



## **PUBLISHED BY**

GOZO REGIONAL DEVELOPMENT AUTHORITY

75, Republic Street, Victoria - Gozo, Malta

Tel: +356 22156333

[www.grda.mt](http://www.grda.mt)

**Publication date: December 2022.**

This publication may not be used in any format or medium.

This material is property of the Gozo Regional Development Authority.

Any queries regarding this publication should be sent on: [info@grda.mt](mailto:info@grda.mt).

Designed by the GRDA. © Copyright 2022.

# Budget 2023 – A Regional Analysis

This note provides an overview of the main fiscal measures announced by the Minister for Finance and Employment during the Budget Speech for 2023.<sup>1</sup> This note also lists the budget initiatives which are specifically aimed at Gozo and summarizes past and projected public investment spending. The final section of the note focuses on the economic impact of selected budget initiatives on the economy of Gozo.

## 1. Overview of the Budget 2023 measures

The measures introduced in the 2023 Budget aim to protect business and households from the rise in prices while also enhancing social inclusion, social mobility and reducing poverty. New measures introduced during this Budget mainly reflect a rise in pensions, additional benefits for low-income beneficiaries, the extension of medicines available for free and an increase in the provision of free medical services. Other allowances for persons with disability and the children's allowance will also increase. Meanwhile, companies will be offered higher refund of rent on commercial outlets to help cushion against rising costs. The Budget also extends a number of existing schemes targeting first-time and second-time buyers and other initiatives that encourage the purchase of vacant properties. First-time buyers will also benefit from a grant of €10,000 payable over 10 years for properties of a value not exceeding one million. The Budget also seeks to facilitate the green and digital transitions through a number of grants and other smaller initiatives.

## 2. Gozo specific measures

Apart from the above-mentioned national initiatives, the 2023 Budget also includes a number of Gozo-specific measures. These include the extension of a number of existing initiatives introduced in previous budgets as well as the introduction of new measures.

Enterprises and start-ups in Gozo will continue to benefit from an additional tax credit of 10%, with this increasing to 20% for investments leading to a reduction in their carbon footprint. The Gozo property scheme will be extended for a further year. The latter was initially introduced in 2017, when the stamp duty paid by buyers of residential immovable property in Gozo was reduced from the standard 5% to 2% of a property's value. The scheme was originally introduced for the duration of one year but has since been extended each year. Other property-related schemes will be extended for a further two years. This includes buyers of vacant properties which were

---

<sup>1</sup> The Budget Speech 2023 is available from: <https://finance.gov.mt/23/Documents/Budget-2023-Speech.pdf>.

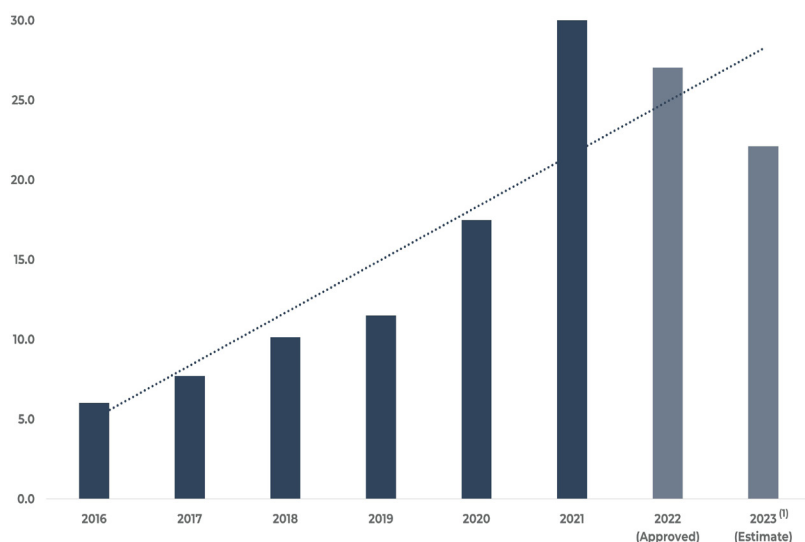
built over twenty years ago, properties in village cores and newly built properties with typical Maltese architectural characteristics will benefit from exemptions on capital gains tax and stamp duty, up to the first €750,000 on the value of property. First-time buyers who buy these types of properties will also receive a grant of €30,000 if the property is in Gozo. With regards to tourism, a new initiative will be launched in collaboration with the Gozo Tourism Association and Gozo tour operators to attract tourist to the island of Gozo during the low season.

