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National Reform Programme

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Minister's Foreword



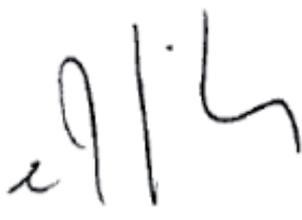
Our country continued to excel in 2015, reaching new heights in terms of economic growth and ranking amongst the best performers in the Euro Area and the European Union in labour market outcomes.

At the same time, we have succeeded in reducing both the deficit and debt ratios. We are confident that we will succeed in reaching the deficit and debt targets for the third consecutive year auguring well for debt reduction and the attainment of public finance sustainability.

These positive outcomes are the result of Government's strategy of attracting productive investment, reforming key sectors and adopting a growth-friendly fiscal consolidation approach.

This 2016 National Reform Programme will outline Government's strategy and policy measures addressing challenges in the main structural and fiscal policy domains including the quality of public finances and long-term fiscal sustainability, labour market, education and skills, poverty reduction and social inclusion, the business environment and competitiveness.

We are confident that this strategy will ensure that our economy not only continues to grow, but that economic growth continues to be broad-based and more importantly, enjoyed by all.

A handwritten signature in black ink, appearing to read 'E. Scicluna'.

Prof. Edward Scicluna
Minister for Finance

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1. Introduction

Malta continued to exhibit a robust economic performance during 2015 with the rate of economic growth and labour market outcomes ranking amongst the best performers in the Euro Area and the European Union (EU). In 2015, Malta reached new heights in terms of economic growth recording a real Gross Domestic Product (GDP) growth of 6.3 per cent, up by 2.6 percentage points from an already significant growth rate of 3.7 per cent recorded a year earlier. The main driver of economic growth was the sustained increase in domestic demand, fuelled by the consistent increases in investment as well as growing household income. Meanwhile, employment increased by 2.3 per cent in 2015 with growth in the last quarter of the year amounting to 3.0 per cent, while the rate of unemployment continued to fall over the course of the year, reaching 5.3 per cent during 2015, down from 5.8 per cent in 2014.

The strong economic performance is reflective of the policy reform programme implemented by the Government. Indeed, Government continues to monitor and address the challenges outlined in the Commission Staff Working Document with respect to taxation, quality of public finances and long-term fiscal sustainability, labour market, education and skills and social aspects, the business environment and competitiveness. This National Reform Programme and the Update of the Stability Programme will outline Government's strategy and policy measures intended to address challenges in the structural and fiscal policy domains.

In addressing its policy objectives, Government is implementing a number of policies aimed at improving the supply-side of the economy while raising the country's potential output. In addition, the Government is attentive at ensuring responsible environmental management and safeguarding social cohesion. Earlier Budgets had the aim of making work pay and ensuring that the social security system positively incentivises work effort and discourages dependency. The 2016 Budget continued to build on the achievements of previous years with particular focus on improving the distribution of income especially the incomes of households defined as being at the risk of poverty. The 2016 Budget also highlighted the importance of investment in enhancing labour and capital productivity.

Government's policy programme remains firmly anchored around its commitment to attain its fiscal targets, and consolidate on the achievements in this area, following the closure of the Excessive Deficit Procedure on part of the European Council in May 2015. Government is also looking beyond the short-term fiscal targets but is viewing the issue of sustainability of public finances from a medium to long-term perspective. In this regard, Government welcomes the assessment of the European Commission in its Fiscal Sustainability Report 2015, which considered Malta as facing low risks over the short to medium-term and medium risks over the long-term. In this regard, Government has also introduced new measures to address the sustainability of public finances through the pension reform measures adopted as part of the Budget for 2016.

Taxation, quality of public finances and long-term fiscal sustainability

The strategy underpinning the attainment of Malta's fiscal targets shall be outlined in the Update of the Stability Programme. Over recent years, the Maltese Government has undertaken a number of steps to strengthen fiscal frameworks in Malta. Following the adoption of the Fiscal Responsibility Act in 2014, the Malta Fiscal Advisory Council has

been in operation over the course of 2014 and has published a number of reports on the state of public finances in Malta. Government has also implemented a number of measures to strengthen the efficiency of the tax system in Malta in particular to improve compliance and tackle tax evasion. These include a mix of changes to the tax system as well as strategic measures such as the Electronic Payments Strategy that is presently being prepared by Government.

Although Malta is no longer classified at high risk of long-term fiscal sustainability, Government is cognizant of the challenges in this area and is introducing measures to address the matter. The main contributor to the strengthening of fiscal sustainability is the fiscal strategy leading to a trajectory of the government debt-to-GDP ratio that is rapidly approaching the 60 per cent of GDP benchmark. With respect to the cost of ageing, important steps were adopted in the Budget for 2016 through measures intended to strengthen the sustainability of pensions, particularly through the lengthening of the contribution period and the introduction of incentives to defer retirement. Measures were also adopted to strengthen adequacy of contributory pensions, particularly through increases to minimum pensions. Government is also studying the introduction of voluntary occupational pensions and a working group is being set up for this purpose.

Labour market, education and skills and social aspects

Strengthening labour market performance, improving basic skills and addressing skill mismatches are key policy priorities for Government. Indeed, Government has introduced several measures with the aim of increasing the labour market participation rate, particularly of women. These include the promotion of flexible working arrangements, free early- and after-school care services, income tax deductions for the use of private childcare centres, and tax exemption for females joining the labour market. Government is also making work pay through initiatives such as changes to the income tax brackets and by raising the tax free threshold. The reforms in benefit design also complement the strengthening of the labour market incentives, particularly through tapering of benefits and the extension of in-work benefits.

Addressing skills shortages and skills gaps in the labour market is another important priority for Government. In this regard, educational institutions are continuously ensuring that the courses offered are attractive, relevant and are continuously addressing the changing needs of the labour market. A National Skills Council will be launched in the near future to analyse the industry's needs and the role of education. Furthermore, Government is addressing the overall improvement in basic skills through the implementation of a number of measures, such as, the National Literacy Strategy for All, the Nwar Programme and through the foundation programmes. Additionally, the National Apprenticeship Scheme offered by MCAST is covering more courses. Furthermore, the Government sustained its investment drive in lifelong learning through various courses, while the EU Agenda in relation to Adult Learning is being adopted in Malta. The reduction of the early school leaving rate remains a key priority and improvements are being sought through a number of preventive, intervention and compensating measures to that effect. Government remains committed to the continuous professional development of teachers and has introduced a number of programmes to this end including the Paid Study Leave Scheme, 'train-the-trainers' system, teacher training programmes and in-service training. Another important development was the setting up of the Institute of Education.

In the area of poverty, the Government is putting in place a number of initiatives targeting families, children, adolescents, elderly and disabled so as to make progress relative to the pertinent Europe 2020 target. Government is sustaining its efforts to ensure adequate and sustainable pensions for current and future pensioners. A number of changes in the tax-benefit system to assist integration of persons with disability were also undertaken while support services to jobless households are being strengthened. Various initiatives undertaken to reduce people at risk of poverty include the increase in the minimum amount payable for contributory pension, the revision of the Carers Pension, the commitment to make changes in the means testing for Social Assistance, the tapering of social benefits, extension of in-work benefits to include single-earner households as well as other measures intended to improve the adequacy of pensions through targeted use of contribution credits.

Business environment and competitiveness

The Government has continued to give priority to the energy reform, where a number of projects have been initiated with the aim to improve energy efficiency and produce cleaner energy. This, in turn, is contributing towards the reduction in utility tariffs for both households and businesses thus reducing their costs and hence, increasing the purchasing power of households and profitability of enterprises.

The Government is committed to achieve the renewable energy target mainly through solar energy. Work on the new gas power station and the conversion of the Delimara 3 plant will improve efficiency in generation capacity and reduce Greenhouse Gas Emissions. The Government is also committed to reduce traffic congestions while encouraging the use of energy efficient modes of transport. In particular, Government has introduced a number of grants and tax deductions to encourage the purchase of environmentally friendly transportation. Furthermore, Government is encouraging the use of bicycles and small motor cycles.

With regards to addressing the need for improved access to finance, the Government has launched a number of initiatives in order to provide viable start-ups with access to suitable and diverse source of finance. The Business START initiative offers seed funding to viable business concepts and businesses in the early stage of development. The Start-up scheme provides financing during the setting-up and initial growth phases.

The Maltese Authorities have embarked on a structured strategy in the area of access to finance that involved the promotion of both traditional (banking) and non-traditional (non-banking) forms of finance as recommended in the EU's Capital Markets Union Action Plan. Some of the initiatives that Malta is implementing include the creation of a new SME Market for SMEs to raise equity and debt through local capital markets (the Malta Stock Exchange); the promotion of financial instruments by leveraging on EU Structural Funds; the offering of seed capital for start-ups and Venture Capital initiatives.

In order to achieve the Research and Innovation (R&I) target, the Government submitted a rolling R&I Action Plan, which will ensure better coordination and avoid any gaps or overlaps. The FUSION programme assesses the commercial and market potential of researchers' or enterprises' ideas. Government has also launched post doctoral grants (Reach High Scholars Programme) in order to encourage research projects. In the meantime, the Malta Life Sciences Park was also completed during 2015, with the aim of attracting foreign direct investment in the bio-technology and life sciences sectors.

Government has continued implementing reforms within the judiciary system with the aim of improving efficiency. This will be obtained through the use of ICT tools, increase in the number of court sittings, the assignment of a court attorney to each judge and through legal amendments. The *Various Laws (Justice Reform) (Civil Procedure) Bill*, adopted early in 2016, will increase the competence of the Small Claims Tribunal and that of the Court Magistrate. The Government is committed towards introducing legislation which will expedite procedures and clearance rates with respect to companies through the introduction of voluntary mediation procedures in insolvency. Legislative measures to facilitate company restructuring have also been introduced. Improvements in efficiency will also be obtained through increase use of ICT and Court statistics for policy guidance.

2. Macroeconomic context and scenario

2. Macroeconomic context and scenario

2.1 Macroeconomic outlook for the period covered by the programme

Ministry for Finance Macro Forecasts 2015-2019

Following the robust growth registered in 2015, the Maltese economy is expected to continue growing at a steady pace over the forecast horizon, with real Gross Domestic Product (GDP) growth reaching 4.2 per cent and 3.1 per cent in 2016 and 2017, respectively. This positive momentum is expected to be supported primarily by strong domestic demand in 2016, while external demand is also expected to support economic growth, although to a lesser extent. Likewise, economic growth in 2017 is expected to be primarily driven by strong domestic demand, while external demand is expected to act as a drag on momentum. For the outer years, both domestic and external demand conditions are expected to contribute positively to economic growth.

Private consumption is expected to remain strong and contribute significantly to economic growth over the forecast horizon as labour market developments coupled with moderate appreciation in wages are expected to have a beneficial impact on disposable income. Following the moderate increase in 2015, growth in Government final consumption expenditure is expected to remain moderate. Gross fixed capital formation is expected to contribute marginally to growth in 2016 following the base effect of high growth in 2015 attributed to the construction of a new power plant and part of the interconnector project, as well as other private investment projects planned for completion over the same period. In fact, in 2016, gross fixed capital formation is expected to increase by 1.6 per cent but to increase by 9.2 per cent in 2017 and consequently, become a key driver of economic growth. This is largely attributed to a considerable amount of investment projects in the pipeline which are expected to commence in 2017, including a number of private health-related, tourism and education investment expenditure projects.

External demand in 2016 is expected to contribute positively to economic growth as exports are projected to increase by 3.4 per cent while imports are projected to increase by 2.5 per cent. On the other hand, net imports are projected for 2017 as the relative strong import-intensive domestic demand will be reflected in an increase in imports which will more than offset the growth in exports.

After reaching a seven-year trough in 2014, Harmonised Index of Consumer Prices (HICP) inflation in 2015 remained relative subdued at 1.2 per cent. However, HICP inflation is projected at 1.6 per cent in 2016 and at 1.9 per cent in 2017. For 2018-2019, HICP inflation is expected to average 1.8 per cent. Over the forecast horizon, services inflation is, on average, expected to rise moderately. However, headline inflation is still expected to be on average below the 2.0 per cent European Central Bank (ECB) benchmark of price stability. Inflationary pressures in 2017 can be explained by higher services inflation.

