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Assessment of the 2012 national reform programme and stability programme for MALTA

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

on Malta's 2012 national reform programme 2012 and delivering a Council opinion on Malta's updated stability programme, 2012 - 2015

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EXECUTIVE SUMMARY

In 2012, Malta's economic activity is expected to slow down compared to 2011, regaining momentum in 2013. GDP growth is projected to decrease to 1.2% according to the Commission services' 2012 spring forecast. The unemployment rate of is projected to remain well below the euro-area average at 6.6%.

The Maltese economy continues to perform relatively well. Malta's general government deficit is reported to have been below 3% of GDP in 2011. Malta has also invested to better adapt its education system to industry requirements. A series of initiatives were launched in the energy field to reduce the dependency on imported oil, increase the share of renewable energy and promoting energy efficiency, though they are still at a relatively early stage of development.

Malta's challenges remain broadly unchanged. Concrete progress on strengthening the fiscal framework and adopting additional consolidation measures has been limited. The projected long-term increase in age-related expenditure poses a risk to the long-term sustainability of its public finances. The underutilisation of its human capital, namely of older workers and women, adds to the scope of the challenge. Strengthening labour skills and reducing Malta's high rate of early school leaving remain high on the agenda. Malta's mandatory cost-of-living adjustment mechanism may hamper its competitiveness, especially in labour-intensive sectors. Tackling the very high dependence on imported oil remains a challenge. Finally, the large exposure of its banking system to the real estate market poses potential risks.

1. INTRODUCTION

Procedural aspects

In June 2011, the Commission proposed five country-specific recommendations[1] for economic and structural reform policies in Malta. In July 2011 the Council of the European Union adopted these recommendations[2], which concerned public finances and the fiscal framework, the pension system, education and training, the system of wage indexation and energy.

In November 2011, the Commission published its Annual Growth Survey for 2012,[3] in which it set out its proposals for building the necessary common understanding about the priorities for action at national and EU level in 2012. It focused on five priorities — growth-friendly fiscal consolidation, restoring normal lending to the economy, promoting growth and competitiveness, tackling unemployment and social consequences of the crisis, and modernising public administration — and encouraged Member States to implement them in the 2012 European Semester.

Against this background Malta presented its 2012 national reform programme on 23 April 2012 and its 2012 stability programme on 30 April. They detail progress made since July 2011 and plans going forward. The national reform programme was prepared in consultation with the social partners and its implementation is subject to 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. This Staff Working Document assesses the state of implementation of the 2011 recommendations as well as the Annual Growth Survey 2012 in Malta, identifies current policy challenges and, in this light, examines the country's latest policy plans.

Overall assessment

Overall, Malta has not made sufficient progress towards implementing the 2011 recommendations. On the positive side, economic growth was robust in 2011 and the country reported a government deficit below 3% of GDP in 2011. In addition, progress has been made towards raising the skill level of the workforce and reducing the economy's dependence on imported oil by launching projects and schemes that promote energy efficiency and energy produced from renewable sources. Notwithstanding these policy efforts, progress with reforms in other areas, such as the fiscal framework, pension reform, early school leaving and the wage indexation mechanism, has been limited. Therefore, in these areas the challenges identified in July 2011 and re-iterated in the AGS 2012 remain valid.

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1 SEC(2011) 726 final of 7 June 2011, available at: http://ec.europa.eu/europe2020/reaching-the-goals/monitoring-progress/recommendations-2011/index_en.htm

2 OJ C 215 of 21 July 2011, available at: http://ec.europa.eu/europe2020/reaching-the-goals/monitoring-progress/recommendations-2011/index_en.htm

3 COM(2011) 815 final of 23 November 2011, available at: http://ec.europa.eu/europe2020/reaching-the-goals/monitoring-progress/annual-growth-surveys/index_en.htm.

Malta faces the challenges of ensuring the long-term sustainability of public finances, improving the utilisation of human capital, ensuring appropriate wage developments, reducing its dependence on imported oil and safeguarding the robustness of the banking system.

The policy plans submitted by Malta generally appear relevant, although concrete reform plans in the area of wage indexation are still missing**.** At the same time the level of ambition in some areas, such as early school leaving and pension reform, is insufficient to address these challenges in a comprehensive way.

2. ECONOMIC DEVELOPMENTS AND CHALLENGES

2.1. Recent economic developments and outlook

Recent economic developments

The Maltese economy continues to weather the global economic and financial crisis relatively well. Real GDP contracted relatively mildly compared to the euro area in 2009 on the back of a resilient performance by net exports and a contained decline in employment, partly thanks to government assistance. Improving external trade and a pickup in business investment contributed to a strong rebound in economic activity in 2010. The positive momentum continued in the first half of 2011 but the economy started losing pace in the second half of the year. In 2011 as a whole, real GDP expanded by 2.1%, compared to 1.4% in the euro area.

Unemployment remained low by euro-area standards as employment growth, particularly in financial services, outweighed the expansion of the labour supply. The improvement in the employment rate in recent years has been driven by more and more women entering the labour market, thanks to targeted policy action and a favourable cohort effect, as younger generations are more active on the labour market.

The general government deficit reached 4.6% of GDP in 2008, reflecting the impact of some one-off expenditure-increasing items. Since then, the deficit has been on a downward path, narrowing to 2.7% of GDP in 2011 according to data reported by Malta. The government debt ratio has been increasing gradually and reached 72% of GDP in 2011.

Outlook

According to the Commission services' 2012 spring forecast, real GDP growth is forecast to decelerate further in 2012, to 1.2%, given subdued private consumption and stagnating business investment. In 2013, growth is projected to recover to 1.9%, supported by stronger employment and average wage growth, an improvement in business investment and a strengthening of exports. The unemployment rate is projected to remain well below the euro-area average, while inflation is expected to remain broadly stable over the forecast horizon. The general government deficit is projected to fall to 2.6% of GDP in 2012 and to rise, assuming no further policy changes are made, to 2.9% in 2013. The debt ratio is projected to rise further over the forecast horizon, to 75.2% of GDP in 2013.

Projected real GDP growth for 2012 in the Maltese stability programme and national reform programme is slightly higher than according to the Commission services' 2012 spring forecast, driven by stronger job creation, private consumption and investment. The differences in the growth forecast for 2013 are smaller and relate to the same components. In the outer years of the stability programme, real economic growth exceeds potential growth as estimated by the Commission services. The stability programme and the national reform programme incorporate the beneficial impact of structural reforms on potential output, which is estimated by the authorities at 0.05% per year on average over 2012-15.

2.2. Challenges

The main bottlenecks that weigh on Malta's growth potential have remained broadly unchanged over the past year. One exception is the business environment, including the administrative and regulatory burden, which was highlighted as a challenge in the 2011 European Semester policy coordination round but which, in view of good overall progress, can be dropped from the list of factors holding back growth. At the same time, a new challenge related to financial sector stability has emerged.

Ensuring the long-term sustainability of public finances remains a challenge in view of the projected above-EU-average increase in age-related expenditure in the long run, particularly in the areas of pensions and healthcare. The very low participation by older workers and women adds to the scope of the challenge. In addition, the non-binding nature of the medium-term fiscal framework is likely to have an adverse impact on the credibility of the fiscal consolidation strategy and the achievement of the medium-term objective for the budgetary position. This broad public finance challenge is consistent with the policy priorities included in the latest Annual Growth Survey adopted by the Commission in November 2011.

Ensuring that wage growth stays in line with productivity remains a challenge as wages are linked to a mandatory cost-of-living adjustment mechanism. As a result, wages are increased to compensate for past inflation developments without distinguishing between skill levels and sectors and without regard to the underlying drivers of inflation developments. While this is mitigated by allowing individual firms to opt out and by adjusting wages less than proportionally above the so-called base wage,[4] the cost-of-living adjustment mechanism entails a risk for wage-price spirals, particularly because imported prices are not excluded from the index, and may hamper competitiveness especially in the labour-intensive sectors.

Improving the utilisation of human capital remains a challenge because, in spite of notable gains in recent years, the employment rate remains among the lowest in the EU. This reflects very low labour market participation rather than unemployment, as the unemployment rate is relatively low by EU standards. The employment gap relative to the EU average is particularly large for women and older workers. An additional challenge is improving the skills base to better prepare the labour force for the structural changes in the economy, notably by further strengthening links between the education system and industry and by addressing the high rate of early school leaving.

Features of the energy system continue to pose a challenge to the economy's growth potential. Energy supply depends almost exclusively on imported oil, which renders the country vulnerable to increases in oil prices and puts pressure on the current account, while the share of energy from renewable sources is still marginal and energy efficiency could be improved. In addition, electricity tariffs for both households and industrial consumers are very high in comparison to other EU Member States. Progress in the areas of energy efficiency and the supply of energy from renewable sources, together with an upgrade of the currently inadequate waste recycling infrastructure, would at the same time help to reduce carbon

[4] The 'base wage' is set to be somewhat higher than the minimum wage, but well below the average wage in the country. Therefore, the wage increase resulting from the cost-of-living adjustment is proportionately higher at the lower end of the wage spectrum.

emissions. Tackling this broad challenge related to resource efficiency is consistent with the AGS priorities.

One new challenge to emerge since the 2011 European Semester is ensuring the robustness of the financial sector. This challenge also relates to one of the priorities in the 2012 Annual Growth Survey. While they maintained healthy solvency and profitability ratios throughout the crisis, Malta's domestic banks were not shielded from the slowdown in economic activity and have seen a concomitant rise in problematic loans. This, however, has not been accompanied by an increase in provisioning and therefore the non-performing-loan coverage ratio remains low. As a result, banks are vulnerable to a further deterioration in the quality of their loan portfolio, especially as a further correction in house prices cannot be excluded, while housing units may currently be in oversupply. Furthermore, the very large size of the banking sector raises supervisory challenges and concerns about capacity to deal with a banking shock and its impact on the economy. A sound financial system is also important in the context of the possible introduction of voluntary funded retirement schemes.

3. ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

After having reported a general government deficit outturn below 3% of GDP in 2011, Malta aims at reducing the deficit gradually further over the period covered by the stability programme, to 0.3% of GDP in 2015. This implies gradual progress towards the medium-term budgetary objective (MTO), 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 planned within the programme period. The MTO adequately reflects the requirements of the Stability and Growth Pact.

Malta reported a deficit outturn for 2011 of 2.7% of GDP, down from 3.7% in 2010 and marginally better than the target set in the previous programme (2.8%). The better-than-planned outcome is due mainly to higher current revenue (proceeds from sales and other current revenue as well as higher one-off revenue due to the extension of a tax amnesty in the area of direct taxes and social contributions) and lower net capital expenditure (also thanks to the one-off sale of land and buildings), partly offset by more dynamic current primary expenditure (especially compensation of employees and subsidies). Without one-offs, the 2011 deficit outturn would be 3.5% of GDP.

In 2012 the deficit is targeted to decline to 2.2% of GDP, slightly worse than in the previous update (2.1%) against the background of a downward revision in real GDP growth (to 1.5% from 2.3% in the previous programme). Contrary to the expenditure-based consolidation strategy laid down in the previous programme, the planned narrowing of the deficit in 2012 is to a large extent based on revenue-increasing measures, most of which are of a one-off nature[5] (see Box 1 for an overview of the main measures). The Commission services' 2012 spring forecast projects the 2012 deficit at the higher level of 2.6% of GDP, with the difference explained by lower indirect taxes from a more prudent assessment of the measures targeted at increasing efficiency in revenue collection. On the expenditure side, higher current primary

[5] The programme does not identify these items as one-offs. Without one-offs as identified by the Commission, the deficit target for 2012 would be 3.4% of GDP.

expenditure in the Commission services' 2012 spring forecast, from more dynamic compensation of employees and social transfers, is basically offset by lower net capital expenditure given issues with absorption capacity.

The consolidation planned in the programme is somewhat back-loaded, with a reduction in the headline deficit by 0.5 percentage point of GDP in both 2012 and 2013 and a slightly higher pace of consolidation targeted in the remaining years. Given the projected gradual rise in the interest burden, the adjustment in primary terms is slightly higher in each year and the primary surplus is planned to improve from 0.4% of GDP in 2011 to 3.3% in 2015. Compared with the previous programme, the targets are marginally worse in the 2012-14 period (by just 0.1% of GDP) against the background of a downward revision in the underlying macroeconomic scenario.

When looking at the entire programme period, the revenue and expenditure projections point to a consolidation effort that is primarily expenditure-based. In particular, excluding one-offs as identified by the Commission services, revenue is planned to increase by 1.4 percentage points of GDP between 2011 and 2015, spread broadly evenly between different revenue categories, whereas expenditure is to drop by almost 2 percentage points of GDP. The envisaged expenditure restraint mainly falls in the areas of compensation of employees, social transfers and intermediate consumption (the planned increase in public investment is broadly offset by a decline in 'other' expenditure).

The planned consolidation effort is fully underpinned by measures only in 2012. For the remaining years, the programme provides details on the quantification of some specific items (see Box 1) and confirms the continuation of policies to achieve expenditure savings (such as the tight recruitment policy in place since early 2012 and general efforts to maximise value for money and tackle benefit fraud). For 2013, it indicates that an additional effort of 0.2% of GDP will come from a structural increase in revenue, which has not been specified further in programme. The contribution of net deficit-reducing one-offs as identified by the Commission services to the consolidation effort would fall sharply after 2012 (amounting to 0.4% of GDP in 2013 and 0.2% in 2014-15).

Box 1. Main measures
Main budgetary measures

Revenue	**Expenditure**
2011	
• Tax penalty reduction scheme (0.5%; one-off) • Increase in excise duty rates on fuel, alcohol and tobacco products (0.3%) • Strenghtening of efforts against tax evasion and avoidance (0.2%) • Rise in the VAT rate on collective and private accommodation from 5 to 7% (0.1%) • Annual lease concessions (0.1%)	• Incentives for industry and enterprises, tourism, research and innovation, employment and labour market (0.1%) • Payments for expropriations of land under the Home Ownership Schemes and other expropriations (0.1%) • Measures supporting social cohesion and promoting sustainable environment (0.1%)
2012	
• Increased efficiency in revenue collection (0.6%), mostly pecuniary incentives to reduce VAT and car license arrears (0.4%; one-off) • Higher concession fees from the local lottery operator (0.6%; one-off) • Pension reform initiatives and enforcement (0.2%) • Increase in registration tax for vehicles Euro 1 to 3 and older (0.1%) • Increase in customs duty on fuel for bunkering of ships outside territorial waters (0.1%) • Increase in several excise duty rates (0.1%) • Direct tax relief for parents supporting children who are not gainfully employed (-0.2%)	• Restraint in compensation of employees (i.a. tightened recruitment policy) (-0.1%) • Net savings in social transfers (-0.2%) resulting from increased efforts to curb benefit fraud and the gradual impact from the 2006 pension reform, partly offset by measures targeted at supporting families with children and elderly aged over 80 and a cost-of-living adjustment) • 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 from pecuniary incentives to reduce VAT and car license arrears (0.1%; one-off) • Pension reform initiatives and enforcement (0.2%)	• Savings in social transfers from the gradual impact from the 2006 pension reform (-0.3%) • Restructuring of Air Malta (equity acquisition) (0.6%)
2014	
	• Restructuring of Air Malta (equity acquisition) (0.2%)

Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure. The degree of detail reflects the type of information made available in the stability programme. Identification of one-off measures is according to the Commission services.

The programme details the budgetary impact of the major structural reforms included in the National Reform Programme in the areas of employment, education, energy, research and development as well as the fight against poverty. They are estimated to increase expenditure by 0.7% of GDP in both 2012 and 2013, 0.5% of GDP in 2014 and 0.3% of GDP in 2015. Almost 30% of this amount is accounted for by EU funds.

There are risks that the deficit outcomes could be worse than targeted throughout the programme period. In particular, as also indicated by the difference between the targets and the deficit projections in the Commission services' 2012 spring forecast, revenue could be lower than planned in 2012-13 given that economic growth could turn out lower or less tax-rich than foreseen in the programme and that the structural revenue increase planned for 2013 is not yet specified.[6] This would carry forward to the remaining years of the programme period, when the programme's growth outlook seems favourable compared to estimated potential growth. Furthermore, expenditure overruns, linked also to weaknesses in the budgetary framework at execution stage, have occurred in the past, such as in intermediate consumption given pressures in the health sector. Also, notwithstanding the strong commitment to restrict recruitment, there is a risk of slippages in the public sector wage bill, also in the light of the collective agreement not yet being renewed. On the other hand, as has frequently occurred in the past, net capital expenditure could be lower than planned. A final deficit-increasing risk factor relates to the ongoing restructuring of Air Malta and the financial situation of the energy provider (Enemalta).

According to the programme, the annual average improvement in the (recalculated) structural balance[7] is planned to be just above ½% of GDP over the period 2012-2015. This is in line with the 0.5% benchmark in the Stability and Growth Pact for the annual pace of progress towards the medium-term objective. Using the Commission services' identification of one-offs, the average pace of adjustment to the medium-term objective is slightly higher (¾%) but spread very unevenly, with no progress in 2012 followed by an effort of 1¼% in 2013. According to the Commission services' 2012 spring forecast, there would be no improvement in the structural balance in 2012 (and a marginal one in 2013 assuming no further policy changes are made). The real growth rate of government expenditure, net of discretionary revenue measures, according to both the information provided in the programme and to the Commission services' spring forecast, is planned to be negative throughout the programme period and thus will not exceed a rate which is lower than the reference medium-term rate of potential GDP growth and which ensures an annual structural adjustment towards the medium-term objective by 0.5% of GDP (0.24%). Following an overall assessment of Malta's budgetary plans, with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures, the adjustment path towards the medium-term objective as planned in the programme seems to be appropriate. However, the risks to the budgetary targets highlighted above imply that the adjustment could be slower than appropriate.

[6] In 2013, the difference in growth projections is marginal but the composition is different, with the programme assuming a stronger pace of job creation. For 2012, as mentioned above, there are also risks to the expected yield from the incentive schemes to enhance revenue collection, which is difficult to estimate ex ante. Risks to the revenue projections are all the more significant as the different components of revenue are planned to gradually rise over the programme period and this is not fully underpinned by measures.

[7] 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.

From 72% of GDP in 2011, the general government gross debt ratio is planned in the programme to start decreasing throughout the period, mainly driven by increasing primary surpluses. The snow-ball effect, which contributed marginally to the debt increase in 2011, is expected to continue to add to the debt ratio, whereas the stock-flow-adjustment is planned to be a debt-decreasing factor in 2012-2013. According to the Commission services' 2012 spring forecast, the debt ratio is projected to continue increasing, reaching 75.2% of GDP by 2013, assuming no further policy changes are made. The difference is due to worse projections for the primary surplus and a higher, debt-increasing stock-flow adjustment in both years.

The same risks highlighted for the budgetary targets apply to the programme's debt projections; moreover, as indicated by the spring forecast, the stock-flow adjustment could well be higher than projected in the programme. In addition, government-guaranteed debt in Malta is high (16.8% of GDP in 2011) compared to other Member States, 60% of which is accounted for by the public energy utility corporation (Enemalta).

With a deadline for the correction of the excessive deficit of 2011, Malta is in a three-year transition period as regards the applicability of the debt reduction benchmark. According to the plans in the stability programme, Malta is making sufficient progress so that the debt benchmark will be met by the end of the transition period (2015) but this assessment is subject to risks as the debt ratio could turn out higher than planned for the reasons mentioned above.

