MFAC
MALTA FISCAL ADVISORY COUNCIL

# Annual Report and Statement of Accounts 2018

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*The cut-off date for the information included in this Report is 15 March 2019.*

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ISSN 2520-3576 (Print)
ISSN 2520-3584 (Online)

MFAC

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# ANNUAL REPORT
# AND
# STATEMENT OF ACCOUNTS
# 2018

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29 March 2019

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,

**LETTER OF TRANSMITTAL**

In terms of article 58 of the Fiscal Responsibility Act, 2014 (Cap 534), I have the honour to transmit to you a copy of the Annual Report of the Malta Fiscal Advisory Council for the year 2018.

In terms of article 56 of the Fiscal Responsibility Act, I am also transmitting a copy of the audited accounts of the Council for the financial year ended 31 December 2018.

Yours sincerely,

**John Cassar White**
**Chairman**

# Vision

*To contribute to stronger fiscal governance in Malta and offer assurance about the quality of the official economic and fiscal projections, and about fiscal sustainability, through independent analysis and advice.*

# Mission statement

The Malta Fiscal Advisory Council (MFAC) is an independent institution established under the Fiscal Responsibility Act (2014) which has the primary objective to contribute to sustainable public finances and sound economic policy making in Malta.

The MFAC seeks to carry out its statutory responsibilities by:

**i.** Assessing the plausibility of the Government's macroeconomic forecasts and fiscal projections and endorsing them as it considers appropriate;

**ii.** Assessing whether the fiscal stance is conducive to prudent economic and budgetary management;

**iii.** Assessing the extent to which the conduct of fiscal policy in Malta is consistent with the country's fiscal commitments as a member of the European Union;

**iv.** Assessing the extent to which the annual budgetary plan and medium-term fiscal plan comply with the Fiscal Responsibility Act and the Stability and Growth Pact;

**v.** Assessing the extent to which the fiscal and economic policy objectives proposed by the Government are being achieved;

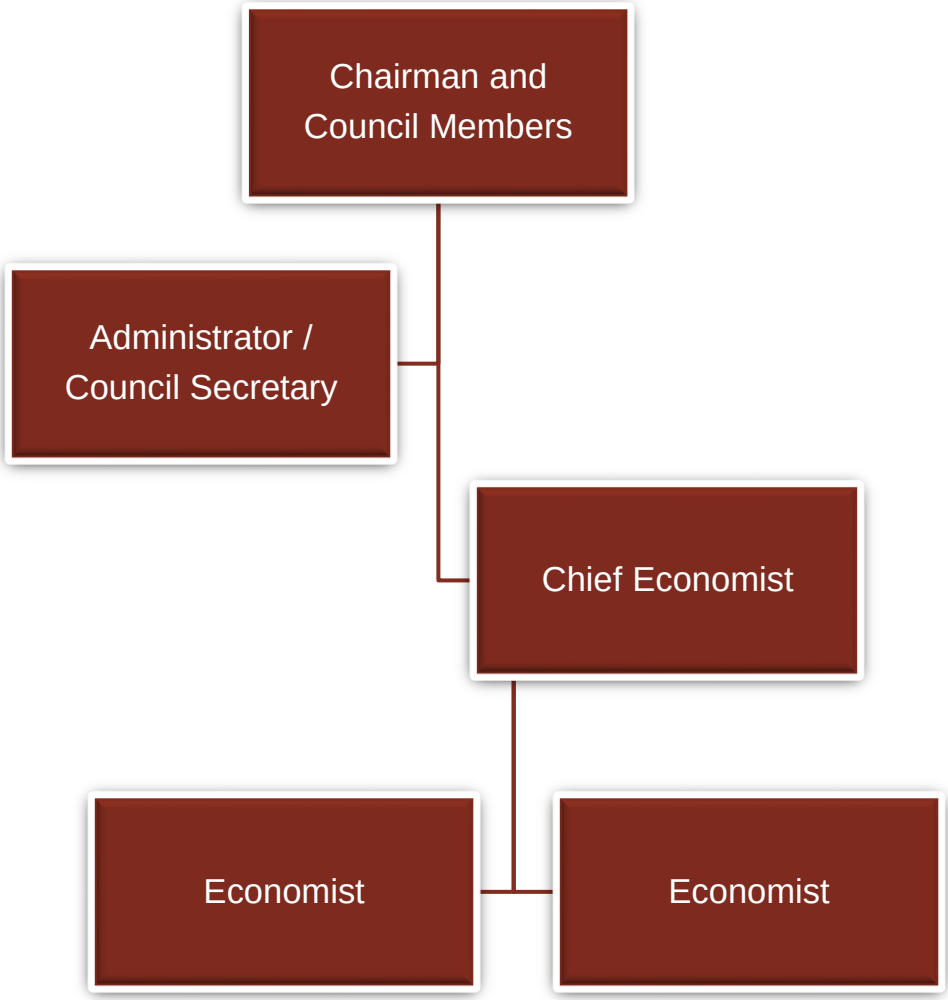
**vi.** Determining whether exceptional circumstances, which would allow for a departure from the announced fiscal plans, exist or have ceased to exist;

**vii.** Issuing opinions and formulating recommendations in the areas of public finances and economic management;

**viii.** Advising the Government and the Public Accounts Committee concerning the maintenance of fiscal discipline; and

**ix.** Disseminating information and analysis to the public to increase awareness and understanding of economic and fiscal issues.

# Organisation chart



# The Malta Fiscal Advisory Council

*From left to right:*

**Dr Ian Cassar, Mr John Cassar White** (Chairman), **Dr Carl Camilleri**

# Staff

*From left to right:*

**Mr Kurt Davison** (Economist), **Ms Alison Bugeja** (Administrator/Council Secretary), **Mr Malcolm Bray** (Chief Economist), **Mr Christian Xuereb** (Economist)

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# Chairman's statement

I present with pleasure the fourth Annual Report of the Malta Fiscal Advisory Council, which covers the activities performed during 2018. The Annual Report also contains two special chapters, one focusing on fiscal transparency and the other on fiscal risks. These chapters offer useful insight about issues which the Council considers as relevant for the conduct of sound fiscal policy in Malta.

As the new chairman of the Council, my first statement reflects on Malta's recent fiscal achievements, outlines some priorities for the medium term, and presents further ideas for the longer term.

In recent years, economic growth has been robust and supported by vigorous job creation. Combined with the proceeds generated through the Individual Investor Programme, this has contributed to shift the annual fiscal balance from a deficit into a surplus. Additionally, the expansion in economic activity and the improved public finances contributed to the steady decline in the public debt-to-GDP ratio. Such benign macro-fiscal environment is expected to prevail again in 2019.

The Council welcomes the Government's objective to continue over-achieving the Medium-Term Objective of structural balance, and to lower the debt-to-GDP ratio further. It is important that such plans are closely adhered to. Strong public finances are a pre-condition for sustainable growth, apart from enabling the country to comply with the fiscal rules prescribed in the Stability and Growth Pact and the Fiscal Responsibility Act.

Since its establishment in 2015, the Council has always concluded that the macroeconomic and fiscal forecasts presented by the Government in its annual Draft Budgetary Plan and Update of Stability Programme, were within the Council's endorsable range. Plausible macroeconomic and fiscal forecasts are a pre-condition for sound policymaking. The setting up of the Council as a watchdog over the

Government's official forecasts appears to have attained the desirable effect in this respect.

In terms of fiscal transparency, the Council notes the improvements recorded over time, as confirmed by the independent evaluation carried out by the International Monetary Fund in 2018. Indeed, the amount of information publicly available has increased, mainly through the specific reports mandated by the Fiscal Responsibility Act. Still, there remains scope room for improvement, as explained in a dedicated chapter in this Annual Report.

The Fiscal Council is satisfied that its views are well received by the Government and regularly sought by international institutions as part of their surveillance work. However, there is scope for enhancing the level of engagement by some key stakeholders, particularly by the Members of Parliament and the constituted bodies. To this effect, the Annual Report also features a chapter on fiscal risks to help raise the level of awareness and discussions about factors which could potentially impact public finances in Malta.

Looking ahead, it is important that the fiscal achievements are not unwound through unsustainable expenditure initiatives or unnecessary revenue easing. This is particularly relevant as pressures are likely to increase over time, while some adverse risks might eventually crystallise. At the same time, the right balance needs to be struck so that the annual expenditure allocations across Ministries and state functions safeguard the effective delivery of good quality public services. This is necessary both to sustain the country's long-term growth potential and to maintain social cohesion. Addressing issues pro-actively is often better and requires fewer resources than allowing problems to build up. Current challenges facing the country in relation to transport and the environment should serve as lessons in this respect. Shifting towards a medium-term budgetary framework should facilitate prioritisation and utilisation of the Government's revenues.

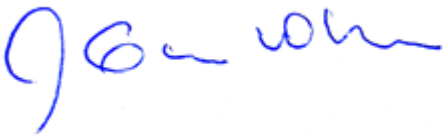
It is important that the build-up of fiscal buffers continues to be given due attention. Channelling the bulk of the proceeds generated through the Individual Investor Programme to the National Development and Social Fund has been a justifiable decision in this respect. It is important that such funds, which to date have been mostly saved, strike a good balance between meeting the needs of the present society and those of future generations. This is particularly relevant when considering that there is

the possibility that the European Union funds which Malta may be entitled to in future, may be less generous, in view of the country's fast pace of economic growth experienced in recent years.

Greater attention needs to be devoted to the rapid demographic changes experienced by the country in recent years. This phenomenon has brought tangible benefits, in terms of expanding labour supply, addressing skills gap and moderating wage pressures. To date, population growth also appears to have exerted a favourable net impact on public finances. However, the downside is that demographic changes increase pressure on the country's infrastructure and public services, which need to be addressed.

The benign macroeconomic environment offers a window of opportunity to focus greater attention on longer term issues such as pensions and health care. The Council draws attention to the next pensions review by the Pensions Strategy Group which is due by 2020. This should be a useful exercise to see whether progress has been made in respect of adequacy and sustainability, or whether more aggressive strategies might be necessary, based on the economic and demographic projections available at that time. Equally important is the need to evaluate how the public health care system will be able to cope with the ageing process and technological advancement, as both tend to increase the demand for health services, with significant implications both in terms of infrastructure requirements as well as costs.

Finally, I would like to thank the main stakeholders of the Malta Fiscal Advisory Council for their support and assistance. I would also like to express my appreciation for the valuable work carried out during the year by my fellow Council members and staff.



**John Cassar White**
**Chairman**

# Chapter 1

## Developments during 2018

## 1.1 The Fiscal Council

During 2018, the **Malta Fiscal Advisory Council (MFAC)** held twelve formal meetings. During these meetings, economic matters and administrative issues were discussed, and a number of decisions taken. The meetings of the Fiscal Council focused on the annual work programme, financial control, human resources, the institution's premises, official travel and training. The MFAC's reports were also discussed and approved for publication during these meetings. Additional matters were discussed in ad-hoc meetings or agreed upon via email communication, to speed up decisions.

