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Assessment of the 2013 national reform programme and stability programme for MALTA

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on Malta's 2013 national reform programme and delivering a Council Opinion on Malta's 2013 stability programme for 2012-2016

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The domestic economy is projected to outperform the euro area. In 2012, real GDP grew by 0.8%, compared with a 0.6% contraction in the euro area, and, according to the Commission services' 2013 spring forecast, growth will continue to outperform the euro-area average, accelerating to 1.4% in 2013 and to 1.8% in 2014. Unemployment is projected to remain low and stable, decreasing to 6.3% in 2013 and 6.1% in 2014.

The excessive deficit procedure was closed, but fiscal consolidation lost momentum. According to the Commission services' 2013 spring forecast, the general government deficit will remain above the 3%-of-GDP Treaty threshold in 2013-14. Government debt is above the 60%-of-GDP threshold and is forecast to be on an increasing trend, rising from 72.1% of GDP in 2012 to 74.9% of GDP in 2014).

Key Issues

Malta faces important entrenched challenges that affect the sustainability of its public finances and its potential growth, and it was one of the countries identified by the Commission as experiencing macroeconomic imbalances, pertaining in particular to the financial sector and public finances.

Malta made limited progress in implementing the 2012 country-specific recommendations. On the positive side, in the area of public finances, adequate action has been taken towards strengthening tax compliance and fighting tax evasion, but concrete results are yet to materialise. Relevant, albeit insufficient, measures were introduced in the labour market, in particular towards devising an early-school-leaving strategy, improving the links with education and training and encouraging female employment. Steps have also been taken towards improving the security and diversification of the energy supply. Banking system reforms are in the pipeline, but concrete action has yet to be taken. At the same time, following the correction of the excessive deficit, the government relaxed its fiscal stance in 2012, leading to a notable worsening of the budget deficit, non-compliance with the debt-reduction and expenditure growth benchmarks and a significant deviation from the adjustment path towards the medium-term objective. In addition, no concrete action has been taken towards strengthening the fiscal framework, reducing the debt bias in corporate taxation, further reforms of the pension system and addressing potential risks linked to the wage indexation mechanism. Finally, measures taken in energy, climate and transport are far from sufficient in view of the scale of the challenges in these areas. The identified challenges have hence remained broadly unchanged over the past year.

- **Public finances**: The general government deficit exceeded the 3%-of-GDP reference value, while the flexible fiscal framework and issues with tax compliance and tax evasion hinder the achievement of a sound fiscal position. In the long-term, the sustainability of public finances is still at risk due to high projected age-related expenditure.

- **Labour market**: Skills gaps continue to pose an obstacle to the efficient utilisation of human capital. While there was an increase in employment in all segments of the labour market, including among older workers and women, the female employment rate remains the lowest in the EU (46.9% in 2012).

- **Competitiveness**: Maintaining external competitiveness is essential in view of the very high trade openness of the economy. While Malta's wage indexation mechanism has characteristics that mitigate its negative effects, it could still pose a challenge to the flexibility of real wages and thereby on competitiveness and labour market adjustment in the event of a very adverse economic situation.

- **Energy**: Energy supply depends almost exclusively on imported oil, which, added to inefficiencies in distribution, pose an obstacle to competitiveness. Reaching the national 2020 targets for energy and climate is still a significant way off, particularly in the transport sector.

- **Financial sector**: Near-term risks related to the headline size of the banking sector (nearly 800% of GDP) appear limited. The core domestic banks, however, are vulnerable to adverse developments on the real estate market due to their high exposure in the form of loans (over half of the entire lending portfolio) and collateral. Judicial system inefficiencies could hamper the efficient enforcement of collateral with potentially negative consequences on the banking sector.

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1. INTRODUCTION

In May 2012, the Commission proposed a set of country-specific recommendations (CSRs)[1] for economic and structural reform policies in Malta. On the basis of these recommendations, the Council of the European Union adopted six CSRs in the form of a Council Recommendation.[2] These CSRs concerned public finances, the labour market, education and training, the energy system and financial stability. This Staff Working Document (SWD) assesses the state of implementation of these recommendations in Malta.

The SWD assesses policy measures in light of the findings of the Commission's Annual Growth Survey 2013 (AGS)[3] and the second annual Alert Mechanism Report (AMR),[4] which were published in November 2012. The 2013 Annual Growth Survey sets out the Commission's proposals for building the necessary common understanding about the priorities for action at national and EU level in 2013. It identifies five priorities to guide Member States to renewed growth: pursuing differentiated, growth-friendly fiscal consolidation; restoring lending to the economy; promoting growth and competitiveness; tackling unemployment and the social consequences of the crisis; and modernising public administration. The 2012 Alert Mechanism Report serves as an initial screening device to determine whether macroeconomic imbalances exist or are likely to emerge in Member States. It found positive signs that macroeconomic imbalances in Europe are being corrected. To ensure that a complete and durable rebalancing is achieved, Malta and 13 other Member States were selected for a review of developments in the accumulation of unwinding imbalances.[5]

Against the background of the 2012 Council Recommendation, the 2013 Annual Growth Survey and the 2012 Alert Mechanism Report, Malta presented updates of its national reform programme (NRP) and of its stability programme on 30 April 2013. These programmes provide detailed information on progress made since July 2012 and on the future plans of the government. This information provides the basis for the assessment made in this Staff Working Document.

The national reform programme was prepared partly on the basis of consultation with the social partners and its implementation is subject to a bi-annual assessment. Both the national reform programme and the stability programme were approved by the Cabinet of Ministers. Malta has ensured coherence between the two programmes, notably in terms of macroeconomic scenario and inter-linkages between fiscal and other macroeconomic areas, and both programmes are consistent with the code of conduct and the guidance provided by the Commission.

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1 COM (2012) 321 final of 30 May 2012

2 OJ C 219 of 24 July 2012

3 COM (2012) 750 final

4 COM (2012) 751 final

5 13 in-depth reviews were published on 10 April 2013. While selected for an in-depth review in the AMR, Cyprus was ultimately not reviewed under the Macroeconomic Imbalance Procedure (MIP) in view of the advanced preparations for a financial assistance programme.

Overall assessment

The analysis in this document leads to the conclusion that Malta has made limited progress on measures taken to address the CSRs of the Council Recommendation.

On the positive side, the Excessive Deficit Procedure was abrogated after the general government deficit was brought below 3 % of GDP in 2011. The employment rate continued to improve in particular thanks to rising female participation in the labour market, while the construction of the electricity interconnector with Italy, which will contribute to the security and diversification of the energy supply, is under way. On the negative side, the fiscal stance was relaxed in 2012, when the deficit again exceeded the 3 %-of-GDP Treaty reference threshold, while there has been no substantial progress in ensuring the long-term sustainability of public finances. Malta remains far from meeting the national 2020 targets for energy and climate and no progress has been reported as regards the reform of the wage indexation mechanism. Overall, despite the adoption of some relevant measures, policy efforts have often lacked sufficient ambition.

Challenges identified in July 2012 and reflected in the 2013 Annual Growth Survey remain valid. In the short term, the main challenges are to put the public finances on a sustainable path in a credible way and to safeguard financial stability, while also addressing inefficiencies in the judicial system. In the medium to long term, it is essential to ensure the sustainability of public finances and to continue diversifying the energy system. Strengthening the competitiveness of the economy also requires ensuring better outcomes for the education and training system so as to meet labour market needs.

2. ECONOMIC DEVELOPMENTS AND CHALLENGES

2.1. Recent economic developments and outlook

Recent economic developments

In 2012, real GDP grew by 0.8 %, driven by exports and public spending. International trade remained a key driver of economic growth in 2012, despite the challenging environment, also owing to a favourable composition of exports and the geographical orientation of trade, in particular of goods. This contributed to the correction of Malta's current account deficit in 2012. In addition, high public spending somewhat offset the weakness in private consumption and investment, albeit with negative consequences for the general government balance. The labour market performed better than the euro-area average with relatively strong job creation, albeit starting from low employment and participation rates, while unemployment remained low and stable, reaching 6.4 % in 2012 (11.4 % for the euro area). Despite these positive developments, Malta's inactivity rate remains the highest in the euro area.

Economic outlook

Economic prospects are expected to improve gradually over the medium term. According to the Commission services' 2013 spring forecast, economic growth in Malta will continue to outperform the euro-area average. After moderating to 0.8 % in 2012, real GDP growth is projected to accelerate to 1.4 % in 2013 and further to 1.8 % in 2014, underpinned by gradual recovery in domestic demand. Growth is expected to remain job-rich and employment is forecast to continue increasing at a relatively fast rate, mainly thanks to catching up employment rates among women and older workers, with unemployment and inactivity decreasing as a result. After spiking in 2012, price inflation is forecast to become more moderate, but to remain higher than the average for the euro area.

The macroeconomic scenario underpinning the SP and the NRP is plausible. The Maltese stability programme and national reform programme share the same macroeconomic scenario. Projected real GDP growth for 2013-14 in the two programmes is marginally lower than in the Commission services' 2013 spring forecast on the back of slightly weaker domestic demand and slightly less favourable labour market projections. In the outer years of the programme period, the growth outlook remains cautious and is in line with potential growth as estimated by the Commission services.

The contribution of structural reforms to growth is estimated to increase after 2014. The programmes incorporate the positive impact of selected structural reforms on potential output. The annual impact in non-cumulative terms is estimated to be relatively modest at 0.13 percentage points in 2013 before increasing to over 0.7 percentage points in 2014, thanks to the launching of the electricity interconnector with Italy. Thereafter, the positive impact of structural reforms is expected to moderate gradually, reaching 0.6 percentage points in 2017.

2.2. Challenges

The Maltese economy faces important entrenched challenges that affect its potential growth. The challenges relate to the areas of fiscal consolidation and the long-term sustainability of public finances; improving competitiveness; diversifying the energy supply system and safeguarding financial stability. They have remained broadly unchanged over the past year and are consistent with the policy priorities set out in the 2013 Annual Growth Survey adopted by the Commission in November 2012. The need to safeguard financial stability and to ensure the sustainability of public finances were also identified as challenges to address macroeconomic imbalances in the 2013 in-depth review for Malta in the context of the Macroeconomic Imbalances Procedure (see Box 1).

Pursuing fiscal consolidation and ensuring that public debt is put on a downward path remains a challenge. Following the correction of the excessive deficit in 2011, the fiscal consolidation lost momentum in 2012 and the deficit again exceeded the Treaty threshold, moving the structural balance further away from the medium-term objective (MTO) of a balanced position. Additional short-term fiscal challenges are the non-binding nature of the medium-term fiscal framework, which does not help to anchor the fiscal consolidation strategy, and the tax system, which is characterised by low compliance and high tax evasion, also due to the phenomenon of undeclared work,[6] while the debt bias in corporate taxation remains. The long-term sustainability of public finances remains at risk in view of the

[6] Manwel Debono (2012), *Malta, May 2012 – Undeclared Work Update*, Malta European Employment Observatory; http://www.eu-employment-observatory.net/resources/reports/UndeclaredWorkUpdate-Malta.pdf.

projected above-EU-average increase in age-related expenditure, in particular as regards the pension system and healthcare. Very low labour market participation of older workers and women, together with the lack of a comprehensive active ageing strategy, add to the scope of the challenge.

Ensuring that the domestic economy remains competitive is key in view of Malta's high trade openness. Given its size and geographical situation, Malta is very reliant on trade for growth and to satisfy domestic demand. Therefore it is essential that the economy remains externally competitive. This entails ensuring that wages grow in line with productivity. While it does not appear to have been a major hindrance to overall labour market performance so far, the characteristics of the automatic cost-of-living adjustment (COLA) pose a potential risk to the economy, in particular during strongly adverse phases of the economic cycle, by hampering the adjustment of real wages, in turn impeding reaching labour market equilibrium. Further promoting research and innovation is also key for maintaining competitiveness going forward.