Growth in economic activity is expected to be supported by strong labour market developments as gains in employment are set to be coupled with a low unemployment rate. Job creation is set to remain strong in 2016 and 2017, with a projected annual rate of increase in employment of 2.7 per cent. At the same time, the unemployment rate is projected to remain relatively low at around 5.3 per cent. This is well below the expected

Main Macroeconomic Indicators

Table 2.1

	2015	2016(f)	2017(f)	2018(f)	2019(f)
Real GDP	6.3	4.2	3.1	2.9	2.4
Inflation rate (%)	1.2	1.6	1.9	1.8	1.7
Employment growth ⁽¹⁾	3.5	2.7	2.7	2.2	2.0
Unemployment Rate (%)	5.4	5.3	5.3	5.4	5.4
Exports of goods and services	2.4	3.4	3.0	3.1	2.0
Imports of goods and services	3.0	2.5	3.7	1.8	1.9
Compensation per employee (% change)	1.7	2.8	2.4	2.5	2.5
Labour productivity (% change) ⁽²⁾	2.7	1.5	0.4	0.6	0.4
Unit Labour Costs (% change)	-1.0	1.4	2.0	1.9	2.1

(1) Total Employment, National Accounts Definition

(2) Real GDP per person employed

European Union (EU) average unemployment rate and reflects efforts of ongoing active labour market policies.

Following the 1.0 per cent decrease in 2015, Unit Labour Costs (ULC) are expected to increase at a rate of 1.4 per cent in 2016, reflecting stronger growth in compensation per employee. Over the remaining forecast horizon period, ULC are expected to rise modestly by an average of 2.0 per cent.

From a sectoral perspective, economic growth is expected to be primarily driven by a positive performance in the services sector. Tourism is expected to continue performing strongly as the projected expansion in the supply side of the industry through increased airline and cruise ship seat capacity and bed capacity, is expected to be met by higher demand. The financial and insurance activity sector and the professional and other business services sectors are also expected to continue performing positively. After registering double-digit growth rates, the wholesale and retail trade, transportation and storage sector is also expected to continue growing over the forecast horizon, although to a lesser extent than 2015.

2.2 Macroeconomic Impact of Structural Reforms

Structural reforms have long been identified as one of the key policy tools through which Government intends to boost the supply of labour and increase productivity. The implementation of structural reforms contributes to raise confidence among households and economic operators and is key to the improvement of living standards. The Government is implementing a series of reforms which aim to address the objectives of the Europe 2020 Strategy and Country Specific Recommendations. These include:

- Achieving a fiscal adjustment in line with the Fiscal Responsibility Act to achieve the medium-term budgetary objective in line with the calendar of convergence;

- Ensuring long-term sustainability of public finances;
- Improving small and micro-enterprises' access to finance;
- Improving basic skills and further reduce early school leaving by introducing new vocational subjects and education pathways, and by promoting the continuous professional development of teachers;
- Raising the share of energy from renewable sources in gross final energy consumption and in the use of transportation;
- Encouraging higher labour employment rates, including by making work pay, improving educational outcomes and reducing the skills gaps;
- Increasing the level of gross domestic expenditure on research and development;
- Reducing poverty and promoting social inclusion.

In light of the requirement to quantify the economic impact of such reforms, this Programme illustrates the economic impact of structural reforms aimed towards:

1. Encouraging higher labour participation of older workers;
2. Facilitating access to finance for small to medium-sized enterprises;
3. Improving efficiency in the energy sector and upgrading infrastructure;
4. Making work pay.

The results presented in this section are based on modelling generated on the basis of the QUEST III model.¹ These scenarios represent illustrations of the likely economic impact of specific policy shocks; they are not intended to represent the impact of all policy measures being implemented by Government.² Indeed, the only policy changes being modelled are the ones specified clearly below with the other policy parameters assumed to remain constant.

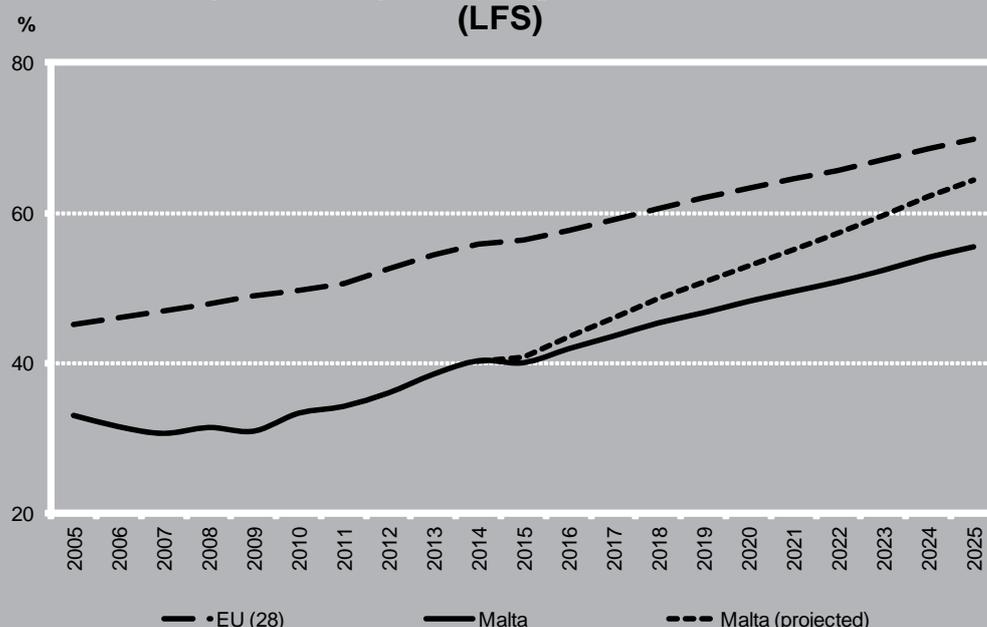
2.2.1 Pension Reforms

As illustrated in Chart 2.1, Malta has gone a long way in increasing the number of active persons aged between 55 and 64, yet Malta's rate at 40.3 per cent in 2014 was still the second lowest in EU and well below the EU28 average of 55.9 per cent. In an attempt to increase labour force participation rates whilst strengthening the long-term sustainability of public finances, Government is intensifying its efforts to incentivise more people to enter the labour market, with particular emphasis to the two groups in which participation rate is the lowest: females and persons approaching the retirement age. As outlined elsewhere in this document, with regards to the latter group, the Government has adopted a number of pension reform measures aimed at addressing both adequacy and sustainability elements. In particular, Government is introducing financial incentives for every year a person chooses to defer its retirement beyond the age of 61 years with a maximum of four years.

Within this context, this scenario aims to illustrate the impact of this reform measure by assuming that Malta will manage to close half of the gap in the activity rates of older workers vis-à-vis the EU, by 2025. As a result, that the activity rate of this segment of the population will reach around 62 per cent by 2025. Results in Table 2.2 show that upon introduction, the measure is assumed to generate an increase of 0.2 per cent in GDP, however the impact on growth is stronger in the outer years. Indeed, the reform is expected to increase employment by around 4,160 persons by 2025, the year in which

Chart 2.1

Activity Rates of persons aged between 55 and 64 (LFS)



we assume that half of the gap in activity rate is closed. In turn, this will be expected to boost the economy by around 1.3 per cent by the same year relative to 2015.

2.2.2 Access to Finance

In order to support the development and growth of small and medium-sized enterprises (SMEs) the Government has implemented a number of measures aiming to facilitate access to finance for these enterprises. JAIME (Joint Assistance Instrument for Maltese Enterprises) is one of the more recent measures to be launched. The aim of JAIME is to

The estimated economic impact of closing half of the gap in the activity rates (55-64 years) by 2025, vis-à-vis the EU

Table 2.2

Years after shock	1	3	5	10	15
Cumulative Percentage changes (from 2015)	2016	2018	2020	2025	2030
GDP	0.21	0.57	0.84	1.33	1.42
Employment	0.39	0.99	1.45	2.28	2.39
Real Wage rate	-0.35	-0.57	-0.77	-1.22	-1.16
Cumulative Actual changes (from 2015)	2016	2018	2020	2025	2030
Employment	702	1,806	2,650	4,160	4,355

The estimated economic impact of the access to finance reforms

Table 2.3

Years after shock	1	2	3	4	5	6	11
Cumulative Percentage changes (from 2014)	2015	2016	2017	2018	2019	2020	2025
GDP	0.19	0.29	0.38	0.43	0.45	0.44	0.30
Employment	0.11	0.11	0.08	0.05	0.03	0.02	0.02
Investment	4.41	5.74	5.28	3.91	2.26	0.94	-0.46
Imports	0.42	0.64	0.65	0.54	0.38	0.23	0.00
Exports	0.01	0.08	0.20	0.32	0.41	0.45	0.34

assist SMEs to obtain financing at advantageous interest rates and reduced collateral obligations. This initiative was established in the first quarter of 2016 and is expected to leverage more than €60 million of new SME financing by the end 2019, targeting around 850 enterprises. Another measure is the Micro-Invest: Tax Credit Incentive, aiming to support SMEs through tax credits when they invest and expand their businesses. This scheme started in 2014 and is expected to provide financial aid of around €70 million to SMEs. Within this context, Table 2.3 illustrates the expected economic effects of these programmes.

The programmes outlined above are expected to stimulate investment over the programme roll-out period. Consequently, imports are expected to spike up over the short-term, and to decline back to the baseline levels over the longer-term. However, exports are expected to exhibit a gradual increase over the short-term and to reach 0.3 per cent by 2025 relative to the baseline. On the whole, improving access to finance is expected impact the economy positively. Indeed, the reforms are expected to increase real GDP by 0.4 per cent by 2020, and to moderate to 0.3 per cent by 2025 relative to the baseline.

2.2.3 Energy reform

In an attempt to further improve the country's competitiveness, the current administration is in the process of reforming the energy sector. In fact, the Government has lowered the energy tariffs by 25 per cent for residential consumers in March 2014 and for businesses in March 2015.

Major investments are being directed to upgrade the energy infrastructure, diversifying sources of energy supply and improving energy efficiency. Indeed, the Government is currently switching Malta's energy generation facilities from liquid fuel oil to natural gas through the construction of a new gas-fired power station which is expected to start operating in 2016. Following this, works to convert the existing electricity generating plants from heavy fuel oil to natural gas (the BWSC conversion) will take place. In addition, the Government is continuing to upgrade the electricity distribution network, in order to meet increased consumer demand and to enable the connection of increased renewable energy installations. In its entirety, these energy projects are estimated to

The estimated economic impact of the Energy Reform

Table 2.4

Years after shock	1	2	3	4	5	6
Cumulative Percentage changes (from 2014)	2015	2016	2017	2018	2019	2020
GDP	1.25	2.47	2.49	2.79	2.89	2.93
impact from reduction in electricity tariffs	0.86	1.29	1.48	1.59	1.69	1.78
impact from increase in Government investment	0.39	1.18	1.00	1.19	1.20	1.15
Employment	1.41	1.24	0.85	0.99	1.11	1.18
Real Wage rate	3.02	4.29	4.70	4.85	4.92	4.89
Total investment	9.63	14.40	3.57	2.95	3.05	3.07
Imports	0.22	0.09	-0.20	-0.10	0.04	0.12
Exports	0.53	1.47	2.27	2.64	2.74	2.79
Cumulative Actual changes (from 2014)	2015	2016	2017	2018	2019	2020
Employment	2,503	2,204	1,507	1,766	1,980	2,107

cost around €557 million and are expected to be completed by 2017. Within this context, this scenario illustrates the economic impact of these measures.

The sizeable investments in the energy sector alongside the reduction in the utility tariffs are expected to have an immediate impact on the Maltese economy. Indeed, the reform is expected to have boosted economic growth by around 1.3 per cent in 2015 relative to 2014, and to increase by 2.5 per cent in 2016, the year when the construction of the new energy plant is expected to be completed. By 2020, real GDP is expected to grow by approximately 2.9 per cent relative to the baseline, with most of the impact resulting from the permanent reduction in the cost of electricity. Furthermore, employment is expected to grow by 1.2 per cent by 2020, with the highest increases being expected during the completion phase of the energy project. In addition, the reform is expected to bolster competitiveness as a result of greater exports which are expected to grow by around 2.8 per cent by 2020 relative to the baseline.

2.2.4 Active Labour Market Policy in Malta: Illustration of impact of Reforms

Active Labour Market Policy reforms are an efficient tool for stimulating employment and ensuring sustainable economic growth. In this regard, the Maltese Government has launched a number of labour market reforms designed to improve the quality and quantity of the supply of labour. In addition, Government has also set itself a more ambitious Europe 2020 target for an employment rate of 70 per cent by 2020. In this regard, several ‘making work pay’ reforms were introduced with the aim of strengthening the labour market attachment of persons at its fringes whilst empowering persons who were unemployed and dependent on social benefits but were capable of working and contributing to society, to reduce or eliminate their welfare dependency and enter the labour market. Policies in this regard include, reduction in personal income tax rates,

free childcare for working parents, educational grants for unemployed single parents, tapering of benefits, the Youth Guarantee scheme and the in-work benefit scheme.

