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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Malta

{SWD(2024) 600 final} - {SWD(2024) 618 final}

Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Malta

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(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 investment, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it helps achieve the economic and social recovery and implement sustainable reforms and investment, in particular to promote the green and digital transitions 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.

(2) The REPowerEU Regulation[3], adopted on 27 February 2023, aims to phase out the EU's dependency on Russian fossil fuel imports. This would help achieve energy security and diversify the EU's energy supply, while increasing the uptake of

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1 OJ L 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj

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), ELI: http://data.europa.eu/eli/reg/2021/241/oj

3 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1), ELI: http://data.europa.eu/eli/reg/2023/435/oj

renewables, energy storage capacities and energy efficiency. Malta added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

(3) On 16 March 2023, the Commission issued a Communication on the 'Long-term competitiveness of the EU: looking beyond 2030'[4], in order to inform policy decisions and create the framework conditions for increasing growth. The Communication frames competitiveness along nine mutually reinforcing drivers. Among these drivers, access to private capital, research and innovation, education and skills, and the single market emerge as paramount policy priorities for reform and investment to address current productivity challenges as well as to build up the long-term competitiveness of the EU and its Member States. On 14 February 2024, the Commission followed this Communication with the Annual Single Market and Competitiveness Report[5]. The report details the competitive strengths and challenges of Europe's Single Market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey[6], marking the start of the 2024 cycle of the European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 22 March 2024. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2024 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, and for which an in-depth review would be needed. On the same date, the Commission adopted an opinion on the 2024 draft budgetary plan of Malta. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 12 April 2024, as well as the proposal for the 2024 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 11 March 2024.

(5) On 30 April 2024, the EU's new economic governance framework came into force. The framework includes the new Regulation of the European Parliament and of the Council (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure and the amended Directive 2011/85/EU on the budgetary frameworks of Member States[7]. The objectives of the new framework are public debt sustainability and sustainable and inclusive growth through gradual fiscal consolidation as well as reforms and investments. It promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State should submit to the Council and to the Commission a national medium-term fiscal-structural plan. National medium-term fiscal-structural plans contain the fiscal, reform and investment commitments of a Member State,

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4 COM(2023) 168 final.

5 COM(2024) 77 final.

6 COM(2023) 901 final.

7 Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj) and Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

covering a planning horizon of 4 years or 5 years depending on the regular length of the national legislature. The net expenditure[8] path in the national medium-term fiscal-structural plans should comply with the requirements of Regulation (EU) 2024/1263 , including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period at the latest, or for it to remain at prudent levels below 60% of GDP, and to bring and/or maintain the government deficit below the 3% of GDP reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in Regulation (EU) No 2024/1263, the adjustment period may be extended by 3 years at most. For the purpose of supporting the preparation of those plans, on [21 June] 2024, the Commission is set to provide Member States with guidance on the content of the plans and the subsequent annual progress reports that they will need to submit and, in accordance with Article 5 of Regulation (EU) No 2024/1263, will transmit to them technical guidance on the fiscal adjustments (reference trajectories and technical information, where applicable). Member States should submit their medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. Member States should ensure the involvement of their national parliaments, and the consultation of independent fiscal institutions, of social partners and other national stakeholders, as appropriate.

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 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.

(7) 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], which was amended on 14 July 2023 following Article 18(2) of Regulation (EU) 2021/241 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU

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8 Net expenditure as defined in Article 2 of Council Regulation (EU) 2024/1263 of 29 April 2024 (OJ L 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj). Net expenditure means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by Union funds revenue, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-offs and other temporary measures.

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).

chapter[10]. 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.

(8) On 15 April 2024, Malta submitted its 2024 National Reform Programme in line with Article 4(1) of Regulation (EC) No 1466/97. In accordance with Article 27 of Regulation (EU) 2021/241, the 2024 National Reform Programme also reflects Malta's biannual reporting on the progress made in achieving its recovery and resilience plan.

