



# **Malta**

## **National Reform Programme**

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## Minister's Foreword



It is now four years since this Government came to office. During this period, Malta has moved from being in an excessive deficit procedure to a period of continued falling deficits, finally reaching a fiscal surplus in 2016. At the same time, the economy has become amongst the best economic performers among European Union member states.

In the social field, unemployment continued to decline consistently over the last four years. The number of claimants dependent on the benefit system has also fallen, as individuals found employment and took advantage of the tapering of benefits and in-work benefits schemes. In the meantime, labour participation rates have continued to accelerate especially for women. Free child care services and extended times spent in schools settings for children has enabled women to enter the labour market.

As a result, the population continued to experience greater prosperity and improvements in its life styles.

In its past budgets, the Government made the commitment to connect economic prosperity with increased social justice. Pensions were indeed increased while a large number of pensions were exempted from taxation. Initiatives including increases in the in-work benefit, expanding eligibility to supplementary allowances and re-defining the means testing of benefits have all been designed to help the most vulnerable.

The National Reform Programme for 2017 seeks to address the challenges of a continuously changing economy. The commitments to research and development, science and technology will ensure that Malta continues to meet the challenges of economic change. Reforms in education seek to ensure that our young will be able to explore their potential and take the opportunities being offered by a growing economy.

A handwritten signature in black ink, appearing to be 'E. Scicluna'.

Prof. Edward Scicluna  
Minister for Finance



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# 1. Introduction

The Maltese economy continued to exhibit a strong economic performance during 2016, successfully recording one of the highest economic growth rates in the European Union (EU). Economic growth, in terms of real Gross Domestic Product (GDP), stood at 5.0 per cent in 2016, on the back of strong growth rates of 8.3 per cent and 7.4 per cent recorded in 2014 and 2015, respectively. Economic growth has been mainly underpinned by increases in exports, supported by strong domestic demand and dynamic investment activity. According to the Labour Force Survey, employment increased by 3.0 per cent in 2016, while the rate of unemployment fell to 4.8 per cent, down from 5.4 per cent recorded a year earlier.

The robust economic performance recorded in recent years reflected the implementation of Government's comprehensive strategy for Malta. During the last four years, a number of policies have been implemented with the aim of raising the country's potential output and competitiveness through reforming priority sectors, improving the quantity and quality of employment, while distributing wealth more equitably. All this was achieved at a time when Government had to reform public finances and hence reduce both the deficit and debt ratios.

Indeed, the first budgets of this administration focused on reforming and investing in the energy sector, public transport, health and education sectors, amongst others. Budget measures in these areas such as, the reduction in utility bills for households and businesses, enhanced Malta's competitiveness, increased job creation in the private sector and boosted consumption. Furthermore, the first budgets also sought to raise the rate and quality of employment through incentives that made work pay including the significant reduction in income tax, while reforms in the social benefits system such as the tapering of benefits and the in-work benefit scheme allowed social benefits claimants to seek employment rather than dependence on the benefit system. In addition, new reforms in the area of pensions were also implemented to address both long-term sustainability as well as the adequacy challenges faced by present pensioners.

The last Budget consolidated on earlier achievements and ensured that prosperity reaches all groups in society, especially those who are or could become at risk of poverty including pensioners, low income earners such as minimum wage earners and vulnerable people such as persons with disability. Moreover, through the 2017 Budget, Government is also addressing the challenges as outlined in the 2017 Country Report prepared by Commission Staff with respect to public finances, taxation and public administration, the financial sector and investment, labour market, education and social policies and sectoral policies. In particular, this National Reform Programme and the Update of the Stability Programme, respectively outline and reflect Government's strategy and policy measures intended to address the challenges in the structural and public finance domains.

Going forward, the Government is sustaining its investment in enhancing human capital and enhancing the business environment through improved access to finance, whilst maintaining momentum in infrastructural investment in the economy. At the same time, it remains committed towards prudent fiscal policy oriented towards the long-term sustainability of public finances. This has been recognised in the 2017 Country Report where it was stated that in recent years, Malta has largely achieved fiscal consolidation without penalising public investment. Moreover, the Government will seek to harness

long-term sustainability risks by sustaining its improvement in the fiscal position as well as through reforms to age-sensitive components of public expenditure.

## **Public finances, Taxation and Public Administration**

Malta's fiscal framework and targets, which are firmly anchored in the Fiscal Responsibility Act of 2014 and assessed periodically by the Malta Fiscal Advisory Council, are presented in the Update of the Stability Programme. Preliminary estimates indicate that the Medium-Term Objective (MTO) of a balanced budget over the economic cycle net of one-off revenues and temporary measures was achieved in 2016, well ahead of the 2019 target consistent with the calendar of convergence established by the Commission for Malta. It is also worth noting that the MTO set by the Government was more stringent than what the Stability and Growth Pact requires.

Government has also implemented a number of measures to strengthen the efficiency of the tax system in Malta. In particular, Government committed to shift the tax burden away from labour and onto consumption to make work pay by changing the income tax brackets whilst increasing the ceiling of the tax-free income bracket. Furthermore, tax base expansion also helped to increase tax revenue without causing burden to economic growth. In line with this policy stance, the Government introduced the In-Work Benefit Scheme, the Maternity Fund that continued to encourage female participation in the labour force, and also incentivised female participation in enterprise through tax credit for self-employed women or businesses with a female majority shareholding. Other measures that aimed to widen the tax base include changes in the taxation on leased property. Furthermore, the Maltese Government is moving away from capital gains taxation towards the simpler and more straightforward Final Withholding Tax system, thus adopting a more efficient tax system while also remaining committed to stop the injustice resulting from tax evasion and avoidance while ensuring that everyone pays their fair share of tax.

The Government is also conscious of the impact that the public administration poses on the business environment and the quality of life of its citizens. Indeed, as part of the ongoing process of simplifying e-Government services and enhancing their responsiveness, Government is focusing on the simplification of social security online services and Courts online services. These efforts should improve the accuracy and timeliness of the data capture whilst the physical visits by citizens to the Social Security Department and area offices should decrease in frequency. In addition, Government has just recently introduced a mobile application for Government services so that people can avail of public services more efficiently and effectively through their mobile phones. Furthermore, the Courts will offer various real-time services to citizens and to the legal profession with the scope of increasing the case clearance rate and decreasing the disposition time. In addition, the ease of setting up a business in Malta shall be improved following the integration of different tax-related forms.

In line with the policy of improving competitiveness in public procurement and in a bid to encourage small and medium-sized enterprises' (SMEs) participation in public procurement, the Government reduced the required performance guarantee to be submitted by economic operators from 10 per cent to 4 per cent when the value of the contract does not exceed €500,000. Furthermore, during 2017, an updated electronic system is to be developed to facilitate the collection of data and monitoring at the place of work by virtue of the Employment and Industrial Relations Act. This upgrade

shall improve the efficiency of inspections, while reducing the administrative burden. Moreover, during 2017, in line with the International Trade Facilitation Agreement, the Customs Department is committed to introduce an online payment facility for use by economic operators importing goods that attract duties into Malta. This measure will expedite the payment process since electronic payments shall replace cheque dealings, thus increasing the efficiency of human resources.

## **Financial Sector and Investment**

Malta is committed to preserve the stability and strength of the financial market. Malta is currently transposing and adopting the macro-prudential provisions under the Capital Requirements Directive IV (CRDIV) and the Capital Requirements Regulation (CRR), as required under EU legislation. Furthermore, a number of legislative changes were carried out to facilitate the transposition of EU directives pertinent to the legal requirements underpinning the setting up of a Banking Union. These measures, such as the transposition of the EU Bank Recovery and Resolution Directive (BRRD), benefit both depositors and institutions. Moreover, these initiatives also seek to prevent negative feedback loops between the sovereign and the banking sector, thus also having a positive impact on the stability of Government finances.

The Malta Development Bank (MDB), which is in the process of being set up, will be able to identify and address any market failures, with particular attention to be given to issues relating to firms' access to finance. The MDB, which shall be owned by the Maltese Government, aims to start operating towards the end of 2017. The main objective of the MDB will be to support SMEs secure financing by providing long-term loans through commercial banks.

The National R&I System is founded on principles underpinning the European Research Area (ERA) vision. Malta's National ERA Roadmap was completed in April 2016 and establishes Malta's research and innovation strategy for the forthcoming seven-year period. Following the finalisation of the National R&I Strategy, Malta also finalised its R&I Action Plan to map out the operationalisation of the R&I Strategy and the monitoring of its implementation. It is a multi-annual plan which will be updated regularly, and which will guide national and structural funds expenditure in R&I over the coming years. Malta will be working on setting up the monitoring mechanism and identifying key performance indicators to complement the R&I Action Plan.

Government investments over recent years have also focused on the renewal of the energy infrastructure in Malta leading to efficiency gains in the production and distribution of energy in Malta. The commissioning of a new combined-cycle gas turbine power plant and the conversion of an existing plant from heavy fuel oil to natural gas will lead to the complete decommissioning and dismantling of the older Marsa Power Station and the oldest section of the Delimara Power Station. In addition, in 2017, the Government will be finalising the detailed studies on the connection to the trans-European natural gas network via a gas pipeline with Sicily. Furthermore, investment in the improvement of the Reverse Osmosis plants is expected to lead to reductions in electricity consumption.

## **Labour market, education and social policies and sectoral policies**

A sustainable and dynamic economy requires a flexible and smart labour market that is responsive to the needs of the pertinent stakeholders. Indeed, apart from implementing

various measures that increased the labour market participation rate, in particular, that of women, young people, older workers and the long-term unemployed, Government has continued to invest in education and training in a bid to prolong working careers, improve educational outcomes and reduce the skills gaps, thus enhancing the productivity of the local labour force.

Skill mismatches are being addressed through the National Skills Survey and the Employability Index which shall determine the labour and skills needs for the next three years. These measures are also enhancing vocational learning in Malta. The eSkills Malta Foundation aims to publish an Information and Communications Technology (ICT) skills audit with the objective of increasing the digital capacity of local ICT practitioners, employees and the general public. It also aims to implement an annual national eSkills plan in line with local needs. In the meantime, the Government shall continue to promote literacy through the improvement of services offered by public libraries and the National Literacy Agency. Moreover, the stipulated thresholds of student income with respect to their eligibility for supplementary assistance, is being revised upwards in order to better assist families with low income. Various labour market programmes, including the Employment Aid Programme, the Bridging the Gap Scheme, the Youth Guarantee, the Community Work Scheme, the Average Wage Training Scheme and the Training Aid Framework, are currently underway with the aim of increasing the employability of persons who are either particularly vulnerable or have so far found it difficult to find employment.

The Government is also aiming to increase the number of graduates in science subjects through several efforts including the extension of the Material Engineering Lab and the Mathematics and Physics buildings and a new Transdisciplinary Research and Knowledge Exchange (TRAKE) complex at the University of Malta. Moreover, a hub for science communication, Esplora, opened to the public in October 2016, with the aim of instilling an active interest in science, research and innovation in young people and encouraging them to pursue a career in science and technology. Furthermore, the Malta College of Arts, Science and Technology (MCAST) Research Framework also aims to set up a Research Committee in order to create a dynamic environment that encourages an active knowledge transfer between academics, students and industry. Similar initiatives which bridge the gap between education in IT-related subjects and industry are being carried out through the Malta Information Technology Agency (MITA) Innovation Hub and the Malta Council for Science and Technology's (MCST) Horizon 2020 unit.

One of Government's over-arching strategic policy objectives is for prosperity and well-being arising from strong and balanced economic development to be enjoyed by all groups in society. Government is thus committed to the reduction of poverty and the promotion of greater social inclusion of members of the most vulnerable groups. Government is continuing to ensure adequate and sustainable pensions for current and future pensioners. Following reforms to the pension system carried out in recent years, the Budget for 2017 continued to address adequacy by exempting pensioners from paying income tax on pensions up to €13,000 and introducing measures aimed at supporting the income of specific groups of pensioners, namely those entitled to a service pension and widows who previously had to renounce their retirement pension on the death of their spouse. Furthermore, Government is also planning to undertake a re-assessment to award female pensioners the same pension rate as males.

The Government has continued addressing exclusion issues faced by persons with disabilities. Amongst the measures implemented, Government has launched a sheltered housing project for persons with disability. Progress was also registered with respect to the Appointment of Persons with a Disability on Government Boards/Committees/Commissions. In addition, the 2017 Budget reformed and increased the disability pension by introducing a three-tier payment system depending on the degree of disability. Furthermore, the Carer at Home project is also being extended to help families who care for a dependent elderly that requires constant supervision by giving a subsidy to cover the Care Worker home service. In addition, through the reform of the Carers' Pension and the Carers' Allowance, allowances to carers were increased while the Carers' Pension became payable without the need of means testing, thus ensuring that families that care for their elderly relatives at home are financially assisted.

