

European Semester 2024 Spring Package: Country Report for Malta Country-specific recommendations

Martins Zemitis, Nicolette Camilleri

European Semester Officers, Commission Representation in Malta

Malta Council for Economic and Social Development

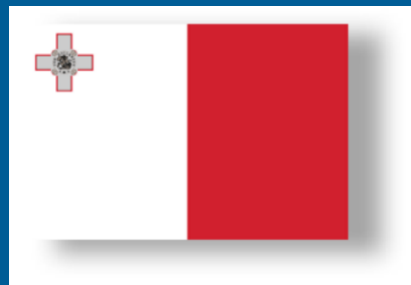
12 July 2024

European Semester: 2024 Spring Package

- The **2024 European Semester Spring Package** focuses on:
 - **Strengthening Competitiveness**, calling on the EU and its Member States to take further steps to ensure long-term competitiveness.
 - **Maximising the impact of EU funds**, by making full use of their **synergies** and the **complementarities of reforms and investments** under the **RRF and Cohesion Policy programmes**, and giving guidance for Cohesion Policy mid-term review
 - Implementing the **new economic governance framework**, which will strengthen fiscal sustainability and support long-term sustainable and inclusive growth and resilience.
- The policy priorities are structured around the **four dimensions of competitive sustainability** and in line with the **Sustainable Development Goals**.

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Country Report

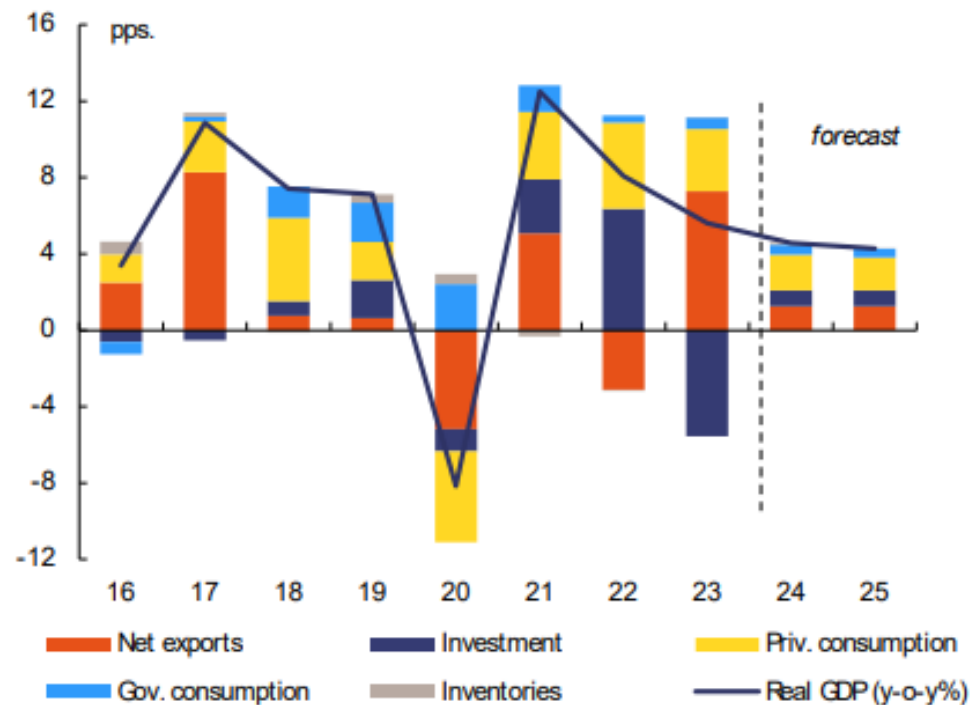


European
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Solid economic growth but slowing productivity gains

