, of which Lm64 million are public debt interests costs, Lm197 million are wages, Lm343 million are social programmes, Lm70 million are contributions to Government entities and public institutions, among them the Shipyards, Water Services Corporation, the University, MCAST, all Regulatory Bodies and Zammit Clapp Hospital, etc. Operational and maintenance costs in 2002 are expected to amount to Lm47 million.



Total public expenditure in 2002 is expected to go up to about Lm825 million, that is, around Lm12 million more than what we had originally projected and around Lm71 million more than last year.

When we add up the cost of wages and the operational and maintenance cost we observe that these amount to Lm500,000 more than those projected and Lm3 million only in excess of last year's. The increase over last year was due to wage increments in Government's payroll which have to be paid.

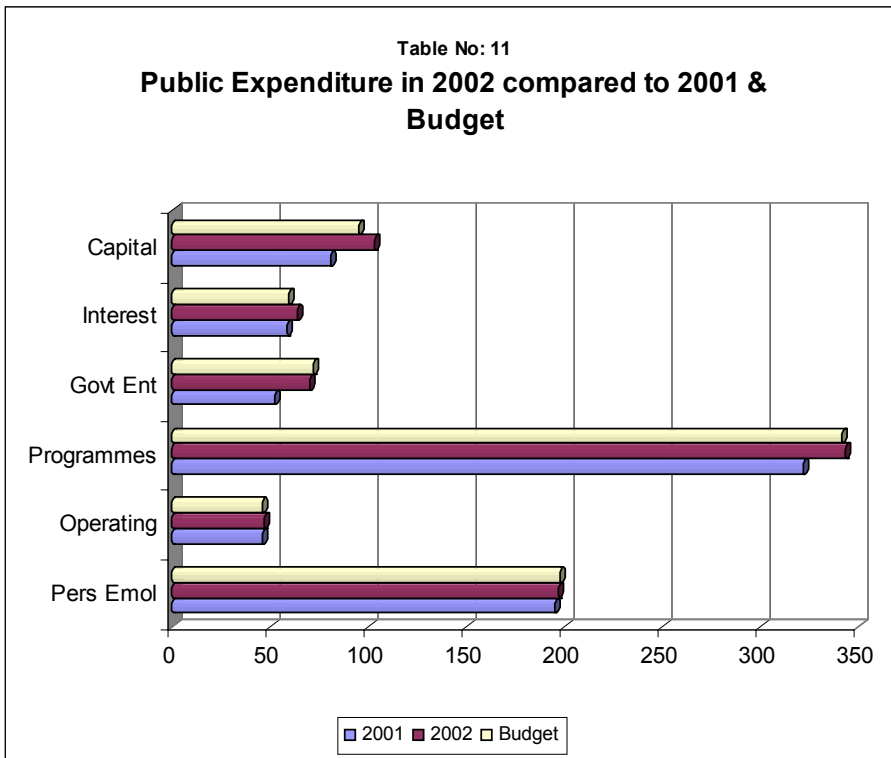
In the social sector we shall be spending Lm343 million by the end of the year. This is Lm2 million more than our original projections after we have paid Lm6 million more in Treasury pensions as more people retired from Government service than in the previous year. Hence, we shall have spent Lm22 million more than last year on social costs.

In contributions to public entities, this year we shall have spent Lm70 million. This amounts to around Lm3 million less than what we had originally projected as the terminal benefits that we had planned to pay out under the Early Retirement Scheme for the Shipyards were, in fact, paid out of allocation for capital expenditure.

During 2002, capital costs are expected to reach Lm104 million. These are Lm23 million in excess of last year and around Lm8 million more than the commitment appropriation for this year.

When we compare capital expenditure in 2002 with that in 2001, we observe that we shall have spent Lm2.5 million more on roads, and Lm1 million in subsidies for the purchase of new route buses. We paid Lm6.6 million in terminal benefits for retirees from the shipyards under the early retirement scheme and Lm13 million more than last year on the new Mater Dei Hospital. In fact, this year, capital expenditure on this hospital is expected to be Lm29 million.

This is the way that revenue from taxation is spent: in services to the public and in investment for the future.



I am reproducing hereunder Table No. 12 which I ask the House to take as read, and which shows the financial results for 2002 as compared to our original projections made last November and with those for 2001. This Table shows receipts from all sources and the budget allocations for expenditure as well as the difference in figures in terms of amounts and percentages.

Table No: 12

Consolidated Fund revised for 2002 compared with Budget and 2001							
Tabella Nru 12	2002	2002 Budget			2001		
			Var	%		Var	%
Direct Taxation	383.00	379.50	3.50	1%	345.36	37.64	11%
Inland Revenue	194.00	186.10	7.90	-4%	166.30	27.70	17%
Social Security	189.00	193.40	(4.40)	-2%	179.06	9.94	6%
Indirect Taxation	278.20	280.43	(2.23)	-1%	255.45	22.75	9%
Customs	11.75	16.60	(4.85)	-29%	12.22	(0.47)	-4%
Sisa	49.88	51.20	(1.32)	-3%	48.67	1.22	2%
Licences, Taxes and Fees	93.57	86.13	7.44	9%	79.90	13.67	17%
VAT	123.00	126.50	(3.50)	-3%	114.67	8.34	7%
Other Income	85.07	75.23	9.84	13%	67.82	17.26	25%
Personal Emoluments	197.07	197.64	0.57	0%	194.97	(2.10)	-1%
Operating & Maintenance	46.52	45.23	(1.29)	-3%	45.32	(1.20)	-3%
Special Expenditure	0.77	0.67	(0.10)	-15%	0.74	(0.04)	-5%
Programmes & Initiatives	343.20	341.70	(1.50)	0%	321.56	(21.65)	-7%
Contribution to Govt Entities	69.87	72.41	2.54	4%	52.05	(17.82)	-34%
Capital	103.60	95.42	(8.18)	-9%	80.63	(22.98)	-28%
Recurrent Revenue	746.28	735.16	11.12	2%	668.63	77.64	12%
Recurrent Expenditure	657.43	657.65	0.22	0%	614.63	(42.80)	-7%
Debt Servicing	63.73	59.75	(3.98)	-7%	58.66	(5.07)	-9%
Recurrent Balance	25.11	17.76	7.36	41%	(4.66)	29.77	-639%
Structural Balance	(78.49)	(77.66)	(0.82)	1%	(85.29)	6.79	-8%
GDP	1714	1700			1618		
Recurrent Revenue	43.5%	43.2%			41.3%		
Recurrent Expenditure	38.4%	38.7%			38.0%		
Debt Servicing	3.7%	3.5%			3.6%		
Recurrent Balance	1.5%	1.0%			-0.3%		
Structural Balance	-4.6%	-4.6%			-5.3%		

A Prudent and Efficient Government

We have had success in our aim to reduce the deficit. This succeeded because four years ago this Government gave a clear direction to the administration of the country. We presented to the people a six-year plan based on four principles:

1. Growth of our economy as we initiated a programme of reform that would increase our efficiency;
2. Fiscal efficiency which is the fundamental basis for the implementation of social justice;
3. Reduced public expenditure;
4. A full and strong commitment that in our country nobody looks back.

Although during these last four years unforeseen events have changed the cause implementation our planned programme, we managed to keep the situation in check and to end up with improved results.

The deficit has not decreased at the cost of other needs. We did not push aside the need for development and other essentials for our country as well as for the betterment of the quality of life for our people.

We did not behave like archaic governments of the past who faced problems by pushing down on most basic needs of the people.

We have wisely found moderation between balance and development.

Being prudent does not mean being a miser, it does not mean skimping.

Being prudent means creating balance.

Wholesome and useful Work

We have been in Government for four years and we have implemented wholesome and useful work. We have made a difference to all sectors. In all sectors we have focused on the need for each and every one of us to improve on his quality of life.

We can face the people and tell them: “We have strengthened our country so that you can enjoy a better standard of living”.

We have taken care of all the basic needs of our citizens: at the workplace, in care, in teaching, in training, in sports, in culture, in health, in civil protection, and in the environment.

Downers have been grumbling for a number of years that this is a Government that has only focused on access to the European Union. This is a noble aim that a strong effort should be applied to achieving it. However, this efficient Government was able to lead the country towards membership in the European Union while at the same time continue with its firm commitment to consolidate its structures that improve the quality of life for our people.

Whatever their efforts, these downers, tried to cloud the successes of this Government that started its work after their amateurish and haphazard management. Facts continue to show them in the wrong.

My friends, I have drawn up a list of the activities of this administration during the last four years it has been in Government. The record is impressive. The list of projects and initiatives that have been implemented is too long to reproduce in this Speech – although I would have liked to do this. As an Appendix to this Speech I am including an account of the work that this Government has carried out in the four years since it was returned to power after the electorate changed in a short period of time who had been in Government. However, I wish to give a review of these facts quickly.

The Malta Council for Economic and Social Development

In these four years in government, we have strengthened dialogue with all the social partners so that the development of our country can take place with the widest consultation possible.

Reforms in the Tax Collection System

During the last four years we have been in Government, we have increased the efficiency in the collection of taxes without putting constraints on those who could not afford to pay. We removed bad practices that were gradually overtaking the tax administration, and we have introduced discipline.

Lm240 million Collected in Taxes

The Opposition has been claiming that during these four years that we have been in Government we have burdened the people with a total of more than Lm240 million in taxes.

What is the origin of this story?

When one compares revenue income over these last four years with all Government receipts made for 1998 when the Opposition was in Government, one would find a difference of about Lm240 million. In fact, as soon as I end this Speech this figures would increase to Lm260 million.

	<i>Lm millions</i>					
Year	1998	1999	2000	2001	2002	2003
Total Income	504	551	612	669	746	771
Year on Year Change		47	61	57	78	24
Cumulative Change		47	108	165	242	266

What the Opposition is saying is not only far from the truth, but is simply the product of fantasy.

In the first place Government receipts do not come only from tax sources.

Secondly, a huge share of Government receipts in fact comes as a result of economic growth which produces more revenue without the need for new taxation.

Thirdly, another major share of Government receipts comes from improved efficiency from tax collection and from cut down of abuse. I cannot understand how the Opposition can criticise all this.

We can estimate the increase in Government receipts from the growth in taxation that took place over the years since we took up administration. The result is that from a total income of Lm260 million that would have accumulated over these five years, less than Lm70 million can be attributed to changes in the tax regime.

But more than that: the Opposition does not speak about the taxation imposed by them over the two budgets which they had managed before being pushed out of Government. In only two years, Government receipts emerging from a new taxation are estimated at Lm60 million.

