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COM(2017) 517 final

Recommendation for a

COUNCIL RECOMMENDATION

on the 2017 National Reform Programme of Malta

and delivering a Council opinion on the 2017 Stability Programme of Malta

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies,[1] and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,[2]

Having regard to the resolutions of the European Parliament,[3]

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 16 November 2016, the Commission adopted the Annual Growth Survey,[4] marking the start of the 2017 European Semester of economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 9-10 March 2017. On 16 November 2016, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report,[5] in which it did not identify Malta as one of the Member States for which an in-depth review would be carried out. On the same day, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area. That Recommendation was endorsed by the European Council on 9-10 March 2017 and adopted by the Council on 21 March[6].

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1 OJ L 209, 2.8.1997, p. 1.
2 COM(2017) 517 final.
3 P8_ TA(2017)0038, P8_ TA(2017)0039, and P8_ TA(2017)0040.
4 COM(2016) 725 final.
5 COM(2016) 728 final.
6 2017/C92/01

(2) As a country whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Malta should ensure the full and timely implementation of the Recommendation for the euro area which is reflected in recommendation 2 below.

(3) The 2017 country report for Malta[7] was published on 22 February 2017. It assessed Malta's progress in addressing the country-specific recommendations adopted by the Council on 12 July 2016, the follow-up given to the recommendations adopted in previous years and Malta's progress towards its national Europe 2020 targets.[8]

(4) On 18 April 2017, Malta submitted its 2017 National Reform Programme and on 2 May 2017 Malta submitted its 2017 Stability Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.

(5) The relevant country-specific recommendations have been taken into account in the Member States' programmes for the European Structural and Investment Funds (ESI Funds) covering the 2014-2020 period. As foreseen in the legislation governing the ESI Funds,[9] where it is necessary to support the implementation of relevant country-specific recommendations, the Commission may request a Member State to review and amend its relevant ESI Funds programmes. The Commission has provided further guidelines on the application of those rules.[10]

(6) Malta is currently in the preventive arm of the Stability and Growth Pact. In its 2017 Stability Programme, the government plans to maintain a surplus in headline terms over 2017-2020. The medium-term budgetary objective — a balanced budgetary position in terms of GDP — continues to be met with a positive margin throughout the programme period. According to the Stability Programme, the general government debt-to-GDP ratio is expected to remain below the 60% of GDP reference value and to gradually decline from 58.3% of GDP in 2016 to 47.6% in 2020. The macroeconomic scenario underpinning these budgetary projections is plausible for 2017 and cautious for 2018-2020. At the same time, there are possible implementation risks related to budgetary execution.

(7) On 12 July 2016, for 2017 the Council recommended Malta to achieve an annual fiscal adjustment of 0.6% of GDP towards the medium-term budgetary objective. Outturn data indicate that Malta already reached its medium-term budgetary objective in 2016. Based on the Commission 2017 spring forecast, the structural balance is forecast to increase from a surplus of 0.4% of GDP in 2017 to 0.7% of GDP in 2018, remaining above the medium-term budgetary objective. Overall, the Council is of the opinion that Malta is projected to comply with the provisions of the Stability and Growth Pact in 2017 and 2018.

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7 SWD(2017) 83 final.

8 COM(2017) 90 final.

9 Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006, OJ L 347, 20.12.2013, p. 320.

10 COM(2014) 494 final.

(8) Notwithstanding the achievement of the medium-term objective three years ahead of the target, expenditure increases outpaced potential output growth. If sustained further, this poses a challenge to the sustainability of public finances, especially in the case of unanticipated shocks to revenues. The authorities carried out spending reviews, in some areas of public spending particularly relevant in terms of sustainability — healthcare, education and training and social security. Timely and effective implementation of the ensuing recommendations will determine their effectiveness in achieving their goal. In addition, Malta's public finances continues to face sustainability risks in the long-term due to the projected costs linked to population ageing, such as health care, long-term care and pensions. The steep increase in projected age-related expenditure is mainly due to pension expenditure, which is estimated to increase by 3.2 percentage points of GDP by 2060 according to the 2015 Ageing Report. Some of the recently introduced measures are likely to generate savings. However, these savings are unlikely to be sufficient to offset mounting spending pressures and decisively improve long-term sustainability. Further measures could, therefore, be necessary.

