

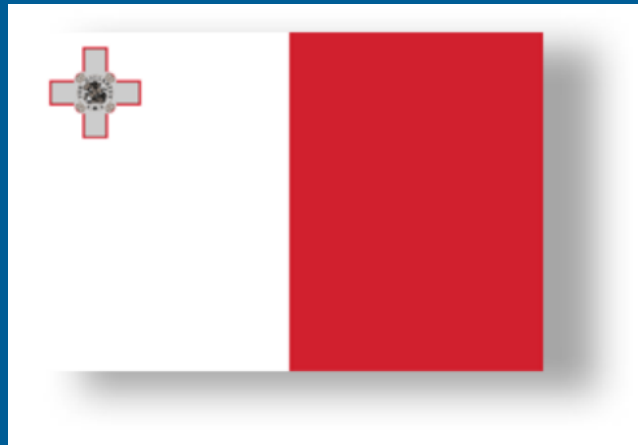
European Semester 2023: Country Report for Malta Country-specific recommendations

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EUROPEAN SEMESTER 2023

Country Report

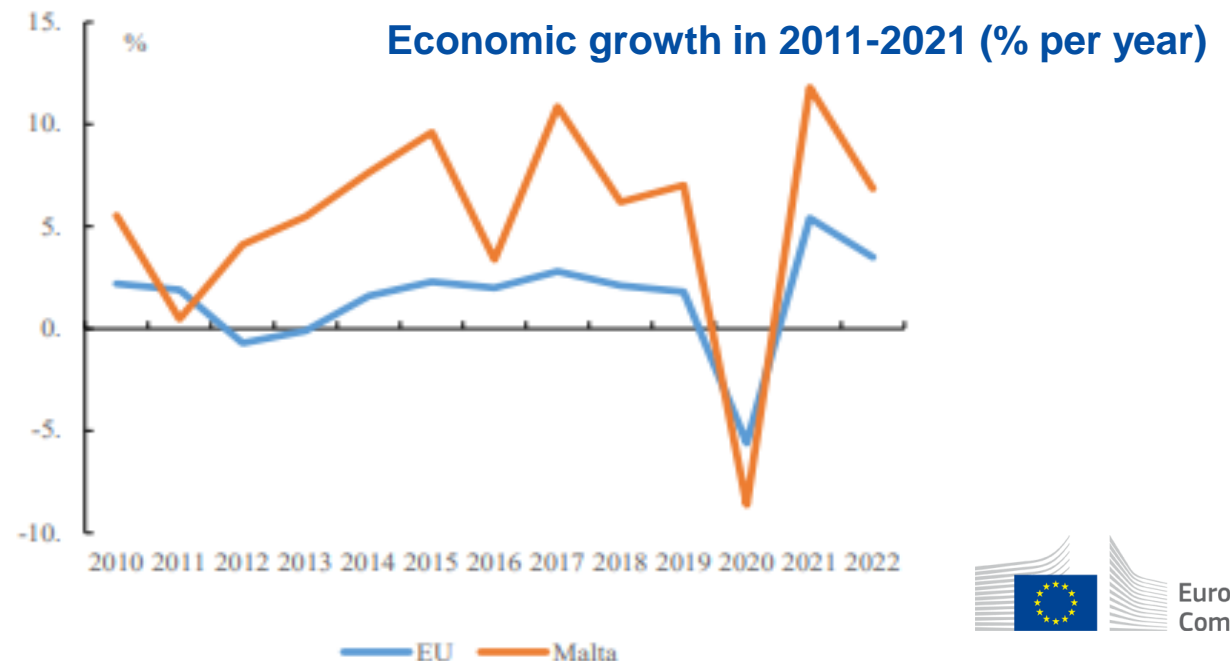


European
Commission |

Malta maintains growth momentum

- Malta's economy has returned to **robust economic growth**, above the EU average
- However, **growth is expected to slow** in 2023 and 2024, as inflation affects household disposable incomes and consumption
- Overall, **inflation has been limited** by government intervention, but remains elevated
- **Energy support measures** have affected the budget balance:
 - 2022: -5.8%
 - 2023: -5.1%
 - 2023: -4.5%