There was a change in the composition of the MFAC during 2018. Mr John Cassar White was appointed as chairman from 1 July 2018. In December 2018, the Minister for Finance re-appointed Mr John Cassar White as chairman, Dr Carl Camilleri and Dr Ian Cassar as members of the Fiscal Council, to serve for a further period of four years, with effect from 1 January 2019.[1]

## 1.2 Relations with key stakeholders in Malta

During the course of the year, various meetings were held with the **Ministry for Finance** to discuss issues related to the endorsement of the official macroeconomic and fiscal forecasts. Discussions focused mainly on the methodologies and assumptions used by the Ministry, as well as to seek out clarifications and gain further insight and background information to support the MFAC's assessment of the macroeconomic and fiscal forecasts. Meetings were also held to discuss the proposed changes in the Fiscal Responsibility Act which were enacted in 2018. The Ministry also provided feedback on the recommendations made by the MFAC since its establishment. Other meetings were of an administrative nature, mainly in relation to the change in the premises of the MFAC which took place during the year.

As in previous years, the MFAC also met officials from the Directorate-General for Economic and Financial Affairs within the **European Commission**. The main purpose of these meetings was to exchange views on the latest macroeconomic and fiscal developments and discuss the institutions' short- and medium-term outlook. These

[1] The notification was announced in the Government Gazette No 20,109.

meetings were held prior to the publication of the European Commission's assessment of Malta's Update of Stability Programme and Draft Budgetary Plan.

Other meetings were held with senior officials from the **International Monetary Fund (IMF)**. The Fiscal Council provided insights on the latest economic and fiscal developments in Malta, as well as its outlook and views about the possible short to medium-term risks to public finances in Malta. This formed part of the annual IMF's Article IV consultation mission. The MFAC also met IMF officials as part of the Fiscal Transparency Evaluation exercise, which was carried out in 2018. The Fiscal Council shared its views on the degree of fiscal transparency in Malta and discussed ways how this can be improved.

The MFAC also had the opportunity to meet officials from **credit rating agencies**. The purpose of such meetings is to allow the MFAC to elaborate on the contents of its published reports, thereby serving as input for the rating assessments carried out by these agencies.

The Fiscal Responsibility Act prescribes that the chairperson of the Fiscal Council shall whenever requested by the Chairperson of the **Public Accounts Committee** of the House of Representatives, be required to give evidence to that Committee in relation to the operations of the Fiscal Council. However, during 2018, the Public Accounts Committee did not make any such request.

## 1.3 Meetings and seminars abroad

During 2018 members and staff of the MFAC attended 11 meetings abroad. The majority related to the MFAC's membership in the **EU Network of Independent Fiscal Institutions (EUNIFIS)**, with the rest being official representation or attendance at seminars (see Table 1.1). The MFAC participated as member in two different working groups of the Network, namely the **Working Group on the Medium-Term Budgetary Framework** and the **Working Group on the Output Gap**. In 2018, both working groups published their respective reports online. The abstracts for both documents are reproduced in Box 1.1.[2]

[2] The full reports are available on https://www.euifis.eu/eng/fiscal/231/papers-and-reports.

**Table 1.1: Participation in meetings and seminars abroad during 2018**

| No | Event | Organiser |
|---|---|---|
| 1 | Fiscal Policy in an Environment of High Debt | European Commission |
| 2 | 8th Meeting of the EUNIFI | EUNIFI |
| 3 | IMF Annual Fiscal Workshop | IMF |
| 4 | Path for the Public Finances | Irish Fiscal Advisory Council |
| 5 | 12th Meeting of the Public Finance Economists in Public Administration | European Commission |
| 6 | Expert Network on the Independent Assessment of National Public Economic Policies | Corte dei Conti |
| 7 | Meeting of EU IFIs | European Commission |
| 8 | Stakeholder's Workshop on the Stability Review of the Budgetary Framework Directive | European Commission |
| 9 | Output Gap Working Group | National Audit Office of Lithuania |
| 10 | 9th Meeting of the EUNIFI | EUNIFI |
| 11 | Meeting of the Network of EU IFIs | European Commission |

**Box 1.1: Abstracts of the papers published by the working groups**

***Medium-Term Budgetary Frameworks – A contribution to definitions and identification of good practices***

The aim of this paper was to contribute to the discussion on Medium-Term Budgetary Frameworks (MTBF), and specifically, on how they should interact with domestic and EU medium-term fiscal frameworks (MTFFs) to maximise the benefits stemming from them. The paper contributes to the clarification of concepts and identification of arrangements shaping an effective MTBF, and contributes to a better comparison across countries. Cross-country analysis of MTBFs' effectiveness is a challenging task. Indeed, MTBFs have different characteristics across countries that do not necessarily imply different degrees of effectiveness; even terms or definitions are often heterogeneous across countries. Thus, by assessing the effectiveness of different MTBFs the paper is an ambitious effort in defining and agreeing the main concepts of MTBFs not only in terms of arrangements but also in terms of aims and purposes for which these arrangements are considered helpful. The paper includes also an

empirical analysis of the main fiscal aggregates of the 2011- 2017 Stability Programmes of the countries participating in the MTBF Working Group. The objective of the analysis was to verify whether the stability of fiscal targets could be used as a reliable outcome indicator of effective MTBF arrangements in different countries as done in previous studies. The quantitative analysis shows evidence for most countries of moving targets and slippages that appear to be driven by many factors, which are difficult to disentangle. During the financial and economic crisis (2011-2013), increased uncertainty made it particularly difficult to gauge the true size of the cyclical phase, bringing about revisions of growth forecasts (including of potential growth) and in budget balances' forecasts. Revisions in fiscal targets were also determined by changes of priorities in policy strategies, from public finance sustainability (mainly during the phase of financial markets instability) to macroeconomic stabilization. Weaknesses of MTBFs in translating medium-term aggregate fiscal objectives presented in the Stability Programmes into operational targets may have been an additional determinant for slippages, albeit it is not easy to disentangle the single determinants. Thus, one conclusion of the quantitative analysis is that it could be misleading to use the stability of fiscal targets as an appropriate outcome indicator of effective MTBF arrangements.

***A practitioner's Guide to Potential Output and the Output Gap – Definition, Estimation and Validation***

This paper provides a comprehensive literature review of potential output and output gap estimates from the perspective of a fiscal authority and, by extension, an independent fiscal institution tasked with assessing cyclically adjusted fiscal indicators. Considering the mandate of these institutions, the focus is often broader in the sense that more sources of imbalances and longer horizons are considered. Yet it is similar to other institutions in terms of the methods used to assess the unobserved potential output and the output gap. The paper reviews univariate and multivariate trend-cycle decomposition methods that are actually used within the Network of the European Union's independent fiscal institutions. It summarizes their salient features and provides a critical review of commonly used methods. This literature review preludes the back-testing exercise assessing the quality of output gap estimates and the discussion of their real-time applied issues in the context of cyclically adjusted fiscal indicators.

## 1.4 Publications

The MFAC published seven **reports** in 2018. The first report was the Annual Report for 2017. The MFAC then issued three reports which focused on the Update of Stability Programme for 2018 – 2021. These dealt respectively with the endorsement of the macroeconomic forecasts, the endorsement of the fiscal forecasts, and the compliance with the fiscal rules. They were followed by a report which assessed the Ministry for Finance's Annual Report 2017 and another which dealt with the Ministry for Finance's Half-Yearly Report 2018. The final report focused on the Draft Budgetary plan for 2019, which consisted of three parts.[3] The first part dealt with the endorsement of the macroeconomic forecasts, the second focused on the endorsement of the fiscal forecasts and the third part assessed the compliance with the fiscal rules. This report thus combined the analysis which in previous years used to be spread over three separate reports. The rationale and explanations in relation to this change are discussed in Box 1.2. The full set of reports published in 2018 together with their salient points are listed in Table 1.2.[4]

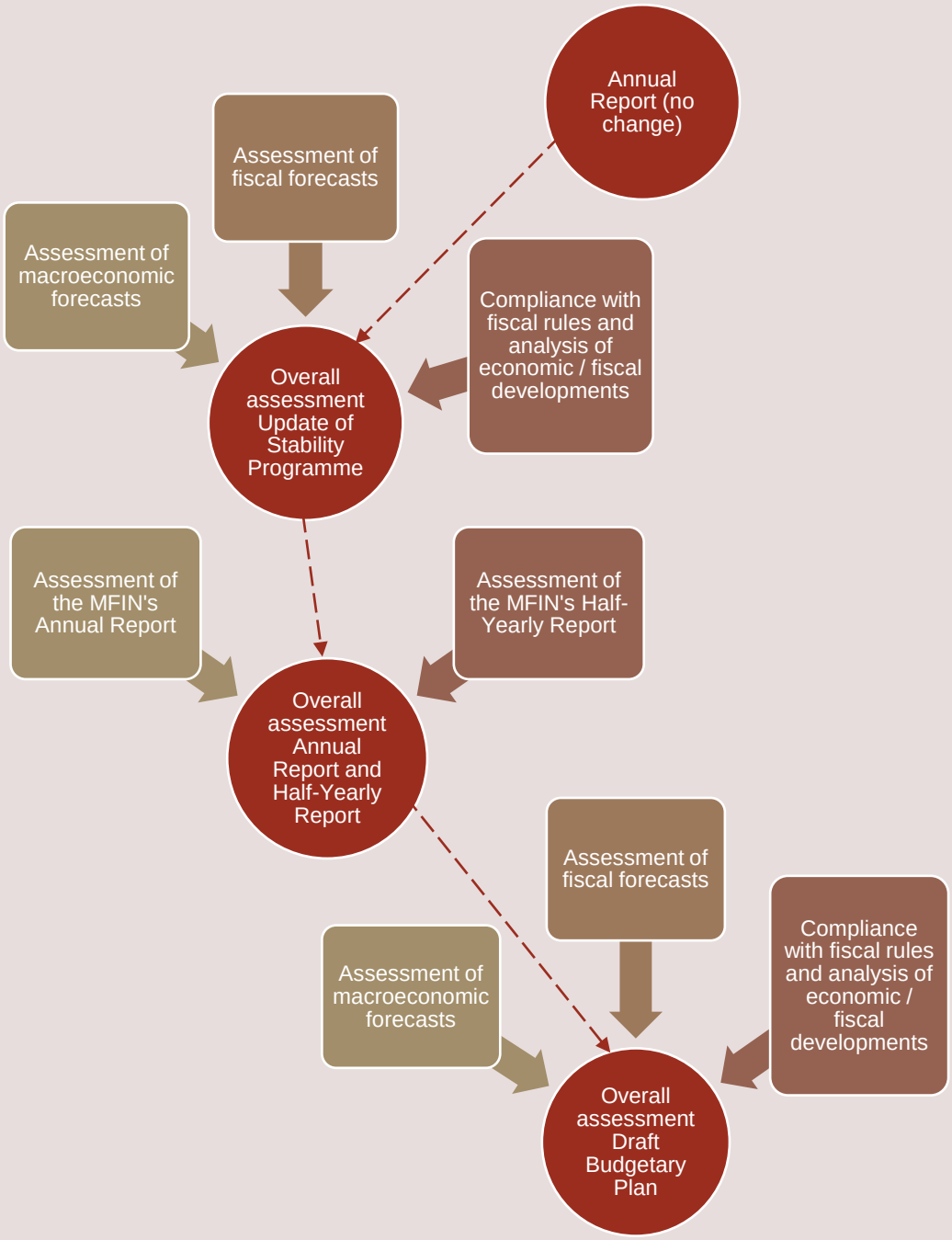
**Box 1.2: Changes in the reports published by the MFAC**

Towards the end of 2018, the MFAC, in consultation with the Ministry for Finance, took the decision to streamline its reports (see Diagram A). The new format combined the analysis which previously was spread over different reports. The publication of fewer reports by the MFAC should sharpen the stakeholders' focus and maintain policy relevance.

