

National Recovery and Resilience Plan: Malta

Manwel Debono*

Abstract

The RRP provided the new Prime Minister with an opportunity to demonstrate his commitment to tackling the major challenges faced by Malta, including the environment and the rule of law. While Malta's RRP focuses primarily on the green transition, followed by digitalisation, it also contains measures intended to strengthen the health care system, enhance education and socioeconomic sustainability, and reinforce the country's institutional framework. The plan was judged positively by the European Commission and the Council of the European Union. While seeking to address the Country-Specific Recommendations of 2019 and 2020, the plan also tackles several aspects listed in the European Pillar of Social Rights and the Social Scoreboard. The RRP is meant to be viewed as part of a larger strategy that includes the Multiannual Financial Framework. While the RRP focuses on challenges that were already apparent during the European debt crisis, it is also aimed at tackling new challenges that have emerged over the past decade. The social partners have tended to be dissatisfied with their involvement in the RRP process. The RRP appears adequate to avoid a retrenchment of the social dimension, however, as it channels the country towards a more sustainable growth model.

Keywords: Labour market; Welfare; Strategy; Sustainability; Rule of law; Malta.

1. The context in which the Recovery and Resilience Plan (RRP) was formed.

The drafting and submission of Malta's Recovery and Resilience Plan (RRP) came at a time when the country was recovering from considerable socio-political turmoil. At the end of 2019, Malta was experiencing a period of rapid economic growth, with real GDP growth of 5.5 per cent.¹ At the same time, the government was being strongly criticised over bad

* Senior Lecturer, Centre for Labour Studies, University of Malta.

¹ Council of the European Union, *Council implementing decision on the approval of the assessment of the recovery and resilience plan for Malta 11941/21*, 2021:

governance, corruption, and environmental exploitation and degradation. Some of these concerns were referred to in Malta's 2019 and 2020 Country-Specific Recommendations (CSRs). The pressure on then Prime Minister Joseph Muscat peaked with the murder of the journalist Daphne Caruana Galizia, which resulted in his resignation on 13 January 2020. When the new Prime Minister Robert Abela was appointed, he was immediately faced by demands to tackle allegations of corruption which had started to affect Malta's international financial standing. Meanwhile, the country moved quickly from the first case of Covid-19 virus confirmed on 7 March 2020 to impose the first social restrictions and partial lockdowns, announced over the next few days. Malta's economy, which relies heavily on tourism, was hard hit by the pandemic, with real GDP declining by 7.8 per cent in 2020.² Having said that, the government entered the pandemic from a position of economic strength, with the public finances capable of cushioning the shocks caused by Covid-19 and subsequently by the early stages of the war in Ukraine.³

The RRP gave the new Prime Minister the opportunity to demonstrate at European level that he represents a break from his predecessor and that he seriously intends to tackle challenges regarding the country's institutional framework and the environment. The RRP also served to sustain measures focusing on a number of persistent challenges that have been resurfacing in CSRs for several years, such as the high proportion of early school leavers, insufficient workforce skills, and the need for more equality and gender equality.

The substantial list of investments and reforms targeted in the RRP formed part of a larger set of initiatives that the government had been working on at least since 2019 in relation to the Multiannual Financial Framework (MFF) 2021–2027.⁴ The drafting of the RRP also took into consideration the measures already implemented or at various stages of implementation, also with the assistance of previous EU funds. As will be discussed later on in this paper, the methodology adopted by government to develop the RRP was unclear, and led to dissatisfaction among social partners concerning their involvement and input in the plan.

https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CONSIL:ST_11941_2021_INIT&from=EN (accessed 9 June 2022).

² European Commission, *Commission staff working document. Analysis of the recovery and resilience plan of Malta. Accompanying the document proposal for a council implementing decision on the approval of the assessment of the recovery and resilience plan for Malta* {COM(2021) 584 final}, 2021, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021SC0269&from=EN> (accessed 9 June 2022).

³ Ministry for Finance and Employment, *Malta National Reform Programme, 2022*, https://finance.gov.mt/en/Library/Documents/National_Reform_Programme_2022/National_Reform_Programme_2022.pdf (accessed 6 June 2022).

⁴ The Multiannual Financial Framework (MFF) is a seven-year framework regulating the European Union's annual budgets. Before the outbreak of the pandemic, the Maltese government had been carrying out consultations and planning to direct EU funds from the MFF 2021–2027 to a number of initiatives. When the Recovery and Resilience Facility (RRF) was set up in order to mitigate the negative impact of the pandemic, the government carried out an exercise to decide which new or ongoing investments and reforms should be funded by the MFF or the RRF.