The Government is strengthening support services to jobless households while community-based projects continue to target teens and adults with the scope of enhancing their skills and facilitating their integration in the community. In January 2016, adjustments to the means test for Social Assistance purposes and entitlement were carried out to eliminate the disincentive to work in the form of reductions in the rate of benefit once children forming part of the household start working. In addition, the In-Work Benefit scheme has once again been extended following an increase in income thresholds and in the applicable rates in a bid to lessen dependency and to attract more social benefit beneficiaries into employment, thus reducing the at-risk-of-poverty rate. In addition, in the Budget for 2017, Government reformed the supplementary allowance by increasing the maximum income threshold for married persons to €13,000 per annum while the threshold for single persons increased with the Cost of Living Adjustment (COLA). Another new measure is that related to rent subsidy, where the Housing Authority is extending the criteria to double the number of families eligible for such a subsidy and is also doubling the maximum rent subsidy. At the same time, the Housing Authority continued to carry out repairs and embellishment works in housing estates whilst investment in new housing units is planned to start during 2017.



## **2. Macroeconomic context and scenario**

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## 2. Macroeconomic context and scenario

### 2.1 Macroeconomic outlook for the period covered by the programme

#### Ministry for Finance Macro Forecasts 2017-2020

Following the robust growth registered in 2016, the Maltese economy is expected to continue to grow at a steady pace over the forecast period, with real Gross Domestic Product (GDP) growth reaching 4.3 per cent in 2017, and 3.7 per cent in 2018. This positive momentum is expected to be supported primarily by strong domestic demand in 2017, while external demand is projected to be the prime contributor to growth in 2018. Economic growth in 2019 and 2020 is expected to retain momentum and increase by 3.5 per cent and 3.4 per cent, respectively. Domestic demand is expected to revert to being the key contributor to growth in 2019. However, the outlook changes once again in 2020, as the contribution from net exports is projected to surpass that of domestic demand. Table 2.1 provides a preliminary overview of the outlook for the main macroeconomic indicators. The finalised macroeconomic projections will be published in the Update of the Stability Programme 2017-2020.

Private consumption is expected to moderate but remain strong and will contribute to economic growth over the forecast horizon largely attributed to strong labour market developments and an appreciation in wages which are both expected to have a beneficial impact on disposable income. Public consumption is expected to be moderate and to average 3.5 per cent over the 2018-2020 period. In 2017, gross fixed capital formation continues to act as a drag on growth due to a continued base effect attributed to the energy and aviation sectors and is expected to decline further in 2018.

#### Main Macroeconomic Indicators

Table 2.1

	2016	2017(f)	2018(f)	2019(f)	2020(f)
Real GDP	5.0	4.3	3.7	3.5	3.4
Inflation rate (%)	0.9	1.5	1.8	1.8	1.9
Employment growth <sup>(1)</sup>	3.9	3.2	2.9	2.7	2.5
Unemployment Rate (%)	4.7	4.6	4.7	4.8	4.8
Exports of goods and services	4.0	3.8	3.1	4.7	4.1
Imports of goods and services	1.1	3.5	0.6	4.5	2.9
Compensation per employee (% change)	2.3	3.6	3.6	3.5	3.4
Labour productivity (% change) <sup>(2)</sup>	1.1	1.1	0.8	0.8	0.9
Unit Labour Costs (% change)	1.2	2.5	2.8	2.7	2.5

<sup>(1)</sup> Total Employment, National Accounts Definition

<sup>(2)</sup> Real GDP per person employed

The expected recovery in world GDP growth and the expected relative depreciation of the Euro vis-à-vis Sterling is set to boost export growth in 2017 and 2018. Moreover, lower import growth relative to export growth is projected due to lower import content attributed to the declining investment in 2017 and 2018. This leads to a positive net export balance over the forecast horizon, resulting in external demand to be the main contributor to growth in 2018.

Harmonised Index of Consumer Prices (HICP) inflation is projected to increase over the forecast horizon but to remain below the 2.0 per cent threshold of price stability. Inflationary pressures in 2017 and 2018 are expected to increase to 1.5 and 1.8 per cent, respectively and to increase marginally by 0.1 percentage points in 2020. Inflationary pressures in 2017 are expected to be driven by the food and services components. Over the period 2018-2020, the services component is expected to be the main contributor to inflation, while the food component is also expected to contribute positively, although to a lesser extent. By contrast the energy component is expected to continue to dampen inflationary pressures for 2017 and 2018 but to return to positive contribution rates in subsequent years.

Growth in economic activity is expected to be supported by strong labour market developments as gains in employment are set to be coupled with a low unemployment rate. Job creation is set to remain strong over the forecast horizon, with an average projected annual rate of increase in employment of 2.8 per cent. At the same time, the unemployment rate is projected to decline to 4.6 per cent in 2017 and to increase marginally to 4.8 per cent by 2020. This is well below the expected European Union (EU) average unemployment rate and reflects efforts in ongoing active labour market policies.

Following the 1.2 per cent increase in 2016, Unit Labour Costs (ULC) are expected to rise by 2.5 per cent in 2017, reflecting stronger growth in compensation per employee. Over the remaining forecast period, ULC is expected to rise by an average of 2.7 per cent as productivity lags average wage growth.

From a sectoral perspective, economic growth is expected to remain primarily driven by a positive performance in services. The arts, entertainment and recreational sector is expected to continue the positive trajectory of the recent years while the financial and insurance activity sector and the other business services sector are expected to continue growing over the forecast horizon. In the meantime, the tourism sector is expected to continue performing strongly, supported by a weaker Euro exchange rate relative to the Sterling, as well as increases in airline and cruise ship seat capacity and investments in the hotel industry. The positive performance in service exports exceeds the growth in external demand conditions suggesting that Malta continued to gain competitiveness and is expected to continue to gain export market shares.

## **2.2 Macroeconomic Impact of Structural Reforms**

Government has introduced a number of structural reforms with the scope of supporting consumer and business confidence while at the same time raising productivity, potential output growth and living standards. These reforms, which also aim to address the objectives of the Europe 2020 Strategy and Country Specific Recommendations include:

- Strengthening fiscal responsibility and ensuring long-term sustainability of public finances;
- Improving small and micro-enterprises' (SMEs) access to finance;

- Improving the quality of the business environment;
- Encouraging higher labour participation rates, improving education outcomes and reducing skill gaps;
- Encouraging greater investment in research and development;
- Strengthening efficiency in the use of energy and promoting the use of energy from renewable sources;
- Reducing poverty and promoting social inclusion.

In light of the requirement to quantify the economic impact of such reforms, this Programme illustrates the economic impact of structural reforms aimed towards improving the business environment and facilitating access to finance for SMEs. The results presented in this section are based on modelling generated on the basis of the QUEST III model.<sup>1</sup> These scenarios represent illustrations of the likely economic impact of specific policy shocks. They are not intended to represent the impact of all policy measures being implemented by Government. Indeed, the only policy changes being modelled are the ones specified clearly below with the other policy parameters assumed to remain constant.

### **2.2.1 Improving the Business Environment: Reducing the period for setting up a new business**

Bureaucracy, along with burdensome regulations, may discourage private sector investment and hence may represent a significant obstacle to firm creation, formalisation and growth. In order to reduce this regulatory burden and to tackle bureaucracy, the Maltese Government has devoted substantial effort in recent years to reduce the monetary and non-monetary costs of registering a business. In particular, in 2015, Government reformed its one-stop shop for business registration by creating an electronic link between the Registrar of Companies and the Inland Revenue Department to facilitate issuance of a tax identification number. This led to a significant decrease in both the time required and the cost related to starting a new business. Moreover, Government intends to continue easing the process of starting a business by reducing the required time frame for setting up a new business by a further 10 days. This will be achieved through the integration of the various formularies used by every entity to set up a new business into one single electronic formulary. It is noteworthy, that this process started at the end of 2016. The scenario shown in Table 2.2 illustrates the impact of the latter reform on the Maltese economy where the shock is modelled through a reduction in entry barriers.

The reduction in entry barriers to start-ups is expected to stimulate market entry and innovation. This is captured in the model as an increased demand for patents, which comes from high-skilled workers. Due to time required to develop new ideas and patents along with the reallocation of workers from the production of goods and services to research, the impact of this reform and effects on growth are not expected to be large in the short-term. However, the innovation resulting from the increase in R&D activities (through the introduction of new products) yields marketable benefits in the medium-term. Indeed, R&D intensity is expected to increase by 0.07 percentage points whereas output is expected to increase by 0.24 per cent in the medium-term relative to the baseline.

## The estimated economic impact of reducing the time to start a new business

Table 2.2

Years after shock	3	8	13	18
Cumulative Percentage changes (from 2017)	2020	2025	2030	2035
GDP	0.04	0.17	0.22	0.24
Employment	0.04	0.04	0.04	0.04
Investment	-0.05	0.05	0.10	0.11
Patents	2.44	5.30	6.12	6.33
R&I expenditure	8.16	7.23	6.63	6.47
Cumulative Percentage point changes (from 2017)	2020	2025	2030	2035
R&D intensity (% of GDP)	0.11	0.08	0.07	0.07

### 2.2.2 Facilitating access to finance

Access to finance is the key for the development and growth of enterprises, particularly SMEs. SMEs play a critical role in global economic development since they are the engines of innovation and new job creation. However, such investments and innovations are not possible without proper financing. In recent years, the Maltese Government implemented several policy measures to enhance SMEs' access to finance. Some of these reforms include the Business START (B.Start) initiative which offers seed funding for small start-ups that have a viable business concept and are in the early stage of development, the Start-up Scheme which provides mezzanine finance to support small start-ups promoting particularly innovative and knowledge-based undertakings, the Micro-Invest: Tax Credit Incentive which aims to support SMEs through tax credits when they invest and expand their business and the Joint Assistance Instrument for Maltese Enterprises (JAIME) which seeks to assist SMEs to obtain financing at advantageous interest rates and reduced collateral obligations.

In addition in August of 2016, the European Commission approved the proposal to set up a Malta Development Bank (MDB) – a Government-owned bank which will mainly address market failures and financing gaps through facilities that will enhance investors' access to bank financing. The MDB is expected to contribute positively to economic growth by increasing private investment. The Bill to set-up the MDB is currently being discussed in Parliament and thus, the MDB is expected to start operating towards the end of 2017.

## 2.3 Distributional Impact of Reform Measures

The concern of this sub section is to outline the distributional impact of two specific policy programmes, including the introduction and extension of the in-work benefit and

the increase in the national minimum pension. To assess the effectiveness of these two initiatives, simulations were modelled using EUROMOD.<sup>2</sup>

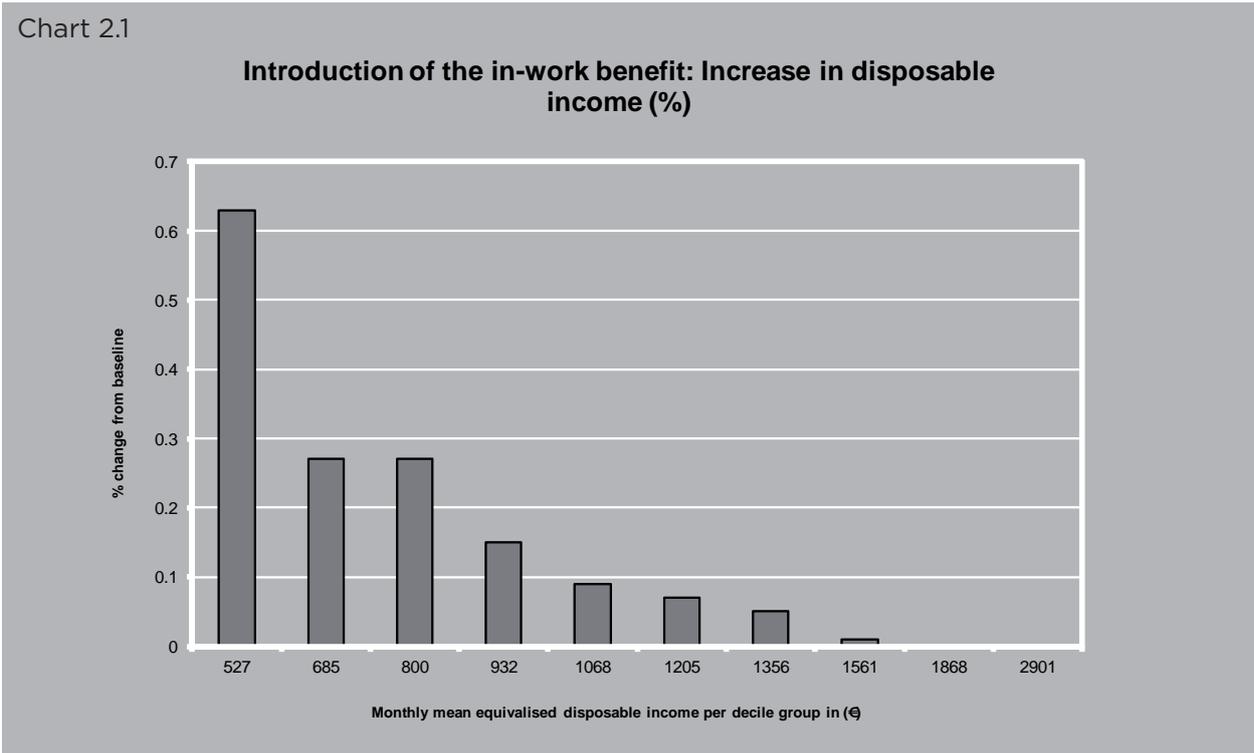
It is to be noted, that EUROMOD is a static model and therefore the results illustrate the impact of the reform measures presuming that all else remained unchanged.

