COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 24.6.2004
SEC(2004) 810 final

Recommendation for a

COUNCIL DECISION

on the existence of an excessive deficit in Malta

(presented by the Commission)

EXPLANATORY MEMORANDUM

On 7 April 2004, the Commission published its Spring 2004 forecasts[1]. According to these forecasts, which took into consideration data reported by Malta in March 2004, the general government deficit in Malta increased from 5.7% of GDP in 2002 to 9.7% of GDP in 2003 (of which 3.2% of GDP was due to one-off operation), thus exceeding the 3% of GDP Treaty reference value.

Based on this prima facie evidence, the Commission initiated the excessive deficit procedure for Malta on 12 May 2004, with the adoption of the report foreseen in Article 104(3) of the Treaty[2]. On 21 May 2004, the Commission received the convergence programme of Malta, which confirmed a deficit figure of 9.7% of GDP for 2003.

The application of the excessive deficit procedure (EDP) is governed by Article 104 of the Treaty and by Council Regulation (EC) No 1467/97 "on speeding up and clarifying the implementation of the excessive deficit procedure", which is part of the Stability and Growth Pact[3]. Countries that joined the EU on 1 May 2004 are Member States with a derogation and are to avoid excessive deficits, but sanctions according to Article 104 (9) and (11) cannot be imposed on them.

The Commission report according to Article 104(3) of the Treaty concluded that the excess of the deficit in 2003 over the 3% of GDP Treaty reference value did not result from an unusual event outside the control of the Malta authorities, nor was it the result of a severe economic downturn in the sense of the Stability and Growth Pact. Concerning developments in 2004, the report concluded that the general government deficit is likely to decrease but remain above 3% of GDP in 2004. In particular, the Commission Spring 2004 forecast is for a general government deficit of 5.9% of GDP in 2004, which is above the 5.2% of GDP projected by the Maltese authorities in the convergence programme

Based on the Commission Spring 2004 forecasts, the Commission report also concluded that the debt-to-GDP ratio, which had reached 72.0% of GDP in 2003, will further deviate from the 60% reference value of the Treaty in 2004. In particular, the Commission Spring 2004 forecast projects the debt ratio to reach 73.9% of GDP in 2004, which is above the 72.1% of GDP projected by the Maltese authorities in the convergence programme.

Article 104(4) of the Treaty states that "the Committee provided for in Article 114 (i.e. the Economic and Financial Committee) has to formulate an opinion on the report of the Commission". The Committee issued its opinion on 24 May 2004, subscribing to the assessment made by the Commission in its report. In particular, the Committee concluded that the budgetary situation in Malta indicated the existence of an excessive deficit under both criteria foreseen by Article 104(2) for the identification of such deficits. Consideration of other relevant factors, in particular the medium-term budgetary position and the public investment ratio, did not change the assessment based on the criteria themselves. The Committee also considered as likely that the general government deficit would continue to

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1 The Commission Spring 2004 forecast is available at the following website: http://europa.eu.int/comm/economy_finance/publications/european_economy/2004/ee204en.pdf.

2 The full text of this report is available at the following website: http://europa.eu.int/comm/economy_finance/about/activities/sgp/procedures_en.htm.

3 OJ L 209, 2.8.1997.

exceed the Treaty reference value in 2004, and that general government gross debt would further rise above the Treaty reference value of 60% of GDP in 2004.

The Commission, having examined the relevant factors taken into account in its report and having regard to the opinion of the Committee, is of the opinion that an excessive deficit exists in Malta. This opinion, adopted by the Commission on 24 June 2004, has been addressed to the Council, according to Article 104(5) of the Treaty. The Commission recommends that the Council shall decide accordingly, in conformity with Article 104(6) and herewith addresses a recommendation for a decision to that effect. In addition, the Commission is submitting to the Council a recommendation for a Council recommendation to be addressed to Malta with a view to bringing the situation of an excessive deficit to an end, according to Article 104(7) of the Treaty.

Recommendation for a

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THE COUNCIL OF THE EUROPEAN UNION

Having regard to the Treaty establishing the European Community, and in particular Article 104(6) thereof,

Having regard to the recommendation from the Commission[4],

Having regard to the observations made by Malta,

Whereas:

(1) According to Article 104 of the Treaty Member States are to avoid excessive government deficits; this applies also to Member States with a derogation, the case of all countries that joined the EU on 1 May 2004;

(2) The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation;

(3) The excessive deficit procedure under Article 104 provides for a decision on the existence of an excessive deficit and the Protocol on the excessive deficit procedure annexed to the Treaty sets out further provisions relating to the implementation of the excessive deficit procedure. Council Regulation (EC) No 3605/93[5], amended by Council Regulation (EC) No 475/2000[6] and by Commission Regulation (EC) No 351/2002[7], lays down detailed rules and definitions for the application of the provision of the said Protocol;

(4) 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. Having examined all relevant factors taken into account in its report in accordance with Article 104(3) and having regard to the opinion of the Economic and Financial Committee in accordance with Article 104(4), the Commission concluded in its opinion of 24 June 2004 that there exists an excessive deficit in Malta;

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4 OJ C […]
5 OJ L 332, 31.12.1993, p.7.
6 OJ L 058, 3.03.2000, p. 1.
7 OJ L 055, 26.02.2002 p. 23.

(5) Article 104(6) of the Treaty lays down that the Council should consider any observations which the Member State concerned may wish to make before deciding, after an overall assessment, whether an excessive deficit exists;

(6) The overall assessment leads to the following conclusions. The general government deficit reached 9.7% of GDP in 2003 in Malta (of which 3.2% of GDP was due to one-off operation), above the 3% of GDP Treaty reference value. The excess of the general government deficit over the reference value did not result from an unusual event outside the control of the Maltese authorities, nor was it the result of a severe economic downturn, in the sense of the Stability and Growth Pact. The general government deficit will remain above 3% of GDP in 2004. In particular, according to the Commission Spring 2004 forecast, the deficit is projected to reach 5.9% of GDP in 2004, while the convergence programme of Malta projects a deficit of 5.2% of GDP. The debt ratio, which was 72.0% in 2003, is likely to further deviate from the 60% of GDP Treaty reference value in 2004.

HAS ADOPTED THIS DECISON:

Article 1

From an overall assessment it follows that an excessive deficit exists in Malta.

Article 2

This decision is addressed to the Republic of Malta.

Done at Brussels, 5 July 2004.

For the Council