

Malta's National Reform Programme under the Europe 2020 Strategy

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Minister's Foreword

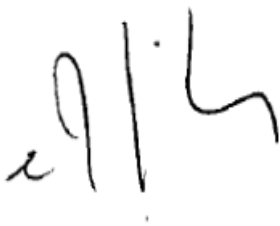


The past year had a number of successes both on the fiscal and economic front. Increasing competitiveness to achieve higher economic and employment growth, and at the same time continuing along the path of fiscal responsibility to reduce the deficit and debt ratios remain a relentless endeavour.

The National Reform Programme as the name suggests is intended to take stock of the progress achieved to date and the way forward in the further formulation and implementation of the reform programme.

This programme is drafted by the Government but is finalised only after it includes the feedback from the civil society at large.

We hope that through cooperation our economy is restructured in a way as to deliver a higher standard of living for all.

A handwritten signature in black ink, appearing to be 'E. Scicluna'. The signature is written in a cursive, somewhat stylized font.

Prof Edward Scicluna

Minister for Finance

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Chapter 1. Introduction

During the past year, the Maltese economy continued to display remarkable resilience when compared to persistent weaknesses recorded in a number of economies within the Euro Area. This contributed to a real GDP growth rate of 2.4 per cent in 2013, up from 0.6 per cent recorded during 2012. This performance was also reflected in developments registered in the main labour market indicators for 2013. The unemployment rate remained relatively stable at 6.5 per cent, while the number of employed persons increased by 2.8 per cent in the last quarter of 2013. Consequently, the employment rate rose to 61.1 per cent in the fourth quarter of 2013, up from 59.5 per cent recorded in the corresponding period of 2012.

It is also noteworthy that according to the European Commission the macroeconomic challenges in Malta no longer constitute substantial macroeconomic risks and are no longer identified as imbalances in the sense of the Macroeconomic Imbalances Procedure. Whilst noting that risks to the sustainability of private and public sector debt and the stability of the financial sector appear to be contained, Government continues to monitor and address the challenges outlined with respect to public debt sustainability, financial stability and external competitiveness, including through the measures outlined in this National Reform Programme and in the Update of the Stability Programme.

The positive developments recorded during 2013 were a consequence of the new Government's economic and fiscal strategy which rests on a number of policy objectives, primarily targeting the country's main economic challenges, in particular:

1. Ensuring public finance sustainability in the short to medium-term, while also addressing the long-term dimension;
2. Raising potential output, in particular by increasing the labour force participation rate, especially female participation, raising skill and education levels, promoting lifelong learning, and increasing productive capital investment;
3. Enhancing the competitiveness and transparency of the products and services markets whilst strengthening consumer protection, supported by a holistic justice reform;
4. Effectively reducing bureaucracy especially the length of the public procurement process, and ensuring that the public service is efficient and cost effective;
5. Safeguarding the success already achieved by the Maltese financial services sector by reducing macroeconomic imbalances within the sector and ensuring that the sector is supported by efficient and rigorous regulatory and supervisory frameworks; and
6. Prioritising the promotion of a diversified and balanced economy.

In order to continue fulfilling these policy objectives, the Government, as outlined in the Economic Partnership Programme, is implementing a number of supply-side policies which are aimed at raising the country's potential growth whilst also ensuring responsible environmental management and social cohesion. Furthermore, the Maltese Government is also implementing a number of growth-friendly fiscal consolidation policies which are aimed at obtaining the abrogation by the Council of its decision on the existence of an excessive deficit in Malta while also strengthening the country's public finances in the long-term.

Main Reform Priorities

This National Reform Programme recognises the policy priorities identified in the Annual Growth Survey.

Enhancing competitiveness and encouraging investment

In an attempt to further improve the country's competitiveness, and conscious of the burden of electricity tariffs on Maltese families and businesses, Government is actively pursuing a reform in the energy sector. Government has sought the participation of a strategic partner, Shanghai Electric Power, in Enemalta Corporation, a move intended to strengthen the financial position of the corporation whilst also providing new job opportunities in both conventional and alternative forms of energy as well as new infrastructural investment for Enemalta. Furthermore, Government is committed to switch Malta's energy generation facilities from Liquid Fuel Oils to Natural Gas through the construction of a new highly efficient generating plant and Liquefied Natural Gas (LNG) infrastructure. Meanwhile, Government has commissioned a comprehensive study that includes a cost-benefit analysis to determine the commercial viability of gas interconnection as well as its effect on the Maltese economy. Government is also renewing its commitment to diversify the sources of energy through specific programmes.

Measures are being introduced to support small and medium enterprises in generating employment and in sustaining the competitive profile of the Maltese economy, particularly in Gozo. In this regard, Government is considering proposals aimed at helping the Family Businesses to grow. Furthermore, Government is actively seeking to transform the transport system into a cost effective and energy efficient sector.

Government has also embarked on the reform of the judicial system. In this respect, the Justice Reform Commission proposed a series of initiatives that seek to increase efficiency and effectiveness of the judicial system in Malta. The implementation of these measures will contribute to enhance the business environment and hence the overall competitiveness of the Maltese economy.

Reducing Bureaucracy

The Commissioner for Simplification and Reduction of Bureaucracy was appointed in July 2013, with the office being officially launched in September 2013. Meetings were held with the main stakeholders, being unions, Employers' Association and the Association of Local Councils representing citizens around Malta and Gozo. The launch of the public consultation process was held on 26th July 2013. An official website was set up, which includes 4 individual email addresses which are the Administration, Citizen, Business and Commissioner, whereby suggestions and comments can be made through these electronic addresses. There were various successful initiatives implemented in various Ministries. The main strategic achievements include:

- Energy Vouchers are to be deducted directly from issued bills;
- The simplification of the Recruitment Process within PAHRO;
- Improvement in Communication between the Tender Adjudication Board and the Appeals Board; Adjudication time for appeals reduced; Costs of adjudication of appeals reduced; overall improved efficiency;
- Lowering of fees and streamlining of classifications at MEPA.

The target is to achieve a 25% reduction in existing bureaucratic procedures. Furthermore, the new Government is adopting the open government concept which is a process that

strengthens the principles of transparency and accountability. This process will give all citizens the opportunity to participate and directly influence the decisions taken by the Government. In fact, on all proposed legislation there are features enabling comments, suggestions, questions and consultation. This feedback is then used to amend the proposed laws. Furthermore, access to Government information is being improved and strengthened, primarily through online sources.

Fighting Corruption

In its continued efforts to fight corruption, Government has also enacted the Whistleblower's Act. This Act allows for various forms of protection for whistleblowers that come forward to expose corrupt practices in 'good faith'. Hence, this legislation gives full protection to all those who are honest, and guarantees safety and reassurance against any retribution whilst also serving as an incentive to all those who did any wrongdoing to reveal their actions. In addition, Government is also working on passing the Party Financing Law which will regulate party financing and shall contribute towards setting a transparent framework for Maltese politics.

Addressing employment challenges and skill mismatches

Maintaining a high employment growth rate remains very high on the agenda of Government with measures being proposed to support employment creation as well as to making work pay. In this regard, specific labour market programmes are being introduced to address the challenges of vulnerable groups in society, including those within the Gozitan labour market. Other labour market programmes are aimed at eliminating mismatches between labour demand and supply. Female labour participation will be further supported by the introduction of free childcare centres together with the opening of the breakfast club, out-of-school centres, the extension in tax deduction for parents sending their children to private childcare centres, and with further enhancement of after school service. In the 2014 Budget, the Government also announced the reduction in income tax for long-term unemployed women who are over 40 years of age and are going to start employment earning a tax-exempt wage. It is also noteworthy that Government shall help the long-term unemployed to join the labour market by ensuring that those entering the labour market do not lose all their welfare entitlement. In addition, single parents on social assistance who choose to enhance their employability prospects by undergoing training or full-time education will be given a tax credit.

Government is committed to consolidate and build upon the success achieved in the education sector so far, while being aware of the challenges that persist. In this respect, a coherent strategy of lifelong learning opportunities is being drawn up to ensure that all children, young people and adults have the opportunity to obtain the necessary skills and aptitude to be active citizens and succeed at work and in society¹. To reach these goals in the coming years, existing learning programmes and modes of assessment will be updated and support shall be extended to the modernisation of the country's vocational system. These efforts complement other ongoing reforms addressing early school leaving and literacy issues.

Strengthening the long-term sustainability of public finances

The Government will shortly enact the Fiscal Responsibility Act which is one of the most important Acts governing fiscal policy. Amongst other important functions, this Act will foresee the establishment of an independent fiscal council and the adoption of fiscal rules.

¹ The Framework for the Education Strategy for Malta, available at: www.education.gov.mt/strategy.

Government is committed to strengthen long-term financial sustainability of public finances through specific reforms in pensions and health.

Hence, Government has expressed its commitment to continue the pension reform process in Malta. The Pensions Strategy Group has been tasked to draw up a holistic reform strategy and a communications strategy by September 2014. Furthermore, Government has announced the introduction of tax incentives for voluntary third pillar pension products in the Budget for 2014.

With respect to the health sector, Government has launched a comprehensive review of Malta's health system intended to serve as a starting point for the systematic monitoring framework for health system performance. Efforts in this area focus on ensuring better use of community care facilities to release pressure on the public acute care hospital including the continuation of the reform of moving patients from social beds to residential homes thus utilising capacities in both the private and public sectors. It is honouring its commitment to continue improving primary healthcare, which if offered more effectively, could lead to a better service and cost savings. In addition, ongoing efforts are directed towards reforming the medicine procurement process and centralising the storage of medicine.

Chapter 2. Macroeconomic context and scenario

2.1 Macroeconomic outlook for the period covered by the programme

Ministry for Finance Macro Forecasts 2014-2017

In 2014 and 2015, the Maltese economy is expected to continue growing at a rate of 2.3 per cent and 2.1 per cent, in real terms, respectively, largely on the back of domestic-led growth and to a lesser extent, supported by the external side of the economy, with the contribution from net trade turning positive in 2015.

Main Macroeconomic Indicators	2013	2014f	2015f	2016f	2017f
GDP	2.4	2.3	2.1	1.9	1.9
Inflation rate (%)	1.0	1.3	1.8	1.8	1.7
Employment growth (%)	2.6	2.1	1.8	1.7	1.8
Unemployment rate (%)	6.5	6.5	6.5	6.5	6.5
Exports of goods and services	-5.6	2.3	4.5	3.6	3.0
Imports of goods and services	-5.2	3.9	4.4	3.2	2.9
Compensation per employee (% change)	1.6	1.1	2.1	2.0	2.0
Labour productivity (% change) ⁽¹⁾	-0.3	0.2	0.3	0.2	0.1
Unit Labour Cost (% change)	1.9	0.9	1.7	1.8	1.9

⁽¹⁾ Real GDP per person employed

Private consumption is set to remain strong, sustained by the strong and resilient labour market, a moderate appreciation in wages and the reduction in utility tariffs. The projected pick-up in general Government final consumption is also expected to contribute positively to growth, adding on average 0.4 percentage points in 2014-2015. In addition, the declining trend in gross fixed capital formation is expected to be reversed, increasing by a significant 15.4 per cent and by 0.4 per cent in real terms in 2014 and 2015, respectively. These positive projections for investment in 2014 and 2015 are mainly the result of the sizeable investment in the energy sector.