### 2.3.1 The Introduction and Extension of the In-Work Benefit

The In-work benefit was introduced in 2015 and was awarded to those individuals who are in employment and have children under 23 years of age, living within their household. Essentially, the scope of the reform was to address in-work poverty and strengthen the incentive to work. Originally, in 2015, the in-work benefit was introduced for households where both spouses were in employment and had dependent children and for those single parents in employment. In 2016, the benefit was also extended to single-earner households with dependent children.

Chart 2.1 and Table 2.3 show the distributional impact of the introduction of the in-work benefit using data for 2016.

The introduction of the in-work benefit seems to have had a positive impact in terms of reducing the overall at-risk of poverty indicator by around 0.09 percentage points. Furthermore, it is evident that the benefit was particularly successful in reducing the at-risk of poverty amongst households with children, where it decreased by 0.31 percentage points and households that are economically active by 0.15 percentage points. The proportion of the elderly who are at-risk of poverty on the other hand increased slightly, this is due to the relativity dynamics involved in the calculation of the at-risk of poverty indicator. The Gini coefficient, which is an indicator showing the level of inequality in the distribution of disposable income, has also been reduced, meaning that inequality was lessened by the introduction of the in-work benefit reform.



## Distributional Impact of Reforms

Table 2.3

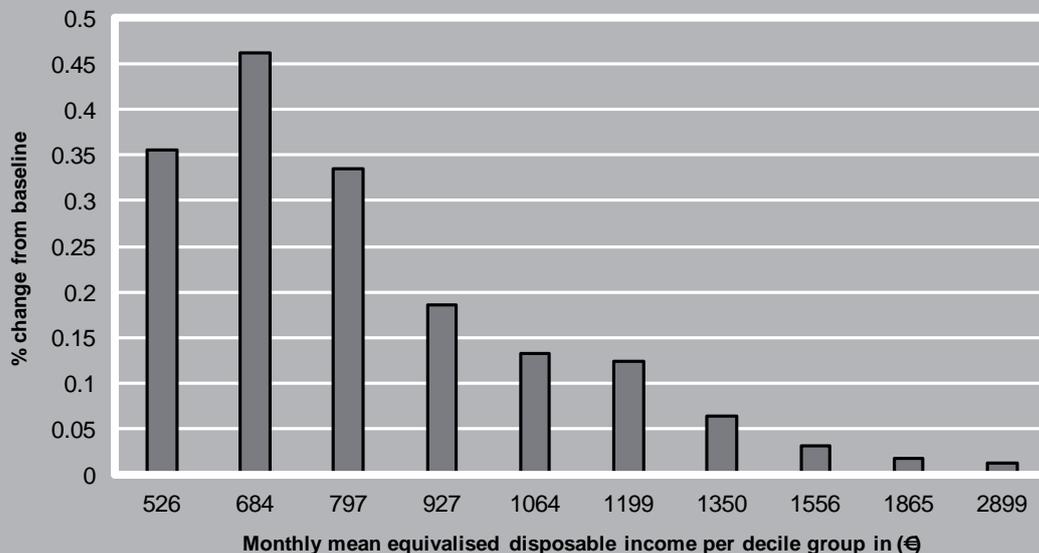
	Introduction of the In-Work Benefit	Increase in the Minimum Pension
<b>Poverty Indicators:</b>		
Population	-0.09%	-0.25%
Children	-0.31%	0.00%
Working Age (WA)	-0.06%	-0.04%
WA Economically Active	-0.15%	-0.01%
Elderly	0.08%	-1.27%
<b>Gini Coefficient</b>	-0.001	-0.001

*Note: Economic Policy Department Workings*

A deeper analysis of the dynamics of the change in the at-risk-of-poverty indicators (as in Chart 2.1) reveals that those at the bottom end of the income distribution were the highest beneficiaries of the reform. The impact on other deciles of the distribution is less important and is negligible in the higher end of the distribution.

Chart 2.2

### Minimum Pension increase: Increase in disposable income (%)



### 2.3.2 The increase in the National Minimum Pension

The Survey on income and living conditions (SILC) indicates that households with no dependent children and with at least one person above the age of 65, are more likely to be at risk of poverty. Adequate pension income serves as a safety net for the elderly, preventing them from falling below the poverty line. The Budget for 2016 sought to address poverty among the elderly through several measures including increases in the contributory national minimum pension to €7,280 per annum with a relatively more generous rate extended to married couples.

EUROMOD simulations carried out to assess the impact of the rise in the minimum pension, suggest that the overall at-risk-of-poverty rate decreased by around 0.25 percentage points, as shown in Table 2.3. Such a substantial decrease is mainly driven by a significant decrease in the at-risk-of-poverty rate for the elderly (as a priori expected), where the said decrease is equivalent to around 1.3 percentage points. The Gini coefficient also indicated that inequality has declined as well.

As illustrated by Chart 2.2, the highest rise in disposable income was enjoyed by the bottom three decile groups in the distribution. All decile groups benefitted from this measure, albeit the higher income cohorts benefitted to a lesser extent. This result was indeed confirmed by the improvement in the Gini coefficient.

#### *Footnotes:*

<sup>1</sup> QUEST III with research and development is a Dynamic Stochastic General Equilibrium (DSGE) model developed by the European Commission and adapted specifically to the Maltese economy.

<sup>2</sup> EUROMOD is a tax-benefit microsimulation model for the EU that enables researchers and policy analysts to calculate, in a comparable manner, the effects of taxes and benefits on household incomes and work incentives for the population of each country and for the EU.



### **3. Implementation of the Country-Specific Recommendations**

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## 3. Implementation of the Country-Specific Recommendations

This section outlines policy actions adopted and planned in response to the Country-Specific Recommendations (CSRs).

### 3.1 Government Finances

#### 3.1.1 Council's recommendation

***CSR 1: In view of the high risk of a significant deviation, achieve an annual fiscal adjustment of 0.6 per cent of Gross Domestic Product (GDP) towards the medium-term budgetary objective in 2016 and in 2017, by taking the necessary structural measures. Step up measures to ensure the long-term sustainability of public finances.***

#### 3.1.2 Policies in response to the recommendation

##### Recent Budgetary Developments and Main Drivers

The improvement in the fiscal position in recent years was sustained and accelerated in 2016. Indeed, preliminary estimates indicate that the medium-term objective (MTO) of a balanced budget over the economic cycle net of one-off revenues and temporary measures was achieved in 2016, well ahead of the 2019 target consistent with the calendar of convergence established by the Commission for Malta. It is also worth noting, that the MTO set by the Government is more stringent than what the Stability and Growth Pact requires. Over the medium-term, a broadly neutral fiscal stance is envisaged. Further details of Government's medium-term fiscal plan are included in the 2017-2020 Update of the Stability Programme.

The recent fiscal developments were supported by strong and sustainable economic growth which sustained robust direct tax revenue, the proceeds from the International Investor Programme and a more contained growth in expenditure backed by the Comprehensive Spending Reviews. The Comprehensive Spending reviews, which started in 2014, have so far covered the Department for Social Security, the Mater Dei Hospital and the Ministry for Education and Employment. Some of the recommendations outlined in the resulting reports have already been implemented, while others are underway. The implementation of decentralisation continues at Mater Dei Hospital. A senior management team has now also started to meet at the Ministry of Education to deal with the recommendations of the Education Comprehensive Spending review. The spending review will continue to ensure improved efficiency in public spending, reduction of waste and value for money. Starting in April 2017, the Comprehensive Spending review programme will focus on the Ministry for Health. This will include the Ministry for Health itself, Primary Care Services, Pharmacy of Choice (POYC) and the Contracts Procurement Services Unit (CPSU). Expenditure between these entities totals some €250 million. The panel will focus on issues of procurement for medicines, contractual

obligations including clerical support services, care workers, hospital cleaning services and security services.

## **Fiscal Sustainability**

### ***Reforms to the First Pension Pillar***

Pension reform in Malta is ongoing. The reforms legislated in December 2006 by means of Act No. XIX of 2006), raised the pension age from 61 to 65, lengthened the contributory period from thirty to forty years; adopted changes to the two-thirds pension, adjusted the calculation formula, the maximum pensionable income and the credited contributions as provided for under the preceding legislative framework. The Pensions Strategy Group presented a report outlining further pension reform recommendations in June 2015. Subsequently, in September 2015, the Group prepared a post-consultation report for the attention of Government that took into consideration received feedback during September 2015.

As a result of these recommendations, the Budget for 2016 included the following measures:

- The Minimum Pension for a person with a full contributory record is not less than €140 per week, aiming at contributing to address the problem of poverty amongst the elderly.
- Better credits for child rearing and family growth.
- Introduction of credits for human capital development and lifelong learning. Crediting (including child rearing) is subject to capping equivalent to 12 years for persons born on or after 1/1/1962 and at 6 years for persons born between 1/1/1952 and 31/12/1961.
- Service pensioners will continue to be given a €200 annual additional abatement.
- If they are entitled to a contributory pension in their own right, survivors are now entitled to the highest full pension, whether it is their own pension or the pension of their deceased spouse.
- To ensure a fair balance between the contributory period and the period spent in retirement across generations, the contribution period for a full pension will be based on a stable ratio between years contributing and years drawing pension. Consequently, the contributory period was raised from forty to forty-one years for persons born after 1968. The contributory period shall be reviewed every 5 years to ensure that stable proportion is kept between the contribution period and the periods of time during which it is expected that the individual shall be in receipt of a pension.

Government is obliged to lay on the Table of the House of Representatives, within intervals not exceeding the period of five years, a report giving recommendations with a view of keeping a stable proportion between the contribution periods and life expectancy at retirement. The report shall be discussed in the Social Affairs Committee or any other committee substituting the same. The Committee deals with all matters of social policy which may be referred to it by the House or by the Standing Committee on House Business. The report tabled by the Minister would serve to operationalise the link outlined in Article 64B and would be a clear statement of Government's policy. The report is necessary to measure the gains in life expectancy, as measured in the latest demographic projections, and thus, outline any necessary adjustments to the contributory period (as outlined in Article 53), with a view to keep a stable proportion between the contribution periods and life expectancy at retirement.

Furthermore, the Pensions Strategy Group proposed that the Government should strive to increase active employment beyond the statutory retirement age by (i) incentivising late exits from the labour market; (ii) incentivising the deferral of a retirement decision; and (iii) initiating discussion within civil society and amongst constituted bodies for the eventual separation of the mandatory retirement age from the statutory retirement age.

In the 2016 Budget, the Government accepted the principle behind recommendations (i) and (ii) above and these have been adopted by the House of Representatives (Act No. XV of 2016) in March 2016. The incentive mechanism was publicly announced on the 22<sup>nd</sup> March and a legal notice LN289/16 was published in August 2016. The scheme is open to workers in the private sector, who would have paid 35 years of social security contributions and are eligible to retire at 61 years of age. Those who continue working until 62 years will receive an increase of 5 per cent in their pension. The scale increases every year, whereby, a person who works until 63 years would receive an increase of 5.5 per cent for the second year, over and above the 5 per cent of the first year. The increase for the fourth year is 6 per cent and is 6.5 per cent for the fifth year. The adoption of the principle of achieving a fair balance between the contributory period and the period spent in retirement across generations ensures that the contribution period for a full pension is now based on a stable ratio between years contributing and years drawing a pension.

The incentive to encourage later retirement and the linking of the contributory period to the period spent in retirement are expected to contribute to the strengthening of the long-term sustainability of public finances. At the same time, the adequacy element was also safeguarded through the increase in the minimum pension, better crediting for child rearing (which is designed to mitigate against gaps in the contributory periods of women in particular, arising due to family responsibilities while also serving as a policy instrument contributing positively toward fertility increases) and the introduction of credits for human capital development and lifelong learning, alongside other measures. It is to be noted, that another amendment to Article 64A states that persons born on or after 1/1/1969 who want to access the early exit option, will require 35 years of paid contributions with a maximum of 6 years of credits. This is intended to lengthen careers and deter early retirement.

