

SPRING 2010 REFORM BAROMETER- MALTA

1. SUMMARY TABLE

<u>Malta</u>				<u>Rank among 29 **</u>			<u>Relative Gap</u>	
	2008	2009	Change	2008	2009	Change	EU 5 top performers 2009	Gap to EU 5 top performers 2009
GDP per capita (Purchasing Power Parity - PPP)	19642	18802	-4.3%	20	20	0	LU, IE, NL, AT, BE	-45%
GDP per capita (€ at 2000 prices)	11141	10810	-3.0%	20	20	0	LU, DK, SE, IE, UK	-68%
Labour Utilisation (Annual hours worked per capita)	722	710	-1.6%	23	23	0	CY, SI, GR, CZ, PL	-20%
Annual hours worked per person employed*1	1864	1860	-0.2%	11	8	3	GR, HU, PL, SI, CZ	-8%
Employment as % of labour force (100-unemployment rate)	94.1	92.9	-1.2	15	11	4	NL, DK, AT, CY, LU	-2
Labour participation (labour force as % of active population)*2	58.8	58.9	0.0	29	29	0	NL, DK, SE, DE, UK	-25
Dependency ratio (working age population as % of total population)	70.0	69.8	-0.1	6	6	0	SK, PL, CY, CZ, RO	-2
Labour Productivity (GDP per hour worked, in PPP)	26.6	25.9	-2.7%	16	17	-1	LU, BE, NL, FR, DE	-40%
Labour Productivity (GDP per hour worked, € at 2000 prices)*3	15.1	14.9	-1.4%	18	18	0	LU, SE, BE, DK, FR	-69%
Capital deepening (capital stock per hour worked)*	N/A	N/A	N/A	N/A	N/A	N/A	IE, FR, LU, AT, SE	N/A
Total Factor Productivity (level of economic efficiency per hour worked)*	N/A	N/A	N/A	N/A	N/A	N/A	LU, UK, DK, SE, BE	N/A
Corporate Investment (private investment excluding non-residential, % GDP)*4	9.3	7.9	-1.4	24	22	2	BE, RO, AT, DK, SK	-5.2
Current Account Balance (as % GDP)*5	-5.6	-3.2	2.4	17	22	-5	LU, SE, LV, DE, EE	-9.6
Export market share measured in volume relative to main 35 trading partners (from 2000) *6	-18.9	-18.3	0.6	27	28	-1	RO, LT, HU, CZ, PL	-73.0
Labour Costs relative to main 35 trading partners (from 2000)	8.2	10.0	1.8	16	17	-1	DE, PL, AT, SE, GR	17.1
Public Debt (as % GDP)*7	63.8	68.5	4.7	22	20	2	EE, LU, BG, RO, LT	50.7
Net lending/net borrowing of general government (as % GDP) *8	-4.7	-4.5	0.1	25	13	12	BG, DK, SE, LU, FI	-2.5
Required budgetary adjustment related to ageing (%GDP)	N/A	3.4	N/A	N/A	18	N/A	PL, EE, HU, BG, SE	3.3
Public Investment (as % total public expenditure)*9	6.0	7.8	1.8	19	14	5	BG, RO, EE, CZ, PL	-8.6
Tax burden (as % GDP)*10	34.6	35.2	0.6	12	14	-2	LV, RO, IE, SK, LT	7.4

Note: Labour utilisation and productivity are a product of its sub-components.

* Rank refers to EU15 ** EU 27, Norway and Switzerland

- *1 The recession in Malta has not resulted in a significant drop in the annual hours worked per person employed. Despite a few firms, operating on a four day week, it seems that other firms have not opted for lower working hours but rather have taken on the brunt of the recession through a drop in profits.
- *2 The low ranking refers to the low female participation rate
- *3 The sectors which have registered a drop in productivity are essentially the manufacturing, hotels and restaurants and retail sectors.
- *4 Investment in Malta is relatively low as can be ascertained through this data. It has also fallen substantially in the current recessionary period. Furthermore it is to be noted that the impact of the recession in Malta has been manifested through a significant drop in profits as opposed to wages with possible implications also on the medium term level of investment in the economy.
- *5 The lower current account balance is due to a drop in imports which has outweighed the drop in exports of goods and services. It is to be noted that this is one of the lowest ratios recorded over the last few years
- *6 Malta's exports fell drastically in 2008 essentially due to a drop in demand for semi-conductors which account for a significant proportion of merchandise exports. Furthermore exports are expected to drop significantly in 2009 reflecting the sensitivity of Malta's exports to external economic conditions.
- *7 Most of the public debt in Malta is domestically owned.
- *8 Malta's higher ranking is due to a worsening of the fiscal balance in other Member States . This is due to the direct fiscal stimulus packages required in some MS which was not required to the same extent in Malta on account of the fact that the financial sector in Malta maintained a relatively healthy position. Malta's government in the Budget for 2010 announced a number of measures aimed at safeguarding jobs and sectoral assistance to the most vulnerable sectors of the economy.
- *9 Most of government expenditure in Malta is allocated to social protection. While this ratio has fallen compared to 2008, it is still relatively high.
- *10 Government undertook a series of income tax revisions between 2006 and 2009 through a widening of the income tax brackets.

2. PRIORITIES FOR REFORM: : ANSWERS FROM MFOI (MALTA)

	1. Priority areas	2. Concrete Recommendations	3. Are the proposed recommendations already in the agenda of your Government?	
			Yes	No
Priority 1	Business Environment - Regulatory barriers to entrepreneurship	Promote internationalisation of business; Adopt sectoral approaches to business support; Specific focus on a few key sectors of activity (e.g. alternative energy); Optimise use of EU funding opportunities to small business	To an extent, but significantly more effort and effectiveness can be expected	
Priority 2	R&D and Innovation	Optimise use of EU funding opportunities; Enhance domestic funding opportunities; Establish clusters between business and academia and within international projects	To an extent, but significantly more effort and effectiveness can be expected	
Priority 3	Policies increasing working time	Increase working time directly; Link off-work time to productivity increases; Provide tax incentives to increase working time		No interventions have been implemented recently
Priority 4	Orientation and Sustainability of Public Finances	Review welfare system so as to attain genuine objective at a lower cost; redirect public resources to business support and growth activities; create a system of ringfencing of financing for specific public functions		While some measures have been implemented to enhance efficiency in welfare provision, significant progress remains to be registered
Priority 5	Making work pay: interplay of tax and benefit system	Review welfare system so as to provide better incentives to work, within a context of flexicurity arrangements including better training, provision of family-friendly measures, and financial incentives		While flexicurity measures have been implemented to some extent, a reform of the welfare system in this regard remains to be effected