(9) The Commission published the 2024 country report for Malta[11] on 19 June 2024. It assessed Malta's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 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) Based on data validated by Eurostat[12], Malta's general government deficit decreased from a deficit of 5.5% of GDP in 2022 to a deficit of 4.9% in 2023, while the general government debt fell from 51.6% of GDP at the end of 2022 to 50.4% at the end of 2023. As announced in the fiscal policy guidance for 2024[13], the Commission is taking the first step for the opening of deficit-based excessive deficit procedures on the basis of the outturn data for 2023, in line with existing legal provisions. On 19 June 2024, the Commission adopted a report under Article 126(3) of the TFEU[14]. That report assessed the budgetary situation of Malta, as its general government deficit in 2023 exceeded the reference value of 3% of GDP. The report concluded that in the light of this assessment, and after considering the opinion of the Economic and Financial Committee as established under article 126(4) TFEU, the Commission intends to propose in July to open an excessive deficit procedure, by recommending to the Council to adopt a Decision under Article 126(6) establishing the existence of an excessive deficit, for Malta.

(11) On 12 July 2022, the Council recommended[15] that Malta take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an

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

11 SWD(2024) 618 final.

12 Eurostat-Euro Indicators, 22.4.2024.

13 COM(2023) 141 final.

14 Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 19.6.2024, COM(2024) 598 final.

15 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.

overall neutral policy stance[16], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Malta was recommended to 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. In 2023, according to the Commission estimates, the fiscal stance[17] was contractionary, by 0.6% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a contractionary contribution to the fiscal stance of 1.6% of GDP. This includes the increased cost of the targeted emergency support measures to households and firms most vulnerable to energy price hikes by less than 0.1% of GDP. The growth of nationally financed primary current expenditure in 2023 was in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.9% of GDP in 2023. Nationally financed investment amounted to 2.6% of GDP in 2023, representing an increase of 0.1 percentage points as compared to 2022. Malta financed additional investment through the Recovery and Resilience Facility and other EU funds. Malta financed public investment for the green and digital transitions, and for energy security, such as 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.

(12) The Commission Spring 2024 Forecast projects real GDP to grow by 4.6% in 2024 and 4.3% in 2025, and HICP inflation to stand at 2.8% in 2024 and 2.3% in 2025.

(13) The Commission Spring 2024 Forecast projects a government deficit of 4.3% of GDP in 2024, while the general government debt-to-GDP ratio is set to increase to 52.0% by the end of 2024. The decrease of the deficit in 2024 mainly reflects the contained growth of intermediate consumption and the wage bill as well as the phasing out of the costs related to the national airline's restructuring. Based on the Commission's estimates, the fiscal stance is projected to be contractionary, by 1.3% of GDP, in 2024.

(14) Expenditure amounting to 0.4% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 0.2% of GDP in 2023, according to the Commission Spring 2024 Forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Malta.

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16 Based on the Commission Spring 2024 Forecast, the medium-term potential output growth of Malta in 2023, which is used to measure the fiscal stance, is estimated at 11.2% in nominal terms, based on the 10-year average real potential growth rate and the 2023 GDP deflator.

17 The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures (and excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

(15) On 14 July 2023, the Council recommended[18] that Malta ensure a prudent fiscal policy, in particular by limiting the nominal increase in net nationally financed primary expenditure[19] in 2024 to not more than 5.9%. When executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of deficit-based excessive deficit procedures based on the outturn data for 2023. According to the Commission Spring 2024 Forecast, Malta's net nationally financed primary expenditure is projected to increase by 5.5% in 2024, which is below the recommended maximum growth rate. However, net expenditure in 2023 was higher than expected at the time of the recommendation (by 0.8% of GDP). Therefore, as the recommendation for 2024 was formulated as a growth rate, the assessment of compliance also needs to take into account the base effect from 2023. Had net expenditure in 2023 been the same as expected at the time of the recommendation, the resulting growth rate of net expenditure in 2024 would have been above the recommended growth rate by 0.7% of GDP. Therefore, net nationally financed primary expenditure is assessed as at risk of not being fully in line with the recommendation.

(16) Moreover, the Council recommended that Malta take action to 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. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Malta should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. According to the Commission Spring 2024 Forecast, the net budgetary cost[20] of emergency energy support measures is estimated at 1.7% of GDP in 2023 and projected at 2.0% in 2024, and 1.0% in 2025. In particular, cuts to indirect taxes on energy consumption and subsidies to energy production to compensate for the price increase of imported electricity and carbon emissions are assumed to remain in force in 2024 and 2025[21]. While acknowledging the challenges faced by Malta due to the high dependency on energy imports and the exposure to external shocks amplified by the small size of the economy, the emergency energy support measures are not projected to be wound down as soon as possible in 2023 and 2024. This risks being not in line with what was recommended by the Council. Consequently, there are no related savings to be used to reduce the government deficit as recommended by the Council. The budgetary cost of emergency energy support measures targeted at protecting vulnerable households and firms is estimated at 0.2% of GDP in 2024 (0.1% in 2023), of which 0.2% of GDP preserve the price signal to reduce energy demand and increase energy efficiency (0.1% in 2023).

