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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	COUNCIL RECOMMENDATION with a view to bringing an end to the situation of an excessive deficit in Malta

COUNCIL RECOMMENDATION

with a view to bringing an end to the situation of an excessive deficit in Malta

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union (TFEU), and in particular Article 126(7) thereof,

Having regard to the recommendation from the Commission,

Whereas:

- (1) According to Article 126 of the TFEU, Member States shall avoid excessive government deficits.
- (2) The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong, sustainable and inclusive growth underpinned by financial stability, thereby supporting the achievement of the Union's objectives for sustainable growth and employment.
- (3) On 30 April 2024, the EU's reformed economic governance framework entered into force. The framework includes Regulation (EU) 2024/1263¹ of 29 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes Council Regulation (EU) 2024/1264 amending Council Regulation (EC) No 1467/97² on speeding up and clarifying the implementation of the excessive deficit procedure, as well as Council Directive (EU) 2024/1265³ of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.
- (4) On 26 July 2024, the Council decided, in accordance with Article 126(6) TFEU, that an excessive deficit existed in Malta due to non-compliance with the deficit criterion⁴.

¹ OJ L, 30.4.2024, ELI: <http://data.europa.eu/eli/reg/2024/1263/oj>.

² OJ L 209, 2.8.1997, ELI: <http://data.europa.eu/eli/reg/1997/1467/2024-04-30>.

³ OJ L, 30.4.2024, ELI: <http://data.europa.eu/eli/dir/2024/1265/oj>.

⁴ OJ L, 1.8.2024, ELI: <https://eur-lex.europa.eu/eli/dec/2024/2128/oj>.

- (5) Article 126(7) TFEU and Article 3(4) of Council Regulation (EC) No 1467/97 require the Council to adopt a recommendation addressed to the Member State concerned with a view to bringing the situation of excessive deficit to an end within a given period. In line with Article 3(4) of Council Regulation (EC) 1467/97, that recommendation is also to establish a maximum deadline of six months for effective action to be taken by the Member State concerned to correct the excessive deficit, which can be reduced to three months when warranted by the seriousness of the situation. Furthermore, in its recommendation, the Council is to recommend that the Member State implements a corrective net expenditure⁵ path, which ensures that the general government deficit is brought and maintained below the 3% of GDP reference value within the deadline set in that recommendation. Where the excessive deficit procedure was opened on the basis of the deficit criterion, the corrective net expenditure path is to be consistent with a minimum annual structural adjustment of at least 0.5% GDP as a benchmark for the years when the general government deficit is expected to exceed the reference value. The Commission may, during a transition period in 2025, 2026 and 2027, adjust the benchmark to take into account the increase in interest payments when setting the proposed corrective path for those years, taking into account recital 23 of Council Regulation (EU) 2024/1264.

⁵ According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

- (6) In view of the submission of the national medium-term fiscal-structural plan in accordance with Articles 11 and 36(1), point (a) of Regulation (EU) 2024/1263, the Council Decision of 26 July 2024 took into account that the next step in the excessive deficit procedure, namely the Commission recommendation for a Council recommendation under Article 126(7) TFEU on the correction of the excessive deficit, would take place together with the Commission Opinion on the Draft Budgetary Plans of euro area Member States under Article 7 of Regulation (EU) No 473/2013. This approach allows to ensure consistency between the budgetary requirements under the excessive deficit procedure and the adjustment path set out in the medium-term fiscal-structural plans. This timeline and the splitting of the decisions under Article 126(6) and Article 126(7) is exceptional and linked to the transition to the new framework, therefore not setting a precedent.
- (7) Real GDP in Malta expanded by 7.5% in 2023. According to the European Commission Autumn 2024 Forecast, the economy is expected to grow by 5.0% in 2024, on the back of strong domestic demand and export performance. In 2025, real GDP is expected to increase by 4.3%, as the economy maintains its growth momentum. The unemployment rate is expected to reach 3.2% in 2024 and 3.1% in 2025. Inflation is set to decrease from 5.6% in 2023 to 2.5% in 2024 and reach 2.2% in 2025.
- (8) According to the data validated by Eurostat on 22 October 2024⁶, the general government deficit in Malta stood at 4.5% of GDP in 2023. The budget outcome was also affected by a sizable upward impact on GDP of the benchmark revision compared to the spring notification. The European Commission Autumn 2024 Forecast projects a general government deficit of 4.0% of GDP in 2024 and 3.5% of GDP in 2025, thus above the reference value in both years. The structural deficit is projected at 3.9% of GDP in 2024 and is expected to decrease by 0.7 percentage points in 2025.

