Council of the
European Union

Brussels, 27 September 2024
(OR. en)

13557/24

ECOFIN 1017
UEM 310
SOC 679
EMPL 460
COMPET 931
ENV 910
EDUC 348
ENER 445
JAI 1376
GENDER 216
JEUN 236
SAN 541

NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. prev. doc.:	11710/24
Subject:	COUNCIL RECOMMENDATION on economic, budgetary, employment and structural policies of Malta

Delegations will find attached the above-mentioned draft Council Recommendation, as approved by the Council and revised by legal-linguistic experts, based on the Commission Recommendation COM(2024) 618 final.

COUNCIL RECOMMENDATION

of …

on economic, budgetary, employment and structural policies 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 Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) 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,

[1] OJ L 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[2], 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 for economic policy coordination, the Facility helps achieve the economic and social recovery and implement sustainable 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 Unionand support the continued implementation of the European Pillar of Social Rights.

(2) Regulation (EU) 2023/435 of the European Parliament and of the Council[3] (‘the ‘REPowerEU Regulation’), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This would help achieve energy security and diversify the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Malta added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

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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, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

3 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, ELI: http://data.europa.eu/eli/reg/2023/435/oj).

(3) On 16 March 2023, the Commission issued a communication entitled 'Long-term competitiveness of the EU: looking beyond 2030', in order to inform policy decisions and create the framework conditions for increasing growth. The communication frames competitiveness in terms of nine mutually reinforcing drivers. Among those drivers, access to private capital, research and innovation, education and skills, and a functionning single market emerge as paramount policy priorities for reform and investment to address current productivity challenges as well as to build up the long-term competitiveness of the Union and its Member States. On 14 February 2024, the Commission issued a communication entitled ‘The 2024 Annual Single Market and Competitiveness Report’. That communication details the competitive strengths and challenges of the European single market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey, marking the start of the 2024 European Semester. On 22 March 2024, the European Council endorsed the priorities of the 2024 Annual Sustainable Growth Survey, which are centred around the four dimensions of competitive sustainability. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[4], the Commission also adopted the 2024 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 and for which an in-depth review would be needed. On the same date, the Commission also adopted an opinion on the 2024 draft budgetary plan of Malta. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2024 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 area[5] (‘the 2024 Recommendation on the euro area’) on 12 April 2024 and the Joint Employment Report on 11 March 2024.

[4] 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, ELI: http://data.europa.eu/eli/reg/2011/1176/oj).

[5] Council Recommendation of 12 April 2024 on the economic policy of the euro area (OJ C, C/2024/2807, 23.4.2024, ELI: http://data.europa.eu/eli/C/2024/2807/oj).

(5) On 30 April 2024, the Union's new economic governance framework entered into force. The framework includes the new Regulation (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance, the amended Council Regulation (EC) No 1467/97[6] on speeding up and clarifying the implementation of the excessive deficit procedure, and the amended Council Directive 2011/85/EU[7] on requirements for the budgetary frameworks of Member States. The objectives of the new economic governance framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, and prevent excessive government deficits. The new economic governance framework also promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State has to submit to the Council and to the Commission a national medium-term fiscal-structural plan. A national medium-term fiscal-structural plan contains the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 or 5 years, depending on the regular length of the national legislative term. The net expenditure[8] path in the national medium-term fiscal-structural plans has to comply with the requirements of Regulation (EU) 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period, or for it to remain at prudent levels below 60 % of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3%-of-GDP Treaty reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in Regulation (EU) 2024/1263, the adjustment period can be extended by up to 3 years. For the purpose of supporting the preparation of those national medium-term fiscal-structural plans, on 21 June 2024, the Commission published guidance on the information to be provided by Member

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6 Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6, ELI: http://data.europa.eu/eli/reg/1997/1467/oj).

7 Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011, p. 41, ELI: http://data.europa.eu/eli/dir/2011/85/oj).

8 Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263 : ‘net expenditure’ means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-offs and other temporary measures.

