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Minister's Foreword



Malta has become one of the fastest growing economies in the European Union (EU), recording an average annual growth of 7.1 per cent during the 2013 to 2018 period. Growth has been increasingly diversified with increases in value added being recorded in all sectors, from manufacturing to high-end services.

Our country is also amongst the top performers in terms of labour market outcomes, boasting one of the highest employment growth rates in the EU, a record low unemployment rate and healthy growth rates in wages and salaries. We have also succeeded in attaining a positive net international investment position with significant current account surpluses.

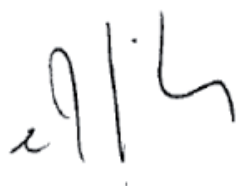
We have managed to put public finances on a sound footing, recording a surplus in the fiscal balance for two consecutive years and significantly reducing the debt-to-GDP ratio which is now close to 45 per cent.

At the same time, the number of persons at risk of poverty has continued to fall. This reflects successive budget measures, which from their inception were planned to increase employment opportunities and remove barriers to labour market entry particularly for women, improve disposable income of working families and enhance disability and elderly incomes.

The future looks bright. Our forecast for 2019 and 2020 shows our economy continuing to grow robustly with moderate inflation rates, strong employment growth and a low unemployment rate. We will also continue to target a fiscal surplus net of the revenue from the Individual Investors Programme (IIP), while continuing to reduce the debt burden.

In the coming years, we will continue to implement measures that target infrastructural bottlenecks, strengthen the education and the labour market, ameliorate the housing sector and invest in new sectors. We will continue to foster a business-friendly environment conducive of investment. We will also continue to implement measures that enhance the governance framework across all economic sectors, in particular, the financial and judicial sectors.

This will ensure that Malta remains a top performer.



Prof. Edward Scicluna
Minister for Finance

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1. Introduction

Economic growth in 2018 reached 6.6 per cent in real terms, more than double the 1.9 per cent average rate of growth recorded by the EU-28. Preliminary forecasts by the Ministry for Finance (MFIN) predict that economic growth will be 6.2 per cent in 2019 and 6.0 per cent in 2020, while the economic outlook is expected to remain positive over the forecast horizon.

Economic growth in 2019 is expected to be mainly driven by domestic demand, with external demand having a more modest contribution. The positive contribution from external demand is expected to grow in 2020. Private consumption is expected to remain robust over the forecast horizon, supported by strong labour market conditions and an expected pick-up in investment activity. In 2019 and 2020, the annual employment rate is expected to stand at 4.6 per cent and 4.3 per cent respectively, while the rate of unemployment is projected to stand at 3.8 per cent in 2019 and 3.9 per cent in 2020.

The Government's priority remains that of simultaneously securing sustainable economic growth and sustainable public finances. The Government also aims to safeguard the well-being of society by effectively addressing the economy's main challenges, by undertaking measures targeting infrastructural bottlenecks, strengthening the labour market and investing in technology as well as implementing further initiatives pertinent to the pension reform process. In addition, it will continue implementing measures to enhance the governance framework across all economic sectors, in particular, the banking and financial sector and the judicial sector.

1.1 Public Finances and Taxation

The Government has sought to strengthen the institutional capacity in Malta's fiscal framework through the enactment of the Fiscal Responsibility Act (FRA) in 2014. It is noteworthy that during 2018, a number of additional amendments were legislated to ensure full consistency with the Directive on Budgetary Frameworks as well as other amendments intended to ensure clarity in the administration of the Act.

The Government is also strengthening the spending review process by strengthening the institutional framework, providing staff training through assistance from the Structural Reform Support Programme, while also planning to align the spending review process with the budget process.

Furthermore, the Government requested the International Monetary Fund (IMF) to undertake a Fiscal Transparency Evaluation (FTE) of Malta's public finances. The IMF report was published in September 2018 and established that many elements of sound fiscal transparency practices are in place, resulting in Malta to compare well with other advanced European Union (EU) economies that have undertaken the FTE. An internal process is underway to assess the recommendations and advise on implementation.

The Government's taxation strategy seeks to ensure that revenue streams from taxation are sustainable. The Government will continue to make the simplification of the tax system a priority which in turn will alleviate the administrative costs associated with the computation of tax liability. To this end, it is introducing detailed tax consolidation regulations which permit groups of companies to calculate their profits/losses on a

group basis. Moreover, heavier fines are being imposed for cases related to tax evasion, namely serving as a deterrent against evasion of excise duty.

Furthermore, a legal notice containing the EU Anti-Tax Avoidance Directives Implementation Regulations has been published in a bid to address tax avoidance. All but one of the regulations have entered into force as of January 2019, with the regulation on the Exit tax coming into effect as from January 2020.

1.2 Financial Sector

The Government is seeking to amend the Malta Financial Services Authority (MFSA) Act in a bid to strengthen both the regulatory and the supervisory roles with respect to the financial services sector. Meanwhile, the Authority's human resource capacity is being strengthened by recruitment in specific areas including authorisation, regulation and supervision. The IT system within the MFSA and the Financial Intelligence Analysis Unit (FIAU) is being upgraded to ensure continued rigorous supervision in line with technological developments in the financial services industry. Furthermore, the Malta Police Anti-Money Laundering Squad is being further strengthened with additional recruitment taking place in the coming months.

In connection with the supervision of Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT), the MFSA and FIAU are in the process of enhancing the Money Laundering/Financing of Terrorism (ML/FT) risk assessment procedures for financial institutions and other Designated Non-Financial Businesses and Professions (DNFBPs) (namely trustees and company service providers). The Government also launched the AML/CFT strategy prepared on the basis of the National Risk Assessment (NRA) and a thorough gap assessment of Malta's AML/CFT framework in a bid to further strengthen and raise the profile of the local supervisory framework locally and internationally.

During September 2018, the IMF completed a Financial Sector Assessment Programme (FSAP), a comprehensive and in-depth analysis of Malta's financial sector, which review was published in March 2019. The FSAP report had an overall positive assessment of the financial stability risks in Malta. The Maltese banking sector was found to be well capitalised, liquid and operating with healthy profitability levels. The banking system was also found to be resilient under rigorous stress scenarios.

A further review was carried out by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). The final outcome of this mission will be communicated in the course of this year.

The National Coordinating Committee on Combating Money Laundering and Funding of Terrorism was established in April 2018, with the objective of drawing up, implementing and carrying out follow-up action with respect to a national strategy and policies to combat money laundering and the funding of terrorism.

The Asset Recovery Bureau (ARB) became operational in mid-2018 and is responsible for efficient identification, tracing, collection, storage and disposal of proceeds of crime or property in favour of Government.

With respect to the Gaming sector, all operators have become subject persons under the Prevention of Money Laundering and Funding of Terrorism Regulations (PMLFTR) from 1st January 2018. The Malta Gaming Authority (MGA) has completed a sectoral ML/TF risk assessment of the gaming sector, as part of a National Risk Assessment for the Gaming Industry in Malta and has embarked on various initiatives that seek to effectively mitigate risks while enhancing regulation and supervision.

In the context of good governance, over recent years, Government embarked on various initiatives that sought to reform the national justice system. In 2018, extensive use of ICT technologies has made the Interdiction and Incapacitation Registers and the scanning of certain judicial acts, available to advocates, notaries and legal procurators. Other E-Justice initiatives as well as the promotion of alternative methods of dispute resolution, sought to reduce bureaucracy and delays on the civil courts.

Furthermore, on 19th January 2018, the amendment to the Code of Organization and Civil Procedure Act 1 of 2018, provided for a Commercial Section of the Civil Court resulting in Malta having a specialised Court presided by a specialised member of the judiciary who hears and decides cases falling within its jurisdiction.

Since May 2018, the Individual Investors Programme (IIP) is being administered by the Malta Individual Investor Programme Agency (MIIPA), an independent Government entity specifically focused on the operations of Malta's citizenship by investment programme. This is intended to minimise conflict of interest in the process.

The Government is also enacting institutional reforms to address a number of the recommendations made by the Council of Europe's Venice Commission. First, the Government will be legislating for a separation of the Attorney General's prosecutorial and advisory roles by mid-2019. With regards to the recommendations relating to judicial appointments and judicial discipline, the Government will also be presenting Constitutional amendments following a parliamentary consultation process in the coming months. The issue of transitory measures will also be the subject of consultation. Furthermore, the Government will carry out the legislative changes necessary with regards to the Ombudsman, Civil Service with respect to Permanent Secretaries and Positions of Trust, Independent Commissions and the Police. The Government aims to make these changes by the end of the current calendar year.

On 7th August 2018, the Commission confirmed Malta as the 22nd EU Member State in the enhanced cooperation on the establishment of the European Public Prosecutor's Office (EPPO) envisaged to become operational by the end of 2020, reflecting Malta's commitment to fight crimes against the EU budget.

1.3 Labour Market, Education and Social Policies

In recent years, various initiatives have been introduced aimed at strengthening the labour market, in particular, by contributing towards raising the female participation rate. These measures have been sustained and new measures have been introduced targeting the employment of vulnerable groups. Such initiatives encourage more individuals to enter the labour market, enable them to contribute more towards the economy, while reducing dependence on social benefits.

The Government recognises that a successful education strategy contributes towards effectively closing the skills gap, which is one of the major challenges facing the Maltese economy. Various initiatives have been developed bringing together educational professionals, students and employers, with a view to address the needs arising from the ever-changing labour market.

During the past years, the Government has sought to secure the economy's long-term sustainability, in particular by containing age-related expenditure, through various measures, including the strengthening of the labour market, raising potential output and the continuation of the pension reform process in Malta.

Various measures have been implemented over recent years aimed at lengthening the duration of working lives. These include an increasing pension age that will reach 65 by 2027 and lengthening of the contributory period from 30 to 41 years, while incentives have been introduced to defer early retirement and lengthen working careers. The impact of these reforms are reflected in Malta's labour market statistics which confirm that the duration of working life in Malta has increased by 5.5 years during the period 2008 to 2017 while the employment rate for older workers (55-64 years) increased by 17.1 percentage points.

A number of measures are also being implemented in a bid to encourage diversification of retirement income, thus reducing the sole dependency on state pensions. The Malta Stock Exchange is actively contributing towards the increase in the level of financial literacy through the Strategy on Retirement and Financial Capability. In the 2019 Budget, the Government continued to strengthen the incentives for the Third Pillar Pension Scheme and the Voluntary Occupational Pension Scheme. Moreover, the Government has recently launched the voluntary Home Equity Release Scheme enabling financial institutions to start providing this facility to retirees. The scheme is intended to provide pensioners with an alternative method to supplement their income.

Long-term economic sustainability also depends on an effective health care strategy. The Government seeks to maintain an efficient healthcare system which is free and accessible to all, while also curtailing expenditure. The National Health System Strategy (NHSS) targeted health promotion and disease prevention through a number of sectoral strategies that have been launched over recent years.

A new one-stop facility for community care which will also provide specialised care for several diseases and conditions, is being developed. The Southern Regional Hub is expected to become operational by 2023. Furthermore, by 2020, the Primary Health Care Services will be introducing an Electronic Patient Record system to replace the current paper-based system, in order to decrease the cost of the health care service while also reducing the administrative burden and improving health care provision.

1.4 Competitiveness and Investment

For Malta's small and open economy to remain sustainable and to successfully withstand external shocks, new growth sectors need to be developed, maintaining a healthy mix of services and manufacturing sectors. Indeed, Malta has become increasingly diversified, recording broad-based economic growth across all industries including in the manufacturing, transport, retail, accommodation, real estate, financial, gaming,

information and communication technology and professional sectors. This illustrates how the progress made in terms of competitiveness has also been broad-based.

Over the years, Malta has maintained its competitive edge in the external sector. Net services exports are particularly strong and stem from various sectors, especially tourism and financial services, which exhibited substantial net export figures over recent years. Malta's trend of net exports reflects a high level of exports that outweighs the corresponding level of imports. The import content of exports is declining, primarily on the back of decreased dependency on oil, thus resulting in less oil being imported. Additionally, Malta's Real Effective Exchange Rate (REER) depreciation improved the country's price competitiveness. Together, these factors explain Malta's relatively large current account balance.

The robust economic performance registered in Malta over recent years has created new challenges particularly in infrastructure, the environment and the labour supply. Targeted public investment seeks to address these challenges.

Various infrastructural projects are underway, most notably numerous road work projects, as part of the TEN-T core network, which include the building and upgrading of various main roads in Malta. Furthermore, the Government is committed to mitigate the obstacles Gozo faces arising from double-insularity and detachment from core economic and social activities. The possibility of a tunnel is being studied in order to create a permanent link between the two islands. A study is also being carried out to evaluate the introduction of a Mass Rapid Transport System (MRT) for Malta in a bid to facilitate and provide an alternative public transport system while lowering the carbon footprint. Furthermore, the Government acknowledges the importance of the contribution of Small and Medium-Sized Enterprises (SMEs) to the economy, in particular their potential to drive innovation in the Maltese economy. In this respect, it is assisting existing SMEs and start-ups through public as well as EU funds.

2. Macroeconomic Context and Scenario

2. Macroeconomic Context and Scenario

2.1 Macroeconomic outlook for the period covered by the programme

2.1.1 Macro Forecasts 2019-2020

The Maltese economy continued with its growth trajectory throughout 2018, as the economy grew by 6.6 per cent in real terms. This performance made Malta one of the fastest growing economies in the European Union (EU) which, on average, experienced an expansion of 1.9 per cent. While the rate of growth of the Maltese economy was broad-based, the domestic demand component was the main driver, backed by the positive developments in the labour market. In fact, employment grew by 5.6 per cent in 2018, while the unemployment rate fell to 3.9 per cent. Net exports also contributed positively to economic growth in 2018, fuelled by strong services exports and a moderate growth in imports.

Real Gross Domestic Product (GDP) growth is expected to remain robust over the forecast horizon. Preliminary forecasts of the Ministry for Finance (MFIN) indicate that growth for 2019 and 2020 will reach 6.2 per cent and 6.0 per cent, respectively. Economic growth in 2019 is expected to be mainly driven by domestic demand, which is projected to contribute 5.2 percentage points to growth, while external demand developments will have a more modest contribution of 1.0 percentage points. The positive contribution from external demand is expected to improve in 2020, and increase to 2.9 percentage points. Moreover, domestic demand in 2020 is projected to contribute 3.1 percentage points to growth. Private consumption is expected to remain robust over the forecast horizon, supported by strong labour market conditions and an expected pick-up in investment activity.

Main Macroeconomic Indicators

Table 2.1

	2018	2019(f)	2020(f)
Real GDP	6.6	6.2	6.0
Inflation rate (%)	1.7	1.9	2.1
Employment growth ⁽¹⁾	5.6	4.6	4.3
Unemployment Rate (%)	3.9	3.8	3.9
Exports of goods and services	2.1	2.3	4.5
Imports of goods and services	1.3	1.8	2.9
Compensation per employee (% change)	2.2	2.9	3.0
Labour productivity (% change) ⁽²⁾	0.9	1.0	1.4
Unit Labour Costs (% change)	1.3	1.8	1.6

⁽¹⁾ Total Employment, National Accounts Definition

⁽²⁾ Real GDP per person employed

Source: Economic Policy Department Workings

Table 2.1 provides a preliminary overview of the outlook for the main macroeconomic indicators. The figures are provisional and subject to change¹.

2.2 Macro Economic Impact of Structural Reforms

The Maltese Government is implementing a number of reforms aimed at raising businesses' and consumers' confidence, thus bringing about higher productivity, greater employment and improved living standards. These reforms are key to meet the objectives laid down in the Europe 2020 Strategy and Country Specific Recommendations (CSRs) as they aim to continue:

- Strengthening fiscal responsibility and ensuring long-term sustainability of the pension and health care systems;
- Strengthening the country's institutions and good governance in line with international standards;
- Encouraging higher labour participation rates, improving education outcomes and reducing skills gaps;
- Reducing risks of poverty and promoting social inclusion;
- Encouraging greater investment in research and development;
- Strengthening efficiency in the use of energy and promoting the use of energy from renewable sources.

In view of the requirement to quantify the economic impact of such reforms, this Programme illustrates the economic impact of the pension reform aimed towards addressing the sustainability of pensions whilst supporting higher labour market participation of older age cohorts. The results presented in this section are based on modelling generated on the basis of the QUEST III model.² This analysis sheds light on the likely economic impact of the specific policy shock; it does not represent the impact of all policy measures being implemented by the Government. Indeed, the only policy change being modelled is the one relating to the gradual increase in the retirement age while the other policy parameters are assumed to remain constant.

2.2.1 Pension reform

Long-term sustainability of public finances is key to maintaining macroeconomic stability and supporting economic growth. Increases in life expectancy along with lower fertility rates create pressures on the financing of age-related expenditure, especially with respect to the pension system, which in turn may impact negatively the sustainability of public finances. Thus, in order to countervail the impact of an ageing population on public finances and to address both adequacy and sustainability challenges to the pension system, through the 2007 pension reform, the Government has legislated for a gradual rise in the pension age from 61 years to 65 years. The first one-year increase in the pension age took place in 2014 followed by a rise to 63 years in 2019. The third one-year increase from 63 to 64 years will take place in 2023, with pension age reaching 65 years in 2027. Within this context, the scenario presented in Table 2.2, aims to illustrate the likely economic impact of the rise in the pension age that will take place in 2019 along with the ones scheduled for 2023 and 2027.³

The one-year rise in the pension age taking place in 2019 along with the ones scheduled for 2023 and 2027, are estimated to boost employment by around 7,300 persons by 2033 relative to the baseline (2018), reflecting an increase of 3.4 per cent in the employment rate. This increase in the employment rate is expected to boost GDP by 2.6 per cent in 15 years' time relative to the baseline, as shown in Chart 2.1. These results confirm that the gradual increase in pensionable age supports the objective of lengthening careers, supports potential labour input whilst raising output growth over the long-term.

