

**SPRING 2017 REFORM BAROMETER – MALTA**

**European Semester - Overall assessment of 2016 cycle**

	<b>To what extent do you agree with these statements:</b>		<b>Detailed comments</b>
1.	The National Reform Programme submitted by your Government (February/November 2016) is appropriate.	To a large extent	Malta's NRP (April 2016) is appropriate to a large extent but, however, the Government has omitted other reforms which are required urgently if Malta is to ensure continued competitiveness: 1) efforts to significantly reduce administrative burdens and bureaucracy linked primarily to the ease of doing business 2) Strategies and incentives to mitigate the impact of the loss of Objective 1 status.
2.	The Commission's country specific recommendations for your country are appropriate.	To some extent	The CSRs are appropriate to some extent. In order to achieve improvements in the areas highlighted in Malta's 2016-2017 CSRs 1 and 2, initiatives and improvements in a number of vital policy areas are required. However, more specific CSRs in areas such as pension reform, expenditure sustainability, public sector efficiency and reductions in bureaucracy would serve the country better as the vast and general nature of the present CSRs are misleading policy makers.
3.	The Commission assessment of reform implementation the year before is appropriate.	Yes, absolutely	
4.	The Commission assessment of excessive imbalances (in-depth review) is appropriate.	n/a	For the year under review, an in-depth review was not carried out in Malta's case.

## Assessment of Country Specific recommendations 2016 in detail

		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR 1	In view of the high risk of a significant deviation, achieve an annual fiscal adjustment of 0,6 % of 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.	Important	Mixed	<p>We are encouraged by the rate of economic expansion over recent years and the manner in which Government is seriously tackling consolidation of public finances. General Government Debt is expected to decrease to 61.9% in 2017, while forecasts for General Government Deficit were further improved to 0.7% ratio for 2016, from a previous forecast of 1.1%.</p> <p>It is pertinent to note that previous forecasts have been exceeded, driven by larger economic growth than anticipated. This, coupled with previous conservative estimates, it is noted that the public finance consolidation was less due to any contraction in public recurrent expenditure which was up by almost €262 million in the year under review. Despite this increase in real terms, the growth in GDP outpaced recurrent public expenditure and hence resulted in declining general government debt and deficit percentages. This creates a delicate scenario that may be derailed with the slightest slip-up. Credit rating agencies have consistently remarked that this is indeed a reality that the country potentially faces without forceful reforms in the sustainability of pensions and public healthcare.</p>

		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR 2	Take measures to strengthen labour supply, in particular through increased participation of low-skilled persons in lifelong learning.	Helpful (but not a priority)	Mixed	With the prominence and severity of the skills gap and lack of labour supply, the Malta Chamber is concerned that, as evidenced by the overall lack of budget measures, Government has not recognised this issue as one that can seriously dampen the country's continued economic growth. Budget measures proposed by the Malta Chamber focusing on modernising education, curricula and career guidance, minimising the rate of early school leavers and incentivising young adults to focus on Science, Technology, Engineering and Mathematics were worryingly omitted.

## Reform Progress in your Member State in 2016

How would you assess reform progress in 2016, for the following broad areas:

<b>Taxation and Public Finances</b>	Excellent	Robust economic growth and fiscal consolidation. Taxation Framework remains competitive and attractive.
<b>Business environment (regulation/access to markets)</b>	Mixed	Trade Relations with numerous neighbouring economies strengthened. Bureaucracy and lack of ease of doing business persists.
<b>Labour market</b>	Mixed	Record low unemployment but supply not meeting demand and widening skills gap
<b>Innovation and skills</b>	Satisfactory	National Skills Council
<b>Access to finance and Financial stability</b>	Satisfactory	Malta Development Bank

## Reform priorities for 2017

	I. Policy Area	II. Concrete Recommendations	III. Are the proposed recommendations already in the agenda of your Government?
<b>Priority 1</b>	R&D and Innovation	Improvements in this policy area depend on an increase supply of skilled labour as well as the availability of financing options for SMEs seeking to invest in innovation and R&D. There is also a clear need to increase the budget of the Malta Council for Science and Technology National Research & Innovation programme.	Yes (but not to the required degree)
<b>Priority 2</b>	Labour market mismatch and labour mobility	The skills gap and labour supply gap being experienced by the local economy has never been larger and the country's educational system is failing to adapt. Parliament recently approved the establishment of a National Skills Council. This council must function without further delay, and must assess and forecast the skills and human resources required by the real economy both at present and in the near future. The council must then ensure that education institutions and curricula adapt rapidly to the council's continuous findings in order to provide adequate labour supply.	Yes (but not to the required degree)
<b>Priority 3</b>	Pension and health care reforms	A modernised, more efficient national formulary is required. The potential cost-savings gained through initial investment in newer, more effective forms of remedy will enhance the sustainability of the healthcare budget. Robust incentives for voluntary second pillar pensions are a must in order to supplement and wean-off overreliance of unsustainable state pensions.	Yes (but not to the required degree)

	I. Policy Area	II. Concrete Recommendations	III. Are the proposed recommendations already in the agenda of your Government?
<b>Priority 4</b>	Consolidation of public expenditures	While macro percentage figures for General Government Deficit and Debt figures are contracting and converging towards the Maastricht Criteria, a closer analysis of the figures reveals sharp increases in recurrent expenditure. This creates a delicate scenario that may be derailed with the slightest slip-up. Credit rating agencies have consistently remarked that this is indeed a reality that the country potentially faces without forceful reforms in the sustainability of pensions and public healthcare.	Yes (but not the required degree)
<b>Priority 5</b>	Business Environment - Regulatory barriers to entrepreneurship	Actual regulatory barriers to entrepreneurship do not exist but many other regulatory barriers discourage potential entrepreneurship. In the World Bank's Doing Business ranking, Malta continues to rank consistently low - the lowest of all EU member states. The Government has claimed it will seriously tackle every factor causing such a low ranking, yet in over three years, improvements have not materialised.	No