States in their national medium-term fiscal-structural plans and in their annual progress reports. In accordance with Articles 5 and 36 of Regulation (EU) 2024/1263, the Commission transmitted to the Member States reference trajectories and technical information, where applicable. Member States have to submit their national medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. In accordance with their national legal frameworks, Member States may debate their draft medium-term plans with their national parliaments, may ask the independent fiscal institutions to issue an opinion, and may conduct a consultation of social partners and other national stakeholders.

(6) In 2024, the European Semester 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 help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 country-specific recommendations remain equally relevant for the recovery and resilience plans which have been revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(7) 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 Malta[9], which was amended on 14 July 2023 pursuant to Article 18(2) of Regulation (EU) 2021/241 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[10]. 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.

(8) On 15 April 2024, Malta submitted its 2024 National Reform Programme, in line with Article 4(1) of Council Regulation (EC) No 1466/97[11]. In accordance with Article 27 of Regulation (EU) 2021/241, the 2024 National Reform Programme also reflects Malta's biannual reporting on the progress made in achieving its recovery and resilience plan.

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9 ST 11941/21 INIT; ST 11941/21 ADD 1.

10 Council Implementing Decision of 14 July 2023 amending Council Implementing Decision of 5 October 2021 on the approval of the assessment of the recovery and resilience plan for Malta (ST 11202/23 INIT; ST 11202/23 ADD 1).

11 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 policies (OJ L 209, 2.8.1997, p. 1, ELI: http://data.europa.eu/eli/reg/1997/1466/oj).

(9) On 19 June 2024, the Commission published the 2024 country report for Malta. It assessed Malta's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 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.

(10) According to data validated by Eurostat, Malta's general government deficit decreased from 5,5 % of GDP in 2022 to 4,9 % in 2023, while general government debt fell from 51,6 % of GDP at the end of 2022 to 50,4 % at the end of 2023. As announced in the Commission's communication of 8 March 2023 entitled 'Fiscal policy guidance for 2024', the Commission is taking the first step for the opening of deficit-based excessive deficit procedures on the basis of the outturn data for 2023, in line with existing legal provisions. On 19 June 2024, the Commission issued a report under Article 126(3) of the Treaty. That report assessed the budgetary situation of Malta, as its general government deficit in 2023 exceeded the 3%-of-GDP Treaty reference value. The report concluded that, in light of that assessment, and after considering the opinion of the Economic and Financial Committee formulated pursuant to Article 126(4) of the Treaty, the Commission intends to propose in July 2024 to open an excessive deficit procedure for Malta, by proposing that the Council adopt a decision under Article 126(6) of the Treaty establishing the existence of an excessive deficit situation in Malta.

(11) On 12 July 2022, the Council recommended[12] that Malta take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral fiscal policy stance[13], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Malta was recommended to 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. In 2023, according to the Commission estimates, the fiscal stance[14] was contractionary, by 0,6 % of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a contractionary contribution to the fiscal stance of 1,6 % of GDP. This includes the less-than-0,1 %-of-GDP increase in the cost of the targeted emergency support measures for households and firms most vulnerable to energy price hikes. The growth of nationally financed primary current expenditure in 2023 was in line with the Council Recommendation of 12 July 2022. Expenditure financed by grants under the Facility and other Union funds amounted to 0,9 % of GDP in 2023. Nationally financed investment amounted to 2,6 % of GDP in 2023, representing an increase of 0,1 percentage point as compared to 2022. Malta financed additional investment through the Facility and other Union funds. Malta financed public investment for the green and digital transitions and for energy security, such as 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. That public investment is partly funded by the Facility and other Union funds.

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12 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*).

13 According to the Commission's 2024 spring forecast, the medium-term potential output growth of Malta in 2023, which is used to measure the fiscal stance, is estimated at 11,2 % in nominal terms, based on the 10-year average real potential growth rate and the 2023 GDP deflator.

14 The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the Union budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures (and excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) under the Facility and other Union funds.

(12) The Commission's 2024 spring forecast projects real GDP to grow by 4,6 % in 2024 and 4,3 % in 2025, and inflation measured by the harmonised index of consumer prices (HICP) to stand at 2,8 % in 2024 and 2,3 % in 2025.

