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Subject: COUNCIL RECOMMENDATION on the 2023 National Reform Programme of Malta and delivering a Council opinion on the 2023 Stability Programme of Malta

Delegations will find attached the above-mentioned draft Council Recommendation, as discussed by the Council and European Council, based on the Commission Recommendation COM(2023) 618 final.

COUNCIL RECOMMENDATION

of ...

on the 2023 National Reform Programme of Malta and delivering a Council opinion on the 2023 Stability Programme of Malta

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121(2) and Article 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 Commission,

Having regard to the resolutions of the European Parliament,

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 OJ L 209, 2.8.1997, p. 1.

- (1) Regulation (EU) 2021/241 of the European Parliament and of the Council², which established the Recovery and Resilience Facility ('the Facility'), entered into force on 19 February 2021. The Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the Union. In line with the priorities of the European Semester, the Facility contributes to economic and inclusive recovery and to the implementation of sustainable and growth-enhancing reforms and investments, in particular reforms and investments to promote the green and digital transitions and to make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the Union and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Facility was updated on 30 June 2022, in accordance with Article 11(2) of Regulation (EU) 2021/241.

² Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

- (2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey, marking the start of the 2023 European Semester for economic policy coordination. On 23 March 2023, the European Council endorsed the priorities of the 2023 Annual Sustainable Growth Survey, which are centred around the four dimensions of competitive sustainability. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council³, the Commission also adopted the 2023 Alert Mechanism Report, in which it did not identify Malta as one of the Member States that may be affected or may be at risk of being affected by imbalances. As such, an in-depth review would not be needed. On the same date, the Commission also adopted an opinion on Malta's 2023 draft budgetary plan. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2023 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area⁴ ('2023 Recommendation on the euro area') on 16 May 2023 and the Joint Employment Report on 13 March 2023.
- (3) While the Union's economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the Union stands firmly with Ukraine, the Union's economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and firms in the short term, and on keeping up efforts to deliver on the green and digital transitions, support sustainable and inclusive growth, safeguard macroeconomic stability and increase resilience in the medium term. It also focuses heavily on increasing the Union's competitiveness and productivity.

³ Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

⁴ Council Recommendation of 16 May 2023 on the economic policy of the euro area (OJ C 180, 23.5.2023, p. 1).

- (4) On 1 February 2023, the Commission issued a communication entitled 'A Green Deal Industrial Plan for the Net-Zero Age' ('the Green Deal Industrial Plan'). The aim of the Green Deal Industrial Plan is to boost the competitiveness of the Union's net-zero industry and support the fast transition to climate neutrality. It complements ongoing efforts under the European Green Deal and REPowerEU. It also aims to provide a more supportive environment for scaling up the Union's manufacturing capacity for the net-zero technologies and products required to meet the Union's ambitious climate targets, and to ensure access to relevant critical raw materials, including by diversifying sourcing, properly exploiting geological resources in Member States and maximising the recycling of raw materials. The Green Deal Industrial Plan is based on four pillars: a predictable and simplified regulatory environment, faster access to finance, the enhancement of skills, and open trade for resilient supply chains. On 16 March 2023, the Commission issued a further communication entitled 'Long-term competitiveness of the EU: looking beyond 2030', structured along nine mutually reinforcing drivers with the objective of working towards a growth-enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well-focused investment and regulatory measures for the long-term competitiveness of the Union and its Member States. The recommendations below help address those priorities.

- (5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in recent years. The 2019, 2020 and 2022 country-specific recommendations remain equally relevant for the recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.
- (6) Regulation (EU) 2023/435 of the European Parliament and of the Council⁵ (the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to rapidly phase out the Union's dependence on Russian fossil-fuel imports. This will contribute to energy security and the diversification of the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The REPowerEU Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. Those reforms and investments will also help boost the competitiveness of the Union's net-zero industry as outlined in the Green Deal Industrial Plan and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States in order to finance new energy-related reforms and investments under their recovery and resilience plans.