(9) Malta has put forward several measures to address the dual challenge of sustainability and ensuring adequate retirement incomes posed by the pension system. Measures introduced in the 2017 budget are expected to moderately lower the poverty risk for older people and improve somewhat the net replacement rate of the guaranteed minimum pension. Overall, pension adequacy indicators still indicate considerable room for improvement including on reducing the high gender coverage gap.

(10) Road traffic congestion has become a barrier to business, and its external (economic and environmental) costs have been estimated at 274 million euros per year and are projected to increase. In addition, emissions of greenhouse gases from traffic continue growing and Malta is likely to fail to reach its 2020 emission targets. Malta has adopted an ambitious National Transport Strategy with a 2050 horizon and an Operational Transport Master Plan to 2025. They include a diverse set of measures to rationalise the use of private cars, promote alternative mobility solutions and make more efficient use of multimodal and collective transport systems. While these measures are projected to make significant improvements, congestion is still projected to rise and greenhouse gas emissions from transport to decrease only modestly until 2030.

(11) The financial system is characterised by a significant number of foreign institutions attracted, among other factors, by the favourable tax environment. Malta is the only EU Member State utilising the full imputation system of company taxation and it offers a refundable tax credit scheme. It has an extensive network of double taxation treaties, and it has an attractive tax residency status for individuals. The supervision of the internationally-oriented business, however, is challenging. The financial sector carries out most of its activities outside Malta. The ability of a relatively small supervisory authority to oversee a large system, in particular in the insurance sector but also in banking, is under pressure. The Malta Financial Services Authority, in consultation with the ECB, has recently requested the withdrawal of the banking licence of a small internet banking provider that collects deposits also outside Malta.

(12) Despite progress, further improvements in the efficiency of the justice system remain necessary. Although new measures on second chance and insolvency have been proposed by the government, lengthy insolvency and discharge procedures harm the quality of the business environment in Malta. Moreover, the framework of debt

discharge does not provide for a time limit, thus it lacks legal certainty. To address the shortcomings, a draft amendment to the Companies Act introducing considerable changes to the legal framework on insolvency, such as the possibility of mediation, was tabled and is currently being considered by the national parliament. The impact of these changes in their final scope and formulation remains to be analysed.

(13) Labour shortages are emerging across the skills spectrum and the adjustment of skills supply to labour market needs is still incomplete. A substantial share of the Maltese labour force still has low qualifications. While educational attainment is increasing, the rate of early school leaving remains high and basic skills attainment among young people is still weak. Access and participation in lifelong learning — with the involvement of employers — is improving including for the low-skilled, but given the extent of the challenge, efforts need to be sustained. Significant investments in the education and training system are expected to bear fruit, especially if the measures are maintained and improved in the future, notably through the recently established National Skills Council. Employment rates are steadily improving and the unemployment rate has dropped below 5 %. However, labour market participation is still among the lowest in the EU, in particular for older and low-skilled women, which also points to remaining social exclusion risks for those who are not equipped to adjust to a fast changing economy. Therefore, current policy investments need to be sustained and further developments are to be closely monitored.

(14) In the context of the European Semester the Commission has carried out a comprehensive analysis of Malta's economic policy and published it in the 2017 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Malta in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Malta, but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions.

(15) In the light of this assessment, the Council has examined the Stability Programme and its opinion[11] is reflected in particular in recommendation 1 below,

HEREBY RECOMMENDS that Malta take action in 2017 and 2018 to:

1. Expand the scope of the ongoing spending reviews to the broader public sector and introduce performance-based public spending.

2. Ensure the effective supervision of internationally oriented business by financial institutions, licensed in Malta in cooperation with the host supervisors in the countries where they operate.

Done at Brussels,

For the Council
The President

[11] Under Article 5(2) of Council Regulation (EC) No 1466/97.