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Minister's Foreword

The global COVID-19 outbreak and the subsequent adoption of containment measures to slow the spread of the virus have had a significant adverse impact on the global economy.

The comprehensive and strict containment and mitigation health measures taken by the Government, have succeeded in minimising the ravishes of COVID-19 in Malta. To a large extent one can say that the outbreak of the pandemic was relatively contained.

These measures did not however come without a cost. Various sectors, including those related to tourism and leisure activities have been significantly affected. However, the pandemic crisis has found an economy strong, well-diversified and resilient enough to withstand the first phase of this pandemic. The country's high rate of economic growth over the last seven years together with the reformed public finances, have turned three decades of deficits into an annual surplus between 2016 and 2019. These consecutive surpluses have lowered the debt-to-GDP ratio to 43 per cent thus giving economic management the adequate fiscal space needed in case of a negative eventuality.

The Maltese Government is therefore well-placed to adopt measures to attenuate the impact of the COVID-19 pandemic on enterprises and employment and ensure that the economy returns to the path of economic growth without serious fiscal hangovers.

The Government is confident that the population will continue to rise to the occasion and ensure that the economic life would resume with diligence and effectiveness.

Prof. Edward Scicluna
Minister for Finance and Financial Services

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1. Introduction

1. Introduction

This National Reform Programme (NRP) is being prepared in an environment characterised by heightened uncertainty pertinent to the socio-economic impact of the COVID-19 pandemic on Malta. Whilst as outlined in this Programme, the present health emergency is expected to have a negative impact on economic activity and employment prospects for 2020, this development comes on the back of a decade of sustained economic growth where Gross Domestic Product (GDP) growth averaged 5.6 per cent over the period 2010-2019. It is also noteworthy that economic growth in Malta was employment-rich with the employment rates rising from 60.1 per cent in 2010 to 77.2 per cent in 2019, and the unemployment rate standing at 3.4 per cent. Thus, in light of the robust macroeconomic fundamentals, the Maltese Government is well-placed to adopt measures to attenuate the impact of the COVID-19 pandemic on enterprises and employment and ensure that the economy returns swiftly to the path of economic growth.

Against this background, the Maltese economy is expected to contract by 5.4 per cent in real terms during 2020. Given the high degree of openness of the Maltese economy, international developments are projected to weigh heavily on Malta's net export performance. Indeed, the main contributor to the decline in real GDP for 2020 is a negative net exports balance of 7.2 percentage points. The domestic component of the economy is expected to contribute 1.8 percentage points to growth in 2020, as public expenditure is to compensate for the expected negative contributions of private consumption and gross fixed capital formation. The Maltese economy is expected to resume its positive performance and grow by 3.9 per cent in real terms in 2021, as the main economic sectors are expected to return to growth in reflection of positive developments in tourism, external demand and domestic sentiment. Employment is expected to decline by 3.3 per cent in 2020, with a concomitant rise in the unemployment rate to 5.9 per cent. In 2021, a pick-up in economic activity is projected to generate employment growth of 3.2 per cent. These favorable labour market dynamics correspond to a reduction in the unemployment rate to reach 3.7 per cent.

In the face of the pandemic, the health of the Maltese people remains the highest priority. At the same time, Government is taking measures to ensure that the Maltese economy can achieve a rapid economic recovery. Going forward, once the present health emergency abates, the Maltese Government will continue seeking to set the necessary policy framework that emphasises the quality of growth, with the aim of improving the country's productivity and competitiveness, including through the attraction of high value added foreign direct investment that supports Malta's knowledge-based economy.

1.1 Overall strategy and Government policy initiatives in response to the COVID-19 pandemic

The COVID-19 pandemic is a crisis like no other – not only is it unprecedented, but it is also surrounded with elevated uncertainty. At the face of this emergency, Government's strategy in the initial phase is two-fold. Through containment measures, Government aims to slow the infection rate and consequently reduce demand for acute health services while increasing the supply of healthcare services, in case these are required. The Government is also guaranteeing the functioning of essential sectors, supporting households and enterprises hit by the crisis; altogether while endeavouring towards the containment of the virus spread.

1.1.1 Measures of containment while guaranteeing the functioning of essential sectors

Government launched its strategy for the local public health sector during the early stages of the global pandemic so as to ensure Malta reaches the highest possible levels of preparedness, notwithstanding the uncertainty that characterises the COVID-19 outbreak. The health system response plan is based upon a command and control structure where the Superintendent of Public Health holds legislative authority and makes recommendations to an Inter-ministerial Committee chaired by the Deputy Cabinet Prime Minister and Minister for Health. Since the first case of COVID-19 was reported on 7 March 2020, a series of prevention, containment, control and treatment measures have been implemented and enforced across sectors and within society. These measures have been strengthened in a graduated manner and updated according to the progress of the pandemic on the Maltese islands.

1.2 Supporting households and enterprises hit by the crisis

Apart from increasing funding for the health authorities, Government also introduced several other measures to provide financial assistance to enterprises, self-employed and employees. The Wage Supplement measure provides funds to business and self-employed affected by the COVID-19 pandemic, and is intended to support enterprises in retaining their employees. Other measures are intended to ease liquidity problems and include the deferral of tax payments and loan guarantees and interest subsidies to support enterprises in sustaining their working capital, whilst also supporting business to facilitate remote working through measures supporting investment in telework equipment. A one-off lump sum grant is also provided with respect to cases of employees on mandatory quarantine due to the possible contact with individuals that are in risk of infection. On the social side, a number of measures were introduced for individuals who were made redundant or who are now unable to work.

In the transition towards recovery, Government remains committed to ensure that its policy objectives also address the environment and society as a whole, so as to ensure that no one is left behind. Government's goals and priorities largely reflect and support the European Union (EU) 2020 economic agenda which is reflected in the 2020 Annual Sustainable Growth Strategy that brings together four dimensions: environment, productivity, stability and fairness. It is in this context that the Maltese Government remains primarily committed to ensure the best of health for its citizens. Nonetheless, when relevant, and where possible in the context of the crisis Malta is facing, Government remains committed to put forward policy initiatives that also address the main structural challenges related to public finances and taxation, the financial sector, labour market, education and social policies, competitiveness, reforms and investments, and environmental sustainability.

1.2.1 Public Finances and Taxation

Government is committed to continue with its drive to combat aggressive tax planning (ATP). In this respect, the Maltese Government set out on implementing the Anti-tax avoidance directives (ATAD) as part of the base erosion and profit shifting (BEPS) project. These two new ATAD directives introduced innovative concepts in Malta's legislation that contribute towards reducing ATP practices. Malta has also transposed ATAD 2 regulations to Maltese law regarding hybrid mismatches. Furthermore, Malta has implemented regulations concerning mandatory disclosure rules to improve transparency with respect to corporations residing in Malta. Malta has also ratified the OECD multilateral instrument.

Government has retained its commitment to strengthen the long-term sustainability of pensions by introducing several effective measures intended to lengthen the duration of working lives. Among these measures was the progressive increase in the pension age to reach 65 years by 2027, the lengthening of the contributory period from 30 years to 41 years, as well as the imposition of ceilings on the number of credited contributions for those born on or after 1969 to prevent early retirement. Fiscal incentives to defer early retirement were extended to public sector workers. Policy was also focused on diversifying retirement income by strengthening tax benefits for the Third Pillar Pension Scheme and the Voluntary Occupational Pension Schemes. Policy initiatives are underway to guide health workforce planning and another to guide healthcare services development.

1.2.2 Financial Sector

On 29 March 2019, the Central Bank of Malta published Directive No. 16 on the Regulation on Borrower-Based Measures. The measures set limits on the loan-to-value at origination (LTV-O), debt-service-to-income at origination (DSTI-O) and maturity for all new Residential Real Estate Loans. The objective of this Directive is to continue strengthening the resilience of lenders and borrowers against the potential build-up of vulnerabilities which could result in financial losses both to lenders and borrowers stemming from potential unfavourable economic developments, including the real estate market.

The Malta Financial Services Authority (MFSA) is currently focusing on the practical implementation of the Virtual Financial Assets Act (VFA) framework, which came into force on 1 November 2018. The MFSA introduced a Financial Instrument Test with the objective to determine whether a Distributed Ledger Technology (DLT) asset, based on its specific features, is encompassed under (i) the existing EU legislation and the corresponding national legislation, (ii) the VFA Act or (iii) is otherwise exempt. The Test is applicable to (i) issuers offering DLT assets to the public or wishing to admit such DLT assets on a DLT exchange in or from within Malta; and (ii) persons providing any service and/or performing any activity, within the context of either the VFA Act or traditional financial services legislation, in relation to DLT assets whose classification has not been determined. The regulatory framework for cryptocurrency and DLT will help to ensure investor protection, promote market integrity and safeguard financial stability.

A Working Group is working on a legislative framework on the bank insolvency regime. These measures have an important qualitative impact on the overall stability of the local financial sector, thus benefiting market participants, including institutions as well as depositors/investors.

Malta remains committed to preventing, detecting and prosecuting money laundering and terrorist financing activities. The National Coordinating Committee on Combating

Money Laundering and Funding of Terrorism (NCC) is the governing body responsible for the general oversight of Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) policy and combines all the stakeholders involved in the fight against AML and CFT, including the MFSA, the Financial Intelligence Analysis Unit (FIAU), the Malta Gaming Authority (MGA) as well as the Malta Police Force. Having started working on risk assessments in 2018, the NCC endorsed the TF risk assessment, as well as other sectoral risk assessments in 2019. As part of the overhaul of the Supervisory Framework, all Supervisory Authorities now follow common supervisory procedures. 2019 saw the issuance of updated guidance as well as an emphasis on the regulatory and supervisory outreach to better explain to operators of the various regulated sectors, what is expected from them by the supervisors. Additionally, significant investment in human resources has been made in all regulatory and supervisory bodies, both in terms of staffing, as well as specialised training. The exchange of information between these institutions has also been facilitated through the signing of a Memorandum of Understanding.

1.2.3 Labour Market, Education and Social Policies

In recent years, various initiatives have been introduced aimed at strengthening the labour market, in particular, by contributing towards raising the female participation rate while reducing dependence on social benefits.

Incentives to work were strengthened through reductions in the tax burden on employment as announced in the 2020 Budget. Furthermore, incentives aimed at ‘making work pay’ like the Free Child Care Scheme, Klabb 3-16, the In-Work Benefit scheme and the Tapering of benefits together with the promotion of flexible work arrangements continue to encourage participation in the labour market, targeting females in particular. Moreover, older workers are offered an increase in their pensions for each additional year they spend in employment post their retirement age whilst employment for younger people is facilitated through enhancements of apprenticeship programmes.

The Government also continues to encourage job creation within the private sector in Gozo by offering a 30 per cent refund on the average median wage, up to a maximum of €6,000, for every employee offered a contract of at least 3 years.

The Government recognises that a successful education strategy contributes towards effectively closing the skills gap, which is one of the major challenges facing the Maltese economy. Various initiatives have been developed bringing together educational professionals, students and employers, with a view to address the needs arising from the ever-changing labour market. Over the past years, Malta’s tertiary education attainment continued to increase while a reduction in the early school leaving rate was also registered.