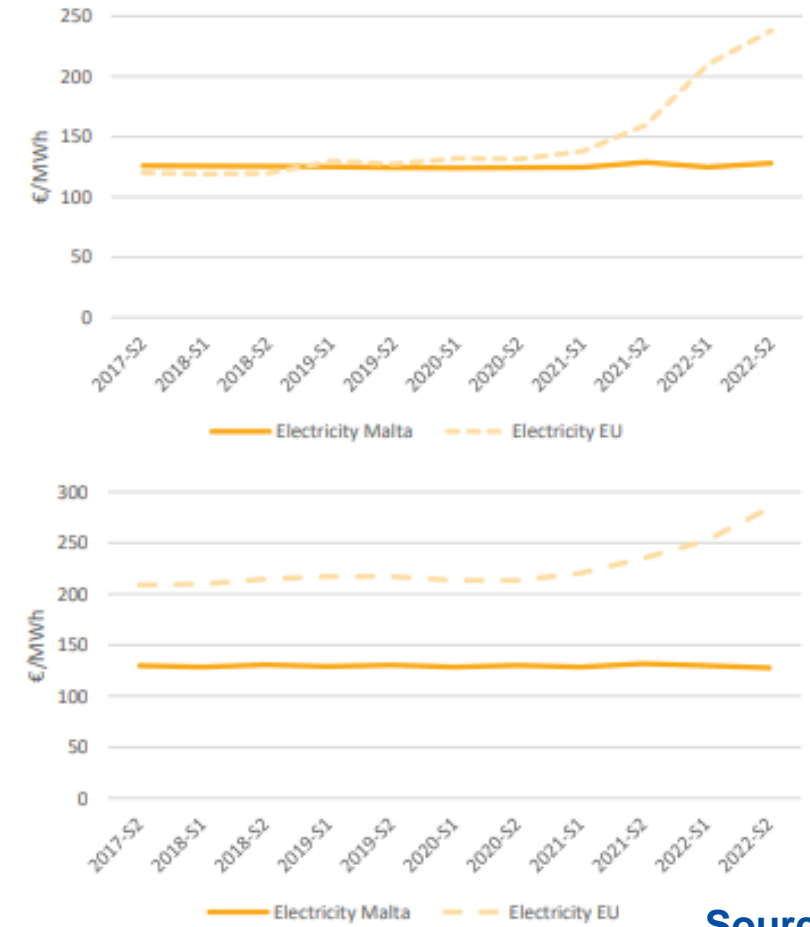
Indicator (ppp. %)	Spring 2023 forecast				Difference to Autumn 2022 (pps.)		
	2021	2022	2023	2024	2022	2023	2024
GDP growth (%)	11.8	6.9	3.9	4.1	1.2	1.1	0.4
HICP inflation (%)	0.7	6.1	5.4	2.8	0.0	1.4	0.4
Budget balance (% of GDP)	-7.8	-5.8	-5.1	-4.5	0.2	0.6	-0.1
Gross debt, GG (% of GDP)	55.1	53.4	54.8	56.1	-4.0	-5.1	-4.5



Energy measures are costly

- Malta has adopted measures to mitigate the **economic and social impact of the increase in energy prices**
- The budgetary cost of measures is expected to amount to:
 - **2.5%** of GDP in 2022
 - **1.7%** of GDP in 2023
 - **1.5%** of GDP in 2024
- Measures include a reduction of the excise fuel taxation, subsidies to compensate for higher energy input costs, transfers to all employees and a more targeted income support mechanism for poorer households
- The main fiscal effort is devoted to **containing the prices for imported electricity**

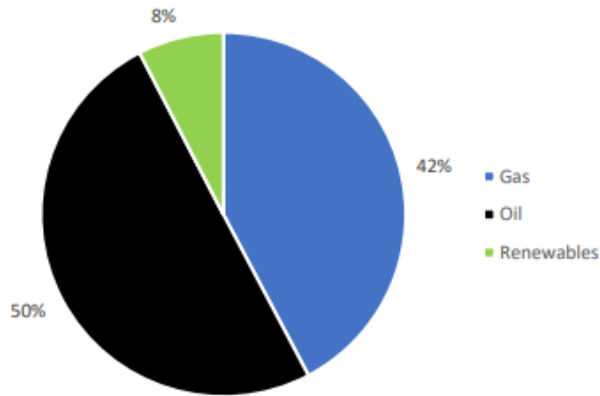
Retail electricity prices for businesses and households



