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Recommendation for a

COUNCIL DECISION

abrogating Decision 2009/587/EC on the existence of an excessive deficit in Malta

{SWD(2012) 384 final}

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 126(12) thereof,

Having regard to the recommendation from the Commission,

Whereas:

(1) By Council Decision 2009/587/EC of 7 July 2009[1], following a recommendation from the Commission in accordance with Article 104(6) of the Treaty establishing the European Community (TEC), it was decided that an excessive deficit existed in Malta. The Council noted that the general government deficit in Malta had reached 4.7% of GDP in 2008, thus largely exceeding the 3% of GDP reference value, while general government gross debt had been above the 60% of GDP reference value since 2003 and stood at 64.1% of GDP in 2008[2].

(2) Also on 7 July 2009, on the basis of a recommendation by the Commission, the Council addressed a recommendation to Malta in accordance with Article 104(7)TEC and Article 3(4) of Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure[3], with a view to bringing an end to this situation by 2010 at the latest. The recommendation was made public.

(3) On 16 February 2010, on the basis of a Commission recommendation, the Council concluded that effective action had been taken in compliance with its recommendation under Article 104(7) TEC but that unexpected adverse economic events with major unfavourable consequences for government finances had occurred in Malta after the adoption of its recommendation. The Council therefore adopted a revised recommendation in accordance with Article 126(7) of the Treaty on the Functioning of the European Union (TFEU) to Malta, extending the deadline for the correction of the excessive deficit by one year, i.e. to 2011. The recommendation was made public.

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[1] OJ L 202, 4.8.2009, p. 42.

[2] The general government deficit and debt for 2008 were subsequently revised to currently 4.6% of GDP and 62.0% of GDP respectively.

[3] OJ L 209, 2.8.1997, p. 6.

(4) According to Article 126(12) TFEU, 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.

(5) According to Article 4 of the Protocol on the excessive deficit procedure annexed to the TFEU, the Commission provides the data for the implementation of the procedure. As part of the application of this 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 3 of Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the TFEU[4].

(6) When considering whether an excessive deficit procedure should be abrogated, the Commission and the Council should take a decision on the basis of notified data. Moreover, the excessive deficit procedure should be abrogated only if the Commission forecasts indicate that the deficit will not exceed the 3% of GDP threshold over the forecast horizon.

(7) Based on data provided by the Commission (Eurostat) in accordance with Article 14 of Regulation (EC) No 479/2009 following the notification by Malta before 1 April 2012 and on the Commission services’ 2012 Autumn Forecast, the following conclusions are warranted:

– After the peak in 2008, the general government deficit has narrowed gradually, reaching 2.7% of GDP in 2011, below the 3% of GDP reference value. The significant improvement compared to 2010, when the general govermnment deficit was 3.6% of GDP, was mainly due to an increase in revenues by 0.7% of GDP. The impact of net deficit-reducing one-off measures in 2011 is estimated in the Commission services’ 2012 Autumn Forecast at 0.7% of GDP. The structural balance, i.e. the cyclically adjusted budgetary balance net of one-off and temporary measures, is estimated to have improved by 1 pp. of GDP in 2011, above the requested effort of at least ¾% of GDP recommended by the Council.

– The Commission services' 2012 Autumn Forecast projects the deficit to fall further to 2.6% of GDP in 2012, mainly thanks to revenue-increasing measures, most of which are considered to be of a one-off nature; the net deficit-reducing impact of one-offs is estimated at 1% of GDP. On a no-policy change basis, i.e. without incorporating the consolidation measures contained in the 2013 budget, which was adopted after the cut-off date of the forecast, the general government deficit is projected to widen to 2.9% of GDP in 2013, before narrowing again, to 2.6% of GDP, in 2014, thus remaining below the 3% of GDP reference value over the forecast horizon. The April 2012 Stability Programme targets lower deficits, of 2.2%, 1.7% and 1.1% of GDP in 2012, 2013 and 2014, respectively. The difference between the Commission services' 2012 Autumn Forecast and the Stability Programme target for 2012is mainly explained by more dynamic revenue growth in the latter.

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4 OJ L 145, 10.6.2009, p. 1.

– In the years after the 2011 deadline set by the Council, the budgetary projections of the Commission services' 2012 Autumn Forecast point to no improvement of the cyclically-adjusted budget balance, net of one-off and other temporary measures, in 2012 and to an improvement of ¼ pp. of GDP in 2013. This is below the 0.5% of GDP benchmark for the adjustment towards the Medium Term Budgetary Objective (MTO) required under the preventive arm of the Stability and Growth Pact, notably Regulation (EC) No 1466/97[5]. This slow adjustment is projected against broadly balanced cyclical conditions; i.e. the output gap is estimated to be close to zero. At the same time, the composition of growth is expected to be relatively tax-revenue-poor. Especially in 2012, economic growth is driven by net exports, while domestic demand is projected to be rather weak compared to the past trends. In 2014, the improvement is projected to amount to of ½ pp. of GDP. Furthermore, in 2012, the real growth rate of government expenditure, net of discretionary revenue measures, is projected to be below the benchmark reference medium-term rate of potential GDP growth, as defined in Article 5 of Regulation (EC) No 1466/97. However, on a no-policy-change basis, the real net growth in expenditure would significantly breach this benchmark reference rate in 2013 and 2014.

– General government gross debt as a share of GDP has been on an increasing trend since 2008 and reached 70.9% of GDP in 2011. The Commission services’ 2012 Autumn Forecast projects the debt ratio to continue increasing to reach 72.4% of GDP in 2012, 73.1% of GDP in 2013 and 72.8% of GDP in 2014. By contrast, the 2012 Stability Programme projects the debt ratio to start decreasing after 2011, to 67.4% of GDP by 2014. The difference between the two projections is due to a lower primary surplus and higher stock-flow adjustment in the Autumn Forecast.

(8) The Council recalls that, starting in 2012, which is the year following the correction of the excessive deficit, and for a period of three years, Malta should make sufficient progress towards compliance with the requirement under the debt criterion, in accordance with Article 2(1a) of Regulation (EC) No 1467/97.

(9) In the view of the Council, the excessive deficit in Malta has been corrected by the 2011 deadline and Decision 2009/587/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 2009/587/EC is hereby abrogated.

[5] OJ L 209, 2.8.1997, p. 1.

Article 3

This Decision is addressed to the Republic of Malta.

Done at Brussels,

For the Council
The President