An assessment of the impact of these reforms on the basis of longitudinal studies is hampered by the lack of data since most of these policies were launched in 2014. Consequently, this analysis shall focus on the tapering of benefits and the in-work benefit schemes. The tapering of benefits scheme allowed persons in receipt of Unemployment Assistance (UA), Social Assistance (SA) and Social Assistance for Single Unmarried Parents (SUP) for more than two years to have their benefits tapered down gradually over a period of three years when they get employed instead of losing entitlement to social benefits immediately. Data shows that this scheme encouraged 1,731 persons to engage in employment by the end of 2015, out of which 37 per cent had been in receipt of unemployment assistance.

On the other hand, the In-work Benefit (IWB) scheme allowed low-to-medium income families with dependent children to benefit from a maximum annual grant of €1,000 per child given that both spouses are in employment and that both earn at least €3,000 per year, while it allowed single parents to benefit from a maximum annual grant of €1,200 per child subject to income requirements. By the end of 2015, this policy is estimated to have encouraged around 69 married parents and 16 single parents to join the labour force.

Even though the IWB scheme may be seen as having had limited impact in engaging parents in employment, one must keep in mind that the IWB is targeting also to retain low-earning parents in employment rather than leaving the labour force and living on social benefits. The in-work benefit will also support low-earning parents that were previously in receipt of UA, SA and SUP by topping their earnings once the tapering of benefits will be phased out. This indirect impact of the IWB on employment is too early to be quantifiable.

Against this background, the impact of the IWB scheme must be seen in conjunction with the tapering of benefits. Indeed, the shift from the immediate withdrawal of benefits alongside the IWB scheme, have resulted in a direct increase of 1,816 persons

The estimated economic impact of the ‘making work pay’ reforms

Table 2.5

Cumulative Percentage changes (from 2013)	2015	2016	2018	2020	2025
GDP	0.56	0.68	0.84	1.03	1.17
Employment	1.05	1.19	1.45	1.79	1.98
Real Wage rate	-1.10	-0.61	-0.68	-1.02	-0.97
Cumulative Actual changes (from 2013)	2015	2016	2018	2020	2025
Employment	1,816	2,052	2,501	3,091	3,420

in employment by the end of 2015. In this regard, the following scenario illustrates the macro-economic impact of these reforms up to 2015, taking also into consideration the potential impact of these measures up to 2020.

This scenario indicates that the increase in employment of 1,816 persons resulting from the 'making work pay' reforms, contributed to an increase of 0.6 per cent in real GDP in 2015 relative to the baseline year. Furthermore, employment is expected to increase to around 3,091 by 2020 which in turn is expected to boost GDP by 1.0 per cent by 2020 relative to the baseline.

Footnotes:

¹ QUEST III with research and development is a Dynamic Stochastic General Equilibrium (DSGE) model developed by the European Commission and adapted specifically to the Maltese economy.

² All figures presented in Tables 2.2, 2.3, 2.4 and 2.5 represent the estimated percentage/actual changes from the baseline year.

3. Implementation of the Country-Specific Recommendations

3. Implementation of the Country-Specific Recommendations

This section outlines the implementation of the policy actions adopted and planned in response to the Country-Specific Recommendations. Annex Table 1 provides further details on the measures taken to address the Country-Specific Recommendations.

3.1 Government Finances

3.1.1 Council's recommendation

CSR 1: Following correction of the excessive deficit, achieve a fiscal adjustment of 0.6 per cent of Gross Domestic Product (GDP) towards the medium-term budgetary objective in 2015 and 2016.

3.1.2 Policies in response to the recommendation

The Government is committed to continue reducing the deficit in a sustainable manner over the medium-term. Preliminary estimates indicate that the deficit in 2015 has declined further to 1.5 per cent of GDP, which represents an improvement in the deficit-to-GDP ratio of 0.5 percentage points when compared to that recorded a year earlier. The main contributor towards the decline in the deficit is expenditure towards social benefits and social transfers in kind, which declined by 0.7 percentage points of GDP. This reflects the implementation of the recommendations of the in-depth Comprehensive Spending Review within the Social Security department, which was completed in 2014. The recommendations, which were implemented during 2015, require that all young people under the age of 23 move to a youth guarantee pathway rather than social security, that a tapering of benefit is offered to those that enter the labour market, and in-work benefit is offered to single parent and two parent households. This has resulted in significant savings and in a lower inflow of beneficiaries to the benefit system. In the meantime, the debt ratio also continued on a downward path declining from 67.1 per cent in 2014 to 63.8 per cent in 2015.

The General Government balance is expected to continue declining in 2016, with further gradual reductions envisaged over the medium-term horizon. This will ensure convergence towards the Medium-Term Budgetary Objective (MTO) of a balanced budget and keep the general Government debt ratio on a sustainable downward path. Further details of Government's medium-term fiscal plan are included in the 2016-2019 Update of the Stability Programme.

3.2 Education

3.2.1 Council's recommendation

CSR 2: Take measures to improve basic skills and further reduce early school-leaving by promoting the continuous professional development of teachers.

3.2.2 Policies in response to the recommendation

Improving basic skills

In addressing the overall improvement in basic skills, a National Literacy Strategy for All in Malta and Gozo 2014-2019 was launched in June 2014. The National Literacy Agency (NLA) was set up and started implementing the national strategy. In the first quarter of 2015, a Strategy Unit was set up to support and facilitate implementation. The Unit focuses its work on Action Plans provided by the responsible departments or directorates split into three-year periods.

The NLA is offering the Nwar Programme, a family literacy programme for pupils who have not acquired the basic skills level by the end of Year 3. In 2016, the NLA will set up two additional Nwar centres and thus more children will benefit from such programmes.

As part of the National Literacy Strategy for All, a pilot project was launched in October 2014 whereby tablets were introduced in classrooms to promote more and enhanced reading, writing, numeracy and digital literacy skills. This has been followed by an extensive evaluation report drawing recommendations on the introduction of innovative pedagogical practices using technology on a national scale as from the scholastic year 2016-2017.

Government's strategy to improve basic skills also extends to post-secondary institutions. In fact, the Malta College of Arts, Science and Technology (MCAST) Foundation programme caters for students with basic skills needs attracting some 2,244 students in October 2015, while the Institute for Tourism Studies (ITS) foundation programme attracted another 110 students.

MCAST is also responsible for the implementation of the National Apprenticeship Scheme. There are now over 40 courses at MQF Levels 3 and 4 that form part of the Apprenticeship Scheme and around 700 apprentices are benefitting from such courses.

The Government sustained its investment drive in lifelong learning through, amongst others, adult learning courses, adult courses in the community, adult basic literacy and numeracy and IT skills courses. These courses aim to reach Level 1 on the Malta Qualifications Framework.

Furthermore, the Ministry for Education and Employment has embarked on a number of European Union (EU) projects with regards to Adult Learning. Through these projects, the EU Agenda in Adult Learning is being adopted in Malta, where a work programme for 2016-2017 has also been adopted by the authorities. This has been approved by

the Education, Audiovisual and Culture Executive Agency (EACEA). The programme is based on a number of principles including policy coherence initiative, baseline research, essential skills in disadvantaged communities, targeted awareness raising and European exchange on adult educator up-skilling.

Government will be sustaining the arrangement it has reached with Cambridge English Language Assessment, in order to strengthen the use of the English language and encourage more children to study languages through more attractive packages. The Government will also be training a larger number of primary and secondary school teachers through the 'train-the-trainers' system.

Reducing Early School Leaving

In December 2013, Malta confirmed that it aims to reach the Early School Leaving (ESL) Europe 2020 target of 10 per cent. The Strategic Plan for the Prevention of ESL in Malta, published in June 2014, is based on three pillars namely prevention, intervention and compensation.

The prevention pillar includes inter alia free childcare, an induction programme for migrant learners and new curriculum based on learning outcomes in basic skills which include creativity, critical thinking and active citizenship.

As part of the national curriculum, Malta has worked on introducing vocational subjects in the secondary school cycle. Engineering technology, information technology, health and social care, and hospitality, and agribusiness are the vocational subjects presently being taught in secondary schools. All post-secondary institutions now accept Vocational Education and Training (VET) subjects as part of the students' requirements to start a post-secondary course.

Under the intervention pillar, measures were taken to tackle school absenteeism and investment was carried out within state colleges' Psycho-Social teams, the Youth Focus programme, Youth.Inc programme, Learning Support Zones in State secondary schools, Alternative learning programme, and the Core Curriculum Programme. Furthermore, the XL programme is being conducted in liaison with the Prince's Trust.

Moreover, as from scholastic year 2013-2014, a multidisciplinary team approach involving career advisors, social workers, social support workers, youth workers, counsellors and guidance teachers has been adopted in order to reach out to ESL.

In January 2014, a vocational learning alternative, called the Alternative Learning Programme (ALP) was launched. This programme was created for Form 5 students who are oriented to hands-on, rather than academic learning, and for students who either had marked absenteeism in previous scholastic years and/or are not aiming to sit for the end of secondary education examinations. The aim of such a programme is to provide vocational education leading to Level 1 and 2 certification; enhance the number of students who continue post-secondary vocational education; and enhance the future employment prospects of its students (many of whom are at high-risk of unemployment and poverty). During the summer of 2015, an IT summer course was once again offered to students who had participated in the ALP during the previous scholastic year. There were 125 ALP students who attended this IT summer course, which was organised under the Youth Guarantee scheme. In the same summer, the Paola ALP education centre was

refurbished to high specifications to cater better for the hands-on teaching of vocational subjects being offered at the centre.

During the career fair 'I Choose' held in July 2015, information was given pertinent to the various post-secondary institutions who participated in the fair. Students had the opportunity to explore further the learning paths being offered by the various institutions and also had the opportunity to attend individual career sessions with the career advisors practitioners. Furthermore, the Walk in Service, which held a number of talks with students attending their final compulsory scholastic year, continued to offer career guidance and personal counseling to such students, during the summer period.

Transition programmes across educational pathways are also being strengthened by means of guidance initiatives such as, orientation visits to different work places and post secondary institutions, and career exposure initiatives. These initiatives cater for students by means of effective networking between state secondary schools and post-secondary institutions as well as by elaborated networking between the Directorate for Educational Services personnel and other agencies and entities, for example Aġenzija Żgħażaġħ (Youth.Inc programme), the Employment and Training Corporation (ETC), the Lifelong Learning Directorate, the Malta Financial Services Authority, Malta Information Technology Agency (MITA), Malta Career Guidance Association (MCGA), European Union Programmes Agency (EUPA) and Mater Dei Hospital. This, with the aim of holding large-scale initiatives such as, the Career Exposure for all Form 4 students, whereby such students are placed within a workplace for one week, and national conferences.

In addition, the University of Malta initiated the broadening access in education initiative in order to increase education in regions traditionally associated with low level of participation in education. For such purpose, the Cottonera Resource Centre was set up acting as a bridge between the communities in the inner harbour area and the University of Malta. The initiatives included mentoring, public lectures, revision study groups, dental hygiene sessions, the Science, Technology, Engineering and Mathematics (STEM) summer school, University of the third age, Discover University in the secondary school, Crafts fair on campus and community development.

Measures and initiatives under the compensation pillar include the provision of SEC revision classes free of charge for those students whose grade in Maltese, English Language, Mathematics and Physics is 6, 7 or U (Unclassified), as well as for those who were absent for their examination.

Furthermore, as announced in the Budget for 2016, the Ġużè Ellul Mercer 16+ Extended Secondary School was opened. This is an extended secondary school where students who obtained one O-level at the end of compulsory secondary education can continue their studies.

Another initiative under this pillar is the Youth Guarantee scheme whereby the Government gives a second chance in education to individuals who did not manage to attain a good level of education. The scheme is also facilitating the entry of individuals into the labour market, helping them to retain their employment and improve their employment opportunities. Through the initiatives listed in the Youth Guarantee Implementation Plan, measures include: identifying Not in Education, Employment or Training (NEETs)

population; NEETs Activation Scheme; traineeships; Alternative Learning Programmes; and SEC Revision Classes.

Continuous professional development of teachers

The Government is committed to support the continuous professional development (CPD) of teachers in light of their pivotal role in the educational system. In 2015, a teacher training programme on the content, pedagogy and assessment of vocational subjects was offered to secondary school teachers and to fourth year students following the Bachelor of Education (Hons). It was also offered to Post-Graduate Certificate in Education (PGCE) students who expressed an interest in teaching the five vocational subjects.

Furthermore, with the introduction of the provision of a Paid Study Leave Scheme, public officers within the education class are being given the possibility of benefitting from a number of paid study leave bursaries covering their salary for a maximum of one scholastic year. The aim of this scheme is to assist such officers in pursuing their studies in the field of education and thus facilitate their professional development.

