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**COMMISSION STAFF WORKING DOCUMENT**

**2022 Country Report - Malta**

*Accompanying the document*

**Recommendation for a COUNCIL RECOMMENDATION**

**on the 2022 National Reform Programme of Malta and delivering a Council opinion on  
the 2022 Stability Programme of Malta**

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European  
Commission

# Malta

## 2022 Country Report



# ECONOMIC AND EMPLOYMENT SNAPSHOT

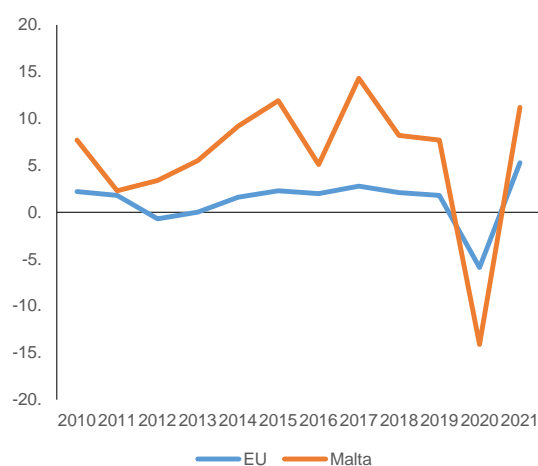
## Malta remains on a path of growth

**Malta's economy was growing faster than the EU average before the COVID-19 pandemic.** Between 2015 and 2019, Malta's annual growth in real GDP averaged 7.2%, making it one of the fastest-growing economies in the EU (Graph 1.1). Its strong economic performance has been driven by the shift towards fast-growing export-oriented services, such as remote gaming, finance and tourism.

**Malta has been significantly affected by the COVID-19 pandemic but has recovered rapidly.** In 2020, Malta's real GDP declined by 8.3%, partly due to the disruption to international tourism<sup>(1)</sup> and the drop in domestic demand following the country's partial lockdown. Consumer spending declined by as much as 10.2%, notably in retail and hospitality. Investment fell mainly due to a drop in construction. However, the toll on the economy was mitigated by government stimulus measures to cushion the income shock<sup>(2)</sup> and support employment. In 2021 improved business and consumer sentiment, strong investment, and the reopening to tourists supported the economy, which is estimated to have grown by 9.4%. In 2022, affected by disruptions related to the Russia's invasion of Ukraine, real GDP growth is forecast to decline to 4.2%, although Malta has low direct exposure to trade with Russia and Ukraine. In 2023, growth is expected to remain fairly strong at 4.0% as domestic

demand and exports recover, supported also by the implementation of the recovery and resilience plan (RRP)<sup>(3)</sup> (see Annex 18).

Graph 1.1: **Economic growth, 2010-2021 (% per year)**



Source: Eurostat

**Inflation in Malta is picking up.** Consumer prices increased only moderately, by 0.7%, in 2021, helped by government intervention and hedging contracts in the gas sector. Going forward, while the Maltese economy is highly energy intensive, the share of energy in household consumption is low compared to the other EU Member States. Nonetheless, the increase in the prices of food and imported goods, a gradual recovery in the tourism and hospitality sectors, and the impact of Russia's invasion of Ukraine are set to drive up price pressures in 2022. After increasing to 4.5% in 2022, inflation is expected to fall to 2.6% in 2023. The Maltese authorities have expressed their commitment to seek to contain the increase of domestic energy prices so as to mitigate negative effects for the Maltese population.

<sup>(1)</sup> The Maltese tourism value chain (direct and spill-over effects) was responsible for over 18% of total employment in 2019 ([JRC121262](#)).

<sup>(2)</sup> European Commission Quarterly Report on the Euro Area (QREA), Vol. 20, No 4 (2021), Chapter I on Assessing the cushioning role of tax-benefit systems on households' income in the euro area during the COVID-19 pandemic: a microsimulation analysis.

<sup>(3)</sup> For more information, see [https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility/maltas-recovery-and-resilience-plan\\_en](https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility/maltas-recovery-and-resilience-plan_en)

**Employment continued to increase during the COVID-19 pandemic, albeit at a slower rate.** Malta's employment rate continued to grow and reached 78.6% in 2021. The fall in hours worked was cushioned by short-time work measures adopted by the government, which benefitted from the support of the EU's SURE instrument ('Support to mitigate Unemployment Risks in an Emergency', under which EUR 420 million was disbursed (see Annex 3)). Employment is set to further grow in 2022. The unemployment rate increased to 4.4% in 2020 (remaining well below the EU average), and recovered to its all-time minimum of 3.5% in 2021. The indicators for long-term and youth unemployment rates in the Social Scoreboard supporting the European Pillar of Social Rights are also well below the EU average. However, the gap between the employment rates of men and women in Malta remains one of the widest in the EU (16.8 pps vs EU 10.8 pps in 2021), though registering one of the highest decreases in percentage points within the EU over the last decade (see Annex 12). This gap is also present in key areas, for example, women working as ICT specialists represent only 11% of the total (against an EU average of 19%)<sup>(4)</sup>.

**Labour shortages and skills mismatches are significant across sectors.** Due to a tight labour market and relatively poor education outcomes, shortages of workers and skills have increased in recent years. The COVID-19 pandemic and the twin transition are expected to exacerbate these shortages in certain sectors such as ICT, tourism, health and long-term care. The challenges are fuelled by one of the highest shares of low-skilled workers in the EU (36% vs EU 24.9% in 2021), the limited participation of low-skilled adults (25-64) in learning<sup>(5)</sup>, and the high share of

early school leavers (11% vs EU 9.7%), despite significant improvements in the latter in recent years. Moreover, a large percentage of pupils fail to achieve a minimum proficiency level, and underachievement in basic skills is particularly high among disadvantaged students.

**The overall poverty risk remains below the EU average, but some groups face a particularly high risk.** In 2020, the at-risk-of-poverty-or-social-exclusion (AROPE) rate of the total population was around 20%, slightly below the EU average of around 22%. However, this rate is much higher among people with disabilities, non-EU nationals, and people aged over 65. The Social Scoreboard indicator on the impact of social transfers (other than pensions) on poverty reduction has been steadily decreasing for the past few years and is much lower than the EU average (see Annex 12). However, the level of minimum income, when compared to both the poverty line and a low earner's wage, is above the EU average. While still below the EU average, the in-work poverty risk continued to increase, by 0.9 pps (compared to 2019) and is particularly high for non-EU born people (15.7% vs 6.6% for native-born).

**The public debt-to-GDP ratio is increasing but remains slightly below the 60% threshold.** The government deficit diminished from 9.5% of GDP in 2020 to 8% of GDP in 2021. Higher government revenues are the main contributing factor. The expected economic rebound and the gradual unwinding of COVID-19 measures are expected to further reduce the deficit in 2022 and 2023 even considering measures to cushion the impact of energy price increases. The government debt-to-GDP ratio is estimated to have increased to 57% in 2021 and is forecast to increase to 59.5% in 2023.

**Demographic changes and a high share of corporate income tax weigh on the sustainability of government finances in the long term.** Ageing costs will rise with the expected increase in expenditure on pensions,

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<sup>(4)</sup> Digital Economy and Society Index 2021.

<sup>(5)</sup> The reference period for participation in education and training is the 4 weeks prior to the interview. The indicator for adult learning participation over the previous 4 weeks is used in the country report, rather than the indicator on learning over the previous 12 months. This is because Adult Education Survey (AES) data for the 12-month indicator are only available for 2016 at the moment, while the new Labour Force Survey (LFS) indicator agreed for use in the social

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scoreboard and as the 2030 headline target on skills will only be available in 2023.

healthcare and long-term care. While Malta remains highly reliant on corporate income taxes, implying greater vulnerability to future economic shocks, the country commits to curbing the room for some aggressive tax planning practices, yet significant shortfalls remain (see Section 3).

**Achieving environmentally sustainable economic growth remains one of Malta's key challenges.** Among others, Malta is struggling to achieve sustainable mobility, meaning reducing traffic congestion and decarbonising transport, as well as broadening the uptake of renewable energy and energy efficiency initiatives. The high volume of generated construction and demolition waste and municipal waste along with the low rates of recycling also remain major challenges. Malta is also the furthest off track of any Member State to meeting its 2030 Effort Sharing Regulation (ESR) emission reduction target. In this respect, effective implementation of Malta's Low Carbon Development Strategy, which addresses the attainment of the 2030 ESR target and paves the way for the transition to a low carbon economy, will have a key role to play. As a small island state in the Mediterranean, Malta faces several challenges to achieve environmentally sustainable growth and is particularly vulnerable to climate risks, underscoring the need for bespoke climate and environmental policies.

**Efforts are ongoing to strengthen innovation, education and skills.** Malta's strong economic performance in recent years has been driven by the shift towards fast-growing export-oriented services (see Annex 10), such as remote gaming, finance and tourism. These developments were helped by the inflow of foreign workers that boosted labour supply and enabled a strong growth in jobs. Maltese real labour productivity per person in the pre-crisis period grew faster than the EU average, also benefiting from fast digitalisation and productivity gains within sectors (see Annex 9). Malta is putting considerable effort, including in the RRP, into increasing skills and the quality and labour market relevance of education, fostering innovation potential, which is expected to help

ensure the sustainability of the country's growth model.

**Long-standing weaknesses in the institutional framework are being addressed.** The RRP includes crucial reforms to strengthen the judiciary's independence (see Annex 11) and the fight against corruption and money laundering. This is expected to increase transparency, raise trust in institutions and promote good governance. The improved business environment will provide a solid foundation for investment and productivity growth.

**Malta's direct exposure to possible impacts of Russia's invasion of Ukraine is fairly limited.** Direct exposure to Russian debt and equity is very low while the overall capital adequacy and liquidity position (see Annex 16) of the financial sector make it resilient to various shocks. Malta's domestic value added embodied in exports to Russia accounts for only 0.4% of GDP<sup>(6)</sup>. Exports are mostly concentrated in the tourism and professional services sectors. Malta does not import gas or oil from Russia. Its exposure to Russia is indirect via its electricity imports from Italy. Malta's share of renewables in its energy mix is rather low. Its exposure to international price hikes and volatility of energy prices could be further mitigated if it were to speed up the move towards renewables.

**Overall, Malta is performing well and making further progress towards reaching the UN's Sustainable Development Goals (SDGs).** Malta generally performs very well or well on poverty and health SDG indicators (SDG 1, 3, 8, 10) and is improving on SDG indicators assessing the fairness of society and the economy (SDG 2, 4, 5). Further, it performs very well on decent work and economic growth (SDG 8) as well as macroeconomic stability (SDG 16) and is improving on SDG indicators relating to productivity (SDG 4, 9). While Malta performs

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<sup>(6)</sup> Total value added embodied in exports to Russia, including direct exports and indirect linkages through value chains, Source: JRC calculations based on the Eurostat 2019 FIGARO EU inter-country supply, use and input-output tables.

very well on affordable and clean energy (SDG 7) and is improving on several SDG indicators for environmental sustainability (SDG 2, 9, 12, 13), Malta's share of renewable energy in gross final energy consumption is at 10.7% - although improving - less than half of the EU average in 2020 (22.1%). In addition, it still needs to catch up on making its cities and communities more sustainable (SDG 11) (see Annex 1).

## THE RECOVERY AND RESILIENCE PLAN IS UNDERWAY

**Malta is set to receive EUR 316.4 million in grants under the Recovery and Resilience Facility over 2021-2026.** These funds, equivalent to 2.3% of Malta's 2019 GDP, will contribute to implementation of the crucial investment and reform measures outlined in the Maltese recovery and resilience plan (RRP), which was adopted in autumn 2021 (see Annex 2). The RRP is ambitious and aims to address long-standing challenges identified in the areas of climate and digital transition, health, employment, education and skills, social policies, justice, and the fight against corruption and money laundering (see Annex 4).

**Malta's RRP is expected to contribute substantially to the country's green transition.** With 54% of the plan's total allocation dedicated to climate and environmental objectives, it includes several measures to address the country's challenges in this area including the need to reduce traffic congestion and GHG emissions, decarbonise transport and achieve sustainable mobility. Key initiatives include the electrification of public and private road transport and a reform granting free public transport to all persons in Malta in possession of the personalised travel card (Tal-linja card). The construction of a new ferry landing site is expected to contribute to the modal shift from road to maritime transport. In 2021, 15 office facilities were set up for teleworking in the public sector, and an agreement was signed in 2020 with the local councils' association on the creation of regeneration areas in urban areas to promote walking, cycling and public transport.

**Other RRP actions address challenges related to the sharp increase in energy consumption and waste generation.** Both of these result from rapid growth in population, employment, construction and other activities in Malta in recent years. The RRP includes energy-efficiency renovations

and the greening of private and public buildings, including a hospital and schools, following the adoption of the long-term renovation strategy in 2021. Work on school projects, including the construction of a near-carbon-neutral school, is advancing and is expected to be completed in 2023. Other measures focus on improving the circular economy and reducing the environmental impact of waste. Key measures include the adoption of the construction and demolition waste strategy in 2021 as well as the introduction of standards for the construction industry and the reform of the waste collection system, both planned for 2022.

**The RRP also includes measures to accelerate the digital transition in Malta, primarily focused on the public sector.** The RRP dedicates 26% of its total allocation towards digital objectives. Its key measures, such as strengthening the reliability and cybersecurity of the government digital backbone and further digitalising the public administration, will help strengthen the government's IT systems and further increase the uptake of digital public services (on the state of public administration, see Annex 11). Supporting investments in digitalisation among at least 360 companies by 2026 will also help advance the digitalisation of the private sector. The implementation of these measures is currently underway. Furthermore, to accelerate research and innovation (R&I), Malta has published a smart specialisation strategy, which focuses on six thematic areas, including digital technologies such as artificial intelligence and blockchain, and aims in particular at fostering business R&I and strengthening public-private cooperation.

**The RRP includes a wide range of measures to increase the resilience and sustainability of the health sector.** The reform promoting the integration and well-

- Introduction of transfer pricing rules to reduce corporate profit shifting opportunities.
- Attorney General's office recruiting 31 officers to support the shift in prosecution services.
- Contracts signed for the energy efficient renovation of public buildings.
- Planning authority permit issued for a new ferry landing site in Bugibba, St Paul's Bay with mitigating measures to ensure no significant harm to the environment.
- 1000 grants awarded for the purchase of electric vehicles in the private sector.
- Contracted services for the construction of a Blood, Tissue and Cell Centre.
- E-college is operational offering training courses and guidance to all adults.
- Reform of the waste collection system by setting up five municipal waste bodies.

being of foreign health workers and the investment in establishing a Blood, Tissue and Cell Centre, both expected to be completed by 2025, will enhance the resilience of the sector also by providing services for which patients previously had to travel abroad. The ongoing digitalisation of the new outpatient facility at Mater Dei Hospital will facilitate interaction between patients and health professionals and improve treatment.

**The RRP addresses challenges in education and training, the labour market, and the unemployment protection and pension systems, thus supporting implementation of the European Pillar of Social Rights.** It includes key reforms and investments such as early school leaving prevention and intervention measures, expanded upskilling and reskilling opportunities and guidance for all adults (in particular the low-skilled), and improving the quality and inclusiveness of education. To strengthen gender equality, the RRP further includes the implementation of key measures contained in the forthcoming gender equality and mainstreaming strategy action plan. It also provides for dedicated activation measures for women. The review and monitoring of pension and unemployment benefits aim at ensuring adequacy and sustainability.

**The Maltese RRP addresses a number of long-standing institutional challenges in**

**the areas of justice and the fight against corruption.** Reforms aim to strengthen the independence and effectiveness of the judiciary through several measures, including changes made to the procedures for appointing members of the judiciary (see Annex 11). Malta began the process of transferring the prosecution of cases from the police to the Attorney General. The RRP also includes measures to strengthen the institutional framework's capacity to fight corruption; these measures include implementation of the national anti-fraud and corruption strategy that was adopted in May 2021; reform of the Asset Recovery Bureau; and several reforms targeting the Permanent Commission Against Corruption. Robust national anti-corruption frameworks and their effective enforcement are crucial for the prevention, detection and deterrence of corruption, fraud and financial irregularities, and the abuse of office and conflicts of interest.

**The Maltese RRP also commits to closing off some features of the tax system that enable aggressive tax planning.** These include the introduction of transfer pricing legislation and a study on inbound and outbound payments of dividends, royalties and interest to and from low tax jurisdictions, to be followed by legislation based on the study's findings in the later years of the RRP. These measures only partly address the existing challenges, but are a step in the right direction.



**Another relevant priority under the RRP in 2023 will be to strengthen Malta's anti-money laundering framework,** including via implementation of the strategy and action plan for 2021-2023. Furthermore, Malta commits to implementing by December 2023, all recommendations provided by the Financial Action Task Force in its June 2021 assessment.

## FURTHER PRIORITIES AHEAD

**Beyond the challenges addressed by the recovery and resilience plan (RRP), as outlined above, Malta faces additional challenges not sufficiently covered in the plan.** More effort will be required to progress on a set of priority challenges, most notably on ensuring environmental sustainability; tackling poverty and boosting equal opportunities for all; strengthening fiscal sustainability and addressing remaining features of the tax system that may facilitate aggressive tax planning; and enhancing productivity through research and innovation. Addressing these challenges will help make further progress in achieving the relevant SDG indicators (see Annex 1).

### Ensuring environmental sustainability

**While Malta has a strong focus on the green transition in its RRP, some persisting challenges are insufficiently tackled (see Annex 5).** Municipal waste generation in Malta stood at 697 kg per capita in 2019 (EU average, 502 kg per capita), which is among the highest in the EU and on an increasing trend. The recycling rate of municipal waste was only 9.1% in 2019, far below the EU average of 48% and the 2020 target of 50%. Landfill rates are high and on an increasing trend from a level of 79.5% in 2017 to 91.5% in 2019. The reform of waste collection system under the RRP is expected to contribute to address certain weaknesses of the collection process such as fragmentation and lack of scale economies. Waste-related taxes and charges are practically absent in Malta. This creates inappropriate incentives for waste prevention and recycling. Malta has no landfill tax in place and the landfill gate fee is relatively low (approximately 20 €/t) when compared to the cost of the landfilling of

waste (above 70 €/t) and the potential impacts to human health and the environment. In 2021, Malta adopted its Waste Management Plan for 2021-2030.

**Protection of biodiversity continues to be an unresolved challenge in Malta.** The Natura 2000 designation process and the management plans for marine sites are not yet completed in line with the Habitats and the Birds Directives, which hinders wildlife conservation efforts (see Annex 5). Illegal bird hunting and trapping practices create further problems for wildlife. Biodiversity on farmland and natural areas needs improving.

**Traffic congestion remains a key challenge, given the high reliance on private cars.** The lack of soft mobility infrastructure (such as pavements and cycling lanes) discourages the use of alternative modes of transport and exacerbates congestion in Malta. The building of separate, safe bicycle lanes could encourage cycling<sup>(7)</sup>, provide for safer use of e-scooters and bolster the uptake of grants for electric bicycles provided for in the RRP. Improving the overall service quality of the public transport system - its comfort, availability and punctuality - including by providing reserved bus lanes, could facilitate the modal shift and reduce congestion, emissions and pollution<sup>(8)</sup> (see Annex 5). Deployment of mobility-related IT services and interconnections (intelligent transport systems) could also be beneficial in improving traffic flows.

<sup>(7)</sup> The preliminary results of the 2021 National Household Travel Survey indicate that 17.3% and 12.6% of respondents who do not cycle cited road safety concerns and poor quality of cycling infrastructure respectively as their main reasons for not cycling.

<sup>(8)</sup> The preliminary results of the 2021 National Household Travel Survey indicate that the main reasons why people do not use public transport (notably buses) more are that buses are not punctual, followed by the perception that the bus takes too long to reach its destination.

**Malta's reliance on private cars translates into high share of gas oil/diesel in its final energy consumption.**

While Malta's environmental tax revenues, at 2.3% of GDP, rank close to the EU average, the share of gas oil/diesel in final energy consumption is the sixth highest in the EU. While Malta's road licence fee is currently based on the engine size and vehicle emissions, smart road-pricing systems that also consider the time of day and distance travelled would provide a fairer pricing system more closely tied to the polluter-pays principle and may better target traffic congestion.

**Malta's energy mix is predominantly made up of oil and natural gas, with indirect exposure to Russian gas<sup>(9)</sup>** (see Annex 5).