⁵ Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

(7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024 ('the communication of 8 March 2023'). It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination. The Commission recalled that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. It called for fiscal policies in 2023–2024 that ensure medium-term debt sustainability and raise potential growth in a sustainable manner and invited Member States to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the Treaty reference value of 3 % of gross domestic product (GDP) is adhered to and ensure plausible and continuous debt reduction, or for debt to be kept at prudent levels in the medium term. The Commission also invited Member States to phase out national fiscal measures introduced to protect households and firms from the energy price shock, starting with the least targeted ones. It indicated that, if support measures needed to be extended because of renewed energy price pressures, Member States should better target such measures at vulnerable households and firms. The Commission stated that the fiscal recommendations would be quantified and differentiated. Moreover, as proposed in its communication of 9 November 2022 on orientations for a reform of the EU economic governance framework, the fiscal recommendations would be formulated on the basis of net primary expenditure. It recommended that all Member States continue to protect nationally financed investment and ensure the effective use of the Facility and other Union funds, in particular in light of the green and digital transitions and resilience objectives. The Commission indicated that it will propose to the Council to open deficit-based excessive-deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.

- (8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the Union's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and inclusive growth in all Member States through reforms and investments. In its proposals, the Commission aims to improve national ownership, simplify the framework and move towards a greater medium-term focus, in combination with effective and more coherent enforcement. According to the Council conclusions of 14 March 2023 on orientations for a reform of the EU economic governance framework, the objective is to conclude the legislative work in 2023.
- (9) On 13 July 2021, Malta submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V to that Regulation. On 5 October 2021, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Malta⁶. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5) of Regulation (EU) 2021/241, stating that Malta has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

⁶ ST 11941/2021 INIT; ST 11941/2021 ADD 1.

- (10) On 25 April 2023, Malta submitted its 2023 National Reform Programme and, on 3 May 2023, its 2023 Stability Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2023 National Reform Programme also reflects Malta's biannual reporting on the progress made in achieving its recovery and resilience plan.
- (11) On 24 May 2023, the Commission published the 2023 country report for Malta. It assessed Malta's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022 and took stock of Malta's implementation of the recovery and resilience plan. On the basis of that analysis, the country report identified gaps with regard to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Malta's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

- (12) According to data validated by Eurostat, Malta's general government deficit decreased from 7,8 % of GDP in 2021 to 5,8 % in 2022, while general government debt fell from 55,1 % of GDP at the end of 2021 to 53,4 % at the end of 2022. On 24 May 2023, the Commission issued a report under Article 126(3) of the Treaty. That report discussed the budgetary situation of Malta, as its general government deficit in 2022 exceeded the 3 %-of-GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled. In line with the communication of 8 March 2023, the Commission did not propose to open new excessive deficit procedures in spring 2023. The Commission subsequently stated that it would propose to the Council to open deficit-based excessive-deficit procedures in spring 2024, on the basis of the outturn data for 2023. Malta should take account of this in the execution of its 2023 budget and in preparing its draft budgetary plan for 2024.
- (13) The general government balance has been impacted by the fiscal policy measures taken to mitigate the economic and social impact of the increase in energy prices. In 2022, such fiscal policy revenue-decreasing measures included cuts to indirect taxes on energy consumption, while such fiscal policy expenditure-increasing measures included subsidies to energy production to compensate for the price increase of imported electricity and carbon emissions. The Commission estimates the net budgetary cost of those measures at 2,5 % of GDP in 2022. The general government balance has also been impacted by the budgetary cost of offering temporary protection to displaced persons from Ukraine, which is estimated at 0,1 % of GDP in 2022. At the same time, the estimated cost of temporary emergency measures related to the COVID-19 crisis dropped to 0,8 % of GDP in 2022, from 3,2 % in 2021.

- (14) On 18 June 2021, the Council recommended that in 2022 Malta⁷ maintain a supportive fiscal stance, including from the impulse provided by the Facility, and preserve nationally financed investment.
- (15) According to the Commission estimates, the fiscal stance⁸ in 2022 was broadly neutral, at – 0,2 % of GDP, as recommended by the Council. As recommended by the Council, Malta continued to support the recovery with investments to be financed by the Facility. Expenditure financed by grants under the Facility and other Union funds amounted to 0,9 % of GDP in 2022 (1,1 % of GDP in 2021). The decrease in expenditures financed by Facility grants and other Union funds in 2022 was due to a lower absorption of other Union funds. Nationally financed investment provided a contractionary contribution of 0,2 percentage points to the fiscal stance⁹. Malta therefore did not preserve nationally financed investment which was not in line with the Council recommendation. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided an expansionary contribution of 0,9 percentage points to the fiscal stance. That significant expansionary contribution included the additional impact of fiscal policy measures taken to mitigate the economic and social impact of the increase in energy prices (additional net budgetary cost of 1,9 % of GDP), as well as the cost of offering temporary protection to displaced persons from Ukraine (0,1 % of GDP). Malta therefore sufficiently kept under control the growth in nationally financed current expenditure.

