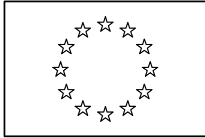

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REPORT FROM THE COMMISSION

Malta

Report prepared in accordance with Article 104(3) of the Treaty

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1. THE APPLICATION OF THE STABILITY AND GROWTH PACT IN THE CURRENT CRISIS SITUATION

Many EU countries are presently facing general government deficits above the 3% of GDP reference value set in the Treaty. The often strong deterioration in the deficit as well as the debt positions must be seen in the context of the unprecedented global financial crisis and economic downturn. Several factors are at play. First, the economic downturn brings about declining tax revenue and rising social benefit expenditure (e.g. unemployment benefits). Second, recognising that budgetary policies have an important role to play in the current extraordinary economic situation, the Commission called for a fiscal stimulus in its November 2008 European Economic Recovery Plan (EERP), endorsed by the European Council in December. The Plan explicated that the stimulus should be differentiated across Member States to reflect their different positions in terms of public finance sustainability and competitiveness and should be reversed when economic conditions improve. Finally, several countries have taken measures to stabilise the financial sector, some of which impact on the debt position or constitute a risk of higher deficits and debt in the future, although some of the costs of the government support could be recouped in the future.

The Stability and Growth Pact requires the Commission to prepare a report such as the present one whenever the deficit of a Member State exceeds the 3% of GDP reference value. This report, analyses the reasons for the breach of the reference value with due regard to the economic background and all other relevant factors. The amendments to the Stability and Growth Pact in 2005 aimed specifically at ensuring that in particular the economic and budgetary background was taken into account fully in all steps in the EDP. This means for instance that, if an "excessive deficit" is deemed to exist, adequate attention needs to be paid to the economic background when making recommendations on the pace of the correction. In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation.

2. LEGAL BACKGROUND

This report, which assesses recent and current budgetary developments in Malta and reviews the short- and medium-term prospects in the light of overall economic conditions and policy action taken by the government, is prepared according to Article 104(3) of the Treaty.

Article 104 of the Treaty lays down an excessive deficit procedure (EDP). This procedure is further specified in Council Regulation (EC) No 1467/97 "on speeding up and clarifying the implementation of the excessive deficit procedure"[1], which is part of the Stability and Growth

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[1] OJ L 209, 2.8.1997, p.6. Regulation as amended by Regulation (EC) No 1056/2005 (OJ L 174, 7.7.2005, p. 5). The report also takes into account the "Specifications on the implementation of the

Pact. According to Article 104(2) of the Treaty, the Commission has to monitor compliance with budgetary discipline on the basis of two criteria, namely: (a) whether the ratio of the planned or actual government deficit to gross domestic product (GDP) exceeds the reference value of 3% (unless either the ratio has declined substantially and continuously and reached a level that comes close to the reference value; or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value); and (b) whether the ratio of government debt to GDP exceeds the reference value of 60% (unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace).

Article 104(3) stipulates that this report has to "take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State".

Table 1: General government deficit and debt [a]

	2002	2003	2004	2005	2006	2007	2008		2009		2010	
							COM	MS [b]	COM	MS [b]	COM	MS [b]
General government balance	-5.5	-9.8	-4.7	-2.8	-2.3	-1.8	-3.5	-3.3	-2.6	-1.5	-2.5	-0.3
General government gross debt	60.1	69.3	72.1	69.8	63.8	61.9	63.3	62.8	64.0	61.9	64.2	59.8

Notes:

[a] In percent of GDP.

[b] December 2008 update of the stability programme.

Source: Eurostat, Commission services' Interim Forecast January 2009 and December 2008 update of the stability programme.

Immediately after accession to the EU, an EDP for Malta was initiated in May 2004 with the Commission's adoption of a report under Article 104(3) based on a general government deficit ratio of close to 10% of GDP and a gross debt ratio of 72% of GDP in 2003. In July 2004, the Council decided, on a recommendation from the Commission, that Malta was in excessive deficit according to Article 104(6).[2] At the same time, and also based on a Commission recommendation, the Council addressed recommendations under Article 104(7) to Malta with a view to bringing the situation of an excessive government deficit to an end by 2006, at the latest. In May 2007, the Council decided, again on a recommendation from the Commission, to abrogate the EDP according to Article 104(12) of the Treaty. This was based on a decline in the general government deficit from close to 10% of GDP in 2003 to 2.6% of GDP in 2006, which is below the 3% of GDP reference value, while the Commission services' spring 2007 forecast projected a further fall to 2.1% of GDP in 2007 and 1.6% in 2008. Government debt was seen to have declined from a peak of some 74% of GDP in 2004 to 66½% in 2006, while the Commission services' spring 2007 forecast projected a further fall to around 64¼% by the end of 2008, thus coming closer to the 60 % of GDP reference value.

Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", endorsed by the ECOFIN Council of 11 October 2005, available at http://ec.europa.eu/economy_finance/about/activities/sgp/main_en.htm.

[2] The EDP-related documents for Malta can be found at the following website: http://ec.europa.eu/economy_finance/netstartsearch/pdfsearch/pdf.cfm?mode=_m2

According to data notified by the authorities in September 2008[3], the general government deficit in Malta was planned to reach 3.3% of GDP in 2008, thus exceeding the 3% of GDP reference value, while general government gross debt was projected at 63.8% of GDP, above the 60% of GDP reference value but considerably lower than the 2004 peak of 72%. Subsequently, in the budget for 2009 presented on 3 November, and repeated in the December 2008 update of the stability programme, the planned deficit ratio for 2008 was confirmed at 3.3% of GDP, while debt is planned at 62.8% of GDP.

The planned figures for the 2008 deficit and debt provide *prima facie* evidence on the existence of an excessive deficit in Malta in the sense of the Treaty and the Stability and Growth Pact. The Commission has therefore decided to initiate the excessive deficit procedure for Malta with the adoption of this report. Section 3 of the report examines the deficit criterion and Section 4 the debt criterion. Section 5 deals with public investment and other relevant factors. The report takes into account the Commission services' January 2009 interim forecast released on 19 January.

3. DEFICIT CRITERION

In 2008, the general government deficit is planned to reach 3.3% of GDP.

Although in excess of 3% of GDP, the planned deficit can be regarded as close to the Treaty reference value.

The planned excess over the 3% of GDP reference value is not exceptional. In particular:

- it does not result from an unusual event in the sense of the Treaty and the Stability and Growth Pact. This definition is to be applied narrowly to cover events such as wars or natural disasters;

- it does not result from a severe economic downturn in the sense of the Treaty and the Stability and Growth Pact. Between 2005 and 2007, real GDP growth was above 3% annually, higher than potential growth. Moreover, despite slowing down, economic growth in 2008 is estimated at slightly above 2%. Over this period, the negative output gap gradually closed and turned positive. Therefore, the breach of the 3% of GDP limit is not the result of a severe economic downturn, which in the sense of the Treaty would have to precede the breach of the reference value.

The planned excess over the 3% of GDP reference value is temporary in the sense of the Treaty and the Stability and Growth Pact. Specifically, the outcome for 2008 is affected by a deficit-increasing one-off cost of 1% of GDP in 2008 related to early retirement schemes given to Malta Shipyards employees in preparation for the privatisation of the shipyards (there are also some deficit-reducing one-offs, however, related to the sale of land). Another factor burdening the budget in 2008 was a decision to keep utility rates unchanged during the first half of the year. This measure, with a higher-than-budgeted expenditure of 0.8% of GDP, has been reversed and a new utility tariff structure has been put in place, backdated to October

[3] According to Council Regulation (EC) No 3605/93, Member States have to report to the Commission, twice a year, their planned and actual government deficit and debt levels. The most recent notification of Malta can be found at: http://epp.eurostat.ec.europa.eu/portal/page?_pageid=2373,58110711&_dad=portal&_schema=portal.