*"... together with the Gozo Tourism Association, we will launch an incentive scheme to attract this type of tourism to the island of Gozo in partnership with tour operators so that Gozo enjoys more tourism in the low season." Budget 2023 Speech*

### 3. Public Investment

Outlays on public investment in Gozo increased substantially in recent years largely on the back of enhanced government spending on infrastructural and construction projects (see Chart 1). With regards to the composition of public investment spending this mainly consisted of outlays on the reconstruction of arterial roads and the resurfacing of various roads. In fact, spending on road construction improvements increased from around €1.8 million in 2016 to €9.0 million in 2021. The construction of other large development projects including the Gozo Aquatic and Sports Centre and the Gozo Museum also contributed positively towards the rise in public investment spending in Gozo. This was coupled by spending on other smaller initiatives such as restoration projects, the Marsalforn masterplan and the regeneration of Saint Francis square in Victoria.

**Chart 1: Capital Expenditure - Ministry for Gozo (levels)**



<sup>(1)</sup> Figure for 2023 excludes the €60.0 million allocated under the Sustainable Urban Development initiative.

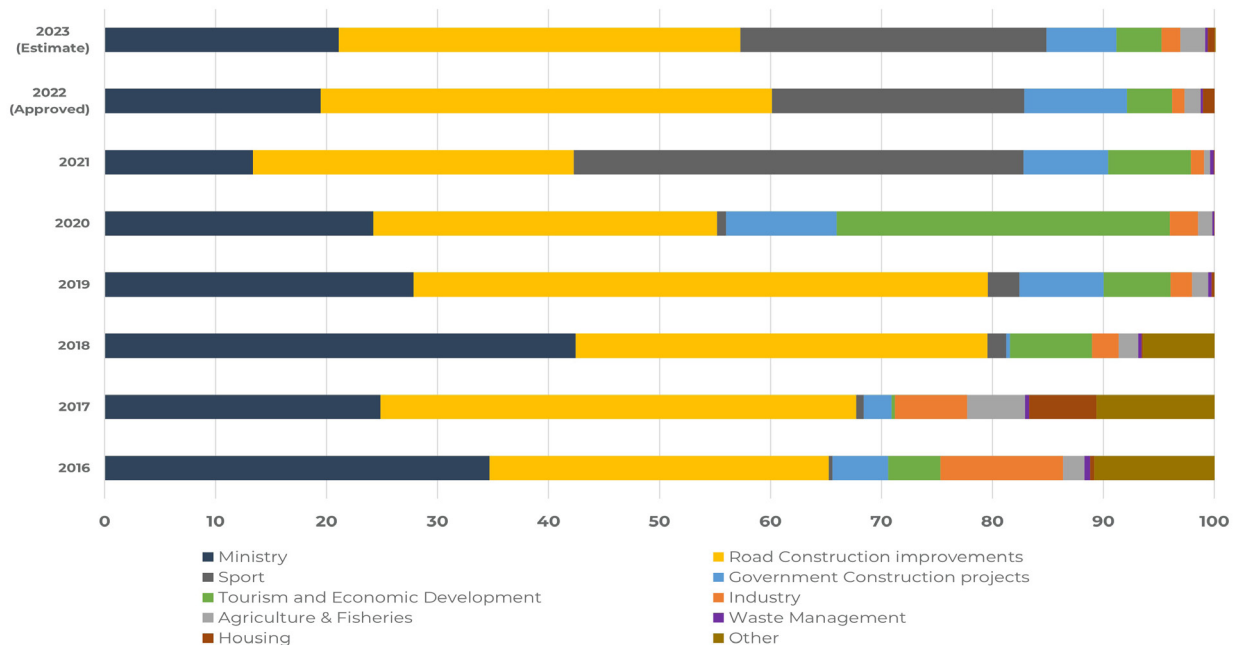
Data source: Budget Financial Estimates

For the upcoming year the allocated budget for investment projects within the remit of the Ministry for Gozo is set to amount to €22.1 million, a drop of around €5.0 million when compared to the approved estimate for 2022. However, despite this drop, the allocated public investment expenditure for 2023 remains well above the long-run average expenditure which stood at around €13.0 million over the 2012 to 2021 period.

