COUNCIL OPINION

of 17 February 2005

on the updated convergence programme of Malta, 2004-2007

(2005/C 136/08)

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(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

(1) On 17 February 2005 the Council examined the updated convergence programme of Malta, which covers the period 2004 to 2007. The programme broadly complies with the Code of Conduct except for the breakdown of forecasted public expenditure figures. The price data are not consistent with the Maastricht harmonised definitions. Accordingly, Malta is invited to achieve compliance with the data requirements.

(2) The macroeconomic scenario underlying the programme envisages real GDP growth to pick up from 0.6 % in 2004 to 1.8 % on average over the rest of the programme period. On the basis of currently available information, this scenario seems to reflect plausible growth assumptions. The programme's projections for inflation also appear realistic.

(3) On 5 July 2004, the Council decided that an excessive deficit existed in Malta and recommended to correct it by 2006.

(4) The programme aims at reducing the deficit below the 3 % of GDP reference value in 2006. Fiscal consolidation is based on both revenue-rising measures and expenditure cuts. The general government deficit is projected to fall from 5.2 % in 2004 to 2.3 % of GDP in 2006 and to decline further in 2007 to 1.4 % of GDP. Compared with the previous programme, the current update broadly confirms the planned adjustment against a broadly unchanged macroeconomic scenario.

(5) The risks to the budgetary projections in the programme appear broadly balanced. In particular, on the one hand, the fiscal target of a general government deficit of 5.2 % in 2004 seems within reach, on the other, concerning 2005 and beyond, the prudent underlying macroeconomic scenario and the nature of the announced measures aiming at reducing the deficit, as well as budgetary projections set up in the programme make the consolidation path broadly plausible within the currently projected external environment.

(6) In view of this risk assessment the budgetary stance in the programme seems sufficient to reduce the deficit to below 3 % of GDP by 2006 and seems to provide a sufficient safety margin against breaching this threshold with normal macroeconomic fluctuations in the programme period. However, it may not be sufficient to ensure that the Stability and Growth Pact's medium-term objective of a budgetary position of close to balance is achieved within the programme period.

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

(7) According to the programme the debt ratio is likely to reach 73.2 % of GDP in 2004, up from 70.4 % of GDP in 2003. Thereafter, it is projected to decline to 70.4 per cent of GDP at the end of the programme period. The Maltese authorities foresee that economic growth, progressive improvements in the primary balance and the sale of assets will drive the reduction of the debt-to-GDP ratio as of 2005. However, a number factors, which partially offset the effects of significant privatization proceeds (more than 2 % of GDP in 2005 and 2006), call for a more detailed information on, and closer monitoring of, below-the-line operations.

(8) There are risks with regard to the long-term sustainability of public finances, reflecting the projected cost of an ageing population. The strategy for ensuring sustainability outlined in the programme is dependent on the achievement of the budgetary targets. It also includes reforms of the pension and healthcare systems that have not yet been defined or implemented. While failure to achieve budgetary targets would clearly put sustainability at risk, the pursuit of the reform process is also important for the containment of the increase in age-related public expenditure in the long term.

(9) Overall, the economic policies outlined in the update are broadly consistent with the country-specific broad economic policy guidelines in the area of public finances. In particular, the programme is in line with the reduction of the general government deficit recommended by the Council.

In view of the above assessment, the Council is of the opinion that Malta should:

(i) do the necessary to ensure the correction of the excessive deficit in 2006;

(ii) ensure that the debt ratio is declining towards the 60 % of GDP Treaty reference value at a satisfactory pace;

(iii) make further progress in the design and implementation of the pension and health care reforms.

Comparison of key macroeconomic and budgetary projections

		2004	2005	2006	2007
Real GDP (% change)	**CP Dec. 2004**	**0,6**	**1,5**	**1,8**	**2,2**
	COM Oct 2004	1,0	1,5	1,8	n.a.
	CP May 2004	*1,1*	*1,7*	*2,1*	*2,1*
HICP inflation (%)	**CP Dec. 2004**	**2,9**	**2,4**	**1,9**	**1,9**
	COM Oct 2004	3,7	3,1	2,6	n.a.
	CP May 2004	*3,4*	*2,1*	*2,1*	*2,0*
General government balance (% of GDP)	**CP Dec. 2004**	**-5,2**	**-3,7**	**-2,3**	**-1,4**
	COM Oct 2004	-5,1	-4,0	-3,3	n.a.
	CP May 2004	*-5,2*	*-3,7*	*-2,3*	*-1,4*
Primary balance (% of GDP)	**CP Dec. 2004**	**-1,4**	**0,3**	**1,6**	**2,4**
	COM Oct 2004	-1,3	-0,2	0,4	n.a.
	CP May 2004	*-1,4*	*0,1*	*1,4*	*2,2*
Government gross debt (% of GDP)	**CP Dec. 2004**	**73,2**	**72,0**	**70,5**	**70,4**
	COM Oct 2004	72,4	73,7	74,2	n.a.
	CP May 2004	*72,1*	*72,4*	*70,5*	*70,4*

Sources:
Convergence programme (CP); Commission services 2004 economic forecasts (COM)