

# 2025 BUDGET



## Strategic Priorities and Economic Initiatives for Gozo



The Gozo Business Chamber

**PUBLISHED BY**

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**Publication Date: August 2024**

Photo on cover: Anthony Grech

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## **1. Introduction**

This Budget comes at an important crossroads for both the Government and our country. The events which have continued to unfold in the past few months call for a thorough and serious reflection of both the state of our nation, and its governance models.

As a nation we should strive sincerely towards good governance. It should be an objective which we should all endorse and which we should all really aim for. This means that the scandals which have emerged, and which have rocked the foundation and the core of the state and our nation, should be addressed. A natural outcome is that independently of political affiliation it should be ensured that competent and transparent people are at the helm of government organisations which are crucial for the functioning of the state. We are operating in an ever more international context, and the damage that has been done is both considerable and will take time to address. Consequently, it would be both useless and superfluous if this budget is taken out of context and is simply a compilation of fiscal and economic measures.

From a regional / economic viewpoint this also means that after the important step of the launching of the Gozo Regional Development Strategy (GRDA), and the exercise that is being done by the GRDA to align the Government efforts to this strategy, a consistent path should be adopted to ensure that the measures outlined in the strategy are effectively implemented. Nonetheless, even here there should be a thorough reflection on Gozo's governance scenario. The Ministry for Gozo, and lately the GRDA, have been positive developments. Nonetheless the time is ripe for both a regional and national debate on the level of autonomy Gozitans should aspire to. If Gozo is to make the next step toward a more integral development it should have a higher level of autonomy in the way things are decided, with Gozitans having full control on the decisions that impact them, leading to the development of more regional policies and actions which are decided at a local level.

Our communities should be at the core of this budget, a budget which should have both a strategic, and a regional outlook. We need to move from a budget which is tied to an electoral programme and cycle to one which is based on strategic and

long-term decisions and where the impact on our communities and those who are at its margins is really taken into consideration.

Though this document will include also some proposals which were previously proposed by the Chamber, the Chamber is of the opinion that these are still relevant. Consequently, these should be given their due attention.

## **2. The Current Socio-Economic Outlook**

Gozo has experienced significant socio-economic changes in recent years. Between 2017 and 2022, the population of Gozo and Comino grew by 16.2%, with a total population of 40,191 in 2022. This growth was predominantly driven by increases in the 30 to 39 and 70 to 79 age cohorts, suggesting an influx of younger working-age individuals as well as an aging population. Despite this population growth, Gozo faced negative natural population growth in 2021 and 2022, reflecting more deaths than births during these years (NSO, 2024, pp. 12-26).

Economically, Gozo's contribution to the Maltese economy, though relatively small, is vital. The region generated a Gross Value Added (GVA) of €658.9 million in 2022, accounting for 4.08% of Malta's total GVA. The most significant economic sectors in Gozo include public administration, and defence; compulsory social security; education; human health and social work activities, which together represent the largest share of GVA (24.5%). The wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities, also play a crucial role (21.2%), reflecting Gozo's importance as a tourist destination (NSO, 2024, pp. 118-134).

The construction sector remains an essential component of the local economy, contributing nearly 10% to Gozo's GVA. This is significant when one considers that the same sector on the main island of Malta contributes only 3.9%. Overall, this indicates ongoing development and infrastructure investment on the island, though in this case it must also be highlighted that the intensification of development on a local level is consistently highlighting the need for regional planning policies that safeguard its environment.

However, the region also faces certain structural challenges, such as limited diversification in certain sectors and a reliance on public administration and service-related industries especially in the tourism sector.

In summary, Gozo is characterized by a growing and aging population, with a socio-economic structure that heavily relies on public services, tourism, and construction. Nonetheless the picture that emerges is also one of an island that while maintaining unique local dynamics, is contributing to national development through steady economic growth and sectoral expansion in specific areas. The Chamber believes that Gozo's potential is greater, and that more can be done so that strategically Gozo contributes more significantly to the country's economic growth.