A large proportion of the allocated funds for 2023 are earmarked to road construction improvements which is set to reach €8.0 million or 36.2% of total capital spending (see Chart 2). This reflects the government’s commitment to improve road infrastructure in Gozo. Around

28.0% of the allocated capital expenditure will be spent on sport-related projects. The latter mainly includes outlays on the construction of the new Gozo Aquatic and Sports Centre, a project which is already at an advanced stage. Meanwhile, the funds allocated for the Gozo Museum will reach €1.4 million or 6.3% of total capital expenditure.

**Chart 2: Capital Expenditure - Ministry for Gozo (share to total)**



Data source: Budget Financial Estimates

In addition to these investment projects, Gozo will also benefit from further investment initiatives mainly in the health and education sectors. Investments in education primarily reflect the renovation of the Nadur Primary School, whilst expenditures on health primarily reflect the new medical centre in Victoria.

Going forward, Gozo will benefit from an allocation of 10% of EU funds allocated to Malta under the 2021-2027 Multiannual Financial Framework. Moreover, over the coming years Gozo will benefit from an additional €60.0 million under the Sustainable Urban Development initiative. The aim of the latter is to finance urban greening projects in Gozo. The projects that will benefit from this initiative will be established over the coming months.

*“Apart from the 10% commitment of the European Union cohesion and agricultural investment funds, Gozo will also benefit from around €60 million in investment under the Sustainable Urban Development initiative. The areas in which these funds will be invested will be determined next year so that the work related to this initiative can kick off immediately.” Budget 2023 Speech*

During the 2023 Budget Speech, the government also announced that a new warehouse park will be developed near the industrial zone in Xewkija. The aim of this project is to provide Gozitan

small and medium sized enterprises with warehouse spaces, workshops and also a parking space for large industrial vehicles. Moreover, the aqueducts in the limits of Victoria will also be restored with an allocated budget of €2.5 million.

*“ In Gozo, we will open a new space next to the Xewkija industrial estate that will provide small and medium sized enterprises with an area for workshops and a parking area for large vehicles.”*

*“The drafting of a tender for the restoration of the aqueducts in the limits of Rabat Gozo at a value of €2.5 million is also underway, and it is expected to be issued soon.” Budget 2023 Speech*

## 4. Economic Impact Assessment of selected Budget Measures

This section of the note examines the economic impact of the main 2023 Budget measures on Gozo. This analysis is based on the Gozo Economic Modelling tool developed by Oxford Economics for the GRDA. This model, which was presented by the GRDA in its Regional Economics Conference held in September, allows for alternative scenario shocks to the baseline economic projections. This model captures the direct economic impact of a selected intervention on the economy of Gozo as well as the associated indirect and induced impacts of the specific intervention. The impact of the selected measures is determined by the change in economic activity vis-à-vis the baseline economic forecast prepared by Oxford Economics earlier in the year.<sup>2</sup>

### 4.1 Impact of new investment projects

This assessment quantifies the economic impact of new investment projects outlined by the Government during the 2023 Budget Speech. These include the new warehouse park which will be developed next to the Xewkija industrial park and the restoration of the Gozo Aqueduct in the vicinities of Victoria. Combined, these two projects are expected to cost around €6.5 million over a 3-year period.

This analysis excludes the impact of earlier announced investment projects, such as the Gozo Museum, the Gozo Aquatic and Sports Centre and the rural airfield, as these projects already feature in the Oxford Economics baseline projections. The economic impact of funds available from the 2021–2027 Multiannual Financial Framework and funds for urban greening projects are also excluded in this assessment as the projects and their respective timeline is yet to be determined.