It appears that divergence between Malta's government and the EU Commission on the proposed reforms and how these would address some CSRs led to vigorous political negotiations and delayed the final submission of the RRP, which took place on 13 July 2021.⁵

2. Malta's RRP: an emphasis on the green transition.

2.1. RRP grants viewed as part of a larger EU package of funds.

The total value of Malta's RRP is EUR 344.9 million, in respect of which Malta will make use of EUR 316.4 million in EU grants. The latter corresponds to about 2.3 per cent of Malta's 2019 GDP, lower than the EU27 average of 5.2 per cent in 2019.⁶ The first tranche of these funds, amounting to EUR 41.1 million (or about 13 per cent of the whole grant) was transferred to Malta in December 2021 in the form of pre-financing.⁷ The Maltese government did not ask for any loans as part of the RRP. It might have decided to borrow internally (through the mechanism of Malta Government Stocks) rather than from the EU because of the high liquidity in Malta's banking system.⁸

The government emphasised that the RRP should not be viewed as a stand-alone collection of initiatives, but as part of a strategy backed by a larger package of EU funds with various targets and deadlines. Apart from the need to tackle the CSRs in view of the socio-political context mentioned earlier, and the economic challenges created by the Covid-19 pandemic, timelines were very important for identifying the most suitable projects for the RRP, whose investments were targeted to be carried out within four years (by the end of 2025). Other projects in the government's pipeline with a longer time-frame were reserved for the MFF, whose time-frame is longer.⁹ For example, projects involving the private sector which do not directly tackle CSRs, such as R&D investments, were earmarked for the MFF.¹⁰

2.2. The main focus of RRP reforms and investments

The main focus of reforms and investments in Malta's plan is support for the green transition. Indeed, 54 per cent of the total grant is allocated to this purpose. This represents considerably more than the 37 per cent minimum requirement mentioned in the facility's regulation. President of the EU Commission Ursula von der Leyen reportedly stated that

⁵ Parliament of Malta, *Foreign and European affairs meeting No 030 30.06.2021*, 30 June 2021, <https://c.connectedviews.com/01/SitePlayer/parliamentmalta?session=112914> (accessed 9 June 2022).

⁶ European Parliament Think Tank, *Malta's National Recovery and Resilience Plan: Latest state of play*, 14 March 2022, [https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI\(2022\)729312](https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2022)729312) (accessed 9 June 2022).

⁷ European Parliament Think Tank, *ibid.*

⁸ TheJournal.mt, *€345 million to boost the Maltese economy's recovery and resilience*, 4 July 2021, <https://thejournal.mt/e345-million-to-boost-the-maltese-economys-recovery-and-resilience/> (accessed 9 June 2022).

⁹ Parliament of Malta, nt. (5).

¹⁰ Parliament of Malta, nt. (5).

Malta's plan was among the greenest of all Member States.¹¹ The key measures in Malta's RRP related to the green transition include infrastructural investments, such as energy renovations of public and private buildings, the purchase of fully electric buses and the building of a new ferry landing site to alleviate road transport needs.

Another substantial 26 per cent of the budget targets the digital transition, which again is higher than the facility's regulation minimum requirement of 20 per cent. Funds will be invested in the digitalisation of public administration and public service, the private sector, and the justice system.

According to government estimates, RRP investments are expected to increase the country's GDP by about 0.5 per cent between 2022 and 2025, and leave a long term-impact (by 2040) of about 0.3 per cent.^{12 13}

2.3. The impact of the RRP on the labour market and social affairs.

The RRP reforms and investments are spread over six components, namely: addressing climate neutrality, tackling carbon-neutrality, fostering digitalisation, strengthening the health system, enhancing education and socio-economic sustainability, and strengthening the institutional framework.¹⁴ This section provides an overview of how measures under these six components may exert a direct or indirect impact on the labour market, employment protection, welfare and social assistance, including access to education, housing, and health care.

(i) Addressing climate neutrality: The government aims to enhance energy efficiency and clean energy, and reinforce the circular economy. Reform C1-R1¹⁵ focuses on strengthening the institutional framework sustaining a long-term renovation strategy by, among other things, increasing the availability of trained construction workers. The reform will be "extending skilling and upskilling measures to new professional categories with a view to obtain[ing] a skill card with specific priority related to the acquisition of the necessary skills for supporting the buildings renovation projects based on skills demand and supply forecasts" (*sic*).¹⁶ This component may lead to the creation of green jobs.

¹¹ Borg J., *Watch: "Utmost importance" to stop passports scheme – EU Commission president*, in *Times of Malta*, 16 September 2021:

<https://timesofmalta.com/articles/view/live-ursula-von-der-leyen-in-malta.901064> (accessed 9 June 2022).

¹² Government of Malta, *Malta's Recovery & Resilience Plan*, 2021:

<https://eufunds.gov.mt/en/Operational%20Programmes/Documents/Malta%27s%20Recovery%20%20Resilience%20Plan%20-%20July%202021.pdf> (accessed 9 June 2022).

¹³ Parliament of Malta, nt. (5).

¹⁴ Government of Malta, nt. (12).

¹⁵ All reforms and investments are referred to by means of codes, in accordance with the Commission Guidelines.

¹⁶ European Commission, *Annex to the Proposal for a Council Implementing Decision on the approval of the assessment of the recovery and resilience plan for Malta {SWD(2021) 269 final}*, 2021, 2:

https://ec.europa.eu/info/sites/default/files/com_2021_584_1_annexe_en.pdf (accessed 9 June 2022).