Estimated economic impact of a gradual 3-year rise in the pension age starting in 2019

Table 2.2

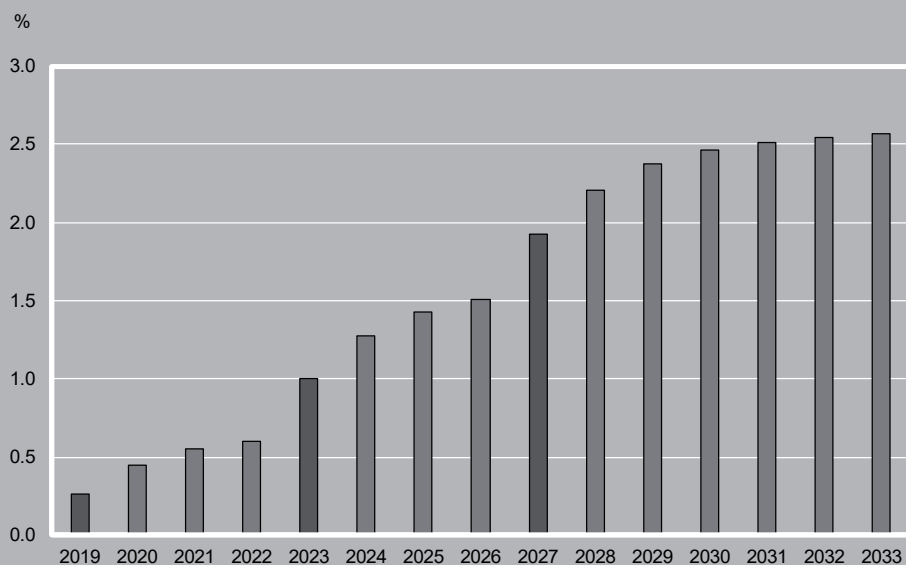
Years after shock	1* 2019	2 2020	4 2022	5* 2023	6 2024	8 2026	9* 2027	10 2028	15 2033
Cumulative percentage changes from baseline (2018)									
GDP	0.26	0.45	0.60	1.00	1.27	1.51	1.92	2.21	2.57
Employment	0.39	0.65	0.85	1.43	1.80	2.09	2.68	3.06	3.38
-low	0.43	0.79	1.17	1.84	2.37	2.91	3.61	4.14	4.79
-medium	0.35	0.54	0.61	1.11	1.37	1.47	1.96	2.22	2.30
-high	0.35	0.48	0.48	0.98	1.15	1.16	1.65	1.83	1.83
Cumulative absolute changes from baseline (2018)									
Employment	842	1,411	1,851	3,100	3,913	4,536	5,806	6,623	7,338
-low	415	760	1,124	1,771	2,276	2,793	3,462	3,974	4,598
-medium	396	609	684	1,242	1,535	1,639	2,195	2,487	2,577
-high	31	42	43	87	103	104	148	163	164

* Increase in pension age by another year

Source: Economic Policy Department Workings

Chart 2.1

Estimated cumulative increase in GDP as a result of the increase in the pension age



Source: Economic Policy Department Workings

2.3 Distributional Impact of Selected 2019 Budget Measures

The distributional impact of four specific policy measures announced in the 2019 Budget are outlined in this section. These include an increase of €2.17 for every pensioner, the repeated income tax rebate for persons in employment, the increase in children's allowance and the new housing benefit.

To assess the effectiveness of these four initiatives, simulations were modelled using EUROMOD⁴. Specifically, a scenario in which the reform is included in the simulation was evaluated in comparison to a baseline scenario with the specific reform excluded from the simulation. For each measure, the difference between these two scenarios is the impact of that specific policy reform.

EUROMOD is a static model and therefore, the results illustrate the impact of the measures presuming that all else remained unchanged.

2.3.1 Increase in pensions

Statistics emanating from the EU-SILC survey show that households with no dependent children and with at least one person above the age of 65, are more likely to be at risk of poverty. The adequacy of pensions can play a key role in preventing older citizens from falling below the poverty line.

In the Budget for 2019, the Government announced that every pensioner, irrespective of whether one is receiving a contributory or a non-contributory pension (namely beneficiaries of retirement pensions, widows' pensions, invalidity pensions, as well as, old age pensions), shall be benefitting from a weekly €2.17 increase in his or her pension. The objective of this measure is to address the adequacy of pensions and improve the distribution of wealth.

This measure is expected to have a positive impact with respect to the overall at-risk-of-poverty rate, which is estimated to decline by around 0.16 percentage points. As shown in

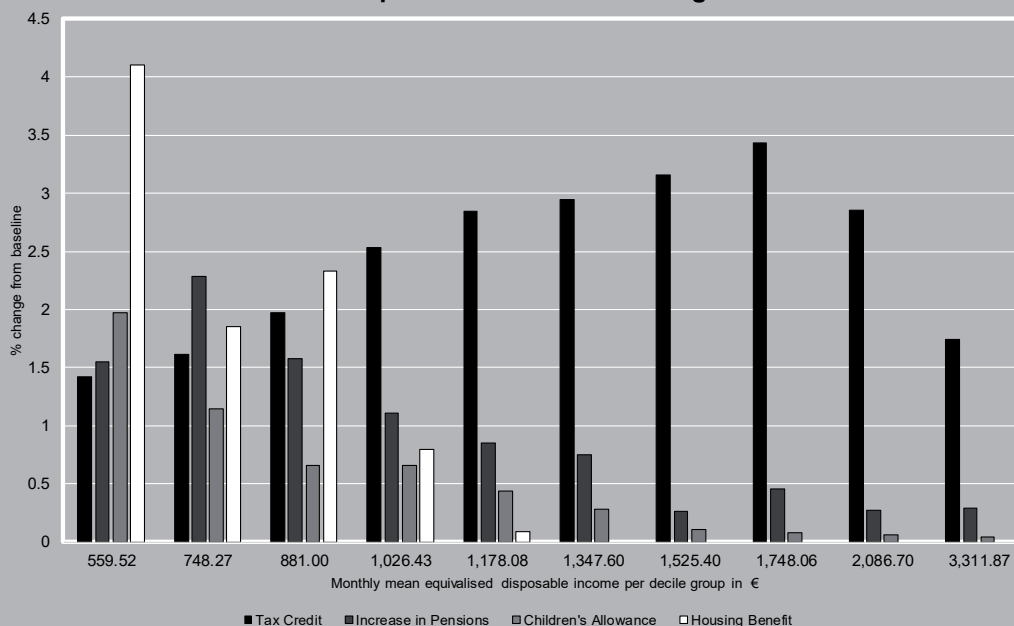
Distributional impact of reforms (in percentage points)

Table 2.3

	Increase of €2.17 for pensioners	Tax refund for all employees	Increase in the Children's Allowance	Housing Benefit
At-Risk-of-Poverty Rate				
Population	-0.16	-0.12	-0.07	-0.06
Children	0.00	0.00	-0.20	0.00
Working Age	-0.02	-0.20	-0.06	-0.08
Economically Active	0.00	-0.17	-0.08	-0.07
Elderly	-0.81	0.00	0.00	-0.08
Gini Coefficient (ratio)	-0.0004	-0.0003	-0.0003	-0.0006

Source: Economic Policy Department Workings

Chart 2.2

Distributional impact of the four 2019 Budget Measures

Source: Economic Policy Department Workings

Table 2.3, the increase in pensions is estimated to lead to a decrease of 0.81 percentage points in the at-risk-of-poverty rate among elderly households. The Gini coefficient, which is an indicator showing the level of inequality in the distribution of disposable income, also recorded a drop, implying that this measure mitigates income inequality.

Chart 2.2 outlines a deeper analysis of the dynamics of the change in the at-risk-of-poverty indicators. It reveals that there was a positive distributional impact on all income brackets. However, the cohort benefitting the most from this reform is pertinent to those at the bottom of the income ladder.

2.3.2 Further reduction in taxes for all employed persons

With the aim of strengthening the incentive to work and addressing in-work poverty, the Budget for 2019 announced that the tax rebate measure of the previous year will be repeated. All those earning less than €60,000 per annum will get an income tax rebate varying between €40 and €68. The tax rebate is progressive and will be worked on the gross income that the employee would have earned during the previous year.

EUROMOD simulations were carried out to assess the impact of these tax rebates. The results indicate that this measure is expected to result in an overall reduction in the at-risk-of-poverty rate by around 0.12 percentage points, as shown in Table 2.3. Such a drop is mainly driven by a decrease of 0.20 percentage points in the at-risk-of-poverty rate among working age households. Moreover, as shown in Chart 2.2, the tax rebate is expected to result in an increase in income for all income groups.

2.3.3 Increase in the Children's Allowance

In the 2019 Budget, the Government also announced an increase in the children's allowance for families with a gross income lower than €20,000 per year. The highest rate of children's allowance will rise to reach a maximum of €96 per year for each child.

EUROMOD simulations carried out to assess the impact of the increase in the children's allowance, suggests that the overall at-risk-of-poverty rate is expected to decrease by around 0.07 percentage points, affecting mostly the at-risk-of-poverty for children, equivalent to around 0.20 percentage points. As illustrated in Chart 2.2, there was a positive distributional impact on all income brackets.

2.3.4 Housing Benefit

The Government also announced a new housing benefit intended to enhance the affordability of the private sector rentals. This reform is expected to have a positive impact in terms of the overall at-risk-of-poverty rate, which is expected to decline by 0.06 percentage points. As shown in Table 2.3, the housing benefit is estimated to bring about a decrease of 0.08 percentage points in the at-risk-of-poverty rate among elderly and working age households. The poverty gap of this measure also decreased from 14.31 per cent to 14.27 per cent, a difference of 0.04 percentage points. Furthermore, Chart 2.2 shows that the highest rise in disposable income is enjoyed by the bottom decile. This result was also confirmed by the improvement in the Gini coefficient.

The distributional impact analysis of the 2019 Budget measures referred to in this section demonstrates that Government continues to fulfil its promise regarding the distribution of income. Specifically, an improvement in the Gini coefficient is noted for all policy measures outlined above. Moreover, there was a positive distributional impact on all income brackets and a positive impact in terms of the overall at-risk-of-poverty rate for the four policy measures that have been assessed.

Footnotes:

¹ The finalised macroeconomic projections will be published in the Stability Programme 2019-2022.

² QUEST III with research and development is a Dynamic Stochastic General Equilibrium (DSGE) model developed by the European Commission and adapted specifically to the Maltese economy.

³ The change in the retirement pattern as a result of the pension reform was estimated using the World Bank's Pension Reform Options Simulation Toolkit (PROST 15).

⁴ EUROMOD is a tax-benefit microsimulation model for the EU that enables researchers and policy analysts to calculate, in a comparable manner, the effects of taxes and benefits on household incomes and work incentives for the population of each country and for the EU.

3. Key Policy Response to major Economic Challenges

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This section outlines the implementation of the policy actions adopted and planned in response to the Country Specific Recommendations (CSRs) and other major economic challenges.

3.1 Country Specific Recommendations

CSR 1: Strengthen the overall governance framework by enhancing the national supervision of internationally oriented businesses licensed in Malta, by ensuring the effective enforcement of the anti-money laundering framework and by continuing to step up the fight against corruption.

Over the past year, the Maltese authorities continued with their efforts to ensure that the financial sector continues to grow and generate employment whilst efforts to strengthen the overall governance framework were pursued.

Enhancing the national supervision of internationally oriented businesses licensed in Malta

Strengthening the overall governance and capacity of national authorities

The Malta Financial Services Authority (MFSA) is strengthening its human resource capacity with an increase in personnel recruitment for the years 2018 and 2019, particularly within the teams responsible for the authorisation, regulation and supervision of entities falling within the regulatory and supervisory remit of the Authority. In addition, MFSA is upgrading its IT systems in order to ensure continued rigorous supervision which can keep up with the technological developments in the financial services industry. Similarly, the Financial Intelligence Analysis Unit (FIAU) has embarked on a project to strengthen its technical resources by acquiring and deploying a new software (namely CASPAR - Compliance and Supervision Platform for Assessing Risk), to upgrade the FIAU compliance databases. The new system will also provide a tool to support other qualitative analysis and will also serve as a portal for more effective communication with subject persons. The new compliance software has reached an advanced stage in its development and is intended to be fully operational by June 2019. Moreover, the FIAU continues to strengthen its supervisory function by further developing and increasing its capabilities and capacity through a Human Resources (HR) development plan which is currently being implemented and foresees further additions to its supervisory and legal teams.

Furthermore, following feedback from stakeholders to a consultation held in the second half of 2017, the Government of Malta proposed to amend the MFSA Act, to reflect the objective of reorganising the authority by separately and clearly framing both roles of regulation and supervision in the financial services sector. Greater levels of efficiency and effectiveness of the MFSA were called for during the consultation, in line with

the views of international authorities. The Government of Malta is proposing further amendments to the MFSA Act (Bill no. 49 of 2018), which has just passed its Third Reading in Parliament, reflecting the proposed changes in the structure of the MFSA which are intended to strengthen the MFSA and to make it a more efficient, proactive and dynamic regulator. Previous amendments to the Act have seen the creation of a Chief Executive Officer responsible for the MFSA's overall performance in terms of the achievement of its objectives and implementation of its strategy and policies as set out by the Board of Governors.

With respect to cooperation with foreign regulatory authorities, the MFSA regularly participates in cooperation meetings and/or conference calls with host supervisory authorities. For instance, in relation to the insurance sector, where the applicant intends to operate exclusively (or almost exclusively) in another Member State, the MFSA engages with that Member State even at application stage in order to facilitate its understanding of the situation and the circumstances of the undertaking before the MFSA makes a decision on the authorisation. This practice is in accordance with the Decision issued by the European Insurance and Occupational Pensions Authority (EIOPA) on the collaboration of the insurance supervisory authorities, which Decision is applicable to all Member States.

AML/CFT regulatory and supervisory framework

The MFSA is the single financial regulator in Malta responsible for the prudential regulation, monitoring and supervision of financial services in Malta. The FIAU is the authority tasked with the monitoring and supervision of financial institutions and Designated Non-Financial Business and Professions (DNFBPs) for compliance with the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) requirements established under the Prevention of Money Laundering Act (PMLA) and the Prevention of Money Laundering and Funding of Terrorism Regulations (PMLFTR).

The MFSA's cooperation with the FIAU commenced in 2003 pursuant to legal provisions which envisage cooperation between supervisory authorities and the FIAU, including undertaking of on-site examinations on behalf of the FIAU. The modalities for the cooperation were agreed during a meeting held between the MFSA and FIAU on the 12th November 2003.

The FIAU and MFSA have since then established common joint examination procedures to streamline the supervision methodology and are in the process of reviewing the Memorandum of Understanding (MoU) signed between them to reflect the recent developments in their cooperation.

In connection with the supervision of AML/CFT, the two supervisory authorities, the MFSA and FIAU, are currently in the process of enhancing the AML/CFT risk assessment procedures for financial institutions as well as other DNFBPs (namely trustees and company service providers). This entails a complete overhaul of the now-defunct Annual Compliance Report (ACR) system, with the development of AML/CFT Risk Evaluation Questionnaires (REQs) that are sector-specific and require more detailed information and data. The REQs have been finalised and published on the FIAU's website on 4th January 2019.¹ The objective behind the REQs is to allow the FIAU to obtain standardised information from persons and entities subject to the PMLFTR in order to strengthen its risk-based approach to supervision and be more effective in the fight against money

laundering and terrorist financing. The development and publication of the REQs follows a pilot exercise which took place in the summer of 2017, by means of which the FIAU and the MFSA carried out an extensive data collection exercise on all credit institutions to strengthen the authorities' risk understanding of this sector and the respective operators, and the 2018 supervision plan factors in the results of this data collection exercise.

Outreach initiatives form part of other measures being taken by the FIAU and MFSA to improve the overall AML/CFT framework. The FIAU has regularly – and especially throughout 2018 – organised various training sessions, including for the financial sector, which were all very well attended. The sessions included sector specific AML/CFT training on typologies and on carrying out the institutional risk assessment; seminars and training sessions to explain the results of Malta's National AML/CTF Risk Assessment to subject persons, as well as sessions on the revised Implementing Procedures Part I (IPs) which reflect the recent legislative amendments to the PMLA and the PMLFTR brought about by the transposition of the Fourth Anti-Money Laundering Directive (AMLD), and provide subject persons with additional in-depth qualitative guidance on the AML/CFT obligations in all areas, including, for example, the implementation of the risk-based approach, or for instance the outsourcing and dealing with Politically Exposed Persons (PEPs). In addition, the FIAU issued a series of guidance documents, many of which are particularly relevant to credit and financial institutions.

In parallel, the MFSA published its AML/CFT strategy which focused on enhancing the MFSA's approach towards its role in AML/CFT supervision as well as boosting its supervisory standards in order to safeguard the integrity and trust in the Maltese financial services sector. Furthermore, the MFSA has set out the applicable procedures and principles which regulated firms are expected to adhere to. The MFSA's main role is to support national AML/CFT supervision by ensuring that all regulated firms have in place effective systems and adequate controls to counter potential money laundering activities. For this to be achieved, the MFSA works closely with other national competent authorities and through on-site and off-sites examinations on subject persons, continuous oversight is maintained. Firms are expected to demonstrate robust AML and CFT arrangements from set-up through their entire lifecycle in business while MFSA's responsibility is to monitor all these stages and make sure that wrongdoing is minimised.

Additionally, the MFSA continued to strengthen its anti-money laundering procedures with the publication of Guidance on PEPs. This is another step in the MFSA's efforts to enhance AML supervision and tackle international challenges posed by money laundering in line with international best practices and commitments with international counterparts and supervisory bodies.

