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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Malta

Delegations will find attached the above-mentioned draft Council Recommendation, as revised and agreed by various Council committees and finalised by the Economic and Financial Committee, based on the Commission Proposal COM(2026) 218 final.

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 Article 121(2) and Article 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,

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

Whereas:

(1) Regulation (EU) 2024/1263 specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, as well as preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the Treaty of the Functioning of the European Union (TFEU). The European Semester includes, in particular, the formulation and the surveillance of the implementation of country-specific recommendations.

(2) On 25 November 2026, the Commission adopted an opinion on the 2025 draft budgetary plan of Malta. On the same date, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2026 Alert Mechanism Report, in which it did not identify Malta as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, a recommendation for a Council recommendation on human capital in the European Union, and a proposal for the 2026 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[2] on 21 April 2026 and the Joint Employment Report, and the Recommendation on human capital on 9 March 2026.

[2] OJ C, C/2026/2434, 28.4.2026, ELI: http://data.europa.eu/eli/C/2026/2434/oj.

(3) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the Union's global competitiveness over the next five years. It identifies the three transformational imperatives of innovation, decarbonisation and competitiveness, and security as critical pillars for sustainable economic growth. Since its publication, the Competitiveness Compass has informed the work of the European Semester, ensuring that Member States' economic policies are consistent with the EU's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

(4) In 2026, the European Semester for economic policy coordination continues to develop alongside the final stage of the Recovery and Resilience Facility (RRF) implementation[3]. Recovery and resilience plans (RRPs), along with cohesion policy funding, have been essential for delivering on the policy priorities under the European Semester, as the plans were required to effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent cycles, and programmes funded by the European cohesion policy were required to take country-specific recommendations into account. As the RRF approaches the end of its lifetime, it remains essential to sustain and build on the reforms and investments supported and implemented under the RRF, in particular those that contribute to addressing challenges identified in the country-specific recommendations.

[3] 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).

(5) On 3 June 2026, the Commission published the 2026 country report for Malta. It assessed Malta's progress in addressing the 2025 country-specific recommendations and took stock of Malta's implementation of the RRP. On the basis of that, the country report identified the most pressing challenges Malta is facing. It also assessed Malta's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty and social exclusion reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

(6) On 21 January 2025, the Council, upon the assessment and recommendation of the Commission, adopted a Recommendation endorsing the national medium-term fiscal-structural plan of Malta[4]. The plan covers the period from 2025 until 2028 and presents a fiscal adjustment spread over four years. The Council recommended the following maximum growth rates of net expenditure: 6.0% in 2025, 5.8% in 2026, 5.8% in 2027 and 6.1% in 2028, which correspond to the maximum cumulative growth rates calculated by reference to the base year of 2023 of 13.8% in 2025, 20.4% in 2026, 27.4% in 2027 and 35.1% in 2028. For the years 2025-2027, these maximum growth rates of net expenditure coincide with the corrective path, as recommended by the Council under Article 126(7) TFEU on 21 January 2025, with a view to bringing an end to the situation of an excessive deficit[5]. Following the timely and durable correction of the excessive deficit, on [date] the Council, upon a recommendation from the Commission, adopted a Decision under Article 126(12) TFEU[6] abrogating its previous Decision establishing the existence of an excessive deficit[7].

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4 Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Malta (OJ C, C/2025/649, 10 February 2025, ELI: http://data.europa.eu/eli/C/2025/649/oj).

5 Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Malta, adopted on 21 January 2025. All documents related to the excessive deficit procedure of Malta can be found at: https://economy-finance.ec.europa.eu/economic-governance-framework/stability-and-growth-pact/corrective-arm-excessive-deficit-procedure/excessive-deficit-procedures-overview/Malta_en.

6 Council Decision (EU) 2026/[OJ: please insert] of [date] abrogating Decision 2024/2128 EU on the existence of an excessive deficit in Malta (OJ [please insert relavant OJ references]).

7 Council Decision (EU) 2024/2128 of 26 July 2024 on the existence of an excessive deficit in Malta (OJ C, C/2024/2128, 01.8.2024, ELI: http://data.europa.eu/eli/dec/2024/2128/oj.

(7) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission has invited Member States to request the activation of the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending[8] and this proposal was welcomed by the European Council of 6 March 2025. Member States may still request the activation of the national escape clause at any time until 2028, if they fulfil the criteria set in Article 26 of Regulation (EU) 2024/1263.

