

II

(Acts adopted under the EC Treaty/Euratom Treaty whose publication is not obligatory)

DECISIONS

COUNCIL

COUNCIL DECISION

of 5 June 2007

abrogating Decision 2005/186/EC on the existence of an excessive deficit in Malta

(2007/464/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(12) thereof,

Having regard to the recommendation from the Commission,

Whereas:

- (1) By Council Decision 2005/186/EC ⁽¹⁾, following a recommendation from the Commission in accordance with Article 104(6) of the Treaty, it was decided that an excessive deficit existed in Malta. The Council noted that the general government deficit was 9,7 % of GDP in 2003, of which 2,9 % of GDP was due to a one-off operation, this being above the 3 % of GDP Treaty reference value, while general government gross debt stood at 72 % of GDP and was likely to further diverge from the 60 % of GDP Treaty reference value in 2004.
- (2) On 5 July 2004, in accordance with Article 104(7) of the Treaty and Article 3(4) of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure ⁽²⁾, the Council addressed a recommendation to Malta with a view to bringing the excessive deficit situation to an end by 2006 at the latest. The recommendation was made public.
- (3) In accordance with Article 104(12) of the Treaty, a Council Decision on the existence of an excessive

deficit is to be abrogated when the excessive deficit in the Member State concerned has, in the view of the Council, been corrected.

- (4) In accordance with the Protocol on the excessive deficit procedure annexed to the Treaty, the Commission provides the data for the implementation of the procedure. As part of the application of the Protocol, Member States are to notify data on government deficits and debt and other associated variables twice a year, namely before 1 April and before 1 October, in accordance with Article 4 of Council Regulation (EC) No 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community ⁽³⁾.
- (5) Based on data provided by the Commission (Eurostat) in accordance with Article 8g(1) of Regulation (EC) No 3605/93 following the notification by Malta before 1 April 2007 and on the Commission services' spring 2007 forecast, the following conclusions are warranted:
 - The general government deficit was reduced from 10 % of GDP in 2003 to 2,6 % of GDP in 2006, which is below the 3 % of GDP deficit reference value. This is slightly better than the target set for 2006 in the January 2006 update of the convergence programme, although somewhat above the targets endorsed by the Council in its recommendation under Article 104(7),

⁽¹⁾ OJ L 62, 9.3.2005, p. 21.

⁽²⁾ OJ L 209, 2.8.1997, p. 6. Regulation as amended by Regulation (EC) No 1056/2005 (OJ L 174, 7.7.2005, p. 5).

⁽³⁾ OJ L 332, 31.12.1993, p. 7. Regulation as last amended by Regulation (EC) No 2103/2005 (OJ L 337, 22.12.2005, p. 1).

— More than half (around four percentage points) of the 7,4 percentage points of GDP reduction in the deficit ratio between 2003 and 2006 was accounted for by higher revenue, reflecting changes in indirect taxation as well as more efficient tax collection. A lower ratio of expenditure to GDP explains the remaining 3,5 percentage points, in part reflecting higher recourse to one-off operations, namely sales of land, which are conventionally recorded as negative expenditure. The expenditure ratio would have declined by less if the substantial one-off expenditure-increasing operation related to the restructuring of the shipyards of around 3 % of GDP in 2003 is excluded. In addition, expenditure restraint was achieved through downsizing and restructuring of public entities, restrictions in hiring in the public service and control in social payments.

— One-off deficit-reducing operations averaged around 1 % of GDP between 2004 and 2006. Without one-offs (0,7 % of GDP), the 2006 deficit would have remained above the reference value, at 3,3 % of GDP. The improvement in the structural balance, being the cyclically-adjusted balance net of one-off and other temporary measures, in 2006 is estimated at slightly above 1 % of GDP,

— For 2007, the Commission services' spring 2007 forecast projects that the deficit will be reduced further, to 2,1 % of GDP, driven by additional expenditure savings. One-offs are envisaged to amount to 0,6 % of GDP, broadly similar in magnitude to the preceding year, so that without one-offs the deficit would be below the reference value. This is broadly in line with the official deficit estimate of 1,9 % of GDP set in the April 2007 notification. For 2008, the spring forecast projects, on a no-policy-change basis, a further decline in the deficit to 1,6 % of GDP without recourse to one-offs. This indicates that the deficit has been brought below the 3 % of GDP ceiling in a credible and sustainable manner. The structural balance is projected to improve marginally in 2007 and, on the basis of a scenario without

changes of policy, by an additional percentage point in 2008. This has to be seen against the need to make progress towards the medium-term objective for the budgetary position, which for Malta is a balanced budget position in structural terms,

— Government debt declined from its peak of 73,9 % of GDP in 2004 to 66,5 % in 2006. According to the Commission services' spring 2007 forecast, the debt ratio is projected to fall further to around 64,3 % by the end of 2008, thus coming closer to the 60 % of GDP reference value.

(6) In the view of the Council, the excessive deficit in Malta has been corrected and Decision 2005/186/EC should therefore be abrogated,

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that the excessive deficit situation in Malta has been corrected.

Article 2

Decision 2005/186/EC is hereby abrogated.

Article 3

This Decision is addressed to the Republic of Malta.

Done at Luxembourg, 5 June 2007.

For the Council
The President
P. STEINBRÜCK