(13) The Commission's 2024 spring forecast projects a government deficit of 4,3 % of GDP in 2024, while the general government debt-to-GDP ratio is set to increase to 52,0 % by the end of 2024. The decrease of the deficit in 2024 mainly reflects the contained growth of intermediate consumption and the wage bill as well as the phasing out of the costs related to the national airline's restructuring. According to the Commission's estimates, the fiscal stance is projected to be contractionary by 1,3 % of GDP in 2024.

(14) Expenditure amounting to 0,4 % of GDP is expected to be financed by non-repayable support ("grants") under the Facility in 2024, compared to 0,2 % of GDP in 2023, according to the Commission's 2024 spring forecast. Expenditure financed by grants under the Facility will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance or debt of Malta.

(15) On 14 July 2023, the Council recommended[15] that Malta ensure a prudent fiscal policy, in particular by limiting the nominal increase in nationally financed primary expenditure[16] in 2024 to not more than 5,9 %. When executing their 2023 budgets and preparing their draft budgetary plans for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of deficit-based excessive deficit procedures on the basis of the outturn data for 2023. According to the Commission's 2024 spring forecast, Malta's net nationally financed primary expenditure is projected to increase by 5,5 % in 2024, which is below the recommended maximum growth rate. However, net primary expenditure in 2023 was higher than expected at the time of the Council Recommendation of 14 July 2023 (by 0,8 % of GDP). Had net primary expenditure in 2023 been the same as expected at the time of the Council Recommendation of 14 July 2023, the resulting growth rate of net primary expenditure in 2024 would have been above the recommended growth rate by 0,7 % of GDP. Therefore, according to the Commission, once taking into account the base effect resulting from higher-than-expected net expenditure in 2023, net nationally financed primary expenditure is assessed as being at risk of not being fully in line with the recommendation.

[15] Council Recommendation of 14 July 2023 on the 2023 National Reform Programme of Malta and delivering a Council opinion on the 2023 Stability Programme of Malta (OJ C 312, 1.9.2023, p. 167).

[16] Net primary expenditure is defined as nationally financed expenditure net of (i) discretionary revenue measures, (ii) interest expenditure, (iii) cyclical unemployment expenditure, and (iv) one-offs and other temporary measures.

(16) Moreover, the Council recommended that Malta take action to 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. The Council further recommended that, if renewed energy price increases necessitate new or continued support measures, Malta ensure that such support measures are targeted at protecting vulnerable households and firms, are fiscally affordable, and preserve incentives for energy savings. According to the Commission's 2024 spring forecast, the net budgetary cost[17] of emergency energy support measures is estimated at 1,7 % of GDP in 2023 and projected at 2,0 % in 2024, and 1,0 % in 2025. 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 are assumed to remain in force in 2024 and 2025[18]. While acknowledging the challenges faced by Malta due to the high dependency on energy imports and the exposure to external shocks amplified by the small size of the economy, the emergency energy support measures are not projected to be wound down as soon as possible in 2023 and 2024. There is a risk that this will not be in line with what was recommended by the Council. Consequently, there are no related savings to be used to reduce the government deficit as recommended by the Council. The budgetary cost of emergency energy support measures targeted at protecting vulnerable households and firms is estimated at 0,2 % of GDP in 2024 (compared to 0,1 % in 2023), of which 0,2 % of GDP preserve the price signal to reduce energy demand and increase energy efficiency (compared to 0,1 % in 2023).

[17] The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

[18] Measures that, according to Malta, remain in place until the end of 2024 are, in principle, assumed in the Commission's 2024 spring forecast as having a budgetary impact also in 2025.

(17) In addition, the Council also recommended that Malta 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. According to the Commission's 2024 spring forecast, nationally financed public investment is projected to increase from 2,6 % of GDP in 2023 to 2,8 % of GDP in 2024. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from Union funds, including grants under the Facility, is expected to remain stable at 0,9 % of GDP in 2024.

(18) On the basis of the policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission's 2024 spring forecast projects a government deficit of 3,9 % of GDP in 2025. The decrease in the deficit in 2025 mainly reflects the expected decrease in the cost of the energy support measures. The general government debt-to-GDP ratio is set to increase to 52,6 % by the end of 2025.