- Malta's economy continues a **strong economic growth** and is expected to outperform other EU Member States in 2024 and 2025
- GDP growth is expected to reach **4.6%** in **2024** and **4.3%** in **2025**, driven by net exports (including tourism) and private consumption
- However, **labour productivity growth has slowed down** after a recovery in 2021-2022 (9.2% in 2021, 4.1% in 2022, 1.4% in 2023)
- In real terms, **compensation per employee decreased** by 2.2% in 2022 and 3.9% 2023 and its recovery is expected to be weak amid low productivity gains
- At the same time, **increases in the statutory minimum wage** helped to cushion the negative impact of inflation on low-wage earners

Graph 1.1: Malta - Real GDP growth and contributions



Source: European Commission, Eurostat

Budget deficit elevated due to energy measures

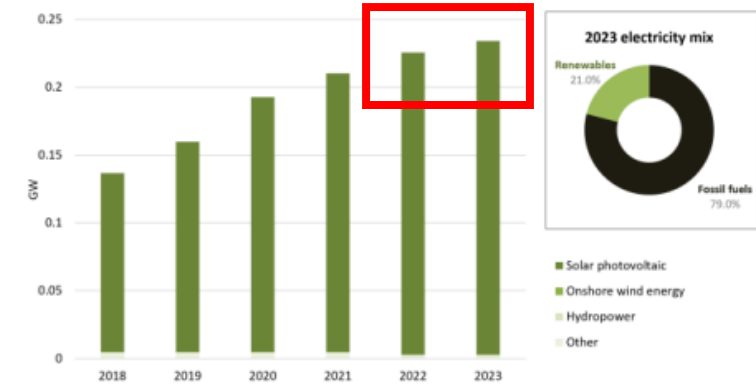
Indicators	2023	2024	2025
GDP growth (% , yoy)	5.6	4.6	4.3
Inflation (% , yoy)	5.6	2.8	2.3
Unemployment (%)	3.1	3.0	2.9
General government balance (% of GDP)	-4.9	-4.3	-3.9
Gross public debt (% of GDP)	50.4	52.0	52.6

- **Energy support measures** continue to affect the general government budget balance → the impact estimated at **2%** in **2024** and **1%** in **2025**
- The Commission has concluded that **Malta does not comply with the deficit criterion** → proposed to **open an Excessive Deficit Procedure against Malta**
- By 20 September 2024, Malta is to submit to the Commission its **medium-term plan** limiting the growth in **net expenditure for the next four years** to ensure compliance with **debt sustainability** → the plan will serve as a **budgetary constraint** framing national fiscal policy

Priorities: energy & transport

- Malta's green transition is stymied by the **dominance of fossil fuels in its economy**:
 - Renewables still account for just **13.4%** of the energy mix, one of the lowest shares in the EU
 - There is **untapped potential** for both off-shore and on-shore projects
- **Energy efficiency gains have slowed**, despite a significant potential for energy savings in buildings:
 - Malta's final energy consumption in 2022 increased by 19.3%; 41% of energy consumed by buildings
 - Robust implementation of recommendations by the recent public inquiry should increase the quality, safety and energy efficiency of construction.
- There is a need to reduce **traffic congestion** and **high emissions from road transport**:
 - Greenhouse gas **emissions** from road transport **have increased** by **23.3%** compared to 2005 levels
 - **Passenger cars** make up **86%** of passenger transport in Malta, and this trend is increasing
 - **Congestion** remains the main transport challenge in Malta, affecting the Islands' competitiveness

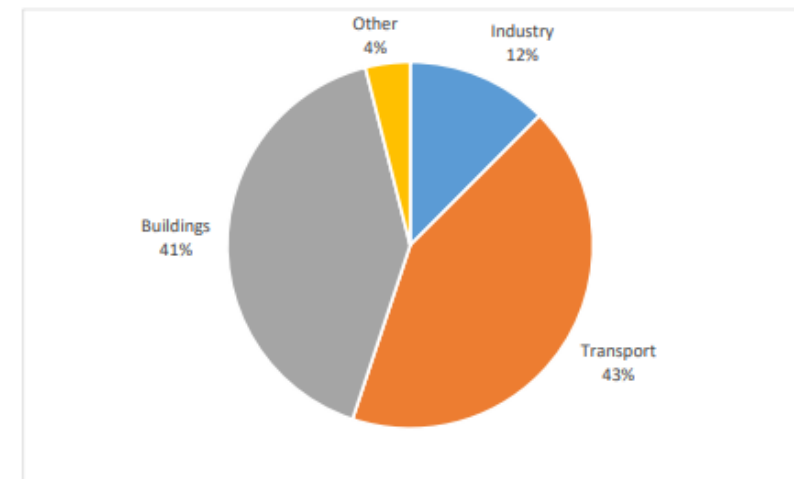
Graph A7.3: Malta's installed renewable capacity (left) and electricity generation mix (right)