Better Spending of Public Funds

We have worked hard to control public expenditure. In our view, controlling expenditure does not mean cutting on costs. It means exercising diligence so that we get value for money spent. We have carried out studies in different areas of Government so that we could ascertain the needs and costs.

We have confirmed that state benefits are going to those who are entitled for them.

We have controlled the Government payroll by restricting new recruitment, by skilful negotiation of a new collective agreement and by careful scrutiny of all overtime requirements and the payment of allowances.

Efficiency reviews announced last year are in progress so that we may establish efficiency benchmarks in the public sector. The operations in nine public sectors are being received:

Investment

In the four years of administration we had a high level of investment in our country. This was recognised in the World Investment Report published recently by UNCTAD. In this report, UNCTAD analysed 140 countries in order to determine how the level of foreign investment in these countries compared to their Gross Domestic Product. As a result of this exercise, Malta was placed 5th among these 140 countries.

Although we have the uncertainty being nurtured by the Opposition, this hard working administration has managed to overcome uncertainty and generate investment from companies already operating locally as well as new investment. All this has taken place as those interested in investment see the seriousness and the commitment of this Government to membership of the European Union and, after this, the better access that he will have to operate from our country in larger markets abroad.

We have also reviewed our strategy in order to attract investment to come to Malta.

Agriculture and Fisheries

In the four years in Government, we have built structures, strengthened the resources in the Ministry for Agriculture and Fisheries and created the legal infrastructure so that we can be in a better position to introduce schemes for assistance and subsidies so that the farmers,

herdsmen and fishermen can continue labouring and generate profits even in a competitive environment that they must face in the future.

For fishermen we are launching a scheme with a capital of about Lm2.4 million in order to assist them in modernising their fleet.

The Filming Industry

In the last four years we have made huge advances in this sector and we have managed this year for the first time to have at least one production on-line every day of the year.

Tourism

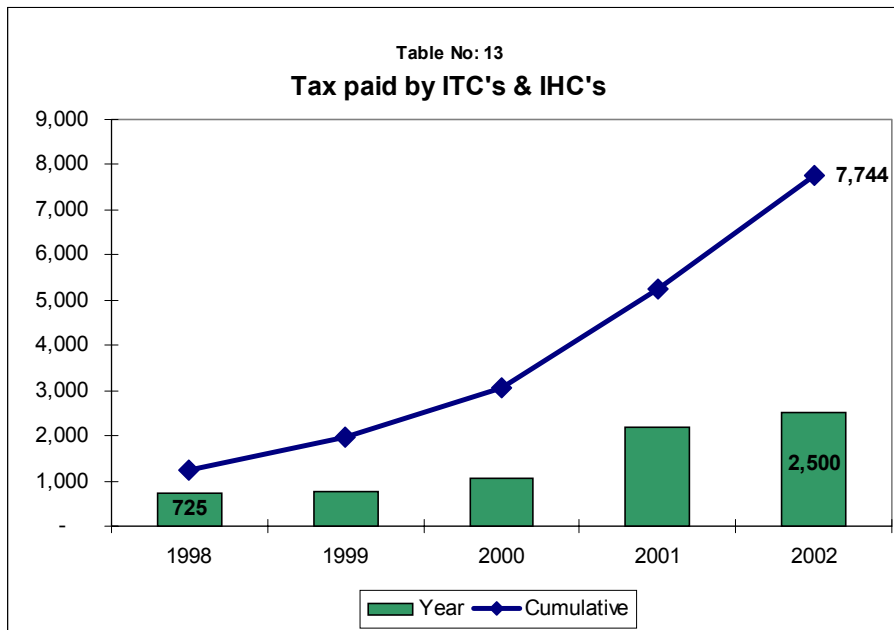
In these four years in Government we have invested directly Lm34 million in this important sector. We have changed our marketing strategy to achieve more diversification and we have intensified teaching and training.

With a concerted effort we have managed to overcome the events of the 11th September before others. The results for October show that the industry is coming back to normal.

Financial Sector

Here we have made big strides ahead and this sector is flourishing to the country's benefits. Many foreigners are investing in Malta in International Trading Companies, in International Holding Companies and in Funds. We have this year updated our financial services legislation so that we can introduce new instruments that are required by international markets.

In this sector, we have today over 3000 registered companies, all actively in operation and providing employment and paying taxes which so far amounted to Lm7million.

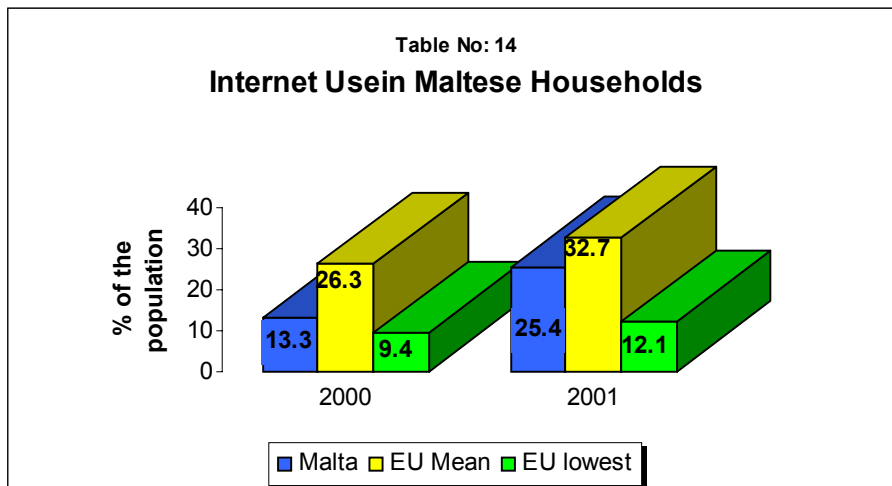


Innovation

The future of a small country like ours in a rapidly developing global economy requires that we develop a knowledge society – a country built on knowledge.

The use of internet has doubled between the years 2000 and 2001 and the rate by which this is increasing is so strong that we are rapidly approaching European levels.

The Research, Technology Development and Innovations (RTDI) audit shows that we have moved significantly forward these last four years that we have been in Government and that we have a good basis for the future.



We are unfolding a Technology Foresight programme that looks at technological developments for the coming years.

We have participated in the 5th Framework Programme for Research and Development of the European Union and as a result of this our researchers and industrialists participated in 47 projects and obtained funding of more than €3 million from the EU.

Entrepreneurship

Our companies will be increasing their income by Lm70 million when comparing this year with 1998 before we took over the Government. In fact, when comparing their profits during these last four years of this Government with those of 1998, the income of small and medium sized enterprises would have increased by more than Lm200 million.

The self-employed

Our work, during these four years, was focused in the development of cultures to introduce an entrepreneurial policy. We want to adopt the European Charter for Small Businesses which gives priority to individual business. This culture helps services that are provided by the businessman will be simplified and improved so that efficiency and competitiveness will increase.

We continue to give as we have already done, special attention to the artisan sector. We shall now construct both the Ta' Qali Crafts Village as well as a number of new industrial zones for small enterprises as well as provide for the better management of other existing industrial zones.

Liberalisation

We have liberalised the important sectors both because they are huge and more so because they have a strong effect on the economy as a whole.

We are nearing the end for the liberalisation process for commerce and trade.

We have liberalised the communications sector.

Everyone recalls how the downers strongly criticised the move. Today, everybody knows how much these downers were wrong.

We have liberalised the interest rates. This means lower credit costs for local businessmen and for our youth and others who want to purchase their own residence.

An Organised Society

During these last four years, we have put in place a modern system of control which operates in a more liberalised economic framework. This ensures fair competition between operators themselves so that nobody

would enjoy a monopoly while the consumer is protected in order to ensure that he would receive the best services, a prime product and low prices.

Teaching and Training

During the four years in Government we built an educational system for the future.

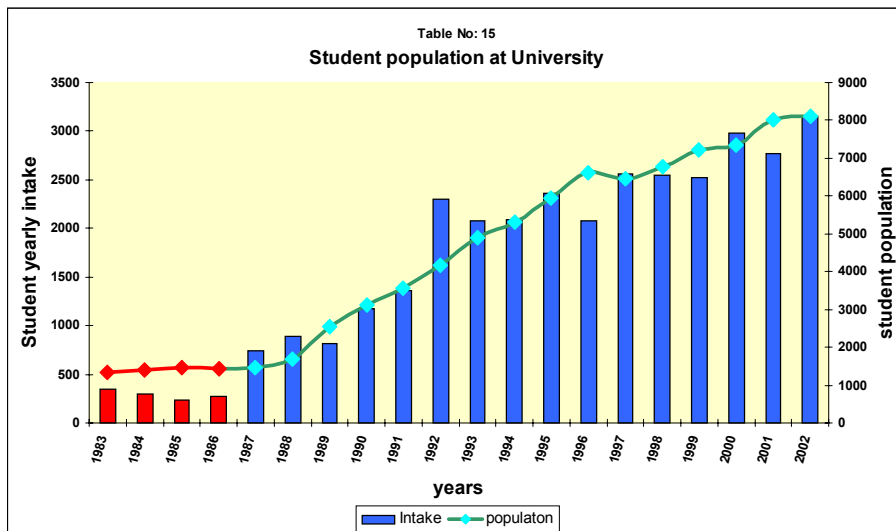
We have initiated a radical change in the National Minimum Curriculum so that our children learn what is more relevant for today's world and so that we concentrate more on their better development. In this way, we ensure that we have better citizens in the future.

We have reconstituted the Malta College for Arts, Science and Technology which had been dismantled by archaic Governments. In this way, we are concentrating on efforts so that our youth will develop disciplines that are mainly sought in today's labour market.

The computers, which were condemned by an archaic Government, have been installed in our schools for the benefit of all our children, even in primary schools. Training in the use of computers and in the use of information technology has increased in our schools and we take great pleasure in seeing the way the use of computers is being sought by people of all ages.

We have established the Foundation for Tomorrow's Schools so that, over a shorter time and with less costs and great efficiency, we provide a more welcoming environment for our children in the schools.

The number of students following the traditional and new disciplines at our University continued to increase. The governments of the past closed the University and opened it slightly with the points system. Today, we have more than 8000 students, which is an increase of almost 1400 in the four years that we have been in Government.



