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COM(2024) 721 final

Recommendation for a

COUNCIL RECOMMENDATION

endorsing the national medium-term fiscal-structural plan of Malta

Recommendation for a

COUNCIL RECOMMENDATION

endorsing the national medium-term fiscal-structural plan of Malta

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121 thereof,

Having regard to Regulation (EU) 2024/1263, and in particular Article 17 thereof,

Having regard to the recommendation from the Commission,

Whereas:

GENERAL CONSIDERATIONS

- (1) A reformed EU economic governance framework entered into force on 30 April 2024. Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance¹, together with the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure², and the amended Council Directive 2011/85/EU on the budgetary frameworks of Member States³ are the core elements of the reformed EU economic governance framework. The framework aims at ensuring public debt sustainability and sustainable and inclusive growth through reforms and investments. It promotes national ownership and has a medium-term focus, combined with an effective and coherent enforcement of the rules.
- (2) The national medium-term fiscal-structural plans that Member States submit to the Council and to the Commission are at the centre of the new economic governance framework. The plans are to deliver on two objectives: i) ensuring that, by the end of the adjustment period, general government debt is on a plausibly downward trajectory, or stays at prudent levels, and that the government deficit is brought and maintained below the reference value of 3% of GDP over the medium term, and ii) ensuring the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the EU.

¹ Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30.4.2024, ELI: <http://data.europa.eu/eli/reg/2024/1263/oj>).

² Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: <http://data.europa.eu/eli/reg/2024/1264/oj>).

³ Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: <http://data.europa.eu/eli/dir/2024/1265/oj>).

To that end, each plan is to present a medium-term commitment to a net expenditure⁴ path, which effectively establishes a budgetary constraint for the duration of the plan, covering four or five years (depending on the regular term of legislature in a Member State). In addition, the plan should explain how the Member State will ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations (including those pertaining to the macroeconomic imbalances procedure (MIP), if applicable), and how the Member State will address the common priorities of the Union. The period for fiscal adjustment covers a period of four years, which may be extended by up to three years if the Member State commits to delivering a set of relevant reforms and investments that satisfies the criteria set out in Regulation (EU) 2024/1263.

- (7) Following the submission of the plan, the Commission is to assess whether it complies with the requirements of Regulation (EU) 2024/1263.
- (8) Upon a recommendation from the Commission, the Council is to then adopt a recommendation to set the net expenditure path of the Member State concerned and, where applicable, endorses the set of reform and investment commitments underpinning an extension of the fiscal adjustment period.

CONSIDERATIONS CONCERNING THE NATIONAL MEDIUM-TERM FISCAL-STRUCTURAL PLAN OF MALTA

- (10) On 20 September 2024, Malta submitted its national medium-term fiscal-structural plan to the Council and to the Commission.

Process prior to the submission of the plan

- (11) On 21 June 2024 the Commission sent, according to Article 9 of Regulation (EU) 2024/1263, the reference trajectory⁵ to Malta. The Commission published the reference trajectory on 20 September 2024⁶. The reference trajectory is risk-based and ensures that, by the end of the fiscal adjustment period and in the absence of further budgetary measures beyond the adjustment period, general government debt is on a plausibly downward trajectory or stays at prudent levels over the medium term, and

⁴ Net expenditure as defined in Article 2 of Regulation (EU) 2024/1263, namely government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on Union programmes fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure and (vi) one-offs and other temporary measures.

⁵ Prior guidance transmitted to the Member States and Economic and Financial Committee includes trajectories without and with an extension of the adjustment period (covering 4 and 7 years, respectively). It also includes the main initial conditions and underlying assumptions used in the Commission's medium-term government debt projection framework. The reference trajectory was calculated on the basis of the methodology described in the Commission's *Debt Sustainability Monitor 2023* (https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2023_en). It is based on the European Commission Spring 2024 Forecast and its medium-term extension up to 2033, and long-term GDP growth and ageing costs are in line with the joint Commission-Council 2024 Ageing Report (https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en).

