EUROPEAN
COMMISSION

Brussels, 20.11.2019
C(2019) 9114 final

COMMISSION OPINION

of 20.11.2019

on the Draft Budgetary Plan of Malta

{SWD(2019) 924 final}

COMMISSION OPINION

of 20.11.2019

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, to ensure 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 15 October 2020, Malta submitted the Draft Budgetary Plan for 2020. On that basis, 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 its medium-term budgetary objective of a balanced budgetary position in structural terms.[1]

5. According to the Commission 2019 autumn forecast, the Maltese economy is expected to grow by 5% in 2019 and 4.2% in 2020, down from 6.8% in 2018. The macroeconomic scenario underpinning the Draft Budgetary Plan also projects real GDP to grow at 5% in 2019. In 2020, according to the Draft Budgetary Plan, growth is set to slow down to 4.3%, reflecting mainly slowing household and public consumption growth, which will be only partly counterbalanced by increasing investment. Net exports are projected to drag on growth with exports slightly slowing down and imports accelerating, mirroring a somewhat stronger investment activity. The macroeconomic assumptions underpinning the Draft Budgetary Plan are plausible for both 2019 and 2020. Malta complies with the requirement of Regulation (EU) No 473/2013 since the draft budget is based on independently endorsed macroeconomic forecasts.

6. In 2019, the Draft Budgetary Plan estimates the general government headline surplus to decline to 1.4% of GDP from 1.9% of GDP a year earlier and remain at the same level in 2020. The recalculated structural balance[2] is set to decline to a surplus of 0.6% of GDP in 2019 from 0.8% of GDP in 2018. The unchanged target for the nominal surplus coupled with the reduction in the positive output gap imply an improvement in the structural balance in 2020 to 1.1% of GDP. The structural balance developments are broadly confirmed by the Commission 2019 autumn

[1] Council Recommendation of 9 July 2019 on the 2019 National Reform Programme of Malta and delivering a Council opinion on the 2019 Stability Programme of Malta, OJ C 301, 5.9.2019, p. 107.

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

forecast. The small differences in the structural balances are explained by the differences in nominal balances estimates. The Commission 2019 autumn forecast projects a somewhat lower surplus due to lower projected revenue from social contributions reflecting an assumption of a less dynamic labour market and higher current expenditure for compensation of employees and social payments. In both forecasts, Individual Investor Programme revenue is an important contributor to positive fiscal balances.

7. In 2020, the fiscal stance is expected to be contractionary, based on the structural balance estimates, according to both the Draft Budgetary Plan and the Commission 2019 autumn forecast. The Draft Budgetary Plan does not envisage any tax increases but plans a series of tax-reducing measures in 2020. Their negative impact on revenues is projected to be broadly offset by an additional positive impact of measures adopted in previous years (i.e. Individual Investor Programme revenue). The measures include a lower tax rate for low-paid employees on overtime work, an increase in tax exemption thresholds for minimum wage earners and pensioners, and an increase in the tax exemption for non-public pension plans. In the area of property taxation, a stamp duty exemption available for first-time home buyers was extended to 2020 and a reduced stamp duty on purchase of residential property in Gozo has also been retained. The expenditure side measures are expected to have a negative impact on budget balance amounting to 0.4% of GDP. The budget envisages a number of initiatives targeting pensioners (e.g. increasing pensions above the Cost of Living Adjustment index, providing additional allowance and grants for the elderly, allocating additional funds to cater for inequalities suffered by persons in the past due to changes in the pension system, free transport for persons over 75 years), families (e.g. a bonus for every new-born or adopted child) and the disabled. The National Development and Social Fund projects an allocation of 0.2% of GDP to finance projects in specific areas as defined by respective legislation.

The tax wedge on labour is low in Malta. Nevertheless, the government introduced targeted measures to reduce it further for low-paid employees.

With respect to the Recommendation of 9 July 2019 addressed by the Council to Malta to ensure the fiscal sustainability of the healthcare and pension systems, including by restricting early retirement and adjusting the statutory retirement age in view of expected gains in life expectancy, the Maltese authorities introduced a Home Equity Release scheme and strengthened the Third Pillar Pension Scheme and Voluntary Occupational Pension Scheme. These measures aim at improving pension adequacy and reducing dependency on state pensions. Neverhtless, they do not appear to contribute significantly to the long-term sustainability of the public pension system.

8. In 2019 and 2020, according to the information provided in the Draft Budgetary Plan, the recalculated structural balance is expected to remain above the medium-term budgetary objective of a balanced budgetary position in structural terms. This is confirmed by the Commission 2019 autumn forecast. Malta is therefore expected to be compliant with the requirements of the preventive arm of the Stability and Growth Pact both in 2019 and 2020. At the same time, fiscal surpluses are heavily driven by Individual Investment Programme revenue, the development of which is difficult to predict. In addition, although the expenditure benchmark pillar does not point to a risk of compliance for 2019 and 2020, based on the Commission 2019 autumn forecast, the net public expenditure annual growth corrected for one-offs is expected to be one of the highest in the euro area. Hence expenditure developments should be

monitored carefully, especially in light of possible future risks to the robustness of revenues, to safeguard compliance with the Stability and Growth Pact.

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 2020 budget.

The Commission is also of the opinion that Malta has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 9 July 2019 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2020 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2020.

Done at Brussels, 20.11.2019

For the Commission
Pierre MOSCOVICI
Member of the Commission