⁷ Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Malta (OJ C 304, 29.7.2021, p. 83).

⁸ The fiscal stance is measured as the change in primary expenditure (net of discretionary revenue measures), excluding temporary emergency measures related to the COVID-19 crisis but including expenditure financed by non-repayable support (grants) from the Facility and other Union funds, relative to medium-term potential growth. For more details see Box 1 in the Fiscal Statistical Tables.

⁹ Other nationally financed capital expenditure provided a contractionary contribution of 0,3 percentage points of GDP.

- (16) The macroeconomic scenario underpinning the budgetary projections in the 2023 Stability Programme is in line with the Commission's 2023 Spring Forecast for 2023 and thereafter. The government projects real GDP to grow by 4,1 % in 2023 and 4,5 % in 2024. By comparison, the Commission's 2023 spring forecast projects a lower real GDP growth of 3,9 % in 2023 and 4,1 % in 2024, mainly due to lower contribution of net exports to growth.
- (17) In its 2023 Stability Programme, the government expects that the general government deficit will decrease to 5,0 % of GDP in 2023. The decrease in 2023 mainly reflects the increase in other revenues, including the proceeds from the country's investor citizenship and residence schemes while the decrease of the subsidies, including the expected phasing-out of the national airline restructuring costs, is partially compensated by an increase of intermediate consumption and gross fixed capital formation. According to the 2023 Stability Programme, the general government debt-to-GDP ratio is expected to increase from 53,4 % at the end of 2022 to 54,5 % at the end of 2023. The Commission's 2023 spring forecast projects a government deficit of 5,1 % of GDP for 2023. This is in line with the deficit projected in the 2023 Stability Programme. The Commission's 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 54,8 % at the end of 2023.

(18) The general government balance in 2023 is expected to continue to be impacted by the fiscal measures taken to mitigate the economic and social impact of the increase in energy prices. They consist of measures extended from 2022, in particular cuts to indirect taxes on energy consumption and subsidies to energy production to compensate for the price increase of imported electricity and carbon emissions. The net budgetary cost of the support measures is projected in the Commission's 2023 spring forecast at 1,7 % of GDP in 2023¹⁰. The measures in 2023 do not appear to be targeted at the most vulnerable households or firms, and do not fully preserve the price signal to reduce energy demand and increase energy efficiency. As a result, the amount of targeted support measures, to be taken into account in the assessment of compliance with the Council Recommendation of 12 July 2022¹¹, is estimated in the Commission's 2023 spring forecast at 0,1 % of GDP in 2023 (compared to 0,1 % of GDP in 2022). Finally, the general government balance in 2023 is expected to benefit from the phasing-out of temporary emergency measures related to the COVID-19 crisis, which have been estimated at 0,8 % of GDP.

¹⁰ The figure represents the level of annual budgetary cost of those measures, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

¹¹ Council Recommendation of 12 July 2022 on the National Reform Programme of Malta and delivering a Council opinion on the 2022 Stability Programme of Malta (OJ C 334, 1.9.2022, p. 146).

- (19) In its Recommendation of 12 July 2022, the Council recommended that Malta take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance¹², taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Malta should stand ready to adjust current spending to the evolving situation. Malta was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Facility and other Union funds.
- (20) In 2023, the fiscal stance is projected in the Commission's 2023 spring forecast to be contractionary (+0,4 % of GDP), in a context of high inflation. This follows a broadly neutral fiscal stance in 2022 (-0,2 % of GDP). The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide a contractionary contribution of 0,8 % of GDP to the fiscal stance. In sum, the projected growth of nationally financed primary current expenditure is in line with the Council Recommendation of 12 July 2022. Expenditure financed by grants under the Facility and other Union funds amounted to 1,6 % of GDP in 2023, while nationally financed investment provided a contractionary contribution to the fiscal stance of 0,3 percentage point¹³. Therefore, Malta plans to finance additional investment through the Facility and other Union funds and it is not projected to preserve nationally financed investment. It plans to finance public investment for the green and digital transitions and for energy security, in particular for the renovation of private and public buildings, including hospitals and schools, the electrification of the transport sector and projects related to the digitalisation of the public administration and the private sector, which are partly funded by the Facility and other Union funds.