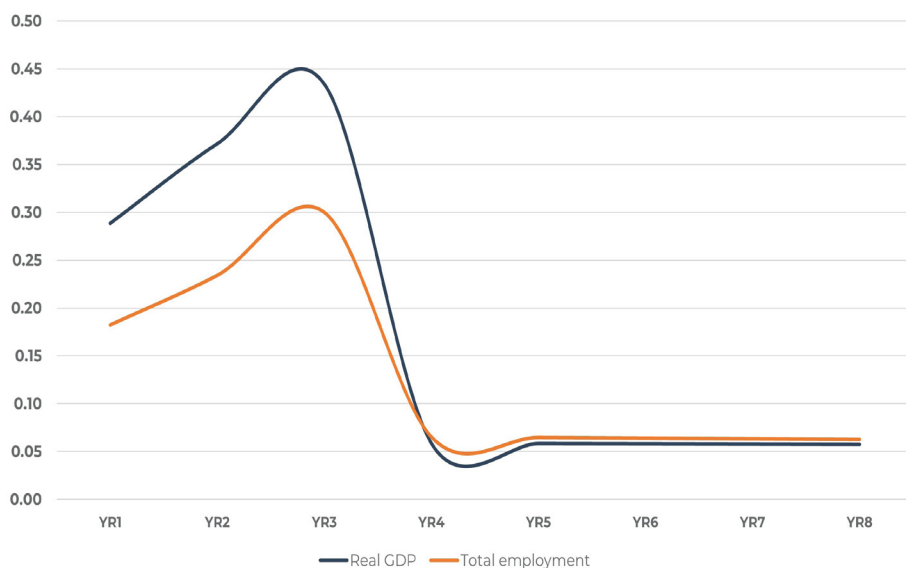
According to this assessment, the two above-mentioned investment projects will have a positive impact on the economy as clearly illustrated in Chart 3. The introduction of these two new projects will generate higher levels of economic activity and in turn this would lead to higher real GDP than that

---

<sup>2</sup> For a detailed overview of the Oxford Economics projections for Gozo see: <https://grda.mt/wp-content/uploads/2022/09/Outlook-Pre-Budget-Document.pdf>.

previously envisaged in the Oxford Economics baseline projections. This analysis predicts that these two additional projects will increase annual real GDP by 0.3, 0.4, and 0.4 percentage points respectively over a 3-year period. Subsequently, the impact of these projects on real GDP is expected to be subdued.

**Chart 3: Difference from Gozo's baseline projections (% difference)**



Data Source: GRDA estimates

on employment as both projects are set to be completed. The higher level of employment envisaged from the fourth year onwards mainly reflect additional workers required to operate the new warehouse park in Xewkija.

Moreover, these new projects will also have a positive effect on employment in Gozo. During the construction and restoration phase of these two projects, which is expected to be of around 3 years, employment is set to increase by an average annual rate of around 0.2 percentage points (or 35 individuals). Beyond the third year, the two projects are set to have less of an impact

## 4.2 Impact of new tourism scheme

Tourism is one of the main economic drivers of the Gozitan economy as it has a direct, indirect and induced impact on economic activity. Over the last decade, this sector has recorded substantial growth as the total number of overnight visits rose by around 32.0% on the back of a surge in both inbound and domestic tourists. Notwithstanding this development the number of tourists that visit the island of Gozo during the summer and winter seasons still differs. As explained earlier this new scheme, which is set to be introduced in 2023, seeks to enhance tourism during the low season. Therefore, if successful this initiative can help smoothen the tourism curve and reduce seasonality gap.

To analyse the impact of this initiative three different scenarios were considered, as details of this new scheme are not yet available. In all the three identified scenarios the below set of assumptions were used:

- scheme to be in place between November 2023 until the end of March 2024.
- scheme not expected to be extended thereafter as this largely depends on its successfulness.
- the scheme is only available to tourists who opt stay in Gozo for at least 15 nights during the specified period.

Therefore, based on the above set of assumptions this scheme is set to have an impact on tourism activity in late 2023 and early 2024. The initiative will lead to an increase in the number of tourism inflows as well as the average number of nights per stay.

