Council of the European Union

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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Malta

Delegations will find attached the above-mentioned draft Council Recommendation, as revised and agreed by various Council committees and finalized by the Economic and Financial Committee, based on the Commission Proposal COM(2025) 218 final.

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary 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:

General considerations

(1) Regulation (EU) 2024/1263, which entered into force on 30 April 2024, specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances and sustainable and inclusive growth and resilience through reforms and investments, and preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the TFEU. The European Semester includes, in particular, the formulation, and the surveillance of the implementation of country-specific recommendations. The Regulation also promotes national ownership of fiscal policy and emphasises its medium-term focus, combined with more effective and coherent enforcement. Each Member State must submit to the Council and the Commission a national medium-term fiscal-structural plan, containing its fiscal, reform and investment commitments, over 4 or 5 years, depending on the length of the national legislative term. The net expenditure[2] path in these plans has to comply with the Regulation's requirements, 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 the Regulation, the adjustment period may be extended by up to three years.

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[2] 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.

(2) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility (the 'RRF'), entered into force on 19 February 2021. The RRF provides financial support to Member States for implementing reforms and investments, delivering a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the RRF fosters economic and social recovery while driving sustainable reforms and investments, in particular promoting the green and digital transitions and making 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.

(3) Regulation (EU) 2023/435 of the European Parliament and of the Council[4] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This helps 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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[3] 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).

[4] 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).

(4) 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 that Regulation, 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. On 5 October 2021, the Council adopted its Implementing Decision approving the assessment of the recovery and resilience plan for Malta[5], which was amended under Article 18(2) on 14 July 2023 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[6]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5), stating that Malta has satisfactorily achieved the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory achievement requires that the achievement of preceding milestones and targets for the same reform or investment has not been reversed.

(5) On 21 January 2025, the Council, upon the recommendation of the Commission, adopted a recommendation endorsing the national medium-term fiscal-structural plan of Malta[7]. The plan was submitted in accordance with Article 11 and Article 36(1), point (a), of Regulation (EU) 2024/1263, covers the period from 2025 until 2028 and presents a fiscal adjustment spread over four years.

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[5] Council Implementing Decision of 5 October 2021 on the approval of the assessment of the recovery and resilience plan for Malta (ST 11941/2021 INIT; ST 11941/2021 ADD 1).

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

[7] Council Recommendation of 21 January 2025 endorsing the medium-term fiscal-structural plan of Malta, OJ C/2025/649, 10.2.2025.

(6) On 26 November 2024, the Commission adopted an opinion on the 2025 draft budgetary plan of Malta. On the same date, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2025 Alert Mechanism Report, in which it did not identify Malta as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2025 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[8] on 13 May 2025 and the Joint Employment Report on 10 March 2025.

[8] Council Recommendation of 13 May 2025 on the economic policy of the euro area (OJ C, C/2025/2782, 22.5.2025, ELI: http://data.europa.eu/eli/C/2025/2782/oj).

(7) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the EU's global competitiveness over the next five years. It identifies the three transformative imperatives of sustainable economic growth:
(i) innovation; (ii) decarbonisation and competitiveness; and (iii) security. To close the innovation gap, the EU aims to foster industrial innovation, support the growth of start-ups through initiatives like the EU Start-up and Scale-up Strategy, and promote the adoption of advanced technologies like artificial intelligence and quantum computing. In pursuit of a greener economy, the Commission has outlined a comprehensive Affordable Energy Action Plan and a Clean Industrial Deal, ensuring that the shift to clean energy remains cost-effective, competitiveness-friendly, particularly for energy-intensive sectors, and is a driver for growth. To reduce excessive dependencies and increase security, the Union is committed to strengthening global trade partnerships, diversifying supply chains and securing access to critical raw materials and clean energy sources. These priorities are underpinned by horizontal enablers, namely regulatory simplification, deepening of the single market, financing competitiveness and a Savings and Investments Union, promotion of skills and quality jobs, and better coordination of EU policies. The Competitiveness Compass is aligned with the European Semester, ensuring that Member States' economic policies are consistent with the Commission's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

(8) In 2025, the European Semester for economic policy coordination continues to develop alongside the implementation of the RRF. The full implementation of the recovery and resilience plans remains essential for delivering on 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. These country-specific recommendations remain equally relevant for the assessment of amended recovery and resilience plans in accordance with Article 21 of Regulation (EU) 2021/241.