¹² Based on the Commission's 2023 spring forecast, the medium-term (10-year average) potential output growth of Malta, which is used to measure the fiscal stance, is estimated at 9,5% in nominal terms.

¹³ Other nationally financed capital expenditure is projected to provide a neutral contribution of 0,0 percentage points of GDP.

- (21) According to the 2023 Stability Programme the general government deficit is expected to decline to 4,3 % of GDP in 2024. The decrease in 2024 mainly reflects the reduction of subsidies, including the phasing-out of the national airline's early retirement schemes, and the contained growth of the wage bill and of the intermediate consumption expenditure compensated partially by the increase of interest expenditures. According to the 2023 Stability programme, the general government debt-to-GDP ratio is expected to increase to 55,7 % at the end of 2024. On the basis of the policy measures known at the cut-off date of the forecast, the Commission's 2023 spring forecast projects a government deficit of 4,5 % of GDP in 2024. This is in line with the deficit projected in the 2023 Stability Programme. The Commission's 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 56,1 % at the end of 2024.
- (22) The 2023 Stability Programme envisages the phasing-out of some of the energy support measures in 2024. The Commission currently assumes a net cost of energy support measures of 1,5 % of GDP. This is based on the assumption of no renewed energy price increase. Most of the energy support measures that are currently planned to remain in place in 2024 do not appear to be targeted at vulnerable households or firms. They do not fully preserve the price signal to reduce energy demand and increase energy efficiency.

- (23) Regulation (EC) No 1466/97 calls for an annual improvement in the structural budget balance toward the medium-term budgetary objective, with 0,5 % of GDP as a benchmark¹⁴. Taking into account fiscal sustainability considerations and the need to reduce the deficit to below the 3 %-of-GDP Treaty reference value, an improvement in the structural balance of at least 0,5 % of GDP for 2024 would be appropriate, according to the Commission. To ensure such an improvement, and in accordance with the Commission's methodology, the growth in net nationally financed primary expenditure in 2024 should not exceed 5,9 %, as reflected in this Recommendation. At the same time, the remaining energy support measures (currently estimated by the Commission at 1,7 % of GDP in 2023) should be phased out, if energy market developments so permit and starting with the least targeted measures, and the related savings should be used to reduce the government deficit. According to Commission estimates, this would lead to a growth in net primary expenditure lower than recommended for 2024.
- (24) Assuming unchanged policies, the Commission's 2023 spring forecast projects net nationally financed primary expenditure to grow by 3,3 % in 2024 which is below the recommended growth rate. The adjustment projected in the Commission's 2023 spring forecast is less than the savings from the full phasing-out of energy support measures, which is largely due to most of such measures remaining in place.

¹⁴ Article 5 of Regulation (EC) No 1466/97 also requires an adjustment of more than 0,5 % of GDP for Member States with a government debt exceeding 60 % of GDP, or with more pronounced debt sustainability risks.

- (25) According to the 2023 Stability Programme, government investment is expected to decrease from 3,8 % of GDP in 2023 to 3,1 % of GDP in 2024. The lower investment reflects lower nationally financed investment and investment financed by the Union other than the Facility. The 2023 Stability Programme refers to reforms and investments that are expected to contribute to fiscal sustainability and sustainable and inclusive growth. Those reforms and investments include high-value added investments and structural reforms towards the green, digital and energy transitions including health and governance, which are also part of the recovery and resilience plan.
- (26) The 2023 Stability Programme outlines a medium-term fiscal path until 2026. According to the 2023 Stability Programme, the general government deficit is expected to decline to 3,6 % of GDP in 2025 and to 2,9 % by 2026. Therefore, the general government deficit is planned to not exceed 3 % of GDP in 2026. According to the 2023 Stability Programme, the general government debt-to-GDP ratio is expected to increase from 55,7 % at the end of 2024 to 56,1 % by the end of 2026.