### 3. The Current Business Sentiment

After an initial launch of this exercise in 2022, the Gozo Business Chamber continued to develop the 'Business Sentiment Survey'. An important milestone in 2023 was the collaboration with the GRDA with the intent to ensure a consistent methodology and comparability of results. Given the lack of recent data at a regional level, the Business Sentiment Survey is an important indicator of the situation of businesses in Gozo. The outcome of the Business Sentiment Survey highlighted the following important results:

- **Business Conditions:** The overall business conditions in Gozo remained relatively stable from April 2023 to March 2024. Approximately 60% of businesses reported no change in their conditions, while 25% saw improvements, and 18% experienced a decline.
- **Main Concerns:** The primary concerns for Gozitan businesses include a shortage of suitable employees and cost pressures. These concerns persisted over both survey rounds in September 2023 and March 2024, though there was a slight easing of cost pressures by March 2024.
- **Future Outlook:** Looking ahead, most businesses expect their conditions to remain the same, with 53% anticipating stability and 38% expecting

improvement over the next six months. Only 10% foresee a worsening in conditions.

- **Price Expectations:** Most businesses anticipated rising input prices over the next six months, though the proportion expecting price increases decreased slightly from September 2023 to March 2024. 35% of firms planned to keep their output prices stable in March 2024, marking a six percentage-point increase from the expectations reported in September 2023.

Overall, while there are some concerns, especially related to labour shortages and costs, the general sentiment among Gozitan businesses appears cautiously optimistic, with expectations of stability or slight improvement in the near future.

#### 4. Targeted Incentives for Specific Sectors

##### 4.1 The Property Sector

While the Chamber had advocated for the removal of the blank stamp duty of 2% over all the property bought in Gozo, it had also advocated for targeted fiscal incentives which would support the right type of development (GBC, 2023, pp. 8-10). Nonetheless, such incentives did not materialise.

To this end the Chamber is proposing:

- Fiscal incentives for those retaining and restoring existing dwellings, both within and outside the urban conservation area. This can be in the form of full refund of VAT on works carried out for this purpose. This should not be limited to first time buyers but for all cases involving retention and restoration of existing dwellings. This would incentivise the conservation of existing houses in lieu of demolition.
- Both third country nationals and property owners are subject to stamp duty on the purchase and sale of properties in urban conservation areas. This anomaly should be addressed for property owners. These should be exempt from paying any stamp duty whether they sell to an EU national or a third country national.
- When co-owners who remained in co-ownership of a property for a span of more than three years and opt to sell their undivided share from the

property to another co-owner shall enjoy a more advantageous tax rate. This arrangement, while primarily fostering a sense of continuity and stability within property relationships, goes beyond its tax-related implications. By enabling seamless internal property transfers among co-owners, it not only preserves the inherent characteristics of the building but also maintains the property's unique historical and architectural attributes. This dynamic process supports the conservation of the property's original features and qualities, contributing to the preservation of local heritage and cultural identity.

In addition to promoting long-term co-ownership and the retention of the property's natural characteristics, this fiscal incentive serves as an incentive for co-owners to engage in mutually beneficial transactions. It encourages them to explore the option of internal property transfers, ensuring that the property remains under the stewardship of those who have invested in its preservation and who hold a genuine interest in maintaining its unique charm and value.

- There is a risk that a significant amount of existing property, especially if this was bought as an investment to be resold will remain in an unfinished state. The Chamber is therefore proposing an incentive whereby people would recoup part of the VAT paid, if this is finished within a two-year time frame. A person would be able to recoup a greater amount if the property is finished in such a manner that it is rendered more sustainable. Only the customer, and not developers, would be able to benefit from this scheme.

Such a measure would have numerous beneficial effects: (a) it would guarantee that the property which has been bought is finished in a certain amount of time, and therefore avoid the risk of having a supply of property which will remain unfinished; (b) ensure that income from the development is really being distributed among other businesses involved; and (c) that fiscal receipts will be issued during all the process ensuring a higher income for the Government as all the income will be declared.