Following the 1.0 per cent increase in 2013, HICP inflation is expected to increase by 1.3 per cent in 2014. Low inflationary pressures reflect the reduction in electricity tariffs to households announced as from April 2014. In 2015, inflationary pressures are expected to increase further to 1.8 per cent, despite the expected reductions in electricity tariffs to the commercial sector. It is worth noting that these forecasts assume no major increases in international commodity prices. Macroeconomic projections are also consistent with moderate growth in average wages over the forecast period.

Employment growth retains a very positive outlook and is expected to remain broadly strong over the forecast horizon, increasing by 2.1 per cent and by 1.8 per cent in 2014 and 2015, respectively. At the same time, the unemployment rate is expected to remain broadly at the same level of 6.5 per cent, as increases in the activity rate are expected to result in higher employment levels.

Growth in Unit Labour Costs (ULC) during recent years displayed a high degree of volatility motivated by different trends in productivity and wage costs. In 2013, ULC increased by 1.9 per cent underpinned by increases in compensation per employee and declines in labour productivity. In 2014, ULC is expected to increase by a subdued growth rate of 0.9 per cent reflecting moderate wage increases in excess of labour productivity. On the other hand, in

2015 ULC is expected to increase by 1.7 per cent, largely attributed to higher growth in compensation per employee.

In 2014, real exports are expected to increase by 2.3 per cent while at the same time, stronger domestic demand is forecasted to drive up imports, resulting in a negative net trade contribution to growth. Export activity is expected to strengthen further in 2015 and net trade is expected to contribute, albeit marginally, to economic growth.

The performance in the tourism sector has reached an all-time high with increases registered across the board, including expenditure, nights spent, and hotel performance. The tourism sector is expected to continue growing at moderate rates, supported by increases in airline and cruise ship seat capacity, the investments in hotels, and employment expectations in the tourism sector.

2.2 Macroeconomic impact of structural reforms

The structural reform agenda is one of the key policy planks through which the new Administration intends to raise potential output in Malta, create more jobs and sustain the economic recovery. Moreover, the implementation of structural reforms contributes to raise confidence among households and economic operators and is key to raising productivity and living standards more generally. As outlined in the Economic Partnership Programme and elsewhere in this document, the Maltese Government is implementing a number of reforms which aim to:

- Introduce greater fiscal responsibility and sustainable public finances;
- Encourage higher labour employment rates;
- Improve the educational outcomes whilst reducing skills gaps;
- Strengthening efficiency in the use of energy, diversification in the sources of energy and ensuring security of supply by encouraging greater investment in research and development;
- Reducing poverty whilst strengthening social inclusion.

In the light of the requirement to quantify the economic impact of such reforms, this Programme illustrates the economic impact of structural reforms aimed towards:

- (i) Encouraging higher labour employment rates;
- (ii) Addressing skills gaps;
- (iii) Raising research and innovation investment.

The results presented in this section are based on modelling generated on the basis of the QUEST III model with research and development (R&D).²

Increasing the Employment Rate

This scenario models the effect of labour market reforms intended to stimulate the incentive to work and which are thus expected to raise the employment rate. This Programme presents a number of such policies, including the introduction of free childcare, active labour market policies, initiatives to make work pay, changes in the income tax brackets and initiatives intended to strengthen employability.

² This is a DSGE model developed by the European Commission and adapted specifically to the Maltese economy.

Scenario 1: employment increase by 1000

Years	1	2	5	10
GDP	0.22	0.34	0.47	0.55
Employment	0.40	0.59	0.78	0.88
-low	0.59	0.92	1.24	1.40
-medium	0.23	0.28	0.33	0.38
-high	0.10	0.15	0.19	0.22
-R&D	0.21	0.38	0.57	0.66
Real Wage Rate	-0.55	-0.53	-0.36	-0.39
-low	-0.71	-0.74	-0.56	-0.60
-medium	-0.36	-0.28	-0.10	-0.10
-high	-0.45	-0.30	-0.01	0.01

Simulations indicate that an increase in employment of around 1000 persons by the second year of implementation of the reform results in an increase in GDP growth of 0.34% by the end of the second year, relative to the no reform baseline scenario.

Addressing Skills Gaps

This scenario models the impact of reforms to address the skills gap. As outlined more in detail elsewhere in this Programme, Government is unrolling a series of reforms intended to address the skills gap which include reducing the early school leaving rate, the Framework for the Education Strategy for Malta 2014-2024, the lifelong learning strategy, closer collaboration between higher education institutions and industry in traditional academic programmes and vocational education and training (VET), adult learning and giving higher priority to mathematics, information and communication technology (ICT) and science subjects.

Years	1	5	10
GDP	0.10	0.17	0.18
Employment (% change)	0.14	0.17	0.17
-low	-0.33	-0.55	-0.55
-medium	0.67	0.97	0.97
Employment (absolute change)	237	288	316
-low	-285	-464	-439
-medium	524	753	756
Real Wage Rate	-0.25	-0.01	-0.02
-low	0.28	0.30	0.29
-medium	-0.85	-0.44	-0.45

Scenario 2: Skill composition shift: 1000 workers
(population share changes by 0.0036 percentage points)

The shift from low to medium skilled workers resulted in an overall increase of 0.14% in employment in the first year of the shock resulting from the fact that medium skilled workers have higher employment rates than the low skilled workers. This increase in employment is expected to boost GDP by 0.1% during the first year of the shift and by 0.18% in the long run (within 10 years). This improvement in GDP could also reflect the shift towards higher value added activities.

Raising R&I Investment

R&D incentives have become an important policy instrument to encourage firms to invest in R&I. Thus this scenario considers the case of an increase in R&I expenditure of 0.2 percentage points. The results are presented in table 3 below:

Years	1	5	10
GDP	0.00	-0.06	0.02
Patents	0.36	4.50	10.22
R&I intensity (% of GDP)*	0.19	0.22	0.21
Employment	0.03	-0.11	-0.21
-low	0.02	-0.18	-0.33
-medium	0.03	-0.05	-0.09
-high	0.14	0.06	0.02
-R&I	7.64	20.47	22.31
Real Wage Rate	0.13	0.29	0.46
-low	0.02	0.19	0.41
-medium	0.06	0.12	0.28
-high	0.92	1.47	1.42

**Note: percentage points difference from baseline*

An increase in R&I expenditure of 0.2 percentage points is expected to result in a 0.02% increase in GDP after ten years. The effect on GDP is slightly negative in the first years of the shock consistent with a drop in employment, probably as a result of output losses due to the reallocation of workers from production to research. Furthermore, it takes time to discover and generate ideas. Thus, the seemingly mild impact of such incentives on GDP in the first ten years is due to the gradual and long-run impacts of R&D activity. Nonetheless, R&I employment is expected to increase immediately as the real wage rate for this group of workers rises. The reason for this is that the tax incentive creates a higher demand for workers possessing high skills and thus part of this excess demand is offset by higher wages.

Chapter 3. Implementation of the country-specific recommendations

3.1 Government Finances

3.1.1 Council's recommendation

CSR 1: Specify and implement the measures needed to achieve the annual structural adjustment effort set out in the Council recommendations under the EDP in order to correct the excessive deficit by 2014 in a sustainable and growth-friendly manner, limiting recourse to one-off/temporary measures. After correcting the excessive deficit, pursue the structural adjustment effort at an appropriate pace so as to reach the MTO by 2019. Put in place a binding, rule-based multiannual fiscal framework in 2013. Ensure concrete delivery of measures taken to increase tax compliance and fight tax evasion, and take action to reduce the debt bias in corporate taxation.

3.1.2 Policies in response to the recommendation

Preliminary estimates suggest that the fiscal consolidation effort envisaged in the 2013 Budget and in the Stability Programme was successful in bringing the deficit down below the 3% of GDP threshold.

The Government aims to maintain its efforts to reduce the nominal deficit over the course of 2014 in line with its Medium Term Objective. Moreover this will ensure that Malta remains well within the requirements of the EDP deficit threshold for 2014. Government remains committed to attain the deficit target of 2.1% of GDP contemplated in the 2013 Stability Programme.

In the medium term, the fiscal strategy is to achieve an average annual structural effort of 0.5 percentage points of GDP for 2015 and 2016. To guarantee the sustainability of fiscal consolidation measures, the Maltese Government will be enacting the Fiscal Responsibility Act in the coming weeks. The Fiscal Responsibility Act introduces the fiscal rules underlying the SGP into national legislation. This legislation foresees the creation of an independent Fiscal Council predominantly/principally tasked with the monitoring of, the budgetary execution against targets, the operation of fiscal rules and the adequacy of corrective action when the structural effort necessary to achieve the MTO deviates from the required path.

These reforms will be supported by the creation of a medium term budgetary framework under the supervision of the Fiscal Council. The medium term budgetary framework also introduces flexibility instruments such as the contingency reserve which increase the credibility of fiscal rules and minimise the risk of fiscal slippages due to temporary and unforeseen circumstances.

In addition, the Fiscal Responsibility Act envisages measures to promote fiscal responsibility and strengthen the role of the Ministry for Finance. The main measures include the constitution of a binding topdown budgeting approach, the establishment of a spending ceiling conditional on the independently endorsed macroeconomic and fiscal projections and the fiscal rules contemplated by the Fiscal Responsibility Act.

Furthermore, an IMF team from the Fiscal Affairs Department has been tasked with recommending the necessary changes in order to reform the budgetary process in the Ministry for Finance.

Measures to increase tax compliance and fight tax evasion

In line with the requirements of CSR 1, the Government has significantly intensified its efforts towards improving tax compliance and fighting evasion. A number of measures unveiled in the 2014 Budget are in the process of being implemented. The Government shall be introducing a system whereby whoever purchases a service in the property industry, for instance construction works, where the purchaser is unable to substantiate the work performed, will be liable to a penalty. Other measures include: tax awareness campaigns, efforts to target evasion in rental property income and a merger of the revenue departments, the Inland Revenue Department (IRD), VAT and Customs, to improve the process of oversight and vetting. Furthermore, a task force has been established to address fraud in social welfare benefits.

Given that the Government will be enhancing efforts to combat tax evasion and enforcement of collection, a number of measures have been/are to be introduced to provide the opportunity for taxpayers to regularise their position and become compliant. An investment registration scheme enabling the disclosure of previously undeclared assets is to be issued. Also a Legal Notice has been issued to provide for the reduction of interest on unpaid tax. Taxpayers now have a one time opportunity to pay what they owe either in one lump sum or else through a repayment program and benefit from a reduction in interest and penalties provided they become compliant.

Action to reduce the debt bias in corporate taxation

An evaluation of the leverage in the corporate sector and the role of taxation was carried out as a first step to address the part of the CSR related to the debt bias. The results of the analysis were shared with the Commission in a bilateral meeting held on the 6th March 2014. The analysis clearly demonstrated that in the context of the full imputation system prevailing in Malta, the tax system actually eliminates the debt bias typical of the classical tax system applying in all the other EU Member States. In particular, the debt-equity choice is tax-neutral since shareholders receive full credit for any tax paid by the company on profits distributed as dividends. Nevertheless, the research highlighted possible areas which the Maltese Authorities can address, and supported ongoing measures which could help to mitigate the problem. Hence, whilst the hypothesis of a debt bias in the corporate tax system in Malta is therefore deemed unfounded, as a next step, Malta is positively considering other non-tax measures which have the potential of reducing corporate leverage in the Maltese economy.