- (27) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. The implementation of Malta's recovery and resilience plan is well underway. Malta submitted one payment request, corresponding to 19 milestones and targets in the recovery and resilience plan and resulting in an overall disbursement of EUR 52,3 million (in grants) on 8 March 2023. On 26 April 2023, Malta submitted an amendment of its plan, together with a new REPowerEU chapter. The new REPowerEU chapter is expected to address the challenges related to energy supply and security, and to speed up the transition to renewable energy sources. Furthermore, Malta is proposing some modifications to the original recovery and resilience plan in view of the decreased total allocation and to adjust the recovery and resilience plan to objective circumstances. The inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Malta's strategic objectives in the field of energy and the green transition. The systematic and effective involvement of local and regional authorities, social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond that plan, in order to ensure broad ownership of the overall policy agenda.
- (28) The Commission approved all of Malta's cohesion policy programming documents in 2022. Proceeding with the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transition, increasing economic and social resilience, and achieving balanced territorial development in Malta.

- (29) Beyond the economic and social challenges addressed by the recovery and resilience plan and cohesion policy programmes, Malta faces a number of additional challenges related to features of the tax system that facilitate aggressive tax planning, energy policy and the green transition.
- (30) Tackling aggressive tax planning remains key to improving the efficiency and fairness of tax systems. In view of the spillover effects of aggressive tax planning strategies between Member States, coordinated action to complement Union legislation through national policies by all Member States is paramount. Malta has taken steps to address aggressive tax planning practices by implementing previously agreed international and European initiatives. Malta further commits to tackling the issue in its recovery and resilience plan. The commitments to introduce transfer pricing rules and to commission an independent study on outbound and inbound payments (i.e. between Union residents and third-country residents), to be followed up by legislation in line with the study's findings, point in the right direction. However, until withholding taxes on interest, dividends and royalty payments made by Malta-based companies to zero and low-tax jurisdictions (hereby intended to mean as any jurisdiction with a statutory corporate income tax rate below 9 %, the lowest statutory corporate income tax rate in the Union), or equivalent defensive measures, are applied by Malta to ensure that firms cannot shift their profits untaxed to third countries, the risks of double non-taxation of these profits remain high. Furthermore, the treatment of resident non-domiciled companies continues to pose a risk of double non-taxation for both companies and individuals. The issue will only be partly addressed by compliance with Council Directive (EU) 2022/2523¹⁵, which will only apply to large corporations once implemented by Malta.

¹⁵ Council Directive (EU) 2022/2523 of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union (OJ L 328, 22.12.2022, p. 1).

(31) Fossil fuels continue to play a major role in Malta's economy, making it highly dependent on energy imports and exposed to global price developments, although Malta does not directly import oil or gas from Russia. In 2021, fossil fuels comprised the bulk of Malta's electricity generation, while renewables accounted for only 11,9 %. Malta has sizeable offshore solar and wind energy potential, which is unused. The government's commitment to adopt offshore renewable energy technologies in future and to indicate its non-binding share to the Union's offshore renewable targets is a positive policy shift, but concrete projects have yet to be identified. The capacity and flexibility of the electricity grid are a bottleneck for the integration of renewables and for increasing the efficiency, reliability and security of the power supply. Investment in grid modernisation, including from Malta's REPowerEU grant budget, is necessary in order to address that bottleneck. Malta is improving its security of energy supply by building a second electricity interconnector with Italy.

