Overall Assessment

Ministry for Finance Annual Report 2017

July 2018

MFAC
MALTA FISCAL ADVISORY COUNCIL

MFAC

MALTA FISCAL ADVISORY COUNCIL

Overall Assessment

Ministry for Finance

Annual Report

2017

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

3 August 2018

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

Dear Minister

LETTER OF TRANSMITTAL

In terms of Article 13 of the Fiscal Responsibility Act, 2014 (Cap 534), I have the honour to present the overall assessment by the Malta Fiscal Advisory Council (MFAC) of the 2017 Annual Report by the Ministry for Finance.

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 nominal GDP growth. Indeed, in both forecast rounds, growth in operating surplus and mixed income was stronger than anticipated. On the contrary, forecasts for gross fixed capital formation proved too optimistic.

When focusing on a three-year period, between 2015 and 2017, no specific persistent upward or downward bias was detected with respect to the forecasts for the various GDP expenditure components. Nevertheless, the Council observes that in the case of nominal GDP growth, the outturn was either in line, or higher than originally projected, indicating a certain degree of prudency embedded in the forecasts.

The stronger-than-expected nominal GDP growth recorded in 2017 contributed a more positive fiscal balance than targeted. Stronger revenues compensated for some spending overrun. The

major revenue discrepancy on an ESA basis related to the proceeds generated through the Individual Investor Programme, which were much higher than expected. In turn, the broad-based current expenditure overruns on an ESA basis suggest that the year's targets were rather challenging.

It is important that expenditure targets strike the right balance between being ambitious, in terms of containment of expenditure growth, but at the same time guaranteeing that the budgets allocated do not need to be subsequently revised upwards to accommodate necessary expenditure for the proper functioning of government and the delivery of public services. In recent years, situations of revenue above target appear to coincide with higher-than-planned expenditure.

Finally, the Council encourages the Ministry to explore more fully the reasons for the forecasting errors in relation to both the macroeconomic and fiscal variables. The objective is to draw useful insights and improve further the forecasting framework in future rounds.

The Council would also like to express its satisfaction at the ongoing constructive dialogue with the Ministry and its officials.

Yours sincerely

John Cassar White

Chairman

c.c. Mr Alfred Camilleri, Permanent Secretary, Ministry for Finance

Table of Contents

List of Tables

List of Charts

List of Boxes

Abbreviations

DBP	Draft Budgetary Plan
EBU	Extra-Budgetary Unit
ESA	European System of National and Regional Accounts
EU	European Union
FRA	Fiscal Responsibility Act
GDP	Gross Domestic Product
IIP	Individual Investor Programme
MFAC	Malta Fiscal Advisory Council
MFIN	Ministry for Finance
MGS	Malta Government Stock
MTFS	Medium-Term Fiscal Strategy
MTO	Medium-Term Objective
NSO	National Statistics Office
pp	percentage point
USP	Update of Stability Programme
VAT	Value Added Tax

Executive summary

The overall objective of the Annual Report published by the Ministry for Finance is to increase fiscal transparency and accountability. Accordingly, the Annual Report 2017 documents the variations between the fiscal forecasts and the actual outturn; and presents the macroeconomic data which underpinned such developments.

In 2017, nominal GDP growth was estimated at 9.1%, which was significantly higher than the forecast of 5.8% and 6.3%, respectively indicated in the Draft Budgetary Plan 2017 (published in October 2016) and the Update of Stability Programme 2017 – 2020 (published in April 2017). Although private consumption growth forecasts were very close to the outturn, there were material discrepancies in the forecasts for the other GDP expenditure components. Nonetheless, when focusing on a three-year period, between 2015 and 2017, no specific pattern of over-estimation or under-estimation could be detected with respect to the forecasts for the various GDP expenditure components. Still, one can observe that in the case of nominal GDP, the outturn was either in line or higher than originally projected, thus indicating a certain degree of prudency in the macroeconomic forecasts.

The Consolidated Fund balance and the general government balance were significantly more positive than had been targeted in the Draft Budgetary Plan 2017 and the Update of Stability Programme 2017 – 2020, in part due to the better-than-expected economic outturn. The Consolidated Fund thus recorded a surplus of €182.7 million, while the general government balance amounted to a surplus of €436.6 million. The better-than-expected fiscal turnout resulted from stronger tax revenues and higher proceeds from the Individual Investor Programme, which more than compensated for spending overruns in the areas of health, education, tourism and pensions. Patterns of higher-than-anticipated revenues and expenditure slippages have been noticeable since 2014.

