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**NOTE**

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From: General Secretariat of the Council

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To: Permanent Representatives Committee/Council

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No. Cion doc.: 9418/22 - COM(2022) 620 final

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Subject: Recommendation for a COUNCIL RECOMMENDATION on the 2022 National Reform Programme of Malta and delivering a Council opinion on the 2022 Stability Programme of Malta

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Delegations will find attached the abovementioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2022) 620 final.

## COUNCIL RECOMMENDATION

of...

**on the 2022 National Reform Programme of Malta and delivering a Council opinion on the 2022 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<sup>1</sup>, 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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<sup>1</sup> OJ L 209, 2.8.1997, p. 1.

- (1) Regulation (EU) 2021/241 of the European Parliament and of the Council<sup>2</sup>, which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, while strengthening the resilience and potential growth of the Member States' economies. It also helps strengthen sustainable public finances and boost growth and job creation in the medium and long term. The maximum financial contribution per Member State under the Recovery and Resilience Facility will be updated in June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.

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<sup>2</sup> 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 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy coordination. It took due account of the Porto Social Commitment signed on 7 May 2021 to further implement the European Pillar of Social Rights proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual Sustainable Growth Survey on 25 March 2022. On 24 November 2021, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council<sup>3</sup>, the Commission also adopted the 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. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2022 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<sup>4</sup> ('2022 Recommendation on the euro area') on 5 April 2022 and the Joint Employment Report on 14 March 2022.

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<sup>3</sup> Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

<sup>4</sup> Council Recommendation of 5 April 2022 on the economic policy of the euro area (OJ C 153, 7.4.2022, p.1).

- (3) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt through, inter alia, higher prices for energy, food and raw materials, and weaker growth prospects. The higher energy prices weigh particularly heavily on the most vulnerable households experiencing or at risk of energy poverty as well as on firms most vulnerable to energy prices hikes. The Union is also seeing an unprecedented inflow of people fleeing Ukraine. The economic effects stemming from Russia's war of aggression have impacted Member States asymmetrically. In this context, on 4 March 2022, Council Directive 2001/55/EC<sup>5</sup> was triggered for the first time by Council Implementing Decision (EU) 2022/382<sup>6</sup>, granting displaced persons from Ukraine the right to legally stay in the Union, as well as access to education and training, the labour market, healthcare, housing and social welfare.

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<sup>5</sup> Council Directive 2001/55/EC of 20 July 2001 on minimum standards for giving temporary protection in the event of a mass influx of displaced persons and on measures promoting a balance of efforts between Member States in receiving such persons and bearing the consequences thereof (OJ L 212, 7.8.2001, p.12).

<sup>6</sup> Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection (OJ L 71, 4.3.2022, p. 1).

- (4) Taking account of the rapidly changing economic and geopolitical situation, the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility, as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 European Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for the recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241, in addition to any other country-specific recommendations issued up to the date of submission of such revised, updated or amended recovery and resilience plans.
- (5) The general escape clause of the Stability and Growth Pact has been active since March 2020. In its communication of 3 March 2021 entitled “One year since the outbreak of COVID-19: fiscal policy response”, the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. Heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply-chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

- (6) Following the approach in the Council Recommendation of 18 June 2021<sup>7</sup> delivering a Council opinion on the 2021 Stability Programme of Malta, the overall fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds, relative to medium-term potential growth<sup>8</sup>. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally-financed<sup>9</sup> primary current expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) and investment.

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<sup>7</sup> 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).

<sup>8</sup> The estimates on the fiscal stance and its components in this Recommendation are Commission estimates based on the assumptions underlying the Commission's 2022 spring forecast. The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the recovery and resilience plan and that can boost potential growth.

<sup>9</sup> Not financed by grants under the Recovery and Resilience Facility or other Union funds.