(9) The 2025 country-specific recommendations cover the key economic policy challenges that are not sufficiently addressed by measures included in the recovery and resilience plans, taking into account the relevant challenges identified in the 2019-2024 country-specific recommendations.

(10) On 4 June 2025, the Commission published the 2025 country report for Malta. It assessed Malta's progress in addressing the relevant country-specific recommendations and took stock of Malta's implementation of the recovery and resilience plan. Based on this analysis, the country report identified the most pressing challenges Malta is facing. It also assessed Malta's progress in implementing the European Pillar of Social Rights and in achieving the Union's 2030 headline targets on employment, skills and poverty and social exclusion reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

<u>Assessment of the Annual Progress Report</u>

(11) On 21 January 2025 the Council recommended the following maximum growth rates of net expenditure for Malta: 6.0% in 2025, 5.8% in 2026, 5.8% in 2027, and 6.1% in 2028, which correspond to the maximum cumulative growth rates calculated by reference to 2023 of 13.8% in 2025, 20.4% in 2026, 27.4% in 2027, and 35.1% in 2028. In 2025-2028, these maximum growth rates of net expenditure coincide with the corrective path in accordance with Article 3(4) of Regulation 1467/97, as recommended by the Council on 21 January 2025 with a view to bringing an end to the situation of an excessive deficit[9]. On 30 April 2025 Malta submitted its Annual Progress Report[10], on action taken in response to the Council recommendation of 21 January 2025 with a view to bringing an end to the situation of an excessive deficit and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects Malta's biannual reporting on the progress made in achieving its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

[9] Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Malta, ST 5036/25.

[10] The 2025 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en.

(12) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission recommended to activate the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending. This proposal was welcomed by the European Council of 6 March 2025, without prejudice to the specific character of the security and defence policy of certain Member States, and takes into account the security and defence interests of all Member States, in accordance with the Treaties.

(13) Based on data validated by Eurostat[11], Malta's general government deficit decreased from 4.7% of GDP in 2023 to 3.7% in 2024, while the general government debt fell from 47.9% of GDP at the end of 2023 to 47.4% at the end of 2024. According to the Commission's calculations, these developments correspond to a net expenditure growth rate of 13.9% in 2024. In the 2025 Annual Progress Report, Malta estimates the net expenditure growth in 2024 at 14.3%. Based on the Commission's estimates, the fiscal stance[12], which includes both nationally and EU financed expenditure, was expansionary, by 1.2% of GDP, in 2024.

(14) According to the Annual Progress Report, the macroeconomic scenario underpinning the budgetary projections by Malta expects real GDP growth at 4.0% in 2025, while HICP inflation is projected at 2.3% in 2025. The Commission Spring 2025 Forecast projects real GDP to grow by 4.1% in 2025 and 4.0% in 2026, and HICP inflation to stand at 2.2% in 2025 and 2.1% in 2026.

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11 Eurostat-Euro Indicators, 22.4.2025.

12 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 EU 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 including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

(15) In the Annual Progress Report, the general government deficit is expected to decrease to 3.3% of GDP in 2025, while the general government debt-to-GDP ratio is set to increase to 48.4% by the end of 2025. These developments correspond to net expenditure growth of -0.1% in 2025. The Commission Spring 2025 Forecast projects a general government deficit of 3.2% of GDP in 2025. The decrease of the deficit in 2025 mainly reflects a decrease in other capital expenditures due to the expiry of costs related to the national airline. According to the Commission's calculations, these developments correspond to net expenditure growth of 0.8% in 2025. These higher projections of net expenditure growth than in the Annual Progress Report are due to different projections for the national co-financing of EU programmes and other capital expenditure. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be contractionary, by 1.9% of GDP, in 2025. The general government debt-to-GDP ratio is set to increase to 47.6% by the end of 2025.

(16) General government expenditure amounting to 0.2% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to 0.3% of GDP in 2024, according to the Commission Spring 2025 Forecast. Expenditure financed by Recovery and Resilience Facility non-repayable support enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Malta.

