



St Calcedonius Square
Floriana FRN 1530, Malta
T: +356 2247 9200
Fax: +356 2247 9219
info@mfac.org.mt
www.mfac.org.mt

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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 CONTAINED
IN THE UPDATE OF STABILITY PROGRAMME 2019 – 2022**

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 Update of Stability Programme for the period 2019 to 2022 is based.

The Ministry forwarded to the Council its preliminary macroeconomic forecasts on 18 April 2019, followed by the transmission of the final set of forecasts on 26 April 2019.¹ The official macroeconomic forecasts indicate that real GDP is expected to grow by 6.2% in 2019, 5.7% in 2020, 5.1% in 2021 and 5.0% in 2022 (see Appendix 1). The scenario being forecast is that of a gradual easing from the 6.6% real GDP growth recorded in 2018. Domestic demand is expected to be the main driver of real GDP growth throughout the period 2019 to 2022. The forecast for nominal GDP growth indicates a slight acceleration from 8.9% in 2018 to 9.3% in 2019, followed by a smooth deceleration, respectively to 8.3%, 7.4% and 7.2% in the outer three years. In turn, yearly inflation is expected to continue hovering at or below 2.0% throughout the forecast horizon. Meanwhile, employment growth is expected to remain vigorous, but ease gently, from 5.6% in 2018, to 3.8% by 2022. As a result, the unemployment rate

¹ The cut-off date used by the Ministry for Finance to prepare the macroeconomic forecasts was 26 April 2019.

is expected to remain low, but rise marginally, from 3.7% in 2018, to 4.0% towards the end of the forecast horizon. At an aggregate level, the economy is projected to operate slightly above potential in 2019, but thereafter the economic cycle is estimated to swing to slightly below potential.

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 for the Maltese economy prepared by the European Commission, the International Monetary Fund, the Central Bank of Malta and credit rating agencies. 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. Additional documents and explanations were provided by the Ministry to support the forecasts being presented.²

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 the period 2019 to 2022 prepared by the Ministry for Finance as part of the Update of Stability Programme 2019 – 2022 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

² The Ministry confirmed that there were no major changes to the macroeconomic forecasting methodologies compared to the previous round.

Appendix 1: Main macroeconomic indicators

	2018	2019	2020	2021	2022
Real GDP Components <i>chain linked volumes, reference year 2010</i>					
Private final consumption expenditure (including NPISH) (y-o-y %)	7.3	5.8	3.9	3.4	3.3
General government final consumption expenditure (y-o-y %)	11.7	11.6	4.7	2.9	3.0
Gross fixed capital formation (y-o-y %)	-3.7	13.7	5.4	5.7	3.0
Exports of goods and services (y-o-y %)	2.1	2.4	4.1	3.6	3.5
Imports of goods and services (y-o-y %)	1.3	3.4	3.0	2.5	2.0
Real GDP (y-o-y %)	6.6	6.2	5.7	5.1	5.0
<i>Contribution to real GDP growth from:*</i>					
Domestic demand (pp)	4.3	7.0	3.7	3.1	2.6
Inventories (pp)	0.9	0.0	0.0	0.0	0.0
Net exports (pp)	1.4	-0.8	2.1	2.0	2.4
Nominal GDP (y-o-y %)	8.9	9.3	8.3	7.4	7.2
Inflation rate (based on the HICP) (%)	1.7	1.9	2.0	1.8	1.8
Employment growth (National Accounts definition) (%)	5.6	4.6	4.3	4.0	3.8
Unemployment rate (based on the LFS) (%)	3.7	3.8	3.9	4.0	4.0
Output gap (% of potential output)	0.6	0.4	-0.3	-0.5	-0.5

* figures may not add up due to rounding

Note: Figures for 2018 refer to the provisional values as published by the National Statistics Office on 8 March 2019 (News Release 038/2019), while figures for the period 2019 to 2022 represent the forecasts prepared by the Ministry for Finance.

Source: Ministry for Finance