2008, which practically eliminates energy subsidies to households. Taking into account this new utility tariff structure, the measures announced in the 2009 budget and with the one-off costs of the early retirement schemes vanishing, the Commission services' January 2009 interim forecast projects a fall in the deficit ratio from 3.5% of GDP in 2008 to 2.6% of GDP in 2009 (2.9% excluding further one-offs related to the sale of land). The Commission services' budgetary forecast for 2009 is more cautious than the deficit target of 1.5% of GDP in the December 2008 update of the stability programme. The government's more optimistic fiscal projections stem from stronger economic growth than in the Commission services' forecast. According to the programme, real GDP is expected to grow by 2.2% in comparison to the Commission services' forecast of 0.7%. There is a risk to both budgetary forecasts for 2009 arising from the possible demonstration effects of the recent health sector wage agreement on other segments of the public sector. For 2010, under the customary no-policy-change scenario, the general government deficit is projected to remain practically unchanged according to the Commission services’ January 2009 interim forecast. The updated stability programme projects a decline in the headline deficit to 0.3% of GDP in 2010, followed by a surplus of 1.2% of GDP in 2011.

In sum, the planned deficit in 2008 can be regarded as close to the 3% of GDP reference value and, while the planned excess over the reference value is not exceptional, it is temporary in the sense of the Treaty and the Stability and Growth Pact. This analysis suggests that the deficit criterion in the Treaty is not fulfilled.

Table 2: Macroeconomic and budgetary developments [a]

	2002	2003	2004	2005	2006	2007	2008		2009		2010	
							COM	MS [b]	COM	MS [b]	COM	MS [b]
Real GDP (% change)	2.6	-0.3	1.2	3.5	3.2	3.9	2.1	2.8	0.7	2.2	1.3	2.5
Potential GDP (% change)	1.8	2.2	2.1	2.1	2.1	2.3	2.0	2.7	1.9	2.7	1.9	2.7
Output gap (% of potential GDP)	0.4	-2.1	-3.0	-1.6	-0.5	1.1	1.2	0.1	0.0	-0.5	-0.6	-0.7
General government balance	-5.5	-9.8	-4.7	-2.8	-2.3	-1.8	-3.5	-3.3	-2.6	-1.5	-2.5	-0.3
Primary balance	-1.9	-6.4	-1.1	0.9	1.2	1.6	-0.2	0.0	0.8	1.9	0.8	3.0
One-off and other temporary measures	-	-3.1	2.3	1.6	0.7	0.6	-1.3	0.3	0.3	0.3	0.0	0.1
Government gross fixed capital formation	4.1	4.7	3.9	4.9	4.2	4.0	3.3	3.4	3.8	4.4	4.2	4.4
Cyclically-adjusted balance	-5.6	-9.1	-3.6	-2.2	-2.1	-2.2	-4.0	-3.3	-2.6	-1.3	-2.3	0.0
Cyclically-adjusted primary balance	-2.0	-5.7	0.0	-2.2	1.4	1.2	-0.6	0.0	0.8	2.1	1.0	3.3
Structural balance [c]	-	-6.0	-6.0	-3.9	-2.8	-2.8	-2.6	-3.7	-2.9	-1.6	-2.3	-0.2
Structural primary balance	-	-2.6	-2.3	-0.2	0.8	0.6	0.7	-0.3	0.5	1.7	1.0	3.1

Notes:

[a] In percent of GDP unless specified otherwise.

[b] December 2008 update of the stability programme. Potential GDP, output gap, cyclically-adjusted and structural balances recalculated by Commission services on the basis of the information in the programme using the commonly agreed methodology.

[c] Cyclically-adjusted balance excluding one-off and other temporary measures.

Source: *Eurostat, Commission services' Interim Forecast January 2009 and December 2008 update of the stability programme.*

4. DEBT CRITERION

In 2008, general government gross debt is planned to increase to 62.8% of GDP according to the update stability programme, above the 60% of GDP Treaty reference value[4]. This represents a reversal in the downward path of the gross debt ratio that began in 2004. However, between 2004 and 2007, the ratio has decreased by around 10 percentage points of GDP, i.e. by 3¼ percentage points of GDP per year on average. For the period as a whole, the decline in the gross government debt was mainly driven by stock-flow adjustments. Specifically, this was due to proceeds from privatisation amounting to some 6½% of GDP as

[4] As mentioned in Section 2, the planned debt ratio for 2008 in the budget for 2009 is slightly lower than according to the September 2008 notification.

