



Malta-EU Steering & Action Committee

ECONOMIC AND FINANCIAL AFFAIRS



30.06.09

Preliminary Draft Budget for 2010

The Preliminary Draft (as proposed by the Commission) Budget for the European Union for 2010 is now [online](#). Although voluminous, sections of interest include those related to the Commission and Total Revenue. Volume 'O' should provide a sufficient overview even though it is some 190 pages long.

Taken from the foreword, the main focus of the Preliminary Draft Budget (PDB) 2010 is to stimulate economic activity in Europe. In commitment appropriations, PDB 2010 amounts to €138.6 billion. This is equivalent to 1.17% of Community GNI, and leaves a margin of €1.8 billion. Payment appropriations of €122.3 billion are proposed. This represents 1.03 % of GNI, and leaves a margin of €12.2 billion. The biggest share of these funds — 45 % or €62.2 billion — will be channelled into growth and employment measures to help restore competitiveness across the Union. Key programmes will receive a boost in funding, notably the 7th Framework Programmes for Research and Technological Development (+ 12.1 %), the Competitiveness and Innovation Framework Programme (+ 3.3 %), and the Cohesion Fund (+ 9.6 %).

Discussions within the Council and the European Parliament shall now be taking place and preliminary positions will be adopted in July. Negotiations would then be expected to continue till close to the end of the year.

2009 Report on Public Finances: fiscal stimulus was needed to support economy, but overall success depends on a credible exit strategy

This year's edition of the Report on Public Finances reviews how Member States' fiscal policies address the challenges from the financial and economic crisis. It assesses the prospects for public finances and policy needs ahead. Accounting for the effect of the automatic stabilisers, fiscal policy is providing support to the economy in the region of 5% of GDP over 2009-2010, equivalent to more than €600 billion. This does not include the measures to support banks. In 2009, the largest fiscal stimulus as a percentage of GDP is being implemented in Spain, Austria, Finland, United Kingdom, Germany and Sweden. The report is available [online](#).

EU revenue and expenditure as at 31/05/2009



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Details on the revenue related to the EU budget as at end of May 2009 are available [online](#). The same is also the case for expenditure, by financial heading or policy area. More details available [online](#).

From the European Commission

COM (2009) 311: Proposal for a Council Decision on the financial contributions to be paid by the Member States to finance the European Development Fund (2nd instalment 2009)

COM (2009) 310: Communication from the Commission to the Council and the European Parliament - Financial information on the European Development Funds

COM (2009) 308: Proposal for a Decision of the European Parliament and of the Council on the mobilisation of the EU Solidarity Fund

[COM \(2009\) 295](#): Report from the Commission to the European Parliament and the Council - Sixth progress report on economic and social cohesion

COM (2009) 288: Preliminary Draft Amending Budget N°6 to the General Budget 2009 General Statement of Revenue

[SEC \(2009\) 827](#): Preliminary Draft Amending Budget No 7 to the General Budget 2009

From the Council

European Council

Economic indicators

The [Quarterly Report on the Euro Area](#) is out. It shows that there are early signs of improvement but euro-area economy is still in contraction mode. The report provides a preliminary assessment of the effectiveness of banking support measures implemented by Member States and discusses challenges ahead, particularly in terms of debt sustainability. A first focus section assesses the impact of the economic and financial crisis on potential growth. A second focus section discusses the economic and budgetary challenges posed by population ageing in times of crisis.



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[Euro area annual inflation](#) is expected to be -0.1% in June 2009 according to a flash estimate issued by Eurostat. It was 0.0% in May 3.

In June, the [Economic Sentiment Indicator](#) (ESI) for the EU and the euro area continued to improve for the third month in a row. However, in both areas, the level is still below the lows reached in the previous trough at the end of 1992. The ESI increased by 3.2 points in the EU and by 3.1 points in the euro area, to 71.1 and 73.3 respectively.

The [Business Climate Indicator](#) (BCI) for the euro area increased slightly in June. However, the level is still far below the previous historical lows of 1993. This suggests that year-on-year industrial production growth will still have been negative in May and will remain subdued in June.

Figures published by the ECB indicate that the annual growth rate of the outstanding amount of [debt securities](#) issued by euro area residents was 12.1% in April 2009, compared with 12.0% in March. For the outstanding amount of quoted shares issued by euro area residents, the annual growth rate increased from 1.5% in March 2009 to 1.7% in April.