The number of tourism inflows is expected to vary across the three specified scenarios. Each scenario depends on the successfulness of the initiative with the mild scenario being the least successful outcome and the positive scenario being the most successful one. The expected increase in the number of tourists under the three scenarios are presented in Table 1.

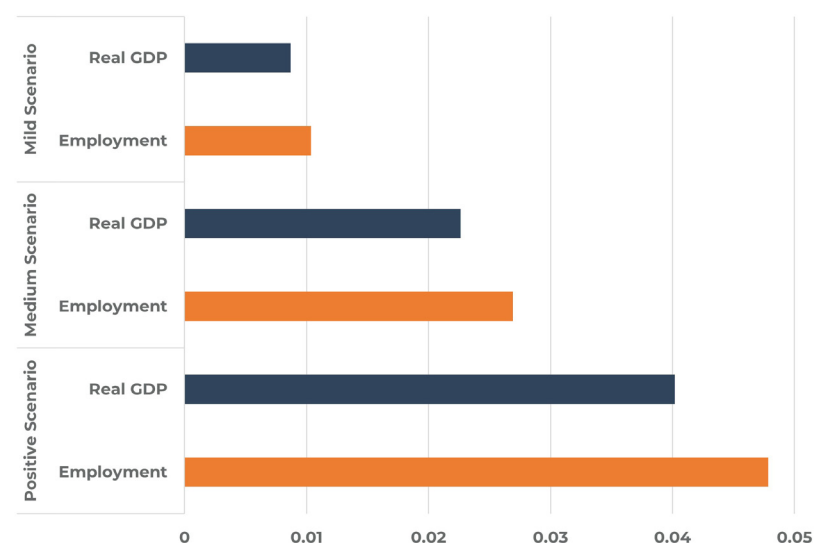
**Table 1: Scenario Analysis - Difference from baseline**

	Mild Scenario	Medium Scenario	Positive Scenario
<b>Number of tourists</b> <i>(levels)</i>	+300	+650	+1,000
<b>Number of nights spent</b> <i>(levels)</i>	+4,500	+9,750	+15,000
<b>Average length of stay</b> <i>(nights, %)</i>	+0.2	+0.3	+0.5

Data Source: GRDA own assumptions

This measure is expected to have an overall positive, albeit marginal, effect on economic activity in Gozo across all the three specified scenarios. Overall, by end 2024 this initiative will lead to an annual increase in real GDP of around 0.01 percentage points under the mild scenario and a 0.02 and 0.04 percentage points under the medium and positive scenario, respectively (see Chart 4). The projected marginal increase in GDP is largely a result of higher economic activity generated in the accommodation and food services and to a smaller extent transportation and storage, two industries which are directly related to tourism.

**Chart 4: Scenario Analysis - Difference from baseline (% difference, 2024)**



Data Source: GRDA estimates

Employment is also set to increase during the duration of the scheme. On average, over the three scenarios employment is set to be 0.03 percentage points higher than that envisaged in the baseline projections. The growth in employment will mainly emanate from the industry of accommodation and food services and albeit to a lower extent transportation and storage and administrative and support services.



If the adequate policies are put in place, the market of visitors who visit Gozo during the off-season could continue to grow. Therefore, even though according to this assessment this new initiative is not expected to have a significant economic impact, it is nevertheless a step in the right direction. In fact, according to a recent Gozo Tourism Association's survey, 67% of participants believe that this measure will have a positive effect on Gozo's tourism industry. Thus, when combined with current and future policy initiatives, including those outlined in the Regional Development Strategy Consultation Document, this measure could help to close the gap between the high and low season.<sup>3</sup>

---

<sup>3</sup> The Regional Development Strategy Consultation Document is available on: [https://grda.mt/wp-content/uploads/2021/11/GRDA\\_Gozo-Strategy-Report\\_VH\\_WEB\\_OP2.pdf](https://grda.mt/wp-content/uploads/2021/11/GRDA_Gozo-Strategy-Report_VH_WEB_OP2.pdf).



**GOZO REGIONAL**  
DEVELOPMENT AUTHORITY

Tel: +356 22156333

Email: [info@grda.mt](mailto:info@grda.mt)

[www.grda.mt](http://www.grda.mt)