With effect from 2018, the MFSA prudential supervisory units (PSUs) have started to provide and will continue to provide on an annual basis (during the last quarter of every year) to the AML Team - Enforcement Unit, by means of an established template, risk-oriented information on each licensed person/entity under the supervision of that PSU. The information is relevant for the AML/CFT risk assessment and AML/CFT supervision purposes. This information contains risk scores determined by the PSUs which are then entered into the risk-assessment tool used by the AML Team - Enforcement Unit.

The results of the AML/CFT risk assessment carried out by the AML Team - Enforcement Unit, are then communicated to the PSUs for information purposes. This has been implemented with effect from 2018.

Prior to finalising the annual programme of AML/CFT supervision, including the on-site supervision visits schedule, the AML Team - Enforcement Unit once again requests the PSUs whether they have any AML-related concerns, on any licensed person/entity which should be brought to the attention of the MFSA AML Team - Enforcement Unit. This process has been in place since the MFSA AML/CFT supervision team was set up.

The established annual AML/CFT supervision program, including an on-site visit schedule, is usually communicated during the months of December/January. PSUs also communicate their prudential supervision program to the AML Team - Enforcement Unit.

Prior to conducting an on-site examination, the MFSA AML Team - Enforcement Unit notifies the relevant PSU and requests any up-to-date information which could be relevant for their supervisory work. If necessary, meetings are held between the MFSA AML Team - Enforcement Unit and the PSU concerned to discuss relevant issues. PSUs may also contact the MFSA AML/CFT supervision team for any relevant information prior to conducting prudential examinations. This process has been in place ever since the setting up of the MFSA AML/CFT supervision team.

It has always been normal practice for PSUs and the MFSA AML Team - Enforcement Unit to alert each other at any time during the year should they identify any AML-related concerns with respect to any licensed person/entity under their supervision.

Any perceived serious findings of the MFSA AML Team - Enforcement Unit following any form of AML/CFT supervision, including on-site examinations, are communicated to the relevant PSU. The PSU is copied with relevant correspondence between the MFSA AML Team - Enforcement Unit and the supervised person/entity such as the findings letter following an on-site examination. If necessary, meetings are held between the AML Team - Enforcement Unit and the PSU concerned to discuss relevant findings. Consequently, the PSU takes note of the AML/CFT findings and assesses the seriousness and relevance of the findings from a prudential point of view. The PSU must also take note of the fact that the AML Team - Enforcement Unit findings are preliminary and the post findings supervisory engagement between the AML Team - Enforcement Unit and the supervised person/entity must take its time, primarily to ensure due process.

In parallel to the engagement between the MFSA AML Team - Enforcement Unit and the supervised person/entity following AML/CFT supervisory findings, the PSU can either: decide not to take any immediate action if the AML findings are deemed not to be serious or not of prudential concern, but still follow developments by means of regular contact with the AML Team - Enforcement Unit until the matter is finally determined by the FIAU; or else, if the AML findings are serious and raise immediate prudential concerns, the PSU will want to assess whether the AML/CFT deficiencies discovered by the MFSA AML Team - Enforcement Unit are the result of weaknesses or failures that might be relevant from a prudential point of view and/or whether and to what extent they pose a risk from a prudential aspect. The PSU will assess and determine the possible increased risk resulting from the deficiencies identified by the AML findings.

It is to be also noted, that during September 2018, the International Monetary Fund (IMF) completed a Financial Sector Assessment Programme (FSAP), a comprehensive and in-depth analysis of a country's financial sector. This review was published in March 2019. This was later complimented by a further review carried out by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL).

Ensuring the effective enforcement of the AML framework

Legislative amendments

A number of amendments were effected to the PMLA and the PMLFTR to transpose the fourth Anti-Money Laundering Directive (AMLD IV) into national law. Some amendments were specifically aimed at enhancing the AML/CFT supervisory and enforcement regime, in particular: amendments to Article 26 and Article 27 of the PMLA requiring the FIAU to ensure that AML/CFT supervision is carried out on a risk-sensitive basis and to further strengthen the co-operation between Maltese supervisory authorities on AML/CFT supervision; amendments to Article 13(3), 13(4), 16(1)(k), and 27(1) of the PMLA to enhance the level of international cooperation on supervisory matters between the FIAU and foreign regulators/supervisors; and an overhaul and significant strengthening of the sanctioning measures for AML/CFT breaches aligning Regulation 21 of the PMLFTR to the requirements envisaged under Section 4 of the European Union (EU) AMLD IV.

The National Coordinating Committee on Combating Money Laundering and Funding of Terrorism was established in April 2018, and its role is to draw up a national strategy and policies to combat money laundering, the funding of terrorism and the financing of the proliferation of weapons of mass destruction. It is tasked with co-ordinating any action to be taken to develop, implement and review the national strategy and policies. It is also responsible for conducting any necessary follow-up action to monitor and ascertain the effective implementation of the National Strategy and policies and the actions intended to address any threats, vulnerabilities and risks identified following the carrying out of national risk assessments. During the first year of its establishment, the Committee addressed a comprehensive list of 47 strategic actions emanating from the National Strategic Action Plan to enhance the national AML/CFT framework. During the past year, 17 actions have already been addressed and fully completed.

The Malta Police Anti-Money Laundering Squad, the unit in charge of investigating and prosecuting cases involving money laundering and funding of terrorism, is being further strengthened with new recruitment taking place in the coming months. The Malta Police Anti-Money Laundering Squad cooperate and exchange information with counterparts using both formal (INTERPOL, EUROPOL and SIRENE (SIENA)), and other informal networks (such as, CARIN and Swedish Initiative). Malta is signatory to all EU Directives in this respect.

The Asset Recovery Bureau (ARB), which became operational in mid-2018, is entrusted with the efficient identification, tracing, collection, storage, preservation, management and disposal of proceeds of crime or property, in favour of Government. Moreover, the ARB aims at cooperating with local and foreign Competent Authorities as a means to strengthen the fight against corruption and other organised crime.

The Companies Act (Register of Beneficial Owners) Regulations require every company to obtain and at all times hold adequate, accurate and up to date information in respect

of beneficial owners. Furthermore, every company constituted in Malta, must also provide a declaration to the Registrar of Companies containing information on all the beneficial owners of the company. Competent authorities, including the FIAU, the Malta Police and other authorities may access information on beneficial owners of companies held in the Registry of Companies in a timely manner without any restriction and without alerting the company concerned. Additionally, access is also given to subject persons in terms of the Prevention of Money Laundering and Funding of Terrorism Regulations providing services in or from Malta, for the purpose of carrying out customer due diligence in accordance with the said regulations and to any person or organisation that, upon a written request, can satisfactorily demonstrate and justify a legitimate interest.

With respect to the gaming sector, all gaming operators have become subject persons under the PMLFTR from 1st January 2018. The Malta Gaming Authority (MGA) has completed a sectoral ML/TF risk assessment of the gaming sector, as part of a National Risk Assessment for the Gaming Industry in Malta. The MGA has embarked on a number of initiatives in order to ensure that the identified risks are effectively mitigated. These include: the publication of the AML/CFT Implementing Procedures for the Remote Gaming Sector – Part 2; establishing its own risk-based approach at regulation and supervision, with AML/CFT forming a crucial part of the risk analysis conducted on operators; and furthering strengthening its internal AML unit tasked with the monitoring of ‘Subject Persons’ in terms of AML/CFT compliance by executing offsite and onsite examinations. In addition, sectorial-specific Risk-Evaluation Questionnaires were also issued to remote and land-based operators which feature questions on the controls and inherent risks that operators are exposed to. The results of these questionnaires will serve the authorities to evaluate the risk of gaming operators and compile the Supervisory Plan for examining operators.

Upholding Good Governance

The World Governance Indicators (WGI) suggest that the level of governance indicators in Malta is inherently high. This was also confirmed by Fitch, which claimed that Malta outperforms the ‘A’ median on governance indicators in their latest credit rating report. These results reflect a strong rule of law and Government effectiveness.

Over the past years, the Government has introduced several reforms aimed to strengthen good governance. These reforms aim at targeting issues such as improving efficiency and independence of the national justice system; safeguarding whistle-blowers; removing the prescriptive period over corruption offences committed by politicians; the regulation of public appointments; further regulation of judicial appointments and judicial accountability.

Since 2013, the Government of Malta has embarked upon an ambitious project intended to reform the national Justice system through several measures intended to address backlogs and to further facilitate access to Justice. In 2018, extensive use of ICT technologies has made the Interdiction and Incapacitation Registers and the scanning of certain judicial acts, available to advocates, notaries and legal procurators. Other E-Justice initiatives were undertaken to reduce bureaucracy and delays in the civil courts.

Other reforms include the promotion of alternative methods of dispute resolution; through an increased number of members of the judiciary, and an improved and accurate system of data collection and data analysis of the case load faced by the judiciary.

In order to improve the efficiency of civil courts, each Judge has been assigned an experienced full-time lawyer chosen by the judiciary, with the duty of assisting the Judge in drafting of judgments (an average of 3 different judgements per week); writing memoranda on pending lawsuits and assisting the Judge in the drafting of court orders. All new court staff is given in-house training upon engagement and a number of training sessions and seminars have been carried out throughout the year for staff already present.

Furthermore, on 19th January 2018, the amendment to the Code of Organization and Civil Procedure Act 1 of 2018 provided for a Commercial Section of the Civil Court. Therefore, the Civil Court seized with the exclusive jurisdiction to hear all those cases that are instituted in terms of the Companies Act (Chapter 386 of the Laws of Malta). This means that Malta now has a specialised Court presided by a specialised member of the judiciary who hears and decides the cases falling within its jurisdiction. At this stage, the benefits of specialisation of the Commercial Section are already being felt from the judgments that have been given by this section, bringing about enhanced judicial certainty.

Some of the recent key legislative and constitutional developments in Malta, include the enactment of the Media and Defamation Act of 2018, intended at updating and re-writing the Maltese law on libel and slander in a manner which strengthens respect for the right to freedom of expression in a substantial manner.

The Government will also be enacting reforms to address a number of recommendations made by the Council of Europe's Venice Commission. First, the Government will be legislating for a separation of the Attorney General's prosecutorial and advisory roles by mid-2019. This dual role has been held by the Attorney General since 1936. With regards to the recommendations relating to judicial appointments and judicial discipline, the Government will also be presenting Constitutional amendments following a parliamentary consultation process in the coming months. The issue of transitory measures will also be the subject of consultation. Furthermore, the Government will carry out the legislative changes necessary with regards to the Ombudsman, Civil Service with respect to Permanent Secretaries and Positions of Trust, Independent Commissions and the Police. The Government aims to make these changes by the end of the current calendar year. On 7th August 2018, the Commission confirmed Malta as the 22nd EU Member State in the enhanced cooperation on the establishment of the European Public Prosecutor's Office (EPPO) envisaged to be operational by the end of 2020. This bears testimony to Malta's commitment to fight crimes against the EU budget.

The Permanent Commission Against Corruption is competent to investigate cases which fall under the thirteen articles of the Criminal Code specified in section 6 of Chapter 326 and also investigate attempts, complicity and conspiracy when these are connected with the thirteen articles indicated. The Commission has dealt with a number of reports filed by private persons and has carried out its investigations in accordance with the provisions of Chapter 326. The main principles are secrecy, the observation of the rules of natural justice and reporting to the Minister responsible for Justice. In its activity, the Commission is guided by the application of the principle of 'beyond reasonable doubt'.

In 2018, the Government also amended the Public Administration Act with a view to provide for pre-appointment parliamentary hearings with respect to important public appointments to Ambassadorships and to leading roles in regulatory authorities, thus

enhancing transparency and accountability. Moreover, the Government intends to update and replace the Public Administration Act through the introduction of the revolving door policy. The revolving doors practice refers to the ease with which persons can move from private employment to public office and vice versa, thus increasing the opportunity for private companies to activate their networks of former collaborators once they become public policy makers or increasing the concerns on the integrity of governmental decisions that are made by public officials seeking to leave government service for private employment. The proposed policy aims to address this issue and affirm the values of public administration as an instrument for the common good.

Since May 2018, the Individual Investor Programme (IIP) is being administered by an independent Government entity specifically focused on the operations of Malta's citizenship by investment programme. The Malta Individual Investor Programme Agency (MIIPA) is the sole entity responsible for the processing of applications, the carrying out of an in-depth due diligence process, involving law enforcement authorities, and international renowned due diligence service providers. Following a multi-tiered evaluation, the Agency puts forward recommendations to the Government regarding the granting of citizenship. Furthermore, the Office of the Regulator of the IIP is, inter alia, tasked with monitoring the correct implementation of the IIP as well as any other functions that may be assigned to the Regulator by the Prime Minister, through regulations, in relation to citizenship. In the discharge of his functions, the Regulator, who is appointed by the Prime Minister after consultation with the Leader of the Opposition, shall act in his individual judgment and shall not be subject to the direction or control of any other person or authority.

CSR 2: Ensure the sustainability of the healthcare and the pension systems, including by increasing the statutory retirement age and by restricting early retirement.

Policies in response to the recommendation

According to the Sustainability indicator S2, Malta has improved its long-term sustainability from a gap of 5.8 percentage points of Gross Domestic Product (GDP) in the structural primary balance in 2012 to 3.3 percentage points of GDP in 2018. The sustainability gap across forecast vintages points to a revision in assessment from high-risk to medium-risk classification. The downward trend reflects the more favourable initial fiscal position, lower projected ageing costs due to more favourable macroeconomic and demographic assumptions as well as the impact of enacted and legislated pension reforms. The Government remains committed to contain age-related expenditure from growing further, through the strengthening of the labour market, raising potential output, and the continuation of the pension reform process in Malta. The robust economic and employment growth recorded over the recent years resulted in the pension expenditure to GDP ratio to decline by 1.8 percentage points since 2012, reaching 7.4 per cent in 2016. Public pension expenditure remains below the EU average with a gap of approximately

5.2 percentage points. Likewise, whilst rising in absolute terms, expenditure on healthcare followed a downward trajectory of 0.5 percentage point of GDP to reach 5.4 per cent of GDP by the end of 2016.

Overall policy reform process

Pension Reform

Rising life expectancy is a major challenge in terms of the sustainability of the pension system. The pensions' strategic review, which will be laid on the Table of the House of Representatives by the end of 2020, will be reviewing the state of public pensions together with recommendations with a view of achieving further adequacy, sustainability and social solidarity in such manner that a stable proportion is kept between the contribution periods.

Over recent years, the Government has introduced a number of measures intended to lengthen the duration of working lives. Indeed, some of these measures have already started to have an impact. The pension age has been increasing gradually and will reach 65 years by 2027. The contributory period was also lengthened from 30 to 41 years. The Government also introduced stricter rules to access the early exit option by capping the number of credited contributions for persons born on or after 1969. Individuals beyond the retirement age who choose to continue working can do so without forfeiting their pension whilst in employment. Incentives to defer early retirement and lengthen working careers were also implemented, whereby persons who are eligible for retirement at the age of 61 years, are awarded a financial incentive for each additional year that they choose to continue working up to the age of 65 years. This incentive mechanism was initially intended for private sector employees, but the Government is adopting provisions to extend this incentive also to public sector employees.

The impact of these reforms is evident from a review of labour market statistics. Indeed, the duration of working life in Malta has increased by 5.5 years over the period 2008-2017, the second largest increase in the EU. This effectively closed the gap between duration of working life for Malta and the EU average to just 1.1 years, from 5 years in 2008. In addition, Malta made progress in terms of the employment rate of older workers (55-64 years). Over the period 2008-2017, the employment rate for this group increased by 17.1 percentage points, the third largest increase in Europe.

Diversifying Retirement Income

The Government has also focused on diversifying retirement income and reducing the sole dependency on state pensions. The Malta Stock Exchange has taken an increasingly active role in increasing the level of financial literacy. Important policy initiatives are underway in the field of financial literacy, such as the implementation of the Strategy on Retirement and Financial Capability. Personal private pension schemes were launched in 2015 and tax benefits for such products were also introduced. Accordingly, there are now a number of providers offering personal pension plans. In 2017, the Government also implemented a measure intended to incentivise the take-up of voluntary occupational pensions. The Voluntary Occupational Pension Scheme Rules provide tax credits to both employees and employers (including self-occupied persons).

This year, the Government strengthened the incentives for both the Third Pillar Pension Scheme as well as the Voluntary Occupational Pension Scheme, with a view to encourage

further take-up of such products. Accordingly, in 2019, the amount of tax-exempt annual financial investment was raised to a maximum of €2,000 each year. Furthermore, in 2019, the reduction in taxes was increased from 15 per cent to 25 per cent.

Recently, the Government launched the Home Equity Release. This voluntary scheme allows home-owner pensioners to raise their annual financial income and improve their standard of living. This will serve as a financial supplement, together with the pension they receive, by allowing pensioners to convert part of their residential value into a stream of income.

The sustainability of the healthcare system

Over the years, the Government has consistently sought to provide an efficient healthcare system which is free and is accessible to all, both at a regional and at national level.

The success of a health system hinges on the effectiveness in trying to manage a fast-changing environment and in ensuring universal access, high quality of care and sustainable services. In order to address these challenges, the National Health System Strategy (NHSS) was launched with the recognition that health promotion and disease prevention initiatives are key to improving population health and maintaining the sustainability of the health care system in the long-term. A number of sectoral strategies have been launched since 2014, including: the National Cancer Plan (2017-2021); the Diabetes strategy (2015-2020); the Hepatitis strategy (2018-2025); the National Breastfeeding Policy (2015-2020); the Food and Nutrition Policy and Action Plan (2015-2020); and the Healthy Lifestyle in Schools: Healthy Eating and Physical Activity Policy (2015) among others.

