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Assessment of the 2014 national reform programme and stability programme for MALTA

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on Malta's 2014 national reform programme and delivering a Council opinion on Malta's 2014 stability programme

{COM(2014) 419 final}

CONTENTS

EXECUTIVE SUMMARY

The economic outlook for Malta is better than the EU and euro-area averages. Real GDP growth rebounded in 2013, to reach 2.4%, overcoming the prolonged contraction in investment activity and a slowdown in the exports of goods. Economic growth is projected to remain strong, averaging 2.3% over 2014-15 according to the Commission 2014 spring forecast, driven by improving domestic demand. Economic activity is expected to continue to accommodate an expansion of the labour force with a relatively strong rise in employment, while the unemployment rate is projected to remain stable at 6.5%. A cycle of large investment projects in 2014-15, particularly in the energy sector, is expected to provide a further boost, with potentially beneficial spillover effects in the medium-term.

Malta has made some progress in responding to the 2013 country-specific recommendations. Substantial progress was made in implementing measures supporting the labour market participation of women and reinforcing financial stability. Some progress has also been made also with regard to correcting the excessive budget deficit, improving education outcomes, reforming the judicial system and improving the efficiency of public procurement procedures. Most of the reforms, however, will have an impact only in the medium to long term. Progress on reducing reliance on imported oil has been limited, and no significant steps were taken to reform the pension and healthcare systems to ensure their long-term sustainability.

Additional policy action is needed to ensure the sustainability of public finances, while further stimulating economic growth and job creation. The particular challenges have remained broadly unchanged over the past year and consist of:

- **Fiscal consolidation:** Malta is still in the process of correcting its excessive budget deficit. A sound and binding medium-term fiscal framework and improved tax compliance are additional challenges to reaching the medium-term objective;
- **Long-term sustainability:** high projected budgetary costs of ageing in the long-term call for wide-reaching reforms in the pension and healthcare systems;
- **Human capital and labour market:** skill mismatches and still low employment among women and older people indicate the need for sustained policy action;
- **External competitiveness:** removing inefficiencies in the business environment to maintain external competitiveness and attract foreign investments is a continuous challenge. In this respect, particular drawbacks remain inefficiencies in the energy system, the judiciary and public procurement. The high indebtedness and leverage in the private sector, combined with high financing costs, present an additional challenge.

The national reform programme and the stability programme acknowledge the challenges identified in the country-specific recommendations. The stability programme outlines the consolidation strategy for 2014 and confirms the medium-term objective of a balanced budget in structural terms, to be reached beyond the programme horizon, but does not specify the measures to reach it. The national reform programme lays out a broadly adequate set of measures, going also beyond the challenges identified in the country-specific recommendations, except as regards the long-term sustainability of public finances.

1. INTRODUCTION

In May 2013, the Commission proposed a set of country-specific recommendations (CSRs) for economic and structural reform policies for Malta. On the basis of these recommendations, the Council of the European Union adopted five CSRs in the form of a Council Recommendation in July 2013. These CSRs concerned public finances, long-term sustainability of public finances, labour market and education, energy and transport, financial stability and judicial efficiency. This staff working document (SWD) assesses the state of implementation of these recommendations in Malta.

The SWD assesses policy measures in light of the findings of the Commission's Annual Growth Survey 2014 (AGS)[1] and the third annual Alert Mechanism Report (AMR),[2] which were published in November 2013. The AGS sets out the Commission's proposals for building the necessary common understanding about the priorities for action at national and EU level in 2014. It identifies five priorities to guide Member States to renewed growth: pursuing differentiated, growth friendly fiscal consolidation; restoring normal lending to the economy; promoting growth and competitiveness for today and tomorrow; tackling unemployment and the social consequences of the crisis; and modernising public administration. The Joint Employment Report includes the Scoreboard of key employment and social indicators, while the AMR serves as an initial screening device to ascertain whether macroeconomic imbalances exist or risk emerging in Member States. The AMR found positive signs that macroeconomic imbalances in Europe are being corrected. To ensure that a complete and durable rebalancing is achieved, Malta and 15 other Member States were selected for a review of developments in the accumulation and unwinding of imbalances. These in-depth reviews were published on 5 March 2014.[3]

Against the background of the 2013 Council Recommendations, the AGS, the AMR and the in-depth review, Malta presented updates of its national reform programme (NRP) on 16 April 2014 and of its stability programme on 30 April 2014. These programmes provide detailed information on progress made since July 2013 and on the plans of the government. The information contained in these programmes provides the basis for the assessment made in this staff working document.

The submitted programmes went through a consultation process involving stakeholders via the Malta-EU Steering Action Committee and the Malta Council for Economic and Social Development. Implementation of the national reform programme is then subject to biannual assessment by the government.

2. ECONOMIC SITUATION AND OUTLOOK

Economic situation

Economic activity surprised positively in 2013. Real GDP growth accelerated to 2.4% in 2013. It was driven by household consumption, supported by robust labour market performance, which saw the participation rate continue to converge with the EU average, albeit from a low base. At the same time, the unemployment rate remained low at 6.5%. High

[1] COM(2013) 800 final

[2] COM(2013) 790 final

[3] Apart from the 16 Member States identified in the AMR, Ireland was also covered by an in-depth review, following the conclusion by the Council that it should be fully integrated into the normal surveillance framework after the successful completion of its financial assistance programme.

supply of labour contained wage pressures and the average wage increased by less than 1% on the year. The upturn in private consumption was partly offset by a stronger-than-expected decline in exports, in particular exports of goods. This resulted in a negative contribution to growth from net exports for the first time since 2006. Despite the improving economic sentiment, investment activity remained weak. Private investments contracted for the third consecutive year and loans to non-financial firms decreased. Despite the positive surprise in 2013, economic growth was lower than the pre-crisis average.

Economic outlook

According to the Commission 2014 spring forecast, economic growth is projected to remain relatively strong in comparison to other euro area Member States and to stand at 2.3% in 2014-15. The drivers of growth are projected to come mainly from domestic demand, with both consumer and business confidence expected to improve over the forecast horizon as economic sentiment both in Malta and abroad stabilises. A number of large investment projects in 2014-15, particularly in the energy sector, are also expected to provide a boost, although a delayed take-off poses a risk to these projections. Labour market conditions are projected to remain favourable and employment is forecast to keep rising at the rate of 2.1% reflecting an increasing number of people choosing to work. The labour market is projected to be able to fully absorb a further increase in the labour supply, thus leaving the unemployment rate stable at 6.5%. Government efforts to lower utility tariffs for households in 2014, expected at a later stage to be extended to businesses, are projected to result in a moderate price inflation outlook.

The macroeconomic scenario underpinning the national reform programme and the stability programme is plausible. The two programmes share the same macroeconomic scenario. The economic growth projections for 2014-15 are marginally lower than those in the Commission 2014 spring forecast. The labour market outlook is also largely in line with the Commission's forecast. In the outer years of the programme period, the growth outlook remains cautious and is in line with potential growth as estimated by the Commission.

The national reform programme estimates the impact of structural reforms in selected areas on growth. The programme analyses the impact of reforms in the labour market to increase employment, in education and training to address skill gaps and in research and development to raise related investment. The results show that labour market reforms are estimated to have the highest impact, resulting in higher GDP growth by 0.22 pp. relative to the baseline in the first year after implementation, reaching 0.55 pp. ten years after implementation. Raising research and innovation investment would have the biggest impact in terms of increasing the real wage growth in the economy. The results are based on the QUEST model, developed by the European Commission and adapted to the Maltese economy.

3. CHALLENGES AND ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

The programme confirms Malta's commitment to fulfil the EDP recommendation. In its 2014 stability programme Malta plans to reduce its general government deficit gradually over the programme period, to 0.3% of GDP in 2017. This implies gradual progress towards the medium-term objective, set as a balanced position in structural terms (unchanged from the previous programme), although the actual achievement of the medium-term objective is not foreseen within the programme period. The stability programme plans that the general government deficit would further decrease to 2.1% of GDP, well below the EDP target recommended. The programme plans a cumulative change in the (recalculated) structural balance[4] of 1.6 pps. of GDP over 2013 and 2014, spread unevenly, with an effort of around 1% of GDP in 2013 and progress of 0.6% of GDP in 2014. This is in line with the recommended path for the deficit in structural terms (annual improvement of 0.7% of GDP in both 2013 and 2014).

The 2013 outturn reflected the strong economic growth which boosted current revenues. Compared to 3.3% of GDP in 2012, the decrease in the headline deficit to 2.8% of GDP in 2013 reflected the strong economic growth, a robust labour market as well as some discretionary measures which fuelled a rise in current revenues by 1.2 pps. of GDP (well above nominal GDP growth). In particular, income taxes increased substantially relative to the previous year, while the recovery in consumption supported indirect taxation. The increase in current revenue and spending restraints in intermediate consumption more than offset the increase in both public employment, social spending and in net capital expenditure (by 0.6 pp. of GDP) mainly driven by the additional capital transfer to Air Malta.

The planned narrowing of the deficit is to a large extent based on revenue-increasing measures. In 2014, the deficit is targeted to decline to 2.1% of GDP, in line with the previous update and against the background of an upward revision in real GDP growth (to 2.3% from 1.6% in the previous programme) driven by domestic demand. In particular, the target set in the previous update was confirmed by the DBP[5] and by the In-Year Budgetary Report[6] submitted to the Commission on 16 April 2014. The target incorporates the impact of the 2014 budget that was endorsed by Parliament in November 2013, which included mainly revenue-increasing measures, while reintroducing restrictions on recruitment, with a net deficit-reducing impact of 0.3% of GDP (see Box 2). The 2014 budget, also, included two revenue measures for which the budgetary impact is not incorporated in the stability programme, namely the 'Investment Registration Scheme' and a measure intended to incentivise owners to put their vacant property on the official rental market (see Box 2). In the following years, the programme plans to reduce the headline deficit unevenly, with a higher consolidation targeted in 2016. In particular, the deficit reduction planned in 2016 is due to the significant drop in capital expenditure explained by both the expected termination of capital transfers to Air Malta and the lower level of spending on EU-funded projects.

[4] 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.

[5] The DBP presented in October 2013, however, lacked details on the measures underpinning the revenue and expenditure targets for 2014.

[6] In accordance with the Commission Delegated Regulation (EU) No 877/2013 supplementing Regulation (EU) No 473/2013.

Box 2. Main budgetary measures (% of GDP)

The consolidation strategy included in the 2014 budget approved in November 2013 relies mainly on revenue measures, since discretionary expenditure measures are expected to be relatively neutral. The stability programme does not include the budgetary impact of two of the measures included in the 2014 budget, namely the 'Investment Registration Scheme', which gives the opportunity to Maltese residents who hold eligible assets (including bank accounts and other foreign investments) abroad to legally register them against a penalty and a measure intended to incentivise owners to put their vacant property on the official rental market through the introduction of a new tax regime for rental income, whereby owners who rent out residential property will have the choice to apply a final withholding tax of 15% on rental income or the normal progressive rates of the personal income.

Revenue	**Expenditure**
2014	
• Increase in several excise duty rates (0.3% of GDP) • Pension reform initiatives (0.1% of GDP) • Revision in income tax bracket (-0.2% of GDP) • International Investor Programme (0.1% of GDP)	• Restrictions on recruitment in the public sector (-0.1% of GDP) • Introduction of children's allowance and assistance to elderly (0.1% of GDP) • Restructuring of Air Malta (equity acquisition) (0.2% of GDP)
2015	
• Pension reform initiatives (0.1% of GDP) • Increase in several excise duty rates (0.2% of GDP) • Revision in income tax bracket (-0.2% of GDP) • International Investor Programme (0.1% of GDP)	• Restrictions on recruitment in the public sector (-0.1% of GDP) • Increase in children's allowance (0.1% of GDP) • Savings in social transfers resulting from the gradual impact of the 2006 pension reform (-0.2%) • Restructuring of Air Malta (equity acquisition) (0.6%)
2016	
	• Restrictions on recruitment in the public sector (-0.1% of GDP) • Restructuring of Air Malta (equity acquisition) (0.6%)
2017	
	• Restrictions on recruitment in the public sector (-0.1% of GDP)

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

The balance of risks to programme's deficit targets is tilted to the negative side. Downside risks relate to the revenue projections, especially indirect taxes, which are planned to gradually rise in the stability programme but this is not fully explained by the underlying macroeconomic scenario. In addition, the structural revenue increase planned over the programme period is not fully underpinned by measures. Also, notwithstanding the strong commitment to restrict recruitment, there is a risk of slippages in the public sector wage bill as well as in intermediate consumption. Furthermore, higher than budgeted disbursements linked to the car VAT refund scheme and higher subsidies needed to run the transport system (in order to remove the different rates for locals and foreigners and to add new routes) could be required already in 2014. On the other hand, an upside risk could materialise if the citizenship programme turns out to be more attractive and, as has frequently occurred in the past, net capital expenditure could be lower than planned.

