Council of the European Union

Brussels, 13 June 2023
(OR. en)

9844/1/23
REV 1

ECOFIN 529
UEM 155
SOC 396
EMPL 274
COMPET 538
ENV 584
EDUC 225
RECH 245
ENER 301
JAI 737
GENDER 108
ANTIDISCRIM 106
JEUN 143
SAN 321

NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. prev. doc.:	9783/23 - COM(2023) 618 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2023 National Reform Programme of Malta and delivering a Council opinion on the 2023 Stability Programme of Malta

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees and finalized by the Economic and Financial Committee, based on the Commission Proposal COM(2023) 618 final.

Recommendation for a

COUNCIL RECOMMENDATION

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

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

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[1] OJ L 209, 2.8.1997, p. 1.

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

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

(2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey[3], marking the start of the 2023 European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 23 March 2023. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2023 Alert Mechanism Report, in which it did not identify Malta as one of the Member States that may be affected or may be at risk of being affected by imbalances. As such, an in-depth review would not be needed. On the same date, the Commission also adopted an opinion on Malta's 2023 draft budgetary plan. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 16 May 2023, as well as the proposal for the 2023 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 13 March 2023.

(3) While the EU economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the EU stands firmly with Ukraine, the EU economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and companies in the short term, and on keeping up efforts to deliver on the green and digital transition, support sustainable and inclusive growth, safeguard macroeconomic stability and increase resilience in the medium term. It also focuses heavily on increasing the EU's competitiveness and productivity.

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3 COM(2022) 780 final.

(4) On 1 February 2023, the Commission issued the Communication *A Green Deal Industrial Plan for the Net-Zero Age*[4] to boost the competitiveness of the EU's net-zero industry and support the fast transition to climate neutrality. The plan complements ongoing efforts under the European Green Deal and REPowerEU. It aims to provide a more supportive environment for scaling up the EU's manufacturing capacity for the net-zero technologies and products required to meet the EU's ambitious climate targets, as well as ensuring access to relevant critical raw materials, including by diversifying sourcing, properly exploiting geological resources in Member States and maximising the recycling of raw materials. The plan is based on four pillars: a predictable and simplified regulatory environment, speeding up access to finance, enhancing skills, and open trade for resilient supply chains. On 16 March 2023, the Commission also issued the Communication *Long-term competitiveness of the EU: looking beyond 2030*[5], structured along nine mutually reinforcing drivers with the objective to work towards a growth enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well focused investments and regulatory measures for the long-term competitiveness of the EU and its Member States. The recommendations below help address those priorities.

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4 COM(2023) 62 final.
5 COM(2023) 168 final.

(5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. Fully implementing the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in recent years. The 2019, 2020 and 2022 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(6) The REPowerEU Regulation[6] adopted on 27 February 2023 aims to rapidly phase out the EU's dependence on Russian fossil fuel imports. This will contribute towards energy security and the diversification of the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. They will also help boost the competitiveness of the EU's net-zero industry as outlined in the Green Deal Industrial Plan for the Net-Zero Age and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States to finance new energy-related reforms and investments under their recovery and resilience plans.

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

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

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7 COM(2023) 141 final.
8 COM(2022) 583 final.

(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the EU's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and inclusive growth in all Member States through reforms and investments. In its proposals, the Commission aims at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. According to the Council Conclusions adopted on 14 March 2023, the objective is to conclude the legislative work in 2023.

(9) On 13 July 2021, Malta submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 5 October 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Malta[9]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Malta has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

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

(10) On 25 April 2023, Malta submitted its 2023 National Reform Programme and, on 3 May 2023, its 2023 Stability Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2023 National Reform Programme also reflects Malta's biannual reporting on the progress made in achieving its recovery and resilience plan.

(11) The Commission published the 2023 country report for Malta[10] on 24 May 2023. It assessed Malta's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022 and took stock of Malta's implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Malta's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

[10] SWD(2023) 618 final.

(12) Based on data validated by Eurostat,[11] Malta's general government deficit decreased from 7.8% of GDP in 2021 to 5.8% in 2022, while general government debt fell from 55.1% of GDP at the end of 2021 to 53.4% at the end of 2022. On 24 May 2023, the Commission published a report under Article 126(3) TFEU;[12] the report discussed the budgetary situation of Malta, as its general government deficit in 2022 exceeded the 3% of GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled. In line with the Communication of 8 March 2023,[13] the Commission did not propose to open new excessive deficit procedures in spring 2023; in turn, the Commission stated that it would propose to the Council to open deficit-based excessive deficit procedures in spring 2024, on the basis of the outturn data for 2023. Malta should take account of this in the execution of its 2023 budget and in preparing the Draft Budgetary Plan for 2024.

