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Recommendation for a

COUNCIL DECISION

abrogating Decision 2013/319/EU on the existence of an excessive deficit in Malta

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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 2013/319/EU of 21 June 2013[1], following a recommendation from the Commission, it was decided that an excessive deficit existed in Malta. The Council noted that the general government deficit in Malta had reached 3.3% of GDP in 2012, thus exceeding the 3% of GDP Treaty reference value, while general government gross debt was above the 60% of GDP Treaty reference value and Malta did not make sufficient progress towards compliance with the debt reduction benchmark, in line with the requirements of the transition period[2] following the correction of its excessive deficit in 2012[3].

(2) On 21 June 2013, in accordance with Article 126(7) TFEU 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[4], the Council, based on a recommendation from the Commission, addressed a recommendation to Malta with a

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[1] OJ L 173, 26.06.2013, p. 52.

[2] Following the abrogation of the EDP in December 2012, in line with the Stability and Growth Pact, Malta benefited from a three-year transition period to comply with the debt reduction benchmark, starting in 2012. The requirements during the transition period are laid down in the second sub-paragraph of Article 2(1a) of Regulation (EC) No 1467/97 and further detailed in the "Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes" of 3 September 2012 (See: http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf). The Minimum Linear Structural Adjustment (MLSA) required for 2012 was equal to 0.4 pps of GDP, while the structural deficit worsened by ½ pp. of GDP in 2012.

[3] The general government deficit and debt for 2012 were subsequently revised to currently 3.6% of GDP and 67.4% of GDP, respectively.

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

view to bringing the excessive deficit situation to an end by 2014 at the latest. The recommendation was made public.

(3) In accordance with Article 4 of the Protocol on the excessive deficit procedure annexed to the Treaties, 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 Treaty establishing the European Community[5].

(4) The Council should take a decision to abrogate a decision on the existence of an excessive deficit on the basis of notified data. Moreover, a decision on the existence of an excessive deficit should be abrogated only if (i) the Commission forecasts indicate that the deficit will not exceed the 3% of GDP threshold over the forecast horizon[6]; and (ii) the debt ratio fulfils the forward-looking element of the debt benchmark.

(5) Based on data provided by the Commission (Eurostat) in accordance with Article 14 of Regulation (EC) No 479/2009, following the April 2015 notification by Malta, the 2015 Stability Programme and the Commission 2015 spring forecast, the following conclusions are warranted:

- After peaking at 3.6% of GDP in 2012, the general government deficit was reduced to 2.6% of GDP in 2013 and reached 2.1% of GDP in 2014. The deficit reduction in 2014 was mainly driven by an improvement in the cyclical conditions and budget measures which led to a significant increase in current revenues (by 2.5% of GDP) which more than offset the increase in current expenditure (by 0.8% of GDP) and by net capital expenditure (by 0.1% of GDP) that is explained by a higher absorption rate of EU funds.

- The stability programme for 2015-18, submitted by the Maltese government on 30 April 2015, plans the deficit to decline to 1.6% of GDP in 2015 and to 1.1% of GDP in 2016. The Commission 2015 spring forecast projects a deficit of 1.8% of GDP in 2015 and 1.5% of GDP in 2016. Thus, the deficit is set to remain below the Treaty reference value of 3% of GDP over the forecast horizon.

- The structural balance, which is the general government balance adjusted for the economic cycle and net of one-off and other temporary measures, improved by 1.3% of GDP over the period 2013-2014.

- The debt-to-GDP ratio increased to 69.2% of GDP in 2013, from 67.4% of GDP in 2012, on account of a temporary debt-increasing stock-flow adjustment. It then decreased to 68.0% of GDP in 2014. The gross government debt is forecast to continue decreasing to 65.4% of GDP in 2016 also due to the

[5] OJ L 145, 10.6.2009, p. 1.

[6] In line with the Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes.

favourable macroeconomic scenario. In addition, compliance with the forward looking debt rule is ensured in 2014.

(6) As from 2015, which is the year following the correction of the excessive deficit, Malta is subject to the preventive arm of the Stability and Growth Pact and should progress towards its medium-term objective at an appropriate pace, including respecting the expenditure benchmark, and comply with the debt criterion in accordance with Article 2(1a) of Regulation (EC) No 1467/97. In this context, there appears to be a risk of some deviation from the required adjustment of 0.6% of GDP towards the medium-term objective in both 2015 and 2016. In 2015, the improvement in the structural balance is forecast to be 0.1% of GDP below the requirement. While the adjustment projected for 2016 is in line with the requirement, there is a risk of some deviation over 2015 and 2016 taken together. Therefore, further measures will be needed in 2015 and 2016.

(7) In accordance with Article 126(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.

(8) In the view of the Council, the excessive deficit in Malta has been corrected and Decision 2013/319/EU 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 2013/319/EU is hereby abrogated.

Article 3

This Decision is addressed to the Republic of Malta.

Done at Brussels,

For the Council
The President