Since the macroeconomic forecasts submitted to the European Commission as part of the Update of Stability Programme and Draft Budgetary Plan must be endorsed by an independent institution by the prescribed dates of 30 April and 15 October respectively, the MFAC has opted to issue an official letter addressed to the Minister for Finance, and available on its website, to meet these requirements. The letter indicates whether the MFAC considers the macroeconomic forecasts to lie within its endorsable range, or otherwise. At a later stage the full assessment report is published, in support of the MFAC's decision. Such procedure is also adopted by various fiscal councils abroad.

[3] The MFAC had previously published a letter addressed to the Minister for Finance endorsing the macroeconomic forecasts contained in the Draft Budgetary Plan for 2019.
[4] The reports are available on https://mfac.org.mt/en/publications/Pages/Publications.aspx.

**Diagram A: The new structure of the MFAC's reports**



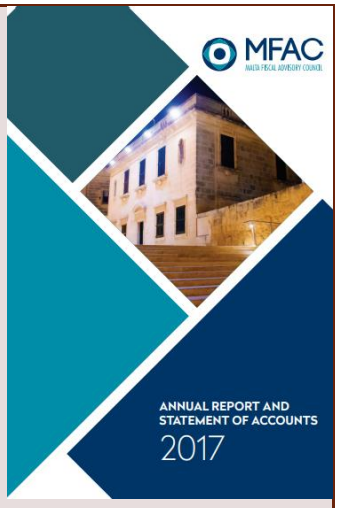

***Note:*** ***Red circles indicate the new set of reports***

**Table 1.2: Reports published by the MFAC during 2018**

**1. Annual Report and Statement of Accounts 2017**

***Published: 28 March 2018***

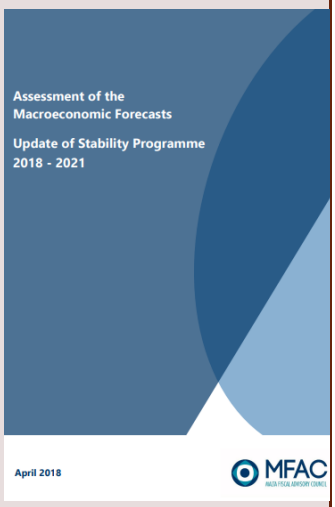
The third Annual Report covered the activities performed during 2017. It also provided an account of the Council's recommendations to date and the feedback provided by the Ministry for Finance. Additionally, the report featured two themes, which were discussed in further depth within the report, one relating to the legislation on Government borrowing and the other focusing on the pension system in Malta.




**2. Assessment of the Macroeconomic Forecasts – Update of Stability Programme 2018 – 2021**

***Published: 30 April 2018***

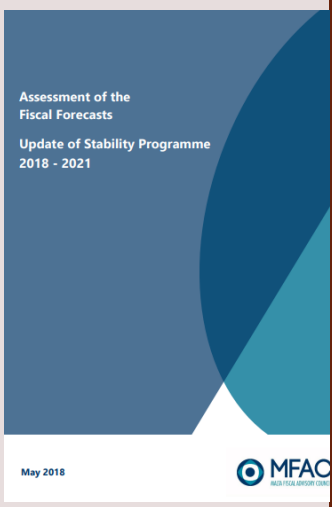
The MFAC endorsed the macroeconomic forecasts. The forecasts were considered plausible and compatible with the assumptions employed. The Council noted the risks to the investment growth forecasts due to the volatility of this expenditure component. Overall the Council viewed the balance of risks to GDP growth for the period 2018 to 2021 as broadly neutral.




**3. Assessment of the Fiscal Forecasts – Update of Stability Programme 2018 – 2021**

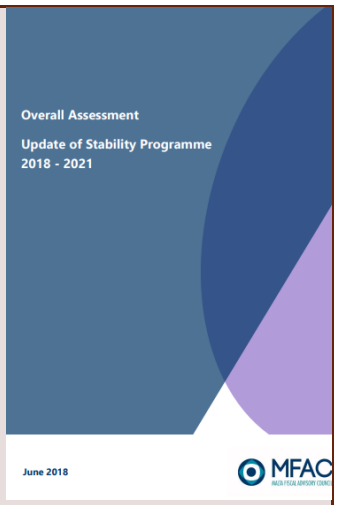
***Published: 31 May 2018***

The MFAC endorsed the fiscal forecasts. The Council considered the revenue forecasts as generally prudent with the possibility of upside risks over the period 2018 to 2021. On the other hand, the expenditure forecasts indicated that on aggregate there could be possible downside risks in 2018, but upside risks for the period 2019 to 2021. On balance the Council noted that in 2018 the surplus could be higher than projected, but lower than projected over the period 2019 to 2021.



**4. Overall Assessment – Update of Stability Programme 2018 – 2021**

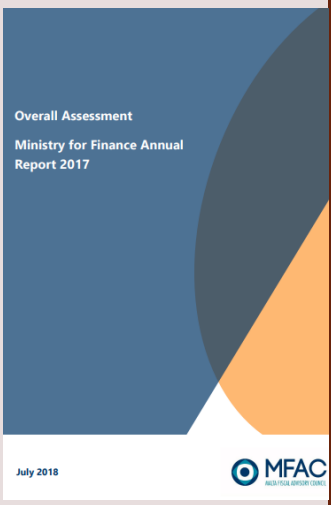
***Published: 28 June 2018***




The Council confirmed that in 2017 there was full compliance with the fiscal rules prescribed by the Stability and Growth Pact and the Fiscal Responsibility Act. The Council encouraged the Government to remain vigilant and continue monitoring carefully expenditure developments to avoid any significant departure from the fiscal targets. The Fiscal Council also suggested that long-term fiscal issues are given more priority in the economic discussions between the constituted bodies and the Government.

**5. Overall Assessment – Ministry for Finance Annual Report 2017**

***Published: 3 August 2018***




The macroeconomic forecasts for 2017, which were prepared as part of the Draft Budgetary Plan, in October 2016, and the Update of Stability Programme, in April 2017, both underestimated the published and actual nominal GDP growth. The stronger-than-expected nominal GDP growth recorded in 2017 contributed to a more positive fiscal balance than targeted. The Council noted that expenditure targets should strike the right balance between being ambitious, while at the same time guaranteeing that the budgets allocated do not need to be revised upwards to accommodate necessary expenditure. The Council also encouraged the Ministry to explore further the reasons for the forecasting discrepancies in relation to both the macroeconomic and the fiscal variables.

**6. Overall Assessment – Ministry for Finance Half Yearly Report 2018**

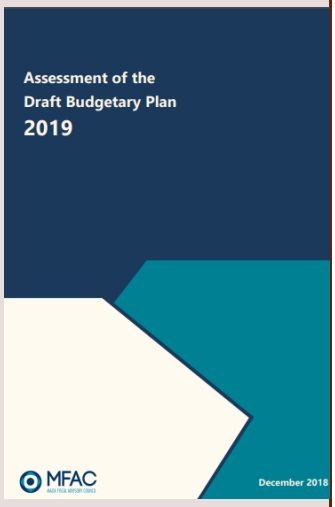
***Published: 8 October 2018***

The Council noted that the macroeconomic forecasts for 2018 were reconfirmed as presented in the Update of Stability Programme 2018-2021. This approach was deemed to be justified. Similarly, the 2018 targets for the fiscal surplus and public debt were unchanged compared to the April forecast round. The Council drew attention to the requirement to present more information on the absorption of European Union funds as prescribed by the Fiscal Responsibility Act.


**7. Assessment of the Draft Budgetary Plan 2019**

***Published: 7 December 2018***

The MFAC considered the macroeconomic and the fiscal forecasts for 2018 and 2019 to be within its endorsable range. The Council also noted that the Plan complies with the fiscal rules prescribed in the Fiscal Responsibility Act and the Stability and Growth Pact. Overall, the risk assessment carried out by the Fiscal Council pointed towards a marginal downside risk to real GDP growth for 2018 and neutral risk for 2019. On the other hand, this report concluded that it is possible that the fiscal surplus could turn out higher than planned in 2018, but lower than planned in 2019.




The MFAC plans to supplement the before-mentioned standard reports, with other research-oriented working papers. Economic research is considered useful, both to support the MFAC's assessments with more empirical evidence, and to gain deeper insight into macroeconomic developments and public finance issues. To this effect, in 2018, the MFAC published its first **working paper** 'Does the Ricardian Equivalence Theorem capture the consumption behaviour of Maltese households?'.[5] A summary of the main findings of this working paper is presented in Box 1.3.

[5] The working paper is available on https://mfac.org.mt/en/publications/Documents/Ricardian%20Equivalence%20Theorem%20Working%20Paper_MFAC.pdf.

**Box 1.3: Does the Ricardian Equivalence Theorem capture the consumption behaviour of Maltese households? (WP01/2018)**

The working paper examined the validity of the Ricardian Equivalence Theorem (RET) for the Maltese economy. It analysed the relationship between public debt and private consumption over a period of thirty-seven years, via the application of a univariate cointegrating framework and the application of a VAR generalized impulse response function.

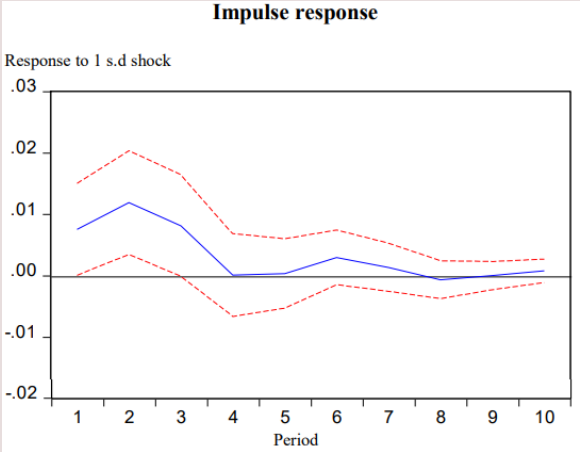
The RET, as put forward by Barro (1974), suggests that it does not matter how governments finance additional expenditure, whether through higher taxation or by issuing bonds, as this in the long run, does not alter household's consumption patterns. Under this framework, the issue of bonds by the government is simply tantamount to postponing taxes which need to be paid at a later stage. A reduction in taxation accompanied by the issue of bonds would, according to the RET, induce economic agents to save by purchasing bonds, in anticipation of a future increase in taxation. Therefore, private savings would increase by the exact amount of the tax cut, implying that overall consumption remains constant. The issue of government bonds would have no effect on the net wealth of households. Although government bonds are a form of asset for those holding them; they also represent a future liability to taxpayers, which need to redeem them at a future date.

Although the RET is more commonly explained in terms of the effect of higher or lower debt on private savings, given the unavailability of data on real private savings in Malta real household consumption was used as a close proxy. This is justified since lower private savings should be reflected into higher private consumption and vice versa, by assuming that household income and wealth remains constant.

The study aimed to examine the potential short-run and long run linkages between government debt and private consumption expenditure based on a univariate cointegrating framework. The empirical results suggest that household consumption behaviour in Malta is not Ricardian. The lack of evidence supporting the presence of a cointegrating relationship between private consumption and public debt indicates that there is no long run relationship amongst these two variables. However, the results obtained from a subsequent application of a vector auto regressive generalized impulse response function suggests that in the short-term, a

rise in public debt does positively influence private household consumption (see Chart A). This implies that in the short term, Keynesian theory may be better suited at explaining the behaviour of Maltese households in response to changes in the level of public debt.