Primary Healthcare plays a key role in delivering better health: it represents the gateway to healthcare, supported by easy access to care and preventive services. The improvements in a number of health centres located around Malta will strengthen access to healthcare at a community level. The overarching intent is to ensure that primary care becomes the first choice of the patients, thus relieving pressure on acute hospital services.

The Southern Regional Hub will serve as a one-stop facility for community care, while offering specialised care for several prevalent diseases and conditions. The Southern Regional Hub is expected to become operational by 2023.

By 2020, the Primary Health Care Services will be introducing an Electronic Patient Record system to replace the current paper-based methodology. It is expected that through the introduction and the utilisation of innovative ICT solutions, the cost of the healthcare service and the present administrative burden will markedly decrease, while the healthcare provision will improve considerably.

3.2 The Fiscal Framework

The Government managed to successfully consolidate public finances turning a deficit of 3.5 per cent of GDP in 2012 into a surplus in the last two years. Indeed, preliminary data suggests that the strong economic performance supported general Government revenue in 2018 and contributed to a fiscal surplus above the initial target of 0.5 per cent of GDP planned in the 2018 Budget.

The Maltese Government remains committed to ensure public finance sustainability in the short to medium-term, while also addressing the long-term dimension in particular through a reduction in Government debt. The budget surplus also allows more room for maneuvering to address other structural challenges such as infrastructural bottlenecks and further investments in human capital and technology. This further strengthens potential growth and supports the process of convergence to higher living standards.

Towards this end, the further strengthening of the institutional capacity in Malta's fiscal framework continues to be a priority. Indeed, following the significant strengthening of Malta's institutional fiscal framework with the enactment of the Fiscal Responsibility Act (FRA) in 2014, a number of additional amendments were legislated in 2018 to ensure full consistency with the Directive on Budgetary Frameworks as well as other amendments intended to ensure clarity in the administration of the Act.

During the period 2014 to 2018, the Maltese Government completed a series of reviews in social security, in health and in education. The Government is now seeking to strengthen further the comprehensive spending review process by creating the institutional framework that will facilitate more reviews. The Government has secured some €800,000 in funding under the Structural Reform Support Programme. The fund has allowed for the training of some 48 officials from the Ministry of Finance (MFIN) and Finance Officers from Spending Departments. The ongoing programme will also focus on the process of CSR recommendations through the setting up of a traffic lights method on policy implementation, monitoring and evaluation. The process should be completed in June 2020.

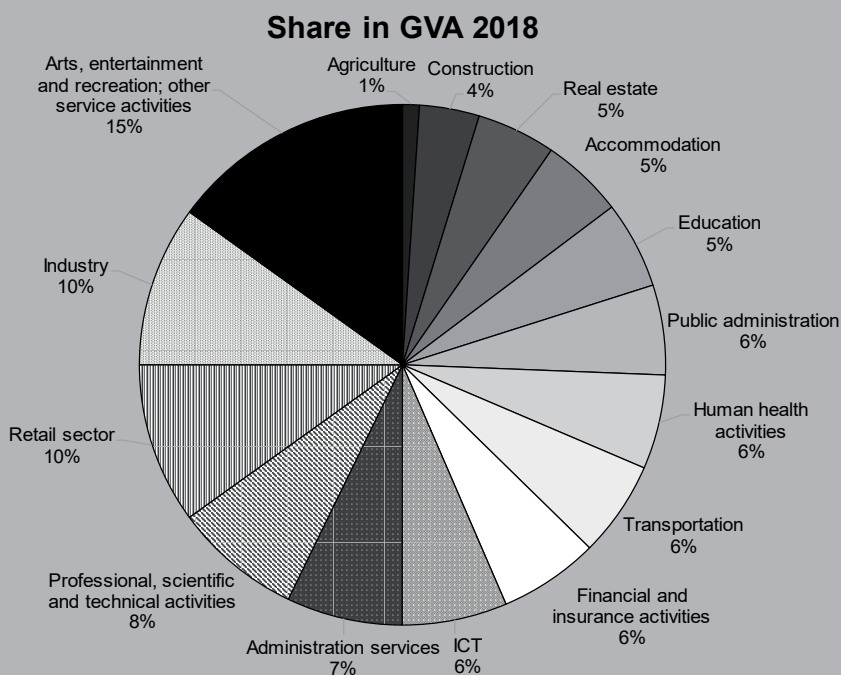
In addition, in line with its objectives of effective fiscal management and accountability, the Government requested the IMF to undertake a Fiscal Transparency Evaluation (FTE) of Malta's public finances. The IMF carried out the evaluation last May and published its report in September presenting and explaining the results in detail, while also putting forward recommendations that further enhance fiscal transparency. The report established that many elements of sound fiscal transparency practices are in place and Malta obtained results which are similar to those obtained by other advanced economies in the EU that have undertaken the FTE. Pursuant to the FTE carried out last year, an internal process is underway intended to assess the recommendations and advise on implementation.

3.3 Sustaining Competitiveness

Being an open economy, Malta strives to maintain a level of competitiveness which enables it to remain relevant in today's dynamic and global economic environment, whilst advancing living standards in Malta. Since its Independence in 1964, Malta has successfully espoused an export-led growth model. This clearly meant openness to trade and was supported by pro-active administrations that focused on the development of new growth sectors. A small open economy such as Malta has no option but to trade since the size of the internal market poses constraints in achieving scale economies.

In recent years, the Maltese economy continued to experience an enhanced role of the services sector in the generation of economic activity. This sector is well diversified and is naturally export-oriented. Moreover, its major sub-sectors (tourism, finance, online gaming and transport) have strong links to the domestic economy. Furthermore, Malta's

Chart 3.1



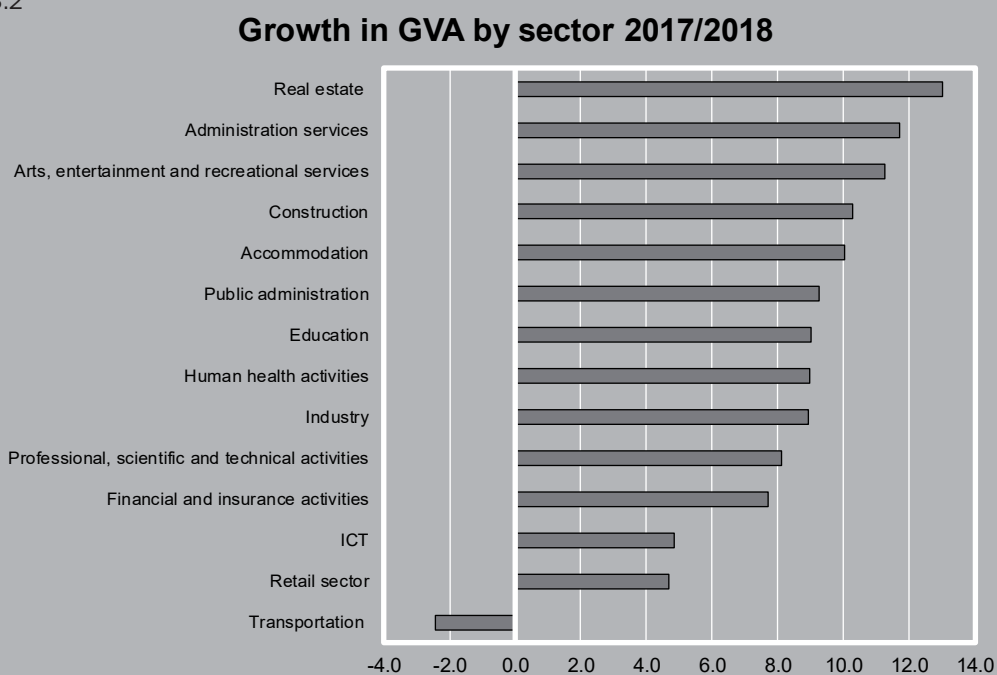
Source: Eurostat

investment in infrastructure and support to SMEs has increased significantly over the past years, as the country lays the foundations to sustain the economic expansion at a buoyant pace.

GVA by sector

In 2018, the Gross Value Added (GVA) by sector in Malta shows the diversification of the

Chart 3.2



Source: Eurostat

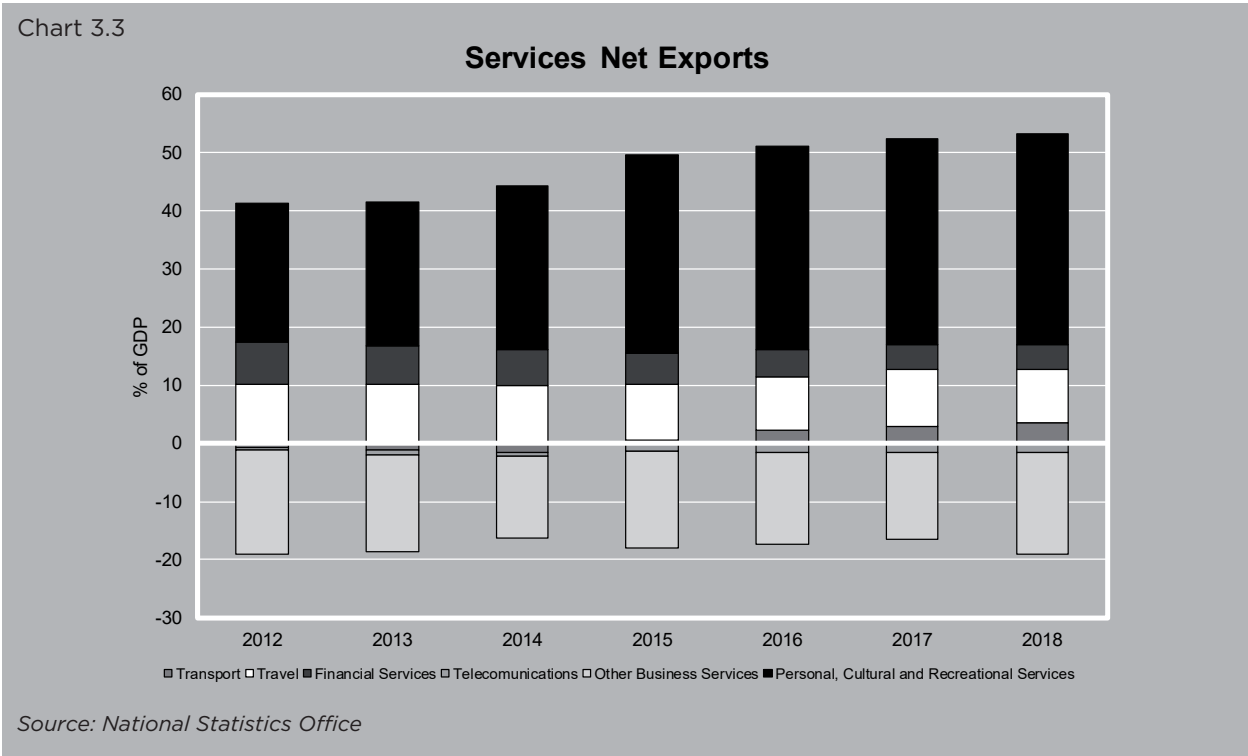
Maltese economy. The arts and recreation sector, though strong, is complemented by the contribution of other economic sectors as shown in Chart 3.1. The manufacturing, retail and financial services sectors still account for a substantial share of Malta’s GVA. Furthermore, Chart 3.2 also shows that growth is broad-based, affecting nearly all industries, particularly the arts and recreation sector, real estate and the construction sector. This is an indication that the strides made in terms of competitiveness were broad-based as well.

External developments

Despite its small size and susceptibility to external shocks, Malta has managed to maintain its competitive edge in the external sector as well. Net services exports are particularly strong and stem from various sectors, particularly, tourism and financial services, which exhibited substantial net export figures in the last few years. This trend of having strong net export figures for services is due to a host of reasons:

1. Exports having been increasing substantially, outweighing the corresponding level of imports;
2. The ‘servicification’ of the Maltese economy suggests that the import content of exports is declining;
3. Energy reforms in Malta reduced the country’s oil dependency, hence reducing oil importation; and
4. Malta’s Real Effective Exchange Rate (REER) depreciation improved the country’s price competitiveness.

Together, these factors explain Malta’s relatively large current account balance, which mainly owes itself to the goods and services balance. Chart 3.3 breaks down the trends in the services net imports. It shows that the personal, cultural and recreational services sector, which accounts for the largest impact, is not the sole contributor to net services



exports. In fact, even if this sector is omitted, Malta's net exports in services would still be on par with its net imports.

Shift Share analysis

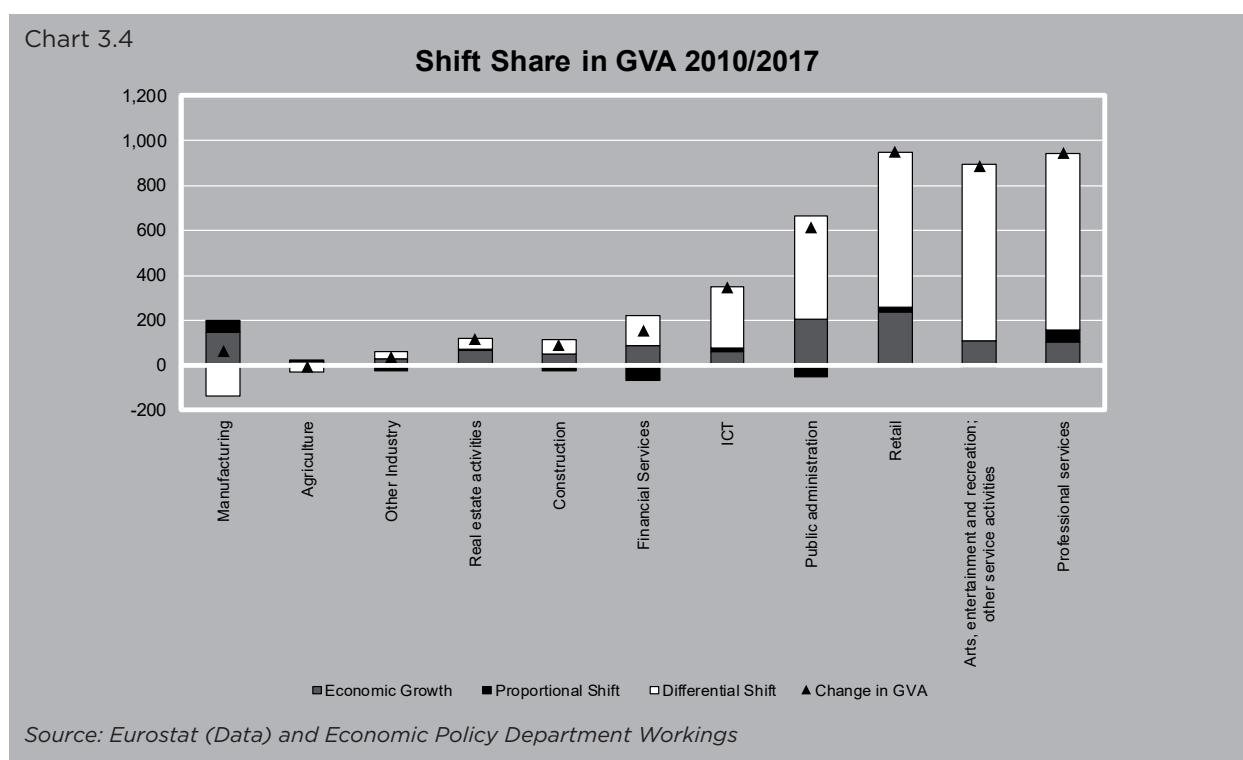
In order to identify whether Malta's increase in exports is a result of some domestic gain in competitiveness as opposed to some other external factor, a shift share analysis was conducted. The shift share decomposes competitiveness gains in any sector into 3 parts:

1. The differential shift: Gains related to the competitiveness gains in the region in question;
2. The proportional shift: Shows gains related to global industry demand conditions; and
3. Economic growth: Gains in the global aggregate demand conditions.

The larger the differential shift suggests that any gains made in the sector/economy are due to competitiveness gains in the region.

The shift share analysis conducted on the GVA by sector for Malta shows regional competitiveness gains throughout most sectors. Chart 3.4 shows how regional competitiveness gains between 2010 and 2017 in professional services and the retail services, are on par with those achieved by the personal, cultural and recreational services sector. Furthermore, differential shifts are also visible for the construction, financial services and the ICT sectors as well. This analysis indicates that the Maltese economy has maintained its competitiveness.

The global competitiveness report by the World Economic Forum, shows that Malta's competitiveness index is on an improving trajectory. From a rank of 48 in 2015/16, Malta has climbed to 37 in 2017/18. Broken down, this improvement was due to the favourable



macroeconomic environment, better health and primary education, better labour and goods market efficiency and improved technological readiness. These results suggest that the improvements in the headline indicators are the result of broad-based policy efforts that have raised the potential output growth through a mix of structural reforms as well as the strategic positioning of economic policy in sectors that are yielding high value added.

Taxation

In order for the benefits from competitiveness and growth to be enjoyed by all, the Maltese Government seeks to attain a just balance between the two through a sound and fair fiscal strategy.

The Maltese Government aims at ensuring that revenue streams from taxation are sustainable such that the fiscal targets, as specified by the Stability Programme, are attained. Furthermore, priority is also given to tax simplification to alleviate the administrative costs associated with the computation of tax liability. In this light, the Government is introducing tax consolidation regulations which permit groups of companies to calculate their profits/losses on a group basis.