In order to identify the strengths and weaknesses of the adult teaching profession within the Directorate for Lifelong Learning, during 2014 and 2015, further in-service training and staff development sessions were organised. The CPD for Centre Coordinators is still taking place on a regular basis. Coordination meetings are held with Centre coordinators on a monthly basis. Furthermore, a number of coordinators have enrolled in the National Diploma in Teaching Adults which is an MQF level 5 diploma course organised by the Directorate. Other coordinators are involved in training activities in Malta and abroad as part of Breaking Barriers, an Erasmus+ project in which the Directorate is the leading partner and which deals with developing digital tools for the teaching of literacy to adults.

On 24th April 2015, a legal notice was enacted for the setting up of the Institute of Education, which is an autonomous entity that will be responsible for the continuous professional development and training of educators. During the coming months, additional staff will be recruited by this entity to ensure that the services provided by this Institute will reflect the evolving needs of the teachers. The Institute shall mainly be entrusted with providing professional formation, skills, attitudes and practices that will be utilised in the daily professional lives of educators and their contexts taking into account the diverse contexts that exist. In addition, the Institutes will be also implementing CPD activities consistent with or in support of the Government policies and educational frameworks; clarifying, understanding and widening the various aspects of educational leadership; act as a hub for educators to meet and share common experiences, challenges and possibilities, including carrying out action research and collect data related to CPD. Furthermore, individualised training was sought specifically in the area of CPD where the Directorate for Quality and Standards in Education engaged in the Erasmus+ project entitled Creation of CPD Programme for Educators, with partners from the University of Verona and the FORTH Greece research centre. This pilot project aims to provide continuous professional development for college principals, heads and assistant heads of schools and teachers, focusing mainly on one state college. The project aims to develop a CPD framework which other colleges can use to create their in-house CPD. The modules developed for this project were identified after performing a needs analysis with the college heads of schools. Furthermore, other tailor made training is also offered in specific entities, such as post secondary institutions which provides teacher training

through both the CPD Centre and the Curriculum Department. Erasmus+ programmes are also sought by the teaching staff as they regularly attend training at foreign educational institutes and other vocational entities.

3.3 Long-Term Sustainability of Public Finances

3.3.1 Council's recommendation

CSR 3: To ensure the long-term sustainability of public finances, continue the ongoing pension reform, such as by accelerating the already enacted increase in the statutory retirement age and by consecutively linking it to changes in life expectancy.

3.3.2 Policies in response to the recommendation

Malta has a medium risk with regards to the long-term sustainability of its public finances due to the projected long-term cost of ageing. The Government is committed to contain age-related expenditure from growing further, through the continuation of the pension reform process in Malta, as announced in the Budget for 2016.

Reforms to the Contributory Pension Pillar

In December 2006, the House of Representatives adopted a series of parametric reforms (Act No. XIX of 2006) aimed at strengthening both the adequacy as well as the sustainability aspects. These reforms included raising the pension age from 61 to 65; lengthening the contributory period from thirty to forty years; adopting changes to the two-thirds pension, calculation formula, the maximum pensionable income and the crediting of contributions.

The Pension reform in Malta is ongoing. In fact, following the set-up of the new Pensions Strategy Group which continued the work of the previous Working Group, a report presenting pension reform recommendations was finalised in June 2015. Subsequently, the Group prepared a post-consultation report that took into consideration the feedback received (till the end of August 2015) from social partners, political partners and the general public. The post-consultation report, including the final recommendations, was submitted by the Group for the attention of Government during September 2015. The Maltese Government prioritised a number of recommendations and presented them for implementation in the Budget for 2016:

- In order to ensure a fair balance between the contributory period and the period spent in retirement across generations, the contribution period for a full pension will be based on a stable ratio between years contributing and years drawing pension. Consequently, the contributory period is being raised from forty to forty-one years for persons born after 1968.
- The introduction of an incentive mechanism for persons to defer their pension, whereby persons who are eligible for retirement at the age of 61 years, are awarded

a financial incentive for each additional year they choose to continue working up to the age of 65 years.

- A Working Group shall be set up with the scope of bringing to the consideration of Government, proposals relative to the introduction of fiscal incentives for employers that opt to introduce occupational pensions on voluntary basis.
- As from 2016, the Minimum Pension for a person with a full contributory record will not be less than €140 per week. This measure will contribute to address the problem of poverty amongst the elderly.
- Better credits for child rearing and family growth and the introduction of credits for human capital development and lifelong learning.

The Pension Strategy Group argued against a mandatory approach to increases in the statutory retirement age based on the linking of the retirement age to a longevity index. Such an approach does not take into account differences in life expectancy between different types of workers as well as differences between life expectancy and healthy life expectancy. The Group proposed that the Government should strive to increase active employment beyond the statutory retirement age by (i) incentivising late exits from the labour market; (ii) incentivising the deferral of a retirement decision; and (iii) initiating discussion within civil society and amongst constituted bodies for the eventual separation of the mandatory retirement age from the statutory retirement age.

Government has accepted the principle behind recommendations (i) and (ii) in the 2016 Budget. The Maltese Government is still considering the next steps with respect to the other recommendations of the Pensions Strategy Group. The adoption of the principle of achieving a fair balance between the contributory period and the period spent in retirement across generations ensures that the contribution period for a full pension is now based on a stable ratio between years contributing and years drawing a pension. Furthermore, it is noteworthy that there is also the entrenchment in law of a strategic review process of the pension system every five years (Article 64B of the Social Security Act).

The incentive to encourage late retirement and the linking of the contributory period to the period spent in retirement are expected to contribute to the strengthening of the long-term sustainability of public finances. At the same time, the adequacy element is also safeguarded through the increase in the minimum pension, better crediting for child rearing (which is designed to mitigate against gaps in the contributory periods particularly of women arising due to family responsibilities and as a policy instrument contributing positively toward fertility increases) and the introduction of credits for human capital development and lifelong learning, alongside other measures.

New Pensions Legislation in Malta

The reform measures listed above have been adopted by the House of Representatives (Act No. XV of 2016) in March 2016, with the exception of the incentive mechanism for persons to defer their pensions that has been publicly announced on the 22nd March with legislation to follow during the course of 2016.

The Retirement Pensions Act (Chapter 514 of the Laws of Malta) came into force on 1st January 2015. The new Regulations and Pension Rules also came into force on 1st January 2015. A new set of Regulations and Pensions Rules have been issued under the Act to supplement the legal framework for the licensing and regulation of Retirement Schemes (both Occupational and Personal), Retirement Funds and Service Providers related thereto, as well as for the requirement of recognition for persons carrying on back-office administrative services.

Third Pillar Pensions

With regard to the third pillar pensions in Malta, it is to be noted that the first pension products were launched on the market during November 2015, thus bringing into fruition Government's policy initiative in this area. Furthermore, the tax benefits for third pillar pensions have been extended to be applicable to certain insurance products in order to incentivise providers. Accordingly, there are now a number of providers offering personal pension plans. Savers undertaking these plans can receive tax rebates on their savings for retirement.

The Government has presented a draft National Strategy for Retirement Income and Financial Literacy for consultation for 2016-2018. The aim of this Strategy is to build a culture of saving for retirement as well as better money management during life. Through this Strategy, the Government is concluding a three-year action plan. One of the steps that the Government will embark upon following the consultation process is the setting up of an entity to steward the implementation of the national strategy.

Employment of older persons

Malta's employment rate for older cohorts has shown signs of improvement in recent years. In 2013 Q3, the employment rate of workers aged 50-64 years was of 44.7 per cent whereas the EU average was 59.7 per cent. This rate increased to 51.4 per cent by 2015 Q3 while the EU average at the time was of 62.2 per cent. Similarly, the employment rate for the group aged 55-64 also progressed over the same period from 37.0 per cent to 42.1 per cent. Female older workers also showed positive trends, whereby the employment rates of females aged 50-64 increased considerably from 17.7 per cent in 2008 to 26.9 per cent in 2014. Notwithstanding these positive trends, it is to be acknowledged that there is a cohort effect, and that policy responses as well as behaviour attitudes towards labour market participation can only become visible in the long-term.

In view of a number of micro-constraints including traditional roles, career ambitions, historical and cultural influences, the Maltese Government has introduced a number of measures to encourage entry, re-entry and retention in the labour market. Following the 2008 Budget, individuals beyond the retirement age who chose to continue working could do so without forfeiting their pension whilst in employment. This measure was also a move towards increasing the working life with the duration of working life gaining momentum over the recent years as evidenced by the increases registered between 2005-2009 (1.5 years) and 2010 and 2014 (2.7 years). In the National Employment Policy published in 2014 it is pointed out that from 2010 onwards, the employment ratio of older persons increased consistently and is expected to continue increasing in the coming years. This is a reflection of the increases in the pension age legislated in 2006 through which the old age employment ratio is expected to reach 49.4 per cent by 2020 which contrasts sharply with the rate of 28.6 per cent registered in 2000.

3.4 Access to Finance

3.4.1 Council's recommendation

CSR 4: Improve small and micro-enterprises' access to finance, in particular through non-bank instruments.

3.4.2 Policies in response to the recommendation

The Government is taking the necessary steps to ensure that viable start-ups have access to suitable and diverse sources of finance.

In particular, through the Business START (B.Start) initiative, Malta Enterprise (ME) is offering seed funding for small start-ups that have a viable business concept and are in the early stage of development. The benefits expected to be derived from this scheme are related to facilitating access to finance. The maximum value of aid that may be provided is a cash grant of up to €25,000 and support is limited to twelve months. An initial installment of €10,000 shall be paid once the project is approved. Subsequent installments are to be paid quarterly after ME reviews and endorses the progress achieved, which should be in line with the business plan as approved or as adjusted to adapt to market requirements. The overall budget of this measure is estimated at €1 million over the 1st June 2015-30th June 2016 period.

Another ME scheme is the Start-up scheme, which provides mezzanine finance to support small start-up undertakings in the setting-up and initial growth phases. Eligible undertakings must be engaged in manufacturing, information technology, digital media, research and development, innovation, biotechnology, or life sciences. The support shall be provided as a repayable assistance linked to private equity of up to €200,000. In the case of innovative or knowledge based technology start-ups, the repayable assistance may be increased to €500,000, if the investment is linked to the procurement of tangible assets. ME shall charge an interest on any value outstanding at the end of each calendar year. The support will be linked to either the private equity held by the applicant; the procurement of tangible assets; or to crowd funding campaigns. The budget for this measure is estimated at €1 million over a period of nine months starting on 1st February 2016 up to 31st October 2016.

The benefits expected to be derived from the Start-up scheme are related to facilitating access to finance for small start-ups, promoting particularly innovative and knowledge-based undertakings. Through this scheme ME shall also be tapping into different forms of access to finance as it may agree to match any amount pledged through a pre-approved crowd funding campaign.

The Venture Capital Malta (VCMT) initiative, which was launched in February 2015, is aimed at facilitating the provision of venture capital. VCMT will work to create the right conditions for the long-term development of a formal venture capital ecosystem in Malta. VCMT will also act as a platform that will spearhead such policy development and act as a marketing/promotion platform focused on venture capital activity. This initiative will seek to facilitate the provision of deal flow via coordination of existing measures

taken by a number of stakeholders like Malta Enterprise, the University of Malta, the Malta Stock Exchange (MSE) and other entities.

The Government is planning to set up a National Development Bank (NDB) as soon as the discussions with the European Commission are completed. The NDB is expected to address market failures and will thus complement the services provided by commercial banks.

Malta launched the SME Initiative Operational Programme on 15th July 2015 with the aim of stimulating financing by providing partial risk cover on loan portfolios. The programme is to be financed through the European Regional Development Fund (ERDF) with an allocation of €15 million. This initiative is expected to leverage more than €60 million of additional financing over the next few years, targeting some 850 enterprises. The programme was launched on 15th February 2016 under the name Joint Assistance Instrument for Maltese Enterprises (JAIME).

The new cycle concerning the Managed Seed Capital Fund will start in 2016, where €100,000 will again be allotted to this fund. The aim is to encourage academics and students possessing creative and innovative ideas, to secure the necessary financial support to be able to develop their ideas into business concepts. A Management Committee composed of representatives from the Ministry for the Economy, Investment and Small Business (MEIB), the Ministry for Education and Employment (MEDE) and the University of Malta, was set up to direct the necessary procedures for the implementation of this initiative. In 2015, the Committee awarded 3 proof of concepts projects and 5 start-ups for a total value of €100,000.

Over the last two years, the MSE has been working on setting up a Multilateral Trading Facility structure which is focused on the needs of SMEs and start-ups which is in line with the Capital Markets Union project. This new market was launched on Wednesday 17th February 2016 with the aim of providing such companies with an efficient, low-cost opportunity to seek finance. It also aims to provide the structure for good succession planning, by providing not only the right corporate governance structure, but also an exit route through the secondary market for those shareholders wishing to divest themselves of their shareholding. In this regard, MSE is currently reviewing the first application as a Corporate Advisor.