(19) 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. Those reforms and investments are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the recovery and resilience plan, including the REPowerEU chapter, is essential to boost Malta's long-term competitiveness through the green and digital transitions, while ensuring social fairness. To deliver on the commitments of the recovery and resilience plan by August 2026, it is essential for Malta to continue the implementation of reforms and investments. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(20) As part of the mid-term review of the cohesion policy funds, in accordance with Article 18 of Regulation (EU) 2021/1060 of the European Parliament and of the Council[19], Malta is required to review each programme supported by the European Regional Development Fund (ERDF), the European Social Fund Plus (ESF+), the Cohesion Fund and the Just Transition Fund (JTF) by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. That review forms the basis for the definitive allocation of the Union funding included in each programme. While Malta has made progress in implementing cohesion policy programmes and the European Pillar of Social Rights, some challenges remain. Accelerating the implementation of cohesion policy programmes is crucial. The priorities agreed in the programmes remain relevant. Investments in energy efficiency and renewable energy are key to achieving energy savings, strengthening sustainability in the energy sector and reducing Malta's dependence on international energy sources. It is important to continue investments in sustainable multimodal solutions and active mobility in order to reduce traffic congestion and curb emissions from road transport. Efforts are still needed to ensure the sustainability of water and wastewater management. Furthermore, circular economy practices, including maximising recycling potential, are needed to reduce landfilling and meet recycling targets. In addition, adult learning needs to be promoted in order to increase the skill levels of the population and ease labour shortages. The social and labour market integration of vulnerable groups should continue to be promoted, with a focus on non-EU nationals and people with disabilities, as well as on gender equality. Malta could also make use of the Strategic Technologies for Europe Platform, established by Regulation (EU) 2024/795 of the European Parliament and of the Council[20], to support the strategic autonomy of the Union and the competitiveness and sustainability of industry.

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19 Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231, 30.6.2021, p. 159, ELI: http://data.europa.eu/eli/reg/2021/1060/oj).

20 Regulation (EU) 2024/795 of the European Parliament and of the Council of 29 February 2024 establishing the Strategic Technologies for Europe Platform (STEP), and amending Directive 2003/87/EC and Regulations (EU) 2021/1058, (EU) 2021/1056, (EU) 2021/1057, (EU) No 1303/2013, (EU) No 223/2014, (EU) 2021/1060, (EU) 2021/523, (EU) 2021/695,

(21) Beyond the economic and social challenges addressed by the recovery and resilience plan and other Union funds, Malta faces several additional challenges related to features of the tax system that facilitate aggressive tax planning, education and skills, renewable energy and transport.

(EU) 2021/697 and (EU) 2021/241 (OJ L, 2024/795, 29.2.2024, ELI: *http://data.europa.eu/eli/reg/2024/795/oj*).

(22) 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, and further committed to tackling the issue in its recovery and resilience plan. As part of the plan's reform agenda, the Maltese government adopted a new law introducing transfer pricing rules, which became applicable as of January 2024. It aims to prevent opportunities for corporate profit shifting. Malta also commissioned an independent study on outbound and inbound payments (i. e. between Union residents and non-Union residents) to be followed up by legislation. However, until Malta applies withholding taxes on interest, dividends and royalty payments made by companies based in Malta to zero and low-tax jurisdictions (here intended to mean 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 – to ensure that firms cannot shift their profits untaxed to non-Union countries – the risk of double non-taxation of those profits remains 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 be only partly addressed by compliance with Council Directive (EU) 2022/2523[21], which will apply only to large corporations once implemented by Malta.