(17) In addition, the Council also recommended that Malta preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience

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18 Council Recommendation of 14 July 2023 on the 2023 National Reform Programme of Malta and delivering a Council opinion on the 2023 Stability Programme of Malta, OJ C 312, 1.9.2023, p. 167.

19 Net primary expenditure is defined as nationally financed expenditure net of (i) discretionary revenue measures, (ii) interest expenditure, (iii) cyclical unemployment expenditure, and (iv) and one-offs and other temporary measures.

20 The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

21 Measures that, according to Malta, remain in place until the end of 2024 are, in principle, assumed in the Commission Spring 2024 Forecast as having a budgetary impact also in 2025.

Facility grants and other EU funds, in particular to foster the green and digital transitions. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to increase to 2.8% of GDP in 2024 from 2.6% of GDP in 2023. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to remain stable at 0.9% of GDP in 2024.

(18) Based on policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission Spring 2024 Forecast projects a government deficit of 3.9% of GDP in 2025. The decrease of the deficit in 2025 mainly reflects the expected decrease in the cost of the energy support measures. The general government debt-to-GDP ratio is set to increase to 52.6% by the end of 2025.

(19) 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. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the plan including the REPowerEU chapter is essential to boost Malta's long-term competitiveness through the green and digital transition, while ensuring social fairness. To deliver on the commitments of the plan by August 2026, it is essential for Malta to continue the implementation of reforms and investments. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(20) As part of the mid-term review of the cohesion policy funds, in accordance with Article 18 of Regulation (EU) 2021/1060, Malta is required to review each programme by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. This review forms the basis for the definitive allocation of the EU funding included in each programme. While Malta has made progress in implementing cohesion policy and the European Pillar of Social Rights, some challenges remain. Accelerating the implementation of cohesion policy programmes is crucial. The priorities agreed in the programmes remain relevant. Investments in energy efficiency and renewable energy are key to achieving energy savings, strengthening sustainability in the energy sector and reducing its dependence on international energy sources. Continuing investments in sustainable multimodal solutions and active mobility is important to reduce traffic congestion and curb emissions from road transport. Efforts are still needed to ensure the sustainability of water and wastewater management. Furthermore, circular economy practices, including maximising the recycling potential, are needed to reduce landfilling and meet recycling targets. In addition, adult learning needs to be promoted to increase the skill levels of the population and ease labour shortages. The social and labour market integration of vulnerable groups should continue to be promoted, with the focus on non-EU nationals and people with disabilities, as well as on gender equality. Malta could also make use of the Strategic Technologies for Europe Platform (STEP) initiative to support the strategic autonomy of the EU and the competitiveness and sustainability of industry.

(21) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Malta faces several additional challenges related to features

of the tax system that facilitate aggressive tax planning, education and skills, renewable energy and transport.

(22) Tackling aggressive tax planning remains key to improving the efficiency and fairness of tax systems. In view of the spillover effects of aggressive tax planning strategies between Member States, coordinated action to complement EU legislation through national policies by all Member States is paramount. Malta has taken steps to address aggressive tax planning practices by implementing previously agreed international and European initiatives, and further committed to tackling the issue in its recovery and resilience plan. As part of the plan's reform agenda, the Maltese government adopted a new law introducing transfer pricing rules, which became applicable as of January 2024. It aims to prevent opportunities for corporate profit shifting. Malta also commissioned an independent study on outbound and inbound payments (i.e. between EU residents and non-EU residents), to be followed up by legislation. However, until Malta applies withholding taxes on interest, dividends and royalty payments made by Malta-based companies to zero and low-tax jurisdictions (here intended to mean any jurisdiction with a statutory corporate income tax rate below 9%, the lowest statutory corporate income tax rate in the EU), or equivalent defensive measures – to ensure that firms cannot shift their profits untaxed to non-EU countries – the risk of double non-taxation of these profits remains high. Furthermore, the treatment of resident non-domiciled companies continues to pose a risk of double non-taxation for both companies and individuals. 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.