(13) The general government balance has been impacted by the fiscal policy measures adopted to mitigate the economic and social impact of the increase in energy prices. In 2022, such revenue-decreasing measures included cuts to indirect taxes on energy consumption, while such expenditure-increasing measures included subsidies to energy production to compensate for the price increase of imported electricity and carbon emissions. The Commission estimates the net budgetary cost of these measures at 2.5% of GDP in 2022. The general government balance has also been impacted by the budgetary cost of temporary protection to displaced persons from Ukraine, which is estimated at 0.1% of GDP in 2022. At the same time, the estimated cost of COVID-19 temporary emergency measures dropped to 0.8% of GDP in 2022, from 3.2% in 2021.

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11 Eurostat-Euro Indicators, 47/2023, 21.4.2023.
12 COM(2023) 631 final, 24.5.2023.
13 COM(2023) 141 final, 8.3.2023.

(14) On 18 June 2021, the Council recommended that in 2022 Malta[14] maintain a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.

(15) According to the Commission estimates, the fiscal stance[15] in 2022 was broadly neutral, at - 0.2% of GDP, as recommended by the Council. As recommended by the Council, Malta continued to support the recovery with investments to be financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.9% of GDP in 2022 (1.1% of GDP in 2021). The decrease in expenditures financed by Recovery and Resilience Facility grants and other EU funds in 2022 was due to a lower absorption of other EU funds. Nationally financed investment provided a contractionary contribution of 0.2 percentage points to the fiscal stance.[16] Malta therefore did not preserve nationally financed investment which was not in line with the Council recommendation. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided an expansionary contribution of 0.9 percentage points to the fiscal stance. However, this significant expansionary contribution included the additional impact of fiscal policy measures to mitigate the economic and social impact of the increase in energy prices (additional net budgetary cost of 1.9% of GDP), as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP). Malta therefore sufficiently kept under control the growth in nationally financed current expenditure.

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[14] Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Malta, OJ C 304, 29.7.2021, p. 83.

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

[16] Other nationally financed capital expenditure provided a contractionary contribution of 0.3 percentage points of GDP.

(16) The macroeconomic scenario underpinning the budgetary projections in the Stability Programme is in line with the Commission 2023 Spring Forecast for 2023 and thereafter. The government projects real GDP to grow by 4.1% in 2023 and 4.5% in 2024. By comparison, the Commission 2023 spring forecast projects a lower real GDP growth of 3.9% in 2023 and 4.1% in 2024, mainly due to lower contribution of net exports to growth.

(17) In its 2023 Stability Programme, the government expects that the general government deficit ratio will decrease to 5.0% of GDP in 2023. The decrease in 2023 mainly reflects the increase in other revenues, including the proceeds from the country's investor citizenship and residence schemes while the decrease of the subsidies, including the expected phasing out of the national airline restructuring costs, is partially compensated by an increase of intermediate consumption and gross fixed capital formation. According to the Programme, the general government debt-to-GDP ratio is expected to increase from 53.4% at the end of 2022 to 54.5% at the end of 2023. The Commission 2023 spring forecast projects a government deficit of 5.1% of GDP for 2023. This is in line with the deficit projected in the Stability Programme. The Commission 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 54.8% at the end of 2023.

(18) The government balance in 2023 is expected to continue to be impacted by the fiscal measures adopted to mitigate the economic and social impact of the increase in energy prices. They consist of measures extended from 2022 in particular of cuts to indirect taxes on energy consumption and subsidies to energy production to compensate for the price increase of imported electricity and carbon emissions. The net budgetary cost of the support measures is projected in the Commission 2023 spring forecast at 1.7% of GDP in 2023[17]. The measures in 2023 do not appear targeted to the most vulnerable households or firms, and do not fully preserve the price signal to reduce energy demand and increase energy efficiency. As a result, the amount of targeted support measures, to be taken into account in the assessment of compliance with the recommendation for 2023, is estimated in the Commission 2023 spring forecast at 0.1% of GDP in 2023 (compared to 0.1% of GDP in 2022). Finally, the 2023 government balance is expected to benefit from the phasing out of COVID-19 temporary emergency measures of 0.8% of GDP.

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

(19) On 12 July 2022, the Council recommended[18] that Malta take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[19], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Malta should stand ready to adjust current spending to the evolving situation. Malta was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.

