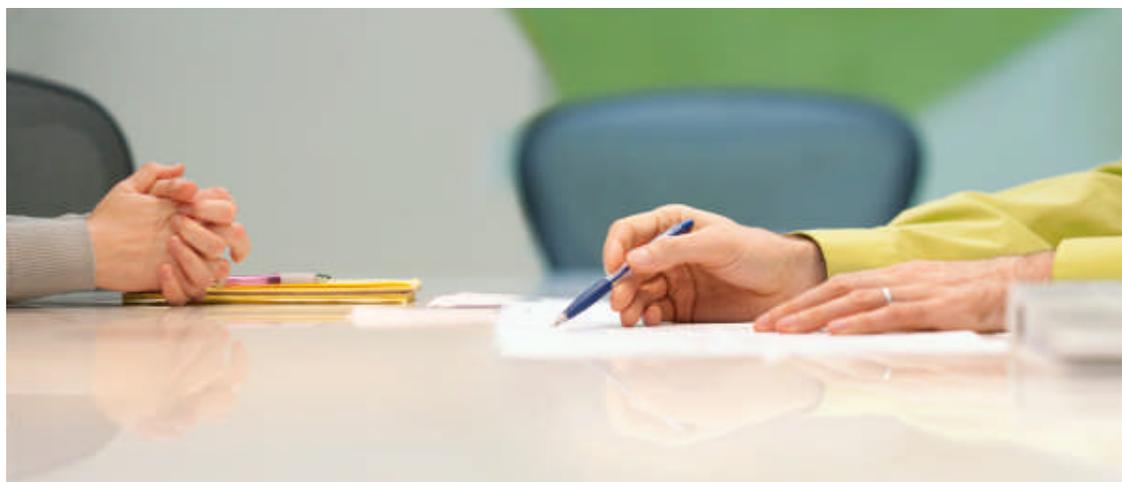


Budget 2013



Overview

Although the first Labour Government Budget essentially maintains the framework and measures proposed in the Budget announced by the outgoing Nationalist Administration in November 2012, in today's Budget Speech new Finance Minister Hon. Prof. Edward Scicluna took the opportunity to review Malta's current economic reality and to announce the new Government's main economic priorities.

The two key messages announced by the Minister of Finance are:

- **Economic and financial stability and continuity**

A budget proposed by one party in Government and substantially maintained despite the change in government, thus confirming that both government and opposition are united in their endeavour to provide the country with the necessary economic and financial growth and stability.

- **A positive message for the country in the current challenging international economy**

An emphasis on the importance of working together to improve the country's standard of living notwithstanding the challenging economic times.

The Minister of Finance also announced that another Budget will be presented in November 2013, covering the financial year 2014.

The coming Budget is expected to provide a clearer picture of the new Government's proposals forming part of its economic roadmap.

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Budget 2013

The economy in 2012 and estimates for 2013

3.3%

The deficit for 2012 stood at 3.3% of GDP. In 2013, the deficit is expected to reduce to 2.7% and in 2014 to 2.1% of GDP

€6.8_{bn}

GDP for 2012 amounted to €6,756 million representing an increase of 3% (in monetary terms) over 2011

4.4%

In October 2012, the number of people registering for work amounted to 7,013 (4.4% of the labour force)

€191_m

The deficit for 2013 is expected to amount to €191.3m compared to €225.8m for 2012.

74.2%

The national debt as at the end of 2013 is anticipated to amount to €5.1bn (equivalent to 74.2% of GDP)

€4.08

As announced in November 2012, the weekly cost of living increase for 2013 is €4.08 per week

2.4%

The rate of inflation was volatile during the year however in January 2013 stood at 2.46%

1.44_m

Tourist arrivals for 2012 amounted to a record 1,444k visitors. The average stay was for 8.7 nights

A strategy for the improvement of Public Finance

- Introduction of a new fiscal framework requiring a balanced budget which will be supported by a new constitutional provision in this regard
- Focus on diversification and growth of the Maltese economy
- A continuing focus on maintaining a robust financial services sector
- Instilling a culture of fiscal morality through various measures, including better control of funds by public entities
- Adoption of measures to increase Government's accountability and transparency through the establishment of an independent Fiscal Council to evaluate fiscal projections
- Continuation with the plan to merge the Revenue offices

Economic policy

- Maintaining and strengthening the trust of credit rating agencies in the Maltese economy
- Controlling inflation

- Ensuring that regulations improve competition and transparency in the market
- Strengthening consumer protection
- Improving Malta's productivity
- Ensuring that bureaucracy is curbed
- Emphasis on quality, rather than quantity, in the growth of the financial services and gaming sectors
- Incentivising the IT, digital gaming and film industries and the "green economy"

Strategy for job creation

- Incentives for the creation of a diverse economy to facilitate business and new investment
- An emphasis on quality, non-precarious work
- A focus on life-long learning and increased involvement of women in the work force

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Public Service

- A simplification of administrative procedures to ensure reduced bureaucracy
- The introduction of a single business permit to be issued by one authority to ensure a reduction in bureaucracy

Fiscal measures

The Minister of Finance referred to the following fiscal measures:

- The extension of the period for opting out of the 12% final withholding tax on capital gains on transfers of Maltese immovable property from 7 to 12 years. This measure comes into force on 8 April 2013
- The changes to the excise duty rates which were previously announced enter into force as from 9 April 2013

- As from calendar year 2013, persons earning only employment income of not more than the minimum wage (including statutory bonus), currently amounting to €8,950, will not be chargeable to tax
- As from 1 January 2013, transmissions *causa mortis* of residential immovable property in favour of one's children will be exempt from stamp duty
- As from 1 January 2013, no stamp duty is payable on the first €250,000 of value of a first donation of immovable property to one's children where such children intend to reside in the said property

As regards other fiscal measures contained in the Budget Speech of 28 November 2012, the Minister announced that these would enter into force as from 1 January 2013. The precise manner in which the other fiscal measures will be implemented will be set out in the Budget Measures Implementation Bill which is expected to be published shortly.

The notes are designed to keep readers abreast with financial and tax developments. They are not intended to be a definitive or comprehensive analysis of the subject and should not be acted upon without prior consultation with the Partners or Senior Consultants of the firm. For further details please do not hesitate to contact:

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