Overall, some parts of the 2011 recommendation in the area of fiscal consolidation were implemented and others were not. In particular, while the deficit was reported to have been below 3% of GDP in 2011 and the 2012 target is fully underpinned by measures, the broad measures underpinning the strategy from 2013 onwards are not all outlined in the programme. While the programme plans a broadly appropriate pace of adjustment towards the medium-term objective and a gradual decrease in the debt ratio from 2012, there are risks to this, as also highlighted by the Commission services' 2012 spring forecast, which on a no-policy change basis projects hardly any improvement in the structural balance and a continued upward path for the debt ratio in 2012-13.

Long-term sustainability

Under a no-policy change assumption, general government debt would increase to 84.8% of GDP by 2020, implying the need for additional fiscal consolidation beyond the short term. To improve sustainability, it will be important to ensure sufficient primary surpluses over the medium term and to further reform the Maltese social security system so as to curb the projected long-term increase in age-related expenditure, which is clearly above the EU average. The increase in pension expenditure as a share of GDP accounts for more than half of the total projected increase in age-related expenditure between 2010 and 2060.[8] This includes the impact of the 2006 pension reform. While the very gradual increase in the statutory retirement age (to 65 years by 2027) and the progressive increase in the contribution period for full eligibility, as well as changes to the benefit formula, contribute to lowering the projected rise in pension expenditure,[9] a more dynamic indexation of the ceiling on pensionable income, statutory changes to indexation for old-age pensions and the introduction of the guaranteed national minimum pension for persons retiring from 2027 onwards

[8] Another important contributor to the increase in age-related expenditure is health care. Health and long-term care expenditure are projected to increase by 3.7 pps. of GDP over the period 2010-2060.

[9] Although pension expenditure in Malta in 2007 was below the EU27 average, developments in the old-age dependency ratio will be much more pronounced in Malta than in the EU27 on average.

contribute to increasing it. Although the pension reform prepares for the possible introduction of a second and third pillar, nothing concrete has been done to implement these provisions. No progress was made on the other elements raised in the 2011 recommendation on the pension system either. No steps have been taken to accelerate the increase in the retirement age nor to establish a link between the retirement age and life expectancy. Likewise, no comprehensive active ageing strategy has been developed and the use of early retirement schemes is still common practice. The Maltese government has also still not announced its position on the proposals for pension reform submitted by an independent Pensions Working Group in December 2010. In sum, Malta has not responded adequately to this recommendation.

Fiscal framework

Owing to the small size of the economy, the fiscal framework in Malta is very centralised. It is also flexible, which creates risks for expenditure overruns and the achievement of a sound fiscal position. A key weakness is the non-binding nature of the medium-term budgetary framework, which also implies a relatively short fiscal planning horizon. Reforms in recent years have improved the monitoring and reporting tools but the recommendation on the fiscal framework was not implemented, although the political debate has started. The 2012 stability programme underlines that the Maltese government is considering the following reforms, in line with recent changes to the euro area governance framework (as laid down in for instance the Stability and Growth Pact, the Directive on fiscal frameworks and the Treaty on Stability, Coordination and Governance): (i) changes to the annual budgetary procedure, including timelines, and (ii) a fiscal rule to be embedded in the Constitution, including monitoring and corrective mechanisms.

Tax system

The increase of excise duties and of environmental taxes in recent budgets is consistent with a shift of the tax burden further to taxes less detrimental to growth. In view of the large shadow economy in Malta, recent initiatives have aimed at improving tax compliance and curbing tax evasion. One recent procedural measure is the ongoing merger of the tax departments responsible for VAT, inland revenues and customs. However, tax amnesties and other pecuniary incentives seem to have become a recurring feature in recent budgets, yielding on average around 0.5% of GDP annually in the last four years. The repeated recourse to such measures may result in moral hazard and harm tax compliance over the medium term instead of increasing efficiency in revenue collection. Such initiatives should be accompanied by a clear commitment to a higher level of enforcement after the amnesty window closes. As regards corporate taxation, reviewing the tax treatment of equity versus debt-financed investment could lower incentives for companies to take on debt.

3.2. Financial sector

The banking sector has expanded rapidly in recent years and its total assets currently amount to some 800% of GDP according to data from the central bank.[10] The sector is characterised by large foreign ownership, also thanks to a favourable tax regime. Some two-thirds of total assets belong to internationally-oriented banks that are reported to have limited exposure to

[10] The stress test conducted by the European Banking Authority in July 2011 revealed that the systemic bank in Malta was safely over the 5% core Tier I capital adequacy ratio. In addition, the bank was not required to comply with the minimum 9% Core Tier I threshold, following the temporary recapitalisation plan decided by the European Council in October 2011.

the domestic economy and therefore to be of little relevance to Malta's macro-financial stability.

Balance sheet expansion has resulted in an increase in private sector indebtedness, which stood at 212% of GDP in 2010,[11] although intra-sector liabilities represent a significant portion of this figure. Lending to the real estate sector played an important role in credit expansion in the years before the crisis and as a result total exposure to the real estate market (also including mortgage loans) accounts for over half of gross credits to the real sector. In addition, Malta experienced a significant increase in house prices over the past decade, while some correction has taken place in the aftermath of the crisis. Further correction in housing prices cannot be excluded given that housing units may be in oversupply. Given very low levels of bank provisions to non-performing loans,[12] the banking system is vulnerable to negative developments in the property market.

The 2012 national reform programme reiterates plans to strengthen macro-prudential supervision of the financial sector and set up a mechanism to monitor system risk with a view to minimising risks to the stability of the sector and the domestic economy. However, no timeframe for implementation has been provided, while the absence of details makes the assessment of the impact of the measures difficult.

3.3. Labour market, education and social policies

The Maltese labour market is characterised by a very low participation rate. The activity rate is particularly low for women, reflecting historical and cultural factors, and older workers, reflecting the relatively low exit age and the recourse to early retirement schemes. The intensive industrial restructuring that has taken place in recent years resulted in skills gaps in specific high value-added areas, which partly reflects the low rate of tertiary education attainment. These factors restrict expansion in the new sectors and add upward pressure on wages; there is also a very high incidence of early school leaving. The automatic wage indexation mechanism that links wage growth to past inflation also entails a risk of misalignment between wages and productivity and of wage-price spirals.

Malta has introduced a number of measures in recent years to encourage women to enter the labour market and return to work after childbirth. These include: (i) tax breaks for women who have had a child and choose to return to work, (ii) a reduction in national insurance contributions for part-time employment, (iii) measures targeting married female workers within small family businesses and (iv) the setting up of childcare facilities. Notwithstanding the role of cultural factors in the low female participation rate,[13] the Maltese authorities proposed further measures to raise it in their 2011 national reform programme. These include

[11] This is broken down into loans to households (62.7% of GDP), loans to non-financial corporations (136.5% of GDP) and securities other than shares issued by non-financial corporations (12.9% of GDP).

[12] The ratio of bank provisions to non-performing loans in Malta stood at 11.5% in 2011, by far the lowest ratio in the euro area. Moreover, the ratio declined from 13.9% in 2008, while the ratio of non-performing loans to total loans increased from 4.8% to 7.4% during the same period (IMF 2012 Global Financial Stability Report).

[13] The activity rate of young women (aged 15-24) is significantly higher in Malta than in the EU (46.9% in 2011, versus 39.6%). However, the Maltese female activity rate declines progressively for those older than 29, in contrast to the EU where labour market participation remains constantly high until the older age groups (aged 55 and above). This indicates the impact of parenthood is particularly high on Maltese women and many of them choose not to return to the labour market after childbearing (to take up childcare and domestic responsibilities instead), which suggests that the authorities' attention to reconciliation policies is well-placed.

changes to means-testing regulations and national insurance contributions for self-employed women working part-time, free child care services for women starting a business, and the opening of new childcare facilities and after-school care centres. At present there are six after-school centres compared to three in 2009 and the number of children attending has increased very significantly. In the 2012 Budget the government announced investment in three new childcare centres, bringing the total to 16. However, the number of centres still appears insufficient and the cost of childcare is relatively high for families in Malta and, while a campaign funded by the European Social Fund is trying to gradually induce a change in cultural attitudes, the further development of family-friendly working practices (including flexitime and teleworking) could encourage more women to return to the labour market.

The low employment rate of older workers is the result of early exit from the labour market and low participation by older women. The exit age is early partly because there is frequent recourse to early retirement schemes as a labour market measure in the face of restructuring, particularly by large public-owned companies, and partly because the statutory retirement age is still relatively low. The latter is expected to be remedied over time as a result of the 2006 pension reform, which increases the retirement age to 65 years for both men and women and extends the required length of contributions for full pension entitlement, albeit very gradually because the reform will be fully implemented only in 2027. Other measures that can contribute to prolonging working lives are the legislation introduced in 2008 allowing people of pensionable age to continue working without losing their pension entitlements and a stricter medical assessment that makes it harder to qualify for invalidity pension. Partly as a result of these measures, the effective exit age in Malta has increased by nearly two years since 2007, reaching 60.3 years in 2010 against an EU average of 61.5 years. As the younger cohorts of women, who are more active on the labour market, approach pensionable age, the employment rate of older workers is bound to increase further. As mentioned in section 3.1 above, however, the changes in pension legislation are not accompanied by a comprehensive active ageing strategy of the kind that would achieve synergy between the different initiatives being implemented by various institutions and be complemented by lifelong learning and career guidance policies. The 2012 national reform programme does not provide for limits on the recourse to early retirement schemes.

The 2012 national reform programme largely extends the existing measures that promote labour market participation and employment of women and of older workers. A new initiative is the ‘social economy project’, through which the government aims to strengthen the employability of vulnerable groups that currently, for different reasons, are likely to be excluded from the labour market. This measure, which is planned to run until early 2014, can be expected to further improve the Maltese employment rate. Additional measures that could also contribute are the increase in maternity leave, the introduction of a parent computation category in the income tax system and lowering the income tax rate for pensioners working part-time for the government.