(1) "Other" includes biogas

Source: IRENA, Ember

Graph 3.1: Energy demand by sector in Malta, 2022

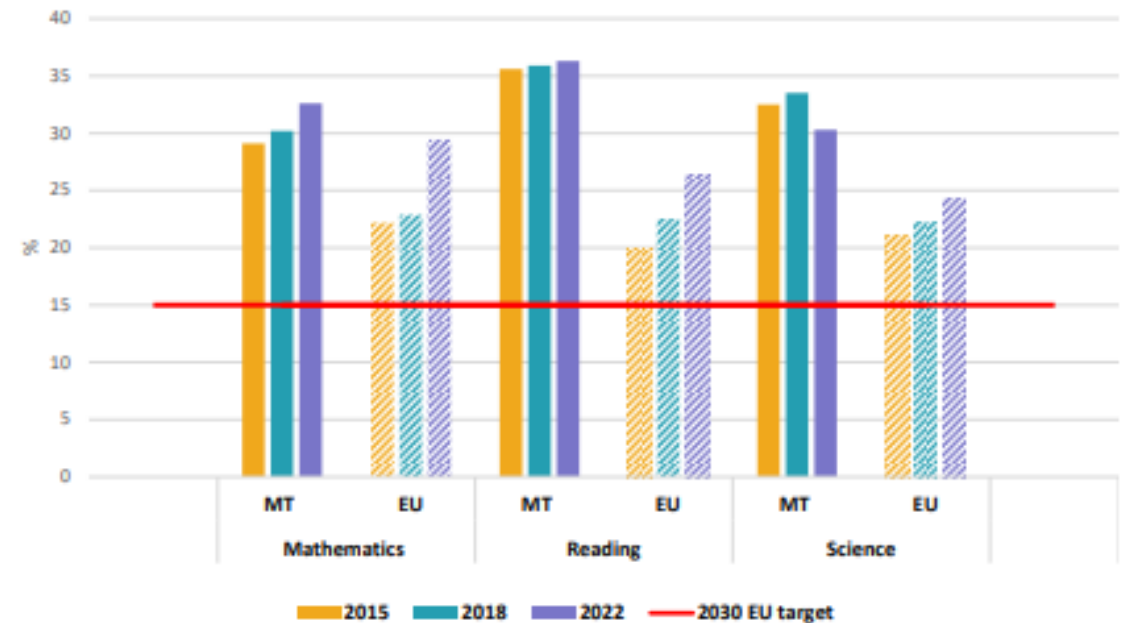


Source: Eurostat

Priorities: Education and training

- **Labour and skills shortages** and mismatches are a pervasive bottleneck to the twin transitions:
 - **More than half of all businesses** in Malta consider that their growth was being held back by skills shortages
 - 69% of enterprises report hard-to-fill vacancies for jobs requiring **ICT specialist skills** (EU 63%)
- The latest results of OECD PISA show that:
 - **32.6%** of Maltese students underperformed in **mathematics**,
 - **36.3%** in **reading**,
 - **30.3%** in **science**
- The lack of basic skills among young people represents a **risk** for development and competitiveness
- Factors that may contribute to **poor performance** include:
 - a high rate of **absenteeism**,
 - challenges linked to the **teaching profession** that have an impact on the quality of teaching