Employment

In the economic sector we have created employment in the most value added sectors. We have plugged the haemorrhage in the loss of jobs that we experienced in 1997 and 1998. Today, we do not only have an increase of 3600 gainfully employed during these last four years, but income from employment will be higher than Lm120 million annually. In the days of archaic Governments investment was attracted by the low labour costs. We have changed this approach and, today, our message is that we have workers who are trained and skilful.

We have not only created employment, but in the last four years since we started in Government, we have bettered the working conditions of our workers and brought them on the same level as those in Europe. We have improved health and safety requirements at the workplace. In the area of industrial relations we have strengthened the national mechanism for the avoidance of industrial disputes while at the same time we have put in place the necessary guarantees for our people so that essential services will continue to be provided even during an industrial dispute.

In these last four years, we have doubled the funds to the Employment and Training Corporation so that it may provide more teaching and training.

E-government

We are not only teaching informatics: we are also using it and we have laid most of the necessary groundwork so that Malta can be indeed recognised in the forefront in the information technology area. In the last four years we have been in Government, we have organised Government Departments so that they provide their services to the public in electronic format. Apart from the schools, we are making this technology accessible to everyone through teaching and the provision of hardware.

Transport

The Malta Maritime Register is the fifth largest register in the world. In the four years that we have been in Government, we have worked towards strengthening our inspectorate so that we can assure the seaworthiness of the vessels that apply to be registered with us.

Good progress has been achieved on the Cirkewwa and Mgarr projects, on the number 2 mooring at Cirkewwa, on the extension of the breakwater in Gozo and on the construction of the sea passenger terminal at Mgarr, Gozo. We are proceeding with the preparation for the construction of a sea passenger terminal in Cirkewwa.

In the area of public transport, low floor buses have started to arrive and ticketing machines are being introduced. New and modern scheduled shelters are being built with the bus schedule being posted by the Local Councils.

Roads

In the last four years that we have been in Government, we have constructed roads using a new engineering methodology so that our investment would be a long term one. Work has been completed on 20 arterial roads and on more than 400 local roads and streets. During the coming year, another 100 local roads and streets will be completed.

The Environment

During these last four years, work was carried out on the planning of waste management systems and on the sewage purification project. With financial aid from the Union a sewage purification plant will be set up in Gozo.

We have implemented embellishment projects of promenades at Marsascalea, Marsaxlokk, Birzebbuga, Gzira, Sliema and St Julians so that the general public can enjoy a more pleasant environment.

We have increased the pace in the rehabilitation and restoration programme for the long list of projects we are drawing up all over the country, particularly in the walled cities.

In the four years we have been in Government, we have undertaken the most ambitious programme for the dismantling of illegal buildings ever seen in this country. Around 100 structures were brought down every year and 24 places used for refuse around Malta and Gozo were cleaned up. Also thousands of tons of building material dumped along the countryside were removed.

We have placed at the disposal of the public a lot of information on all the developments taking place.

We have started to monitor air and seawater quality to ascertain the dangerous levels of pollution.

In order to instil in our children an environmental culture, we have put in motion a programme, known as ecoschools, by which a number of schools implement a system of environmental management.

Recently, we have reached an agreement with all interested parties, private companies and Unions, so that hundreds of workers in the Department of Agriculture can be better organised at their place of work on a project involving the embellishment of the environment.

Protection of the Citizen

In the area of citizen protection, we have given greater importance to victims of crime and we have made radical reforms in the Civil Code.

We have increased wages for the Police force, in overtime and allowances payment in such a way that, in four years, a Constable will take home 26% more than he did in 1998 when considering that the previous Government had in fact reduced the take home pay for the Police after promising increases.

During the four years we have been in Government, we have increased the possibility for Maltese citizens to obtain dual nationality. In the last three years, 5,000 persons have taken up the facility.

In the area of public estate management, we doubled, in the past four years, as compared with previous years, the payment of compensation for requisitioned property and we have introduced schemes for the redemption of ground rent and for the purchase of leased accommodation so that more people could become resident owners.

In the last four years since we started in Government, we have continued with reforms to increase capacity building so that it might be possible to expedite court cases. We have inaugurated a new premises for the Courts registered and have created a new organisation for the Attorney General's office.

We have consolidated all structures of the liberalisation of trade intended for the protection of consumers.

We have avoided duplication and we have recruited professional people.

Culture and Sports

Sports has a positive effect on education, tourism and the economy and certainly not least on health. In the four years since we have started in Government, we have invested Lm3.5 million in the building of national and regional facilities such as the Multipurpose Hall at the University, the Marsa racecourse and the building of the Regional Sports Complex at Cottonera.

We have created opportunities for the organisation of cultural events with the development of St James Cavalier where a number of artists from various disciplines are showing their artistic abilities and sharing their sentiments and emotions with our people.

Local Councils

During these four years, in contrast to the policies of the previous Government, this Government continued to strengthen Local Councils not only by providing them with more funds but also by increasing their area of competence. This year, funds provided to Local Councils amounted to Lm10.5 million, besides other revenue which they could have generated under the Regulations for Activities that require Council permits.

Gozo

The development in Gozo has progressed with that in the rest of the country and the quality of life improved. In these four years, expenditure on capital programmes by the Ministry for Gozo was more than Lm7 million – the largest capital development sum ever spent

over such a period. In addition, millions more were spent on the three new vessels and on major construction works that are being undertaken in the Cirkewwa and Mgarr harbours.

We have helped everyone towards progress

In the four years in Government, we have worked hard so that nobody falls behind. We have pushed forward all sectors in a way that nobody would feel disadvantaged.

We have fought against all forms of discrimination.

Women

We have given women equal rights as men, not only in the family and in society but also at their workplace.

The Elderly

In the four years in Government, we have worked hard so that the elderly can continue to live with their families and in the communities they have lived in all their life. We have strengthened the services of Home Help, Telecare, Handyman, Help for Incontinence and the Meals on Wheels. We have installed lifts on Government residential buildings and we have inaugurated six new Day Centres – at Mtarfa, Birkirkara, Cospicua, Luqa, St. Paul Bay and Birzebbuga.

During these last four years, we opened the home for the elderly at Cospicua, we are extending the residence for the elderly at Zejtun, and the homes for the elderly at Mtarfa, Floriana and Msida. We have also initiated a scheme by which we allocated residential service in private homes for the elderly. This will create 270 outlets around Malta where the elderly may be allocated.

At St Vincent de Paul, the Serenity Wards have been re-built and work is in progress on two blocks of wards 1, 2, 3 and 4, for males and

females. There was also a rise in the quality and the variety of services that residents receive.

Persons with disabilities

We have removed all forms of discrimination against persons with disabilities. Not only that, but in the four years since we took over the administration, projects have been started at Marsascalea, Fgura and Kirkop to provide services in the community so that parents would feel secure that after their death their children will be taken care of.

Housing Authority

We have reviewed all the schemes provided by the Housing Authority and constructed more than 900 new units around Malta and Gozo including major slum clearance projects.

The Family

During these four years in Government, as a result of the National Commission for the Family which we step up, we took a number of initiatives in favour of strengthening the family. We have set up the *Appogg* Agency which currently employs four times more social workers than it employed four years ago and to whom we have allocated twice the funds that it received four years ago. This shows that our heart is committed towards social justice.

Sedqa

We have strengthened the *Sedqa* Agency and we have worked with voluntary organisations for drug abuse so that we continue to help victims of abuse to rehabilitate themselves.

Children

Among the weakest members of society there are innocent children who are victims of abuse, of domestic violence and abandonment. We have created a service for child fostering and we are giving financial aid to those who are shouldering this responsibility to ease their financial burden.

Opportunities for everyone

We have also increased financial assistance to voluntary organisations in the social sector and, today, this aid amounts to about Lm1 million.

In all the measures that we have taken these last four years, our objective was always to bring our people up to the European level. It is important for everyone that the European social model is institutionalised locally. Our people deserve this and it is our intention to give them the best.

Health

The World Health Organisation has placed our health service fifth in among all National Health services world-wide. However, we are aware that much more still needs to be done.

In these last four years, we have accelerated the construction of the new Mater Dei Hospital. When we took over Government four years ago, we found that the previous administration took a hasty and unconsidered decision, to double the project footprint from the original plan with the consequence that the cost of the project increased by Lm100 million. The hospital will open the phase one next June with the Outpatients Department and the transfer of all services from St. Luke's Hospital will be more or less completed by 2005. In this way, we will be on our way to start solving the problems associated with St Luke's Hospital: overcrowding, social cases, beds placed in the

corridors, lack of privacy, and long waiting lists for certain types of operations primarily due to the lack of theatres at St Luke's.

The transfer from St Luke's to the new hospital will bring a change in the management concepts. We shall grant autonomy for the running of the hospital in order to separate the regulatory role from the operational one. The patient and all those who utilise the services of the hospital in this manner will be at the centre of the whole system.

We continued with the modernisation of wards at St. Luke's Hospital and at Mount Carmel and Boffa Hospital.

The clinical operations, which in the past used to be performed overseas are now being carried out locally by Maltese surgeons. We have completely eliminated the waiting list for cancer treatment, we have reduced to four days the waiting time for mammograms, we are decreasing the waiting times for cataract investigations and surgery and there are no waiting lists for cardiac operations.

In the four years in Government we have concentrated particularly on teaching and training. Despite all the whining from downers, both the number and the level of nurses are increasing and, shortly, we shall have meet demand satisfactorily.

Relations with Other Countries

The decision by the previous administration to freeze Malta's application for membership in the European Union has been a waste of time and resources.

In the four years in Government, we have worked as hard as we could and we succeeded in catching up with other applicant countries that had started negotiations two years earlier. We took care that every position in our negotiations had been debated beforehand with every organisation, constituted body or union with sector interest. In this manner, we ensured that our final position would be in the best national interest because it would have been critically analysed by all

the parties involved. We had hoped that the Opposition would participate in this consultation process; however, unfortunately for reasons known only to them, they failed to contribute in this vital exercise for our country.

Negotiations are tough. However, we have shown that Malta is able to persuade other countries that it should adopt policies and directives which, although not in line with the *acquis*, are the best for the rapid implementation of economic, social, environmental and cultural development plan that will bring us in line with high European levels in the shortest possible period of time.

Those who anticipated, and maybe also wished, that the negotiating parties on the other side of the table would be brushing us aside, had to eat their words as soon as they realised that we had gained important concessions by which, once we are in Europe, we would be in a position to exploit the opportunities of membership

At the same time, we have also found remedies for many other sectoral concerns. For example, we have ensured that property prices in Malta would be still accessible for Maltese citizens. We ensured that, while our people could settle at will in any European country in order to study, train and work, our jobs would not be at risk. We have ensured that fishing in Maltese waters would continue viably in the future. They have agreed that upon accession, the Maltese language would become one of the official languages of the Union.