The MSE has also spearheaded the setting up of a Committee of Experts to discuss and debate the development of the domestic capital market and to make recommendations and proposals with regard to such development. Such Committee, has up until now set the goals and terms of reference of the committee and members raised issues concerning the development of capital markets in Malta. Further suggestions from its members are being requested by the committee.

The MSE is also focusing on enhancing financial education in Malta through its own initiatives as well as other initiatives with the MEDE with the objective of widening the scope of financial education in schools in order to ensure a better informed and more knowledgeable investor base. A Committee set up between the MSE and the MEDE has discussed several initiatives and made a number of recommendations in an effort to enhance and widen financial education.

In order to enhance the business environment, measures are being taken to reform the insolvency framework which was broadly in line with the Commission Recommendation 2014/135/EU of 12th March 2014 on a new approach to business failure and insolvency, OJ L 74/65. A working group in this regard has been in operation since summer of 2015 and has delivered its recommendations. Such proposals have been approved by the Cabinet, and a consultation document is being prepared. In this regard, the consultation process will be concluded in April/May 2016, whilst the legislative process will be concluded at a later stage.

4. Progress towards national Europe 2020 targets

4. Progress towards national Europe 2020 targets

4.1 Employment

4.1.1 National Target

Malta has revised its employment rate target from 62.9 per cent to 70 per cent by 2020. The employment rate (among 20 to 64 year olds) stood at 66.4 per cent in 2014, up by 1.6 percentage points (p.p.) over 2013 as both female and male employment rates recorded increases. In fact, the male employment rate rose by 1.0 p.p., increasing to 80.4 per cent in 2014 while the female employment rate increased by 2.2 p.p., rising to 52.0 per cent. The Government is committed to continue raising labour market participation among all groups including females, youths, older workers and the long-term unemployed. In order to reach this target, it is seeking to implement a number of reforms which aim to encourage higher labour employment rates including making work pay, improving educational outcomes and reducing the skills gaps.

4.1.2 Policies to achieve the target

Government has continued to sustain its policy programme aimed at increasing labour force participation. It has introduced several measures with the aim of increasing the labour market participation rate of women, in particular through the promotion of flexible working arrangements. Other measures have included free early- and after-school care services, the provision of free childcare and out-of-school centres, as well as income tax deductions for the use of private childcare centres, and tax exemption for females joining the labour market. Women in employment are also benefiting from an increase in the maternity leave benefit while adoption leave is being aligned with maternity leave. With a view to decrease gender discrimination in employment, Government has also set up a special fund to finance maternity leave in the private sector through the contributions of employers.

During the 2013-2015 period, Government reduced the income tax rate from 35 per cent to 25 per cent on income not exceeding €60,000 per annum with the aim of decreasing the tax burden on labour and hence, making work pay. Furthermore, the Budget for 2016 raised the tax free threshold with the main benefits designed to be accrued by lower income earners and other persons that might have not benefited from changes in the income tax bands legislated in previous years.

Furthermore, through the in-work benefit scheme which was extended in the 2016 Budget to include single earning households, Government is ensuring that the incentive to work is strengthened with regards to low income dual and single-earning households.

The benefit design of the labour market is also being improved through the tapering of benefits when previously unemployed persons enter the labour market. This measure encourages more persons, particularly single parents to seek employment in order to substantially improve their income and not become dependent on social benefits.

The Public Employment Service is operating a number of programmes aimed at increasing the employability prospects of specific groups. In particular, through the Employment Aid Programme (EAP), vulnerable groups, who are at risk of becoming

detached from the labour market, are assisted in finding employment, while existing apprenticeship schemes support young persons to receive adequate training prior to entering the labour market. Other programmes, such as the Enhancing Employability through Training (EET) programme are focused on training as well as the reintegration of unemployed or inactive individuals into the labour market through traineeships, work exposure and training subsidy schemes.

Government is also committed to integrate persons with disability in the labour market. In 2016, Government started to actively enforce a legal provision requiring that 2 per cent of employees in a company (employing more than 20 employees) are persons with disability. To further encourage employers to employ persons with disability, the Government will also be renewing the incentive whereby Government pays the national insurance contribution for these employees whilst employers are refunded 25 per cent of the wage paid together with a grant for three years, which is partly financed through ESF.

Addressing skills shortages and skills gaps in the labour market is another important priority for the Government. As mentioned in CSR2 in Chapter 3, educational institutions are continuously ensuring that the courses offered are attractive, relevant and are continuously addressing the needs of the labour market. Particular importance was given to programmes aimed at assisting students to transform their entrepreneurial ideas into businesses, extensions of the National Apprenticeship Scheme and a programme addressing the skills and competences targeting long-term unemployed and the inactive.

In the 2016 Budget, Government announced that a National Skills Council will be set up to analyse the industry's needs and the role of education. Besides, through the use of new IT tools, a Virtual Labour Market will be created where employers and those seeking employment will have a virtual meeting place which will take into consideration individual skills and aptitudes. Furthermore, the Employability Index, launched in October 2015, will offer more guidance to students on the choices of jobs that are available for the various lines of studies. Additionally, the Public Employment Service is strengthening its research and forecasting functions in order to identify trends and shortcomings in a timely manner thus ensuring that policies are evidence-based.

4.2 Education

4.2.1 National target

In December 2013, Malta confirmed that it aims to reduce the rate of early school leavers (ESL) to 10 per cent by 2020. Provisional figures for 2015 indicate that the rate for ESL in Malta stood at 20.1 per cent, slightly down from 20.3 per cent recorded in 2014. In addition, the share of the 30-34 year old population having completed tertiary education is to be increased to 33 per cent by 2020. Malta's provisional rate recorded for 2015 stood at 27.0 per cent.

4.2.2 Progress on the Implementation of Ongoing Measures

Reducing ESL is one of the top priorities for this Government. The main policies and measures intended to address ESL were outlined in Chapter 3. Nevertheless, some of the initiatives are worthy of mentioning under this heading.

The payment of students' stipends has served over the years to raise participation in higher education. Financial benefits in terms of students' maintenance grants paid to full-time post secondary, vocational and tertiary students will continue having no tax deductions, irrespective of other income received. In addition, stipends will continue to be adjusted with the cost of living adjustment (COLA) mechanism on a pro-rata basis. Furthermore, the second phase of the Youth Village Project was completed in December 2015. The Youth Village will serve as a place where youths may organise youth exchanges and mobility projects.

Government is also implementing the Learning Outcomes Framework for the Learning Areas, the Cross-Curricular Themes and the Learning and Assessment programmes identified in the National Curriculum Framework. A total of 48 Learning and Assessment Programmes were developed with the collaboration of 200 local curriculum experts. A cohort of 70 educators was trained to provide professional development to other teachers. The project was completed and the results emanating from the project are being implemented during the current scholastic year.

During the scholastic year 2015-2016, the Directorate for Lifelong Learning will be working with 29 local councils, offering a variety of courses in the community. The Directorate has also offered courses for non-governmental organisations (NGOs). Furthermore, during 2015 the Directorate for Lifelong Learning and ESL offered new study units as part of the Diploma in Teaching Adults.

Other ongoing initiatives include the continuation of the specific dedicated courses in areas such as Aviation Operations and Piston Engines with the scope of addressing areas where skill gaps persist. To this end, the Government's initiative 'Get Qualified' scheme is being sustained in areas where Malta faces skill gaps. The same instrument also serves to incentivise individuals to increase their educational achievements through the entitlement of a tax credit.

The Malta Book Fund was launched in May 2015. Out of the 35 projects submitted, 11 were selected by an appointed adjudication committee that examined all the projects. Circa €40,000 were distributed among the successful applicants in order to complete their projects which consisted mainly of publishing books.

Planned New and Extended Measures

Government is aware of the important role played by the regulator of higher education services in fostering the development and in achieving excellence in further and higher education in Malta. In this regard, Government is increasing its allocation of both human and technical capacity resources in the National Commission for Further and Higher Education to better fulfill its regulatory function in education.

Following the successful launch of the sabbatical leave scheme in 2015, the 2016 Budget has announced that the Paid Study Leave Scheme for public officers within the education class will also be extended.

Students residing in Gozo who are following full-time courses at the University of Malta, Institute for Tourism Studies (ITS), Malta College of Arts, Science and Technology (MCAST) or are under the Malta Government Undergraduate Scheme in Malta can apply for an allowance. It is expected that this allowance will help with the expenses incurred

by these students. The payment of this allowance will be effected in January, April and July. This also applies to Maltese students who study full-time in Gozo.

Furthermore, students admitted to read courses under the maturity clause will be considered as students with full requirements when applying for a stipend. This will apply to mature students of MCAST, the University of Malta and post-secondary schools. Mature students may also be eligible for the supplementary maintenance grant.

MCAST will be introducing three colleges under the MCAST umbrella, namely, the Foundation College, the Technical College and the University College. Work on the second phase of the MCAST campus will also commence. This shall include a new block for the Institute of Engineering and Transport, MCAST Resource Centre and the new ICT Institute.

The National Skills Council will monitor and react to developments in demand for skills, and recommendations for implementation may include the identification of suitable courses and the institutions that will deliver such courses. These courses would then be delivered and revised as necessary, according to the constant monitoring and evaluation carried out by the Council.

A new Post Doctoral Centre will be built on campus at the University of Malta with the aim of housing post doctoral researchers as well as providing an interim space for business incubation facilities. The Medicines Authority is also initiating discussions on ways how to strengthen the training programmes, support study opportunities and extend the traineeship programme.

Another initiative relates to the Youth Voluntary Work Scheme which is expected to provide youths with placements in local voluntary organisations, complemented also with work experience abroad. This scheme intends to help young people improve their skills and employment prospects.

4.3 Energy Targets

4.3.1 National Targets

The Government is committed to foster sustainable development and to a path of growth which enhances the living standards of the population while safeguarding the environment. In particular, the Government is committed to raise the share of energy from renewable sources in gross final energy consumption to 10 per cent (estimated at 4.7 per cent in 2014). In addition, under the scope of the Effort Sharing Decision, Malta agreed to a target of +5 per cent relative to its 2005 Greenhouse Gas (GHG) emissions by 2020. As per latest Second Biennial Report 2016, Malta's gap between 2014 inventory emissions and 2014 binding target (2014 annual emission allocation pursuant to Decision 2013/162/EU) is -7.4 per cent, whilst the gap between 2020 projected emissions and 2020 binding target (2020 annual emission allocation pursuant to Decision 2013/162/EU) is -4.06 per cent. The Government is also committed to raise the proportion of renewable energy used in all forms of transport to 10 per cent by 2020 (estimated at 4.7 per cent in 2014).

4.3.2 Policies to achieve the targets

The Government continued to implement a number of initiatives in order to achieve the target share of energy from renewables. In particular, the Government extended schemes on the purchasing of solar water heaters and roof insulation and re-launched grant schemes and feed-in tariffs to promote the purchase of photovoltaic systems (PVs). A partnership between the Government and private enterprise is also being setup in order to develop solar farms on Government property.

A number of projects are currently being undertaken to improve efficiency in generation capacity and reduce GHG emissions. The construction of a new 215MW gas-fired plant is on schedule, while works to convert the Delimara 3 plant from heavy fuel oil to natural gas should commence during the second quarter of 2016. In addition, a number of legislative changes have been implemented in order to establish a tariff for the grid integration of the combined heat and power units, as well as to allow for multiple renewable and combined heat and power units at the same site to be covered by different support contracts.

Furthermore, Malta has started the work on developing a Low Carbon Development Strategy in accordance with requirements under the United Nations Framework Convention on Climate Change (UNFCCC) and European Union legislation. Furthermore, this requirement has been inscribed into the national legislative framework through the inclusion of provisions on the preparation and regular updating of a national low carbon development strategy in the Climate Action Act, 2015 (CAP543). Such a strategy shall, during its preparation, take into account the particular circumstances and realities of the country especially those aspects that link socio-economic development with climate action. A successful strategy requires a clear and in-depth understanding of the current situation of Malta and the expectations of the country for future development.

In December 2015, Government finalised a project on the renovation of public buildings, namely the Siġġiewi Primary School and San Vincenz de Paul elderly residence, with the aim of increasing energy efficiency and reducing GHG emissions. Work also continued on the retrofitting of street lighting by introducing energy efficient LED lighting and the adoption of smart lighting technology (dimming and lighting network management). In addition, non-SMEs were required to carry out an energy audit by end 2015. SMEs are also encouraged to carry out energy audits.

