

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

FORECAST OF EU-FUNDED GOVERNMENT INVESTMENT

BOX 1: FORECAST OF EU-FUNDED GOVERNMENT INVESTMENT¹

The Bank's projections for government investment take into account the profile of domestically funded projects as well as those financed from the European Union (EU). This Box gives an overview of EU-funded investment monitored by the Bank and outlines the latest forecast for EU-funded investment spending.

EU Funds

The Bank's projections include EU-funded projects from the largest structural and investment funds, namely the European Regional and Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund (ESF) and the Migration and Security Funds. These funds disburse grants mainly related to cohesion policy, migration, security, education and R&D.²

2014-2020 Multiannual framework

Funds available from this framework can be utilised until 2023. The bulk of these funds are co-financed from the ERDF and the CF and are earmarked towards various projects. These cover investment in roads, waste treatment, water distribution, the construction of new facilities at MCAST and the University of Malta and the building of a new regional health hub.

Work on these projects is either completed or well under way.

2021-2027 Multiannual framework

Grants for investment projects are mainly available from the Cohesion Fund, the ERDF and the Recovery and Resilience Facility (RRF). Regarding the first two funds, in 2020 and 2021 Government held consultation meetings with social partners and other stakeholders in order to draw up draft programmes. According to these draft programmes, substantial resources will be allocated towards the environment, facilitating financing to enterprise, energy efficiency and enhancing Malta's cultural heritage, among other initiatives. Other investments in health, education, potable and new water and waste management are also considered.

Plans for the utilisation of the RRF are at a more advanced stage and are described in more detail below.

NGEU

NGEU is a temporary EU-wide stimulus package which was negotiated in tandem with the 2021-2027 budgeting framework to facilitate the recovery from the pandemic and the transition to a greener and digitalised economy. It offers additional assistance through various funds, with the RRF being the largest fund.

¹ This box was prepared by John Farrugia and Juergen Attard, principal economist and senior economist, respectively, within the Fiscal and Reports Office in the Economic Analysis Department.

² Projects financed by these grants are mostly classified as capital expenditure, split between government investment and capital transfers.

In Malta, the main sources of NGEU funding consist of the REACT-EU and the RRF. The former consists of a top-up to the 2014-2020 cohesion policy programmes. In Malta, these funds were mainly used to help finance the Wage Supplement scheme, and thus they do not have an impact on government investment. Malta is eligible for €122.4 million in REACT-EU grants.

Malta has an allocation of €316.4 million in grants from the RRF which should be utilised over the 2021-2026 period. These grants will be used to finance various investment projects, with a focus on digitisation and climate change. Malta opted not to make use of the loan component of the RRF and instead applied for use of its full allocation of grants by means of the Recovery and Resilience Plan (RRP). The latter was approved by the Commission and the Council of the EU in September 2021.

The RRP includes 47 measures, subdivided into 30 reforms and 17 investment projects covering six areas. The investment projects will mainly address sustainable transport, the circular economy, clean energy and energy-efficiency in buildings. Other projects will also boost the digitisation of public administration and the legal system and increase investment in health centres and schools.

According to the plan, around 54% and 26% of expenditure is targeted towards climate objectives and digital transition respectively. This exceeds the minimum requirement of 37% of expenditure for climate-related projects and a minimum 20% of expenditure for plans to foster the digital transition. Moreover, these projects are additive as their implementation is in addition to other local and EU-financed investment.

The RRP also seeks additional reforms in education and training, which would promote upskilling and improve the quality of the workforce. Together with digitisation measures, this would also improve the resilience of the health sector. Other reforms seek to improve the country's institutional resilience, by strengthening the independence of the judiciary and by increasing the effectiveness of measures to detect and prosecute corruption and money laundering activities.

Decomposition of government investment over the projection horizon

In the Bank's projections, the share of government investment in GDP is set to peak in 2022 and to gradually decline thereafter. This reflects different profiles for domestically-financed projects and for EU-financed projects.

Outlays on EU-financed projects are set to increase markedly in 2022 and in 2023, before declining somewhat in 2024 (see Chart 1). In the near term, Government is expected to also fully use the remaining funds from the 2014-2020 framework. At the same time, the take-up of funds from the RRF is expected to increase significantly in 2022 and to remain elevated in the outer years of the projection horizon. RRF-financed projects are set to amount to 0.5% and 0.6% of GDP each year between 2022 and 2024. By the end of the forecast horizon, around 90% of the allocated RRF grants are expected to be utilised. The remaining

funds are expected to be utilised by 2026. These estimates reflect information available from the RRP, the Draft Budget Plan and the Commission's assessments.

Meanwhile, outlays on EU-funded investment excluding the RRF are expected to increase in 2022 and 2023, as work on projects financed from the 2021-2027 multiannual framework starts to ramp up. This is in line with the actual take-up of funds in the first few years of previous financing frameworks during which projects are still being identified and requests for funding being submitted.

Chart 2 compares the Bank's projected outlays in EU-funded gross fixed capital formation, with the latest Government projections as published in the 2022 Draft Budget Plan (DBP). Overall, the

Bank expects a lower level of EU-funded gross fixed capital formation in 2021. This difference mainly stems from the profile of non-RRF EU investment projects. Subsequently, in 2022, the Bank projects a higher level of EU-funded investment excluding the RRF. On the other hand, the 2022 DBP expects these outlays to decline from a year earlier. Meanwhile, the Bank's estimates for RRF-financed projects are broadly in line with Government forecasts as these reflect the timeline of projects as provided in the RRP.

Chart 1
BREAKDOWN OF GROSS FIXED CAPITAL FORMATION
(2020-2024; % of GDP)

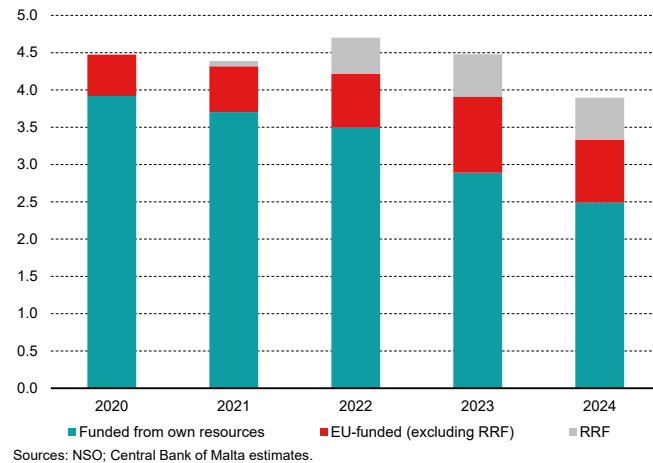


Chart 2
EU-FUNDED GROSS FIXED CAPITAL FORMATION
(2021-2022; % of GDP)