3.2 Long-Term Sustainability of Public Finances

3.2.1 Council's recommendation

CSR 2: To ensure the long-term sustainability of public finances, continue to reform the pension system to curb the projected increase in expenditure, including by measures such as accelerating the increase in the statutory retirement age, increasing the effective retirement age by aligning retirement age or pension benefits to changes in life expectancy and by encouraging private pension savings. Take measures to increase the employment rate of older workers by finalising and implementing a comprehensive active ageing strategy. Pursue healthcare reforms to increase the cost-effectiveness of the sector, in particular by strengthening public primary care provision. Improve the efficiency and reduce the length of public procurement procedures.

3.2.2 Policies in response to the recommendation

Pension Reform Process

Government is committed to ensure the long-term sustainability of pensions in Malta by standing ready to introduce, where necessary, further reforms to the first pillar pension whilst exploring the role of supporting pillars, notably the labour market, as outlined under CSR 3.

Government has expressed its commitment for the continuation of the pension reform process in Malta. A Joint Pensions Working Group (PWG) – the Pensions Strategy Group (PSG) – between the Ministry for the Family and Social Solidarity (MFSS) and the Ministry for Finance (MFIN), was set up to review the work carried out by the PWG, in particular the recommendations outlined in the Post-Consultation Report submitted to Government in August 2012. Furthermore, it has been tasked to draw up a holistic strategy aimed at addressing the adequacy and sustainability of pensions in Malta.

The PSG is currently studying fundamental first pension design issues. In its work the PSG will review whether reforms relating to first pension design issues can be grafted onto the current Pay As You Go Defined Benefit Pension system or whether a more fundamental reform is required such as a transition to a Notional Defined Contribution first pension design. The PSG is to deliver its report to the Minister for the Family and Social Solidarity (MFSS) and the Ministry for Finance by September 2014. This work is being assisted by a consultancy from the World Bank's Social Protection and Labour Department.

Parametric pension reform measures were adopted in 2006. Some of these measures came into force in 2007 while others came into force on 1st January 2011. The gradual increase in retirement age adopted in the 2006 Pension Reform remains valid. It is projected that as a result of the 2006 Reform, the average exit age will increase by 4.8 years over the period 2006-2030.

Encouraging Private Pension Savings

Furthermore, upon the request of the Minister for Finance, the Advisory Group on Third Pillar Pensions submitted to the Minister for Finance its first report on options for incentives for private pensions on the 30th August 2013. This included a proposed set of eligibility criteria for private pension schemes that would qualify for incentives and a number of possible fiscal incentives. It also included a proposal for tax-favoured deposit account schemes. The Minister for Finance announced in the Budget for 2014 that there would be € 1.5 million allocated for this purpose.

Upon receiving the report, the Minister for Finance initiated a consultation exercise on the private pension incentive proposals with the main financial sector representative organisations including the Malta Insurance Association (MIA), the Malta Association of Retirement Scheme Practitioners (MARSP) and the Malta Funds Industry Association (MFIA). Following this exercise, the options paper was finalised on the 20th January 2014. The scheme shall be operative on 1st July 2014.

Active Ageing Strategy

The New Administration has acknowledged the importance of active ageing and has appointed a Junior Minister with the specific responsibility for active ageing and the drawing up of an Active Ageing Strategy. On 3 May 2013, a National Commission for Active Ageing was set up to advise the Government with regard to the setting up of a National Policy for Active Ageing: Malta 2014-2020. The National Commission for Active Ageing finalised the National Strategic Policy for Active Ageing: Malta 2014-2020 on the 3rd October 2013.

During the first of quarter of 2014, an inter-ministerial committee has been set up with the task of drawing up the implementation strategy.

The Active Ageing Unit has been having meetings with Ministerial Representatives and various professionals in the different sectors to translate policy recommendations in the Active Ageing Strategy into deliverables. Other meetings are scheduled to take place. A conference is being planned for October 2014 in collaboration with the Occupational Health and Safety Authority, to promote occupational health and safety principles that foster the employability of older and ageing workers up to and even subsequent to statutory retirement age. The Unit is also working on transforming Day Centres for the Elderly into Lifelong Learning Hubs and various meetings with persons who can offer informal learning sessions are being carried out.

Increasing the participation of older workers in the labour force

Raising the participation of older workers is one of the labour market policy priorities of the Maltese Government. Over recent years, Government has introduced legislation which enabled persons of pensionable age to work without losing their pension entitlements, irrespective of the amount of earnings and irrespective of their age. Furthermore, the Government has introduced the extension of the 15 per cent contribution to all pensioners whose annual earnings from self-employment do not exceed the minimum earnings threshold.

Healthcare Reforms

Government is committed to continue improving health outcomes of the population and enhance access, quality and the sustainability of the Maltese health system. Cognisant of the positive correlation between a healthy population and an economically productive population, Government is adopting a realistic and gradual multi-pronged approach to health reform so as not to compromise what has been achieved so far. The following are the key thrusts of the reform Malta is undertaking.

i) Improving governance

Government is committed to continue investing in overall governance of the public health services. The focus will be on ensuring better leadership, oversight, management and co-ordination of policy, services, supplies and resources. The following initiatives have been undertaken:

- A clear cost-effective National Health Systems Strategy (NHSS) for the period 2014 to 2020. A draft of the strategy was published for consultation in February 2014. The final strategy will be published by mid-2014.
- Setting up of a Health System Performance Assessment Framework - a working group has been set up for this purpose and is working in line with an implementation plan approved by the Ministry Management Board with a target of having this Framework in place by the end of 2014.
- Review of the medicines and medical devices procurement, management and distribution processes in order to streamline procurement practices and cut waste.

ii) Emphasis on health promotion and disease prevention

The growing burden of chronic disease represents a major challenge for health systems and economic and social development across Europe. Government is therefore committed to

continue working to ensure that people adopt healthy lifestyles that are conducive to healthy ageing with the aim of increasing long term sustainability of the health system.

Work on the implementation of policy and strategy document issued in the past years such as the National Cancer Plan 2011-2015, A Strategy for the Prevention and Control of Non-Communicable Disease in Malta (2010); A Healthy Weight for Life and a National Strategy for Malta 2012-2020 will continue. New measures in this area are mainly focused on tackling obesity and diabetes which are both identified as a national health challenges.

Other initiatives include:

iii) Strengthening Primary Healthcare to reduce acute hospital costs

Initiatives under this measure are aimed at alleviating the pressure from more costly acute care provision and increasing the interaction between public and private primary care provision with the aim of enhancing access. Particular focus is on those services related to chronic disease management and this will be made possible through better resource utilisation, simplification of processes and empowering the private sector. Initiatives include:

- Shifting inappropriate attenders at emergency services to primary care is estimated to create savings amounting to around 0.03 per cent of GDP upon implementation. Further details are outlined in the Annex Table.
- Increasing the range of services offered at primary level – New services planned include the introduction of Chronic Disease Management Clinics and devolution of Anticoagulant Clinics from the acute to the primary sector.
- Upgrading of current primary healthcare facilities – A programme of upgrading and refurbishment of the Gozo General Hospital and Health Centres/peripheral clinics is currently underway.
- Opening of new regional centres co-financed by the EU - Work has just started on the compilation of the Medical Briefs for these Regional Health Centre Hubs with a view of submitting a project proposal for EU funding consideration in the New Programming period 2014-2020.
- Training of Healthcare Professionals for Integrating Acute and Community Care.

Improve the efficiency and reduce the length of public procurement procedures

The full transition to E-Procurement will over a number of years result in a procurement cycle which delivers benefits by making the system more efficient and effective, both for Economic Operators (EOs) and for Contracting Authorities.

3.3 Employment, Education and Training

3.3.1 Council's recommendation

CSR 3: Continue to pursue policy efforts to reduce early school leaving, notably by setting up a comprehensive monitoring system, and increase the labour-market relevance of education and training to address skills gaps, including through the announced reform of the apprenticeship system. Continue supporting the improving labour-market participation of women by promoting flexible working arrangements, in particular by enhancing the provision and affordability of child-care and out-of-school centres.

3.3.2 Policies in response to the recommendation

Addressing Early School Leaving

The Government has set up an ESL Monitoring Unit to have an overarching view of what is being proposed and implemented to address Early School Leaving. In liaison with other directorates, departments, colleges and schools, this unit measures outputs and outcomes against pre-established national and EU targets.

During the first quarter of 2014, the Ministry launched the Framework for the Education Strategy for Malta 2014-2024. This is a coherent strategy for lifelong learning opportunities from early childhood education and care to adult learning.

The Government is committed to reduce the rate of Early School Leavers (ESL) to achieve the newly set target of 10% by 2020. A leader for an ESL Unit has been appointed, and a Strategic Plan for the Prevention of Early School Leaving in Malta has been finalised. This strategic plan fits in with the Framework for the Education Strategy and will be disseminated among stakeholders in Q2 of 2014. In Q1 of 2014 invitations have been sent to strategic Ministries to participate in an inter-ministerial committee and the committee will meet by mid Q2 in 2014. The ESL prevention strategic plan also fits in with the implementation of the National Curriculum Framework (NCF). The strategic plan includes specific measures such as the 'One Tablet per Child' initiative which will be launched in 2014; a National Literacy Strategy; the setting up of smaller co-ed schools through the institution of the middle schools as from September 2015; the introduction of VET subjects as elective subjects in secondary schools, with home grown qualifications as from September 2015; a review of VET provision with the help of CEDEFOP; tackling absenteeism through early warning systems with correlating early intervention measures; the continuous reviewing, development and consolidation of intervention programmes for potential early school leavers through such programmes as the Core Curriculum Programme that is being currently piloted in a number of form 3 classes in state secondary schools and the Alternative Learning Programme commenced this year; for Form 5 students who were very likely to leave compulsory education without any formal qualifications and the reviewing of higher education provision at MCAST and ITS and their dovetailing with apprenticeship programmes also developed with the help of CEDEFOP and with the implementation of the Youth Guarantee Scheme.

Addressing the Skills Gap

Addressing skills shortages and skills gaps in the labour market is one of the Government's highest priorities so as to ensure the demand for skills being generated by the economy is being met by the supply of skills coming on stream from the educational institutions. Educational entities are continuously ensuring that the courses offered are attractive, relevant and are continuously addressing the needs of the labour market. In this regard,

Malta Enterprise is co-operating with the Malta College for Arts, Science and Technology (MCAST) to provide new courses on the repair and maintenance of airplanes.

MCAST is currently benefitting from four ESF projects³ addressing the challenge outlined above⁴. Through ESF 3.102 - Inclusion for Employment: A substantial upgrading exercise within the context of Vocational Education is being conducted. A number of existing courses are re-designed and new programmes are being introduced. ESF 1.130: Making VET Education more relevant and attractive is to review and update a number of level 4 and 5 courses, MCAST will be reviewing and renewing the curriculum of all its vocational courses from Level 1 to level 5. In particular, the 'Industrial needs and VET to Optimise Human Capital' project addresses the current and anticipated education needs of ten industrial sectors and identifies potential skills gaps and shortages of the present workforce.

