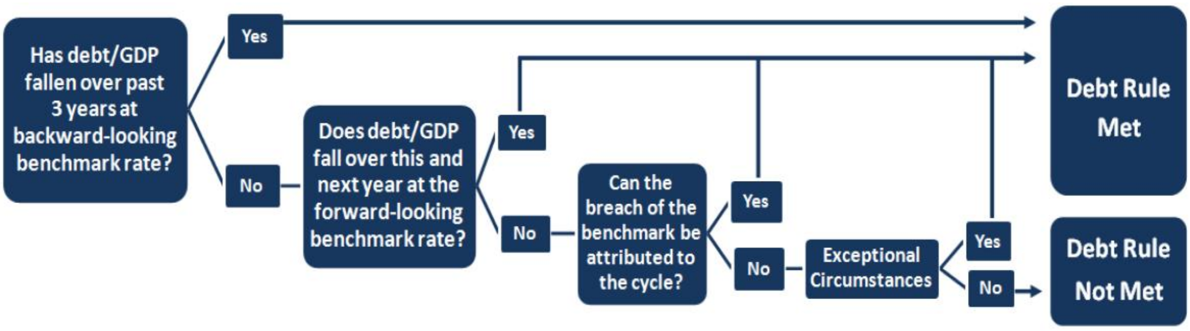
Box 2: The debt rule

The SGP debt criterion is part of the corrective arm of the SGP, alongside the 3 per cent of GDP deficit criterion. A country whose public debt-to-GDP ratio exceeds the 60% threshold must converge to this limit at a satisfactory pace. The definition of a 'satisfactory pace' was specified within the so-called 'six pack' regulations of the EU which entered into force in 2011. In the case of Malta, the debt rule is transposed into national legislation through Article 9 of the FRA.

A country can satisfy this debt rule if at least one of three different conditions, as outlined below, are met.

- The debt rule may be satisfied if the disparity between the actual debt-to-GDP ratio and the 60% benchmark has diminished at a minimum average rate of 5% (one-twentieth per year) over the past 3 years. This is referred to as the **backward looking benchmark**.
- Alternatively, convergence can be evaluated in terms of a forward looking assessment, termed the **forward-looking benchmark**, by looking at the debt-to-GDP trajectory over a 3 year period, covering years t+1, t and t-1.
- If neither criterion is satisfied, an assessment is carried out to determine whether this is due to **cyclical conditions** or **anomalistic circumstances**, in which case the country would also not be deemed to be in breach of the debt rule.

These conditions apply sequentially, implying that the requirement under the debt rule is based on the least demanding of the conditions at any point in time, as shown in the diagram below:



Source: The diagram is reproduced from http://www.fiscalcouncil.ie/wp-content/uploads/2014/06/AN-5.pdf

On the basis of the projections included in the USP, Malta has satisfied the forward looking debt rule in 2014 because the debt-to-GDP ratio is expected to decline further at a satisfactory pace in the period 2015-2016. Indeed both the MFIN and the COM expect the debt reduction benchmark to be met with a margin above 2 percentage points in both 2015 and 2016.