Source: EC

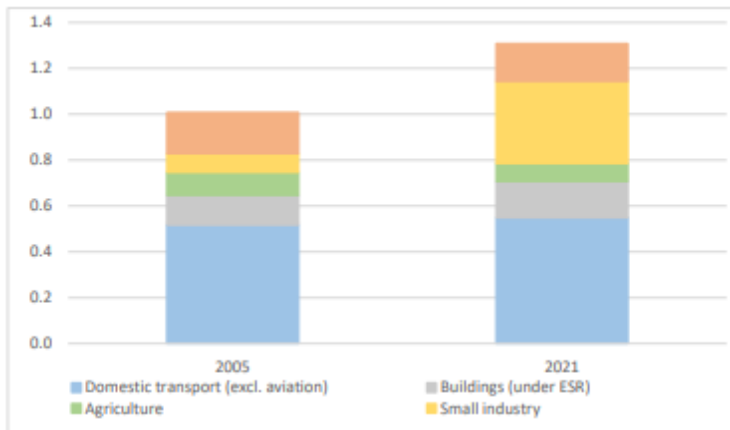
Priorities: promoting the green transition

Energy mix



Source: Eurostat

Greenhouse gas emissions



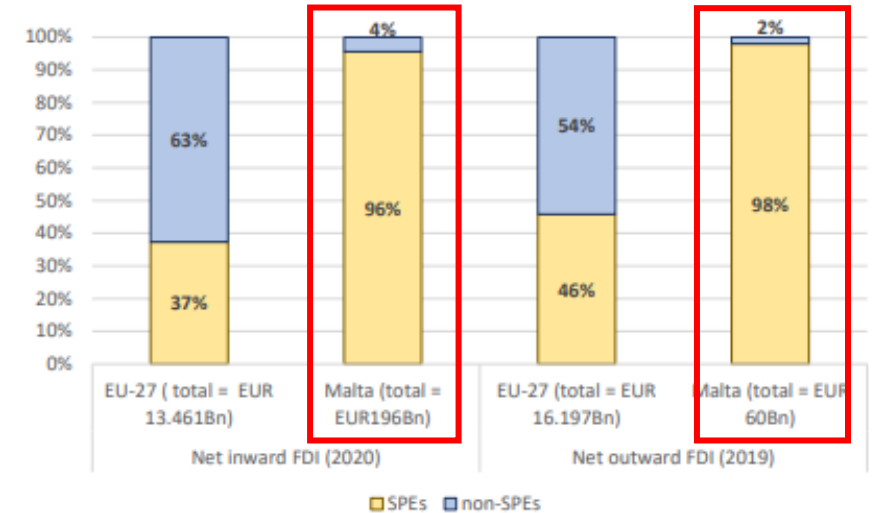
Source: European Environmental Agency

- Fossil fuels still play an outsized role in Malta's economy, making its energy mix highly **dependent on energy imports**
- Malta has one of the **lowest shares of renewables** in energy consumption in the EU (Malta's 2030 target is 11.5%, while in the EU – 32%, with discussions to increase to 45%)
- Malta has scope to scale up its **energy efficiency measures** (for instance, through nation-wide monitoring, mandatory solar panels on certain buildings, additional incentives to house-owners)
- **Traffic congestion**, high emissions from road transport, high reliance on private cars remains (84% of all trips, bus – only 5.2%)
- Although the stock of e-scooters has increased considerably, poor quality **footpaths and cycling infrastructure** discourage walking and cycling

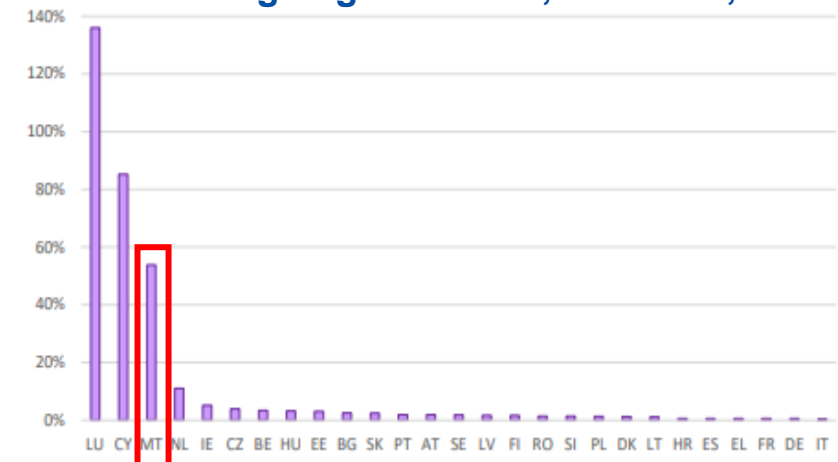
Priorities: Fiscal sustainability and taxation