Now, we are approaching the final stages of negotiations and we shall continue to do our best so that these will be closed by the end of the year. The work that we have carried out in the four years we have been in Government was substantial and, because of this, we shall face the country with a good package so that, the Maltese public will give their consent for the accession process to continue.

In the referendum which will take place next year on the accession of Malta into the European Union, the Maltese people will pronounce their verdict: one that will bind every politician who preaches respect to democracy. This is the individual and personal responsibility of

every politician and no excuse will remove the stain on those who, in some way or another, will take any action against the people's decision.

Our work in foreign affairs was not only directed towards Europe. In the Mediterranean region, we have taken initiatives to strengthen dialogue. In the four years in Government, we have signed more than 85 bilateral agreements; 60 multilateral agreements have been signed in different areas of international cooperation.

Intensive work

All this goes to show how shallow are those who spread tales that the administration was forsaking the public needs. Facts speak for themselves.

Thank you to the people of Malta and Gozo

We have covered a lot of ground during these last four years. This is a wise, hard working, courageous and effective Government that has put in place a meaningful programme which benefits today's and future generations.

Congratulations and thank you, to the people of Malta and Gozo, who have understood the difficult times that we have gone through, and the need that we find practical solutions for our country's problems, as well as those who have given their cooperation to the achievement of results.

Vision full of new ideas

Our vision for the future is full of new ideas as to how we can make our country better. We know that we can fully participate in all the activities of the European Union. We also know that membership together with these States, with whom we share the same cultures and

values, and in most cases who are economically more advanced than us, will give us the chance to hasten the pace for our economic, cultural and social development.

2003 – The Year of Destiny

Next year will be our year of destiny. It will be the year in which we choose whether to continue with this progress for the next five years or whether we go back to the chaos and stagnation that we have experienced during the 20 months of the previous Government who worked haphazardly four years ago. But, we shall also be deciding on the environment for us and for our children, not only for the next five years but for more years to come.

In every decision which the country had to take, we always had downers who, because they lacked faith in themselves, do not understand the ability and the industriousness of our people. We have always had those who frightened other. However, on these occasions the people have always shown courage and took decisions that opened up new horizons and greater opportunities.

Economic forecast for 2003

Our economic forecast for next year is realistic within the global circumstances and uncertainties that are still around us. As soon as a positive decision is taken by the People regarding membership of the Union and the reaffirmation that, in the coming years, we will have a Government that will respect this decision, then confidence and certainties necessary for the creation of investment, employment and wealth will be re-established.

Gross Domestic Product

We are projecting an increase of 2.8% in GDP in real terms. We are also forecasting that, that increase in public consumption will be of 1.4%, and the increase in private consumption will be of 2.1%. We anticipate that investment should increase by 4.6%, while importation will increase by 5.3%. Exports are also expected to increase by 5.4%.

The GDP in nominal terms is expected to reach Lm1.808 billion or 5.5% more than the previous year.

Innovation

During the next year, we shall insist on increased efficiency in all sectors, and we shall achieve this by continuing our process for modernisation. We believe that this is the only way by which we can keep up our competitiveness.

It is wrong to think that competitiveness is solely hit by cost increases. The most important contribution to competitiveness is innovation. It is only in this way that we can ensure that our product on the market is the one which the market demands. Innovation pushes down costs. This, naturally, will happen so long as there are no obstacles to increasing efficiency.

Employment

The creation of production jobs continues to be the mark objective of this Government. We believe that our human resources are scarce and, therefore, we should

- Utilise them all
- Develop them well
- Use them where most needed

We need to raise the level of our economic activity so that the yield for our workers would be adequate for them to allow them to maintain their standard of living level.

Employment is generated when those who create work, that is self employed and entrepreneurs in medium and large industries, have the right environment to attract them to invest more and to work more. First and foremost, this will happen, as a result of the opening of markets for our products, of an increase of facilities that are available

for us to keep up our product with the times, and of everybody having access to finance for serious and viable projects. It is necessary also that the shackles of beaurocracy which impede the creation of wealth are removed and that the infrastructure of the country is efficiently developed. We have placed a lot of effort so that we could create this environment. We cannot rest on what we have already achieved but we need to continue insisting on improving of what we already have.

Nobody is to be left behind

Wealth is created so that it can be of benefit to everyone. It is important that those who create wealth feel that their effort and work would benefit them and their families. It is important also that, in a spirit of solidarity, that we ensure all the people benefit from the wealth that is being created: nobody should be left behind.

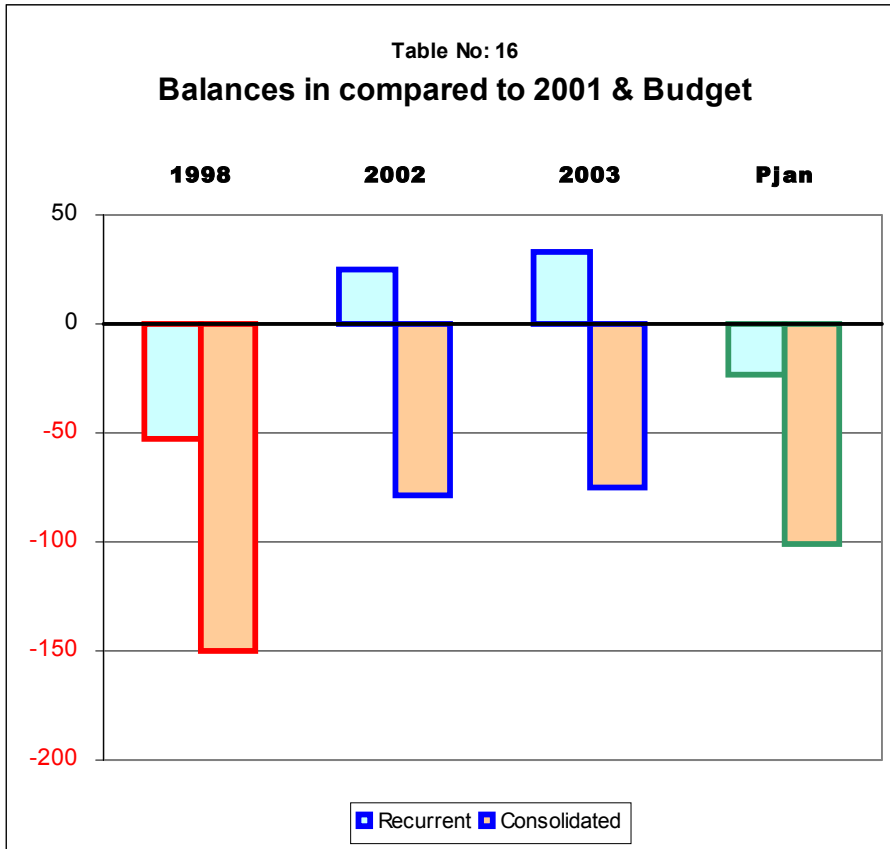
This does not mean that we should applaud the trickster who exploits others and, either because of laziness or because of a strong craving does not give his fair share but tries to take what is not his due. Everyone should have the opportunity to develop himself and work at the highest level. This is not only applicable to the economic sector but also to the social and cultural sectors.

Financial Projections for the year 2003

We have drawn up this budget within this light and within the context of the projections that we had carried out four years ago when we started in Government.

According to these projections, the deficit for next year was due at Lm100 million or 5.38% of the GDP. Instead, if we had to maintain the same level of receipts and costs without taking any fiscal or administrative measures in favour of inflows or to cut down on public expenditure, we would have ended 2003 with a deficit of Lm64 million or 3.5% of the GDP.

It seems opportune now that, once we are in line with our financial projections and, as I stated last year, we were committed to help those in need and those who so far have carried the burden more than others, shall be taking certain measures that will be of help for many and also serve as a stimulus to the economy. When we quantify these measures, the deficit at the end of 2003 is expected to be Lm75 million or 4.1% of the GDP.



Protocol with the Italian Government

After long negotiations with the Italian Government, we have initialled an agreement by which Malta will receive €75 million, or around Lm30 million, over the next three years. Of these €35 million will be available for use of Malta during 2003, which will be the first year under the Protocol.

The Maltese Government has a programme of works and initiatives for financing under these funds. Among them we have arterial roads, equipment for the information technology system at the Mater Dei Hospital, construction of better facilities for farmers and for meat

processing, equipment for ensuring the security of our country and a programme for the conservation of our heritage.

Protocol with the European Union

In 2003, we shall also receive €18.5 million, or around Lm7.5 million, from the European Union as pre-accession aid. This will be used to build our administrative capacity in various areas so that the services will be of the same level of those provided to citizens of Member States.

Government Receipts in 2003

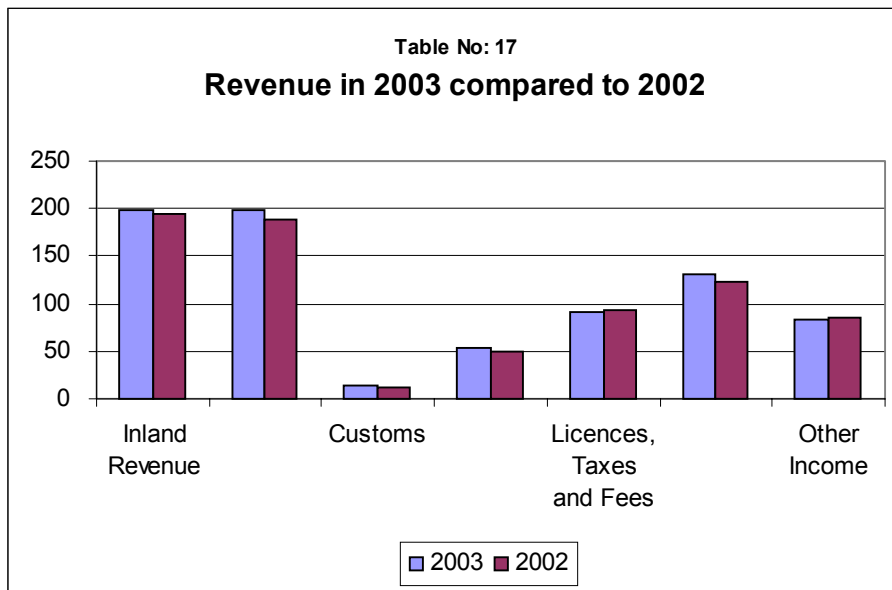
Total receipts for 2003 are being projected at Lm771 million or Lm24 million more than this year.