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

[19] Based on the Commission spring 2023 forecast, the medium-term (10-year average) potential output growth of Country, which is used to measure the fiscal stance, is estimated at 9.5% in nominal terms.

(20) In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be contractionary (+ 0.4% of GDP), in a context of high inflation. This follows broadly neutral fiscal stance in 2022 (- 0.2% of GDP). The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide a contractionary contribution of 0.8 % of GDP to the fiscal stance. In sum, the projected growth of nationally financed primary current expenditure is in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.6% of GDP in 2023, while nationally financed investment provided a contractionary contribution to the fiscal stance of 0.3 percentage points[20]. Therefore, Malta plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, but it is not projected to preserve nationally financed investment. It plans to finance public investment for the green and digital transitions, and for energy security, notably for the renovation of private and public buildings including hospitals and schools, the electrification of the transport sector and projects related to the digitalisation of the public administration and the private sector, which are partly funded by the Recovery and Resilience Facility and other EU funds.

[20] Other nationally financed capital expenditure is projected to provide a neutral contribution of 0.0 percentage points of GDP.

(21) According to the Stability Programme the general government deficit is expected to decline to 4.3% of GDP in 2024. The decrease in 2024 mainly reflects the reduction of subsidies, including the phasing out of the national airline early retirement schemes, and the contained growth of the wage bill and of the intermediate consumption expenditure compensated partially by the increase of interest expenditures. The programme expects the general government debt-to-GDP ratio to increase to 55.7% at the end of 2024. Based on policy measures known at the cut-off date of the forecast, the Commission 2023 spring forecast projects a government deficit of 4.5% of GDP in 2024. This is in line with the deficit projected in the programme. The Commission 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 56.1% at the end of 2024.

(22) The Stability Programme envisages the phasing out of some of the energy support measures in 2024. The Commission currently assumes net cost of energy support measures of 1.5% of GDP. This hinges upon the assumption of no renewed energy price increases. Most of the energy support measures that are currently planned to remain in place in 2024 do not appear targeted to vulnerable households or firms. They do not fully preserve the price signal to reduce energy demand and increase energy efficiency.

(23) Council Regulation (EC) No 1466/97 calls for an annual improvement in the structural budget balance toward the medium-term objective by 0.5% of GDP as a benchmark[21]. Taking into account fiscal sustainability considerations and the need to reduce the deficit to below the 3% of GDP reference value, an improvement in the structural balance of at least 0.5% of GDP for 2024 would be appropriate, according to the Commission. To ensure such an improvement, and in accordance with the Commission's methodology, the growth in net nationally financed primary expenditure in 2024 should not exceed 5.9%, as reflected in this recommendation.

At the same time, the remaining energy support measures (currently estimated by the Commission at 1.7% of GDP in 2023) should be phased out contingent on energy market developments and starting from the least targeted ones, and the related savings should be used to reduce the government deficit. Based on Commission estimates, this would lead to a growth in net primary expenditure lower than recommended for 2024.

(24) Assuming unchanged policies, the Commission 2023 spring forecast projects net nationally financed primary expenditure to grow by 3.3% in 2024 which is below the recommended growth rate. The adjustment projected in the Commission forecast is less than the savings from the full phasing out of energy support measures, which is largely due to most of such measures remaining in place.

[21] Cf. Article 5 of Council Regulation (EC) No 1466/97, which also requires an adjustment of more than 0.5% of GDP for Member States with a government debt exceeding 60% of GDP, or with more pronounced debt sustainability risks.

(25) According to the programme, government investment is expected to decrease from 3.8% of GDP in 2023 to 3.1% of GDP in 2024. The lower investment reflects lower nationally financed investment and investment financed by the EU other than the Recovery and Resilience Facility. The programme refers to reforms and investments, that are expected to contribute to fiscal sustainability and sustainable and inclusive growth. These include high-value added investments and structural reforms towards the green, digital and energy transitions including health and governance, which are also part of the Recovery and Resilience Plan.

(26) The Stability Programme outlines a medium-term fiscal path until 2026. According to the programme, the general government deficit is expected to decline to 3.6% of GDP in 2025 and to 2.9% by 2026. The general government deficit is therefore planned to not exceed 3% of GDP in 2026. According to the programme, the general government debt-to-GDP ratio is expected to increase from 55.7% at the end of 2024 to 56.1% by the end of 2026.