**Chart A: Impulse response of private consumption to a shock in public debt**



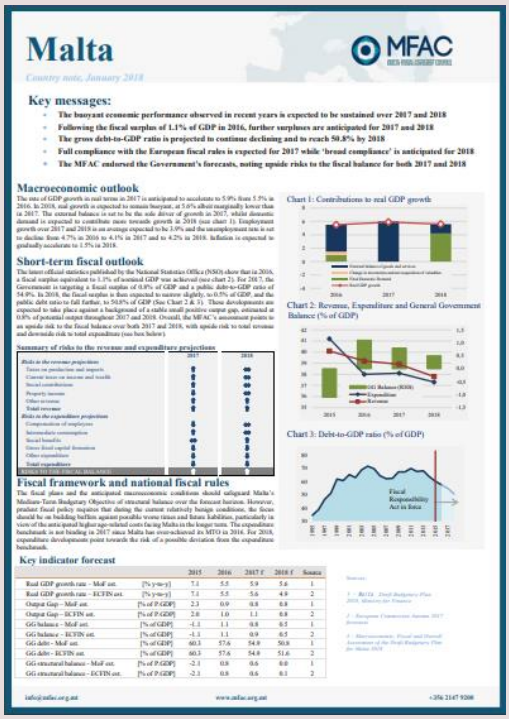

The results suggest that in response to a rise in public debt, households may not necessarily perceive that they will have to pay more in taxes at some point in the future. In fact, one of the most important implications which stems from the failure of the RET relates to the possible rejection of the theory's assumption of intertemporal linkages across generations.

These results support the view that on aggregate Maltese households may exhibit myopic behaviour with the possibility that increases in public debt translate into a positive stimulus for consumption expenditure, at least in the short-run. This implies that at least in the short-run policy makers can take advantage of the underlying effectiveness of an expansionary fiscal stance to stimulate the economy through higher aggregate consumption. Caution is however warranted as in the longer-term this effect may vanish. At the same time, the non–presence of the RET may not necessarily imply a high level of effectiveness of Keynesian policy. Malta being a small and very open economy has a very high propensity to import, thus implying a high volume of leakages, which implicitly weaken the expansionary effect of the fiscal stimulus. Another factor that needs to be taken into consideration relates to the EU fiscal rules, which limit the permissible deficit and debt levels in a country.

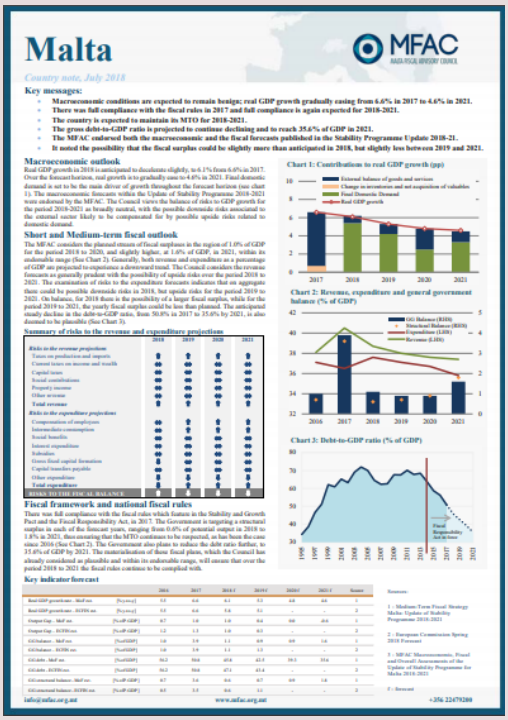
During 2018 the MFAC also continued to submit the bi-annual **Fiscal Monitor**, as part of a joint initiative of the Network of EU Independent Fiscal Institutions (see Table 1.3).[6] The Fiscal Monitor provides a one-page summary of the main economic and fiscal developments in each country and highlights the key messages from the viewpoint of the respective country's fiscal council. In this manner it serves as a useful summary for key economic developments across the EU and thus helpful for the horizontal surveillance of country developments.

**Table 1.3 Fiscal Monitor – Malta Country Notes**

***Published: January 2018***




***Published: July 2018***




## 1.5 Public relations of the MFAC

The MFAC issued six **press releases** during 2018 (see Table 1.4).[7] The press releases are available in both English and Maltese. These contribute to the visibility of the MFAC and help explain the key messages to the public in a non-technical manner. At times they are followed by requests from the media for **interviews** to elaborate

[6] The country notes are available on https://www.euifis.eu/eng/fiscal/174/european-fiscal-monitor.
[7] The press releases are available on https://mfac.org.mt/en/Releases/Pages/PRESS-RELEASES.aspx.

further on the reports and activities of the MFAC, or to discuss economic or fiscal issues in general. The MFAC uses these opportunities to help raise awareness about the economic and fiscal issues which are most relevant to Malta.

**Table 1.4: Press releases issued during 2018**

| Date | Title |
|---|---|
| **11/04/2018** | Malta Fiscal Advisory Council publishes its Third Annual Report |
| **04/05/2018** | Malta Fiscal Advisory Council publishes its assessment of the Government's macroeconomic forecasts presented within the Update of Stability Programme 2018 - 2021 |
| **04/06/2018** | Malta Fiscal Advisory Council publishes its assessment of the Government's fiscal forecasts contained in the Update of Stability Programme 2018 – 2021 |
| **02/07/2018** | Malta Fiscal Advisory Council publishes its overall assessment of the Government's Medium-Term Fiscal Strategy |
| **07/08/2018** | Malta Fiscal Advisory Council publishes its assessment of the Ministry for Finance's 2017 Annual Report |
| **10/12/2018** | Malta Fiscal Advisory Council publishes its assessment of the Draft Budgetary Plan 2019 |

## 1.6 Human resources and premises

The **staff** complement of the MFAC remained unchanged, consisting of the Chief Economist, two Economists and the Administrator. The MFAC continued to encourage its staff to participate in continuous learning. Staff attended courses organised by local providers. Two economists also continued to further their studies in economics with the financial assistance of the MFAC.

In 2018, the MFAC changed its **premises**, moving to property located in St. Calcedonious Square, in Floriana. This move was driven by the need to vacate the original premises in Valletta, as the latter was required by a newly set up public institution. It is expected that during 2019 renovation works will be carried out at the Floriana premises, to ensure that the offices offer a good working environment for the Council and its employees.

# Chapter 2

## Fiscal Transparency

## 2.1 Introduction

The International Monetary Fund refers to fiscal transparency as "the information available to the public about the government's fiscal policymaking process".[1] Fiscal transparency is a multi-dimensional concept involving six main elements, which can be evaluated in relation to three different pillars (see Table 2.1 and Table 2.2).

**Table 2.1: Elements of fiscal transparency**

| | |
|---|---|
| **Clarity** | The ease with which reports can be understood by users |
| **Reliability** | The extent to which reports are an accurate representation of the government's fiscal operations and finances |
| **Frequency** | The regularity with which fiscal reports are published |
| **Timeliness** | The time lag involved in the dissemination of the fiscal reports |
| **Relevance** | The extent to which the fiscal reports provide users with the information they need to make effective decisions |
| **Openness** | The ease with which the public can find information and hold governments accountable for their fiscal policy decisions |

Source: IMF

In 2018, the IMF carried out a Fiscal Transparency Evaluation, at the request of the Maltese government.[2] This evaluation forms part of the IMF's policy dialogue and capacity building efforts with its member countries. In relation to each principle included in the Fiscal Transparency Code, the IMF rated Malta's current practices vis-à-vis best practices. The IMF used a four-grade rating scale to evaluate the practices and a three-grade scale to differentiate between their level of importance (see Table 2.3).

[1] IMF (2018) Fiscal Transparency Handbook, available on https://www.elibrary.imf.org/view/IMF069/24788-9781484331859/24788-9781484331859/24788-9781484331859.xml.

[2] The report is available on https://www.imf.org/en/Publications/CR/Issues/2018/09/27/Malta-Technical-Assistance-Report-Fiscal-Transparency-Evaluation-46266.

**Table 2.2: Pillars of fiscal transparency**

| | |
|---|---|
| **Fiscal reporting** | Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance. |
| **Fiscal forecasting and budgeting** | Budgets and their underlying fiscal forecasts should provide a clear statement of the government's budgetary objectives and policy intentions; as well as comprehensive, timely, and credible projections of the evolution of public finances. |
| **Fiscal risk analysis and management** | Governments should disclose, analyse, and manage risks to the public finances and ensure effective coordination of fiscal decision making across the public sector. |

Source: IMF

**Table 2.3: The assessment grading used by the IMF**

| Rating of practice | Colour code | Level of importance | Colour code |
|---|---|---|---|
| Not met | | High | |
| Basic | | Medium | |
| Good | | Low | |
| Advanced | | | |

Source: IMF

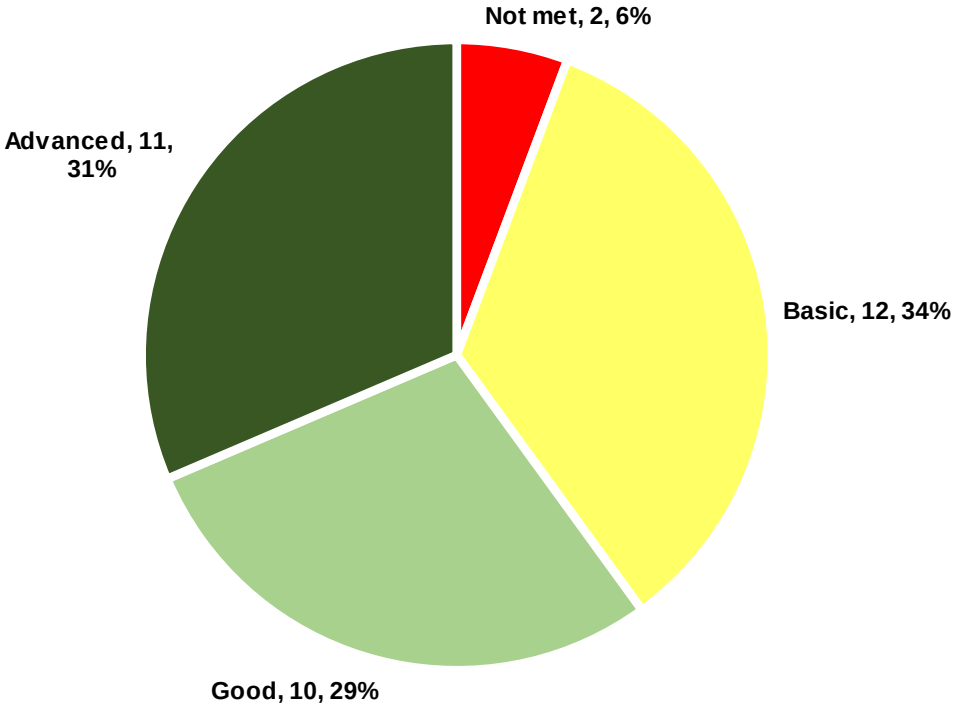
Out of the 35 principles which were assessed, Malta's current practices were considered by the IMF as 'advanced' with respect to 11 cases principles, and 'good' with respect to another 11 principles (see Chart 2.1).[3] On the other hand, there were 2 principles which were 'not met', one of which was considered of high importance and the other of medium importance (see Chart 2.2).