the government continued with its policy to divest non-core public entities. A growing primary surplus also made a significant contribution to the falling debt ratio. According to the Commission services' January 2009 interim forecast, the debt ratio in 2008 is projected at 63.3% of GDP as a result of a return to a primary deficit, coupled with weak nominal GDP growth. The projected weakening of nominal GDP growth in 2009 and 2010 and the continued primary deficit are expected to be reflected in an increasing debt-to-GDP ratio according to the Commission services' forecast, which assumes, in the absence of specific information on for instance upcoming privatisations, that stock-flow adjustments make a neutral contribution to the change in the debt ratio. The debt ratio would rise to 64% of GDP in 2009 and 64.2% of GDP in 2010. According to the programme, general government debt would resume a downward trend, declining to 61.9% of GDP in 2009, 59.8% in 2010 and 56.3% in 2011. The difference in the trajectory of the debt ratio stems mainly from the more optimistic nominal GDP growth and the rapid improvement in the primary balance foreseen by the programme compared to the Commission services' forecast.

In view of the significant decline in the general government debt during the period 2004-2007, and despite the projected increase in the debt ratio over the forecast horizon, the debt ratio, from a medium term perspective, can be considered as "sufficiently diminishing and approaching the reference value at a satisfactory pace" in the sense of the Treaty and the Stability and Growth Pact.

This analysis suggests that the debt criterion in the Treaty is fulfilled.

Table 3: Debt dynamics[a]

(% of GDP)	2002	2003	2004	2005	2006	2007	2008		2009		2010	
							COM	MS[b]	COM	MS[b]	COM	MS[b]
Gross debt ratio	60.1	69.3	72.1	69.8	63.8	61.9	63.3	62.8	64.0	61.9	64.2	59.8
Change in the ratio	-2.0	9.2	2.8	-2.2	-6.1	-1.9	1.4	0.6	0.7	-0.9	0.2	-2.1
Contributions:[c]												
Primary balance	1.9	6.4	1.1	-0.9	-1.2	-1.6	0.2	0.0	-0.8	-1.9	-0.8	-3.0
Snowball effect	0.1	1.9	1.8	-0.7	-0.5	-0.7	0.5	-0.1	1.5	0.7	1.0	0.6
Of which:												
Interest expenditure	*3.6*	*3.4*	*3.6*	*3.7*	*3.5*	*3.4*	*3.4*	*3.3*	*3.4*	*3.4*	*3.3*	*3.3*
Growth effect	*-1.5*	*0.2*	*-0.8*	*-2.4*	*-2.1*	*-2.3*	*-1.2*	*-1.6*	*-0.5*	*-1.3*	*-0.8*	*-1.5*
Inflation effect	*-1.9*	*-1.7*	*-1.0*	*-2.0*	*-1.9*	*-1.6*	*-1.6*	*-1.8*	*-1.4*	*-1.3*	*-1.5*	*-1.2*
Stock-flow adjustment	-4.0	0.9	-0.1	-0.6	-4.3	0.4	0.8	0.8	0.0	0.3	0.0	0.4

Notes:

[a] In percent of GDP

[b] December 2008 update of the stability programme.

[c] The change in the gross debt ratio can be decomposed as follows:

$$\frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}} = \frac{PD_t}{Y_t} + \left(\frac{D_{t-1}}{Y_{t-1}} * \frac{i_t - y_t}{1 + y_t} \right) + \frac{SF_t}{Y_t}$$

where t is a time subscript; D, PD, Y and SF are the stock of government debt, the primary deficit, nominal GDP and the stock-flow adjustment respectively, and i and y represent the average cost of debt and nominal GDP growth (in the table, the latter is decomposed into the growth effect, capturing real GDP growth, and the inflation effect, measured by the GDP deflator). The term in parentheses represents the "snow-ball" effect. The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source: Eurostat, Commission services' Interim Forecast January 2009 and December 2008 update of the stability programme.

5. RELEVANT FACTORS

Article 104(3) of the Treaty provides that the Commission report "shall also take into account whether the government deficit exceeds government investment expenditure and take into account other relevant factors including the medium-term economic and budgetary position of the Member State". These factors are further clarified in Article 2(3) of Council Regulation (EC) No 1467/97, which also specifies that "any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess in qualitative terms the excess over the reference value and which the Member State has put forward to the Commission and to the Council" need to be given due consideration.

In view of the above provisions, the following four subsections consider in turn (1) the medium-term economic position; (2) the medium-term budgetary position (including public investment); (3) other factors put forward by the Member State; and (4) other factors considered relevant by the Commission.