(27) In accordance with Article 19(3), point (b) and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. The implementation of Malta's recovery and resilience plan is well underway. Malta submitted 1 payment request, corresponding to 19 milestones and targets in the plan and resulting in an overall disbursement of EUR 52.3 million (in grants) on 8 March 2023. On 26 April 2023, Malta submitted an amendment of its plan, together with a REPowerEU chapter. The newly proposed REPowerEU chapter is expected to address the challenges related to energy supply and security, and to speed up the transition to renewable energy sources. Furthermore, Malta is proposing some modifications to the original plan in view of the decreased total allocation and to adjust to objective circumstances. The inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Malta's strategic objectives in the field of energy and the green transition. The systematic and effective involvement of local and regional authorities, social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the plan, to ensure broad ownership of the overall policy agenda.

(28) The Commission approved all of Malta's cohesion policy programming documents in 2022. Proceeding with the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transition, increasing economic and social resilience as well as achieving balanced territorial development in Malta.

(29) Beyond the economic and social challenges addressed by the recovery and resilience plan and cohesion policy programmes, Malta faces a number of additional challenges related to features of the tax system that facilitate aggressive tax planning, energy policy and the green transition.

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

(31) Fossil fuels continue to play a major role in Malta's economy, making it highly dependent on energy imports and exposed to global price developments, although the country does not directly import oil or gas from Russia. In 2021, fossil fuels comprised the bulk of Malta's electricity generation, while renewables accounted for only 11.9%. Malta has sizeable offshore solar and wind energy potential, which is unused. The government's commitment to adopt offshore renewable energy technologies in future as well as indicate its non-binding share to the EU's offshore renewable targets, is a positive policy shift, but concrete projects have yet to be identified. Electricity grid capacity and flexibility is a bottleneck for the integration of renewables and increasing the efficiency, reliability and security of the power supply. This requires investment in grid modernisation, including from Malta's REPowerEU grant budget. Malta is improving its security of energy supply by building a second electricity interconnector with Italy.

(32) Malta's contribution to the EU's energy efficiency targets for 2030 is low and energy consumption in residential buildings continues to increase. Malta could scale up energy efficiency measures and reduce energy demand by: encouraging the installation of solar panels on all new buildings; ensuring the deployment of suitable solar energy installations on all new public and non-residential buildings with a useful floor area over 250 m^2; addressing legal obstacles, and providing additional economic incentives to houseowners. The use of digital technology, such as applications to monitor and regulate energy use, could help increase energy efficiency. Effective implementation of the new national regulatory framework for the construction industry would increase the quality (including the energy efficiency) of buildings and safety of construction process. Malta's consumption of natural gas has increased by 12.7% in the period August 2022–March 2023, compared with the average gas consumption over the same period in the last 5 years, in opposite trend to the 15% reduction target. Despite the exemption granted to Malta, Malta is encouraged to enhance efforts to temporarily reduce gas demand until 31 March 2024[22].

(33) In addition, in light of the sustained reliance on private cars, road transport emissions continue to grow, forming Malta's largest source of non-ETS greenhouse gas emissions. The share of zero-emission vehicles is much lower than the EU average and is increasing very slowly. Reducing emissions and traffic congestion would require Malta to improve public transport (punctuality, decreased journey time), deploy intelligent transport systems (to improve traffic flows, safety and enforcement of traffic rules), and invest in 'soft mobility' infrastructure for safe alternatives to private car use (such as safe, segregated and interconnected pavements and cycling/e-scooter routes).

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[22] Council Regulation (EU) 2022/1369.

(34) Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. High-quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, these measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition. In 2022, shortages of workers were reported in Malta for six occupations that required specific skills or knowledge for the green transition, including manufacturing workers and construction workers.

(35) In light of the Commission's assessment, the Council has examined the 2023 Stability Programme and its opinion[23] is reflected in recommendation (1) below.

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23 Under Articles 5(2) and 9(2) of Council Regulation (EC) No 1466/97.

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

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

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

   Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 5.9%[24].

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

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

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

[24] Which is estimated to correspond to an annual improvement in the structural budget balance of at least 0.5% of GDP for 2024, as described in recital 23.

3. Effectively address features of the tax system that may facilitate aggressive tax planning by individuals and multinationals, including by ensuring sufficient taxation of outbound payments of interest, royalties and dividends, and amend the rules for non-domiciled companies.

4. Reduce reliance on fossil fuels by accelerating the deployment of **:**renewables energies, including offshore wind and solar energy, and upgrade and expand the capacity of the electricity grid system, including transmission, distribution and battery storage. Reduce energy demand through improved energy efficiency, particularly in residential buildings. Reduce emissions from road transport by addressing traffic congestion through improved service quality in public transport, intelligent transport systems and investing in 'soft mobility' infrastructure. Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.

Done at Brussels,

For the Council
The President