The Commission's forecast projects a higher deficit than the national targets. The Commission spring 2014 forecast projects a 2014 deficit at 2.5% of GDP. The difference compared to the stability programme is mainly explained by a more prudent forecast of tax revenues, especially indirect taxes (partly compensated by higher income taxes) in line with the Commission's projection for private consumption and a projected more dynamic current expenditure especially for compensation of employees and social transfers. Finally, the Commission's deficit projections for 2014, in line with the prudent approach adopted by the government, does not include the budgetary impact of the investment registration scheme and the new tax regime for rental income. For 2015, the difference between the stability programme target and the Commission's forecast under the no-policy change assumption opens up to 0.9 pp of GDP.

According to the Commission 2014 spring forecast, the cumulative structural adjustment over 2013 and 2014 falls short of the amounts recommended by the Council. The headline deficit is projected to be below the EDP target recommended for 2014. However, the change in the structural balance in cumulative terms in 2013-14 falls short of what is recommended. When adjusted for the unexpected revenue developments and changes in estimates of potential growth, the gap with the recommended target is estimated at 1.6% of GDP. The bottom-up assessment confirms the above findings as the additional effort taken in 2013-14 is -0.1% of GDP, well short of the 1.15% of GDP deemed necessary to reach the recommended structural target. Finally, given that the EDP was launched on the basis of both deficit and debt, the other condition for the correction of the excessive deficit is to meet the forward looking debt benchmark by the deadline in 2014. On the basis of the Commission 2014 spring forecast, the compliance with the forward looking debt rule is not ensured in 2013, while it appears to be assured in 2014.

Box 3. Excessive deficit procedure for Malta

Malta is currently subject to the corrective arm of the Pact. The Council opened a new Excessive Deficit Procedure based on both deficit and debt on 21 June 2013. Malta was recommended to correct the excessive deficit by 2014 and at the same time to ensure that the government gross debt ratio will approach the 60% of GDP reference value at a satisfactory pace.

According to the recommendation, which was based on the Commission 2013 spring forecast, Malta should reach a headline general government deficit target of 3.4% of GDP for 2013 and 2.7% of GDP in 2014, which is consistent with an annual improvement of the structural balance of 0.7% of GDP in 2013, and 0.7% of GDP in 2014. This adjustment path would allow bringing the headline government deficit below the 3% of GDP reference value by 2014 while at the same time ensuring that the government gross debt ratio will approach the 60%-of-GDP reference value at a satisfactory pace.

Following the correction of the excessive deficit, Malta is invited to continue making progress at an appropriate pace towards its medium-term objective of a balanced budget in structural terms, including by meeting the expenditure benchmark. To limit risks to budgetary execution, the Council invited Malta to strengthen the effectiveness of its budgetary framework and improve the monitoring of budget execution throughout the year. In particular, Malta was invited to put in place a more binding, rule-based multiannual fiscal framework. In addition, the role of independent bodies monitoring fiscal policy should be strengthened, in accordance with Article 5 of Regulation (EC) No 473/2013. Finally, to ensure the success of the fiscal consolidation strategy, the Maltese authorities were invited to back the fiscal consolidation with comprehensive structural reforms, in line with the Council recommendations addressed to Malta in the context of the 2013 European Semester and in particular those related to the preventive arm of the Macroeconomic Imbalances Procedure.

In addition, in December 2013, the Commission requested Malta to comply with additional reporting requirements, which complement the existing initial report on action taken, in accordance with Article 10(6)(b) of Regulation (EU) 473/2013 for the purposes of monitoring progress towards the correction of the excessive deficit and identifying possible risks to the deficit targets. In particular, the Commission requested Malta to include in its semi-annual reports an assessment and quantification of the financial risks associated with contingent liabilities with potentially large impacts on public budgets, as referred to in Article 14(3) of Directive 2011/85/EU.

An overview of the current state of excessive deficit procedures is available on: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm .

According to the information provided in the stability programme, the change in the (recalculated) structural balance in 2015–17 is broadly in line with the 0.6%-of-GDP annual adjustment towards the MTO required from Member States with a debt above the 60% of GDP threshold and in 'neither good nor bad' times. Following an overall assessment of the Malta's stability programme, a minor deviation from the adjustment path towards the MTO is to be expected in 2015. On the other hand, based on the no-policy-change Commission forecast, the expenditure growth would exceed the benchmark by 0.7 pp. in 2015, thereby contributing to a 0.7 pps.-of-GDP deterioration in the structural balance and breaching the threshold for significant deviation.

The general government gross debt is planned to start decreasing. From 70.8% of GDP in 2012, the general government gross debt ratio increased to 73.0% of GDP in 2013 on account of accumulated arrears from Enemalta of around 1.4% of GDP. According to the programme, the debt ratio is planned to decrease to 69.5% of GDP in 2014 and to 63.9% in 2017. The stock-flow adjustment, which includes the settlement of all the past arrears by Enemalta, is expected to contribute significantly to the debt reduction in 2014 while, starting from 2015, the debt would decrease helped by increasing primary surpluses. According to the Commission 2014 spring forecast, the debt ratio is projected to decrease by some 2 pps. over 2014-15, following the repayment of a loan from Air Malta and the partial clearance of some tax arrears from Enemalta. The difference is due to worse projections for the primary surplus and a higher, debt-increasing stock-flow adjustment in 2014 since the Commission's debt projection includes only part of the clearance of some tax arrears from Enemalta (i.e. only the repayment of the arrears accumulated in 2012). The ongoing negotiation of the partial privatization of Enemalta would improve the financial situation of the corporation thus increasing the likelihood of the repayment of the arrears. Therefore, the settlement of all the past arrears by Enemalta is considered as a positive risk.

Long-term sustainability

The sustainability of public finances appears to be at risk in the medium to long term. Government debt (73.0% of GDP in 2013 and expected to fall to 71.1% in 2015) is currently above the 60%-of-GDP Treaty threshold. However, the full implementation of the stability programme would lower the debt below the 60%-of-GDP reference value by 2030. Malta appears to face medium fiscal sustainability risks in the medium term. The medium-term sustainability gap,[7] showing the adjustment effort up to 2020 required to bring debt ratio to 60 % of GDP in 2030, is at 1.6% of GDP, primarily because of the high starting level of government debt. In the long term, Malta appears to face high fiscal sustainability risks, primarily related to the projected ageing costs. In the period 2010-2060, public pension expenditure is forecast to increase by 5.5 pp. of GDP with spending on healthcare and long-term care growing by 2.9 pps. and by 0.9 pp., respectively.[8] The long-term sustainability gap,[9] showing the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path, is at 6.2% of GDP. Risks would be higher in the event of the structural primary balance reverting to lower values observed in the past, such as the average for the period 2004-2013.

In 2013, Malta received a recommendation to further reform the pension system in order to curb the projected increase in expenditure and to increase the cost-effectiveness of the healthcare sector. The analysis in this SWD leads to the conclusion that Malta has made limited progress on measures taken to respond to this recommendation.

Malta has made no progress in reforming its pension system. In its 2014 budget speech, the government committed itself not to raise the pensionable age beyond the increases outlined in the 2006 pension reform. [10] Instead, policy action so far has focused on labour market measures, aimed at improving the overall labour market participation rate, including that among older workers. While helpful, however, such measures would be far from sufficient to ensure the long-term sustainability of the pension system. Simulations show that each percentage point increase in the overall employment rate over the baseline would lower public pension expenditure in the long term by only 0.1 pp. of GDP.[11] The legislated increases

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[7] See Table V in Annex.

[8] See European Commission, The 2012 Ageing Report: Economic and budgetary projections for the 27 Member States (2010-2060), European Economy 2/2012.

[9] See Table V in Annex.

[10] See page 53 of the 2014 budget speech of 4th November 2013: "Government reiterates its pledge not to increase the retirement age". Available at: http://mfin.gov.mt/en/The-Budget/Pages/The-Budget-2014.aspx

[11] The baseline scenario for these simulations assumes that the employment rate for the 20-64 age group will reach 69.9% in 2060. In 2012, the ratio stood at 63.1% in Malta and 68.4% in the EU28. For more

in the pensionable age are rather slow compared with other EU Member States and the pensionable age in 2012 was still among the lowest for both men and women. The retirement age is set to gradually reach 65 years for both genders only in 2027, whereas 16 Member States will have already reached or exceeded this level in 2020. Moreover, no further increases are envisaged. Even though pension expenditure is not projected to start increasing significantly before 2030, delaying action in this area raises significant intergenerational equity concerns. It would put the entire adjustment burden on future generations, implying the need for sharper pension reform which may have to be accompanied by additional public sector reforms to generate savings. The review of the pension reform, started with proposals for further reform submitted in December 2010, continues. An inter-ministerial working group has been set up and is expected to propose policy steps by September for 2014.

Still, some progress has been made in implementing the private third pillar pension to improve pension adequacy. The adequacy of pensions in Malta is relatively low for the given expenditure level. This is also a result of the still poor integration of older workers in the labour market as well as the lack of complementary pensions schemes. The legislative tools needed to introduce a private third pension pillar have been approved by the parliament and are foreseen to enter into force on 1 July 2014. While beneficial in terms of pension adequacy, a private pension pillar would not contribute to the sustainability of the system as it does not reduce the burden on public pension spending.

The authorities have made limited progress in ensuring the sustainability of the healthcare system. Even if healthcare expenditure in Malta is currently below the EU average, it has one of the highest projected increases in the EU in the long term. This reflects limited resources for ambulatory care, combined with limited provision of public primary care and few general practitioners and nurses. There is general agreement that primary care can be improved substantially, and that the overall volume of ambulatory care can be increased, while the preventive approach does not appear sufficiently developed as data indicate relatively low levels of some cancer screening as well as several weak outcomes relative to healthy lifestyles. Some measures to rationalise the procurement of pharmaceuticals and medical supplies and to improve the management in the central Mater Dei hospital have been implemented, together with some investment made in primary and community health care, following a number of reports and recommendations calling for efficiency improvements,[12] especially in the hospital and pharmacy sector. However, no progress has been registered in raising the cost-effectiveness of the healthcare system and the increasing costs have yet to be contained. Although the government has published a document proposing a health strategy, which addresses many of the major challenges that the Maltese health system faces, there are no clear timeframes and financial estimates of the potential savings they might generate. Overall, the implementation of the healthcare reform has been slow.

information see The 2012 Ageing Report: Economic and budgetary projections for the 27 Member States (2010-2060), European Economy 2/2012, European Commission.

[12] A 2014-20 National Health Strategy for Malta was published on the 21 February 2014 (available at https://ehealth.gov.mt/download.aspx?id=10042); this includes proposals to address many of the major challenges that the Maltese health system faces. A report on the situation of the main hospital, the Mater Dei hospital, was published in late 2013 and, finally, the New Health Systems in Transition (HiT) for Malta was published by the European Observatory (http://www.euro.who.int/en/about-us/partners/observatory/health-systems-in-transition-hit-series/countries-and-subregions/malta-hit-2014).

Fiscal framework

In 2013, Malta was recommended to introduce a rule-based multiannual fiscal framework by the end of the year. The analysis in this SWD leads to the conclusion that Malta has made substantial progress on measures taken to address this recommendation.

Despite registering progress, the authorities have yet to adopt a binding, rule-based multiannual fiscal framework. The adoption of the legislation meant to come into force by the end of 2013 and aimed at fulfilling the requirements of the Directive 85/2011/EU on budgetary frameworks and the Fiscal Compact has been delayed. According to the latest update of the Stability Programme, the Maltese government has recently endorsed the Fiscal Responsibility Act, which is in line with the priorities in the Annual Growth Survey and which will be submitted for the parliament's approval. The proposed Act introduces a balanced-budget rule in structural terms and a debt rule whereby if the debt-to-GDP ratio exceeds 60%, the differential with respect to the reference value should be reduced at the three-year average rate of 1/20 per year as set out in the revised SGP. The draft act also foresees introduction of a three-year rolling budgetary framework (National Medium Term Fiscal Plan) which should enhance the predictability of the budgetary planning. Last but not least, the Act also paves the way for the creation of a fiscal council which would be charged among others with endorsing of the government's official macroeconomic and fiscal forecasts as well as ex-ante and ex-post monitoring of the respect of fiscal rules. However, the draft act foresees only a gradual set up of the fiscal council. In the meantime, the National Audit Office is mandated to take up the fiscal council's responsibilities.