The ‘My Journey’ reform introduced applied subjects, the Malta College of Arts, Science and Technology (MCAST) has launched the Skills Kits programme while the Directorate for Learning and Assessment Programmes has embarked on a range of initiatives, targeting gifted and talented students in both primary and secondary cycles. In addition, the Institute of Education has developed a number of accredited courses which are offered to educators after school hours. The Government is also supporting all women from different societal backgrounds by providing courses ranging from learning basic skills to opportunities to read for a degree. Government is also investing heavily in education infrastructure and resources including educational facilities for children with disabilities who cannot attend mainstream educational facilities.

The reduction of poverty and the promotion of social inclusion is high on Government's policy agenda as evidenced by the various social measures adopted to target different cohorts. Policies that target the elderly cohort include: the increase in old-age pensions pension, reduction in tax paid by pensioners and the increase in elderly grant and supplementary allowance. In the case of disabled persons, Government increased the additional assistance for severe disability, the carer's allowance, disabled child allowance and non-contributory medical assistance and launched a new project to provide a new residential home for adults with disability. The Government also extended the housing benefit to ensure it reaches of broader spectrum of Maltese society.

1.2.4 Competitiveness, reforms and investments

In 2013, Malta set a target with respect to gross domestic expenditure on research and development (GERD) at 2.0 per cent of GDP by 2020. Since 2013, the Maltese economy has followed a dynamic trajectory such that while GERD expenditure was generally on an increase, it was outpaced by the rate of economic growth leading to a downward trend in the ratio and thus rendering very challenging the attainment of the 2020 target.

Malta's Research and Innovation (R&I) policy is currently driven by the National Research and Innovation Strategy 2020 intended to address deficits and gaps in the R&I ecosystem, including more investment in research and development, addressing skill gaps, facilitating science-business links, and including the set-up of a more effective governance of the research and innovation system. The Malta Council for Science and Technology (MCST) is currently working on the development of the National Research and Innovation Strategy post-2020 and updating of the smart specialisation strategy (RIS3).

Government has also adopted a number of reforms to strengthen governance and rule of law. National consensus has been reached on the appointment of the chief justice and of the judiciary. A key principle conceding the judiciary is that they will be appointed by a majority of their peers, namely through reforms of the Judicial Appointments committee.

The recently enacted 'ACT to continue implementing reform in the Justice Sector (Attorney General) (ACT No. XXV of 2019)', separated the Government advisory and prosecutorial roles of the Attorney General.

1.2.5 Environmental sustainability

The final National Energy and Climate Plan (NECP) for 2021-2030 mapping out how Malta intends to implement measures in line with the five dimensions of the Energy Union was submitted to the European Commission in December 2019. The NECP includes measures related to decarbonisation, energy efficiency, energy security, internal energy market, research, innovation and competitiveness.

The Government remains committed to work actively on the development and implementation of the Melita TransGas Pipeline (MTGP) which will connect Malta to the European Gas Network.

The Government is also working on formulating its Low-Carbon Development Strategy. This Strategy is a tool to enable sound decision-making on plans for a low carbon future, with a focus on a comprehensive assessment of climate adaptation and mitigation measures to reflect the current risks that the country is facing with respect to climate change. The 2050 Strategy aims to ensure that policy interventions at different sectoral levels achieve decarbonisation through actions carried out by all stakeholders in synergy.

2. Macroeconomic Context and Scenario

2. Macroeconomic Context and Scenario

2.1 Macroeconomic outlook for the period covered by the Programme

2.1.1 Macro Forecasts 2020-2021

In 2019, the Maltese economy recorded a real growth rate of 4.4 per cent, equivalent to 6.8 per cent in nominal terms. While the rate of growth of the Maltese economy was broad-based, the domestic demand component was the main driver for growth, contributing to 4.3 percentage points. This was supported by consistent growth in government consumption and investment, as well as buoyant labour market developments which generated positive consumption dynamics. Changes in inventories also contributed 0.2 percentage points towards growth, while net exports contributed negatively by 0.1 percentage points due to weaker external demand conditions.

The outbreak of the COVID-19 pandemic in early 2020 has brought about unprecedented stresses to the global economy. The effect of this shock distinguishes itself from previous crises as the sudden declines in demand were complemented with supply restrictions resulting from the imposition of lockdowns. Besides, the unrelenting speed at which the virus spread resulted in unanticipated strains on health care systems. International institutions and Governments hastily responded to the outbreak by loosening monetary policy and providing fiscal stimulus in an attempt to cushion the economic setback.

In Malta, while the outbreak of the pandemic had an adverse effect on the broad economy, the sectors most severely hit by the partial-lockdown measures were those related to tourism activity, mainly the wholesale and retail trade sector, transportation and storage and the accommodation and food service activities sector.

Against this background, the Maltese economy is expected to contract by 5.4 per cent in real terms during 2020. Table 2.1 provides an overview of the outlook for the main macroeconomic indicators. Given the high degree of openness of the Maltese economy, international developments are projected to weigh heavily on Malta's net export performance. Indeed, the main contributor to the decline in real Gross Domestic Product (GDP) for 2020 is a negative net exports balance of 7.2 per cent. Employment and the labour supply are expected to decline by 3.3 per cent and 0.6 per cent respectively, with a concomitant rise in the unemployment rate to 5.9 per cent. In spite of these developments, domestic demand is expected to contribute 1.8 per cent to growth, as public expenditure is projected to compensate for the negative contributions from private consumption and gross fixed capital formation.

The outlook for 2021 remains highly uncertain and is contingent on the possible evolution in the COVID-19, the economic recovery in Malta's key trading partners, as well as the speed at which the behavior of domestic consumers and firms will return to normal. The baseline projection accounts for gradual resumption of economic activity from the third quarter of 2020, and this should support a modest recovery in 2021. Indeed, the Maltese economy is expected to resume its positive performance and grow by 3.9 per cent in real terms in 2021, as growth rates in the main GDP components are expected to turn positive in reflection of positive developments in tourism, external demand and domestic sentiment. A pick-up in economic activity along with an increase of 3.5 per cent in the labour supply is projected to generate employment growth of 3.2 per cent, corresponding to a reduction in the unemployment rate to 3.7 per cent. Domestic demand is projected to be the main driver of this growth with an expected contribution of 1.8 per cent, followed by a positive net exports contribution of 2.1 per cent.

Main Macroeconomic Indicators

Table 2.1

	2019	2020(f)	2021(f)
Real GDP	4.4	-5.4	3.9
Inflation rate (%)	1.5	1.0	1.4
Employment growth [(1)]	5.7	-3.3	3.2
Unemployment rate (%)	3.4	5.9	3.7
Exports of goods and services	1.7	-12.1	6.8
Imports of goods and services	2.1	-8.0	5.6
Compensation per employee (% change)	2.1	1.5	2.9
Labour productivity (% change) [(2)]	-1.2	-2.2	0.7
Unit Labour Costs (% change)	3.0	3.8	2.1

[(1)] Total Employment, National Accounts Definition

[(2)] Real GDP per person employed

2.2 Macro Economic Impact of Structural Reforms

Over the past years, the Maltese Government introduced a number of reforms with the scope of boosting businesses' confidence, thus bringing about higher efficiency, productivity and employment while improving potential output growth and living standards. These reforms are crucial to meet the objectives laid down in the Europe 2020 Strategy and Country Specific Recommendations (CSRs) as they aim to continue:

- Strengthening fiscal responsibility and ensuring long-term sustainability of the pension and health care systems;
- Strengthening the country's institutions and good governance in line with international standards;
- Improving physical infrastructure and the quality of the business environment;
- Encouraging greater investment in research and innovation;
- Reducing risks of poverty and promoting social inclusion;
- Encouraging higher labour participation rates, improving education outcomes and reducing skills gaps;
- Strengthening efficiency in the use of energy and promoting the use of energy from renewable sources.

2.2.1 Reduction in travelling time

This sub-section illustrates the economic impact of traffic-time savings as a result of an increase in investment in the road network infrastructure aimed towards addressing traffic congestions. The results presented in this section are based on modelling generated on the basis of the QUEST III model.[1] This analysis sheds light on the likely economic impact of the specific policy shock; it does not represent the impact of all policy measures being implemented by the Government. Indeed, the only policy change being modelled is the one relating to the time savings and increase in infrastructure investment brought about by the '#7roadproject', while the other policy parameters are assumed to remain constant.

The Maltese Government launched the '#7roadproject' to upgrade 7 of Malta's major road networks that were more prone to congestion and accidents. Through the financing of new road construction and road network rehabilitation, the '#7roadproject' aims to ensure smoother and faster flow of traffic, hence enhancing greater accessibility and mobility whilst cutting journey times. The work related to the '#7roadproject', which is estimated to cost around €141 million, started off in 2018 and all projects are expected to be finalised ahead of schedule by 2022. A government-commissioned study presented by Infrastructure Malta[2] found that the collective impact of all 7 projects translates into 5 million hours of saved travelling time every year.

Within this context, the objective of the scenario presented in Table 2.2 is to highlight the likely economic impact of the investment of around €141 million in roadwork infrastructure along with the benefits associated with travel time savings brought about by such investment. It is pertinent to note that the project is expected to have several other benefits, including lower carbon emissions, lower maintenance cost, lower health and damage costs from lower number of accidents as well as fuel costs savings. However, for the purpose of our exercise, only the benefits related to the savings in travelling time are considered.

The increase in infrastructure investment alongside the travelling-time savings are expected to reap substantial economic benefits. Indeed, relative to the baseline, output is expected to increase by 0.66 per cent by 2022 - the year by which all 7 roadwork projects are expected to be finalised. The investment in infrastructure is expected to boost employment levels during the project rollout period, but growth in employment is expected to revert to normal levels following completion of project. On the other hand, savings in travelling time are expected to have significant improvement on working time, with an expected increase of around €18 million worth of working time per year.

Estimated economic impact of an increase in road-infrastructure investment along with a reduction in travelling time

Table 2.2

Years after shock	**1**	**2**	**3**	**4**	**5**	**6**	**11**
Cumulative Percentage changes (from 2019)	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2030**
GDP	0.30	0.49	0.66	0.62	0.64	0.63	0.57
Employment							
as a result of an increase in investment	0.12	0.10	0.08	0.01	0.03	0.04	0.02
Cumulative Actual changes (from 2019)	**1**	**2**	**3**	**4**	**5**	**6**	**11**
Employment							
as a result of an increase in investment	280	257	188	23	79	89	45
Higher Working time (€ millions)							
as a result of a reduction in traveling time	9.12	14.56	17.04	18.08	18.54	18.80	19.93

2.3 Distributional Impact of Selected 2020 Budget Measures

This section analyses the impact of 5 policy measures announced in the 2020 Budget. These measures include a weekly increase in pensions of €3.51 for every pensioner, the €300 birth bonus, an additional bonus to mitigate the impact of higher cost of living, the housing benefit on affordable housing and a €50 increase in the grant for elderly persons aged 80 years and over who continue to reside at their own homes. To assess the effectiveness of these initiatives, simulations were modelled using EUROMOD[3]. The simulations consisted of a baseline scenario, whereby the specific reform is excluded from the simulation and a scenario in which the reform is included. For each measure, the difference between these 2 scenarios is the impact of that specific policy reform.