Malta imports none of its gas or oil from Russia<sup>(10)</sup>. However, approximately 20% of Malta's electricity consumption is imported through its electricity interconnector with Sicily<sup>(11)</sup>, with Italy depending on Russia for 43% of its gas, 11% of its oil. Malta plans to make use of EU funding instruments to build a second electricity interconnector.

**Malta has one of the lowest shares of renewables in energy consumption in the EU** (see Annexes 1 and 5).

It was able to meet its 2020 renewable energy target of 10%<sup>(12)</sup>. However, Malta's national energy and climate plan (NECP)<sup>(13)</sup> includes a weak contribution from renewable energy of only 11.5%, well

below the 2030 EU target. There is currently no wind installed capacity for electricity production in Malta and in its NECP the deployment of wind onshore or offshore is not planned. Since only EUR 5 million of Malta's RRP has been allocated to renewable energy investments, Malta could benefit from enabling investments in technologies that could further exploit its solar and wind potential. Measures could include floating offshore technology, promoting local renewable energy generation (such as renewable energy communities), strengthening Malta's electricity network, fostering renewable energy storage and introducing incentives to reduce energy demand during peak periods.

**Energy efficiency in buildings remains one of the major challenges of the energy transition.**

The buildings sector is key to meeting the 2030 energy efficiency objectives and long-term decarbonisation goals. Malta's RRP does not support the renovation of existing residential building stock, which has experienced a steady increase in final energy consumption since 2016 (see Annex 5). Mild climate conditions could potentially limit energy savings from energy efficiency renovations. However, Malta's harsh summers, and the sharp increase in electricity demand to cool property, would still make it beneficial to invest in such renovations. The proper implementation of the Energy Performance of Buildings Directive<sup>(14)</sup> and strengthened regulatory standards for new and existing buildings, together with a switch to greener heating and cooling systems, could reduce the energy demand of buildings. Not enough use is made of other financial and fiscal instruments, such as favourable loans, tax exemptions and tax reductions, which could broaden the depth reach and accelerate the pace of renovations, for both residential and non-residential buildings. Fostering energy renovation of worst-performing buildings, boosting deep renovation of dwellings, and prioritising support for vulnerable consumers would reduce energy poverty and increase thermal

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<sup>(9)</sup> Source: Eurostat (2019/2020 data) and [Policy scenarios for delivering the European Green Deal \(europa.eu\)](#) (PRIMES projections for a scenario compatible with the Fit for 55 scenario) (2030 data)

<sup>(10)</sup> Eurostat (2020), share of Russian imports over total imports of natural gas, crude oil and hard coal. For Malta, total imports include intra-EU trade. Crude oil does not include refined oil products.

<sup>(11)</sup> In 2019 and 2020, Malta imported 25% and 17% of its total electricity supply respectively from the electricity interconnector. (Source: National Statistics Office, [News Release 181/2021](#))

<sup>(12)</sup> Malta has slightly overachieved its 2020 renewable energy target of 10% in gross final energy consumption, and thanks to statistical transfers (representing 0.31%) it reached 10.7% share of energy from renewable sources. (Source: Eurostat – [SHARES \(Renewables\) Energy - Eurostat \(europa.eu\)](#))

<sup>(13)</sup> For more information, see [Malta's National Energy Climate Plan \(December 2019\)](#)

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<sup>(14)</sup> [Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings](#), OJ L 153, 18.6.2010, p. 13–35

comfort while reducing GHG emissions. The environmental goods and services sector in Malta provides jobs for 1.6% of the employed population (versus 2.1% in the EU), while renewable energy potential and energy-efficiency improvements offer major opportunities for creating green jobs (see Annex 6).

**Malta is particularly vulnerable to climate risks.** Over 1980–2020, Malta had among the highest total economic losses in the EU caused by weather- and climate-related extreme events per square kilometre, in part because of its high population density<sup>(15)</sup>. Flash floods<sup>(16)</sup> are already being experienced and Malta will increasingly face severe storms, hail, flooding, soil and coastal erosion and high winds. Such climate hazards will cause significant additional economic and societal damages. Malta’s relatively high climate-related insurance protection gap<sup>(17)</sup> may also present an impact on public finances.

**Malta is a water-scarce country, which is exacerbated by intense heatwaves and increasing numbers of incoming tourists.** The long periods of drought and limited rainfall have contributed to Malta’s significant water scarcity challenge<sup>(18)</sup>. Malta’s water supply base primarily depends on groundwater abstraction and seawater desalination. Important investments are being made in water reuse. In recent years, due to investments in energy efficiency the cost of desalinated water has been significantly reduced; whilst efforts to regulate groundwater abstraction have seen all registered (and hence legal) sources being

metered. Illegal groundwater abstraction activities however persist but Malta makes use of enforcement tools to counteract these illegal activities. Operators of groundwater sources (self-abstractors) pay all capital and operational and maintenance costs related to their abstraction activity. In addition, there are ongoing efforts to explain to farmers the ‘hidden’ cost linked to groundwater production and the advantages which may be obtained by shifting to reclaimed water. Finally, better rainwater catchment could help reduce the problem of flooding in certain areas while preserving a scarce resource in Malta.

## Tackling poverty and boosting equal opportunities

**Poverty figures are below the EU average in general, but continue to be high for specific groups.** While the overall at-risk-of-poverty-or-social-exclusion (AROPE) rate was slightly below the EU average (19.9% vs EU 21.6%) in 2020, the percentage is much higher for non-EU nationals, people aged over 65, and for people with disabilities (30.1%) than for the overall population (also see Graph 3.1). In particular, women over 65 are at risk of poverty or social exclusion (30.0%) given their low activity rates and one of the widest gender pension gaps in the EU. Malta spends comparatively less on social protection (12% of public expenditure in 2020 vs 21.9% in the EU). The poverty reduction effect of social transfers (other than pensions) declined further in 2020 to 21% (from 30.6% in 2018), and is substantially lower than the EU average (33.2%). Continuing targeted activation measures and ensuring adequacy of social benefits in view of Malta’s strong economic performance and the rising cost of living would contribute to reaching the 2030 EU headline target on poverty reduction.

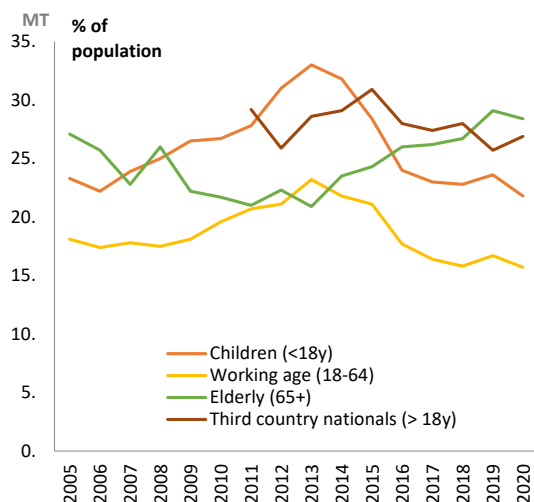
<sup>(15)</sup> European Environment Agency, Economic losses and fatalities from weather- and climate-related events in Europe, <https://www.eea.europa.eu/ims/economic-losses-from-climate-related>.

<sup>(16)</sup> Flash floods are sudden and severe floods caused by rapid and excessive rainfall in a short period of time, typically less than 6 hours, but often sooner.

<sup>(17)</sup> Estimate derived from combining hazard, vulnerability, exposure and insurance coverage. Source: [The pilot dashboard on insurance protection gap for natural catastrophes | Eiopa \(europa.eu\)](#).

<sup>(18)</sup> For more on Malta’s water scarcity, see 2020 country report: [2020-european-semester-country-report-malta\\_en.pdf \(europa.eu\)](#).

Graph 3.1: **At-risk-of-poverty or social exclusion (AROPE) rate for different age groups and nationalities**



Source: Eurostat, EU-SILC [ilc\_peps01n, ilc\_peps01n]

**Tackling child poverty and promoting the social inclusion of all children remain challenges.**

Overall, the share of children aged 0-17 at risk of poverty or social exclusion declined to 22.6% in 2020, below the EU average of 23.9%. However, some groups of children are at greater risk of poverty or social exclusion, including those with single parents (50.7%) and in low-skilled households (42.7%). Equality of opportunities poses challenges, as socio-economic background strongly influences student outcomes, significantly increasing the risk of future poverty and social exclusion. Around 51% of pupils from the bottom socio-economic quartile fail to achieve a minimum level of skills in reading (compared to 34.8% at EU level). This is more than twice the rate of underachievement within the top quartile - although the underachievement rate for the top quartile is also high (24.3% vs EU 9.3%). In addition, educational outcomes vary according to the type of schools attended, with a gap between private and public schools equivalent to more than two school years (see Annex 13).

**While still below the EU average, income inequality indicators rose in 2020.**

In 2020, the share of total income received by the 20% of the population with the highest income was 4.7 times higher than the share received by the 20% of the population with the lowest income, against 4.2 times in 2019.

At 2.8%, the rate of housing cost overburden in Malta is one of the lowest in the EU (7.9%). However, the figure has doubled since 2016, reflecting the tightening of the rental market brought about by changes in the country's demographics. Non-nationals face a much heavier burden with a rate of 25%, against 2.1% for Maltese citizens.

**Strengthening fiscal sustainability**

**The sustainability of Malta's public finances is subject to important challenges in the long term.**

Significant gains in life expectancy and an increase in the share of very elderly population above the age of 80 (from 4.3% of total population in 2019 to estimated 13.2% in 2070) will drive up pensions, health and long-term care expenditure (see Annex 19).

**Pension expenditure is the main driver of the elevated fiscal sustainability challenges.**

In 2019, public pension expenditures in Malta stood at 7.1% of GDP, among the lowest in the EU. However, according to the 2021 Ageing Report<sup>(19)</sup>, public pension expenditure is projected to increase to 10.9% of GDP by 2070 (EU 11.7%), one of the highest increases in the EU, due to fast projected ageing alongside a lack of adjustment of the statutory retirement age in line with projected gains in life expectancy. Under the RRP, an action plan to enhance the adequacy and sustainability of the pension system is expected to be adopted by end 2022. This follows the pension review that was published at the end of 2020 and which takes place every five years.

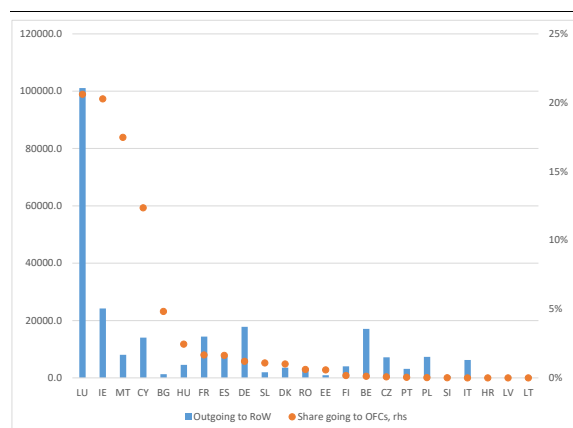
**Public spending in health and long-term care is also expected to increase.**

Government expenditure on healthcare (excluding outlays on long-term care) is relatively low at 5.4% of GDP (EU 6.6% of GDP in 2019). It is projected to surge by 2.6 pps of

<sup>(19)</sup> European Commission, 2021 Ageing Report ([https://ec.europa.eu/info/publications/2021-ageing-report-economic-and-budgetary-projections-eu-member-states-2019-2070\\_en](https://ec.europa.eu/info/publications/2021-ageing-report-economic-and-budgetary-projections-eu-member-states-2019-2070_en))

GDP between now and 2070 <sup>(20)</sup>, overshooting the EU long-term average. Public expenditures on long-term care are expected to more than double from 1.1% of GDP in 2019 to 3% in 2070 (see Annex 14). Apart from growing demand and ageing developments, increased health expenditure is also driven by a high dependence on the more expensive institutional residential care services (despite the increase recorded in recent years in home and day care services).

Graph 3.2: **Total outgoing dividend payments from EU Member States and share going to offshore financial centres**



Source: Eurostat

**Malta remains highly reliant on corporate income taxes, implying greater vulnerability to economic shocks** (see Annex 17). In 2020, the share of corporate income tax in total tax revenue (15.6%) <sup>(21)</sup> remained among the highest in the EU. This can be partly explained by international companies being attracted by Malta's refund tax system, which allows companies to reduce their effective tax rate from 35% (nominal tax rate) to between 0% and 10% through tax credits and refunds <sup>(22)</sup>. In October 2021, Malta agreed to the OECD global minimum corporate tax pact, which sets the minimum tax for large corporations at 15%. Discussions on the EU directive to implement the OECD agreement uniformly across the EU are ongoing.

<sup>(20)</sup> Source: [2021 Fiscal Sustainability Report](#)

<sup>(21)</sup> Eurostat

<sup>(22)</sup> Deloitte, 2020

**Malta's corporate tax rules may facilitate aggressive tax planning.** Persistently high inward and outward foreign direct investment stock (which is almost exclusively held by special purpose entities) coupled with a high level of dividend and royalty payments as a percentage of GDP (see Graph 3.2) suggest that companies use Malta's tax rules (i.e. the absence of withholding taxes or other defensive measures) to engage in aggressive tax planning.

**Malta has made commitments to curb aggressive tax planning, yet significant shortfalls remain.** Aside from implementing European and internationally agreed initiatives, Malta commits to tackling the issue in its RRP (see Section 2). Still, the RRP reforms do not effectively address all the challenges posed by the current corporate tax system. The Maltese treatment of resident non-domiciled companies continues to provide multinational firms with opportunities of double non-taxation between Malta and most countries with which Malta has concluded a bilateral tax treaty and tax havens <sup>(23)</sup>. The 2022 corporate tax return will include a new questionnaire to collect data on the nature and scale of this issue.

**Malta's investor citizenship and residence schemes have a potentially high risk of being misused.** The OECD has noted that these schemes facilitate the concealment of the real jurisdictions of residence (OECD, 2019b). When used as tools to hide assets held abroad from reporting, they can be used to evade tax. Offshore wealth held by Maltese citizens is estimated to have reached 50% of GDP in 2018, 16 pps more than the 2001-2018 average. As a share of national GDP, this

<sup>(23)</sup> The 'resident non-domiciled company' structure is a tax arrangement where a firm is incorporated in a given country but effectively managed in Malta. Because of the residence tie-breaker rule in a number of bilateral tax treaties, the firm is considered to be tax resident in Malta, allowing Malta in principle to tax that firm's worldwide profits. However, because the firm is incorporated abroad, Malta exercises this tax jurisdiction only in respect of profits realised in or remitted to Malta, whilst foreign profits that are not remitted to Malta (so-called "offshore income") are not subject to tax in Malta, leading to a situation of double non-taxation.

is the second highest in the EU (ECOPA, 2021). A commitment in the RRP to spontaneously exchange information on new applicants of the citizenship scheme may limit, to some extent, international tax evasion by individuals. However, this will only apply to future applicants and not to existing applicants, which limits its overall effectiveness. The European Commission's infringement procedure against Malta's investor citizenship scheme is ongoing. In March 2022, Malta temporarily suspended the applications of Russian and Belarusian nationals for its investor citizenship and residence schemes, due to recent developments amid Russia's invasion of Ukraine.

## Improving productivity through R&I

**Malta's innovation performance has improved over recent years, but more efforts are needed.** The improvement was mainly due to developments in the area of digitalisation and the use of information technologies<sup>(24)</sup>. However, R&I continues to play a limited role in Malta's economy. With one of the lowest R&I intensities among Member States (R&D expenditure amounts to 0.67% of GDP in 2020 (see Annexes 1 and 9), ranking 26th in the EU), the country is still far from reaching its expenditure target of 2% of GDP. The RRP includes certain measures to encourage R&I investment. However, key bottlenecks still need to be addressed for R&I to play a bigger role in the economic development of Malta and, among other things, strengthen Malta's position on advanced digital technologies (such as artificial intelligence, blockchain, internet of things, high performance computing), in line with the country's ambitions and strategies launched in recent years. Targeted efforts are also important to better exploit digital technologies to support the green transition (e.g. applications for energy efficiency, water management, smart mobility, sustainable tourism).

<sup>(24)</sup> European Innovation Scoreboard 2021.

## R&I activity by firms remains limited.

Malta ranked 24th in the EU by business enterprise spending on R&D (BERD) in 2020. Malta has several schemes supporting start-ups and SMEs growth. Improving the absorption capacity of businesses would require re-assessing existing start-up support schemes, designing a clear and coordinated start-up platform, further streamlining regulations and improving access to finance for SMEs. Malta's venture capital investments share of GDP is among the lowest in the EU. Other alternative financing channels such as business angels and crowdfunding also remain broadly unexploited.

## The lack of skilled talents and weak academia-business relations hamper business innovation in Malta.

Malta ranks 26th among Member States in the number of new graduates in science and engineering. Also, the share of ICT graduates has been steadily declining in Malta – from 10% in 2014 to 6% in 2019. There is an urgent need to develop an effective and comprehensive system (from school up to the highest university level) to attract and retain talented individuals into scientific and technological careers and support the development of their competences. Moreover, evidence suggests that Malta is performing poorly in terms of public-private cooperation in R&I, one indicator being that it ranks as one of the lowest in the EU in public R&I financed by business. Ensuring the availability of skilled talents for R&I and the development of opportunities for public-private cooperation will require boosting the capacities and performance of the public science base, in particular by means of increased resources and by developing strategic partnerships.

## Maltese SMEs lag behind their larger peers on digitalisation.

Maltese companies, including SMEs, record a high level of digital intensity and have a relatively broad uptake of advanced digital technologies such as big data analytics, artificial intelligence and cloud computing (see Annex 8). However, a substantial gap exists between large companies and SMEs. For example, 49% of large companies in Malta have a high level of digital intensity, whereas for SMEs the share is

only 30%. Although the RRP supports the digitalisation of companies, notably SMEs, its contribution alone will not be sufficient to bridge the digital gap between small and large companies. Moreover, despite Malta's ambition to become a hub for emerging technologies, efforts are still needed to enable the full innovation potential of its businesses.



## KEY FINDINGS

**Malta's recovery and resilience plan (RRP) includes measures to address a series of its structural challenges through:**

- improving the independence, efficiency and effectiveness of the justice system, and improving the anti-corruption and anti-money laundering frameworks.
- reducing the high shares of early school leavers and low-skilled adults and increasing the quality, labour market relevance and inclusiveness of the education system.
- tackling the high gender employment gap.
- strengthening the digitalisation of the public sector.
- strengthening the resilience of the health system.
- alleviating traffic congestion, improving the quality of public transport and enhancing soft mobility means.

**Beyond the reforms and investments in the RRP, Malta would benefit from:**

- strengthening the fiscal sustainability of the pension, health and long-term care systems, while maintaining their adequacy.
- curbing remaining aggressive tax planning practices.
- reducing greenhouse gas emissions, notably from transport and residential buildings, and increasing the share of renewable energy..
- creating the effective conditions to meet EU municipal, packaging and landfill targets on a sustainable basis.
- reinforcing climate adaptation, most notably as regards flooding risks.
- boosting innovation, by strengthening public-private cooperation and the conditions for attracting and retaining talent.
- ensuring adequate and effective social protection for disadvantaged groups and fostering social inclusion of children.