Tax system

In 2013, Malta received a recommendation to improve tax compliance and to reduce the high debt bias in corporate taxation. The analysis in this SWD leads to the conclusion that Malta has made some progress in measures improving tax compliance, but corporate financing remains too dependent on debt rather than equity financing.

Tax compliance and evasion continue to pose a challenge to the quality of public finances. In order to boost the capacity of the tax administration, Malta is planning (by November 2014) to complete the merger of the revenue departments into single authority, which would streamline tax collection processes, with an integration of VAT and income tax returns, and to be in a better position to prevent tax evasion. Indeed, in 2012 the gross closing balance of arrears[13] amounted to 22.7% of GDP, of which 10.2% and 7.7% of GDP respectively related to VAT and income tax arrears. Out of this balance, around 5.1% of GDP was considered as collectable, with VAT arrears representing only 0.8% of GDP. In order to improve tax compliance and encourage the recovery of amounts due, both the penalties in VAT legislation and the interest on taxes due[14] have been revised.[15] Various measures have also been taken to improve tax audits, enhance risk analysis, increase penalties for fraud and human resources, strengthen links with foreign tax authorities, strengthen the power of the Commissioner for Inland Revenue, bolster provisions on the transfer of shares, and reinforce the legal framework to combat tax evasion. However, while these measures are generally useful and go in the right direction, available information does not yet allow for an assessment of their impact and, therefore, there is a need to monitor the roll-out and concrete

[13] As reported by the National Audit Office in its "Report by the Auditor General on the Public Accounts 2012".

[14] The performance of the VAT system (as measured by the VAT Gap) is already better than the EU average.

[15] This legislation was adopted in November 2013 and came into force in 1 January 2014.

achievements. Moreover, the utilisation of electronic means of payment, which generally helps to improve tax compliance,[16] is rather limited.

Debt still continues to prevail over equity financing, although the role of the tax system in this trade-off is less clear. Malta has a relatively high private debt-to-equity ratio, which significantly exceeds the euro-area average.[17] However, the corporate income tax system does not appear to explain the debt bias in Malta. Indeed, Malta has a full imputation tax system, under which dividends paid by a company registered in Malta carry a tax credit equivalent to the tax paid by the company on the profits from which the dividends are distributed. In general, this system, which applies to both resident and non-resident shareholders, should mean that companies are indifferent when it comes to choosing between debt and equity financing. However, this is less obvious for larger international companies, since the extent to which they take account of shareholders is unclear and debatable.

Changes in taxation may lead to potential future losses in tax revenue. Following the so-called 'VAT package' adopted by the Council in Council Directive 2008/8/EC of 12 February 2008[18], Malta may become less attractive as a location for remote gaming. Malta currently exempts such activities from VAT. The new Directive stipulates that, as of 2015, VAT must be charged on the basis of where the customer is located. Since several Member States do not apply a blanket exemption to gaming, service suppliers established in Malta will have to charge and account for VAT where this is applicable. Any VAT advantage gained by choosing Malta as a location for remote gaming will disappear, thus involving potential future tax revenue losses. Other characteristics of the taxation system, such as the low effective corporate tax rate, a favourable regime for the tax treatment of intellectual property, and limited anti-abuse rules, make Malta attracative to investors. However, increasing pressure to develop international standards for corporate taxation, and for countries to align themselves to these standards, may have a potential impact on the domestic tax regime and affect future revenues. This is particularly relevant for Malta, where income tax revenues have grown substantially over the past ten years. Potential revenue losses could be compensated by increasing revenue from other sources, in particular by raising taxes that are less detrimental to growth (such as property and environmental taxes[19]).

3.2. Financial sector

The financial sector has successfully navigated an environment of heightened risk and reduced confidence. Profitability and solvency ratios in the core domestic banks remained high, while the stable funding base with a low loan-to-deposit ratio limited exposure to the volatility of financial markets (see findings of the 2014 in-depth review for Malta in Box 4). The domestic economy appears well-shielded from the non-resident business of the large international bank and non-bank financial intermediaries. Nevertheless, domestic banks'

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[16] There are no limits to cash payments in Malta. Card payments other than e-money as percentage of GDP were relatively low in Malta in 2012. See European Commission (2013) Impact Assessment Accompanying the document Proposal for a directive of the European parliament and of the Council on payment services in the internal market and amending Directives 2002/65/EC, 2013/36/UE and 2009/110/EC and repealing Directive 2007/64/EC and Proposal for a Regulation of the European Parliament and of the Council on interchange fees for card-based payment transactions, p. 12.

[17] http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/index_en.htm

[18] This change is consequent to the so-called "VAT package" adopted by the council in Council Directive 2008/8/EC of 12 February 2008 amending Directive 2006/112/EC as regards the place of supply of services and also Council Implementing Regulation (EU) No 282/2011 of 15 March 2011 laying down implementing measures for Directive 2006/112/EC on the common system of value added tax

[19] While revenue from environmental taxes is higher than the EU average, there is room to shift taxation from labour to environment. There is neither a landfill tax, indexation of environmental taxes, nor an overall strategy to eliminate environmentally harmful subsidies.

loan-loss provisions remain low, which poses a risk to the institutions' capital buffers. Moreover, the high indebtedness and leverage of the private sector hinders its competitiveness.

In 2013, Malta received a recommendation to further strengthen provisions for loan-impairment losses to mitigate potential risks arising from exposure to the real estate market, while ensuring strict supervision over the entire banking sector. The Commission comes to the conclusion that Malta has made substantial progress towards addressing this recommendation.

The authorities have taken supervisory measures to strengthen capital buffers. Following a comprehensive consultation with stakeholders, the authorities revised Banking Rules 9 and 12 in order to tighten loan-loss provisioning policies and address concentration risks linked to exposure to the real estate sector. The revisions also harmonise the definitions of non-performing loans and forbearance with those set by the European Banking Authority. The revised rules are in force as of 31 December 2013. Their implementation is expected to contribute to an increase (albeit not significant) in the coverage ratio. Moreover, banks have been encouraged to use profit retention in order to strengthen their capital buffers. Nevertheless, there remains scope to further strengthen capital buffers, as also pointed out in the 2014 in-depth review for Malta.

Regulatory oversight has been strengthened with the aim to ensure financial stability. At the end of 2013, the authorities adopted an amendment to the Central Bank of Malta Act in order to (i) add the formulation and implementation of macro-prudential policy to the functions of the central bank, (ii) enshrine into legislation the Joint Financial Stability Board[20] that was set up in January 2013, and (iii) appoint a second deputy governor with a special focus of financial stability issues. The amendment is a welcome step towards ensuring streamlined and effective macro-prudential supervision. Moreover, the central bank is implementing a recommendation issued by the European Systemic Risk Board on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1). Confidence in financial stability is reinforced by the fact that the two biggest banks, the Bank of Valletta and HSBC Malta, will fall under the Single Supervisory Mechanism as of the end of 2014.

The provision of financing to companies shows signs of an inefficient allocation of resources. Maltese firms are characterised by high leverage (debt-to-equity ratio) and a relatively high level of debt, to some extent alleviated by sizeable asset holdings. These features reflect the presence of a large, but very concentrated, banking sector and lack of significant alternatives to bank financing due to an under-developed capital market. A number of successful initiatives are in place to facilitate access to debt finance to small and medium enterprises, but the non-debt options are still limited. Seed capital funds have been allocated by government authorities to help graduates and entrepreneurs start a new business, and Malta Enterprise has launched a number of initiatives to attract cross border venture capital, besides providing advice to innovative start-ups that seek financing. As discussed in the 2014 in-depth review for Malta, the high leverage of the corporate sector results in a high cost of funding for companies, squeezes their profitability and puts pressure on economic activity. At the same time, the high profitability and liquidity in the banking sector indicates an inefficient allocation of resources. The national authorities are exploring options such as crowd-funding

[20] The JFSB is meant to facilitate cooperation between the CBM and the financial sector supervisor, the Malta Financial Services Authority, while also giving policy recommendations to safeguard financial stability.

and setting up a development bank to ease the access to financing of small and medium enterprises.

Box 4: Conclusions from the March 2014 in-depth review on Malta

The second in-depth review (IDR) of Malta under the Macroeconomic Imbalances Procedure was published on 5 March 2014.[21] On the basis of this review, the Commission concluded that the macroeconomic challenges in Malta no longer constitute substantial macroeconomic risks and are no longer identified as imbalances in the sense of the MIP. The main observations and findings from the analysis are:

- The **financial sector** does not appear to pose imminent risks to macro-financial stability. Maltese banks generally have high liquidity and solvency ratios and have remained profitable. So far, the authorities are managing these risks effectively.
- The high **private sector indebtedness** appears to be correcting in an orderly fashion. There is no evidence of significant deleveraging pressures in the corporate sector.
- **Government debt** is still rising, but short-term risks are contained. Long-term sustainability, however, remains a concern due to rising age-related budgetary costs. High contingent liabilities pose an additional burden.
- **Export performance** has been successful and the economy has been able to attract new, growing industries while the core, traditional ones have continued to expand. The robustness of external competitiveness and the attractiveness to FDI, however, need to be maintained.

The IDR also discusses policy elements stemming from these areas and possible avenues for the way forward. A number of elements can be considered:

- With a view to maintaining **financial stability**, tight risk-taking and supervisory practices, and ensuring the robustness of the real estate market are key in managing the inherent structural risks related to the limited size of the economy. Moreover, maintaining an efficient supervisory approach would be instrumental in managing the future growth of the sector. Finally, indications of anticompetitive behaviour in the core banking segment warrant closer attention.
- In order to preserve **external competitiveness**, which is key for the growth of the domestic economy, as well as its attractiveness for FDI, it would be beneficial to keep both labour and transaction costs in check. This is particularly valid in an environment where some competitors are undergoing accelerated cost-adjustment.
- Meeting the fiscal targets set by the Council under the Excessive Deficit Procedure would put **government debt** on a more sustainable footing in the short term, but tackling sustainability in the long term remains a challenge.

3.3. Labour market[22], education and social policies

Structural challenges remain in the labour market, in education and training, and poverty reduction. Employment and labour market participation rates for women and older workers have improved in 2013 but remain among the lowest in the EU and thus continue to

[21] http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/index_en.htm

[22] For further details, see the 2014 Joint Employment Report, COM(2013)801, which includes a scoreboard of key employment and social indicators.

hinder the economy's growth potential. The low level of employment reflects also a lack of flexible working arrangements. There is still evidence of a significant skills mismatch,[23] exacerbated by the early school leaving rate, and a low tertiary educational attainment rate. In terms of poverty, Malta has continued to experience an increasing at risk of poverty or social exclusion rate, especially in the case of children and the elderly.

In 2013, Malta was recommended to reduce early school leaving, to increase the labour-market relevance of education and training, and to continue supporting for the participation of women in the labour market. Overall, the analysis in this staff working document leads to the conclusion that Malta has made some progress towards implementing this recommendation. In view of the long-term nature of the challenges, however, progress would benefit from sustained policy action to ensure effective implementation of the measures in place.

Labour market

Some progress has been made to implement measures aimed at increasing the employment rate of older workers, especially in view of raising the effective retirement age, although at a slow pace. In 2013, Malta launched the 2014-20 National Strategic Policy on Active Ageing, which aims to increase the number of older workers in the labour market, while enabling those over the pensionable age to remain in or re-enter employment. In the first quarter of 2014, Malta set up an inter-ministerial committee tasked with drawing up an implementation strategy. In the 2014 Budget, the government provided further tax breaks for older workers in employment, as well as tax benefits to enterprises that recruit and train older workers. These incentives are helping to increase the employment rate among older workers, which has risen by 5.8 percentage points since 2009. Nevertheless, the employment rate of older workers, particularly among women, remains among the lowest in the EU. The employment rate among disabled people in Malta is also significantly below the EU average[24].