The over-achievement of the 2017 fiscal targets also ensured full compliance with the fiscal rules as put forward in the Fiscal Responsibility Act. Indeed, the structural surplus, equivalent to 3.6% of potential output was higher than the requirement of structural balance, while the debt ratio, at 50.8% of GDP was comfortably below the 60% ceiling.

The Fiscal Council encourages the Ministry for Finance to explore more fully the reasons why certain fiscal targets have been missed or exceeded. This would enable the Ministry to draw useful insight, thus improving the forecasting framework in future rounds. This is particularly important for those variables which are more under the Ministry's control and which exert the more material impact on the fiscal balance. The Fiscal Council also underscores the importance that the Update of Stability Programme provides a reliable medium-term anchor, with close adherence to the published revenue and expenditure plans.

1. Introduction

The overall objective of the Annual Report published by the Ministry for Finance (MFIN) and tabled in Parliament is to increase fiscal transparency and accountability.[1] The Annual Report explains the execution of the previous Budget and deviations from the fiscal targets. This document also presents the macroeconomic forecasts vintages which underpinned such fiscal forecasts and assesses compliance with the fiscal rules.[2]

Macroeconomic forecasts are conditional on the information available at the time of their preparation. The cut-off date is used to communicate to the users the information that was available and which could be used for the preparation of such forecasts. New information, unexpected developments, as well as revisions to past data contribute to revisions from one forecast round to the other. In Malta, the official macroeconomic forecasts are produced twice a year, ahead of the submission of the Update of Stability Programme (USP) and the submission of the Draft Budgetary Plan (DBP).[3,4] While perfect accuracy is impossible, it is important that macroeconomic forecasts do not present a systematic bias, in the sense of repeatedly underestimating or overestimating the variable of interest.

To address such concerns, in the European Union (EU), Member States are required to either delegate the production of macroeconomic forecasts to an independent institution, or alternatively, macroeconomic forecasts must be endorsed by an independent institution. The latter option was adopted by Malta, with the endorsement task delegated to the Malta Fiscal Advisory Council (MFAC). Plausible and unbiased macroeconomic forecasts contribute to better fiscal planning and forecasting. Malta's fiscal targets, which are based on the endorsed macroeconomic forecasts are announced in the Budget Speech and included in the DBP. Subsequently, the macroeconomic outlook and the fiscal targets are either updated or reconfirmed in the USP, maintaining consistency between the two sets of forecasts.[5]

Article 13(e) of the Fiscal Responsibility Act (FRA) requires the MFAC to "analyse and issue an opinion and any recommendations pursuant to the Government's publication of the half-yearly and the annual report on the execution of the budget including an ex post evaluation of macroeconomic and fiscal forecasts". To this effect, this Report proceeds as follows. Section 2 evaluates how the macroeconomic conditions have evolved since the publication of the 2017 DBP (in October 2016) and the publication of the 2017 – 2020 USP (in April 2017). Section 3 focuses on the variances between the 2017 Consolidated Fund targets and the outturn. Section 4 focuses on the fiscal developments compiled according to the European System of National

[1] Available on https://mfin.gov.mt/en/Library/Documents/Annual%20Reports/Annual_Report_2017.pdf.
[2] This year's publication also summarises the main amendments to the Fiscal Responsibility Act (FRA) enacted in 2018 to ensure full consistency with the Directive on Budgetary Frameworks.
[3] The DBP must be published by 30 April of each year while the USP must be published by 15 October. The USP also serves as Malta's Medium-Term Fiscal Strategy (MTFS).
[4] The DBP which is referred to in the MFIN's Annual Report relates to that published in October 2016, and hence chronologically predates the USP 2017 – 2020, which was published in April 2017.
[5] Fiscal forecasts may also be revised in July, following the publication of the MFIN's Half Yearly Report. These revisions are generally small and driven by the latest fiscal data available post USP.

and Regional Accounts (ESA). Section 5 assesses the compliance with the budgetary rule and the debt rule. Section 6 concludes with some final recommendations.