The IMF identified as highly important the weakness that in Malta the information on fiscal risks was scattered and some specific risks, which could be material, were not

[3] The Fiscal Transparency Code consists of 36 principles. However, one principle relating to natural resources (see Appendix 3 Principle 33) was not assessed as it was considered not applicable in the case of Malta.

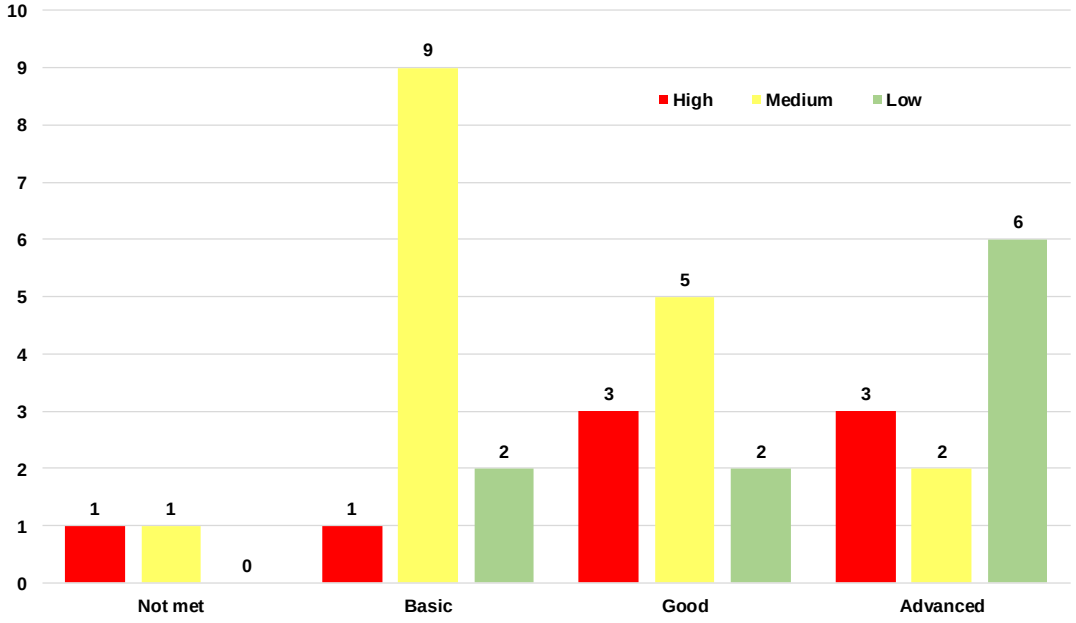
sufficiently well documented. Another lacuna, of medium importance, was the lack of regular reporting on tax expenditures in Malta, despite these possibly being sizable by European standards.

**Chart 2.1: Degree of compliance with the IMF's Fiscal Transparency Code**




Source: IMF

**Chart 2.2: Assessment of Malta's transparency practices by importance**




Source: IMF

Turning to those practices which were rated as 'basic', and hence where there is margin for improvement, the IMF assigned high importance to the need for comprehensive information on the performance of Malta's public corporations as this was not generally readily available to the public.

The rest of this chapter focuses on the three areas which the IMF's assessment revealed as being most pressing to improve fiscal transparency in Malta, in two instances because the principle of transparency was not met, and in another instance because the compliance rating for a highly important factor was only basic. The ratings assigned by the IMF for the full set of principles are reproduced in Appendix 1, Appendix 2 and Appendix 3.

## 2.2 Specific fiscal risks

Summary reporting of fiscal risks is important for a complete understanding of potential threats to a country's fiscal position. It is also important for an integrated approach to managing these risks. It allows for an assessment of aggregate risk exposures across government and for the identification of relationships and interactions among risks. It facilitates the examination of whether risks emanating from various sources are offsetting or enhancing one another. It can also promote a better understanding of the true state of public finances, build support for prudent fiscal policies, lead to better risk mitigation, strengthen accountability for risk management, and facilitate better policy responses.

The IMF handbook provides a list of possible sources of fiscal risks (see Table 2.4). There are two broad categories: explicit risks and implicit risks. Explicit risks are those where the government has a clear and firm obligation, or a declared policy, to provide fiscal support should a predefined event occur. Examples include explicit government guarantees, indemnities, public insurance schemes, or legal action against the government. Implicit risks, on the other hand, arise where there is no explicit (legal or contractual) obligation or policy to provide fiscal support, but there is an expectation that the government would do so should the risks materialize. Examples include bailouts of the financial sector to prevent systemic crises; support for subnational governments or public corporations should they get into financial difficulty; and assistance to victims of natural disasters.

**Table 2.4: Possible sources of fiscal risks**

| | |
|---|---|
| **Macroeconomic risks** | Sensitivity of the fiscal outturn to key economic assumptions and alternative macroeconomic scenarios |
| **Public debt** | Sensitivity of the stock of debt and debt-servicing costs to variations in key parameters, such as interest rates and exchange rates |
| **Government lending programs** | Outstanding amounts and nonperforming loans |
| **Government guarantees** | The likelihood that guarantees will be called and their associated costs |
| **Public-Private Partnerships (PPPs)** | Government obligations under PPPs, both direct commitments and any obligations related to contingent liabilities arising from the risks assumed by the government |
| **Public corporations** | Any explicit obligations to public corporations |
| **Subnational Governments** | Any explicit obligations of the central government to subnational governments |
| **Financial system** | Any explicit liabilities to the financial sector |
| **Natural disasters** | The country's direct fiscal impact of natural disasters |
| **Legal claims** | Any legal claims pending against the state and, where feasible, estimates of gross exposure |
| **Other material fiscal risks** | Examples include: uncalled capital; and risks to tax and nontax revenues such as from tax base erosion, tax avoidance and tax evasion |

Source: IMF

In its evaluation report the IMF pointed out that “the government has relatively large fiscal exposures related to government guarantees and public corporations, and Malta also faces sizeable long-term fiscal pressures from the ageing of its population. Other potential fiscal risks, which are more specific to Malta, could emanate from changes to international taxation as well as developments in the Individual Investment Program (IIP)”.

Best practice in this area requires that such specific risks to the fiscal forecasts are disclosed in a summary report and discussed at least in qualitative terms. To strengthen the reporting of fiscal risks the IMF recommended: (i) to include a comprehensive list of guarantees, on-lending and indemnities as from the 2019 budget documentation; (ii) to produce a fiscal risk statement as part of the 2021 budget documentation; and (iii) to expand the scope of the fiscal risk statement to encompass a broader range of fiscal risks by 2020-2021. In turn, to strengthen the institutional framework for fiscal risks management, the IMF recommended: (i) to assign responsibility to a unit for preparing a fiscal risk statement by 2018; and (ii) to implement institutional arrangement for fiscal risk analysis and monitoring by 2019.

## 2.3 Tax expenditures

Disclosure of foregone revenue from tax concessions and exemptions (referred to as tax expenditure) shows the extent of indirect government support to corporations and households through the tax system. Since the foregone revenue benefits some taxpayers, activities, or products and not others, in practice it is equivalent to a subsidy on the expenditure side of the budget. The IMF considers five types of measures which constitute forms of tax expenditures (see Table 2.5).

The IMF reported that Malta does not yet publish an estimate of the revenue loss from tax expenditures, despite possibly being sizeable. Only information about new specific fiscal measures is generally included in the official reports. Furthermore, there is no report that includes estimates of the revenue loss from several existing and new tax expenditures.

To boost fiscal transparency in the field of tax expenditures, the IMF recommended to better report and control tax expenditures by establishing budgetary limits. Specifically, the IMF recommended: (i) to agree on a definition of tax expenditures by 2018; (ii) to

produce a report that includes estimates of annual revenue loss from existing and new tax expenditures by 2019; (iii) to set a limit to the size of tax expenditures by 2020; and (iv) to include in the report on tax expenditures information on compliance with the limit by 2020-2021.

**Table 2.5: Types of tax expenditures**

| | |
|---|---|
| **Exemptions** | Amounts excluded from the base on which tax liabilities are calculated |
| **Allowances** | Amounts deducted from the benchmark tax to arrive at the tax base |
| **Credits** | Amounts deducted from tax liability |
| **Rate relief** | A reduced rate of tax applied to specified classes of taxpayer or taxable transactions |
| **Tax deferral** | A relief that takes the form of a delay in paying tax |

Source: IMF

## 2.4 Public corporations

The IMF noted that the public corporation sector in Malta is sizeable and a significant source of fiscal risk. Indeed, the IMF estimated that the liabilities of public corporations (apart from equity) amounted to around 17.6% of GDP in 2016, which is relatively high compared to other European countries. Liabilities are concentrated in the five largest corporations, which amount for some 80% of total liabilities of the sector. Despite some loss-making entities, the sector was on aggregate profitable in 2016. However, the IMF noted that Malta has a history of government intervention to support and restructure public corporations when economic conditions become dire.[4]

[4] Such support was notified and approved by the European Commission in accordance with the EU state aid rules.

Direct transfers to public corporations are regularly disclosed but are not based on a published ownership policy. There is also no consolidated reporting on their financial performance. However, transfers between the government and public corporations in the form of dividends, subsidies and capital injections in cash are disclosed in the budget and Financial Reports. On the other hand, there is no published document that outlines the purpose and objectives of state ownership and the criteria under which public corporations operate. Moreover, there is no published dividend policy. While detailed information on each public corporation can be found in their annual financial statements, there is no document that consolidates financial information on public corporations to present a general overview and assessment of their financial performance on aggregate.

The Government provided subsidies and capital injections to public corporations in recent years.[5] However, the Government has also provided other means of support. These included guarantees, capital injections in kind, seeds capital in kind, cash acquisitions, and re-employment of workers through other public corporations with state funding. While the Ministry for Finance has a deep and ongoing involvement in the key public corporations, and regularly monitors their performance, there is no single entity responsible for developing the ownership policies across the Government, or for monitoring and reporting on the performance of the entire public corporation sector.

In relation to public corporations the IMF thus recommended that the Government should produce and publish information about the financial position of public corporations at individual and aggregate levels, including comprehensive information on actual and expected financial government support, as well as costs of quasi-fiscal activities (for example, public service obligations). Specifically, the IMF recommended: (i) to produce a statement of operations of public corporations consolidated into the statement of operations of the general government by 2019; and (ii) to produce balance sheets of public corporations by 2020. The IMF further recommended: (i) to assign responsibility for comprehensive reporting on the financial performance of public corporations by 2018; (ii) to develop an ownership policy that applies to all ownership agencies by 2019; (iii) to incorporate reporting on financial performance of public corporations in the fiscal risk statement by 2020; and (iv) to consider centralising ownership functions by 2021-2022.

[5] The IMF Report indicates that between 2012 and 2016, subsidies to public corporations amounted to €243.5 million, while capital injections amounted to €148.9 million.

## 2.5 The reactions of the MFAC

The Council views very positively the fact that the Government took the initiative to request the IMF to carry out this transparency assessment. This is compatible with the recommendations aimed at strengthening the degree of fiscal transparency in Malta, which the Council has repetitively made since its establishment.[6] The Council also welcomes the overall positive ratings obtained, with almost all principles already being adhered to, albeit to varying degrees. The Council fully shares the assessment carried out by the IMF, in terms of the identified strengths and weaknesses and the relative priorities assigned for the proposed actions plans.