⁶ https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/national-medium-term-fiscal-structural-plans_en#malta

the general government deficit is brought below 3% of GDP over the adjustment period and maintained below that reference value over the medium term. The medium term is defined as the ten-year period after the end of the adjustment period. In accordance with Articles 6, point (d), 7 and 8 of Regulation (EU) 2024/1263, the reference trajectory is also consistent with the deficit benchmark, the debt sustainability safeguard and the deficit resilience safeguard. The reference trajectory of Malta sets out that, based on the Commission’s assumptions and assuming a 4-year adjustment period, net expenditure should not grow by more than the values provided in Table 1. This corresponds to average net expenditure growth of 5.9% over the adjustment period (2025-2028).

Table 1: Reference trajectory provided by the Commission to Malta on 21 June 2024

	2025	2026	2027	2028	Average 2025-2028
Maximum net expenditure growth (annual, %)	6.0	5.8	5.9	5.7	5.9

Source: Commission’s calculations.

- (12) In line with Article 12 of Regulation (EU) 2024/1263, Malta and the Commission engaged in a technical dialogue from June to September 2024. The dialogue centred on the net expenditure path envisaged by Malta and its underlying assumptions (in particular the expected impact of the benchmark revision on GDP), as well as the envisaged delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and the common priorities of the Union in fair green and digital transition, social and economic resilience, energy security and the build-up of defence capabilities.
- (13) In September 2024, in line with Article 11(3) and 36(1), point (c) of Regulation (EU) 2024/1263, according to the information provided by Malta in its plan, Malta engaged in a consultation process with social partners. According to the information provided by Malta in its plan, the measures and initiatives in the plan were consulted with the Malta Council for Economic and Social Development (MCESD), a platform that convenes the primary social partners in Malta.

Other related processes

- (14) On 26 July 2024, the Council established the existence of an excessive deficit in Malta due to non-compliance with the deficit criterion⁷. The present Recommendation coincides with the Council Recommendation under Article 126(7) TFEU with a view

⁷ OJ L, 1.8.2024, ELI: <https://eur-lex.europa.eu/eli/dec/2024/2128/oj>

to bringing an end to the situation of an excessive government deficit in Malta⁸. The simultaneous adoption of those recommendations, which is tailored to and justified by the transition to the new economic governance framework, ensures consistency between the recommended adjustment paths.

- (15) On 15 October 2024, Malta submitted its Draft Budgetary Plan for the year 2025. The Commission adopted an opinion on this Draft Budgetary Plan on [26 November 2024]⁹.
- (16) On 21 October 2024, the Council addressed to Malta a series of country-specific recommendations (CSRs) in the context of the European Semester¹⁰.

SUMMARY OF THE PLAN AND THE COMMISSION'S ASSESSMENT THEREOF

- (17) In line with Article 16 of Regulation (EU) 2024/1263, the Commission assessed the plan as follows:

Context: macroeconomic and fiscal situation and outlook

- (18) Economic activity in Malta grew by 7.5% in 2023, driven by private consumption and exports. 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 set to increase by 4.3%, as consumption and investment continue to support growth. In 2026, real GDP is expected to increase by 4.3%, as the economy maintains its growth momentum. Over the forecast horizon (i.e., 2024-2026), potential GDP in Malta is expected to grow at a solid rate (on average), driven by the strong contribution of labour and, to a lesser extent, capital accumulation. The unemployment rate stood at 3.5% in 2023 and is projected by the Commission to amount to 3.2% in 2024, 3.1% in 2025 and 3% in 2026. Inflation (GDP deflator) is projected to decrease from 5.3% in 2023 to 2.6% 2024, and is set to reach 2.5% in 2025 and 2.1% in 2026.
- (19) Regarding fiscal developments, in 2023 Malta's general government deficit amounted to 4.5% of GDP. According to the European Commission Autumn 2024 Forecast, it is set to reach 4% of GDP in 2024 and to decline further to 3.5% of GDP in 2025 and, on a no-policy change basis, to 3.1% in 2026. The European Commission Autumn 2024 forecast includes Malta's draft budget for 2025 that the government proposed to the national parliament in October. General government debt was 47.4% of GDP at end-2023. According to the European Commission Autumn 2024 Forecast, the debt ratio is expected to increase to 49.8% of GDP at end-2024. It is projected to increase further to 50.4% of GDP at end-2025 and 50.2% at end-2026. The fiscal forecast by the Commission does not consider the policy commitments in the medium-term plans as such until they are underpinned by credibly announced and sufficiently specified concrete policy measures.

⁸ Recommendation for a Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Malta, 26.11.2024, COM(2024)955 final.