Overall, the measures put in place to promote female participation appear relevant and effective because the activity rate for women in the 25-49 age bracket increased from 56.5% at the end of 2010 to 60.8% at the end of 2011, significantly higher than the increase in the ratio for the EU as a whole over the same period. Additional policy efforts to promote family friendly measures would improve reconciliation of work and family life and also help reverse the decreasing fertility rate. At the same time, policy efforts to tackle the low employment rate of older workers are also relevant, but the level of ambition appears insufficient given the scope of the challenge.

The significant size of the illegal economy, particularly in sectors such as the hospitality industry, construction and general services,[14] is a matter of concern in Malta (see also section 3.1). The government is taking policy action with a mix of 'carrot' (tax incentives and information campaigns to promote regular employment) and 'stick' (strengthening checks and tackling benefit fraud) measures. With regard to the latter, checks on and conditions for remaining in the unemployment registry were tightened, such as by enrolling registered unemployed people in training activities and other initiatives. The implementation of this policy, however, seems challenging because in 2010 62% of those who objected to being struck off the unemployment registry were re-instated.[15] Overall, policy action appears relevant and its implementation has helped to raise the total employment rate over 2011. Judged against the scope of the challenge, however, the policy response lacks ambition.

In relation to the country-specific recommendation calling for improved links between education and the labour market (also a priority in the 2012 Annual Growth Survey) and measures to tackle the high rate of early school leaving, Malta made a number of commitments in 2011. It is introducing vocational subjects in secondary schools, interesting career paths through vocational educational training and higher education in those sectors in demand by industry, and second-chance learning opportunities in key competences. Skill shortages in high value-added areas have been partly addressed by introducing flexible courses in collaboration with industry and higher education institutions, while projects funded by the European Social Fund are addressing sectoral skills needs and qualifications. In addition, a new 2012 Euro Plus Pact commitment establishes a sector skills committee, which is to be tasked with examining occupational standards and validation of competences and learning outcomes in order to reduce skill gaps. Efforts are also being made to strengthen the vocational system, for instance in tourism studies.

In addition to the measures outlined in the 2011 national reform programme to increase tertiary education attainment,[16] further actions are ongoing or planned, including (i) the expansion of infrastructure at the Malta College of Arts, Science and Technology and the University of Malta, (ii) more information and guidance on study opportunities and scholarships for prospective students and (iii) new financial incentives. Students over 25 years old who lack the minimum qualifications may nevertheless take a higher education degree (through a maturity clause). To improve completion rates, the University of Malta awards a Higher Education Certificate to students who have successfully completed the first year but do not go for a full bachelor's degree, while the Malta College of Arts, Science and Technology offers Vocational Educational Training degrees at bachelor level as an extension of short-cycle vocational degrees. The government set up a working group in 2011 to explore new possibilities for learning in higher education. The results are expected in the course of 2012.

Concerning early school leaving the various measures taken in 2011–12 and initiatives now underway demonstrate that the government and the educational institutions are aware of this challenge. However, it is the national strategy on early school leaving that is expected by the end of 2012 that will determine the level of ambition in this area. The Research and Development department, the National Commission for Higher Education and other

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14 Source: Debono, Manwel, Undeclared work Malta, Update 2012, European Employment Observatory, May 2012.

15 Source: Employment and Training Corporation, 2010 Annual Report.

16 Tertiary education attainment is well below the EU average (at 21.5% of the population in 2010, compared with an EU figure of 33.6%).

stakeholders set up a working group and discussed improving data collection on early school leavers with the National Statistics Office, which has launched a survey on early school leavers with results expected in the course of 2012. In addition, the University of Malta launched a project at the beginning of 2012 to monitor disadvantaged secondary school students and the reasons why they tend not to finish their studies. To date, however, there is no comprehensive system for collecting and analysing information on early school leaving to underpin targeted policy making and monitoring.

Overall, the policy efforts in response to the 2011 recommendation on education and training can be considered adequate in the areas of tertiary educational attainment and vocational training and they need to be maintained in order to ensure lasting results. At the same time, the challenge of early school leaving still has not been adequately addressed.

In response to the Euro Plus Pact, the Maltese authorities committed themselves to developing a national strategy for the cultural and creative industries, prioritising education and professional development among other issues. The newly-created Malta Arts Scholarship scheme and the various job training schemes and adult learning opportunities can contribute to this strategy. In the 2012 budget, the Maltese government has provided for a tax reduction for parents who send their children to attend courses in cultural and creative teaching institutions. Malta is also providing financial incentives to promote the development of a digital games industry. There would be advantages in linking up the national strategy for the culture and creative industries to the higher education strategy and the lifelong learning strategy to ensure coherence and exploit synergies.

Malta is one of the few EU Member States with a generalised wage indexation mechanism. The cost-of-living adjustment, which consists of a more (less) than proportional adjustment for inflation for wages below (above) the so-called base wage, limits the flexibility of wages and may hamper the competitiveness of the labour-intensive sectors. The issue is particularly pertinent in view of the recent increases in energy prices, given the fact that the measure of inflation used does not exclude imported prices and this could lead to wage-price spirals. The indexation arrangement would also in principle give rise to wage compression, especially in the private sector (wage agreements in the public sector seem to broadly preserve the wage structure), unless higher-paid employees obtain proportional wage increases to those received by employees at the lower end of the wage spectrum, in which case the system would operate de facto as a full indexation system.

The Maltese wage indexation mechanism includes opt-out clauses on macro- and micro-level, which potentially could mitigate the negative impact of the mechanism on wage flexibility but their existence has not prevented a gradual erosion of cost competitiveness of the Maltese economy against the euro area.[17] The operation of the escape clauses is not clear and the macro-level escape clause has never been used even though the Maltese economy has contracted three times on an annual basis over the past decade.

The 2011 recommendation on this issue called for a review and, if necessary, reform of the wage indexation mechanism. The government has undertaken a study of the impact of the automatic wage indexation mechanism on the labour market and the competitiveness of the economy in general. The results of the study are expected to be available by end-May. Apart from this study, the government has taken no other initiative on this issue.

[17] Nominal unit labour costs for the Maltese economy have increased by 15.1% since 2005, as opposed to a 10.5% increase for the euro area.

In 2010, 20.6% of the population were at risk of poverty or social exclusion, which was the highest figure since 2005 but still below the EU average, due to the good social protection system in Malta combined with the role played by NGOs and family and community ties. Poverty and social exclusion are mainly being tackled by increasing the overall employment rate, particularly through the inclusion, mostly through projects funded by the European Social Fund, of disadvantaged groups into the labour market, such as older workers, people with disabilities, the long-term unemployed and immigrant workers. Apart from these projects, the government has also set up the Agency for the Welfare of Asylum Seekers and the Foundation for Shelter and Support of Migrants, which aim to ease the integration of asylum-seekers and refugees into the labour market.

3.4. Growth and competitiveness structural measures

Labour productivity growth in Malta has lagged behind the average for the euro area Member States over the past decade. Shortcomings particularly in energy and the business environment have weighed on the economy's growth potential and overall competitiveness.

Energy, transport and environment

Energy supply in Malta is almost entirely dependent on imported oil, as there is practically no domestic fossil fuel production, while the share of energy produced from renewable sources in final consumption remains marginal. Moreover, Malta is an 'energy island' as its electricity network is still not connected to that of any other country. This hampers security of supply to the end-user and expansion of the renewable energy supply. All these factors have contributed to electricity prices being among the highest in the EU. Together with the inadequacy of Malta's electricity transmission system, this adversely affects competitiveness, in particular that of small and medium-sized enterprises.

Malta has committed itself to reaching a target of 10% of renewable energy sources in final energy consumption and a 10% share of renewable energy in the transport sector by 2020. In July 2010, Malta submitted its National Renewable Energy Action Plan, which sets sectoral targets and proposes measures to reach them, but implementation is still at a very early stage, making a comprehensive assessment of their impact impossible.

In response to the energy-related 2011 recommendation, Malta has recently developed several initiatives to reduce its dependency on oil and increase the share of renewable energy. These include a grant scheme for small-scale solar water heating and a feed-in tariff for solar photovoltaic power which is guaranteed for seven years. Plans are being developed for wind farms at several locations across Malta. However, these schemes are still at a relatively early stage of development, so progress should be closely monitored. This is especially important for the large scale off-shore wind farms, which should contribute about one-third of the target. The current European Energy Programme for Recovery Project for an electricity interconnection linking Sicily to Malta will also allow variations in electricity supply from the different sources to be smoothed and hence support the development of energy from renewable sources and reduce Malta's reliance on oil. This project is progressing well and is expected to be operational by mid-2013. In addition, the national electricity company (Enemalta) is investing in upgrading the transmission and distribution system in the island to accommodate the grid to the new connection.

According to the Energy Efficiency Action Plan of summer 2011, EUR 15 million from structural funds will be allocated to energy efficiency[18] and EUR 10 million to renewable sources of energy over the period 2011–13 (altogether 0.4% of GDP). In March 2012, the government asked the Commission to increase the share of resources going to the latter from 2.53% to 11.98% (EUR 87.2 million) as resources have become available due to savings in the transport sector and solid waste projects. The increased allocation is to be used, for instance, on pilot actions to explore the potential of large off-shore wind farms, including studies to promote a better understanding of the potential exploitation of renewable energy sources, and on the generation of renewable energy from natural sources including animal manure. Overall, government efforts to utilise EU funding in order to bring forward investments in energy efficiency and energy from renewable sources have been adequate as 81% of available European Regional Development Funds for the 2007-13 programming period has already been allocated to various projects.

Overall, the response to the energy-related recommendation can be considered relevant and, given the scope of the challenge, relatively ambitious. However, many measures, particularly those aimed at boosting the share of energy produced from renewable sources, are in a very early stage of implementation and their full impact will only be seen in the medium term.