In the Budget for 2017, Government continued to address adequacy by introducing additional measures aimed at supporting the income of specific groups of pensioners. In fact, through the 2017 Budget, pensioners no longer pay income tax on income arising from any type of pension up to a maximum of €10,500 this year and €13,000 in 2018 for pensioners on single rates. Whereas pensioners whose income is taxed at the married rates, will retain a differential of a further €1,000, arising from any income source and divided equally over two years, on top of the €13,000 tax exempt income as from this year.

With respect to entitled beneficiaries of a minimum pension for married couples and to a non-contributory age pension, these saw an increase in their pension of €4 per week. In the meantime, the amount of service pension that is not taken into consideration for Social Security pension assessment purposes will increase by another €200. In addition, the Budget for 2017 also addressed the gender inequality in the pension benefit rate, with females benefiting from an increase in the pension rate of up to €20 per week.

### ***Diversifying Income in Retirement***

On the third pillar pensions in Malta, it is to be noted that the first pension products were launched in November 2015. In order to stimulate the take-up of these products tax incentives were introduced, covering also certain insurance products. Administrative statistics of the Inland Revenue Department show that there are in all 11 qualifying schemes registered and the number of qualifying individuals stood at 1,430 in 2016.

Furthermore, as announced in the Budget for 2016, a Working Group (WG) was set up with the scope of bringing to the consideration of Government, proposals relative to the introduction of fiscal incentives for employers that opt to introduce occupational pensions on a voluntary basis. This WG has presented a report to Government and a measure intended to incentivise the take-up of voluntary occupational pensions was announced in the Budget for 2017. In fact, in the case of the voluntary occupational pension plans, employees shall continue to benefit from the incentives announced for the third pillar pensions. At the same time, the employer shall consider expenditure related to investment to the occupational scheme as part of recurrent expenditure for company tax computation purposes. In addition, the company will be also receiving a credit of €150 for every €1,000 invested on behalf of its employees.

### ***Retirement and Financial Capability***

The post consultation strategy on the National Strategy for Retirement Income and Financial Literacy is now completed. The aim of this Strategy is to build a culture of saving for retirement as well as better money management during the lifetime. The strategy, launched on 25<sup>th</sup> January 2017, is now repositioned as Retirement and Financial Capability. An implementation vehicle, known as the Retirement and Financial Capability Working Group, constituted of Government and private sector representatives, is set up and is chaired by the Ministry for the Family and Social Solidarity.

### ***Health Reform***

In the health sector, the conduct of reforms in the public health system to ensure the delivery of a cost-effective and efficient service has been high on the political agenda over the past few years. This has been mainly driven by strategic investments to underpin the review of existing processes, whilst shifting the focus of care away from the acute care hospital and towards the primary health care setting. The review of existing processes is also highlighting which areas are best suited for structural expansion in capacity with a view to maximising return on investment. One has to keep in mind that, in health, unless supply is expanded in key areas, public health and legal obligations to deliver services urgently may catch up, possibly at a multiple of the cost base the required service could have been delivered with, due to either legal or disease complications. Progress has also been registered with respect to strengthening health promotion and disease prevention. These developments reflect the adoption of the National Health Systems Strategy covering 2014-2020 focusing on the three pillars of improving governance; health promotion and disease prevention; and strengthening of primary care, on a backdrop of ever-increasing demand. In fact, by strengthening the primary care, Government is devolving functions to the primary care leading to reductions in waiting lists at the acute care facility (Mater Dei). According to findings of the Comprehensive Spending Review at Mater Dei such shift could have a significant impact on costs given that on average, a visit to the outpatients department at Mater Dei costs around two and a half times more than a visit to the primary care centres.

Measures aimed at increasing access whilst maintaining quality and sustainability were introduced and implemented. More free healthcare benefits were introduced to diabetic patients, which is expected to lead to several health benefits and to a tighter diabetic control through management with diabetic drugs to prevent the development of complications. There was the provision of Type I and Type II diabetic patients with free glucose monitoring sticks. This is expected to amongst others, lead to a reduction in hyper and hypo glycaemic cases; and a prevention of the development of diabetic complications. There was a reduction of the outpatients and surgical waiting lists, leading to a reduction in waiting times. The investment on primary care covered both refurbishing of present facilities as well as the development of a regional primary care hub, which will serve as a one-stop facility for community care as well as offer specialised care for certain prevalent diseases and conditions as well as health promotion, prevention services and treatment of minor, yet urgent, conditions.

A nationwide home delivery for bulky and heavy items system where the items are delivered from the supplier straight to the pharmacy or the client, was introduced and as part of the Pharmacy of Your Choice (POYC) an extension in the localities eligible for delivery was also implemented. In addition, there was also the investment in the bariatric surgery theatre table, which effectively treats morbid obesity in people for whom more conservative measures such as diet, exercise, and medication have not been effective.

These measures aim at providing a holistic view whereby sustainability is met while concurrently increasing the patients' personal control and choice, and enabling them to stay independent for longer. They also reflect the continuous adoption of the National Health Systems Strategy, whose aim is to respond to the increasing demand and challenges posed by the demographic changes and epidemiological trends focusing on course of life, children, elders and vulnerable groups; increasing equitable access, availability and timeliness of health and social services, medicines and health technologies; improving the quality of care by ensuring consistency of care delivered by competent health workers supported by robust information systems, and ensuring the sustainability of the Maltese Health System.

## **3.2 Labour market, education and social policies**

### **3.2.1 Council's Recommendation**

***CSR 2: Take measures to strengthen labour supply, in particular through increased participation of low-skilled persons in lifelong learning.***

#### **Policies in response to the recommendation**

##### ***Improve basic skills and employability***

In February 2015, a task force was established to monitor the implementation of the National Lifelong Learning Strategy for Malta 2020. The main initiatives implemented include the setting up of the National Skills Council and the establishment of the Department for Arts, Adult Education and Open Communities within the Faculty of Education at the University of Malta.

In 2016, the Directorate for Lifelong Learning offered a variety of courses for which approximately 11,000 applications were submitted. The Directorate offers courses accredited at levels 1 and level 2 within the Malta Qualifications Framework as well as MATSEC revision courses. To date, 78 courses have been accredited by the National Commission for Higher Education and a further 16 applications have been submitted to the Commission for accreditation. In 2016, 30 Local Councils and 17 NGOs and Community Centres participated in implementing the Lifelong Learning in the Community scheme. In addition, the Directorate introduced a basic skills course for non-native speakers with literacy needs and is also aiming to offer a new course called 'ICT for beginners'. Over the past two years, the Directorate introduced the National Diploma in Teaching Adults. Currently, around 170 students who have applied for individual modules of the Diploma are expected to be awarded the National Diploma in 2017.

The Directorate for lifelong learning and early school leavers (ESL) is currently implementing a 3-year project under the ERASMUS+ Programme (Key Strategy 2) with a value of €413,000. This project is about enhancing literacy through digital media. The first partners' meeting and workshop was held in December 2016, with the participation of seven international partners, namely, Norway, United Kingdom, Italy, Cyprus, Macedonia, Poland and the Netherlands.

As part of the project, a European digital toolkit and 10-week course were developed during 2016. Training for partners was held in Malta during the first quarter of 2017 focusing on the Digital Toolkit for Adult Educators. Moreover, a peer-learning activity for Maltese and foreign educators focusing on the use of the Digital Toolkit shall be held in April 2017.

In 2016, through the European Union (EU) Agenda project, the Directorate organised several initiatives including a community pilot project and working group meetings with adult learning stakeholders to coordinate Lifelong Learning Strategy initiatives.

During the last quarter of 2016, the first adult learning awards were held in Malta through the support of the European Platform for Adult Learning (EPALE) project. These awards aim to recognise best practices in adult education with the aim of raising the profile of adult learners in Malta. Financing was secured from the Education, Audiovisual and Culture Executive Agency (EACEA) to cover the work programme from January 2017 to December 2018.

Jobsplus, in collaboration with the private sector, is assisting long-term unemployed individuals to re-enter into the labour market through the Work Programme Initiative. The initiative is based on a process that should lead the beneficiary (i.e. participant) to improve his/her employability skills, with the final aim of placing the participant in sustainable employment. In addition, a European Social Fund funded project entitled, Training for Employment, led by Jobsplus, comprises several initiatives which facilitate access to employment through the development of skills and competences. These include the Work Placement Scheme, Work Exposure Scheme and Traineeships.

The Work Placement Scheme aims to provide training to participants following a course offered by Jobsplus, which includes a practical component. Through this scheme, participants are given the opportunity to acquire both theoretical and practical training. Between May 2016 and January 2017, 72 trainees had been placed on this Scheme.

The Work Exposure Scheme is intended to facilitate transition into employment by providing jobseekers with initial hands-on training that will help individuals obtain the knowledge, skills and competences required to find and retain employment. From January 2016 to the end of February 2017, 393 persons were placed on this scheme.

The Traineeship Scheme's objective is to provide jobseekers with initial vocational training (pre-employment training) that will help individuals obtain the knowledge, skills and competence required to find and retain employment. From January 2016 to end January 2017, 489 persons have been placed in such traineeships.

Moreover, the Malta College of Arts, Science and Technology (MCAST) is offering part-time courses targeting adults with the aim of contributing towards their lifelong learning. Statistics show that over 4,000 adults between the ages of 16 and 80 attend one of over 300 part-time courses offered every year at the MCAST.

The National Youth Policy, Towards 2020, provides for two specific strategies and related action plans. The first strategy is directed towards services, programmes, projects and activities which support young people and youth organisations. Concrete examples of such actions include the Youth. Inc Programme. Young people who follow the programme are supported in making the transition to employment and/or further education and training. 130 young people are participating in this Programme during the current academic year. At the same time, the Programme has been expanded to include Level 3 qualifications under the Maltese Qualifications Framework. The second strategy adopts a cross-sectoral approach and provides for a wide range of initiatives in such areas as education and training where digital competence and life-long learning are promoted and also promotes actions to improve the educational retention, attainment and development of young people at risk.

A specific scheme that targets young people includes the Youth Guarantee initiative. This was initially launched in March 2014 and was aimed at young persons who were Not in Education, Employment or Training (NEETs). The second cycle of the NEET Activation Scheme II commenced in July 2016. The envisaged target for the NEET Activation Scheme II is approximately 150 NEETs per annum, who will undergo training or further training, or training and work exposure.

### ***Reducing Early School Leaving***

Further initiatives were undertaken to continue addressing the reduction in the early school leaving rate. Regular contact is being held particularly with Jobsplus to establish objectives in relation to 2016-2017 targets regarding possible early school leavers (ESL) who are interested in employment. During summer 2016, the identified students were contacted by the different institutes and an outreach survey was conducted with vulnerable or low achieving students to encourage them to pursue post-secondary education or employment. As from the beginning of scholastic year 2017-2018, tailor-made career guidance programmes will be launched for potential ESLs in all state colleges with the scope of assisting students in their educational path and make education more relevant to employment by means of vocational and hands-on programmes.

During the last academic year, the Guze Ellul Mercer 16+ learning programme was open to students with two or less passes in their O-levels. Last year, the cohort consisted of students who obtained a pass in one O-level or less. The first intake of students completed

this intensive revision programme during the last scholastic year. The second intake, during this scholastic year, consisted of 100 students.

Under the Youth Guarantee Scheme, the Free Secondary Education Certificate revision classes initiative were once again offered free of charge to students who failed, obtained low grades (6, 7 or unclassified) or were absent. This measure offers a second opportunity to students to improve their prospects for continuing their education with the possibility to improve their future work prospects.

The Alternative Learning Programme (ALP) intake for this scholastic year (2016-2017) was 154 students, and prior to entry, interviews were carried out with potential ALP students to confirm their aptitude for applied learning. The centre now consists of 22 workshops/labs relating to engineering, plumbing, auto mechanics, hospitality and multimedia studies, hospitality equipment, as well as salons for personal care and beauty studies. Furthermore, the ALP students are being provided with job exposure experiences, on-the-job training experiences and other various short courses, giving them the basic skills needed for employment. An ICT summer course is also offered to students following the ALP. This is intended to provide them with an additional educational opportunity to acquire new practical ICT skills and knowledge. In 2016, 81 students completed the training and 16 students passed all 7 modules of the basic ECDL course.

In May 2016, the 16+ working committee was set up by the Ministry for Education and Employment in collaboration with post-secondary institutions and Jobsplus, whereby a collaborative effort sought to reach all fifth formers of scholastic year 2015-2016 focusing particularly on those at risk of becoming ESLs.

After introducing at least two vocational subjects as option subject for state secondary school students at Form 3 during scholastic year 2016-2017, some schools are now offering 3 or even 4 vocational option subjects. Preparations are at hand to introduce applied learning subjects in September 2019, in state secondary schools. Such subjects will complement the vocational subjects, and will aim to engage students and provide them with necessary skills and competences for further learning. At present, there are 1,550 students studying vocational subjects in secondary schools in Forms 3, 4 or 5.