This increase will result after all those one-time payments received in 2002 have been removed.

As the rate of economic expansion increases, income from Customs and Excise and from VAT will go up and from these sources we are expecting an increase of Lm5 million and Lm8 million respectively. Increase in employment levels and in wages and profits that are being forecast next year should leave a positive effect on receipts from social security contributions. These are, therefore projected to increase by Lm10 million. Besides, even after the measures that we shall introduce tax on income is expected to increase by Lm5 million.

We are expecting a decrease of Lm5 million from levies as these will be completely removed from all industrial imports from the beginning of next year. This measure is expected to have a positive impact on consumer prices.

Other non repeatable receipts next year will be those under the scheme for the Registration of Undeclared Assets held abroad by Maltese. This year this scheme generated Lm7 million.



Government Expenditure for 2003

Public expenditure next year is expected to increase by Lm16 million, bringing total costs to Lm737 million.

The Collective Agreement for Public Sector employees

As announced a few days ago, we have concluded a Collective Agreement for Public Sector employees. This Agreement with all the Unions covers period 2002 and 2004.

It is a prudent agreement that takes into account the country's public finances but which, at the same time, does justice to all Public Sector employees from the lowest to the highest grades.

I am satisfied to say that the Unions accepted the principle that the annual cost of living increases henceforth, will be incorporated in the wage increases under the Collective Agreement. This is a very

important change which, I feel, should be incorporated in the way wage adjustments in our wage structure are carried out so that we ensure that all increases reflect productivity which eventually strengthens competitiveness. The Public Sector is showing the way forward.

As a result of this Agreement, the salary scales for Public Sector employees will be based on an annual increase of Lm104 in a way that the ‘concertina’ established for the salary structures in the Service will be restored to ensure that the salaries for the managerial, professional and technical grades in the Public Sector remain competitive. At the same, the Agreement also provides that wherever these adjustments results in less than Lm130 for any employee, he will receive the Lm130 on a personal basis.

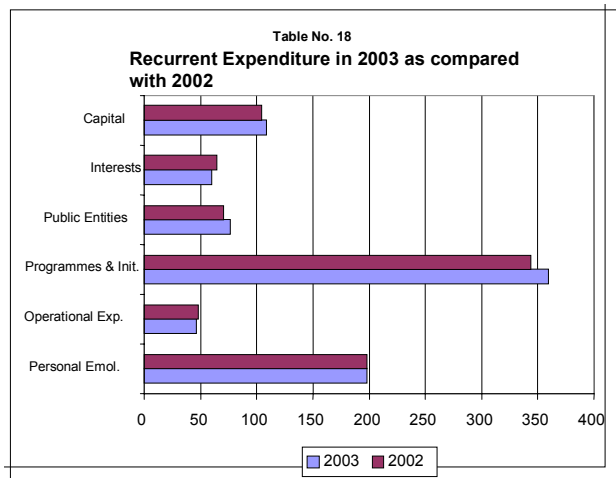
This is a prudent Government which, even in this situation, found balance between the national interest, that of the workers and that in respect of social justice.

The Agreement provides also for other improvements in the conditions of work for a number of public Sector employees. Among other, casual workers and part-timers in the Public Service will be entitled to salary increments with effect from 1st January, 2003 and that certain allowances, such as shift allowances and on-call allowances, will be increased.

Recurrent Costs

Despite this Collective Agreement, we are not expecting an increase in Government’s payroll because the wage increases will be offset by the reductions in the number of employees. We are going to work hard so that the Government will reduce its operational costs by Lm2 million. We do not expect to do this by making percentage cut downs in the budget allocations but by analysing critically the recurrent costs. We have gone through this exercise during the budget process and we are going to ensure, so that everyone may understand, that the Budget

Votes that I am asking Parliament to appropriate, will not be exceeded unless a contingency arises that justifies an increase.



Social costs are expected to increase by Lm15 million: an amount which is less than the excess for last year.

Contributions to public entities will also be increased. MCAST will be allocated an additional Lm1 million this year so

that the number of courses offered may be increased; while more than Lm 5 million are being allocated to Mount Carmel Hospital which is being given autonomy.

Capital expenditure will increase by Lm4 million. The largest allocation under this category will be on the roads programme agreed upon under the Financial Protocol with the Italian Government which I have already mentioned. Naturally, the expenditure linked to this Protocol is initially carried out by the Maltese Government and then re-imbursed by the Italian Government.

We are also providing an allocation of Lm700,000 spread over a period of four years for restoration and rehabilitation works at the Manoel Theatre and the surrounding buildings. This is another example commitment of the present Government to promote more cultural activities in our country by making the most prestigious Theatre in our country more accessible to the enjoyment of by the public and the foreigners visiting our country.

Table Number 19 below, which I ask the House to be taken as read, provides a comparison of the receipts and costs for 2003 with the revised figures for the end of 2002. It shows the amounts for the two years and the variations between the two years in figures and percentages.

Table No: 19

Consolidated Fund 2003 compared to 2002 revised				
	2003	2002 Revised		
			Var	%
Direct Taxation	397.80	383.00	14.80	4%
Inland Revenue	198.80	194.00	4.80	2%
Social Security	199.00	189.00	10.00	5%
Indirect Taxation	288.78	278.21	10.57	4%
Customs	13.04	11.75	1.29	11%
Excise	53.45	49.88	3.57	7%
Licences, Taxes and Fees	91.33	93.57	(2.24)	-2%
VAT	130.95	123.00	7.95	6%
Other Income	83.96	85.07	(1.11)	-1%
Personal Emoluments	197.78	197.07	(0.71)	0%
Operating & Maintenance	44.22	46.52	2.30	5%
Special Expenditure	0.64	0.77	0.14	17%
Programmes & Initiatives	358.53	343.20	(15.33)	-4%
Contribution to Govt Entities	76.23	69.87	(6.36)	-9%
Capital	108.18	103.60	(4.57)	-4%
Recurrent Revenue	770.54	746.28	24.26	3%
Recurrent Expenditure	677.39	657.43	(19.95)	-3%
Debt Servicing	59.80	63.73	3.93	6%
Recurrent Balance	33.35	25.12	8.23	33%
Structural Balance	(74.83)	(78.48)	3.66	-5%
GDP	1808	1714		
Recurrent Revenue	42.6%	43.5%		
Recurrent Expenditure	37.5%	38.4%		
Debt Servicing	3.3%	3.7%		
Recurrent Balance	1.8%	1.5%		
Structural Balance	-4.1%	-4.6%		

The General Estimates, a copy of which I am placing on the Table of the House, provide full details for the Financial Plan for next year.

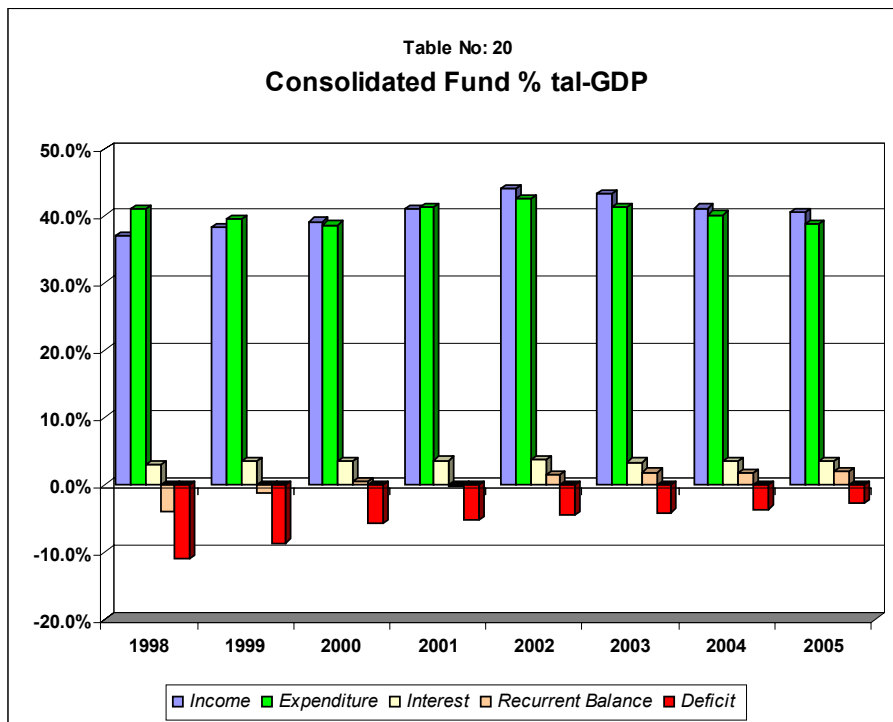
The two years after

The practice is being introduced for the financial plan to cover a period of three years rather than one. One may understand that in the present uncertain environment, it may be difficult even to make three-month projections and, therefore, every long term projection serves so that long-term programmes will be established for implementation over a long period of time.

We have been through this for some time since we still say that there is more to be done before a culture for the implementation annual 3-year rolling business plans. We still say that there is more to be done before a culture for the implementation of this type of plan becomes fully adopted but we are making progress.

Now we may start by producing medium-term projections.

As we see things now, the deficit in the Consolidated Fund in 2005 is being projected at Lm57 million or 2.8% of GDP. This, after receipts are expected to go up to Lm807 million and current costs and public debt interests are expected to be Lm769 million. Capital expenditure is planned for Lm94 million.



This depends a lot on the final agreement that is expected to be reached with the EU Commission for structural and cohesion funds and also for other post accession funds. We are not factoring in any post accession impact until we reach agreement with the Commission.

Table Number 21 below, which I ask the House to take as read, shows the financial position that we are projecting for 2005.