(ii) Tackling carbon-neutrality: Overall, this component is aimed at bringing about better air quality and lower noise pollution, thus leading to better quality of life and improved health. The government seeks to address carbon-neutrality by focusing on decarbonising transport and reducing traffic congestion. Reform C2-R5 is intended to reduce the number of workers in public service who travel to work by promoting remote working. Public service workers will be enabled to work from home or from regional hubs in their communities through the use of online technology. Fifteen office facilities are being set up for this purpose across the country.¹⁷ This measure also includes the publication of a Remote Working Policy for Government Employees. Measures in this component, like those in the previous one, have the potential to create new and greener jobs.

(iii) Fostering digitalisation: This component promotes the growth of “a digital, smart and resilient economy”.¹⁸ Reform C3-R1 is aimed at reducing the digital divide and enhancing digital skills. Among other things, it will provide digital skills and access to computers and the internet to low-income families. It will also include a scholarship scheme to encourage further uptake of studies in, for example, innovative technologies and artificial intelligence. Reform C3-R2 is aimed at fostering business research and innovation. Investment C3-I3 is aimed at further digitalising and modernising public administration, which should lead to “modern and remote means of working for public officers”, and “promote gender equality (for example, by increasing flexibility)”.¹⁹ Investment C3-I4, which is aimed at intensifying the digitalisation of the private sector, may also lead to more remote working.²⁰ Several measures in the plan may increase demand for digital workers.^{21 22}

(iv) Strengthening the health system: This component is aimed at increasing both the resilience and the sustainability of the health care system. Reform C4-R1 should lead to better planning of human resources in the sector, and “improve the wellbeing and integration of foreign health workers”.²³ Other measures under this component, such as the establishment of the blood and tissue cell centre and the digitalisation process, should not only lead to more sustainable social protection expenditure, but also enhance patient experience and population wellbeing, including workers’ health.

(v) Enhancing quality education and fostering socioeconomic sustainability: This component focuses more directly on the labour market and social welfare. It includes reforms meant to continue reducing the rate of early school leavers by implementing measures that foster skills acquisition. It contains measures leading to skills development and recognition, including of low-skilled adults. The component lists the development of new education pathways that emphasise inclusion and quality of education, and the implementation of a more effective education monitoring system. It is also aimed at

¹⁷ European Commission, *ibid.*

¹⁸ Government of Malta, nt. (12), 15.

¹⁹ European Commission, nt. (16), 31.

²⁰ European Commission, nt. (16), 32.

²¹ European Commission, *Summary of the Commission’s assessment of the Maltese recovery and resilience plan*, 2021, https://ec.europa.eu/info/sites/default/files/mt_rrp_summary_0.pdf (accessed 9 June 2022).

²² TheJournal.mt, nt. (8).

²³ European Commission, nt. (16), 39.

strengthening the resilience of the labour market, reducing gender inequalities, and sustaining the pensions system. The latter initiative consists of the publication of an Action Plan with policy proposals aimed at improving both the adequacy and the long-term sustainability of the pensions system. The main investment of this component consists of strengthening vocational paths in the tourism sector through the setting up of a Centre for Vocational Education Excellence. This new training centre should increase the skills in this important economic field, by attracting more young people to this field while also improving the skills of existing workers through new and refreshed programmes. Overall, this component is aimed at improving the links between education and work, and boost the quality of jobs.

(vi) Strengthening the institutional framework: The sixth and last component seeks to address institutional and governance challenges concerning justice, corruption, money laundering and taxation. The effects of this component on the labour market and welfare are perhaps less clear than those of the previous components. The medium- to long-term effects may include curtailing the culture of corruption that permeates the public and private sectors, thus reducing the shadow economy, increasing fiscal morality, promoting social justice, and facilitating socioeconomic sustainability. The capacity building of different government entities and institutions may lead to recruitment of new workers and increased training in the short and medium terms. At the same time, the corporate tax planning reform, which also features prominently in the 2022 CSR, risks scaring off foreign direct investment.

3. The social and labour dimensions of the RRP.

3.1. The EU's positive evaluation of Malta's RRP.

The Commission and Council evaluated Malta's plan very positively. According to the Commission, "the Maltese plan represents a comprehensive and adequately balanced response to the economic and social situation, thereby contributing appropriately to all six pillars of the [Recovery and Resilience Facility] RRF Regulation".²⁴ Similarly, according to the Council, the measures in Malta's RRP "contribute towards all of the six pillars ... with a significant number of components of the RRP addressing multiple pillars. Such an approach contributes to ensuring that each pillar is comprehensively addressed in a coherent manner."²⁵ In summary, the plan was described as including "a set of consistent, coherent and mutually supportive reforms and investments that are proportional and commensurate with the overall long-term development objectives" of the country.²⁶

²⁴ European Commission, *Questions and answers: European Commission endorses Malta's €316.4 million recovery and resilience plan*, 16 September 2021, 2:

https://ec.europa.eu/commission/presscorner/detail/en/QANDA_21_4706 (accessed 9 June 2022).

²⁵ Council of the European Union, nt. (1), 6.

²⁶ European Commission, nt. (21).