There remains large scope for improving the utilisation of human capital. Despite notable improvements in recent years, in particular as regards women, the employment rate in Malta is still low as the impact of parenthood remains significant.[7] Skills gaps that have emerged as a result of the structural changes in the economy represent an obstacle to an efficient utilisation of human capital. Particular challenges include a high, albeit declining, rate of early school leaving, a low achievement of basic skills, a still modest level of tertiary education attainment, and a vocational training system in need of modernisation.

Features of the energy and transport system continue to pose a challenge to the economy's competitiveness and its environmental performance. Energy supply depends almost exclusively on imported oil, making the country vulnerable to increases in oil prices and putting pressure on the external trade balance, while the share of energy from renewable sources is still marginal. Inefficiency in energy distribution also contributes to high electricity tariffs for companies, in turn posing an obstacle to competitiveness. There remains significant room for improving efficiency and cutting emissions in the transport sector, which is of particular importance for achieving the climate target and, at the same time, generating green growth. Finally, an inadequate waste recycling infrastructure delays progress towards Malta's 2020 targets.

Preserving the stability of the financial sector is a continuous challenge for the domestic economy. The banking sector has been demonstrating resilience throughout the international financial crisis. However, domestic banks may benefit from stronger capital buffers as the coverage of non-performing loans by provisions remains relatively low. This is particularly important in view of the banks' very high exposure to the real estate market, both in their lending portfolios and through collateralisation, and the elevated corporate indebtedness. In addition, the very large size of the financial sector, which has become a main engine for growth for the domestic economy, raises supervisory challenges. Moreover, shortcomings in

[7] The employment gap relative to the EU average is particularly large for women and older workers.

the judicial system may hamper the swift recovery of collateral. This could put pressure on banks' balance sheets and affect lending decisions.

Box 1: Summary of the 2013 in-depth review under the Macroeconomic Imbalance Procedure

The analysis in the in-depth review identified imbalances in Malta's financial sector, in particular as regards its exposure to the real estate market as well as in public finances, in particular as regards their medium- to long-term sustainability. The main observations of the report are:

- After posting sizeable deficits for most of the past decade, the current account balance has adjusted structurally and has been on an upward path since 2009. Additional factors, such as a positive net international investment position and Malta's position as a net external creditor contribute to the sustainability of the external position.

- The level of private debt is high, but there are mitigating factors. Starting from a low level, household debt has increased rapidly in recent years, mainly due to growing mortgage lending. Nevertheless, households continue to hold very sizeable net financial wealth. The gross corporate debt and leverage raise some concern, but potential risks are mitigated by a number of factors such as the mainly long-term structure of liabilities and the diversification of financing sources.

- The long-term sustainability of public finances is at risk as the projections for both pension and healthcare expenditure in Malta significantly exceed the EU average. The government is not experiencing problems with debt financing, thanks to high domestic demand for issued securities, but sizeable state guarantees to state-owned companies, some of which are not in a sound financial state, represent a risk.

- The majority of the very large banking sector is internationally-oriented and has very limited links with the domestic economy, therefore not posing immediate risks for domestic stability. The domestically-oriented banks, while financially stable, have high exposure to the real estate market, while the activities of the relatively small non-core domestic banks are riskier.

- Despite some overvaluation and possible oversupply in the real estate market, sharp downward adjustments in prices in the short term are not expected as demand is robust, while developers' balance sheets are strong enough to allow them to abstain from selling at unfavourable prices, even if estimates suggest that there may be oversupply in some segments of the market.

3. ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

After loosening the fiscal stance in 2012, the authorities plan to bring the deficit below the 3 % of GDP threshold in 2013. After having reached 3.3 % of GDP in 2012, from 2.8 % of GDP in 2011, Malta plans to correct the excessive deficit in 2013 and to continue reducing the deficit gradually, to 0.8 % of GDP in 2016. The primary surplus is to improve from a deficit of 0.2 % of GDP in 2012 to a surplus of 2.4 % in 2016. The planned fiscal consolidation implies gradual progress towards the medium-term objective, which is defined as a balanced position in structural terms (unchanged from the previous programme), although the actual achievement of the medium-term objective is not envisaged within the programme period. The medium-term objective more than adequately reflects the objectives of the Stability and Growth Pact.

The higher-than-planned deficit outcome for 2012 is due mainly to expenditure slippages, while the deficit target for 2013 relies on revenue buoyancy. The 2012 deficit outturn is 1.1 pps. of GDP higher than the target set in the previous programme. The worse-than-planned outcome is due mainly to higher current expenditure, especially compensation of employees and social transfers, while current revenues were overall in line with the projections, even though with a different composition of direct and indirect revenues. Current expenditure was 1.3 % of GDP higher than in 2011, which more than offset the impact of a significant amount of net deficit-reducing one-off measures (0.9 % of GDP), mainly consisting of the proceeds from the concession fee on the local lottery operator[8]. For 2013, the deficit target of 2.7 % of GDP is 1 percentage point higher than in the previous update, also against the background of a downward revision in real GDP growth (to 1.4 % from 2.0 % in the previous programme). The target incorporates the impact of the 2013 budget that was endorsed by Parliament in April 2013[9], which includes expansionary measures on both the revenue and expenditure side, with a net deficit-increasing impact of 0.3 % of GDP (see Box 2). The Commission services' 2013 spring forecast projects, under a no-policy-change assumption, the 2013 deficit to remain above the reference value in 2013, at 3.7 % of GDP, with the difference with the authorities' target being explained by lower growth for current taxes, especially indirect taxes, in spite of an underlying macroeconomic scenario that is broadly similar to that in the stability programme. For 2014, the difference between the stability programme target and the Commission services forecast widens to 1.5 pps of GDP.

There are clear risks that the deficit outcomes could be worse than targeted. The projected dynamic increase in tax revenues in 2013-14, especially as regards indirect taxes, does not appear to be fully explained by the underlying macroeconomic scenario, nor is it underpinned by measures[10]. The programme provides details on some specific items only (see Box 2). There is a risk of slippages in the public sector wage bill, notwithstanding the continued commitment to the restrictive policy on recruitment in the public sector, and in intermediate consumption, given previous years' experience, particularly in pharmaceutical expenditure. On the other hand, as has frequently occurred in the past, net capital expenditure could be lower than planned and act as a buffer. A final risk factor relates to the financial situation of the energy provider Enemalta, which could require additional subsidies.

8 The programme does not identify these items as one-offs. According to the programme, one-off measures in 2012 amounted to 0.1% of GDP.

9 At the end of November 2012, the previous government presented the draft 2013 budget which failed to receive parliamentary endorsement. In April 2013, the new government presented and approved the 2013 budget, which was broadly similar to the one that was originally presented in November 2012 and was based on a deficit target for 2012 of 2.3% of GDP, 1 pp. lower than the notified outturn.

10 In 2014, the difference in growth projections is marginal but the composition is different, with the programme assuming a stronger pace of job creation.

In 2012, the structural deficit increased by ½ pp. of GDP and the structural effort will remain insufficient in 2013-14. The worsening of the structural balance in 2012 implies a significant deviation from the adjustment path towards the medium-term objective. The programme plans an annual improvement in the (recalculated) structural balance[11] of just below ¾ pps. of GDP on average over the period 2013-2016. This is in line with the 0.5 pps. benchmark in the Stability and Growth Pact for the annual pace of progress towards the medium-term objective, but the effort is strongly frontloaded (in 2013 it is planned to be at around 1½ pp. of GDP). By contrast, according to the Commission services' 2013 spring forecast, on a no-policy-change basis, the improvement in the structural balance in 2013 would be much lower, at just ¼ pp. of GDP, and only stemming from a reduced contribution from one-off measures; in 2014, it would be marginal. Similarly, the growth rate of government expenditure, net of discretionary revenue measures, is expected to contribute to the annual structural adjustment towards the medium-term objective by 0.5 pp. of GDP according to the plans in the stability programme (except in 2015) but not according to the Commission services' forecast. In the latter, over 2012-2014, the growth rate of government expenditure, net of discretionary revenue measures, is above the lower rate under the expenditure benchmark (equal to 0.24 % in 2012-13 and 0.57 % in 2014-16). On the basis of an overall assessment of Malta's budgetary plans, with the structural balance as a reference, and including an analysis of expenditure net of discretionary revenue measures, the planned adjustment path towards the medium-term objective seems to be appropriate, albeit heavily frontloaded. However, the Commission services' 2013 spring forecast projects a further significant deviation from the adjustment path towards the MTO in 2013-14.

The general government gross debt ratio is planned to continue increasing until 2014. From 72.1 % of GDP in 2012, the general government gross debt ratio is planned to increase to 74.2 % of GDP in 2014 under the expected continued influence of both the snow-ball effect and the stock-flow adjustment (in particular in 2013, on account of the planned equity injection into Air Malta). Starting from 2015, the debt would decrease helped by increasing primary surpluses and a debt-decreasing stock-flow adjustment. According to the Commission services' 2013 spring forecast, the debt ratio is projected to reach 74.9 % of GDP by 2014. The difference with the programme targets is due to a lower expected primary surplus, partly offset by a higher, debt-increasing stock-flow adjustment in both years (reflecting also different assumptions regarding the impact of guarantees to EFSF disbursements, bilateral loans to Greece and capital contributions to the ESM). The same risks highlighted for the deficit targets apply to the programme's plans for the debt projections. Moreover, the stock-flow adjustment could well be higher than projected in the programme, given that government-guaranteed debt in Malta is high (17.3 % of GDP in 2012) as compared with other Member States, 60 % of which is accounted for by the public energy utility corporation (Enemalta). Following the correction of the excessive deficit in 2011, Malta is in a three-year transition period as regards the applicability of the debt reduction benchmark, starting in 2012. According to both the plans in the stability programme and the Commission service forecast, Malta did not make sufficient progress towards compliance with the debt criterion in

[11] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology.

2012 and thus risks being put in EDP if corrective measures are not taken and it is also projected as failing to comply in 2013-14.

Overall, the 2012 country-specific recommendation in the area of fiscal consolidation was not implemented, as the 2012 outturn was worse than targeted and above the 3 %-of-GDP reference value, thus implying a deviation from the adjustment path towards the medium-term objective. In addition, the measures underpinning the strategy from 2013 onwards are not all outlined in the programme. The programme plans a broadly appropriate pace of adjustment towards the medium-term objective and a gradual decrease in the debt ratio after 2014. By contrast, the Commission services' 2013 spring forecast projects only a marginal improvement in the structural balance and a continued upward path for the debt ratio in 2013-14.

Box 2. Main budgetary measures (% of GDP)

Revenue	Expenditure
2012	
• Increased efficiency in revenue collection (0.5 %), mostly pecuniary incentives to reduce VAT arrears (0.2 %; one-off) • Concession fees from the local lottery operator (0.6 %; one-off) • Pension reform (0.1 %) • Increase in registration tax for vehicles Euro 1 to 3 and older (0.1 %) • Increase in excise duty rates (0.1 %) • Direct tax relief for parents with dependent children (-0.1 %)	• Net savings in social transfers (-0.1 %) resulting from efforts to curb benefit fraud and the gradual impact of the 2006 pension reform, partly offset by measures targeted at supporting families with children and elderly aged over 80 • Subsidy to the energy provider (0.3 %) • Increase in net capital expenditure (0.6 %), including restructuring of Air Malta (equity acquisition) (0.3 %)
2013	
• Increased efficiency in revenue collection (0.2 %) • Pension reform (0.2 %) • Revision in registration tax for cleaner private vehicles (-0.1 %) • Increase in several excise duty rates (0.1 %) • Revision in income tax bracket (-0.2 %)	• Net savings in social transfers (-0.2 %) resulting from the gradual impact of the 2006 pension reform, partly offset by measures targeted at supporting families with children • Restructuring of Air Malta (equity acquisition) (0.6 %)
2014	
• Pension reform initiatives (0.1 %) • Increase in several excise duty rates (0.2 %) • Revision in income tax bracket (-0.2 %)	• Savings in social transfers resulting from the gradual impact of the 2006 pension reform (-0.3 %) • Restructuring of Air Malta (equity acquisition) (0.2 %)
2015	
• Pension reform initiatives (0.1 %) • Increase in several excise duty rates (0.2 %) • Revision in income tax bracket (-0.2 %)	• Savings in social transfers resulting from the gradual impact of the 2006 pension reform (-0.2 %) • Restructuring of Air Malta (equity acquisition) (0.6 %)
2016	
• Pension reform initiatives (0.1 %)	• Savings in social transfers resulting from the gradual impact from the 2006 pension reform (-0.2 %)

Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A plus sign indicates that revenue / expenditure increases as a consequence of the measure. The degree of detail reflects the information made available in the stability programme.