(8) On 30 April, Malta submitted its 2026 Annual Progress Report[9] on adherence to the recommended maximum growth rates of net expenditure and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects Malta's biannual reporting on the progress made in implementing its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241. The report on action taken under the excessive deficit procedure is integrated in the Annual Progress Report.

(9) Real GDP growth in 2025 was 4.0% and HICP inflation stood at 2.4%. The Commission Spring 2026 Forecast projects real GDP to grow by 3.7% in 2026 and 3.6% in 2027, and HICP inflation to stand at 2.7% in 2026 and 2.3% in 2027.

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8 Communication from the Commission, 'Accommodating increased defence expenditure within the Stability and Growth Pact', Brussels, 19 March 2025, C(2025) 2000 final.

9 The 2026 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en.

(10) Based on data provided by Eurostat[10], Malta's general government deficit decreased from 3.4% of GDP in 2024 to 2.2% of GDP in 2025. The decrease in the deficit in 2025 reflects high revenue growth, including from corporate and indirect taxation, mainly driven by the expansion of nominal GDP and tax bases, as well as significant tax windfalls. On the other hand, notwithstanding the non-repetition of a sizeable capital transfer granted to the national airline company in 2024, government expenditure continued to increase significantly, with substantial increases in the government's wage bill and intermediate consumption, as well as a one-off expenditure arising from a court decision. Based on policy measures known by the cut-off date of the forecast, the Commission Spring 2026 Forecast projects a deficit of 2.2% of GDP in 2026 and 2.1% in 2027.

(11) Based on the Commission's estimates, the fiscal stance[11], which includes both nationally and EU financed expenditure, was contractionary, by 0.6% of GDP, in 2025. It is projected to be broadly neutral in 2026 and contractionary, by 0.5% of GDP, in 2027.

(12) Based on data provided by Eurostat[12], Malta's general government debt increased from 45.9% of GDP at the end of 2024 to 46.4% of GDP at the end of 2025. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2026 Forecast projects the debt-to-GDP ratio to decrease to 46.2% by the end of 2026 and to remain stable at that level by the end of 2027.

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10 Eurostat-Euro Indicators, 22 April 2026.

11 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 including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

12 Eurostat-Euro Indicators, 22 April 2026.

(13) Based on Eurostat data[13], total general government defence expenditure in Malta amounted to 0.5% of GDP in 2025. According to the Commission Spring 2026 Forecast, it is projected at 0.6% of GDP in 2026.

(14) The Union continues to face risks of energy supply disruptions and elevated price volatility, exacerbated by geopolitical tensions which affect global oil and gas markets. Experience from the 2022–2023 energy crisis has shown that broad and untargeted measures entail large fiscal costs and are socially and economically inefficient. Since the outbreak of the war in the Middle East in February 2026, Malta has not adopted new fiscal policy measures to mitigate the impact of high energy prices on households and firms[14]. However, since the energy crisis in 2022, Malta has kept retail electricity and fuel prices frozen at among the lowest levels in the EU. According to the Commission Spring 2026 Forecast, the fiscal cost of these non-temporary and untargeted energy subsidies is projected to increase from 0.9% of GDP in 2025 to approximately 1.4% of GDP in 2026.

(15) Based on the Commission's calculations, net expenditure in Malta grew by 5.6% in 2025 and 22.2% cumulatively over 2024 and 2025. The net expenditure growth in 2025 is below the recommended maximum growth rate. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is above the recommended maximum growth rate, corresponding to a deviation of 2.3% of GDP in cumulative terms.

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13 Eurostat, government expenditure by classification of functions of government (COFOG).

14 This reflects the situation at the cut-off date of the Commission's Spring 2026 Forecast (4 May 2026).

(16) Based on the Commission's calculations, net expenditure in Malta is projected to grow by 6.1% in 2026 and 29.7% cumulatively over 2024, 2025 and 2026. The projected net expenditure growth in 2026 is above the recommended maximum growth rate, corresponding to a deviation of 0.1% of GDP in annual terms. When considering 2024, 2025 and 2026 together, the projected cumulative growth rate of net expenditure is also above the recommended maximum growth rate, corresponding to a deviation of 2.2% of GDP in cumulative terms.