The RRP has been characterised as ambitious but achievable.²⁷ Through its array of 47 measures, consisting of 30 reforms and 17 investments, the plan is ambitious in seeking to tackle a wide spectrum of “challenges identified in health, employment, education and skills, climate and digital transition, justice and the fight against corruption and money laundering”.²⁸ At the same time, the plan appears to be achievable as it includes clear responsibilities and appropriate milestones and targets that allow the monitoring and progress verification of the proposed measures. The cost breakdown has been judged to be “generally detailed and well substantiated” with most costs being “reasonable and plausible”, while only a few measures require “further supporting evidence and clearer justification for the assumptions made”.²⁹ Besides that, the Commission is satisfied with the coordination, control and auditing of the RRP.³⁰

3.2. Implementation of the European Pillar of Social Rights and the Social Scoreboard

The RRP takes account of several of the principles and rights included in the European Pillar of Social Rights and the Social Scoreboard.³¹ It includes a number of measures intended to address the Pillar’s Chapter 1, focusing on equal opportunities and labour market access. Education, training and lifelong learning are tackled through measures focused on reducing, monitoring and managing early school leavers, the implementation of aspects of the Basic Skills strategy, and the provision of literary support programmes. The RRP includes measures directed towards the upskilling and reskilling of adults, including those who are least likely to participate in lifelong learning, the training and certification of construction workers, and the promotion of ICT careers. The setting up of an e-College that specialises in online courses and the strengthening of the career guidance system should also facilitate lifelong learning and the matching of education and work. The implementation of a policy monitoring system should boost the quality of education provision. Equal opportunities are tackled through measures such as those meant to further integrate students with special needs into mainstream education, and the implementation of (at least half of) the National Inclusion Policy Strategy. The promotion of digital skills among low income families should also improve the employment opportunities of this marginalised group. The RRP includes a commitment to implementing aspects of the Employment Strategy meant to reduce the gender employment gap and facilitate the employment of older people, especially older women and low skilled adults. The RRP focuses on the implementation of key measures

²⁷ European Commission, nt. (21).

²⁸ European Commission, nt. (21), 1.

²⁹ European Commission, nt. (21), 3.

³⁰ European Commission, nt. (21), 4.

³¹ See European Commission, *European Pillar of Social Rights*, 2017, https://ec.europa.eu/info/sites/default/files/social-summit-european-pillar-social-rights-booklet_en.pdf; Eurostat, *Social Scoreboard of Indicators*, <https://ec.europa.eu/eurostat/web/european-pillar-of-social-rights/indicators/social-scoreboard-indicators> (accessed 6 June 2022).

listed in the Gender Equality and Mainstreaming Strategy Action Plan. The construction of a new Institute of Tourism Studies campus and the offering of additional courses should also actively support the employment of young people into the tourism sector, and help retain workers in the sector through retraining.

The RRP has fewer measures that directly tackle Chapter 2 of the European Pillar of Social Rights, which deals with the promotion of fair working conditions. The emphasis on digitalisation, especially the development of remote working arrangements for public service employees should help improve their work–life balance. Measures promoting training and certification among groups of workers, for example, in the construction sector, should improve health and safety in the workplace. Besides that, the RRP also includes measures intended to enhance the integration and welfare of migrant workers.

Several measures address topics mentioned in Chapter 3 on social protection and inclusion. The plan includes a commitment to regularly assess the adequacy of unemployment benefits and make them more responsive to the needs of individuals and the country. Similarly, it includes a commitment to review the sustainability of the country's pension structure and the issuing of relevant recommendations. The RRP promotes health care through several initiatives that should enhance the provision of health care services in terms of both quality and accessibility. Access to essential services is also improved through measures targeting public transport and digital services offered by the government. The RRP includes the setting up of a childcare centre in a new carbon-neutral school.

Despite the positive developments mentioned above, looking at the Social Scoreboard, there are some important indicators on which Malta is not performing well enough and that were not adequately tackled in this RRP. These include the indicators of persons (including workers) at risk of poverty, and the excessive burden of housing costs.

3.3. Implementation of the social aspects of the 2019 and 2020 Country-Specific Recommendations (CSRs).

As already mentioned, dealing with the 2019 and 2020 CSRs was a major priority when determining which measures to include in the RRP. According to the Council of the European Union, the “RRP is expected to contribute to effectively addressing all or a significant subset of challenges (Rating A) identified in the relevant country-specific recommendations addressed to Malta”.³²

Component 1 of the RRP focuses on CSR-3 2019 and CSR-3 2020, in particular on energy use and waste management. Component 2 seeks to address aspects of CSR-3 2019 and CSR-3 2020 related to transport pollution and traffic congestion. Component 3 tackles the digital transition mentioned in CSR-3 2020. Besides that, Components 4 (health) and 6 (institutional framework) also include significant investments in digitalisation. Component 4 addresses the health care aspects of CSR-1 2019 and CSR-1 2020. The RRP focuses on the “resilience” of

³² Council of the European Union, nt. (1), 7.

the health care system rather than on “primary care”. The latter topic, mentioned in CSR-1 2020, is addressed through measures (such as the strengthening of medical facilities within specific communities) supported by other EU funds.³³ Component 5 seeks to tackle the education and training aspects of CSR-3 2019 and CSR-2 2020. Component 5 also deals with the labour market, which was highlighted in CSR-1 2019 with regard to the fiscal sustainability of the pension system and in CSR-2 2020 with regard to the adequacy of unemployment protection for all workers. Finally, Component 6 seeks to address governance, money laundering and related aspects listed in CSR-2 2019 and CSR-4 2020. Several of the RRP measures focus on the continuation of reforms in progress.³⁴

4. Lessons from the previous crisis?

4.1. Do the NGEU and the RRP put the management of the current crisis on a different pathway from the one taken during the Euro-crisis?