(23) Shortages of skilled labour as well as skills mismatches are a bottleneck to future growth, competitiveness and the twin transition. In Q1-2024, labour shortages were reported as a factor limiting production in Malta, with shortages reported around twice as often as the EU average in services and industry. More than two out of three companies report hard-to-fill vacancies for jobs requiring ICT specialist skills. The latest results from the OECD Programme for International Student Assessment (PISA) show that Malta has one of the highest shares of low achievement in the EU, posing a serious challenge for later skills development. Around one in three 15-year-old students along the entire socio-economic distribution in Malta underperforms in mathematics, reading and science. Teacher shortages have been addressed partly by substitute teachers, with a level of qualification different or lower than required for fully qualified teachers. Early school leaving is decreasing but remains above the EU average, increasing the already large pool of low-skilled adults. Although the participation of adults in education and training overall (in the last 12 months) is in line with the EU average, participation of the low-skilled in learning is low. Similarly, although 63% of adults had at least basic digital skills in 2023, the differences in skill levels are significant. The share of learners enrolled in upper secondary vocational education and training (VET) remains low. Strengthening the quality of education by focusing on basic skills, addressing teacher shortages and prioritising the professional development of teachers to better address the learning needs of students, while boosting the labour market relevance of Malta's education and training systems in close cooperation with the social partners, are key to reducing the low educational outcomes and the severe shortage and mismatch of skills.

(24) Malta's continuing challenge is to achieve green economic growth, balancing development with environmental sustainability. The country's green transition is held back by the dominant role of fossil fuels in its energy system. Malta's share of energy

derived from renewable sources in gross final energy consumption was 13.4% in 2022, one of the lowest shares in the EU. This is well below Malta's 2030 indicative target of 28% and the EU average of 41% in 2022. Almost all installed renewable energy capacity is onshore solar, which is increasing slowly (by 4% in 2023). The ongoing RRF reform, which mandates solar energy installations on certain new buildings as well as shortens permitting timelines of renewable energy projects, should increase their roll-out. Malta has sizeable offshore solar and wind energy potential in its exclusive economic zone. However, this potential remains unused. Malta's ability to deploy renewables, while improving its security of energy supply, also depends on good progress in constructing the second electricity interconnector with Italy and continuing to strengthen its domestic electricity grid.

(25) Reducing traffic congestion as well as high emissions from road transport is a key priority to address the challenge of sustainability. Greenhouse gas emissions from road transport have increased by 23.3% compared to 2005 levels. Passenger cars make up 86% of passenger transport in Malta, and this is on the increase. Congestion remains the main transport challenge in Malta, also affecting the islands' competitiveness, and substantial scale-up in efforts is needed. To promote alternative sea-based collective transport, Malta is implementing an inner-harbour ferry network by upgrading ferry landing spaces, with the support of the European Regional Development Fund. Furthermore, Malta is planning to boost sustainable multimodal urban mobility by developing 17.5 km of clean urban transport infrastructure through cohesion funding, including pedestrian paths and cycle lanes.

(26) In view of the close interlinkages between the economies of euro area Member States and of their collective contribution to the functioning of the Economic and Monetary Union, in 2024 the Council recommended that the euro area Member States take action, including through their recovery and resilience plans, to implement the recommendation on the economic policy of the euro area. For Malta, recommendations (1), (2), (3) and (4) help implement the first, second, third and fourth euro area recommendations.

HEREBY RECOMMENDS that Malta take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[22] in 2025 to a rate consistent with reducing the general government deficit towards the 3% of GDP Treaty reference value and keeping the general government debt at a prudent level over the medium term. Wind down the emergency energy support measures by the 2024/2025 winter. To address remaining aggressive tax planning risks, introduce a withholding tax on outbound payments or equivalent defensive measures, and amend rules on non-domiciled companies.

2. Continue with the swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of their mid-term review, continue focusing on the

[22] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

agreed priorities, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

3. Strengthen the quality and labour market relevance of education and training to address low educational outcomes as well as the severe shortage and mismatch of skills, in particular by fostering basic skills of students and the professional development of teachers.

4. Accelerate the deployment of renewable energy through large-scale projects as well as small-scale investments in direct energy production and consumption. Address traffic congestion by improved quality and efficiency of public transport and step up investments in 'soft mobility' infrastructure.

Done at Brussels,

For the Council
The President