Long-term sustainability

The sustainability of public finances appears to be more challenging in the medium to long term. Government debt is above the 60 % of GDP threshold and on an increasing trend (72.1 % of GDP in 2012, projected to rise to 74.9 % of GDP in 2014 according to the Commission services' 2013 spring forecast). Medium-term debt projections (see Graph below Table V in annex) indicate that full implementation of the programme could put debt on a downward path by 2020, but it would still be above the 60 % of GDP reference value. Malta does not appear to face a risk of fiscal stress in the short term, but the sustainability risk increases in the medium and long term, due to a combination of a worsened initial budgetary position and the budgetary impact of ageing. Risks would increase if the structural primary balance[12] reverted to the lower values observed in the past decade. The long-term sustainability of public finances would benefit from reducing the gross government debt and containing the increase in age-related expenditure in the long run.

Further reforms of the pension system in Malta could help to curb the projected long-term increase in age-related expenditure. The projected growth in age-related expenditure is well above the EU average, with the increase in pension expenditure – including the impact of the 2006 pension reform – accounting for more than half of it. The legislated increases in the retirement age are rather slow. Compared with other EU Member States, the statutory retirement age in 2012 was still among the lowest for both men and women. The retirement age is set to gradually reach 65 years for both genders only in 2027, whereas 16 Member States will already have reached or exceeded this level in 2020. Moreover, no further increases are envisaged after reaching 65 years, whereas by 2060 14 Member States will have legislated a retirement age of 67 years or higher. The 2013 NRP states that the authorities do not see urgency in accelerating the legislated increase in the retirement age and linking it to life expectancy as the average exit age from the labour market is expected to increase faster than life expectancy until 2030. Nevertheless, it is important to note that delaying action raises intergenerational equity concerns as it would put the entire adjustment burden on those retiring after 2030.

Policy action taken so far is insufficient to ensure the long-term sustainability of the pension system. In 2012, following advice from an independent Pensions Working Group, the government set up a task force to raise the overall financial literacy of the Maltese population and a pensions strategic unit to examine pension reform options. Legislation as regards the introduction of a third pillar to the pensions system has been approved by Parliament, but has not yet come into force. In addition, discussions have been held with the social partners, but so far no concrete proposals for further reform have been put forward and there has been no progress on implementing the specific elements outlined in the relevant 2012 Council Recommendation for Malta, namely accelerating the legislated increase in the statutory retirement age, linking it to life expectancy and encouraging private pensions

[12] The government budget balance cyclically adjusted, net of one-off and temporary measures and interest payments. The actual primary balance may be a misleading indicator since it also reflects the temporary effects of the cyclical deviations of output from its underlying trend. The structural primary balance allows to disentangle these temporary influences of the output gap on the government's primary balance and get a clear picture of the budgetary performance.

savings. Raising the employment rate of older workers, although insufficient on its own, could also contribute to improving the sustainability of public finances. To this end, the government introduced legislative changes to encourage working pensioners via a reduced income tax rate (at 15 % on work income) but has not yet presented an active ageing strategy. Overall, limited progress has been registered in the implementation of this CSR.

Sustainability pressures could also arise from health-related spending, where there is scope for efficiency increases. Malta records one of the highest projected increases in the EU for healthcare (see Box 3) and is faced with challenges with respect to the performance of the health system. Compared with other Member States, Malta devotes little resources to ambulatory care and has limited public primary care provision with few general practitioners and nurses. In the long run, limited availability of ambulatory care may lead to increasing public expenditure on hospital care.

Box 3. Healthcare

According to the 2012 Fiscal Sustainability Report and the 2012 Ageing Report, Malta faces an above-EU-average need for structural fiscal adjustment in the area of healthcare. While public spending on healthcare is at 5.7 % of GDP and below the EU average of 8.0 % of GDP, its projected increase until 2060 is estimated at between 2.9 and 3.6 % of GDP (1.1 to 1.7 % in the EU), driven by demographic and non-demographic factors[13]. An additional spending increase of +1.0 % of GDP, depending on the scenario, can be expected in the area of long-term care (+1.6 % of GDP in the EU).

Overall, the Maltese population enjoys a relatively high life expectancy, although there is scope for reducing infant and amenable mortality rates.[14] Public healthcare provision is universal and largely free at the point of use. However, supply of cost-effective primary care services is limited as the number of nurses and general practitioners per capita and the share of general practitioners in all physicians is relatively low.[15] At the same time, while formally in place, the system of general practitioners acting as gatekeepers to further levels of care is often bypassed. Data collection and monitoring of system performance (health needs, outputs and quality of outputs) is also very limited. These factors point to bottlenecks in the provision of primary care services and add to higher waiting times for hospital care.

[13] According to the Ageing Working Group reference scenarios, as published in the 2012 Ageing Report, available at http://ec.europa.eu/economy_finance/publications/european_economy/2012/2012-ageing-report_en.htm.

[14] Infant mortality in Malta stands at 5.5 per 1.000 life births (4.1 in EU), amenable or avoidable mortality rates, i.e. those that could be reduced in the presence of timely and effective care, are high in a series of important causes of deaths (AMIEHS, 2011, http://amiehs.lshtm.ac.uk/).

[15] In Malta, there are approximately 71.2 general practitioners per 100.000 inhabitants (99.3 in the EU) and the share of general practitioners in all physicians is 21 % (31 % in EU).

Fiscal framework

The absence of a binding fiscal framework undermines the credibility of the government's fiscal strategy. The medium-term budgetary framework is non-binding and there are no fiscal rules to ensure that the government's consolidation strategy is upheld. Malta has not yet transposed Directive 2011/85/EU on budgetary frameworks.[16] In addition, a structural budget balance rule, as provided for in the Treaty on Stability, Coordination and Governance, has not yet been introduced in the legislation. The stability programme announces a reform of the budgetary framework with a view to making it more binding through the introduction of fiscal rules. It also announces plans to set up a Fiscal Council, but concrete action has yet to be taken in these areas.

Tax system

Some measures have been introduced to improve tax compliance, but concrete gains are yet to materialise. In 2012, the Council recommended that the Maltese authorities to strengthen tax compliance, fight tax evasion and reduce incentives towards indebtedness in corporate taxation. As regards international tax compliance and tax evasion, a peer review coordinated by the OECD gave a positive assessment of Malta's legal and regulatory framework for the exchange of information[17], and recommended that it continue to develop its exchanges of information with all relevant partners. Malta also signed the Council of Europe - OECD Mutual Assistance Treaty in October 2012 and concluded a number of agreements with international tax authorities to facilitate the exchange of information. The 2013 national reform programme announces a sector analysis and the development of new audit tools to identify areas for improvement. The housing rental sector in particular has been identified as an important source of tax evasion and relevant measures are in the pipeline. In addition, staffing capacity of the relevant authorities is being strengthened and the departments responsible for VAT, inland revenues and customs tax collection are being merged. While these measures are relevant, the credibility of the policy plans and their medium-term effectiveness will depend on proper implementation.

Tax incentives for companies to take on debt are still very high. In 2012, Malta stood out as the country with the second-highest gap between the tax treatment of debt and equity financing of new investment, due to the fact that the corporate income tax system allows for the tax deductibility of interest payments on debt, but not for equity financing. This debt bias may lead to excessively high corporate leverage, as also discussed in the 2013 in-depth review for Malta, and inefficient allocation of capital. Still, no relevant policy action has been taken in this area.

[16] The legal deadline for transposition is 31 December 2013. However, Heads of State and Government of euro area member states committed to transpose by end 2012.

[17] The 'phase 1' peer review carried out under the OECD's Global Forum on Transparency and Exchange of Information on Tax Purposes. More information available at http://www.oecd.org/countries/malta/peerreviewreportofmalta-phase1legalandregulatoryframework.htm

The need for fiscal consolidation could provide an opportunity to streamline the tax system in Malta. In addition to potential revenue from improved tax compliance, fiscal consolidation can be pursued by broadening the tax bases (in particular, the scope of VAT exemptions could be reduced) or increasing taxes that are less detrimental to growth, such as recurrent property taxes. Malta applies only a transaction tax on immovable property, and no recurrent taxes. Broadening the tax base could render public finances less vulnerable to sectoral changes resulting from EU-level tax reforms.[18]

3.2. Financial sector

The financial sector remained resilient throughout the crisis, but there are challenges. The banking system appears well-positioned to ensure sufficient access to financing for SMEs. Profitability and solvency ratios remained stable during the crisis, and no bank needed to resort to government support. Recourse to Eurosystem funding has also been limited as banks maintained sufficient liquidity. Nevertheless, the domestic banks' high exposure to the real estate sector continues to pose a challenge. Furthermore, the large size of the overall financial sector relative to the size of the economy warrants close monitoring. In 2012, the Council Recommendation for Malta called on the authorities to strengthen loan-loss provisioning in the banking sector and mitigate potential risks arising from its exposure to the real estate market. The planned policy response is relevant but incomplete, leading the Commission to the conclusion that Malta has made only some progress towards implementing this CSR.

The banking sector appears robust, but its large size warrants strict supervision to prevent the accumulation of imbalances. The banking sector is very large in proportion to the domestic economy with total assets of around EUR 53.5 billion (790 % of GDP) at the end of 2012, up by 4.2 % from end-2011. As highlighted in the 2013 in-depth review for Malta, potential risks arising from the size of the sector are limited by the fact that the majority of assets belong to internationally-oriented institutions with very limited exposure to the domestic economy. Despite suffering an increase in non-performing loans, in particular in the corporate portfolio, the core domestic banks'[19] profitability and solvency ratios strengthened in 2012. These banks apply a relatively conservative banking model and their aggregate loan-to-deposit ratio fluctuates between 70 % and 75 %. Their exposure to non-residents is limited with only around 8 % of total assets invested in euro-area government, institutional and corporate securities at the end of 2011. Exposure to EU/IMF programme countries represents about 2.5 %, predominantly in the form of placements with banks.[20]

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[18] The remote gaming industry employs about 4% of the total workforce. Malta currently exempts such activities from VAT. However, as from 2015, VAT must be charged on the basis of where the customer is located which could impact Malta's attractiveness for the industry with potentially negative consequences for corporate tax collection and employment.

[19] According to the methodology of the Central Bank of Malta, these are the banks that are most relevant for domestic financial stability because their main business is collecting resident deposits and providing loans to residents. They account for around 97% of all resident loans and 96 % of all resident deposits.

[20] See Central Bank of Malta, *Financial Stability Report 2011,* September 2012.

