EUROPEAN
COMMISSION

Brussels, 29.5.2013
C(2013) 3338 final

COMMISSION OPINION

of 29.5.2013

on the existence of an excessive deficit in Malta

EN EN

COMMISSION OPINION

of 29.5.2013

on the existence of an excessive deficit in Malta

GENERAL CONSIDERATIONS

1. Article 126 of the Treaty on the Functioning of the European Union (TFEU) lays down the 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.

2. According to Article 126(2) TFEU, 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).

3. Article 126(3) TFEU stipulates that, if a Member State does not fulfil the requirements under one or both of the above 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"

4. On the basis of the data notified by the Maltese authorities in April 2013[2] and taking into account the Commission 2013 spring forecast , the Commission adopted a report under Article 126(3) TFEU for Malta on 21 May 2013[3].

5. Subsequently, and in accordance with Article 126(4) TFEU, the Economic and Financial Committee formulated an opinion on the Commission report on 24 May 2013.

6. Article 126(5) TFEU requires the Commission to address an opinion to the Member State concerned and inform the Council, if the Commission considers that an

---

[1] OJ L 209, 2.8.1997, p. 6. The opinion also takes into account 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 3 September 2012, available at: http://ec.europa.eu/economy_finance/economic_governance/sgp/legal_texts/index_en.htm .

[2] According to Council Regulation (EC) No 479/2009, 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/excessive_deficit/edp_notification_tables.

[3] All EDP-related documents for Malta can be found at the following website: http://ec.europa.eu/economy_finance/sgp/deficit/countries/index_en.htm .

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 126(3) TFEU 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

7. According to data notified by the Maltese authorities in April 2013, the general government deficit in Malta reached 3.3% of GDP in 2012, thus exceeding the 3%-of-GDP reference value of the Treaty. The Commission report under Article 126(3) TFEU considers that the deficit was close to the 3%-of-GDP reference value, but the excess over the reference value could not be qualified as exceptional within the meaning of the Treaty and the Stability and Growth Pact. In particular, it does not result from a severe economic downturn in the sense of the Treaty and the Stability and Growth Pact. In 2010 and 2011, real GDP growth was, on average, above 2% annually, higher than potential growth. Preliminary GDP data published by the national statistics office on 11 March 2013 show that economic growth slowed down in 2012, but remained positive at 0.8%. The positive output gap in 2011 is estimated to have turned slightly negative in 2012. The planned excess over the reference value cannot be considered temporary. According to the Commission 2013 spring forecast, the deficit would increase to 3.7% of GDP in 2013 and reach 3.6% of GDP in 2014. The Commission is therefore of the opinion that the deficit criterion of the Treaty is not fulfilled.

8. According to data notified by the Maltese authorities in April 2013, the general government gross debt stood at 72.1% of GDP in 2012, above the 60%-of-GDP reference value. The Commission 2013 spring forecast projects the debt ratio to increase to 74.9% of GDP in 2014. Following the abrogation of the EDP in December 2012, Malta benefits from a three-year transition period to comply with the debt reduction benchmark, starting in 2012. In 2012, Malta did not make sufficient progress towards compliance with the debt reduction benchmark, as its structural deficit worsened whereas it was required to improve. The Commission is therefore of the opinion that the debt criterion of the Treaty is not fulfilled.

9. In line with the provisions in the Treaty and the Stability and Growth Pact, the Commission also analysed in its report “relevant factors”. As specified in the Stability and Growth Pact, for countries with a debt ratio above 60% of GDP (like Malta), these factors can only be taken into account in the steps leading to the decision on the existence of an excessive deficit, when assessing compliance on the basis of the deficit criterion, if the general government deficit remains close to the reference value and its excess over the reference value is temporary, which is not the case for Malta[4]. Considered on their own merit, the relevant factors on balance can be considered unfavourable. At the same time, such factors have been taken into account when assessing the breach of the debt criterion, but they do not seem to question the decision on the existence of an excessive deficit either. In particular, when assessing sufficient progress towards compliance with the debt reduction benchmark, the debt- and deficit-increasing impact of financial assistance to Euro Area Member States has been taken into account. For Malta, the cumulative impact

[4] Article 2.4 of Council Regulation (EC) No 1467/97.

of Greek loan facility, EFSF disbursements, capital contributions to the ESM, and operations under Greek programme over the period 2011-2014 would be 3.9% of GDP on debt, and 0.1% of GDP on deficit. When taking into account the impact of these operations, the structural effort for 2012 required for Malta to comply with the debt criterion would have been lower, but still well above the structural effort actually implemented by Malta in 2012.

10. The Economic and Financial Committee issued its opinion in accordance with Article 126(4) TFEU on 24 May 2013; this opinion is consistent with the assessment in the Commission report under Article 126(3) TFEU.

CONCLUSION

The monitoring of the budgetary situation in Malta and, in particular, the examination of the compliance with the criteria laid down in Article 126(2) TFEU have led the Commission to prepare a report in accordance with Article 126(3) TFEU. 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.

Done at Brussels, 29.5.2013

For the Commission
Olli REHN
Vice-President

CERTIFIED COPY
For the Secretary-General,

Jordi AYET PUIGARNAU
Director of the Registry
EUROPEAN COMMISSION