Female labour market participation continued to increase, albeit from a very low level. The improvement over the past five years (from 41.6% in 2008 to 52.7% in 2013) reflects a favourable cohort effect and policy action aimed at improving the reconciliation of work and family life. However, overall female labour market participation is still among the lowest in Europe, reflecting a combination of cultural and historical factors, as a result of which many women choose to leave the labour market after having children and then find it difficult, or choose not, to return in employment. Moreover, a culture of longer working hours combined with limited availability of flexible[25] and reduced-hours opportunities might make it more difficult for men to role-share in the family, thus posing a further obstacle to women re-entering the labour market. Indeed, the female employment rate in Malta is higher than the EU average for all age groups below 30, but steadily decreases thereafter to reach a rate of 18.4% for those aged 55 to 64, compared to 43.3% of the EU average. An important measure to address this challenge is the launching of a scheme that entered into force on 1 April 2014 that offers free childcare in public and private facilities to households in which parents are in employment and/or education. The vast majority of private childcare centres have entered into a contractual agreement with government to receive a flat-rate amount for every child benefiting from this scheme. Parents who are ineligible for, or decide not to participate in, the

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[23] See European Commission, Labour market developments in Europe, 2013, European Economy/2013

[24] 31.7% against 46.9% for EU (persons aged 20-64) EUSILC 2011

[25] Malta has rather rigid working time arrangements, with higher than average employer-set working time regimes (72% of male employees, 76% of female employees against 59% and 60% for EU 27 have working time arrangements set entirely by employer – EWCS2010) and more difficulties concerning flexibility for family reasons (63.8% male employees and 64.1% of female employees against 24.3% and 23.7% in EU27 do not have any kind of possibility to vary start and/or stop their working day for family reason Eurostat 2010)

scheme still benefit from increased tax incentives to make use of childcare facilities. Moreover, parents who are actively seeking employment are still eligible for subsidised rates at publicly run childcare facilities under previous schemes. The opening of state-funded after-school care structures in schools helps to further reconcile working and school hours. Notwithstanding this, Malta still experiences limitations in terms of the flexibility of working schedules, which may contribute towards the low female employment rate among those in the 35+ age groups.

Private sector wage developments in 2012-13 have been relatively contained, despite dynamic growth in the public sector. Despite being on a downward trend, average wage growth in the public sector was still relatively strong in 2012-13, partly thanks to the renewal of a number of collective agreements. This does not appear to have carried over to the private sector, where the growth rate of nominal compensation per employee has been rather modest. Private sector developments reflect also strong labour market supply pressures as strong employment growth strengthens the bargaining power of employers in wage negotiations. Nevertheless, wage growth continued to outpace productivity gains and nominal unit labour costs in Malta have increased faster than the euro-area average in recent years. The wage bargaining process continues to be characterised by the application of a partial, automatic wage indexation mechanism, compensating for past inflation. Reforms to the mechanism to limit its potentially negative impact on competitiveness through a misalignment between wage and productivity developments continue to be the subject of debates among social partners, but no policy steps have been taken yet.

Education

Despite recent improvement,[26] the early school leaving rate (20.9% in 2013) remains the second highest in the EU, with a significant gender gap.[27] The Framework for the Education strategy has been launched in 2014, and the reform of National Curriculum Framework is in preparation. Malta is setting up a comprehensive monitoring system with a view to reducing the early school leaving rate. After public consultation with stakeholders, a revised Early School Leaving Strategy will be published in the second quarter of 2014. An inter-ministerial committee to steer and coordinate policy actions on early school leaving will be created in 2014 and an early school leaving monitoring unit within the Ministry of Education and Employment has been set up. Other recent measures include a programme to provide alternative learning paths for students in the last year of secondary education who decide not to sit for the secondary education certificate exams. Following the statistical revision in 2013, Malta has also set a new 2020 national early school leaving target of 10%.

The measures to tackle early school leaving go in the right direction, but action in the area of improving basic skills attainment, especially in literacy, seems insufficient. Basic skills attainment is poor in international comparison, as shown by 15-year olds' performance in OECD Programme for International Student Assessment (PISA) 2009+ tests and 10-year olds' performance in the 2011 Progress in International Reading Literacy Study and Trends in International Mathematics and Science Study,[28] especially in reading and science. The main ongoing measure in this field is the National Literacy Strategy for All, covering the 2014-19 period, which reviews and widens the scope of the Literacy Policy and Strategy launched in 2009 and focuses on competences in both the Maltese and English languages. The implementation of its new measures will start as from the 2014-15 school year. A proper

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[26] In 2013, the Maltese Statistical Office and Eurostat reviewed the time series on early school leaving due to a new classification of certain qualifications at secondary level. According to the new time series, the early school leaving rate declined by 12 percentage points between 2007 and 2013.

[27] 23.2% for males compared with 18.2% for females.

[28] Conducted by the International Association for the Evaluation of Educational Achievement (IEA).

implementation of the National Literacy Strategy, supported with adequate funding, may contribute to addressing literacy problems, which could consequently further reducing early school leaving. In January 2014, the government also launched a pilot project to raise IT literacy by providing tablets to children in primary schools, starting from Year 4.

Tertiary education attainment is still low, but on the rise. The tertiary attainment rate of people aged 30-34 is still among the lowest in the EU (26% in 2013), but it has increased significantly over the last five years due to the positive graduation trends. To increase the supply of skills in the labour force, the new 'Master It' scholarship scheme, financed through the European Social Fund, aims to provide more opportunities to promote further Master's level specialisation in key sectors of the Maltese economy.

Measures have been put in place in recognition of the need to raise the labour-market relevance of training and education. The labour market is set to require more relevant skills from the vocational education and training system.[29] To address this, after consultations with the social partners, the government is in the process of creating a single national apprenticeship scheme covering more qualification levels and occupations. It is planned that the scheme will be implemented in the second half of 2014. Other ongoing measures to increase the labour-market relevance of education and training include: (i) a pilot project to introduce a work-based learning element in vocational education and training courses at the Malta College of Arts, Science and Technology, to be extended as from 2014-15; (ii) a draft Lifelong Learning Strategy, to be launched for public consultation during 2014, which mainly focuses on low skilled adults and their training needs, also by promoting the use of open educational resources; (iii) a European Structural Funds programme (Enhancing Employability through Training) to reintegrate job seekers and inactive persons into the labour market and improve the skills of already employed people. If properly implemented, these measures could have a positive impact on the labour-market relevance of skills.

Box 5. Potential impact of structural reforms on growth – a benchmarking exercise

Structural reforms are crucial for boosting growth. It is therefore important to know the potential benefits of these reforms. Benefits of structural reforms can be assessed with the help of economic models. The Commission uses its QUEST model to determine how structural reforms in a given Member State would affect growth if the Member State narrowed its gap vis-à-vis the average of the three best EU performers on key indicators, such as labour market participation or the degree of competition in the economy. Improvements on these indicators could raise Malta's GDP by about 4.6% in a 10-year period. In the very long term, moreover, skill-enhancing reforms could increase GDP by as much as 18.8% (see note). Some reforms could have an effect even within a relatively short time horizon. The model simulations corroborate the analysis of Section 3.3, according to which the largest gains could likely stem from facilitating labour market participation of women and the elderly and from enhancing market competition. The simulations support the priority placed by the authorities on reforming active labour market and skill-enhancing policies, while highlighting additional areas that might boost economic growth.

[29] In the 2010-20 period CEDEFOP forecasts a 34.2% increase in medium qualification jobs in Malta, compared with an increase of only 4.6% in the EU-28.

Table 1: Structural indicators, targets and potential GDP effects[30]					
Reform areas		MT	Average 3 best EU performers	GDP % relative to baseline	
				5 years	10 years
Market competition	Final goods sector markups (price-cost margin)	0.18	0.13	1.0	1.3
Market regulation	Entry costs	n.a.	0.13	0.0	0.0
Tax reform	Implicit consumption tax rate	19.0	28.6	0.1	0.2
Skill enhancing reforms*	Share of high-skilled	3.4	10.7	0.0	0.1
	Share of low-skilled	61.9	7.5	0.1	0.4
Labour market reforms	Female non-participation rate (25-54ys):			0.5	1.2
	- low-skilled	60.0	26.4		
	- medium-skilled	21.7	10.5		
	- high-skilled	10.2	4.3		
	Low-skilled male non-participation rate (25-54ys)	8.1	7.7	0.0	0.0
	Elderly non-participation rate (55-64ys):			0.4	1.0
	- low-skilled	23.2	13.4		
	- medium-skilled	6.7	4.8		
	- high-skilled	4.5	3.3		
	ALMP (% of GDP over unemployment share)	1.9	37.4	0.3	0.4
	Benefit replacement rate**	52.8	52.6	0.0	0.0
R&D measure	R&D tax-credit rates	n.a.	0.41	0.0	0.0
Total				2.6	4.6

Source: Commission services. Note: Simulations assume that all Member States undertake reforms which close their structural gaps by half. The table shows the contribution of each reform to total GDP after five and ten years. If the country is above the benchmark for a given indicator, we do not simulate the impact of reform measures in that area; however, the Member State in question can still benefit from measures taken by other Member States.[31] *The long-run effect of increasing the share of high-skilled population would be 3.9% of GDP and of decreasing the share of low-skilled would be 14.9%. ** EU average is set as the benchmark.

Social policies

Malta is experiencing an increase in the number of people at risk of poverty and social exclusion. The proportion of the total population at risk of poverty or social exclusion in Malta is lower than the average for the EU and the euro area, but higher than the EU average if one looks just at children and the elderly (65+). The number of people at risk of poverty or social exclusion has risen since 2006, making it more difficult to reach the national 2020 target. The driver of this upward trend has been the rise of severe material deprivation, which has doubled between 2008 and 2012, affecting all age categories, and is now higher than the euro area average and only 0.5 pp. below the EU average. In response to these challenges, the government set up a task force to reform the social security provision and delivery in Malta, which is supposed to provide policy recommendations by October 2014. As outlined in the national reform programme, Malta has also initiated measures aimed at addressing particular segments of society, including children, the elderly and disabled persons.

[30] Final goods sector mark-ups is the difference between the selling price of a good/service and its cost. Entry cost refers to the cost of starting a business in the intermediate sector. The implicit consumption tax rate is a proxy for shifting taxation away from labour to indirect taxes. The benefit replacement rate is the % of a worker's pre-unemployment income that is paid out by the unemployment scheme. For a detailed explanation of indicators see Annex.

[31] For a detailed explanation of the transmission mechanisms of the reform scenarios presented here, see: European Commission (2013), 'The growth impact of structural reforms', Chapter 2 in Quarterly report on the euro area. No. 4. December 2013, Brussels: http://ec.europa.eu/economy_finance/publications/qr_euro_area/2013/pdf/qrea4_section_2_en.pdf

3.4. Structural measures promoting sustainable growth and competitiveness

Structural challenges continue to limit Malta's growth potential. Because of their economic costs ensuing externalities, infrastructural shortcomings in the energy and transport systems hinder entrepreneurship and the external competitiveness and lower the attractiveness of the economy to foreign investment. These challenges may be exacerbated by limited competition on the domestic market, related also to the small size of the economy, which could lead to higher mark-ups in certain sectors, thereby also hampering competitiveness. In addition, low spending on research and development limits the innovation capacity of the economy and curbs potential growth.

In 2013, Malta received a recommendation to diversify the energy mix and energy sources, while maintaining efforts to promote energy efficiency and reduce emissions in the transport sector. Overall, the analysis in this staff working document leads to the conclusion that Malta has made limited progress towards implementing this recommendation.

Energy

The authorities are moving ahead with reforms of the energy system, but concrete results are yet to emerge. The completion of the electricity interconnector with Italy will link Malta to the European grid, thus diversifying energy supply and helping to cut greenhouse gas emissions, as it would allow the decommissioning of the older and less efficient Marsa power plant. Permit hurdles have delayed construction and cost estimates have increased, but it is expected that the project will be completed by the end of 2014. To further reduce reliance on imported oil, the government plans to shift energy generation to natural gas. Malta is exploring the possibility of connecting to the European Gas Network. In the context of implementation of the Guidelines for trans-European energy infrastructures, Malta has a project of common interest involving plans for a gas pipeline with Italy and to developing a floating liquefied natural gas storage facility and a regasification unit, to come into operation in 2018. Other projects under consideration include a gas pipeline to northern Africa. The efficient implementation of these plans would improve the security of energy supply and would move Malta closer to its 2020 energy targets. In parallel, Malta aims to further develop its internal electricity distribution network: a new distribution centre has been constructed and is intended to receive the electricity imported from the interconnector and to distribute it throughout the network.

Box 6: Changes in the state energy company Enemalta

The restructuring of the energy sector entered a new phase following the signing of a EUR 320 million heads-of-terms agreement in March 2014 with the Chinese company Shanghai Electric Power for a 33% stake in Enemalta. The agreement is expected to be finalised by September 2014, after which it would be presented to the parliament for its approval. This deal could have a significant impact on the domestic economy by reducing the contingent liability to the government and through providing for new investment into the energy sector.

According to the terms of the agreement, EUR 100 million will be injected in the form of equity in Enemalta, while the remaining EUR 220 million will be invested in the existing 144 MW diesel-operated power plant, which will be converted to run on natural gas. As a consequence of the deal, Enemalta's currently high debt would be reduced as the funds from the recapitalisation will reportedly be used to pay off debt, while the guarantees on the remaining debt will be split according to shareholding (the government's share will go down from 100% to 67%). The agreement also provides for the conversion of Enemalta into a public limited company (it is currently regulated by an Act of Parliament) while its petroleum division will be reconstituted into a new entity and excluded from the deal. The government retains its power to appoint the chairman and the final say on the amount of electricity to be purchased from alternative energy supply sources. Reportedly, the agreement foresees the setting-up of two joint ventures with Shanghai Electric power: one to produce renewable energy (solar and wind) to be sold in Europe and the other to service power plants owned by the Chinese company in Europe.