Graph 3.3: Underachievement rates by field, PISA 2015, 2018 and 2022

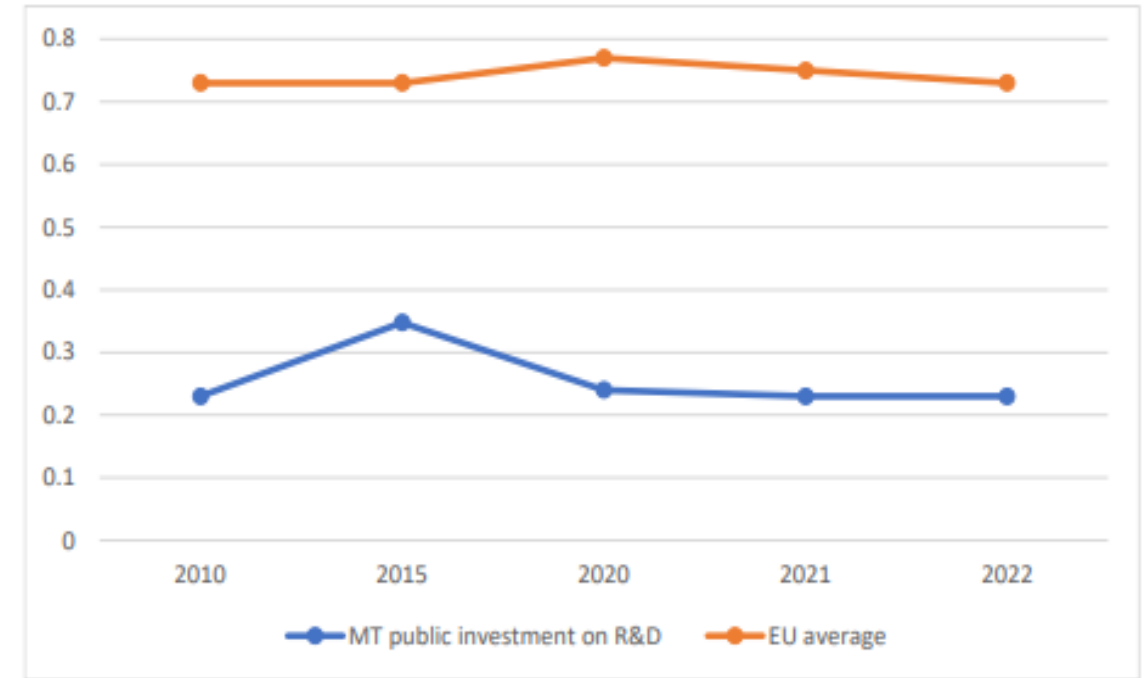


Source: OECD (2023)

Priorities: research & innovation for productivity

- Malta continues to be a **moderate innovator**, according to the 2023 European Innovation Scoreboard:
 - MT stands at 85.8% of the EU average
- Malta suffers from **underinvestment in R&I** in both the public and private sectors:
 - Total R&D intensity is significantly lower than the EU average (0.69% in MT vs 2.24% in EU-27)
 - Public investment in R&D has been stagnant since 2010
- The lack of **human capital** weighs on the innovation capacity:
 - The number of new graduates in science and engineering is critically low and continues to decline.
 - the number of researchers employed in both the public and the private sector is very low.
- **Capital markets** and **private capital investment** remain relatively underdeveloped:
 - There may be scope to strengthen investors' trust in stock market listings, and to raise the overall attractiveness of market financing, by **promoting high standards of corporate governance and disclosure**

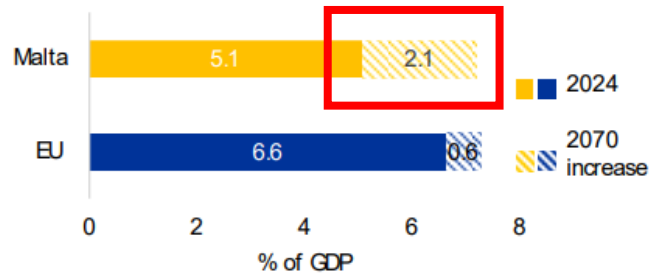
Graph A11.1: Public expenditure on R&D as a % of GDP