(17) Reducing tax gaps by improving tax compliance, tackling avoidance and evasion and combatting aggressive tax planning remain important to ensure fair and efficient tax systems. Malta's total tax revenue-to-GDP ratio is well below the EU average, relying heavily on corporate taxation. Its overall tax mix is limited, reflecting only a small share of environmental taxation and the absence of recurrent property taxes. 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 actions to address aggressive tax planning practices aligned with EU standards, OECD guidance, and its obligations under the Code of Conduct framework. However, until Malta applies withholding taxes – or equivalent defensive measures – on interest, dividends and royalty payments made by Malta-based companies to zero and low-tax jurisdictions to ensure that firms cannot shift their profits to non-EU countries untaxed, 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.

(18) Malta's supplementary pension sector has scope for growth to support the adequacy of retirement income and mitigate future fiscal pressures from demographic ageing. While voluntary second and third-pillar pension schemes are available, participation remains limited. Conversely, Malta's pension system relies heavily on first-pillar scheme, which is subject to caps that reduce the average benefit ratio to around 38.3%, one of the lowest in the EU compared to the EU average of 47%. Strengthening supplementary pensions can contribute to improving retirement income adequacy and enhancing the sustainability of public finances.

(19) The systematic, meaningful and timely involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the Union's funding instruments, as well as in the context of the European Semester.

(20) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF), the European Social Fund Plus (ESF+) and the Cohesion Fund (CF) in Malta, is above the average pace at EU level, both in terms of project selection and payments. It is important to keep the current momentum, while maximising the impact of investments on the ground. Malta is already taking action under its cohesion policy programmes to boost competitiveness and growth. Nevertheless, some areas may require further strengthening in implementation, including those relating to energy efficiency and renewable energy investments as well as social inclusion and equal labour market participation. It is essential to ensure that the new investments identified by Malta in its mid-term review of the cohesion policy funds, notably those linked to the five priorities identified in the Mid-Term Review Regulation[15], are deployed rapidly and effectively.

(21) Malta faces several challenges related to research and innovation, attracting and retaining high skilled labour, the justice system, the production and deployment of renewable energy, energy efficiency in buildings, traffic congestion and sustainable mobility, high fossil fuel subsidies, quality and labour market relevance of education and training, skills mismatches and shortages, the inclusiveness of education and training, job quality in low-skill jobs, and to waste and water management.

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[15] Regulation (EU) 2025/1914 of the European Parliament and of the Council of 18 September 2025 amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review.

(22) Research and innovation continue to play a small role in Malta's economy, with persistently low investment in research and innovation limiting the country's innovation performance. Despite increases in absolute terms, Malta's overall R&D intensity remains amongst the lowest in the EU (at 0.54% of GDP in 2024 vs EU average of 2.24%), reflecting the constrained investment by both public and private sector. Public R&D expenditure is particularly low (0.16% of GDP in 2024 vs EU average of 0.72%), hampering research institutions' capacity to develop strong scientific capabilities. A similar picture emerges for private investment, with expenditure as a percentage of GDP remaining weak (0.38% compared the EU average of 1.49%) and firms' uptake of support schemes limited. Overall, key measures stimulating both public and private investment remain at an early stage, public support schemes require more targeted implementation, and strengthened cooperation between academia and business is essential to foster product and service innovation.

(23) Malta's ability to transition towards a higher-productivity economy is contingent on its capacity to attract and retain high skilled labour. Persistent labour and skill shortages and mismatches, particularly in high-skilled and STEM occupations, may hamper Malta's growth prospects. While Malta has taken some steps to attract and retain high-skilled workers, further efforts are required including through a more targeted use of skilled migration to support growth in high value-added sectors of its economy. Strengthening the use of skills intelligence tools in economic development policy, and developing the economic, legal and social infrastructure to attract and retain talent can support Malta's adaptation to a higher productivity growth model.

(24) The justice system continues to face significant delays, with the time required to reach judicial decisions in civil and commercial cases at first instance one of the highest in the EU. The time taken to resolve administrative cases at first instance remains the longest in the EU. Despite progress registered in recent years, resources for the judiciary remain a concern, with a shortage of premises and staffing. Notably the number of judges per capita is the third lowest in the EU, with a very high civil, commercial, and administrative caseload per judge. Despite moderate progress in digitalisation, there are delays in the implementation of the national digital justice strategy and critical gaps remain, with core judicial functions remaining paper based. Malta remains behind in comparison to other Member States in promoting alternative dispute resolution, which can play an important role in relieving pressure on the justice system. Reviewing and improving the codes of judicial procedure would also help expedite trials.