# ANNEXES



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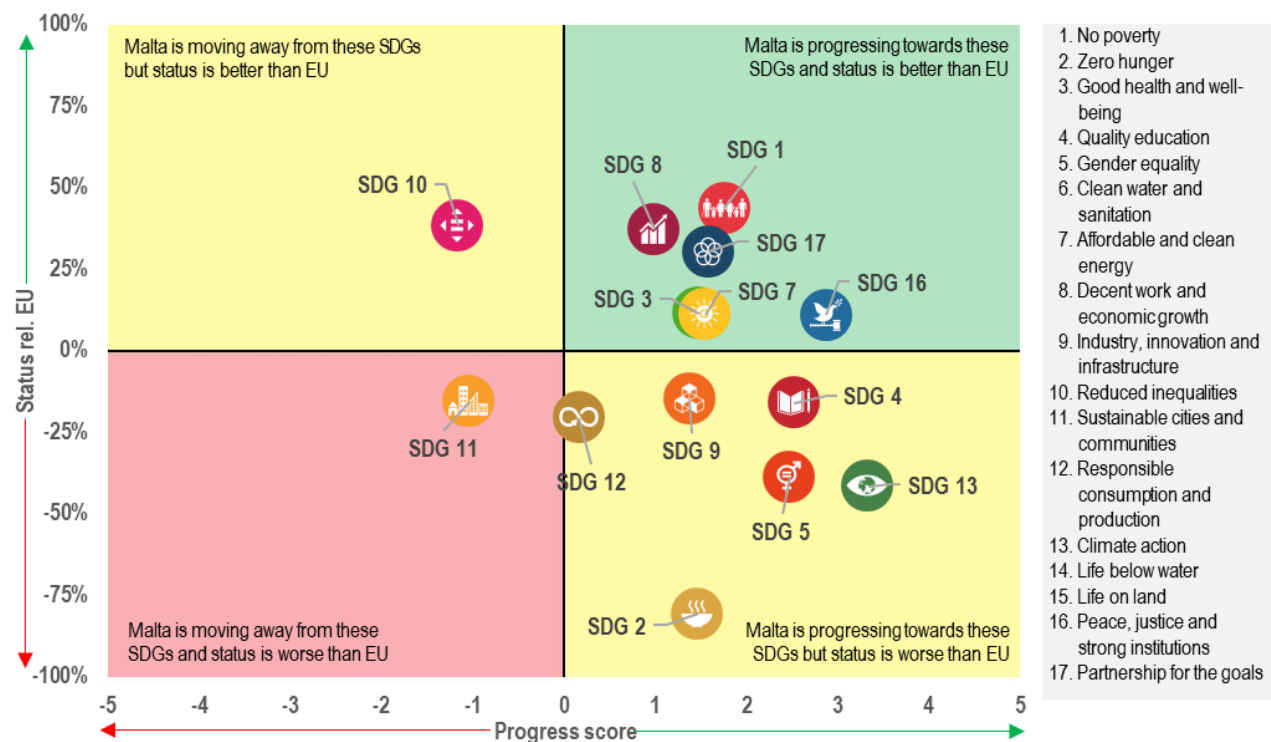
**This annex assesses Malta’s progress on the Sustainable Development Goals (SDGs) along the four dimensions of competitive sustainability.** The 17 SDGs and their related indicators provide a policy framework under the UN’s 2030 Agenda for Sustainable Development. The aim is to end all forms of poverty, fight inequalities and tackle climate change, while ensuring that no one is left behind. The EU and its Member States are committed to this historic global framework agreement and to playing an active role in maximising progress on the SDGs. Graph A1.1 is based on the EU SDG indicator set developed to monitor progress on SDGs in an EU context.

**While Malta performs very well (SDG 7) or is improving (SDG 2, 9, 12, 13) on several SDG indicators relating to environmental sustainability, it still needs to catch up on SDG 11.** Although Malta’s overall energy consumption is below the EU average, the share of

far below the EU average (10.5% vs EU 47.8% in 2020). Various measures in the recovery and resilience plan (RRP), such as energy-efficiency renovations of private and public buildings, renewable energy investments in roads and public spaces, measures to promote sustainable mobility, and a waste collection system reform, aim to contribute to better energy efficiency, clean energy, sustainable transport, and a circular economy.

**Malta performs very well (SDG 1, 3, 8), well (SDG 10) or is improving (SDG 2, 4, 5) on SDG indicators assessing the fairness of society and economy.** <sup>(25)</sup> On ‘Quality education’ (SDG 4), although still higher than the EU average (9.7%), Malta has significantly decreased the share of early leavers from education and training from 15.6% (2016) to 11% in 2021 and has steadily increased the tertiary education rate from 34.3% in 2016 to 42.4% in 2021 (vs EU 41.2%). However, there is still room for improvement in enhancing basic skills levels (35.9% of low-

Graph A1.1: Progress towards SDGs in Malta Progress in the last five years.



For detailed datasets on the various SDGs see the annual ESTAT report ‘Sustainable development in the European Union’, <https://ec.europa.eu/eurostat/web/products-statistical-books/-/KS-03-21-096>. Extensive country specific data on the short-term progress of Member States can be found here: [Key findings - Sustainable development indicators - Eurostat \(europa.eu\)](https://ec.europa.eu/eurostat/web/products-statistical-books/-/KS-03-21-096)

**Source:** Eurostat, latest update of 28 April 2022. Data mainly refer to 2015-2020 and 2016-2021.

renewable energy in gross final energy consumption was 10.7% in 2020, which is less than half of the EU average in 2020 (22.1%). Further, the recycling rate of municipal waste is

<sup>(25)</sup> See Annex 12 – ‘Employment, skills and social policy challenges in light of the European Pillar of Social Rights’ for further information.

achieving 15-year-olds in reading literacy vs EU 22.5% in the OECD Programme for International Student Assessment (PISA) 2018). Further, the gender employment gap is particularly high in Malta (16.8 pps vs EU 10.8 pps in 2021). Reforms and investments under Component 5 of the Maltese RRP contribute to strengthening early school leaving prevention measures and high-quality inclusive education, expanding opportunities for upskilling and reskilling for all adults, and in particular for the low-skilled, as well as promoting female labour market participation.

**Malta performs very well (SDG 8) or is improving (SDG 4, 9) on SDG indicators related to productivity.** With a 61% share of adults (aged 16 to 74) with at least basic digital skills in 2021, Malta's performance is above the EU average (54%). Malta performs very well on 'Decent work and economic growth' (SDG 8) and is making progress in 'Industry, innovation, and infrastructure' (SDG 9). However, with only 0.67% of GDP spent on R&D in 2020, Malta has one of the lowest R&D expenditures in the EU. In addition, the share of R&D staff in the active population (0.68%) remains far below the EU average in 2020 (1.44%). The RRP targets bottlenecks especially regarding digitalisation to improve progress on these SDGs.

**Malta performs very well on SDG indicators related to macroeconomic stability (SDG 8, 16).** Malta further increased the employment rate from 71.1% in 2016 to 78.6% in 2021, which is very high in comparison to the EU average (73.1% in 2021). Malta improved scores on indicators measuring 'Peace, justice, and strong institutions' (SDG 16). The RRP includes reforms to address several long-standing institutional challenges in the areas of justice as well as the fight against corruption and money laundering.

**The Recovery and Resilience Facility (RRF) is the centrepiece of the EU's efforts to support its recovery from the COVID-19 pandemic, fast forward the twin transition and strengthen resilience against future shocks.** Malta submitted its recovery and resilience plan (RRP) on 13 July 2021. The Commission's positive assessment on 16 September 2021 and Council's approval on 5 October 2021 paved the way for disbursing EUR 316 million in grants under the Recovery and Resilience Facility over 2021-2026. The financing agreement was signed on 10 December 2021. The key elements of the Malta's RRP are set out in Table A2.1. The share of funds contributing to each of the RRF's six policy pillars is outlined in Graph A2.1 below.

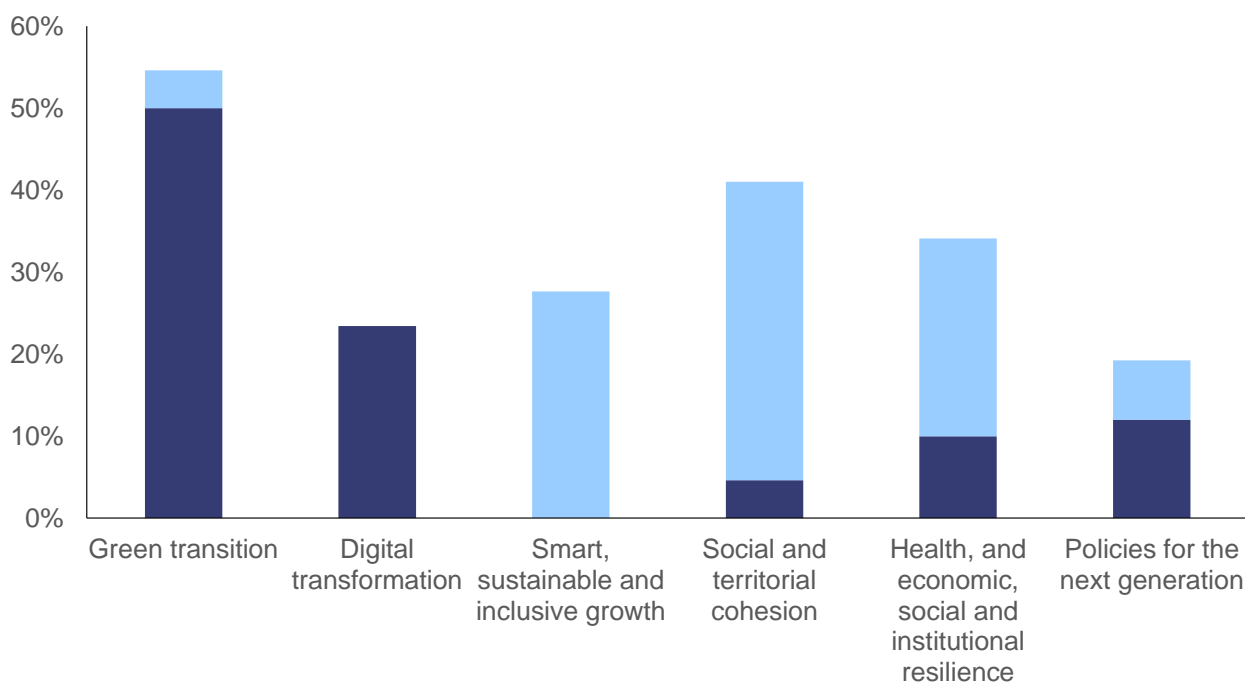
Table A2.1: Key elements of the Maltese RRP

Total allocation	EUR 316,4 million in grants (2,3% of 2019 GDP)
Investments and Reforms	17 investments and 30 reforms
Total number of Milestones and Targets	138
Estimated macroeconomic impact (1)	Raise GDP by 0.7%-1.1% by 2026 (0.4% in spillover effects)
Pre-financing disbursed	EUR 41.1 million (December 2021)
First instalment	Malta did not yet submit a first payment request

(1) See Pfeiffer P., Varga J. and in 't Veld J. (2021), 'Quantifying Spillovers of NGEU investment', European Economy Discussion Papers, No. 144 and Afman et al. (2021), 'An overview of the economics of the Recovery and Resilience Facility', Quarterly Report on the euro area (QREA), Vol. 20, No. 3 pp. 7-16.

Source: European Commission 2022

Graph A2.1: Share of RRF funds contributing to each policy pillar



Graph note: Each measure contributes towards two policy areas of the six pillars, therefore the total contribution to all pillars displayed on this chart amounts to 200% to 200% of the estimated cost of the Maltese RRP. The bottom part represents the amount of the primary pillar, the top part the amount of the secondary pillar.

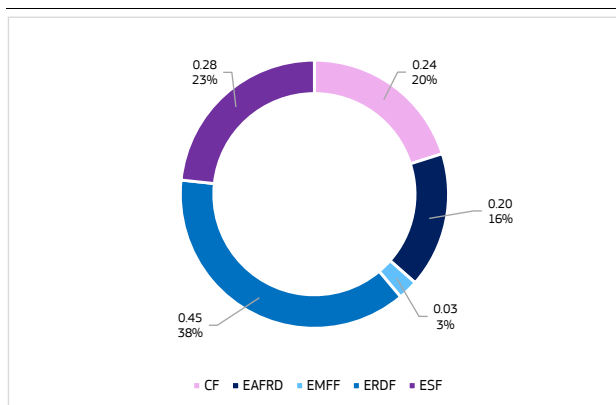
[https://ec.europa.eu/economy\\_finance/recovery-and-resilience-scoreboard/country\\_overview.html](https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/country_overview.html)

Source: RRF Scoreboard [https://ec.europa.eu/economy\\_finance/recovery-and-resilience-scoreboard/country\\_overview.html](https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/country_overview.html)



**The EU’s budget of more than EUR 1.2 trillion for 2021–2027 is the investment lever to help implement EU priorities.** Underpinned by additional amount of about EUR 800 billion through NextGenerationEU and its largest instrument, the Recovery and Resilience Facility, it represents a significant firepower to support the recovery and sustainable growth.

Graph A3.1: **ESIF 2014–2020 Total budget by fund (EUR billion, %)**



**Note:** bln EUR in current prices, % of total  
**Source:** European Commission, Cohesion Open Data

**In 2021–2027, EU cohesion policy funds<sup>(26)</sup> will support long-term development objectives in Malta by investing EUR 0.86 billion<sup>(27)</sup>** including EUR 23.3 million from the Just Transition Fund<sup>(28)</sup> to alleviate the socio-economic impacts of the green transition in the most vulnerable regions. The 2021–2027 cohesion policy funds partnership agreements and programmes take into account the 2019–2020 country-specific recommendations (see also Annex 4) and investment guidance provided as part of the European Semester, ensuring synergies and complementarities with other EU funding. In addition, Malta will benefit from EUR 0.1 billion support for the 2023–27 period from the Common Agricultural Policy<sup>(29)</sup>, which supports social, environmental, and economic sustainability and innovation in agriculture and rural areas,

<sup>(26)</sup> European Regional Development Fund (ERDF), European Social Fund+ (ESF+), Cohesion Fund (CF), Just Transition Fund (JTF), Interreg.

<sup>(27)</sup> Current prices, source: [Cohesion Open Data](#)

<sup>(28)</sup> For more information, see [https://ec.europa.eu/info/funding-tenders/find-funding/eu-funding-programmes/just-transition-fund\\_en](https://ec.europa.eu/info/funding-tenders/find-funding/eu-funding-programmes/just-transition-fund_en)

<sup>(29)</sup> For more information, see [https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/new-cap-2023-27\\_en](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/new-cap-2023-27_en)

contributing to the European Green Deal<sup>(30)</sup>, and ensuring long-term food security.

**In 2014–2020, the European Structural and Investment Funds (ESIF) for Malta are set to invest EUR 0.99 billion<sup>(31)</sup> from the EU budget. The total investment including national financing amounts to EUR 1.20 billion (Graph A3.1),** representing around 1.54% of GDP for 2014–2020 and 29.97% of public investment<sup>(32)</sup>. By 31 December 2021, 95% of the total was allocated to specific projects and 54% was reported as spent, leaving EUR 0.55 billion to be spent by the end of 2023<sup>(33)</sup>. Among the 11 objectives the most relevant ones for cohesion policy funding in Malta are environment protection and resource efficiency, network infrastructure and transport, social inclusion and protection of the environment. By the end of 2020, cohesion policy investments supported the reduction of more than 20 000 tonnes of CO2 emissions, the supply of water to an additional 32 000 people, the production of 22 MW of renewable energy and improved health services to 460 000 citizens. In addition, 39 000 persons participated in a European Social Fund financed project, of which more than 8 400 gained a qualification and almost 5 000 found a job or engaged in job searching.

**Cohesion policy funds already substantially contribute to the Sustainable Development Goals (SDGs) objectives.** In Malta, cohesion policy funds support 9 of the 17 SDGs with up to 94% of the expenditure contributing to achieving the goals.

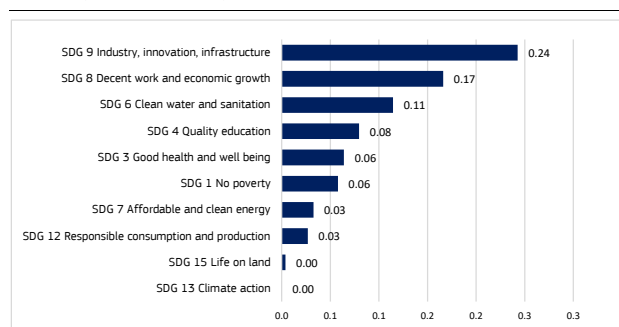
<sup>(30)</sup> For more information, see [https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en)

<sup>(31)</sup> ESIF includes cohesion policy funds (ERDF, ESF+, CF, Interreg) the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF). According to the ‘N+3 rule’, the funds committed for 2014–2020 must be spent by 2023 at the latest (by 2025 for EAFRD). Data source: Cohesion Open Data, cut-off date 31.12.2021 for ERDF, ESF+, CF, Interreg; cut-off date 31.12.2020 for EAFRD and EMFF.

<sup>(32)</sup> Public investment is gross fixed capital formation plus capital transfers, general government.

<sup>(33)</sup> Including REACT-EU. ESIF data on <https://cohesiondata.ec.europa.eu/countries/MT>

Graph A3.2: Cohesion policy contribution to the SDGs (EUR billion)



Source: European Commission, DG REGIO

**The REACT-EU instrument (Recovery Assistance for Cohesion and the Territories of Europe) under NextGenerationEU provided EUR 111.2 million of additional funding to 2014-2020 cohesion policy allocations for Malta<sup>(34)</sup> to ensure a balanced recovery, boost convergence and provide vital support to regions following the coronavirus outbreak. The REACT-EU 2021 tranche provided a contribution to the short-time work schemes in Malta. The 2022 tranche will support the purchase of high-tech medical equipment.**

**The Coronavirus Response Investment Initiative<sup>(35)</sup> provided the first EU emergency support for Malta to address the COVID-19 pandemic.** It introduced extraordinary flexibility, enabling Malta to reallocate resources for immediate public health needs (EUR 15 million for purchasing vaccines and healthcare equipment) and for businesses (EUR 35 million for working capital for SMEs and employment support measures).

**Malta received support under the European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) to finance similar measures to short-time work schemes and as an ancillary, health-related measures.** The Council granted financial assistance under SURE to Malta in September 2020 and top-up support in

<sup>(34)</sup> For more information, see <https://cohesiondata.ec.europa.eu/stories/s/REACT-EU-Fostering-crisis-repair-and-resilience/26d9-dqzy/>

<sup>(35)</sup> Re-allocating ESIF resources according to Regulation (EU) 2020/460 of the European Parliament and of the Council of 30 March 2020, and Regulation (EU) 2020/558 of the European Parliament and of the Council of 23 April 2020.

April 2021 for a maximum of EUR 420 million<sup>(36)</sup>, which was disbursed by 25 May 2021. SURE is estimated to have supported approximately 35% of workers and 30% of firms for at least one month in 2020 and 35 % of workers and 25% of firms in 2021, primarily in accommodation and food services, wholesale and retail trade, and administrative services. Malta is estimated to have saved a total of EUR 0.04 billion on interest payments as a result of SURE's lower interest rates<sup>(37)</sup>.

**Since 2017, Malta has received assistance through 46 technical support projects.**

Projects delivered in 2021 aimed for example to design a sustainable development strategy and action plan and improve the inclusion of migrant learners in education. The Commission also assisted Malta in implementing specific reforms and investments in the RRP, for instance on coastal protection and digitalisation of Malta's maritime administration. In 2022, new projects will start to support, amongst others, the renovation wave of public buildings through the development of energy performance upgrades, guidelines, methodologies and capacity building.

**Malta also benefits from other EU programmes.** These include the Connecting Europe Facility<sup>(38)</sup>, which allocated EU funding of EUR 71.1 million to specific projects on strategic transport networks, and Horizon 2020<sup>(39)</sup>, which allocated EU funding of EUR 37.2 million.

<sup>(36)</sup> Source: [https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/funding-mechanisms-and-facilities/sure\\_en](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/funding-mechanisms-and-facilities/sure_en)

<sup>(37)</sup> For more information, see [https://ec.europa.eu/info/funding-tenders/find-funding/eu-funding-programmes/technical-support-instrument/technical-support-instrument-tsi\\_en#:~:text=The%20Technical%20Support%20Instrument%20\(TSI,co%2Dfinancing%20from%20Member%20States.](https://ec.europa.eu/info/funding-tenders/find-funding/eu-funding-programmes/technical-support-instrument/technical-support-instrument-tsi_en#:~:text=The%20Technical%20Support%20Instrument%20(TSI,co%2Dfinancing%20from%20Member%20States.)