While immediate risks for financial stability appear to be limited, it is important that the banking sector, including the non-core domestic and international banks, remains subject to strict supervision. Adverse developments in these banks may still impact the jurisdiction's international reputation, thereby affecting confidence in the banking system and reducing future growth prospects. To this end, the setting-up of a Joint Financial Stability Board [21] in January 2013 is a welcome step. The Board will have a broad mandate to monitor risks to financial stability and recommend relevant policy measures. However, these recommendations, which are to be based on criteria defined by the European Systemic Risk Board, are non-binding and the Financial Services Authority, the regulator and supervisor of the financial services industry, is legally bound only to consider them. Therefore, while relevant, the level of credibility and ambition of this policy action remains to be assessed.

Policy plans to safeguard financial stability are in the pipeline. The 2013 in-depth review for Malta highlights potential risks to financial stability related to the exposure to the real estate market and the low level of provisions for non-performing loans. Talks on regulatory action to address these risks are under way between the Malta Financial Services Authority and the Central Bank of Malta. In particular, plans include classifying risk related to real estate exposures under Pillar II[22] of the Basel II accord, which requires banks to increase their awareness of such risks and take appropriate action to limit them, while also giving supervisors more authority to monitor and intervene. To strengthen loan-loss provisioning, the authorities envisage moving towards a more forward-looking model for reporting impairments. As a counter-cyclical tool, this will allow banks to be better prepared for times of economic stress. Moreover, the Malta Financial Services Authority envisages further amending banking regulation to require that institutions with already high level of delinquent assets to further increase provisions in order to create an additional safety buffer. These reforms are still at a drafting stage, but the authorities plan to implement them by end-September. They are relevant, as they would contribute to safeguarding banking stability. While the authorities insist that any action should be introduced gradually to minimise any negative impact on economic activity, unnecessary delays could undermine the potential boost to confidence the measures could bring. Therefore, the level of credibility and ambition of the policy plans will depend on their timely and thorough implementation.

Access to financing for Maltese small and medium-sized enterprises (SMEs) can be considered adequate. Policy action to ensure that SMEs have sufficient access to financing has been satisfactory. The government has come up with an appropriate portfolio of enterprise support schemes that facilitate access to finance, such as Microfinance, loan guarantees and the Joint European Resources for Micro to Medium Enterprises (JEREMIE) initiative. In addition to the relatively well-performing banking sector, these schemes ensure that the private sector has adequate access to finance to meet its demands. Appetite for financing,

[21] The Joint Financial Stability Board will consist of two members from the Central Bank of Malta and the Malta Financial Services Authority each. It will be chaired by the deputy governor of the central bank, who will have a casting vote if the four members fail to reach agreement on a policy recommendation.

[22] While Pillar I sets an overall capital adequacy requirement, Pillar II allows national supervisors to target more idiosyncratic risks. Including a risk under Pillar II gives national regulators a wider range of tools to monitor banks' riskiness and to apply prudential judgement if risks are deemed too high.

however, has been limited in recent years due to the subdued economic environment as well as the elevated corporate indebtedness.

3.3. Labour market, education and social policies

Labour market performance continued improving but continued policy attention is warranted. Starting from a low level, total employment in Malta continued to grow in 2012 (1.8 percentage points gain as opposed to a slight decline in the EU). Gains were reported in all segments of the labour market, including among older workers and, most notably, women. Nevertheless, the female employment rate remains the lowest in the EU. This also reflects a still inadequate mix of family-friendly measures and flexible working arrangements. Skills gaps related to the system of education and training also continue to pose a challenge to the efficient utilisation of human capital. In 2012, the Council Recommendation for Malta included a CSR concerning the need to improve the links between the education system and the labour market and to address the high rate of early school leaving and the gender employment gap. In the Commission's assessment, Malta has made some progress towards implementing this CSR. The Council Recommendation also called for reforming the wage indexation mechanism in Malta, but no progress has been made towards implementing this recommendation.

Education and training

The measures already in place to tackle early school leaving are steps in the right direction, subject to proper implementation. The rate of early school leaving has been significantly reduced in recent years but remains among the highest in the EU.[23] The measures taken in 2011-12 demonstrate that the government and the educational institutions are aware of the challenge. A national strategy focused on prevention, intervention and compensation measures has been launched for consultation in April. Policy action has thus been relevant, but a comprehensive monitoring system to collect and analyse information to underpin the national strategy is not yet in place. The level of credibility will be determined by the proper implementation of the policy plans in place. Overall, it can be concluded that there has been some progress towards the implementation of the recommendation calling for steps to reduce early school leaving.

Policy efforts in education and training were maintained, but the main challenges remain valid. The two existing apprenticeship schemes showed positive results in 2012 as one third of participants decided to continue education and more than half were able to find a job. To further improve the efficiency of the schemes and modernise the vocational training system, the authorities envisage creating a single national apprenticeship scheme that would usefully cover more qualification levels and occupations. Further in the same vein, the planned sector skills committee is to become operational in the second quarter of 2013 and a Lifelong Learning Strategy is being drafted. The need to raise skill levels and address skills

[23] Figures concerning Early School Leaving are under review by the Maltese Statistical Office and Eurostat due to a new classification of certain qualifications at secondary level. According to the new data, the 2012 early school leaving rate is about 10 percentage points lower than with the old methodology. At present, figures according to the new classification are available only after 2010 and are therefore not comparable with those up to 2009. In view of this, the authorities are about to present a new 2020 target, based on the new data.

mismatches is set to become even more relevant in the future as the European Centre for the Development of Vocational Training (Cedefop) projects the employment pattern up to 2020 to be characterised by more medium and high qualification jobs.[24] Despite the introduced measures, Malta continues to largely underperform the EU average in terms of tertiary educational attainment, although the recent positive trends in participation in and graduation from higher education point to possible improvement in the future. The share of adult participation in education and training also remains low in comparison with the EU (7 % against 9 % in 2012). Due to the long-term nature of many measures to promote skills matching, it is too early to assess their impact, but the general principles go into the right direction.

Labour market participation and employment

The female activity rate continues to increase, also thanks to policy action mainly aimed at improving reconciliation of work and family life. In recent years, sizeable gains in the participation and employment rates of women resulted in the national 2020 employment target already being met in 2012. However, the female employment rate remains among the lowest in the EU and therefore the intention to revise the target, as stated in the 2013 NRP, is welcome.[25] The gains are certainly to a large extent due to a favourable 'cohort effect', as younger generations, who have on average a higher level of educational attainment, appear to be keener to enter and remain on the labour market (see Box 4). The government is supporting this trend through appropriate measures to facilitate the reconciliation of work and family life. New childcare centres administered either directly by public authorities or in partnership with the private sector have been set up, albeit with some delays. Private childcare facilities are also available. High costs and often inconvenient opening hours, however, seem to hinder the efficiency of these facilities. Furthermore, afternoon school programmes have been announced aiming to provide after-school care services within school structures, thereby bridging the gap between the school day and parents' regular working hours, and several tax incentives have been put in place for families sending their children to private childcare facilities. Additional measures introduced in 2012 to foster reconciliation of work and family life include the extension of maternity leave and new incentives in the income tax system in the income tax system for working parents. Overall, the measures put in place with regard to the promotion of female participation in the labour market appear to be relevant and credible. Still, the employment rate in Malta remains far from the EU average, which requires continued policy efforts.

[24] The increase is forecast to come mainly in the number of professionals and technicians. At the same time, demand for low qualification jobs, which currently represent a much higher share in the total in Malta compared to the average for the euro area, is to see a marked decline.

[25] The current national 2020 target of 62.9 % is lower than the 2020 projection of 65.4% by the Ageing Working Group used in the 2012 Ageing Report.

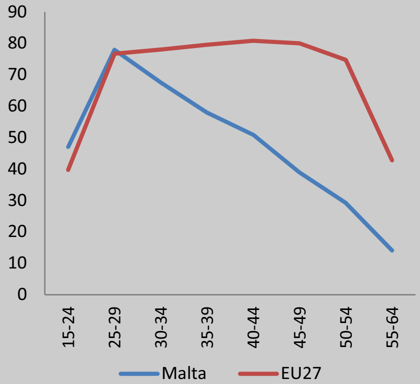
Box 4: Characteristics and evolution of female labour market participation in Malta

Labour market participation by women is very low in Malta. In 2011, the employment gap with the EU27 for women aged 15 and over stood at over 25pps. Inactivity among women may be largely attributable to cultural reasons, together with a lack of sufficiently adequate work-life reconciliation policies. Indeed, the profile of labour market participation in Malta is peculiar, with very high activity among younger women followed by a steep decline (see Panel A) from the child-bearing years, in sharp contrast with the EU27.

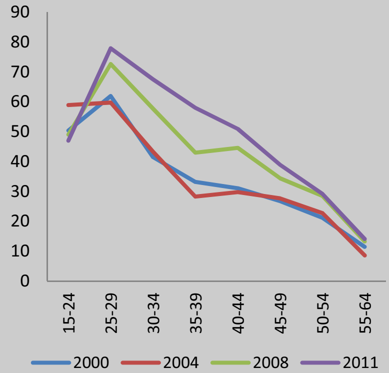
Labour market participation of women in Malta, has been on a clear upward path since the early 90's[26], improving from around 30 % to 44.1 % in 2011. As shown in Panel B, there is a noticeable cohort effect, as younger women are choosing to enter the labour market and stay in employment. As a consequence, the gap with the EU average has been closing across age groups. Higher educational attainment, as reflected in a 50 % increase in the share of women aged 25-34 with at least upper secondary education between 2000 and 2009, certainly played a role in this improvement. A number of policies and practices, such as increasing the availability of public childcare facilities, and a change in management attitudes among Maltese enterprises towards providing more flexible working arrangements, may also have contributed. Finally, in recent years an 'added worker' effect may have come into place, as more and more households find it difficult to maintain living standards on just one income.

Graph: Female labour market participation

Panel A: Female labour market participation by age group



Panel B: Cross-cohort comparison of participation rates by age



Source: Eurostat

As the younger cohort ages, the participation gap with the EU-27 is expected to decline. Nevertheless, the impact of parenthood remains significant as the employment gap between women aged 25 to 49 years with and without children has remained broadly unchanged since 2005. Therefore, maintaining policy efforts in providing childcare facilities and other family-friendly measures is important in allowing women to stay longer on the labour market.

[26] See also Caruana, Kevin. *Female Labour Market Participation in Malta: A Lisbon Agenda Perspective*, Bank of Valletta Review, No. 33, Spring 2006

The automatic wage indexation mechanism could pose a potential challenge to the flexibility of wages, but there are mitigating characteristics. Malta's wage indexation mechanism has a number of potential drawbacks that could have negative implications for competitiveness and labour market adjustment by impeding the adjustment of real wages, in particular during strongly adverse phases of the economic cycle. Specifically, it is enshrined into law and compulsory for the entire economy; the price index includes also very volatile imported components, thus rendering the economy vulnerable to supply-side or terms-of-trade shocks (such as a spike in oil prices) that could lead to wage-price spirals; and the flat-rate increase may lead to wage compression, thus potentially discouraging demand for lower-paid workers. The system has an impact on public finances as well through the indexation of a range of social transfers and public sector wages. Nevertheless, potential risks are somewhat mitigated by the fact that the system represents only partial compensation for inflation to wages above the reference 'base' wage (which stands at about 60 % of the average wage and is higher than the current minimum wage). In addition, the mechanism contains micro- and macro-level derogation clauses. The decentralised system of wage bargaining at the company level also allows for a reasonable degree of wage flexibility across economic activities. A possible review of the system will be warranted should the above-mentioned risks materialise

Poverty and social exclusion

A number of measures have been put in place to curb the increase of the risk of poverty and social exclusion. The share in the total population of people at risk of poverty and social exclusion in Malta is lower than the average for the euro area and compares favourably with the new Member States. Nevertheless, the number of people at risk has seen dynamic growth in Malta in recent years. The authorities aim to attain the 2020 goal by targeting vulnerable groups, such as children, the elderly and persons living in low-income households. To this end, a number of measures have been put in place to enhance employability, financial assistance and housing prospects of those living at risk of poverty or social exclusion. Measures to address child poverty include a study to better understand the roots of the phenomenon and strengthening the provision of out-of-home care for children who cannot live with their parents.