Table No 21								
Position of the Consolidated Fund								
<i>Lm 000's</i>								
	2002 ^(R)		2003 ^(P)		2004 ^(P)		2005 ^(P)	
Receipts								
Tax Yield	661,200		686,574		720,652		748,499	
Non-Tax Yield	85,078	746,278	83,956	770,530	65,642	786,294	58,149	806,648
Recurrent Costs								
Personal Emoluments	197,070		197,776		205,473		210,814	
Operational & Maintenance	46,517		44,215		44,132		44,135	
Special Expenditure	773		635		565		565	
Programmes & Initiatives	343,199		358,529		358,901		368,673	
Cont. to Govt. Entities	69,867	657,426	76,227	677,382	78,752	687,823	77,306	701,493
Interest on Public Debt		63,728		59,800		66,800		67,400
Recurrent surplus		25,124		33,348		31,671		37,755
Capital Expenditure		103,603		108,178		100,398		94,351
Budget deficit		(78,479)		(74,830)		(68,727)		(56,596)
Financing:								
Direct loan repayments	(1,000)		(1,000)		0		0	
Cont. to Sink. Fund:								
(Foreign)	(3,984)		(3,984)		(5,961)		(5,862)	
Local	(7,246)		(6,571)		(6,371)		(5,480)	
Unutilised Cont. to Conv.								
Local loans	13,250		5,000		9,000		4,000	
Asset sales	37,500	38,520	50,000	41,914	0	(3,332)	0	(7,342)
Net Borrowing requirements		(39,959)		(32,916)		(72,059)		(63,938)
GDP at current prices		1,713.50		1,807.74		1,907.16		2,012.06
Deficit/GDP ratio		4.58%		4.14%		3.60%		2.81%

(R) - Revised; (P) - Projected

The Consolidated Fund and the ESA'95 Methodology

The Consolidated Fund comprises all public monies held by the Central Government. This fund provides for an accounting system and controls on the collection of revenue and of the appropriation of current costs that is approved annually by Parliament.

The more that Governments transfer certain functions to autonomous entities, the more the need for the latter's operations and for their financial balances to be consolidated with those of Government.

Therefore, Governments are being asked to adopt the classification under the European System of Accounts (ESA'95) and to consolidate these entities with the Central Government. Presently, many speak in

terms of results achieved by extended Government, or better known, the General Government. In fact, financial data of General Government is being taken by international organizations for comparative purposes.

Transactions of General Government also include receipts and costs, as well as the deficit and debt, of a number of public entities that have more than 50% of their revenues transferred to them from public funds. These public entities include Local Councils as well as a number of other entities both those with administrative or regulatory functions, as well as others with commercial or quasi-commercial basis. A list of these entities is being produced at Appendix C which I ask the House to take as read.

The receipts and costs of these public entities were projected on an annual basis over the medium term 2003-2005 and the result added on to the balance of the Consolidated Fund. Hence, the resulting imbalance of General Government provides a more realistic picture of its deficit and debt levels.

Financing the Deficit in the Consolidated Fund

The way that Budget deficits are financed is of utmost importance in the evolution of fiscal policy as every financing method has its impact and particular costs at macro-economic level.

In Malta, Government finances its deficit with the issue of stocks on the local market. External borrowing is rarely resorted to for budget deficit financing.

As already stated, local borrowing gives an opportunity for Government for financing its deficit without broadening the monetary base or reducing its national reserves. There is also less impact on inflation. The imbalances in the Consolidated Fund over the medium term are expected to be financed from yield of asset sales and also from unutilized balances in Sinking Funds of maturing stock. This reduces the borrowing requirements of the Government.

The debt balance emerging from the Consolidated Fund for 2002 is expected to reach 61.6% of GDP. In 2005, this balance is expected to go down to 60.1% of what is projected to be the GDP for that year.

Table No. 22, which I am producing with this Speech, and which I ask the House to take as read, shows Government's debt in the current fiscal year as well as that projected over the medium term.

Table No 22						
<i>Government Debt Balance</i>						
	<i>Lm 000's</i>					
	2000	2001	2002	2003	2004	2005
Treasury Bills	169,008	156,125	164,584	83,466	143,028	194,466
LDRS/MGS	712,728	812,854	812,854	912,854	912,854	912,854
Foreign Loans	39,353	40,494	71,994	84,497	96,994	109,494
Government Debt	921,089	1,009,472	1,049,432	1,080,817	1,152,876	1,216,814
% of GDP	59.11%	61.85%	61.24%	59.79%	60.44%	60.48%
Change in Gross Debt		(85,799)	(39,958)	(31,385)	(72,059)	(63,938)
GDP at current market price	1,558.377	1,638.000	1,713.50	1,807.74	1,907.16	2,012.06

The Ministry of Finance is currently building up its capacity for more professional and effective management of public debt so that this will be further integrated into the overall macro-economic strategy. Treasury, therefore, has launched a project for the setting up of a Public Debt Management Office. This is being done with the technical assistance of the UK Treasury.

Pensions and Health

Before I move on to the measures that we are planning to take, I feel I should mention two major public costs that we need to analyze critically in the future: pensions and health.

The Malta Council for Economic and Social Development discussed a proposal, made in the last Budget Speech, about the need to look critically at the two major social cost areas, that is. pensions and health

care and the financial resources that have to be appropriated for this purpose.

The social partners on MCESD appreciated the fact that we would do well to introduce discipline with everyone, both with administrators and managers who influence the cost levels in the way they manage, and with the politician who also influences the cost levels through decisions taken in the political and electoral contexts in these areas as well as with the general public so that it will learn to rationalize its demand on this service.

We agree that MCESD, through its social policy affairs sub-committee, will start to undertake studies in Government's figures on the cost in the Health Sector, as well as other existing studies. Some of which had been commissioned by the Council itself and relate to developments in the current pensions situation. These studies would have as objective the establishment of the possibility of apportioning the current social security contributions between those that should go towards pension costs and those that should go towards health care.

The Council acknowledges the importance of securing the sustainability of pensions. However it also acknowledges that health care is equally important and that, therefore, it should be safeguarded under all aspects.

The conclusions of the Technical Committee, after being discussed and meeting the consensual acceptance of the Council, would be passed to the National Welfare Commission for it to consider them in its deliberations.

Measures

We are taking measures so that we adjust some Government revenue sources and in order to meet targets that we put before us over the medium term.

Strategy is being underpinned by:

- Promoting the better utilization of our resources in order to reduce the negative impact on the environment;
- To continue attracting economic operators to invest in the areas mostly benefiting the country so that we create employment and wealth;
- We create incentives for innovation so that we continue to generate new economic activity in order to ensure the creation of wealth and employment for the future;
- We reduce beaurocracy in order not to hamper those who want to work or to create employment for others;
- To consolidate and spread education and culture;
- To increase consumption with a larger share from the liquidity available so that we accelerate economic growth with a positive effect on the creation of employment;
- To ensure that no one falls back.

Fiscal Measures

Cigarettes

Earlier last year, the *World Bank Regional Consultation on the Economics of Tobacco Control* was held in Malta. The main theme of the conference was to continue debating effective inter-collaboration between the health and the educational sectors so that there would be more control on tobacco consumption and reduce the devastating damage of smoking.

Today everyone is aware of such damage and all public and private authorities, both locally and abroad, are doing their best to keep public places free from smoking. Notwithstanding this, one shudders to read that in Malta more than 16% of teenage girls under 14, that is those who are still attending school, and more than 15% of their male counterparts already smoke.

Therefore, it would be of benefit that we continue to increase taxation on tobacco as a cutting instrument for increasing the cost for those who smoke in order to induce them to cut down on smoking.

- We are increasing excise duty on cigarettes so that a packet of 20 king size will cost Lm1.25c at retail price while a packet of 20 standard size will be sold for Lm1.10c.
- Excise on hand-rolled tobacco will come up to Lm22.25c per kilogram.
- Excise duty on cigars will go up to Lm5 every 20 units.

Registration tax and road license for Motor Driven Vehicles

Certain rates on Vehicle Registration Tax as well as some categories of road licenses for vehicles will be adjusted as follows:

Racing cars

Motor racing is becoming more and more popular with events taking place every Sunday.

In order to regularize the position of enthusiasts and in order to assist this sport we are reducing the Vehicle Registration Rate for cars for specially equipped racing cars by 6.5% instead of the current rates of between 50.5% and 75%.

Naturally, given that these specially equipped cars are not driven on public roads, there will be no payment of road license in their regard.

Vintage Cars

In Malta there is also an ever-growing interest among enthusiasts who collect vintage cars. These are preserved, restored and in many cases driven on roads for exhibition purposes.

In 1996, we had reduced the rate in the Registration Tax for these vehicles to between 11% and 16.5% for those which are 50 years old. However, these same vehicles, notwithstanding that they have benefited from this reduction, could not be used on the road.

All vehicles and motorcycles that are certified as classic, vintage or authentically veteran, will pay, as from 1st January 2003, the following new rates:

- Vehicles manufactured before 1st January 1951 will pay between 11% and 16.5%;
- Vehicles manufactured between 1st January 1951 and the 31st December 1970 will pay 50% of the rate registration;
- Road licenses for these same vehicles will be reduced by half.

Import Duties

In the Budget for these last four years, we have adjusted the import duty rates on goods imported from Europe. This was necessary after the previous administration had to increase these duties, as was dictated to him by the European Union, after the haphazard change in the indirect taxation system in our country.

This exercise will produce some reductions in import duties on products while it may increase somewhat those on other products.

Levies

As was announced in 1999 we will continue with the dismantling of levies. As from 1st January 2003 the levies on all industrial products listed in Legal Notice 123 of 1999 will be removed. In the case of furniture, these levies were removed last October after Government considered a specific request by the manufacturers themselves.

Levies in the agricultural and agro-industrial sectors will be adjusted somewhat during next year. This however will have no impact on local products.

Income Tax due by Foreigners

In January 1998, a scheme was launched under which foreigners could choose to take up permanent residence in Malta under certain conditions. These were obliged to transfer to Malta a minimum of Lm6,000 annually in their respect and another Lm1,000 annually for every dependent person. Those under this scheme paid tax at 15% on these amounts subject to a minimum of Lm1,000 annually.

This rate was never reviewed and time seems opportune to review the scheme so that, while we continue to show these foreigners that they are more than welcome among us, we would at the same time update

the system in the light of the experience gained during these last 14 years and also make the amounts compatibly with present times.

The present minimum amount that these would require to bring to Malta will be retained. Tax will continue to be paid at the rate of 15% on all monies transferred to Malta. For tax assessment purpose, the minimum will go up to Lm12,000 without any deductions and will cover all members of the family.

VAT

Negotiations with the European Commission are still in progress also on the exemption of VAT on food, medicines and printed matter.

We shall also undertake some changes in order to harmonize our VAT legislation with the EU directives.

VAT Payment at Import Stage

As soon as Malta accedes as full member to the European Union, VAT on taxable products imported in Malta from Member States will no longer be collected at import stage as at present. In the case of goods imported from third countries the current procedure will be retained.

In the case of taxable products for sale, VAT will be collected and will be passed to the Department in the same tax period when the sale takes place.