The European debt crises starting in 2009 and the subsequent recession inevitably affected Malta’s small and open economy, especially through the lowering of external demand. Indeed, in 2009, the manufacturing sector’s gross value added declined by over 18 per cent and tourist arrivals fell by 8.4 per cent.³⁵ In 2009, the unemployment rate grew to around 7 per cent, while GDP contracted by 1.9 per cent.³⁶ But Malta’s economy quickly recovered, unlike most of the other South European EU Member States, which experienced “sustained problems in the last decade, including substantial declines in GDP, high unemployment and the need for external assistance”.³⁷ Indeed, no austerity measures were required, and the Euro-crisis had only marginal effects on workers in general, for example, through a period of wage moderation.³⁸

The then governor of the Central Bank of Malta listed the following four reasons for the country’s economic resilience. The first was that of adopting the euro as Malta’s currency, thus eliminating “the risks inherent in a small and vulnerable national currency”.³⁹ The second was Malta’s banking system, which, relying on the “traditional intermediation between retail depositors and borrowers”, remained strong and stable, and retained investor confidence.⁴⁰ The third reason was the fact that the country had just gone through a process

³³ Parliament of Malta, nt. (5).

³⁴ Parliament of Malta, nt. (5).

³⁵ Bonello M., *The Maltese economy – the recession and the challenges beyond*. Speech by Mr Michael C Bonello, Governor of the Central Bank of Malta, to the Committee on Economic Affairs and Development of the Parliamentary Assembly of the Council of Europe, Attard, 28 May 2010, <https://www.bis.org/review/r100528b.pdf> (accessed 9 June 2022).

³⁶ Bonello M., *ibid*

³⁷ Harwood M., From Euroscepticism to Euro-enthusiasm: How Malta weathered the Eurozone Crisis, in *South European Society and Politics*, 2020, p 7, DOI: 10.1080/13608746.2020.1746542, accessed 9 June 2022.

³⁸ Central Bank of Malta, *Labour market resilience in Malta*, in *Quarterly Review 2013:1*, 2013, <https://www.centralbankmalta.org/file.aspx?f=640> (accessed 9 June 2022).

³⁹ Bonello M., nt. (35), 2.

⁴⁰ Bonello M., nt. (35), 2.

of restructuring and diversification in order to satisfy the Maastricht criteria and join the Eurozone quickly after EU accession. Non-productive government industries were closed down or privatised, government employment was frozen, early retirement schemes were introduced for surplus workers in the public sector and the retirement age was increased.⁴¹ At the same time, new employment sectors were created such as aircraft maintenance, pharmaceuticals, e-gaming and financial services, leading to new work opportunities.⁴² The fourth reason for Malta's resilience was the quick and targeted assistance that the government provided to companies in difficulty. The provision of financial and technical support to employers enabled them to keep their employees and retrain them during downtime. This enabled them "to kick-start their operations" as soon as foreign demand started growing, leading to a much more rapid recovery than that of foreign competitors who had to reemploy workers and retrain them.⁴³

In the aftermath of the Euro-crisis, the Central Bank of Malta suggested that the country's labour market needed to be strengthened by, for example, boosting the labour supply, especially focusing on women and older workers, and facilitating the flexibility of work arrangements; reducing early school leavers; and improving the employability of low-skilled job seekers.⁴⁴ These policy suggestions remain relevant today and still form part of the government's drive towards economic growth. Indeed, they may be found in the RRP. Meanwhile, new challenges have emerged over the past decade, such as traffic congestion and environmental degradation, as well as issues related to governance and the rule of law, the low corporate tax system, and the Individual Investment Programme (that is, the selling of Maltese and thereby EU citizenship).⁴⁵ The new Labour government acknowledged most of these challenges and included measures to tackle them in the RRP. Such measures often have direct or indirect consequences for social welfare and the labour market. In its 2022 National Reform Programme, which carries forward the measures listed in the RRP, the government affirms a change in the focus of investments from "targeting public infrastructure, in particular the arterial and urban roads' networks and other transportation facilities ... to fiscal incentives to encourage innovative, green and digital investments by businesses" (Ministry for Finance and Employment, 2022).⁴⁶

The effects of the pandemic on Malta's economy were more sudden, pronounced and widespread than those of the European debt crisis. In view of this, the government's response was heftier and more diversified, but at the same time less precisely targeted than during the previous crisis. Substantial assistance was given to businesses, workers and families. Compared with the previous crisis, the government was also in a better financial position to sustain the economy. It adopted an "aggressive countercyclical fiscal policy" that

⁴¹ Ziabari K., Gonzi L., *How Malta weathered the Global Financial Crisis*, 16 April 2019: <https://www.fairobserver.com/region/europe/lawrence-gonzi-malta-economy-global-financial-crisis-eurozone-europe-news-25412/> (accessed 9 June 2022).