EUROMOD is a static model and therefore, the results illustrate the impact of the reform measures presuming that everything else remained unchanged. Thus, these results cannot be compared to other previous estimations.

2.3.1 Increase in Pensions

According to the Survey on Income and Living Conditions (SILC), individuals who are aged 65 and over, are more likely to be at risk of poverty when compared to other age cohorts. Therefore, the adequacy of pensions plays a key role in preventing elderly citizens from falling below the poverty line.

In order to increase pension adequacy in the 2020 Budget, the Government announced that every pensioner will be benefiting from a weekly increase of €3.51 in his or her pension (over and above the increase in the statutory Cost of Living Adjustment (COLA)), irrespective of whether the claimant was receiving a contributory or a non-contributory pension.

This measure is expected to have a rather strong positive impact in terms of the overall at-risk-of-poverty rate, which is estimated to decline by around 0.43 percentage points. As shown in Table 2.3, the increase in pensions is estimated to cause a decline of 1.73 percentage points in the at-risk-of-poverty rate among the elderly cohort. The indicator showing the level of income inequality in the distribution of disposable income, the Gini

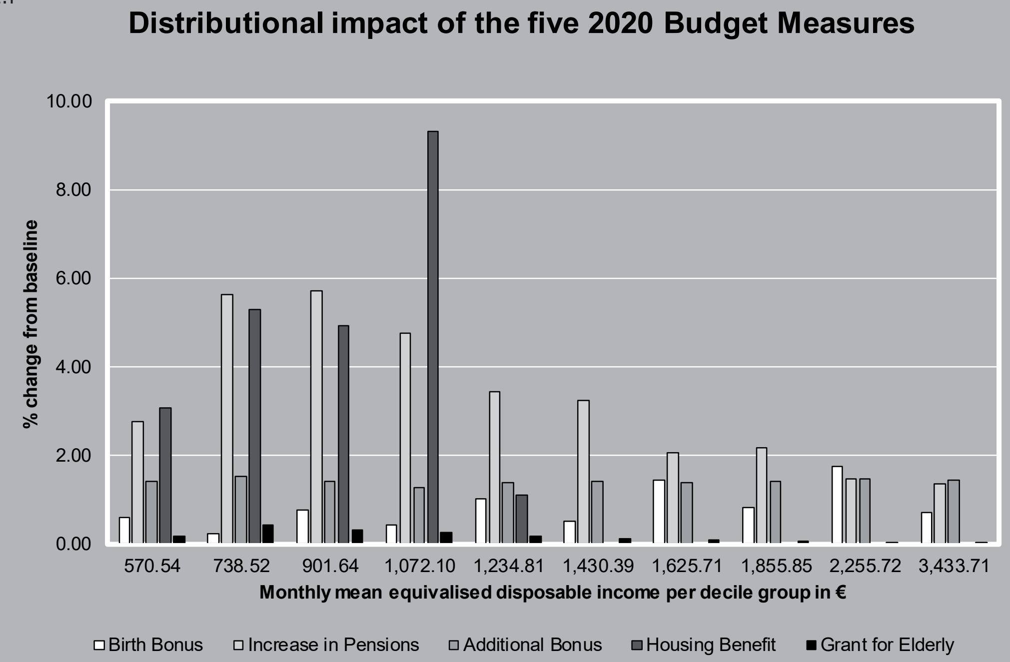
Distributional impact of reforms (in percentage points)

Table 2.3

	Increase of €3.51 for Pensioners	Birth Bonus	Additional Bonus	Housing Benefit	Increase of €50 for Elderly
Poverty Indicators					
Population	-0.43	-0.08	-0.10	-0.23	-0.02
Children	0.00	-0.13	-0.05	-0.22	0.00
Working Age	-0.18	-0.09	-0.08	-0.17	0.00
Economically Active	-0.06	-0.06	-0.07	-0.02	0.00
Elderly	-1.73	0.00	-0.21	-0.42	-0.13
Gini Coefficient (ratio)	-0.001	-0.000	-0.000	-0.001	-0.000

Source: Economic Policy Department Workings

Chart 2.1



Source: Economic Policy Department Workings

coefficient, also registered a decline, suggesting that this measure mitigates income inequality.

A deeper analysis of the dynamics of the change in the at-risk-of-poverty indicators (Chart 2.1) illustrates that there was a positive distributional impact on all income brackets but more strongly accrued to lower-income groups.

2.3.2 Birth Bonus

In the 2020 Budget, the Government also introduced a one-time bonus of €300 for every birth or adoption, with the objective of financially supporting families with dependent children. In view that data on adoptions is not available from the SILC, this measure is being partially simulated focusing on births. EUROMOD simulations suggest that the overall at-risk-of poverty rate is expected to decrease by approximately 0.08 percentage points, affecting mostly the at-risk-of-poverty for children equivalent to around 0.13 percentage points. Moreover, as indicated in Chart 2.1, there was a positive distributional impact on all income brackets.

2.3.3 Additional Bonus

The Government also introduced a one-time bonus to every family in addition to the COLA. The aim of this measure was to provide compensation to families for the recent increase in prices of certain necessities, which price increases may not have been wholly reflected in the price index. The bonus granted was of €15 for households made up of a single person and €35 for households with more than one person.

The results show that the overall reduction in the at-risk-of-poverty rate is around 0.10 percentage points, as shown in Table 2.3. This decline is mainly driven by a decrease of 0.21 percentage points in the at-risk-of-poverty rate among the elderly households. Moreover, as illustrated in Chart 2.1, this policy is expected to increase income in all income groups.

2.3.4 Housing Benefit on Affordable Housing

Given the success of the affordable housing benefit scheme in its first year of operation, the Government extended this scheme in the 2020 Budget. The objective of this housing benefit is to enhance the affordability of the private sector rental market. The EUROMOD simulations show the impact of the new housing benefit in relation to the housing benefit of 2018. The reform is expected to have a positive impact in terms of the overall at-risk-of-poverty rate, which is expected to decline by 0.23 percentage points. As illustrated in Table 2.3, the housing benefits is estimated to bring the largest decline in the at-risk-of-poverty rate among the elderly households by 0.42 percentage points. Moreover, Chart 2.1 shows that highest increase in disposable income is enjoyed by the relatively low-to-middle income groups. The result was also confirmed by the improvement in the Gini coefficient.

2.3.5 Increase in the Grant for Elderly Persons

In the 2020 Budget, the grant for elderly persons who continue to reside at their own homes was improved by €50 for individuals aged 80 years and over. The impact of this increase, illustrated in Table 2.3, is estimated by a decline in the overall at-risk-of-poverty rate of 0.02 percentage points. The cohort that benefits the most is the elderly, with a decline in the at-risk-of-poverty rate of 0.13 percentage points. Chart 2.1 also shows that this policy leads to increases in disposable income of the lower deciles of the income distribution increases.

The distributional impact analysis of a selection of 2020 Budget measures presented in this section is consistent with Government's vision to transform gains from economic growth into improvements in the distribution of income. Specifically, the Gini coefficient show an improvement for all the policy measures outlined above. Furthermore, there was a positive impact on the overall at-risk-of-poverty rate and a positive distributional impact on all the income brackets for the 5 policy measures that have been assessed.

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] Infrastructure Malta is the agency entrusted with the development, maintenance and upgrading of the road network and other public infrastructure in Malta.

[3] EUROMOD is a tax-benefit microsimulation model for the EU that enables researchers and policy analysts to calculate, in a comparable manner, the effect of taxes and benefits on household incomes and work incentives for the population of each country and for the EU.

3. Key Policy Response to major Socio-Economic Challenges

3. Key policy response to major socio-economic challenges

This section provides an overview of the Government's response to the main socio-economic challenges emerging in light of COVID-19 and outlines the state implementation of the Country Specific Recommendations (CSRs). Appendix 1 summarises Malta's progress towards the Europe 2020 Targets.

3.1 National policy response in light of the COVID-19 Outbreak

The COVID-19 pandemic poses an unprecedented challenge with severe socio-economic consequences to all countries affected. The Maltese Government has launched a comprehensive strategy including initiatives dealing with health emergency needs, measures to support economic activity and employment while also preparing for the eventual recovery.

Public Health policy measures

The governance of the health system with regards to COVID-19 relates to pandemic response plans and the steering of the health system to ensure its continued functioning. A pandemic response plan was in place prior to the pandemic, which was updated in February 2020. It is based upon a command and control structure where the Superintendent of Public Health (SPH) holds legislative authority and makes recommendations to an Inter-Ministerial Committee chaired by the Deputy Cabinet Prime Minister and Minister for Health.

When the first burst of the COVID-19 appeared on the World map, the Health Promotion and Disease Prevention Directorate launched a campaign related to respiratory etiquette, together with some generic advice for those persons returning from travel in this area. As reported cases in other countries continued to increase, a cross-government COVID-19 website was launched to give daily information related to the crisis together with Government supporting measures.

Since the first case of COVID-19 was confirmed in Malta, on 7th March 2020, information related to cases diagnosed within the previous 24 hours is conveyed by the SPH, through a daily press briefing.

A number of measures have been put in place in a staggered manner in order to mitigate the spread of the virus, including the introduction of a travel ban (only cargo flights and sea crossings carrying merchandise are permitted); the closure of educational institutions; the closure of restaurants, bars and pubs; the closure of non-essential retail outlets and public recreational spaces; and the introduction of social distancing. In addition, the public sector and private sector employers, were encouraged to allow their employees to do teleworking, wherever possible. Furthermore, restrictions were introduced on mass gatherings, including the closure of churches, ban on all sports activities and of all events attracting more than 700 persons. Later in the month, tighter restrictions were adopted whereby gatherings were limited to less than 4 persons. Sittings of the Courts of Justice were suspended and a lockdown for those over the age of 65 and citizens diagnosed as highly vulnerable categories, as defined by the Ministry for Health, were adopted. An ongoing campaign has been undertaken to emphasise the importance of washing of hands, as well as the importance of sanitizing offices and public places, such as public transport and bus stages.

Furthermore, an obligatory 14-days' quarantine period, for people returning from abroad and their direct family contacts and for self-isolation measures for people tested positive for COVID-19 but who do not necessitate hospitalization and their direct family contacts, have been imposed. Breaches of such conditions are subject to fines.

The case definition for confirmed cases and probable cases of COVID-19 used in Malta is based upon the European Centre for Disease Prevention and Control (ECDC) definition. Persons complaining of one or more of the symptoms of the disease are encouraged to be tested for the virus. There is a separate fast-track for testing health care professionals within the grounds of the main acute hospital.

The available number of isolation beds and Intensive Therapy Unit (ITU) beds in hospitals are increasing gradually both in Malta and Gozo. The setting up of a prefabricated hospital within the coming two months, in order to further increase ITU bed capacity within the hospital grounds is also under consideration. Separate COVID and non-COVID accident and emergency (A&E) areas – otherwise known as emergency room - have been created within the acute hospital to attempt to segregate COVID cases from non-COVID cases. Elective surgeries and elective outpatient appointments have been postponed in order to be able to focus resources where they are most needed. Moreover, there has been an element of redeployment and re-training of medical staff across the board. Doctors, nurses and allied health care practitioners have been trained in the use of personal protective equipment (PPE).