Malta has committed itself to limiting the increase in greenhouse gas emissions for the sectors not falling under the Emissions Trading Scheme to 5% by 2020 (compared to 2005). However, projections submitted by Malta based on existing measures show an increase by 35.5% by 2020. Even after taking into account the impact of planned additional measures, emissions growth would still be far above the target (by about 11 percentage points).

The climate policy framework in Malta is not an adequate response to the challenges in this area, particularly in road transport: in Malta, high population density and car ownership together with an ageing vehicles fleet and a rather limited road network combine to produce significant congestion. Transport emissions are expected to rise by 23% between 2005 and 2020, based on projections by the European Environment Agency. New measures to curb these emissions are: the reopening of policies to promote the use of more fuel efficient cars (a car scrapping scheme, introduced in 2010 and re-launched in December 2011), setting minimum contributions from biofuels in petroleum fuel in all transport modes (a vital requirement as Malta is nowhere near meeting its renewable energy target for transport), continued financial support for electric vehicles and an increase in registration tax on older imported cars. The policy document 'Promotion of Transport Modal Shift towards Public Transport' outlined a number of actions to promote public transport, including park & ride schemes restricting car use, liberalising the public transport sector and encouraging alternatives to private car use. The national reform programme outlines a limited number of additional measures. Overall, while the measures are relevant, they are insufficiently ambitious when judged against the scale of the challenge, especially as regards the transport sector. They do not represent the decisive shift that would bring about a move to a low-carbon economy and achievement of the greenhouse gas emissions target.

In the waste sector, progress has been made towards emission reductions, partly through an upgrade to the Sant' Antnin Mechanical and Biological Treatment Plant and the capping and extraction of gases from landfills since early 2011, both financed by structural funds. Further progress could be achieved especially by tackling municipal waste generation and waste

[18] For example schemes subsidising the purchase of energy-efficient technologies, including heating and cooling systems, insulation and ventilation, hot water, lighting, and heat recovery systems.

recycling. It is unlikely, however, that Malta will reach the 2020 recycling target and the objectives of the Resource Efficiency Roadmap (virtually eliminating landfill) without significant additional efforts, including incentive systems favouring prevention and separate collection. The 2012 national reform programme outlines several initiatives in the area of resource efficiency but the level of detail provided does not allow for an assessment of their impact at this stage.

Research and innovation

Malta increased its research and development intensity from 0.54% in 2009 to 0.63% in 2010 and, if this trend continues, will achieve its Europe 2020 target (set at 0.67%) well before 2020. The large increase between 2009 and 2010 was mainly due to the 41% increase achieved by the higher education sector. Malta's innovation performance is weakest in human resources and finance and support, but strongest in economic effects and intellectual assets. Given that Malta's economic system revolves around the services sector and is dominated by enterprises with less than 10 employees, most private sector research and innovation is carried out by foreign-owned companies (instead of having indigenous private-sector research and innovation).

Malta's draft National Strategic Plan for Research and Innovation 2011-2020 aims to stimulate indigenous private sector research and development, build up research infrastructures, increase human resources for research and development, create links between knowledge institutions and business enterprise and increase international cooperation in research and innovation. The strategy takes a broad view of innovation, i.e. an 'ideas-to-market' approach that looks at the whole of the innovation cycle. A new commercialisation programme, resource concentration and smart specialisation form key elements of the strategy, with more support being provided for target groups such as small and medium-sized enterprises and start-ups. Specific measures include: innovation vouchers, the creation of a risk fund, the development of an investment-readiness programme, the setting up of research and innovation-driven clusters, the provision of financial support to facilitate the registration and validation of patents and the setting up of an innovation awards scheme. Given that several measures are still being rolled out and that a systematic evaluation of the different initiatives is not part of the strategy, it is too early to make an assessment of the policy measures in the area of research and innovation.

Functioning of the internal market

In order to transpose the Services Directive into legislation, in 2009 Malta adopted a mix of general and sector-specific measures, i.e. a so-called 'omnibus law' and amendments to a number of sector-specific pieces of legislation. In particular, Malta changed its general licensing system by introducing a system requiring notification within 60 days of starting operations, which should make it simpler for businesses to start operating on its territory. The changes include new provisions to cater specifically for situations of cross-border provision of services, which in many cases was not covered in existing laws. This should ensure easier access for service providers from other Member States.

However, some restrictions in the services sector still remain. In areas where the Directive left Member States some discretion in how to streamline the regulatory environment for the establishment of incoming service providers, it seems questionable whether some of Malta's measures concerning cross-border trade, e.g. authorisations, registration or licensing requirements, are justified under the Directive and whether they are proportionate. These include authorisation requirements in the tourism sector (such as requiring a licence for travel operators, restricting certain tourist guide services to holders of a specific licence).

The enactment and implementation of the Small Business Act is among Malta's Euro Plus Pact commitments. The Small Business Act, which came into force in October 2011, aims to enhance the operational environment for small and medium-sized enterprises in order to facilitate both start-ups and further development, by identifying areas for improvement in the existing regulatory environment. This is expected to promote entrepreneurship, which seems weak in Malta (only 19% of Maltese adults see themselves as possible entrepreneurs, compared to an EU average of 28%[19]). The Small Business Act also provides that all new laws will be subject to an 'SME test' before coming into force.

Another commitment under the Euro Plus Pact, to facilitate access to financing for business activities, was the Micro Credit Scheme. It facilitates the financing of new start-ups by providing a government guarantee of up to 90% of the total loan value. In addition, through the MicroInvest tax credit scheme, enterprises benefit from a tax credit of up to 40% (with a limit of EUR 25 000) when investing in innovation to comply with regulations and/or to expand, including through recruitment. The take-up of the scheme so far has exceeded expectations and this has been linked to the low level of bureaucracy. The scheme is flanked by a number of other financial instruments including a micro-guarantee scheme. As a result, SMEs in Malta can be considered to have adequate access to finance.

The government aims to promote entrepreneurship also with the social economy initiative, included in the 2012 national reform programme. In addition to boosting employment, it aims to strengthen the legal personality of social enterprises and give them privileged access to a number of incentives and opportunities. As a result, this measure has the potential to unlock additional sources of growth. The Point of Single Contact required by the Services Directive is operational.[20] In January 2012 a one-stop shop for businesses covering 50 government services ('Business First'), managed by Malta Enterprise, was launched. It is to be followed by smaller offices in Gozo and at *Smart City*, which should significantly improve the performance of the Maltese Point of Single Contact. While it is still too early for a detailed assessment of this new website, at first glance a decisive improvement has been made although further improvements might still be needed to make procedures available online.

Another of Malta's Euro Plus Pact commitments was to improve competition in the sheltered sectors, especially the postal and telecommunications sectors. Malta has complied with its deadline to transpose the Third Postal Directive[21] by the end of 2012. The series of measures adopted in 2010 and early 2012 reflect the requirements of the Directive but are not expected to bring about any significant changes to the composition and structure of the national postal market, which remains dominated by the public postal operator. The Electronic Communications Act was amended, transposing the revised electronic communications framework, and the Malta Communications Authority lowered the inter-operator termination

[19] See SBA fact sheet, available from: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2010-2011/malta_en.pdf

[20] See http://www.businessfirst.com.mt/en

[21] The objective of the EU Postal Directives was to complete the Single Market for postal services and ensure a high quality universal postal service by opening up the sector to competition. Under the Third Postal Directive (Directive 2008/06/EC), the deadline for full market opening was 31 December 2010 with a further two years allowed for Malta and 10 other Member States.

rates.[22] In addition, the regulatory authority reassigned the rights of use of GSM bands and took action to ensure that citizens have guaranteed high-speed internet access and that competition is maintained in the transition to Next Generation Access networks. Overall, these measures address Malta's 2011 concerned Euro Plus Pact commitments but close monitoring and further efforts might be needed to ensure an effective increase in competition.

3.5 Modernisation of public administration

In terms of administrative and regulatory burdens, progress has been made in recent years, in particular under the leadership of the Better Regulation Unit. With regard to the 2011 Euro Plus Pact commitment to cut the administrative burden on businesses by 15% by 2012, implementation appears to be on track. Achieved savings so far account for a 6% reduction while cumulative savings could according to the programme exceed the target due to a number of additional initiatives that have been identified. Still, inefficiencies in the administration of support programmes and the non-transparency of some of the existing regulation are weaknesses that affect Malta's business environment. The 'SME envoy' and the newly created Enterprise Consultative Council are regarded as promising tools by business representatives.

The value of public procurement in Malta is estimated at 4 to 6% of GDP. The Maltese public procurement market for contract values exceeding the EU public procurement directives thresholds is less competitive than those of most other Member States and procedures typically last longer. This may suggest less efficient implementation of the public procurement rules in Malta than in other parts of the EU. An e-procurement system covering the full public procurement lifecycle was launched in mid-2011. However, it is too early for a detailed assessment of the measure at this stage.

EU Member States differ in their ability to control State aid enforcement from an institutional (coordination functions) and performance (quality of notifications, administrative capacity, length of delays etc.) perspective and as regards compliance with State aid rules. Malta faces the challenge to reduce its spending on sectoral State aid, which is among the highest non-crisis related aid in the EU.

[22] This complies with the Commission Recommendation on the Regulatory Treatment of Fixed and Mobile Termination Rates.