Source: Eurostat

Priorities: fiscal sustainability & taxation

Graph A16.2: Projected increase in public expenditure on healthcare over 2024-2070

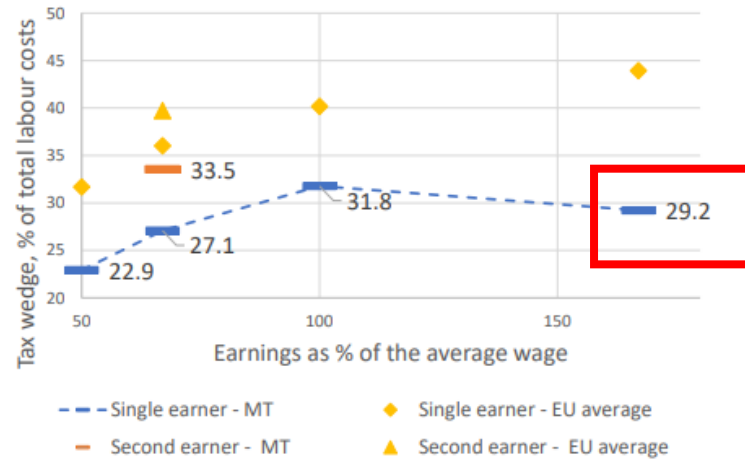


Baseline scenario

Source: European Commission / EPC (2024)

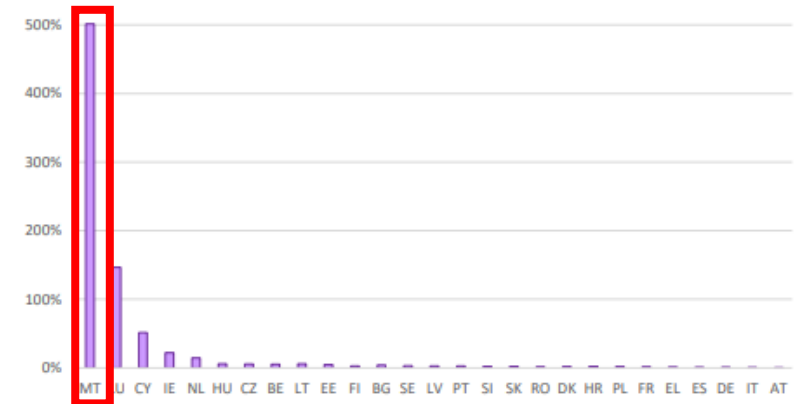
The projected **future growth** in **health, long-term care** and **pension** expenditure poses risks to **long-term fiscal sustainability**

Graph A19.1: Tax wedge for single and second earners as a % of total labour costs, 2023



Malta's **tax system** has potential for **efficiency improvements**, including collection, while the **progressivity** in the labour tax system is **limited**

Graph A19.2: Total outgoing dividends by Member States in % of GDP, 2022

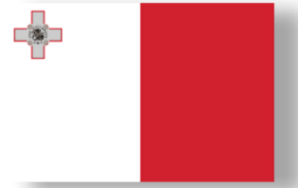


Source: European Commission

Malta has taken steps to curb **aggressive tax planning practices**, but more is needed to close loopholes, as evidence suggests that companies are still using Malta for aggressive tax planning

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Country-specific Recommendations



- Pursue prudent fiscal policy and address aggressive tax planning risks
- Swiftly implement the Recovery and Resilience Plan and Cohesion Policy programmes
- Strengthen the quality of education and training
- Accelerate the deployment of renewable energy and take measures to alleviate traffic congestion