- The projected future growth in **pension expenditure**, public spending on **health** and **long-term care** poses risks to the long-term fiscal sustainability of Malta's economy
- Malta's tax revenues remain low and are highly reliant on **corporate income taxes** (2021: 16.9%), making the fiscal position sensitive to economic shocks
- Certain indicators suggest that companies are using Malta's tax system for **aggressive tax planning**; there is a need to close the existing loopholes
- Malta's **investor citizenship scheme** continues to raise serious concerns

Share of net inward and outward FDI stock held by entities with little or no presence in Malta



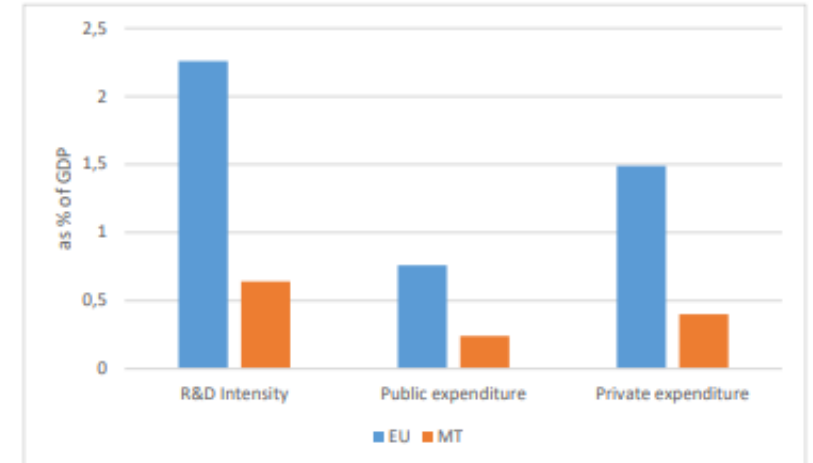
Total outgoing dividends, % of GDP, 2021



Priorities: R&D&I for productivity

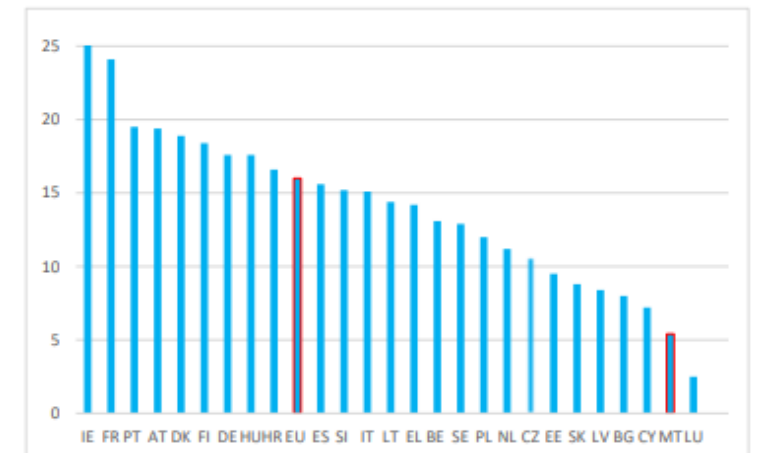
- Malta is behind the EU average in **research and innovation** ('moderate innovator'):
 - + business digitisation and use of advanced technologies
 - investment in RDI and skills
- **Low levels of investment** in R&D&I, both by public institutions and businesses:
 - Malta: **0.64%** of GDP in 2021, EU-27 average: **2.26%**
- The **lack of skilled talent** continues to hamper the performance of the Maltese R&D&I system:
 - STEM graduates (per '000, aged 25-34) dropped from 8.1 in 2010 to 5.4 in 2020 and is below the EU-27 average of 16
- There is scope for stronger **cooperation between academia and business**

R&D intensity in 2021



Source: Eurostat

New STEM graduates per '000 population (aged 25-34)



Priorities: efficiency of judicial system

- The efficiency of justice system, evidenced by the **length of proceedings**, has continued to deteriorate:
 - The estimated time needed to resolve administrative cases at first instance (1356 days) is the longest in the EU, and the estimated time needed to resolve litigious civil and commercial cases remains well above the EU average
- **A lack of resources** is hindering the efficiency and quality of justice:
 - Since early 2021, the number of judges and magistrates increased by nine (from a total of 42)
 - The judiciary is calling for more appointments due to an increasing caseload (particularly on civil and criminal cases)
 - Lack of office and courtroom space and a shortage of skilled staff supporting the judiciary continue to cause problems
- **Outdated work practices and restricted hours** for court sittings are cited as a cause of court delays.