Direct acquisition of PPEs is being undertaken at national level. Malta has also joined the European Union (EU) joint procurement process for PPEs, laboratory reagents and tests and ventilators. Malta, like other countries, has been negatively affected by the export bans imposed by some countries, which is impeding the further acquisition of protective and medical equipment in a rapid manner.

COVID-19 Wage Supplement

The COVID-19 outbreak had a sudden and severe economic impact on a number of operators. Specifically, some of the measures adopted, such as travel restrictions and the closure of non-essential retail establishments and services, had a direct impact on the viability of activity in specific sectors of the economy. In order to counter this negative shock, Government introduced a wage supplement benefit, to provide financial assistance to employees, the self-employed employed in economic sectors which were negatively affected by the COVID-19 pandemic, thereby preventing job losses. Full-time employees and self-employed that are operating in sectors that have been affected drastically from COVID-19 or had to temporary suspend operation are entitled up to five days' salary equivalent to a monthly gross wage of €880. Part-timers employees are also eligible for €500 per month.

Furthermore, full-time employees of business that operate in other adversely affected sectors are entailed to one days' salary per week, equivalent to €160 per month, while part-time employees are entailed to €100 per month. Gozo-based enterprises are entitled up to two days' salary per week equivalent to €320 per month for full-time employees, and €200 per month for part-time employees. This also applies to self-employed who do not have employees, while those self-employed who employ workers will benefit from a two days' salary per week equivalent to €320 per month. Self-employed operating from Gozo, are also entitled to two days' salary per week which, increases to three days' salary, equivalent to €480 per month, for those who have employees. Their full-time employees are entitled to a fixed amount of €800 per month.

All employees are receiving this wage supplement benefit through their employer, who is the main applicant, and the wage supplement benefit is non-taxable but the Social Security Contribution must be paid.

Tax Deferrals

The Government has also introduced tax deferrals (of Provisional Tax; Value Added Tax; Social Security Contributions), due for the months of March and April, for business, including the self-employed. Government may decide to extend the period of tax deferrals, depending on the changing economic context.

Further Measures to ease the Liquidity of companies

Government, through the Malta Development Bank, launched the COVID-19 Guarantee Scheme (CGS). This measure provides guarantees to commercial banks to give loans to those companies affected by the pandemic to finance their working capital requirements. This scheme is backed by a guarantee fund, in the form of a Government guarantee of €350 million, whereby it offers a 90 per cent guarantee for each eligible working capital loan subject to a cap of 50 per cent on the overall loan portfolio. This implies that the guarantee fund of €350 million can be leveraged up by the participating banks to a potential maximum portfolio of €780 million. Moreover, the Government will be subsidising the interest rate of these loans for two years, up to a maximum of 2.5 per cent. All businesses established and operating in Malta are eligible for this scheme. These include; Small and Medium-Sized Enterprises (SMEs) that employ up to 250 employees and large enterprises that employ over 250 people. This is the first of a number of such guarantee schemes.

The CGS has also been approved by the European Commission under the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak.

The Government has also legislated for banks to give a six-month moratorium on existing business and individual repayment of capital loans and interest due.

Facilitating Telework Activities

Government is also supporting business and self-employed to invest in technology that enable teleworking and partially covering the costs of their teleworking solutions. This incentive is limited up to €500 per teleworking agreement and €4,000 per undertaking. The grant will be awarded against 45 per cent of the eligible cost incurred from the 15th February until 8th May 2020. For business to be eligible, they should not have employees with active teleworking agreement prior to the 15th of February. Currently there are 250 applications for this measure.

Quarantine Leave

The Government also introduced a one-off lump sum grant of €350 to employers or full-time employees who are on mandatory quarantine due to the possible contact with individuals that are risk of infection, such as living in same household or same workplace. In the scenario whereby, an employee is entitled to this measure and the COVID-19 wage Supplement, the grant of €350 is deducted from €800 monthly wage supplement. Currently, there are approximately 960 applications for this grant.

Social Measures

The Government has also a number of social measures intended to alleviate the impact of COVID-19 on the financial situation of households. The first measure relates to the parental benefit, which targets parents who both work in the private sector and requires one of the parents to stay at home to take care of their school-aged children. Provided that any of the parents cannot carry out their functions through teleworking arrangements, they are entitled to a direct payment of €166.15 per week if working full-time or €103.85 per week if working part-time. This measure also applies to single parent families.

Another similar measure is also provided to persons with disability that work in the private sector. Since these individuals, on medical advice, can opt to stay at home for health and safety reasons they will be eligible to receive a direct payment of €166.15 per week if working full-time or €103.85 per week if working part-time. Furthermore, the administration has also launched a medical benefit, which targets employees in the private sector who cannot go to work because they are ordered by the Public Health Authorities to stay home. This policy applies to persons that after the 27th March 2020 are not able to work from home and are not being paid by their employer. The same above benefit rate applies also for this measure.

Government also increased the benefit rates of the Contributory Unemployment Benefit. Employees who had their full-time employment terminated as of 9th March 2020, as a result of COVID-19, will receive the same payment as the other social measure.

Another social measure relates to the increase in rent subsidies for individuals who have their job terminated due to COVID-19. Through this measure, the Housing Authority aims to make rent more affordable by lowering the burden that households face in relation to rent expenses by raising the benefit cap.

3.2 Country Specific Recommendations

CSR 1: Ensure the fiscal sustainability of the healthcare and the pension systems, including by restricting early retirement and adjusting the statutory retirement age in view of the expected gains in life expectancy.

The Maltese Government is committed to address the projected increase in age-related expenditure, notably by strengthening the labour market, raising potential output, and the continuation of the pension reform process in Malta. This is evident from a further improvement in the S2 Sustainability indicator, from 3.3 per cent in 2017 to 3.0 per cent of Gross Domestic Product (GDP) in 2019. This improvement follows changes in the initial budgetary position, as a result of the robust economic and employment growth recorded over recent years which outpaced the rate of increase in expenditure. This implies that the starting position for pensions and healthcare expenditure in Malta is significantly lower than the EU average. Indeed, pension expenditure remains below the EU average, with a gap of approximately 4.0 percentage points. Likewise, while rising in absolute terms, the latest statistics on healthcare show that expenditure pursued its downward trend by a further 0.2 percentage points from 2016 to 2017.

Pension Reform

Over recent years, the Government has introduced numerous measures intended to lengthen the duration of working lives. The pension age has been gradually increased and will reach 65 years by 2027 while the contributory period has also been lengthened from 30 years to 41 years. In addition, the Government has also introduced stricter rules on the access to the 'early exit' option by capping the number of credited contributions for persons born on or after 1969. Individuals beyond the retirement age who choose to continue working can do so without forfeiting their pension while in employment. Incentives to defer early retirement and lengthen working careers were also implemented, whereby persons who are eligible for retirement at the age of 61 years, are awarded a financial incentive for each additional year that they choose to continue working up to the age of 65 years. This incentive mechanism was initially intended for private sector employees but has now been extended also to those in the public sector. Preliminary analysis using administrative data has already shown that this measure has been effective in encouraging deferred retirement.

The Social Security Act mandates that the Maltese pension system is reviewed every 5 years. The next pension review is due to be submitted to the House of Representatives by the end of 2020. The Inter-Ministerial Pensions Strategy Group will be reviewing the state of public pensions, while putting forward proposals and recommendations with a view to achieve further adequacy, sustainability and social solidarity. There will be a consultation process of these recommendations, before the final report is tabled at the House of Representatives.

Labour market statistics clearly show the impact of these reforms. Indeed, the duration of working life in Malta has increased by 6.1 years during the period 2009 to 2018 confirming the largest increase in the EU. This effectively closed the gap between duration of working life for Malta and the EU average to just 0.3 years compared to 4.6 years recorded in 2009. In addition, the employment rate of older workers (55-64 years) has improved, increasing by 21.1 percentage points during the period 2009 to 2018, the second largest increase in Europe.

Diversifying Retirement Income

The Government's policy efforts have also focused on diversifying retirement income and reducing the sole dependency on state pensions.

Over the past four years, tax incentives were introduced for individuals who invest in the Third Pillar Pension Scheme and for employers who offer their employees a Voluntary Occupational pension scheme. In the 2020 Budget, it was announced that the tax benefits for the Third Pillar Pension Scheme will be strengthened and further extended to certain insurance products. As a result, there are now several providers offering personal pension plans.

These tax credits were also made available for employers implementing a voluntary occupational pensions scheme. In 2019, the reduction in taxes increased from 15 per cent (up to a maximum of €150) to 25 per cent (up to a maximum of €500). By the end of 2018, a total of 3,609 taxpayers were enrolled in a personal retirement scheme and during 2018, there were 895 employees whose contribution to a Voluntary Occupational Pension Scheme (VOPS) was paid for by their employer whilst 841 employees contributed to a VOPS.

In 2019, the Government launched the Home Equity Release which is a voluntary scheme that allows home-owner pensioners to raise their annual financial income and improve their standard of living by accessing the equity tied to their home. This will serve as a financial supplement together with the pension they receive, by allowing pensioners to convert a part of their residential value into a stream of income. The Malta Financial Services Authority (MFSA) is currently in the process of evaluating a Home Equity Release product.

The Malta Stock Exchange (MSE) has continued to take an increasingly active role in increasing the level of financial literacy through the MSE Institute, which is now in its third year of operation. The Institute, which is licenced by the NCFHE, promotes financial education through the organisation of over sixty affordable courses on various aspects of financial services that are aimed at retail investors as well as practitioners. Over 1,350 persons attended an MSE Institute course in 2019, registering an increase of over 40 per cent when compared to the previous year. The Institute also organises an annual investor education conference with the aim of improving the level of financial literacy for individual investors, especially small investors. This event sees the participation of financial services practitioners and is usually very well attended.

Extension of the In-Work Benefit Scheme

In 2019, the in-work benefit rates were increased between €50 and €100 per child, depending on household incomes. The extension of this scheme will continue to provide incentives for more persons to enter the labour force, hence gradually phasing out the dependence on social benefits, reducing chances of falling into poverty and increasing the contributions base.

The first payments with the new rates were issued in the first week of April 2019 for the period covering January to March 2019. Payments continued during 2019 and the total beneficiaries paid as at December 2019 amounted to 5,093.

The sustainability of the healthcare system

Free healthcare at the point of care for its citizens has always been a tenet of the Maltese Government. Malta being a densely populated small island state is confronted with additional challenges when compared to larger countries. It lacks the flexibility available to larger Member States which can support a heavily effected region with the healthcare resources of neighbouring regions. Being a small island state, it is highly dependent on importation of necessary supplies. Needless to say, this pushes the Government to innovate and find ways how to continually improve efficiency and effectiveness in the delivery of healthcare.

A sharp rise in health expenditure is inevitable during 2020 due to the COVID-19 pandemic. Nonetheless, once the impact of the crisis is over, Malta remains committed to counteract health expenditure growth arising from increases in the cost of healthcare provisions and developments in medical technology and best practices. The growing population, not only within the older age brackets, but also the large migrant workers' population, has also put pressure on the provision of public healthcare.