(17) General government defence expenditure in Malta amounted to 0.5% of GDP in 2021, 0.5% of GDP in 2022 and 0.4% of GDP in 2023[13]. According to the Commission Spring 2025 Forecast, expenditure on defence is projected at 0.4% of GDP in both 2024 and 2025. This corresponds to a decrease of 0.1 percentage points of GDP compared to 2021.

[13] Eurostat, government expenditure by classification of functions of government (COFOG). Due to methodological differences between the COFOG and NATO definitions, expenditure based on the COFOG definition may differ from the expenditure based on the NATO definition.

(18) According to the Commission 2025 Spring Forecast, net expenditure in Malta is projected to grow by 0.8% in 2025 and 14.9% cumulatively in 2024 and 2025. Based on the Commission 2025 Spring Forecast, the net expenditure growth of Malta in 2025 is projected to be below the recommended maximum growth rate established by the corrective path. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is projected to be above the recommended maximum growth rate, corresponding to a deviation[14] of 0.2% of GDP. The projected cumulative deviation does not exceed the 0.6% of GDP threshold for the cumulative deviation, beyond which there would be a strong presupposition of no effective action. Therefore, the excessive deficit procedure for Malta is held in abeyance. At the same time, Malta is invited to stand ready to take further measures to comply with the corrective path. A more complete assessment will be carried out when outturn data are available.

[14] From 2026 these figures will appear in the control account that is established in Article 22 of the Regulation (EU) 2024/1263.

(19) Moreover, the Council recommended that Malta wind down the emergency energy support measures before the 2024/2025 winter. According to the Commission 2025 Spring Forecast, while the net budgetary cost[15] of emergency energy support measures is estimated at 1.1% of GDP in 2024, it is projected at 1.0% in 2025. In particular, cuts in indirect taxes on energy consumption and subsidies to energy production to compensate for the price increase of imported electricity remain in force. The emergency energy support measures were not wound down before the 2024/2025 winter. This is not in line with what was recommended by the Council.

(20) The Annual Progress Report does not include budgetary projections beyond 2025. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2025 Forecast projects a general government deficit of 2.8% of GDP in 2026. The decrease of the general government balance in 2026 mainly reflects a further decrease of subsidies. These developments correspond to net expenditure growth of 5.3% in 2026. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be contractionary by 0.8% of GDP, in 2026. The general government debt-to-GDP ratio is projected by the Commission to decrease to 47.3% by the end of 2026.

[15] 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.

Key policy challenges

(21) 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 EU 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 by implementing reforms committed to in the recovery and resilience plan, such as the introduction of transfer pricing legislation, which became applicable as of January 2024. However, until Malta applies withholding taxes – or equivalent defensive measures – on interest, dividends and royalty payments made by Malta-based companies 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 EU) to ensure that firms cannot shift their profits to non-EU countries untaxed, the risk of double non-taxation of these 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.

(22) 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. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, finalising 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. The Commission Communication NextGenerationEU – The road to 2026, adopted on 4 June 2025, clarifies the applicable timeline for the end of the Facility and provides guidance to Member States to maximise implementation by 31 August 2026, including on how to further streamline their RRPs, lays out key options to consider when revising them, and stresses the importance of careful joint planning ahead for the submission of the last payment requests in 2026. 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.

(23) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF), the European Social Fund Plus (ESF+) and the Cohesion Fund (CF), has accelerated in Malta. It is important to continue efforts to ensure the swift implementation of these programmes, while maximising their impact on the ground. Malta is already taking action under its cohesion policy programmes to boost competitiveness and growth while enhancing social cohesion. At the same time, Malta continues to face challenges, including those relating to skills shortages and mismatches, accelerating the energy transition, ensuring security of the water supply and sustainable management of water. In accordance with Article 18 of Regulation (EU) 2021/1060, Malta is required – as part of the mid-term review of the cohesion policy funds – to review each programme taking into account, among other things, the challenges identified in the 2024 country-specific recommendations. The Commission proposals adopted on 1 April 2025[16] extend the deadline for submitting an assessment – for each programme – of the outcome of the mid-term review beyond 31 March 2025. They also provide flexibilities to help speed up programme implementation and incentives for Member States to allocate cohesion policy resources to five strategic priority areas of the Union, namely competitiveness in strategic technologies, defence, housing, water resilience and energy transition, and to investments in skills in priority sectors while maintaining the focus on persons in most vulnerable situations in ESF+ programmes.