- (32) Malta's contribution to the Union's energy efficiency targets for 2030 is low and energy consumption in residential buildings continues to increase. Malta could scale up energy efficiency measures and reduce energy demand by: encouraging the installation of solar panels on all new buildings; ensuring the deployment of suitable solar energy installations on all new public and non-residential buildings with a useful floor area over 250 m²; addressing legal obstacles; and providing additional economic incentives to homeowners. The use of digital technology, such as applications to monitor and regulate energy use, could help increase energy efficiency. Effective implementation of the new national regulatory framework for the construction industry would increase the quality (including the energy efficiency) of buildings and the safety of the construction process. Malta's consumption of natural gas has increased by 12,7 % in the period between August 2022 and March 2023, compared with the average gas consumption over the same period in the preceding five years, an opposite trend to the 15 % reduction target laid down in Council Regulation (EU) 2022/1369¹⁶. Even though Malta qualifies for an exemption from that target, Malta is encouraged to enhance efforts to temporarily reduce gas demand until 31 March 2024 pursuant to Council Regulation (EU) 2023/706¹⁷.
- (33) In addition, in the light of the continuing reliance on private cars, road transport emissions continue to grow, forming Malta's largest source of non-ETS greenhouse gas emissions. The share of zero-emission vehicles is much lower than the Union average and is increasing very slowly. Reducing emissions and traffic congestion would require Malta to improve public transport (punctuality, decreased journey time), deploy intelligent transport systems (to improve traffic flows, safety and the enforcement of traffic rules), and invest in 'soft mobility' infrastructure for safe alternatives to private car use (such as safe, segregated and interconnected pavements and cycling/e-scooter routes).

¹⁶ Council Regulation (EU) 2022/1369 of 5 August 2022 on coordinated demand-reduction measures for gas (OJ L 206, 8.8.2022, p. 1).

¹⁷ Council Regulation (EU) 2023/706 of 30 March 2023 amending Regulation (EU) 2022/1369 as regards prolonging the demand-reduction period for demand-reduction measures for gas and reinforcing the reporting and monitoring of their implementation (OJ L 93, 31.3.2023, p. 1).

- (34) Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. High-quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, those measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition. In 2022, shortages of workers were reported in Malta for six occupations that require specific skills or knowledge for the green transition, including manufacturing workers and construction workers.
- (35) In the light of the Commission's assessment, the Council has examined the 2023 Stability Programme and its opinion¹⁸ is reflected in recommendation (1).

¹⁸ Under Article 5(2) of Regulation (EC) No 1466/97.

(36) In view of the close interlinkages between the economies of euro area Member States and their collective contribution to the functioning of the economic and monetary union, the Council recommended that the euro-area Member States take action, including through their recovery and resilience plans, to (i) preserve debt sustainability and refrain from broad-based support to aggregate demand in 2023, better target fiscal measures taken to mitigate the impact of high energy prices and reflect on appropriate ways to wind down support as energy price pressures diminish; (ii) sustain a high level of public investment and promote private investments to support the green and digital transitions; (iii) support wage developments that mitigate the loss in purchasing power while limiting second-round effects on inflation, further improve active labour-market policies and address skills shortages; (iv) improve the business environment and ensure that energy support to companies is cost-effective, temporary and targeted to viable firms and that it maintains incentives for the green transition; and (v) preserve macro-financial stability and monitor risks while continuing to work on completing the banking union. For Malta, recommendations (1), (2), (3) and (4) contribute to the implementation of the first, second, third and fourth recommendations set out in the 2023 Recommendation on the euro area.

HEREBY RECOMMENDS that Malta take action in 2023 and 2024 to:

1. Wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that such support measures are targeted at protecting vulnerable households and firms, are fiscally affordable and preserve incentives for energy savings.

Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 5,9 %¹⁹.

Preserve nationally financed public investment and ensure the effective absorption of grants under the Facility and of other Union funds, in particular to foster the green and digital transitions.

For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, in order to achieve a prudent medium-term fiscal position.

2. Continue the steady implementation of its recovery and resilience plan and, following the recent submission of the addendum, including the REPowerEU chapter, rapidly start the implementation of the related measures. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

¹⁹ Which is estimated to correspond to an annual improvement in the structural budget balance of at least 0,5% of GDP for 2024, as described in recital 23.

3. Effectively address features of the tax system that may facilitate aggressive tax planning by individuals and multinationals, including by ensuring sufficient taxation of outbound payments of interest, royalties and dividends, and amend the rules for non-domiciled companies.
4. Reduce reliance on fossil fuels by accelerating the deployment of renewable energies, including offshore wind and solar energy, and upgrade and expand the capacity of the electricity grid system, including transmission, distribution and battery storage. Reduce energy demand through improved energy efficiency, in particular in residential buildings. Reduce emissions from road transport by addressing traffic congestion through improved service quality in public transport, intelligent transport systems and investment in 'soft mobility' infrastructure. Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.

Done at Brussels,

For the Council

The President