5.1. Medium-term economic position

Cyclical conditions and potential growth. During the period 2004-2008, real GDP grew at a faster pace than potential GDP, leading the output gap to close and turning positive in 2007. Over the forecast period, economic growth is anticipated to remain weak as the global economic slowdown is anticipated to adversely affect both domestic and external demand. The latter will give rise to a deterioration of Malta's current account deficit which, after declining to 5.5% of GDP in 2007, is anticipated to increase to 7.1% by 2010. With potential growth rates (averaging 2% over the period 2008-2010) above expected GDP growth, the positive output gap is set to close by 2009 and turn negative in 2010.

Recent structural reforms. Although increasing in recent years, Malta's employment rate (54.6% in 2007) is well below the EU average and far from the Lisbon target, especially for women and older workers. Structural reforms in this area have primarily focused on targeted fiscal measures to attract more people, especially women, into the labour market. These measures, together with efforts at tackling undeclared work, which is considered significant especially among women, have begun to show some positive results. Still, it appears that there is significant scope for improving labour market performance which would have a positive long-term impact on growth and the budgetary position. Despite the adverse one-off budgetary impact related to the early retirement schemes, the process leading to the eventual privatisation of the Malta Shipyards is expected to have a favourable long-term effect on growth and public finances as resources are shifted to more productive uses and Malta's high level of state aid is lowered.

5.2. Medium-term budgetary position

Structural deficit and fiscal consolidation in good times. Malta's fiscal consolidation during 2004-2007 has been notable even in periods of weak economic growth (2004) or a negative output gap (2004-06). The deficit-to-GDP ratio followed a downward path declining from 4.7% of GDP in 2004 to 1.8% of GDP in 2007. The adjustment during this period was accounted for by a lower expenditure-to-GDP ratio underpinned by a lower share of compensation of employees, social benefits and interest expenditure in GDP. The budgetary consolidation was also supported by recourse to one-off operations (mostly sale of land, which is conventionally recorded as negative expenditure) averaging around 1.3% of GDP per year. In structural terms, i.e. adjusted for the cycle and one-off and other temporary measures, the deficit is estimated to have improved from a high of around 6% of GDP in 2004 to around 2¾% in 2007. According to the Commission services' January 2009 interim forecast, the structural deficit is estimated to have declined slightly to 2½% of GDP in 2008, compared to a medium-term objective (MTO) of a balanced position in structural terms, which the December 2008 update of the stability programme aims to achieve by 2011. Looking forward, the structural deficit is estimated to increase to around 3% of GDP in 2009 and to fall to 2¼% of GDP by 2010, against a background of worsening output gap.

Public investment. General government gross fixed capital formation reached a peak of almost 5% of GDP in 2005 but fell thereafter to 4% of GDP in 2007 and 3.3% in 2008, reflecting declining capital outlays as the large healthcare facility reached the completion stage. During the period 2005-2007, the public investment ratio has consistently exceeded the general government deficit ratio but according to the Commission services' forecast, the reverse would hold true in 2008. Between 2008 and 2010, the headline deficit ratio is anticipated to fall by 1 percentage point of GDP, while the public investment ratio is forecast to increase by almost 0.8 of a percentage point. When compared with the structural deficit, the public investment ratio exceeds the structural deficit ratio all through the period 2005-2010.

Quality of public finances. Although on a declining path between 2004 and 2007, total expenditure remains dominated by compensation of employees, social benefits and interest expenditure, which together represent some 68% of total spending. These categories of expenditure are inherently inflexible since, due to their nature, they are difficult to change at least in the short term. Malta's inflexible budget structure may hinder the adjustment of the fiscal stance in response to changing policy priorities or macroeconomic circumstances. The rigidity in public expenditure has resulted in limited progress in shifting resources towards growth-enhancing areas. There are also indications that there is scope for increasing the

efficiency of public spending, specifically in the high resource-absorbing categories of health and education.