- (7) On 2 March 2022, the Commission adopted a communication providing broad guidance for fiscal policy in 2023 ('the fiscal guidance') aimed at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination. The Commission noted that, on the basis of the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020–2022 to a broadly neutral aggregate fiscal stance, while standing ready to react to the evolving economic situation, would appear appropriate in 2023. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate between Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest in its European Semester spring package of late May 2022.
- (8) With respect to the fiscal guidance, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the Commission's 2022 winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transition and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second-round effects via targeted and temporary measures. Fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, including challenges that arise from Russia's war of aggression against Ukraine with regard to defence and security, and has to differentiate between Member States according to their fiscal and economic situation, including as regards their exposure to the crisis and the inflow of displaced persons from Ukraine.



- (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 set out in Annex V to that Regulation. On 5 October 2021, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Malta<sup>10</sup>. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5) of Regulation (EU) 2021/241, stating 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.
- (10) Malta submitted its 2022 National Reform Programme on 15 April 2022 and its 2022 Stability Programme on 2 May 2022, in line with the deadline established in Article 4 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 2022 National Reform Programme also reflects Malta's biannual reporting on the progress made in implementing its recovery and resilience plan.
- (11) The Commission published the 2022 country report for Malta on 23 May 2022. It assessed Malta's progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021, and took stock of Malta's implementation of the recovery and resilience plan, building on the recovery and resilience scoreboard. On the basis of that 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, including those emerging from Russia's invasion of Ukraine. 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 reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

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<sup>10</sup> ST 11941/2021; ST 11941/2021 ADD 1.

- (12) On 23 May 2022, the Commission issued a report under Article 126(3) of the Treaty. That report discussed the budgetary situation of Malta, as its general government deficit in 2021 exceeded the Treaty reference value of 3 % of gross domestic product (GDP). The report concluded that the deficit criterion was not fulfilled. In line with the communication of 2 March 2022, the Commission did not propose to open new excessive-deficit procedures in spring 2022 and will reassess whether it is necessary to propose the opening of such procedures in autumn 2022.
- (13) In its Recommendation of 20 July 2020<sup>11</sup>, the Council recommended Malta to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Malta to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In 2021, according to data validated by Eurostat, Malta's general government deficit fell from 9,5 % of GDP in 2020 to 8,0 %. The fiscal policy response by Malta supported the economic recovery in 2021, while temporary emergency support measures declined from 6,3 % of GDP in 2020 to 4,7 % in 2021. The measures taken by Malta in 2021 were in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 were temporary or matched by offsetting measures. According to data validated by Eurostat, general government debt increased from 53,4 % of GDP in 2020 to 57,0 % of GDP in 2021.

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<sup>11</sup> Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Malta and delivering a Council opinion on the 2020 Stability Programme of Malta (OJ C 282, 26.8.2020, p.116).

(14) The macroeconomic scenario underpinning the budgetary projections in the 2022 Stability Programme is realistic. The government projects real GDP to grow by 4,4 % in 2022 and 3,9 % in 2023. By comparison, the Commission's 2022 spring forecast projects a lower real GDP growth of 4,2 % in 2022 and a higher growth of 4,0 % in 2023. In its 2022 Stability Programme, the government expects that the headline deficit will decrease to 5,4 % of GDP in 2022 and to 4,6 % in 2023. The decrease in 2022 mainly reflects the growth in economic activity and the net effect of the partial unwinding of support emergency measures, while new measures were introduced in response to the high energy prices. According to the 2022 Stability Programme, the general government debt-to-GDP ratio is expected to increase to 58,6 % in 2022 and to rise further to 59,4 % in 2023. Based on policy measures known at the cut-off date of the forecast, the Commission's 2022 spring forecast projects a government deficit for 2022 and 2023 of 5,6 % of GDP and 4,6 % respectively. This is in line with the deficit projected in the 2022 Stability Programme. The Commission's 2022 spring forecast projects a similar general government debt-to-GDP ratio, of 58,5 % in 2022 and 59,5 % in 2023. According to the Commission's 2022 spring forecast, the medium-term (10-year average) potential output growth is estimated at 4.5%. However, that estimate does not include the impact of the reforms that are part of the recovery and resilience plan and can boost Malta's potential growth.