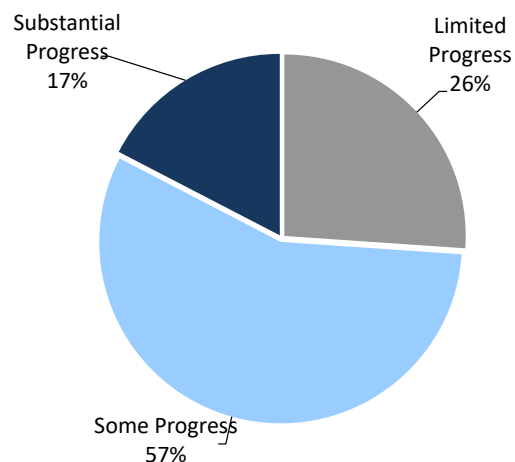
<sup>(38)</sup> For more information, see <https://ec.europa.eu/inea/en/connecting-europe-facility>

<sup>(39)</sup> For more information, see [https://ec.europa.eu/info/research-and-innovation/funding/funding-opportunities/funding-programmes-and-open-calls/horizon-2020\\_en](https://ec.europa.eu/info/research-and-innovation/funding/funding-opportunities/funding-programmes-and-open-calls/horizon-2020_en)

## ANNEX 4: PROGRESS IN THE IMPLEMENTATION OF COUNTRY-SPECIFIC RECOMMENDATIONS

**The Commission assessed the 2019-2021 country-specific recommendations (CSRs) <sup>(40)</sup> addressed to Malta in the context of the European Semester. The assessment takes into account the policy action taken by Malta to date <sup>(41)</sup>, as well as the commitments in the recovery and resilience plan (RRP) <sup>(42)</sup>. At this early stage of the RRP implementation, overall 74% of the CSRs focusing on structural issues in 2019 and 2020 have recorded at least “some progress”, while 26% recorded “limited” (see Graph A4.1). Considerable additional progress in addressing structural CSRs is expected in the years to come with the further implementation of the RRP.**

Graph A4.1: Malta’s progress on the 2019-2020 CSRs (2022 European Semester cycle)



Source: European Commission

<sup>(40)</sup> 2021 CSRs: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021H0729%2818%29&qid=1627675454457>

2020 CSRs: [https://eur-lex.europa.eu/search.html?textScope=ti&lang=en&scope=EURLEX&qid=1526385017799&type=quick&AU\\_CODED=CONSIL&DD\\_YEAR=2020&andText0=recommendation&DD\\_MONTH=07](https://eur-lex.europa.eu/search.html?textScope=ti&lang=en&scope=EURLEX&qid=1526385017799&type=quick&AU_CODED=CONSIL&DD_YEAR=2020&andText0=recommendation&DD_MONTH=07)

2019 CSRs: [https://eur-lex.europa.eu/search.html?textScope=ti&lang=en&scope=EURLEX&qid=1526385017799&type=quick&AU\\_CODED=CONSIL&DD\\_YEAR=2019&andText0=recommendation&DD\\_MONTH=07](https://eur-lex.europa.eu/search.html?textScope=ti&lang=en&scope=EURLEX&qid=1526385017799&type=quick&AU_CODED=CONSIL&DD_YEAR=2019&andText0=recommendation&DD_MONTH=07)

<sup>(41)</sup> ) Incl. policy action reported in the National Reform Programme, as well as in the RRF reporting (bi-annual reporting on the progress with implementation of milestones and targets and resulting from the payment request assessment).

<sup>(42)</sup> ) Member States were asked to effectively address all or a significant subset of the relevant country-specific recommendations issued by the Council in 2019 and 2020 in their RRFs. The CSR assessment presented here takes into account the degree of implementation of the measures included in the RRF and of those done outside of the RRF at the time of assessment. Measures foreseen in the annex of the adopted Council Implementing Decision on the approval of the assessment of the RRF which are not yet adopted nor implemented but considered as credibly announced, in line with the CSR assessment methodology, warrant “limited progress”. Once implemented, these measures can lead to “some/substantial progress” or “full implementation”, depending on their relevance.

Table A4.1: Summary table on 2019, 2020 and 2021 CSRs

Malta	Assessment in May 2022*	RRP coverage of CSRs until 2026
<b>2019 CSR1</b>	<b>Limited progress</b>	
<i>Ensure the fiscal sustainability of the healthcare and pension systems, including by restricting early retirement and adjusting the statutory retirement age in view of expected gains in life expectancy.</i>	Limited Progress	Relevant RRP measures planned as of 2022 to 2025.
<b>2019 CSR 2</b>	<b>Some Progress</b>	
<i>Address features of the tax system that may facilitate aggressive tax planning by individuals and multinationals, in particular by means of outbound payments.</i>	Limited Progress	Relevant RRP measures planned as of 2022 to 2024.
<i>Strengthen the overall governance framework, including by continuing efforts to detect and prosecute corruption.</i>	Some Progress	Relevant RRP measures planned as of 2020 to 2026.
<i>Continue the ongoing progress made on strengthening the anti-money-laundering framework, in particular with regard to enforcements.</i>	Substantial Progress	Relevant RRP measures planned as of 2022 to 2023.
<i>Strengthen the independence of the judiciary, in particular the safeguards for judicial appointments and dismissals, and establish a separate prosecution service.</i>	Some Progress	Relevant RRP measures planned as of 2021 to 2026.
<b>2019 CSR 3</b>	<b>Some Progress</b>	
<i>Focus investment-related economic policy on research and innovation,</i>	Some Progress	Relevant RRP measures planned as of 2022 to 2026.
<i>natural resources management,</i>	Some Progress	Relevant RRP measures planned as of 2021 to 2025.
<i>resource and energy efficiency,</i>	Some Progress	Relevant RRP measures planned as of 2021 to 2026.
<i>sustainable transport, reducing traffic congestion and</i>	Some Progress	Relevant RRP measures planned as of 2021 to 2025.
<i>inclusive education and training.</i>	Some Progress	Relevant RRP measures planned as of 2021 to 2025.
<b>2020 CSR1</b>	<b>Substantial Progress</b>	
<i>Take all necessary measures, in line with the general escape clause of the Stability and Growth Pact, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.</i>	CSR no longer relevant	Not applicable
<i>Strengthen the resilience of the health system with regard to the health workforce, critical medical products and primary care.</i>	Some Progress	Relevant RRP measures planned as of 2021 to 2026.
<b>2020 CSR2</b>	<b>Limited Progress</b>	
<i>Consolidate short-time work arrangements and ensure the adequacy of unemployment protection for all workers.</i>	Limited Progress	Relevant RRP measures planned as of 2022.
<i>Strengthen the quality and inclusiveness of education and skills development.</i>	Limited Progress	Relevant RRP measures planned as of 2021 to 2025.

(Continued on the next page)

Table (continued)

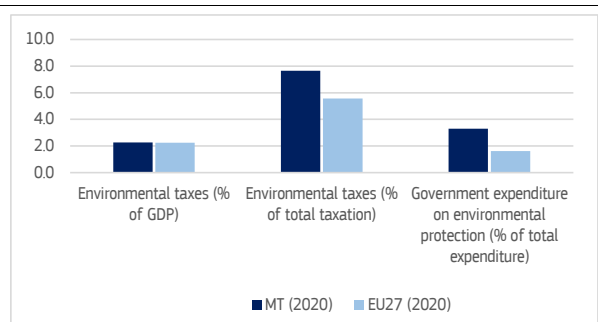
<b>2020 CSR 3</b>	<b>Some Progress</b>	
<i>Ensure effective implementation of liquidity support to affected businesses, including the self-employed.</i>	Substantial Progress	Relevant RRP measures planned as of 2021 to 2026.
<i>Front-load mature public investment projects</i>	Substantial Progress	Relevant RRP measures planned as of 2021 to 2026.
<i>and promote private investment to foster the economic recovery.</i>	Some Progress	Relevant RRP measures planned as of 2021 to 2026.
<i>Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy,</i>	Some Progress	Relevant RRP measures planned as of 2021 to 2026.
<i>sustainable transport,</i>	Some Progress	Relevant RRP measures planned as of 2021 to 2025.
<i>waste management,</i>	Some Progress	Relevant RRP measures planned as of 2021 to 2025.
<i>research and innovation.</i>	Limited Progress	Relevant RRP measures planned as of 2022 to 2026.
<i>as well as reinforced digital infrastructure to ensure the provision of essential services.</i>	Some progress	Relevant RRP measures planned as of 2021 to 2026.
<b>2020 CSR 4</b>	<b>Some Progress</b>	
<i>Complete reforms addressing current shortcomings in institutional capacity and governance to enhance judicial independence.</i>	Some Progress	Relevant RRP measures planned as of 2020 to 2026.
<i>Continue efforts to adequately assess and mitigate money-laundering risks and to ensure effective enforcement of the anti-money-laundering framework.</i>	Substantial Progress	Relevant RRP measures planned as of 2022 to 2023.
<i>Step up action to address features of the tax system that facilitate</i>	Limited Progress	Relevant RRP measures planned as of 2022
<b>2021 CSR1</b>	<b>Some Progress</b>	
<i>In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.</i>	Some Progress	Not applicable
<i>When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term.</i>	Some Progress	Not applicable
<i>At the same time, enhance investment to boost growth potential. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the national budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition.</i>	Some Progress	Not applicable
<i>Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.</i>	Limited Progress	Not applicable

\* See footnote 42.

Source: European Commission

**The European Green Deal intends to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use.** This annex offers a snapshot of the most significant and economically relevant developments in Malta in the respective building blocks of the European Green Deal. It is complemented by Annex 6 on the employment and social impact of the green transition and Annex 7 for circular economy aspects of the Green Deal.

Graph A5.1: **Fiscal aspects of the green transition**  
**Taxation and government expenditure on environmental protection**



Source: Eurostat

**Malta has the highest relative gap of any Member State to its 2030 GHG reduction target under the EU Effort Sharing Regulation (ESR)** <sup>(43)</sup>. The greenhouse gas (GHG) emissions intensity of the Maltese economy decreased between 2015 and 2020 (in terms of gross value added) and stands at 30%, below the EU average. The average carbon footprint per worker at 7.18 tons of GHG emissions is relatively low (13.61 in the EU). By 2020, Malta's total GHG emissions (excluding land use, land-use change and forestry (LULUCF), including international aviation) had decreased significantly by about 19% compared to 1990. Malta intends to use flexibilities of the EU Effort Sharing Decision (ESD) <sup>(44)</sup> to meet its 2020 target for sectors

covered by the ESD, such as buildings, road transport, agriculture, small industry and waste. In particular, emissions from road transport have increased significantly since 1990. While Malta's national energy and climate plan (NECP) sets out measures to mitigate GHG emissions and adapt to a changing climate, it falls short of achieving Malta's ESR target for 2030. Malta has by far the highest expected relative distance of any Member State to its 2030 ESR target. In its recovery and resilience plan (RRP), Malta allocates 53.8% of available funds (around EUR 170 million) to climate and environmental objectives and outlines crucial reforms and investments to further the green transition. Additional measures are included in the Low Carbon Development Strategy which will further address the attainment of the 2030 climate target and pave the way to the transition to a low carbon economy. While these reforms and investments are welcome, they will need to be complemented by additional measures for Malta to meet its climate objectives.

**Malta's fiscal indicators show that revenue from environmental taxation and government expenditure on environmental protection are higher than the EU average, with the latter being significantly higher.**

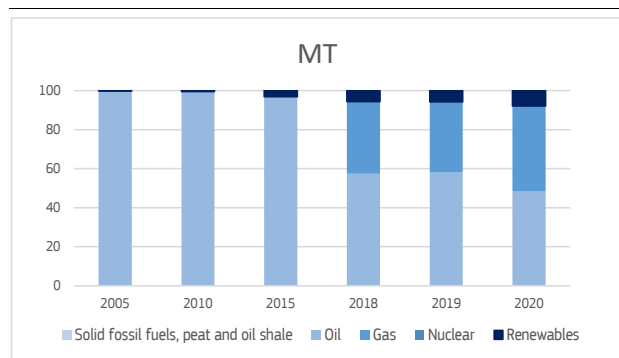
Malta's revenues from total environmental taxes decreased from 2.70% of GDP in 2015 to 2.46% in 2019, and further to 2.27% in 2020, still remaining slightly higher than the EU average of 2.24%. Excise duties on fuel, which usually provide the bulk of revenue from taxes on energy, are moderate. The Maltese government spends a higher share of its expenditure on environmental protection than in the EU overall (see Figure 1). All three indicators have decreased since 2015, while fossil fuel subsidies have been stable across time. For more indicators on taxation, see Annex 17.

<sup>(43)</sup> [Regulation \(EU\) 2018/ of the European Parliament and of the Council of 30 May 2018 on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement and amending Regulation \(EU\) No 525/2013 \(europa.eu\)](#)

<sup>(44)</sup> [Decision No 406/2009/EC of the European Parliament and of the Council of 23 April 2009 on the effort of Member States](#)

[to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020 \(europa.eu\)](#)

Graph A5.2: **Thematic – Energy**  
**Share in energy mix (solids, oil, gas, nuclear, renewables)**



(1) The energy mix is based on gross inland consumption, and excludes heat and electricity. The share of renewables includes biofuels and non-renewable waste.

Source: Eurostat.

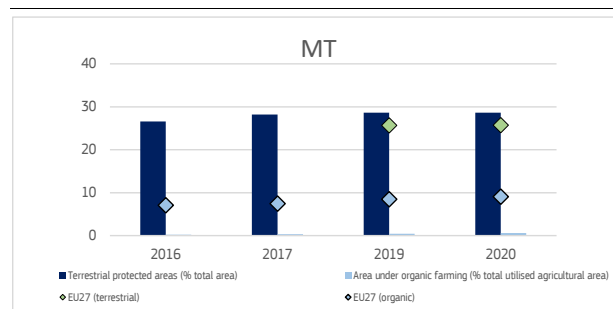
**Malta has one of the lowest shares of renewables in energy consumption in the EU with renewable energy sources representing 8% of the gross inland consumption of energy.** While coal is absent from the energy mix, Malta is currently heavily reliant on non-renewable energy sources (92% of its gross inland energy consumption in 2020, with oil reaching a 48% share and natural gas a 44% share). Malta slightly overachieved its 2020 renewable energy target of 10% in gross final energy consumption. Moreover, Malta has no wind electricity generation capacity installed and plans a weak contribution to the 2030 EU renewables target of 11.5%. Neither onshore nor offshore wind energy projects are planned in Malta's national energy and climate plan. Further opportunities in renewable-energy investments should be explored under the Innovation Fund and the cohesion policy funds.

**Following years of steady increase Malta's final energy consumption declined in 2020, also thanks to the COVID-19 crisis, helping it achieve the 2020 targets for energy efficiency, but energy consumption is expected to increase again post-pandemic and the ambition set in Malta's national energy and climate plan (NECP) for 2030 remains very low.** Malta's energy intensity is very high, with 281 Kg of oil equivalent per thousand euro of GDP compared to the EU average of 117 Kg of oil equivalent per thousand euro of GDP in 2020. The residential building sector saw the sharpest increase in final energy consumption since 2016. Malta's RRP does not support the renovation of existing residential

building stock, which could benefit from energy efficiency renovations to ensure energy savings particularly in the hot summer months. The NECP sets Malta's national contribution to energy efficiency at a primary energy intensity level of 0.07 toe/EUR in 2030, which translates into 1.1 Mtoe for primary energy and 0.8 Mtoe for final energy consumption (for both indicators, an increase from the 2020 targets of 0.8 Mtoe and 0.6 Mtoe respectively). According to its NECP, and compared to its average consumption of 2017-2019, Malta targets to consume +19.0% more final and +25.9% more primary energy by 2030 while the respective average EU targets are -12.6% and -17.6%.

**In terms of biodiversity, the protection of habitats and species by fully implementing Natura 2000 and strengthening the enforcement of nature directives has long remained a challenge in Malta.** Malta has now designated 27 special areas of conservation (SAC) and has adopted conservation orders for eight of them, along with 20 management plans for another 19 sites. For five Sites of Community Interest (SCIs), all marine, the SAC designation is delayed. While the establishment of the terrestrial Natura 2000 network is now completed, offshore marine sites have still to be designated for submerged or partially submerged caves and reefs. The hunting and trapping practices in Malta continue to be subject to several infringement proceedings, with some having led to rulings by the Court of Justice.

Graph A5.3: **Thematic – Biodiversity**  
**Terrestrial protected areas and organic farming**



(1) For terrestrial protected areas data for 2018, and data for the EU average (2016, 2017) is lacking.

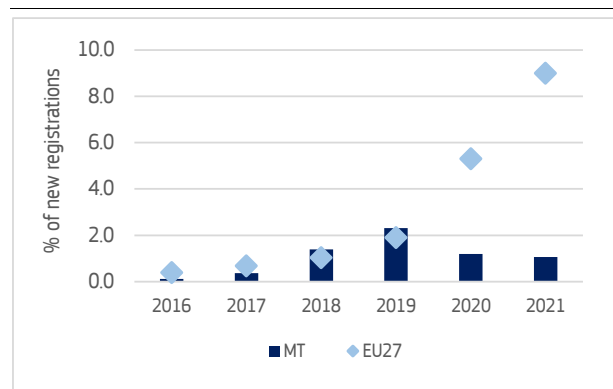
Source: EEA (terrestrial protected areas) and Eurostat (organic farming).

**In terms of mobility, Malta's dependence on road mobility together with an inefficient road network and an established preference for private transport have resulted in**

**significant road congestion problems, noise, air pollutants and increased greenhouse emissions.** The external costs of transport such as air pollution, noise and congestion from roads in Malta amount to EUR 400 million annually, corresponding to 3.6% of Malta's GDP <sup>(45)</sup>, and are on the rise. Malta performs below the EU average in terms of increasing the share of zero-emission vehicles in its passenger car fleet. Whilst Malta's RRP plan does allocate EUR 50.3 million to a number of grant schemes expected to be launched by 2024, the density of public charging points in Malta is relatively low. Insufficient measures to tackle traffic congestion might hamper clean mobility objectives.

**As regards water, the main issues on surface water include chemical and nutrient pollution; for groundwater the main issues include chemical pollution, saline intrusion and abstraction exceeding the available groundwater resource.** To achieve the requirements of the Water Framework Directive <sup>(46)</sup>, better integration of water objectives into other policy areas such as agriculture, transport and energy is needed. For agriculture this should be undertaken with the 2023-2027 common agricultural policy (CAP) strategic plan <sup>(47)</sup>.

Graph A5.4: Thematic – Mobility  
Share of zero emission vehicles (% of new registrations)



(1) Zero emission vehicles (passenger cars) include battery and fuel cell electric vehicles (BEV, FCEV).