(25) Malta's share of renewables in gross final energy consumption (17.2% in 2024) and in the electricity mix (16.7% in 2025) remains very low and well below the EU average. The renewable energy generation is almost exclusively coming from solar energy, with a very small part of biomass/combustible renewable fuels, and with no wind or hydropower generation recorded. Malta has announced that a new floating offshore wind farm is expected to be ready by 2033, which would represent an important step in increasing installed renewables capacity. There is scope to leverage further the potential of offshore solar and wind projects, as well as to expand onshore solutions. Stepping up efforts in this regard, taking into account geographical constraints, would help Malta to accelerate the deployment of renewable energy.

(26) Energy consumption has been on the rise in most sectors in Malta since 2019, and most prominently in residential buildings, amid sharp population growth. Further measures promoting retrofitting of the building stock would contribute to address this rising trend.

(27) Traffic congestion persists as a significant structural challenge, adversely affecting environmental sustainability, the economy's competitiveness and citizens' quality of life. The economic cost of traffic congestion is projected to rise to EUR 917 million annually by 2030[16] in the absence of further policy measures. Despite efforts to improve the public transport system and reshape mobility in Malta, measures have yet to significantly reduce private car dependency. As of 2024, 58% of Malta's population reported never using public transport. The transport sector also continues to be the primary source of greenhouse gas emissions under the Effort Sharing Regulation, accounting for 48% of such emissions in 2024, a 45% increase since 2005. This trend persists, despite zero-emission vehicles reaching 37.7% of new passenger car registrations in 2024, an increase of 17.4 percentage points from the previous year. Additionally, Maltese transport infrastructure remains highly vulnerable to climate-related risks, with a transport vulnerability index score of 0.42, one of the highest in the EU. For Malta to tackle traffic congestion and rising emissions from transport, sustainable mobility policies are required that would discourage car use, including by introducing dedicated bus lanes, restricting vehicle access in congested areas and limiting parking availability At the same time, improving the efficiency of road and maritime transport, alongside investments in sustainable mobility, particularly active mobility infrastructure such as expanded cycling and pedestrian networks, as well as zero-emission buses and alternative fuels recharging infrastructure, would ensure a shift toward more sustainable and multimodal transport options. Additional investments are needed to strengthen the transport infrastructure's resilience to climate-related risks, including extreme weather events.

[16] Ministry for Transport, Infrastructure and Public Works of Malta, 2026. National Transport Master Plan 2030. https://infrastructure.gov.mt/wp-content/uploads/2026/01/NATIONAL-TRANSPORT-MASTERPLAN-2030.pdf.

(28) With no planned phase out, fossil fuel subsidies accounted for around 1% of Malta's GDP in 2024, significantly above the EU average of 0.32%. Fossil fuel subsidies discourage investments in renewable energy, energy efficiency and in the electrification of transport, which would contribute to meeting climate goals, enhancing energy security and promoting better quality of life in Malta. Simultaneously, Malta's fossil fuel subsidies represent a heavy fiscal burden. They do not provide cost-efficient support to the economy during periods of high international energy prices and they do not address energy poverty in a targeted way.

(29) Malta generates some of the highest levels of waste per capita in the EU, the vast majority of which is disposed of in landfill, exerting considerable pressure on the islands' natural environment. In 2024, municipal waste generation reached 621 kg per capita, one of the highest rates in the EU, while the recycling rate remained critically low at 16.7%, significantly below the EU average of 48%. Malta has already failed to meet the 2020 municipal waste recycling target of 50% and is now at risk of having missed the 2025 target of 55%. Furthermore, in 2023, the landfill rate for municipal waste stood at 74%, far exceeding the EU average of 22%. The substantial gap between the current landfill rate and the 2035 municipal waste landfilling target of 10% remains a pressing concern. Despite increased investments in waste management infrastructure and introduction of several re-use and recycling initiatives, the adopted measures have not yet resulted in measurable effects on waste management performance. Therefore, Malta would benefit from observing the waste hierarchy by prioritising waste prevention, strengthening recycling and circular economy practices, both through stricter enforcement of existing national waste legislation and by expanding recycling and reuse infrastructure, while accelerating planned investments in waste processing facilities to reduce reliance on landfilling.