There is progress in improving energy efficiency, but generating renewable energy remains a challenge. Malta has increased efforts to boost energy efficiency through dedicated policies, co-funded by the EU, with a focus on buildings and in small and medium-sized enterprises. To improve energy efficiency in electricity generation, Enemalta upgraded part of its generation infrastructure and is installing smart meters.[32] In addition, information campaigns have been organised to improve customers' awareness of energy efficiency issues and encourage changes in consumer behaviour. As regards increasing the proportion of energy generated from renewable sources, however, progress has been slow. The large-scale wind energy projects, which were originally intended to contribute the majority of the national renewable energy target,[33] are likely to be abandoned due to environmental concerns. Instead, Malta is shifting its focus to the decentralised generation of renewable (in particular, solar) energy. Malta has managed to speed up the deployment of solar energy systems and has made some progress towards the national 2020 renewable energy target. In the 2011-2012 progress report, Malta claims to have achieved its first interim target for renewables (2%), but it still has a fair way to go to meet the 2020 target.

Climate, transport and environment

The authorities have taken steps to address the carbon intensity of the transport sector, but the main challenges have not yet been tackled. The transport sector is responsible for a major part of energy consumption and emissions in Malta and stands out in terms of energy and carbon intensity both when compared to other Member States' transport sectors and in comparison to other sectors in the country.[34] Malta is still far from its 2020 target with respect to the proportion of energy from renewable sources in transport. Moreover, the sheer size of the vehicles fleet,[35] the reliance on inefficient, second-hand cars and a tendency to use of individual cars for passenger transport mean that the shift towards a more resource-efficient, less emissions-intensive transport system will take time and may require continued, comprehensive policy action. Policy action includes car scrappage support schemes and a vehicle registration tax that favours newer, more efficient cars. In 2013, Malta launched its national electro-mobility strategy, which aims to deploy 5 000 electric vehicles by 2020, which could reduce emission by around 7.7 kilotons of CO_2 equivalent, and achieve about 1% of the renewable energy target. However, greenhouse gas emissions will be significantly reduced only depending on the carbon intensity of the electricity used to fuel electro-mobility. The introduction and promotion of liquefied petroleum gas, as of 2013, through a grant scheme and the introduction of a biofuel substitution obligation (3.5% biofuel content in fuel) may not only reduce the emissions intensity of the Maltese transport sector, but also increase the proportion of energy used in transport from renewable energy sources.

The national reform programme puts emphasis on the development of network and external transport links. The government is working on a National Transport Strategy and a Transport Master Plan, in line with the priorities in the Annual Growth Survey, which would cover all relevant transport modes. The national transport authority has contracted the Ineco-

[32] Currently around 75% of the smart meters are installed. According to government estimates in its 2014 national reform programme, the target is to complete the installation of the meters by end of third quarter of 2014.

[33] Malta's national target for energy from renewable energy sources (RES) is 10%

[34] The 60% share of the Maltese transport sector in total final energy consumption places Malta second in the EU, after Luxembourg.

[35] On average, each driving licence holder owned 1.4 cars in Malta in 2012 and private cars were used for 71% of all trips made by individuals.

Systematica Consortium to develop in the course of 2014 a national transport model[36] and consequently develop the transport strategy and master plan. Moreover, the authorities plan to invest further in developing the TEN-T network and upgrading the sea and international port infrastructure. The high port handling costs[37] pose an additional challenge, given the high import intensity of domestic demand.

Preventing and reducing waste generation, together with increased re-use, recycling and innovative product design, could improve the resource efficiency of the economy. It is unlikely that Malta will reach the 2020 recycling target of 50%[38] and the objectives of the Resource Efficiency Roadmap (involving a sharp reduction in landfill waste) without significant additional efforts. Against the background of water scarcity in Malta, however, the proportion of companies taking action to save water is low (42% reported to be taking action to minimise water use). An additional challenge is the management and prevention of floods, given their above-average cost. A national flood relief project is being implemented with co-funding from the European Cohesion Fund. An updated Waste Management Plan was published in January 2014. Moreover, the national reform programme outlines initiatives to encourage resource efficiency in energy and water, in line with the priorities in the Annual Growth Survey.

Research and development

Research and development spending has increased, but remains moderate. The initial, relatively modest national 2020 target for research and development spending of 0.67% of GDP was exceeded in 2012, prompting the government to revise it to 2% of GDP. Malta's relative strengths in the field of research and innovation lie in the number of researchers operating in the business sector (2.8 per thousand in the labour force), which increased by an average of 15% a year in 2007-2012, and the higher proportion of jobs in knowledge-intensive activities (42.3% of all employees aged 15-61). The country's relative weaknesses are in its overall stock of human resources in science and technology, as measured by the number of new graduates in science and engineering per thousand in the 25-34 age group (at 6.1, this is less than half of the EU average and it fell by 4% a year in 2007-2011), and in scientific output and patenting, where its indicators are well below the EU figures, notably for the latter. The National Research & Innovation Strategy for 2020 sets the goal for the country to build a knowledge-based economy. Complimentary to this goal, the Smart Specialisation Strategy would guide investments through the European Structural and Investment Funds towards strategic areas with high potential economic impact.

Functioning of the internal market

Some sectors show relatively high price mark-ups. Estimates suggest that certain sectors, such as wholesale and retail trade, construction, transport, exhibit relatively high mark-ups.[39] This reflects limited competition, related also the small size of the domestic market. The implementation and enforcement of competition law in Malta are hindered by the limited resources devoted to the domestic competition authority. Higher mark-ups in Malta to some extent reflect also discriminatory practices against non-Maltese nationals who reside or intend

[36] The development of the model is supported by EU funding. The model would be used for testing transport scenarios and provision of forecasts that would assist in policy making.

[37] World Bank (WB 2013), *Doing Business report*, 2013, available at http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB13-full-report.pdf

[38] Directive 2008/98/EC on waste (Waste Framework Directive)

[39] See Box 5 on pp 20-21

to reside in Malta to some basic services. In recent months, the authorities took action to remove the two-tier pricing for utilities and public transport.

3.5. Modernisation of public administration

Despite improvements in some areas, public administration inefficiencies remain, with potentially negative impacts on competitiveness and the efficient allocation of resources**.** A number of reforms have improved the capacity of the public administration in order to develop a more business-friendly environment. However, shortcomings with respect to the absorption of EU funds and the efficiency of public procurement procedures and the judicial reform have yet to be adequately tackled.

In 2013, Malta was recommended to tackle inefficiencies in public procurement procedures and in the judicial system. The analysis in this staff working document leads to the conclusion that Malta has made some progress in reducing the length of public procurement procedures and limited progress on measures taken to respond to the recommendation concerning the judicial system.

Public administration

Despite a slight improvement in the efficiency of public procurement procedures in 2013, the country still ranks among the worst-performing countries in the EU. The average duration of procurement procedures was reduced by around 15% in 2013 (from 295 in 2010 to 249 in 2013), still significantly above the EU average of 119 days.[40] The main reform in this area is the transition to e-procurement, in line with the priorities in the Annual Growth Survey, whereby by the end of 2014 all public procurement procedures are to be conducted electronically, with a view to improve effectiveness and efficiency. The roll out of e-procurement has been completed in respect of public tenders above the EU threshold and the new system has generally received positive feedback from stakeholders, but the lack of a harmonised interpretation of procedures applied by the different contracting authorities still poses problems. Further policy action in this area includes the plan to reduce the length of tendering and advertising periods and the average adjudication period. If properly implemented, these measures could reduce the length of the public procurement process and increase its efficiency, resulting in better-value public expenditure. Nevertheless, there are no targets accompanying the initiatives, making it difficult to assess the effectiveness.

Inefficiencies increase the risk of EU funds not being absorbed promptly. The latest available figures (end of March 2014) show that, despite acceleration in the second half of 2013, Malta still experiences significant problems in absorbing EU funds. While the rate of project selection is on a par with the EU average, the expenditure rate is well below it, especially for the European Social Fund and the European Regional Development Fund, while Malta is just below the EU average as regards the Cohesion Fund. Delays are due to insufficient administrative capacity and complicated and lengthy procedures, in particular in the areas of public procurement and environmental permits.

Business environment and judicial system

Further implementation of the Small Business Act would help to improve the business environment for SMEs. Malta continues to implement measures under the 2011 Small Business Malta Act. Despite government's intention to put in place a systematic 'SME test' by the end of 2014, as provided for in the Act, little seems to have been done so far. In

[40] In 2013, Malta would be ranked the third worst performing country in the EU in terms of the length of the open procedure, after Greece and Italy.

particular, the 'SME test' would help identify the potential impact of all new proposed legislation on small enterprises and is expected to bring positive results. In addition, in view of the positive results to date, it is expected that the role of the 'Business First' one-stop-shop will be extended.

The ambitious reform of the judicial system has been launched, but implementation is at a very early stage. The length of proceedings for civil, commercial and administrative cases has fallen but it remains amongst the highest in the EU.[41] The courts' performance in resolving civil and commercial cases at first instance improved. However, the rate of resolving administrative cases is the lowest in the EU.[42] The World Bank's *Doing Business* report[43] also indicates shortcomings in insolvency procedures, which are estimated in this survey to take up to three years.[44] The Justice Reform Expert Commission handed its final report on reform of the judicial system to the government in November 2013, which includes about 450 recommendations for improving the administration of justice, in line with the priorities in the Annual Growth Survey. The reform would also aim to reduce the length of court procedures, paying particular attention to insolvency cases. The government consulted stakeholders on the proposed measures in a seminar held on 12 March 2014 and a Justice Reform Implementation Committee (JuRIC) has been set up. As regards the timetable, around 180 reform measures are earmarked for implementation during 2014. It is envisaged that the constitutional amendments (mostly requiring a two-thirds majority in parliament) will be made by the third quarter of 2014 while amendments to primary law are due to be finalised by the end of June 2014.

4. CONCLUSIONS

The Maltese economy performs relatively well in comparison with the rest of the EU, but a number of structural weaknesses dampen economic performance and challenge the long-term sustainability of public finances. High reliance on external trade makes the economy vulnerable to weaknesses in foreign demand and outside competition. In this context, inefficiencies in the business environment, such as skills mismatches resulting from an inefficient utilisation of human capital, high energy costs partly linked to an inefficient energy system still fully dependent on imported oil, and inefficiencies in the transport and judicial systems stand out. The significant interconnectedness between the various sectors of the economy calls for the need to ensure economic resilience. As regards public finances, an excessive budget deficit and projected significant increases in age-related expenditure in the long term pose a challenge. All of these issues were addressed in the 2013 country-specific recommendations.

41 The time needed to resolve litigious civil and commercial cases at first instance fell from 849 days in 2010 to 685 in 2012. Despite this progress, Malta is still the country with the longest proceedings in this category. For administrative cases, the length of proceedings dropped from 2 758 days in 2010 to 1 457 in 2012. This is significant progress, but the length of proceedings for administrative cases is still well above the EU average. Source: *2014 EU Justice Scoreboard*, Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions, COM(2014) 155 final, available at: http://ec.europa.eu/justice/effective-justice/scoreboard/index_en.htm.

42 The rate of resolving administrative cases stood at 40% in 2012. Source: *2014 EU Justice Scoreboard*.

43 World Bank (WB 2013), *Doing Business report*, 2013, available at http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB13-full-report.pdf

44 World Economic Forum, "The Global Competitiveness Report; 2013-2014", http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf

The analysis in this staff working document leads to the conclusion that Malta has made some progress in addressing the 2013 country-specific recommendations. Substantial progress was made in supporting the labour market participation of women and reinforcing financial stability. Some progress has also been made with regard to correcting the excessive budget deficit, improving education outcomes, reforming the judicial system and improving the efficiency of public procurement procedures. Most of the reforms, however, will have an impact only in the medium to long term. Progress on reducing reliance on imported oil has been limited, and no significant steps have been taken to reform the pension and healthcare systems to ensure their long-term sustainability.

The national reform programme and stability programme acknowledge the challenges identified in the country-specific recommendations. The stability programme outlines the consolidation strategy for 2014 and confirms the medium term objective of a balanced budget in structural terms, to be reached beyond the programme horizon, but does not specify the measures to reach it. The national reform programme recognises the priorities in the Annual Growth Survey and lays out a broadly adequate set of measures to address the identified challenges. An exception is the pension system, where concrete policy action plans are still missing.