To this effect, the Council invites the Government to take the necessary steps to achieve improvements where possible, and within the timeframes suggested by the IMF. Priority should be assigned to the actions necessary to address the two principles which were not met, namely those dealing with the fiscal risks (see Appendix 3 Principle 26) and tax expenditures (see Appendix 1 Principle 4). The Council also invites the Government to boost the information relating to public corporations (see Appendix 3 Principle 36), an area which is highly relevant for Malta. It is also important that improvements are achieved even with respect to the other principles in relation to fiscal transparency.

Finally, the Council is also very satisfied to note that in relation to the areas of macroeconomic forecasts (see Appendix 2 Principle 14), and the independent evaluation of the macroeconomic and fiscal forecasts (see Appendix 2 Principle 22), the IMF considered the current practices in Malta as both 'advanced' in terms of complying with the principles of fiscal transparency.

[6] For an overview of the recommendations made between 2015 and 2017, refer to chapter 3 of the 2017 Annual Report of the Malta Fiscal Advisory Council, available on https://mfac.org.mt/en/publications/Pages/Publications.aspx.

# Appendix 1

***Fiscal reporting transparency principles (1-12)***

| | | | Rating | Importance |
|---|---|---|---|---|
| 1 | **Coverage of institutions** | Fiscal reports cover all entities engaged in public activity according to international standards. | | |
| 2 | **Coverage of stocks** | Fiscal reports include a balance sheet of public assets, liabilities, and net worth. | | |
| 3 | **Coverage of flows** | Fiscal reports cover all public revenues, expenditures, and financing. | | |
| 4 | **Coverage of tax expenditures** | The government regularly discloses and manages revenue loss from tax expenditure. | | |
| 5 | **Frequency of in-year reporting** | In-year fiscal reports are published on a frequent and regular basis. | | |
| 6 | **Timeliness of annual financial statements** | Audited or final annual financial statements are published in a timely manner. | | |
| 7 | **Classification** | Fiscal reports classify information in ways that make clear the use of public resources and facilitate international comparisons. | | |
| 8 | **Internal consistency** | Fiscal reports are internally consistent and include reconciliations between alternative measures of summary fiscal aggregates. | | |
| 9 | **Historical revisions** | Major revisions to historical fiscal statistics are disclosed and explained. | | |
| 10 | **Statistical integrity** | Fiscal statistics are compiled and disseminated in accordance with international standards. | | |
| 11 | **External audit** | Annual financial statements are subject to a published audit by an independent supreme audit institution which validates their reliability. | | |
| 12 | **Comparability of fiscal data** | Fiscal forecasts, budgets, and fiscal reports are presented on a comparable basis, with any deviations explained. | | |

## Appendix 2

***Fiscal forecasting and budgeting transparency principles (13-24)***

| | | | Rating | Importance |
|---|---|---|---|---|
| 13 | **Budget unity** | Revenues, expenditures, and financing of all central government entities are presented on a gross basis in budget documentation and authorized by the legislature. | | |
| 14 | **Macroeconomic forecasts** | The budget projections are based on comprehensive macroeconomic forecasts, which are disclosed and explained. | | |
| 15 | **Medium-term budget framework** | Budget documentation includes outturns and projections of revenues, expenditures, and financing over the medium term on the same basis as the annual budget. | | |
| 16 | **Investment projects** | The government regularly discloses its financial obligations under multiannual investment projects and subjects all major projects to cost-benefit analysis and open & competitive tender. | | |
| 17 | **Fiscal legislation** | The legal framework clearly defines the timetable for budget preparation and approval, key contents of the budget documentation, and the powers and responsibilities of the executive and legislature in the budget process. | | |
| 18 | **Timeliness of budget documents** | The legislature and the public are consistently given adequate time to scrutinize and approve the annual budget. | | |
| 19 | **Fiscal policy objectives** | The government states and reports on clear and measurable objectives for public finances. | | |
| 20 | **Performance information** | Budget documentation provides information regarding the objectives and results achieved under each major government policy area. | | |
| 21 | **Public participation** | The government provides citizens with an accessible summary of the implications of budget policies and an opportunity to participate in budget deliberations. | | |
| 22 | **Independent evaluation** | The government's economic and fiscal forecasts and performance are subject to independent evaluation. | | |
| 23 | **Supplementary budget** | Any material changes to the approved budget are authorized by the legislature. | | |
| 24 | **Forecast reconciliation** | Budget documentation and updates explain any material changes to the government's previous fiscal forecasts, distinguishing the fiscal impact of new policy measures from the baseline. | | |

# Appendix 3

***Fiscal risk analysis & management transparency principles (25-36)***

| | | | Rating | Importance |
|---|---|---|---|---|
| 25 | **Macroeconomic risks** | The government reports on how fiscal outcomes might differ from baseline forecasts due to different macroeconomic assumptions. | | |
| 26 | **Specific fiscal risks** | The government provides a regular summary report on the main specific risks to its fiscal forecasts. | | |
| 27 | **Long-term fiscal sustainability analysis** | The government regularly publishes projections of the evolution of the public finances over the long term. | | |
| 28 | **Budgetary contingencies** | The budget has adequate and transparent allocations for contingencies that arise during budget execution. | | |
| 29 | **Asset and liability management** | Risks relating to major assets and liabilities are disclosed and managed. | | |
| 30 | **Guarantees** | The government's guarantee exposure is regularly disclosed and authorized by law. | | |
| 31 | **Public-private partnerships** | Obligations under public-private partnerships are regularly disclosed and actively managed. | | |
| 32 | **Financial sector exposure** | The government's potential fiscal exposure to the financial sector is analysed, disclosed, and managed. | | |
| 33 | **Natural resources*** | The government's interest in exhaustible natural resource assets and their exploitation is valued, disclosed, and managed. | | |
| 34 | **Environmental risks** | The potential fiscal exposure to natural disasters and other major environmental risks are analysed, disclosed, and managed. | | |
| 35 | **Subnational governments** | Comprehensive information on the financial condition and performance of subnational governments, individually and as a consolidated sector, are collected and published. | | |
| 36 | **Public corporations** | The government regularly publishes comprehensive information on the financial performance of public corporations, including any quasi-fiscal activity undertaken by them. | | |

* Not assessed in the case of Malta.

# Chapter 3

## Fiscal Risks

## 3.1 Framework

Fiscal risks are factors that can cause a government's fiscal performance to deviate from what was forecast. From a policy making perspective, downside risks, that is, risks that would make public finances worse, rather than better, are considered more important.[1] Fiscal risks are typically interpreted as potential events or trends that would result in a one-off or persistent increase in spending, or a one-off or persistent loss of revenue. In either case, this would contribute to higher public debt.

The source of a fiscal risk can be either **exogenous** or **endogenous**. Exogenous risks are those risks which largely fall outside the direct influence of government policy, such as for example natural disasters. On the other hand, endogenous risks are those risks which can be generated by government activities, or if the actions of government can influence the probability of them occurring. An example would be the issuing of government guarantees, since such risk can be avoided by their non-issuance in the first place. The usefulness of distinguishing between different types of risk is that endogenous risks can be controlled by limits on government activity, while in the case of exogenous risks, mitigation instruments may be the only option.

Further distinction can be made between those fiscal risks which are **isolated**, that is are likely to occur alone, or else **correlated**, that is when a risk is more likely to materialise in conjunction with other risks. The latter can happen when risks share a common trigger, or when the crystallisation of one risk is itself a trigger for another. For example, a severe economic downturn may affect several revenue and expenditure components of the budget, whereas the risk of an adverse court judgement is more of an isolated nature. When a risk is isolated, simple calculations may suffice to estimate its possible effect, but when the risk is correlated, a fiscal stress test is desirable to provide a more comprehensive assessment.

The nature of the risk may also vary according to whether it is **discrete**, that is linked to a specific event, or else **continuous** which relates to the gradual accumulation of pressure resulting from a stream of events. For example, the cost associated with the realisation of a government guarantee is of a discrete nature. On the other hand, higher costs for social care due to rising longevity is of a continuous nature. In the case of continuous risks, these can be incorporated in the overall fiscal framework by

[1] Factors which would improve the state of public finances are labelled as upside risks.

employing conservative assumptions, particularly as their build-up generally provides timely warning.

The relevant timeframe for the risk can also be different. The fiscal risk can be mainly applicable to the **medium-term** (over the next five years) or else the **long-term** (referring to a period of between 5 and 50 years).[2] This distinction may help prioritise the government's actions and indicate the extent of room for manoeuvre, which is generally higher in the case of long-terms risks.

The **probability of crystallisation** of a fiscal risk can be categorised as 'low' (less than 40%), 'medium' (between 40% and 60%) or 'high' (exceeding 60%).[3] Such probabilities are subjectively determined.[4] In the absence of quantitatively estimated probabilities, such approach would still be very useful, as it can provide a reasonably accurate demarcation between the more and the less likely risks. Allocating significant time and resources to achieve higher precision in terms of probabilities may not be cost-effective, apart from possibly leading to an illusion of false precision.

The **impact on net debt** can be 'low' (below 1% of nominal GDP), 'medium' (between 1% and 10% of nominal GDP) or 'high' (exceeding 10% of nominal GDP).[5] Applied to Malta, this would translate into thresholds of approximately less than €120 million for 'low'; between €120 million and €1.2 billion for 'medium'; and above €1.2 billion for 'high'.[6] Such ranges are rather wide. Fitting the various risks into their most suitable band, is thus more manageable and meaningful particularly when precise point estimates are not available.

## 3.2 Fiscal risks

A comprehensive understanding of the sources, likelihood and scale of fiscal risks is critical to ensuring that governments meet their fiscal objectives with confidence and

[2] These are the timeframes adopted by the Office for Budget Responsibility in the United Kingdom as part of the Fiscal Risks Report (July 2017). The report is available on https://obr.uk/frr/fiscal-risk-report-july-2017/.
[3] The Office for Budget Responsibility uses more granular breakdown, as apart from these categories, there is also 'very low' when the probability is less than 10%, and 'very high' when it exceeds 90%.
[4] This is the approach used by the Office for Budget Responsibility (UK).
[5] These are the thresholds used by the Office for Budget Responsibility (UK).
[6] These figures are based on the value of Malta's nominal GDP in 2018.

avoid future disruptive policy changes. The availability of such analysis also contributes to improve fiscal transparency.[7] To this effect, the Fiscal Council has considered a myriad of fiscal risks which normally feature in the economic literature and which are deemed to be relevant in the case of Malta (see Table 3.1). Most of these risks, which are listed in alphabetical order, feature in reports dealing with the Maltese economy, such as those prepared by the European Commission, the International Monetary Fund, the Central Bank of Malta and credit rating agencies.