16 Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review - COM(2025) 123 final.

(24) The Strategic Technologies for Europe Platform (STEP) provides the opportunity to invest in a key EU strategic priority by strengthening the EU's competitiveness. STEP is channelled through 11 existing EU funds. Member States can also contribute to the InvestEU programme supporting investments in priority areas. Malta could make optimal use of these initiatives to support the development or manufacturing of critical technologies, including clean and resource-efficient technologies.

(25) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Malta should effectively address the remaining challenges related to aggressive tax planning, education and skills, energy and decarbonisation, road transport, and research and innovation.

(26) Improving innovation outcomes is critical for Malta to maintain its productivity growth and shift to a more resilient, knowledge-driven economy. Malta's total R&D expenditure as a percentage of GDP is the second lowest in the EU (0.64% of GDP in 2023 vs EU average of 2.24%) and when expressed as a percentage of GDP, has been declining over the last decade. This concerns both public and private R&D expenditure. Public investment in R&D as a percentage of GDP is lower than 10 years ago and well below the EU average (0.27% of GDP in 2023 vs EU average of 0.72%). The picture is similar for private R&D investment (0.37% of GDP vs EU average of 1.49%). The lack of investment impacts the excellence of the public research system and the results of innovation. Malta would benefit from promoting both public and private R&D investment, particularly by implementing targeted tax incentives.

(27) Malta continues to face challenges in achieving green economic growth, which means balancing economic development with environmental sustainability. The country's green transition is held back by the dominant role of fossil fuels in its energy system. Malta records sizeable fossil-fuel subsidies without a planned phase-out before 2030. In particular, fossil-fuel subsidies that address neither energy poverty in a targeted way nor genuine energy security concerns, hinder electrification of transport and are not crucial for industrial competitiveness could be considered a phase-out priority. In Malta, fossil-fuel subsidies – such as the ongoing support to Enemalta, subsidies for petroleum products, notably petrol and diesel, and a reduction of excise duties on petrol and diesel – are economically inefficient and act as disincentives to the uptake of renewables and the decarbonisation of economic activities. Moreover, they represent a budgetary burden on Malta's public finances. In addition, Malta's share of energy derived from renewable sources in gross final energy consumption was only 15% in 2023, one of the lowest uptakes of renewable energy in the EU. While almost all installed renewable energy capacity is onshore solar, Malta has significant potential to expand its renewable energy mix through large-scale offshore wind and solar projects. Malta's ability to deploy renewables and to improve its security of energy supply also depends on good progress, with a pivotal support of the EU Cohesion Policy 2021–2027, in constructing the second electricity interconnector with Italy and continuing to strengthen and modernise its domestic electricity grid, including by making it more flexible. Furthermore, while there are some support measures in place to promote energy efficiency, as well as investments in the renovation of public and private sector buildings under the Maltese recovery and resilience plan, the final energy consumption in residential buildings increased by 13.5% between 2018 and 2022. Malta could benefit from further action to promote efficiency gains in the buildings sector, which would also help achieve the target for reduction of emissions under the Effort Sharing Regulation.

(28) Addressing traffic congestion and the high emissions from road transport are crucial to improving competitiveness, quality of life and supporting vulnerable segments of the population in Malta. There has been an increased uptake of scheduled road public transport since the extension, in October 2022, of fare-free scheduled road public transport to cover all Maltese residents, but a significant number of licensed passenger cars have also been added to Malta's roads daily since then. The transport sector is the biggest emitter of greenhouse gases emissions in Malta falling under the Effort Sharing Regulation. Between 2005 and 2022, greenhouse gas emissions from road transport increased by 32%. Therefore, there is a need for measures that tackle traffic congestion by offering quality collective road transport services to decrease the use of private passenger cars and measures that discourage private passenger car use. Increasing the quality and efficiency of road public transportation, for example through the implementation of dedicated bus lanes, and increased investments in active mobility infrastructure, including improved pedestrian walkways, would support a greater shift to more sustainable modes of transport and ensure people's safety and better quality of life, including for those with impaired mobility.