## 4.2 A Start-Up Eco-System for Gozo

There is increasingly the need to diversify the Gozitan economy beyond the traditional sectors on which it is currently based. The development of a robust startup ecosystem is seen as a vital component of this economic diversification. However, startups are encountering significant challenges that threaten their sustainability and growth. Two key difficulties faced by start-ups are:

- **Funding Growth:** While initial funding—whether through government grants, private investment, or other sources—provides essential support, many startups face difficulties maintaining their operations once these funds are depleted.
- **Lack of Strategic Planning:** A significant number of startups are operating without a comprehensive business plan, a clear understanding of market size and value, or a strategic vision for long-term growth. This often leads to unsustainable operational practices, where businesses may overextend themselves with high running costs (such as staffing, capital investments, and rentals) without generating sufficient income to support these expenses.

The government has made commendable efforts to support startup growth through various funding initiatives, grants, and incentives. However, these financial resources alone are not sufficient to ensure the long-term viability of businesses. Without a solid operational model and strategic direction, many startups are unable to survive once their initial funding runs out. To this end the following solutions are being proposed:

- **Introduction of Professional Mentorship:**
  - **Mandatory Business Consultation:** To maximize the effectiveness of government grants and funds, it is proposed that access to certain financial resources be contingent upon mandatory consultation with a business mentor. This mentor would assist startups in developing a viable business plan and provide strategic guidance over an extended

period, ensuring that businesses have a solid foundation and clear direction.

- **Ongoing Support:** It is also recommended that continuous mentorship be provided to help startups adapt to challenges, manage resources effectively, and refine their strategies. This proactive approach will not only reduce the risk of business failure but also ensure that public funds are invested in ventures with a higher likelihood of success.
- **Establishment of a Startup Incubator in Gozo:**
  - **Dedicated Co-working Space:** Given Gozo's unique economic and geographical context, the establishment of a startup incubator within the Gozo Innovation Hub would be particularly beneficial. This incubator would serve as a dedicated co-working space, equipped with professionals who can provide hands-on support to startups, freelancers, and digital nomads.
  - **Comprehensive Support Services:** The incubator would offer a range of services, including assistance with accessing funding opportunities, navigating grant applications, and managing the bureaucratic aspects of running a business. By providing a centralized location for support and resources, the incubator would foster a collaborative environment that encourages innovation and entrepreneurship on the island.

To ensure the long-term success of Gozo's startup ecosystem, it is essential to go beyond providing financial support. By introducing professional mentorship and establishing a dedicated startup incubator, Gozo can create a more sustainable and resilient business environment.

#### 4.3 The Artisan Sector

For Gozitan artisans to sustain their livelihoods, participation in the numerous artisan fairs organized on the island of Malta is essential. This exposure would allow them to grow and showcase their products to a broader market. However, the

associated costs, particularly those related to time and travel, can be significant. To address this, the Chamber is proposing a scheme to assist Gozitan artisans in participating in these fairs.

To this end Government and the Malta Crafts Foundation should engage in discussions to assess the needs of the artisan sector and develop this support scheme. It is crucial that assistance is provided only to artisans registered in the Registrar of Crafts, and that it specifically covers travel expenses for events organized by, or in collaboration with, the Malta Crafts Foundation.

#### **4.4 A Transport Support Scheme for Gozo's Wholesale, Import and Retail Sectors**

The Gozo Business Chamber is proposing the introduction of a transport support scheme for the wholesale, import, and retail sectors in Gozo. This proposal stems from the recognition that businesses in these sectors face significant transportation costs when operating between Gozo and the main island of Malta. These costs, including added fuel expenses and unproductive waiting times, erode profit margins and reduce competitiveness compared to Maltese counterparts. While existing government schemes assist manufacturing, freight, and agriculture, no such support is currently available for the wholesale, import, and retail sectors, creating an inequity that the Chamber seeks to address.