2. Nominal macroeconomic developments

Developments in GDP and its components at current market prices are the more relevant, for fiscal forecasts, since most tax bases are based on nominal GDP values. Accordingly, the MFIN's analysis contained in the Annual Report focuses attention on nominal GDP. In 2017, nominal GDP growth was estimated at 9.1%, which was significantly higher than the forecast of 5.8% and 6.3%, respectively indicated in the DBP 2017 and the USP 2017 – 2020 (see Chart 1).[6]

The component by component analysis is likewise carried out based on nominal growth rates. Although private consumption growth forecasts were very close to the outturn, there were material discrepancies in the forecasts for the other GDP expenditure components. Government consumption growth, at 0.9% was significantly below expectations as proceeds from the Individual Investor Programme (IIP), were much higher than anticipated.[7] On the other hand, the forecasts for gross fixed capital formation, proved too optimistic. Investment projects proceeded at a slower pace than anticipated, and as a result, gross fixed capital formation registered a 5.5% year-on-year decline, rather than the growth anticipated in the DBP and the USP. On the contrary, the annual growth in exports, at 7.7%, was almost double the rate expected in both forecast rounds. This is partly explained by the fact that growth in tourism earnings was much stronger than anticipated.

Developments in the specific GDP components resulted in a lower import content than originally anticipated. Indeed, imports grew by 1.6% in nominal terms, much lower than the 5.3% and 3.8% respectively forecast in the DBP and the USP. This forecast error mainly resulted from the unanticipated decline registered by gross fixed capital formation, which in Malta's case tends to have a very high import content, much more than for the rest of the GDP expenditure components.[8]

The income side of GDP reveals that the forecast error was almost exclusively concentrated in the operating surplus and mixed income component. Indeed, the annual growth in corporate profits, at 10.7%, was practically double what had been forecasted. On the other hand, the forecasts for compensation of employees were much closer to the outturn – 1.5 percentage

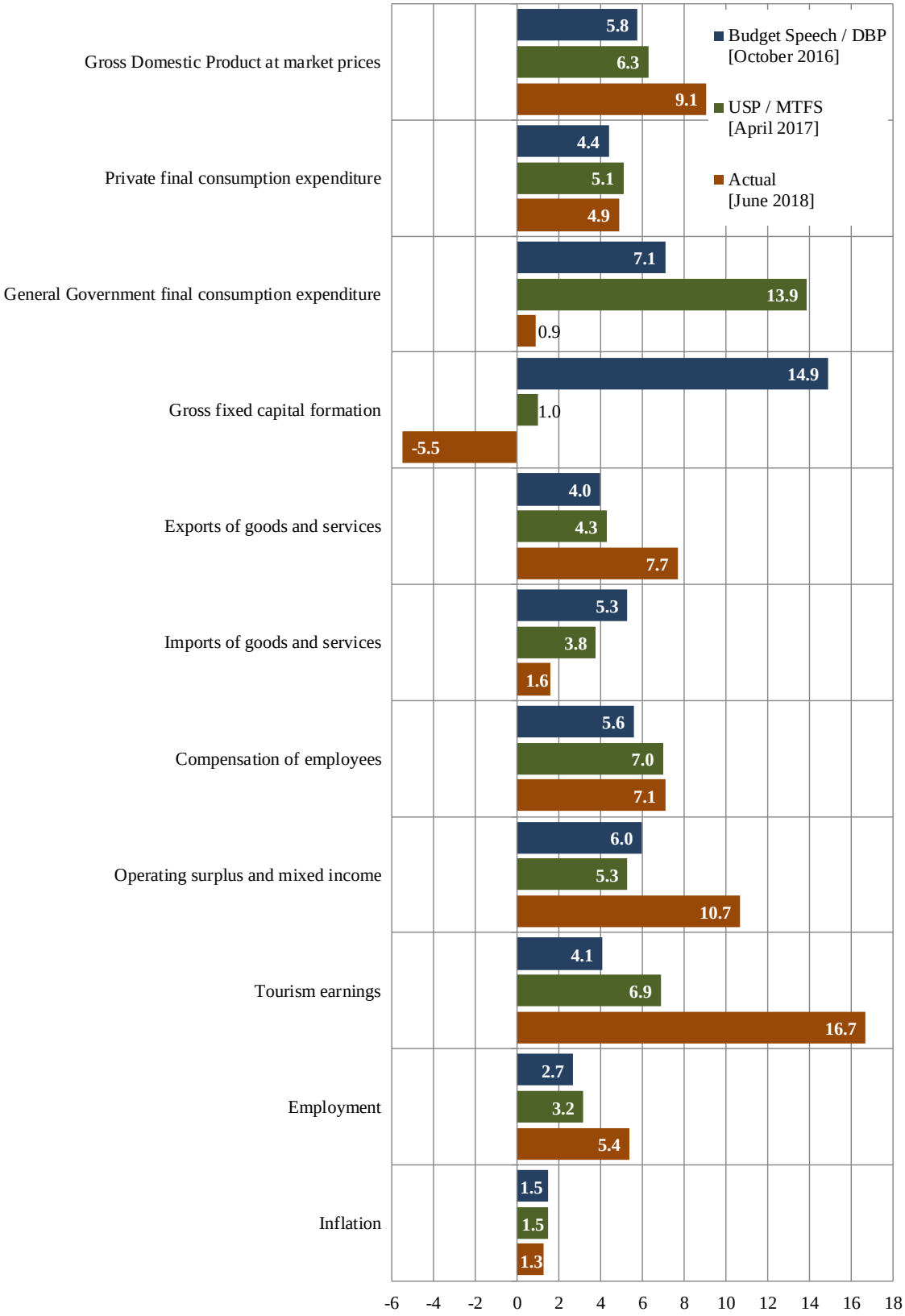
[6] The 9.1% nominal growth estimate is based on the second vintage national accounts estimate for 2017 (full year) published by the National Statistics Office (NSO). Source: https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_A1/National_Accounts/Documents/2018/News2018_089.pdf.