On an international level, the Minister for Finance published a legal notice implementing the European Union Anti-Tax Avoidance Directive 1 Implementation Regulations (ATAD 1 regulations). The main purpose of the rules is to curb tax avoidance practices through the:

- a. Interest Limitation rule: Introduces a limit on how much a taxpayer may claim as deductible on his borrowing costs.
- b. Exit taxation: This rule introduces a tax on capital gains on those assets transferred from Malta to other EU Member States.
- c. General anti-abuse rule: This rule compliments existing anti-abuse legislation already in place in Malta. This regulation specifies that for the purposes of calculating the amount of tax liability, an entity would have to ignore those arrangements whose main purpose is that of obtaining a tax advantage.
- d. Controlled foreign company rule: Sets out a rule on which entities should be considered as controlled foreign companies (CFCs). These CFCs would have to include any non-distributed income arising from non-genuine agreements made specifically for the purpose of obtaining a tax advantage, in their tax base.

The ATAD 1 regulations have entered into force in January of this year, with the exception of the Exit tax which will be effective as from next year.

3.4 Investment

Investment Strategy to address Funding Gaps through Structural and Cohesion Funds 2021-2027

The economic performance registered in Malta over recent years reflected a rapid expansion of services exports in a structural rebalancing towards fast growing export-oriented services industries. This shift was accompanied by a surplus in the current account balance and supported rapid income convergence to the EU average. The strong pace of economic expansion has also brought about new challenges such as pressures on infrastructure, the environment and labour supply amongst others. In this regard, taking

into account Malta's inherent limitations, enabling development across multiple sectors remains crucial to ensure sustainable development whilst at the same time investing in mitigation measures aimed at addressing Malta's vulnerability to external shocks.

Within the next programming period, efforts will be focused towards addressing Malta's development needs with a view to ensuring that the economic growth registered to date is sustained and nurtured so that Malta's offering will remain competitive whilst also ensuring that Malta will continue to be an active player within the single market. Furthermore, during the post-2020 programming period, Malta will continue to contribute towards European priorities with a view to create the business environment that is necessary to support economic growth, more and better jobs and enhanced social cohesion, whilst at the same time ameliorating the surrounding environment.

A Smarter Economy

The Maltese business community is mainly made up of micro-enterprises and in particular self-employed, that need to be provided with a supportive ecosystem to enable them to set up, grow and compete both locally and abroad. Investment is necessary to ensure that Maltese businesses can develop, grow and be effectively given the opportunity to participate in the single market. Indeed, supporting the internationalisation of SMEs and external competitiveness is a priority for Malta.

Taking into account Malta's starting position in the field of smart specialisation, it is clear that further support is required to establish the basic enabling infrastructure for the country to be in a position to make the leap into an innovation-led business model. Such investment will contribute towards ensuring that the development of the necessary critical mass in research and innovation, enabling infrastructures and skills are in place.

A low carbon and greener environment

Notwithstanding the significant investment undertaken within this sector, including through European funded initiatives, there are still unmet needs which require attention. During the 2021-2027 period, further efforts are needed to continue promoting and supporting the shift towards a low carbon economy, including investment in energy, waste and water, amongst others.

Another key challenge requiring attention during the post-2020 programming period, is climate change. The challenges posed by climate change are real and are even more pronounced in Malta since it is a small island. Within this context, investment targeting climate change (both mitigation and adaptation) will also be given priority.

The good quality of life of Maltese citizens hinges on ensuring that the surrounding environment is of a high standard. In this regard, investment will be necessary to ensure that the environment is protected and ameliorated whilst taking into account Malta's geological and topographic characteristics as well as its limited natural resources.

A more connected society

Being the most densely populated country in Europe and having experienced a rapid increase in population over recent years, the need to address bottlenecks and improve transport connections remains one of Malta's main priorities. Being a small country, Malta is often faced with challenges usually found in cities, including density population

and congestion resulting in high pressures on public infrastructure. Addressing these challenges requires a multifaceted approach both in terms of road infrastructure as well as in terms of investment in different modes of transport which are accessible, sustainable and safe.

Further investment is also required in facilitating connectivity and mobility and ensuring climate resilient and intelligent transport systems, so that Malta's businesses and citizens can truly benefit from an improved quality of life. In this regard, and in order to enable a shift towards digitalisation and to combat the limitations posed by Malta's insularity, investment in ICT connectivity remains important, including within the context of improving the digital connectivity in Gozo.

A more social community

The need to invest in health, education and socio-economic integration, remains a priority. Investment in integrated measures, including social infrastructure and social services as well as investment to enhance the resilience of labour markets and improve access to quality jobs, remains necessary. Such investment will contribute towards improving access to inclusive quality services and ensure the integration of all communities (including third country nationals), particularly disadvantaged and vulnerable socio-economic groups within society. With regards to health, in an effort to continue ensuring equal access to health services, EU funds remain necessary to address the challenges brought about by changing demographic trends including an ageing population and a growing population. In addressing the social needs of the country and sustaining Malta's human capital, further investment in education, training and life-long learning is key.

Bringing Europe closer to citizens

The Maltese Islands are impacted by permanent geo-physical challenges, all of which need particular attention. In this respect, investment will aim to take into account Malta's inherent limitations and vulnerabilities as well as address the double insularity aspects that Gozo faces. In this regard, efforts to reduce disparities between Malta and Gozo in terms of economic growth and demographics, amongst others, remains a priority. Within this context, Gozo's needs should remain a horizontal priority across different sectors, in line with the national policy framework and should be supported under the different policy objectives. Investment in sustainable urban development will continue to be implemented through a multifaceted approach. This approach will aim to foster interventions in social, economic and environmental areas which are tailored to the local specifications of the identified territory.

Whilst the discussions pertinent to the 2021-2027 programming period are still ongoing, both at national and at EU level, the main themes identified in this investment strategy are deemed to provide an overview of the investment needs that will enable Malta and Gozo to maximise their potential in an effort to ensure that the country makes yet another step forward in the years to come, for the benefit of its citizens and future generations.

Addressing Bottlenecks to Investment

In order to address potential bottlenecks emanating from increased economic activity, the Government has committed itself to undertake several infrastructural investment projects.

Road Networks

Various infrastructural projects are underway, most notably numerous road works projects, as part of the TEN-T core network. This development of the TEN-T network is crucial for Malta's tourism and export-oriented economy and the creation of new jobs. Some of these projects include the building and upgrading of various arterial and distributor roads (many of which form part of the TEN-T) in Malta. This is being done with the aim of removing traffic bottlenecks and alleviating traffic congestion.

Mass Transportation System

A study is currently being conducted to evaluate the introduction of a Mass Rapid Transport System (MRT) for Malta with the aim of facilitating and providing an alternative public transport system, whilst also lowering the carbon footprint.

Connecting Malta and Gozo

The Government is committed to improve both the physical and the digital connectivity of Gozo to mainland Malta. As a result, the possibility of a tunnel is being studied in order to create a permanent link between the two islands.

Investment Schemes for SMEs

Given the importance of SME's contributions towards the economy, it is the Government's priority to aid existing and new start-ups. Start-ups have the potential to drive innovation in the Maltese economy, hence the importance of supporting these undertakings.

Business Enhance European Regional Development Fund (ERDF) Grants Schemes

The Business Enhance Grants Schemes seek to support enterprises undertaking investment projects aimed at securing sustainable business growth, by enabling them to become more competitive, innovative and resilient to market challenges. These schemes are part-financed by the ERDF 2014-2020 and address a number of priority areas under Operational Programme I 2014-2020 'Fostering a competitive and sustainable economy to meet our challenges'.

A number of schemes have been launched, namely, the Start-up Investment Grant Scheme; the SME Growth Grant Scheme; the SME Diversification and Innovation Grant Scheme; the SME Internationalisation Grant Scheme; the e-Commerce Grant Scheme; the SME Consultancy Services Grant Scheme; and the Business Enhance RD&I Grant Scheme. By the end of last year, a total of €16 million in grants were approved under such initiatives with a total of 234 beneficiaries.

Start-up Finance 2017-2020

The scheme is providing support linked to private equity, crowd funding and the procurement of machinery and equipment to those businesses having some form of innovative undertaking. Financial aid is a repayable advance and beneficiaries shall be required to repay the awarded assistance within ten years. Assistance is given to small start-up businesses that are able to demonstrate a viable business concept in the setting up and the initial growth phases. Assistance may amount up to €100,000 if the undertaking is linked to crowd funding campaigns and up to €200,000 when the

support is linked to private equity or required to fund the procurement of machinery and equipment.

Start-up Advance Scheme

Start-up Advance is intended to support small start-up undertakings that are in the process of consolidating a business operation that has demonstrated market potential and is deemed as economically feasible and innovative by Malta Enterprise. Financial aid is given in the form of a cash grant. The Corporation may award a maximum grant of €100,000.

Extension to the SME Initiative

The SME Initiative Operational Programme, which is financed through the ERDF, had an initial allocation of €15 million. Subsequently, the European Commission, the European Investment Bank (EIB) Group and the Maltese Government agreed to increase the financing available under Malta's SME Initiative programme. With new resources from Cohesion Policy funds, the programme's budget was topped up to €22 million. As at end September 2018, 658 loans were issued to 558 SMEs under the SME Initiative with €44.6 million disbursed. This initiative is expected to leverage more than €88 million of new SME financing, targeting circa 645 enterprises.

Family Business Transfer Guarantee scheme

The scheme is designed to enhance access to bank credit in respect of family business transfers to the next generation within the family. Under this Scheme, the Malta Development Bank (MDB) will provide a guarantee to the financial intermediary in respect of a loan portfolio of up to €10 million, with the MDB guarantee capped at €4 million. The MDB will guarantee 80 per cent of each eligible transaction, subject to the capping of 50 per cent on the guaranteed amount of the portfolio. The intermediary bank intends to launch this scheme in the first half of 2019 and it is intended to run until early 2022.

Footnote:

¹ <http://www.fiumalta.org/library/PDF/misc/Guidance%20for%20completion%20of%20the%20Risk%20Evaluation%20Questionnaire%20v1.2.pdf>

4. Progress towards the Europe 2020 targets

4. Progress towards the Europe 2020 targets

4.1 Employment

4.1.1 National Target

The Government was set to reach an employment rate of 70 per cent by 2020. This target has been exceeded as the employment rate among the 20 to 64 years cohort stood at 75.0 per cent during 2018. The male employment rate rose by 1.0 percentage point, increasing to 85.7 per cent in 2018, while the female employment rate increased by 2.8 percentage points, to 63.4 per cent. The Government is committed to continue increasing labour market participation rates for all groups including older females and persons with disability.

4.1.2 Policies to achieve the target

In 2018, the Government continued to sustain its policies aimed at increasing labour market participation and has implemented various legislative measures and policy programmes designed to address this objective.

The free childcare scheme, targeting parents or guardians having children aged between 3 months and 3 years, (who are in employment or pursuing further education) continues. In 2018, over 6,000 children made use of the free childcare scheme at some point during the year. Furthermore, Government continues to support the Klabb 3-16 scheme that runs after school programmes during the scholastic year while offering its services during school holidays.

These ongoing measures, together with the promotion of flexible working arrangements, are intended to encourage more women to enter the labour market. Unemployed persons, particularly women in receipt of social benefits and who returned or joined the workforce, benefitted from the tapering of benefits scheme. Furthermore, women in employment and self-employment are benefiting from eighteen weeks' maternity leave while adoption leave has been aligned with maternity leave.

The Government has also facilitated the setting up of a special fund to finance maternity leave in the private sector in a bid to decrease gender discrimination in employment. Furthermore, the In-Work Benefit scheme has been further extended applying to couples where only one member is in gainful employment. The extension increases the rate of this benefit (from €350 to €450 per child) payable to couples where only one person is in employment, whereby during 2018, the number of couples benefitting from this measure amounted to 1,046.

Through employment, vulnerable groups are also being empowered and enabled to enhance their financial independence. In this regard, the extension of the In-Work Benefit scheme continues to encourage more persons to enter the labour force. Gradually, the dependence on social benefits for these individuals is phased out.

With the introduction of the concept of Making Work Pay that includes the taper of benefits, the in-work benefit and the youth guarantee schemes, some 3,500 claimants have left the benefit system and moved from the world of dependency to employment,

paying national insurance contributions that will in future years mean that these persons will have sufficient contributions towards their pensions.

Vulnerable young persons who are not in employment, education or training, are given a chance to gain work experience and receive training in a specific sector through the 'Get into' programme. In turn, this should enhance their skills and their employability prospects.

Furthermore, through the inclusion of more services, the Project REACH is incorporating semi-independent living arrangements in support of the integration of vulnerable persons within the community by providing them with residential and employment opportunities. Through this project, vulnerable persons are brought closer to the labour market through support and training offered at the community centre and workshops.

4.2 Education

4.2.1 National Target

The Government continued to direct its efforts towards reaching the educational targets involving the early school leaving rate of 10 per cent and the completion of tertiary education rate of 33 per cent. Provisional data for 2018 show that the early school leaving rate for Malta, although still higher than the target, decreased steadily in the last four years from 20.9 per cent in 2014 to 17.5 per cent in 2018 while the rate for the completion of tertiary education stood at 33.9 per cent, thus superseding the target for 2020.

4.2.2 Policies to achieve the target

One of the main challenges facing the Maltese economy relates to addressing the skills gap and in that regard Government has adopted a multi-pronged approach to address the problem. One of the initiatives of the National Skills Council at the Ministry for Education and Employment (MEDE) during 2018 was the Education-Business Encounters. Educational professionals and representatives from industry were brought together to enhance closer collaboration with a view to address the needs of both sectors; promote employability; and create a smooth transition from one phase of a student's life to another. Outcomes so far include partnership agreements between industry and education; support by industry to schools through teacher training at the workplace and vocational education and training (VET) student placements in industry; and more collaboration in apprenticeships.

Following a consultation process, the Work-Based Learning and Apprenticeship Act came into force in March 2018. The Act provides a framework for the development of effective work-placements, apprenticeships and internships and is based on research conducted by the European Centre for the Development of Vocational Training (CEDEFOP) together with local learners, educators, employers and trade unions; together with a review of international legislation on traineeships and benchmarking of best practices within leading countries in the field of vocational education and training.

The National Commission for Further and Higher Education (NCFHE) has provided multiple routes of lifelong learning, including the validation of informal and non-formal learning, in order to broaden the certification of skills and competence in the workforce.

These learning processes include acquired and accumulated knowledge, skills, attitudes, insight and competences from daily experiences, exposure to one's environment and learning embedded outside the formal educational system. To complement this, there are currently 8 Sector Skills Units in operation to help meet labour market challenges.

A recent agreement between the MEDE and hotel establishments lays down that all the State and non-State pupils studying SEC Hospitality (MQF/EQF levels 2 & 3) are invited to carry out the practical sections of the syllabus at hotel premises as part of their assessment. A similar agreement between the Farming industry and the MEDE on behalf of the students studying SEC Agribusiness (MQF/EQF levels 2&3) was signed in February 2019.

The Medicines Authority has launched the fellowship programme which is intended to support bridging the gap between the theoretical knowledge gained in education and the skills and competences needed. The Medicines Authority has also strengthened the training of staff in specialised areas such as sterile manufacturing, quality management systems, assessment procedures and governance in order to enhance the competence of its employees, thus expanding its services.

A Memorandum of Understanding (MoU) has been signed by the Haaga-Helia, University of Finland, with the Institute of Tourism Studies (ITS) and the Malta College of Arts, Science and Technology (MCAST) and courses for training in the pedagogy of vocational subjects started in October 2018. This measure will enhance collaboration with educational institutions to develop professional development that addresses the needs of educators and the aims set by the Framework for the Education Strategy for Malta 2014-2024¹.

Along with measures taken in tackling the skills gap challenge, the Government continued investing in other areas within the educational sector. Students who failed, resigned or discontinued their course without success were previously deemed not eligible for Students' Maintenance Grants for the duration of period of studies of the first course. Through this measure, unsuccessful students with no pending dues are considered eligible for the Grant from the beginning of a new course. This measure applies to students from the University of Malta (UoM), MCAST and Post- Secondary institutions.

Students graduating from 2018 onwards, having pursued a post-graduate course equivalent to MQF Levels 7 and 8, are benefitting from tax credits on the income earned up to a maximum of €60,000 for one year and two years, respectively.

The National Board for Compulsory Education was established in the second quarter of 2018 with the primary role being that of a consultative Board to the Minister on matters concerning compulsory education. The Board must give researched ideas, possible alternatives and recommendations on the highlighted issues.

The Government is also investing in courses and services in the maritime sector in collaboration with strategic partners, as well as in new resources for the Institute of Creative Arts.

Planned New and Extended Measures

Following thorough evaluation of the Maltese Education system, in 2016 the MEDE launched a school reform branded under the name My Journey – Achieving Through Different Paths Inclusive and Comprehensive Equitable Quality Learning Programmes². The aim is to propose an equitable quality learning provision in secondary schools that respects all students' multiple aptitude levels and provides different learning programmes and different modes of learning assessments. This evolution is both inclusive and comprehensive, and challenges the current compulsory one-size-fits-all schooling system. The new secondary schooling system includes the provision of general academic education, VET, as well as applied learning. It aims to extend and widen the learning experience through learning programmes that lead to qualifications at MQF Level 3. The reform is intended to promote inclusion and to reduce the number of early school leavers by making education relevant to more students and to an evolving labour market.

The scholastic year 2019/2020 will see the introduction of 4 new VET subjects and 9 applied subjects. The Secondary Education Applied Certificate (SEAC) will be introduced between 2019 and 2020 and will be run by the MATSEC Board. This certification will certify 9 applied option subjects and 5 core subjects, which are Mathematics, English, Maltese, Science and ICT.

As part of the European Union's (EU) multilingual goals in helping citizens communicate, foreign language awareness and learning will be introduced at primary educational level including Italian, French and German. A number of courses considered important for the market niches in Malta are categorised by the Students Maintenance Grant Board as Prescribed courses and hence students are receiving higher stipend and grant rates. This leads students to choose courses that the industry requires.