Government also launched 'Master it!', a scholarship programme aimed towards supporting an increase in the number of students following post-graduate courses at Masters level with the scope of addressing gaps in the priority sectors of the Maltese economy.

In addressing the skills gap, Government also recognises the importance of lifelong learning and retraining over the lifecycle. In this regard, the Directorate for Lifelong Learning (DLL) is currently drafting a 'Lifelong Learning Strategy' to be launched for public consultation during 2014.

Supporting the labour force participation of females

Government is committed to build on the successes of recent years and continue supporting the rise in the labour force participation of all groups, especially females. The Active Labour Market Policy Counselling and Action Committee was set up, amongst other, to design a holistic active labour market policy that addresses the long-term needs of the labour market and to ensure that there is adequate funding to promote an ongoing active labour market policy. Additionally, an employment policy for Malta is planned to be launched in 2014.

Complementary to this, the Government aims to address the poverty trap by introducing incentives aimed towards reducing long-term dependence on welfare benefits. In this regard a number of supply-side policy measures have been implemented which include free childcare as from April 2014, the gradual tapering of social benefits for persons entering employment, and tax incentives related to the take-up of work.

Furthermore, Government is supporting the labour market participation of parents, especially females, through the introduction of free childcare centres to help working and studying parents, opening schools earlier through the 'Breakfast Club' programme, providing after-school care services within school structures for longer hours, organising activities at youth service centres, extending the parents' income tax computation to parents with children under 23 who are still in tertiary education, and extending tax deduction for parents sending

³ Between 2008 and 2015, the Government would have benefitted from seven ESF projects amounting to a total of € 30 million.

⁴ **ESF 1.34** - Addressing skills mismatch in the Aviation Maintenance Industry

ESF 2.85 - Industrial Needs and VET to Optimise Human Capital: The project addresses current and anticipated education needs of ten industrial sectors and identifies potential skills gaps and shortages of present workforce. Lacunae will be addressed through the implementation of specific training.

ESF 3.102 - Inclusion for Employment: A substantial upgrading exercise within the context of Vocational Education is being conducted. A number of existing courses are re-designed and new programmes are being introduced.

ESF 1.130: Making VET Education more relevant and attractive is to review and update a number of level 4 and 5 courses.

their children to private childcare centres. The Government is also promoting other friendly measures such as flexible hours, telework and job sharing.

A dynamic economy requires a flexible workforce which could be swiftly re-deployed across economic sectors in response to shifts in labour demand. In this regard, the 'Youth Entrepreneurship Scheme' was launched which combats problems that youngsters face when starting a business, and the development and enactment of a 'Youth Entrepreneurship Act' that sets to promote and support entrepreneurship in the younger generation.

Strengthening employability prospects

Government is also committed to raise the labour force participation by strengthening the employability prospects. Through the 'Employment Aid Programme'⁵, vulnerable groups who are at risk of becoming detached from the labour market are assisted in finding employment, while existing apprenticeship schemes support young persons to receive adequate training prior to entering the labour market. The reintegration of unemployed or inactive individuals into the labour market is supported by a wide range of training programmes offered under the 'Enhancing Employability Through Training' Programme' (EET), whilst the 'Average Wage Training Allowance' supports employees who earn less than the national average wage of € 300 per week from their full-time or part-time work to participate in further training through which they can develop their skills and thus improve their job and career prospects. The 'Employment in the Social Economy' Project and the 'Sheltered Employment Training for Disadvantaged Groups' initiative were also embarked upon to encourage employers to recruit persons from disadvantaged categories and persons with disability. The latter project will support persons with disability who cannot work in an open labour market environment and provide them with employability skills through employment training activities in a sheltered environment. Employers, including those from the voluntary sector, will be encouraged to recruit and retain in employment persons with disability.

Furthermore, as part of Malta Federation of Organisations for Persons with Disability (MFOPD) project on developing supported employment in Malta, the Malta Association of Supported Employment was set up. The role of this national Association is to ensure supported employment of persons with disability and other vulnerable persons who need help to find and maintain a job in Malta.

The 'Youth Guarantee Programme', launched in March 2014, will enhance employability amongst younger persons by increasing the number of youth who continue to study after the compulsory age and to improve their capabilities through relevant training. In addition, a number of measures are in place to facilitate labour market integration of youth; namely the 'Alternative Learning Programme', the 'JOB BRIDGE Programme', and the 'Embark for Life Programme'.

⁵ In 2013 the 'Employment Aid Programme' was extended till 2015 with additional funding. In 2014, applications have re-opened to Gozitan undertakings and Maltese undertakings with a base in Gozo.

3.4 Energy

3.4.1 Council's recommendation

CSR 4: Continue efforts to diversify the energy mix and energy sources, in particular through increasing the take up of renewable energy and the timely completion of the electricity link with Sicily. Maintain efforts to promote energy efficiency and reduce emissions from the transport sector.

3.4.2 Policies in response to the recommendation

Diversifying the Energy mix and Energy Sources

Malta continues to diversify its energy mix and improve its security of supply through a number of actions. On 4th December 2013, Enemalta awarded a power purchase Agreement (PPA) and a Gas-supply Agreement (GSA) to ElectroGas Malta Consortium following an expression of interest. The consortium is tasked with the building, owning, operating and maintaining of a new LNG delivery, storage, re-gasification and natural gas supply facility, and a new natural gas-fired 215 MW combined cycle gas turbine electricity generation plant, together with all necessary infrastructure connections to Enemalta's electricity distribution network, at Delimara, by mid-2015. On 24th March 2014, following the necessary studies - including the Environmental Impact Assessments - and an extensive public consultation, the board within the Malta Environment and Planning Authority (MEPA) - approved the permit for the gas-fired power station in Delimara and a floating gas facility in Marsaxlokk bay. The LNG facilities will also supply gas to the existing 144 MW diesel-operated power plant (Delimara 3, known as the BWSC plant), which will be converted to run on natural gas.

The conversion of the BWSC plant will be part of the framework agreement reached between Enemalta and the Chinese-state owned company Shanghai Electric Power (SEP). Through this agreement, the Chinese company will be buying a majority stake in the BWSC plant. This is in line with the country's strategic decision to liberalise completely the generation market whilst Enemalta maintains control over dispatch and distribution. Furthermore, as a result of this agreement, a five year business plan has been drawn up to see that Enemalta becomes profitable within three years. It has been agreed that a total of € 320 million will be injected in Enemalta split as follows - € 100 million in Enemalta Corporation – equity stake, € 150 million for a majority shareholding in Delimara 3 power generation plant and € 70 million that will be required to convert Delimara 3 from HFO to natural gas fired, so as to further diversify our energy mix.

Government is also assessing the feasibility of a connection to the trans-European Natural Gas Network to deliver natural gas for the generation of electrical power and explore its potential for use for domestic, commercial and industrial purposes. Malta had submitted a concept proposal in May 2012 for a project aimed at connecting Malta to the European Gas network. The concept project consists in a Floating Storage Regasification Unit (FSRU) and a pipeline connecting it to both Delimara (Malta) (12km approx) and Gela (Sicily) (150km approx) for transmission of natural gas. The project was selected following a year long selection process and is now part of the delegated act which sets out a first Union-wide list of Projects of Common Interest. A comprehensive study that includes a cost-benefit analysis to determine the commercial viability of such a project, as well as its effect on the Maltese economy, is currently being prepared. The outcome of the study is expected towards the third quarter of 2014.

Additionally, in light of the progress recorded in recent months, the electricity interconnector with Sicily is expected to become operational by end of 2014. Connection to the European energy grid will thus increase energy supply security and enable the phased switching off of the highly inefficient Marsa power station.

Furthermore Malta is continuing to pursue the development of its internal electricity distribution network, both to meet increased consumer demand and to enable the connection of increased renewable energy installations. A new distribution centre has been constructed and is intended to receive the electricity imported from the interconnector and to distribute it throughout Malta's network.

Renewable Energy and Energy Efficiency

Malta's National Renewable Energy Action Plan (NREAP) is currently being reevaluated so as to reflect the latest developments in the sector.

Following the signing of the framework agreement between Enemalta and SEP in March 2014 (mentioned above), Enemalta through a joint venture with SEP will move into the renewable sector both for photovoltaic and wind turbines.

SEP will provide the technical knowhow and necessary capital investment; while Enemalta will be providing its knowhow both in manpower and EU regional requirements. The aim is to develop and build plants that would generate at least 100MW from PVs and 200MW from wind energy.

The new power plant, the converted BWSC plant and the interconnector will further increase generation efficiencies (up to 50%), enabling lower GHG emissions and lower utility bills.

Smart meters are being installed for every electricity consumer in Malta. This is expected to lead to a reduction in energy consumption by changing consumer behaviour through information on energy consumption. The target is to complete the installation of the meters by end of third quarter of 2014.

Government is incentivising the installation of RES and energy efficiency systems through a number of capital assistance schemes, in addition to its own direct investment where most, if not all, Ministry buildings have been fitted with PV systems. Schemes have been launched to assist domestic households using both national and European Regional Development Funds (ERDF). The commercial sector has been assisted through ERDF funds and Local Councils through national funds. Attractive feed-in tariffs remained the main support tool to incentivise PV deployment unless benefiting from a grant.

Government policy is also focused on raising the energy efficiency in buildings through the exploration of technologies that could be implementable as part of the planning permit application process for the development for new buildings or in major retrofitting of existing buildings. These technologies include low-grade geothermal, hydrothermal and aero thermal heat pumps, solar cladding for space heating, and co-generation.

Government is also promoting building renovation and encouraging the use of insulation, with the aim of achieving more energy efficient buildings and reducing greenhouse gas emissions. In this regard, a project to renovate administrative and social buildings (hospitals and schools) has also been adopted. Phase 1 of this project will start in Q2 2014 and should be completed by Q2 2015.

Efforts to ensure the proper and timely implementation of Directive 2012/27/EU and of all the specific obligations therein, in harmony with the implementation of the second NEEAP, are ongoing.

In December 2013 Malta submitted its first report pursuant to Article 7 of the said Directive. Paragraph 1 of Article 7 of Directive 2012/27/EU on energy efficiency requires that each Member State shall set up an energy efficiency obligation scheme on certain designated operators. This scheme shall be designed to achieve a set cumulative new end-use energy savings target between 1st January 2014 and 31st December 2020. The target to be achieved to satisfy Directive 2012/27/EU is 673GWh over the period 2014 to 2020.

The efficiency of Reverse Osmosis plants is essential to achieve high quality water with a low emission footprint. The continuous review of technology and reduction in losses by the Water Services Corporation has decreased the carbon footprint of each m³ of water delivered by 42GWh/year, i.e. circa 36.8GgCO₂ equivalent. Other measures that target end use efficiency are also being implemented through the second NEEAP.

Projects related to waste and agriculture are also contributing further to a reduction in emissions. Energy generation at Sant'Antnin Waste Treatment Plant (SAWTP) and Magħtab has improved considerably since 2011.