The proposed scheme would be modelled similarly to the Malta Enterprise's Gozo Transport Grant, which supports transportation costs for the manufacturing sector. The Chamber emphasizes that this new scheme should complement existing schemes, such as those administered by the Eco-Gozo Directorate, without causing a shift in benefits between them. It would also ensure that businesses are not double claiming under different programs. The Chamber recommends forming a focus group to design and implement this scheme, ensuring that it effectively meets the needs of Gozo's wholesale, import, and retail sectors while maintaining the integrity of current support structures.

#### **4.5 The Cultural Sector**

The cultural sector in Gozo is very important within the island's social and community life. This is spurred by the strong voluntary sector present on the island. Throughout the years the Government has valued its importance through targeted assistance. Nonetheless its economic potential is still significantly undervalued.

To this end the Chamber is proposing a support scheme which would encourage the private sector, especially in the tourism and catering industries to enhance their events by engaging artists, who would increase the overall profile of the initiative.

### **5. Long Term Planning**

While the initiatives highlighted above are important and should be pursued it is instrumental that the budget adopts a long-term strategic vision on crucial projects which are necessary for Gozo.

#### **5.1 Health Services in Gozo**

While the Chamber notices the announcement made earlier on this year of a new master plan for the Gozo General Hospital, it is now important that such a plan is pursued effectively to ensure that this project is implemented. The Chamber also notices the extension of new services such as the MRI.

However, while noticing these important developments, it is important to notice that these are services which are due to those living in Gozo and are a duty of the state.

Within Gozo's socio-economic scenario, the Chamber continuously liaises with other NGOs in various spheres. The Chamber could not fail but notice that in various areas related to the disability sector some services are not currently being offered or have to be offered by non-governmental organisations whose financial resources are severely strained. This was also recently brought to the fore by a parent who lost his child in an accident and highlighted the good work of the ARKA Foundation in the disability sector. However, he also highlighted how certain services in this area are not currently being offered. For parents with children with

disabilities it is extremely difficult to travel between Gozo and Malta with their children just to access a service. It is therefore extremely important that there is an in-depth analysis of what is currently being offered in the area of disability, identify the gaps, and ensure that services are being offered accordingly. This report can be conducted by the National Audit Office.

This does not mean that the services must be offered always by the Government, but it must be ensured that the Government adequately assists those NGOs who are working effectively in this area. It is also important to notice that the services of many of these NGOs are not restricted to Gozitans but are also accessed by many Maltese who have their second home in Gozo.

## **5.2 The Education Sector**

The Chamber could not help but notice the significant development with respect to the extensive refurbishment of the primary school in Nadur through the EU's recovery and resilience funds, and the new primary school in Rabat which will be used for the upcoming scholastic year. Nonetheless, it is also important that services which are offered in Malta are also offered in Gozo, given the demographic and social changes being experienced on the island. One of the particular needs in this sector is the need for an induction programme for secondary school aged migrant learners in Gozo. Similarly to what is being offered in Malta, foreign students that are due to enter secondary schools in Gozo and are assessed as not embracing basic English and Maltese, would then follow a programme in Gozo where they will acquire basic skills in these languages so that the following year they may continue their education in mainstream schools. Given the extensive presence of migrants in Gozo this would enable all migrant learners to reach their full potential.

## **5.3 Connectivity**

Connectivity remains a top priority for Gozo. In this case however the Gozo Business Chamber points out to the need for long-term decisions to be taken in this sector. Though the Chamber remains by its position that a permanent link

between the two islands would facilitate greatly the accessibility to Gozo, creating also an alternative access point, the Chamber could not help but notice that this solution does no longer appear in the policy discourse.

Nonetheless, this calls for more urgent action with respect to Gozo's needs. Currently Gozo Channel is operating through a leased fourth ferry with various shortcomings, especially with regards to accessibility. The other three ferries are nearing their earmarked end of life. This means that a strategic decision needs to be taken on the replacement of these ferries, and potentially also the introduction of a fifth ferry. In fact when one of the present ferries is not in operation, the services between the two islands are significantly disrupted.