⁶ Eurostat Euro Indicators published on 22 October 2024. See: <https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/2-22102024-AP>.

- (9) General government debt stood at 47.4% of GDP at end-2023. According to the European Commission Autumn 2024 Forecast, it is projected to increase to 49.8% of GDP at end-2024 and 50.4% of GDP at end-2025, thus remaining below the 60% of GDP reference value.
- (10) On 20 September 2024, Malta submitted its first national medium-term fiscal-structural plan, in accordance with Articles 11 and 36(1), point (a) of Regulation (EU) 2024/1263. The plan covers the period 2025-2028 and presents a fiscal adjustment spread over four years. The Council Recommendation endorsing the national medium-term fiscal-structural plan of Malta for the years 2025 to 2028 recommends a net expenditure path that factors in all the necessary requirements of a corrective path and should be recommended as the corrective net expenditure path under the excessive deficit procedure. The corrective net expenditure path is thus consistent with a minimum annual structural adjustment of at least 0.5% GDP as a benchmark for the years when the general government deficit is expected to exceed the reference value, in line with Council Regulation (EC) 1467/97.
- (11) Based on the net expenditure path, as the sole operational reference for monitoring compliance, which is set out in the Council Recommendation endorsing the plan of Malta and in this recommendation, and based on the European Commission medium-term government debt projection framework and the European Commission Autumn 2024 Forecast, the general government deficit is expected to decrease from 4.0% of GDP in 2024 to 2.9% by 2027. Likewise, based on the assumptions of the plan, the deficit would go below the 3% deficit reference value in 2027.
- (12) Based on the corrective net expenditure path to be recommended, the European Commission medium-term government debt projection framework, and the European Commission Autumn 2024 Forecast, the general government debt would remain stable around 50% of GDP until 2027.

- (13) Budgetary consolidation measures should secure a lasting correction of the excessive deficit, while being geared towards enhancing the quality and composition of the public finances, preserving investment and reinforcing the growth potential of the economy. Reforms of a fiscal and broader economic nature should improve the growth and resilience potential of the economy in a sustainable manner, and support fiscal sustainability.
- (14) The Council takes note that the precise methodology for the assessment of effective action in the context of the new fiscal framework has not yet been fully elaborated and therefore considers that a timely discussion on the methodology is warranted.
- (15) In line with Article 8(3) of Regulation 1467/97, a Council decision to abrogate the excessive deficit procedure shall only be taken pursuant to Article 126(12) TFEU where the deficit has been brought below the reference value and is projected by the Commission to remain so in the current and following year.

HEREBY RECOMMENDS:

1. Malta should ensure that the nominal growth rate of net expenditure does not exceed the maxima established in Annex I.
2. Malta should thus put an end to the excessive deficit situation by 2027.
3. The Council establishes the deadline of 30 April 2025 for Malta to take effective action and present the necessary measures together with its 2025 annual progress report, to be submitted to the Commission in accordance with Article 21 of Regulation (EU) 2024/1263. Thereafter, Malta should report on progress made in the implementation of this recommendation at least every six months until the excessive deficit has been corrected.

This Recommendation is addressed to the Republic of Malta.

Done at Brussels,

For the Council
The President

**Maximum growth rates of net expenditure
(annual and cumulative growth rates, in nominal terms)**

Malta

Years		2025	2026	2027
Growth rates (%)	Annual	6.0	5.8	5.8
	Cumulative*	13.8	20.4	27.4

* The cumulative growth rates are calculated by reference to the base year of 2023.