Addressing Climate Change

Since the launch of the National Strategy for Policy and Abatement Measures relating to the Reduction of Greenhouse Gas Emissions by Government in 2009 (Mitigation Strategy), progress has been made on a number of fronts with regard to its implementation focusing on the four pieces of complementary legislation (Emissions Trading Scheme (ETS), Effort Sharing Decision, Renewable Energy and Energy Efficiency Action Plan), as well as within discussions on the Climate Change and Energy 2030 Package. Malta is in the process of preparing a Low Carbon Development Strategy, which complements the progress made in the Mitigation Strategy and provides the next step and sufficient progress towards achieving the ultimate goal of keeping global temperature increase below 2°C. Furthermore, an Inter-Ministerial Committee involving different Ministries has been established to ensure synergy between the different Governmental policies having a bearing on climate change or which may be impacted by climate change and the effects thereof.

Recent national projections as compiled in the 2013 Policies and Measures and Projections Report show that Malta will be in a position to meet the current trajectory and target as laid out in the Effort Sharing Decision subject to a recalculation of the trajectory not later than 2016. The difference in outlook to that presented in 2011 report is a consequence of improved methodologies in the compilation of the national greenhouse gas inventory. These have led to a downward revision of historic emissions on which the projections are based, whereas the trajectory of Annual Emission Allocations as stipulated in Decision 2013/162/EU is not subject to recalculations corresponding to updates in the inventory.

Transport

Development of the TEN-T network and external links are crucial for Malta's tourism and export-oriented economy as well as to ensure the mobility of persons. In this respect, the continued development and completion of the TEN-T network, the development of maritime links and ports (freight) and aviation links and ports (tourism/business) continue to be crucial for Malta. Further measures in the road infrastructure are envisaged to continue supporting this service. Between 1999 and end of Q4 2013, 24.5km of the pre-2014 TEN-T road network across the islands of Malta and Gozo have been reconstructed and upgraded. Access network upgrading for two of Malta's sea ports as well as the upgrading and

refurbishing of international port infrastructures is planned with a view to improve cargo and passenger capacity since transport is such an important factor in the mobility of goods and persons both within the Maltese Islands and externally with our trading partners. Under Regulation (EU) 1315/2013 on Union guidelines for the development of the trans-European transport network TEN-T, Malta's TEN-T network has been reconfigured to include 22km of core TEN-T network, and 90 km of comprehensive network to reflect the new European hierarchy and to focus efforts to improve the efficiency of transport.

For this purpose Government is drawing up a National Transport Strategy and Master Plan aimed at alleviating road traffic bottlenecks on the TEN-T and other strategic roads. Within this process, Government will evaluate the potential for complementary passenger transport systems aimed at reducing reliance on the private car, which inter alia shall include the possibility of introducing a light rail in specific areas within the country whilst strengthening internal scheduled passenger transport by sea. Appropriate road infrastructure measures will be introduced so as to improve the safety of pedestrians and to ensure that road infrastructure is accessible for all.

Maritime infrastructure upgrades designed to maximise both capacity and safety within the current constraints of the Mġarr harbour and Ċirkewwa terminal will provide a crucial maritime link between the TEN-T (comprehensive) road networks on each island, so essential to ensure the mobility of persons and goods in a timely manner. The terminal upgrades are now providing modern facilities for the current 4 million passenger and 2 million vehicle annual movements and their expected increase in the coming years. Ċirkewwa terminal landside works and all three berths are now complete and in operation.

The Valletta breakwater refurbishment was completed in Q1 2013. The Marsaxlokk breakwater refurbishment is also at an advanced stage of completion and together these aim to guarantee appropriate shelter of the two main commercial ports of Malta for the longer term. Other planned maritime infrastructure measures shall include the improvement of existing facilities for cruise liners and the development of new cruise liner facilities in Gozo. Planning for the longer term, Malta is seeking TEN-T funding to support further study of tunnel alignment options to further improve the links between Malta and Gozo.

Furthermore, to improve Energy Efficiency in Transport, throughout Malta and Gozo, Government is establishing a network of charging points, for full electric vehicles, in line with targets of 5,000 electric cars on the road by 2020.

Various measures have also been introduced to encourage the conversion of cars to autogas and the promotion of electric cars, apart from the biofuel substitution obligation which has been imposed on importer/wholesalers of fuel for the transport sector (EN590 and EN228). Also, there has been an increase in the annual circulation licence fees in 2014 for cars that were registered after 2009 with CO₂ emissions higher than 100 grams, with the aim of incentivising the purchase of smaller and cleaner cars. In 2014, the registration tax on motorcycles having an engine equal to or greater than 250cc has been reduced. Also, the registration tax on non-EU imported cars has been reduced. The vehicles eligible must not exceed the 150g/km CO₂ emission level and must not be older than eight years.

3.5 Financial Stability

3.5.1 Council's recommendation

CSR 5: Take measures to further strengthen the provisions for loan-impairment losses in the banking sector to mitigate potential risks arising from exposure to the real estate market. Maintain policy effort to ensure strict banking sector supervision, including for the non-core domestic and internationally-oriented banks. Improve the overall efficiency of the judicial system, for example by reducing the time needed to resolve insolvency cases.

3.5.2 Policies in response to the recommendation

Further strengthening provisions for loan-impairment losses

In relation to the substance of the CSR, the Malta Financial Services Authority (MFSA), in collaboration with the Central Bank of Malta (CBM), continued work in relation to the updates required to specific Banking Rules, most notably to BR/09⁶ and BR/12⁷.

During 2013, discussions continued within the Working Group as well as with industry and a Consultation Document on the proposed amendments to BR/09 was issued by the MFSA in September. Meetings were subsequently convened with various stakeholders, including the major banks. The revision to BR/09 was concluded in the fourth quarter of 2013, made applicable as from 31st December 2013 and renamed 'Measures Addressing Credit Risks Arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions Authorised under the Banking Act 1994'.

Amendments effected to Banking Rule BR/12 as at end December 2013 were necessitated by the need to align the requirements of this Rule with those relating to BR/09. These included insertions to reflect requirements to allocate additional capital under Pillar II as well as the inclusion of a new section relating specifically to concentration risk to the real estate sector.

The authorities consider that through the implemented policy initiatives, the necessary measures to further strengthen the provisions for loan-impairment losses and therefore to also mitigate potential risks from the exposure to the real estate market have been taken. Furthermore, the implementation of the ESRB recommendations, the new CRDIV/CRR framework applicable from 1st January 2014 and the coming into force of the SSM, all complement local initiatives ensuring strict banking sector supervision.

Maintain policy effort to ensure strict banking sector supervision

In response to the global financial crisis, a Framework for the Management of Financial Crisis Situations had been established under a Domestic Standing Committee (DSC) composed of senior representatives of the Ministry for Finance (MFIN), the MFSA and the CBM. A sub-group supporting the DSC was also established with additional participation from the Depositor Compensation Scheme and the Office of the Attorney General (AG), to maintain such framework updated and to make recommendations for a robust regime for the recovery and resolution of domestic banks.

⁶ <http://www.mfsa.com.mt/pages/viewcontent.aspx?id=379#BR09>

⁷ <http://www.mfsa.com.mt/pages/viewcontent.aspx?id=379#BR/12/2010>

Following two public ESRB Recommendations, namely Recommendation ESRB/2011/1 on Lending in Foreign Currencies and Recommendation ESRB/2011/2 on US Dollar denominated funding of credit institutions, the MFSA undertook two preliminary data collection exercises to determine local institutions' extent of exposure to the risks identified in the recommendations. The outcome indicated no serious or immediate concerns in this regard.

From a macro-prudential perspective, the CBM is currently in the process of implementing Recommendation of the ESRB of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1). Research initiatives are taken forward by the CBM in order to transpose the ESRB Recommendation into a domestic macro-prudential framework. The CBM is also analysing the viability of ESRB-recommended macro-prudential tools, in particular those incorporated in the CRD/CRR Framework, in order to reach intermediate objectives. The allocation of responsibilities at the national level for the decision-making and operation process of macro-prudential tools embedded in the CRD/CRR Framework has been effected through Legal Notice 29 of 2014 effective from 1st January 2014.

In line with a Recommendation adopted by the ESRB (ESRB/2011/3), amendments to the CBM Act (Cap. 204) were carried out to appoint the Central Bank of Malta as the domestic macro-prudential authority. Further to this, the amended Act which came into force on 18th November 2013, assigns legal status to the Joint Financial Stability Board (JFSB). The Board, composed of representatives from the MFSA, CBM and the MFIN with the latter having observer status, was set up on 25th January 2013 to ensure effective cooperation between the authorities on matters impacting financial stability.

As a result of the revised Banking Regulation (BR/09) to improve coverage of non-performing loans and the establishment of the Joint Financial Stability Board which is now entrenched in the Central Bank of Malta Act (apart from other supervisory measures at the micro level), Malta should now be considered as having satisfied the first two recommendations of the CSR 5 (namely "Take measures to further strengthen the provisions for loan-impairment losses in the banking sector to mitigate potential risks arising from exposure to the real estate market. Maintain policy effort to ensure strict banking sector supervision, including for the non-core domestic and internationally-oriented banks.")

Improve the overall efficiency of the judicial system

The Government entrusted the Management Efficiency Unit (MEU) (Government's in-house Consultancy Agency) to look into the administrative aspect of the justice system and make recommendations on how to reduce bureaucracy, cut down on Disposition Time and improve Clearance Rates. MEU published its findings in June 2013 and a number of recommendations are currently being discussed with stakeholders, whilst others, such as the introduction of a Case Management IT System, have already been endorsed by Government.

In March 2013, the Prime Minister set up a Commission specifically to prepare a report on the Holistic Justice Reform and the final report was presented in November 2013. The Commission for the Holistic Reform of the Justice System, tasked with compiling a review for the holistic reform of the justice system, published its Final Report on 30th November 2013 which included recommendations to Government on measures to improve the efficiency of the judicial system and the proposed way forward. The implementation process is structured over the period 2014-2016.

Specific action will be taken to address the time it takes to resolve insolvency cases and to expedite court matters, in particular through the increase in the members of the judiciary, the

introduction of the Jurist system, whereby a Jurist will be appointed to assist each member of the Judiciary, and investment in a secure IT system. In mid January 2014 a Director General (Strategy & Support - Justice) was appointed whose remit includes spearheading the Justice Reform.

A Justice Reform Implementation Committee (JuRIC) has been set up composed of senior officials from the key stakeholder organisations to work on the areas of the reform process (eg. IT Sector, Court Administration, Judiciary, etc) with a view to monitor the progress and iron out possible difficulties.

Meanwhile, the extension of the law courts has reached an advanced stage and it is being planned that these offices shall be officially opened by Q3 2014. This building will give Government the possibility to increase the number of Judges thus decreasing the workload per Judge and therefore contributing to more Court cases being judged in a shorter period.

Chapter 4. Progress towards national Europe 2020 targets

The structural reform agenda of the Maltese Government takes full cognisance of the targets set under the Europe 2020 Strategy for a smart and competitive European Economy. Government considers the achievement of the targets set under this Strategy as an important contributor towards raising potential output, as well as enhancing competitiveness and living standards more generally.