**Table 3.1: Fiscal risks**

| Risk | Explanation |
|---|---|
| **Ageing** | Healthcare costs and pensions can accelerate faster than projected with improvements in longevity and entitlements. |
| **Brexit** | Turbulence and disruptions can be created if the UK leaves the EU without a clear arrangement in place. |
| **Cost pressures associated with existing policies** | Current policies could lead to acceleration in expenditure growth due to rising demand or upward price pressures. |
| **Deviations from key forecast assumptions and judgements** | The actual fiscal outturn may be much worse than previously assumed in case of a strong optimism bias. |
| **Downturn in the financial sector** | Relocation, liquidation or subdued growth of firms operating within the financial sector. |
| **Downturn in the property market** | Collapse in the housing and / or commercial property market due to sharp fall in prices and / or volume of transactions. |
| **Downturn in the remote gaming sector** | Relocation, liquidation or subdued growth of firms operating within the gaming sector due to legislation changes abroad. |

[7] Refer to Chapter 2 in this Report for further details.

| | |
|---|---|
| **Economic recession** | Negative real GDP growth recorded over consecutive periods. |
| **End of the IIP programme** | Termination of the revenue streams generated from this programme. |
| **Geo-political uncertainties** | International uncertainty can impact negatively investment plans of foreign-oriented business in Malta. |
| **International tax harmonisation** | Malta's attractiveness for tax domiciliation purposes can be adversely impacted by international agreements. |
| **Legal cases** | Adverse court decisions such as in relation to tax due, expropriation, or investment projects. |
| **Lower dividends from state owned enterprises** | Lower or no dividends may be received from government's shareholdings. |
| **Natural disasters** | Examples may include events such as earthquakes, severe storms, major fires or tsunamis. |
| **Nominal GDP growth which is not tax-rich** | Growth can be driven by categories of incomes and expenditures which carry a much lower tax intake than others. |
| **Pressure on existing infrastructure** | Bottlenecks which depress future growth and the quality of public services can result because of lack of adequate infrastructure. |
| **Public sector upward wage pressures** | There could be demands for higher public sector wages. |
| **Public-Private Partnerships** | New agreements can create new expenditure commitments beyond what is currently anticipated. |
| **Realisation of government guarantees** | Government may be forced to make up for any contract deficiency as stipulated in the guarantee. |

| | |
|---|---|
| **Realisation of non-guarantee other contingent liabilities** | Expenditure increases which may be driven by new requests due to implicit arrangements for government assistance. |
| **Rising global protectionism** | Protectionism makes it more difficult and / or more expensive to trade. |
| **Sharp tightening in global financial conditions** | Rising borrowing costs due to a generalised increase in interest rates. |
| **Shortages of labour** | Widespread unfilled job vacancies can hamper production levels and impede future growth. |
| **Significant deceleration in Malta's potential output growth** | The country's average long-term growth rate can be much lower than that experienced in recent years particularly if growth in labour supply and investment slows down. |
| **Slow progress in addressing structural weaknesses** | Lack of significant progress in addressing areas which inhibit or restrain economic growth. |
| **Structurally weak growth in main trading partners** | Prolonged period of subdued demand for Malta's exports of goods and services pushing the burden of growth exclusively on domestic demand. |
| **Sudden changes in fiscal priorities** | Political preferences driving changes in fiscal priorities away from fiscal sustainability. |
| **Support needed by state owned enterprises** | Government may need to shore up the financial situation of its entities to ensure they continue operating. |
| **Support needed by the financial sector** | Government may be forced to intervene in the financial sector for financial stability purposes. |

The Council considers useful that, in due course, the Ministry for Finance builds on this list, possibly also by expanding the list, and providing its expert views, supported by more information and possible quantitative estimates to support the Ministry's views on the likelihood and potential impact of each risk. The result would be a fiscal risk register, which clarifies the nature of the risk, presents the likelihood of crystallisation and the impact it could have on public finances if it materialises. This deliverable is also in line with the recommendation provided by the IMF as part of its Fiscal Transparency Evaluation. The risk register could also be supplemented by the measures being taken by the Government to manage such risks effectively.

# Financial Statements

For the year ended 31 December 2018

# Malta Fiscal Advisory Council

## *Report of the Council Members*

**For the year ended 31st December 2018**

The Members of the Council present the annual report and the audited financial statements of Malta Fiscal Advisory Council (the "Council") for the year ended 31st December 2018.

**Principal Activity**

The Malta Fiscal Advisory Council ("the Council") was established by the Minister for Finance with effect from 1 January 2015 in terms of the Fiscal Responsibility Act, 2014, Cap 534. The Council's aim is to review and assess the extent to which the fiscal and economic policy objectives proposed by the Government are being achieved and thus contribute to more transparency and clarity about the aims and effectiveness of economic policy. The Council is independent in the performance of its functions.

**Performance Review**

The Council received €257,000 in Government Subvention during the year ended 31st December 2018 (2017: €255,000) in terms of the Fiscal Responsibility Act and incurred €219,813 in expenditure (2017: €244,569). The Council registered a surplus of €40,920 for the year ended 31st December 2018 (2017: €10,470) as shown in the statement of comprehensive income on page 6.

**Post Balance Sheet Events**

There were no particular significant events affecting the Council which occurred since the end of the accounting period.

**Future Developments**

The Council is not envisaging to change its principal activity.

**Council Members**

In accordance with the Fiscal Responsibility Act, the Council shall consist of the Chairman and two other members.

The Committee constitutes of the following members:

Mr. John Cassar White – Executive Chairman
Dr. Ian Cassar – Executive Member
Dr. Carl Camilleri – Executive Member

## Statement of Responsibilities of the Council

The Council members are required to prepare the financial statements for each financial year which give a true and fair view of the state of affairs of the Council at the end of the financial year and of the income and expenditure of the Council for that year:
In preparing these financial statements, the Council members are required to:-

- Adopt the going concern basis, unless it is inappropriate to presume that the Council will continue in business;
- Select suitable accounting policies and apply them consistently from one accounting year to another;
- Make judgement and estimates that are reasonable and prudent;
- Account for income and charges relative to the accounting year on the accruals basis; and
- Value separately the components of assets and liability items on a prudent basis.

**Statement of Responsibilities of the Council (Cont'd)**

The Council members are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Council and to enable them to ensure that the financial statements have been properly prepared. The Council members are also responsible for safeguarding the assets of the Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Disclosure of Information to the Auditors**

So far as the Council Members are aware, all relevant information has been brought to the attention of the Council's Auditors.

**Auditors**

PKF Malta, Certified Public Accountants and Registered Auditors, have intimated their willingness to continue in office.

Approved by the Fiscal Council and signed on its behalf on 15th March 2019 by:

Mr. John Cassar White

**Chairman**

Dr. Carl Camilleri

**Council Member**

Dr. Ian Cassar

**Council Member**

**Registered Office:**

Malta Fiscal Advisory Council,
St. Calcedonious Square,
Floriana FRN 1530

# Malta Fiscal Advisory Council

## *Independent Auditors' Report*

**To the Council Members of Malta Fiscal Advisory Council**

### Report on the Audit of the Financial Statements

We have audited the financial statements of Malta Fiscal Advisory Council (the 'Council'), set out on pages 6 to 16, which comprise the statement of financial position as at 31st December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

### Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Council as at 31st December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Council in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

The Council is responsible for the other information. The other information comprises the Council Member's report. Our opinion on the financial statements does not cover this information, including the Council Member's report. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

In addition, in light of the knowledge and understanding of the Council and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Council Member's report. We have nothing to report in this regard.

### Responsibilities of the Council

The Council Members are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the Council Members determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Council Members are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council Members either intends to liquidate the Council or to cease operations, or has no realistic alternative but to do so.

**Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council Members.
- Conclude on the appropriateness of the Council Members' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Council Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

This report has been signed by
Donna M. Greaves Bonello (Partner) for and on behalf
of PKF (Malta)
15 March 2019

Ms. Donna Greaves
For and on behalf of
PKF Malta
Certified Public Accountants and Registered Auditors

35, Mannarino Road,
Birkirkara BKR 9080,
Malta

15th March 2019

## Malta Fiscal Advisory Council

***Statement of Comprehensive Income***

**For the year ended 31st December 2018**

| | Note | 2018 EUR | 2017 EUR |
|---|---|---|---|
| **Income** | 3 | 257,000 | 255,000 |
| Expenditure | | (219,813) | (244,569) |
| Other Income | | 3,733 | 46 |
| **Surplus before tax** | | 40,920 | 10,477 |
| Taxation | | - | (7) |
| **Surplus for the year** | | 40,920 | 10,470 |
| Other Comprehensive Income for the year | | - | - |
| **Total Comprehensive Income for the year** | | **40,920** | **10,470** |

The notes to the financial statements on pages 10 to 16 form an integral part of these financial statements.

## Malta Fiscal Advisory Council

***Statement of Financial Position***

**As at 31st December 2018**

| | Note | 2018 EUR | 2017 EUR |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Intangible Assets | 7 | 320 | 1,333 |
| Plant and Equipment | 8 | 3,830 | 3,339 |
| | | 4,150 | 4,672 |
| **Current Assets** | | | |
| Other Receivables | 9 | 329 | 605 |
| Cash and Cash Equivalents | 10 | 77,723 | 35,435 |
| | | 78,051 | 36,040 |
| **Total Assets** | | **82,202** | **40,712** |
| **CAPITAL AND LIABILITIES** | | | |
| **Capital and Reserves** | | | |
| Accumulated Reserve – Recurrent vote and operating activities | 11 | 80,310 | 39,390 |
| **Current Liabilities** | | | |
| Other Payables | 12 | 1,892 | 1,322 |
| **Total Capital and Liabilities** | | **82,202** | **40,712** |

The notes to the financial statements on pages 10 to 16 form an integral part of these financial statements.

These financial statements were approved by the Fiscal Council, authorised for issue on 15th March 2019 and signed on its behalf by:

Mr. John Cassar White
**Chairman**

Dr. Carl Camilleri
**Council Member**

Dr. Ian Cassar
**Council Member**

## Malta Fiscal Advisory Council

***Statement of Changes in Equity***

**For the year ended 31st December 2018**

| | Accumulated Reserve EUR | Total EUR |
|---|---|---|
| **Balance as at 31st December 2016** | 28,920 | 28,920 |
| Surplus for the year | 10,470 | 10,470 |
| **Balance as at 31st December 2017** | 39,390 | 39,390 |
| Surplus for the year | 40,920 | 41,214 |
| **Balance as at 31st December 2018** | **80,310** | **80,604** |

The notes to the financial statements on pages 10 to 16 form an integral part of these financial statements.

## Malta Fiscal Advisory Council

***Statement of Cash Flows***

**For the year ended 31st December 2018**

| | Note | 2018 EUR | 2017 EUR |
|---|---|---|---|
| **Cash flows from Operating Activities** | | | |
| Surplus before tax | | 40,918 | 10,477 |
| Adjustments for: | | | |
| Depreciation of intangible assets | 7 | 1,013 | 1,013 |
| Depreciation of tangible assets | 8 | 2,181 | 1,607 |
| *Operating surplus before working capital changes* | | 44,112 | 13,097 |
| | | | |
| Movement in Other Receivables | | 276 | 7,725 |
| Movement in Other Payables | | 572 | (199) |
| Tax Paid | | - | (7) |
| *Net cash flow from Operating Activities* | | 848 | 20,616 |
| | | | |
| **Cash flows from Investing Activities** | | | |
| Acquisition of Plant and Equipment | 8 | (2,672) | (626) |
| *Net cash used in Investing Activities* | | (2,672) | (626) |
| | | | |
| Movement in Cash and Cash Equivalents | | 42,288 | 19,990 |
| | | | |
| **Cash and Cash equivalents at start of the year** | | 35,435 | 15,445 |
| **Cash and Cash equivalents at end of the year** | 10 | **77,723** | **35,435** |

The notes to the financial statements on pages 10 to 16 form an integral part of these financial statements.

## 1. Basis of Preparation

The principal accounting policies adopted in the preparation of these financial statements are set out below:

### a) Statement of Compliance

The financial statements of Malta Fiscal Advisory Council for the year ended 31st December 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

### b) Basis of Measurement

These financial statements have been prepared on the historical cost basis.