As part of a national drive to reform apprenticeships, a quality assurance framework specifically for Work-Based Learning (WBL) will be designed and implemented. This framework will be based on the 20 guiding principles for high quality apprenticeships issued as part of the framework for European cooperation in education and training (ET2020) group on VET. This will ensure that a regulatory framework for WBL is implemented together with industry stakeholders and at the same time, bridge the gap between skills required in the world of work and education and training.

Discussions are underway with regards the new ITS campus. Through the new campus, the ITS will contribute to the upskilling of the tourism workforce with a view to increase and ensure a higher quality in the services offered in the tourism sector. Additionally, it would enable the Institute to cater for increased demand for its courses whilst broadening the number of courses offered to the students.

MCAST's construction and finishing works at the Institute of Engineering and Transport are nearing completion. Construction works have also started at the Media Resource Centre and demolition and excavation works have also started at the Institute of Information and Communication Technology (IICT).

The UoM is in the process of implementing a capital project aimed at providing modern infrastructure for a number of faculties such as the Material Engineering Lab extension which is part of the whole Engineering Labs and Transdisciplinary Research & Knowledge Exchange (TRAKE) complex project which is partly funded through the European

Regional Development Fund (ERDF). The aim is to transfer the current labs to this facility, modernising the equipment and providing facilities for post-doctoral research and support. In addition, the works on the Mathematics and Physics complex facilitate the creation of further learning spaces and offices for staff to cater for the increased demand within the sciences sector.

4.3 Climate Change and Energy Targets

4.3.1 National Targets

The Government is committed to raise the share of energy from renewable sources in gross final energy consumption to 10 per cent (estimated at 7.2 per cent in 2017). The Government is also committed to raise the proportion of renewable energy used in all forms of transport to 10 per cent by 2020 (estimated at 6.9 per cent in 2017). Malta's gap between 2017 inventory emissions and the 2017 binding target (2017 annual emission allocation pursuant to Decision 2013/162/EU as amended by Commission Decision (EU) 2017/1471) is +21.5 per cent, whilst the gap between 2020 projected emissions and the 2020 binding target (2020 annual emission allocation pursuant to Decision 2013/162/EU) is +50.2 per cent. In this regard, Malta is seeking to mobilise flexible instruments in order to meet its interim targets of actual emission.

4.3.2 Policies to achieve the targets

The Government's commitment in addressing the climate change and energy targets is visible in the number of policies currently being drafted and implemented.

Indeed, in December 2018, the Government presented the draft National Energy and Climate Plan for 2021-2030 to the European Commission. In the same month, the contractors selected to assist in the development of the final plan, financed through the Structural Reform Support Programme (SRSP) started to draft the Terms of Reference for the Strategic Environmental Assessment. The final plan will map out how Malta intends to achieve its targets/objectives for Greenhouse Gas emission (GHG) reductions, renewable energy and energy efficiency.

The Government has engaged a private consultancy firm to assist in the formulation of the Low Carbon Development Strategy (LCDS). Simultaneously, it continued to adopt effective GHG emission reduction measures and invested in improving the accuracy of the GHG Emission Inventory data through the EU Commission and Structural Reform Support Service (SRSS) financing.

The second National Action Plan (NAP) on Green Public Procurement (GPP) 2019-2025, which was approved by Cabinet in September 2018, sets out targets for 16 products and services. Consultations with numerous stakeholders were held until the 18th January 2019 and the Ministry for the Environment, Sustainable Development and Climate Change (MESDC) is currently analysing the feedback received and updating the plan, which will subsequently come into force.

Following the conclusion on the feasibility study on the availability of financial instruments to transition towards a Green Economy, the MESDC has held numerous consultations with potential partners who could assist in launching one of the recommended financial

instruments. Current consultations are indeed focusing on ensuring that the financial instrument will be widely used for the benefit of transiting towards a more resource efficient economy, whilst creating private sector demand for such an instrument.

In January 2018, Malta was awarded €3.68 million under the Connect Europe Facility (CEF) to conduct detailed studies on the Gas Pipeline project which will connect Malta to the European Gas Network. During the last quarter of 2018, a number of technical studies commenced including the Environmental Impact Assessment, a preliminary marine route survey, as well as the front-end engineering design and the preparation of the tender for the engineering, procurement and construction of the pipeline and the required infrastructure. In the same year, the financial engineering of the project also commenced and a non-binding market test was conducted. The Investment Request will be submitted to the Maltese and Italian Regulatory Authorities in April 2019 in order to obtain a Cross-Border Cost Allocation Decision, which is a prerequisite for submitting a CEF application for works.

Works on solar farms by the Water Services Corporation (WSC) continue to progress, with the project expected to be completed by November 2019. It is estimated that 3,100 MWh/year will be generated from this project. The Government's first communal solar farm was completed, with the installation of all photovoltaic systems (PVs) and related equipment. Following one complete year of operation ending 21st March 2019, the Fiddien Farm registered a monthly renewable energy (RES) generation mean of 134.3 MWh. At the same time, the Government has continued to extend the scheme to promote the purchase of PVs since 2015, with the number of beneficiaries amounting to 7,160 until 2016. Feed-in Tariffs on PVs continue to be implemented. In addition, other initiatives which seek to promote renewable energy have also been extended. These include the promotion of purchasing of solar water heaters (9,378 beneficiaries by end 2018) and roof insulation and double glazing (2,203 beneficiaries by end 2018). A new scheme for heat pumps has also been introduced with a maximum benefit of €700 per applicant.

In order to continue promoting energy awareness and efficiency, energy audits for enterprises have continued through 2018, with 25 enterprises signing a voluntary agreement to conduct energy efficiency or energy saving measures. The Energy and Water Agency is also giving advice on energy and water efficiency to households through home visits and publicity campaigns. From its inception until the end of 2018, a total of 2,121 household visits have been carried out. A grant scheme to promote energy efficient appliances targeting vulnerable families has also been extended in 2019, following the positive uptake in 2017 and 2018.

The WSC is currently upgrading a number of reverse osmosis, in order to improve the efficiency of these plants, whilst catering for the projected increase in demand. A new reverse osmosis will be built in Hondoq ir-Rummien in Gozo, reducing the island's dependency on Malta.

The Government is seeking to continue the shift towards eco-friendly modes of transportation, whilst encouraging the shift towards collective and sustainable transport. In this regard, the concept of Sustainable Multi-Intermodal Transport Hubs to smaller local urban centres will be introduced. The local transport hubs shall be strategically located in urban areas and offer a choice of modes designed to suite different transport needs and profiles. The current bus transport network will be the main local transport hub,

which could also be connected through safe cycling routes and/or ferry services. Each hub will be supplied with Intelligent Transport System (ITS) services and infrastructure such as real time information on all modes, integrating real time journey planners into one platform. In addition, a network of Safe Cycling Routes will be developed, with an inbuilt mechanism to provide peace of mind to users. An information campaign will also be launched in order to promote this behavioural shift.

In addition, in the last quarter 2018, a national e-car sharing service was launched nationwide, servicing also the above-mentioned local transport hubs. The car sharing fleet is made up of 150 electric vehicles (EVs) with a dedicated EV charging network of 225 charging pillars. Paying members as at first quarter 2019 is well over 3,000 members.

Additionally, e-scooter sharing as well as pedelec sharing services were introduced around Valletta and the Valletta region. This complements the bike-sharing services launched in 2017.

The Ministry for Transport, Infrastructure and Capital Projects is currently working on a Regeneration Study for the Valletta Grand Harbour.

The promotion of collective transportation has seen some positive results over recent years, with the increase in passengers on public buses registering year on year increases. Last year, an increase of over 11 per cent was registered, when compared to the previous year. Around 86 per cent of eligible persons aged between 16 and 20 years old, benefitted from the free transportation measure introduced in 2017, by end 2018. In the 2019 Budget, this measure has been extended to include 14 and 15-year olds and full-time students over the age of 20. In addition, bus shelters and bus shelters canopies (to cater for more frequented bus stops) will continue to be installed in order to continue improving customer experience when using scheduled public buses.

The Government is also currently developing the 2019 Action Plan for the Green Travel Plan, which seeks to analyse the commuting trends of employees and launch voluntary schemes intended to encourage the use of alternative transportation other than the private car. The implementation of the free transport scheme for students attending State, Church and Independent schools in the scholastic year 2018/2019, resulted in an improved quality of life for 28,000 students and their parents benefiting from the incentive, while also making a positive contribution to the environment by reducing the number of cars and congestion on the road.

The promotion of electromobility and more efficient vehicles remains a priority. Grants on new electric vehicles and energy efficient cars/quadracycles/pedelecs/motorcycles/mopeds/tricycles continued being extended. Apart from increasing the electric vehicles fleet (by 267, and pedelecs by 185 in 2018) and more efficient vehicles, this scheme also aims at reducing older conventional motor vehicles from the road. The Government is also offering a grant to established importers of new vehicles and their current service garages, as well as operators of vehicle leasing companies and their currently licenced public service garages. The scheme aims to cater for the maintenance of new or leased electric vehicles, plug-in electric, plug-in hybrid, range extender vehicles currently on the Maltese car market and new vehicles intended to be introduced in the local market.

By the end of 2019, Transport Malta, through the Malta National Electromobility Platform (MNEP), will publish the reviewed Malta National Electromobility Action Plan 2020 -2030 for public consultation. A cut-off date will then be put in place for the importation and registration of Internal Combustion Engine (ICE) vehicles in Malta.

The biofuel substitution obligation, requiring importers and wholesalers of petrol and diesel to place a pre-determined amount of biofuel in the market, was set at 8.5 per cent in 2018 and 9.5 per cent in 2019. This will ensure compliance with the 2020 target. The autogas conversion scheme has been extended in 2018, where grants amounting to €200 are given upon conversion to autogas/LPG. The Ministry for Transport, Infrastructure and Capital Projects has commissioned a study on the possible deployment of alternative fuels for the use of the road transport sector in the future, so as to enable Government to base policy decisions.

The Government continued to promote the use of clean means of transportation, such as, bicycles and pedelec bicycles through a number of initiatives. During 2018, 1,766 applicants benefited from a grant on the purchase of a bicycle/pedelec bicycle. In addition, companies who purchased bicycles or pedelec bicycles for hire, can apply for a grant of 15.25 per cent on the purchase price, with the maxima set at €85 for bicycles and €250 for pedelec bicycles, and subject to a capping of €7,500 per applicant. These schemes were extended to 2019. The Government has also set up a fund to cover the expenditure incurred by local councils and enterprises to install bicycle racks and ancillary facilities.

4.4 Research and Innovation

4.4.1 National targets

In 2013, the target for Malta with respect to the gross domestic expenditure on research and development (GERD) was set at 2.0 per cent of Gross Domestic Product (GDP) by 2020. According to provisional figures by Eurostat, Malta recorded a GERD of 0.55 per cent of GDP in 2017.

4.4.2 Policies to achieve the targets

In light of the importance of agricultural research, which is deemed as a priority area under the National Agricultural Policy, the Government has allocated the necessary funds to set up the required laboratory at the Viticulture Centre at Buskett, so as to be able to carry out agricultural research. This centre is a research facility that is dedicated to the research of viticulture and oenology.

The Research and Innovation (R&I) funding unit within the Malta Council for Science and Technology (MCST) administers the National R&I Fund, which is defined by 2 programmes under the FUSION branding: the Commercialisation Voucher Programme (CVP) and the Technology Development Programme (TDP). The FUSION programme supports Research and Innovation by offering support to researchers and to micro enterprises and Small and Medium-Sized Enterprises (SMEs) to assess the commercial and market potential through the CVP, and subsequently, providing research aid through the TDP. In 2018, the CVP continued to garner further interest with 24 beneficiaries being funded through

two CVP calls, whilst 13 FUSION TDP consortia were awarded TDP funds through two TDP calls. The R&I Programme has additionally supported beneficiaries of TDP through further commercialisation-preparedness support. Indeed, to date, there were 5 awards for Initial Patent Application, 1 Trademark Application and 1 award for Business Plan.

In the meantime, through the Horizon 2020 (H2020) Unit, MCST will assist and support local researchers from both public and private entities by giving specialised advice and guidance about the Horizon 2020 Programme along with support by means of other financial schemes.

MCST launched a National Space Fund, a nationally-funded programme supported by the European Space Agency (ESA) through an implementation arrangement signed in 2018. Following guidance from ESA, the National Space Fund provides focus on a Space Education Programme and a Space Research Fund. The Space Education Programme provides educational activities and training to young students with the aim to instil an active interest for young people whilst the Space Research Fund is a research programme focusing on the exploitation of downstream satellite applications to help overcome societal challenges through the acquisition, manipulation and interpretation of satellite data for the creation of innovative products or services. In addition, following the National Space Policy 2017, Malta aims to develop a framework which creates a regulatory regime and adequate implementation of legislation that enables commercial activities related to outer space. With this view in mind, the Government has appointed a Taskforce entrusted with the development of a comprehensive future-oriented National Space Strategy for Malta.

The Malta Digital Innovation Authority (MDIA) was launched in October of 2018 and is regulated by the Malta Digital Innovation Authority Act. The Authority is mandated to promote and develop the innovative technology sector in Malta by means of proper recognition and regulation of relevant innovative technology arrangements and related services. Consequently, its remit also covers the certification of Distributed Ledger Technologies (DLT) platforms thus providing legal certainty for users, whilst at the same time increasing the prospects for investment in innovative technology. Following a number of public consultations, a set of guidelines were made available through the MDIA website. The aim of these guidelines is to assist Service Providers and Innovative Technology Arrangements Applicants when approaching the MDIA for registration and certification, respectively.

Additionally, the Malta Information Technology Agency (MITA) Innovation Hub continues to provide its assistance by connecting entrepreneurs to expert networks or investors, and by preparing them for eventually registering an Initial Coin Offerings (ICO) or DLT arrangement with the MDIA after graduating from the programme. The zero-equity YouStartIT accelerator programme runs roughly twice a year offering a pre-seed investment of €30,000 and takes five or more startups per intake.

Moreover, the Government has established a MALTA.AI Taskforce through which it aims to develop a National Strategy for Artificial Intelligence (AI). Through this taskforce, the Government will discuss and consult with relevant stakeholders in order to form a national AI Framework which identifies policy, regulatory and fiscal measures to strengthen Malta's appeal as a hub for AI while identifying the underlying skill base and infrastructure needed to support AI.

4.5 Promoting Social Inclusion in particular through the Reduction of Poverty

4.5.1 National Targets

The reduction of poverty and the promotion of social inclusion have always been high on the Government's agenda. The national target is to lift approximately 6,500 people out of the risk of poverty and social exclusion by 2020. In this regard, the Government implemented a number of specific programmes and launched a series of initiatives to reach this target. The at-risk-of poverty or social exclusion (AROPE) indicator in 2017 stood at 19.3 per cent, registering a decrease of 1.0 percentage point from 20.3 per cent recorded in 2016. The EU recorded an AROPE of 22.4 per cent, 3.1 percentage points higher than the rate recorded in Malta. The AROPE for foreigners in Malta stood at 27.9 per cent in 2017. The rate is 12.9 percentage points lower than the rate recorded at EU level.

It is worth noting that the AROPE indicator does not capture the benefits in-kind such as free education and free health care, which are also provided to foreign nationals. The at-risk-of poverty (AROP) indicator in 2017 stood at 16.7 per cent, an increase of 0.2 percentage points from 2016. The increase in the at-risk-of poverty rate can be explained by an increase in the poverty threshold that exceeded growth in income for low-income households. In fact, the poverty line of a single person increased from €8,170 in 2016 to €8,713 in 2017 implying more dynamic changes within the Maltese economy. AROP anchored to the 2008 poverty line (adjusted for inflation), has been decreasing from 14.4 per cent in 2013 to 8.3 per cent in 2017. Additionally, the measure of persistence of the at-risk-of poverty indicates a decrease from 11.3 per cent in 2016 to 10.7 per cent in 2017; the largest decline was recorded in the 18-64 years cohort by 1.7 percentage points.

4.5.2 Policies to achieve the targets

Elderly and Disabled Person

The Government is sustaining its effort to ensure adequate and sustainable pensions for current and future pensioners, as addressed in the ongoing pension reform process outlined under country-specific recommendations (CSR) 2. The objective is to continue strengthening the current pension system by improving the sustainability and adequacy of the first pillar and through the introduction of incentives pertaining to the third pillar pensions.

In the 2019 Budget, the Government increased pensions by an additional €2.17 per week over and above the cost of living adjustment (COLA) and raised the ceiling on which income from pension is exempt from income tax. The Government also improved the adequacy of service pensioners whereby a further €200 shall not be taken into consideration in the computation of the social security pension. In addition, pensioners who apart from a social security pension receive a service pension and reach the age of 72 years will have their social security pension revised. Thus, 75 per cent of the service pension commuted amount will be exempted in the revised social security pension assessment. This means that such pensioners may benefit from an additional increase in their social security pension rate. Moreover, the bonus payable to those who reach retirement age but do not have enough contributions to receive a pension has increased by €50. This means that those who paid more than a year but less than five

years of contributions will receive a bonus of €200, whilst the bonus for those with more than 5 years' worth of contributions increased to €300. The Government is drafting a regulation whereby persons who reach their retirement age, will be able to come into an agreement with financial institutions, to release part of their property asset value, in exchange of a yearly annuity. The first Equity Release scheme is expected to be on the market by the end of 2019 and will be offered by private financial services providers. The Government also extended the €300 grant awarded to people aged 75 and over still living in their homes.

Initiatives in the 2019 Budget continued to enhance the Carer's Allowance Reform. The Increased Carers' Allowance (ICRA), which provides financial support to persons who are taking care of a family member living in their own home, increased to €144.08 per week. With regard to the Carers' Allowance, the means test was abolished and the rate has been fixed at €92.72 per week. Beneficiaries caring for patients over 85 years of age will automatically qualify for ICRA without the need for the patient to be seen by the Medical Panel. This measure is intended to support individuals who are taking care of family members living in their own residence but also to encourage elderly persons to continue living in their own home, thus reducing social exclusion.