### ***Continuous Professional Development for Educators***

Government set up the Institute for Education in 2015 and entrusted it with the continuous professional development and training of educators. Since then, the Institute has developed various courses and will be offering them to educators after school hours. These include 40 stand-alone modules at MQF 6 and 7 targeting educators with the aim of upgrading their knowledge, skills and competences; 1 Leadership programme at MQF 6 targeting heads of schools with the aim of equipping them with problem solving skills and conflict management skills through action research; 2 Post Graduate Certificate at MQF 7 for teachers to upgrade their pedagogical skills, their teaching methodologies and assessment techniques; 7 short courses at MQF 6/7 for educators to upgrade the diverse competences required to operate effectively in an inclusive environment and; 48 phase sessions (non-accredited) for the leaderships teams and managers in education aiming to equip them with the necessary knowledge about the processes and procedures, discuss educational issues and create forums.

Furthermore, the In-Service Courses will be offered in July and September for teachers with the aim to equip them with the knowledge, skills and competences to address the needs of the students in the following year. During 2016, the Paid Study Leave Scheme was extended to include educators in non-state schools.

The national roll-out of 'One Tablet per Child' commenced in September 2016. Training was given to 26 specialised teachers who in turn trained 473 Year 4 teachers and LSAs during the September 2016 in-service teacher training. A total of 6,027 tablets were distributed to all Year 4 students and their educators.

Through an Erasmus+ programme, the Institute for Education is currently engaged in the "Creation of Continuous Professional Development Programme for Educators" with partners from the University of Verona and the FORTH Greece research centre. Moreover, Government is expected to enter into agreements with local and foreign universities to provide training for teachers on the pedagogy of vocational subjects with a focus on the secondary level.



#### **4. Progress towards the Europe 2020 targets**

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## **4. Progress towards the Europe 2020 targets**

### **4.1 Employment**

#### **4.1.1 National Target**

Malta aims to increase participation in the labour market amongst all groups including females, young people, older workers and the long-term unemployed. The Government is targeting to reach the employment rate of 70 per cent by 2020. In 2016, the employment rate (amongst 20 to 64 year olds) was 69.6 per cent, up by 1.8 percentage points over 2015. During this period, both female and male employment rates recorded increases of 1.9 and 1.7 percentage points to reach 55.5 per cent and 83.1 per cent, respectively. These increases reflected the active labour market policies implemented by Government in the last four years which aimed to make work pay, remove further obstacles for women to enter the labour market, prolong working careers, improve educational outcomes and reduce the skills gaps.

#### **4.1.2 Policies to achieve the target**

The Government has implemented various legislative and policy programmes designed to increase labour market participation. The provision of free childcare centres, the before-and after-school care services, and the extension of tax deduction for parents sending their children to private childcare centres offered a conducive environment towards this aim. Long-term unemployed women also benefited from reductions in income tax if they returned to employment. Furthermore, the Government has also increased the maternity leave to women in self-employment and the maternity benefit rate. It also set up a special fund to finance maternity leave in the private sector in order to decrease discrimination against women in recruitment.

Over the past three years, the Government has also reformed social security benefits by improving employment prospects while reducing welfare dependency. During the period 2014 to 2016, it is estimated that 2,482 claimants have left the benefit system and found employment, while a further 2,227 have taken advantage of the in-work benefit scheme during the period January to December 2016.

Various initiatives have also been taken to curtail abuse of the unemployment register and curb undeclared work. Revision of the law regulating Industrial and Employment Relations is ongoing with the aim to regulate better and effectively regulations governing the rights of workers.

Investing in education and training is essential to upgrade skills of workers and improve productivity and employability. In 2016, the Government addressed skills shortages by giving a maintenance grant to single parents to enrol into education. Other ongoing initiatives such as the National Apprenticeship Scheme and the Youth Entrepreneurship Scheme aim to facilitate the progression from education to employment. Furthermore, the Government completed the National Skills Survey to determine the labour and skills needs for the next three years. The findings of this Survey and the Employability Index will feed into the educational system and career guidance. Programmes such as the Not in Education, Employment or Training (NEET) Activation Scheme and the Work Programme aim to upskill low-skilled individuals and the long-term unemployed and

reintegrate them in the labour market. Training and work placement schemes are also in place for job changers seeking to further their existing skills. These individuals are being directed towards employment sectors in which Malta faces skills gaps. Entrepreneurs can also benefit from a tax deduction when offering apprenticeship placements. The Virtual Matching Tool that was launched in 2016, allows employers and those seeking employment to benefit from a virtual meeting place which assesses individual skills and aptitudes.

In addition, Government is empowering and enabling disadvantaged groups through a policy process that enhances financial independence of disadvantaged persons and prevents social exclusion and marginalisation. A number of changes have been undertaken to assist the integration of disadvantaged persons. In this respect, the Government is providing financial aid to enterprises and employers employing disadvantaged and disabled persons. Furthermore, employment of disabled persons is being encouraged by enforcing the law whereby 2 per cent of employees in a company are persons with disability. Non-complying firms are asked to make annual contributions of €2,400 for each disabled person the firm should be employing on a full-time basis.

## **4.2 Education**

### **4.2.1 National Targets**

The Government aims to reduce the rate of early school leavers (ESL) to 10 per cent by 2020. Provisional figures for 2016 indicate that the rate for ESL in Malta stood at 19.8 per cent. With regards to the 30-34 year old population having complemented tertiary education, Malta's provision rate for 2016 is 29.8 per cent. The national target in this regard stands at 33 per cent by 2020.

### **4.2.2 Progress on the Implementation of Ongoing Measures**

As already mentioned in Chapter 3, the Government continued implementing measures and initiatives in the local education system in a bid to reach the ESL target. In particular, all state secondary schools introduced more vocational pathways, offering MQF level 1 and 2 vocational qualifications to Form 3, 4 and 5 students at risk of becoming ESLs. A number of non-state schools have also introduced vocational subjects. In view of the introduction of vocational subjects in secondary schools, training sessions for prospective teachers were also held in February and June 2016. In addition, the Ministry for Education and Employment (MEDE) also designed new courses and improved the quality of Vocational and Education Training (VET) to make it more relevant to the needs of industry and to attract more students into further and higher education.

In 2016, the Directorate for Lifelong Learning, through a pilot Out-Reach Programme, offered a variety of courses including basic skills, digital competences, languages, mathematics, science and technology, civic competences, vocational and educational training.

Furthermore, following the detailed evaluation report on the pilot project involving the introduction of tablets in primary schools, the national roll-out of 'One Tablet per Child' commenced in September 2016.

Meanwhile, Government continued to enhance its financial assistance to students. During the current scholastic year, Alternative Learning Programme Plus (ALP+) was launched enabling students to continue their learning experience at a post-secondary level whilst receiving a monthly stipend. Government is now also providing a stipend to students undertaking veterinary courses, whilst Institute of Tourism Studies (ITS) students are now receiving a grant, in addition to the monthly stipend. There was also an allowance given to Gozitan students in Malta has been extended. Students admitted to read courses under the maturity clause are now being treated in the same manner as students with full requirements when applying for the students' maintenance grants. Moreover, students' maintenance grants paid to full time post-secondary, vocational and tertiary students will have no tax deductions, irrespective of other income.

The Quality Assurance (QA) Committee was set up in May 2015 with the remit of reviewing Levels 7 and 8 qualifications prior to accreditation. During its first two years of operation, as part of the project 'Consolidating Quality Assurance and Validation in Higher Education in Malta', the QA Unit shall also be updating the National Quality Assurance Framework for Further and Higher Education and the External Quality Assurance manual. Moreover, during 2016, the Paid Study Leave Scheme was extended to include educators in non-state schools.

Meanwhile, the Youth Voluntary Work Scheme, which addresses the placement of young people in voluntary organisations to work at the local community level, reached its target number by September 2016. Nevertheless, the scheme is ongoing and will continue to support young people even in 2017.

Government is also strengthening the use of English and encouraging more children to choose to study languages through its agreement with Cambridge University. Furthermore, in line with the arrangement with Cambridge University, training for teachers commenced during scholastic year 2015 and will be completed during the scholastic year 2016-2017.

Literacy teams were established for each of the 10 Colleges in the state sector, with the aim of reaching the literacy targets. In October 2016, Guzé Ellul Mercer 16+ Learning Centre had its second intake of 100 students. Meanwhile, the National Skills Council was formally set up in November 2016.

In addition, a new early screening programme has been soft-launched in collaboration between MEDE and Ministry for Health (MFH). This will assist professionals in addressing the needs of children as from the age of 18 months so as to ensure their holistic health and educational development is taken care of. Furthermore, the Medicines Authority launched a traineeship programme to strengthen the training of staff in specialised areas.

### **Planned New and Extended Measures**

As of 2017, the ITS will be collaborating with international entities on an initiative which will benefit workers in the tourism and hospitality industry by recognising their skills and knowledge. Through the Recognition for Prior Learning (RPL), individuals seeking further education shall obtain an evaluation of their current state of knowledge, which in turn shall identify tuition which would be relevant to the individual to achieve accredited certification.

Investment in educational facilities is also on-going. In particular, Government will replace all computers which have been in use for more than 8 years in primary school classes and will also be expanding the primary school in Rabat, Malta. Investment will be carried out to extend and refurbish the educational facilities at the Guardian Angel Resource Centre and replace the San Miguel Primary Education Resource Centre. Government shall also invest in courses and services in the maritime sector in collaboration with strategic partners, while also investing in new resources in the Institute of Creative Arts.

The apprenticeship reform is now well underway and the number of apprentices and companies involved in the apprenticeship scheme has increased rapidly with over 1,000 apprentices for the year 2016-2017 and over 900 companies interested to offer apprenticeships.

The work in favour of literacy will continue through the improvement of services offered by public libraries and the National Literacy Agency. Moreover, another National Curriculum Centre is planned to open in Gozo.

Furthermore, the stipulated thresholds of student income with respect to their eligibility for supplementary assistance will be revised upwards, in order to better assist families with low income and students facing social and other problems.

In addition, works will continue on capital projects undertaken by the University of Malta including the extension of the Material Engineering Lab and the Mathematics and Physics buildings, a new Transdisciplinary Research and Knowledge Exchange (TRAKE) complex, a multi-religion building, and the renovation of the campuses in Valletta and the Junior College.

## **4.3 Climate Change and Energy Targets**

### **4.3.1 National Targets**

The Government is committed to raise the share of energy from renewable sources in gross final energy consumption to 10 per cent (estimated at 5.0 per cent in 2015). The Government is also committed to raise the proportion of renewable energy used in all forms of transport to 10 per cent by 2020 (estimated at 4.7 per cent in 2015).

As per latest Second Biennial Report 2016, Malta's gap between 2014 inventory emissions and the 2014 binding target (2014 annual emission allocation pursuant to Decision 2013/162/EU) is -7.4 per cent, whilst the gap between 2020 projected emissions and the 2020 binding target (2020 annual emission allocation pursuant to Decision 2013/162/EU) is -4.06 per cent. In this regard, Malta is currently seeking to mobilise flexible instruments in order to meet its interim targets of actual emissions for 2013 and 2014.

### **4.3.2 Policies to achieve the targets**

In order to determine the most cost effective manner to achieve Malta's objectives in terms of renewable energy, energy efficiency and Greenhouse Gas (GHG) emissions, a number of ministries and authorities are currently undertaking studies that will feed into Malta's Low Carbon Development Strategy. This strategy will also consider the current National Renewable Action Plan and the current National Energy Efficiency Action plan.

The Government is also currently working on the second National Action Plan on Green Public Procurement, which will contribute towards a greener and more circular economy. This plan will provide the tools for contracting authorities to mainstream greening tools into their procurement processes across Government.

A number of projects relating to the more efficient provision of power generation are nearly complete. The new 215MW combined-cycle gas turbine power plant is technically completed and is being commissioned, as is the conversion of the Delimara plant 3 from heavy fuel oil to natural gas (phase 1). The ancillary infrastructure is also complete and the floating storage unit received its first gas during the first quarter of 2017. Both power plants started operating by end of March 2017 following the necessary testing and commissioning. This will now enable Enemalta to decommission and dismantle the Marsa Power Station and the oldest section of the Delimara Power Station. In addition, in 2017, the Government will continue with the implementation of the Project of Common Interest (PCI 5.19) relating to a connection to the trans-European natural gas network via a gas pipeline with Sicily, by finalising the basic design studies and launching the permit granting procedures in both Malta and Italy.

The Water Services Corporation will continue with its investment, amounting to more than €2 million, in the improvement of the Reverse Osmosis plants with the aim of reducing electricity consumption. It is expected that the implementation of the first phase of the project will be completed by end of 2017, with the second phase being completed by the end of 2018.