3.4. Structural measures promoting growth and competitiveness

Inefficiencies in the energy and transport systems, high dependence on imported oil as well as low R&D intensity continue to pose challenges to the competitiveness of the Maltese economy. Productivity growth in Malta has lagged behind the euro-area average over the past decade and has been notably weaker than in the New Member States. The transport system and energy supply and distribution remain inefficient and Malta is still far from meeting its national Europe 2020 energy and climate targets. Moreover, relatively low R&D intensity poses obstacles to a further move towards a knowledge-based economy that would boost productivity growth.

In 2012, the Council Recommendations for Malta contained a CSR concerning the need to reduce the economy's dependence on imported oil through promoting energy efficiency, fostering renewable energy and prioritising infrastructure development. In the Commission's assessment, Malta has made limited progress towards implementing this CSR.

Climate, transport and environment

Progress on reducing emissions to meet the national 2020 target is slow. Malta ranks last among the EU Member States with regard to the projected distance from their 2020 emissions' targets. Unless decisive action is taken to move towards a low-carbon economy, Malta will have to make use of carbon credits in order to avoid non-compliance. Under the Europe 2020 Strategy, Malta committed itself to limiting the increase in greenhouse gas emissions in sectors not covered by the emissions trading scheme by 5 % (compared with their 2005 level), but according to the latest government projections emissions are instead expected to increase by 33 % during this period. The overall energy and carbon intensity of the Maltese economy is largely in line with those of its peers, but its dependence on imported heavy fuel oil slows down progress in meeting the climate and energy targets. Road transport emissions in Malta grew by nearly 6 % between 2005 and 2010, as opposed to a reduction by over 3 % in the EU. The waste sector, which heavily relies on landfill waste, contributed even more to the increase in emissions over this period. It is unlikely that Malta will reach the 2020 recycling target and the objectives of the Resource Efficiency Roadmap (implying a sharp reduction in landfill waste) without significant additional efforts, including incentive systems favouring prevention of waste and separate waste collection.

There remains significant room for improving efficiency and cutting emissions in the transport sector. The road transport sector accounts for about half of total emissions coming from non-ETS sectors covered by the target and national projections point to a steep increase in emissions by 2020.[27] A very high motorisation rate combined with an aged car fleet, an inefficient road network and an established preference for private transport have resulted in significant road congestion problems and increased carbon emissions. Therefore, the measures to upgrade the 112 km of strategic arterial and distributor road network (including the 51 km of existing TEN-T roads) and to improve the effectiveness of public transport will be important in ensuring sustainable internal mobility. The public transport reform, launched in 2011 and planned to be completed in 2015, has so far resulted in only modest uptake of public transport. Measures introduced to make the car fleet more sustainable, such as a minimum level of biofuels in petroleum fuel in all transport modes, a differentiated car registration tax, a car scrapping scheme and continued financial support to electric and hybrid vehicles are relevant towards diversification and decreased dependency on fuel imports. However, considering the extent of the challenge faced in the transport sector, these measures are insufficient to meet the national greenhouse gas emissions targets and commitments in transport.

Energy

The electricity generation sector is undergoing important, efficiency-boosting changes. The extension of the Delimara power plant was put in commercial use in December 2012, leading to notable efficiency gains as it allows an older plant to be replaced. The electricity interconnector with Italy will bring important changes to the energy system. Malta will no longer be an isolated energy island, its energy supply will be more secure and electricity

[27] Annual EEA Report GHG Emissions and Trends in the European Union, 2012

generation – cheaper. Furthermore, the increased capacity will mean that the inefficient Marsa power plant can be switched off, which will improve overall efficiency and in turn could contribute to lower energy tariffs. The connection to the continental European electricity grid will also provide a greater opportunity to integrate energy produced from renewable sources, thereby further helping to reduce the overwhelming recourse to heavy fuel oil in electricity generation. The project is now well under way and is expected to become operational in 2014. Moreover, the government is taking steps towards switching from heavy fuel to cheaper and more environment-friendly liquefied natural gas (LNG) as a main energy source, which, if properly implemented, would also contribute towards reducing generation costs and cutting carbon emissions. The gas would preferably be sourced from an LNG terminal, which may be considered as an intermediate step before a gas pipeline, although the feasibility of the latter is questionable given the small size of the domestic market.

The difficult financial situation of the state-owned power utility Enemalta continues to pose a challenge for the security of energy supply and for the public finances. Enemalta has accumulated debts of EUR 687 million and thus represents a significant contingent liability for the public finances.[28] Standard and Poor's downgraded the company's credit rating two years in a row on account of its high costs[29] and poor profitability.[30] There have also been long-standing losses in the distribution of electricity as well as problems in metering and billing. These factors suggest that the company's viability based on the current situation is not sustainable. In addition, Malta has not applied for a temporary derogation from the obligation to auction off carbon allowances to power plants, so Enemalta will now have to pay for these allowances, which could add to the company's financial problems. Still, the new electricity interconnector and the phasing-out of the inefficient Marsa power plant are expected to relieve Enemalta's financial problems and may help the company sustain investments to improve its efficiency and environmental record. The viability of the company will crucially depend on electricity tariffs matching generation and transmission costs.

The share of electricity produced from renewable energy sources continues to be very low. According to latest available data for 2011, the share of renewable energy in gross final energy consumption was 0.4 % which is significantly below the first interim target foreseen for 2011-12 (2.1 %). Thus, Malta remains the worst performer in the EU in this area and is a significant way off reaching its 2020 target. Efforts to meet the target largely rely on three large-scale wind energy projects. Progress, however, is slow – an environmental impact assessment for the biggest *Sikka l-Bajda* project has been submitted to the planning authority (MEPA), but further assessment is needed. On the positive side, the take-up of smaller capacity schemes, such as the installation of photovoltaic systems, solar water heaters and micro-wind turbines, has exceeded the government target, but these schemes will make only a

[28] A debt restructuring plan for Enemalta, adopted by the authorities in December 2012, concerns about half of the company's current debt (which, at end-2010 and including only bank and other borrowings, stood at EUR 687mn or EUR 836mn when adding also trade-related and other payables). Enemalta's debt amounts to around 60% of the gross government-guaranteed debt.

[29] High costs reflect the fact that the very inefficient Marsa power plant is still in operation, well beyond its planned lifetime, which involves along fines for exceeding environmental limits.

[30] As a result of government intervention, despite being already high by EU standards for the corporate sector, electricity tariffs in Malta do not fully reflect costs.

relatively small contribution to meeting the 2020 target. Hence, the potential for importing electricity produced from renewable sources through the interconnector with Italy or the use of pure statistical transfers could also be explored.[31] The 2013 NRP announces the launch of a comprehensive strategy on renewable energy, exploring other energy sources, most notably sea energy, to tackle these challenges by the end of the summer 2013. As regards improving energy efficiency, the government has stepped up its efforts through relevant policies, with the support of EU funds, which is welcome. Overall, policy action in response to the country-specific recommendation to reduce dependence on imported oil, step up efforts to promote energy efficiency and increase the share of energy from renewable has been relevant and credible, but seems insufficiently ambitious given the scale of the challenge.

Research and innovation

The relatively modest national target for research and development expenditure has been met. The level of expenditure on research and development (0.73 % of GDP in 2011, up from 0.67 % of GDP in 2010) has already exceeded the national Europe 2020 target thanks to increases in both higher education and business spending (of which more than 80 % is spent by foreign-owned companies). The national target, however, is modest when judged against the government’s stated aim of building a knowledge-based economy with research and innovation at its core. Therefore, the intention to revise the target, stated in the 2013 NRP, is welcome. As businesses largely fund their own research and central government provides funding for public research and higher educational institutions, cross-funding between these sectors is very low, which undermines the achieved gains.

Maintaining the policy efforts to date would enable further progress towards a knowledge-based economy. The draft National Strategic Plan for Research and Innovation 2011-2020 maintains a strong business orientation in the areas of information and communication technology, health and biotechnology, energy and environmental technologies as well as value-added manufacturing and services. In 2012, the Malta Council for Science and Technology launched a Commercialisation Programme to assist research-oriented and innovative companies, assisted by several targeted initiatives (e.g. ‘Business First’, a one-stop-shop for businesses, and the ‘Trust Fund for R&D&I’ set up by the University of Malta). In addition, a number of industry sectors have been identified for future specialisation, such as digital gaming, where a strategy was published in early 2012 to lay the foundations for the development of a gaming industry in Malta. Moreover, the 2013 NRP announces plans to provide a more nurturing legislative and regulatory framework for developing innovative financial services. Consultation with stakeholders is ongoing and a number of legislative changes to be implemented in 2013 are under consideration. Insufficient alignment of the draft National Strategic Plan for Research and Innovation 2011-20 with the requirements for a ‘research and innovation strategy for smart specialisation’ (RIS3) and weak links between knowledge institutions and businesses hinder further progress. To that end, the government

[31] The Renewable Energy Directive allows for the use of cooperative mechanisms to achieve the overall target for renewable energy. This principle cannot apply for achieving the renewable energy target in transport.

intends to finalise an Innovative Strategy for Smart Specialisation that would identify sectors with high potential for innovation-based growth by the third quarter of 2013.

Functioning of the internal market

Challenges to the proper functioning of the internal market continue to exist. Discriminatory pricing practices appear to persist, obstructing equal access for non-Maltese nationals who reside or intend to reside in Malta to some basic services, such as telephony, utilities and public transportation. A number of complaints by EU citizens resident in Malta have been submitted, leading to the initiation of infringement procedures by the European Commission. Meanwhile, the authorities have launched a number of relevant initiatives to improve the functioning of the internal market such as the Small Business Act, the commitment to reduce the administrative burden and the social economy initiative. While the implementation of the first two is quite advanced, the social economy project is still in an initial phase of development.

3.5. Modernisation of public administration

Despite a generally business-friendly environment, benefiting from significant policy attention, public administration suffers from inefficiencies with negative implications for economic activity. A number of reforms have improved the capacity of the public administration to support a generally FDI- and SME-friendly business environment. Nevertheless, important gaps remain, including in the judicial system, which also affect the ability to absorb EU funding.

Business environment

Significant policy attention has been given to the business environment for SMEs. The Late Payments Directive was transposed into Maltese law in 2012. This was received well by stakeholders, although some articles in the Directive may not have been transposed as intended, which may hinder its usefulness. Also, the Small Business Malta Act, an important legislative tool to foster the role of SMEs in enhancing growth and competitiveness, has been in operation since June 2011. In particular, putting the 'SME test' into force in order to identify the potential impact of all new proposed legislation on small entrepreneurs is expected to bring positive results. It has yet to be fully implemented, however. The setting-up of the 'Business First' one-stop-shop was another notable initiative to lower the administrative burden on SMEs and its activity in 2012 appears to be yielding positive results. To foster communication with the business community, an Enterprise Consultative Council has been set up. The level of ambition in this area can be stepped up still and the Council appears not to be sufficiently independent from the government. Overall, policy action to improve the business environment has been relevant and ambitious. Implementation in some areas, however, has been unsatisfactory, which hampers the overall credibility of the government's strategy.

Public administration

Inefficiencies put the timely absorption of EU funds at risk. Available figures until the end of 2011 show that Malta experiences significant problems with absorption of EU funds.[32] While the rate of project selection is on par with the EU average, the expenditure rate is well below it, especially for the European Regional Development Fund and the European Social Fund. Delays are due to insufficient administrative capacity and complicated and lengthy procedures, in particular in the areas of public procurement and environmental permits. The roll out of electronic procurement, currently only in place for projects worth over €120 000, could partly help by streamlining processes, but with the end of the programming period approaching there is a growing risk that not all available EU funding will be absorbed and the indicated objectives will not be achieved. Still, the management and control systems for EU funds appear to be functioning satisfactorily and the error rate is very low. The full transition to electronic procurement, as announced in the 2013 NRP, could contribute to improving the administration of EU funds.