[7] Revenues generated from the IIP are being considered as market output by the NSO, and thus deducted from the other expenditure items of government, when computing government consumption. This has the effect of dampening growth in government consumption.

[8] As a result, forecast errors for gross fixed capital formation have a dampened effect on GDP since the impact is mostly offset through imports.

points (pp) higher than what was indicated in the DBP, and merely 0.1 pp higher than shown in the USP.

Chart 1: Macroeconomic developments in 2017 (year-on-year % change)

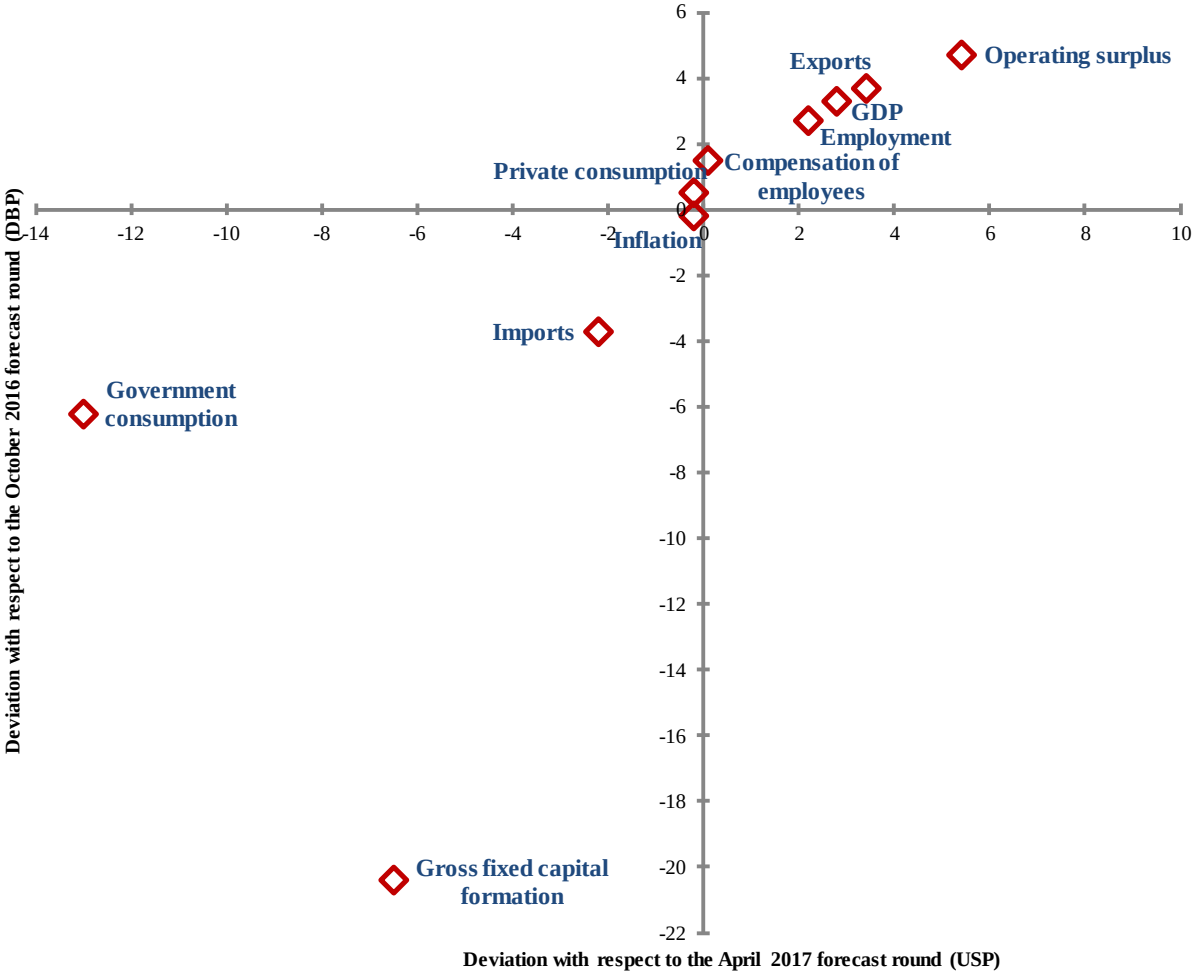


Source: MFIN

However, growth was more job-rich than had been anticipated. Indeed, employment growth amounted to 5.4%, higher than the 2.7% and 3.2% respectively indicated in the DBP and the USP. This implies that growth in average compensation per employee was more subdued than originally expected. In turn, inflation forecasts were very accurate, with the outturn being merely 0.2 pp below what was expected in both rounds.

The two separate macroeconomic forecast rounds (the one carried out in October 2016 and the other in April 2017) reveal that the forecasts for private consumption were the most accurate from among the GDP expenditure components (see Chart 2).

Chart 2: Macroeconomic forecast errors in relation to the 2017 forecasts (pp)



Note: The top-left quadrant indicates instances when the actual turnout was higher than indicated in the October 2016 forecast round, but lower than indicated in the April 2017 forecast round. The top-right quadrant indicates instances when the actual turnout was higher than indicated in both the October 2016 and the April 2017 forecast rounds. The bottom-left quadrant indicates instances when the actual turnout was lower than indicated in both the October 2016 and the April 2017 forecast rounds. The bottom-right quadrant indicates instances when the actual turnout was lower than indicated in the October 2016 forecast round, but higher than indicated in the April 2017 forecast round.

Source: MFIN

