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COMMISSION OPINION

of 18.11.2020

on the Draft Budgetary Plan of Malta

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(ONLY THE ENGLISH AND MALTESE TEXTS ARE AUTHENTIC)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area, to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan by 15 October, presenting the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

3. On 20 March 2020, the Commission adopted a Communication[1] on the activation of the general escape clause[2] of the Stability and Growth Pact. In its Communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the conditions to activate the general escape clause were met. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission[3]. As indicated in the Annual Sustainable Growth Strategy 2021[4] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[5], Member States should continue to provide targeted and temporary fiscal support in 2021 in a context where the general escape clause is activated, while safeguarding fiscal sustainability in the medium term.

4. On 27 May 2020, the European Commission put forward its proposal for the creation of a new recovery instrument Next Generation EU[6], alongside the proposal for the reinforced long-term budget of the EU for 2021-2027[7]. This proposal includes the establishment of a Recovery and Resilience Facility offering large-scale financial

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1 Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

2 The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn.

3 https://www.consilium.europa.eu/en/press/press-releases/2020/03/23/statement-of-eu-ministers-of-finance-on-the-stability-and-growth-pact-in-light-of-the-covid-19-crisis/

4 Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

5 https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2021_en

6 Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - Europe's moment: Repair and Prepare for the Next Generation, Brussels, 27.5.2020, COM(2020) 456 final.

7 Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - The EU budget powering the recovery plan for Europe, Brussels, 27.5.2020, COM(2020) 442 final.

support for both public investments and reforms. By contributing to the economic recovery and by providing financial support to strengthen the economy's long-term growth, the Recovery and Resilience Facility will help public finances to return to more favourable positions in the near term and will contribute to strengthening their sustainability in the medium and long term.

CONSIDERATIONS CONCERNING MALTA

5. On 15 October 2020, Malta submitted its Draft Budgetary Plan for 2021. On the basis of that document, the Commission has adopted an opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

6. On 20 July 2020, the Council recommended Malta[8] to take all necessary measures, in line with the general escape clause of the Stability and Growth Pact, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Malta to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

   On 20 May 2020, the Commission issued a report under Article 126(3) TFEU, as Malta's general government deficit in 2020 was planned to exceed the 3% of GDP Treaty reference value. The report concluded that, after the assessment of all relevant factors, the deficit criterion was not fulfilled. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

7. According to the Commission 2020 autumn forecast, the Maltese economy is expected to contract by 7.3% in 2020 and grow by 3% in 2021. Similarly, the Draft Budgetary Plan projects the Maltese economy to contract in 2020 by 7.4 % before rebounding by 5 % in 2021. According to the Draft Budgetary Plan, the fall of domestic demand in 2020 would be mitigated by growing public consumption, while the external side will act as a drag on the economy. Recovering private consumption and investment are expected to drive the rebound in 2021, reinforced by improving external demand. The government's COVID-19 pandemic-related measures coupled with an emigration-related reduction of the labour force are expected to prevent a major increase in the unemployment rate, which is projected to reach 4.8 % in 2020 before declining to 4 % in 2021 as the economic environment improves. Overall, the macroeconomic projections underpinning the 2021 Draft Budgetary Plan are in line with the Commission 2020 autumn forecast. The Commission projects a larger fall in private consumption and investment in 2020 but a swifter recovery in those categories in 2021, while the rebound in external demand is expected to be more moderate.

   Malta complies with the requirement of Regulation EU No 473/2013 since the draft budget is based on independently-endorsed macroeconomic forecasts.

8. The Draft Budgetary Plan estimates the headline deficit to reach 9.4 % of GDP in 2020, driven by revenue shortfalls and COVID-19 pandemic-related measures on the revenue and expenditure side. In 2021, the Draft Budgetary Plan targets a deficit of

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[8] Council Recommendation of 20 July 2020 on the national Reform Programme of Malta and delivering a Council opinion on the 2020 Stability Programme of Malta, OJ C 282, 26.8.2020, p 116.