⁴² *Ibid.*

⁴³ *Ibid.*

⁴⁴ Central Bank of Malta, nt. (38).

⁴⁵ Harwood M., nt. (37).

⁴⁶ Ministry for Finance and Employment, nt. (3).

“helped to limit the decline in economic activity”.⁴⁷ The RRP is an important tool through which the government is carrying out investment projects in pursuit of further economic growth. The emphasis on the green economy, digitalisation, health and education should reduce inefficiencies, enhance the quality of government expenditure, and lead to more sustainable growth.⁴⁸

4.2. What is the direction of travel of the 2022 Country-Specific Recommendations as regards social and employment protection?

Malta has not undergone an in-depth review by the Commission since the Covid-19 pandemic, and so has not received any related fiscal or macroeconomic recommendations. CSR-1 2022, however, invites the government to pursue a fiscally neutral policy stance in 2023, while including “temporary and targeted support to vulnerable households ... most vulnerable to energy price hikes and to people fleeing Ukraine”.⁴⁹ This recommendation is important in view of the increasing segment of the population at risk of poverty and the challenges the country faces because of the instability created by the invasion of Ukraine. The focus on Ukrainian refugees is also timely. While only around 300 refugees had officially been given temporary protection status by the Maltese government by 21 April 2022, probably hundreds of other Ukrainians have arrived in Malta and the country lacked a coordinated approach to dealing with them.⁵⁰

Other than this, the 2022 CSRs did not focus on any specific social or employment protection concern. Instead, CSR-2 invites the government to continue implementing the measures listed in the RRP and to put forward the relevant 2021–2027 cohesion policy programming documents. This is an implicit confirmation that the Commission is satisfied with the scope of the country’s RRP and would like to see it fully implemented.

In CSR-3, the European Commission renewed its call to the government to “address features of the tax system that may facilitate aggressive tax planning by individuals and multinationals”.⁵¹ The Maltese government has committed itself to implementing a new corporate tax regime by 2025.⁵² This exercise towards international tax harmonisation

⁴⁷ Attard J., Farrugia J., *Malta’s public finances through the Covid-19 pandemic*, December 2021, 2, <https://www.centralbankmalta.org/site/Publications/Economic%20Research/2021/malta-public-finances-covid-pandemic.pdf?revcount=7626> (accessed 9 June 2022).

⁴⁸ See Attard J., Farrugia J., nt. (47)..

⁴⁹ European Commission, *Recommendation for a Council Recommendation on the 2022 National Reform Programme of Malta and delivering a Council opinion on the 2022 Stability Programme of Malta {SWD(2022) 620 final} - {SWD(2022) 640 final}*, 2022, 9, https://ec.europa.eu/info/system/files/2022-european-semester-csr-malta_en.pdf (accessed 9 June 2022).

⁵⁰ Galea Debono F., *Over 300 Ukrainians given temporary protection in Malta*, in *Times of Malta*, 21 April 2022, <https://timesofmalta.com/articles/view/over-300-ukrainians-given-temporary-protection-in-malta.949498> (accessed 9 June 2022).

⁵¹ European Commission, nt. (49), 9.

⁵² Sansone K., *Malta to overhaul corporate tax regime by 2025 in major policy shift*, in *Maltatoday*, 29 April 2022, https://www.maltatoday.com.mt/news/national/116520/malta_to_overhaul_corporate_tax_regime_in_major_policy_shift#.Yp2PGuxBw2w (accessed 9 June 2022).

presents a major challenge to small peripheral economies like Malta that risk losing foreign direct investment. Finally, CSR-4 urges Malta to accelerate its green transition and reduce its reliance on fossil fuel. While this topic features prominently in the RRP, Malta's insufficient progress in this respect, coupled with the challenges posed by the invasion of Ukraine must have heightened the need for a specific CSR on this matter.

4.3. The political impact of the adoption of NGEU and the role of social partners in the RRP.

Malta has a two-party political system consisting of the centre-left Labour Party (LP) and the centre-right Nationalist Party (NP). After losing the 2013 elections, the NP has been increasingly fraught with internal conflicts and fragmentation, leading to a loss of voter confidence and an inability to push through its ideas. The LP currently has 44 seats in Parliament, while the NP has 35. The LP government has such strong majority support that it has not been visibly impacted by specific events or policies, such as the adoption of NGEU. While some of the reforms listed in the RRP were "imposed" on the government through national and international pressures, especially those related to the environment and the rule of law, the Prime Minister appears to have accepted this, among other things to put clear blue water between him and his predecessor.