All this will be of direct benefit for those who import from the European Union as we shall cut down on procedural form-filling and on the need for Customs to examine imported goods. In addition to this, the importer will improve his cash flow and his administrative costs will be reduced.

VAT in the Tourism Sector

The VAT rate in the tourism sector will remain at 5% on accommodation as at present.

VAT Payment on Electricity Consumption

As from 1st January 2003 electricity consumption that is currently exempt without credit, will be subject to a 5% VAT rate. However like in all other cases, electricity bills will not increase for consumers because this VAT cost will be wholly covered by Enemalta.

VAT on Cylinder Gas

Cylinder gas will be subject to a 15% VAT rate which will also be wholly absorbed by Enemalta and will not have any negative impact on consumer prices.

This measure will also serve to solve the current problems for the distributing agents of this product.

As these two measures will not impact on retail prices, no VAT refunds will be made to retailers.

VAT on Cultural Teaching

In order to continue promoting the spread of culture among the general public, Government is granting tax exemption on VAT on the teaching of ballet and of music. Therefore, as from 1st January 2003, these activities will be exempt without credit in the same way as other educational activities.

Refund of Penalties imposed by the VAT and the Income Tax Departments

It is satisfactory to note that in our country the compliance levels are high in regard to the submissions of tax declarations for VAT and Income Tax as well as in the timeliness of payment settlements. Even this year, we have reached 93% compliance in the case of VAT and 92% compliance for Income Tax.

This is more evidence that Maltese do not shun discipline when this is fairly applied.

After discussions in the MCESD, we agreed that the time was ripe to review the penalty and the interest payment system that are currently in adoption while we hope that this will not impact negatively on the levels of discipline that we have achieved.

Penalties

Current tax legislation provide for an automatic system of penalty administration in both departments of VAT and Income Tax that will trigger off at the first contravention. This system will be reviewed, so that those who normally observe the law but who in abnormal circumstances do not meet their obligations under the Act, they will not be initially penalized but will be admonished. In the case of a relapse, the penalties will be triggered off as at present under the system.

Penalty on Duty on Documents

We shall be reviewing the procedures relating to penalties attached to discrepancies between the contractual value of property and that as determined by the Commissioner of Inland Revenue for the purposes of Duty on Document Act.

This penalty which currently amounts to ten times more the duty effected by the discrepancy will now be reduced to twice the same duty effected. This penalty will be further reduced gradually according to the time lag utilized for its payment.

Outstanding Balances from VAT 1995 and from CET

At the same time, other administrative measures will be taken, by which taxpayers will be in a better position to settle their outstanding balances under the VAT 1995 and under CET. These measures, which will involve around 15,000 assessments, which between them make up a total of Lm4.6 million in penalties, will provide precisely for the reduction of these penalties to more reasonable amounts within the legal framework. This reduction will be made on a percentage scale linked to a time frame with which the taxpayer will be asked to agree. These measures will not apply to interests due on outstanding tax.

Provisional Tax

In the case of Provisional Tax on taxable income, till now, where an enterprise declares profit which had not been expected by the end of the year and, therefore, would not have been otherwise declared for the purposes of the provisional tax due in April and in August, will incur a penalty and interests calculated for the whole of the year. A change in this procedure will be introduced so that, where profits which would be realized during the last four months of the year and which will not be normal seasonal profits, the penalty and the interest will be calculated on a four year instead of on a twelve year period.

VAT Refund

We have accepted another suggestion from MCESD which, in the case of VAT, refund due to an enterprise that provides goods and services which are VAT exempt, will be made in four instead of five months in

2003 and in three instead of four months in 2004. This would help the cash flow of the enterprises involved.

Measures that benefit the Environment

Electrically-driven vehicles

In the Budget two years ago we reduced the Registration Tax for vehicles that run on alternative energy and on battery-operated motor cycles. During these two years, while the rate for vehicles that operate on a hybrid system, that is those who consume both fuel and battery energy, will be retained at 16.5%, vehicles that run only on an electrically driven system will be completely exempt from Registration Tax.

For the next five years, for electrically driven vehicles, we are repealing the tax due to enter Valletta.

Products that benefit the Environment

It would be well to provide incentives the use of products that impact less on the environment either because of their inefficiency or because they are degradable or recycled products. Also, import duties on these products will be reduced as follows:

- Recycled paper and bleach-free paper will be 0%;
- Degradable refuse bags will be reduced from 8.4% to 6.5%;
- Shopping bags manufactured from recycled paper and carton from 6% to 3.7%;
- Consumption reducing-electricity bulbs from 4.9% to 2.7%.

Road License for Battery Operated Mopeds

In order to highlight Government's commitment to induce more people to use means of transport that impact less on the environment, we are repealing the payment of road license for battery operated mopeds.

Incentives for the improvement of property registered under the Voluntary Registration Scheme for Valletta, Floriana and Cottonera

While the national average of the number of vacant elements and of those in a dilapidated state is 6% of residential units, the percentage in their regard in Senglea and Cospicua goes up to 11%, that for Valletta and Vittoriosa goes up to 26%, while that for Floriana goes up to 15%.

Earlier this year, Government launched a Voluntary Registration Scheme under which applicants will benefit from less payment for registration.

The owners of these tenements in Valletta, Floriana and Cottonera have been asked to register their property and the Lands Registry received 2,248 applications. In order to create incentives for these applicants to rehabilitate their tenements, we will be launching a scheme under which the amount equivalent to the VAT payment on costs will be refunded. This scheme will apply only on works that require a Full Development Permit from the Malta Environment and Planning Authorities.

More details will be announced later on.

Measures that Benefit Entrapreneurship

Small Enterprises

In the last Budget, we introduced measures to reduce administrative procedures for self employed and for small enterprises.

These were:

- The costs that small enterprises make on informatics will be deducted from the profits for that same year:
- Income tax exemption on profits realized in years 2002-2004 in instances where such profits are reinvested in new projects, in the purchase of new machinery, etc. in order to increase and develop the business:
- VAT refunds due to small enterprises will be made within 30 days from the date of the VAT returns provided that these are sent on time.

These measures have been made for small enterprises and for self-employed that employ an average of five persons and with a turn over that would not exceed Lm100,000. We are meeting the recommendations discussed within MCESD so that this scheme would be extended.

We do not deem it opportune to extend the scheme to all enterprises. However, from 1st January 2003, these measures will also apply to enterprises that employ an average of 5 persons and whose turnover do esnot exceed Lm250, 000.

Access to information systems

We shall launch an Assistance Scheme so that those who are self-employed will have full access to information systems that will make it

easier for them to communicate with Departments and other public organizations. Exemptions of fees, and through free training on the use of these systems, shall be of further incentive to the self-employed for them to make wider use of these facilities, that will serve them better and cut on delays for them.

To provide incentives to those who want to invest in research.

We shall increase the right for each enterprise to declare for income tax purposes expenditure incurred on research and development, with the purpose of creating and improving products, processing methods, materials and other equipment. These enterprises are entitled to increase the deduction on these costs by 20%. This increase will be pushed up to 50% and, therefore, for every expenditure of Lm100 they will have a deduction of Lm150 from their taxable income.

Procedures to reduce cases before the Tribunal for Small Claims

The Department of Inland Revenue has been demanding for some time that, among others for a credit to be declared as bad debt there should be the necessary legal procedures followed by a Court Degree. This has led to a substantial increase of cases before the Tribunal For Small Claims which had the primary aim, not of collecting the outstanding credits but of obtaining a Court Degree for bad debt.

An analysis of cases that have been brought before the Tribunal since 1st January 2001 and last June revealed;

- 77% of the cases were made by companies, and that
- 66% of the claims were under Lm500, and
- another 13% were between Lm501 and Lm750.

Therefore we are proposing a reform to reduce the procedures in the way companies can turn credit into bad debts without the need to go before the Tribunal. This reform, the details of which will be published later on, will include a number of conditions, which while

reducing the cost for the business, would ensure that the system will not be abused.

Measures to remove Exchange Control requirements

The liberalisation programme for exchange control will continue next year. After in recent years we removed controls on medium and long-term transactions, during next year we will remove in stages the major part of the remaining controls. The residual controls that will relate to short-term capital transactions will be removed upon accession. Hence we will ensure that we will not be exposed to volatile movements of capital that can destabilise us. On the 1st of December the Central Bank will publish measures that will take effect from 1st January 2003. During the year, other measures will be announced. The Central Bank will announce these measures one month in advance of their effective date.

These measures will have the objective to increase the amount that Maltese citizens can send or invest abroad in foreign currency and which provides greater flexibility for local trade to operate in foreign exchange.

Now that we have reached this stage in the liberalisation of exchange control, we shall repeal the existing legislation, that is the Exchange Control Act and we shall propose new legislation to be adopted. This will be the Exchange Transactions Act that will provide the necessary infrastructure for full liberalisation while giving the Minister of Finance with the necessary authority to introduce measures and controls in times that would be critical for the balance of payments.

Measures so that nobody will fall behind

Within our existing limits we need to improve the quality of life for those who are in need. We are undertaking measures that would be beneficial and which will remove existing anomalies within the current system.

Capital Means Test

Last year, we introduced a measure by which those entitled to the non-contributory Old Age Pension, had their means test increase from Lm4,000 to Lm6,000 in the case of single persons and from Lm7,000 to Lm10,00 in the case of a married couple. We are now making this same measure applicable also in the case of the means test for those in receipt of Social Assistance, Medical Assistance and Social Security Pension.

Increase in Supplementary Allowance

In order to provide for those with less income, we are reviewing the scheme for Supplementary Allowance so that not only more persons will come to benefit but also there will be an increase in the amount of entitlement. Therefore, with effect from 1st January 2003, income eligible for Supplementary Allowance in the case of a married couple will go up from the current Lm3,370 to Lm4,200. For those who are single the current entitlement of Lm3,270 will be retained. Hence, where the income of a married couple is between Lm3,370 and Lm4,200 they will be entitled also for this benefit.

The ceiling on which this benefit will be calculated, that is Lm10,270 in the case of a married couple and Lm8,270 in the case of a single person will remain the same. The percentage rates which are applicable on the difference between the existing levels and the income of the beneficiary will be also reviewed. The rates that will be used in the calculations will be increased. In the case of a married couple, these will go up from 1.5% to 1.75% and in the case of a single person from 1% to 1.25%. The threshold for income applicable for these calculations will be retained at Lm2,220 for all beneficiaries.