Overview table

<table>
<tr><th>2013 commitments</th><th>Summary assessment[45]</th></tr>
<tr><td colspan="2">Country-specific recommendations (CSRs)</td></tr>
<tr><td>CSR 1: Specify and implement the measures needed to achieve the annual structural adjustment effort set out in the Council recommendations under the EDP in order to correct the excessive deficit by 2014 in a sustainable and growth-friendly manner. After correcting the excessive deficit, pursue the structural adjustment effort at an appropriate pace so as to reach the MTO by 2019.

Put in place a binding, rule-based multiannual fiscal framework in 2013. Ensure concrete delivery of measures taken to increase tax compliance and fight tax evasion, and take action to reduce the debt bias in corporate taxation.</td><td>Malta has made some progress in addressing the CSR 1.
Despite meeting the nominal deficit target in 2013 with a comfortable margin, according to the Commission 2014 spring forecast, Malta is expected to reduce further the headline deficit in 2014 to a level below the one recommended by the Council (2.5% of GDP) while the improvement in the structural balance over 2013 and 2014 would be much lower and is expected to fall short of the recommended level. In addition, based on the no-policy-change Commission forecast, there is a risk of significant deviation from the progress towards the MTO in 2015.
Substantial progress has been made with regard to reforming the fiscal framework, as the authorities have endorsed a comprehensive Fiscal Responsibility Act.
Some progress has been made in increasing tax compliance and fighting tax evasion. A number of measures have been put in place to streamline tax collection procedures and facilitate tax collection, but concrete achievements are still difficult to measure. No change has been made with respect to reducing the debt bias in corporate taxation, although the role of the tax system in relation to debt is less clear.</td></tr>
<tr><td>CSR2: To ensure the long-term sustainability of public finances, continue to reform the pension system to curb the projected increase in expenditure, including by measures such as accelerating the increase in the statutory retirement age, increasing the effective retirement age by aligning retirement age or pension benefits to changes in life expectancy and by encouraging private pension savings.
Take measures to increase the employment rate of older</td><td>Malta has made limited progress in addressing the CSR 2:
Malta has made no progress in accelerating the reform of the pension system to curb the projected increase in expenditure.
Some progress has been achieved in introducing a third pillar private pension.
Malta has made some progress in</td></tr>
</table>

[45] The following categories are used to assess progress in implementing the 2013 country specific recommendations: No progress: The Member State has neither announced nor adopted any measures to address the CSR. This category also applies if a Member State has commissioned a study group to evaluate possible measures. Limited progress: The Member State has announced some measures to address the CSR, but these measures appear insufficient and/or their adoption/implementation is at risk. Some progress: The Member State has announced or adopted measures to address the CSR. These measures are promising, but not all of them have been implemented yet and implementation is not certain in all cases. Substantial progress: The Member State has adopted measures, most of which have been implemented. These measures go a long way in addressing the CSR. Fully addressed: The Member State has adopted and implemented measures that address the CSR appropriately.

workers by finalizing and implementing a comprehensive active ageing strategy.	introducing measures to increase the employment rate of older workers, especially through the launching of the National Strategic Policy on Active Ageing.
Pursue health-care reforms to increase the cost-effectiveness of the sector, in particular by strengthening public primary care provision. Improve the efficiency and reduce the length of public procurement procedures.	• Limited progress in ensuring the sustainability of the healthcare system. The Maltese authorities have implemented some measures to rationalize procurement of pharmaceuticals and medical supplies and to improve the management in Mater Dei hospital. However there is no evidence that they have achieved any progress in improving primary and community health care. • Some progress has been made by Malta with respect to the public procurement. Malta is shifting to a fully electronic public procurement system for tenders above EU threshold by 2014. Malta has also informed of a significant reduction of the length of the procedure and of measures aiming at further reduction.
CSR 3: Continue to pursue policy efforts to reduce early school leaving, notably by setting up a comprehensive monitoring system, and increase the labour-market relevance of education and training to address skills gaps, including through the announced reform of the apprenticeship system. Continue supporting the improving labour-market participation of women by promoting flexible working arrangements, in particular by enhancing the provision and affordability of child-care and out-of-school centres.	Malta has made **some progress** in addressing the CSR 3. • Some progress in setting up a comprehensive early school leaving monitoring system. • Some progress in increasing the labour market relevance of education and training. • Limited progress in implementing the apprenticeship reform. • Substantial progress has been achieved in enhancing the provision and affordability of child-care in Malta through the provision of free childcare.
CSR 4: Continue efforts to diversify the energy mix and energy sources, in particular through increasing the take up of renewable energy and the timely completion of the electricity link with Sicily. Maintain efforts to promote energy efficiency and reduce emissions from the transport sector.	Malta has made **limited progress** in addressing the CSR 4. • Malta has made limited progress with respect to the promotion of renewable energy. In particular the installation of photovoltaic systems was incentivised with programs using regional funds and a feed-in tariff. However, due to environmental concerns, the plan to build large-scale wind energy projects was revised and will instead focus on decentralised regeneration of renewable energy. • Malta has made some progress with respect to the electricity link with Sicily. The electricity interconnection between Malta and Italy is being constructed and

	will be operational by the end of 2014. • Malta has made some progress with respect to energy efficiency. Some measures to implement the Article 7 of the Energy Efficiency Directive were notified in time and seems will transpose the Directive also in time. • Malta has made limited progress with respect to reduce emissions from the transport sector. Malta has implemented a broad and structured set of measures; however, these are of too limited size and scope to significantly improve the performance of the transport sector.
CSR5: Take measures to further strengthen the provisions for loan-impairment losses in the banking sector to mitigate potential risks arising from exposure to the real estate market. Maintain policy effort to ensure strict banking sector supervision, including for the non-core domestic and internationally-oriented banks. Improve the overall efficiency of the judicial system, for example by reducing the time needed to resolve insolvency cases.	Malta has made **some progress** in addressing the CSR 5. • Malta has made substantial progress on measures taken to ensure financial stability. Measures have been put in place to improve regulatory oversight and loan-loss provisioning. • Malta has made limited progress on measures taken concerning the judicial system. An ambitious reform of the justice system has been launched, the implementation of which needs to be followed-up closely to avoid delays.
Europe 2020 (national targets and progress)	
Policy field target	**Progress achieved**
R&D target: 2% of GDP	The new 2020 national target recently set is ambitious. The country's has an overall R&D intensity performance of 0.84% in 2012. Business R&D intensity amounts to 60% of total GERD, followed by the higher education sector with 36% in 2012. The R&D spending performed by public research organisations represents about 3% of GERD. In spite a significant increase in 2012, R&D intensity remains very low as regards the EU average. Malta's R&I funding relies heavily on EU financing sources, notably the Structural Funds.
Employment rate target: 70% (new)	64.9% (2013) – Malta has set a new target as the previous one of 62.9% was exceeded in 2012. Some progress towards achieving the target.
Early school leaving target: 10%	Early school leaving rate: 23.6% in 2011, 22.6% in 2012, 20.9% in 2013. Some progress towards achieving the target.
Tertiary education target: 33%	Tertiary attainment rate: 21.4% in 2011, 22.4% in 2012, 26% in 2013. Some progress towards

	achieving the target.
Risk of poverty or social exclusion target: lifting 6,560 individuals from the risk of poverty or social exclusion	94,000 at risk (2012)
2020 Renewable energy target: 10% Share of renewable energy in all modes of transport: 10%	Considerable progress would be necessary to meet the 2020 RES targets domestically. In the 2011/2012 progress report Malta claims to have achieved its first interim target for renewables (2%) but the final Eurostat data for 2012 was 1.4%. According to EUROSTAT the share of renewables in transport was 1% in 2012.
Energy Efficiency target. Malta has set an indicative national energy efficiency target of 22%, which implies reaching a 2020 level of 0.825 Mtoe primary consumption and 0.493 Mtoe final energy consumption.	In 2013, Malta notified its national indicative energy target (Article 3 of the Energy Efficiency Directive). Some measures to implement the Article 7 of the Directive were notified in time and the current estimations indicate Malta would transpose the Directive in time.
Change in non-ETS greenhouse gas emissions between 2005 and 2012: +5%	Malta is on track to meeting this emissions limitation commitment. According to the latest national projections and taking into account existing measures, emissions in the non-ETS sector will be 4% higher in 2020 than in 2005. The target is expected to be achieved by 1 percentage points. Between 2005 and 2011, total emissions in Malta increased by 7 %, while EU-wide emissions decreased by 9 % on average over the same time period.

ANNEX

Standard Tables

Table I. Macro-economic indicators

	1996-2000	2001-2005	2006-2010	2011	2012	2013	2014	2015
Core indicators								
GDP growth rate	4.5	1.3	2.4	1.6	0.6	2.4	2.3	2.3
Output gap [1]	0.2	-0.3	0.5	0.1	-0.9	-0.3	0.2	0.7
HICP (annual % change)	3.2	2.5	2.4	2.5	3.2	1.0	1.2	1.9
Domestic demand (annual % change) [2]	3.6	0.9	1.5	-1.5	-2.0	3.2	3.2	1.9
Unemployment rate (% of labour force) [3]	6.3	7.4	6.6	6.5	6.4	6.5	6.5	6.5
Gross fixed capital formation (% of GDP)	22.0	19.0	19.5	15.1	15.1	14.5	15.5	15.7
Gross national saving (% of GDP)	18.2	14.6	13.9	15.2	14.6	15.9	16.5	17.2
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-7.5**	**-5.7**	**-3.3**	**-2.7**	**-3.3**	**-2.8**	**-2.5**	**-2.5**
Gross debt	**49.2**	**64.1**	**63.3**	**68.8**	**70.8**	**73.0**	**72.5**	**71.1**
Net financial assets	**n.a**	**-45.2**	**-47.5**	**-50.9**	**-50.9**	**n.a**	**n.a**	**n.a**
Total revenue	33.5	37.4	39.0	38.6	39.9	41.1	41.6	41.3
Total expenditure	41.1	43.1	42.4	41.3	43.1	43.9	44.1	43.8
of which: Interest	3.0	3.4	3.2	3.0	3.1	3.0	3.0	2.9
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**	**-86.6**	**-87.4**	**-72.8**	**-59.5**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**n.a**	**-15.1**	**-10.7**	**-5.7**	**0.7**	**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	27.8	24.6	25.8	n.a	n.a	n.a	n.a	n.a
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**
Net financial assets	**n.a**	**189.3**	**172.9**	**161.7**	**167.2**	**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 (-)	**-6.9**	**-2.7**	**-4.9**	**0.0**	**2.8**	**2.2**	**2.0**	**2.7**
Net financial assets	**n.a**	**-39.7**	**-26.2**	**-30.7**	**-55.7**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-7.7	-0.8	-2.1	3.7	6.0	5.6	5.0	5.5
Net primary income from the rest of the world	-0.5	-0.9	-4.7	-5.1	-6.2	-6.2	-6.0	-5.7
Net capital transactions	0.7	1.0	1.6	1.0	1.7	1.6	1.7	1.7
Tradable sector	52.1	45.6	40.3	37.1	36.7	36.5	n.a	n.a
Non tradable sector	37.7	42.1	46.8	49.8	50.5	50.6	n.a	n.a
of which: Building and construction sector	4.5	4.5	4.2	4.0	3.8	3.6	n.a	n.a
Real effective exchange rate (index, 2000=100)	90.2	96.6	107.1	109.0	109.0	112.2	114.5	115.4
Terms of trade goods and services (index, 2000=100)	96.0	98.8	99.6	100.0	99.9	100.6	100.8	101.0
Market performance of exports (index, 2000=100)	125.5	109.4	109.6	117.8	129.2	122.7	122.6	124.0

Notes:

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

[2] The indicator on domestic demand includes stocks.

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

Source :

Commission 2014 spring forecast (COM); Stability programme (SP).