5.9 % of GDP. The Draft Budgetary Plan does not include any revenue from or expenditure to be financed under the Recovery and Resilience Facility. The projections of the fiscal balance are generally in line with the Commission 2020 autumn forecast of a headline deficit of 9.4 % of GDP in 2020 and 6.3 % of GDP in 2021. On the expenditure side, in line with its no-policy change assumption, in 2021 the Commission forecast includes no expenditure related to the Recovery and Resilience Facility, as the corresponding measures were not sufficiently specified at the cut-off date of the forecast.[9] The Commission forecast assumes in the budgetary projections for 2021 the 10% pre-financing of Recovery and Resilience Facility grants and treats it as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact. In the case of Malta, the 10% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR 20 million. The evolution of the deficit in 2021 could turn out more favourably as a result of the higher economic growth from the implementation of measures financed by the Recovery and Resilience Facility.

The Draft Budgetary Plan indicates that the government debt-to-GDP ratio will increase from 55.0 % at the end of 2020 to 58.6 % in 2021, similar to the Commission's projection of 55.2 % and 60 %, respectively.

9. The Draft Budgetary Plan estimates the stimulus measures with a direct budgetary impact in 2020 in response to the COVID-19 outbreak to reach 5.8 % of GDP. Expenditure-side measures amount to 5.4 % of GDP and include wage supplements to sustain employment, the financing of medical supplies and equipment to strengthen the healthcare system, a voucher scheme to support domestic demand, and measures providing direct support to the most-affected businesses in the form of rent and utility subsidies. On the revenue side, a reduction of transaction taxes on immovable property is expected to be retained. The Commission 2020 autumn forecast has taken into consideration the measures reported in the Draft Budgetary Plan. In addition, Malta adopted measures without an immediate fiscal impact to alleviate liquidity constraints of the corporate sector. The Draft Budgetary Plan estimates tax deferrals to reach some 1.5 % of GDP while the COVID-19 guarantee scheme serviced by Malta Development Bank amounts to 2.8 % of GDP. The take-up of the guarantees as of August 2020 is estimated at 0.4 % of GDP. Overall, the measures taken by Malta in 2020 are in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.

10. For 2021, the Draft Budgetary Plan does not present any major new measures to contain the negative impact of the COVID-19 pandemic but rather extends the duration of existing ones. Similar to previous budgets, the Draft Budgetary Plan also envisages further socially oriented measures. The retained and new measures amount to some 2.2 % of GDP and are concentrated on the expenditure side (1.9 % of GDP). The wage supplement scheme will continue supporting employment, a new round of

[9] The treatment of the Recovery and Resilience Facility (RRF) in the Commission’s 2020 autumn forecast is explained in detail in Box I.4.3 of the European Commission’s Economic Forecast Autumn 2020 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en.pdf). In line with the customary no policy-change assumption, the forecast only incorporates those measures that are credibly announced and sufficiently detailed in the Draft Budgetary Plans, irrespective of whether they are planned to be part of the Recovery and Resilience Plans. No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing of RRF grants is included in the forecast for 2021. The assumptions on expenditure measures linked to the RRF in the Commission forecast are without prejudice to the assessment of the Recovery and Resilience Plans.

vouchers worth EUR 100 will be distributed to each person older than 16 years and the reduction of transaction taxes on immovable property will be retained until the end of the year. In the social domain, the Draft Budgetary Plan announces permanent measures to further support pensioners and families. The Draft Budgetary Plan also envisages further investments in the island's infrastructure and a new medium-term investment project, although these are not explicitly mentioned among discretionary measures. In addition, funds are allocated to incentivise the circular economy and transform Malta into a resource-efficient economy in line with the European Green Deal. Corporate liquidity will be supported through government loan guarantees and interest rate subsidies. According to the Commission forecast, social measures, especially pension increases beyond regular indexation and additional support for families, and tax incentives for private pensions amounting to some 0.1 % of GDP are of a permanent nature.

11. The Commission is of the opinion that the Draft Budgetary Plan of Malta is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Malta are supporting economic activity against the background of considerable uncertainty. Malta is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

    It is anticipated that Malta will submit its Recovery and Resilience Plan in 2021. The Regulation establishing a Recovery and Resilience Facility will set out how the Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament.

Done at Brussels, 18.11.2020

For the Commission
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Member of the Commission

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For the Secretary-General

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