In the case of government consumption, gross fixed capital formation and imports, the outturn was lower than had been anticipated in either the DBP 2017 or the USP 2017-2020.[9] However, whereas in the case of government consumption, the larger deviation was with respect to the USP (April 2017 round), in the case of gross fixed capital formation and imports, the larger deviation was with respect to the DBP (October 2016 round). On the other hand, exports were underestimated across both forecast rounds, with roughly similar magnitudes. The overall effect of these expenditure variations led to an underestimation of nominal GDP growth for 2017. From the GDP income side, this was reflected in operating surplus being consistently underestimated across the two forecast rounds.

When focusing on a three-year period, between 2015 and 2017, no specific persistent upward or downward bias can be detected with respect to the forecasts for the various GDP expenditure components (see Chart 3). This assessment is based on a comparative analysis between the forecast estimate and the realisation of the respective variable. Across the various components, one can note years of over-estimation and others of under-estimation, with no specific identifiable pattern.

Nevertheless, the MFAC observes that in the case of nominal GDP, the outturn was either in line or higher than originally projected. This indicates a certain degree of prudency in the forecasts. This assessment is conditional on the estimate of GDP which is available to date. It is important to highlight such caveat, since at times data revisions by the NSO have been material (see Box 1).

On the other hand, in the case of government consumption, there were two consecutive years of over overestimation (in 2016 and 2017). This can be ascribed to the higher than anticipated proceeds from the IIP. In this respect, the MFAC considers important that applications for the IIP are closely monitored, to be able to improve upon the forecast accuracy for IIP revenues and hence Government consumption.

[9] This corresponds to the bottom-left corner in the chart.