**Source:** European Alternative Fuels Observatory.

<sup>(45)</sup> Source: [Handbook on the external costs of transport](#)

<sup>(46)</sup> Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy, *OJ L 327*, 22.12.2000, p. 1–73, (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32000L0060>)

<sup>(47)</sup> Draft strategic plans for all member states can be found here: [https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cap-strategic-plans\\_en#publishednationalstrategicplans](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cap-strategic-plans_en#publishednationalstrategicplans)



Table A5.1: Indicators underpinning the progress on EU Green Deal from macroeconomic perspective

			2005	2019	2020	Target	Distance		'Fit For 55'		
						2030	WEM	WAM	Target	Distance	
										2030	WEM
Progress to policy targets	Non-ETS GHG emission reduction target <sup>(1)</sup>	MTCO2 eq. %; pp <sup>(2)</sup>	1.0	28%	17%	-19%	-70	-70	-19%	-70	-70
									National contribution to 2030		
			2005	2016	2017	2018	2019	2020	EU target		
	Share of energy from renewable sources in gross final consumption of energy <sup>(1)</sup>	%	0%	6%	7%	8%	8%	11%	12%		
Energy efficiency: primary energy consumption <sup>(1)</sup>	Mtoe	0.9	0.7	0.8	0.8	0.9	0.7	1.1			
Energy efficiency: final energy consumption <sup>(1)</sup>	Mtoe	0.5	0.6	0.6	0.7	0.7	0.5	0.8			
			MALTA						EU		
			2015	2016	2017	2018	2019	2020	2018	2019	2020
Fiscal and financial indicators	Environmental taxes (% of GDP)	% of GDP	2.7	2.6	2.5	2.5	2.5	2.3	2.4	2.4	2.2
	Environmental taxes (% of total taxation)	% of taxation <sup>(3)</sup>	9.1	8.6	8.4	8.2	8.3	7.7	6.0	5.9	5.6
	Government expenditure on environmental protection	% of total exp.	4.80	2.69	2.62	3.53	3.98	3.29	1.66	1.70	1.61
	Investment in environmental protection	% of GDP <sup>(4)</sup>	0.75	0.13	0.14	0.16	-	-	0.42	0.38	0.41
	Fossil fuel subsidies	EUR2020bn	0.01	0.01	0.01	0.01	0.01	-	56.87	55.70	-
Climate protection gap <sup>(5)</sup>	score 1-4	2.3 out of 4 (increase from historical level of 0.5). This is a low/medium risk category (4 being a high risk).									
Climate	Net GHG emissions	1990 = 100	94	91	89	90	96	81	79	76	69
	GHG emissions intensity of the economy	kg/EUR 10	0.30	0.25	0.24	0.24	0.24	0.21	0.32	0.31	0.30
	Energy intensity of the economy	kgoe/EUR 10	0.09	0.08	0.08	0.08	0.08	0.07	0.12	0.11	0.11
Energy	Final energy consumption (FEC)	2015=100	100.0	100.8	107.6	114.0	120.5	94.2	103.5	102.9	94.6
	FEC in residential building sector	2015=100	100.0	97.1	114.1	120.6	129.3	131.4	101.9	101.3	101.3
	FEC in services building sector	2015=100	100.0	97.8	106.1	100.1	105.5	101.5	102.4	100.1	94.4
Pollution	Smog-precursor emission intensity (to GDP) <sup>(4)</sup>	tonne/EUR 10 <sup>(6)</sup>	0.93	0.80	0.62	0.54	0.52	-	0.99	0.93	-
	Years of life lost caused due to air pollution by PM2.5	per 100,000 inh.	629	533	565	610	641	-	863	762	-
	Years of life lost due to air pollution by NO2	per 100,000 inh.	41	< 1	< 1	< 1	< 1	-	120	99	-
	Nitrate in ground water	mg NO3/litre	59.9	59.9	60.0	53.4	59.4	-	21.7	20.7	-
Biodiversity	Terrestrial protected areas	% of total	-	26.6	28.2	-	28.7	28.7	-	25.7	25.7
	Marine protected areas	% of total	-	4.6	-	-	5.5	-	-	10.7	-
	Organic farming	% of total utilised agricultural area	0.3	0.2	0.4	0.4	0.5	0.6	8.0	8.5	9.1
			2000-2006		2006-2012		2012-2018		00-06	06-12	12-18
	Net land take	per 10,000 km2	2.5		6.1		29.3		13.0	11.0	5.0
			2015	2016	2017	2018	2019	2020	2018	2019	2020
Mobility	GHG emissions intensity of transport (to GVA) <sup>(7)</sup>	kg/EUR 10	1.46	1.35	1.33	1.49	1.41	1.20	0.89	0.87	0.83
	Share of zero emission vehicles <sup>(8)</sup>	% in new registrations	0.3	0.1	0.4	1.4	2.3	1.2	1.0	1.9	5.4
	Number of plug-in electric vehicles per charging point		4	7	3	6	22	45	8	8	12
	Share of electrified railways	%	-	-	-	-	-	-	55.6	56.0	-
	Congestion (average number of hours spent in road congestion per year by a representative commuting driver)		76.0	79.1	80.5	79.0	83.5	-	28.9	28.8	-
Digital	Share of smart meters in total metering points <sup>(9)</sup>	% of total	2018	97.3	35.8						
	- electricity										
	Share of smart meters in total metering points <sup>(9)</sup>	% of total	2018	0.0	13.1						
- gas											
ICT used for environmental sustainability <sup>(10)</sup>	%	2021	-	65.9							

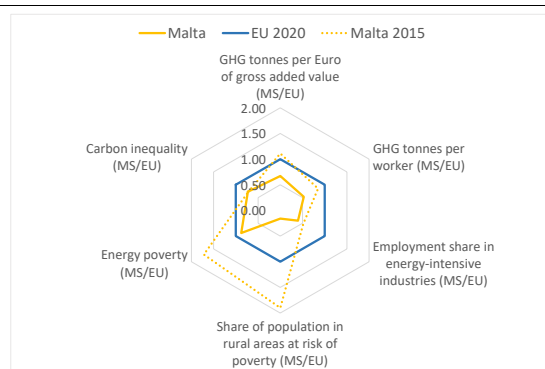
(1) The 2030 non-ETS GHG target is based on the Effort Sharing Regulation. The FF55 targets are based on the COM proposal to increase EU's climate ambition by 2030. Renewables and Energy Efficiency targets and national contributions under the Governance Regulation (Regulation (EU) 2018/1999). (2) Distance to target is the gap between Member States' 2030 target under the Effort Sharing Regulation and projected emissions, with existing measures (WEM) and with additional measures (WAM) respectively, as a percentage of 2005 base year emissions. (3) Percentage of total revenues from taxes and social contributions (excluding imputed social contributions). Revenues from the ETS are included in environmental tax revenues (in 2017 they amounted to 1.5% of total environmental tax revenues at the EU level). (4) Covers expenditure on gross fixed capital formation to be used for the production of environmental protection services (i.e. abatement and prevention of pollution) covering all sectors, i.e. government, industry and specialised providers. (5) The climate protection gap indicator is part of the European adaptation strategy (February 2021), and is defined as the share of non-insured economic losses caused by climate-related disasters. (6) Sulphur oxides (SO2 equivalent), Ammonia, Particulates < 10µm, Nitrogen oxides in total economy (divided by GDP). (7) Transportation and storage (NACE Section H). (8) Zero emission vehicles include battery electric vehicles (BEV) and fuel cell electric vehicles (FCEV). (9) European Commission Report (2019) 'Benchmarking smart metering deployment in the EU-28'. (10) European Commission (2021). Each year the DESI is re-calculated for all countries for previous years to reflect any possible change in the choice of indicators and corrections to the underlying data. Country scores and rankings may thus differ compared with previous publications.

Source: Eurostat, JRC, European Commission, EEA, EAFO

**The green transition not only encompasses improvements to environmental sustainability, but also includes a significant social dimension.** While measures in this regard include the opportunity for sustainable growth and job creation, it must also be ensured that no one is left behind and all groups in society benefit from the transition. Malta's green economy is still limited and its development, supported by investments and reforms included in the recovery and resilience plan (RRP), can foster sustainable growth and quality job creation; at the same time, the green transition is expected to affect low- to middle-income groups to a larger extent.

**Malta's RRP outlines important reforms and investments for a fair green transition.** These include renovation of public buildings such as hospitals and schools, decarbonisation of and enhanced access to public transport, and the development of green skills in the construction sector. In synergy with the Recovery and Resilience Facility, the European Social Fund Plus (ESF+) will help develop 'green skills' in Malta. The integrated national energy and climate plan of December 2019 analyses the impacts on the quality of life, aggregating social, health and environmental aspects into a single criterion. This, however, did not allow for the identification of trade-offs or possible mitigating measures. The assessment of the employment impact and skills needs remains very limited.

Graph A6.1: Fair green transition challenges



Source: Eurostat, World Inequality Database

**The share of the green economy in overall employment is relatively small, providing a very high potential for job creation.** While no specific declining sectors have been identified<sup>(48)</sup>, upskilling and reskilling of harbour workers might

be needed to support the greening of the two main Maltese ports (currently using burning heavy fuel/gasoil), which are key enablers of the economy for growth and providing jobs, along with construction and tourism sectors. Malta's energy-intensive industry, including metals, chemicals and paper<sup>(49)</sup>, provides jobs to 1.23% of the total employed workforce<sup>(50)</sup>, for whom upskilling and reskilling could be particularly important (see Annex 15). At the same time, the environmental goods and services sector provides jobs to a comparatively small share of the employed population (1.6% vs 2.2% in the EU, in 2019)<sup>(51)</sup> while wind and solar energy potential and energy efficiency improvements offer major opportunities for green jobs<sup>(52)</sup>. Labour shortages were identified in the energy sector<sup>(53)</sup>.

**Ensuring access to energy services appears overall less of a challenge in Malta<sup>(54)</sup>.** A relatively low share of the population in rural areas is at risk of poverty (2.9% vs 18.7% in the EU)<sup>(55)</sup>. The share of the population being unable to keep their homes adequately warm decreased from 14.1% in 2015 to 7.2% in 2020, below the EU average (8.2%). Lower-income groups are affected most (see Graph A6.2). Consumption patterns vary across the population: the average carbon footprint of the top 10% of emitters is about four times higher than that of the bottom 50% of the population (less than the average 5.3 times in the EU).

<sup>(49)</sup> 2020 European Semester: Overview of Investment Guidance on the Just Transition Fund 2021-2027 per Member State (Annex D).

<sup>(50)</sup> Limited availability of data on employment in energy intensive industries reduces the reliability of this indicator.

<sup>(51)</sup> There is currently no common EU-wide definition of green jobs. The environmental goods and services sector (EGSS) accounts report only on an economic sector that generates environmental products, i.e. goods and services produced for environmental protection or resource management.

<sup>(52)</sup> <https://publications.jrc.ec.europa.eu/repository/handle/JRC126047>.

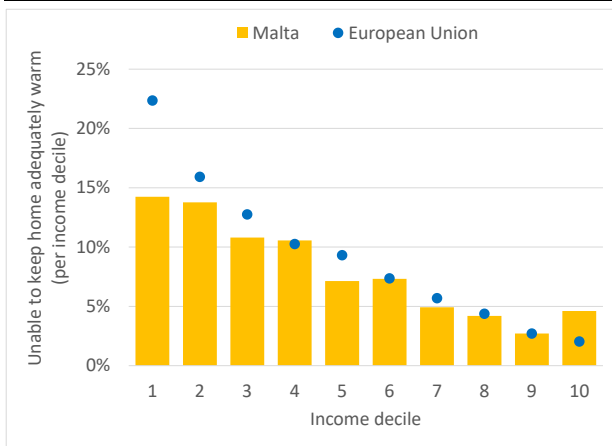
<sup>(53)</sup> Eurofound (2021), Tackling labour shortages in EU Member States, Publications Office of the European Union, Luxembourg.

<sup>(54)</sup> Based on COM(2021) 568 final (Annex I) as a proxy for potential transport challenges in the context of the green transition (e.g. due to vulnerability to fuel prices).

<sup>(55)</sup> There seems to be limited availability of data on the risk of poverty in rural areas in Malta, which reduces the reliability of this indicator

<sup>(48)</sup> SWD(2021) 275 final

Graph A6.2: **Energy poverty by income decile**



Source: Eurostat

**Tax systems are key to ensuring a fair transition towards climate neutrality** <sup>(56)</sup>. The labour tax wedge for low-income earners <sup>(57)</sup> increased from 22.9% to 24% from 2015 to 2019 (21.7% in 2021), compared to 31.9% in the EU in 2021 (see Annex 17).

<sup>(56)</sup> COM(2021) 801 final.

<sup>(57)</sup> Tax wedge for a single earner at 50% of the national average wage (Tax and benefits database, European Commission/OECD).

**The efficient use of resources is key to ensuring competitiveness and open strategic autonomy, while minimising the environmental impact.** The green transition presents a major opportunity for European industry by creating markets for clean technologies and products. It will have an impact across the entire value chains in sectors such as energy and transport, construction and renovation, food and electronics, helping create sustainable, local and well-paid jobs across Europe.

**Malta lags behind in terms of resource productivity and circular economy.** In 2020, the resource productivity in Malta with 2.45 EUR of GDP (in purchasing power standard) <sup>(58)</sup> generated per kg of material consumed remains slightly above the EU average of 2.23 EUR of GDP (in purchasing power standard) per kg. In 2020, the circular (secondary) use of material in Malta increased from 4.2% in 2016 to 7.9%. This rate is still below the EU average of 12.8%. Waste generation in Malta has continued to increase over the last years. This growth rate is well above the EU average. The Common Agricultural Policy (CAP) Strategic Plan for Malta should lead to an improved management of natural resources used by agriculture.

**Malta ranked 26th among EU countries in the Eco-innovation Scoreboard. A successful transition to a circular economy requires social and technological innovation. Therefore, eco-Innovation is an important enabling factor for the circular economy. Product design approaches and new business models can help to produce systemic circularity innovations, creating new business opportunities. The low rank of the country in the Eco-innovation scoreboard indicates the country’s necessity to catch up with its eco-innovation activities. In all five components (eco-innovation inputs, eco innovation activities, eco innovation outputs, resource efficiency outcomes and socio-economic outfits) of the Eco-Innovation Index of 2021, Malta performs below the EU average.**

Table A7.1: Selected resource efficiency indicators

Key indicators - Malta								
SUB-POLICY AREA	2015	2016	2017	2018	2019	2020	EU27	Latest year EU 27
<b>Circularity</b>								
Resource Productivity (Purchasing power standard (PPS) per kilogram)	2.0	2.0	2.6	2.4	2.7	2.3	2.2	2020
Material Intensity (kg/EUR)	0.5	0.5	0.4	0.4	0.4	0.4	0.4	2020
Circular Material Use Rate (%)	4.6	4.2	6.5	8.3	7.7	7.9	12.8	2020
Material footprint (Tones/capita)	11.7	9.1	10.9	17.1	17.3	-	14.6	2019
<b>Waste</b>								
Waste generation (kg/capita, total waste)	-	4287	-	5173	-	-	5234	2018
Landfilling (% of total waste treated)	-	17.6	-	12.8	-	-	38.5	2018
Recycling rate (% of municipal waste)	10.9	12.6	11.5	10.5	9.1	10.5	47.8	2020
Hazardous waste (% of municipal waste)	-	6.9	-	1.2	-	-	4.3	2018
<b>Competitiveness</b>								
Gross value added in environmental goods and services sector (% of GDP)	1.1	1.1	1.0	1.0	1.1	-	2.3	2019
Private investment in circular economy (% of GDP)	-	-	-	-	-	-	0.1	2018

Source: Eurostat

<sup>(58)</sup> The Purchasing Power Standard is an artificial currency that eliminates the effects of price level differences across countries.

### The Digital Economy and Society Index (DESI) monitors EU Member States' digital progress.

The areas of human capital, digital connectivity, the integration of digital technologies by businesses and digital public services reflect the Digital Decade's four cardinal points<sup>(59)</sup>. This annex describes Malta's DESI performance.

**In the Maltese recovery and resilience plan, 25.5% of the expenditure is devoted to the digital transition<sup>(60)</sup>.** The investments focus on the digital transformation of the public administration, health and justice systems and, to a lesser extent, of the private sector.

### Malta records good scores in the DESI dimension on human capital, but digital skills shortages persist.

The country has a high share of ICT graduates (6%, compared to the EU average of 3.9%)<sup>(61)</sup> and a higher than average share of ICT specialists, among which women are comparatively well represented. Nevertheless, the share of firms reporting hard-to-fill vacancies for jobs requiring ICT specialist skills is above the EU average (66.1% compared to 55.4%)<sup>(62)</sup>.

### The country performs very well on broadband connectivity.

Already since 2019, all Maltese households are reached by Very High Capacity Networks offering speeds of up to 1Gbps. 5G

Table A8.1: Key Digital Economy and Society Index Indicators

	Malta			EU	EU top-performance
	DESI 2020	DESI 2021	DESI 2022	DESI 2022	DESI 2022
<b>Human capital</b>					
<b>At least basic digital skills</b>	NA	NA	61%	54%	79%
% individuals			2021	2021	2021
<b>ICT specialists</b>	4.6%	4.4%	4.9%	4.5%	8.0%
% individuals in employment aged 15-74	2019	2020	2021	2021	2021
<b>Female ICT specialists</b>	11%	11%	26%	19%	28%
% ICT specialists	2019	2020	2021	2021	2021
<b>Connectivity</b>					
<b>Fixed Very High Capacity Network (VHCN) coverage</b>	100%	100%	100%	70%	100%
% households	2019	2020	2021	2021	2021
<b>5G coverage (*)</b>	NA	0%	20%	66%	99.7%
% populated areas		2020	2021	2021	2021
<b>Integration of digital technology</b>					
<b>SMEs with at least a basic level of digital intensity</b>	NA	NA	73%	55%	86%
% SMEs			2021	2021	2021
<b>Big data</b>	24%	31%	31%	14%	31%
% enterprises	2018	2020	2020	2020	2020
<b>Cloud</b>	NA	NA	47%	34%	69%
% enterprises			2021	2021	2021
<b>Artificial Intelligence</b>	NA	NA	10%	8%	24%
% enterprises			2021	2021	2021
<b>Digital public services</b>					
<b>Digital public services for citizens</b>	NA	NA	100	75	100
Score (0 to 100)			2021	2021	2021
<b>Digital public services for businesses</b>	NA	NA	97	82	100
Score (0 to 100)			2021	2021	2021

(\*) The 5G coverage indicator does not measure users' experience, which may be affected by a variety of factors such as the type of device used, environmental conditions, number of concurrent users and network capacity. 5G coverage refers to the percentage of populated areas as reported by operators and national regulatory authorities.

Source: Digital Economy and Society Index

<sup>(59)</sup> 2030 Digital Compass: the European Way for the Digital Decade Communication, COM (2021) 118 final.

<sup>(60)</sup> The share of financial allocation contributing to digital objectives has been calculated using Annex VII of the RRF Regulation.

<sup>(61)</sup> Eurostat: Individuals with a degree in ICT, 2019 (table educ\_uoe\_grad03, using selection ISCED11=ED5-8 and ISCEDF\_13 [F06]).

<sup>(62)</sup> Eurostat: ICT specialists - statistics on hard-to-fill vacancies in enterprises, 2020.

deployment is progressing quickly, but assignment of 5G spectrum is still low (25% compared to the EU average of 56%) <sup>(63)</sup>. In addition, fibre coverage is slightly below the EU average (48% compared to 50%).

**Maltese firms show a high level of digitalisation.** The large majority of Maltese SMEs have at least a basic level of digital intensity. Malta performs particularly well in the use of technologies such as big data and cloud solutions, but there is a gap between uptake by large companies and SMEs. The uptake of artificial intelligence is lower, although slightly above the EU average.

**Malta is a front-runner in digital public services.** The country scores well above the EU average in providing digital public services for both citizens and businesses. The share of people interacting online with public authorities increased substantially to 72% of internet users, exceeding the EU average (65%).

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<sup>(63)</sup> Source: Communications Committee (COCOM) based on iDATE.

**This annex provides a general overview of the performance of Malta's research and innovation (R&I) system.** Malta is a moderate innovator according to the 2021 edition of the European Innovation Scoreboard<sup>(64)</sup>, but the R&I system remains underfunded. Total R&D spending reached 0.67% of GDP in 2020, which is far below the national target of 2% of GDP and one of the lowest among EU Member States.

### R&I activity by firms remains limited.

Business R&D spending in Malta stood at 0.43% of GDP in 2020, among the lowest in the EU. The volume of venture capital as % of GDP is declining and is also among the lowest in the EU. On a positive note, however, the share of employment in fast-growing enterprises in 50% of the most innovative sectors is higher than EU average and

increasing. Public support for business innovation remains limited. After a slight increase between 2010 and 2018, public sector support for business R&D fell to 0.038% of GDP in 2019, below its 2010 levels. The recovery and resilience plan partly addresses this challenge as it provides for the finalisation and implementation of Malta's smart specialisation strategy, with a focus on promoting business R&I and simplifying administrative processes. This could be a starting point towards developing a fully integrated and easier-to-navigate support system for start-ups, SMEs and innovative companies.

**The Maltese public research system continues to suffer from underfunding and science-business cooperation remains weak.** Extremely low and stagnant public R&D

Table A9.1: Key research, development and innovation indicators

Malta	2010	2015	2018	2019	2020	Compound annual growth 2010-20	EU average
<b>Key indicators</b>							
R&D Intensity (GERD as % of GDP)	0.59	0.72	0.58	0.57	0.67	1.3	2.32
Public expenditure on R&D as % of GDP	0.23	0.35	0.21	0.22	0.24	0.5	0.78
Business enterprise expenditure on R&D (BERD) as % of GDP	0.36	0.37	0.36	0.35	0.43	1.8	1.53
<b>Quality of the R&amp;I system</b>							
Scientific publications of the country within the top 10% most cited publications worldwide as % of total publications of the country	6.7	8.5	6.5	:	:	-0.4	9.9
PCT patent applications per billion GDP (in PPS)	0.3	1.2	1.1	:	:	17.1	3.5
<b>Academia-business cooperation</b>							
Public-private scientific co-publications as % of total publications	5.4	6	6.8	7.3	5.6	0.4	9.05
<b>Human capital and skills availability</b>							
New graduates in science & engineering per thousand pop. aged 25-34	8.1	9.7	7.2	6.3	:	-7.5	16.3
<b>Public support for business enterprise expenditure on R&amp;D (BERD)</b>							
Total public sector support for BERD as % of GDP	0.04	0.045	0.051	0.038	:	-0.8	0.196
R&D tax incentives: foregone revenues as % of GDP	0.031	0.019	0.038	0.027	:	-1.5	0.100
<b>Green innovation</b>							
Share of environment-related patents in total patent applications filed under PCT (%)	15.9	44.0	5.4	:	:	-12.2	12.8
<b>Finance for innovation and Economic renewal</b>							
Venture Capital (market statistics) as % of GDP	0.01	0.01	0.006	0.007	0.006	-4	0.054
Employment in fast-growing enterprises in 50% most innovative sectors	5.9	7.3	7.2	8.2	:	3.8	5.5

Source: European Commission

Data: Eurostat, OECD, DG JRC, Science-Metrix (Scopus database and EPO's Patent Statistical database), Invest Europe

<sup>(64)</sup> 2021 European Innovation Scoreboard, Country profile: Malta <https://ec.europa.eu/docsroom/documents/45925/attachment/1/translations/en/renditions/native>

investment (0.24% of GDP in 2020) weighs heavily on Malta's scientific performance. The share of the country's scientific publications within the top 10% most cited scientific publications

worldwide, as a percentage of the country's total publications, significantly declined between 2015 and 2018 (6.5% in 2018, compared to 8.5% in 2015). Attracting and retaining skilled talents for R&I is a key challenge for Malta. The country ranks low among Member States when it comes to the share of new graduates in science and engineering, which has been on a declining trend since 2010. Evidence also suggest that Malta is struggling to strengthen science-business linkages. After increasing to 7.3% over 2010-2019, the share of public-private scientific co-publications declined in 2020 to 5.6%.