- (15) In 2022, the government phased out the majority of measures taken in response to the COVID-19 crisis, such that the temporary emergency measures are projected to decline from 4,7 % of GDP in 2021 to 1,3 % in 2022. The government deficit is impacted by the measures adopted to counter the economic and social impact of the increase in energy prices, which in the Commission's 2022 spring forecast are estimated at 1,0 % of GDP in 2022 and 0,6 % of GDP in 2023<sup>12</sup>. Those measures mainly consist 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. Those measures have been announced as temporary. However, in the event that energy prices remain elevated in 2023, some of those measures could be continued. Some of those measures are not targeted, in particular the subsidies to energy production and the cuts in fuel excise duties. The government deficit is also impacted by the cost of offering temporary protection to displaced persons from Ukraine, which in the Commission's 2022 spring forecast is projected at 0,1 % of GDP in 2022 and 0,1 % in 2023<sup>13</sup>.
- (16) In its Recommendation of 18 June 2021, the Council recommended that in 2022 Malta maintain a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment. The Council also recommended Malta to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term and, at the same time, to enhance investment to boost growth potential.

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<sup>12</sup> The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

<sup>13</sup> It is assumed that the total number of persons displaced from Ukraine to the Union will gradually reach 6 million by the end of 2022, and their geographical distribution is estimated on the basis of the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the Union as of March 2022. For budgetary costs per person, estimates are based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

(17) In 2022, according to the Commission's 2022 spring forecast and including the information incorporated in Malta's 2022 Stability Programme, the fiscal stance is projected to be supportive at -1,5 % of GDP as recommended by the Council<sup>14</sup>. Malta plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by grants under the Recovery and Resilience Facility and other Union funds is projected to increase by 0,2 percentage points of GDP compared to 2021. Nationally financed investment is projected to provide a contractionary contribution to the fiscal stance of 0,3 percentage points in 2022<sup>15</sup>. Therefore, Malta does not plan to preserve nationally financed investment. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 1,6 percentage points to the overall fiscal stance. That significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0,5 % of GDP), as well as the costs to offer temporary protection to displaced persons from Ukraine (0,1 % of GDP). Moreover, the government granted financial support to households (0,3 % of GDP), increased contributory and non-contributory pension benefits in excess of the cost of living adjustment (0,2 % of GDP), while the growth rate of the intermediate consumption (net of measures) remained strong (0,4 % of GDP).

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<sup>14</sup> A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

<sup>15</sup> Other nationally financed capital expenditure is projected to provide a neutral contribution of 0,0 percentage points of GDP.

- (18) In 2023, the fiscal stance is projected in the Commission's 2022 spring forecast at 1,1 % of GDP on a no-policy-change assumption<sup>16</sup>. Malta is projected to continue using the grants under the Recovery and Resilience Facility in 2023 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by grants under the Recovery and Resilience Facility and other Union funds is projected to increase by 0,2 percentage points of GDP compared to 2022. Nationally financed investment is projected to provide a contractionary contribution to the fiscal stance of 0,1 percentage points in 2023<sup>17</sup>. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a contractionary contribution of 1,3 percentage points to the overall fiscal stance. This includes the impact from the phasing out of the measures addressing the increased energy prices (0,4 % of GDP), of the temporary financial support to households (0,3 % of GDP) and of the contributory and non-contributory pension benefits in excess of the cost of living adjustment (0,2 % of GDP). In addition, intermediate consumption (net of measures) is expected to grow less than nominal GDP (0,4 % of GDP).
- (19) In the 2022 Stability Programme, the general government deficit is expected to gradually decline to 4,6 % of GDP in 2023, 2,8 % in 2024 and to 2,4 % by 2025. Therefore, the general government deficit is planned to go below 3 % of GDP by 2024. According to the 2022 Stability Programme, the general government debt-to-GDP ratio is expected to decrease by 2025, specifically with a decrease to 58,6 % in 2024, and a decline to 57,2 % in 2025. According to the Commission's analysis, debt sustainability risks appear medium over the medium term.