⁹ Commission Opinion on the Draft Budgetary Plan of Malta, 26.11.2024, C(2024)9061 final.

¹⁰ Council Recommendation on economic, budgetary, employment and structural policies of Malta, not yet published.

Net expenditure path and main macroeconomic assumptions in the plan

- (20) Malta's national medium-term fiscal-structural plan covers the period 2025-2028 and presents a fiscal adjustment over four years.
- (21) The plan contains all information required by Article 13 of Regulation (EU) 2024/1263.
- (22) The plan commits to the net expenditure path indicated in Table 2, corresponding to average net expenditure growth of 5.9% over the years 2025-2028. The average net expenditure growth reported in the plan over the adjustment period 2025-2028 is broadly in line with¹¹ the reference trajectory transmitted by the Commission on 21 June 2024. The plan assumes potential GDP growth to decrease from 5.1% in 2024 to 4.8% in 2025 and further to 4.6% in 2026 then to remain stable at that level until 2028. In addition, the plan expects the growth rate of the GDP deflator to decrease from 3.1% in 2024 and remain stable at 2.6% in each year until 2028.

Table 2: Net expenditure path and main assumptions in Malta's plan

	2024	2025	2026	2027	2028	Average over the period of validity of the plan 2025-2028
Net expenditure growth (annual, %)	7.4	6.0	5.8	5.8	6.1	5.9
Net expenditure growth (cumulative, from base year 2023, %)	7.4	13.8	20.4	27.4	35.2	n.a.
Potential GDP growth (%)	5.1	4.8	4.6	4.6	4.6	4.7
Inflation (GDP deflator growth) (%)	3.1	2.6	2.6	2.6	2.6	2.6

Source: Medium-term fiscal-structural plan of Malta and Commission calculations.

Implications of the plan's net expenditure commitments for general government debt

- (23) If the net expenditure path committed to in the plan and the underlying assumptions materialise, general government debt would, according to the plan, slightly decrease from 49.2% in 2024 to 48.8% of GDP at the end of the adjustment period (2028), as per the following table. After the end of the adjustment period, over the medium term (i.e. until 2038), the debt ratio is set to decrease further over the medium term according to the plan, reaching 42.3% of GDP in 2038. Thus, according to the plan, general government debt would remain below the Treaty reference value of 60% of GDP over the medium term. This is plausible based on the plan's assumptions, as debt would be projected to stand below 60% of GDP by 2038 under all deterministic stress tests of the Commission's Debt Sustainability Analysis. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put

¹¹ The difference is not visible due to rounding.

forward in the plan is consistent with the requirement for debt as set out in Articles 6, point (a), and 16(2) of Regulation (EU) 2024/1263.

Table 3 General government debt and balance developments in Malta's plan

	2023	2024	2025	2026	2027	2028	2038
Government debt (% of GDP)	47.3	49.2	49.8	49.9	49.5	48.8	42.3
Government balance (% of GDP)	5	-4.0	-3.8	-3.4	-3.0	-2.6	-2.1

Source: Medium-term fiscal-structural plan of Malta

Implications of the plan's net expenditure commitments for the general government balance

- (24) Based on the plan's net expenditure path and assumptions, the general government deficit would gradually decrease from 4% of GDP in 2024 to 3.0% of GDP in 2027 and 2.6% in 2028. Thus, according to the plan, the general government balance would not exceed the 3% of GDP reference value at the end of the adjustment period (2028). In addition, in the ten years following the adjustment period (i.e. until 2038), the government deficit would not exceed 3% of GDP. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for the deficit as set out in Articles 6, point (b), and 16(2) of Regulation (EU) 2024/1263.

Time profile of the fiscal adjustment

- (25) The time profile of the fiscal adjustment, measured as the change in the structural primary balance, as described in the plan, is broadly linear, as required by Article 6, point (c) of Regulation (EU) 2024/1263. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the no-backloading safeguard clause set out in Article 6, point (c), of Regulation (EU) 2024/1263.

Table 4 Structural primary balance developments in Malta's plan

	2023	2024	2025	2026	2027	2028
Structural primary balance (% of GDP)	-3.5	-2.7	-2.2	-1.7	-1.2	-0.8
Change in structural primary balance (pps.)	n.a.	0.8	0.5	0.5	0.5	0.4

Source: Medium-term fiscal-structural plan of Malta

Consistency with the excessive deficit procedure

- (26) The net expenditure path set out in the plan is in line with the requirements under the excessive deficit procedure (in particular with the minimum annual structural adjustment established in Article 3(4), third subparagraph of Council Regulation (EC) 1467/97).