The National Health System Strategy (NHSS) was launched in 2014 with the aim of maintaining universal access to increasingly high-quality healthcare and doing so sustainably in a fast-changing environment. It also identified policy gaps and laid the foundations for a number of sectoral strategies including the National Cancer Plan (2017-2021); the Diabetes Strategy (2015-2020); the Hepatitis Strategy (2018-2025); the National Breastfeeding Policy (2015-2020); the Food and Nutrition Policy and Action Plan (2015-2020); and the Healthy Lifestyle in Schools: Healthy Eating and Physical Activity Policy (2015) and the most recent Mental Health Strategy 2020-2030.

A series of policy initiatives are being planned, some of which are sectoral whilst others are cross-cutting, such as a policy document to guide health workforce planning and another to guide healthcare services development. Notwithstanding the pandemic crisis, the Government's plans to expand primary care in its healthcare strategy and the planned capital projects will continue.

CSR 2: Address features of the tax system that may facilitate aggressive tax planning by individuals and multinationals, in particular by means of outbound payments. Strengthen the overall governance framework, including by continuing efforts to detect and prosecute corruption. Continue the ongoing progress made on strengthening the anti-money laundering framework, in particular with regard to enforcements. Strengthen the independence of the judiciary, in particular the safeguards for judicial appointments and dismissals, and establish a separate prosecution service.

Address features of the tax system that may facilitate aggressive tax planning by individuals and multinationals, in particular by means of outbound payments

The Maltese Government is committed to continue to implement all the directives in relation to the Base Erosion and Profit Shifting (BEPS) project. The latest developments include:

- The implementation of Anti-Tax Avoidance Directive (ATAD) 1 in 2018 and ATAD 2 in 2019 which introduced new concepts to our laws, including the interest limitation rules, exit taxation, CFC legislation and provisions relating to hybrid mismatches. It also included a GAAR rule that complements existing anti-abuse legislation. For instance, ATAD 1 introduced the interest limitation rule - a new rule which prevents groups of companies from engaging in base erosion and profit shifting (BEPS) through the limitation of excessive interest payments. Other concepts introduced by ATAD 1 include exit taxation and controlled foreign company legislation.
- In late 2019, Malta has also transposed ATAD 2, whose regulations apply with effect from 1st January 2020 (except for some regulations related to hybrid mismatches which shall come into effect as from January 2022).
- The implementation of Council Directive (EU) 2018/822 concerning Mandatory Disclosure Rules, providing for the disclosure of potentially tax aggressive schemes by intermediaries in 2019.
- The ratification of the OECD Multilateral Instrument which contains provisions like the Principal Purpose Test that allow the possibility for the limitation of benefits under Malta’s tax treaties where schemes attempt to obtain any undue advantage. The MLI facilitates the elimination of double taxation and implements agreed minimum standards to counter treaty abuse.
- In 2019, Malta replaced its Patent Box regime with a new regime based on the modified nexus approach, in accordance with EU and international standards.
- Malta is also in the process of merging its revenue departments to produce synergies that result in the increase of revenue collection and the reduction of tax avoidance.

In addition to reforms related to the BEPS project, Malta is taking further steps to mitigate the debt bias issue. The National Interest Deduction (NID) rules, which have only been implemented recently, have been assessed as not harmful by the EU Code of Conduct Group. To claim the NID, taxpayers have to fill in an ad hoc attachment included as part of the company tax return. This facilitates the monitoring of the deductions claimed through the disclosure of information in the said attachment.

In order to curtail the circumvention of the Common Reporting Standard (CRS) using Citizenship by Investment/Residence by Investment (CBI/RBI) schemes concerning the Malta Individual Investor Programme and the Malta Residence and Visa Programme, the following actions were taken, whilst continuously ensuring the proper application of the Standard:

1. The local CRS guidelines have been revised, to give a more comprehensive explanation to Financial Institutions (FIs) of such schemes and their potential misuse for CRS circumvention. Moreover, these guidelines now assist FIs in ensuring that due diligence obligations under the Standard are observed and enhanced.
2. Malta's CRS regulations and guidelines contain adequate instructions to FIs regarding the documentation required to determine the appropriate jurisdiction(s) of tax residence in carrying out due diligence obligations. The guidelines also place an obligation on FIs to confirm the reasonableness of self-certifications, including cross-checking this with AML/KYC documentation and certificates of residency and/or government-issued valid identification.
3. As per local CRS regulations and guidance, Consultations are under way by the Financial Intelligence Analysis Unit (FIAU) with respect to Amendments to its Implementing Procedures Part I. These amendments reflect the legislative amendments which took place between December 2017 and January 2018 to the Prevention of Money Laundering Act (PMLA) and the Prevention of Money Laundering and Funding of Terrorism Regulations (PMLFTR) and focuses amongst other things also on consumer risk.

Continue the ongoing progress made on strengthening the anti-money laundering framework, in particular with regard to enforcements

Malta is committed to preventing, detecting and prosecuting money laundering and terrorist financing activities. The National Coordinating Committee on Combating Money Laundering and Funding of Terrorism (NCC) is the governing body responsible for the general oversight of Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) policy. The 48 measures highlighted in the National Strategy Plan, which was drawn up in April 2018, include actions deliverable by 2020. Several of these actions have already been successfully implemented during the past year by the competent authorities.

These measures included in the National Strategy Plan, include initiatives to: (1) establish a National Coordination Committee; (2) strengthen and clarify the supervisory framework; (3) enhance internal capabilities of the FIAU; (4) enhance investigation and prosecution capabilities; (5) establish an effective Asset Recovery Unit; (6) increase transparency of legal entities and arrangements; and (7) build on existing international coordination setup.

During last year, three sectoral risk assessments were carried out, namely, (1) Terrorism Financing Risk Assessment; (2) Virtual Financial Assets (VFAs); and (3) Legal Entities, Legal Arrangements and Voluntary Organisations (LEAs and VOs). An action plan on TF emanating from the sectoral risk assessment have also been published. These risk assessments incorporated the recommendations made by FATF, as well as any legislative changes required for compliance with the same recommendations.

Following the publication of the Mutual Evaluation Report (MONEYVAL Report), an action plan was drawn up to implement the recommendations listed in the mentioned report.

During last year, the FIAU, as part of the overhaul of its Supervisory Framework, formulated an Action Plan consisting of 138 initiatives. The Action Plan has been fully implemented. Some of these initiatives included, the overhaul and the enhancement of its entire supervisory policies and procedures, including the methodology for conducting risk assessments; the deployment of an effective risk-based supervision in line with the highest international standards. Both the European Commission and the European Banking Authority (EBA) had endorsed this Action Plan.

Both FIAU and MFSA carried out outreach initiatives by organising various training sessions, including for the financial services operators. The sessions included: sector specific AML/CFT training on typologies and on carrying out the institutional risk assessment; seminars and training sessions to explain the results of Malta's National AML/CTF Risk Assessment to subject persons, as well as sessions on the revised Implementing Procedures Part I (IPs) which reflect the recent legislative amendments to the PMLA and the PMLFTR brought about by the transposition of the Fourth Anti-Money Laundering Directive (AMLD), and provided subject persons with additional in-depth qualitative guidance on the AML/CFT obligations in all areas. A number of binding explanatory procedures and guidance notes have been issued and will continue to be issued, to target not only the distinct needs of the various sectors, but also to ensure that obliged entities are clearly aware of the risk factors, typologies and red flags associated with their particular sectors.

On its part, MFSA published their AML/CFT strategy and set out the principles and compliance standards which regulated firms are expected to adhere to, while it is ensuring that all regulated firms have in place effective systems and adequate controls to counter potential money laundering activities.

At operational level, MFSA signed a Memorandum of Understanding with FIAU, on the strength of which, MFSA's Financial Crime Compliance Unit will act as agent of the FIAU on on-site visits. This allows for a better ongoing alignment of FIAU and MFSA supervisory strategies and a more efficient deployment of resources by the respective institutions. This has led to an increase in the overall number of supervisory visits to regulated entities carried by both institutions.

During 2019, 17 dedicated AML/CFT on-site inspections were carried out by MFSA (as agent of FIAU) over and above the inspections carried out by FIAU itself in its principal supervisory capacity. Moreover, all relevant information gathered from other MFSA prudential and conduct supervisory visits (around 200 in 2019) is regularly passed on to the FIAU and feeds into its risk modelling.

MFSA has continued to strengthen its anti-money laundering procedures with the publication of Guidance on politically exposed persons (PEPs). It has also introduced more in-depth and extensive AML/CFT checks throughout the supervisory lifecycle process – in particular the authorisation process has been further enhanced in line with the Authority's updated risk management policies, with a focus on the shareholding structure, governance framework (including key functions), internal controls and business models presented. MFSA has also published guidance with respect to "fit and proper" procedures to be applied at all stages of on-boarding processes, setting out due diligence expectations for license applicants and published guidance document for Credit Institutions, Payment Institutions and Electronic Money Institutions opening accounts for FinTech firms, as well as having set up a Register of Trust Ultimate Beneficiary Owners as envisaged in the National Strategic Action Plan with beneficial ownership information on trusts.

Meanwhile, the MFSA has also taken on board the recommendations of the IMF's Financial System Stability Assessment (FSSA) following a comprehensive and in-depth analysis of the country's financial sector. This was also complemented by a further review carried out by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), whose recommended actions are also being aligned with other actions being implemented as part of the National Strategic Action Plan.

As from 1 January 2018, all gaming operators became subject persons under the PMLFTR. To this effect, the Malta Gaming Authority (MGA) has completed a sectoral ML/TF risk assessment of the gaming sector, as part of a National Risk Assessment for the Gaming Industry in Malta. The MGA has embarked on several initiatives in order to ensure that the identified risks are effectively managed. These include: the publication of the AML/CFT Implementing Procedures for the Remote Gaming Sector – Part 2 (which will also be updated in 2020); establishing its own risk-based approach at regulation and supervision, with AML/CFT forming a crucial part of the risk analysis conducted on operators; and further strengthening its internal AML unit tasked with the monitoring of 'Subject Persons' in terms of AML/CFT compliance by executing off site and onsite examinations. A Supervisory Plan for examining operators for 2019/2020 (1st July 2019 – 30th June 2020) was compiled from a Risk-Evaluation Questionnaire for both remote and land-based operators.

During 2019, a total of 11 on-site visits (1 on a land-based casino and 10 on remote gaming operators) took place by either the FIAU, the MGA or jointly between the two authorities. MGA is planning to increase the staff complement of the Compliance Department with a specific focus on strengthening AML/CFT supervision.

MGA and FIAU have consolidated their existing strong collaboration through a Memorandum of Understanding (MoU) aimed at increasing the efficiency and effectiveness in the way AML/CFT supervision is conducted. Furthermore, the MGA is currently preparing to launch another Sectoral Risk Assessment, with specific focus on the land-based sector.

MGA will continue with its training programme by organising various conferences and training sessions for the gaming industry on topics such as how to communicate its risk assessment methodology and how to complete the information gathered via Risk Evaluation Questionnaires.

Earlier this year, the Government announced major reforms to strengthen the fight against financial crime. This included the creation of a new Financial Organised Crime Agency to investigate and prosecute the most serious cases of money laundering and financial crime; enhanced powers for the Asset Recovery Bureau; as well as a State Advocate Bill to separate Attorney General's civil and prosecution functions.