**Productivity growth is a critical driver of economic prosperity, well-being and convergence over the long run** <sup>(65)</sup>. A major source of productivity for the EU economy is a well-functioning single market, where fair and effective competition and a business-friendly environment are ensured, in which small and medium enterprises (SMEs) can operate and innovate without difficulty. Businesses and industry rely heavily on robust supply chains and are facing bottlenecks that bear a negative impact on firms' productivity levels, employment, turnover and entry/exit rates. This may impact the Member States' capacity to deliver on Europe's green and digital transformation.

**Malta's positive productivity development was mainly driven by the services sector.**

After the financial crisis in 2009 until 2020, Malta's total factor productivity increased at higher rates than the rest of the EU due to advancements in technology. Labour productivity was to a great extent driven by the high-tech and professional services sectors.

**Malta's business environment would benefit from reducing payment delays, increasing transparency and improving bankruptcy rules.**

Firms in Malta have a well-developed digital infrastructure. Measures in the RRP aim to further improve the digitalisation of public administration and public services, companies and the justice system. Most firms (76% compared to an EU average of 56%) report a high level of confidence in investment protection. During the COVID-19 pandemic, businesses in Malta received substantial financial support, such as loan guarantees, tax deferrals and a wage supplement scheme, keeping the level of bankruptcies low. However, in resolving insolvency, the country ranks among the worst performers in the EU and in terms of the recovery rate would benefit from reforming its regulatory framework. Late payments are an additional barrier to SME resilience as 64% of firms report payment delays versus 45% in the EU.

**Although Malta is well integrated in the single market, barriers for regulated professions and compliance gaps remain.**

Despite some recent measures for offering more transparency to professionals (e.g. database on regulated professions), the regulatory

restrictiveness in Malta is higher than the EU average for several professions (tourist guides, real estate agents, accountants, architects, and civil engineers) except for lawyers, for which it is lower, and patent agents, which is not regulated. The RRP measures do not address these barriers. In terms of its track record in incorporating EU legislation into national law, Malta ranks above the EU average.

**Also due to its geographical position, economic structure and size, Malta faces challenges relating to input prices, supply chain disruptions and shortages of skilled workers.**

Compared to the EU, the Maltese economy has a relative high share of high value services sectors, such as financial services, information and communication and gaming. In terms of shortages, Maltese firms report lacking staff as one of the main limiting factors. In the production process, firms rely extensively on imports of machinery, energy products and chemicals from other EU Member States, especially from Italy, but also from extra-EU countries, mainly from Asia. This dependency on global markets puts extra pressure on input prices. Combined with low shares of installed renewable electricity production capacity, this adds to production vulnerabilities.

<sup>(65)</sup> European Commission (2022). [Annual Sustainable Growth Survey](#). COM (2021) 740 final.

Table A10.1: Key Single Market and Industry Indicators

SUB-POLICY AREA	INDICATOR NAME	DESCRIPTION	2021	2020	2019	2018	2017	Growth rates	EU27 average*
<b>HEADLINE INDICATORS</b>									
Economic structure	Value added by source (domestic)	VA that depends on domestic intermediate inputs, % [source: OECD (TiVA), 2018]				43.39			<b>62.6%</b>
	Value added by source (EU)	VA imported from the rest of the EU, % [source: OECD (TiVA), 2018]				24.64			<b>19.7%</b>
	Value added by source (extra-EU)	% VA imported from the rest of the world, % [source: OECD (TiVA), 2018]				32			<b>17.6%</b>
Cost competitiveness	Producer energy price (industry)	Index (2015=100) [source: Eurostat, sts_inppd_a]	96	96	96	96	96	<b>0.0%</b>	<b>127.3</b>
<b>RESILIENCE</b>									
Shortages/supply chain disruptions	Material Shortage using survey data	Average (across sectors) of firms facing constraints, % [source: ECFIN CBS]	23	10	8	10	11	<b>109%</b>	<b>26%</b>
	Labour Shortage using survey data	Average (across sectors) of firms facing constraints, % [source: ECFIN CBS]	16	17	44	40	37	<b>-57%</b>	<b>14%</b>
	Sectoral producer prices	Average (across sectors), 2021 compared to 2020 and 2019, index [source: Eurostat]	13.4	4.3	2.1	5.5	3.3	<b>n.a.</b>	<b>9.8%</b>
Strategic dependencies	Concentration in selected raw materials	Import concentration a basket of critical raw materials, index [source: COMEXT]	0.16	0.14	0.17	0.21	0.25	<b>-36%</b>	<b>17%</b>
	Installed renewables electricity capacity	Share of renewable electricity to total capacity, % [source: Eurostat, nrg_inf_epc]		0.00	0.00	0.00	0.00	<b>0%</b>	
Investment dynamics	Net Private investments	Change in private capital stock, net of depreciation, % GDP [source: Ameco]		5.3	7.2	7.5	8.9	<b>-40.4%</b>	<b>2.6%</b>
	Net Public investments	Change in public capital stock, net of depreciation, % GDP [source: Ameco]		2.2	1.9	1.3	0.5	<b>340%</b>	<b>0.4%</b>

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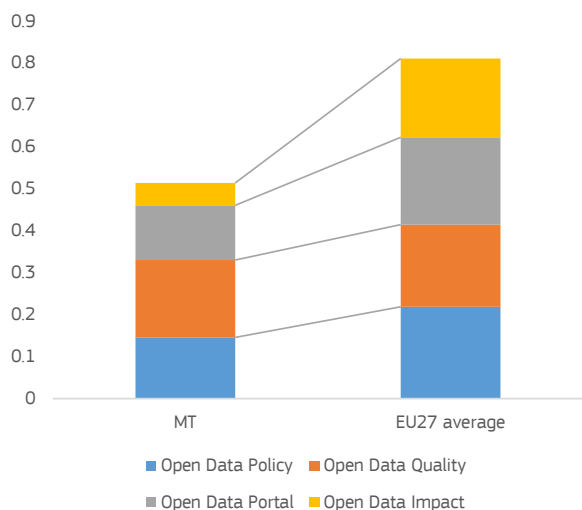
Table (continued)

SINGLE MARKET									
Single Market integration	Intra-EU trade	Ratio of Intra-EU trade to Extra-EU trade, index [source: Ameco]	1.30	1.21	1.19	1.50	1.18	10%	1.59
	Professional services restrictiveness indicator	Restrictiveness of access to and exercise of regulated professions (professions with above median restrictiveness, out of the 7 professions analysed in SWD (2021)185 [source: SWD (2021)185; SWD(2016)436 final])	5				4	25%	3.37
Professional qualifications recognition	Recognition decisions w/o compensation	Professionals qualified in another EU MS applying to host MS, % over total decisions taken by host MS [source: Regulated professions database]	23.1						4500%
Compliance - cooperation EC and MS	Transposition - overall	5 sub-indicators, sum of scores [source: Single Market Scoreboard]		Above average	Above average	Above average	Above average		
	Infringements - overall	4 sub-indicators, sum of scores [source: Single Market Scoreboard]		On average	On average	On average	Below average		
Investment protection	Confidence in investment protection	Companies confident that their investment is protected by the law and courts of MS if something goes wrong, % of all firms surveyed [source: Flash Eurobarometer 504]	76						56%
BUSINESS ENVIRONMENT - SMEs									
Business demography	Bankruptcies	Index (2015=100) [source: Eurostat, sts_rb_a]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	70.1 (2020)
	Business registrations	Index (2015=100) [source: Eurostat, sts_rb_a]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	105,6
	Late payments	Share of SMEs experiencing late payments in past 6 months, % [source: SAFE]	64.4	73.8	71.5	n.a.	n.a.	-10%	45%
Access to finance	EIF Access to finance index - Loan	Composite: SME external financing over last 6 months, index from 0 to 1 (the higher the better) [source: EIF SME Access to Finance Index]		0.61	0.74	0.72	0.61	0.8%	0.56 (2020)
	EIF Access to finance index - Equity	Composite: VC/GDP, IPO/GDP, SMEs using equity, index from 0 to 1 (the higher the better) [source: EIF SME Access to Finance Index]		0.05	0.17	0.28	0.68	-92.7%	0.18 (2020)
	% of rejected or refused loans	SMEs whose bank loans' applications were refused or rejected, % [source: SAFE]	6.3	0	11.8	13.4	8.9	-28.9%	12.4%
Public procurement	SME contractors	Contractors which are SMEs, % of total [source: Single Market Scoreboard]		91	92	96	90	1.1%	63%
	SME bids	Bids from SMEs, % of total [source: Single Market Scoreboard]		88	85	90	89	-1%	70.8%

Source: See above in the table the respective source for each indicator in the column "Description"

**Good administrative capacity enables economic prosperity, social progress and fairness.** Public administrations at all government levels deliver crisis response, ensure the provision of public services and contribute to building resilience for the sustainable development of the EU economy.

Graph A11.1: Open data maturity



Source: Open Data Maturity | data.europa.eu

**Overall, the effectiveness of the public administration in Malta is around the average in the EU<sup>(66)</sup>.** Challenges remain as regards the limited use of evidence-based instruments and the effectiveness of public consultations in the law-making process. Although various channels of consulting the public exist, there is certain discretion on whether to initiate large-scale public consultations and many exceptions prevail. The outcomes of public consultation procedures are not always published online in a timely and easily accessible manner<sup>(67)</sup>. Moreover, Malta lacks a systematic approach towards reviewing whether laws and regulations have achieved the intended policy goals, for instance through periodic ex post evaluations<sup>(68)</sup>. Malta shows some weaknesses in the public procurement area including a relatively

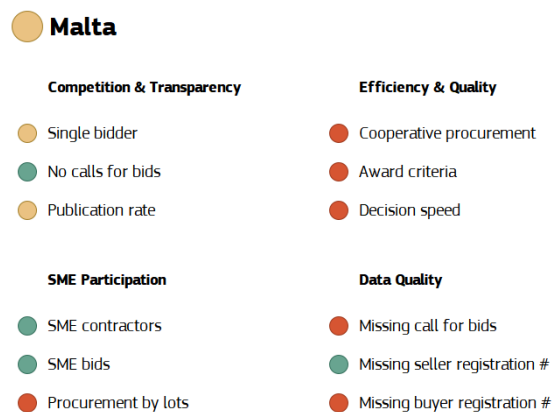
<sup>(66)</sup> [Worldwide Governance Indicators, 2020](#).

<sup>(67)</sup> [Rule of Law Report 2020, European Commission](#)

<sup>(68)</sup> The [2019 OECD report on Regulatory Policy and Governance](#) indicates that Malta is well below the OECD average in terms of the ex post evaluation of regulation.

lower share of procurement advertised on TED<sup>(69)</sup> (see Graph A11.2).

Graph A11.2: Performance on the single market public procurement indicator



(1) The competition and transparency indicators are triple-weighted, whereas the efficiency and quality indicators have unitary weights. All others receive a 1/3 weighting in the SMS composite indicator.

Source: Single market scoreboard 2020 data.

**Malta scores well on e-government indicators, but lags behind for open data provision.** There has been an improvement in uptake of e-government services, with the share of e-government users reaching 72% in 2021. The Maltese RRP places a considerable focus on the digitalisation of the public administration and public services. However, open data policies remain weak. Malta ranks among the lowest in the EU on this (see Graph A11.1), lowering the transparency and accountability of public institutions to citizens.

**Malta’s civil servants are younger than in other Member States.** Malta’s public administration continues to have one of the youngest age profiles in the EU, ranking first for the proportion of public officials under 39 years of age (56.4%) and among the last for the share over 55 years of age (15.6%). While the share of public servants with tertiary education is one of the lowest in the EU (29.0% compared to the EU average of 55.3%), the participation of public administration employees in adult learning above the EU average. Gender parity in senior civil service management positions has improved considerably since 2017 and is above the EU average.

<sup>(69)</sup> Tenders Electronic Daily

Table A11.1: **Public administration indicators – Malta**

MT	Indicator (1)	2017	2018	2019	2020	2021	EU27
<b>E-government</b>							
1	Share of individuals who used internet within the last year to interact with public authorities (%)	56.0	57.0	58.0	63.0	72.0	70.8
2	2021 e-government benchmark 's overall score (2)	na	na	na	na	95.5	70.9
<b>Open government and independent fiscal institutions</b>							
3	2021 open data maturity index	na	na	na	na	51.5	81.1
4	Scope Index of Fiscal Institutions	77.1	72.1	72.1	72.1	na	56.8
<b>Educational attainment level, adult learning, gender parity and ageing</b>							
5	Share of public administration employees with tertiary education, levels 5-8 (3)	30.1	29.2	33.0	33.1	29.0	55.3
6	Participation rate of public administration employees in adult learning (3)	15.5	20.6	24.2	17.3	23.5	18.6
7	Gender parity in senior civil service positions (4)	22.6	23.0	16.4	13.8	10.8	21.8
8	Share of public sector workers between 55 and 74 years (3)	14.7	16.1	14.0	14.2	15.6	21.3
<b>Public Financial Management</b>							
9	Medium term budgetary framework index	0.77	0.77	0.77	0.77	na	0.72
10	Strength of fiscal rules index	1.4	1.4	1.4	1.4	na	1.5
11	Public procurement composite indicator	-0.7	-3.7	-3.7	0.0	na	-0.7
<b>Evidence-based policy making</b>							
12	Index of regulatory policy and governance practices in the areas of stakeholder engagement, Regulatory Impact Assessment (RIA) and ex post evaluation of legislation	1.46	na	na	na	na	1.6

(1) High values stand for good performance barring indicators # 7 and 8.

(2) Measures the user centricity (including for cross-border services) and transparency of digital public services as well as the existence of key enablers for the provision of those services.

(3) Break in the series in 2021.

(4) Defined as the absolute value of the difference between the share of men and women in senior civil service positions.

**Source:** ICT use survey, Eurostat (# 1); E-government benchmark report (# 2); Open data maturity report (# 3); Fiscal Governance Database (# 4, 9, 10); Labour Force Survey, Eurostat (# 5, 6, 8), European Institute for Gender Equality (# 7), Single Market Scoreboard public procurement composite indicator (# 11); OECD Indicators of Regulatory Policy and Governance (# 12).

**The justice system faces serious efficiency challenges.** The duration of litigious civil and commercial cases at first instance in 2020 remained very long (550 days), continuing an increasing trend since 2017. The duration of these proceedings in appeal was also very long (838 days). Malta's RRP takes steps to improve the quality of the justice system by addressing existing gaps in its digitalisation. The plan also includes reforms that aim to strengthen its judicial independence particularly by reforming the method of appointment and dismissal of the judiciary. <sup>(70)</sup>

<sup>(70)</sup> For a more detailed analysis of the performance of the justice system in Malta, see the 2022 EU Justice Scoreboard

(forthcoming) and the country chapter for Malta in the Commission's 2022 Rule of Law Report (forthcoming).

ANNEX 12: EMPLOYMENT, SKILLS AND SOCIAL POLICY CHALLENGES IN LIGHT OF THE EUROPEAN PILLAR OF SOCIAL RIGHTS

**The European Pillar of Social Rights provides the compass for upward convergence towards better working and living conditions in the EU.** The implementation of its 20 principles on equal opportunities and access to the labour market, fair working conditions, social protection and inclusion, supported by the 2030 EU headline targets on employment, skills and poverty reduction, will strengthen the EU’s drive towards a digital, green and fair transition. This annex provides an overview of Malta’s progress in achieving the goals under the European Pillar of Social Rights.

Table A12.1: **Social Scoreboard for MALTA**

Equal opportunities and access to the labour market	Early leavers from education and training (% of population aged 18-24) (2021)	11.0
	Individuals' level of digital skills (% of population 16-74) (2021)	61.0
	Youth NEET (% of total population aged 15-29) (2021)	9.9
	Gender employment gap (percentage points) (2021)	16.8
	Income quintile ratio (S80/S20) (2020)	4.7
Dynamic labour markets and fair working conditions	Employment rate (% population aged 20-64) (2021)	78.6
	Unemployment rate (% population aged 15-74) (2021)	3.5
	Long term unemployment (% population aged 15-74) (2021)	1.0
	GDHI per capita growth (2008=100) (2020)	125.5
Social protection and inclusion	At risk of poverty or social exclusion (in %) (2020)	19.9
	At risk of poverty or social exclusion for children (in %) (2020)	22.6
	Impact of social transfers (other than pensions) on poverty reduction (% reduction of AROP) (2020)	21.0
	Disability employment gap (ratio) (2020)	29.4
	Housing cost overburden (% of population) (2020)	2.8
	Children aged less than 3 years in formal childcare (% of under 3-years-olds) (2020)	29.7
	Self-reported unmet need for medical care (% of population 16+) (2020)	0.0
<div style="display: flex; justify-content: space-between; font-size: 8px; font-weight: bold;"> <span>Critical situation</span> <span>To watch</span> <span>Weak but improving</span> <span>Good but to monitor</span> <span>On average</span> <span>Better than average</span> <span>Best performers</span> </div>		

Update of 29 April 2022. Member States are classified on the Social Scoreboard according to a statistical methodology agreed with the EMCO and SPC Committees. It looks jointly at levels and changes of the indicators in comparison with the respective EU averages and classifies Member States in seven categories. For methodological details, please consult the Joint Employment Report 2022. Due to changes in the definition of the individuals' level of digital skills in 2021, exceptionally only levels are used in the assessment of this indicator; NEET: neither in employment nor in education and training; GDHI: gross disposable household income.

**Source:** Eurostat

**The labour market performs well but the low participation of women and other under-represented groups affects labour shortages and social cohesion.** Malta’s employment rate, which was already high before the COVID-19

crisis, further improved in 2020 and in the first three quarters of 2021. However, the gender employment gap remains one of the widest in the EU (16.8 pps in 2021), though registering one of the highest decreases in percentage points within the EU over the last decade (from 31.4 pps in 2012). The provision of free childcare and a ‘making work pay’ strategy contributed to this outcome. At 29.4 pps in 2020, the disability employment gap is above the EU average (24.5 pps). Malta also has one of the highest shares of low-skilled adults (36.1% vs 24.9% in the EU). The labour market participation of people over 55, although increasing, is low in comparison to the EU average (51.8% vs 60.5%). In response to those challenges, the European Social Fund (ESF) is already supporting measures to strengthen the provision of active labour market policies, with a special focus on vulnerable people. This support will be increased through the European Social Fund Plus (ESF+), with targeted actions towards fostering gender equality in the labour market and addressing unpaid care activities. While the unemployment rate remains significantly below the EU average, the duration of unemployment benefits (12 weeks based on a one-year work history) is one of the shortest in the EU. The study of the unemployment benefits system as part of the recovery and resilience plan (RRP) will contribute to re-assessing and addressing possible reform needs in this area.