Consistency of the plan with the deficit resilience safeguard

- (27) The requirement of the preventive arm set out in Article 8 of Regulation (EU) 2024/1263 regarding the deficit resilience safeguard, which aims to provide a common margin relative to the deficit reference value of 3% of GDP, applies to Malta as of 2028, as the deficit is planned to be brought below 3% of GDP as of 2027. In 2028 the annual adjustment in the structural primary balance should therefore not be less than 0.4% of GDP if the structural deficit remained above 1.5% of GDP in 2027, to achieve a common resilience margin in structural terms of 1.5% of GDP. The fiscal adjustment that results from the plan's policy commitments and macroeconomic assumptions is 0.4% in 2028. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the deficit resilience safeguard.

Consistency of the plan with the debt sustainability safeguard

- (28) According to the plan, general government debt is set to remain below 60% of GDP throughout the adjustment period. Therefore, the debt sustainability safeguard does not apply according to the plan.

Macroeconomic assumptions of the plan

- (29) The plan is based on a set of macroeconomic and fiscal assumptions that is in line with the Commission's assumptions transmitted to Member States on 21 June 2024. It takes into account additional available information compared to the reference trajectory and includes accordingly updated macro and fiscal indicators. The impact of this update does not significantly affect the average net expenditure growth in the plan compared to the reference trajectory.

Fiscal strategy of the plan

- (30) According to the indicative fiscal strategy in the plan, the commitments on net expenditure will be delivered mainly through expenditure restraint. The indicative set of policy measures includes a gradual reduction of reliance on energy subsidies facilitated by structural reforms and strategic investments in the energy sector to promote renewable energy sources and enhance energy efficiency. The precise specification of the relevant policy measures is to be confirmed or adjusted and quantified in the annual budgets. At the same time, there are risks to the implementation of the indicative fiscal strategy in the plan, which stem from still high uncertainty on the exact specification of the measures. In addition, the Draft Budgetary Plan for 2025 specifies the policy measures through which the net expenditure commitment for 2025 will be achieved¹².

Reform and investment intentions in the plan responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the Union

- (31) The plan describes policy intentions concerning reforms and investments to respond to the main challenges identified in the context of the European Semester, especially the CSRs, and to address the common priorities of the EU. The plan includes 143 reforms and investments addressing the common priorities of the EU, of which 32 are financially supported by the RRF and 23 by the cohesion policy funds.
- (32) Concerning the common priority of a fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119 and the objectives outlined in Malta's National Energy and Climate Plan (NECP) for 2021-2030, the plan includes measures on streamlining permitting processes for renewable energy plants (included in the recovery and resilience plan (RRP)) and the continuation of programmes encouraging the adoption of renewable energy technologies by households and business. These measures, among others, aim to address: the CSRs on reducing reliance on fossil fuels and promoting renewable sources of energy issued by the Council from 2020 to 2024. The plan also includes measures to promote the retrofitting of non-residential private and public buildings (included in the RRP) and to adopt energy audits by SMEs, which, together with other measures, are expected to contribute to the 2019- 2023 CSRs on energy efficiency. The plan also contains large investments in waste-to-energy and organic processing plants as well as reforms included in the RRP related to construction and demolition waste, which, among others, are expected to contribute to the 2020 CSR on waste management. Measures included in the plan on the optimisation of potable water facilities aim, among others, to contribute to the 2019 CSR on resource management and efficiency. Measures in the plan to enhance sustainable transport means and infrastructure across multiple modes of transport, and other measures including those in the RRP, aim to address the CSRs on reducing congestion and emissions from road transport issued by the Council from 2019 to 2024. The plan also includes measures enhancing the resilience, capacity, and security of the Government's digital infrastructure (included in the RRP), improving access to digital technologies (partly through measures in the RRP), and other measures such as enhancing the Malta Business Registry online portal,

¹² See Commission Opinion on the Draft Budgetary Plan of Malta, 26.11.2024, C(2024)9061 final.

which are, among others, expected to contribute to the 2020 CSR on accelerating the digital transition.