In order to continue encouraging the use of scheduled public transport, a number of measures were taken to provide information to passengers through different media, such as, the launch of the mobile application and the upgraded Journey Planner. In addition, during 2016 there were further improvements in the route network and 33 new Euro VI buses were also introduced. This was complemented by the 2017 Budget measure enabling anyone turning eighteen years in 2017 to travel by bus, for free, for a year. Furthermore, the Government extended the tax rebate offered to parents whose children make use of school transport.

The Government is also seeking to encourage the use of bicycles and pedelec bicycles. During 2016, the Government received 2,197 applications (93 of which were rejected due to non-compliance) for the grant offered on the purchase of this environmentally friendly mode of transport. In addition, a grant of €150,000 has been allocated to (a) encourage private companies to invest, on a 50:50 co-financing basis, in having secure parking for their employees who use bicycles as their mode of commuting; and (b) full funding of initiatives taken by Local Councils to invest in initiatives to promote secure cycling within the local community.

With regards to renewables, Government continued to provide grants for the purchase of solar water heaters, roof insulations and double glazing, and re-launched grant schemes for the purchasing of photovoltaic systems and feed-in tariffs for electricity generated by photovoltaic systems. In addition, the Government started a process to form partnerships with other non-Governmental bodies with the scope of developing solar farms on property owned by Government or its entities. Memoranda of Understanding have been signed with two key stakeholders which will now proceed to establish a joint venture with the Water Services Corporation to develop these solar farms. In addition, the

Communal Solar Farm scheme was launched in October 2016 and enables households without roof access to invest in virtual PV ownership and benefit from revenue generated from investment in renewable energy projects financed by the Government of Malta. This scheme was fully subscribed within a few days.

The Government extended the autogas conversion scheme for 2016 and 2017, where 250 vehicles are expected to continue to benefit on a yearly basis. The tax deduction on hybrid and electric vehicles, as well the grant on electric cars, have also been extended. The Government also introduced a number of measures to encourage people to opt for motorcycles over motor vehicles. Such measures include the reduction of the annual circulation tax for motorcycles of engines up to 125cc to €10, removal of registration tax on electric motorcycles, as well as, the permission for 125cc automatic motorcycles to be driven without the need of a B license.

Furthermore, the biofuel substitution obligation, requiring importers and wholesalers of automotive petrol and diesel to place a share of biofuel in the market, was set at 6.5 per cent (by energy content) in 2016.

Moreover, Government is exploring connecting Valletta with the main arteries, through maritime transport via a public-private partnership. This project has been approved by UNESCO, however is still awaiting approval from the Superintendent of Cultural Heritage.

In relation to energy efficiency, Government continued to provide grants for roof insulations and double glazing. In addition, the Energy and Water Agency (E&WA) and the Malta Business Bureau (MBB) have launched a scheme encouraging enterprises to enter into a voluntary agreement in order to implement various energy efficiency measures. These two entities are also working together on the 'Investing in Energy' project, where a series of energy audits in medium sized enterprises within the manufacturing, wholesale and retail sectors will be carried out. In addition, Malta Enterprise, supported by the E&WA, launched a scheme to promote type 1 energy audits in small enterprises. Type 1 energy audits identify energy consumption at a site while carrying out a basic evaluation of low cost opportunities that can be easily implemented. These audits also contribute to create awareness at each site and highlight the potential benefits of managing energy.

## **4.4 Research and Innovation**

### **4.4.1 National targets**

In 2013, Malta's national gross domestic expenditure on research and development (GERD) target envisaged within the Europe 2020 Strategy was revised from 0.67 per cent to 2.0 per cent of Gross Domestic Product (GDP) by 2020. According to provisional figures by Eurostat, Malta recorded a provisional GERD of 0.77 per cent of GDP during 2015.

### **4.4.2 Policies to achieve the targets**

A revised National Research and Innovation (R&I) Action Plan was resubmitted and approved by the European Commission at the end of 2016. The strategy was developed by the Malta Council for Science and Technology (MCST), in collaboration with all relevant stakeholders with the aim of achieving the objectives of the R&I Strategy 2020.

Esplora, formerly known as the National Interactive Science Centre, is now completed and has been open to the public since October 2016. The Centre aims to serve as a hub for science communication with the aim to instil an active interest in science, research and innovation for young people and to encourage them to pursue a career in science and technology.

Furthermore, the Malta Council for Science, Art and Technology (MCAST) Research Framework aims to set up a Research Committee in order to create a dynamic environment that encourages an active knowledge transfer between academics, students and industry.

The Malta Information Technology Agency (MITA) Innovation Hub, which was set up in 2014, is acting as a hub to synergise the efforts of various parties aimed towards ICT-themed research and technological development, idea-generation, incubation and open-innovation. Based on the results of the ten pilot innovation projects funded since the start of the Accelerator, the hub will be launching an acceleration programme that will run during the period 2016 to 2020. The aim is to provide seed investment to partly fund the best start-ups. Indeed, the MITA Innovation Hub launched the first accelerator programme ('YouStartIT') in October 2016, where five start-ups were awarded a pre-seed investment. Intakes of up to five start-ups participating in the 'YouStartIT' programme are planned approximately every 8 months.

The R&I funding unit within the MCST is dedicated towards two programmes under the FUSION branding: the Commercialisation Voucher Programme (CVP) and the Technology Development Programme (TDP). The FUSION programme offers support with the aim of assisting researchers and enterprises in assessing the commercial and market potential of their ideas through the CVP, and subsequently, providing research aid through the TDP. In 2016, the CVP continued to generate further interest with over 40 applications and 16 beneficiaries through two calls. With regards to the TDP, 8 proposals were awarded funding following successful completion of the CVP. In 2017, the R&I funding unit is expected to issue a further two calls with regards to both programmes where at least another 6 projects are expected to move from CVP to TDP.

In the meantime, MCST, through the Horizon 2020 (H2020) Unit, will assist and support local researchers from both public and private entities by giving specialised advice and guidance about the Horizon 2020 Programme. The Unit will identify opportunities for local researchers in H2020 open calls and raise awareness through circulation of information and promotional events including one-to-one meetings and information sessions for potential participants.

The Centre for Entrepreneurship and Business Incubation (CEBI), which was set up with the aim of strengthening the concept of entrepreneurship at the University of Malta, has been quite successful since its recent inception. Indeed, 65 students obtained a Masters qualification in the Entrepreneurship programme by the end of 2016, with a high number proceeding in setting up business ventures and attracted significant funding. Moreover, the centre is planning to launch a doctoral programme which may also extend research to cover business and the self-employed.

Furthermore, the Malta Marittima Agency together with the University of Malta will be launching the Maritime Proof of Concept in 2017, which aims to aid and financially

support researchers and entrepreneurs to take their maritime-related technology or business innovative idea one step further towards commercialisation. The concept aims to encourage such researchers and entrepreneurs, who have creative and innovative ideas, to work closely with the University of Malta Knowledge Transfer Office on steps to commercialise their technology and become members of the University TAKEOFF business incubator where they will be supported to start up their company.

## **4.5 Promoting Social Inclusion in particular through the Reduction of Poverty**

### **4.5.1 National Targets**

The reduction of poverty and the promotion of social inclusion are key issues within Malta's political, social, economic and cultural context. Malta's target is to lift around 6,560 people out of the risk of poverty and exclusion by 2020. Against this scenario, the Government is committed towards alleviating poverty and social exclusion while also enhancing the prospects of society in general and of the most vulnerable persons in particular. The Government has implemented a number of specific programmes and launched a series of initiatives to obtain this objective.

### **4.5.2 Policies to achieve the targets**

#### **Progress on the Implementation of Ongoing Measures**

##### ***Elderly and Disabled Persons***

Government is sustaining its efforts to ensure adequate and sustainable pensions for current and future pensioners, as addressed in the ongoing pension reform process outlined under country-specific recommendation (CSR) 1. Government is working to improve the current system primarily by a continued strengthening of the first pillar and through the introduction of incentives pertaining to third pillar pensions.

As from 2016, the minimum pension for a person with a full contributory record was raised to €140 per week. A pro-rata is paid to those who have less than 50 but over 20 contributions, with the total number of beneficiaries amounting to around 18,636.

In addition, the bonus payable to those who reach retirement age but do not have enough contributions to receive a pension and who have paid more than one year but less than five years of contributions, has increased from €100 to €150, whilst the bonus for those with more than 5 years' worth of contributions has increased from €200 to €250 per annum. The number of persons who benefited from this measure, up to December 2016, amounted to 12,763.

In the Budget for 2017, Government continued to address adequacy by introducing measures aimed at supporting the income of specific groups of pensioners. In fact, through the Budget for 2017, pensioners are now tax exempted on income arising from any type of pension amounting up to a maximum of €13,000. Pensioners, whose income is taxed at the married rates, retain a differential of a further €1,000 on top of the €13,000. This measure will be implemented over a period of 2 years, 2017 and 2018. With respect to entitled beneficiaries of a minimum pension for married couples and to a non-contributory age pension, these pensioners will experience an increase in their pension of €4 per week. The Budget for 2017 also raised the amount of service pension

that is not taken into consideration for Social Security pension assessment purposes by another €200.

As a result of amendments to the Social Security Act in April 2016, a full widows' pension is paid to those pensioners who were entitled to a retirement pension but had to renounce it on the death of their spouse. This means that in future years, widows will have more income, enjoy a better quality of life and are less likely to fall into poverty. Up to September 2016, a total of 2,761 widows benefitted from this measure. In addition, this type of pension is now being awarded from the first day of retirement or death of a spouse in the case of a widow's pension. Beneficiaries are gaining from 1 to 6 days of pension, since the first pay date will no longer fall on a Saturday.

Government has continued to address the exclusion challenges of disabled persons. Amongst the measures implemented, Government has launched housing for persons with disability. Through this project, the first ten residential homes in the community for disabled persons will be developed. This project will be spread over a period of three years, and will be completed in May 2018.

Progress was also registered with respect to the Appointment of Persons with a Disability on Government Boards/Committees/Commissions. This measure will ensure that persons with a disability contribute to the policy direction of these Government structures and that the best interests of persons with a disability and their families are safeguarded in the policy process. This measure will also guarantee that, following Malta's ratification of the United Nations Convention on the Rights of Persons with Disabilities, the implementation phase is being adhered to, while at the same time providing a satellite of information to the Focal Point Committee. The law regulating the statutory representation of persons with a disability on boards was endorsed by the Maltese Parliament, and is currently in its implementation phase.

Furthermore, a pilot fund was set up to help families who care for a dependent elderly that requires constant supervision. The scheme was launched in 2016 and implemented in January 2017 with a series of amendments performed in response to the outcome of the pilot scheme. During 2016, the Government paid an annual maximum of €4,500 with respect to the wages paid to qualified live-in carers employed on a full-time basis. This sum was increased to €5,200 as from January 2017. It is estimated that around 160 elderly persons will benefit from this fund. In addition, in January 2017, there was also the introduction of the Increased Carer's Allowance and Carer's Allowance. In this respect, the Increased Carer's Allowance which is not means tested, and married persons, can also apply, is subjected to the high dependency of the patient by using the Barthel Index or the Mini-Mental State Examination. Meanwhile, the Carer's Allowance is subjected to the medium dependency of the patient by using the Barthel Index or the Mini-Mental State Examination. This allowance is means tested and paid at a maximum of €90 per week. The amalgamation of both benefits will result in an increase in the number of people who will continue to live in the community and thus reducing the possibility of being socially excluded.

### ***Families and Adolescents***

Government is strengthening support services to jobless households with a view to provide a more accessible and holistic service to those at risk of poverty, those in poverty and those who are facing social exclusion. Community-based projects continue to target

teens and adults with the scope of enhancing their skills and facilitating their integration in the community/society. Particularly (though not exclusively), attention is given to single mothers. The good practices that emerged from the LEAP project, which was officially completed in November 2015, were taken on board by policy makers with the project continuing to be financed through national funds. More specifically, the Ministry for Family and Social Solidarity (MFSS) has been entrusted with the implementation of the Fund for the European Aid to the Most Deprived, which involves the periodical distribution of food packages to eligible households who are exposed to greater risk of poverty and social exclusion.

The Housing Authority continued to carry out repairs and embellishment works in housing estates. In this regard, following the reactivation of schemes related to the regeneration and maintenance of housing estates, various projects were completed, while others are still progressing. Government is also investing in the upgrading and enhancement of another three Housing Authority blocks. Additionally, several meetings have taken place between the Housing Authority, Department of Contracts, Malita Investment plc, European Investment Bank (EIB) and the Council of Europe Development Bank (CEB), leading to the approval of a loan of €50 million with low rates of interest with an agreement with EIB. A legal framework has been established for a financial model which will be adopted in order to make use of the €50 million, in agreement with the Housing Authority, Ministry for Finance (MFIN), Malita plc, EIB and CEB.

Also, as announced in the Budget for 2017, first-time home buyers acquiring immovable property will continue being exempt from paying duty on the first €150,000 until end-2017. The number of contracts for first-time buyers registered during 2016 was 2,578. Records show that since its launch in 2014, this measure has resulted in a total of 8,719 contracts that were signed for 11,915 eligible first-time buyers.

