

## NATIONAL REFORM PROGRAMME 2017

### PROPOSALS FOR NRP 2017 AND FEEDBACK ON NRP 2016

The 2016 Country Specific Recommendations handed to Malta by the European Commission focused on fiscal policy and education. The Malta Chamber welcomes the progress in these two areas as highlighted by the Ministry of Finance's presentation during the joint MCESD and MEUSAC Core Group meeting held on Thursday 30<sup>th</sup> March 2017. The presentation shed light on a number of reforms and new initiatives/programmes launched in recent months, all of which fall under the CSR's overarching aims to:

(CSR 1) achieve a fiscal adjustment of 0.6% of GDP and ensure the long-term sustainability of public finances, and

(CSR 2) strengthen the labour supply by improving basic skills and employability, reduce the rate of early school leavers and offer continuous professional development for educators.

According to the European Semester Country Report for Malta published in February 2017, Malta has made "limited progress" on CSR 1 and "some progress" on CSR 2.

The Malta Chamber is optimistic that when drafting the National Reform Programme for the coming year, the present period of positive economic performances grants government the courage to implement more forceful and effective measures to address long-standing issues that threaten the country's stability and growth in the medium to long-term.

#### Reforms under CSR 1 2016 and related proposals for NRP 2017

Regarding the **fiscal adjustment** target of 0.6% of GDP and last week's announcement that a larger adjustment was achieved in 2016 alone, the Malta Chamber is content that its persistent recommendation to government to bring its financial house in order and converge to the Eurozone's Maastricht criteria on government deficit and debt has been followed.

However, the Chamber must also express concern that in pursuit of this accomplishment, government has significantly reduced capital expenditure while allowing recurrent expenditure to balloon at rate of 7% per annum for the fourth consecutive year, rather than vice versa.

As it has stated on numerous occasions, the Chamber strongly believes that positive economic times present the best possible opportunity to invest and future-proof the economy. The current prosperity is the result of an economic environment that is conducive to business but any form of complacency from the Government would be ill-advised. Malta's economy may not be left to coast. High levels of

capital investment must be maintained so as to continuously stimulate the private sector, ensure competitiveness and sustain economic growth.

A strategy that sacrifices capital expenditure is one that creates a delicate scenario that may be derailed with the slightest slip-up. Credit rating agencies have consistently remarked that this is indeed a reality that the country potentially faces without more forceful reforms in the sustainability of recurrent expenditure (particularly public sector employment), state pensions and public healthcare.

In terms of **pension reforms** aimed at ensuring the long-term sustainability of public finances, the Chamber is satisfied that, although insufficient, limited progress has been achieved. The Chamber has long advocated the essential role of a framework that supports voluntary second pillar pensions. While the recent budget measures and incentives implemented in this regard are positive, they will not solve the issues of sustainability that plague the public pension system. Stronger reforms that are implemented over a shorter period of time are necessary and the present period of economic growth provides the best opportunity to do so. The Chamber is also of a firm opinion that a lot more needs to be done by way of educating the general public of working age on the benefits of saving money to supplement the state pension. Too few people are aware of the sudden drop in income upon retirement regardless of the income level during their career. The recently launched strategy for retirement and financial capability 2017-2020 is a step in the right direction that requires widespread forceful enactment and implementation.

As the public **health sector** is also a significant factor in the sustainability of public finances, a number of measures tackling CSR 1 also deal with health reforms. Among other reforms, the Chamber notes the aims of the National Health Strategy 2014-2020 to promote general health, enhance disease prevention, strengthen primary healthcare and improve the overall governance of the sector. Notwithstanding these reforms, the current healthcare system remains relatively unaffordable.

The Chamber has gone on record on several occasions to suggest ideas and schemes for a major reform in the procurement and distribution of free medicines. The ideas presented by the Chamber would have freed up resources from the existing system via schemes that improve procurement and by-pass public-sector inefficiencies in ordering, stocking and distributing medicines. Furthermore, revisiting the list of medicines and services currently available under the present system by eliminating trivial items to be replaced by more modern and life-saving drugs could lead to potential savings. This would contribute to the freeing up of the necessary resources to be used in applying the benefits of “prevention is better than cure” to the national resources dedicated to healthcare – in particular Primary and Secondary healthcare. Of course, if the country frees up resources to afford a widening of the medicine formulary to include important and advanced drugs, it would be keeping patients healthier in a more effective and efficient manner, thus reducing their need to seek urgent attention at Health Centres and occupying bed-nights at Mater Dei.

The President’s relentless efforts to reach out to the generosity of the general public to raise funds for patients in need of lifesaving treatment is testament to the fact that public healthcare is not serving its primary purpose adequately. Sustainability issues need to be tackled more forcefully to ensure that all patients have access to the necessary care from a structured system rather than relying on people’s

charity. The Chamber believes that with an overhaul of the inefficiencies tied to procurement and other bureaucratic inefficiencies along the chain of healthcare provisions, coupled with a complete modernisation of the national formulary, significant cost savings and sustainability improvements are attainable.

## Reforms under CSR 2 2016 and related proposals for NRP 2017

**Education** shall always remain a fundamental cornerstone in any successful economy. A recent study carried out by the NCFHE reveals that, despite the reforms and strategies listed under initiatives taken under CSR 2, Malta's education system is lagging behind.

An unhealthy majority of employers reported shortages both in terms of labour supply and also in the array of soft skills possessed by their workforce, even in the case of highly qualified employees. In today's dynamic economy, soft skills are regarded with ever-growing importance, in some cases more so than qualifications. However, the high levels of soft skills that Malta was renowned for in the past is rapidly deteriorating, particularly regarding written and oral communication skills in the English language, critical and creative thinking and customer relations.

It is therefore evident that an overhaul of the educational system is long overdue, not solely in terms of the physical structure of Malta's places of education, as is indeed ongoing, but also in terms of syllabi, teaching methods, and most importantly, career guidance. During his address at a Conference held in July 2016, Hon. Minister Bartolo cleverly stated that the country "needs to contaminate education with as much reality as possible", a statement which has encouraged the Malta Chamber in light of the growing skills gaps and labour shortages.

A more inclusive education system geared up for today's needs can be achieved by encouraging educational programmes with both **academic and vocational paths**, thereby linking education with the skills and competencies required at the workplace. The Malta Chamber therefore recommends closer collaboration between the education system and the business sector.

The Chamber also stresses the need to further **encourage lifelong learning** programmes and on the job training through a permanent continuation of the Training Aid Framework notwithstanding the availability of European Social Funds.

Tertiary education **stipends** are another tool that the Chamber strongly believes could be utilised more effectively to narrow the widening skill gaps and lack of supply in growing economic sectors, as was done in the case of B.Sc Pharmaceutical Science as of September 2016.