The role of the social partners in the elaboration of the RRP is a matter of contention. On one hand, the EU positively assessed the process that was officially presented. For instance, the Council of the European Union stated that submission of the RRP "followed a consultation process, conducted in accordance with the national legal framework, involving local and regional authorities, social partners, civil society organisations, youth organisations and other relevant stakeholders".⁵³

Indeed, according to the Ministry for Finance and Employment, the RRP was developed on the basis of a consultation process that started in 2019 in order to develop the country's policies and objections regarding the EU funded plans and programmes for 2021–2027.⁵⁴ More than 145 bodies were consulted as part of this process. The consultation process included the setting up of five committees in 2020 focusing on "the main policy objectives under the Common Provisions Regulation and the wider investment needs of the country".⁵⁵ According to the government, "the outcome of such consultations provided important insights" into stakeholders' positions on "the needs and investment priorities necessary for Malta's socio-economic development within the context of EU funds".⁵⁶ However, it appears that most social partners did not link such consultations to the RRP, as these consultations were not carried out specifically for that purpose.⁵⁷ The distinct process leading to the RRP

⁵³ Council of the European Union, nt. (1), 4.

⁵⁴ Ministry for Finance and Employment, nt. (3).

⁵⁵ European Commission, n. 2, 29.

⁵⁶ Ministry for Finance and Employment, nt. (3), 61.

⁵⁷ Parliament of Malta, n. 5.

appears to have been “somehow rushed compared to other consultation processes” and key social partners maintain that “there had not been enough time allotted during the consultation process and that more meetings should have been held”.^{58 59} Indeed, according to the Malta Employers’ Association (MEA), only an information session on the RRP was held within the Malta Council for Economic and Social Development (MCESD), Malta’s highest forum for tripartite concertation, before the plan was submitted to the EU.⁶⁰ Key stakeholders claimed that they were presented with a *fait accompli*.^{61 62} The Malta Chamber of Commerce, Enterprise and Industry (MCCEI) reportedly stated that the RRP consultation process was “not adequate, particularly given the recovery support that private industry requires at the moment”.⁶³ Having said that, unlike other social partners, the General Workers Union (GWU), Malta’s largest union, “reported having had a significant influence on the development of the RRP”.⁶⁴ The union was involved in separate consultation processes (such as those about the National Post-Pandemic Strategy), which may have influenced the content of the RRP.⁶⁵

It is fair to argue that the specific RRP report was “kept under wraps without a proper public and stakeholder consultation exercise”.⁶⁶ According to the MEA, “it was only after social partners expressed their dissatisfaction that further meetings were held to take on board social partners’ views on how budgets for the measures were to be allocated (rather than on the content of the measures per se). However, these meetings were held after the RRP was submitted to the European Commission”.⁶⁷

The fact that the social partners continued asking for further details about this important national plan after the latter had already been submitted to the Commission is not indicative of the open dialogue, clarity and transparency one expects in an EU Member State.

⁵⁸ Garzia C., *The involvement of national social partners in social and economic reforms within the framework of the Recovery and Resilience Facility and the European Semester – Case of Malta*. Unpublished report submitted to the European Foundation for the Improvement of Living and Working Conditions, 2021, 1.

⁵⁹ Eurofound, *Involvement of social partners in the national recovery and resilience plans*, 2022, 27, https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef21002en.pdf (accessed 9 June 2022).

⁶⁰ Garzia C., nt. (58).

⁶¹ Garzia C., nt. (58).

⁶² Delia J., *Government stonewalls questions on lack of consultation with stakeholders for EU commission funding*, in *The Shift*, 30 June 2021:

<https://theshiftnews.com/2021/06/30/government-stonewalls-questions-on-lack-of-consultation-with-stakeholders-on-maltas-application-for-eu-commission-funding/> (accessed 9 June 2022).

⁶³ Delia J., *ibid.*, para 10.

⁶⁴ Eurofound, nt. (59), 15.

⁶⁵ Garzia C., nt. (58).

⁶⁶ Agius P., *Lack of consultation risks EU funding problems*, in *The Malta Independent Online*, 5 May 2021, para 9, <https://www.independent.com.mt/articles/2021-05-05/blogs-opinions/Lack-of-consultation-risks-EU-funding-problems-6736233197>, accessed 9 June 2022.

⁶⁷ Eurofound, nt. (59), 27.

4.4. Is there a national debate on the possibility of introducing austerity measures?

In 2021 Malta's national debt stood at 57 per cent of GDP, considerably lower than the EU average. On the other hand, it had the highest deficit (8 per cent of GDP) among the EU Member States.⁶⁸ GDP is predicted to grow by 6 per cent in 2022, while the government budget balance is likely to remain in deficit at least until 2024, when government debt is anticipated to reach 60.9 per cent of GDP.⁶⁹

Despite the strain on the government's coffers, there is little if any national debate on the possibility of introducing austerity measures. Summarising the government's attitude, the Minister for Finance and Employment stated that "the principled view remains that ... austerity measures negatively shock the Maltese economy and labour market such that a long-lasting impact would derail the economic recovery and have severe consequences on the long-term growth path of the Maltese economy. Ultimately, all this would have a spill-over effect on the social front."⁷⁰

During the 2022 election campaign, the LP proudly affirmed that while it promoted prosperity, the PN promoted austerity.⁷¹ According to the Prime Minister, the government's pre-election 2022 budget contrasted sharply with the PN's approach during the 2008 global crises, which was aimed at reducing expenditure.⁷² Indeed, the Prime Minister boasted that the 2022 budget would result in "the biggest government investment ever in social security, the environment, the infrastructure, health and education".⁷³

On the other hand, implying that the government was wasteful, the PN criticised the budget as lacking vision.⁷⁴ On its part, the *Times of Malta* criticised the budget as being based on overly optimistic economic projections, adding that "there are evolving international economic issues that call for prudent fiscal planning in the medium term so as to avoid having to make unpleasant corrections in the coming years".⁷⁵

⁶⁸ Deficit for 2021 reached 8% of GDP - the highest in the EU, in *Times of Malta*, 22 April 2022, <https://timesofmalta.com/articles/view/deficit-for-2021-reached-8-of-gdp-the-highest-in-the-eu.949747>.

