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COVER NOTE

From: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

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To: Mr Uwe CORSEPIUS, Secretary-General of the Council of the European
Union

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Subject: Recommendation for a COUNCIL RECOMMENDATION on the 2015
National Reform Programme of Malta and delivering a Council opinion on
the 2015 Stability Programme of Malta

Delegations will find attached document COM(2015) 267 final.

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Recommendation for a

COUNCIL RECOMMENDATION

on the 2015 National Reform Programme of Malta

and delivering a Council opinion on the 2015 Stability Programme of Malta

Recommendation for a

COUNCIL RECOMMENDATION

on the 2015 National Reform Programme of Malta

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies¹, and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission²,

Having regard to the resolutions of the European Parliament³,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

- (1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, *Europe 2020*, based on enhanced coordination of economic policies. The strategy focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

¹ OJ L 209, 2.8.1997, p. 1.

² COM(2015) 267.

³ P8_TA(2015)0067, P8_TA(2015)0068, P8_TA(2015)0069..

- (2) On 13 July 2010, the Council, on the basis of the Commission's proposals, adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and on 21 October 2010 it adopted a decision on guidelines for the employment policies of the Member States. Together these form the 'integrated guidelines' which Member States were invited to take into account in their national economic and employment policies.
- (3) On 8 July 2014, the Council adopted a recommendation on Malta's National Reform Programme for 2014 and delivered its opinion on Malta's updated Stability Programme for 2014. On 28 November 2014, in line with Regulation (EU) No 473/2013⁴, the Commission presented its opinion on Malta's draft budgetary plan for 2015⁵.
- (4) On 28 November 2014, the Commission adopted the Annual Growth Survey⁶, marking the start of the 2015 European Semester of economic policy coordination. On the same day, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report⁷, in which it did not identify Malta as one of the Member States for which an in-depth review would be carried out.
- (5) On 18 December 2014, the European Council endorsed the priorities for boosting investment, accelerating structural reforms and pursuing responsible growth-friendly fiscal consolidation.
- (6) On 26 February 2015, the Commission published its 2015 country report for Malta⁸. This assessed Malta's progress in addressing the country-specific recommendations adopted on 8 July 2014.
- (7) On 17 April 2015, Malta submitted its 2015 National Reform Programme and on 30 April 2015 its 2015 Stability Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.
- (8) Malta is currently in the [preventive] arm of the Stability and Growth Pact [following the abrogation of the Excessive Deficit Procedure in June 2015]. In its 2015 Stability Programme, the government plans a gradual improvement of the headline deficit to 1.6% of GDP in 2015 and further to 0.2% of GDP in 2018. Based on the Commission's 2015 spring forecast, the excessive deficit can be considered to have been corrected in 2014. According to the stability programme, the government plans to meet the medium-term objective – a balanced budgetary position in structural terms – by 2019, one year after the programme period. According to the Stability Programme, the government debt-to-GDP ratio is expected to gradually decline to 61.2% in 2018. The macroeconomic scenario underpinning these budgetary projections is plausible. There appears to be a risk of some deviation from the required adjustment of 0.6% of GDP towards the medium-term objective in both 2015 and 2016. In 2015, the improvement in the structural balance is forecast to be 0.1% of GDP below the requirement. While the adjustment projected for 2016 is in

⁴ OJ L 140, 27.5.2013, p. 11.

⁵ C(2014) 8809 final.

⁶ COM(2014) 902.

⁷ COM(2014) 904.

⁸ SWD(2015) 37 final.

line with the requirement, there is a risk of some deviation over 2015 and 2016 taken together. Measures to support the planned deficit targets from 2016 onwards have not been sufficiently specified. Therefore, further measures will be needed in 2015 and 2016. Based on its assessment of the Stability Programme and taking to account the Commission's 2015 spring forecast, the Council is of the opinion that Malta is expected to broadly comply with the provisions of the Stability and Growth Pact.

- (9) The sustainability of Malta's public finances is at risk in the long term, notably in view of a projected increase in age-related expenditure. In the pension system, the legislated increase in the statutory retirement age is being introduced at a very slow pace and there is no specific link between the statutory retirement age and life expectancy. Malta has addressed the challenges of its pensions system through labour market measures and the introduction of third-pillar pensions, and has made further policy announcements in its national reform programme, but measures aimed at substantially improving the sustainability and adequacy of the system remain to be announced and implemented. Implementation of the 2014 national health systems strategy has started, with the aim of maximising the efficiency of the healthcare system while pursuing its financial sustainability. This needs to be monitored.
- (10) Malta has put in place measures to help its population manage their work and family life balance, in particular through fiscal incentives, the continuing provision of free childcare centres and the introduction of flexible working arrangements. At the same time, the increased demand for informal long-term care and a lack of suitable skills may be preventing older women from seeking work in the labour market. A national literacy strategy and an early school-leaving strategy were published in June 2014. Work is also ongoing on aligning educational outcomes with market needs, though tangible results are yet to be seen.
- (11) Efforts have been made to provide a framework for the use of venture capital funds and to facilitate access to capital markets, notably through the review of the start-up scheme Malta Enterprise and the announced seed investment programme. Work is also ongoing on setting up a development bank. This needs to be monitored.
- (12) Malta's efforts to fight tax evasion and encouraging tax compliance through the pursuit of a streamlined revenue collection framework go in the right direction. While work is ongoing, there is a need for concrete measures to accelerate the uptake of electronic payments.
- (13) The length of public procurement procedures has been significantly reduced through the introduction of mandatory e-procurement and the strengthening of the relevant government departments. It will be further reduced through the implementation of announced measures, notably the recruitment of additional staff and the introduction of a tracking system. Transport costs play a substantial role in Malta's economy. A reform of transport has recently been launched, but the government still needs to present a comprehensive transport strategy.
- (14) The National Reform Programme specifies measures to reform the justice system beyond those identified in the country report. As a result, Malta has made some progress in addressing the 2014 country-specific recommendation on increasing the efficiency of the judiciary. Also, a draft bill is being finalised. When it has been enacted and implemented, it is expected to improve further the efficiency of the

judicial system, in particular through the digitisation of court proceedings and the promotion of alternative dispute resolution mechanisms.

- (15) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Malta's economic policy and published it in the 2015 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Malta in previous years. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Malta but also their compliance with EU rules and guidance, given the need to strengthen the overall economic governance of the European Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations 1 to 4 below.
- (16) In the light of this assessment, the Council has examined Malta's Stability Programme, and its opinion⁹ is reflected in particular in recommendation 1 below.
- (17) In the context of the European Semester, the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On the basis of this analysis, the Council has issued specific recommendations for the Member States whose currency is the euro. Malta should also ensure the full and timely implementation of these recommendations,

HEREBY RECOMMENDS that Malta take action in 2015 and 2016 to:

1. Following correction of the excessive deficit, achieve a fiscal adjustment of 0.6 % of GDP towards the medium-term objective in 2015 and 2016.
2. Take measures to improve basic skills and further reduce early school-leaving by promoting the continuous professional development of teachers.
3. Accelerate the increase in the statutory retirement age and link it to life expectancy.
4. Improve small and micro-enterprises' access to finance, in particular through non-bank instruments.

Done at Brussels,

For the Council
The President

⁹ Under Article 5(2) of Council Regulation (EC) No 1466/97.