The Water Services Corporation will continue investing in its Reverse Osmosis plants, with the aim of reducing electricity consumption. Phase I of the project is in the initial tendering stage and is expected to be completed by the first quarter of 2017. Phase 2 shall be completed by the fourth quarter of 2017. Government aims to conclude the National Transport Strategy and a Master Plan by mid-2016. Additional projects are planned for this year and the coming years in order to remove major traffic bottlenecks, such as the one in Marsa (the project should commence in the last quarter of 2017) and the Kappara Junction (works have commenced in the first half of 2016). A Malta-Gozo link feasibility study is also currently being carried out with the aim of better understanding the geological challenges of building a tunnel between the two islands. In addition, Government is introducing Closed Circuit Television Cameras and Automatic Number Plate Recognition Cameras across critical road sections in order to monitor real time traffic. This measure should be completed by the second quarter of 2016.

In order to further promote the use of scheduled public transport and reduce congestion, a number of initiatives, partly financed through the European Regional Development Fund (ERDF), were launched in the second half of 2015. In addition, 143 Euro VI buses were introduced to the network. During the last two months of 2015, an optimised route network was rolled out in two phases and included the introduction of new routes, modifications in existing routes, additional frequencies in certain locations and revised timetables to better reflect travel patterns and better coverage. Furthermore, the Government has extended the tax rebate offered to parents whose children make use of school transport.

The Government has extended a number of schemes in order to raise the proportion of renewable energy used in all forms of transport. In particular, Government has continued to encourage the replacement of internal combustion engine vehicles with electric vehicles and to promote the conversion of vehicles to autogas. The biofuel substitution obligation remained in place, requiring importers and wholesalers of automotive petrol and diesel to place a share of biofuel in the market. This percentage share is increased by 1 per cent each year. The Government also introduced a tax deduction when businesses buy hybrid vehicles, whilst increasing the deduction available for businesses that buy electric vehicles. In addition, two new grants have been launched in 2016, with the aim of making transportation more environment friendly. In particular, a grant scheme has been launched in relation to the purchase of electric cars and the scrapping of combustion engine vehicles.

The grant on purchasing of bicycles and pedelec bicycles will continue being offered during 2016. In the 2016 Budget, the Government announced a new grant on the installation of bicycle racks by companies. Local councils will be encouraged to invest in initiatives to promote secure cycling within the local community.

Furthermore, as from 2016, Government has reduced the annual circulation licence fee for motorcycles with engines up to 125cc and the removal of registration tax on electric motorcycles. The objective of the measure is to encourage the use of motorcycles over motor vehicles, by granting a reduced annual circulation tax of €10 for motorcycles of 125cc or less. This measure will greatly aid the flow of traffic as well as alleviate parking in congested areas. The removal of registration tax from electric motorcycles removes one of the boundaries for purchase and creates an incentive to not only opt for a motorcycle but a cleaner one. Moreover, drivers holding a Category B license can now drive motorcycles with engines not exceeding 125cc, subject to a number of conditions aimed at instilling road discipline and safety.

4.4 Research and Innovation

4.4.1 National targets

In 2013, Malta's national gross domestic expenditure on research and development (GERD) target envisaged within the Europe 2020 Strategy was revised from 0.67 per cent to 2.0 per cent of GDP by 2020. According to provisional figures by Eurostat, Malta recorded a provisional GERD of 0.83 per cent of GDP during 2014.

4.4.2 Policies to achieve the targets

In order to identify measures, timelines, owners and budgets to achieve the objectives of the National Research and Innovation (R&I) Strategy 2020, the Malta Council for Science and Technology (MCST), in collaboration with all relevant stakeholders, has developed a rolling R&I Action Plan which has been submitted to the Commission, from whom it is currently awaiting feedback. The Action Plan will seek to bring different players together to ensure better coordination and avoidance of overlaps and gaps.

The R&I funding unit within the MCST is dedicated towards two programmes under the FUSION branding: the Commercialisation Voucher Programme and the Technology Development Programme. The FUSION programme offers support with the aim of assisting researchers or enterprises in assessing the commercial and market potential of their ideas. In 2015, the R&I Programme focused primarily on generation of outputs from the Commercialisation Voucher Programme with the scope of enabling new project applications for the subsequent Technology Development Programme. In 2016, the R&I funding unit is expected to issue two calls with regards to both programmes.

The Centre for Entrepreneurship and Business Incubation, which was set up in 2013 with the aim of strengthening the concept of entrepreneurship at the University of Malta, will be launching a doctoral programme in 2016 which may also extend research to cover 'business and the self-employed'.

Moreover, the Reach High Scholars Programme (Post Doctoral Grants) was launched in mid-2015. This programme aims to provide recently graduated doctoral students with the opportunity to propose research projects in conjunction with higher education institutions in Europe within various areas of priority. 18 research projects have been accepted under this programme and these will commence in the first quarter of 2016.

The construction of the Malta Life Sciences Park, formerly known as the BioMalta Campus, was completed during 2015. The Park will seek to attract foreign direct investment in the bio-technology and life sciences sectors and is expected to build upon Malta's long-standing tradition in the pharmaceutical industry.

In addition, the setting up of the National Interactive Science Centre at the Villa Bighi Complex is expected to be completed by 2016. The centre aims to serve as a hub for science communication encouraging students to pursue a career in science and technology. It will also serve as a research infrastructure where research could be carried out in the fields of social science and humanities.

The Malta Information Technology Agency (MITA) Innovation Hub, which was set up in 2014, is acting as a hub to synergise the effort of various parties aimed towards ICT-themed research and technological development, idea-generation, incubation and open-innovation. Based on the results of the seven pilot innovation projects funded since the start of the innovation accelerator, the hub will be launching an acceleration programme that will run from 2016 to 2020. The programme will provide seed investment to partly fund the best start-ups. Moreover, in September 2016, the ICT Innovation Accelerator, along with the University of Malta and Fraunhofer Institute at Bonn University, will be resubmitting its proposal in response to a Horizon 2020 call, for the preparation of a business plan for the establishment of a Centre of Excellence for ICT-driven R&I.

4.5 Promoting Social Inclusion in particular through the Reduction of Poverty

4.5.1 National Targets

Both poverty reduction and greater social inclusion are policy priorities for this Government. Malta's target is to lift around 6,560 people out of the risk of poverty and exclusion by 2020. In this regard, the Government has implemented a number of specific programmes and launched a series of initiatives over the past twelve months.

4.5.2 Policies to achieve the targets

Progress on the Implementation of Ongoing Measures

Elderly and Disabled Persons

Government is sustaining its efforts to ensure adequate and sustainable pensions for current and future pensioners, as addressed in the ongoing pension reform process outlined under CSR 3 (see Chapter 3). The Government is working to improve the current system primarily by a continued strengthening of the first pillar and also through the introduction of incentives pertaining to third pillar pensions.

The Government has also introduced a number of measures in order to streamline the coverage of the contributory pension scheme. During 2015, 1,076 persons applied to pay backdated arrears of social security contributions so as to qualify for minimum pensions once they retire. Moreover, 12,379 persons born between 1941 and 1953 who have paid social security contributions but did not qualify for a contributory or non-contributory pension received the yearly lump sum of money of €100 or €200, depending on their amount of contributions. Furthermore, pensioners whose pension does not exceed the minimum wage will not be taxed, while the cost of living adjustment is now tax exempt for minimum wage earners and pensioners alike.

As from January 2016, Government has increased the total amount of service pension not taken into consideration for social security pension assessment purposes by another €200 to €1,866. Furthermore, in the 2016 Budget, Government announced that it will extend the provision of the €300 grant provided to elderly persons over the age of 75 years who are still living in the community.

The Government is also enabling elderly persons as well as persons with disability to continue living in the community through the extension of the Home Help Service Scheme. Additionally in 2015, the Housing Authority collaborated with NGOs (YMCA and Caritas) on projects aimed to support independent living, either in their own home or in accommodation with carers on site.

Government has continued to address the exclusion challenges of disabled person. In particular, more persons with intellectual disabilities started residing in day centres during 2015, resulting in a further reduction in the waiting list. During 2015, various investment projects were carried out with the aim of increasing capacity whilst enhancing the quality of services. Such projects included works on the centres; the learning hub in Gozo and residences of Aġenzija Sapport. Works in the Vajrita residence are also planned for 2016. Furthermore, by May 2018, ten residential homes for disabled persons will be provided in the community so as to ensure proper care for disabled people following the decease

of parents. The development of a retirement home in Gozo for elderly persons is also underway.

Government has undertaken a number of changes in the tax-benefit system to assist the integration of persons with disability. Full disability pension will still be provided to disabled persons in employment who earn more than the national minimum wage. Additionally, fiscal incentives were also introduced for trusts and foundations set up to help disabled persons. These incentives include the exemption of capital gains taxes as well as the elimination of stamp duty on documents. Another incentive relates to the transfer of the parents' residential home, which is initially transferred to the Trust or Foundation for disabled children, and is subsequently inherited by siblings or heirs on the decease of the disabled person. Furthermore, the tax transfer "causa mortis" for property inherited by disabled persons has been eliminated.

Employers who employ disabled persons will be exempted from paying social security contributions on behalf of the disabled employees. The employer can also be eligible to claim a tax deduction on profits equivalent to the disabled person's wage. The maximum credit cannot exceed €4,500 for each disabled employee. Additionally, the Law regulating persons with disability to be statutorily seated on a number of boards was endorsed and is currently in its implementation stage.

In order to encourage donations to the Malta Community Chest Fund (MCCF) a measure was introduced whereby companies, who donated not less than €2,000 to MCCF between 1st January and 31st December 2015, could claim a full deduction of the amount donated against their chargeable income for the year. Through L.N. 2 of 2016 the allowable deduction was increased from 50 per cent (applicable up to December 2014) to 100 per cent applicable to 2015. In 2015, fifteen companies availed themselves of this measure and in total claimed a deduction equivalent to €79,794.

Families and Adolescents

Government is strengthening support services to jobless households so as to provide more accessible and holistic services to those at risk of poverty, those in poverty and those who are facing social exclusion. Various project plans are being discussed for 2016 in this regard. The good practices that emerged from the LEAP project, which was officially completed in November 2015, were taken on board by policy makers and shall continue to be financed through national funds. More specifically, the Ministry for Family and Social Solidarity (MFSS) has been entrusted with the implementation of the Fund for the European Aid to the Most Deprived, which involves the periodical distribution of food packages to eligible households who are exposed to greater risk of poverty and social exclusion.

The Housing Authority continued to carry out repair and embellishment works in housing estates with the intention to promote community regeneration and to fight poverty. In this regard, following the reactivation of schemes related to the regeneration and maintenance of housing estates, various projects were completed, while others are still underway, such as the embellishment project by the Floriana Local Council. Additionally, Government is also investing in the upgrading and enhancement of another three Housing Authority blocks. Also, first-time home buyers acquiring immovable property will continue being exempt from paying duty on the first €150,000 until end 2016.

Progress is also being registered with respect to adolescents. Apart from the residential home which is currently catering for four female residents, discussions on the provision of bed nights at Dar Frate Jacoba are currently underway.

Other Measures

Towards the end of 2015, the Directorate for Human Rights and Integration was set up within the Ministry of Social Dialogue Consumer Affairs and Civil Liberties, thus addressing the commitment towards the formulation of an Integration Policy. Additionally, the National Integration Strategy for Malta 2015 - 2020 is expected to be launched soon.

Planned New and Extended Measures

Elderly and disability

As outlined in CSR 3 in Chapter 3, a number of measures have been implemented through the 2016 Budget as part of the pension reform. In order to further strengthen the annual income of low to medium income contributory pensioners, the minimum amount payable for a contributory pension has increased to €140 per week. Pensioners who have less than 50 but over 20 contributions will receive payments on pro rata basis. Furthermore, persons who on the point of survivorship were entitled to a contributory pension in their own right will now receive the higher pension between their own and that of their deceased spouse. Changes were also affected to the timeframe of salaries and income that is taken into consideration for pension computation purposes. This measure is expected to affect positively individuals that moved to self-employment towards the end of their career.

Government is helping more elderly persons to continue living in the community through the revision of Carers Pension and Social Assistance for Carers benefits which shall be amalgamated into a single benefit. Eligibility for the new benefit will be revised and broadened with the scope of supporting persons providing informal care, and thus helping more elderly persons to continue living in their own homes. Furthermore, a pilot programme part-financing the employment of live-in carers will be introduced to help families who care for a dependent elderly needing constant supervision at home.

On reaching the age of 60, the Age Pension rate will be paid to persons who are in receipt of the Disability Pension. Moreover, sickness allowance will be paid to single persons living with their parents who have reached pension age and who cannot work due to mental or terminal illness. Also, a call centre service will be created to improve the ease of access to information regarding services for persons with disability and their families. The call centre will provide comprehensive information regarding all the services provided by the National Commission Persons with Disability.