In April 2009, within the euro area, average short-term MFI interest rates and a large majority of average long-term MFI interest rates were substantially lower than in the previous month. More information available in an ECB [press release](#).

From the European Central Bank

From the European Court of Justice

Other news

24 June: *The European Commission has examined the updated [Stability and Convergence Programmes](#) of Austria, Belgium, Romania, Slovenia and Slovakia. The Commission has also concluded that Malta, Lithuania, Poland and Romania are running excessive deficits in the sense of Article 104.7 of the EU Treaty and recommends deadlines for their correction.*

Following the submission of data by the Maltese authorities showing a deficit of 4.7% of GDP in 2008, the Commission adopted on 13 May a report under Article 104(3) of the Treaty as a first step in the excessive deficit procedure. The report concluded that neither the deficit nor the debt criterion in the Treaty is fulfilled.

The Commission recommends to the Council that Malta puts an end to the excessive deficit situation by 2010 in a credible and sustainable manner by rigorously implementing the



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budgetary measures planned for 2009 while avoiding any further deterioration in public finances. For 2010, new consolidation measures are called for. The recommendation also invites the Maltese authorities to ensure that budgetary consolidation towards the medium-term objective of a balanced budgetary position in structural terms is sustained after the excessive deficit has been corrected. To this end, the Maltese authorities are invited to spell out the measures necessary to achieve a lasting consolidation and to strengthen the medium-term focus of the budgetary framework.

23 June: The European Commission and Romania have signed a Memorandum of Understanding (MoU) on €5 billion [balance-of-payments loan](#).

23 June: The European System of Central Banks (ESCB) and the Committee of European Securities Regulators (CESR) have issued [recommendations aimed at increasing the safety, soundness and efficiency of securities clearing and settlement systems and central counterparties \(CCPs\) in the European Union, together with a feedback document to the consultations held in this respect.](#)

22 June: The European Commission launched a public consultation to determine whether International Standards on Auditing (ISAs) should be adopted in the EU. According to an independent study also published today, the benefits of adoption would outweigh the costs. Interested parties are invited to respond to the consultation by 15 September 2009. See further below.

22 June: The European Commission today made a payment of €2.7 million from the [European Globalisation adjustment Fund \(EGF\) to Spain](#). The money will help some 600 workers made redundant as a direct result of production in the automotive sector being shifted to countries outside the EU (Morocco, Turkey and Taiwan), increased imports of cars and their components into the EU and reduced EU market share in production of motor vehicles.

22 June: The [overall tax-to-GDP ratio](#) in the EU27 was 39.8% in 2007, a slight increase from 39.7% in 2006. The EU27 tax ratio, which stood at 40.6% in 2000, fell to 38.9% by 2004 and then started to rise. The overall tax ratio in the euro area (EA16) was 40.4% in 2007, and also rose slightly from 40.3% in 2006. Since 2000, taxes in the euro area have followed a similar trend to the EU27, although at a slightly higher level.

In comparison with the rest of the world, the EU27 tax ratio remains generally high, exceeding those of the USA and Japan by some 12 percentage points. However, the tax burden varies significantly between Member States, ranging in 2007 from less than 30% in Romania and Slovakia (both 29.4%) and Lithuania (29.9%), to a little less than 50% in Denmark (48.7%) and Sweden (48.3%).



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Since 2000, significant changes in tax-to-GDP ratios have taken place in several Member States. The largest falls were recorded in Slovakia, where the overall tax burden dropped from 34.1% in 2000 to 29.4% in 2007, and Finland (from 47.2% to 43.0%). The highest increases were observed in Cyprus (from 30.0% to 41.6%) and Malta (from 28.2% to 34.7%).

Current European Commission Consultations

The adoption of International Standards on Auditing (end date: 15/09/09)

The European Commission is considering the adoption of the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) for the statutory audits of EU private entities. Following an analysis of the comments received to the consultation paper the Commission may decide to adopt the ISAs.

Further information is available online:

http://ec.europa.eu/internal_market/consultations/2009/isa_en.htm

Consultation on Responsible Lending and Borrowing in the EU (end date: 31/08/08)

The European Commission has undertaken to come forward with measures at EU level on responsible lending and borrowing, including a reliable framework on credit intermediation, in the context of delivering responsible and reliable markets for the future and restoring consumer confidence. Building on previous consultations and policy development in the area of retail financial services, and especially mortgage credit, this consultation seeks to strengthen and deepen the Commission services' understanding of the remaining issues surrounding responsible lending and borrowing, and to inform our analysis of the varying policy options in this area. The objective of this consultation is to collect stakeholders' reactions to the issues raised in the consultation document.