The Government continued to address the exclusion challenges of disabled persons. In this respect, Government launched a project aimed towards the provision of new residential homes for adults with disability. The project is expected to be completed by the end of 2019 and will provide residential places for 22 persons with disability. In addition, the Government increased the rate of severe disability assistance from €140 per week to €150 per week and increased the disabled child allowance by €5 to €25 per week.

Progress was also registered with respect to better protection of the rights of persons with disability and their families. The Enforcement Unit shall work alongside the Equal Opportunities Compliance Unit and the Accessibility Team to tackle complaints made by person with a disability and their families in areas of discrimination on the grounds of disability, thus ensuring that their rights are safeguarded.

Families and Adolescents

In the 2019 Budget, the Government extended the financial support to first time home buyers whereby, first time buyers will continue to be exempt from paying stamp duty on the first €150,000 of the price of the immovable property. Since the implementation of this measure in 2014, the total number of contracts that benefited from this measure was of 13,949. The Government also extended the second time buyer scheme, whereby persons selling their first residence to purchase another one will benefit from a stamp duty refund of up to €3,000.

The Government is also investing in building of new social housing units. Work is currently being carried out on a 500 apartment project with the help of the European Investment Bank (EIB) and the European Council Development Bank (ECDB). In addition, work will also start on the building of nearly 700 additional social housing units, an investment of €50 million, with part of the investment financed from the National Development and Social Fund. Furthermore, Government intends to continue increasing the stock of Government housing through various initiatives.

As from 2019, the Government launched an Affordable Housing Benefit targeting persons who are renting from the private sector with the aim of making rents more affordable. For families to be eligible, the gross family income must not exceed the established benchmark and the existing rent paid exceeds the benchmark rent rate for that family. This benefit is more generous than the previous subsidy and has been extended to also cover middle-income families, apart from low-income families. Indeed, whereas in the previous scheme, a single person could take a maximum of €1,600 a year, with the new scheme the person is eligible for a maximum of €3,600. Two adults without children, who could previously receive a maximum of €1,900 per year, can now receive up to €3,600. Couples with children and single parent households with one child also saw an increase of between €2,800 and €3,000 on the amount they were entitled for under the previous scheme.

The Housing Authority has also undertaken projects, with the aim of regenerating and rehabilitating dilapidated and unused properties both in the public and private realm, to use for a social purpose. The Authority launched a scheme for the Rehabilitation of Private Vacant Dwellings for Rent, an initiative intended to encourage private owners to invest in the rehabilitation of unoccupied, substandard residential dwellings and lease them to the Authority to accommodate social housing applicants. The Authority offers a grant to assist the applicant in carrying out the rehabilitation of the dwelling in order to render it up to standard for residential purposes. The Authority then leases the property to rent it at subsidised rates for social housing purposes.

The Housing Authority has also identified a number of dilapidated Government-owned properties intended for a residential purpose with the aim of making them habitable either to be used as social housing units or to be included in specialised housing programmes.

It has also set up a board to study, propose and assist in the formulation of an affordable housing policy. It is also focusing on viability of a pilot project intended to create more buildings at affordable rates. The aim is to create a market which is affordable, while also promoting social mobility.

These schemes and projects provide a way to increase housing stock since the construction of more than 1,000 new social housing units will take a number of years to complete. It is expected that this will mitigate the impact of the increase in prices of privately-rented residential properties. Additionally, the Government is undertaking public consultation on the published White Paper entitled 'Renting as a Housing Alternative' with the aim of creating a solid regulatory framework aimed at guaranteeing security, transparency and predictability in the longer term.

In the 2019 Budget, the Government announced a new measure of equity sharing. This scheme is targeted to people who are over 40 years of age and find it difficult to purchase a home. In 2019, the proposal shall be discussed with commercial banks with a view to effectively address this situation. Furthermore, it was announced that the scheme of social loans for house ownership shall be extended.

The Government increased the rate of children's allowance for families with incomes less than €20,000. The current rates are assessed to 6 per cent of the difference between the maximum threshold and income of the parents, the new rate will be assessed at

6.5 per cent. This measure will lead to an increase in the income of families, which will improve their children's standard of living and decrease their risk of falling into poverty. Furthermore, the budget of 2019 announced the extension of unemployment benefits to persons seeking employment who were previously self-employed.

In addition, as part of the Making Work Pay initiatives, all individuals in employment, and who earn less than €60,000, will receive a cheque varying between €40 and €68, this year. This measure also applies to those who do not pay tax on employment income. In 2018, approximately 200,000 individuals benefited from this measure.

Other Measures

In 2019, the Government is expected to publish a national strategy on volunteering. This measure is expected to improve the relationship between stakeholders, namely voluntary organisations and the Government, while promoting more transparent and accountable operations with the public.

Footnotes:

¹ <https://education.gov.mt/en/resources/documents/policy%20documents%202014/booklet%20esm%202014-2024%20eng%2019-02.pdf>

² <https://www.myjourney.edu.mt/>

5. European Union Funds and Other Reforms

5. European Union Funds and Other Reforms

This chapter outlines the Government's strategy on the European Union (EU) Funds and how these relate to the Government's wider structural reforms. In addition, the chapter will also provide an overview of flagship initiatives and other structural reforms that are unrelated to country-specific recommendations (CSRs) but are nonetheless important for the business environment, the economy and public finances.

5.1 EU Funds

Economic growth and the creation of more and better-quality jobs are the main focus of the European Strategic and Investment Funds (ESIF). In recent years, Malta made a quantum leap both in terms of the development of the physical infrastructure as well as through investment in human capital. In fact, the country has undertaken important investment in key strategic areas including competitiveness, the environment, education and health provision, social welfare, agriculture and fisheries.

Investment will continue to be directed towards a number of key areas in line with the Europe 2020 targets, as well as fund-specific missions. This will continue to enhance environmental sustainability, social well-being and health, while also promoting competitiveness through economic development and job creation.

Malta's Partnership Agreement sets out an assessment of the national development needs and defines the priorities for the use of the ESIF that will help Malta achieve its socioeconomic goals as well as contribute towards the agreed Europe 2020 targets over the programme cycle. The 2014-2020 programming period will provide the opportunities for the Maltese economy to continue fostering the right environment for economic growth, job creation and the development of a society that is more inclusive. Within this context, the Partnership Agreement has identified the following three funding priorities:

1. Fostering competitiveness through innovation and the creation of a business-friendly environment;
2. Sustaining an environmentally-friendly and resource-efficient economy;
3. Creating opportunities through investment in human capital and improving health and wellbeing.

The Partnership Agreement is being implemented through the various Operational and National Programmes financed through the ESIF. The implementation of such Programmes, covering the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF), is expected to contribute towards reaching the Europe 2020 targets whilst taking into account the relevant CSRs. Measures that are currently underway include investment for the development of Small and Medium-Sized Enterprises (SMEs), environment, ICT, agriculture, fisheries as well as education and training, amongst others.

5.2 EU 2020 Flagship Initiatives

5.2.1 A Digital Agenda for Europe

The Digital Agenda for Europe represents the EU's objective leading towards the maximisation of the social and economic potential of ICT through high-speed internet and interoperable applications. At this stage, EU funds have been secured for a feasibility study on the need of a submarine cable to mainland Europe. Malta has also secured further funding through the Connecting Europe Facility (CEF) for the BeSmartOnline4 Project.

The Digital Malta Strategy aims to transform Malta into a digitally-enabled nation. The strategy outlines three main themes: Digital Citizens, Digital Government and Digital Businesses with three strategic enablers: Legislation, Human Capital and Infrastructure. Through learned basic digital skills, citizens will be empowered to take opportunities presented by technology and digitisation. The Strategy aims to make digital services more affordable, secure and accessible.

The Strategy targets businesses specifically and aims to help business transformation through an increase in competitiveness and boosting the attractiveness of local enterprise. It seeks to promote more start-ups, attract foreign investment, enable strategic alliances, encourage angel investment and nurture niche service providers. Business is encouraged and supported to exploit (i) the opportunities of the European Digital Single Market, (ii) Malta's strategic location in the Mediterranean, with ready access to the European and North African markets, (iii) Government's strategic alliances with foreign ICT organisations, (iv) opportunities to expand into new or bigger markets. Also, the Strategy targets the Government through better application of digitisation, which should result in reduced bureaucracy, increased efficiency and transparency. The Strategic goals aim at bringing the public service closer to citizens and businesses.

Malta also seeks to maximise the benefits and opportunities deriving from legislation adopted within the EU, including the Data Protection Framework, the Electronic Identification and Trust Services Regulation, the Information Society Directive, the Regulation concerning the European single market for electronic communications and achieving a Connected Continent. Malta will also strive to foster a regulatory environment that is forward looking and technology-neutral providing the needed flexibility to help stimulate innovation.

The eSkills Malta Foundation continues to focus on the synergy of action between Government, education and industry, focusing on enhancing the ICT skills that are fundamental for Malta to sustain a Digital Economy. Members of the Foundation are continuously involved in discussions on various EU-led policies, standards and initiatives, guidelines and initiatives, and in this respect the Foundation is the recognised national contact point for Malta when it comes to Digital Skills and Jobs Coalition. On 13th March 2018, the Foundation also launched the National eSkills Strategy 2019-2021 to boost basic and advanced digital skills and to develop the IT Profession further.

5.2.2 European Platform against Poverty

The reduction of poverty and the promotion of greater social inclusion continue to be major national objectives. The Government remains committed to further enhance the

wellbeing of society in general and vulnerable groups in particular, with specific focus on children and young people, senior citizens, the unemployed and the in-work poor.

The National Strategic Policy for Poverty Reduction and for Social Inclusion (2014-2024) seeks to enhance people's prospects and wellbeing through: income and social benefits, employment, education, health and environment, social services, and culture. The Ministry for the Family, Children's Rights and Social Solidarity set up an Inter-Ministerial Committee (IMC) that brings together the key Ministries covering the six dimensions addressed by this strategic policy. This IMC which convenes regular meetings, is tasked with monitoring and reporting upon the implementation of the 94 strategic policy actions emanating from the policy.

Malta's efforts to combat poverty and promote social inclusion include budget measures presented in Section 4.5 in Chapter 4 of the National Reform Programme.

5.2.3 Innovation Union

Malta has continued to implement initiatives that seek to achieve greater economic growth through innovation by strengthening its knowledge base, supporting viable ideas to reach the market, making good use of Structural Funds for research and innovation as well as joining efforts nationally and with partners abroad.

Being an effective player in the European Research Area (ERA), and contributing to its realisation, remains an important goal of Malta's Research and Innovation (R&I) agenda. The national R&I system is in line with the principles underpinning the ERA vision. The National ERA Roadmap complements Malta's national R&I Strategy 2014-2020, which seeks to embed research and innovation at the heart of the Maltese economy to spur knowledge-driven and value-added growth and to sustain improvements in the quality of life.

The strategy aims to provide an enabling framework to achieve this vision, building on past achievements as well as lessons learnt. This in turn depends on establishing the necessary 'building blocks' including a comprehensive R&I support ecosystem, a stronger knowledge base and smart, flexible specialisation. Supporting the route from ideas to market in a holistic manner continues to be a prime objective of Malta's R&I Strategy. Within this context, industry-academia collaboration, support for private sector investment and effective transfer of knowledge are key in making sure that good ideas and research efforts yield the desired results. Following the finalisation of the National R&I Strategy, Malta prepared the R&I Action Plan in order to map out the operationalisation of the R&I Strategy and the monitoring of its implementation, which was approved by the European Commission in October 2016. The monitoring system was set up by identifying the indicators and datasets for monitoring the implementation of the Strategy and Action Plan.

Business-academia collaboration is also the focus of dedicated efforts through the Technology Transfer Office (set up within the University of Malta (UoM) in 2009) which picked up significant pace since September 2012. Several research projects have been undertaken in collaboration with different private companies, some of which are supported by the Malta Council for Science and Technology (MCST) Fusion Programme. The Knowledge Transfer Office is also working closely with Malta Enterprise (ME) to

launch a new programme to incentivise this activity and encourage industry and UoM academics to set up new research projects together.

The Centre for Entrepreneurship and Business Incubation (CEBI) was launched in May 2013 as a centre of excellence in entrepreneurship at the UoM. The programme focused on educating prospective entrepreneurs and intrapreneurs. In addition, there are now plans in place to launch a doctoral programme which may also extend research to cover business and the self-employed where it overlaps with entrepreneurship, intrapreneurship and enterprise.

Malta has continued its proactive support for the projects that emerged from Malta's participation in Euro-Mediterranean initiatives, including ERANET-MED (ended in March 2018) and ARIMNet2 (ended in October 2017). The successful projects with Maltese beneficiaries are still currently in progress. Furthermore, Malta is actively participating in the Partnership for Research and Innovation for the Mediterranean Area (PRIMA). In this regard, Malta aims to support regional projects in R&I by committing €500,000 per year for the next 10 years to the PRIMA initiative. In fact, through the first PRIMA Call that was launched in 2018, Malta will be providing financial support to two Maltese beneficiaries that shall participate in two different successful PRIMA projects. In the meantime, Malta continues to support Maltese researchers and industry players to participate in cross-border collaborative R&I activities through grants and the establishment of bilateral agreements with international organisations.

Malta is also actively engaging in the Joint Actions of Joint Programming Initiative Healthy and Productive Seas and Oceans (JPI Oceans), providing local entities the chance to collaborate with international researchers in the field of marine and maritime research. Malta is currently participating in three JPI Oceans Joint Actions called MarTERA, Blue Bio Cofund and Effects of Microplastics in the Marine Environment. MarTERA focuses on research in the marine and maritime technology sector and Blue Bio focuses on research in the Blue Bioeconomy field. Maltese researchers have the opportunity to obtain competitive funding to participate in the respective calls that each of these Joint Actions have launched at the end of 2018.

5.2.4 Agenda for New Skills and Jobs

A European Social Fund (ESF) project entitled 'Training for Employment', headed by Jobsplus, includes a number of initiatives with the aim to facilitate access to employment through the development of new skills and competences. These initiatives include the Work Placement Scheme, Work Exposure Scheme, Traineeships, Training Pays Scheme, Occupational Handbook and Study on Arduous Jobs.

The Work Placement Scheme seeks to provide training for participants reading for a course offered by Jobsplus, which includes on-the-job training. Until the end of December 2018, Jobsplus placed 116 trainees under the Work Placement Scheme. The Work Exposure Scheme is intended to facilitate transition into employment by providing individuals with initial hands-on training that helps them obtain the knowledge, skills and competences required to find and retain employment. This scheme is designed to mirror contemporary labour market demands, whereby the jobseekers' job preferences are matched with the employers' needs. From January 2016 until the end of December 2018, Jobsplus placed 730 persons under the Work Exposure Scheme.

The Traineeship Scheme's primary objective is to provide jobseekers with initial vocational training (pre-employment training) that helps individuals obtain the knowledge, skills and competence required to find and retain employment. Traineeships are based on the dual system of vocational training providing a combination of on-the-job and off-the-job training. From January 2016 until end of December 2018, Jobsplus placed 525 trainees under the Traineeship Scheme.

The 'Training Pays' Scheme aims to increase the number of adults participating in lifelong learning. Persons will be refunded 75 per cent of the training costs incurred (up to a maximum of €1,000), when attending a training programme with the intent of improving their level of competence or acquiring new skills. Both the training programme followed, and the training provider need to be accredited and licensed by the National Commission for Further and Higher Education (NCFHE). From the launch of 'Training Pays' Scheme (28th March 2017) until the end of December 2018, the Corporation received 412 applications. Out of these applications, 319 individuals were deemed eligible for funding.

An Occupational Handbook¹, covering the largest part of the Maltese labour force and including information on the labour market trends, job description and duties, knowledge and skills required, qualification/warrants/licenses needed, and average salary, amongst other information, was launched in November 2018. The Occupational Handbook is a source of information related to 246 occupations found in the Maltese labour market. These 246 occupations cover more than 90 per cent of the labour force. This Handbook is deemed instrumental for job seekers (including unemployed and employed persons), students, career and/or employment advisors, guidance teachers, employers and training service providers. Furthermore, the Study on Arduous Work aims to identify those occupations that can be classified as arduous. At the same time, the study aims to identify segments of the labour market, which could deploy the employees that work in these occupations. The findings of this study will help policy-makers in designing future interventions targeting these workers (mainly older workers).

The eSkills Malta Foundation is also promoting the EU Funded Digital Opportunity Traineeship, which is an EU pilot project aimed at boosting digital skills on the job. The Digital Opportunity Traineeships initiative is an EU-funded project that seeks to provide cross border traineeships in digital skills for 6,000 students and recent graduates between 2018 and 2020.

5.2.5 Youth on the Move

The EU flagship initiative 'Youth on the Move' aims to enhance young people's education and employability with the scope of reducing the youth unemployment rate. To this effect, the National Employment Policy incorporates a whole chapter on the initiatives for youth, whilst providing an overview of the Maltese situation in relation to the young unemployed and those young persons who are not in Education, Employment or Training (NEETs).

Through the initiatives listed in the Youth Guarantee Implementation Plan, the Government is committed to assist those individuals with a low level of education attainment by helping them enter the labour market. Some of the measures offered as part of the Youth Guarantee Programme are: the NEETs Activation Scheme, where NEETs are individually

profiled by experts and receive individual attention and Traineeships, the SEC Preventive Classes offering revision classes and the ICT Summer Courses mainly targeting students attending the Alternative Learning Programme.

As at the end of December 2018, 349 participants were profiled in Malta and Gozo, while training for 34 groups was completed. There were 127 participants who finished their training and achieved the level 2 training certificate, and a total of 84 participants achieved an overall attendance rate of 80 per cent or more in both the training and the work exposure phase.