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Country-specific Recommendations

Prudent fiscal policies

Implementing recovery and resilience plans

Energy-related reforms and investment challenges

Competitiveness and social resilience

Fiscal policy recommendation

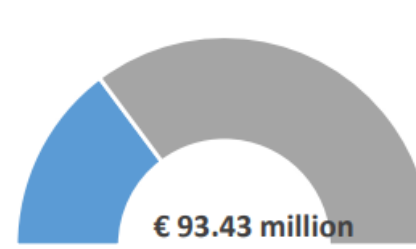
- **Wind down the emergency energy support measures** in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024
- Should renewed energy price increases necessitate new or continued support measures, ensure that these are **targeted** at protecting **vulnerable households and firms**, **fiscally affordable**, and **preserve incentives for energy savings**
- Ensure **prudent fiscal policy**



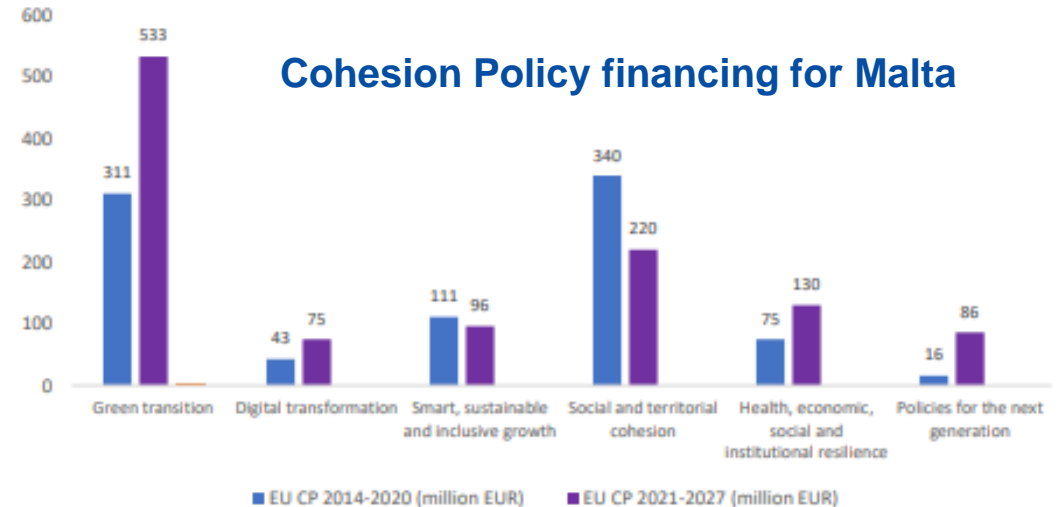
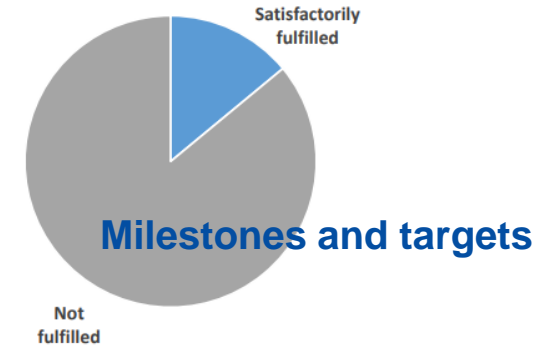
Source: EC Audiovisual Service

Public investment recommendation

- Continue the steady implementation of Malta's **recovery and resilience plan** and, following the recent submission of the **REPowerEU chapter**, rapidly start the implementation of the related measures
- Proceed with the speedy implementation of **Cohesion Policy programmes**, in close complementarity and synergy with the recovery and resilience plan



Total RRF grants disbursed



Tax reform recommendation

- Effectively address features of the tax system that may facilitate **aggressive tax planning** by individuals and multinationals, including by ensuring sufficient taxation of outbound payments of interest, royalties and dividends, and amend the rules for non-domiciled companies



Source: EC Audiovisual Service

Energy policy recommendation



Source: EC Audiovisual Service

- **Reduce reliance on fossil fuels** by accelerating the deployment of **renewables energies**, including offshore wind and solar energy, and upgrade and expand the capacity of the **electricity grid system**, including transmission, distribution and battery storage
- Reduce energy demand through **improved energy efficiency**, particularly in residential buildings

Transport and green skills recommendations

- Reduce emissions from road transport by **addressing traffic congestion** through improved service quality in **public transport**, intelligent transport systems and investing in **‘soft mobility’ infrastructure**



Source: EC Audiovisual Service



Source: EC Audiovisual Service

- Step up policy efforts aimed at the provision and acquisition of **skills** and **competences** needed for the **green transition**

Thank you!