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<sup>16</sup> A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

<sup>17</sup> Other nationally financed capital expenditure is projected to provide an expansionary contribution at 0,1 percentage points of GDP.

(20) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments with an indicative timetable for implementation to be completed by 31 August 2026. These help address all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Malta by the Council in the European Semester in 2019 and 2020, in addition to any country-specific recommendations issued up to the date of adoption of a recovery and resilience plan. In particular, the recovery and resilience plan is ambitious and envisages reforms and investments to address the challenges identified with regard to health, employment, education and skills, green and digital transitions, justice and the fight against corruption and money laundering. Good governance is one of the pillars of the government's long-term economic vision, and the recovery and resilience plan makes significant efforts to remedy the challenges in this area. Investing in education also features prominently in the recovery and resilience plan, with relevant measures proposed to address weaknesses in the education system. A major part of planned investments focuses on the green and digital transitions, thereby addressing the country-specific recommendations on investments in these areas. The challenges identified with regard to aggressive tax planning, research and innovation (R&I) and the sustainability of the pension system are partly addressed in the recovery and resilience plan.

- (21) The implementation of the recovery and resilience plan of Malta is expected to contribute to making further progress on the green and digital transitions. Measures supporting the climate objectives in Malta account for 53,8 % of the recovery and resilience plan's total allocation, while measures supporting digital objectives account for 25,5 % of the recovery and resilience plan's total allocation. The fully fledged implementation of the recovery and resilience plan, in line with the relevant milestones and targets, will help Malta swiftly recover from the fallout of the COVID-19 crisis, while strengthening its resilience. The systematic involvement of 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 recovery and resilience plan, to ensure broad ownership of the overall policy agenda.
- (22) Malta has not yet submitted the Partnership Agreement provided for in Regulation (EU) 2021/1060 of the European Parliament and of the Council<sup>18</sup> or the other cohesion policy programmes provided for in that Regulation. In line with Regulation (EU) 2021/1060, Malta is to take into account the relevant country-specific recommendations in the programming of the 2021–2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting coordination, complementarity and coherence between those cohesion policy funds and other Union instruments and funds. The successful implementation of the Recovery and Resilience Facility and cohesion policy programmes also depends on the removal of bottlenecks to investment to support the green and digital transitions and balanced territorial development.

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<sup>18</sup> Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231, 30.6.2021, p. 159).



- (23) Beyond the economic and social challenges addressed by the recovery and resilience plan, Malta faces a number of additional challenges related to features of the tax system that facilitate aggressive tax planning. Tackling aggressive tax planning remains key to improve the efficiency and fairness of the tax system, as acknowledged in the 2022 Recommendation on the euro area. Spillover effects of aggressive tax-planning strategies between Member States call for a coordinated action of national policies to complement Union legislation. Malta has taken steps to address aggressive tax planning practices by implementing previously agreed international and European initiatives, and by committing in its recovery and resilience plan, to carry out an independent study on outbound and inbound (i.e. between Union residents and third-country residents) payments to be followed up by implementing legislation in line with the findings of that study. Still, outbound payments of interests, royalties and dividends made by Malta-based companies to zero- and low-tax jurisdictions (meaning any jurisdiction with a statutory corporate income tax rate below the lowest statutory corporate income tax rate in the Union, which is 9 %) could lead to those payments avoiding tax altogether until withholding taxes, or equivalent defensive measures, are in place in Malta to ensure that such payments are properly taxed. Furthermore, the treatment of resident non-domiciled companies continues to pose a risk of double non-taxation for both, companies and individuals.
- (24) In response to the mandate by the Union Heads of State or Government set out in the Versailles Declaration, the Commission’s proposal for a REPowerEU plan aims to phase out the Union’s dependence on fossil-fuel imports from Russia as soon as possible. For this purpose, the Commission intends to identify the most-suitable projects, investments and reforms at national, regional and Union level in dialogue with Member States. These measures aim to reduce overall reliance on fossil fuels and shift fossil-fuel imports away from Russia.

