

15 October 2018

The Hon Prof Edward Scicluna B.A. (Hons) Econ,
M.A. (Toronto), Ph.D (Toronto), D.S.S (Oxon) MP
Minister for Finance
Maison Demandols,
South Street,
Valletta. VLT 2000

Dear Minister,

**ASSESSMENT OF THE MACROECONOMIC FORECASTS 2018 – 2019
CONTAINED IN THE DRAFT BUDGETARY PLAN 2019**

The Malta Fiscal Advisory Council has an obligation under Article 13 of the Fiscal Responsibility Act to endorse, as it considers appropriate, the macroeconomic forecasts prepared by the Ministry for Finance on which the Draft Budgetary Plan for 2019 is based.

The Ministry forwarded to the Council its preliminary macroeconomic forecasts on 6 October 2018, followed by the transmission of the final set of forecasts on 12 October 2018. The official macroeconomic forecasts indicate that real GDP is expected to grow by 5.8% in 2018 and by 5.3% in 2019 (see Appendix 1).¹ Domestic demand is expected to be the main contributor to real GDP growth in both years. The forecast for nominal GDP growth is stable at 7.7% for 2018 and 2019. Meanwhile, yearly inflation is expected to increase slightly, to 1.7% and 1.9% over the forecast horizon. Employment is expected to grow by 5.0% in 2018 and by 3.7% in 2019, with the unemployment rate estimated at 4.0% and 4.1% respectively in these two years. The economy is expected to continue operating slightly above potential, with the output gap estimated to narrow gradually, to 0.9% in 2018 and 0.1% in 2019.

¹ The cut-off date used by the Ministry for Finance to prepare the macroeconomic forecasts was 5 October 2018 for all data, with the exception of fiscal data, whose cut-off date was 11 October 2018.

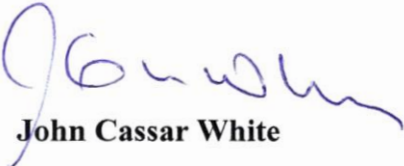
The Council's approach to the assessment of the macroeconomic forecasts consisted of: a review of the forecasting methodologies employed by the Ministry; a review of the assumptions used; an evaluation of the forecast trajectory of the various macroeconomic variables; and comparisons with the previous vintage of official macroeconomic forecasts and with the latest available forecasts prepared by the European Commission and the Central Bank of Malta. Furthermore, the Council held discussions with the Ministry's senior officials to evaluate the plausibility of the assumptions underpinning the macroeconomic forecasts and to seek further clarifications where appropriate. Supporting documents and additional explanations were provided by the Ministry to justify the forecasts being presented.

The Ministry confirmed that there were no changes to the macroeconomic forecasting methodologies compared to the previous round. In line with the previous years' practices, no specific fiscal measures which might feature in the Draft Budgetary Plan were discussed with the Council, prior to the publication of the Plan.

Based on the information available to the Malta Fiscal Advisory Council, and after taking due consideration of the uncertainty inherent in macroeconomic forecasts, the Council considers the full set of macroeconomic forecasts for 2018 and 2019 prepared by the Ministry for Finance as part of the Draft Budgetary Plan 2019 to lie within its endorsable range.

A detailed assessment of the macroeconomic forecasts carried out by the Council to support its endorsement decision will be provided in the Council's forthcoming Report.

Yours sincerely,



John Cassar White
Chairman

Appendix 1: Main macroeconomic indicators

GDP components (chain linked volumes, reference year 2010)	2017	2018	2019
Private final consumption expenditure (including NPISH) (y-o-y %)	3.7	5.6	4.1
General government final consumption expenditure (y-o-y %)	2.8	15.0	8.2
Gross fixed capital formation (y-o-y %)	-7.3	1.3	8.4
Exports of goods and services (y-o-y %)	3.8	1.3	2.2
Imports of goods and services (y-o-y %)	-1.9	2.0	2.2
Real GDP	6.7	5.8	5.3
Contribution to real GDP growth from final domestic demand (pp)	0.4	5.4	5.0
Contribution to real GDP growth from inventories (pp)	-1.5	1.4	0.0
Contribution to real GDP growth from net exports (pp)	7.8	-1.0	0.3
Nominal GDP	9.4	7.7	7.7
Inflation rate (based on the HICP) (%)	1.3	1.7	1.9
Employment growth (National Accounts definition) (%)	4.0	5.0	3.7
Unemployment rate (based on the Labour Force Survey) (%)	4.6	4.0	4.1
Output gap (% of potential output)	1.4	0.9	0.1

Note: Figures for 2017 refer to actual values as published by the National Statistics Office at the time of preparation of the Draft Budgetary Plan, while figures for 2018 and 2019 represent the forecasts prepared by the Ministry for Finance.

Source: Ministry for Finance