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VICE-PRESIDENT OF THE
EUROPEAN COMMISSION

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Brussels, 11 November 2011

Dear Minister Fenech,

Dean Tonio,

On the occasion of yesterday's publication of the Commission services' autumn forecast, I would like to recall the Council recommendations addressed to Malta under the Stability and Growth Pact.

The Council Recommendation of 16 February 2010 under Article 126(7) of the Treaty set 2011 as the time limit for Malta to correct the excessive deficit. Specifically, to this end, the Maltese authorities should bring the general government deficit below 3% of GDP in a credible and sustainable manner and in 2011 ensure a fiscal effort of $\frac{3}{4}$ pp. of GDP. Moreover, after the correction of the excessive deficit, Malta should ensure adequate progress towards the medium-term objective for the budgetary position.

Our forecast projects the deficit at 3.0% of GDP in 2011, which would, under a no-policy-change assumption, rise to 3.5% of GDP in 2012 and remain at around this level also in 2013. Therefore, at this stage the excessive deficit cannot be considered to be corrected in a durable manner, as recommended by the Council. While the structural effort in 2011 is estimated to be above the required fiscal adjustment, in 2010 there was a significant deterioration so that between 2009 and 2011 the structural balance improves only marginally. It is forecast to worsen again in 2012-13 under the no-policy-change assumption.

Moreover, the first European Semester underlined that sound public finances must be complemented with structural reforms in order to bring Europe back on a path of sustained growth, as reflected in the Council's recommendations of 12 July 2011 addressed to Malta. I therefore expect the necessary budgetary correction to be carried out with due regard to these recommendations.

Mr Tonio Fenech
Minister of Finance, the Economy and Investment
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I am committed to rigorously apply the new rules of economic governance from day one of their entering into force. As it stands, this would be in the second half of December.

Given that the budgetary year 2012 will start soon, a Commission recommendation for a Council decision under Art. 126(8) followed by a Council decision to give notice under Article 126(9) of the Treaty would become unavoidable in the absence of corrective measures that are spelled out in detail and adopted by mid-December. As you are well aware, under the new Stability and Growth Pact this step could prompt sanctions.

I therefore call on you to treat as a matter of urgency the adoption of a 2012 budget that ensures a timely and lasting correction of the excessive deficit and the implementation of structural reforms according to the Council recommendations.

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'JL' or similar, written in a cursive style.