Fiscal policy recommendation

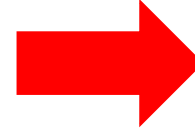
- Submit the **medium-term fiscal-structural plan**
- **Limit the growth in net expenditure in 2025** to a rate consistent with reducing the general government deficit towards the 3% of GDP Treaty reference value
- Keep the **general government debt at a prudent level** over the medium term
- **Wind down energy support measures** by 2024/2025 winter
- **Address aggressive tax planning risks:**
 - Introduce a withholding tax on outbound payments or equivalent defensive measures
 - Amend rules on non-domiciled companies



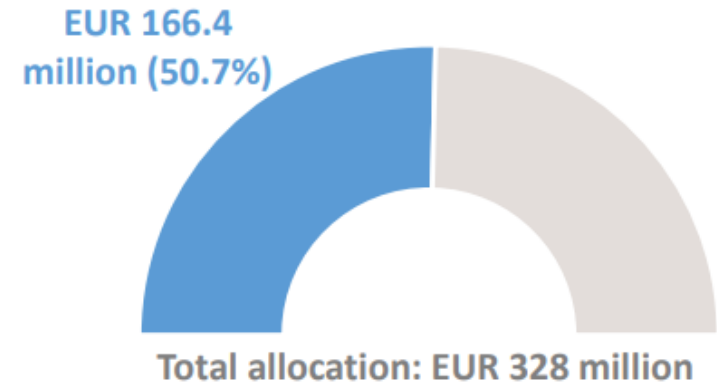
Source: EC Audiovisual Service

Recommendation on EU support programmes

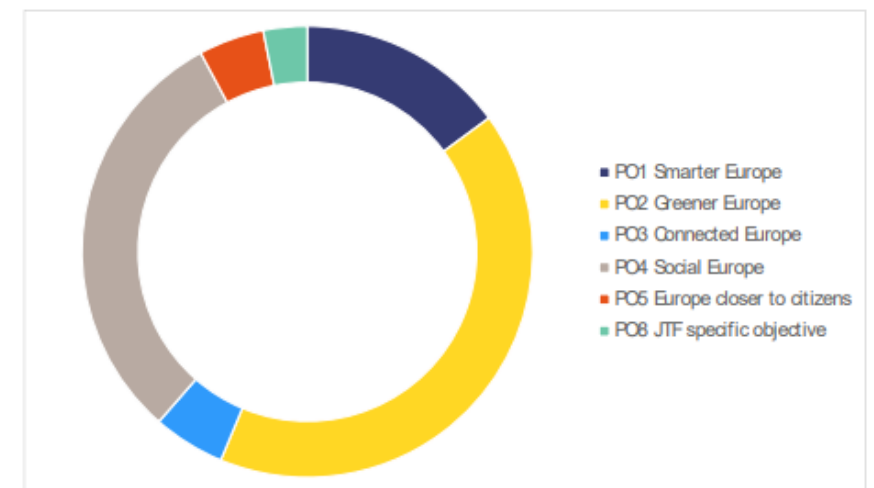
- Continue with the **swift and effective implementation of the Recovery and Resilience Plan**, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026
- Accelerate the **implementation of Cohesion Policy programmes**; in the context of their mid-term review, continue focusing on agreed priorities
- Consider the opportunities provided by the **Strategic Technologies for Europe Platform** initiative to improve competitiveness



Graph A3.1: **Total grants disbursed under the RRF**



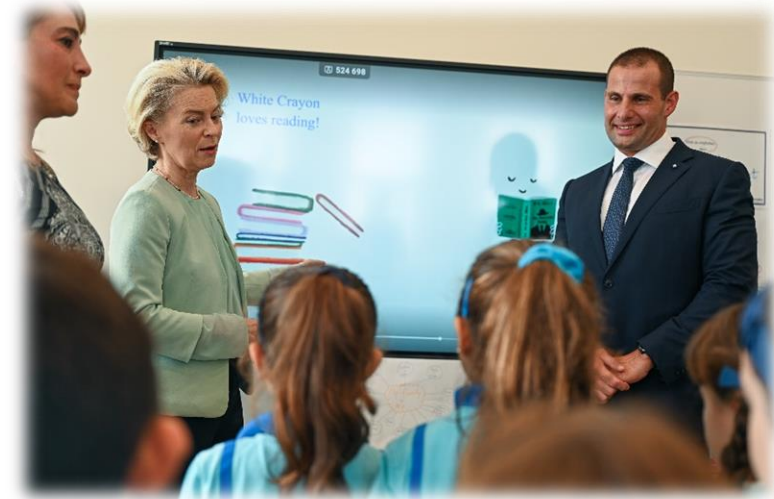
Graph A4.1: **Distribution of cohesion policy funding across policy objectives in Malta**