(30) Malta faces structural water scarcity, exacerbated by substantial population growth, rising temperatures and prolonged droughts, which have significantly diminished freshwater availability. This challenge is underscored by the seasonal Water Exploitation Index Plus (WEI+), which reached 66.7% in the third quarter of 2023, the second-highest level among EU Member States, indicating severe water scarcity. The growing demand for water, driven primarily by the tourism, agricultural, domestic and industrial sectors, further intensifies scarcity. In response, Malta has sought to mitigate these pressures through groundwater extraction and increased seawater desalination. Apart from water scarcity, poor water quality remains a persistent issue in Malta. As outlined in Malta's Third River Basin Management Plan, only 58% of surface water bodies (by number) attained good or high ecological status, while just 45% met good chemical status. With regard to groundwater, 82% of groundwater bodies (by area) failed to achieve good quantitative status, and 100% did not meet good chemical status. Main pressures on surface water and groundwater quality stem from agricultural activities and saline intrusion due to over-abstraction. Moreover, two Maltese agglomerations remain non-compliant with the Urban Wastewater Treatment Directive. To address these challenges, Malta would benefit from increased investments in urban rainwater harvesting infrastructure and nature-based solutions, which could reduce flood risks and enhance groundwater recharge. Additionally, stricter regulation of groundwater extraction and expanded wastewater treatment capacity seem to be necessary to improve water quality and quantity and tackle surface water and groundwater pollution.

(31) In light of the crucial role of human capital in enhancing the Union's competitiveness and strategic autonomy, in 2026 the Council recommended that Member States take action to urgently address human capital-related structural challenges in the area of skills, education and training, which hamper competitiveness. The 2026 country-specific recommendations addressed to Malta can contribute to the implementation of the Council Recommendation on human capital in the Union.

(32) Skills shortages and mismatches risk undermining Malta's strong labour market and hindering its green and digital transitions. Despite very high job vacancy rates, critical gaps persist in information and communication technology (ICT), construction, healthcare, education, and green transition roles, with 43% of firms lacking green-skilled employees and two-thirds reporting an unprepared workforce. The skills supplied by the Maltese education and training system do not always keep up with labour market demand, which is also due to fragmented skills governance and forecasting capacity. Strengthening skills intelligence tools can help anticipate labour market needs and address existing mismatches. Science, technology, engineering and mathematics (STEM) graduates account for 13.8% of post-secondary graduates, well below the EU average, with fewer women, and Malta recorded among the lowest post-secondary STEM enrolment in the EU in 2023. Vocational education and training (VET) pathways also fall short, with limited work-based learning and uptake of STEM-related VET programmes, particularly among women. Adult learning participation remains uneven as only a small share of the large pool of low-skilled adults engages in training. Persistent basic skills gaps further exacerbate the challenge: one in three 15-year-olds lack basic skills in mathematics, reading, or science, while half of 12–13-year-olds lack basic digital skills. Weaknesses in teacher supply, professional development and support for increasingly diverse classrooms risks limiting the capacity of the education system to improve learning outcomes. To address these issues, strengthening the quality and labour market relevance of education and training, use of skills intelligence tools, teacher training, work-based VET, and adult upskilling, especially in STEM and green transition fields, is essential to reduce shortages, improve education outcomes, and align skills with labour market needs.

(33) The limited inclusiveness of education and training, starting already in early childhood education, hampers the potential of people in vulnerable situations. Due to a shortage of adequately qualified teaching staff and ineffective teaching practices and curricula, the system insufficiently caters for all children, including pupils with a disability. Persistent disparities in learning and employment outcomes linked to socio-economic background and school type suggest that significant equity challenges remain. Notably, underachievement is particularly prevalent among students from disadvantaged socio-economic backgrounds: 51.5% underperform in reading, 47.7% in mathematics and 46.0% in science. Further, early school leaving remains especially high among young people with disabilities, while a significant number of young people with disabilities are not in employment, education or training. Regarding early childhood education and care (ECEC), Malta's system currently anchors ECEC entitlement to parental activity (work, education, training) rather than universal or poverty-based entitlement. Although recent provisions expanded to some groups of unemployed parents, the participation gap between children at risk of poverty or social exclusion (AROPE) and non-AROPE remains very wide: non-AROPE children were nearly twice as likely (48.2%) to attend over 25 hours of ECEC per week compared to those at risk (24.9%). Concerns also remain regarding the quality of ECEC provision, as recent estimates suggest that more than one fifth of childcare staff lack relevant pedagogical qualifications, which may limit its potential to support early skills development, particularly for disadvantaged groups. Strengthening targeted support for children from disadvantaged backgrounds and those with additional needs regardless of the employment or educational background of their parents seems necessary.