In January 2016, there was a change in the means test for Social Assistance purposes and entitlement, with the aim of ensuring that there is no disincentive to work in the form of reductions in the rate of benefit once children forming part of the household start working. Around 1,900 beneficiaries saw an increase in their entitlement.

In addition, through the In-Work Benefit scheme, additional income is provided to families with children who are in employment and are on low income. In the 2016 Budget, Government announced that this measure will be extended to include low-to-medium income families where only one of the spouses is gainfully occupied (with an income between €6,000 and €13,000) and who has dependent children up to 23 years of age. In the 2017 Budget, Government announced an increase in income thresholds and in the applicable rates. This measure is expected to lessen dependency and to attract more social benefit beneficiaries into employment. Together with other measures, it will therefore contribute to further reduce the at-risk-of-poverty rate. The number of beneficiaries paid as at end of December 2016 was of 1,717.

In addition, in the Budget for 2017, Government reformed the supplementary allowance by increasing the maximum income threshold for married persons to €13,000 per annum while the threshold for single persons increased with the Cost of Living Adjustment (COLA). Data for 2016 shows that 23,343 persons have benefited from this allowance.

## **Other Measures**

The Government is working on an integration policy which should lead towards a reduction in the difficulties posed by social exclusion and an improvement in the relationship between Maltese and foreign communities. Towards the end of 2015, the Directorate for Human Rights and Integration was set up within the Ministry of Social Dialogue Consumer Affairs and Civil Liberties (MSDC), thus addressing the commitment towards the drawing up of an Integration Policy. MSDC embarked on an European Union (EU) funded project which led to the drafting of the framework document which is intended to shape the National Integration Strategy for Malta 2015-2020. In-depth research to target new relevant policy areas in this sector is still on-going. This shall be followed by the completion and launch of the national strategy.

## **Planned New and Extended Measures**

A planned new measure refers to equality in pension rates paid to male and female pensioners. The re-assessment to award female pensioners the same rates as males is still ongoing and latest estimates show that a total of 1,800 female pensioners will benefit from this measure.

Furthermore, the disability pension reform seeks to introduce a three-tier payment system depending on the degree of disability. The aim is to increase payments to those who cannot work and thus fall in the first tier and to those persons who have a missing lower or upper limb falling into the third tier. Presently, payments are effected to those persons falling in the second tier and whose disability falls within the Social Security Act and who are working or are able to work. As a result of this measure and following Parliament approval, amendments to the Social Security Act will be carried out to include persons falling under the first and third tier. It is imperative to point out that payment of the Increased Severe Disability Assistance (first tier) is of €120 per week whilst the payment for the Disability Assistance (third tier) is means tested and can be up to €76.60 per week.

The Government will be extending the renewal period of free medical aid for disabled pensioners to one year instead of the current three months. In order to streamline the means test for free medical aid, the capital threshold means test will be the same as the non-contributory benefits means test. This measure will increase the capital threshold for married and single beneficiaries, thus more persons will qualify for such a benefit.

Another new measure is that related to the rent subsidy, where the Housing Authority will be extending the criteria by which families would be eligible for such a subsidy and will also double the maximum rent subsidy. Indeed, the maximum rent subsidy given by the Authority is to be increased from €1,000 to €2,000 per annum. The maximum income earned by an applicant to qualify for this subsidy increased from €18,514.80 to €23,000 per annum. The maximum assets applicants should possess were also increased from €10,000 to €23,300. An additional 1,400 households are expected to benefit from this initiative.



## **5. European Union Funds and Other Reforms**

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## 5. European Union Funds and Other Reforms

This chapter outlines the Government's strategy as related to European Union (EU) Funds and their relevance to structural reforms. Furthermore, this chapter will also analyse other reforms that are unrelated to country-specific recommendations (CSRs) but are nonetheless important for both the business environment and the local economy.

### 5.1 EU Funds

Economic growth and the creation of more and better jobs are the main focus of the European Structural and Investment (ESI) Funds. In recent years, Malta has made a quantum leap both in terms of the development of physical infrastructure as well as through investment targeting its human capital. In fact, the country has undertaken important investments in key strategic areas such as competitiveness, environment, education, health, social welfare, agriculture and fisheries.

Investment will continue to be directed towards a number of key areas in line with the Europe 2020 targets, as well as fund-specific missions, which will continue to enhance environmental sustainability, social well-being and a healthy society, whilst fostering competitiveness through economic development and job creation.

Malta's Partnership Agreement sets out an assessment of the national development needs and defines the priorities for the use of the ESI Funds, that will help Malta achieve its socio-economic goals as well as contribute towards the agreed Europe 2020 targets over the programme cycle. Taking into consideration the internal and external consultations undertaken, whilst the main focus will continue to be that of consolidating and building on the gains achieved to date, the 2014-2020 programming period also presents an opportunity for the Maltese economy to continue fostering the right environment for economic growth and job creation, whilst ensuring an inclusive society. Within this context, the Partnership Agreement has identified the following three funding priorities:

1. Fostering competitiveness through innovation and the creation of a business-friendly environment;
2. Sustaining an environmentally-friendly and resource-efficient economy;
3. Creating opportunities through investment in human capital and improving health and wellbeing.

In this regard, the Partnership Agreement will continue to support the implementation of the Funding Priorities whilst taking into account the relevant CSRs.

The Partnership Agreement is being implemented through the various Operational Programmes and the Rural Development Programme financed through the ESI Funds. The implementation of the Programmes is expected to contribute towards the Europe 2020 targets. In this regard, calls for application under ESF and ERDF Priority Axis have been launched, which include investment for the development of SMEs, environment, ICT and education, amongst others. In addition, initiatives related to training and human resource development, employment and social inclusion have also been financed. Moreover, other calls financed through the European Maritime Fisheries Fund and the Rural Development Programme were issued throughout 2016. Other calls will be published in 2017.

## **5.2 Additional Reform Measures and the use of Structural Funds**

### **A Digital Agenda for Europe**

The Digital Agenda for Europe seeks to boost Europe's economy by delivering sustainable economic and social benefits within a digital single market, thus contributing to the maximisation of the social and economic potential of ICT through high-speed internet and interoperable applications. At this stage, EU funds have been secured for a feasibility study on the need for a submarine cable to mainland Europe. Malta has also secured further funding through the Connecting Europe Facility (CEF) for the BeSmartOnline4 Project, which is aimed to help children, young people, parents and educators understand the basic principles and best practices for a safer online experience for children.

The Digital Malta Strategy, which stemmed from the Digital Single Market Strategy, supports the competitiveness and attractiveness of the Maltese economy. It promotes more start-ups, attracts foreign investment, enables strategic alliances, encourages angel investment and nurtures niche service providers. Business is encouraged and supported to exploit (i) the opportunities of the European Digital Single Market, (ii) Malta's strategic location in the Mediterranean, with ready access to the European and North African markets, (iii) Government's strategic alliances with foreign ICT organisations, (iv) opportunities to expand into new or bigger markets.

During the second half of 2016, a consultation exercise with the public sector, the private sector and civil society resulted in the launch of the National Cyber Security Strategy. This strategy is based on the strategic goals that emerged from a Green Paper on the same subject which was launched in 2015. The strategy aims to establish a governance framework to combat cybercrime and strengthen the national cyber defence, as well as securing a cyber space, raising awareness and education and create a culture of national and international cooperation.

The eSkills Malta Foundation is set to publish the latest Demand and Supply Monitor (ICT Skills Audit) in the first quarter of 2017. The objective of the eSkills Malta Foundation, remains that of increasing the digital capacity in Maltese ICT practitioners, labour force and citizens, foster and promote the ICT professional ethics and standards, embark on digital skills studies, and implement an annual national eSkills plan in line with the local needs. All this will be complemented by the sharing of best practices from other similar European coalitions, thus actively contributing to the Digital Single Market.

### **European Platform against Poverty**

The reduction of poverty and the promotion of greater social inclusion are key issues within Malta's political, social, economic and cultural milieu. Against this scenario, the Government is committed towards alleviating poverty and social exclusion while also enhancing the wellbeing of society in general and especially for members of the most vulnerable groups. This national commitment is reflected in the National Strategic Policy for Poverty Reduction and for Social Inclusion (2014-2024) that was launched by the Ministry for the Family and Social Solidarity (MFSS) in December 2014. This strategic policy presents six dimensions that are vital for promoting well-being namely: income and social benefits; employment; education; health and environment; social services; and culture.

The MFSS set up an Action Committee to draw up an action plan, monitor the implementation progress and analyse the efficacy of the implemented measures with respect to its objectives. Furthermore, in 2015, the Ministry set up an Inter-Ministerial Committee (IMC) that replaced the Action Committee. This IMC brought together the key Ministries covering the six dimensions underpinning the vision and strategic direction of the policy, namely the Ministry for Education and Employment (MEDE), Ministry for Health (MFH), Ministry for Justice, Culture and Local Government (MJCL) and MFSS.

## **Innovation Union**

Malta has continued with the implementation of initiatives which aim to drive growth through innovation by strengthening its knowledge base, supporting good ideas to reach the market, making good use of structural funds for research and innovation as well as joining efforts nationally and with partners abroad.

Malta continued to prioritise the building of its knowledge base, focusing extensively on building human resource capacity in the widest sense – from increasing awareness and interest in science and technology in young people (through the construction of Esplora, the National Interactive Science Centre which was launched in October 2016), to post-graduate, doctoral and post-doctoral support schemes. As at January 2017, 16 researchers enrolled for the Reach-High Post-Doctoral Grant scheme. In the meantime, the number of students following post-graduate courses, and new doctorate graduates increased by 8.5 per cent (European Innovation Scoreboard 2016) increasing the human resource capacity in research activity as well as the availability and employment of high-level graduates in priority R&I sectors identified for Malta. In addition, agreements with international research organisations are enabling Maltese students to embark on training opportunities in these organisations. During 2016, Malta also started working on its first national space policy, in recognition of the potential that this sector holds for Maltese industry as well as academia, and in recognition of the need to better coordinate ongoing activities in this area.

The national R&I system is founded on principles underpinning the European Research Area (ERA) vision. Malta actively sought to encapsulate the ERA dimension and what it means for small countries through its national ERA Roadmap, which was completed in April 2016. This document establishes Malta's research and innovation strategy for the forthcoming seven-year period. Following the finalisation of the National R&I Strategy, Malta also embarked on the preparation of an R&I Action Plan to map out the operationalisation of the R&I Strategy and the monitoring of its implementation. Malta's finalised R&I Action Plan was approved by the European Commission in October 2016. This action plan is a multi-annual plan which will be updated regularly, and which will guide national and structural funds expenditure in R&I over the coming years. In 2017 Malta will continue working on setting up the monitoring mechanism and identifying key performance indicators to complement the R&I Action Plan.

A dedicated suite of R&I incentives for industry, involving both grants and fiscal benefits, is in place. This incentive package is currently under review to ensure compliance with the new State Aid guidelines.

The Centre for Entrepreneurship and Business Incubation (CEBI) has been successful. Several of the Centre's graduates have proceeded in setting up business ventures and

have attracted significant funding. Moreover, 65 students graduated by the end of 2016 in the Masters in Entrepreneurship programme.

In the coming years, Malta is expected to continue its participation in key EU initiatives, including Joint Programming Initiatives, Joint Undertakings, and pan-European Research Infrastructures. Examples of such participation include the Lab4Mems I and II projects, under the Electronic Components and Systems for European Leadership (ECSEL) Joint Undertaking (formerly ENIAC).

Malta continued its proactive support for and participation in Euro-Mediterranean initiatives, including ERANET-MED and ARIMNET II, and is actively engaged in the development of the Partnership for Research and Innovation for the Mediterranean Area (PRIMA). In this regard, Malta specifically funded and supported regional projects in Research Development and Innovation (RDI) and committed itself to the PRIMA initiative with a funding of €500,000 per year for the next 10 years. On the local level, Malta continues to support Maltese researchers and industry players to participate in cross-border collaborative R&I activities through grants and the establishment of bilateral agreements with international organisations.

### **New Skills for New Jobs**

During 2015 and 2016, the National Commission for Further and Higher Education together with Jobsplus and Malta Enterprise (ME), undertook a research project on skills needs and the supply and demand for workers in different sectors of the labour market in Malta. This research formed part of the Erasmus+ project “Promoting the Bologna Process in Malta 2014-2016”. The objective of this research was to collect evidence about the number of employees in different sectors of the Maltese economy and undertake a skill forecast in terms of the number of staff required over the medium and long-term. Furthermore, the survey collected data on recent recruitments, types of vacancies that are hard to fill and the reasons for such situations. It also collected data on the level of qualification held by employees in different sectors of the Maltese economy, their knowledge, skills and competences as well as training needs during their employment. The final report on this research will be presented in the first half of 2017.