Judicial system

Malta's judicial system appears to suffer from shortcomings. An efficient justice system is a key element of a business-friendly environment. The EU Justice Scoreboard[33] highlights that the time needed to resolve non-criminal, and in particular civil and commercial, cases is one of the longest in the EU. The number of pending cases at first instance is high and the clearance rate is low, indicating that more cases arise each year than are resolved.

Long insolvency procedures could impact financial stability. Inefficiency in the justice system may hamper the swift recovery of collateral in times of economic stress, thereby resulting in direct losses and recapitalisation needs in the banking sector, and affecting financial institutions' lending decisions. This is particularly relevant given domestic banks' high exposure to the real estate market in the form of collateral. The World Bank's *Doing Business* report indicates shortcomings in resolving insolvency procedures, as reflected in a very low recovery of asset value for creditors and the very long time procedures take. This also appears to be the result of inefficient bankruptcy law procedures, where Malta ranks last in the EU.[34]

The authorities have launched an ambitious reform of the system. The 2013 National Reform Programme announces the launch of a comprehensive judicial reform process. A specialised commission has been appointed to carry out a review of the system and recommend policy measures. The terms of the review are wide-ranging and include, among others, the accountability of judges, the civil courts, the legal aid system, the use of information technologies, the administration of cases, alternative dispute resolution mechanisms and the implementation of reparative justice. The policy plans are relevant and

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32 Cohesion policy: Strategic report 2013 on programme implementation 2007-13, available at http://ec.europa.eu/regional_policy/how/policy/doc/strategic_report/2013/strat_report_2013_en.pdf

33 http://ec.europa.eu/justice/effective-justice/files/justice_scoreboard_communication_en.pdf

34 http://ec.europa.eu/enterprise/policies/sme/business-environment/files/business_dynamics_final_report_en.pdf

ambitious and their credibility will depend on respecting the set timetable, whereby the appointed commission is to present its policy recommendations by end-June and implementation is to start by the end of the year.

4. OVERVIEW TABLE

2012 commitments	Summary assessment
Country-specific recommendations (CSRs)	
CSR 1: Reinforce the budgetary strategy in 2012 with additional permanent measures so as to ensure adequate progress towards the MTO and keep the deficit below 3% of GDP without recourse to one-offs. Continue fiscal consolidation at an appropriate pace thereafter, so as to make sufficient progress towards the MTO, including meeting the expenditure benchmark, and towards compliance with the debt reduction benchmark, by specifying the concrete measures to back up the deficit targets from 2013, while standing ready to take additional measures in case of slippages. Implement, by end-2012 at the latest, a binding, rule- based multiannual fiscal framework. Increase tax compliance and fight tax evasion, and reduce incentives towards indebtedness in corporate taxation.	**This CSR has not been implemented.** The 2012 outturn was worse than targeted and above the 3%-of-GDP reference value, thus implying a deviation from the adjustment path towards the medium-term objective. In addition, not all measures that underpin the strategy from 2013 onwards are outlined in the programme. The programme plans a broadly appropriate pace of adjustment towards the medium-term objective and a gradual decrease in the debt ratio after 2014. By contrast, the Commission services' 2013 spring forecast projects only a marginal improvement in the structural balance and a continued upward path for the debt ratio in 2013-14. No concrete action has been taken to reform the fiscal framework or to address the debt bias in corporate taxation. Some progress has been made in increasing tax compliance and fighting tax evasion, but concrete results are yet to materialise.
CSR 2: Take action, without further delay, to ensure the long-term sustainability of the pension system, comprising an increase in the effective retirement age, including through a significant acceleration of the progressive increase in the statutory retirement age compared to current legislation and through a clear link between the statutory retirement age and life expectancy, and measures to encourage private pension savings. Take measures to increase the participation of older workers in the labour force and discourage the use of early retirement schemes.	**Malta has made no progress in the implementation of this CSR** in terms of the pension system reform. There has been only limited progress in terms of attracting older workers onto the labour market. The fiscal incentives put in place, together with the current pension reform, have helped in increasing the labour market participation of older workers, although this age group still has vast growth potential. An active ageing strategy is yet to be delivered.
CSR 3: Take steps to reduce the high rate of early school leaving. Pursue policy efforts in the education system to match the skills required by the labour market. Enhance the provision and affordability of more childcare and out-of-school centres, with the aim of reducing the gender employment gap.	**Malta has made some progress towards implementing this CSR.** The measures against early school leaving already in place seem to be pointing in the right direction, while their proper implementation and the evaluation of their impact will be crucial. However, the issue remains an area of concern and scope for further action remains. Due to the long-term nature of many measures to promote skill matching, it is too early to assess their impact, but the general principles seem to go in the right direction. Malta is also positively addressing the issue of childcare provision and out-of-school facilities, although there is still scope for improvements.
CSR 4: Take the necessary further steps to reform, in consultation with social partners and in accordance with national practices, the system of wage bargaining and wage indexation, so as to better reflect developments in labour productivity and reduce the impact of prices of imports on the index.	**No progress has been registered on this CSR.**

CSR 5: In order to reduce Malta's dependence on imported oil, step up efforts to promote energy efficiency and increase the share of energy produced from renewable sources by carefully monitoring the existing incentivising mechanisms and by prioritising the further development of infrastructure, including by completing the electricity link with Sicily.	**Limited progress towards implementing this CSR has been made.** In 2012, Malta allocated structural funds for renewable energy by saving them in the transport and waste sector. Although this focused funds on energy production covered by the ETS and the RES headline target, it moved them away from tackling non-ETS sectors where emissions are increasing beyond the committed target. It is expected that the Interconnector project will be implemented by the end of 2013, but this has previously been delayed. Although Malta might face problems in implementing some of the wind projects, there is certainly scope to promote other RES. For instance costs for electricity from PV should be low due to plenty of solar radiation. Also the use of imported biofuels would be an option. In any case Malta needs to have a strategy as to how to fulfil the renewable energy targets.
CSR 6: To strengthen the banking sector, take measures to mitigate potential risks arising from the large exposure to the real estate market. Take measures to further strengthen the provisions for loan impairment losses.	**Malta has made some progress towards implementing this CSR.** The two national regulators, Central Bank of Malta and the Malta Financial Services Authority, have started talks on reforms of the Banking Act. The planned measures are relevant, but they are still at the drafting stage.
Europe 2020 (national targets and progress)	
Employment rate target:	63.1% (2012) – Malta exceeded the modest 2020 target of 62.9%.
R&D target: 0.68% of GDP	0.73% of GDP (2011) – Malta has already exceeded the modest 2020 target
Greenhouse gas (GHG) emissions target: National Target: *limited increase to +5% (compared to 2005 emissions, ETS emissions not covered by this national target)*	Change in non-ETS greenhouse gas emissions between 2005 and 2010: +10% *According to the latest national projections submitted to the Commission and taking existing measures into account, it is expected that the target will be missed: +33 % in 2020 as compared with 2005 (a projected gap of 28 percentage points compared to the target).*
Renewable energy target: 10% Share of renewable energy in all modes of transport: 10%	Share of total renewable energy in gross final energy consumption was 0.4 % in 2011 and 0.0 % in the transport sector. (Source: Eurostat. April 2013. For 2011, only formally reported biofuels compliant with Art. 17 and 18 of Directive 2009/28/EC are included).
Indicative national energy efficiency target for 2020: 22% energy or 235.254toe savings target by 2020 (with an intermediate target for 2014 of 15% or 144.876toe). This implies reaching a 2020 level of 0.825 Mtoe primary energy consumption and 0.493 Mtoe final energy consumption.	Malta has set an indicative national energy efficiency target in accordance with Articles 3 and 24 of the Energy Efficiency Directive (2012/27/EU). It has also expressed it, as required, in terms of an absolute level of primary and final energy consumption in 2020 and has provided information on the basis on which data this has been calculated.
Early school leaving target: the 29% target was based on old figures and is now obsolete. A new target is expected to be set in the coming months.	Full data according to the new methodology are available as from 2010 and are not comparable with data up to 2009. Early school leaving rate: 22.6% in 2012; 23.6% in 2011; 24.8% in 2010.

Tertiary education target: 33%	Tertiary attainment rate: 21.5% in 2010; 21.4% in 2011; 22.4% in 2012. Limited progress has been made towards achieving the target.
Risk of poverty or social exclusion target:	88,000 at risk (2011)

5. ANNEX

Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2009	2010	2011	2012	2013	2014
Core indicators								
GDP growth rate	4.5	1.9	2.3	2.9	1.7	0.8	1.4	1.8
Output gap 1	-0.3	-0.1	0.8	-0.1	0.2	-0.3	-0.4	-0.1
HICP (annual % change)	3.3	2.6	2.5	2.0	2.5	3.2	1.9	1.9
Domestic demand (annual % change) 2	1.9	2.0	2.2	-1.5	-1.1	-0.2	1.2	1.7
Unemployment rate (% of labour force) 3	5.9	7.3	6.7	6.9	6.5	6.4	6.3	6.1
Gross fixed capital formation (% of GDP)	22.3	19.0	19.8	17.0	14.6	14.6	14.9	15.4
Gross national saving (% of GDP)	20.0	15.0	13.5	12.3	12.4	11.6	12.1	12.7
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-7.1**	**-6.3**	**-3.2**	**-3.6**	**-2.8**	**-3.3**	**-3.7**	**-3.6**
Gross debt	**45.3**	**61.3**	**63.7**	**67.4**	**70.3**	**72.1**	**73.9**	**74.9**
Net financial assets	**n.a**	**-44.8**	**-46.8**	**-50.4**	**-51.8**	**n.a**	**n.a**	**n.a**
Total revenue	33.7	36.1	39.6	38.4	39.3	40.5	40.9	41.1
Total expenditure	40.9	42.3	42.8	42.0	42.1	43.9	44.6	44.7
of which: Interest	2.7	3.4	3.3	2.9	3.1	3.2	3.2	3.2
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**
Net financial assets; non-financial corporations	**n.a**	**-93.7**	**-104.1**	**-107.2**	**-109.5**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**n.a**	**-7.9**	**-15.6**	**-9.6**	**-7.1**	**n.a**	**n.a**	**n.a**
Gross capital formation	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Gross operating surplus	n.a	25.2	25.6	26.6	n.a	n.a	n.a	n.a
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**
Net financial assets	**n.a**	**188.7**	**182.8**	**170.2**	**168.7**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Net property income	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Current transfers received	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Gross saving	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-6.6**	**-3.9**	**-5.1**	**-2.9**	**0.5**	**0.1**	**1.1**	**1.2**
Net financial assets	**n.a**	**-38.4**	**-15.5**	**-1.3**	**1.5**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-8.7	-1.7	-2.6	1.4	5.0	5.8	6.6	6.7
Net primary income from the rest of the world	0.2	-0.5	-4.2	-6.6	-6.1	-7.1	-6.9	-6.8
Net capital transactions	0.7	0.5	1.9	1.7	1.0	0.9	1.2	1.2
Tradable sector	52.4	47.2	41.2	37.9	36.6	36.2	n.a	n.a
Non tradable sector	37.4	41.0	45.6	49.3	50.1	50.8	n.a	n.a
of which: Building and construction sector	4.5	4.5	4.2	3.7	3.4	3.2	n.a	n.a
Real effective exchange rate (index, 2000=100)	92.6	94.0	106.0	107.5	108.2	107.9	111.1	112.2
Terms of trade goods and services (index, 2000=100)	95.7	98.4	99.8	98.3	99.1	99.1	99.3	99.3
Market performance of exports (index, 2000=100)	131.5	113.1	106.3	119.6	116.3	123.6	126.8	127.6

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source:
Commission services' 2013 spring forecasts (COM); Stability programme (SP).

