EN

COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 24.6.2009
SEC(2009) 848 final

COMMISSION OPINION

on the existence of an excessive deficit in Malta

EN EN

COMMISSION OPINION

on the existence of an excessive deficit in Malta

THE APPLICATION OF THE STABILITY AND GROWTH PACT IN THE CURRENT CRISIS SITUATION

1. Many EU countries are presently facing general government deficits above the 3% of GDP reference value set in the Treaty. The often strong deterioration in the deficit as well as the debt positions must be seen in the context of the unprecedented global financial crisis and economic downturn. Several factors are at play. First, the economic downturn brings about declining tax revenue and rising social benefit expenditure (e.g. unemployment benefits). Second, recognising that budgetary policies have an important role to play in the current extraordinary economic situation, the Commission called for a fiscal stimulus in its November 2008 European Economic Recovery Plan (EERP), endorsed by the European Council in December. The Plan explicated that the stimulus should be timely, targeted and temporary and differentiated across Member States, with more room for manoeuvre for those Member States that have achieved sustainable public finance positions and improved their competitive positions. It also called for structural reforms that support demand and promote resilience in the short term, while paying special attention to actions in the four priority areas of the Lisbon strategy. Finally, several countries have taken measures to stabilise the financial sector, some of which impact on the debt position or constitute a risk of higher deficits and debt in the future, although some of the costs of the government support could be recouped in the future.

2. The Stability and Growth Pact requires the Commission to initiate the excessive deficit procedure (EDP) whenever the deficit of a Member State exceeds the 3% of GDP reference value. The amendments to the Stability and Growth Pact in 2005 aimed at ensuring that in particular the economic and budgetary background was taken into account fully in all steps in the EDP. In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation, and thereby ensuring long-term sustainability of public finances.

LEGAL BACKGROUND

3. Article 104 of the Treaty lays down an excessive deficit procedure (EDP). This procedure is further specified in Council Regulation (EC) No 1467/97 "on speeding up and clarifying the implementation of the excessive deficit procedure"[1], which is part of the Stability and Growth Pact.

[1] OJ L 209, 2.8.1997, p. 6. Account is also taken of the Opinion of the Economic and Financial Committee on the "Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", endorsed by the ECOFIN Council of 11 October 2005, available at: http://ec.europa.eu/economy_finance/other_pages/other_pages12638_en.htm

4. According to Article 104(2) of the Treaty, the Commission has to monitor compliance with budgetary discipline on the basis of two criteria, namely: (a) whether the ratio of the planned or actual government deficit to gross domestic product (GDP) exceeds the reference value of 3% (unless either the ratio has declined substantially and continuously and reached a level that comes close to the reference value; or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value); and (b) whether the ratio of government debt to GDP exceeds the reference value of 60% (unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace).

5. Article 104(3) stipulates that, if a Member State does not fulfil the requirements under one or both of these criteria, the Commission has to prepare a report. This report also has to "take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State".

6. On the basis of the data notified by the Maltese authorities in March 2009[2] and subsequently validated by Eurostat[3] and taking into account the Commission services' spring 2009 forecast, the Commission adopted a report under Article 104(3) for Malta on 13 May 2009[4].

7. Subsequently, and in accordance with Article 104(4), the Economic and Financial Committee formulated an opinion on the Commission report on 28 May 2009.

8. Article 104(5) of the Treaty requires the Commission to address an opinion to the Council if the Commission considers that an excessive deficit in a Member State exists or may occur. In order to reach a conclusion on whether an excessive deficit exists or may occur, the Commission considers that account should be taken of: (i) the conclusions of its report under Article 104(3) and (ii) the opinion of the Economic and Financial Committee on this report. On the basis of these elements, the Commission has established a number of considerations for Malta.

CONSIDERATIONS CONCERNING MALTA

9. Immediately after accession to the EU, an EDP for Malta was initiated in May 2004 with the Commission's adoption of a report under Article 104(3) based on a general government deficit of close to 10% of GDP and general government gross debt of 72% of GDP in 2003. In July 2004, the Council decided that Malta was in excessive deficit according to Article 104(6) and addressed recommendations to Malta under Article 104(7) with a view to bringing the situation of an excessive government deficit to an end by 2006, at the latest. In May 2007, the Council abrogated its decision on the existence of an excessive deficit according to Article 104(12). This

---

[2] According to Council Regulation (EC) No 3605/93, Member States have to report to the Commission, twice a year, their planned and actual government deficit and debt levels. The most recent notification of Malta can be found at: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/procedure/edp_notification_tables

[3] Eurostat news release No 56/2009 of 22 April 2009.