(34) Uneven job quality hinders the retention of workers. The share of low-paid jobs has increased, with over 10% of workers remaining in low-paid jobs for the last four years, disproportionally affecting women and third-country nationals. Malta also records a relatively high share of atypical working hours (39.1% of workers vs 32.6% in the EU). Several sectors increasingly rely on third-country national workers, such as healthcare. However, third-country nationals working in low-skill jobs often face weaker labour conditions and low job quality in multiple dimensions: long working hours, higher turnovers, restricted career progression prospects, limited rights in case of employment loss, and worse health and safety workplace conditions. In-work poverty is also disproportionally impacting third-country nationals (17.3% against 5.6% of native population). Labour inspection capacity increased but remains below International Labour Organisation (ILO) standards and sanctions for breaches are still relatively low. Addressing quality jobs concerns, in close cooperation with social partners, and further boosting labour inspection could have a positive impact on labour turnover and high vacancy rates.

(35) 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, in 2026 the Council recommended that the euro-area Member States take action, including through their RRPs, to implement the 2026 Recommendation on the economic policy of the euro area. For Malta, the recommendation (1) helps implement the first, the second and the third recommendations on the euro area, recommendation (2) helps implement the fourth recommendation on the euro area, recommendation (3) helps implement the fifth and seventh recommendations on the euro area, recommendation (4) helps implement the seventh recommendation on the euro area and the recommendation (6) and help implement the fifth recommendation on the euro area.

HEREBY RECOMMENDS that Malta take action in 2026 and 2027 to:

1. Take action to control net expenditure so that it respects the maximum growth rates recommended by the Council on 21 January 2025 given the material deviation recorded by 2025 and projected for 2026 by the Commission vis-à-vis the recommended net expenditure ceiling. Reinforce overall defence and security spending and readiness, in line with paragraph 53 of the European Council conclusions of 19 March 2026, while ensuring debt sustainability and spending efficiency, as well as gradually adapting the budget to sustain structurally higher defence spending. Ensure that measures taken to mitigate the impact of the hike in energy prices are temporary, targeted at protecting vulnerable households or at addressing the needs of energy-intensive firms, preserve incentives for energy savings and that their fiscal cost is compatible with the commitments under the EU fiscal framework. 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. Promote the supplementary pension sector, notably through occupational pension schemes.

2. Ensure continuity of reforms and investments implemented under the Recovery and Resilience Facility. Sustain implementation momentum under cohesion policy programmes building, where appropriate, on the reallocation to strategic priorities and flexibilities agreed in the context of the mid-term review of the cohesion policy framework.

3. Continue strengthening research and innovation by increasing public R&D investment and stimulating private R&D investment through effective support schemes and stronger links between academia and business. Strengthen the attraction and retention of high-skilled workers. Improve the efficiency of the justice system by addressing the case backlog and reducing the length of proceedings.

4. Accelerate the production and deployment of renewable energy and implement cost efficient energy efficiency measures, including for buildings, while enhancing energy security and climate resilience. Address traffic congestion and transport emissions through a balanced and integrated approach, enhancing the efficiency and attractiveness of public transport, facilitating multimodality and investing in active mobility infrastructure, with a view to reducing car use, as well as in climate resilient transport infrastructure. Phase out fossil fuel subsidies that are not temporary and targeted to the most vulnerable households and firms.

5. Improve waste management by promoting recycling and circular economy practices, while reducing reliance on landfilling. Enhance sustainable water management and quality by increasing investments in water collection and reuse, while tackling pollution in surface water and groundwater.

6. Strengthen the quality and labour-market relevance of education and training to address low educational outcomes as well as the persistent skills shortages and mismatches, especially in STEM, in particular by fostering basic skills of students, the initial and continuous training of teachers as well as promoting enrolment in work-based vocational education and training, and in adult learning for the low-skilled. Strengthen the inclusiveness of education and training, including by enhancing access to high quality early childhood education and care (ECEC). Address job quality concerns in low-skill jobs, including for third country nationals, notably through strengthening labour inspections.

Done at Brussels,

For the Council
The president