Table II. Comparison of macroeconomic developments and forecasts

	2012		2013		2014		2015	2016
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	0.8	0.8	1.4	1.4	1.8	1.6	1.9	1.9
Private consumption (% change)	-0.6	-0.6	0.9	0.9	1.3	1.0	1.5	1.7
Gross fixed capital formation (% change)	-2.5	-2.5	1.5	0.5	2.5	3.2	3.0	2.8
Exports of goods and services (% change)	5.2	5.2	2.2	2.1	4.6	1.6	1.0	0.7
Imports of goods and services (% change)	4.4	4.4	2.0	1.6	4.7	1.2	0.7	0.6
Contributions to real GDP growth:								
- Final domestic demand	0.4	0.4	1.1	0.8	1.6	1.1	1.5	1.8
- Change in inventories	-0.5	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	1.0	1.0	0.3	0.6	0.2	0.5	0.3	0.2
Output gap[1]	-0.3	-0.5	-0.4	-0.5	-0.1	-0.3	0.2	0.6
Employment (% change)	2.1	2.4	1.8	0.7	2.1	0.9	0.7	0.9
Unemployment rate (%)	6.4	6.4	6.3	6.6	6.1	6.4	6.1	5.7
Labour productivity (% change)	-1.2	-0.5	-0.4	0.2	-0.3	0.8	1.2	1.2
HICP inflation (%)	3.2	3.2	1.9	2.0	1.9	1.6	1.7	1.8
GDP deflator (% change)	2.2	2.2	2.2	1.9	2.3	2.2	2.3	2.4
Comp. of employees (per head, % change)	2.4	2.9	1.8	0.7	1.8	1.1	1.3	3.4
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	0.1	1.8	1.1	4.0	1.2	4.7	5.9	5.2

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source :

Commission services' 2013 spring forecasts (COM); Stability programme (SP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2012	2013		2014		2015	2016	Change: 2012-2016
	COM	COM	SP	COM[1]	SP	SP	SP	SP
Revenue	**40.5**	**40.9**	**42.1**	**41.1**	**42.8**	**43.2**	**42.0**	**1.5**
of which:								
- Taxes on production and imports	13.6	13.5	14.4	13.4	14.3	14.3	14.1	0.5
- Current taxes on income, wealth, etc.	13.8	13.7	13.9	13.9	14.3	14.4	14.4	0.6
- Social contributions	7.5	7.5	7.4	7.5	7.4	7.4	7.4	-0.1
- Other (residual)	5.6	6.2	6.4	6.3	6.8	7.1	6.1	0.5
Expenditure	**43.9**	**44.6**	**44.9**	**44.7**	**44.9**	**44.9**	**42.9**	**-1.0**
of which:								
- Primary expenditure	40.7	41.4	41.7	41.5	41.7	41.7	39.7	-1.0
of which:								
Compensation of employees	13.5	13.5	13.5	13.4	13.3	13.2	12.9	-0.6
Intermediate consumption	6.7	6.8	6.7	6.9	6.7	6.6	6.2	-0.5
Social payments	13.9	13.8	13.7	13.7	13.7	13.7	13.5	-0.4
Subsidies	1.1	1.2	1.2	1.3	1.3	1.2	1.1	0.0
Gross fixed capital formation	3.1	3.1	3.5	3.2	3.7	3.7	3.3	0.2
Other (residual)	2.4	2.9	3.0	2.9	2.8	3.3	2.5	0.1
- Interest expenditure	3.2	3.2	3.2	3.2	3.2	3.2	3.2	0.0
General government balance (GGB)	**-3.3**	**-3.7**	**-2.7**	**-3.6**	**-2.1**	**-1.6**	**-0.8**	**2.5**
Primary balance	**-0.2**	**-0.5**	**0.5**	**-0.4**	**1.1**	**1.6**	**2.4**	**2.6**
One-off and other temporary measures	0.9	0.3	0.2	0.1	0.1	0.1	0.1	-0.8
GGB excl. one-offs	**-4.3**	**-4.0**	**-2.9**	**-3.8**	**-2.2**	**-1.7**	**-0.9**	**3.4**
Output gap[2]	-0.3	-0.4	-0.5	-0.1	-0.3	0.2	0.6	1.0
Cyclically-adjusted balance[2]	-3.2	-3.5	-2.5	-3.6	-2.0	-1.7	-1.0	2.2
Structural balance (SB)[3]	**-4.1**	**-3.8**	**-2.7**	**-3.7**	**-2.1**	**-1.8**	**-1.1**	**3.0**
Change in SB	*-0.5*	*0.3*	*1.4*	*0.1*	*0.6*	*0.3*	*0.6*	-
Two year average change in SB	*0.2*	*-0.1*	*0.4*	*0.2*	*1.0*	*0.4*	*0.5*	-
Structural primary balance[3]	-1.0	-0.6	0.5	-0.5	1.1	1.4	2.1	3.0
Change in structural primary balance		*0.4*	*1.5*	*0.1*	*0.6*	*0.3*	*0.6*	-
Expenditure benchmark								
Applicable reference rate[4]	0.24	0.24	0.24	0.57	0.57	0.57	0.57	-
Deviation[5] (% GDP)	0.7	1.2	-0.4	0.9	-0.1	0.3	-0.4	-
Two-year average deviation (% GDP)	-0.1	1.0	-0.3	1.0	-0.2	0.1	0.0	-

Notes:

[1]On a no-policy-change basis.

[2]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

[3]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

[4] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t.The reference rates applicable to 2014 onwards have been updated in 2013.

[5] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A positive sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Stability programme (SP); Commission services' 2013 spring forecasts (COM); Commission services' calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2007-2011	2012	2013 COM	2013 SP	2014 COM	2014 SP	2015 SP	2016 SP
Gross debt ratio[1]	**65.1**	**72.1**	**73.9**	**74.2**	**74.9**	**74.2**	**72.7**	**70.0**
Change in the ratio	1.6	1.8	1.8	2.1	1.0	0.0	-1.5	-2.7
Contributions[2] *:*								
1. Primary balance	**0.3**	**0.2**	**0.5**	**-0.5**	**0.4**	**-1.1**	**-1.6**	**-2.4**
2. "Snow-ball" effect	**0.3**	**1.1**	**0.7**	**0.9**	**0.3**	**0.5**	**0.2**	**0.2**
Of which:								
Interest expenditure	3.1	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Growth effect	-1.2	-0.6	-1.0	-1.0	-1.3	-1.1	-1.4	-1.3
Inflation effect	-1.6	-1.5	-1.5	-1.3	-1.6	-1.5	-1.6	-1.6
3. Stock-flow adjustment	**1.0**	**0.6**	**0.6**	**1.7**	**0.3**	**0.6**	**-0.1**	**-0.5**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								

	2012	2013 COM / SP[3]	2013 SP[4]	2014 COM / SP[3]	2014 SP[4]	2015 SP	2016 SP
Gap to the debt benchmark[5,6]	n.r.	n.r.	n.r.	-2.4	-2.4	-2.6	-2.4
Structural adjustment[7]	-0.5	0.5	0.5	n.r.	n.r.	n.r.	n.r.
To be compared to:							
Required adjustment[8]	0.4	0.3	0.2	n.r.	n.r.	n.r.	n.r.

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

[3] Assessment of the consolidation path set in SP assuming growth follows the COM forecasts.

[4]Assessment of the consolidation path set in the SP assuming growth follows the SP projections.

[5]Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[6]Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[7]Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[8]Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP) budgetary projections for the previous years are achieved.

Source :

Stability programme (SP); Commission services' spring 2013 forecasts (COM); Commission services' calculations.

Table V. Sustainability indicators

	MT		EU27	
	No-policy change scenario	Programme (SCP) scenario	No-policy change scenario	Programme (SCP) scenario
S2	6.8	4.3	3.0	1.3
of which:				
Initial budgetary position (IBP)	1.8	-0.5	0.8	-0.9
Long-term cost of ageing (CoA)	5.0	4.8	2.2	2.2
of which:				
Pensions	3.0	2.8	1.0	1.1
Health care	1.9	1.8	0.9	0.8
Long-term care	0.6	0.6	0.6	0.6
Others	-0.5	-0.4	-0.4	-0.3
S1 (required adjustment)*	3.1	-0.2	2.2	0.5
of which:				
Initial budgetary position (IBP)	1.7	-1.5	0.0	-1.8
Debt requirement (DR)	0.9	0.7	1.9	1.9
Long-term cost of ageing (CoA)	0.5	0.6	0.3	0.4
S0 (risk for fiscal stress)**	0.41		:	
Debt, % of GDP (2012)	72.1		87.0	
Age-related expenditure, % of GDP (2012)	21.8		25.8	

Note:
The 'No-policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the Commissions' spring 2013 forecast until 2014. The 'Programme (SCP)' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented.
* The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.
** The critical threshold for the S0 indicator is 0.44.

Source :
Commission services; 2013 stability programme.

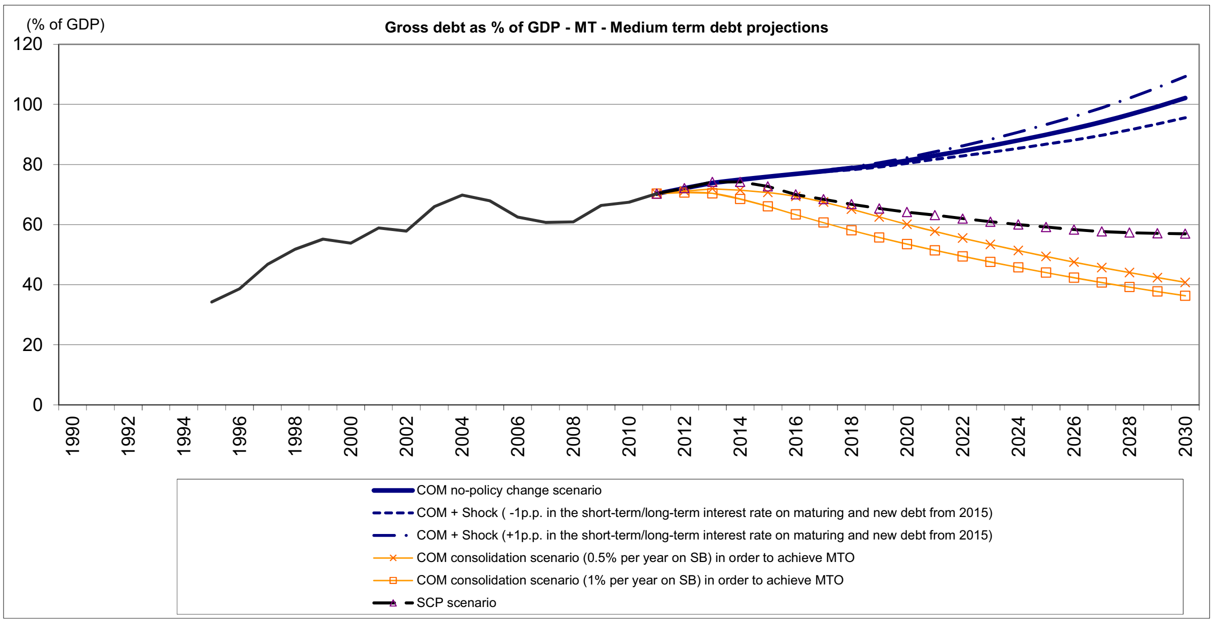

Table VI. Taxation indicators

	2002	2006	2008	2009	2010	2011
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	30.0	33.0	33.0	33.3	32.6	33.5
Breakdown by economic function (% of GDP)[1]						
Consumption	12.3	13.7	13.3	13.1	12.9	13.4
of which:						
- VAT	6.2	7.9	7.7	7.6	7.6	7.9
- excise duties on tobacco and alcohol	1.3	1.5	1.2	1.2	1.3	1.3
- energy	1.3	1.3	1.4	1.5	1.5	1.6
- other (residual)	3.6	3.1	2.9	2.8	2.6	2.6
Labour employed	10.2	10.3	9.4	9.9	9.7	10.1
Labour non-employed	0.9	1.1	1.0	1.1	1.1	1.1
Capital and business income	5.1	5.8	7.5	7.6	7.3	7.3
Stocks of capital/wealth	1.5	2.1	1.7	1.6	1.6	1.6
p.m. Environmental taxes[2]	3.3	3.3	3.4	3.3	3.0	3.2
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	54.9	58.3	57.1	56.5	57.7	59.4

Note:

1 Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2013) Taxation trends in the European Union, for a more detailed explanation.