[4] All EDP-related documents for Malta can be found at the following website: http://ec.europa.eu/economy_finance/netstartsearch/pdfsearch/pdf.cfm?mode=_m2.

was based on a decline in the deficit from close to 10% of GDP in 2003 to 2.6% of GDP in 2006, i.e. below the 3% of GDP reference value, while the Commission services' spring 2007 forecast projected a further fall to 2.1% of GDP in 2007 and 1.6% in 2008. Government debt was seen to have declined from a peak of some 74% of GDP in 2004 to 66½% in 2006[5], while the Commission services' spring 2007 forecast projected a further fall to around 64¼% by the end of 2008, thus coming closer to the 60 % of GDP reference value.

10. On 18 February 2009, the Commission adopted a report under Article 104(3) based on a planned deficit of 3.3% of GDP in 2008 and gross debt of 63.8% of GDP according to data notified by the authorities in September 2008[6]. The report highlighted that, while the excess of the deficit over the reference value was small but not exceptional, it was likely to be temporary. The report also noted that the debt ratio, from a medium-term perspective, could be considered as "sufficiently diminishing and approaching the reference value at a satisfactory pace" in the sense of the Treaty and the Stability and Growth Pact. This analysis suggested that the deficit criterion was not fulfilled while the debt criterion was. Given that the deficit satisfied the double condition of closeness and temporariness, the report also examined other relevant factors, which on balance were considered relatively favourable. Taking into account also the opinion of the Economic and Financial Committee in accordance with Article 104(4), the Commission considered that no further steps under the excessive deficit procedure were necessary at that time.

11. According to data notified by the authorities in March 2009 and subsequently validated by Eurostat, the 2008 general government deficit in Malta reached 4.7% of GDP, thus largely exceeding the 3% of GDP reference value. In the light of this updated information, on 13 May 2009 the Commission adopted a new report under Article 104(3) for Malta. The new report considers that the deficit in 2008 was not close to the 3% of GDP reference value and that the excess over the reference value cannot be qualified as exceptional within the meaning of the Treaty and the Stability and Growth Pact. In particular, it does not result from an unusual event or from a severe economic downturn in 2008 in the sense of the Treaty and the Stability and Growth Pact. Indeed, real GDP growth between 2005 and 2007 was above 3% annually, significantly higher than potential growth. Economic growth slowed down in 2008, but remained positive at 1.6%.[7] Furthermore, the excess over the reference value cannot be considered temporary. According to the Commission services' spring 2009 forecast, the deficit ratio is projected to decline but remain above the threshold over the forecast horizon, at 3.6% of GDP in 2009 and, under the customary no-policy-change assumption, 3.2% of GDP in 2010. The deficit criterion in the Treaty is therefore not fulfilled.

12. General government gross debt has been above the 60% of GDP reference value since 2001 and stood at 64.1% of GDP in 2008. According to the Commission services' spring 2009 forecast, general government debt is projected to follow an upward trend, increasing to almost 69% by 2010. The debt ratio cannot be considered

---

[5] In the meantime, these figures have been revised to 72.2% of GDP in 2004 and 63.7% in 2006.

[6] Subsequently, in the budget for 2009 presented on 3 November 2008, and repeated in the December 2008 update of the stability programme, the planned deficit for 2008 was confirmed at 3.3% of GDP, while debt was planned at 62.8% of GDP.

[7] According to the latest data, GDP growth for 2008 was revised upwards to 2.5%.

as diminishing sufficiently and approaching the reference value at a satisfactory pace within the meaning of the Treaty and the Stability and Growth Pact. The debt criterion in the Treaty is therefore not fulfilled.

13. In line with the provisions in the Treaty and the Stability and Growth Pact, the Commission also analysed in its new report “relevant factors”. According to the Stability and Growth Pact, these can only be taken into account in the steps leading to the decision on the existence of an excessive deficit if the deficit satisfies the double condition of closeness and temporariness. In the case of Malta, the double condition is not met. Considered on their own merit, the relevant factors in the current case on balance present a mixed picture.

14. The opinion of the Economic and Financial Committee in accordance with Article 104(4) of the Treaty is consistent with the assessment in the Commission report under Article 104(3).

CONCLUSION

15. The monitoring of the budgetary situation in Malta and, in particular, the examination of the compliance with the criteria laid down in Article 104(2) has led the Commission to prepare a report in accordance with Article 104(3) of the Treaty. The Commission, having taken into account its report and the opinion of the Economic and Financial Committee, is of the opinion that an excessive deficit exists in Malta.