4.1 Employment

4.1.1 National Target

The Malta Government's goal is to increase the employment rate by facilitating the reintegration of the unemployed into the labour market and raising the labour force participation rate particularly for females and older workers. In this report, Government is revising upwards its target for the employment rate (among 20 to 64-year-olds) to 70% by 2020. The employment rate stood at 63.1% in 2012, which exceeded the previous national target of 62.9%.

4.1.2 Policies to achieve the target

A series of policy initiatives have been introduced or planned by Government to increase labour participation, which in combination with a relatively low and stable unemployment rate is resulting in an increase in the target employment rate. As explained under CSR 3, Government is strengthening the incentive to work, including by making work pay, through the following initiatives:

- The introduction of free childcare centres;
- Initiatives to open schools earlier;
- Support to after-school care services;
- Reduction of income tax for the use of childcare centres for parents who send their children to childcare centres against payment;
- Tax exemption for females joining the labour market;
- Reduction in the income tax rate at which income up to € 60,000 is taxed from the current 32% to 29%;
- Promotion of labour activation programmes.

These schemes are not only expected to strengthen support to working parents who are in education and employment as well as older workers, but to also encourage new entrants into the labour market.

Government is also committed to strengthen job creation and flexibility in working arrangements. The long-term needs of the labour market will be monitored and addressed by ongoing active labour market policy particularly through the implementation of the Jobs+ Strategy. The Strategy for job creation is implementing the making work pay agenda, which amongst others, includes the Youth Guarantee programme, launched in March 2014.

Complementary to the above, Government will continue to support measures that strengthen employability prospects through programmes and schemes particularly targeted at vulnerable groups who are at risk of becoming detached from the labour market. The 'Development of a Youth Entrepreneurship Strategy', including an 'Action Plan for Malta 2013-2018' is being implemented for the promotion and support of entrepreneurship in the younger generation which should contribute to enrich and improve skills, facilitate the uptake of a new career, support entrepreneurship, and facilitate job matching.

Government is encouraging older workers to remain in the labour market, also as part of its 'Active Ageing Strategy'. In this context, the retirement age is set to increase gradually to 65 years following the pension reform enacted in 2006. The policies designed to promote labour participation and reduction in skill mismatches are explained in Section 3 in the reaction to the CSR 3.

Furthermore, in line with the EU's 2020 Strategy for sustainable growth and jobs, the Government is committed in stepping up its efforts to green the economy and in this regard, a core group was set up with the aim of designing a strategy on green jobs. The preparation and the launching of the 'Green Economy Action Plan' is expected to help Malta create new opportunities based on EU best practices.

4.2 Education

4.2.1 National Target

The Government is ambitious in its vision to raise further educational standards in Malta. The main objective is to reduce the rate of early school leavers (ESL) to 10% by 2020. The rate of ESL for Malta in 2013 was 21.6%, one percentage point down from the previous year. A Strategic Plan for the Prevention of Early School Leaving in Malta has been finalised with the intention to further its current efforts to reduce ESL. In addition, the share of 30-34 year old of the population having completed tertiary education is to be increased to 33% by 2020.

4.2.2 Progress on the Implementation of Ongoing Measures in Education

Government has continued to tackle absenteeism by strengthening student services, through the recruitment of counsellors, career advisers, educational psychologists and social workers, operating in multi-disciplinary teams at the grass-roots level and monitoring families in which there is a high tendency of children's absenteeism from schools. At the same time, with regard to enforcement to tackle absenteeism, a Commissioner of Justice was appointed to preside over all educational hearings at the Regional Tribunal. To this end, the appointment of a task force with the aim of revising the present legislation in relation to school absenteeism and to propose amendments accordingly is also being actively considered.

Moreover, 'one-to-one' interventions were held with students choosing not to sit for their MATSEC certificate, while an Alternative Learning Programme, which incorporates vocational courses and core competences for the students, was launched targeting Form 5 students who are not going to sit for any formal examinations in May 2014. Government continued to operate a walk-in service in connection with personal counselling and support and career guidance in schools through the College System during the summer months of 2013.

Apart from job exposure and career awareness initiatives for secondary school students, Government is also extending the opportunities for participation in vocational education, focusing on students who are at risk of becoming early school leavers. Vocational subjects are being introduced in secondary schools and extended at the post-secondary level in VET institutions.

One area which is currently being developed is quality assurance application to all further and higher education institutions in Malta. Quality assurance is not only necessary to make sure that the courses offered by the licensed higher and further institutions providers are meeting the needs of the modern economy and the contemporary quality standards; it is also

closely connected to licensing of higher and further education institutions and is also required by the Bologna process⁸.

Therefore, the objective of this measure is to understand better what measures are already in place, while also assisting licence holders to develop systems and structures which are critical for a 5 year licence to be issued. One area which is still underdeveloped in Malta is to boost student engagement in quality assurance. This concept is completely new and will also be targeted within this project. This ESF funded project will run between December 2013 and June 2015, with a budget of € 499,554.

MCAST is also benefiting from an ERDF Project in relation to the building of the new campus. This development will enable MCAST to increase the number of courses offered as well as increase the number of students.

Government continued its commitment in education by extending the Malta Government Scholarship Scheme and the 'Get Qualified' Scheme in order to raise participation in tertiary education, especially in specialised areas where Malta could lack skills. As also mentioned previously in CSR 3, the Master it! Programme aided this goal.

Planned New and Extended Measures in Education

Government is carrying out a pilot project on the use of tablets in primary schools for teachers and students between January 2014 and June 2015 with a budget of € 80,000. Through the project, Government expects this initiative to increase literacy skills, numeracy skills and competences in digital literacy amongst students in Year 4.

Government intends to develop a curricular framework that will shift the focus in compulsory schooling from a knowledge-based preparatory model to an outcomes-based developmental model of teaching and learning. This project started in Q4 2013 and will be completed by Q3 2015. It will be funded through the ESF, with an allocation of € 3,588,302 (EU funds € 3,054,781; Local funds € 533,521).

In order to eliminate any financial disincentive associated with the loss of stipends for students repeating their studies following poor academic outcomes, as from January 2014, all repeaters who are currently repeating a year have already started receiving a stipend. Additional financial support is also being offered to students choosing to undertake veterinary careers in order to decrease the skills gap in this field. These latter financial incentives are all being monitored by the Students Maintenance Grants Board.

4.3 Energy Targets

4.3.1 National Targets

The Maltese Government is committed to sustainable development and to a path of growth which expands the living standards of the population whilst safeguarding the environment. In particular, Government has committed itself to raise the share of energy from renewable sources in gross final energy consumption to 10% (estimated at 1.4% in 2012). In addition, under the scope of the Effort Sharing Decision, Malta has agreed to a target of +5% relative to its 2005 Greenhouse Gas (GHG) emissions by 2020. Government has also committed itself to raise the proportion of energy consumed in all forms of transport from renewable sources to 10% by 2020.

⁸ The Bologna Declaration encourages, among other things, the European co-operation in quality assurance of higher education with a view to developing comparable criteria and methodologies.

4.3.2 Policies to achieve the targets

The following initiatives have been implemented to achieve the share of energy from renewable sources:

- Malta has submitted its second National Energy Efficiency Action Plan;
- Government has launched various measures intended to encourage individuals and business to invest in renewable energy sources (mainly PV systems and solar water heaters);
- Furthermore, Government is conducting feasibility studies in relation to major renewable energy projects such as wind farms. At the same time, guidelines on the development of solar farms are being drafted.

The following initiatives have been implemented to achieve the target relative to Greenhouse Gas Emissions not falling within the scope of the Emissions Trading Scheme:

- Improve the efficiency of the Delimara Power Station by switching from the use of heavy fuel oil to natural gas and improving the distribution network.
- Measures to encourage investment in renewable energy sources.
- Promoting energy efficiency through the renovation of present building stock and the use of insulation.
- The launching of two pilot projects seeking to raise street lighting energy efficiency in Malta and Gozo.
- The setting up of a viable and energy-efficient transport system.
- Encouraging the use of smaller and cleaner private transport through the car scrappage scheme. The structure of the car registration tax and the annual circulation licence fees also encourage the use of efficient cars.
- Upgrading of the road network and plans to alleviate traffic bottlenecks.

The following initiatives have been implemented to achieve the target to raise the proportion of energy consumed in all forms of transport derived from renewable sources:

- Ensure the uptake of electromobility through the provision of a grant on purchases of electric vehicles and the planned installation of a network of charging points throughout Malta and Gozo;
- Encouraging the conversion of fuel cars to autogas;
- Imposing obligations with respect to biofuels substitution.

The above mentioned policies are further explained in Section 3.4 in relation to the country-specific recommendation.

4.4 Research and Innovation

4.4.1 National Targets

In 2013, Malta's national GERD target with respect to GDP envisaged within the Europe 2020 Strategy, was revised upwards to 2.0 per cent from a previous target of 0.67 per cent. According to provisional figures by Eurostat, Malta recorded a GERD of 0.84 per cent of GDP during 2012, increasing from 0.72 per cent of GDP recorded during 2011, during which Malta achieved its initial target.

4.4.2 Policies to achieve the targets

In February 2014, after a year of consultations with various stakeholders in public, private and academic fora, the Maltese Government endorsed the National Research and Innovation Strategy 2020⁹ which builds on the achievements of the previous strategy. The Strategy seeks to embed R&I at the heart of the Maltese economy with a vision to spur knowledge-driven and value-added growth and to sustain improvements in the quality of life.

Complementing the National R&I Strategy 2020, over the course of 2014, an *R&I Action Plan* is being developed. In this regard MCST, in collaboration with all relevant stakeholders, will be developing a rolling Research and Innovation Action Plan identifying measures, timelines, owners and budgets to achieve the objectives and targets specified in the National R&I Strategy 2020. Several measures are already planned and are being developed. The measure on the evaluation of internationalisation initiatives will also feed into the development of this rolling Action Plan. This measure complements the National R&I Strategy 2020 by identifying concrete actions to implement its provisions. By consolidating measures into a single action plan, it is expected that synergies are exploited and best use is made of available resources while overlaps and gaps will be reduced. This plan has started in January 2014 and its development is presently ongoing with the first phase of consultations nearing completion. The R&I action plan will run up to December 2020.

The National R&I Strategy categorises the initiatives into three policy areas, namely, framework conditions, capacity building and specialisation measures. These build on the initiatives discussed in previous NRPs, and have been implemented as to foster R&I development in Malta with a wider view to promote the European Research Area (ERA)¹⁰ objectives.

Framework conditions measures include those implemented with the objective to promote the R&I ecosystem. For that purpose, the Malta Enterprise¹¹ administers various schemes such as loans to highly qualified individuals, preparatory technical feasibility schemes, grants for cross-border collaborative R&D (EUREKA and EUROSTARS), tax credits on industrial research and experimental developments, registration for intellectual property tax credits for SMEs and a scheme to receive royalty income from patents.

In order to improve Malta's participation and success in Horizon 2020, between January and December 2014, an evaluation of Malta's participation in Horizon 2020 (former FP7) will be undertaken by MCST.

Capacity building measures include investments in Malta's knowledge base through investment in laboratories and equipment, postgraduate and doctoral scholarships such as STEPS, the Get Qualified initiative, the Malta Government Scholarship Scheme (MGSS) and an international scoping exercise for the identification of opportunities for Maltese researchers to be engaged in international cooperation opportunities. Additionally, in order to address human capacity building at the earliest of stages, the development of a National Interactive Science Centre is ongoing.