4. OVERVIEW TABLE

2011 commitments	Summary assessment
Country specific recommendations (CSRs)	
CSR1: Ensure correction of the excessive deficit in 2011, in line with the EDP recommendations, standing ready to take additional measures so as to prevent possible slippages, and adopt concrete measures to back up the 2012 deficit target. Bring the high public debt ratio on a downward path and ensure adequate progress towards the MTO. With a view to strengthening the credibility of the medium-term consolidation strategy, define the required broad measures from 2013 onwards, embed the fiscal targets in a binding, rule-based multi-annual fiscal framework and improve the monitoring of budgetary execution.	The CSR has been partially implemented. The deficit is reported to have been below 3% of GDP in 2011 and the 2012 target is fully underpinned by measures but the broad measures underpinning the strategy from 2013 onwards are not all outlined in the programme. There are risks to the stability programme plans for a broadly appropriate pace of adjustment towards the medium-term objective and a gradual decrease in the debt ratio from 2012. No improvements were made to the budgetary framework but the political debate has started.
CSR2: Take action to ensure the sustainability of the pension system such as by accelerating the progressive increase in the retirement age and by linking it to life expectancy. Accompany the higher statutory retirement age with a comprehensive active ageing strategy, discourage the use of early retirement schemes and encourage private pension savings.	The CSR has not been implemented. The government has still not announced its position on the proposals for pension reform submitted by an independent Pensions Working Group in December 2010. In addition, there is still no comprehensive active ageing strategy in place.
CSR3: Focus education outcomes more on labour market needs, notably by making additional efforts to improve access to higher education and by strengthening the effectiveness of the vocational training system. Take further measures to reduce early school-leaving by identifying, analysing and measuring its causes by 2012 and by setting up a regular monitoring and reporting mechanism on the success rate of the measures.	The CSR has been partially implemented. The policy response has been adequate only in the areas of tertiary educational attainment and vocational training. The challenge of early school leaving has still to be adequately addressed.
CSR4: Review and take the necessary steps to reform, in consultation with social partners and in accordance with national practices, the system of wage bargaining and wage indexation to ensure that wage growth better reflects developments in labour productivity and competitiveness.	The CSR has not been implemented yet. The government has undertaken a study of the impact of the wage indexation mechanism, but the results are not available yet.
CSR5: Strengthen efforts to reduce Malta's dependence on imported oil, by bringing forward investments in renewable energies and making full use of available EU funds to upgrade infrastructure and promote energy efficiency.	The CSR has been partially implemented. The government has taken relevant and ambitious measures to promote the use of energy from renewable sources and improve energy efficiency but their impact cannot be assessed at this stage because they are still in an early phase of implementation.
Euro Plus Pact (national commitments and progress)	
The Maltese government is considering the introduction of numerical budgetary rules, in particular an expenditure rule, to complement efforts to enhance the accountability and transparency of the budgetary framework.	The commitment has not been implemented as there is no concrete progress on reforming the budgetary framework.
The government committed itself to taking measures to improve competition in sheltered sectors (postal and telecommunication sectors), make the business environment more attractive and support education, R&D and innovation.	The structural policy commitments have been partially implemented. Progress has been made in many areas but the commitments are not yet fully implemented.
Europe 2020 (national targets and progress)	

Employment rate target (in %):62.9%.	Employment rate (%): 58.8% in 2009 and 60.1% in 2010. **Notable progress has been made towards reaching the target.**
R&D target (in %):0.67%	Gross domestic expenditure on R&D (in % of GDP): 0.54% in 2009 and 0.63% in 2010. **Notable progress has been made towards reaching the target.**
Greenhouse gas emissions target: +5% (compared to 2005 emissions; emissions in the emissions trading scheme are not covered by this national target)	Change in greenhouse gas emissions between 2005 and 2010: +11% (Non-ETS sectors currently amount to 34% of total greenhouse gas emissions)
Renewable energy target: 10%	Share of renewable energy in gross final energy consumption (in %): 0.2% in 2009. DG ENER (Eurostat) and 0.9% in 2010 (National RES progress report). Based on 2010 data, Malta is not only very far from its 2020 target but also from its 2011/12 interim target of 2%
Energy efficiency — reduction in primary energy consumption by 2020 (in Mtoe): 0.24 Mtoe	**n.a.** The energy efficiency objectives are set according to national circumstances and national formulations. As the methodology to express the 2020 energy consumption impact of these objectives in the same format was agreed only recently, the Commission is not yet able to present an overview.
Early school leaving target (in %): 29%	Early leavers from education and training (percentage of the population aged 18-24 with at most lower secondary education and not in further education or training): 36.8% in 2009 and 36.9% in 2010. **No progress has been made towards reaching the target.**
Tertiary education target (in %): 33%	Tertiary educational attainment: 21% in 2009 and 21.5% in 2010. **No notable progress has been made towards reaching the target.**
Target on the reduction of population at risk of poverty or social exclusion (number of people): 6 560	Population at-risk-of-poverty or social exclusion in 1 000 persons attainment: 82000 in 2009 and 84000 in 2010. **No progress has been made towards reaching the target.**

ANNEX

Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012	2013
Core indicators								
GDP growth rate	4.5	1.5	3.7	-2.7	2.3	2.1	1.2	1.9
Output gap [1]	0.3	1.0	-0.7	-2.4	-1.3	-0.4	-0.2	0.4
HICP (annual % change)	3.3	2.6	2.6	1.8	2.0	2.4	2.0	2.2
Domestic demand (annual % change) [2]	1.9	1.6	3.4	-3.7	-1.4	-0.1	0.7	1.3
Unemployment rate (% of labour force) [3]	6.0	7.3	6.7	6.9	6.9	6.5	6.6	6.3
Gross fixed capital formation (% of GDP)	22.5	19.5	20.9	15.9	17.7	15.0	15.2	16.0
Gross national saving (% of GDP)	15.5	12.8	11.4	7.5	9.5	9.3	9.4	10.5
General government (% of GDP)								
Net lending (+) or net borrowing (-)	**-7.5**	**-6.4**	**-3.2**	**-3.8**	**-3.7**	**-2.7**	**-2.6**	**-2.9**
Gross debt	**46.9**	**62.8**	**64.6**	**68.1**	**69.4**	**72.0**	**74.8**	**75.2**
Net financial assets	**n.a**	**-45.9**	**-47.0**	**-51.8**	**-51.9**	**n.a**	**n.a**	**n.a**
Total revenue	34.7	37.0	40.8	39.7	39.5	40.2	41.9	40.8
Total expenditure	42.3	43.4	44.0	43.5	43.3	43.0	44.4	43.8
of which: Interest	2.8	3.5	3.4	3.2	3.0	3.1	3.3	3.4
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**	**-96.3**	**-106.2**	**-109.3**	**-110.5**	**n.a**	**n.a**	**n.a**
Net financial assets financial corporations	**n.a**	**-8.1**	**-18.0**	**-7.7**	**-9.9**	**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	25.8	26.4	25.6	27.5	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**	**193.9**	**190.5**	**176.2**	**175.6**	**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 (-)	**-6.8**	**-4.0**	**-5.3**	**-6.6**	**-4.7**	**-2.3**	**-1.3**	**-1.0**
Net financial assets	**n.a**	**-39.5**	**-18.5**	**-5.4**	**-1.3**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-9.0	-1.6	-2.7	-1.2	1.4	4.9	5.0	5.5
Net primary income from the rest of the world	0.2	-0.5	-4.0	-8.0	-8.3	-8.8	-8.9	-9.2
Net capital transactions	0.7	0.5	2.0	1.7	1.7	0.9	1.9	1.8
Tradable sector	54.1	48.7	43.1	38.6	38.3	37.3	n.a	n.a
Non tradable sector	37.2	39.3	43.4	48.1	48.5	49.1	n.a	n.a
of which: Building and construction sector	4.4	4.1	4.2	3.9	3.6	3.4	n.a	n.a
Real effective exchange rate (index, 2000=100)	103.4	110.5	123.0	129.3	124.7	124.0	119.7	120.1
Terms of trade in goods and services (index, 2000=100)	97.3	100.7	101.1	99.6	99.0	100.8	100.2	100.2
Market performance of exports (index, 2000=100)	111.2	95.2	92.9	100.2	106.8	103.3	103.5	103.7

Notes:

[1] The output gap constitutes the gap between actual and potential gross domestic product at 2000 market prices.

[2] The indicator for 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' spring 2012 forecast

Table II. Comparison of macroeconomic developments and forecasts

	2011		2012		2013		2014	2015
	COM	**SP**	**COM**	**SP**	**COM**	**SP**	**SP**	**SP**
Real GDP (% change)	2.1	2.1	1.2	1.5	1.9	2.0	2.0	2.1
Private consumption (% change)	3.1	3.1	0.3	0.9	1.0	1.4	1.2	1.2
Gross fixed capital formation (% change)	-13.4	-13.4	0.0	0.4	4.5	1.6	4.0	3.8
Exports of goods and services (% change)	1.0	1.0	2.4	1.2	4.4	2.1	3.6	3.8
Imports of goods and services (% change)	-1.0	-1.0	2.0	0.7	4.0	1.3	3.0	3.1
Contributions to real GDP growth:								
- Final domestic demand	0.8	0.8	0.6	0.9	1.2	1.1	1.2	1.1
- Change in inventories	-0.9	-0.9	0.1	0.0	0.0	0.0	0.0	0.0
- Net exports	2.2	2.2	0.6	0.6	0.7	0.9	0.8	1.0
Output gap[1]	-0.4	-0.4	-0.2	-0.5	0.4	-0.3	0.0	0.2
Employment (% change)	2.4	2.4	0.6	1.0	1.1	1.6	1.6	1.6
Unemployment rate (%)	6.5	6.5	6.6	6.4	6.3	6.3	6.3	6.3
Labour productivity (% change)	-0.3	-0.3	0.6	0.5	0.8	0.4	0.4	0.4
HICP inflation (%)	2.4	2.4	2.0	2.3	2.2	2.4	2.2	2.2
GDP deflator (% change)	2.3	2.3	1.7	2.1	2.6	2.4	2.4	2.5
Comp. of employees (per head, % change)	0.4	0.4	1.5	0.9	2.4	0.5	0.6	0.6
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-2.3	-2.3	-1.3	-2.6	-1.0	-1.8	-1.0	0.2

Note:

[1]In percent of potential GDP, with potential GDP growth according to the programme as recalculated by the Commission.