Table II. Comparison of macroeconomic developments and forecasts

	2013		2014		2015		2016	2017
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	2.4	2.4	2.3	2.3	2.3	2.1	1.9	1.9
Private consumption (% change)	1.8	1.8	2.2	2.3	2.3	2.2	1.9	1.9
Gross fixed capital formation (% change)	-3.8	-3.8	10.5	15.6	3.0	3.4	2.8	2.2
Exports of goods and services (% change)	-5.6	-5.6	2.7	2.3	6.0	4.2	3.6	3.4
Imports of goods and services (% change)	-5.2	-5.2	3.6	3.9	5.7	4.3	3.5	3.2
Contributions to real GDP growth:								
- Final domestic demand	0.6	0.6	3.2	3.8	2.0	2.0	1.7	1.6
- Change in inventories	2.4	2.4	-0.1	0.0	-0.2	0.0	0.0	0.0
- Net exports	-0.7	-0.7	-0.8	-1.4	0.5	0.0	0.2	0.3
Output gap[1]	-0.3	-0.3	0.2	0.1	0.7	0.3	0.2	0.0
Employment (% change)	3.1	2.6	2.1	2.1	2.1	1.8	1.7	1.8
Unemployment rate (%)	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Labour productivity (% change)	-0.7	-0.3	0.1	0.2	0.2	0.3	0.2	0.1
HICP inflation (%)	1.0	1.0	1.2	1.3	1.9	1.8	1.8	1.7
GDP deflator (% change)	2.0	2.0	2.0	2.4	2.5	2.6	2.5	2.5
Comp. of employees (per head, % change)	0.6	1.6	1.9	1.1	2.1	2.0	2.0	2.0
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	2.2	3.4	2.0	2.6	2.7	2.3	0.9	2.1

Note:

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

Source :

Commission 2014 spring forecast (COM); Stability programme (SP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2013	2014		2015		2016	2017	Change: 2013-2017
	COM	COM	SP	COM[1]	SP	SP	SP	SP
Revenue	**41.1**	**41.6**	**42.2**	**41.3**	**42.4**	**41.5**	**41.9**	**0.8**
of which:								
- Taxes on production and imports	13.5	13.7	14.1	13.6	14.1	14.1	14.2	0.7
- Current taxes on income, wealth, etc.	14.5	14.6	14.2	14.6	14.4	14.4	14.6	0.1
- Social contributions	7.3	7.4	7.4	7.2	7.5	7.4	7.3	0.0
- Other (residual)	5.8	6.0	6.5	5.9	6.4	5.6	5.8	0.0
Expenditure	**43.9**	**44.1**	**44.2**	**43.8**	**44.0**	**42.3**	**42.2**	**-1.7**
of which:								
- Primary expenditure	40.9	41.2	41.2	40.9	41.1	39.4	39.4	-1.5
of which:								
Compensation of employees	13.5	13.3	13.2	13.1	13.0	12.8	12.6	-0.9
Intermediate consumption	6.3	6.5	6.5	6.6	6.5	6.3	6.2	-0.1
Social payments	13.5	13.7	13.5	13.8	13.6	13.5	13.6	0.1
Subsidies	1.1	1.4	1.5	1.2	1.2	1.1	1.2	0.1
Gross fixed capital formation	2.7	2.7	3.2	2.7	3.1	2.9	3.0	0.3
Other (residual)	3.7	3.4	3.3	3.5	3.6	2.8	2.9	-0.8
- Interest expenditure	3.0	3.0	3.0	2.9	2.9	2.9	2.8	-0.2
General government balance (GGB)	**-2.8**	**-2.5**	**-2.1**	**-2.5**	**-1.6**	**-0.7**	**-0.3**	**2.5**
Primary balance	**0.2**	**0.4**	**0.9**	**0.4**	**1.3**	**2.1**	**2.5**	**2.3**
One-off and other temporary measures	0.2	0.2	0.2	0.2	0.1	0.1	0.1	-0.1
GGB excl. one-offs	**-3.0**	**-2.7**	**-2.3**	**-2.6**	**-1.7**	**-0.8**	**-0.4**	**2.6**
Output gap[2]	-0.3	0.2	0.1	0.7	0.3	0.2	0.0	0.3
Cyclically-adjusted balance[2]	-2.7	-2.6	-2.1	-2.7	-1.7	-0.8	-0.3	2.4
Structural balance (SB)[3]	**-2.9**	**-2.8**	**-2.3**	**-2.9**	**-1.8**	**-0.9**	**-0.4**	**2.5**
Change in SB	*1.0*	*0.1*	*0.6*	*-0.1*	*0.5*	*0.9*	*0.5*	-
Two year average change in SB	*0.2*	*0.5*	*0.8*	*0.0*	*0.5*	*0.7*	*0.7*	-
Structural primary balance[3]	0.1	0.2	0.7	0.0	1.1	2.0	2.4	2.2
Change in structural primary balance		*0.0*	*0.5*	*-0.2*	*0.4*	*0.9*	*0.4*	-
Expenditure benchmark								
Applicable reference rate[4]	n.a.	n.a.	n.a.	0.3	0.3	n.a.	n.a.	-
Deviation[5] (% GDP)	n.a.	n.a.	n.a.	-0.7	-0.2	n.a.	n.a.	-
Two-year average deviation (% GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-

Notes:

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

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

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

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

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

Source :

Stability programme (SP); Commission 2014 spring forecast (COM); Commission calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2008-2012	2013	2014		2015		2016	2017
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**66.6**	**73.0**	**72.5**	**69.4**	**71.1**	**68.5**	**66.0**	**63.9**
Change in the ratio	2.0	2.2	-0.5	-3.6	-1.3	-0.9	-2.5	-2.1
Contributions [2] *:*								
1. Primary balance	**0.5**	**-0.2**	**-0.4**	**-0.9**	**-0.4**	**-1.3**	**-2.1**	**-2.5**
2. "Snow-ball" effect	**0.4**	**0.0**	**0.0**	**-0.2**	**-0.4**	**-0.1**	**-0.1**	**0.0**
Of which:								
Interest expenditure	3.0	3.0	3.0	3.0	2.9	2.9	2.8	2.8
Growth effect	-0.9	-1.6	-1.6	-1.6	-1.6	-1.4	-1.2	-1.2
Inflation effect	-1.7	-1.4	-1.4	-1.6	-1.7	-1.6	-1.6	-1.6
3. Stock-flow adjustment	**1.1**	**2.4**	**0.0**	**-2.4**	**-0.5**	**0.6**	**-0.3**	**0.4**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								

	2013	2014		2015		2016	2017
		COM	SP	COM	SP	SP	SP
Gap to the debt benchmark[5,6]	n.a.	-0.6	-3.2	-0.4	-3.2	n.a	n.a
Structural adjustment[7]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
To be compared to:							
Required adjustment[8]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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

[4]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.

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

[6]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/CP) budgetary projections for the previous years are achieved.

Source :

Stability programme (SP); Commission 2014 spring forecast (COM); Commission calculations.

Table V. Sustainability indicators

	Malta			European Union		
	2013 scenario	No-policy-change scenario	Stability programme scenario	2013 scenario	No-policy-change scenario	Stability programme scenario
S2*	6.1	6.2	3.9	2.4	2.4	0.7
of which:						
Initial budgetary position (IBP)	1.0	1.2	-1.0	0.5	0.4	-1.3
Long-term cost of ageing (CoA)	5.1	5.0	4.8	1.9	2.0	2.0
of which:						
pensions	3.2	3.0	2.8	0.7	0.8	0.9
healthcare	2.0	1.9	1.8	0.9	0.9	0.8
long-term care	0.6	0.6	0.6	0.6	0.6	0.6
others	-0.6	-0.4	-0.3	-0.4	-0.4	-0.3
S1**	1.6	1.6	-1.6	1.5	1.7	-0.2
of which:						
Initial budgetary position (IBP)	0.3	0.4	-2.1	-0.2	-0.4	-2.0
Debt requirement (DR)	0.7	0.7	0.2	1.5	1.8	1.5
Long-term cost of ageing (CoA)	0.6	0.5	0.2	0.2	0.3	0.3
S0 (risk for fiscal stress)***	0.18	:		:		
Debt as % of GDP (2013)	73.0			88.9		
Age-related expenditure as % of GDP (2013)	21.5			25.8		

***Source**: Commission; 2014 stability programme.*

Note: The 2013 scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2013 in line with the Commission's 2014 spring forecast. The 'no-policy-change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2015 in line with the Commission's 2014 spring forecast. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented. Age-related expenditure as given in the 2012 Ageing Report.

* The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: (i) the initial budgetary position (IBP), which gives the gap vis-à-vis the debt-stabilising primary balance and (ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that, in an infinite horizon, the growth in the debt ratio is bound by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60 % debt threshold. The following thresholds were used for the S2 indicator: (i) if the value of S2 is lower than 2, the country is classed as low risk; (ii) if it is between 2 and 6, it is classed as medium risk; and (iii) if it is greater than 6, it is classed as high risk.

** The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance in the period to 2020 and then sustained for a decade, to bring debt ratios back to 60% of GDP in 2030, including financing for any additional expenditure by the target date, arising from population ageing. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is classed as low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 pp of GDP per year until 2020 after the last year covered by the 2014 spring forecast (2015) is required (indicating a cumulated adjustment of 2.5 pp), it is classed as medium risk; and (iii) if the S1 value is greater than 2.5 (i.e. a structural adjustment of more than 0.5 pp of GDP per year is necessary), it is classed as high risk.

*** The S0 indicator reflects up-to-date evidence on the role played by fiscal and financial competitiveness variables in creating potential fiscal risks. The methodology for the S0 indicator differs fundamentally from that for the S1 and S2 indicators. Unlike S1 and S2, S0 is not a quantification of the required fiscal adjustment effort, but a composite indicator which estimates the extent to which there might be a risk of fiscal stress in the short term. The critical threshold for the S0 indicator is 0.43.

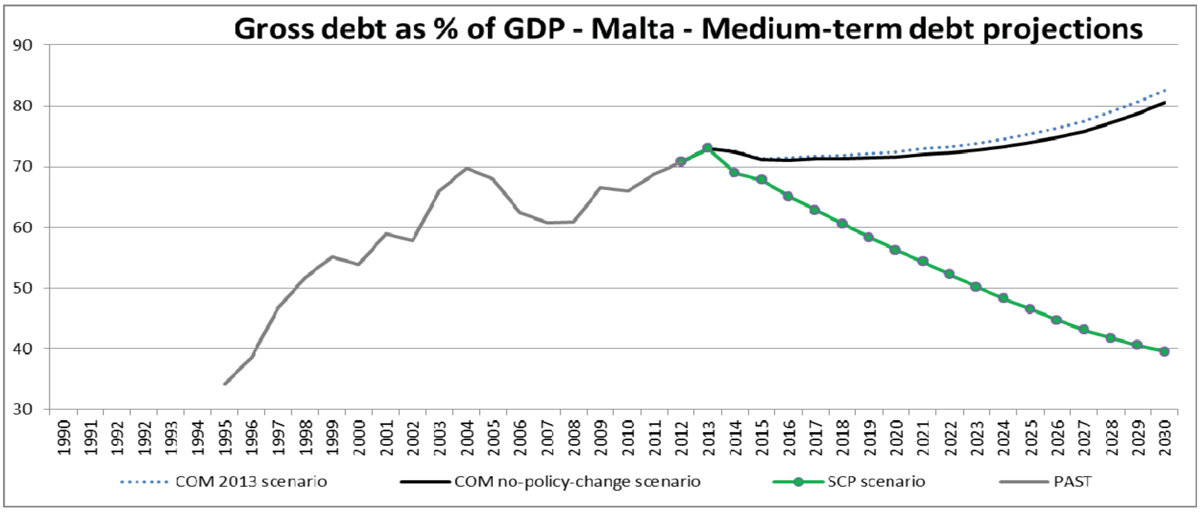

Table VI. Taxation indicators

	2002	2006	2008	2010	2011	2012
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	30.0	33.0	33.0	32.2	33.0	33.6
Breakdown by economic function (% of GDP)[1]						
Consumption	11.8	13.7	13.4	12.8	13.3	13.1
of which:						
- VAT	6.2	7.9	7.7	7.5	7.8	7.8
- excise duties on tobacco and alcohol	1.3	1.5	1.2	1.3	1.2	1.3
- energy	1.3	1.3	1.4	1.5	1.6	1.6
- other (residual)	3.0	3.1	3.0	2.6	2.6	2.4
Labour employed	10.2	10.3	9.4	9.5	10.0	10.4
Labour non-employed	0.9	1.1	1.0	1.1	1.1	1.2
Capital and business income	5.1	5.8	7.5	7.3	7.2	7.5
Stocks of capital/wealth	2.0	2.1	1.7	1.6	1.5	1.5
p.m. Environmental taxes[2]	3.3	3.3	3.4	3.0	3.2	3.0
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	54.9	58.3	57.6	56.9	59.6	59.6

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 (2014), 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. It is defined as the ratio between the actual VAT revenue collected and the revenue that would be raised if VAT was applied at the standard rate to all final (domestic) consumption expenditures, which is an imperfect measure of the theoretical pure VAT base. 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'). It should be noted that the relative size of cross-border shopping compared to domestic consumption also influences the value of the ratio, notably for smaller economies. See European Commission (2012), Tax Reforms in EU Member States and OECD (2012), Consumption tax trends for a more detailed discussion.