(29) Shortages of skilled labour as well as skills mismatches are hampering future growth, competitiveness and the green and digital transitions. The job vacancy rate is among the highest in the EU, with, among other things, acute shortages in information and communication technology (ICT), arts, entertainment and recreation, construction sectors, parts of the service sector, as well as among health and long-term care professionals, and teachers. Additionally, 64% of firms believe the local labour force is not adequately prepared for the transition to carbon neutrality. Although improving and in line with the EU average, adult learning remains well below the 2030 national target of 57.6%, with highly educated adults engaging in learning at much higher rates than adults with lower levels of education. Enrolment in vocational education and training (VET) remains far below the EU average, and at upper-secondary level, only around one in three students were enrolled in science, technology, engineering and mathematics (STEM) fields in 2023, below the EU average. The share of tertiary students enrolled in STEM subjects is one of the lowest in the EU at 13.9%, with only 5.1% in ICT, and even lower amongst women. Persistently insufficient basic skills point to systemic shortcomings in the education system. Due to a lack of adequately qualified teaching staff and ineffective teaching practices and curricula, the system insufficiently caters for all children, including pupils with a disability. Every third 15-year-old lacks basic skills in mathematics, reading and science, and about half of pupils in the 8th grade (12- to 13-year-olds) lack basic digital skills. Despite improvements in recent years, about 1 in 10 students still leave education or training early, increasing the already large pool of low-skilled adults. Strengthening the quality and labour-market relevance of education and training, in particular by strengthening students' basic skills and the initial and continuous training of teachers as well as promoting enrolment in VET and in adult learning for low-skilled people, are key to improving the low educational outcomes and reducing the high shortage and mismatch of skills, also in the area of STEM and the green transition.

(30) 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 2025, the Council recommended that the euro-area Member States take action, including through their recovery and resilience plans, to implement the 2025 Recommendation on the economic policy of the euro area. For Malta, recommendations (2), (3), (4) and (5) help implement the first euro-area recommendation on competitiveness, while recommendations (4) and (5) help implement the second euro-area recommendation on resilience, and recommendation (1) helps implement the third euro-area recommendation on macroeconomic and financial stability set out in the 2025 Recommendation.

HEREBY RECOMMENDS that Malta take action in 2025 and 2026 to:

1. Reinforce overall defence and security spending and readiness while ensuring debt sustainability in line with the European Council conclusions of 6 March 2025. Adhere to the maximum growth rates of net expenditure recommended by the Council on 21 January 2025, with a view to bringing an end to the situation of an excessive deficit. Wind down the emergency energy support measures. 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. In view of the applicable deadlines for the timely completion of reforms and investments under Regulation (EU) 2021/241, ensure the effective implementation of the recovery and resilience plan, including the REPowerEU chapter. Accelerate the implementation of cohesion policy programmes (ERDF, JTF, ESF+, CF), building, where appropriate, on the opportunities offered by the mid-term review. Make optimal use of EU instruments, including the opportunities provided by the InvestEU programme and the Strategic Technologies for Europe Platform, to improve competitiveness.

3. Promote investment in research and innovation, including by increasing public R&D investment and stimulating private R&D investment, for example through R&D tax incentives.

4. Accelerate the deployment of renewable energy by promoting large-scale projects and small-scale investments in direct energy production and consumption. Reduce energy demand through improved energy efficiency in buildings. Reduce emissions from road transport and address traffic congestion by promoting quality and efficient public transport, stepping up investments in active mobility infrastructure and discouraging car usage. Phase out fossil fuel subsidies.

5. Strengthen the quality and labour-market relevance of education and training to address low educational outcomes as well as the high shortage and mismatch of skills, also in the area of science, technology, engineering and mathematics (STEM) and the green transition, in particular by fostering basic skills of students, the initial and continuous training of teachers as well as promoting enrolment in vocational education and training, and in adult learning for the low-skilled. Strengthen the inclusiveness of education and training.

Done at Brussels,

For the Council
The President