To complement the efforts to transform the University of Malta (UOM) into an entrepreneurial university, in May 2013 the Centre for Entrepreneurship and Business Incubation (CEBI) was set up, at the UOM, as both a centre of excellence in entrepreneurship and academic

⁹ National Research and Innovation Strategy 2020. 2014. [PDF] Ministry for Education and Employment. Available through: MCST http://www.mcst.gov.mt/sites/default/files/pa_documents/ri_strategy_2020.pdf

¹⁰ More information available at: http://ec.europa.eu/research/era/index_en.htm

¹¹ More information available at: <http://www.maltaenterprise.com/en/business/assistance/research-development>

centre. The CEBI also plans to catalyse the creation of start-up, seed and venture capital funds to launch and grow a new breed of successful, knowledge-intensive ventures.

Building on the framework conditions and capacity building policies, the MCST R&I funding unit is dedicated towards two programmes, the Commercialisation Voucher Programme, and Technology Development Programme. The aim of the Commercialisation Voucher Programme is to assist inventors, be they researchers, micro enterprises or small and medium sized enterprises (SMEs) to assess the commercial and market potential of technological as well as non-technological ideas. At the same time, MCST is currently accepting proposals for Commercialisation Vouchers.

Furthermore, the Technology Development Programme, formerly known as the National R&I Programme, provides state financing in the form of grants for research, development and innovation in science and technology. During 2013, a total of 9 projects were shortlisted with a total budget of € 1.4 million.

Initiatives falling under Specialisation policy include measures aimed specifically at thematic areas such as the National R&I Programme, the National Interactive Science Centre, the Life Sciences Park, the Digital Gaming Strategy, and the Aerospace Centre. Work is also ongoing on the submission of a proposal for a Knowledge and Innovation Community in Healthy Living and Active Ageing, where Malta is part of an international consortium.

Malta Enterprise will initiate and support concretely initiatives aimed at upgrading new and advanced industrial competences and to ensure a dynamic link between education and training institutions on the one hand and, on the other, industry. It will, therefore, 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.

In addition, Malta Enterprise shall continue to provide financial assistance for innovative start-ups, businesses developing innovative products and services, and enterprises implementing innovative processes and solutions. Existing and new companies investing in more efficient production methods and technologies which are environmentally friendly will also be supported. Additionally, Malta Enterprise will continue to provide assistance to firms in order for them to acquire certification through the Business Advisory Scheme and Quality+.

The R&I Action Plan will build on these ongoing and planned activities by consolidating them into a clear roadmap which charts measures, timeframes, budgets and owners, thus ensuring a holistic approach to the implementation of measures addressing the R&I Strategy.

4.5 Promoting Social Inclusion in particular through the Reduction of Poverty

4.5.1 National Targets

The issue of poverty and social inclusion is a growing and important challenge within the changing political, cultural, social and economic developments of Malta. Malta's target is to lift around 6,560 people out of risk of poverty and exclusion by 2020. Poverty reduction is one of the political priorities of the new administration. In this regard, Government has sustained a number of specific programmes over the past twelve months whilst launching a series of initiatives, chief among which the pledge to reform social security in the Budget for 2014 and the Green Paper for Poverty Reduction and for Social Inclusion published in

February 2014. Progress on the Implementation of Ongoing Measures includes improvement on several areas within this aspect.

4.5.2 Policies to achieve the targets

Progress on the Implementation of Ongoing Measures

Child Poverty

The necessary services and support provided to children under Care Order will be extended to all children in Out-of-Home Care, irrespective of their legal status. The budget allocation for this initiative is € 550,000. Furthermore, through the measure of the expansion of fostering services to Gozo, the fostering services will be more accessible for the benefit of Gozitan foster carers and children in foster care, who encounter difficulties travelling to Malta to benefit from such services. This measure has a budget of € 7,000 and was introduced in February 2013.

Elderly

Government is sustaining its efforts to ensure adequate and sustainable pensions for current and future pensioners, addressed in the ongoing pension reform process outlined under CSR 2 above. Furthermore, during the Budget for 2014, Government has increased the total amount of service pension not taken into consideration for social security pension assessment purposes by another € 200 to € 1,466. This resulted in an increase in social security pension entitlement for this group of pensioners.

During 2013, persons over 65 years of age and whose household income falls under the national at-risk-of-poverty level, started to be given an increase of € 100 per annum in their Supplementary Allowance rate. This measure was implemented by the third quarter of 2013 and data shows that 1,349 single persons and 63 married couples benefited from this measure by receiving an additional € 100 per annum over and above their Supplementary Pension Allowance entitlement rate during 2013.

Following the first payments of the € 300 grant in March 2012 whereby a total of 13,385 elderly persons 80 years and over benefitted from this grant, the first payment for 2013 was issued in May of the same year. This time, the grant was extended so as to include elderly persons who had attained the age of 78 and 79 years. A total of 18,159 persons benefitted from this grant during 2013. In January 2014, this measure has been extended to cover elderly persons aged 75-77 and as a result, all such persons have received the € 300 payment up to end February 2014. Furthermore, further pro-rata payments will be made on a monthly basis to persons who during the current year will reach 75.

Government continued to sustain the elderly persons' ability to live as independently as possible, either in their own home or in accommodation with carers on site. In 2013, the Housing Authority effected payments that amounted to € 47,995. For this measure, the Housing Authority has budgeted € 60,000 for 2014. Concurrently, the Government has extended the coverage of the Home Help Service Scheme while there was an increase of 200 in the number of clients attending Day Centres.

Disabled Persons

In 2013, income tax deduction for fees paid in respect of residency services in private community homes for the disabled or respite centres was introduced. This measure was announced in the 2013 Budget in order to help disabled persons and their families to meet

extra expenses which are directly related to disability, especially in light of the need for respite care in respect of carers of disabled persons residing in private homes.

Schemes to support home adaptation works were also implemented. These included schemes for persons with disability, providing financial aid and technical assistance to persons with disability to carry out the necessary adaptations to their place of residence; and schemes for repairs and improvements, providing subsidies for adaptations in residencies which are either owned or rented to the resident.

Families

Government is strengthening support service to jobless households through Aġenzija Appoġġ, the national child and family welfare agency.

Another social policy priority of this Administration is renewing investment in social housing in light of complementarities to the achievement of the poverty target. Between January and February 2014 the Housing Authority paid € 164,005 in rent subsidy to private rented residences. The budget allocated for 2014 is being set to € 970,000 in view of the increasing demand on this scheme.

Government is also investing in the regeneration and maintenance of housing estates. During 2012, 143 Government blocks were approved for maintenance; out of which 61 blocks were still pending. Therefore, during 2013, monitoring of works took place. By the end of February 2014, 130 housing blocks were completed, 2 blocks having works underway, 8 blocks had their tender issued by their respective Local Councils and 3 other blocks were still waiting to start the process.

Planned New Measures

At present the Maltese Government spends € 828 million on social security spending, which is equivalent to over 9 per cent of GDP. Government has launched a multi-disciplinary task force with the aim of reforming social security provision and delivery in Malta. It is expected that by the end of 2014, the task force will provide a framework of recommendations for possible policy reform directions. The Task Force is due to submit an Interim Report by the end of May 2014 and final policy recommendations in October 2014.

Children and Youth

Combating child poverty is one of the linchpins of Government's poverty strategy. In this regard, a number of initiatives were launched including a new measure announced in the Budget for 2014, Helping Single Parents Enrol into Education, whereby single parents who are on social assistance and who choose to enhance their employability prospects by undergoing intensive training or full-time education, will be given credit. Parents may also benefit from free childcare if needed.

Furthermore, in 2014, a supplement was introduced which will be paid to parents who earn less than € 11,000 a year or single parents who earn less than € 9,000. The supplement will be tied to school attendance, regular medical check-ups and the child's participation in sport and cultural activities. For the first three children, the allowance will be of € 400 a year while the supplement for every subsequent child will be of € 200. Government is also establishing a therapeutic facility with a budget allocation of € 140,000 that offers security to children with behavioural problems. The aim of the programme is that it will improve the quality of life for about 22,000 children.

Government will also be embarking on a programme of support to youths through the measure Residential Home for Youth so that they will be provided not only with temporary residential homes but also with a permanent residential home, while at the same time acquiring the necessary aid required in the transitional phase of this process. The budget allocation for this initiative is € 140,000.

Elderly

Apart from the ongoing measures listed above, Government is also introducing a number of new measures aimed at addressing poverty amongst the elderly cohort of the population. In particular, spouses of pensioners who are residents in a State-Financed Residential Service now receive a minimum of 70 per cent of their spouse's pension. In addition, pensioners whose pension does not exceed the national minimum wage will not be taxable while the Cost Of Living Adjustment is now tax exempt for minimum wage earners and pensioners alike.

Disabled Persons

After Budget for 2014, the tax on transfer "causa mortis" for disabled persons has been eliminated and is expected to facilitate succession procedures for children with special needs.

Families

The national child and family welfare agency, Aġenzija Appoġġ, is introducing Social Support Workers to referred individuals and families with the aim of providing a more holistic service to its clients. Furthermore, full pension was awarded for employed widows. This measure will target persons who may find themselves at risk of poverty due to the loss of their partner, in particular, when the loss concerns the primary income earner of the family, and is expected to cost around € 2.2 million.

Government has also introduced a measure of financial support to first time buyers, where a one-time exemption from the payment of duty on the first € 150,000 of the price of immovable property will be granted to first time buyers acquiring immovable property in 2014. Furthermore, the CURE programme to upgrade housing estates was initiated. CURE is intended to promote community regeneration and the fight against poverty by upgrading housing estates in collaboration with Local Councils and the Ministry for Transport and Infrastructure.

Chapter 5. Additional reform measures and the use of structural funds

5.1 Euro Plus Pact Measures

5.1.1 Progress on the Implementation of Ongoing Measures

Euro Plus Pact Measures and CSRs

Enhancing Institutional Capacity and Efficient Public Administration

The Strategic Policy Framework for the HR and Skills Development criteria was finalised in January 2014. The Framework centres on workforce management and development, the management of HR operations, and the enhancement of monitoring and evaluation mechanisms. Its key elements include an overview of the Public Administration legal framework and HR structure, trend analysis, methodology, SWOT analysis, anticipated challenges and implementation methodology.

Enabling Innovation through legislative and regulatory development

The continuous improvement of the local financial services regulatory framework is beneficial for the development of the industry in Malta. Malta will continue working to create a legislative and regulatory framework that will nurture innovative products in this sector, while ensuring consumers are not exposed to unwarranted risks. Research and consultation with the industry is ongoing.

5.1.2 Planned New and Extended Measures

Establish the eSkills Alliance as a Purpose Foundation

The eSkills Alliance is envisaged to address the shortage and mismatches of ICT skills. Government intends to reinforce the synergy of e-Skills Alliance by changing its nature to a Purpose Foundation. This change will give the new entity an executive mandate with dedicated resources and the legal structure to operate as an independent entity.

