COUNCIL OPINION

of 5 July 2004

on the Convergence Programme of Malta, 2004-2007

(2004/C 320/07)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 9(2) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 5 July 2004 the Council examined the convergence programme of Malta, which covers the period 2004 to 2007. The programme complies only partly with the data requirements of the revised 'code of conduct on the content and format of stability and convergence programmes'. In particular, data for GDP and its components are not yet fully in line with ESA95 standards. This hampers comparability across different parts of the programme.

The budgetary strategy underlying the programme aims at reducing the general government deficit to below 3 % of GDP already by 2006, with the following intermediate targets: 5,2 % of GDP in 2004, 3,7 % of GDP in 2005 and 2,3 % of GDP in 2006 to reach 1,4 % at the end of the period programme. The programme projects a significant improvement in the primary balance, which is expected to turn from a deficit of 1,4 % of GDP in 2004 to a surplus of 2,2 % in 2007. In parallel, the programme envisages reversing the upward trend of the debt-to-GDP ratio in 2005 to reach 70,4 % at the end of the programme period.

The budgetary strategy is underpinned by a package of measures aiming at controlling and rationalising spending and, on the revenue side, at avoiding tax evasion. The effect of the policy measures necessary to achieve the targets is not fully quantified in the programme. On the expenditures side, current spending is projected to be cut by 3 percentage points of GDP, through the containment of the growth of public wages and other current expenditure, restructuring in public sector companies and the progressive phasing out of subsidies to the shipyard industry. Capital expenditures are also expected to fall by more than 2,5 percentage points of GDP over the programme period as one-off projects, which are currently under way, near their completion. However, public investment will still remain above 4 % of GDP.

On the basis of currently available information, the macro-economic scenario underlying the programme seems to reflect plausible growth assumptions. However, it is subject to a certain degree of uncertainty given a possible overestimation of the nominal ESA95 GDP and the exposure to external shocks of the Maltese economy.

Although the programme foresees the reduction of the deficit below the 3 % reference value in 2006, to further fall thereafter, these targets could be inconsistent with a position of close-to-balance during the programme period.

The consolidation path foresees a sharp reduction in the deficit, which seems within reach, given the room for manoeuvre provided by the termination of some investment projects. Nevertheless, achieving this consolidation path requires strong commitment by the Maltese authorities. Moreover, the recent revision of the real GDP growth figure for 2003 may imply some downward risks.

([1]) OJ L 209, 2.8.1997, p. 1. The documents referred to in this text can be found at the following website http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

Therefore, the budgetary stance in the programme may not be sufficient to reduce the deficit to below the 3 % of GDP deficit threshold by 2006. In addition, the evolution of the debt ratio is likely to be less favourable than projected given such downward risks.

Regarding long-term sustainability Malta faces risks of budgetary imbalances in meeting the projected costs of an ageing population. Securing an adequate primary surplus in the medium term together with the implementation of further measures to stem the rise of age-related expenditures, particularly concerning healthcare, is essential to place public finances on a sustainable footing.

On 5 July 2004, on the basis of recommendations from the Commission, the Council decided that an excessive deficit existed in Malta in accordance with Article 104(6) of the Treaty and made recommendations under Article 104(7) to Malta with a view to bringing that situation to an end, in which the Council expresses its policy advice.

Key projections from the convergence programme of Malta

	2003	2004	2005	2006	2007
Real GDP growth (%)	− 1,7	1,1	1,7	2,1	2,1
Employment growth (%)	− 0,8	0,8	0,7	0,7	0,7
RPI inflation (%)	1,3	3,4	2,1	2,1	2,1
General government balance (% of GDP)	− 9,7	− 5,2	− 3,7	− 2,3	− 1,4
Government gross debt (% of GDP)	72,0	72,1	72,4	70,5	70,4