2 This category comprises taxes on energy, transport and pollution and resources included in taxes on consumption and capital.

3 The VAT efficiency is measured via the VAT revenue ratio. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). See European Commission (2012), Tax reforms in EU Member States, European Economy 6/2012 and Taxation Papers 34/2012 for a more detailed explanation.

Source: Commission

Table VII. Financial market indicators

	2008	2009	2010	2011	2012
Total assets of the banking sector (% of GDP)	713.1	695.1	795.6	784.4	787.9
Share of assets of the five largest banks (% of total assets)	72.8	72.8	71.3	72.0	…
Foreign ownership of banking system (% of total assets)	40.7	36.3	…	…	…
Financial soundness indicators:					
- non-performing loans (% of total loans)[1), 2)]	5.5	6.2	7.5	7.3	8.3
- capital adequacy ratio (%) [1), 2)]	11.5	13.5	12.9	13.5	13.9
- return on equity (%) [1), 2)]	5.9	18.3	19.1	20.1	24.2
Bank loans to the private sector (year-on-year % change)	20.0	-2.8	2.9	3.0	3.5
Lending for house purchase (year-on-year % change)	9.4	10.0	8.6	8.6	6.8
Loan to deposit ratio	108.0	105.7	103.2	94.3	89.7
CB liquidity as % of liabilities	2.0	3.5	2.7	1.3	1.1
Banks' exposure to countries receiving official financial assistance (% of GDP)	…	…	…	…	…
Private debt (% of GDP)	168.9	167.0	165.5	164.3	160.3
Gross external debt (% of GDP)[3)]					
- Public	4.9	4.4	3.6	3.8	5.0
- Private	44.9	47.6	54.2	55.1	57.6
Long term interest rates spread versus Bund (basis points)*	0.8	1.3	1.4	1.9	2.6
Credit default swap spreads for sovereign securities (5-year)*	…	…	…	…	…

Notes:

1) Latest data (September 201).

2) Domestic banks dealing only with residents.

3) Latest data 2012Q3.

* Measured in basis points.

Source :

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table VIII. Labour market and social indicators

Labour market indicators	2007	2008	2009	2010	2011	2012
Employment rate (% of population aged 20-64)	58.5	59.1	58.8	60.1	61.5	63.2
Employment growth (% change from previous year)	2.4	2.5	-0.2	1.7	2.7	2.1
Employment rate of women (% of female population aged 20-64)	37.4	39.3	39.8	41.5	43.4	46.9
Employment rate of men (% of male population aged 20-64)	78.7	78.2	77.1	77.9	78.9	79.0
Employment rate of older workers (% of population aged 55-64)	28.5	29.2	27.8	30.4	31.8	33.6
Part-time employment (% of total employment, 15 years and more)	10.9	11.5	11.3	12.5	13.2	14.0
Part-time employment of women (% of women employment, 15 years and more)	24.6	25.5	23.7	25.0	25.7	26.3
Part-time employment of men (% of men employment, 15 years and more)	4.4	4.5	5.1	6.0	6.6	6.9
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	5.1	4.3	4.9	5.6	6.6	6.9
Transitions from temporary to permanent employment	1.0	3.3	4.6	0.6	0.7	:
Unemployment rate1 (% of labour force, age group 15-74)	6.5	6.0	6.9	6.9	6.5	6.4
Long-term unemployment rate2 (% of labour force)	2.7	2.5	3.0	3.2	3.0	3.0
Youth unemployment rate (% of youth labour force aged 15-24)	13.9	12.2	14.4	13.1	13.8	14.2
Youth NEET rate (% of population aged 15-24)	11.7	9.5	9.8	9.5	10.6	11.1
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	38.3	38.1	36.8	24.8	23.6	22.6
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	21.5	20.9	21.0	21.5	21.4	22.4
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	10.0	10.0	4.0	7.0	8.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	3.0	5.0	4.0	4.0	3.0	:
Labour productivity per person employed (annual % change)	1.7	1.4	-2.4	1.1	-1.0	-1.2
Hours worked per person employed (annual % change)	1.9	-0.5	1.1	-0.9	6.1	-1.8
Labour productivity per hour worked (annual % change; constant prices)	-0.2	1.9	-3.5	2.1	-6.7	0.6
Compensation per employee (annual % change; constant prices)	0.2	1.2	1.2	-1.8	-1.6	0.2
Nominal unit labour cost growth (annual % change)	1.4	2.8	6.6	-0.1	1.5	3.7
Real unit labour cost growth (annual % change)	-1.5	-0.2	3.7	-2.9	-0.6	1.4

Notes:

[1] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed.

[2] Long-term unemployed are unemployed persons for at least 12 months.

Sources:
Commission (EU Labour Force Survey and European National Accounts)

Expenditure on social protection benefits (% of GDP)	2006	2007	2008	2009	2010
Sickness/Health care	5.25	5.21	5.45	6.10	5.72
Invalidity	1.13	1.07	0.98	0.93	0.86
Old age and survivors	9.49	9.33	9.49	10.29	10.75
Family/Children	1.13	1.07	1.22	1.26	1.22
Unemployment	0.61	0.51	0.50	0.59	0.54
Housing and Social exclusion n.e.c.	0.18	0.24	0.23	0.16	0.16
Total	18.11	17.78	18.24	19.71	19.57
of which: means tested benefits	3.21	3.14	2.51	2.65	2.60
Social inclusion indicators	**2007**	**2008**	**2009**	**2010**	**2011**
At-risk-of-poverty or social exclusion[1] (% of total population)	19.4	19.6	20.2	20.3	21.4
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	23.1	23.5	25.5	24.3	25.8
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	23.1	26.4	23.2	21.5	21.5
At-Risk-of-Poverty rate[2] (% of total population)	14.8	15.0	15.3	15.0	15.4
Severe Material Deprivation[3] (% of total population)	4.2	4.0	4.7	5.7	6.3
Share of people living in low work intensity households[4] (% of people aged 0-59)	9.2	8.2	8.4	8.4	8.3
In-work at-risk-of poverty rate (% of persons employed)	4.5	5.0	5.7	5.7	6.0
Impact of social transfers (excluding pensions) on reducing poverty	30.2	33.9	33.8	33.6	32.8
Poverty thresholds, expressed in national currency at constant prices[5]	5581	5991	6064	5799	5949
Gross disposable income (households)	:	:	:	:	:
Relative median poverty risk gap (60% of median equivalised income, age: total)	17.2	20.4	16.2	17.2	17.7

Notes:

[1] People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate (AROP): share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone.

[4] People living in households with very low work intensity: share of people aged 0-59 living in households where the adults (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months.

[5] For EE, CY, MT, SI, SK, thresholds in nominal values in Euros; HICP - index 100 in 2006 (2007 survey refers to 2006 incomes)

Sources:
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

Table IX. Product markets performance and policy indicator

Performance indicators	2003-2007	2008	2009	2010	2011	2012
Labour productivity[1] total economy (annual growth in %)	1.1	1.4	-2.4	1.1	-1.0	-1.2
Labour productivity[1] in manufacturing (annual growth in %)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Labour productivity[1] in electricity, gas, steam and air conditioning supply (annual growth in %)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total number of patent[2] applications per million of labour force	45.1	32.3	39.0	38.0	n.a.	n.a.
Policy indicators	**2003-2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Enforcing contracts[3] (days)	n.a.	n.a.	n.a.	n.a.	505	505
Time to start a business[3] (days)	n.a.	n.a.	n.a.	n.a.	40	40
R&D expenditure (% of GDP)	0.5	0.6	0.5	0.7	0.7	n.a.
Tertiary educational attainment (% of 30-34 years old population)	18.6	20.9	21.0	21.5	21.1	21.7
Total public expenditure on education (% of GDP)	5.82	5.86	5.46	n.a.	n.a.	n.a.
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Notes:

[1] Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2] Total number of patent applications to the European Patent Office (EPO) per million of labour force

[3] The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

[4] The methodologies of the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.

[5] Aggregate Energy, Transport and Communications Regulation (ETCR).

*figure for 2007.

Source:
Commission, World Bank - *Doing Business* (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

Table X. Green Growth

		2002-2006	2007	2008	2009	2010	2011
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.20	0.19	0.19	0.18	0.18	0.21
Carbon intensity	kg / €	0.64	0.63	0.60	0.60	0.59	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	0.38	0.26	0.19	0.31	n.a.	n.a.
Waste intensity	kg / €	n.a.	n.a.	0.46	n.a.	0.25	n.a.
Energy balance of trade	% GDP	-3.7%	-1.5%	-2.4%	-0.1%	1.1%	-3.0%
Energy weight in HICP	%	n.a.	6	6	6	6	7
Difference between change energy price and inflation	%	n.a.	-7.2	14.3	9.9	27.1	0.4
Environmental taxes over labour taxes	ratio	29.5%	36.5%	33.0%	32.1%	29.0%	n.a.
Environmental taxes over total taxes	ratio	10.1%	10.9%	10.1%	9.9%	9.3%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Share of energy-intensive industries in the economy	% GDP	5.9	7.3	6.6	6.8	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.12	0.14	0.14	0.18	0.18
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public R&D for energy	% GDP	n.a.	0.00%	0.00%	0.00%	0.00%	0.00%
Public R&D for the environment	% GDP	n.a.	0.00%	0.00%	0.00%	0.00%	0.00%
Recycling rate of municipal waste	ratio	13.3%	6.8%	3.3%	4.1%	13.0%	n.a.
Share of GHG emissions covered by ETS*	%	n.a.	65.3%	65.9%	63.7%	62.7%	63.9%
Transport energy intensity	kgoe / €	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Transport carbon intensity	kg / €	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	n.a.	100.0%	100.0%	101.1%	99.1%	100.6%
Diversification of oil import sources	HHI	n.a.	0.00	0.00	0.00	0.00	n.a.
Diversification of energy mix	HHI	n.a.	1.00	1.00	1.00	0.99	1.00
Share renewable energy in energy mix	%	n.a.	0.0%	0.0%	0.0%	0.4%	0.1%

Country-specific notes:

The year 2012 is not included in the table due to lack of data.

General explanation of the table items:

Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated below

All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)

Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)

Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)

Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)

Waste intensity: waste (in kg) divided by GDP (in EUR)

Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP

Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP

Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)

Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"

Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2005 EUR)

Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP

Electricity and gas prices medium industrial users: consumption band 500 - 2000MWh and 10000 - 100000 GJ; figures excl. VAT.

Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste

Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP

Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)

Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transp industry gross value added (2005 EUR)

Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector

Energy import dependency: net energy imports divided by gross inland energy consumption incl. energy consumption international bunkers

Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin

Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels

Share renewable energy in energy mix: %-share in gross inland energy consumption, expressed in tonne oil equivalents

*Provisional data (15 April 213). Commission Services and EEA.

** For 2007 average of S1 & S2 for DE, LU, NL, FI, SE & UK. Other countries only have S2.

*** For 2007 average of S1 & S2 for IT, NL, FI, SE & UK. Other countries only have S2.