5.2.6. Industrial Policy Flagship

The Government will continue ensuring that conditions are conducive to sustainable industrial growth, within the framework of a diversified and balanced economy. ME, the key industrial strategy driver, will focus on its core business, namely the promotion of direct investment. Foreign direct investment will absorb a very significant part of ME's resources but the promotion of local investment in productive activities will not be neglected. Employment, higher added value and export orientation will be the critical priorities determining ME's operational choices. ME will also upgrade its assistance to research and development. Life sciences, aviation services, marine industries, innovative information and communications industries including bioinformatics and the production of digital games, as well as a broad range of engineering industries will feature as priority sectors. ME will also be heavily involved in attracting to Malta foreign investment in education and training services including in the medical and health care sectors, with a focus on regional markets.

5.2.7 Resource Efficiency Initiative

Despite its limitation in relation to size and topography, Malta will continue its transition towards a more circular economy to develop sustainably. These principles are integrated within Government's current and future actions and measures. The central aim is to achieve the European goals in terms of jobs and growth, environment and sustainable development.

5.2.7.1 Waste Management

The Government has maintained its efforts in the implementation of its Waste Management Plan 2014-2020 through a number of measures.

The Technical Report for the setting up of a Waste To Energy Facility in Malta, published in February 2018 concluded that the setting up of a Waste to Energy Plant in Malta is an inevitable step in achieving the complete Waste Management infrastructure necessary for addressing the needs of the Maltese Islands with respect to waste management and achieving the goals of the EU Waste Directives. After weighing the different technologies available and the appropriateness of these technologies for the particular waste that would be fed to the facility, moving grate technology was chosen as the most appropriate for Malta. The waste types that could potentially be treated in this plant amount to 40 per cent of non-recyclable waste generated in Malta.

During 2019, the Government will also be launching the Beverage Container Refund System (BCRS), which system will be catering for plastic, metal and glass beverage

containers. This will increase the separate collection of high-quality material for recycling. It will consist of a system of Reverse Vending Machines placed in commercial establishments. The BCRS system will have a collection target of 70 per cent of beverage containers put on the market during the first year of operation. This target will increase to 80 per cent in the second year and 90 per cent in the third year. The Resource, Recovery and Recycling Agency (RRRA) will oversee the overall functioning of the system, while also working on new Circular Economy-related projects and initiatives.

In August of 2018, the Government embarked on a specific information awareness campaign, the 'Sort it Out' campaign, to promote appropriate separation of waste at source. This campaign provides knowledge to households in the preparation of the organic waste separate collection aiming at improving our recycling targets.

Following the successful implementation of the pilot project for the organic waste collection, the collection of organic waste was extended nationwide on the 31st October 2018. Households which were not part of the pilot project were provided with ventilated bins and bin liners in order to separate the organic fraction. Organic waste collection is another initiative which will boost Malta's circular potential.

Another initiative, that is being developed is the Strategy on Single-use Plastics, which will be published in 2019. This strategy will aim at promoting better sustainable consumption patterns by providing incentives and disincentives to the market. These will be complemented by various other sectoral policy frameworks such as the regulation of commercial waste, the separate collection of pharmaceutical waste and compulsory waste separation by all Government entities.

Preparations are underway to formulate a Construction and Demolition Waste Strategy for Malta, which shall aim to identify options for the management of waste arising from construction and demolition activities. The strategy will be primarily addressing the current issues within the sector as well as highlighting the possible short-term and long-term measures to be adopted, with a view to shifting the treatment of such waste from backfilling to the re-use and recycling.

5.2.7.2 Renovation of old properties - Infrastructural upgrades

The 'Irrestawra Darek' scheme was first launched in 2017 by the Planning Authority but was re-opened due to popular demand for a second time in 2018. The scheme includes an allocation of funds specifically for properties of registered voluntary organisations that are located within Urban Conservation Areas (UCAs). The scheme will be open for privately-owned residential properties located within UCAs and Grade 1 and Grade 2 scheduled buildings.

5.2.7.3 Efforts continued during 2018 in the area of Bioresources

The Agency for the Governance of Agricultural Bioresources (GAB) in conjunction with MCST launched a scheme in February 2018 for the Provision of Proposals aimed at a Holistic Approach to the Sustainable Management of Livestock Manure which enshrines circular economy principles within its framework. Given the particular characteristics of the Maltese livestock sector, off-the-shelf readily available technology has proven to give unsatisfactory results. In all, 7 proposals were submitted, of which 3 were selected for a total funding grant amounting to €428,792. The research projects were concluded

in November 2018 while the report which should provide more insights for the way forward, is in its final stages.

5.2.7.4 The Tourism Industry

The EU Ecolabel is a voluntary scheme that awards environmental performance certificates to products and services that meet specific and identified criteria depending on the product groups which reduce overall environmental impact, from production to use and disposal. The Malta Competition and Consumer Affairs Authority (MCCAA) continues to promote this scheme amongst 4 and 5-star hotels in Malta through the implementation of a programme whereby the Authority approaches interested hotels and explains the benefits of the scheme and helps them achieve the pertinent certification. As at end of 2018, there were four 5-star hotels and one 4-star hotel registered under the EU Ecolabel scheme in the category of tourist accommodation.

5.2.7.5 Transport

The Malta National Transport Strategy 2050 sets the vision for Malta in the longer-term and creates the strategic framework for the development of the Transport Master Plan. The Transport Master Plan, in turn, provides the planning framework for implementing measures which could take the form of policies, action plans or measures that are shorter-term in nature. It defines clear project pipelines for studies, operational changes, infrastructural and organisational measures, and identifies where funds from national, EU and other financing sources can most effectively be invested in the transport system in order to help attain the long-term strategic targets.

Towards the end of 2017, the Maltese Government decided that a cut-off date for the importation and registration of conventionally fuelled vehicles on the Maltese territory needed to be established. Conventionally fuelled vehicles are defined in the 2011 EU white paper on transport as vehicles using non-hybrid, internal combustion engines (ICE). This is similar to the strategy implemented in other EU countries with respect to the phasing out of conventionally fuelled vehicles. It is to be noted, that the Malta National Transport Strategy (NTS) and the Malta National Transport Master Plan already include indicative targets of the phasing out of conventionally fuelled vehicles on Maltese roads. So as to assess and move forward towards the achievement of such targets, a committee was set up. This Committee is chaired by the Environment and Resources Authority (ERA) and comprises members from the Energy and Water Agency (EWA), Transport Malta (TM) and the Malta Resources Authority (MRA). The e-CAR committee has been assigned the tasks of:

- drafting the consultation document on the cut-off date for the implementation of all ICE imports in Malta;
- conducting close consultations with policy makers and relevant stakeholders involved;
- submitting recommendations to Minister for Cabinet approval.

While carrying out its tasks, the Committee needs to assess the different impacts which such a cut-off date may have on various fronts, including economic, infrastructural, environmental and social impacts.

To this end, a study has been commissioned to assist the Committee in such an assessment through which informed decisions on a national level may be taken in this

regard. Work to date has involved the analysis of statistical information, together with national and EU-wide studies where the natural progression towards having a larger fleet consisting of no ICE vehicles has been determined. The next steps will involve the utilisation of such 'baseline data' to arrive at cut-off dates for the importation of conventionally fuelled vehicles.

5.2.7.6 Water Conservation and National Water Management Plan

Malta's 2nd Water Catchment Management Plan (2nd WCMP) provides the policy framework for the management of water resources in the Maltese Islands. The Plan proposes a strategy based on the conjunctive use of water demand management and water supply augmentation measures in order to ensure the sustainable achievement of water supply security for the Islands. The measures required for the achievement of these strategic objectives are outlined in the Plan's Programme of Measures.

From a water demand management perspective, the programme outlines a number of direct and indirect measures with the scope of improving water use efficiency. These include direct measures such as the optimised management of municipal water distribution facilities in order to reduce leakages to economically optimal levels; as well as indirect measures focusing on user engagement and empowerment. Key measures in this regard include the wide-ranging National Water Conservation Campaign which will be launched during 2019, the development of information tools for stakeholders on water efficient practices and appliances as well as educational initiatives centred on GHAJN, the National Water Conservation Awareness Centre.

The 2nd WCMP also aims at the diversification of water supply sources through the continued investment in non-conventional water resources in order to ensure the achievement, during its implementation period, of sustainable use-levels of natural groundwater resources. Key measures in this regard include the 'New Water' Programme, which has seen the commissioning of three polishing plants with a potential annual production of seven million cubic metres of reclaimed water and the development of dedicated distribution networks, the optimisation of desalinated water production facilities in order to reduce their energy footprint and support mechanisms for augmenting the national rainwater harvesting capacity - with particular reference to the municipal and agricultural sectors.

The Plan also seeks to optimise the management of natural water resources by introducing the application of Managed Aquifer Recharge, through the upcoming implementation of a pilot initiative funded under the EU LIFE Programme and the rehabilitation of rainwater runoff management facilities in valleys to increase the use potential of these water management systems.

The 2nd WCMP hence aims to achieve sustainable use of natural water resources, thereby enabling Malta to achieve the EU Water Framework Directive's objective of good quantitative status by 2021.

5.2.7.7 Energy Efficiency Initiatives for buildings

The Regulator for Energy and Water Services (REWS) administers various national and EU funded schemes which seek to encourage the use of systems for residential

purposes that are either energy efficient or make use of renewable sources of energy as mentioned in Chapter 4.

A sector-specific Solar Farms Policy was developed to support the implementation of Government renewable energy policy by providing the spatial planning parameters for its development.

ME, jointly with the EWA, are administering a scheme designed to support local firms willing to invest in technology and solutions that would lead to improved energy-efficiency under the so called 'Investment Aid for Energy Efficiency Projects'. The scheme aims to reduce the carbon footprint of industry whilst reducing industry's energy bills and improving competitiveness. The aid consists of a tax credit which could be utilised against tax due by the beneficiary.

Also, in collaboration with the EWA, ME is administering a scheme called "Investment Aid for High-Efficiency Co-Generation" designed to assist undertakings to invest in co-generation equipment (i.e energy efficient solutions that simultaneously generate thermal energy and electrical and/or mechanical energy). Even in this case, the assistance granted is provided in the form of a tax credit.

5.3 Euro Plus Pact Measures

The Euro Plus Pact is an intergovernmental pact between most of the EU Member States which aims to improve the competitiveness, employment, financial stability and fiscal strength of each country.

5.3.1 Progress on the Implementation of Ongoing Measures

Upgrade of the electricity distribution system at the Hal Far Industrial Estate

This project, which was spearheaded by Enemalta, was completed in September 2018, and saw the extension of the Hal Far Distribution Centre catering for the increased demand for electricity from the industrial sector. Through this project, Enemalta is now in the process of removing old high voltage overhead lines extending to Gudja, Tarxien and other nearby localities.

Extension of Online Social Security and Value Added Tax (VAT) Return Forms

The facility that enables businesses and companies that employ more than 30 employees to submit their social security and VAT Returns online is now being offered to those businesses that employ 10 employees or more.

VAT Reduction for SMEs

With this measure, which came into force from July 2018, the turn-over threshold below which SMEs remain VAT exempt was increased from €14,000 to €20,000.

Clamping down on tax evasion

The Government continued with its fight against tax evasion and unjust competition. Heavier fines have been imposed for both Court and out-of-Court cases related to evasion of excise duty on cigarettes and other tobacco products.

In addition, Customs' incessant emphasis on clamping down on tax evasion, in particular, where Malta's borders are concerned, has also included the creation of a new Canine Unit, extensive investment in x-ray scanning facilities, the procurement of an intelligence analytical software for investigation purposes and the creation of a professional Anti-Money Laundering Team. All Customs personnel pertaining to the Canine Unit, Customs Intelligence Service, Scanning Team and Anti-Money Laundering Team has gone through, or are currently undergoing, an extensive professional training programme offered by foreign experts.

Cultural Initiatives in Gozo

This measure has enhanced Gozo's cultural calendar and added value to the Gozitan tourism product, making the island an all year round holiday destination. In total, 19 new thematic festivals were created in Gozo ranging from Jazz Do, Rock Legends to the Kite festival held in Għarb and the Gozo Alive! Festival which was held last May in various localities incorporating various cultural activities.

Traffic, accessibility and upkeep of the Valletta Waterfront

The aim of the intervention is to find solutions to improve traffic, parking and accessibility to provide a better tourist experience for visitors. This is being implemented by increasing traffic signage and improving parking arrangements.

Introducing the Blockchain Based Official Records in Education

In 2018, Malta became the first country to use emerging blockchain technologies to issue digital, tamper-proof and self-sovereign education credentials, leveraging on the open Blockcerts standard. The pilot project included the Malta College of Arts, Science and Technology (MCAST), the Institute for Tourism Studies (ITS) and the National Commission for Further and Higher Education (NCFHE). Blockchain-based official records will become increasingly important to sectors beyond education and shall reinforce Malta's strategic position as a Blockchain Island. To this effect, in 2018 three enabling bills were introduced: the Malta Digital Innovation Authority bill, the Innovative Technology Arrangements and Service bill and the Virtual Financial Assets bill.

The Malta Laboratories Network training programme for better return on investment

The Network has organised two training courses for all laboratories to attain better return for investment in this sector by promoting innovative approaches to reduce duplication while enhancing progress and motivation for scientific teamwork contributing to national economic efficiency.

Training initiatives for the pharmaceutical industry by the Malta Medicines Authority

The Research, Scientific Affairs and Innovation Unit within the Malta Medicines Authority has launched a number of training initiatives for the pharmaceutical industry, aimed at enhancing competence and knowledge in regulatory sciences and safety of medicines. Through collaboration with The Organisation for Professionals in Regulatory Affairs (TOPRA), a training programme - Innovative Approaches to Excellence in Regulatory Sciences - was rolled out in March 2018. Over 75 participants from industry and the regulatory body were involved.

Masterplan for the Marsalforn Front

The approved Masterplan for Marsalforn has allocated about 12,850 square metres for bars, restaurants and other outlets. This will ensure that the areas where Marsalforn restaurants place their tables and chairs do not obstruct other activities in the zone, particularly in residential areas. In addition, it is also being proposed that the area around the bay would become a pedestrian zone while roads would have a porfido/lava surface. A call for tender has been issued to implement the embellishment works. Procurement procedures for studies related to the Marsalforn breakwater have also been initiated.

5.3.2 Planned New and Extended Measures

Setting up of the National Productivity Board within the Malta Council for Economic and Social Development (MCESD)

The MCESD is the national entity entrusted with social dialogue in Malta with a remit to serve as an advisory and consultative body to Government. It is composed of the main actors in social dialogue at the national level and extends its representation through committees and working groups focusing on specific issues. In March 2018, the Minister for Finance invited the MCESD to set up the National Productivity Board within its remit of activities, in view of Council Recommendation (2016/C 349/01).

The legal framework that will establish the National Productivity Board is being developed. This will be followed by the appointment of members to the Board, as per the procedures that would be prescribed by the legal framework. Once the Board is set up, its work will be geared towards the monitoring and assessment of national competitiveness and related policies, with the first target being the publication of the Annual Competitiveness Report by the close of the third quarter of 2019.

Review of eco-contribution on accommodation collection processes

This measure involves the analysis of the current eco-contribution on accommodation collection processes in order to put forward, for Government's consideration, proposals to ameliorate the collection of environmental contributions.

Fintech Accelerator Programme

The Fintech Accelerator Programme will offer affordable facilities and services to start-up Fintech companies for as long as it takes for these companies to find their own offices and build their own infrastructure. The aim of this Programme is to capitalize on Malta's growing prominence as a global hub for blockchain innovation.

5G Feasibility Study

Preparations are underway so as to facilitate the introduction of innovative communication technologies, especially 5G. During 2019, the Malta Communications Authority (MCA) will be launching a feasibility study and eventually publishing an Expression of Interest in order to identify interest in 5G and its use cases. Subject to the interest and demand registered by the market in response to the published Expression of Interest, testing of the selected projects is envisaged to start in the fourth quarter of 2019, with the Authority regularly monitoring such projects.

Footnote:

¹ <https://secure.etc.gov.mt/occupationalflipbook/Html%20Output/Jobplus%20-%20Occupational%20Handbook.html#p=15>

6. Institutional Issues and Stakeholder Involvement

6. Institutional Issues and Stakeholder Involvement

In order to implement the country-specific recommendations (CSRs) and attain the Europe 2020 targets, the commitment of the Government as well as that of social partners, local Government and non-governmental organisations, is required. As in previous years, the Government has actively consulted the Malta-European Union Steering Action Committee (MEUSAC) and the Malta Council for Economic and Social Development (MCESD), two forums which bring together the main social partners in Malta. In fact, these stakeholders were consulted by the respective Ministries on various measures and initiatives presented in the National Reform Programme (NRP) and they were also invited to attend an ad hoc meeting on the NRP to discuss the strategic underpinnings of the overall report.

Furthermore, a quarterly monitoring exercise on the implementation of the NRP was carried out, prior to the drafting of a status report on each individual measure listed in the NRP. It should be noted that measures which are co-funded through EU funds have also been included in this NRP.

The Ministry for Finance (MFIN) was responsible for coordinating the required input from the relevant Ministries and key stakeholders, participating in seminars and discussions on issues concerning the EU 2020 Strategy and providing updates on the progress achieved in the NRP. This collaborative process has led to the drafting of a comprehensive yet concise NRP with increased ownership from line Ministries. In addition, the Ministries and entities responsible for the implementation of the NRP document, the respective Local Councils and the Local Councils' Association, were consulted as necessary. A copy of the NRP will be handed to the Malta Fiscal Advisory Council. The NRP will be made available to the public after submission to the European Commission. The 2019 NRP document was approved by Cabinet on 9th April 2019.