Source: Commission

Table VII. Financial market indicators

	2009	2010	2011	2012	2013
Total assets of the banking sector (% of GDP)	696.8	777.8	767.1	778.0	700.4
Share of assets of the five largest banks (% of total assets)	72.8	71.3	72.0	74.5	-
Foreign ownership of banking system (% of total assets)	36.1	34.9	33.1	30.9	-
Financial soundness indicators:					
- non-performing loans (% of total loans)[1), 2)]	6.2	7.4	7.3	8.2	9.0
- capital adequacy ratio (%) [1), 2)]	13.5	12.9	13.5	14.1	15.0
- return on equity (%) [1), 2)]	18.3	19.1	20.0	24.7	13.2
Bank loans to the private sector (year-on-year % change)	-2.8	2.9	3.0	3.5	-7.4
Lending for house purchase (year-on-year % change)	10.0	8.6	8.6	6.8	6.2
Loan to deposit ratio	106.6	103.8	94.5	89.8	73.7
CB liquidity as % of liabilities	3.6	2.9	1.3	1.1	0.5
Banks' exposure to countries receiving official financial assistance (% of GDP)	-	-	-	-	-
Private debt (% of GDP)	169.7	165.2	160.2	154.0	-
Gross external debt (% of GDP)					
- Public	6.6	5.8	6.3	8.6	9.1
- Private	49.1	51.6	55.5	61.9	69.7
Long term interest rates spread versus Bund (basis points)*	131.9	144.4	188.1	263.1	179.3
Credit default swap spreads for sovereign securities (5-year)*	104.8	149.5	253.2	346.2	215.8

Notes:

1) Latest data 2013 Q3.

2) Domestic banks dealing only with residents.

* Measured in basis points.

Source :

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

Table VIII. Labour market and social indicators

Labour market indicators	2008	2009	2010	2011	2012	2013
Employment rate (% of population aged 20-64)	59.2	58.8	60.1	61.5	63.1	64.9
Employment growth (% change from previous year)	2.5	-0.2	2.1	2.5	2.4	3.1
Employment rate of women (% of female population aged 20-64)	39.4	39.8	41.5	43.4	46.8	49.8
Employment rate of men (% of male population aged 20-64)	78.2	77.1	77.9	78.9	79.0	79.5
Employment rate of older workers (% of population aged 55-64)	29.3	27.8	30.4	31.8	33.6	35.9
Part-time employment (% of total employment, 15 years and more)	11.5	11.3	12.5	13.2	14.0	14.9
Part-time employment of women (% of women employment, 15 years and more)	25.5	23.7	25.0	25.7	26.3	26.3
Part-time employment of men (% of men employment, 15 years and more)	4.5	5.1	6.0	6.6	6.9	8.1
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	4.2	4.9	5.6	6.6	6.9	7.7
Transitions from temporary to permanent employment	62.7	66.6	10.0	67.2	2.2	:
Unemployment rate[1] (% of labour force, age group 15-74)	6.0	6.9	6.9	6.5	6.4	6.5
Long-term unemployment rate[2] (% of labour force)	2.5	3.0	3.2	3.0	3.0	2.9
Youth unemployment rate (% of youth labour force aged 15-24)	12.2	14.4	13.1	13.8	14.2	13.5
Youth NEET rate (% of population aged 15-24)	8.3	9.8	9.5	10.6	11.1	9.9
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	29.3	28.0	25.9	23.6	22.6	20.9
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	21.1	21.3	21.5	21.4	22.4	26.0
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	10.0	4.0	7.0	8.0	16.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	5.0	4.0	4.0	3.0	1.0	:
Labour productivity per person employed (annual % change)	1.4	-2.6	2.0	-0.9	-1.7	-0.7
Hours worked per person employed (annual % change)	-0.5	1.1	-1.3	6.3	-1.8	-0.8
Labour productivity per hour worked (annual % change; constant prices)	1.9	-3.6	3.3	-6.8	0.1	0.1
Compensation per employee (annual % change; constant prices)	1.2	0.5	-2.4	-0.1	0.1	-1.4
Nominal unit labour cost growth (annual % change)	2.8	6.0	-0.4	3.1	4.0	:
Real unit labour cost growth (annual % change)	-0.2	3.1	-4.3	0.9	1.8	:

Notes:

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

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

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

Expenditure on social protection benefits (% of GDP)	2007	2008	2009	2010	2011
Sickness/Health care	5.1	5.3	6.0	5.6	5.5
Invalidity	1.1	1.0	0.9	0.8	0.8
Old age and survivors	9.1	9.3	10.1	10.5	10.2
Family/Children	1.0	1.2	1.2	1.2	1.2
Unemployment	0.5	0.5	0.6	0.5	0.5
Housing and Social exclusion n.e.c.	0.2	0.2	0.2	0.2	0.2
Total	17.5	17.9	19.4	19.2	18.7
of which: means tested benefits	3.1	2.5	2.6	2.5	2.5
Social inclusion indicators	**2008**	**2009**	**2010**	**2011**	**2012**
At-risk-of-poverty or social exclusion[1] (% of total population)	20.1	20.3	21.2	22.1	23.1
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	25.0	26.5	26.7	27.8	31.0
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	26.0	22.2	21.7	21.0	22.3
At-Risk-of-Poverty rate[2] (% of total population)	15.3	14.9	15.5	15.6	15.1
Severe Material Deprivation[3] (% of total population)	4.3	5.0	6.5	6.6	9.2
Share of people living in low work intensity households[4] (% of people aged 0-59)	8.6	9.2	9.2	8.9	9.0
In-work at-risk-of poverty rate (% of persons employed)	5.1	5.4	5.9	6.1	5.2
Impact of social transfers (excluding pensions) on reducing poverty	33.2	34.9	34.0	32.8	37.1
Poverty thresholds, expressed in national currency at constant prices[5]	5 964	5 979	5 832	5 949	6 117
Gross disponsable income (households)	n.a	n.a	n.a	n.a	n.a
Relative median poverty risk gap (60% of median equivalised income, age: total)	20.3	16.2	17.3	17.7	16.1

Notes:

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

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

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

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

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

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

Table IX. Product market performance and policy indicators

Performance indicators	2004-2008	2009	2010	2011	2012	2013
Labour productivity[1] total economy (annual growth in %)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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)	44.6	45.1	46.0	n.a.	n.a.	n.a.
Policy indicators	**2004-2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Enforcing contracts[3] (days)	n.a.	n.a.	n.a.	505	505	505
Time to start a business[3] (days)	n.a.	n.a.	n.a.	40	40	40
R&D expenditure (% of GDP)	0.6	0.5	0.7	0.7	0.8	n.a.
Tertiary educational attainment (% of 30-34 years old population)	20.0	21.3	21.5	21.4	22.4	26.0
Total public expenditure on education (% of GDP)	5.9	5.3	6.7	n.a.	n.a.	n.a.
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
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 of the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html.

[5] Aggregate ETCR.

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

		2003-2007	2008	2009	2010	2011	2012
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.20	0.19	0.17	0.18	0.18	0.17
Carbon intensity	kg / €	0.63	0.59	0.59	0.57	0.57	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	0.39	0.24	0.43	0.38	0.42	n.a.
Waste intensity	kg / €	n.a.	0.46	n.a.	0.25	n.a.	n.a.
Energy balance of trade	% GDP	-3.4%	-2.4%	-0.1%	1.1%	-2.9%	-13%
Energy weight in HICP	%	5	6	6	6	7	7
Difference between change energy price and inflation	%	6.92	14.3	9.9	27.1	0.4	-2
Environmental taxes over labour taxes	ratio	29.7%	32.3%	29.6%	28.2%	28.6%	n.a.
Environmental taxes over total taxes	ratio	10.2%	10.2%	9.8%	9.3%	9.6%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Share of energy-intensive industries in the economy	% GDP	6.0	6.6	6.8	n.a.	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.14	0.14	0.18	0.18	0.18
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public R&D for energy	% GDP	n.a.	0.00%	0.00%	0.00%	0.00%	0.00%
Public R&D for the environment	% GDP	n.a.	0.00%	0.00%	0.00%	0.00%	0.00%
Recycling rate of municipal waste	ratio	13.1%	3.3%	4.1%	5.2%	13.1%	12.6%
Share of GHG emissions covered by ETS*	%	n.a.	66.0%	63.4%	62.7%	63.8%	65.4%
Transport energy intensity	kgoe / €	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Transport carbon intensity	kg / €	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	99.9%	99.9%	99.9%	99.1%	100.1%	100.4%
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	0.99	0.99	0.98
Share renewable energy in energy mix	%	0.1%	0.2%	0.2%	0.3%	0.4%	1.1%

Country-specific notes:

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

General explanation of the table items:

Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated below

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

* Commission and EEA.

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

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

List of indicators used in Box 5 on the potential impact on growth of structural reforms.

Final goods sector mark-ups: Price-cost margin, i.e. the difference between the selling price of a good or service and its cost. Final goods mark-ups are proxied by the mark-ups in selected services sectors (transport and storage, post and telecommunications, electricity, gas and water supply, hotels and restaurants and financial intermediation but excluding real estate and renting of machinery and equipment and other business activities[46]).
Source: Commission services estimation using the methodology of Roeger, W. (1995). "Can imperfect Competition explain the Difference between primal and dual Productivity?" *Journal of Political Economy* Vol. 103(2) pp. 316-30, based on EUKLEMS 1996-2007 data.

Entry costs: Cost of starting a business in the intermediate sector as a share of income per capita. The intermediate sector is proxied by the manufacturing sector in the model.
Source: World Bank, Doing Business Database. www.doingbusiness.org. 2012 data.

Implicit consumption tax rate: Defined as total taxes on consumption over the value of private consumption. In the simulations it is used as a proxy for shifting taxation away from labour to indirect taxes. The implicit consumption tax-rates are increased (halving the gap vis-à-vis the best performers) while labour tax-rates are reduced so that the combined impact is ex-ante budgetary neutral.
Source: European Commission, Taxation trends in the European Union, 2013 edition, Luxembourg, 2013. 2011 data.

Shares of high-skilled and low-skilled: The share of high skilled workers is increased, the share of low-skilled workers is reduced (halving the gap vis-à-vis the best performers). Low-skilled correspond to ISCED 0-2 categories; high-skilled correspond to scientists (in mathematics and computing, engineering, manufacturing and construction). The remainder is medium-skilled.
Source: EUROSTAT. 2012 data or latest available.

Female non-participation rate: Share of women of working age not in paid work and not looking for paid work in total female working-age population
Source: EUROSTAT. 2012 data or latest available.

Low-skilled male non-participation rates: Share of low-skilled men of working age not in paid work and not looking for paid work in total male working-age population
Source: EUROSTAT. 2012 data or latest available.

Elderly non-participation rates (55-64 years): Share of the population aged 55-64 years not in paid work and not looking for paid work in total population aged 55-64 years.
Source: EUROSTAT. 2012 data or latest available.

ALMP: Active Labour Market Policy expenditures as a share of GDP over the share of unemployed in the population.
Source: EUROSTAT. 2011 data or latest available.

[46] The real estate sector is excluded because of statistical difficulties of estimating a mark-up in this sector. The sector renting of machinery and equipment and other business activities is conceptually part of intermediate goods sector.

Benefit replacement rate: Share of a worker's pre-unemployment income that is paid out by the unemployment insurance scheme. Average of net replacement rates over 60 months of unemployment.
Source: OECD, Benefits and Wages Statistics.
www.oecd.org/els/benefitsandwagesstatistics.htm. 2012 data.

R&D tax-credit rates: R&D tax credit rates are used as proxies for publicly financed R&D subsidies in the form of tax relief. It should be noted that there are other useful measures besides tax credits that are conducive to stimulating R&D (e.g. direct measures such as subsidies, grants and other indirect measures) and whose impact is not assessed by QUEST. Furthermore, the impact of higher R&D tax credits on growth is likely to be underestimated for two reasons. First, only results of an isolated R&D tax credit increase are reported, not taking into account complementary measures to support this policy (e.g. increasing the supply of high skilled labour). Second, in line with the current ESA95 accounting system R&D are not capitalised, which will be the case under the new ESA2010 entering into force in autumn 2014.
Source: For EL and IT: 2008 data, average over large and small firms following Warda J (2009) An update of R&D tax treatment in OECD countries and selected emerging economies, 2008–2009, mimeo. In: OECD (2009) Science, technology and industry scoreboard 2009, OECD Publishing, Paris. For AT, BE, CZ, DE, DK, EL, ES, FI, FR, HU, IE, LU, NL, PL, PT, SE, SI, SK, UK: 2013 data, average over large and small firms following OECD (2013) Science and technology scoreboard 2013. Innovation for growth. OECD Publishing, Paris.