Source :

Commission services' spring 2012 forecasts (COM); Stability programme (SP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2011	2012		2013		2014	2015	Change: 2011-2015
	COM	**COM**	**SP**	**COM**	**SP**	**SP**	**SP**	**SP**
Revenue	**40.2**	**41.9**	**43.1**	**40.8**	**42.4**	**41.6**	**41.1**	**0.9**
of which:								
- Taxes on production and imports	14.2	15.3	15.6	14.2	14.7	14.5	14.5	0.3
- Current taxes on income, wealth, etc.	13.3	13.1	13.2	13.3	13.3	13.4	13.3	0.0
- Social contributions	7.6	7.7	7.7	7.6	7.7	7.7	7.7	0.1
- Other (residual)	5.2	5.8	6.6	5.7	6.7	6.0	5.6	0.4
Expenditure	**43.0**	**44.4**	**45.3**	**43.8**	**44.1**	**42.7**	**41.4**	**-1.6**
of which:								
- Primary expenditure	39.8	41.1	42.0	40.3	40.7	39.2	37.8	-2.0
of which:								
Compensation of employees	13.6	13.4	13.3	13.2	13.0	12.7	12.3	-1.3
Intermediate consumption	6.6	6.7	6.6	6.5	64.0	6.2	6.0	-0.6
Social payments	13.8	13.9	13.7	13.7	13.5	13.1	12.8	-1.0
Subsidies	1.0	1.2	1.2	1.2	1.2	1.2	1.1	0.1
Gross fixed capital formation	2.5	2.6	4.1	2.6	3.6	3.5	3.3	0.8
Other (residual)	2.4	3.2	3.2	3.1	3.1	2.5	2.3	-0.1
- Interest expenditure	3.1	3.3	3.3	3.4	3.4	3.5	3.6	0.5
General government balance (GGB)	**-2.7**	**-2.6**	**-2.2**	**-2.9**	**-1.7**	**-1.1**	**-0.3**	**2.4**
Primary balance	**0.4**	**0.8**	**1.0**	**0.5**	**1.7**	**2.4**	**3.3**	**2.9**
One-off and other temporary measures	0.7	1.0	0.2	0.3	0.2	0.2	0.2	-0.5
GGB excl. one-offs	**-3.5**	**-3.5**	**-2.4**	**-3.2**	**-1.9**	**-1.3**	**-0.5**	**3.0**
Output gap[2]	-0.4	-0.2	-0.5	0.4	-0.3	0.0	0.2	0.6
Cyclically adjusted balance[2]	-2.6	-2.5	-2.0	-3.1	-1.6	-1.1	-0.4	2.2
Structural balance[3]	**-3.3**	**-3.5**	**-2.2**	**-3.3**	**-1.8**	**-1.3**	**-0.6**	**2.7**
Change in structural balance[8]		*-0.1*	*0.7*	*0.1*	*0.5*	*0.5*	*0.7*	
Structural primary balance[3]	**-0.2**	**-0.2**	**1.1**	**0.1**	**1.6**	**2.2**	**3.0**	**3.2**
Change in structural primary balance[8]		*0.0*	*0.9*	*0.2*	*0.6*	*0.6*	*0.8*	
Expenditure benchmark								
Public expenditure growth[4] (real)		-1.69	-4.36	-1.80	-0.98	-0.54	-0.70	-
Reference rate[5,6]		1.51	1.51	1.51	1.51	*1.51*	*1.51*	-
Lower reference rate[5,7]		0.24	0.24	0.24	0.24	*0.24*	*0.24*	-
Deviation in % of GDP from applicable reference rate		-0.73	-1.73	-0.77	-0.45	*-0.28*	*-0.33*	-
Two-year average deviation in % of GDP from applicable reference rate		n.a.	n.a.	-0.75	-1.09	*-0.36*	*-0.31*	-

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 the Commission on the basis of the information in the

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

[4]Modified expenditure aggregate used for the expenditure benchmark, growth rates net of non-discretionary changes in unemployment benefit and of discretionary

[5]The reference rates applicable to 2014 onwards will be available from mid-2012. For illustrative purposes, the current reference rates have also been applied to the years

[6]The (standard) reference rate applies starting in the year following the one in which the country reaches its MTO.

[7]The lower reference rate applies as long as the country is adjusting towards its MTO, including the year in which it reaches the MTO.

[8]The figure for SP uses one-offs for 2011 as estimated in the programme (0.3% of GDP), not as estimated by the Commission.

Source :

Stability programme (SP); Commission services' spring 2012 forecasts (COM); Commission services' calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2006-10	2011	2012		2013		2014	2015
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**65.3**	**72.0**	**74.8**	**70.3**	**75.2**	**68.7**	**67.4**	**65.3**
Change in the ratio	0.0	2.5	2.9	-1.7	0.3	-1.6	-1.3	-2.1
Contributions[2] *:*								
1. Primary balance	**0.2**	**-0.4**	**-0.8**	**-1.0**	**-0.5**	**-1.7**	**-2.4**	**-3.3**
2. "Snow-ball" effect	**0.2**	**0.2**	**1.3**	**0.7**	**0.2**	**0.5**	**0.6**	**0.7**
Of which:								
Interest expenditure	3.3	3.1	3.3	3.2	3.4	3.4	3.5	3.6
Growth effect	-1.3	-1.4	-0.9	-1.0	-1.4	-1.3	-1.3	-1.4
Inflation effect	-1.7	-1.5	-1.2	-1.4	-1.9	-1.6	-1.5	-1.5
3. Stock-flow adjustment	**-0.4**	**2.7**	**2.4**	**-1.4**	**0.6**	**-0.3**	**0.5**	**0.5**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								
(% of GDP)		2011	2012		2013		2014	2015
			COM/SP[3]	SP[4]	COM/SP[3]	SP[4]	SP[4]	SP[4]
Gap to the debt benchmark[5,6]	-							-2.6
Structural adjustment[7]			0.7	0.7	0.5	0.5	0.5	
To be compared to:	-							
Required adjustment[8]	-		0.4	0.2	0.3	0.0	0.0	

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 the 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 during EDP that were ongoing in November 2011 and in the 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 are achieved.

Source :

Stability programme (SP); Commission services' spring 2012 forecasts (COM); Commission services' calculations.

Table V. Sustainability indicators

	MT		EU27	
	No-policy-change scenario	Stability programme scenario	No-policy-change scenario	SCPs scenario
S2	6.1	3.2	2.9	0.7
of which:				
Initial budgetary position (IBP)	1.3	-1.4	0.7	-1.6
Long-term change in the primary balance (LTC)	4.8	4.6	2.3	2.4
of which:				
pensions	3.0	2.7	1.1	1.2
health care and long-term care	2.4	2.3	1.5	1.5
other	-0.6	-0.4	-0.3	-0.3
S1 (required adjustment)*	2.9	-1.4	2.2	-0.1
Debt, % of GDP (2011)	72.0		82.8	
Age-related expenditure, % of GDP (2011)	21.5		25.8	

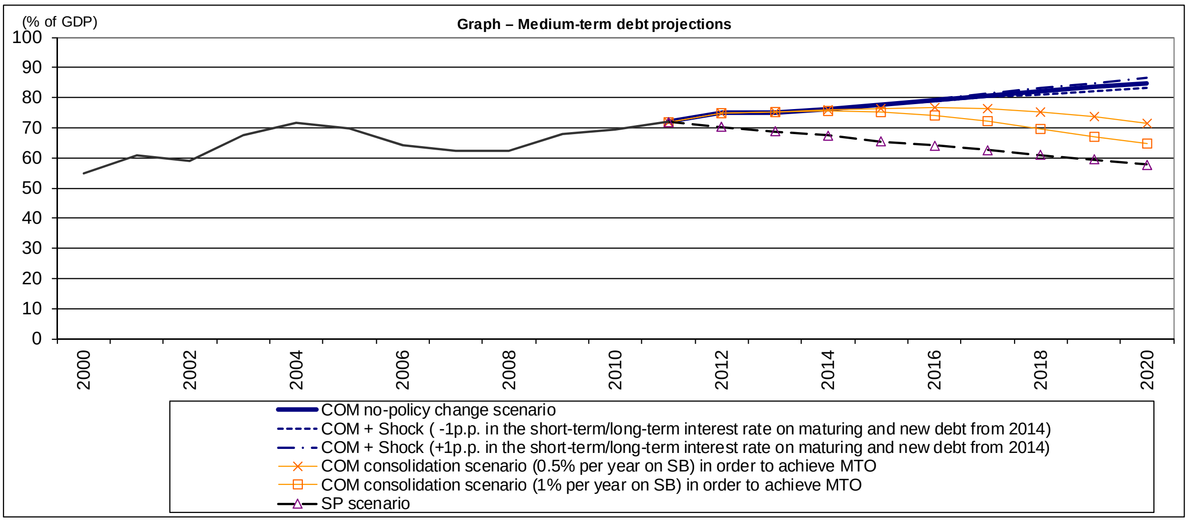
Notes:

The 'no-policy-change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the spring 2012 forecast until 2013. The 'stability programme' 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.

Source:

Commission services, 2012 stability and convergence programmes.



Source: Commission, 2012 stability and convergence programmes.

Table VI. Taxation indicators

	2001	2005	2007	2008	2009	2010
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	29.7	33.7	34.8	33.8	34.3	33.3
Breakdown by economic function (% of GDP)[1]						
Consumption	12.5	14.4	14.0	13.7	13.5	13.2
of which:						
- VAT	6.3	8.3	7.7	7.9	7.9	7.8
- excise duties on tobacco and alcohol	1.3	1.5	1.3	1.3	1.3	1.3
- energy	1.5	1.3	1.8	1.5	1.5	1.5
- other (residual)	3.5	3.3	3.2	3.0	2.9	2.6
Labour employed	10.3	10.1	9.5	9.4	9.6	9.7
Labour non-employed	0.9	1.0	0.9	0.9	1.0	1.0
Capital and business income	4.8	6.1	8.3	8.1	8.5	7.8
Stocks of capital/wealth	1.2	2.2	2.1	1.8	1.7	1.6
p.m. Environmental taxes[2]	3.6	3.3	3.8	3.4	3.4	3.1
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	53.4	59.7	58.2	57.5	56.5	57.7

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 (2012), 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 (2011), Tax reforms in EU Member States, European Economy 5/2011, for a more detailed explanation.