ICT Competencies for better employability and workforce adaptability

This measure aims at exposing non-internet users to the benefits of ICT. The increase in the ICT competences of employees and prospective employees should make them more flexible and efficient, hence benefitting the Maltese economy. This project, which is ESF funded, has a total budget of € 460,000. Its implementation will commence in Q1 2014 with the launch of an awareness campaign, followed by a training programme that is expected to reach around 3,500 individuals.

Initiative to reduce precarious work

The main intent of this measure is to ensure that contractors awarded contracts by Government Departments or public sector organisations observe employment laws. Any company which does not observe employment laws will be disqualified from participating in Government and public sector tendering processes ensuring no precarious employment situations in contracts awarded by Government.

Shop Opening Hours

The scope of this measure is to provide a more flexible approach for retail outlets to open on hours and days which diverge from the standard business hours. The Trading Licensing

Regulations are to be amended in this regard after finishing the consultation process on the prospective changes.

Open Markets in Malta and Gozo

Government intends to give the Valletta market greater visibility and accessibility by relocating it to a more strategic position within Valletta by June 2014. The relocation is expected to boost the commercial activity of this market and eventually improve also the legal and cultural aspects of the open market, while enhancing efficiency in the interest of hawkers and the market operating area community.

Building a stronger creative economy

An overarching creative economy strategy for the period 2014-2020 that bridges cultural policy programmes, the programme for the implementation of the European Capital of Culture and the creative economy strategy is currently being implemented with emphasis on governance reforms, training, professionalisation, market development and internationalisation. An investment of over € 31 million will be made by Government in the cultural and creative sectors in 2014. In addition, Malta Enterprise will also seek to support the development and growth of the Creative Industry.

5.2 Flagship Initiatives

A Digital Agenda for Europe

The Digital Agenda for Europe aims for the maximisation of the social and economic potential of ICT through high-speed internet and interoperable applications. The National ICT Strategy 2014-2020, branded Digital Malta, was launched on 24th March 2014. The Strategy outlines three strategic themes - Digital Citizen, Digital Business and Digital Government. Digital Malta will be monitored continuously by a Governing Body which is to be set up and will use different performance-measurement mechanisms. A number of initiatives under the three themes will kick off in 2014¹².

i) Aviation Malta

Aviation Malta will act as the catalyst for Government by serving the Aviation Industry while engaging in a National Aviation Plan which ensures safety and quality. It will liaise with companies in the sector and correspond with the related entities. Aviation Malta's aim is to maintain and strengthen the State's interests and stakeholdings, by protecting and creating new quality jobs which will in turn boost the Maltese aviation industry, while promoting Public Private Partnerships. The budget to set up Aviation Malta is € 100,000.

ii) Setting up of the National Aerospace Centre

The aim of this centre is to provide support to the local aerospace industry and Government agencies, thus fostering public-private partnerships, utilising national capacities and fostering further the growth of aerospace activities in Malta and to act as a showcase for national capacity in aerospace technologies by focusing on high profile research and innovation in the sector. The aerospace industry is a niche area that requires high technological specialisation. The Centre will work to ensure skills are available to meet industry requirements and foster international cooperation thereby enhancing Malta's standing in the

¹² <https://digitalmalta.gov.mt/en/Pages/Content/DMPProgrammeOfInit.aspx>

aviation field and attracting foreign investment in the sector. Government has allocated € 150,000 to set up the National Aerospace Centre.

European Platform against Poverty

The undertaking of a poverty and social inclusion strategy in Malta will seek to develop a multi-policy approach directed to address the link between poverty and social inclusion by addressing those major areas that affect directly or indirectly the prospects for inclusion. The Government decided to engage the stakeholders and the general public throughout the process of drafting this strategy.

A Green Paper was published at the end of January 2014 for public consultation, in order to tap into the experience of the general public in relation to poverty and social exclusion issues.

The Green Paper acknowledges the previous initiatives taken in this area and proposes a series of new policy options and alternatives for public consideration. In relation to gender equality, Government is committed to strengthen gender balance in decision-making in Malta. In this regard, an ESF-funded measure has been launched running from 2013 to 2015 with the aim of increasing the number of women in decision-making positions. Furthermore, Developing a Culture of Rights through Capacity Building that is currently being implemented, is aimed at developing a culture of rights by targeting the critical mass within the public administration, Local Councils, NGOs and social partners.

Innovation Union

Government is committed to transform the Maltese economy into a knowledge-based economy where innovation thrives. Malta has continued with the implementation of initiatives which aim to drive growth through innovation by strengthening its knowledge base, supporting good 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. The new National R&I Strategy 2020 provides the strategic framework for guiding Malta's investments towards this goal in the coming years.

New Skills for New Jobs

Through this EU Flagship Initiative, Malta has set out to develop better matching between skills and labour market needs. Training assistance is offered through ETC and the use of ESF funding to jobseekers needing to improve their skills to enter the labour market and to those individuals who wish to upgrade their existing skills in order to re-enter the labour market. The ESF-funded measure launched in January 2013 will run up to Q1 2015.

Youth on the Move

Through this initiative Malta is aiming to improve education and training systems at all levels and to promote stronger policy efforts to improve youth employment. The success of this Strategy is the reduction in the rate of early school leavers and the concomitant increase in the participation rate of adults continuing with lifelong learning experiences. Such measures will lead to a reduction in the unemployment rate of young people and a corresponding reduction in the NEET rate. Furthermore, the Employment and Training Corporation has a number of programmes which focus specifically on young people. One of these is Youth Champions whose role is to develop and provide youth with soft skills and job hunting skills (including CV and Interviewing skills) for graduates and unqualified school leavers as well for youths with social problems.

Industrial Policy Flagship

Malta Enterprise, the key industrial strategy driver, will focus on the promotion of foreign direct investment without neglecting the promotion of local investment in productive activities. It will also be heavily involved in attracting to Malta foreign investment in education and training services including in the medical and healthcare sectors, with a view to regional markets. Malta has developed a national strategy for the cultural and creative industries. The strategy prioritises 4 pillars: education and professional development; route to market; internationalisation; and governance. Seventeen actions from the forty-two actions identified in the strategy have already been implemented or are ongoing initiatives. New programmes and initiatives include the development of a Film Co-Production Fund, a cultural hub and calls for expressions of interest in potential public-private partnerships for cultural infrastructure. In addition, the planning process for creative industry clusters is currently being negotiated within the framework of the Operational Programme. The Creative Economy Working Group has finalised the draft following feedback from stakeholders and will be presenting it to Government.

Work on the implementation of the legislative amendments is also underway, with progress registered on the drafting of the new Festivals Malta Regulations and the revised Malta Council for Culture and the Arts (MCCA) Act. Moreover, a review of the 2010 Economic Report is underway and will be published in the second quarter of 2014.

This shall provide a clear benchmark of where Malta stands in terms of its creative economy, the resilience of its creative enterprises in view of continuing international economic instability, and the level or preparedness for Malta's European Capital of Culture in 2018.

Resource Efficiency Initiative

Malta recognises the need to continue to put more effort on the transformation of the Maltese economy with the aim of pursuing the European Commission's Energy Roadmap 2050. Malta's National Environment Policy highlights efficient and sustainable resource use as one of its six priorities. This initiative is also linked to CSR 4, which details can be found in Chapter 3. Under this heading, the policy includes measures for the conservation of key natural resources including stone, fresh water, coastal and marine areas, soil, land, and importantly, waste. The updated Waste Management Plan (incorporating a Waste Prevention Plan) published in January 2014 calls for a resource approach for the management of waste. Malta is also taking steps in both the energy and water sectors to encourage resource efficiency. The Government has launched a public consultation process leading to the development of a National Water Management Plan; a ten-year plan which shall seek to ensure efficiency and sustainability in the use of this hitherto over-exploited resource.

A means to facilitate the shift in consumption patterns towards resource efficiency is Green Public Procurement. The National GPP Action Plan provides targets for 18 product and service groups, along with a series of measures to ensure their attainment. Malta is also committed to increased eco-innovation to promote economic growth, while limiting the burden on the economy.

5.3 2014 - 2020 Common Strategic Framework

Over the past years, EU funds have been a major contributor towards the development of Malta and Gozo, both in terms of competitiveness as well as in terms of investment in human capital. The impact of the interventions undertaken during the previous Programming Periods has contributed towards a better quality of life for Maltese citizens. Government is committed towards building upon the results achieved to date and is

determined to address its EU2020 targets whilst at the same time taking into account the specific characteristics of Malta. In this regard, the European Structural and Investment (ESI) Funds are seen as a critical instrument to achieve European and national objectives over the 2014-2020 programming period.

Further to the finalisation of the new R&I Strategy, Malta is presently in the process of developing a roadmap through an R&I Action Plan which will align existing and planned efforts towards the achievement of the Strategy's objectives, including the achievement of Malta's new target for R&D.

Work on the Action Plan started in late 2013 through an initial information gathering exercise and is currently being followed up with bilateral meetings with all relevant stakeholders. The measures in the Action Plan will reflect Government's financial commitments to R&D over the coming years. However, measures will focus on leveraging additional funding from the private sector as well as measures to support the private sector's investments in R&D to reach the market as new products and services.

Following the first round of bilateral consultations, the R&I Strategy Steering Group (which will soon be convened under the aegis of the new R&I Strategy 2020) will play a key coordinating role to ensure that funding allocation is done in the most efficient and effective way. The R&I Action Plan will be finalised by end 2014 and will be regularly updated and recalibrated to reflect changing circumstances. It will, nonetheless, retain its focus on the overall goal of the Strategy's objectives and targets.

5.4 EU funding for R&D

Since the inception of the National R&I Strategy, a number of sources of funding have been used to address Malta's R&I challenges, both at national and international level. In fact, owing to Malta's international participation within the EU's Framework Programme for Research and Technological Development (FP), Malta has obtained over € 17¹³ million in funds falling under FP7. To that end, between January and December 2014, an evaluation of Malta's participation in Horizon 2020 (former FP7) will be undertaken by MCST.

¹³ *National Research and Innovation Strategy2020, 2014 p.12*

Chapter 6. Involvement of stakeholders

Implementation of the country-specific recommendations and the achievement of the Europe 2020 targets require a commitment not only from Government, but also from the social partners, local Government and non-governmental organisations. As in previous years, Government has actively consulted the Malta-EU Steering Action Committee (MUESAC) and the Malta Council for Economic and Social Development (MCESD), two forums which bring together many of the social partners in the Maltese islands.

The Minister for Finance whose Ministry is responsible for drafting the NRP and co-ordinating the required input from the relevant key stakeholders, participated in seminars and discussions on issues concerning EU 2020 whilst providing updates on the progress achieved in the NRP.

Malta carries out a mid-year and end-of year assessment of the implementation of the NRP. It is to be noted that this year the need was felt to rationalise the input received from line Ministries and entities in order to have an end-product which is more focused, concise and readable.

A number of measures featured in the NRP will be co-funded using the Structural Funds (ERDF and ESF), the Cohesion fund, the European Agricultural Fund for Rural Development and the European Fisheries Fund.

The Governance model based on the active participation of all relevant Ministries and an extensive consultation with stakeholders used for the reporting of the previous NRP, will in principle be retained, as it has proved to be successful not only in terms of policy integration but also in increasing the line Ministries' ownership of the NRP.