EUROPEAN
COMMISSION

Brussels, 21.11.2018
C(2018) 8023 final

COMMISSION OPINION

of 21.11.2018

on the Draft Budgetary Plan of Malta

{SWD(2018) 523 final}

COMMISSION OPINION

of 21.11.2018

on the Draft Budgetary Plan of Malta

GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) 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 presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING MALTA

3. On the basis of the Draft Budgetary Plan for 2019 submitted on 15 October 2018 by Malta, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. Malta is subject to the preventive arm of the SGP and should preserve a sound fiscal position which ensures compliance with the medium-term budgetary objective (MTO) of a balanced budget in structural terms.

5. According to the Commission 2018 autumn forecast, the Maltese economy is expected to remain strong and to grow by 5.4% in 2018 and 4.9% in 2019. The macroeconomic scenario underlying the Draft Budgetary Plan forecasts real GDP to remain robust and to grow by 5.8% in 2018, slowing down from 6.7% in 2017. Real GDP growth is forecast to moderate further to 5.3% in 2019, with domestic demand projected to remain the main contributor to growth. Compared to the Commission 2018 autumn forecast, real GDP growth in the authorities' plan is higher in both years and the macroeconomic scenario underlying the Draft Budgetary Plan is favourable. Malta complies with the requirement of Regulation (EU) No 473/2013 since the draft budget is based on independently endorsed macroeconomic forecasts.

6. In 2018, the Draft Budgetary Plan expects the headline surplus to decline sharply to 1.1% of GDP, from a surplus of 3.5% of GDP in 2017. For 2019, the Draft Budgetary Plan targets a slight increase of the surplus to 1.3% of GDP. In structural terms[1], the government plans imply a sizeable decrease in the surplus in 2018, to 0.6% of GDP (from 3.1% in 2017), and a slight increase to 0.8% of GDP in 2019. The Commission 2018 autumn forecast projects the headline surplus at 1.3% of GDP in 2018 and 1.2% of GDP in 2019. Compared to the government plans, there are some differences in the composition, with lower nationally-financed public investment, which is partly offset by more dynamic current expenditure in the Commission forecast. The structural budget balance in the Commission 2018 autumn forecast is expected to stabilize at 0.9% of GDP in both years.

[1] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

7. The measures reported in the Draft Budgetary Plan are estimated to have an expansionary impact of around 0.6% of GDP. The revenue measures introduced by the 2019 budget are expected to reduce the headline surplus by 0.2% of GDP. They include the negative impact on VAT revenue related to the Council Implementing Regulation (EU) 1042/2013[2]; the extension of the reduction of duty on documents for first time and second time buyers of a residential property; the introduction of fiscal incentives for contributions to private pensions, as well as the revision in the income tax bands for lower income earners. On the expenditure side, the expansionary impact of the measures included in the 2019 budget is estimated at around 0.3% of GDP. Those measures are targeted at increasing pensions and social assistance, and at supporting Gozitans. The Draft Budgetary Plan also foresees the expansion of the rent subsidy and the extension of the school transport network. It also includes a 0.1% of GDP of expenditure financed by the National Development Social Fund. While the tax wedge on labour in Malta is among the lowest in the Union, the Draft Budgetary Plan includes no new measures affecting the tax wedge on labour. With respect to the Recommendation of 13 July 2018 addressed by the Council to Malta to ensure the sustainability of the healthcare and the pension system[3], including by increasing the statutory retirement age and by restricting early retirement, the Draft Budgetary Plan highlights the relevant measures in the areas of healthcare and pensions. However, those measures, according to a preliminary assessment, seem to have no impact on the sustainability of the healthcare and the pension system.

8. In 2018 and 2019, according to the information provided in the Draft Budgetary Plan, the (recalculated) structural balance is expected to remain above the MTO of a balanced budgetary position in structural terms. That assessment is confirmed by the Commission 2018 autumn forecast. Therefore, it points to compliance with the provisions of the SGP in both 2018 and 2019. At the same time, expenditure developments should be monitored carefully in the short and the medium term, especially in light of possible risks to the resilience of revenues in the future.

9. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Malta is compliant with the provisions of the Stability and Growth Pact. The Commission invites the authorities to implement the 2019 budget.

[2] Council Implementing Regulation (EU) 1042/2013 of 7 October 2013 amending Implementing Regulation (EU) 282/2011 as regards the place of supply of services; OJ L 284, 26.10.2013, p. 1.

[3] Council Recommendation of 13 July 2018 on the 2018 National Reform Programme of Malta and delivering a Council Opinion on the 2018 Stability Programme of Malta; OJ C 320, 10.09.2018, p. 76.

The Commission is also of the opinion that Malta has made no progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 13 July 2018 in the context of the European Semester and thus invites the authorities to accelerate implementation. A comprehensive description of progress made with the implementation of the CSRs will be made in the 2019 Country Reports and assessed in the context of the country-specific recommendations to be proposed by the Commission in May 2019.

Done at Brussels, 21.11.2018

For the Commission
Pierre MOSCOVICI
Member of the Commission

CERTIFIED COPY
For the Secretary-General,

Jordi AYET PUIGARNAU
Director of the Registry
EUROPEAN COMMISSION