Source: Commission

Table VII. Macrofinancial stability indicators

	2007	2008	2009	2010	2011
Total assets of the banking sector (% of GDP)	695.6	730.9	714.0	815.7	796.6
Share of assets of the five largest banks (% of total assets)	70.2	72.8	72.8	71.2	…
Foreign ownership of banking system (% of total assets)	0.0	40.7	36.3	…	…
Financial soundness indicators:					
- non-performing loans (% of total loans) [1)]	5.1	4.8	5.6	7.3	7.7
- capital adequacy ratio (%) [1), 2)]	14.7	14.6	15.9	15.3	15.8
- return on equity (%) [1), 3)]	14.1	-3.4	20.3	12.8	-1.2
Bank loans to the private sector (year-on-year % change)	12.1	20.0	-2.8	2.9	3.0
Lending for house purchase (year-on-year % change)	12.1	9.4	10.0	8.6	8.6
Loan to deposit ratio	89.4	108.0	105.7	103.2	94.3
CB liquidity as % of liabilities	0.0	2.0	3.5	2.8	1.3
Banks' exposure to countries receiving official financial assistance (% of GDP)[4)]	…	…	…	…	…
Private debt (% of GDP)	151.4	173.1	171.5	169.7	166.9
Gross external debt (% of GDP) [4)]					
- Public	…	5.3	4.4	3.6	…
- Private	…	47.0	47.8	53.8	…
Long term interest rates spread versus Bund (basis points)*	50.8	82.3	131.9	144.4	188.1
Credit default swap spreads for sovereign securities (5-year)*	…	…	…	…	…

Notes:

[1)] Latest available September 2011.

[2)] The capital adequacy ratio is defined as total capital divided by risk weighted assets.

[3)] Net income to equity ratio. Domestic banks dealing only with residents.

[4)] Latest data 2011Q3.

[*] 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 indicators

Labour market indicators	2006	2007	2008	2009	2010	2011
Employment rate (% of population aged 20-64)	57.6	58.5	59.1	58.8	60.1	61.5
Employment growth (% change from previous year)	2.2	3.0	2.4	0.5	2.1	2.7
Employment rate of women (% of female population aged 20-64)	35.4	37.4	39.3	39.8	41.6	43.4
Employment rate of men (% of male population aged 20-64)	79.2	78.7	78.2	77.1	77.8	78.8
Employment rate of older workers (% of population aged 55-64)	29.8	28.5	29.2	27.8	30.2	31.7
Part-time employment (% of total employment)	10.0	10.9	11.5	11.4	12.7	13.4
Part-time employment of women (% of women employment)	21.4	24.6	25.5	23.8	25.2	25.8
Part-time employment of men (% of men employment)	5.0	4.4	4.5	5.2	6.1	6.8
Fixed term employment (% of employees with a fixed term contract)	3.7	5.1	4.3	4.9	5.7	6.6
Unemployment rate[1] (% of labour force)	6.9	6.5	6.0	6.9	6.9	6.5
Long-term unemployment[2] (% of labour force)	2.9	2.7	2.5	3.0	3.2	3.0
Youth unemployment rate (% of youth labour force aged 15-24)	15.9	13.9	12.2	14.4	13.1	13.7
Youth NEET[3] rate (% of population aged 15-24)	10.3	11.7	9.5	9.8	9.6	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	39.9	38.3	38.1	36.8	36.9	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	21.4	22.5	22.5	22.0	22.9	:
Labour productivity per person employed (annual % change)	1.5	1.1	1.5	-2.4	0.0	-0.3
Hours worked per person employed (annual % change)	-1.5	1.0	0.3	-3.1	-1.3	-1.8
Labour productivity per hour worked (annual % change; constant prices)	3.0	0.1	1.2	0.7	1.3	1.5
Compensation per employee (annual % change; constant prices)	3.6	-1.2	1.7	0.8	-3.3	-1.8
Nominal unit labour cost growth (annual % change)	4.1	0.7	3.2	5.9	-0.4	0.8
Real unit labour cost growth (annual % change)	2.0	-2.3	0.2	3.3	-3.3	-1.5

Notes:

[1] According to ILO definition, age group 15-74)
[2] Share of persons in the labour force who have been unemployed for at least 12 months.
[3] NEET are persons that are neither in employment nor in any education or training.

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

Expenditure on social protection benefits (% of GDP)	**2005**	**2006**	**2007**	**2008**	**2009**
Sickness/Health care	5.43	5.26	5.22	5.43	6.09
Invalidity	1.19	1.13	1.07	0.98	0.93
Old age and survivors	7.47	7.63	7.55	7.75	8.48
Family/Children	1.17	1.13	1.07	1.23	1.26
Unemployment	0.63	0.61	0.51	0.50	0.59
Housing and Social exclusion n.e.c.	0.16	0.18	0.24	0.23	0.16
Total	18.4	18.3	18.0	18.5	20.0
of which: Means tested benefits	3.22	3.21	3.14	2.51	2.67
Social inclusion indicators	**2006**	**2007**	**2008**	**2009**	**2010**
Risk-of-poverty or exclusion[1] (% of total population)	19.1	19.4	19.6	20.2	20.6
Risk-of-poverty or exclusion of children (% of people aged 0-17)	20.8	23.1	23.5	25.5	24.4
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	26.3	23.1	26.4	23.2	21.9
At-risk-of-poverty rate[2] (% of total population)	14.0	14.8	15.0	15.3	15.5
Value of relative poverty threshold (single household per year) - in PPS	7253	7464	7994	8270	8007
Severe material deprivation[3] (% of total population)	3.7	4.2	4.0	4.7	5.7
Share of people living in low work intensity households[4] (% of people aged 0-59 not student)	9.2	9.2	8.2	8.4	8.4
In-work at-risk-of poverty rate (% of persons employed)	4.1	4.5	5.0	5.7	5.9

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 households with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate: 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 work less than 20% of their total work-time potential during the previous 12 months.

Sources:

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

Table IX. Product market indicators

Performance indicators	2002-2006	2007	2008	2009	2010	2011
Labour productivity[1] total economy (annual growth in %)	0.9	1.1	1.7	-2.3	0.4	0.7
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, water (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.
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	1.0	0.9	0.6	n.a.	n.a.	n.a.
Policy indicators	**2002-2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Enforcing contracts[3] (days)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Time to start a business[3] (days)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
R&D expenditure (% of GDP)	0.4	0.6	0.6	0.5	0.6	n.a.
Tertiary educational attainment (% of 30-34 years old population)	16.1	21.5	20.9	21.0	18.6	n.a.
Total public expenditure on education (% of GDP)	5.5	6.3	6.0	n.a.	n.a.	n.a.
	2005	**2006**	**2008**	**2009**	**2010**	**2011**
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] Patent data refer to applications to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.

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

[4] The methodologies for 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 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 performance

Malta		2001-2005	2006	2007	2008	2009	2010
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.21	0.20	0.20	0.19	0.18	0.18
Carbon intensity	kg / €	0.66	0.64	0.63	0.60	0.59	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	0.36	0.46	0.27	0.19	0.32	n.a.
Waste intensity	kg / €	n.a.	0.62	0.45	0.30	n.a.	n.a.
Energy balance of trade	% GDP	-3.2%	-4.8%	-5.8%	-7.0%	-4.0%	-2.2%
Energy weight in HICP	%	5	6	6	6	6	6
Difference between change energy price and inflation	%	4.02	22.9	-7.2	14.3	9.9	27.1
Environmental taxes over labour taxes	ratio	32.5%	33.1%	38.3%	36.9%	34.1%	n.a.
Environmental taxes over total taxes	ratio	10.6%	10.0%	10.9%	10.2%	9.8%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.06	0.06	0.05	0.05	0.09	n.a.
Share of energy-intensive industries in the economy	% GDP	5.6	6.7	7.3	6.6	6.8	n.a.
Electricity prices for medium-sized industrial users	€ / kWh	0.07	0.07	0.09	0.12	0.15	0.18
Public R&D for energy	% GDP	n.a.	0.00%	0.00%	0.00%	0.00%	n.a.
Public R&D for the environment	% GDP	n.a.	0.00%	0.00%	0.00%	0.00%	n.a.
Recycling rate of municipal waste	ratio	12.5%	19.0%	6.8%	3.3%	4.1%	n.a.
Share of GHG emissions covered by ETS	%	n.a.	67.0%	66.5%	67.1%	66.2%	n.a.
Transport energy intensity	kgoe / €	0.65	0.55	0.53	0.60	0.52	n.a.
Transport carbon intensity	kg / €	1.27	1.14	1.07	1.03	1.16	n.a.
Change in the ratio of passenger transport and GDP	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	99.9%	100.0%	100.1%	100.0%	101.8%	n.a.
Diversification of oil import sources	HHI	n.a.	0.00	0.00	0.00	0.00	n.a.
Diversification of energy mix	HHI	1.00	1.00	1.00	1.00	1.00	n.a.
Share of renewable energy in energy mix	%	0.0%	0.0%	0.0%	0.0%	0.0%	n.a.

Country-specific notes:

The year 2011 is not included in the table due to lack of data.

General explanation of the table items:

Source: Eurostat unless indicated otherwise; ECFIN explanations given 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 EUR)

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

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 (in kgoe) divided by gross value added of industry (in EUR)

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

Passenger transport growth : measured in %-change in passenger kilometres

Energy import dependency: net energy imports divided by gross inland energy consumption incl. of 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 of renewable energy in energy mix: percentage-share in gross inland energy consumption, expressed in tonne oil equivalents