(25) Malta is lagging behind in achieving its 2030 target of reducing, by 19 % from 2005 levels, greenhouse gas emissions not covered by the Union emissions trading system (ETS), falling under Regulation (EU) 2018/842 of the European Parliament and of the Council<sup>19</sup>. Malta's commitment to becoming climate-neutral by 2050 will require sustained investment by households, firms and government alike. With increased Union climate ambition focusing on more affordable, secure and sustainable energy, more effort is required to further exploit its solar and wind potential, including floating offshore energy, given that renewables only account for 8 % of the energy mix. Malta is heavily reliant on oil (48 %) and natural gas (44 %). Natural gas was used to generate 86 % of Malta's electricity in 2020. While it does not import any gas or oil from Russia<sup>20</sup>, the rapid increase in energy prices has started to affect Malta. Malta intends to ensure better security of energy supply through the building of a second electricity interconnector. Reducing dependence on fossil fuels would also call for an upgrade of its electricity transmission and distribution grids, and investments in electricity storage in order to supply firm, flexible and fast responding energy. Targeting energy efficiency of buildings, particularly residential buildings, including by rolling out heat pumps and other green solutions, would help reduce energy demand. A further increase in ambition in respect of reducing greenhouse-gas emissions and increasing renewables and energy efficiency will be needed in order for Malta to be in line with the 'Fit for 55' objectives. In addition, road transport emissions are steadily growing, forming the largest source of non-ETS greenhouse gas emissions. Reducing traffic congestion would require an improvement in public transport, deployment of intelligent transport systems, and investments in soft mobility infrastructure (such as pavements and cycling lanes) for a safe alternative to private car use.

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<sup>19</sup> Regulation (EU) 2018/842 of the European Parliament and of the Council of 30 May 2018 on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement and amending Regulation (EU) No 525/2013 (OJ L 156, 19.6.2018, p. 26).

<sup>20</sup> Eurostat (2020), share of Russian imports over total imports of natural gas, crude oil and hard coal. For the EU27 average, the total imports are based on extra-EU27 imports. For Malta, total imports include intra-Union trade. Crude oil does not include refined oil products.

- (26) While the acceleration of the transition towards climate neutrality and away from fossil fuels will create significant restructuring costs in several sectors, Malta can make use of the Just Transition Mechanism in the context of cohesion policy to alleviate the socio-economic impact of the transition. In addition, Malta can make use of the European Social Fund Plus, established by Regulation (EU) 2021/1057 of the European Parliament and of the Council<sup>21</sup>, to improve employment opportunities and strengthen social cohesion.
- (27) In the light of the Commission's assessment, the Council has examined the 2022 Stability Programme and its opinion<sup>22</sup> is reflected in recommendation (1).
- (28) 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 implement the recommendations set out in the 2022 Recommendation on the euro area. For Malta, this is reflected in particular in recommendations (1), (2) and (3).

HEREBY RECOMMENDS that Malta take action in 2022 and 2023 to:

1. In 2023, ensure that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. 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. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions.

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<sup>21</sup> Regulation (EU) 2021/1057 of the European Parliament and of the Council of 24 June 2021 establishing the European Social Fund Plus (ESF+) and repealing Regulation (EU) No 1296/2013 (OJ L 231 30.6.2021, p. 21).

<sup>22</sup> Under Article 5(2) of Regulation (EC) No 1466/97.

2. Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 5 October 2021. Submit the 2021–2027 cohesion policy programming documents with a view to finalising the negotiations with the Commission and subsequently starting their implementation.
3. Take action to effectively address features of the tax system that may facilitate aggressive tax planning by individuals and multinational companies, including by ensuring sufficient taxation of outbound payments of interests, royalties and dividends, and amending the rules for non-domiciled companies.
4. Reduce overall reliance on fossil fuels. Accelerate the deployment of renewables, promoting and enabling investments in wind and solar energy, including in floating offshore energy, further upgrading Malta’s electricity transmission and distribution grids, and creating incentives for electricity storage to supply firm, flexible and fast-responding energy. 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.

Done at Brussels,

*For the Council*

*The President*