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Proposal for a

COUNCIL OPINION

on the Economic Partnership Programme of Malta

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013¹ on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, and in particular Article 9(4) thereof,

Having regard to the proposal of the European Commission,

Whereas:

- (1) The Stability and Growth Pact (SGP) aims at securing budgetary discipline across the Union and sets out the framework for preventing and correcting excessive government deficits. It is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth underpinned by financial stability, thereby supporting the achievement of the Union's objectives for sustainable growth and jobs.
- (2) Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area sets out provisions for enhanced monitoring of budgetary policies in the euro area and for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the SGP and the European Semester. Since purely budgetary measures might be insufficient to ensure a lasting correction of the excessive deficit, additional policy measures and structural reforms may be required.
- (3) Article 9 of Regulation (EU) No 473/2013 sets out the modalities for Economic Partnership Programmes, to be submitted by euro area Member States under an Excessive Deficit Procedure. Setting out a roadmap of measures to contribute to an effective and durable correction of the excessive deficit, the Economic Partnership Programme should detail the main fiscal-structural reforms, in particular those referring to taxation, pension and health systems and budgetary frameworks, which will be instrumental to correct the excessive deficit in a lasting manner.
- (4) On 21 June 2013, the Council adopted a decision according to Article 126(6) of the Treaty, whereby Malta is placed in an excessive deficit procedure. In this context,

¹ OJ L 140, 27.5.2013 p. 11.

Malta was requested to present an Economic Partnership Programme by 1 October 2013.

- (5) On 1 October 2013, and thereby within the time frame established by Article 9(3) of Regulation (EU) No 473/2013, Malta presented to the Commission and to the Council an Economic Partnership Programme, setting out structural reforms that aim at strengthening public finances and, more broadly, complying with the 2013 Country-Specific Recommendations (CSRs). These policies can be grouped under the following objectives: (i) ensuring public finance sustainability (CSR 1, 2 and 4), (ii) enhancing the efficiency of the public administration (CSR 2 and 5), (iii) raising potential output, while enhancing competitiveness and promoting a diversified and balanced economy (CSR 2, 3 and 4) and (iv) safeguarding financial stability (CSR 5).
- (6) The fiscal-structural measures that Malta plans to implement are the following: (i) reform of the fiscal framework, (ii) a spending review at ministry level, (iii) taking the pension reform further by introducing a third pension pillar, (iv) measures to improve the provision of services in the health sector, (v) restructuring of state-owned enterprises, (vi) increasing the efficiency of the public administration and (vii) gradually shifting the burden of taxation from direct to indirect taxes. The set of measures is broadly adequate and could be expected to contribute to the strengthening of the public finances. Nevertheless, further efforts in some areas, such as ensuring the long-term sustainability of public finances, appear necessary.
- (7) The reform of the fiscal framework is adequate and can be expected to strengthen fiscal governance and to help contain fiscal slippages. The appointment of an independent fiscal council can be expected to contribute to an enhanced monitoring and planning of Malta's public finances. The reform, however, has not been adopted by the parliament yet.
- (8) The ongoing spending review that aims to identify expenditure savings and improve the efficiency of public spending can result, on the one hand, in lower growth in expenditure and, on the other, in more growth-friendly public spending.
- (9) The introduction of a third pension pillar could improve the adequacy of the pension system, but it would not contribute towards improving its sustainability. None of the other relevant measures recommended to Malta under CSR 2, namely accelerating the increase of the statutory retirement age and increasing the effective retirement age, appear to be under consideration.
- (10) The planned measures to improve the provision of services in the health sector can be expected to improve the efficiency and adequacy of the system. Still, at the same time it can contribute to higher demand and take-up of government-funded healthcare services. In the absence of more detailed information on the measures it is not possible to determine to what extent the reform can lower the pressure on public expenditure in the long-term.
- (11) Restructuring state-owned enterprises, such as the national airline Air Malta and the energy company Enemalta, could improve their financial performance and in turn reduce the contingent liabilities on the government finances. Policy efforts in the energy sector are particularly notable, where the main energy provider Enemalta holds government-guaranteed debt of around 10% of GDP. In addition, this can be expected to reduce the need for government subsidies in the future.

- (12) The authorities present a mix of ongoing and new measures that can be expected to raise the capacity of the public administration to enforce tax compliance and to reduce tax evasion. In addition, the programme contains measures that would reduce the length and increase the efficiency of public procurement procedures.
- (13) The indicated gradual shift from direct to indirect taxation could encourage job creation and improve the growth-friendliness of the tax system. However, the shift is described in very broad terms without providing details. In addition, plans to reduce the debt bias in corporate taxation are still missing.
- (14) The Economic Partnership Programme also contains a variety of non-fiscal structural measures that broadly aim at complying with the 2013 Country-Specific Recommendations. The policy plans include comprehensive reforms of the judicial system and the diversification of energy sources. The measures appear to be in the right direction and can be expected to contribute to the creation of growth and jobs in Malta, while also safeguarding financial stability. Nevertheless, in general they are still work in progress, while the information provided is often limited. Therefore, further analysis of the impact of the policy plans and their contribution to addressing the challenges identified in the 2013 CSRs will be needed once the policy plans become more concrete and their implementation advances,

HAS ADOPTED THIS OPINION:

The Economic Partnership Programme of Malta presented to the Commission and to the Council on 1 October 2013 includes a set of fiscal-structural reforms that is partially adequate to support the achievement of a sound fiscal position. Specifically, the Economic Partnership Programme takes further the fiscal and non-fiscal reform agenda included in the 2013 National Reform Programme and Stability Programme and adds policy plans aiming at improving the efficiency of government expenditure, reinforcing the public administration and restructuring state-owned enterprises. In general, however, all reforms are work in progress and their adoption and implementation remain subject to risks. In addition, some CSRs are yet to be fully addressed, namely the debt bias in corporate taxation in CSR 1 and the long-term sustainability of public finances in CSR 2. Malta is therefore invited to provide additional information on the implementation of the planned reforms in the upcoming National Reform Programme and Stability Programme, while considering additional measures that would be instrumental to ensuring long-term public finance sustainability. The Commission and the Council will monitor the implementation of the reforms in the context of the European Semester.

Done at Brussels,

For the Council
The President