### c) Accounting Estimates and Judgements

The preparation of financial statements in conformity with IFRS's requires the Council to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimate and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that year or in the year of the revision and future year if the revision affects both current and future year.

During the year under review, the Council did not make use of significant judgements or accounting estimates.

### d) Functional and Presentation Currency

The financial statements are presented in euro (€), which is the Council's functional currency.

### e) Standards, interpretations and amendments to published standards

*Standards, interpretations and amendments to published standards effective in 2018*

In 2018, the Council adopted new standards, amendments and interpretations to existing standards that are mandatory for the Council's accounting period beginning on 1 January 2018. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Council's accounting policies.

*Standards, interpretations and amendments to published standards that are not yet effective*

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Council's accounting periods beginning after 1 January 2018. The Council has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Council's members are of the opinion that, with the exception of IFRS 9, 'Financial instruments', there are no requirements that will have a possible significant impact on the Council's financial statements in the period of initial application.

*IFRS 9 – Financial Instruments*

IFRS 9 - Financial Instruments published in July 2014 introduces new requirements for the classification and measurement of financial assets and financial liabilities.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Under IFRS 9, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost unless the entity applies the fair value option. All other financial assets, including equity investments are measured at their fair values at the end of subsequent accounting periods. Under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or increase an accounting mismatch in profit or loss. Changes in the fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Council, having its activities predominantly connected with insurance has applied the temporary exemption from IFRS 9 for annual reporting periods beginning before 1 January 2022, and has deferred its application to be concurrent with the effective date of IFRS 17 - Insurance Contracts being 1 January 2022.

## 2. Significant Accounting Policies

### a. Intangible Assets

An acquired intangible asset is recognised only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Council and the cost of the asset can be measured reliably. An intangible asset is initially measured at cost, comprising its purchase price and any directly attributable cost of preparing the asset for its intended use.

Intangible assets are subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is calculated to write down the carrying amount of the intangible asset using the straight-line method over its expected useful life. Amortisation of an asset begins when it is available for use and ceases at the earlier of the

date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) or the date that the asset is derecognised.

Computer Software is amortised over four years on a straight-line basis.

**b. Plant and Equipment**

*Recognition and Measurement*

The cost of an item of plant and equipment is recognised as an asset when it is probable that the future economic benefits that are associated with the asset will flow to the Council and the cost can be measured reliably. Plant and equipment are initially measured at cost comprising the purchase price and any costs directly attributable to bringing the assets to a working condition for their intended use. Subsequent expenditure is capitalised as part of the cost of plant and equipment only if it enhances the economic benefits of an asset in excess of the previously assessed standard of performance, or it replaces or restores a component that has been separately depreciated over its useful life.

After initial recognition, plant and equipment may be carried under the cost model, that is at cost less any accumulated depreciation and any accumulated impairment losses, or under the revaluation model, that is at their fair value at the date of the revaluation less any accumulated depreciation and any accumulated impairment losses.

After initial recognition plant and equipment are carried under the cost model.

**c. Financial Instruments**

Financial assets and financial liabilities are recognised when the Council becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially recognised at their fair value plus directly attributable transaction costs.

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when the Council has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the Council transfers the financial asset and the transfer qualifies for derecognition.

Financial liabilities are derecognised when they are extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

i. Other Receivables

Other receivables are classified with current assets and are stated at their nominal value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

ii. Other Payables

Other payables are classified with current liabilities and are stated at their nominal value.

**d. Provisions**

A provision is recognised when, as a result of a past event, the Council has a present obligation that can be estimated reliably and it is probable that the Council will be required to transfer economic benefits in settlement. Provisions are recognised as a liability in the balance sheet and as an expense in profit or loss or, when the provision relates to an item of property, plant and equipment, it is included as part of the cost of the underlying assets.

**e. Taxation**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to the investment in associate to the extent that the Council is able to control the timing of the reversal of temporary differences and it is probable that those temporary differences will not reverse in the foreseeable future. Deferred tax assets for the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax is measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

**f. Impairment**

*Financial Assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk circumstances. All impairment losses are recognised in profit or loss. Any cumulative loss

in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

*Non-Financial Assets*

The carrying amount of non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**g. Cash and Cash Equivalents**

Cash and cash equivalents comprise the bank balance as at the year ended 31st December 2018.

**h. Income Recognition**

Income comprises the Government Subvention available in terms of the Fiscal Responsibility Act to cover recurrent expenditure reflected in the income statement of the Council.

**i. Going Concern**

The financial statements have been prepared on the going concern basis, which assumes that the Government of Malta will continue to provide the subvention to the Council in accordance with Article 55 of the Fiscal Responsibility Act (Chapter 534 of the Laws of Malta) in the order to continue with the performance of its functions.

## 3. Income

Income represents the subvention voted to the Council by the Government of Malta and is analysed as follows:

| | 2018<br>EUR | 2017<br>EUR |
|---|---|---|
| Government Subvention | 257,000 | 255,000 |

The Government subvention as per Article 55 sub-articles (2), (4a) and (4b) of the Fiscal Responsibility Act amounts to not less than €250,000 annually and increases by the Index of Inflation as established and published by the National Statistics Office in each subsequent year.

## 4. Council Honoraria

| | 2018<br>EUR | 2017<br>EUR |
|---|---|---|
| Honoraria | 48,550 | 58,000 |
| Number of Council Members | 3 | 3 |

## 5. Taxation

As per previous practice, the council is considered as tax exempt and did not provide for tax at 35% in the Council's financial statements. A request in terms of Article 12(2) of the Income Tax Act to obtain a tax exemption of its surplus had been made with the Ministry of Finance and was obtained on the 27th March 2017.

## 6. Salaries and Consultancy Fees

| | 2018<br>EUR | 2017<br>EUR |
|---|---|---|
| Staff Gross Salaries and Social Security Contributions | 122,496 | 120,493 |
| Average Number of Employees | 4 | 4 |

## 7. Auditors' Remuneration

Total remuneration paid to the auditors during the year amounted to:

| | 2018<br>EUR | 2017<br>EUR |
|---|---|---|
| Audit Fees | 1,180 | 885 |
| Total Auditors' Remuneration | 1,180 | 885 |

## 8. Intangible Assets

| | Computer Software<br>EUR | Total<br>EUR |
|---|---|---|
| **Cost** | | |
| As at 1st January 2018 and 31st December 2018 | 4,053 | 4,053 |
| **Depreciation** | | |
| As at 1st January 2018 | 2,720 | 2,720 |
| Charge for the year | 1,013 | 1,013 |
| As at 31st December 2018 | 3,733 | 3,733 |
| **Net Book Value** | | |
| As at 31st December 2017 | 1,333 | 1,333 |
| As at 31st December 2018 | **320** | **320** |

## 9. Plant and Equipment

| | Fixtures & Fittings EUR | Computer and Office Equipment EUR | Library Books EUR | Air Conditioner EUR | Total EUR |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| As at 1st January 2018 | 590 | 5,757 | 1,091 | - | 7,438 |
| Additions | - | 1,542 | - | 1,130 | 2,672 |
| As at 31st December 2018 | 590 | 7,299 | 1,091 | 1,130 | 10,109 |
| **Depreciation** | | | | | |
| As at 1st January 2018 | 177 | 3,694 | 228 | - | 4,099 |
| Charge for the year | 59 | 1,825 | 109 | 188 | 2,181 |
| As at 31st December 2018 | 236 | 5,519 | 337 | 188 | 6,280 |
| **Net Book Value** | | | | | |
| As at 31st December 2017 | 413 | 2,063 | 863 | - | 3,339 |
| As at 31st December 2018 | **354** | **1,780** | **754** | **942** | **3,830** |

## 10. Other Receivables

| | 2018 EUR | 2017 EUR |
|---|---|---|
| Prepayments | 329 | 153 |
| Other receivables | - | 452 |
| | 329 | 605 |

## 11. Cash and Cash Equivalents

For the purpose of the cash flow statements, the year-end cash and cash equivalents comprise the following amounts:

| | 2018 EUR | 2017 EUR |
|---|---|---|
| Bank Balances | 77,723 | 35,435 |

## 12. Accumulated Reserve – Recurrent Vote and Operating Activities

The recurrent vote and operating activities represent the accumulated deficit or surplus resulting from operations.

## 13. Other Payables

| | 2018<br>EUR | 2017<br>EUR |
|---|---|---|
| Other Payables | 82 | 114 |
| Accruals | 1,811 | 1,208 |
| | 1,892 | 1,322 |

## 14. Financial Instruments

*Fair Values of Financial Assets and Financial Liabilities*

At 31st December 2018 the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively approximated their fair values due to the short-term maturities of these assets and liabilities.

*Financial Risk Management*

The exposures to risk and the way risks arise, together with the Council's objectives, policies and processes for managing and measuring these risks are disclosed in more detail below. The objectives, policies and processes for managing financial risks and the methods used to measure such risks are subject to continual improvement and development.

*Liquidity Risk*

The Council monitors and manages its risk to a shortage of funds by maintaining sufficient cash and by monitoring the availability of raising funds to meet commitments associated with financial instruments and by maintaining adequate banking facilities.

*Capital Risk Management*

The Council's objectives when managing capital is to safeguard its ability to continue as a going concern.

The capital structure of the Council consists of cash and cash equivalents as disclosed in note 10 and items presented within the accumulated reserve in the statement of financial position.

## 15. Related Parties

Malta Fiscal Advisory Council is an independent fiscal institution and reports to Parliament on an annual basis. The Council Members are appointed by the Government of Malta. In terms of the Fiscal Responsibility Act, Council Members will not seek or receive instructions from public authorities or from any other institution or council.

Transactions with Council Members which occurred during the years ended 31st December 2018 and 2017 are disclosed in note 4.

## 16. Comparative Information

Certain comparative information has been reclassified to conform to the current's year disclosure for the purpose of fairer presentation.

## Malta Fiscal Advisory Council

***Schedules to the Expenditure Account***

**For the year ended 31st December 2018**

**Recurrent Expenditure**

| | 2018<br>EUR | 2017<br>EUR |
|---|---|---|
| Council Honoraria | 48,550 | 58,000 |
| Salaries and Consultancy fees | 122,496 | 120,493 |
| Audit fees | 1,180 | 885 |
| MITA Subscription | 1,305 | - |
| Telecommunication and Internet Costs | 6,440 | 6,123 |
| Travel and Training costs | 6,303 | 12,579 |
| Local Conference costs | - | 1,547 |
| Recruitment costs | 1,284 | - |
| Rental fees | 6,250 | 24,914 |
| Premises Fees | 1,300 | 5,182 |
| Study loans | 5,300 | 5,400 |
| Staff Welfare | 543 | - |
| Photocopier lease expenses | 1,318 | 1,804 |
| Postage, Printing and Stationery | 4,167 | 2,511 |
| Insurance | 886 | 1,125 |
| Subscriptions | 155 | 434 |
| Hospitality costs | - | 55 |
| Depreciation of tangible assets | 2,181 | 1,607 |
| Amortisation of intangible assets | 1,013 | 1,013 |
| Sundry Expenses | 779 | 848 |
| Bank Charges | 67 | 49 |
| Maintenance | 2,856 | - |
| Moving to New Premises | 1,402 | - |
| Out of Budget | 1,494 | - |
| Equipment/Licences | 1,946 | - |
| Cleaning | 594 | - |
| Total Recurrent Expenditure | 219,814 | 244,569 |

Schedule I does not form part of the audited financial statements.

**Malta Fiscal Advisory Council**
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