Chart 3: Actual vs forecast growth rates for GDP expenditure components 2015 – 2017 (pp)

Note: The actual values for 2015, 2016 and 2017 correspond to the latest official statistics published by the NSO in June 2018 through News Release 089/2018. The DBP corresponds to the forecasts for period 't+1' published yearly, in October, while the USP corresponds to the forecast for period 't' published yearly, in April.

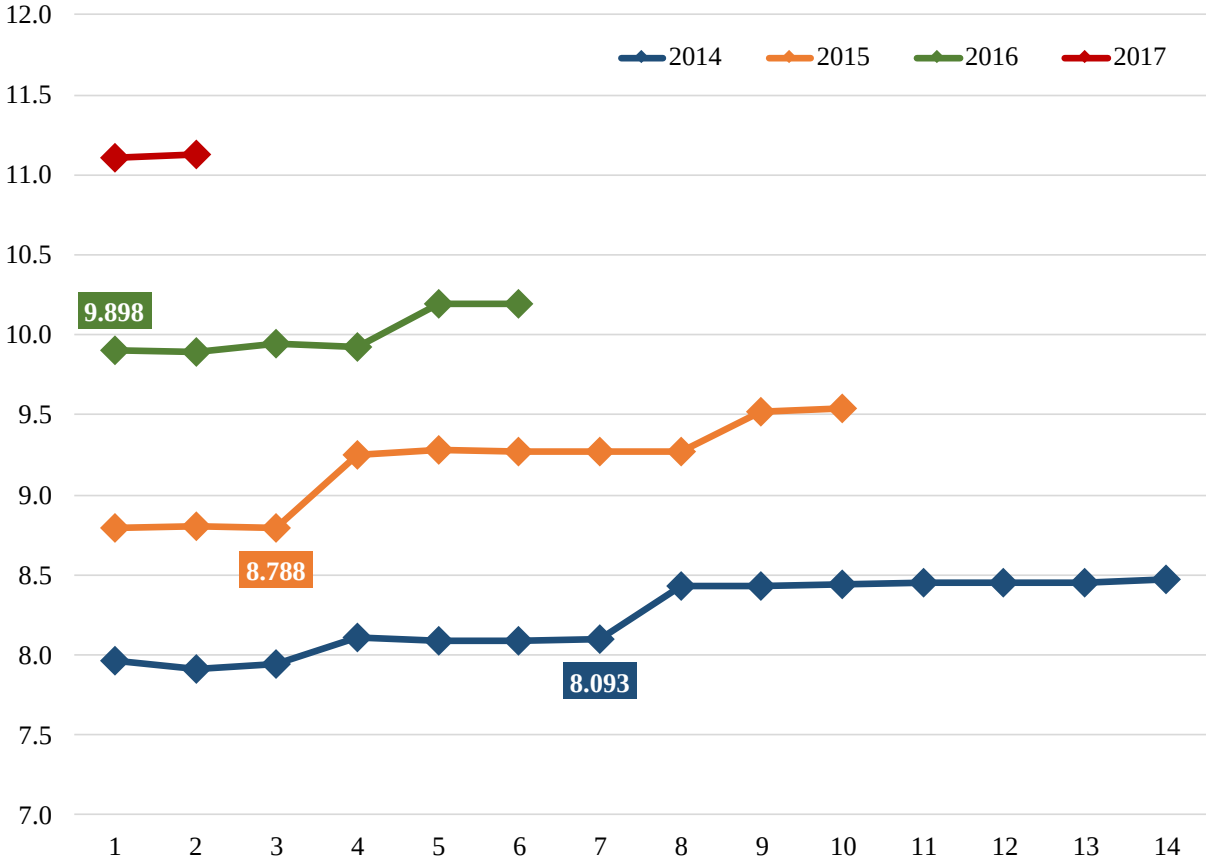
Source: MFIN

Box 1: Revisions in nominal GDP levels and growth rates

GDP statistics are provisional and thus subject to change. Historical data revisions may create challenges for macroeconomic forecasts, since this can alter estimated relationships and create base effects. The problem is exacerbated if the revisions are biased in one direction, potentially creating biases in the forecasts based on such statistics. The cut-off date to produce macroeconomic forecasts is thus important as it helps clarify the specific data which is available at the time of the preparation of such forecasts. Specifically, the cut-off date used by the MFIN to produce the macroeconomic forecasts contained in the DBP 2017 was 28 September 2016, while that for the USP 2017 – 2020 was 30 March 2017.

