

Key messages:

- Macroeconomic conditions are expected to remain benign; real GDP growth gradually easing from 6.6% in 2017 to 4.6% in 2021.
- There was full compliance with the fiscal rules in 2017 and full compliance is again expected for 2018-2021.
- The country is expected to maintain its MTO for 2018-2021.
- The gross debt-to-GDP ratio is projected to continue declining and to reach 35.6% of GDP in 2021.
- The MFAC endorsed both the macroeconomic and the fiscal forecasts published in the Stability Programme Update 2018-21.
- It noted the possibility that the fiscal surplus could be slightly more than anticipated in 2018, but slightly less between 2019 and 2021.

Macroeconomic outlook

Real GDP growth in 2018 is anticipated to decelerate slightly, to 6.1% from 6.6% in 2017. Over the forecast horizon, real growth is to gradually ease to 4.6% in 2021. Final domestic demand is set to be the main driver of growth throughout the forecast horizon (see chart 1). The macroeconomic forecasts within the Update of Stability Programme 2018-2021 were endorsed by the MFAC. The Council views the balance of risks to GDP growth for the period 2018-2021 as broadly neutral, with the possible downside risks associated to the external sector likely to be compensated for by possible upside risks related to domestic demand.

Short and Medium-term fiscal outlook

The MFAC considers the planned stream of fiscal surpluses in the region of 1.0% of GDP for the period 2018 to 2020, and slightly higher, at 1.6% of GDP, in 2021, within its endorsable range (See Chart 2). Generally, both revenue and expenditure as a percentage of GDP are projected to experience a downward trend. The Council considers the revenue forecasts as generally prudent with the possibility of upside risks over the period 2018 to 2021. The examination of risks to the expenditure forecasts indicates that on aggregate there could be possible downside risks in 2018, but upside risks for the period 2019 to 2021. On balance, for 2018 there is the possibility of a larger fiscal surplus, while for the period 2019 to 2021, the yearly fiscal surplus could be less than planned. The anticipated steady decline in the debt-to-GDP ratio, from 50.8% in 2017 to 35.6% by 2021, is also deemed to be plausible (See Chart 3).

Summary of risks to the revenue and expenditure projections

	2018	2019	2020	2021
Risks to the revenue projections				
Taxes on production and imports	↑	↑	↑	↑
Current taxes on income and wealth	↔	↔	↔	↔
Capital taxes	↔	↔	↔	↔
Social contributions	↔	↔	↔	↔
Property income	↔	↔	↔	↔
Other revenue	↔	↔	↔	↔
Total revenue	↑	↑	↑	↑
Risks to the expenditure projections				
Compensation of employees	↔	↑	↑	↑
Intermediate consumption	↔	↑	↑	↑
Social benefits	↔	↔	↔	↔
Interest expenditure	↔	↔	↔	↔
Subsidies	↔	↔	↔	↔
Gross fixed capital formation	↓	↔	↔	↔
Capital transfers payable	↔	↔	↔	↔
Other expenditure	↓	↓	↓	↓
Total expenditure	↓	↑	↑	↑
RISKS TO THE FISCAL BALANCE	↑	↓	↓	↓

Fiscal framework and national fiscal rules

There was full compliance with the fiscal rules which feature in the Stability and Growth Pact and the Fiscal Responsibility Act, in 2017. The Government is targeting a structural surplus in each of the forecast years, ranging from 0.6% of potential output in 2018 to 1.8% in 2021, thus ensuring that the MTO continues to be respected, as has been the case since 2016 (See Chart 2). The Government also plans to reduce the debt ratio further, to 35.6% of GDP by 2021. The materialisation of these fiscal plans, which the Council has already considered as plausible and within its endorsable range, will ensure that over the period 2018 to 2021 the fiscal rules continue to be complied with.

Key indicator forecast

		2016	2017	2018 f	2019 f	2020 f	2021 f	Source
Real GDP growth rate – MoF est.	[% y-to-y]	5.5	6.6	6.1	5.3	4.8	4.6	1
Real GDP growth rate – ECFIN est.	[% y-to-y]	5.5	6.6	5.8	5.1	-	-	2
Output Gap – MoF est.	[% of P.GDP]	0.7	1.0	1.0	0.4	0.0	-0.6	1
Output Gap – ECFIN est.	[% of P.GDP]	1.2	1.3	1.0	0.3	-	-	2
GG balance – MoF est.	[% of GDP]	1.0	3.9	1.1	0.9	0.9	1.6	1
GG balance – ECFIN est.	[% of GDP]	1.0	3.9	1.1	1.3	-	-	2
GG debt – MoF est.	[% of GDP]	56.2	50.8	45.8	42.5	39.3	35.6	1
GG debt – ECFIN est.	[% of GDP]	56.2	50.8	47.1	43.4	-	-	2
GG structural balance – MoF est.	[% of P.GDP]	0.7	3.6	0.6	0.7	0.9	1.8	1
GG structural balance – ECFIN est.	[% of P.GDP]	0.5	3.5	0.6	1.1	-	-	2

Sources:

- 1 - Medium-Term Fiscal Strategy Malta: Update of Stability Programme 2018-2021
- 2 - European Commission Spring 2018 Forecast
- 3 - MFAC Macroeconomic, Fiscal and Overall Assessments of the Update of Stability Programme for Malta 2018-2021

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Chart 1: Contributions to real GDP growth (pp)

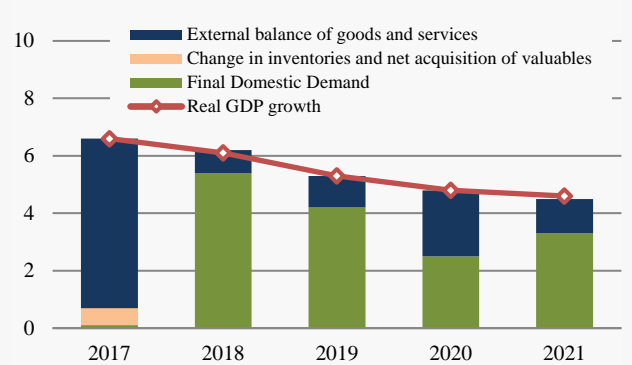


Chart 2: Revenue, expenditure and general government balance (% of GDP)

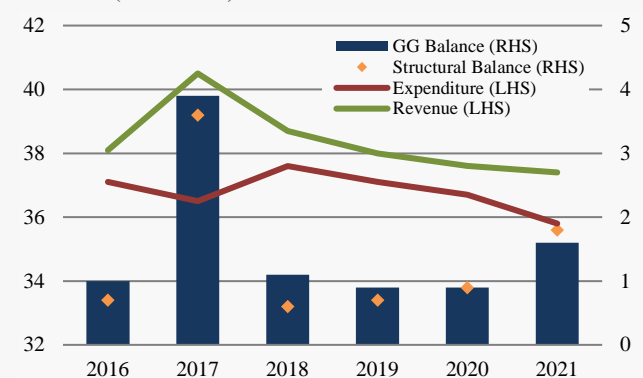


Chart 3: Debt-to-GDP ratio (% of GDP)