This is more evidence of social solidarity which the present Government does not only preach but also practices with those in need and who may, therefore, fall back.

Payment for maintenance of children in cases of marriage separations

Last year, we introduced a measure that concerned maintenance payment in the case of a married couple separated by mutual agreement. This did not impact on the way the payment for maintenance of children would be taxed. According to the Income Tax Act, this payment cannot be deducted from the income of the paying partner while the same amount would be taxable with the income of the receiving partner.

Therefore, from next year, we will introduce another measure so that the partner that receives payment for the maintenance of children will not be taxed on this amount.

Increase in Children's Allowance for those with three children and more

For those with three or more children who benefit from Children's Allowance we shall increase the rates on which this benefit is calculated. Hence, the rate for those with three children will go up from 11.5% to 12%, those with four children from 13% to 14% and those with more than four children the rate will be increased by 2% as against the current 1.5%.

This measure will benefit more than 4,400 households whose benefit will increase by an average of Lm1 per week.

New procedures in the working of tax calculations on arrears of pensions

After our meeting with the Federation of Pensioners' Associations, we agreed on the way to undertake the amendment in the Income Tax Act so that tax arrears arising out of revisions of pensions will be spread on the respective years of income on which the pension arrears were due.

Therefore, this will apply:

- on all arrears paid on 1st January 2003, provided that these do not go back to prior 1999. In this case the arrears due before that year will be added on to the income of 1999 for tax purposes:
- on all arrears paid between 1999 and 2002, provided that these will arise as a result of erroneous calculations on pensions made by some Government Department.

Increase in the cost of living for pensioners

In the electoral programme of this Government we had promised the workings of a new Cost of Living Index for pensioners that would reflect in a fair way the expenditure patterns of pensioners.

From studies that have been undertaken, it emerged that expenditure trends of a pensioner are different from those of one who is still in employment and who, perhaps, is bringing up a family. It has therefore, emerged that a pensioner-household spends more, or 60% of its income, on food, personal care, and on healthcare. At the same time, they spend less, or 46% of their income, on domestic needs, transport, education, entertainment and recreational activities.

For this purpose, calculations were based on the inflation rate for these last 12 months as this affected pensioner-households with an income of less than Lm55 per week. This income represents the average income of a pensioner-household.

When you apply the Price Index worked on the expenditure patterns of the pensioner-households which I already mentioned the weekly increase in costs amount to Lm1.27c.

Therefore, with effect from the first Saturday in 2003, pensioners will receive the whole amount by way of cost of living increase that emerges from the Retail Price Index for pensioners. This will replace the 2/3 of the Cost of Living Increase that results from the All Index.

Hence, the increase benefiting these pensions will reflect in a better way the rise in the cost of living as it affects them. As a result of this, in 2003, the increase in the cost of living for pensioners will Lm66.04c instead of Lm60.67c for which they would have been otherwise entitled under the previous calculations. This means an increase of 9%.

We shall be amending the Schedule attached to the Social Security Act so that the increase resulting from the Retail Price Index for pensioners, which I have just mentioned, will be reflected in the Two-Thirds Pension rate, and the Survivors' Pension, the Retirement Pension, the Invalidity Pension, the Widows Pension, as well as for the rate paid to single persons in receipt of the National Minimum Pension, and in the rate paid to a single person under the Old Age Pension.

This is another important development in the social benefits sector in our country.

Justice with Casual Social Assistants

Government had already taken those necessary measures to provide for existing anomalies in the categories of a number of workers, among them, impressed drivers and those under the Auxiliary Workers Scheme.

Casual Social Assistants make up another category of workers who are providing service to the elderly in our country and who, up till now, were considered as self-employed. This means that those who work more than 20 hours per week do not enjoy benefits such as vacation leave, sick leave and bonus.

Therefore, the time is ripe for 635 casual social assistants to be made part-time with all the pertinent rights under labour legislation. At the same time, the opportunity is being taken to introduce work practices that improve the service for the elderly so that this measure will leave the desired impact on those thousands of elderly in receipt of this service.

Financial assistance for parents with children under two years who attend Child Day Care Centres

One of the main objectives of the Government remains that of increasing female participation in the creation of wealth both for her own sake and for that of the country. This will be put into practice through of measures that provide support to the family.

We are launching a new subsidy scheme on payments that parents make for day care service for their small children. This scheme is projected for those working women with children under 3 years of age who are left at a licensed Child Day Care Centre. This assistance will be means tested.

Together with this scheme, Government is providing for a regulatory framework with the purpose of ensuring that the service given by these Child Day Care Centres will be of the desired standards.

In order to launch this scheme, Government is appropriating the amount of Lm100,000 for next year.

Measures in favour of taxpayers

Duty on Documents

In order to lessen the burden on those who wish to buy their own residence, we shall increase the value that would be subject to 3.5% duty from the current Lm20,000 to Lm30,000. In this way, a person buying property for his own residence will continue to gain another Lm150 in savings on stamp duty.

We are also going to change the present treatment in regard to property that is transferred between members of the same family.

The value for the purpose of Duty on Documents Act will now be the value of the property net of the market profit element.

While, until now, according to the appropriate legislation, the Department has always insisted that, in each case, the value of the property that would be subject to duty under the Act shall be the current market price for that property. From now on, this value will be net of the profit for the same property on the market.

Taxation on farmers that produce fruit and vegetables

Farmers will start benefiting under an assistance scheme that would guarantee good income for them. We shall also be introducing measures so that the system on tax on income, in the case of farmers producing fruit and vegetables will be simplified and reduced.

According to statistics provided by the farmers themselves in the last Census of Agriculture, it emerges that the expenses they have in their production, amounts to an average of 20% of the sale value of the product. These expenses include wages, seeds, pesticides, fuel, depreciation on machinery and ancillary costs.

As a first step in the reform in the Income Tax for the agriculture sector, as from 1st January 2003, the Inland Revenue Department will automatically start accepting these expenses for farmers as to 40% of the sale value of the products that is, twice the percentage that emerges from the Census.

Those whose expenses are below this amount would not have to produce documents and papers to the Department except those related to their sales. Those with costs exceeding the above, can calculate their profits on their actual costs as long as they can support them with receipts and other documents.

Income Tax

In the budget last year we had stated that, once our targets were being met, it was opportune for the burden, that has pushed on those who had

carried it mainly for these last two years would be reduced. For that year, we adjusted the tax rates on income so that a married couple making a joint declaration would save as much as Lm145 in tax.

This year we are making yet another step that goes beyond that of last year.

After discussions within MCESD, we agreed that the income tax bands would open up once more from 3 to 5.

For a married couple with a joint declaration, we are increasing the income that would be subject to tax from Lm4,100 to Lm4,300. We are increasing the current three bands to five, and therefore, on income between Lm4,301 and Lm6,000 the rate would be 15%; on income between Lm6,001 to Lm7,250 the rate would be 20%; on income between Lm7,251 and Lm8,500 the rate would be 25%; on income between Lm8,501 and Lm10,000 the rate would be 30%; and on income exceeding Lm10,000 the rate would be 35%.

For those with a separate declaration, as well as for single taxpayers, we are increasing the amount subject to tax from Lm3,000 to Lm3,100. Even here, the bands will be increased to 5. On income from Lm3,101 to Lm4,101 the rate would be 15%, on income from Lm4,101 to Lm5,000 the rate would be 20%, on income between Lm5,001 to Lm6,000 the rate would be 25%, on income between Lm6,001 and Lm6,750 the rate would be 30%, and on income exceeding Lm6,750 the rate would be 35%.

All this means that married couples with a joint declaration would save up to Lm187 in tax annually while those with a separate declaration will save up to Lm108 in tax annually. Table Number 23, which I ask the House to take as read, shows the tax savings on the different levels of income.

Table No 23

Revision of Income Tax Rates						
Joint				Separate		
Current Rates						
<i>From</i>	0	4101	5901	8401		
<i>To</i>	4100	5900	8400	15000		
<i>Rate</i>	0%	15%	25%	35%		
Proposed Rates						
0	4301	6001	7251	8501	10001	
4300	6000	7250	8500	10000	15000	
0%	15%	20%	25%	30%	35%	
Calculation of Tax Savings						
Joint				Separate		
Band	Curr	Prop	Sav	Band	Curr	Prop
3000	0	0	0	3000	0	0
3500	0	0	0	3500	21	36
4000	0	0	0	4000	95	110
4500	60	30	30	4500	179	212
5000	135	105	30	5000	276	333
5500	210	180	30	5500	391	461
6000	295	255	40	6000	517	587
6500	420	355	65	6500	652	735
7000	545	455	90	7000	800	906
7500	670	567	103	7500	973	1080
8000	795	692	103	8000	1151	1259
8500	930	817	112	8500	1324	1431
9000	1105	967	137	9000	1500	1608
9500	1280	1117	162	9500	1675	1783
10000	1455	1267	187	10000	1853	1960

Conclusion

We have strengthened our country.

We have strengthened it so that you can live better.

We have strengthened it so that we find inspiration from a new vision which is very close to become a reality, so that our people today and future generations will improve their standard of living.

We have strengthened it so that we would have all the force necessary to face the challenges and to exploit all the opportunities that continually arise around us.

Four years ago, we came into the administration of this country, which had lost its self-esteem. The leadership that came down from an archaic government was weak, insignificant and left the people in confusion, turmoil and without any direction.

Over these four years we put life back in our country. The Maltese people went back to work because there is a road in front of them that had been well laid out. The Maltese people are not cowards because they have all the capacity to exploit all opportunities that come their way.

We strengthened our country so that, not only no one will fall back, but also the whole country will not fall back. Because, if our country falls back then everyone falls back.

Our country will not fall back upon accession into the European Union. Our country will not fall back because in Europe we guarantee access to markets that are larger than we have now and to others that will open up for us upon accession.

This is the foundation for more investment and for a guarantee for a better future with more employment and better income for us and our children.

Our country will not fall back because in Europe we guarantee the highest standards in all areas: in the environment, in roads, in hospitals, in schools, in public and private services, in social assistance and in security on the work of place.

Our country will not fall back because in Europe we guarantee the best products at the best prices.

Our country will not fall back because in Europe we guarantee a peaceful and secure life.

Our country will not fall back because in Europe we guarantee that our country will acquire the right to share fully in decisions that hit us most.

Our country will not fall back because every Maltese and Gozitan can defend his country.

We are prepared to introduce our country through the door that has opened up widely before us and to take the place that it deserves shoulder to shoulder with those from larger world states.

The key to the future of our children is in our hands.