### **Increasing Employability through Training**

Various projects are currently ongoing with the aim of increasing the employability of persons who are either particularly vulnerable or have so far found it difficult to find employment. To this effect, the Access to Employment Project provides employment aid to enterprises in Malta and Gozo, while the Average Wage Earner Scheme financially assists employed and self-employed persons attending one of Jobsplus courses and whose weekly wage does not exceed €300 per week. Other measures include the Bridging the Gap Scheme aimed at supporting persons with disability or former prison inmates or substance abusers, in their transition period from unemployment to employment; Sheltered Employment Training aimed at preparing individuals with mental, physical and/or intellectual disabilities for employment; the Traineeship Scheme, Work Exposure Scheme and the Work Placement Scheme provide jobseekers with pre-employment training that will help them obtain the knowledge, skills and competence required to find and retain employment; the Not in Education, Employment or Training (NEET) Activation Schemes within the Youth Guarantee Initiative, through targeted intervention and empowerment measures, aim at encouraging the re-integration of

young people who are detached from the education system or from the labour market; the Work Programme Initiative whose main objective is that of re-integrating the long-term unemployed back within the labour market.

### **Industrial Policy Flagship**

This Government will continue to ensure conditions conducive to sustainable industrial growth, within the framework of a diversified and balanced economy. ME, the key industrial strategy driver, will focus on its core business, namely the promotion of direct investment. While the attraction of foreign direct investment accounts for a very significant part of ME's resources, ME also actively promotes investment from a local perspective. In view of the importance of innovation and quality as vital components of international competitiveness, ME will initiate and support initiatives aimed at upgrading new industrial competences and to ensure the existence of a link between training institutions and the industry. Life sciences, aviation services, marine industries, innovative information and communications industries including bioinformatics and the production of digital games as well as a broad range of engineering industries will feature as priority sectors.

## **5.3 Strengthening Financial Stability**

In line with Malta's obligations under EU law, the transposition and adoption of the macro-prudential provisions under the Capital Requirements Directive IV (CRDIV) and the Capital Requirements Regulation (CRR) have either already been adopted or are being adopted according to the provisions of this framework. This framework continues to build on the Government's commitment to ensure the stability and resilience of the financial market.

The transposition of the Bank Recovery and Resolution Directive (BRRD) 2014/59/EU has also been completed and introduced locally via Legal Notice 301 on September 2015. Moreover, the necessary legislative changes were also carried out in 2015, thus establishing the national Resolution Authority and a national Resolution Committee. Work on the transposition of Directive 2014/49/EU (Deposit Guarantee Scheme Directive) was also completed and introduced by way of Legal Notice on 4 December 2015. Moreover, in November 2015, Act No XXXIII of 2015 was passed to authorise the Government of Malta to enter into the agreement on the transfer and mutualisation of contributions to the Single Resolution Fund.

As a participating Member State in the Banking Union, Malta meets the conditions set for the entry into force of the Loan Facility Agreement. Indeed, following the transposition of the BRRD in 2015 and the ratification of the Intergovernmental Agreement, the Loan Facility Agreement came into effect as from 23<sup>rd</sup> May 2016. In March 2017, amendments to the Banking Act 1994 (Cap. 371 of the laws of Malta) were published to further specify the ranking of creditors in case of insolvency or winding up of a credit institution thus adding clarity regarding the relative standing of depositors and the national Depositor Compensation Scheme vis-à-vis the insolvency ranking provisions of the BRRD.

Following the transposition of CRDIV/CRR, the domestic macro prudential framework has been strengthened, as the macroprudential authority has been allocated legal powers to implement macroprudential tools as per EU law or based on national legislation. In January 2016, a capital buffer for 'Other Systemically Important Institutions' was

established in order to strengthen the resilience of the domestic financial system to systemic risk arising from misaligned incentives and moral hazard. Also, as from the first quarter of 2016, the framework for the Counter-Cyclical Capital Buffer was operationalized, whereby the capital buffer was set at zero signaling that no excessive credit growth was not present at the time and this has been the case to date. Another macro prudential measure was introduced in October 2016 relating to the reciprocity of the Systemic Risk Buffer introduced by Estonia. In order to address high levels of Non-performing loans (NPLs) and bad assets, in 2016 targeted regulatory changes have been made through amendments to the Banking Rule 09. These require local financial institutions to submit plans to the authorities to reduce their NPL ratios to below 6 per cent within a period of five years. Banks that will deviate from their NPL resolution plans would have to allocate capital to the Reserve for Excessive NPLs. This encourages a faster clean-up of banks and firms' balance sheets to improve the credit channel and support investment.

The Malta Development Bank (MDB), which is in the process of being set up, will be able to identify and address any market failures, with particular attention to be given to issues relating to firms' access to finance and any related issues in the local scene. The MDB, which shall be owned by the Maltese Government should start operating around end-2017 and aims to support SME financing by providing long-term loans through commercial banks.

In February of 2016, the Central Bank of Malta Directive 14 established the Central Credit Registrar (CCR) which is expected to improve competition in the lending market. Furthermore, supervision for Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) is expected to increase since more resources are being dedicated to this area and also as a result of closer supervisory cooperation and coordination between the Malta Financial Services Authority (MFSA) and the Financial Intelligence Analysis Unit (FIAU). This increase in resource availability and the risk-based joint supervisory regime which has been adopted by the MFSA and FIAU, will also see onsite visits to financial services operators increase both in number as well as in intensity. The FIAU will continue to oversee other pertinent non-financial entities.

These initiatives also form part of a wider context which includes the implementation of a full Banking Union within the EU with direct supervision by the European Central Bank (ECB) (together with national authorities) of all banks in the Union applying a Single Rulebook, a Single Supervisory Mechanism (SSM), a Single Resolution Mechanism (SRM) and with a common system of Deposit Guarantee Schemes (DGS).

These measures are intended to bring Malta in line with the initiatives pertinent to the legal requirements underpinning the implementation of a Banking Union. These measures have an important qualitative impact on the overall stability of the local financial sector, thus benefiting both institutions and depositors. An additional impact on institutions is also expected in view of funding allocations for the relevant contributions to resolution and deposit guarantee scheme funding, as well as in view of regulatory and capital requirements which, depending on the capital position, could also influence banks' operations. Moreover, these initiatives also seek to prevent negative feedback loops between the sovereign and the banking sector, thus also having a positive impact on the stability of Government finances. Given the degree of interdependence for the functioning of such initiatives, Malta continues to strive towards a timely adoption,

providing the relevant input as required and remaining ready to make the necessary amendments to national legislation for the safeguarding and strengthening of financial stability.

## **5.4 Euro Plus Pact Measures**

The Euro Plus Pact is an intergovernmental pact between most of the EU Member States which aims to improve the competitiveness, employment, financial stability and fiscal strength of each country.

### **Review of Requested Performance Guarantee Value**

In line with current policy of improving competitiveness in public procurement, the Government has reduced the required performance guarantee to be submitted by economic operators from 10 per cent to 4 per cent when the value of the contract does not exceed €500,000. This measure is expected to encourage a gradual increase in SME participation in public procurement. The number of economic operators participating in e-tenders has increased considerably in 4 years from 1,290 in 2013 to 4,358 by end of February 2017.

## **5.5 Planned, New and Extended Measures**

### **Updating of electronic system for the Inspectorate section**

In 2017, an updated electronic system is to be developed to facilitate the collection of data and monitoring at the place of work by virtue of the Employment and Industrial Relations Act and this information would be automatically transferred to the Department's database in real time. With the completion of this upgrade, it is expected that the efficiency of inspections will be raised and both the administrative burden and the burden on employers will be minimised. The system has currently entered the testing phase.

### **Consultations with all stakeholders regarding equal pay for equal work**

As announced in the 2017 budget, the Government is to hold consultations with all the relevant stakeholders to discuss the issue of wages and salaries of employees of private contractors who are providing services to the Government. The consultations are part of a study that is to be conducted about whether employees of private contractors providing services to the Government should have their wages pegged to those of Government workers performing similar jobs, or whether their wages should be on the same level of employees working with other private operators in the same sector. Discussions are being conducted with social partners at the Employment Relations Board where Government shall be presenting the outcomes of a study on the matter in question.

### **Introduction of online electronic payment by importers**

In line with the International Trade Facilitation Agreement, during 2017, the Customs Department is now committed to introduce an online payment facility for use by traders and one-time importers importing goods that attract duties into Malta.

Through this measure, there will be a complementary facility for settlement of dues in favour of the Customs Department which would benefit both the Department's clients

and the Department itself. This measure will reduce or eliminate the inconvenience to the Department's clients of personally calling at the Department to effect payment as well as ensuring a more secure payment process for the Department since online payments will replace cheque dealings further raising the efficiency of the use of human resources.

### **Reduction from 5 per cent to 1.5 per cent in stamp duty in transfer of a business to the children**

Starting from April 2017, Government is giving a 12-month concession whereby the stamp duty of 5 per cent is being reduced to 1.5 per cent, when a parent transfers a business to their children. This is expected to facilitate the inter-generational transfer of businesses and wealth and thus contribute to sustain the competitiveness of enterprises. (Note: LN is still to be published, but according to the latest draft the measure is going to be effective from 1<sup>st</sup> April 2017).

### **Modernising Public Administration - Using ICT in the Achievement of Government's Simplification and Reduction of Bureaucracy Agenda**

Government will be simplifying the process of deploying e-Government services. This is an initiative to promote and provide one face to online Government by simplifying this access through a set of life events (pregnancy and birth, getting a passport, looking for a job). The landscaping of activities including life events (such as business, job, studying, and family) and simplification and responsiveness were completed. This was the first phase of the EU Benchmarking exercise. Government will also focus on the simplification of social security online services and Courts online services.

The modernising of public administration will improve the accuracy and timeliness of the data capture and reduce the visits to the Social Security Department and area offices. Furthermore, various real time services will be offered by the Courts to the citizens and to the legal profession that will increase the case clearance rate and decrease the disposition time. Furthermore, this simplification of processes includes the integration of different forms which are, at the moment, an annual requirement for the setting up of a business (IRD, VAT, ETC, etc.) to be integrated into one online form, thus reducing the time to start a new business by 10 days.

March 2017 has seen the launch of new mobile apps that give access to certain Government services 24 hours per day. This measure was done with the aim of reducing bureaucracy and improve the quality of the services provided by the Government to its citizens. These apps and the related services concern areas such as culture, consumers, animal welfare, crafts, customs, taxes, flora and fauna, the Maltese Presidency of the EU Council, Valletta 2018, Gozo and blood donation.

### **Business Enhance Grant Schemes**

The Business Enhance Grant Schemes, which are part financed by the European Regional Development Fund (ERDF), aim to support firms in the undertaking of investment projects whose target is to secure sustainable business growth through increased competitiveness, innovation and raising resilience to market changes. The first two schemes under this initiative have already been launched, the first being the Start-Up Investment Grant Scheme, which aims to support start-ups in overcoming the challenges in their early stages by economically exploiting their ideas to ensure their survival. The second scheme is the SME Growth Grant Scheme, which aims to support SMEs in their

growth strategy by partially financing initial investment in tangible and intangible assets which will increase the capacity of the existing establishment, or the setting up of a new establishment. In total, the Business Enhance Grant Schemes will make available around €51 million, from which around 600 firms are expected to benefit.



## **6. Institutional Issues and Stakeholder Involvement**



## 6. Institutional Issues and Stakeholder Involvement

In order to implement the country-specific recommendations and attain the Europe 2020 targets, the commitment of the Government as well as that of social partners, local Government and non-governmental organisations, is required. As in previous years, Government has actively consulted the Malta-European Union Steering Action Committee (MEUSAC) and the Malta Council for Economic and Social Development (MCESD), two forums which bring together the main social partners in Malta. In fact, these stakeholders were consulted by the respective Ministries on various measures and initiatives presented in the National Reform Programme (NRP) and they were also invited to attend an ad hoc meeting on the NRP to discuss the strategic underpinnings of the overall report.

Furthermore, a quarterly monitoring exercise on the implementation of the NRP was carried out, prior to the drafting of a status report on each individual measure listed in the NRP. It should be noted that measures which are co-funded through European Union (EU) funds have also been included in this NRP.

The Ministry for Finance was responsible for coordinating the required input from the relevant Ministries and key stakeholders, participating in seminars and discussions on issues concerning the EU 2020 Strategy and providing updates on the progress achieved in the NRP. This collaborative process proved to be successful and has led to the drafting of a comprehensive yet concise NRP with increased ownership from line Ministries. In addition, the Ministries and entities responsible for the implementation of the NRP document, the respective Local Councils and the Local Councils' Association, were consulted as necessary. A copy of the NRP will be handed to the Malta Fiscal Advisory Council. Subsequently, the NRP will be made available to the public after submission to the European Commission. The 2017 NRP document has been discussed and approved by Cabinet on the 11<sup>th</sup> April 2017.