**A high rate of early school leaving, as well as low levels of digital skills and participation in learning among low-skilled adults pose important challenges, notably in view of accompanying the green and digital transitions.** Although on a long-term downward trend, the early school leaving rate (11% in 2021) remains high compared to the EU average (9.7%), feeding into an already large pool of low-skilled adults. Among 18–64-year-old low-skilled adults, only 4% (EU average 12.4%) participated in learning (during the 4 weeks preceding the interview) in 2021, against 24.2% (EU average 16.6%) of the medium-skilled and 278% (EU average 20.7%) of those with tertiary education. While Malta performs relatively well regarding digital skills in general, the difference between groups by level of skills is significant. Only 37.1% (EU average 31.9%) of people with a low education level had at least basic digital skills in 2021, against 66.6% (EU average 49.7%) of those

with medium and 91.9% (EU average 79%) of those with high education levels. These gaps limit progress on addressing persisting labour shortages and skills mismatches, including in sectors linked to the twin transition. Educational outcomes remain limited compared to the average in the EU, despite relatively high expenditure in the area (see Annex 13). To tackle the challenges the country faces in this area, Malta's RRP envisages reforms in the areas of skills, early school leaving, adult learning, inclusiveness and diversity in the education system, and reinforced evaluation and monitoring of educational policies, while the ESF+ will support training and upskilling. Strengthening the quality and inclusiveness of education and training is key for Malta to contribute to reaching the 2030 EU headline target on skills and on employment.

**Poverty risks are below the EU average in general, but remain high for specific groups.**

While the at-risk-of-poverty-or-social-exclusion (AROPE) rate was 19.9% in 2020 (vs 21.6% in the EU), it was 28.2% for non-EU nationals, 28.5% for people aged over 65, and 30.1% for people with disabilities. The share of children at risk of poverty or social exclusion declined to 22.6% in 2020, below the EU average of 23.9%. However, some groups of children are at a greater risk of poverty and social exclusion, including those with single (50.7%) or low-skilled parents (42.7%). The impact of social transfers (other than pensions) on poverty reduction declined further in 2020 to 21%, and is substantially lower than the EU average (33.2%). The income of the richest 20% of the population was 4.7 times higher than that of the poorest 20% (below the EU average of 5 times), but rose substantially compared to 2019. Malta has one of the lowest housing cost overburden rates in the EU (2.8% vs EU 7.9%), while the indicator more than doubled since 2015, reflecting the tightening of the rental market brought about by changes in the country's demographics. The Maltese population enjoys generally good health and one of the longest life expectancies in the EU. Disparities in self-reported good health by income are among the largest in the EU, but unmet needs for medical care are relatively low, with little variation between income groups. There is scope for reinforced social policy action in order for Malta to contribute to reaching the 2030 EU headline target on poverty reduction.

**This annex outlines the main challenges for Malta's education and training system in light of the EU-level targets of the European Education Area strategic framework and other contextual indicators, based on the analysis from the 2021 Education and Training Monitor.** Malta's education and training system struggles with ensuring quality of education and effectiveness of spending.

**Average levels of basic skills – as measured by the PISA test – are low and significantly below the EU average.** A large percentage of pupils fail to achieve minimum proficiency levels (see Table A13.1). While the proportion of top performers has decreased since 2015, the percentage of underachieving pupils has remained practically unchanged and is above the EU average across the entire socio-economic distribution. Around 51% of pupils from the bottom socio-economic quartile lack basic skills in reading (EU 36.4%). This is more than twice the rate in the top quartile – even though the rate for the top quartile is also comparatively high (24.3% vs 9.5%

at EU level). Performance is strongly linked to the type of schools a pupil attends, with a gap between private and public schools equivalent to more than two school years, indicating a fragmentation of the education system. Learning losses expected due to the pandemic risk further aggravating the situation.

**Public expenditure on education is above the EU average and increased in the last decade.**

General government expenditure on education, both as a proportion of GDP (5.3% vs EU 4.7%) and as a proportion of total general government expenditure (14.2% vs EU 10%), was among the highest in the EU in 2019. Given low education outcomes, this suggests some challenges in the efficiency and effectiveness of spending and highlights the need for strengthening the evaluation of investments in education and training. The creation of a comprehensive evaluation framework could enable the cost-effectiveness of investments to be assessed and support national decision-making on education and training. This would allow for better alignment among structural challenges, education goals and

Table A13.1: EU-level targets and other contextual indicators under the European Education Area strategic framework

Indicator	Target	2015		2021		
		Malta	EU27	Malta	EU27	
Participation in early childhood education (age 3+)	96%	96.9%	91.9%	91.9% <sup>2019</sup>	92.8% <sup>2019</sup>	
Low achieving 15-year-olds in:	Reading	< 15%	35.6%	20.4%	35.9% <sup>2018</sup>	22.5% <sup>2018</sup>
	Mathematics	< 15%	29.1%	22.2%	30.2% <sup>2018</sup>	22.9% <sup>2018</sup>
	Science	< 15%	32.5%	21.1%	33.5% <sup>2018</sup>	22.3% <sup>2018</sup>
<b>Total</b>	<b>&lt; 9%</b>	<b>16.3%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>9.7%</b>	
By gender	Men		19.2%	12.5%	12.3%	11.4%
	Women		13.0%	9.4%	9.5%	7.9%
Early leavers from education and training (age 18-24)	By degree of urbanisation	Cities	20.8%	9.6%	15.8%	8.7%
		Rural areas	12.0% <sup>u</sup>	12.2%	: <sup>u</sup>	10.0%
	By country of birth	Native	16.5%	10.0%	9.6%	8.5%
		EU-born	: <sup>u</sup>	20.7%	: <sup>u</sup>	21.4%
	Non EU-born	: <sup>u</sup>	23.4%	20.9% <sup>u</sup>	21.6%	
<b>Total</b>	<b>45%</b>	<b>31.9%</b>	<b>36.5%</b>	<b>42.4%</b>	<b>41.2%</b>	
By gender	Men		27.3%	31.2%	36.4%	35.7%
	Women		36.9%	41.8%	49.6%	46.8%
Tertiary educational attainment (age 25-34)	By degree of urbanisation	Cities	31.9%	46.2%	39.8%	51.4%
		Rural areas	29.8%	26.9%	55.1%	29.6%
	By country of birth	Native	31.5%	37.7%	40.7%	42.1%
		EU-born	54.5% <sup>u</sup>	32.7%	49.6%	40.7%
	Non EU-born	31.0%	27.0%	45.4%	34.7%	
Share of school teachers (ISCED 1-3) who are 50 years or over		13.7%	38.3%	15.3% <sup>2019</sup>	38.9% <sup>2019</sup>	

**Notes:** The 2018 EU average on PISA reading performance does not include ES; u = low reliability; : = not available; data are not yet available for the remaining EU-level targets under the European Education Area strategic framework, covering underachievement in digital skills, exposure of vocational education and training (VET) graduates to work-based learning and participation of adults in learning.

**Source:** Eurostat (UOE, LFS); OECD (PISA)..

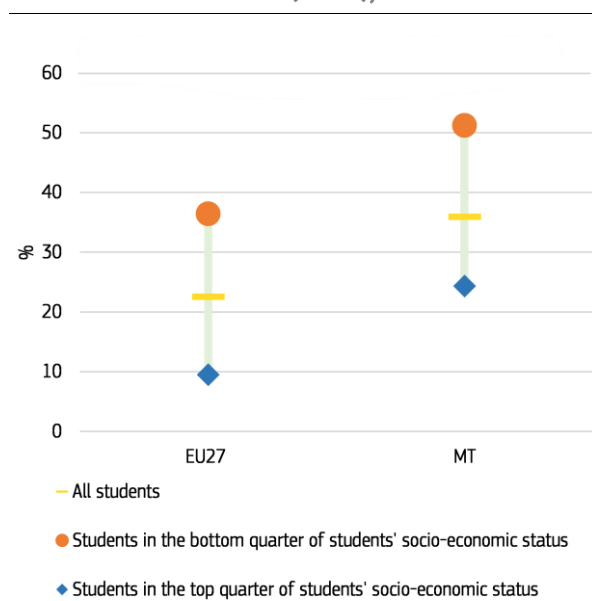


policies implemented at all education levels.

**Participation in early childhood education of children above the age of 3 increased until 2019 but dropped in 2020 with the pandemic.**

The pandemic has impacted on the provision of childcare services, and participation in formal childcare of children below 3 dropped significantly in 2020 (from 38.3% in 2019 to 29.7%), reversing the positive trend experienced in previous years thanks to the free childcare scheme.

Graph A13.1: **Low achievers in reading by student socio-economic status (ESCS), 2018**



Source: OECD, PISA 2018

**Despite a substantial decrease since 2010, the early-school-leaving rate remains relatively high in EU comparison.**

A significant gap exists between native-born and foreign-born young people. The decreasing trend for native-born early school leavers in recent years indicates that the policies put in place to tackle early leaving are achieving results. However, the persistently high values for foreign-born young people point to challenges with regard to equity and inclusion. This is particularly important, as the share of pupils from abroad has significantly increased in the last decade.

**The tertiary educational attainment rate is above the EU average (42.4% vs EU 41.2%).**

The rate has recorded one of the highest increases across the EU since 2015. This positive trend is likely to be driven by both a higher number of students participating in tertiary programmes – in particular women – and strong reliance on high-

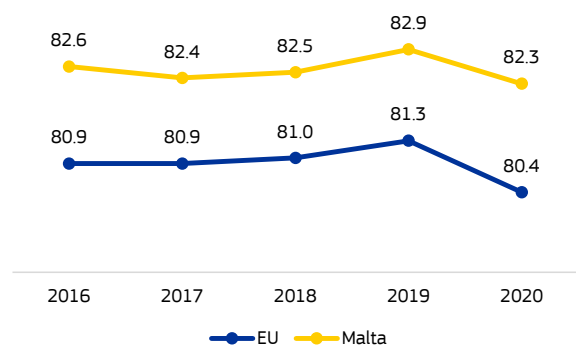
skilled foreigners in a buoyant labour market. Efforts are underway to better align vocational tertiary education with labour market needs. The COVID-19 pandemic slowed progress in participation in adult learning also in Malta.

**The reforms and investments under the Recovery and Resilience Facility will help address some of these long-standing challenges.**

Key measures focus on reducing early school leaving, improving inclusiveness and diversity in the education system, reinforcing evaluation and monitoring of educational policies and increasing labour market relevance of vocational education.

**Especially relevant in light of the ongoing COVID-19 pandemic, resilient healthcare is a prerequisite for a sustainable economy and society.** This annex provides a snapshot of the healthcare sector in Malta.

Graph A14.1: **Life expectancy at birth, years**



Source: Eurostat

**Life expectancy in Malta is higher than in the EU as a whole**, but fell in 2020 by over 7 months due to COVID-19. As of 17 April 2022, Malta reported 1.23 cumulative COVID-19 deaths per 1 000 inhabitants and 173 confirmed cumulative COVID-19 cases per 1 000 inhabitants). Cancer

**Health spending relative to GDP in Malta remains below the EU average.** The share of public funding for health care is low (compared to the EU average and compared to other tax-financed systems). Private out-of-pocket payments are among the highest in the EU (especially for outpatient care and medicines). Nevertheless, Malta reports one of the lowest self-reported levels of unmet needs in the EU, while income-based disparities in self-perceived health are among the largest in the EU. Public expenditure on health is projected to increase by 2.6 percentage points (pps) of GDP by 2070 (compared to 0.9 pps for the EU), raising long-term fiscal sustainability concerns <sup>(71)</sup>.

**Strengthening primary care has been a key objective for years to shift service delivery away from more resource-intensive hospital settings and to foster timely care for chronic conditions.** Although the numbers of medical staff are near the EU average, there are shortages in certain specialities and Malta's hospitals are reliant on recruiting foreign-trained nurses. Another challenge is to ensure the availability of affordable medicines.

Table A14.1: **Key health indicators**

	2016	2017	2018	2019	2020	EU average (latest year)
Treatable mortality per 100 000 population (mortality avoidable through optimal quality healthcare)	87.4	85.1	91.8	85.0		92.1 (2017)
Cancer mortality per 100 000 population	221.0	221.1	237.3	203.5		252.5 (2017)
Current expenditure on health, % GDP	9.1	9.2	9.0	:		9.9 (2019)
Public share of health expenditure, % of current health expenditure	63.0	62.9	63.5	:		79.5 (2018)
Spending on prevention, % of current health expenditure	1.3	1.3	1.3			2.8 (2018)
Acute care beds per 100 000 population	324.8	317.5	319.0	311.9		387.4 (2019)
Doctors per 1 000 population *	3.8	4.0	4.0	4.0		3.8 (2018)
Nurses per 1 000 population *	8.1	8.0	7.8	7.7		8.2 (2018)
Consumption of antibacterials for systemic use in the community, daily defined dose per 1 000 inhabitants per day **	18.4	19.8	18.0	18.7	14.4	14.5 (2020)

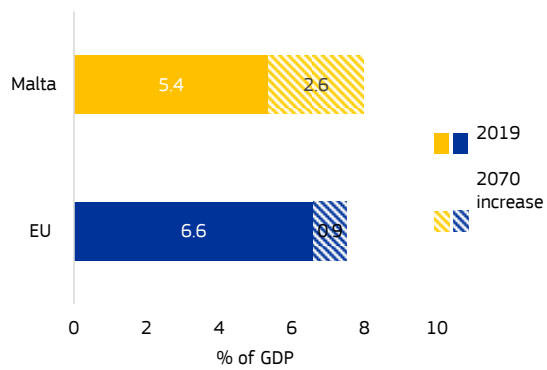
**Notes:** Doctors density data refer to practising doctors in all countries except FI, EL, PT (licensed to practice) and SK (professionally active). Nurses density data refer to practising nurses in all countries (data from 2014 for FI) except IE, FR, PT, SK (professionally active) and EL (nurses working in hospitals only). More information: [https://ec.europa.eu/health/state-health-eu/country-health-profiles\\_en](https://ec.europa.eu/health/state-health-eu/country-health-profiles_en).

**Source:** Eurostat Database; except: \* Eurostat Database and OECD, \*\* ECDC.

mortality is lower than the EU average. This is partially reflected in treatable mortality numbers, which are closer to the EU average.

<sup>(71)</sup> European Commission, 2021. Ageing Report ([https://ec.europa.eu/info/publications/2021-ageing-report-economic-and-budgetary-projections-eu-member-states-2019-2070\\_en](https://ec.europa.eu/info/publications/2021-ageing-report-economic-and-budgetary-projections-eu-member-states-2019-2070_en)).

Graph A14.2: **Projected increase in public expenditure on health care over 2019-2070**



**Source:** European Commission, 2021 Ageing Report, reference scenario

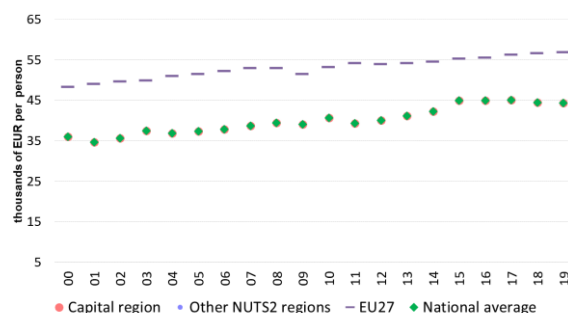
**Through its recovery and resilience plan (RRP), Malta plans to invest EUR 69.9 million** (more than 20 % of the total RRP) for its health system, mainly by establishing a Blood Tissues and Cells Centre, investing in new technologies and digitalisation.

The regional dimension is an important factor when assessing economic and social developments in Member States. Taking into account this dimension enables a well-calibrated and targeted policy response that fosters cohesion and ensures sustainable and resilient economic development across all regions.

In recent years Malta has recorded strong economic growth, with GDP per capita reaching the 2019 EU average. This performance hides some internal disparities, as outlined in the Commission country report <sup>(72)</sup>: GDP per capita of the main island is 102% of the EU average, whereas that of Gozo and Comino are 65%. The gap between the islands is being closed, despite the double insularity constraints, in particular thanks to EU funds: 10% of cohesion and agriculture funds are allocated to Gozo and Comino, for a population of 7%.

2014/2020 EU funds supporting climate mitigating measures and the green transition will be continued over 2021/2027, with more than 30% of the budget being directed to climate action. In accordance with Annex D of the 2020 country report, the Just Transition Fund will focus on social and economic impacts and support an investment of EUR 23 million aiming at providing power to ships docking in the two main ports.

Graph A15.1: Real GVA per worker



Unit: real GVA in MM EUR (2015 prices) by employment in thousands of persons

The light red circle shows the capital city region. The blue circles show the remaining NUTS2 regions.

The green diamond shows the national average. The purple line shows the EU27 average.

Source: European Commission

Despite a high level of broadband penetration across the islands, the need to improve online services remains, as identified by the 2021-2027 Malta Digital strategy, in particular in the area of health services. The 2021-2027 EU funds will support this digital transition.

Malta remains a moderate innovator in the EU, without regional disparity. With less than 1% of R&D expenditure/GDP recorded in 2020, it is far from the 2% EU target. This underperformance is linked with the SMEs limited research and innovation capacities. 2021-2027 EU funds will support these capacities in the areas identified by the national smart specialisation strategy.

Table A15.1: GDP growth in regions

NUTS 3 Region	GDP per head (PPS)	GDP per head growth (2010-2019)	Productivity (GVA (PPS) per person employed)	Real productivity growth	Employment growth
	EU27=100, 2019	2010-2019	EU27=100, 2018	Avg % change on preceding year, 2010-2019	2010-2019
European Union	100	1.39	100	1.00	0.56
Malta	100	3.71	93	1.27	4.50
Island of Malta	102	3.69	94	1.27	4.56
Gozo and Comino	65	3.97	74	1.48	3.47

Source: European Commission

<sup>(72)</sup> COM(2019) 463 final.

**This annex provides an overview of key developments in Malta's financial sector.** The size of Malta's banking sector is at present above the EU average. Only six other Member States show a higher ratio of total assets of the banking sector with respect to GDP. While the total banking sector continues to narrow, the share of domestic credit institutions has continuously increased since 2015 and now represents the majority of the Maltese banking sector. The concentration of the banking sector is significant as the five largest banks hold 74.8% of the sector's total assets.

**The banking sector has performed well despite the pandemic.** Banks maintained their capital levels well above the regulatory requirements, in part, supported by the temporary restriction on dividend payouts. The ratio of non-performing loans increased mildly from 3.2% in 2019 to 3.6% in 2020, due to the government support measures, and declined to 3.4% in Q3-2021. Similar to other Member States, profitability recovered in 2021, but still remained below pre-pandemic levels. The improvement in profits stems mainly from lower provisioning needs following their significant increase in 2020 to mitigate any possible losses due to the pandemic.

**On the development of non-bank finance, the market funding ratio is below EU average.** The market funding ratio stood low at 35% in 2020, as bank loans are the most important form of external financing for non-financial companies.

Malta scores below the EU average on the relevance of the issuance of listed shares, debt securities and venture capital. In 2021, the Maltese supervisory authorities launched a capital markets strategy which would serve to create a more flexible and robust regulatory regime to cater for the local capital markets.

Table A16.1: **Financial soundness indicators**

	2017	2018	2019	2020	2021
<b>Total assets of the banking sector (% of GDP)</b>	401.7	342.2	294.8	309.8	305.2
<b>Share (total assets) of the five largest bank (%)</b>	80.9	77.5	75.1	74.8	-
<b>Share (total assets) of domestic credit institutions (%)<sup>1</sup></b>	42.1	47.8	53.5	58.7	61.3
<b>Financial soundness indicators:<sup>1</sup></b>					
- non-performing loans (% of total loans)	3.1	3.1	3.2	3.6	3.4
- capital adequacy ratio (%)	21.1	22.3	23.4	25.1	25.8
- return on equity (%)	7.2	5.2	6.0	0.3	5.0
<b>NFC credit growth (year-on-year % change)</b>	14.8	3.5	2.0	2.7	-6.4
<b>HH credit growth (year-on-year % change)</b>	6.5	7.5	8.7	5.8	9.7
<b>Cost-to-income ratio (%)<sup>1</sup></b>	40.6	40.5	50.3	49.3	53.8
<b>Loan-to-deposit ratio (%)<sup>1</sup></b>	61.4	75.2	57.4	59.6	57.4
<b>Central bank liquidity as % of liabilities</b>	0.5	-	-	-	-
<b>Private sector debt (% of GDP)</b>	123.7	121.4	121.2	138.8	-
<b>Long-term interest rate spread versus Bund (basis points)</b>	96.4	99.0	92.5	99.2	87.1
<b>Market funding ratio (%)</b>	32.8	32.9	36.4	35.0	-
<b>Green bond issuance (bn EUR)</b>	-	-	-	-	-

(1) Last data: Q3 2021.

Source: ECB, Eurostat, Refinitiv.

**This annex provides an indicator-based overview of Malta's tax system.** It includes information on the tax structure, i.e. the types of tax that Malta derives most revenue from, the tax burden for workers, and the progressivity and redistributive effect of the tax system. It also provides information on tax collection and compliance and on the risks of aggressive tax planning activity, which appears high in Malta.