During 2019, the Financial Crime Investigations Department within the Malta Police Force strengthened their human capacity, especially by engaging more financial analysts. In order to accommodate the increased human capacity, the Financial Crime Investigations Department is investing in modern investigative tools and will be moving into new premises.

The Malta Police Force is in the process of purchasing the i2 software which will be able to cross check different data into a centralised database and will also make it easier for the Force to coordinate with other Maltese entities in order to facilitate financial crime investigations. This project is expected to be finalised within 18 months and will include training of 30 Police Officers with respect to the use of the software and other areas of responsibility within this sector.

Strengthen the overall governance framework, including by continuing efforts to detect and prosecute corruption. Strengthen the independence of the judiciary, in particular the safeguards for judicial appointments and dismissals, and establish a separate prosecution service.

Strengthening the overall governance framework

The Maltese Government, for the first time, has a Minister whose portfolio specifically includes governance, which emphasises a renewed mind frame of giving unprecedented priority to this matter. Moreover, a Cabinet Committee on Governance was set up tasked with overseeing and coordinating necessary reforms and preparing the necessary laws and legal amendments necessary in line with the recommendation made by the Venice Commission and GRECO.

Notwithstanding the ongoing COVID-19 situation, Government remained committed to maintain the pace of reforms and continued engagement with stakeholders and the public. Discussions are also underway with the Venice Commission and the European Commission in the light of these new reforms. The Government remains committed to finalise the necessary consultations and obtain the necessary approval of the House of Representatives for all the legislative changes and reforms that address Venice Commission Recommendations before the summer recess, that is, circa mid-July.

Corruption

The Internal Audit and Investigations Department (IAID) is in the process of coordinating the update of the Maltese National Anti-Fraud and Corruption Strategy (NAFCS) of 2014-2020. The IAID disseminated working documents developed by a working group of Member States' experts, directed and coordinated with OLAF. Topics include the identification of conflicts of interest, fraud prevention and detection etc. IAID has also delivered a number of training sessions on "Anti-Fraud and Corruption for Public Officers".

Regarding the Permanent Commission Against Corruption (PCAC), in the light of the Venice Commission Recommendations, legal amendments are being proposed which provide for the chairperson of the PCAC to be appointed by the President acting in accordance with the resolution of the House of Representatives supported by the votes of no less than two-thirds of all the members of the House; whilst the two remaining members of the PCAC will be appointed by the President acting in accordance with the advice of the Cabinet given after consulting the Leader of the Opposition. An amendment is also being proposed for those reports which contain a finding of corrupt conduct in the opinion of the PCAC, to be transmitted directly to the Attorney General.

On the law enforcement side, it is pertinent to note the following developments:

- *Commissioner of Police*: The Maltese Parliament, on 1 April 2020, agreed on a Bill which changes the selection and appointment process for the Police Commissioner. Now, the Public Service Commission (PSC) as an independent organ enshrined in the Constitution (and composed of individuals nominated by both the Prime Minister and the Leader of the Opposition), is tasked with issuing a public call for the post in a fully independent and autonomous manner. The PSC will then propose two candidates before the Cabinet. The Cabinet is obliged to select a single candidate out of the two short-listed candidates. The newly proposed method also envisaged that the eventual short-listed nominee would go before the Parliaments' Public Appointments Committee in order to undergo parliamentary scrutiny. This scrutiny session would also be open to the media (including a public live-streaming session).

- *Economic Crimes Unit*: The Economic Crimes Squad within the Malta Police Force has been very active in investigating several cases involving corruption. It has even worked in conjunction with the Anti-Money Laundering Squad and other Government authorities such as the Internal Audit and Investigations Department in this area. Apart from pursuing charges directly related to corruption, the Economic Crimes Squad actively persists to find any other illegal activity emanating from such investigations and proceeds to arraign such persons even on alternative charges.

  The reform of the Financial Crimes Investigations Department is on track with ongoing developments related to training, blockchain analysis capabilities, enhancement of the intelligence analysis tool, increase resources, access to additional databases, increases in the number of Investigation and Attachment Orders, and a positive trend in the number of outgoing requests for assistance from foreign jurisdictions. Two Superintendents have been assigned to the Department to give specific focus on both the Economic Crimes and the Anti-Money Laundering Squads. The department is currently up and running and there is an ongoing process to recruit more financial analysts.

Separate prosecution

With a view of implementing the above recommendations, on 18 December 2019, the Office of the State Advocate, which was established in terms of Article 91A of the Constitution as the principal advisor to Government in matters of law and legal opinion, started to function. This emanates from the 'Act to continue implementing reform in the Justice Sector (Attorney General) (Act XXV of 2019)'. The State Advocate is tasked to act in the public interest and to safeguard the legality of State action and also perform any such other duties and functions as may be conferred by the Constitution or by any law. The State Advocate enjoys constitutional independence and is not subject to the direction or control of any other person or authority in the performance of the functions conferred. Following the establishment of the Office of the State Advocate, the functions of the public prosecutor remained vested with the Attorney General whose Office already enjoys constitutional independence in terms of Article 91 of the Constitution. The Offices of the State Advocate and of the Attorney General are separate offices which operate from different premises.

Amendments have been introduced in the Attorney General Ordinance (Chapter 90) by way of Act XXV of 2019, which amendments have not yet come into force, in order to provide for the taking over by the Office of the Attorney General of prosecutions of those offences that carry a punishment of more than two years (therefore including corruption related offences) whilst the police will remain responsible for investigative work. A public call was issued by the Office of the Attorney General in order to recruit legal officers to act as prosecutors before the inferior and superior courts. It is envisaged that by the end of 2020, the office of the Attorney General will be responsible for the public prosecutions of the most serious offences. With the coming into force of the amendments to the Attorney General Ordinance, the pertinent Venice Commission as well as recommendations as well as the respective part of the Country Specific Recommendation will be fully implemented.

Regarding the appointment of the Attorney General, the recently enacted and above-mentioned 'ACT No. XXV of 2019', which amended *inter alia* the Attorney General Ordinance, provides for a new appointment procedure and added checks and balances. The procedure mirrors that of the State Attorney and has therefore been tried and tested in December 2019.

Appointment and removal of the Judiciary

National consensus has been reached on the appointment of the chief justice and of the judiciary.

A key principle conceding the judiciary is that they will be appointed by a majority of their peers, namely through reforms of the Judicial Appointments committee. This will be done by adding two additional judges and a magistrate to the Committee, who will be elected by their peers.

Regarding the appointment of the Chief Justice, the proposal is that the appointment is done through support of two-thirds of the members of Parliament. This agreement on the method of appointment was validated through an unanimously approved Parliamentary Resolution passed on 1 April 2020 in favour of the appointment of the new Chief Justice.

The removal of a member of the judiciary will, through a legislative amendment amending the Constitution of Malta, be made by the President of the Republic, acting on the advice of the Commission for the Administration of Justice. Through this legislative amendment there shall also be a right of appeal before the Constitutional Court from a decision of the Commission for the Administration of Justice for such removal.

CSR 3: Focus investment-related economic policy on research and innovation, natural resources management, resource and energy efficiency, sustainable transport, reducing traffic congestion and inclusive education and training.

Government's economic policy is focused on enhancing the business environment in Malta with a view to support a diversified and competitive economic base that creates greater prosperity and employment. The overall outcome is evidenced in the share of investment in GDP that stood at 21 per cent over the last three years, around 3 percentage points higher than the rates recorded earlier this decade. This section will outline the developments underway in some of the key areas of activity for Government.

Research and Innovation

Malta's Research and Innovation (R&I) policy is currently defined by the National Research and Innovation Strategy 2020, with the primary objective of addressing deficits and gaps in the R&I ecosystem by including more investment in Research and Development (R&D), addressing skills gaps, facilitating science-business links, and including the set-up of a more effective governance of the R&I system. The Malta Council for Science and Technology (MCST) is currently working on the development of the National R&I Strategy post-2020 and the updating of the smart specialisation strategy (RIS3).

As of December 2019, some 179 Maltese entities had participated or were participating in a total of 133 projects under the Horizon programme with participants ranging from higher education, public and private as well as non-profit research organisations. The amount received amounted to €25.3 million in EU net funding.

Other investment projects to improve R&I in Malta have been implemented by the MCST, such as the National R&I Fund which is comprised of 2 programmes under the FUSION branding: a) the Commercialisation Voucher Programme (CVP) and b) the Technology

Development Programme (TDP). The FUSION programme offers support to eligible Maltese research entities to assess the feasibility of their ideas through the CVP, before subsequent provision of funds for research through the TDP. As of December 2019, 246 Maltese Entities had participated in the CVP Programme, of which 113 CVP applications were funded, with a total allocated budget of €1.9 million. Also, as of December 2019, MCST received a total of 79 TDP Applications for funding, of which 44 TDP Projects were approved, with a total allocated budget of €9.2 million.

In parallel, a funding and support scheme was developed for recent graduates to establish start-ups that can enhance innovations by younger persons. Moreover, MCST signed an Implementing Agreement with the European Space Agency (ESA) in March 2018 for the establishment of the National Space Fund. This National Space Fund, with guidance from ESA, provides focus on a Space Education Programme and a Space Research Fund in Malta.

Artificial Intelligence

In 2018, the Government launched the Malta Artificial Intelligence (AI) Task Force. The role of the Task Force is the development of the National AI Strategy, laying of the foundations to position Malta as a center for excellence in AI, as well as the inclusion of AI Ethics Guidelines and AI specific enhancements to the Innovative Technology Regulatory Framework.

The Malta National AI Strategy was eventually launched in October 2019 and builds on three strategic pillars and include a) Investment, Start-ups and Innovation, b) Public Sector Adoption and c) Private Sector Adoption.

Following the launch, the Malta Digital Innovation Authority (MDIA) published the AI Innovative Technology Arrangements (ITA) Guidelines, the AI System Auditor Control Objectives, the AI ITA Nomenclature and the AI ITA Blueprint Guidelines for consultation. MDIA will be the authority in charge of overseeing the implementation of the strategy, with the measure related thereto being forecasted to kickstart in 2021 following a holistic consultation period with all the relevant stakeholders.

Natural Resource Management

Malta's limited resources and natural capital are vulnerable to the impacts of climate change due to the lack of rainfall, increased temperatures and an increase in windy days. Malta also needs to have in place the appropriate mechanisms to protect its environment/natural capital due to the high environmental pressures owing to limited natural resources, infrastructure projects and a high population density.

Malta's policy framework in the area of water resource management is outlined in the second Water Catchment Management Plan. The objectives of this plan are to ensure the optimal use of water resources and broaden Malta's Resource base sustainably. Key measures in this regard include the wide-ranging National Water Conservation Campaign, which was launched in 2019 as well as the development of information tools for stakeholders on water efficient practices and appliances. Additionally, educational initiatives are promoted through GĦAJN, the national water conservation awareness centre.

Malta has invested substantially in the development of alternative water resources to broaden its resource base and hence enable national water demand to be met, while also ensuring the sustainable use of its scarce natural resources. Such investments include the development and upgrading of sea-water desalination plants, the development of water reclamation plants providing safe second-class water for the agricultural and industrial sectors with funding of €16 million by the EARFD, and the harvesting of rainwater runoff in the agricultural sectors, particularly at user level.