Further information is available online:

http://ec.europa.eu/internal_market/consultations/2009/responsible_lending_en.htm

Consultation on the Report of the Expert Group on Credit Histories (end date: 31/08/09)

The Expert Group on Credit Histories was announced in the Commission Communication on *A single market for 21st century Europe* and the *White Paper on the Integration of EU Mortgage Credit Markets*. The Group was mandated to identify solutions which maximise credit data circulation whilst ensuring a high level of consumer protection (Commission Decision 2008/543/EC of 13.6.2008). The Group have presented its conclusions and recommendations in



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the form of a report published on [15.6.2009](#). The objective of this consultation is to collect stakeholders' reactions to this report.

Further information is available online:

http://ec.europa.eu/internal_market/consultations/2009/credit_histories_en.htm

Possible end-dates for SEPA migration (end date: 03/08/09)

The SEPA (Single Euro Payments Area) project holds much promise in terms of improved efficiency, dynamism and competitiveness of the European economy. Significant progress has been made since 2002, but migration to SEPA remains slow. It is therefore necessary to analyse whether some deadline(s) should be defined for the migration of corresponding legacy payment products to the new SEPA credit transfers and direct debits. Setting (a) clear deadline(s) for the migration of legacy products to SEPA products would provide certainty so that stakeholders can adopt a SEPA strategy, an adequate migration planning and allocate the necessary budgets for SEPA in the next few years. Concerns have however been expressed that more time might be needed to see how the market develops spontaneously before assessing whether there is a market failure or not.

This consultation is seeking to get a more comprehensive view of stakeholders' positions on this issue. The consultation paper presents all the options available today regarding the definition of such (an) end-date(s) and regarding its potential practical modalities, e.g. if (an) end-date(s) is(are) seen as needed, there could be one common end-date for SCT and SDD migration or two separate end-dates; (an) end-date(s) could be set at national level and/or at European level; it(they) could be left to self-regulation or could be set by regulation.

Further information is available online:

http://ec.europa.eu/internal_market/consultations/2009/sepa_en.htm

The review of the Directive on Deposit Guarantee Schemes (end date: 27/07/09)

This consultation intends to gather contributions from the public for the review of the Directive on Deposit Guarantee Schemes (DGS). DGS reimburse a limited amount of deposits to depositors whose bank has failed. From the depositors' point of view, this protects a part of their wealth from bank failures. From a financial stability perspective, this promise prevents depositors from making panic withdrawals from their bank, hereby preventing severe economic consequences.

In order to ensure greater effectiveness of the Deposit-Guarantee Schemes Directive and to respond adequately to any deficiencies or risks that may have arisen as evidenced in the current



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financial crisis, the Commission has to submit a report and if appropriate, legislative proposals by the end of 2009.

Further information is available online:

http://ec.europa.eu/internal_market/consultations/2009/deposit_guarantee_schemes_en.htm

European Financial Supervision (end date 15/07/09)

The European Commission adopted on 27 May 2009 a Communication on Financial Supervision in Europe proposing a set of ambitious reforms to the current architecture of financial services committees, with the creation of a new European System of Financial Supervisors (ESFS), composed of new European Supervisory Authorities, and a European Systemic Risk Council (ESRC). The Commission is inviting comments on its Communication to be received by 15 July 2009.

Further information is available online:

http://ec.europa.eu/internal_market/consultations/2009/fin_supervision_may_en.htm

Papers of interest

The European Central Bank has published a number of working papers, entitled as follows:

- [Does Private Equity Investment Spur Innovation? Evidence from Europe](#), Working Papers Series No. 1063/June 2009
- [External Shocks and International Inflation Linkages: A Global VAR Analysis](#), Working Paper Series No. 1062/June 2009
- [The Distribution of Household Consumption-Expenditure Budget Shares](#), Working Paper Series No. 1061/June 2009
- [Forecasting the World Economy in the Short-term](#), Working Paper Series No. 1059/June 2009

It has also issued its [Financial Stability Review](#) June 2009.

The European Commission has issued: [Impact of the Global Crisis on neighbouring countries of the EU](#), European Economy, Occasional Papers 48, June 2009.