Source: European Commission

Education and training policy recommendation

- Strengthen the **quality and labour market relevance of education and training** to address low educational outcomes as well as the severe **shortage and mismatch of skills**, in particular by fostering basic skills of students and the professional development of teachers



Source: EC Audiovisual Service

Energy and transport recommendation

- Accelerate the deployment of **renewable energy** through **large-scale projects** as well as **small-scale investments in direct energy production and consumption**
- Address **traffic congestion** by improved quality and efficiency of **public transport** and step up investments in **'soft mobility' infrastructure**



Source: EC Audiovisual Service



Thank you!



Additional background slides on excessive deficit procedure

Context to fiscal surveillance in spring 2024

- Until end-2023: general escape clause, huge level of uncertainty
- Excessive deficit procedure (EDP) to be opened in spring 2024
- Reform of the economic governance framework: the new rules entered into force on 30 April 2024!
 - spring fiscal package reflects the new rules
 - rules for the deficit criterion of the EDP largely unchanged

Fiscal package spring 2024

1. Qualitative fiscal recommendations for all Member States:

- A procedural part, to submit the medium-term fiscal-structural plan in a timely manner
- A qualitative part, to limit the growth in net expenditure in 2025 to a rate that puts the government debt ratio on a plausible downward path over the medium term (...)

2. Romania: recommendation for the Council to establish that **no effective action has been taken** to reduce the excessive deficit (Art. 126(8))

3. Excessive Deficit Procedure: Report under Art. 126(3) = first step to open new EDPs



Subject to EFC opinion, EDP to be opened for Belgium, France, Italy, Hungary, Malta, Poland and Slovakia.

Excessive Deficit Procedure: decision tree

Assessment of compliance with the deficit criterion

General government deficit < 3% of GDP

YES

NO

Deficit criterion fulfilled

Excessive deficit **exceptional, temporary and close** to the reference value

STEP 1: assessment at face value

YES

NO

Deficit criterion met at face value

Further check if relevant factors can be taken into account

Debt-to-GDP < 60%

Debt-to-GDP > 60%

STEP 2: assessment of relevant factors

Relevant factors always taken into account

Relevant factors taken into account only if **double condition** is met

Double condition: excess deficit 'close to' and temporary



Excessive Deficit Procedure: overview of the assessment

Member States	year of the excess deficit				STEP 1: deficit criterion before RFs (✓ fulfilled / * not fulfilled)	STEP 2: assessment of relevant factors (✓ can / * cannot be taken into account)	OVERALL ASSESSMENT EDP Opening: warranted/not warranted
		close (✓ yes, * no)	temporary (✓ yes, * no)	exceptional (✓ yes, * no)			
Belgium	2023	*	*	*	*	*	warranted
Czechia	2023	*	✓	*	*	✓	not warranted
Estonia	2023	✓	*	✓	*	✓	not warranted
Spain	2023	*	✓	*	*	*	not warranted
France	2023	*	*	*	*	*	warranted
Italy	2023	*	*	*	*	*	warranted
Hungary	2023	*	*	*	*	*	warranted
Malta	2023	*	*	*	*	✓	warranted
Poland	2023	*	*	*	*	✓	warranted
Slovakia	2023	*	*	*	*	✓	warranted
Slovenia	2024	✓	✓	*	*	✓	not warranted
Finland	2024	✓	✓	*	*	✓	not warranted

Next steps in fiscal surveillance (EDP in red)