Resource Efficiency

Waste management continues to be a priority on Government's policy agenda. An important development in this regard was the launching of the National Waste Management Plan 2014-2020. The policy will pave the way for another strategy covering the period 2020 – 2030. WasteServ ran a national awareness-raising campaign on recycling and repurposing waste called 'Don't Waste Waste'. The Government, through Wasteserv, also embarked on an EU Funded project 'Encouraging Sustainable Waste Practices in Households and Beyond' in order to focus on waste separation at source. The project has a total cost of around €8 million part-financed though Cohesion Funds. These activities were accompanied by an educational campaign themed 'Sort it Out' that aimed to educate the public on the above-mentioned activities.

There are several plans for investment to upgrade the waste management infrastructure. These plans include the setting up of 'Waste to Energy' Facility in Malta, as well as plans to invest in a new Material Recovery Facility (MRF), an advanced Multi-Material Recovery Facility (MMRF) and storage facility to expand WasteServ's current infrastructure. This will help deviate as much waste as possible away from the landfill. There are also plans for the construction of an Organic Processing Plant to treat the source segregated organic waste and produce compost.

Work to support bio-resource material is also being actively pursued through the Agency for the Governance of Agricultural Bio-resources (GAB). The Government has established a scheme to test and draw up a holistic approach to the sustainable management of livestock manure which enshrines circular economy principles. In conjunction with this, the GAB ventured into further studies which concentrated on the design and implementation of a project to provide a national solution to the management of biomass generated on livestock farms. This research identified a number of innovative technologies that can provide a circular approach by converting waste into a resource.

The Government has also drafted a Strategy on Single-Use Plastics including a policy on a Beverage Container Refund System which was launched at the end of 2019.

When it comes to waste management generated by the construction industry, the "Construction and Demolition Waste Strategy for Malta" identifies as a priority the need to address bottlenecks being faced in the construction industry to dispose of the large volumes of construction and demolition waste generated, and highlights possible short-term and long-term measures to be adopted, with a view to shifting the treatment of such waste from backfilling to the re-use and recycling.

Energy Efficiency

Due to existing energy demand and the projected increase through new developments, Enemalta is strengthening its electricity distribution through the extension and work on various distribution centres. It is envisaged that works on such projects will be completed by middle of next year.

The Regulator for Energy and Water Services (REWS) is tasked with administering schemes which seek to encourage the use of systems for residential purposes that are either energy efficient or generate renewable energy intended to lower household's dependency on the electrical grid. Schemes like 'Investment Aid for Energy Efficiency Projects' and 'Investment Aid for High-Efficiency Co-Generation' have been introduced with the aim of reducing the commercial use of fossil-fuel-generated electricity and increase the production and use of thermal energy and electrical and/or mechanical energy.

The Government's efforts to green the Maltese economy have also focused on Solar Power Farms, restoration and preservation of Urban Conservation Areas (UCAs), the restoration of rural roads and the greening of the tourism industry through awards like the Green Mobility Hotel Award and Labelling Scheme in 2019. These investments have improved energy efficiency, increasing the overall conversion efficiency from 25-30 per cent to more than 50 per cent.

Sustainable Transport and Reducing Traffic Congestion

Malta is dependent on road transport for its internal mobility needs. Since Malta has no rail network or inland waterway systems, the only alternative to road transport is the internal maritime transport which can only abate around 5 per cent of all trips carried out on a typical day, while only being limited to transport between accessible coastal areas. Therefore, given the spatial and demographic specificities of Malta, most mobility continues to be road-based.

In line with Malta's 2017 National Transport Strategy 2050 and the Transport Master Plan 2025, the general approach aims at achieving more sustainable mobility through improving Malta's strategic road network by reducing traffic bottlenecks and introducing measures aimed at achieving more sustainability to the modes of travel.

As part of its strategy for sustainable transport and reducing traffic congestion, the Government is promoting incentives to reduce private vehicle use and emissions. This is being actioned through the Sustainable Urban Mobility Plans, by enhancing the effectiveness of public transport, promoting car sharing, incentivising alternative modes of transport such as maritime transport and cycling, promoting the electrification of cars, and the introduction of intelligent transport systems.

The removal of traffic bottlenecks is also a priority as this will reduce traffic congestion in urban areas. Two years ago, Government embarked on a €700 million, 7-year plan investment to upgrade the road networks. This road networks' upgrade is part of a holistic approach towards sustainability, air quality, reduction in cars and traffic congestion and modal shift.

Other investments include, the deployment of infrastructure to support digitalisation and the decarbonisation of road and maritime transport. These include using technology to improve the efficiency of travel, among which are the promotion of the use of alternative fuels (such as zero emission electric vehicles) through incentives and infrastructure; the use of intelligent transport systems (ITS) and the introduction of integrated ticketing between different modes to create seamless mobility.

Business Enhance ERDF Grants Schemes

The Business Enhance Grants Schemes seek to support enterprises when undertaking investment projects aimed at securing sustainable business growth, by becoming more competitive, innovative and more resilient to market challenges. These schemes are part-financed by the ERDF 2014-2020 and address a number of priority areas under Operational Programme I 2014-2020 'Fostering a competitive and sustainable economy to meet our challenges'. As at end of December 2019, a total of €18 million in grants were approved under this initiative with a total of 306 beneficiaries.

A number of schemes have been launched, namely, the Start-up Investment Grant Scheme; the SME Growth Grant Scheme; the SME Diversification and Innovation Grant

Scheme; the SME Internationalisation Grant Scheme; the e-Commerce Grant Scheme; the SME Consultancy Services Grant Scheme; and the Business Enhance RD&I Grant Scheme. Through these schemes, around 600 enterprises will be supported with assistance amounting to €51 million.

Inclusive education and training

The National Inclusive Education Framework is the main strategy towards inclusive education and training. This framework is in line with Government's education strategy as outlined in the Framework for the Education Strategy for Malta 2014-2024 that promotes the setting of an inclusive school environment. This ensures that all learners have the opportunity to obtain the necessary skills of active citizens and to succeed at work and in society. The National School Support Services (NSSS) also helps to minimise the delays and reach developmental milestones and skills required for formal schooling. The NSSS intervenes on all areas of development including Physical (gross and fine motor skills), Social Communication and Language, Cognitive, Numeracy and Literacy development.

The Government has continued to invest in quality educators to cater for students with special needs. Through the European Social Fund, educators were trained in techniques to improve front-line and professional services for disability issues; while intense training was given to 50 educators on developing and utilising effective strategies and resources for learners with Autism Spectrum Disorder (ASD).

Through this training programmes, the Education Ministry is providing services according to the specific needs of students to assist them in their holistic development including access to the Communication and Technology Unit (ACTU), developmental assessments and interventions, the provision of individual educational programmes, the provision of services for students with Social, Emotional and Behavioural difficulties (SEBD), measures for hearing and visually-impaired students, the provision of resource centres and ensuring that resource workers, youth workers and specialised support staff are available to deliver the above services.

New ITS Campus

The new campus will be used to upskill the tourism workforce in order to increase and ensure a higher quality in the services offered in the tourism sector and workforce. Additionally, the measure is intended to keep up with the demand and increase in the number of students that enrol in the tourism industry. This will also ensure an increase in the number of courses offered to the students.

The Redevelopment of Ta' Qali Crafts Village

The construction and finishing of an Incubation Centre will host the offices of the Ta' Qali Artisan Village Foundation and will provide lecturing and conference facilities. The construction of a MakerLab will also provide lecturing facilities for innovation in the traditional crafts. Both these buildings will contribute to the upskilling of students in the crafts sector, providing them with an alternative route to the traditional educational one, reducing the drop-out rate.

4. Institutional Issues

4. Institutional Issues

In order to implement the Country Specific Recommendations and attain the Europe 2020 targets, the commitment of the Government as well as that of social partners, local Government and Non-Governmental Organisations, is required. As in previous years, Government has actively consulted the Malta-European Union (EU) 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, these 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 an ad hoc meeting on the NRP to discuss the strategic underpinnings of the overall report.

Furthermore, a quarterly monitoring exercise on the implementation of the NRP was carried out, prior to the drafting of 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 and Financial Services was 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 proved to be successful and has led to the drafting of 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, were consulted as necessary. A copy of the NRP will be handed to the Malta Fiscal Advisory Council. Subsequently, the NRP will be made available to the public after submission to the European Commission. The 2020 NRP document was discussed and approved by Cabinet.

Appendix 1: Progress towards the Europe 2020 Targets

National Target	2019	2020 target	Main Measures
1. *Employment* • Employment rate (age group 20-64)	77.2%	70%	• Reducing tax burden on employees (mentioned in point 5 – Poverty) • Continues to provide the free childcare scheme - by December 2019, over 19,413 children had benefitted from this service. Government also provided funding for an additional 4 new child care centres in 2019. • Continues to support the Klabb 3-16 scheme which provides an after-school programme throughout the academic year and during school holidays. At the beginning of scholastic year 2019/2020, registrations for Klabb 3-16 amounted to 2,755. • Promotion of flexible working arrangements. • Provide equal incentives for employees in the private and public sectors to defer their retirement and continue working, and in turn benefit from permanent increases in their pension benefit rates. • Enhancement of apprenticeship programmes through stronger linkages of academic courses to apprenticeships and occupational standards with an aim to reducing the skills gap. • Continues to encourage the creation of new job opportunities within the private sector in Gozo by offering a 30% refund on the average median wage, up to a maximum of €6,000, for every employee who is offered a contract of at least 3 years. • Continues to improve the working conditions of all employees - 4 new legal notices have brought about amendments to existing employment laws and regulations and regulate aspects related to annual leave entitlement, the issue of itemised payslips, transfer of business, and temporary agency workers.

2. *Education* • Early leavers from education and training (age group 18-24) • Tertiary educational attainment (age group 30-34)	16.7% 37.8%	10% 33%	• Continues to implement actions outlined in both the Strategic Plan for the Prevention of Early School Leaving and in the Higher Education strategy in Malta. • A number of vocational subjects at levels 1-3 on the Maltese Qualifications Framework (MQF) were introduced and learning outcomes were developed. Additional subjects including Retail, Media Literacy, Hairdressing & Beauty, Textiles and Fashion, Agribusiness, Engineering Technology, Health and Social care, Hospitality and Information Technology have been introduced. • 'My Journey' reform - introduced applied subjects (beyond the core curriculum) as part of the secondary education system. • Malta College of Arts, Science and Technology (MCAST) launched the Skills Kits programme at MQF/EQF Level 1 covering various vocational areas as well as personal and employability skills intended for students who prefer to study at their own pace. • Introduction of a range of initiatives, targeting gifted and talented students in both primary and secondary cycles, such as, the Junior Science Olympiad, the Mathematics Olympiad, the Robotics Olympiad, the Mathematics sessions for Gifted and Talented Students and the High 5 - Junior Mathematics Challenge. • Investment in additional facilities at the University of Malta (UOM) - primarily laboratory facilities, seminar and conference rooms. • Further education opportunities for educators through the development of new courses and the launch of an online portal with access to available programmes and courses. • Mainstreaming the EU's digital competence framework DIGCOMP (JRC, 2017) focusing on digital literacies and 21st century skills. • Providing courses that enable women to learn basic skills, including creative expression, essential skills, healthy living, improving education and career prospects, language learning and visual and performing arts.