Families

The Government is committed to make changes in the means testing for Social Assistance purposes and entitlement in order to reduce the risk of families from falling into poverty, while at the same time encouraging more people to join the labour market. As there are a number of persons who are unable to work due to illness, disability and mental health problems, the income of working young people of such families will no longer be considered for the purposes of means testing of the head of the household. There will no longer be deductions from the Social Assistance paid when children of the same household enter employment.

The Housing Authority is also working on a plan intended to meet the ever growing demand for social housing. The Housing Authority will be embarking on a €50 million project of new social housing in order to increase its housing stock. The project includes the restructuring of existing premises and the building of new premises already covered by the Malta Environment and Planning Authority (MEPA) permits, as well as the acquisition of neglected private properties. Additionally, the Housing Authority is increasing the grant of two existing schemes to finance adaptation works in residences occupied by owners or tenants and works related to dangerous structures in private dwellings held on lease or emphyteusis by €1,000 each. This aims to raise the housing standard in Malta particularly in respect of low income earners.

The Budget for 2016 also introduced measures intended to improve the adequacy of pensions through targeted use of contribution credits. In this regard, Government has strengthened the crediting of contributions for gaps in the contribution history related to child bearing. This will strengthen pension eligibility, particularly for females. Contribution credits are also being introduced with respect to time spent in full-time human capital development and lifelong learning.

Another measure concerns persons who undergo drug rehabilitation programmes. These persons will receive a benefit, known as Drug Addict Allowance, irrespective of their income or the income of their families, in order to encourage their integration in society. Current beneficiaries will have their rate of entitlement increased with the first payment of 2016 while new claimants will be paid by the new rate.

5. European Union Funds and Other Reforms

5. European Union Funds and Other Reforms

This chapter seeks to outline the Government's strategy in relation to European Union (EU) funds and their relevance with respect to structural reforms. In addition, the chapter presents other reforms addressing non-CSR policy priorities in view of their importance for the local economy and business environment.

5.1 EU Funds

Employment and economic growth constitute the main focus of the European Structural and Investment Funds (ESIF). In recent years, Malta experienced a major leap in terms of the development of both physical infrastructure and human capital, investing in key areas including competitiveness, environment, education, health, social welfare, agriculture and fisheries.

Malta's Partnership Agreement sets out an assessment of the national development needs and defines the priorities for the use of the ESIF. Investment will keep targeting a number of key areas in line with the Europe 2020 targets (and fund-specific missions) over the programme cycle. This will continue enhancing environmental sustainability and social well-being whilst fostering competitiveness through economic development and job creation.

The 2014-2020 programming period presents an opportunity for Malta to continue fostering the right environment for both growth and jobs, while also ensuring an all-inclusive society. Within this context, the Partnership Agreement has identified the following three funding priorities:

1. Fostering competitiveness through innovation and the creation of a business-friendly environment
2. Sustaining an environmentally-friendly and resource-efficient economy
3. Creating opportunities through investment in human capital while improving health and wellbeing

In this regard, the Partnership agreement will continue to support the implementation of the funding priorities whilst taking into account the relevant CSRs.

5.2 Reform Measures implemented through Structural Funds

A Digital Agenda for Europe

The Digital Agenda for Europe targets the maximisation of social and economic potential of ICT. The Malta Communications Authority (MCA) has carried out a detailed feasibility study for a new submarine cable connecting Malta to other locations with the objective of enhancing the resilience and quality of the current international electronic communications connectivity. The study, aimed to identify the best strategies for deployment, by comparing the various models for the optimal technical, commercial and financial solution. The study was financed by Technical Assistance funds from the European Regional Development Fund. It was concluded that a new connection to mainland Europe via a locally-owned, government-subsidised branch to a trans-Mediterranean submarine cable would improve Malta's credibility as a destination for

international business investment and ensure that the country's future international telecoms connectivity requirements and competitiveness can be met.

Malta has applied for funds under the Connecting Europe Facility to continue the work of the BeSmartOnline! project, that is, the Safer Internet Centre in Malta. Through these funds, BeSmartOnline! managed to continue to raise awareness among students in schools while operating a helpline to assist internet users to tackle online risks and receive reports of illegal online content, particularly child abuse material.

The Digital Malta Strategy, launched in 2014, aims to transform Malta into a digitally-enabled country, and to provide support to stakeholders for the successful implementation of the strategy. Digital Citizens, Digital Government and Digital Business are the main strategic themes of the strategy. To date, Malta has already achieved the first two targets of the Agenda related to broadband (100 per cent basic coverage by 2013 and 30Mbps broadband coverage by 2020). This year, private enterprises will be encouraged and supported to exploit the opportunities of the European Digital Single Market, Malta's strategic location in the Mediterranean, Government's strategic alliances with foreign ICT organisations, and opportunities to expand into new or bigger markets.

On 30th October 2015, a green paper on National Cyber Security Strategy was launched based on the dimensions of policy, legislation, risk management, awareness and education. To this end, it proposed six strategic goals requiring a series of coordinated efforts for their successful implementation. Following public consultation, the launch of the Strategy itself is set for the second half of 2016.

The eSkills Malta Foundation, set up in 2014, is committed to focus on the ICT skills that are fundamental to sustain a Digital Economy. The Foundation works with partners to implement the underpinning policies, taxonomies, resource demand and supply monitors. The foundation supports standards and incentives that Government requires so as to enhance the ICT Skills for a leading Information Society and Digital Economy.

European Platform against Poverty

In December 2014, the Ministry for the Family and Social Solidarity (MFSS) launched the National Strategic Policy for Poverty Reduction and for Social Inclusion (2014-2024), presenting six dimensions that are considered vital for the promotion of well-being. These are: income and social benefits, employment, education, health and environment, social services and culture. The strategic policy adopts both a targeted and a universal approach to improve the prospects of those already living in poverty while preventing others from falling in such conditions. The main challenges of this policy are increasing Malta's sustainable development, promoting empowerment and social solidarity, and consolidating social services. The implementation of other national strategies, such as the Active Ageing Strategy, complements the comprehensive framework provided by the National Strategic Policy to promote well-being in its various forms.

In 2015, MFSS replaced the Action Committee with an Inter-Ministerial Committee (IMC) composed of members from the Ministry for Education and Employment (MEDE), the Ministry for Energy and Health (MEH), the Ministry for Justice, Culture and Local Government (MJCL) and the Ministry for the Family and Social Solidarity (MFSS) due to the regular input and monitoring required by various stakeholders to implement the six dimensions of such a national strategic policy.

Innovation Union

Malta has increased initiatives that drive growth through innovation by strengthening its knowledge base, supporting good ideas to reach the market, making good use of Structural Funds for research and innovation (R&I) as well as joining efforts nationally and with partners abroad. Malta continues to invest in human resources by prioritising the building of its knowledge base, focusing on raising awareness and interest in science and technology in young children (through the National Interactive Science Centre) and offering support schemes to post-graduates and doctoral candidates. The latter is contributing towards a higher number of students following post-graduate courses, which in turn is increasing the research activity and the availability and employment of high-level graduates in priority R&I sectors. Moreover, agreements with international research organisations are enabling Maltese students to embark on training opportunities in these organisations.

The ultimate goal of the National R&I Strategy 2020 remains that of embedding R&I at the heart of the Maltese economy by securing the necessary building blocks to spur knowledge-driven and value-added growth. Holistically, supporting the route from ideas to market is a prime goal of Malta's new R&I Strategy. Thus, industry-academia collaboration (Technology Transfer Office within the University of Malta [UoM]) and support to private sector investment (Centre for Entrepreneurship and Business Incubation [CEBI] at UoM) are important to bear the desired results from research. A dedicated R&I incentives package is currently under review under new State Aid guidelines regulating this area.

The Malta College of Arts, Science and Technology (MCAST) Entrepreneurship Centre (MEC), launched in 2015, gives students and alumni the opportunity to transform innovative ideas into profitable and sustainable business ventures. It is also noteworthy that MCAST is consolidating the entrepreneurship-related tuition that students receive. This ensures that business proposals put forward by students are evaluated, nurtured and further developed with the MEC.

The R&I Strategy is a stable vision document covering the period to the year 2020. A rolling Action Plan has also been drafted as the Strategy's Implementation Plan which will be updated periodically. In 2015, Malta finalised the draft R&I Action Plan, which includes specific budgetary measures on how the public sector will be implementing each action line of the National R&I Strategy. In 2016, Malta will be working on setting up the monitoring mechanism and identifying key performance indicators to complete the R&I Action Plan. Ongoing monitoring is essential to ensure its successful implementation.

A strategic document focusing on transnational cooperation in R&I, which presents a set of recommendations to effectively ensure international collaboration was finalised last year. The document shall continue to guide the development of future schemes targeting international collaboration, such as the Internationalisation Partnership Awards Scheme (piloted in 2015).

In the coming years, Malta is expected to continue its participation in key EU initiatives, including Joint Programming Initiatives, Joint Undertakings, and pan-European Research Infrastructures. On a local level, Malta continues to support Maltese researchers and industry players to participate in cross-border collaborative R&I activities through grants and the establishment of bilateral agreements with international organisations.

New Skills for New Jobs

Through the New Skills for New Jobs initiative, which is an EU co-funded project, Malta set out to develop a better match between skills and labour market needs, by developing an information package aimed at attracting young people to the world of vocational studies.

The Employment and Training Corporation (ETC) managed the implementation of the ESF 2.201 project 'Enhancing Employability through Training' (EET), which aims at reintegrating registered unemployed or inactive people into the labour market through training, as well as assisting employed persons in securing and advancing their position within the labour market. In addition, people who have been absent from the formal economy are given the opportunity to upgrade their skills set in order to boost their confidence which will ultimately facilitate their reintegration in the labour market. Such initiatives within this project included Work Exposure and Traineeships. A total of 14,143 persons benefitted from this project, which was concluded in December 2015.

Youth on the Move

The Youth on the Move initiative offers work experience abroad to apprentices in vocational training and university students. The National Employment Policy, launched in May 2014, provides an overview of the Maltese situation in relation to youth unemployment and those who are not in Education, Employment or Training (NEETs). As a result of this policy, more than 300 NEETs benefitted from work exposure and it is estimated that 40 per cent of these persons will succeed in being in employment following the scheme.

Through the Youth Guarantee Implementation Plan, Government is committed to assist individuals at risk of becoming detached from the education system and the labour market to develop their skills and employability prospects. Some of the measures offered as part of the Youth Guarantee Programme include the Alternative Learning Programme (ALP), NEETs Activation Scheme (where NEETs are individually profiled and receive training) and SEC Revision Classes. The ALP had an intake of 282 students for the 2015-2016 scholastic year, while 1,085 students applied for revision classes in 2015.

ETC has a number of programmes focusing on young people ranging from personal action plans, advisory services, employability programmes and active labour market measures. Such programmes include the 'Investing in Skills' which replaces the former Training Aid Framework and training courses, work exposures and traineeships opportunities. The second cycle of the Youth Guarantee is to commence during 2016. The revised Youth Guarantee Implementation Plan includes supported/sheltered employment, which will consist of different phases ranging from profiling of clients, assessment, training and development prior to commencing work, sheltered employment training, work exposure and then sheltered or supported employment.

Other initiatives provided by ETC include the Youth.Inc (motivating youths to become more active in their own learning) and the Employability Index (indicating the level of horizontal and vertical mismatch for graduates). As regards the latter, following the results of this study, a pilot project will be launched to ensure that such mismatch is reduced.

To further strengthen evidence based information on policy actions related to youth and employment, during 2015, a NEET census was carried out where the identification of NEETS was gathered together with an understanding of their aspirations. The results are serving as a basis for policy setting and, more effective programme implementation.

Industrial Policy Flagship

This Government confirms its determination in ensuring conditions conducive to sustainable industrial growth, within the framework of a diversified and balanced economy. Malta Enterprise (ME), the main industrial strategy driver, will continue to focus on its core business, namely the promotion of direct investment. Foreign direct investment will absorb a very significant part of ME's resources but the promotion of local investment in productive activities will not be neglected. Employment, higher added value and export orientation will be the critical priorities determining ME's operational choices. Conscious of the importance of innovation and quality as vital components of international competitiveness, ME will initiate and support initiatives aimed at upgrading new and advanced industrial competences and ensuring a dynamic link between education and training institutions and industry. It will also upgrade its assistance to research and development. Life sciences, aviation services, marine industries, innovative information and communications industries including bioinformatics and the production of digital games as well as a broad range of engineering industries will feature as priority sectors. ME will also be heavily involved in attracting to Malta, foreign investment in education and training services including in the medical and health care sectors, with a view to regional markets.

Resource Efficiency Initiative

Increasing the efficiency of Malta's limited resources is a key priority for Government. To this effect, Malta will seek to contribute towards the circular economy and sustainability agendas.