⁶⁹ Xuereb M. Deficit to remain until 2024, with Air Malta aid among risks: Central Bank, in *Times of Malta*, 27 April 2022, <https://timesofmalta.com/articles/view/deficit-to-remain-until-2024-with-air-malta-aid-among-risks-central.950902> (accessed 9 June 2022).

⁷⁰ Ministry for Finance and Employment, nt. (3).

⁷¹ Borg J., *PN is a party of the past, against everything and everyone – Labour "Prosperity from Labour, austerity from PN"*, in *Times of Malta*, 12 February 2022, <https://timesofmalta.com/articles/view/pn-is-a-party-of-the-past-against-everything-and-everyone-labour.934108> (accessed 9 June 2022).

⁷² Borg B., *Budget 2022 as it happened. Minute-by-minute updates of Clyde Caruana's budget 2022 speech*, in *Times of Malta*, 11 October 2021, <https://timesofmalta.com/articles/view/live-blog-budget-2022-as-it-happens.907150>, (accessed 9 June 2022).

⁷³ Robert Abela promises to create "new prosperity" for Malta, in *Times of Malta*, 19 October 2021, para 8, <https://timesofmalta.com/articles/view/robert-abela-promises-to-create-new-prosperity-for-malta.909052> (accessed 9 June 2022).

⁷⁴ *Shortsighted budget leaves little in people's pocket – Grech. PN leader gives his first reaction to Budget 2022*, in *Times of Malta*, 11 October 2021, <https://timesofmalta.com/articles/view/short-sighted-budget-leaves-little-in-peoples-pocket-grech.907285> (accessed 9 June 2022).

⁷⁵ *The global threats to Budget 2022. Is it prudent to hope for the best when the world economy is looking uncertain?* in *Times of Malta*, 19 October 2021, par.1, <https://timesofmalta.com/articles/view/the-global-threats-to-budget-2022.908716> (accessed 9 June 2022).

One should note that while the concept of austerity seems anathema to the government, the latter is not oblivious to the challenges brought about by international political and economic realities. For example, the government is keen on containing the effects of inflation and continuing to subsidise fuel and grain products impacted by the war in Ukraine.^{76 77}

5. Final considerations.

The RRP includes a plethora of measures affecting a wide range of socioeconomic challenges. Most funds are directed towards the green transition and digitalisation, however. These two topics have the potential to improve the sustainability of the country's growth, increasing diversification and making the economy more resilient to external shocks. Reducing the carbon footprint and enhancing organisational effectiveness through further digitalisation may lead to more and better quality jobs, and improve the country's social dimension.

The RRP's emphasis on the health sector may boost the health of the workforce and the population in general. Besides, the RRP's last crucial component concerned with strengthening the institutional framework is required to ensure fairness and social progress in a country that over the years has drifted away from good governance and the rule of law.

Only 12 per cent of the total government RRP budget of EUR 345 million is dedicated to Component 5, which focuses on education and socioeconomic sustainability. But while they are not prioritised in terms of budgeting, the RRP includes many measures that directly tackle important social and labour protection aspects. Several measures focus on increasing equality and gender equality. Efforts to review the unemployment benefits and pension systems are noteworthy potential contributors to stronger social protection. Reforms in education and training and in active labour market policies should further reduce the gap between education and the labour market, and address skill shortages and facilitate job creation.

The RRP should contribute to the development of higher quality employment in both the short and long term. Indeed, it has been reported that at its peak, the plan will create around 700 new jobs, which is a significant number in relation to the small size of the population.⁷⁸ One should also stress that the RRP's efforts towards social cohesion need to be evaluated as part of a larger set of government initiatives that go beyond the RRP. For example, the 2022 government budget was particularly "rich in micro measures to support social solidarity".⁷⁹

⁷⁶ Government "must be ready to take measures" in view of rising prices – Minister, in *Times of Malta*, 25 January 2022, <https://timesofmalta.com/articles/view/government-must-be-ready-to-take-measures-in-view-of-rising-prices.930220> (accessed 9 June 2022).

⁷⁷ Magri G., *EU approves €30 million Malta government scheme to support grain prices*, in *Times of Malta*, 18 May 2022, <https://timesofmalta.com/articles/view/eu-approves-30-million-malta-government-scheme.955921> (accessed 9 June 2022).

⁷⁸ TheJournal.mt, nt. (8).

⁷⁹ *The global threats to Budget 2022*, nt. (75), para 2.

In conclusion, despite its limitations, the RRP appears adequate to avoid a retrenchment of the social dimension and channel the country towards a more sustainable growth model.

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