Box 4: The expenditure benchmark

The expenditure benchmark rule serves as a tool for governments to control their expenditure (appropriately defined) and sustain progress towards the MTO or maintain the MTO itself. Article 5 of Regulation (EU) No 1466/97 as amended in Regulation (EU) No 1175/2011 introduced the concept of expenditure caps by establishing a reference value for expenditure growth dependent on potential GDP growth, with the requirement that any excess is matched by discretionary revenue measures. Since Malta is on the path towards its MTO, the country is also subject to an additional convergence margin, which implies that expenditure growth must actually be restricted to below potential growth.

The reference expenditure growth rate is calculated by the COM and established on the basis of 10-year potential GDP growth rates, comprising both a backward element, ranging from years t-5 to t-1, and forward-looking element, covering years t, to t+4. The medium term rate is subsequently revised every 3 years by the COM.

The expenditure rule does not apply to total expenditure but rather should exclude cyclical unemployment spending, interest expenditure and expenditure on EU programmes that are fully-matched by EU funds revenue. Further adjustment relates to investment which is aggregated over a 4-year period, owing to the volatile nature of this expenditure component.

Box 5: ‘S*ignificant deviation*’ from the Medium Term Objective (MTO)

For Member States that have not yet reached their MTO, Article 6(3) of Regulation EC 1466/97 defines a significant deviation as a departure of:

- at least 0.5 % of GDP in a single year or at least 0.25 % of GDP on average per year in 2 consecutive years from the medium-term budgetary objective or from the appropriate adjustment path towards it; and/or
- a deviation in expenditure developments net of discretionary revenue measures from the reference rate of potential growth of at least 0.5 % of GDP in a single year or cumulatively in 2 consecutive years.

If the deviation is ex-post judged to be significant, the COM addresses a warning to the Member State concerned by virtue of Article 6(2) of Regulation EC 1466/97. Such a warning would automatically trigger Article 11(1) of the Fiscal Responsibility Act which requires Government to present to Parliament a Corrective Action Plan. Article 11(1) of the Act also requires that such a Plan is consistent with ‘any recommendations made to Malta under the Stability and Growth Pact (SGP) in relation to the period over which compliance with the budgetary rule is to be achieved and the size of the measures to be taken to secure such compliance’. This effectively means that both the size of the correction and the time-frames to achieve such a correction are determined by the European Institutions in line with the SGP requirements.