Malta is actively studying the new Circular Economy Action Plan and plans to evaluate the impact of the proposed legislation on the socio-economic characteristics of the Maltese Islands. Malta looks forward to the work programme that the Commission has set out for itself in order to provide more tools for the smoothest possible transition towards a circular mindset.

In addition, the Government continued to focus its efforts in the implementation of the Waste Management Plan 2014-2020. The inauguration of a new North Mechanical Biological Treatment (MBT) Facility will provide additional treatment volumes, whilst recovering energy embedded in organic waste and preserving precious landfill space. In addition, the Government has launched a pilot project in relation to the collection at source of separated organic waste. This initiative has already increased coverage, from 5 to 9 localities, with a view to further expansion in the summer of 2016 and subsequently rolling out on a national scale. With the aim of reducing or recovering waste, the Government also commissioned a study on food waste, developed a beverage container recovery scheme and removed the eco-contribution from the Waste of Electrical and Electronic Equipment (WEEE).

Green public procurement (GPP) instruments contribute towards a more resource-efficient economy. During 2015, the Green Public Procurement Office within the Ministry

for Sustainable Development, the Environment and Climate Change (MSDEC) continued its mainstreaming mainly through substantive training sessions across all Government sectors. This led to a more sustainable public expenditure model through the inclusion of the national GPP criteria. Additionally, actions on GPP will continue in 2016 with an emphasis on the development of the second National Action plan to further integrate resource efficiency and sustainable production and consumption principles into public expenditure.

Conscious of the business community's responsibility towards sustainability, in 2015, the Ministry for the Economy, Investment and Small Business (MEIB) launched the Sustainable Enterprise Award, which rewards SMEs for their efforts in increasing economic, social and environmental sustainability through their practices.

5.3 The Judiciary System Reform

The Government has continued with the implementation of the reform measures proposed by the Commission for the Holistic Reform of the Justice System, with the aim of improving efficiency and providing a better service to customers.

Use of ICT

The use of ICT is an important contributor to reducing bureaucracy and delays in the Civil Court. In this regard, a new procedure has been introduced, whereby decrees to lawyers from the Civil Courts, transcripts of witnesses' statements and information on whether summons to witnesses have been duly served or not are being transmitted electronically. Online access is now available to legal professionals in the civil sphere to acts, warrants and court case information. Meanwhile, citizens have access to view acts related to their cases. Video-conferencing facilities have also been set-up in a particular Hall of the Law Courts for the purpose of taking evidence when this is so required.

The facility of e-filing of applications in the Small Claims Tribunal as well as of Appeals from decisions of this Tribunal has now also been extended to applications before the Administrative Review Tribunal. There has also been an amendment to the service of documents (through Bill 124 of 2015 which amends Article 187(1) of the Code of Organisation and Civil Procedure), where service shall entail the delivery of a copy of the pleading to the person on whom the pleading is to be served, wherever such person may be found.

As part of the efforts to make better use of ICT tools, an intranet intended to serve as platform for the eFees project was set up within the Ministry of Justice website in January 2016. This project will provide court employees the facility to print out an accurate taxed bill of costs for each civil case which would be automatically updated, thus expediting procedures. In November 2016, the general public will also have the facility to view their bill of costs and effect payment online. In addition, it will be possible to submit judicial acts electronically and related fees may be paid online.

More resources assigned to the Judiciary

During 2015 and the first quarter of 2016, Judges sitting in the Civil Courts were assigned with an experienced full-time lawyer chosen by the Judiciary itself, with the duty of assisting in the drafting of judgements according to previously set performance

indicators, writing memoranda on pending lawsuits and assisting the Judge in the drafting of court orders. Moreover, the Ministry is in the process of engaging court and judicial assistants to be tasked with the collection of evidence and ancillary matters. All new court staff are being given in-house training upon engagement and are also expected to attend additional training courses throughout the year.

Furthermore, through the opening of the new judiciary's premises, physical space was created for capacity building both in terms of new members of the judiciary and new court employees. Further physical improvements in the Law Court will be undertaken in order to cater for better training services for the judiciary. Also, additional Halls will be created to increase the number of Court sittings which can be held in a single day.

With regard to training of the judiciary, the Judicial Studies Committee entered into a programme driven by the International Organisation of Migration assisted by the Irish Government to give specialised training on migration matters for the judiciary and prosecutors.

Legislative proposals

A number of legislative proposals have been approved, put into force or started being debated in the first quarter of 2016.

In February 2016, the Government presented to Parliament an ambitious Bill entitled Constitutional Reforms (Justice Sector) Bill dealing with the manner in which members of the Judiciary are appointed and held accountable with full respect to the principle that members of the Judiciary must be judged by their own peers. Also, the Bill improves the conditions of employment of members of the Judiciary, with the introduction of a service pension. The retirement age will also be increased from 65 years to 68 years. The Bill will increase transparency, good governance and strengthen the notion of checks and balances with full respect to the independence and impartiality of the Judiciary. Fully knowing the delicate nature of the Bill, the Government committed itself to keep listening to proposals by the various stakeholders to further improve the Bill throughout the legislative process.

On 1st April 2016, Act XIV of 2016 was put into force. This Act aims to facilitate procedures concerning sale of immovable property which is held in co-ownership by a number of co-owners. The Act was very well received by the public at large as it addresses a situation where an immovable property is held in co-ownership and the owners would find difficulty in agreeing on terms of sale of the same property.

Government aims to keep improving procedures in civil, commercial and criminal law. The Various Laws (Justice Reform) (Civil Procedure) Bill adopted by Parliament on 12th January 2016 and put into force on 15th February 2016, contains an array of amendments to the Code of Organisation and Civil Procedure which will further expedite Civil and Commercial cases.

Attention to data

In order to deal with the existing backlog of cases, an accurate review of the clearance rate, disposition time and pending cases of each individual judge/magistrate in the civil/commercial and criminal spheres was undertaken. Judiciary members with a pending

case load were tasked by the Chief Justice to tackle the work based on time-frames and performance indicators.

The Government has been giving particular attention to court statistics as a basis for policy guidance. This led to a major shift in data utilisation and there are on-going efforts at fine-tuning current data collection practices, as well as identifying data-gaps. Efficiency parameters are now being studied on a quarterly basis in order to ensure early detection of potential negative trends. Internal analysis of such data has helped identify areas in which more resources were needed, while also highlighting areas where legal amendments were needed in order to make the judicial process more efficient.

Upcoming legislative proposals

The Government intends to propose a number of other legislative measures during this year. As stated in the 2016 Budget, Government is committed to introduce legislation relating to faster resolution of insolvency proceedings. This legislation, which will be published shortly, introduces the novel concept of Second Chance, which was initially proposed in the Commission Communication 'Reigniting the Entrepreneurial Spirit' within the Entrepreneurship 2020 Action Plan. This legislation also seeks to introduce voluntary mediation procedures in insolvency if at least 60 per cent of the companies' creditors agree. There are also legislative measures which shall facilitate company restructuring. This legislative proposal will be published in May and a six-week consultation period will follow. The proposal will then be presented to Parliament for eventual approval.

Alternative Dispute Resolution (ADR) mechanisms are high on the agenda too. Government has been working on a legislative proposal aimed at revamping the existing Mediation Act in order to further incentivise the use of ADRs. Government is committed to expand the Mediation Centre and shall maintain the fees of such mediation at a minimal cost. Between January 2014 and October 2015 an increase of registered arbitrations was recorded: an improvement of 18 per cent introduced cases of domestic voluntary arbitrations and an almost 50 per cent increase of international arbitrations. To date, the arbitration legislation has not been amended, given its level of efficiency, especially with internal audits on arbitrators being verified. Nonetheless, Government is committed to improve the Malta Arbitration Centre by converting it into a more efficient and effective hub for dispute resolution, both locally and internationally.

During 2016, the Government is also committed to further the right of legal assistance during arrest. Moreover, a pilot project is currently being carried out whereby prosecutions in one hall of the Court of Magistrates are being conducted with the active involvement of a lawyer as opposed to prosecution being conducted by police officers as was the practice for a number of years. Also arrangements were made to give the necessary resources for the effective and efficient management of the Legal Aid Agency. Administrative structures have been put in place and new operational procedures have started as of 2016.

5.4 Further Reforms

5.4.1 Sustaining competitiveness

Shop Opening Hours

The scope of this measure is to provide a more flexible approach for retail outlets to open on hours and days which diverge from the standard business hours. To this end, the Trading Licensing Regulations need to be amended accordingly. These amendments are expected to stimulate the retail sector whilst facilitating shopping opportunities for both tourists and local residents. The amendments to the Trading Licensing Regulations have been submitted for consideration by Cabinet. The expected impact of this measure is an increase in the commercial activities of retail businesses and thus a growth in this vital sector of the economy.

Setting Up of Conventions Malta

Towards the third quarter of 2015, Conventions Malta, in collaboration with industry stakeholders, embarked in the development of a new marketing campaign and a new web portal, both to be launched in April 2016. A working group composed of representatives from the Meetings, Incentives, Conferences and Events (MICE) industry was set up to build an effective strategy aimed at attracting more conferences and events to Malta as a destination.

Trade and other organisations related to the MICE industry will be invited, along with local and international professionals, to participate in educational programmes held towards the second half of the year. This should enhance the quality of services being offered to local clients and conference organisers.

Conventions Malta is assisting and supporting the organisation of the EU Presidency 2017 and Valletta 2018 events.

Training for the Film Industry

The Film Commission is in charge of the local film industry and offers training and grants to further develop the local talent. Through the newly acquired skills, local crews will offer better service to foreign productions, while local film makers will have the know-how to start producing their own films. The two-phased EU-funded project (ESF 2.186) 'Re-skilling of workers for the local film industry' was intended to train a minimum of 100 persons but due to substantial positive interest, training was provided to 345 persons who attended 709 training placements.

The Malta Film Commission partnered with Film London to offer a unique training scheme, which consisted of seminars, workshops and mentoring sessions. A total of 20 film makers were given intensive training on various aspects of production, script writing and cinematography. Following a competitive process, a project was chosen and the team, consisting of over 40 people, was given a budget to produce a film under the constant guidance of international mentors. This was the first time that local film makers were given such a practical training experience.

5.4.2 Reforming Public Procurement

Substantial improvement was registered in public procurement procedures, thanks to the various initiatives implemented in recent years aimed at enhancing the efficiency of the public procurement process. Indeed, the 2014 European Commission's Single Market Scoreboard report on public procurement ranked Malta's performance in 2014 above the EU average, at par with Nordic countries. Government is committed to continue improving and reforming this process to continue attaining positive results in this area.

Consolidate and encourage mainstream use of Single Bond procedure

The Department of Contracts is encouraging enterprises that are simultaneously awarded multiple contracts by the same Government department or public entity, to use a single guarantee, instead of individual guarantees for each separately awarded contract. This will lead to a simplification of the performance guarantee procedure, while reducing financial burdens on economic operators participating in public procurement.

Review of requested Performance Guarantee Value

In line with current policy to spur further competition in public procurement, Government will reduce the required performance guarantee to be submitted by economic operators from 10 per cent to 4 per cent when the value of the contract does not exceed €500,000. This measure has been implemented and is expected to encourage a gradual increase in SME participation in public procurement.

6. Institutional Issues and Stakeholder Involvement

6. Institutional Issues and Stakeholder Involvement

The implementation of the country-specific recommendations and the achievement of the Europe 2020 targets require a commitment not only from Government, but also from the social partners, local Government and non-governmental organisations. As in previous years, Government has actively consulted the Malta-European Union Steering Action Committee (MEUSAC) and the Malta Council for Economic and Social Development (MCESD), two forums which bring together the main social partners in Malta. In fact, such stakeholders were consulted by the respective Ministries on various measures and initiatives presented in the National Reform Programme (NRP) and they were also invited to attend a special meeting on the NRP to discuss the overall report.

A quarterly monitoring exercise on the implementation of the NRP is carried out, which leads to a status report on each individual measure listed in the NRP. It should be noted that measures which are co-funded through EU funds have also been included in this NRP.

The Ministry for Finance has been responsible for coordinating the required input from the relevant Ministries and key stakeholders, participating in seminars and discussions on issues concerning the EU 2020 Strategy and providing updates on the progress achieved in the NRP. This collaborative process has proved to be successful in drafting a comprehensive yet concise NRP with increased ownership from line Ministries. In addition, the Ministries and entities responsible for the implementation of the NRP document, the respective Local Councils and the Local Councils' Association, are consulted as applicable.

The NRP will be made available to the public after submission to the European Commission. Furthermore, a copy of the NRP will be handed to the Malta Fiscal Advisory Council. The 2016 NRP document has also been discussed and approved by Cabinet on the 14th April 2016.