- (33) Concerning the common priority of social and economic resilience, including the European Pillar of Social Rights, the plan includes measures to introduce incentive mechanisms to extend the working life beyond retirement age and diversifying retiring income. These measures, among others in the plan, aim to address the 2019 CSR on sustainability of the pension system. The plan also includes measures to secure critical medical supplies, strengthen primary care, and ensuring a sustainable workforce, also through the RRP reform to improve foreign workers' wellbeing which, among others, aim to address the 2019 and 2020 CSRs on strengthening the sustainability and resilience of the healthcare system. Measures in the plan on strengthening lifelong learning, upskill and reskill activities and improving the quality and access to education, and other measures including those in the RRP, aim to address the CSR on inclusive education and training issued by the Council in 2019, the CSR on enhancing skills and competences in response to the green transition of 2023, as well as the CSR on the quality and market relevance of education and training to address low educational outcomes of 2024. Furthermore, the plan includes measures to support venture capital and to revamp the national research and innovation framework, which among others, aim to address the 2020 CSR on promoting private investment and the 2019 and 2020 CSRs on research and innovation. Measures to reinforce the prosecution service (included in the RRP), and continue efforts to detect and prosecute corruption (included in the RRP) will, among others, aim to address the CSRs on strengthening the independence and efficiency of the justice system issued by the Council in 2019 and 2020 and the CSR on enhancing the governance framework issued by the Council in 2019. Moreover, the plan includes measures on anti-money laundering and taxation, such as the efforts to continue with the implementation of the Financial Intelligence Analysis Unit (FIAU) Strategy 2023-2026, and to introduce new legislation on inbound and outbound payments (included in the RRP), that will aim to address the CSR on progressing with strengthening the anti-money laundering framework issued by the Council in 2019 and 2020 and the CSRs on curbing aggressive tax planning practices issued by the Council from 2019 until 2024.
- (34) Concerning the common priority of energy security, the plan includes measures streamlining permitting processes for renewable energy plants and supporting investment in renewables as well as strengthening the electricity grid and storage capacity (also included in the RRP).
- (35) Concerning the common priority of defence capabilities, the plan includes investments in modernising military infrastructure, enhancing cybersecurity and aligning with European Defence Industrial Strategy.
- (36) The plan provides information on the consistency and, where appropriate, complementarity with the cohesion policy funds and Malta's RRP in various areas including the digitalisation and modernisation of public administration, promoting sustainable multimodal urban mobility, fostering resilience in the health sector by ensuring a strong and sustainable workforce and bolstering the resilience of the labour market, advancing gender equality and strengthening skills.
- (37) The Plan provides an overview of the public investment needs of Malta regarding the common priorities of the EU and aims to contribute to meet them. For a fair green transition, Malta identifies investment needs related to renewable energy sources, energy efficiency climate adaptation, circular economy, pollution prevention and

biodiversity protection. For a fair digital transition, the plan identifies investment needs related to digital skills, digital transformation of businesses and secure and sustainable digital infrastructure. Related to social and economic resilience, including the European Pillar of Social Rights, investments needs are identified in active labour policies and social services early childhood education, lifelong learning and vocational education and training (VET), health infrastructure and sustainable tourism. Related to energy security, investments needs are identified in renewable energy infrastructure, particularly solar and wind energy, energy efficiency and the development of smart grids and energy storage solutions. Related to build-up of defence capabilities, Malta identifies investment needs in its defence capabilities to ensure national and European security.

Conclusion of the Commission's assessment

- (38) Overall, the Commission is of the view that Malta's plan fulfils the requirements of Regulation (EU) 2024/1263.

OVERALL CONCLUSION

- (39) In accordance with Article 17 of Regulation (EU) 2024/1263, the net expenditure path as set in the plan should be recommended by the Council to Malta.

HEREBY RECOMMENDS that Malta

1. Ensure that net expenditure growth does not exceed the maxima established in Annex I to this Recommendation.

In addition, the Council invites Malta to ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations, and addressing the common priorities of the Union.

ANNEX I
Maximum growth rates of net expenditure
 (annual and cumulative growth rates, in nominal terms)
 Malta

Years		2025	2026	2027	2028
Growth rates (%)	Annual	6.0	5.8	5.8	6.1
	Cumulative	13.8	20.4	27.4	35.1

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

Done at Strasbourg,

For the Council
The President