**Malta's tax revenues are low in relation to GDP, and the tax system relies almost equally on labour taxation and growth-friendly taxes.** In 2020, Maltese labour tax revenues as % of GDP were among the lowest in the EU. By contrast, consumption tax revenues as % of GDP were only slightly below the EU aggregate and environmental tax revenues slightly above it. Malta's tax system, however, is heavily reliant on corporate taxes. Malta does not have recurrent taxes on property.

**Malta's labour tax burden is relatively low for different wage levels.** The labour tax wedge for Malta in 2021 was substantially lower than the EU average at various income levels, i.e. for single persons at the average wage (100%) and at 50%, 67% and 167% of the average wage. Second earners at a wage level of 67% of the average wage, whose spouse earns the average wage, also face a lower tax wedge compared to the EU average, and they are not taxed more heavily than

single persons at the same wage level. In 2020 the tax-benefit system helped reduce inequality as measured by the GINI coefficient, by less than the EU average.

**The performance of the tax administration could be improved in Malta.** In 2019, outstanding tax arrears have increased by 15.2 pps to 117.6% of total net revenue. This is significantly above the EU27 average of 31.8%. The VAT gap (an indicator of the effectiveness of VAT enforcement and compliance) has increased in Malta to 23.5%, significantly above the EU-wide gap of 10.5%. The high foreign direct investment flows and the high level of dividend, interest and royalty payments as a % of GDP indicates the use of aggressive tax planning in Malta.

Table A17.1: Indicators on taxation

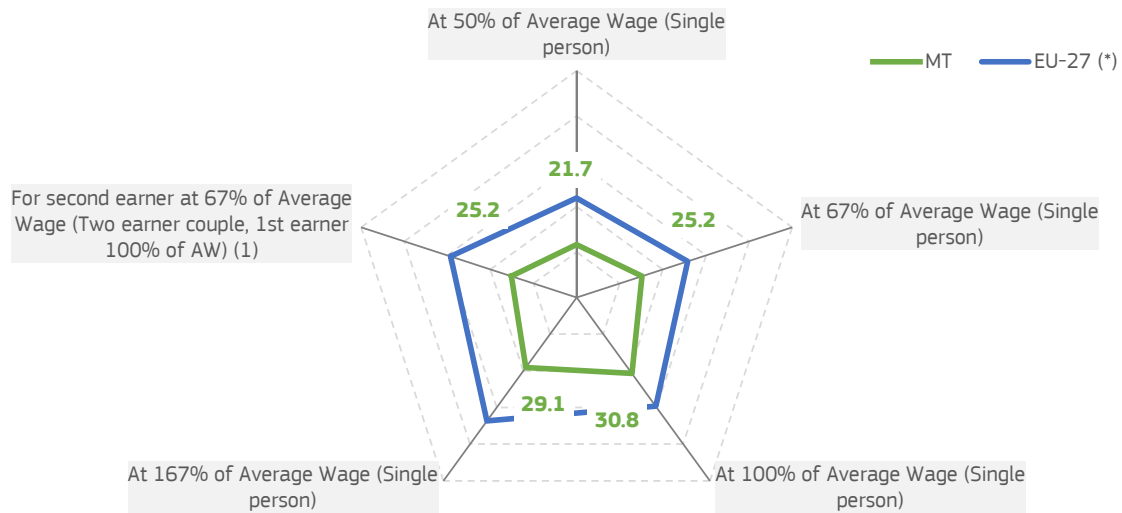
	Malta					EU-27					
	2010	2018	2019	2020	2021	2010	2018	2019	2020	2021	
<b>Tax structure</b>	Total taxes (including compulsory actual social contributions) (% of GDP)	30.9	30.2	29.8	29.7	37.9	40.1	39.9	40.1		
	Labour taxes (as % of GDP)	9.9	10.9	11.0	12.4	20.0	20.7	20.7	21.5		
	Consumption taxes (as % of GDP)	11.9	11.3	10.8	10.4	10.8	11.1	11.1	10.8		
	Capital taxes (as % of GDP)	9.1	8.1	8.1	6.9	7.1	8.2	8.1	7.9		
	Total property taxes (as % of GDP)	1.0	1.3	1.1	0.7	1.9	2.2	2.2	2.3		
	Recurrent taxes on immovable property (as % of GDP)	0.0	0.0	0.0	0.0	1.1	1.2	1.2	1.2		
Environmental taxes as % of GDP	2.8	2.5	2.5	2.3	2.4	2.4	2.4	2.2			
<b>Progressivity &amp; fairness</b>	Tax wedge at 50% of Average Wage (Single person) (*)	18.9	21.4	22.1	22.4	21.7	33.9	32.4	32.0	31.5	31.9
	Tax wedge at 100% of Average Wage (Single person) (*)	26.4	30.5	30.7	31.0	30.8	41.0	40.2	40.1	39.9	39.7
	Corporate Income Tax - Effective Average Tax rates (1) (*)		28.2	28.2	28.2		19.8	19.5	19.3		
	Difference in GINI coefficient before and after taxes and cash social transfers (pensions excluded from social transfers)	7.2	8.3	6.0	6.3		8.4	7.9	7.4	8.3	
<b>Tax administration &amp; compliance</b>	Outstanding tax arrears: Total year-end tax debt (including debt considered not collectable) / total revenue (in %) (*)		102.4	117.6			31.9	31.8			
	VAT Gap (% of VTTL)		18.1	23.5			11.2	10.5			
<b>Financial Activity Risk</b>	Dividends, Interests and Royalties (paid and received) as a share of GDP (%)			69.6			10.7	10.5			
	FDI flows through SPEs (Special Purpose Entities), % of total FDI flows (in and out)		95.8	96.1			47.8	46.2	36.7		

(1) Forward-looking Effective Tax Rate (OECD)

(\*) EU-27 simple average, as no aggregated EU-27 value

Source: European Commission and OECD.

### Tax wedge 2021 (%)



The tax wedge measures the difference between the total labour cost of employing a worker and the worker's net earnings: sum of personal income taxes and employee and employer social security contributions, net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social security contributions paid by the employer).

(1) The second earner average tax wedge measures how much extra personal income tax (PIT) plus employee and employer social security contributions (SSCs) the family will have to pay as a result of the second earner entering employment, as a proportion of the second earner's gross earnings plus the employer SSCs due on the second earner's income. For a more detailed discussion see OECD (2016), Taxing Wages 2016, OECD Publishing, Paris. [http://dx.doi.org/10.1787/tax\\_wages-2016-en](http://dx.doi.org/10.1787/tax_wages-2016-en)

(\*) EU-27 simple average as there is no aggregated EU-27 value.

**Source:** European Commission

# ANNEX 18: KEY ECONOMIC AND FINANCIAL INDICATORS

Table A18.1: Key economic and financial indicators

	2004-07	2008-12	2013-18	2019	2020	2021	forecast	
							2022	2023
Real GDP (y-o-y)	2.7	2.5	7.2	5.9	-8.3	9.4	4.2	4.0
Potential growth (y-o-y)	2.7	3.1	6.0	5.9	3.2	3.1	3.7	3.8
Private consumption (y-o-y)	2.8	1.3	4.3	4.6	-10.2	6.2	3.8	3.4
Public consumption (y-o-y)	1.0	3.3	3.2	13.1	15.8	6.1	9.0	1.4
Gross fixed capital formation (y-o-y)	6.2	-1.3	10.8	8.4	-7.6	19.3	2.5	4.9
Exports of goods and services (y-o-y)	7.7	7.4	5.7	7.0	-5.6	8.2	5.5	4.7
Imports of goods and services (y-o-y)	7.7	6.3	4.7	8.0	-2.2	7.6	6.0	4.3
Contribution to GDP growth:								
Domestic demand (y-o-y)	3.3	1.2	4.8	5.9	-3.6	8.0	4.0	2.9
Inventories (y-o-y)	-0.3	-0.2	0.2	0.1	0.6	-0.4	0.0	0.0
Net exports (y-o-y)	-0.5	1.5	2.1	-0.1	-5.3	1.8	0.1	1.1
Contribution to potential GDP growth:								
Total Labour (hours) (y-o-y)	0.5	0.7	2.8	3.7	1.7	0.8	1.4	1.4
Capital accumulation (y-o-y)	1.4	1.0	1.6	1.8	1.2	1.8	1.7	1.7
Total factor productivity (y-o-y)	0.8	1.4	1.5	0.4	0.2	0.5	0.6	0.7
Output gap	-0.6	-1.3	2.4	4.8	-7.0	-1.3	-0.9	-0.7
Unemployment rate	6.9	6.5	4.9	3.6	4.4	3.5	3.6	3.6
GDP deflator (y-o-y)	2.1	2.3	2.5	2.4	1.5	1.7	2.8	2.6
Harmonised index of consumer prices (HICP, y-o-y)	2.1	2.9	1.1	1.5	0.8	0.7	4.5	2.6
Nominal compensation per employee (y-o-y)	2.9	3.3	3.4	3.8	-0.7	5.5	3.8	2.9
Labour productivity (real, hours worked, y-o-y)	1.6	1.8	2.2	-4.3	-3.3	8.9	-0.1	-0.1
Unit labour costs (ULC, whole economy, y-o-y)	1.6	2.7	1.8	3.6	11.4	-2.1	1.8	1.0
Real unit labour costs (y-o-y)	-0.5	0.4	-0.7	1.2	9.8	-3.8	-1.0	-1.6
Real effective exchange rate (ULC, y-o-y)	1.5	0.3	1.0	0.0	.	.	.	.
Real effective exchange rate (HICP, y-o-y)	1.0	-0.7	0.3	-1.2	1.4	-1.2	.	.
Net savings rate of households (net saving as percentage of net disposable income)								
Private credit flow, consolidated (% of GDP)	12.2	9.8	6.6	10.2	9.0	.	.	.
Private sector debt, consolidated (% of GDP)	141.1	163.3	132.5	121.3	139.0	.	.	.
of which household debt, consolidated (% of GDP)	46.7	57.6	51.2	47.6	54.0	.	.	.
of which non-financial corporate debt, consolidated (% of GDP)	94.4	105.6	81.3	73.7	85.1	.	.	.
Gross non-performing debt (% of total debt instruments and total loans and advances) (2)	1.7	1.6	2.5	2.4	2.7	.	.	.
Corporations, net lending (+) or net borrowing (-) (% of GDP)								
Corporations, gross operating surplus (% of GDP)	29.4	31.3	36.2	37.9	37.6	.	.	.
Households, net lending (+) or net borrowing (-) (% of GDP)	.	.	.	.	.	.	.	.
Deflated house price index (y-o-y)								
Residential investment (% of GDP)	7.4	4.1	3.5	4.6	3.9	3.7	.	.
Current account balance (% of GDP), balance of payments								
Trade balance (% of GDP), balance of payments	-1.6	1.4	11.8	14.0	8.0	3.2	.	.
Terms of trade of goods and services (y-o-y)	-0.1	0.0	0.8	0.4	0.1	0.1	-1.2	-0.5
Capital account balance (% of GDP)	2.3	1.3	1.3	0.8	0.6	1.0	.	.
Net international investment position (% of GDP)	30.6	10.7	43.9	53.5	51.0	44.4	.	.
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (1)	86.8	168.7	214.1	234.9	254.9	-764.8	.	.
IIP liabilities excluding non-defaultable instruments (% of GDP) (1)	452.3	698.9	496.7	280.5	317.9	1801.2	.	.
Export performance vs. advanced countries (% change over 5 years)	.	35.7	10.0	18.6	13.7	.	.	.
Export market share, goods and services (y-o-y)	-0.7	2.3	3.2	4.4	4.2	-1.6	0.8	0.4
Net FDI flows (% of GDP)	-154.7	-77.5	-82.5	-68.5	-74.7	-65.8	.	.
General government balance (% of GDP)								
Structural budget balance (% of GDP)	-2.9	-3.2	0.3	0.6	-9.5	-8.0	-5.6	-4.6
General government gross debt (% of GDP)	.	.	-0.9	-1.7	-6.2	-7.4	-5.2	-4.3
General government gross debt (% of GDP)	66.8	66.1	55.2	40.7	53.4	57.0	58.5	59.5

(1) NIIP excluding direct investment and portfolio equity shares.

(2) Domestic banking groups and stand-alone banks, EU and non-EU foreign-controlled subsidiaries and EU and non-EU foreign-controlled branches.

Source: Eurostat and ECB as of 2022-05-02, where available; European Commission for forecast figures (Spring forecast 2022)



**This annex assesses fiscal sustainability risks for Malta over the short, medium and long term.** It follows the same multi-dimensional approach as the 2021 Fiscal Sustainability Report, updated on the basis of the Commission 2022 spring forecast.

**Table 1 presents the baseline debt projections.** It shows the projected government debt and its breakdown into the primary balance, the snowball effect (the combined impact of interest payments and nominal GDP growth on the debt dynamics) and the stock-flow adjustment. These projections assume that no new fiscal policy measures are taken after 2023 and include the expected positive impact of investments under Next Generation EU.

**Graph 1 shows four alternative scenarios around the baseline, to illustrate the impact of changes in assumptions.** The ‘historical SPB’ scenario assumes that the structural primary balance (SPB) gradually returns to its past average level. In the ‘lower SPB’ scenario, the SPB is

permanently weaker than in the baseline. The ‘adverse interest-growth rate’ scenario assumes a less favourable snowball effect than in the baseline. In the ‘financial stress’ scenario, the country temporarily faces higher market interest rates in 2022.

**Graph 2 shows the outcome of the stochastic projections.** These projections show the impact on debt of 2 000 different shocks affecting the government’s budgetary position, economic growth, interest rates and exchange rates. The cone covers 80% of all the simulated debt paths, therefore excluding tail events.

**Table 2 shows the S1 and S2 fiscal sustainability indicators and their main drivers.** S1 measures the consolidation effort needed to bring debt to 60% of GDP in 15 years. S2 measures the consolidation effort required to stabilise debt over an infinite horizon. The *initial budgetary position* measures the effort required to cover future interest payments, the *ageing costs* component accounts for the need to absorb the

Table A19.1: Debt sustainability analysis for Malta

Table 1. Baseline debt projections	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Gross debt ratio (% of GDP)	40.7	53.4	57.0	58.5	59.5	60.5	61.2	61.8	62.9	63.6	64.2	64.7	65.3	65.9
Change in debt	-3.0	12.7	3.6	1.5	1.0	0.9	0.7	0.6	1.1	0.7	0.6	0.6	0.6	0.6
of which														
Primary deficit	-1.9	8.2	6.8	4.4	3.5	3.3	3.1	2.8	3.0	2.9	2.9	2.9	2.9	2.9
Snowball effect	-2.1	4.4	-4.3	-2.6	-2.5	-2.3	-2.4	-2.2	-1.9	-2.3	-2.3	-2.3	-2.3	-2.3
Stock-flow adjustment	1.0	0.2	1.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs (% of GDP)	5.4	16.2	15.7	12.7	12.4	12.2	12.1	12.0	12.3	12.3	12.4	12.5	12.6	12.7

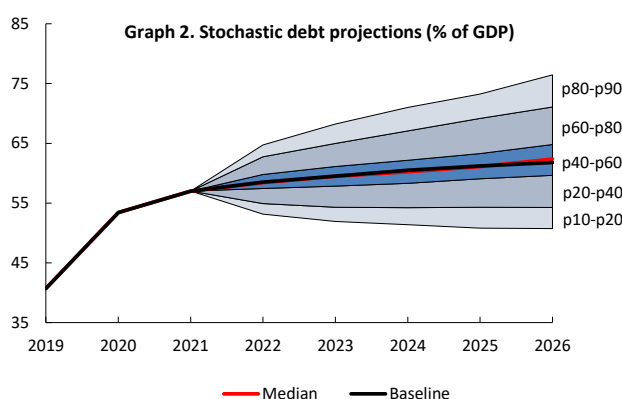
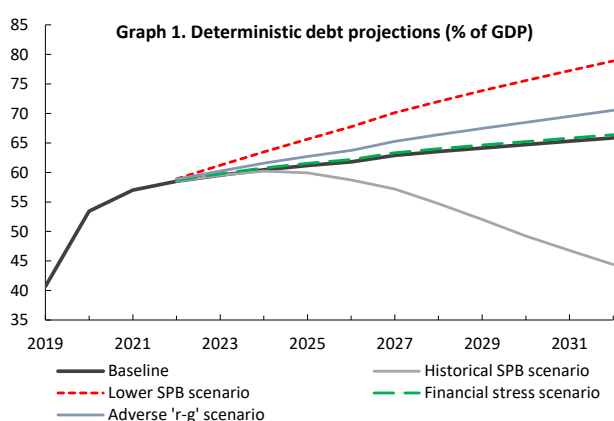


Table 2. Breakdown of the S1 and S2 sustainability gap indicators

	S1	S2
Overall index (pps. of GDP)	1.2	10.1
of which		
Initial budgetary position	1.4	3.4
Debt requirement	0.0	
Ageing costs	-0.2	6.7
of which		
Pensions	-0.7	3.1
Health care	0.5	2.3
Long-term care	0.3	1.5
Others	-0.3	-0.1

Source: European Commission

Table A19.2: Heat map of fiscal sustainability risks for Malta

Short term	Medium term						Long term					
	Overall (S0)	Overall (S1+DSA)	S1	Overall	Debt sustainability analysis (DSA)						S2	Overall (S2+DSA)
					Deterministic scenarios					Stochastic projections		
					Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress			
LOW	MEDIUM	MEDIUM	MEDIUM	Overall	MEDIUM	LOW	MEDIUM	MEDIUM	MEDIUM	LOW	HIGH	HIGH
				Debt level (2032), % GDP	66	44	79	71	66			
				Debt peak year	2032	2024	2032	2032	2032			
				Fiscal consolidation space	78%	51%	90%	78%	78%			
				Probability of debt ratio exceeding in 2026 its 2021 level						71%		
Difference between 90th and 10th percentiles (pps. GDP)										26		

(1) Debt level in 2032: green: below 60% of GDP, yellow: between 60% and 90%, red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early; yellow: peak towards the middle of the projection period; red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the baseline. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed; yellow: intermediate; red: low. (4) Probability of the debt ratio exceeding in 2026 its 2021 level: green: low probability, yellow: intermediate, red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 2000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

**Source:** European Commission (for further details on the Commission’s multi-dimensional approach, see the 2021 Fiscal Sustainability Report).

projected change in ageing-related public expenditure such as pensions, health care and long-term care, and the *debt requirement* measures the additional adjustment needed to reach the 60% of GDP debt target.

**Finally, the heat map presents the overall fiscal sustainability risk classification** (Table A19.2). The *short-term risk category* is based on the S0 indicator, an early-detection indicator of fiscal stress in the upcoming year. The *medium-term risk category* is derived from the debt sustainability analysis (DSA) and the S1 indicator. The DSA assesses risks to sustainability based on several criteria: the projected debt level in 10 years’ time, the debt trajectory (‘peak year’), the plausibility of fiscal assumptions and room for tighter positions if needed (‘fiscal consolidation space’), the probability of debt not stabilising in the next 5 years and the size of uncertainty. The *long-term risk category* is based on the S2 indicator and the DSA.

**Overall, short-term risks to fiscal sustainability are low.** The Commission’s early-detection indicator (S0) does not signal major short-term fiscal risks (Table A19.2).

**Medium-term risks to fiscal sustainability are medium.** The two elements of the Commission’s medium-term analysis lead to this conclusion. First, the debt sustainability analysis (DSA) shows that government debt is projected to rise from about 59% in 2022 to around 66% of GDP in 2032 in the baseline (Table 1). This debt path is also sensitive to possible shocks to fiscal,

macroeconomic and financial variables, as illustrated by alternative scenarios and stochastic simulations (Table A19.1 and A19.2). Moreover, the sustainability gap indicator S1 signals that a consolidation effort of 1.2 pps. of GDP would be needed to reduce debt to 60% of GDP in 15 years’ time (Table 2). Overall, the medium risk reflects the current large deficit, and debt level, as well as the sensitivity to adverse shocks.

**Long-term risks to fiscal sustainability are high.** Over the long term, the sustainability gap indicator S2 (at 10.1 pps. of GDP) points to high risks, while the DSA points to medium risks, leading to the overall high risk assessment. The S2 indicator suggests that, to stabilise debt over the long term, it will be necessary to address budgetary pressures stemming from population ageing, especially related to pensions, health care, and long-term care expenditure (Table 2).