The introduction of the fast ferry service between the two islands has also been an important development. Nonetheless while the level of service in the summer months is acceptable, the same cannot be said for the winter months where significant gaps in the timetable lessen its potential use.

There is also the need for an alignment between the public transport timetable and the Gozo Channel and fast ferry timetables.

As regards the infrastructure from where all these services are being operated, the Chamber has continuously highlighted that Mġarr Port is heavily congested. A strategic decision needs to be taken on its potential expansion or the creation of an alternative port. Moreover if we are looking towards an investment into a new fleet, it is important that such a fleet is sustainable. Consequently strategic decisions need to be taken on the electrification of the Mġarr Port. The Chamber acknowledges that significant technological developments in this area still need to be made. At this stage hybrid plug-in ferries could also be a solution. However, it is important that a long-term vision is adopted with a significant investment to be undertaken in the electrification of both the Ċirkewwa and the Mġarr ports.

#### **5.4 The Energy Sector**

In its press release on the current situation of the electricity supply in Gozo the Chamber had highlighted the need for: “a longer-term reflection on the

infrastructure that is needed to sustain the steep population rise experienced on our islands and the intensification of development in our communities” ( 2024).

The Chamber has indicated various times that as regards sustainability Gozo can lead the way by implementing and testing certain solutions on the island prior to these being deployed on a national level. In the energy sector the Chamber also believes that Gozo can lead the way by charting and implementing a roadmap whereby its energy is completely generated through multiple renewable energy sources. The present cost of our energy supply cannot be properly costed because of the heavy subsidies provided by the Government. While the Chamber acknowledges the fact that these have provided significant support, especially in the aftermath of the COVID-19 pandemic, this is not a sustainable situation in the long term.

The Chamber believes that as regards Gozo there can be an accelerated transition to renewable energy sources with a diversified mix which will in the long run can lead to more energy security. This diversified mix of energy sources can be assessed through a proper study and implementation of solutions. Obviously such a situation would need an enhanced regulatory framework which would reduce investment risk for the private sector, which can also play an important part in this transition. In fact international partnerships in this area can be identified leading Gozo to be a test-bed prior to such solutions being deployed on a national level.

## **5.5 The City of Victoria**

The city of Victoria, being the main thoroughfare of the island, and also a tourism destination in itself, offers significant challenges. The Chamber had already presented numerous proposals to be implemented through the Sustainable Urban Development Fund (2023). The Chamber’s proposals focused on the regeneration of Victoria. The Chamber also notes the recent document published by the GRDA (2024), which outlines reviewed proposals on the Victoria Urban Regeneration Project, following the consultation phase. One of the main initiatives includes the creation of more green spaces but also the creation of underground car parking facilities.

Victoria necessitates urgent urban infrastructural investment which has been lacking for a number of years. This situation compounded with the increase of cars has exacerbated parking problems while creating severe congestion in critical nodes. To this end while sustaining the long term vision for Victoria it is important that the current mobility situation is assessed through the creation of a task force which also identifies stop-gap temporary solutions which can alleviate the problem.

## **6. Conclusion**

The Chamber believes that the budget should not be simply an exercise compiling a list of measures targeting specific problems and issues. On the contrary it should serve as an annual review of the strategic direction on both a regional and national level. To this end the Chamber while proposing specific measures, is also inviting the Government to focus on the strategic priorities for Gozo. It also hopes that through a bi partisan approach a discussion on the level of autonomy of Gozo as a region and its governing institutions is finally considered. Time and again history has shown that when decisions are taken by Gozitans and for Gozitans these have reaped important benefits for the entire community. The Chamber believes that the time is ripe for such an important discussion which requires a high degree of maturity from the entire political spectrum. All decisions to be taken need to be motivated by the search for the common good. It is only then that the Gozitan community can really move forward.



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