[21] 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 (JO L 328, 22.12.2022., p.1, ELI: http://data.europa.eu/eli/dir/2022/2523/oj)

(23) Shortages of skilled labour and skills mismatches constitute a bottleneck to future growth, competitiveness and the twin transition. In the first quarter of 2024, labour shortages were reported as a factor limiting production in Malta, with shortages reported around twice as often as the Union average in services and industry. More than two out of three companies reported hard-to-fill vacancies for jobs requiring specialist skills in information and communication technologies. The latest results from the OECD Programme for International Student Assessment (PISA) show that Malta has one of the highest shares of low achievement in the Union, posing a serious challenge for later skills development. Around one in three 15-year-old students along the entire socio-economic distribution in Malta underperforms in mathematics, reading and science. Teacher shortages have been addressed partly by substitute teachers, with a level of qualification different or lower than that required for fully qualified teachers. Early school leaving is decreasing but remains above the Union average, increasing the already large pool of low-skilled adults. Although the participation of adults in education and training overall (in the last 12 months) is in line with the Union average, the participation of low-skilled adults in learning is low. Similarly, although 63 % of adults had at least basic digital skills in 2023, the differences in skill levels are significant. The share of learners enrolled in upper secondary vocational education and training (VET) remains low. Strengthening the quality of education by focusing on basic skills, addressing teacher shortages and prioritising the professional development of teachers to better address the learning needs of students, while boosting the labour market relevance of Malta's education and training systems in close cooperation with the social partners, are key to reducing the low educational outcomes and the severe shortage and mismatch of skills.

(24) Malta's continuing challenge is to achieve green economic growth, balancing development with environmental sustainability. The country's green transition is held back by the dominant role of fossil fuels in its energy system. Malta's share of energy derived from renewable sources in gross final energy consumption was 13,4 % in 2022, one of the lowest shares in the Union. This is well below Malta's indicative share of renewable energy sources of 28 % as a contribution to the Union's binding renewable energy target of 42,5 % by 2030. Almost all installed renewable energy capacity is onshore solar, which is increasing slowly (by 4 % in 2023). The ongoing reform set out in the national recovery and resilience plan, which mandates solar energy installations on certain new buildings in addition to shortening permitting timelines for renewable energy projects, should increase the roll-out of those installations. Malta has sizeable offshore solar and wind energy potential in its exclusive economic zone. However, this potential remains unused. Malta's ability to deploy renewables while improving its security of energy supply also depends on its progress in constructing the second electricity interconnector with Italy and continuing to strengthen its domestic electricity grid, including through investment in battery energy storage solutions.

(25) Reducing traffic congestion and high emissions from road transport is a key priority to address the challenge of sustainability. Greenhouse gas emissions from road transport have increased by 23,3 % compared to 2005. Passenger cars make up 86 % of passenger transport in Malta, and this is on the increase. Congestion remains the main transport challenge in Malta, also affecting the islands' competitiveness, and substantial scale-up in efforts is therefore needed. To promote alternative sea-based collective transport, Malta is implementing an inner-harbour ferry network by upgrading ferry landing spaces, with the support of the European Regional Development Fund. Furthermore, Malta is planning to boost sustainable multimodal urban mobility by developing 17,5 km of clean urban transport infrastructure through cohesion funding, including pedestrian paths and cycle lanes.

(26) 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, in 2024 the Council recommended that euro-area Member States take action, including through their recovery and resilience plans, to implement the 2024 Recommendation on the euro area. For Malta, recommendations (1), (2), (3) and (4) help implement the first, second, third and fourth recommendations set out in the 2024 Recommendation on the euro area.

HEREBY RECOMMENDS that Malta take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[22] in 2025 to a rate consistent with, inter alia, reducing the general government deficit towards the 3 %-of-GDP Treaty reference value and keeping the general government debt at a prudent level over the medium term. Wind down the emergency energy support measures by winter 2024/2025. To address remaining aggressive tax-planning risks, introduce a withholding tax on outbound payments or equivalent defensive measures, and amend rules on non-domiciled companies.

2. Continue with the swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring the completion of reforms and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of the mid-term review of those programmes, continue focusing on the agreed priorities, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

3. Strengthen the quality and labour market relevance of education and training to address low educational outcomes as well as the severe shortage and mismatch of skills, in particular by fostering basic skills of students and the professional development of teachers.

[22] According to Article 2, point (2), of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

4. Accelerate the deployment of renewable energy through large-scale projects as well as small-scale investments in direct energy production and consumption. Address traffic congestion through improved quality and efficiency of public transport, and step up investments in 'soft mobility' infrastructure.

Done at Brussels,

For the Council

The President