			• Investment in education infrastructure and resources which includes refurbishing of existing facilities in two new primary schools and improvements to educational facilities for children with disabilities who cannot attend mainstream educational facilities. • Increase in resources available for the National Commission for Further and Higher Education (NCFHE) in order to improve its role, by offering more support to applicants in the accreditation process, training sessions about educational programmes and validation assessments in new sectors. • Offering new courses at tertiary level (such as Bachelor of Science in Diving Safety Management and Masters in Heritage Interpretation), whilst financing students following the Doctorate in Veterinary Medicine abroad. • Extension of the exemption from Value Added Tax (VAT) on educational services. • Construction and development works in the Media Resource Center and the Institute of Information and Communication Technology at the MCAST are ongoing. • Redevelopment of Ta' Qali Crafts Village, which will include an Incubation Centre and a Maker lab, which will provide lectures, workshops and conference facilities for students. • Design and implementation of a quality assurance framework specifically for work-based learning, which will be based on the 20 guiding principles for high quality apprenticeships developed by the ET2020 group on VET.

3. *Climate Change and Energy Targets*
• *Share of renewable energy sources in final consumption*
• *Greenhouse gas emissions (not falling within the scope of the ETS)*
  • *Gap between 2018 inventory emissions & 2018 binding target*
• *Energy consumed in all forms of transport from renewable sources*
	8.0%*
	
	+25.5%*
	
	8.35%*
		10%
		
		5%
		
		10%
			• Submission of final National Energy and Climate Plan for 2021-2030 to the European Commission in December 2019.
			• Continued developing its Low-Carbon Development Strategy and has engaged a private consultancy firm to assist it in its formulation.
			• Encourage eco-friendly modes of transportation through a number of measures:
			  o no Registration Tax for new and used Electric Vehicles (EVs) effective from 1st January 2018;
			  o renewal of grants on new EVs and energy efficient cars;
			  o renewal on once-only grant on the purchase price of a bicycle/pedelec bicycle;
			  o fund to cover the expenditure incurred by local councils and enterprises to install bicycle racks and ancillary facilities and renewal of grant for companies encouraging the use of bicycles or pedelec bicycles for hire;
			  o renewal of grant for the conversion of vehicles to autogas;
			  o introduction of a beneficial electricity flat rate of €0.1298 for residential EV owners during off peak periods;
			  o continue to invest in EV infrastructure by installing more than 200 charging pillars;
			  o will be converting the Ministry for Gozo service car fleet into electric vehicles;
			  o setting of a cut-off date in 2020, after which all vehicles imported in Malta need to be non-polluting;
			• Encourage the modal shift from private car use to more sustainable road transport services through a number of initiatives:
			  o free and subsidised bus public transport for certain categories of society. A total of 40,424 different persons have benefitted from the free public transport measure in 2019;
			  o set up of a National Traffic Control Centre to better manage public transport routes and to study the possibility of increasing ferry landing facilities for additional future routes and the possible implementation of a Mass Rapid Transport System;

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launch of an information campaign to promote a behavioural shift in transport practices promoting sustainable transport across the Maltese Islands;
launch a Regeneration Study for the Valletta Grand Harbour, which is expected to facilitate the achievement of 27% energy efficiency by reducing vehicular traffic and provide an alternative means of transport in a more sustainable manner.

Promoting multi-modality through improved accessibility within existing ferry landing places in Sliema, Bormla and Marsamxett.
Introduction of smart parking solutions in Victoria, Gozo.
Introduction of a number of pedestrian bridges in order to improve both pedestrian and cyclists’ safety and improve access to Public Transport Facilities.
Continue to adopt measures to achieve the target share of energy from renewables through;

extension of schemes on the purchase of solar water heaters, roof insulation and double glazing;
extension of Feed-in Tariffs;
introduction of a heat pump water heater scheme;
launch of a new Photovoltaic scheme in February 2019;
continued works on solar farms by the Water Services Corporation (WSC);
grant on batteries for renewable energy;
facilitate the installation of PV panels on factory rooftops.

Continue to adopt measures to achieve energy efficiency targets through;

upgrading works in reverse osmosis plants in June 2019;
continued promoting energy awareness and energy efficiency among SMEs and non-SMEs;
continued to give advice on energy and water efficiency to households through home visits and publicity campaigns

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			o a grant scheme targeting vulnerable families to promote energy efficient appliances (including fridge freezers, washing machines and air conditioners); o the launch of the Investment Aid for Energy Efficiency Projects scheme (designed to support local firms willing to invest in solutions that would lead to improved energy efficiency) and Investment Aid for High-Efficiency Co-Generation scheme (designed to assist investment in co-generation equipment); o supporting undertakings in carrying out investments leading to improved energy-efficiency; o continue to adopt measures to guarantee security of supply through the development and implementation of the Melita TransGas Pipeline (MTGP) which will connect Malta to the European Gas Network.
4. Research and Innovation • *Gross domestic expenditure on R&D*	0.57%*	2%	• Currently developing the National Research and Innovation Strategy post-2020 and updating of the smart specialisation strategy (RIS3). • With regards to Horizon 2020, by end of December 2019, 179 Maltese entities had participated/or were participating in a total of 133 projects and received €25.3 million in EU net funding with participants ranging from higher education, public and private as well as non-profit research organisations. • The FUSION fund continued its work throughout 2019 and is expected to be exhausted by the end of 2020 with total allocated funds of €11.1 million since its inception in 2014. As of December 2019, 113 Commercialisation Voucher Programme applications were funded, with a total allocated budget of €1.9 million, whilst 44 Technology and Development Programme Projects were funded, with a total allocated budget of €9.2 million. • Launch of a funding and support scheme for recent graduates to establish start-ups that can enhance innovations by younger persons. • Continued to work with the European Space Agency (ESA) for the establishment of the National Space Fund which provides focus on a Space Education Programme and a Space Research Fund in Malta. By

			the end of 2019, 5 successful projects were funded under this scheme. Additionally, as from the 2018/9 scholastic year, the National Space Fund supports yearly activities under the national Space Education Programme. • The Malta National AI (Artificial Intelligence) Strategy was launched in October 2019. The Malta Digital Innovation Authority (MDIA) published for consultation the AI Innovative Technology Arrangements (ITA) Guidelines, the AI System Auditor Control Objectives, the AI ITA Nomenclature and the AI ITA Blueprint Guidelines.
5. Promoting Social Inclusion in particular through the Reduction of Poverty • *People at risk of poverty or social exclusion*	AROPE for 2018 - 19.0%	Reduce by 6,560	• Continue to adopt measures targeting the elderly by: o ensuring adequate and sustainable pension for the current and future pensioners, as addressed in the ongoing pension reform process outlined under Country Specific Recommendation (CSR) 1. o increasing contributory and non-contributory pension by an additional €3.51 per week, in addition to the cost of living adjustment (COLA) of €3.49 per week and increased the ceiling on which income from pension is tax exempt. o improving the adequacy of the service pension, whereby an additional €200 will not be taken into consideration in the computation of the social security pension. o Extending the bonus payable to those who reach retirement age but do not have enough contributions to receive a pension beyond the age of 75. o improving the adequacy of pensions for members of the discipline forces that remained in productive employment at the age of 61 years, upon retiring from the service. o extending the €300 elderly grant given to people over the age of 75 and who still reside in their own home and increasing the grant by €50 to €350 to people aged 80 and over. This measure was also extended to senior citizens that live in a private residential home at their own expense.

			o increased the Supplementary Assistance given to people aged 65 years and over who are at risk of poverty. o re-issuing of the 62+ Government Savings Bonds. • Continue to adopt measures targeting the disabled by: o building 3 new residential homes for adults with disability. One of these residential homes is already operating while, the other two are in their final stage of completion. o increasing the weekly payment of the Additional Assistance for Severe Disability to €161.40 and thus become equal to the Net National Minimum Wage. o increasing the Invalidity Pension, in line with the Disability Pension and thereby increased up to the Net National Minimum Wage. The Government also maintained the increase in non-contributory Medical Assistance, Carer's Allowance and Disabled Child Allowance. • Amend the Social Security Legislation to address the risk of poverty that vulnerable persons face, including; o the removal of the disability assistance from the means test when evaluating Social Assistance or Age Pension applications; o enhancing the way that Sickness Assistance is processed while broadening eligibility for widows; o extending the eligibility of the Sickness Assistance to individuals suffering from Fibromyalgia or Myalgic Encephalomyelitis (ME). • Launch of the Enforcement Unit, which will safeguard the rights of persons with disability and their families. • Parliament is currently discussing the setting up of a Commission for Human Rights and Equality - Malta's first independent National Human Rights Institution. • Finalising the amendments to the Equal Opportunities Act (EOA). • Continue to adopt measures targeting families and adolescents by:

			o increasing the capping amount qualifying for a stamp duty tax reduction on sole residence property to €175,000. o extending the second time buyer scheme and the measure where, persons who buy property in Gozo benefit from a lower stamp duty of 2%. o Introducing the First Residence Scheme, which is aimed at person under 40 years of age who, despite being eligible for a home loan do not have the necessary liquidity to cover the requested 10% down payment. o Extending the Equity Sharing Scheme which, is targeted to persons who are over 40 years of age and find difficulties to become homeowners since they cannot access a mortgage loan. To this date the Housing Authority has received 206 applications. o Investing in building new affordable housing units. This construction project, that is underway, will render over 1,700 new affordable housing units with a total investment of around €100 million. o extending the Affordable Housing Benefit by raising the annual income brackets in order to allow more persons to be eligible for this scheme, which aims to make rents more affordable for people who are renting from the private sector and whose rent exceed 25% of their gross income. o regenerating several dilapidated Government-owned properties, intended for residential purposes. o Implementation of the Private Residential Leases Act, which introduced the concept of minimum duration for private residential lease, set to one year. This measure grants more security and predictability to tenants since lessor must notify the lessee at least three months in advance for the contract to terminate, otherwise it will by renewed automatically. Moreover, this measure also requires the rental agreement to

			be registered with the Housing Authority. Currently there has been over 4,000 residential leases contract registered. o introduced a one-time bonus of €300 for every birth or adoption, to help families cope with the increase in expenses. o extended the increase in the rate of the Children Allowance for families with incomes less than €20,000. In 2019, the number of beneficiaries that benefited from the maximum rate was approximately 17,403. o Extended the Widows' and Survivors' Pension Additional Allowance. o crediting Social Security Contribution for the parents of children with rare illness, who are forced to stop working to take care of their sick children. o reducing the income tax rate on income from overtime for workers who earn less than €20,000 and are not in a managerial position. o extended the tax refund that is granted to all individuals in employment, who earn less than €60,000. In 2019, approximately 209,534 individuals benefited from this measure. • Discussing new measures with social partners at the Employment Relations Board to continue addressing the problem of precarious work in the private sector. • Granted an additional bonus of €15 for every single person family and €35 for families consisting of more than one person to compensate for the recent price increase in certain products whose impact was not reflected in the COLA mechanism.