Long-term sustainability of public finances. In its recommendation for a Council opinion on the December 2008 update of the stability programme, adopted today, the Commission assesses the long-term sustainability of Malta's public finances as follows. "The long-term budgetary impact of ageing in Malta is significantly lower than the EU average, with pension expenditure decreasing as a share of GDP over the long term according to the projections made in 2005. Yet, the 2006 pension reform, which aims at improving the level of pension while also increasing the retirement age, is likely to imply higher spending over the long run. In addition, the current level of gross debt is above the Treaty reference value. The budgetary position in 2008 as estimated in the programme, which is worse than the starting position of the previous programme, compounds the budgetary impact of population ageing on the sustainability gap. Improving the budgetary position would contribute to reducing the medium risks to the sustainability of public finances."

5.3. Other factors put forward by the Member State

In a letter of 7 November 2008, the authorities of Malta listed some relevant factors in accordance with Article 2(3) of Council Regulation (EC) No 1467/97. The analysis presented above already covers most of the items put forward by the authorities. The remaining items on their list, and their relevance for the purpose of this report, are as follows. For 2008, the authorities clarify that, following the submission of the September 2008 fiscal notification, the general government deficit was revised upwards with the full cost of the Malta Shipyards early retirement schemes of 1% of GDP (0.6% in the fiscal notification). As a result, the headline deficit would have amounted to 3.7% of GDP. Subsequently, the authorities revised the figure for the ESA95 adjustment. This revision concerns the accruals-based estimate of revenue, specifically: (i) time cash adjustment of 0.3% of GDP and (ii) interest receivable of 0.1%. As a result of these adjustments, the estimate for the 2008 general government deficit is 3.3% of GDP.

5.4. Other factors considered relevant by the Commission

Recent public finance developments in Malta are also influenced by the following factors in the area of budgetary institutions and procedures. While over the period 2004-2007 expenditure outturns have been below budgeted amounts and Malta's track record of achieving its deficit targets has been good until 2007, the budgetary framework shows signs of weaknesses at the execution stage. In particular, public expenditure is to a large extent still subject to discretionary decisions in the budget implementation phase, which may derail consolidation plans as evidenced by the experience in 2008. In particular, besides the unbudgeted early retirement schemes, spending overruns in 2008 were due to discretionary measures (energy subsidies) and a higher wage bill in health care (both average wages and staff levels), which in turn may lead to pressures to grant higher wages to other public sector employees.

The eventual liquidation of the shipyards, which is planned to happen sometime in 2009, may have implications for the budgetary outcome (deficit and debt). In the absence of detailed information, the Commission services' interim forecast does not include any impact.

However, based on currently available information, the assumption of Malta shipyards' debts could increase general government debt[5].

In October 2008, the government announced an increase in the guarantee on deposits held with banks in Malta from €20,000 to €100,000. No other measures to help stabilise the financial system have proved necessary so far.

6. CONCLUSIONS

The general government deficit in Malta is planned to reach 3.3% of GDP in 2008. Although Malta is experiencing the impact of the economic downturn and has responded to the call in the European Economic Recovery Plan with some measures to support the economy, the medium-term budgetary strategy is geared towards making further progress with consolidation. The breach of the reference value, which occurred in 2008 when the economic downturn was only starting, reflects specific expenditure decisions taken in the course of 2008 rather than the impact of the economic downturn.

The deficit is planned to be above but close to the 3% of GDP reference value. While the planned excess over the reference value cannot be qualified as exceptional within the meaning of the Treaty and the Stability and Growth Pact, it can be considered temporary. This suggests that the deficit criterion in the Treaty is not fulfilled.

General government gross debt has been above the 60% of GDP reference value since 2001 and is planned to stand at 62.8% of GDP in 2008. Over a medium term perspective, the debt ratio can be considered as diminishing sufficiently and approaching the reference value at a satisfactory pace within the meaning of the Treaty and the Stability and Growth Pact. This suggests that the debt criterion in the Treaty is fulfilled.

In line with the Treaty, this report has also examined "relevant factors". Given that the deficit can be regarded as satisfying the double condition of being both temporary and close to the 3% criterion, these factors should, according to the Stability and Growth Pact, be taken into account in the steps leading to the decision on the existence of an excessive deficit. On balance, the relevant factors seem to be relatively favourable.

The projected weakening of economic growth and the implementation of measures to support the economy increase the need to undertake enhanced surveillance under the EDP.

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[5] Preliminary estimates indicate that general government debt could increase by 0.5 to 1% of GDP in 2009 as a result of this transaction.