Chart A shows the changes which have taken place across the various vintages of NSO News Releases, in respect of yearly nominal GDP data from 2014 to 2017.

Chart A: Vintages of nominal GDP estimates in levels published by the NSO (EUR billions)



Note: Vintage '1' corresponds to the first release wherein this figure was available. Vintage '2' corresponds to the second release wherein the figure was available, and so on.

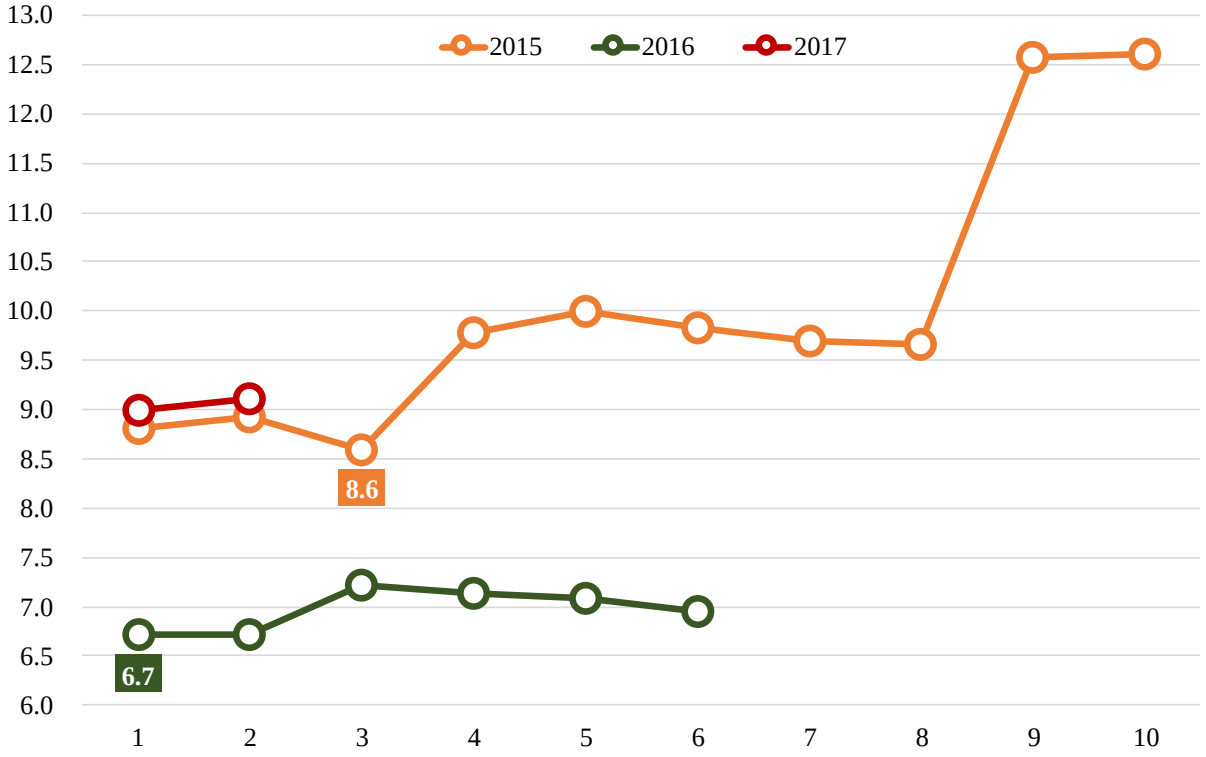
Source: NSO

The nominal GDP data available to the MFIN for preparation of the DBP 2017 (in October 2016) were the seventh vintage estimate for 2014, which amounted to €8.093 billion; the third vintage GDP estimate for 2015 which amounted to €8.788 billion; and data for the first two quarters of 2016 (as published through NSO News Release 142/2016).

On the other hand, the nominal GDP data available to the MFIN for the preparation of the USP 2017 – 2020 (in April 2017) were the first vintage for 2016, which amounted to €9.898 billion; and two further GDP vintages for 2014 and 2015 (as published through NSO News Release 041/2017). In the latter two cases, the estimate for nominal GDP for 2014 and 2015 was higher than indicated at the time of the DBP.

Chart B shows the nominal GDP growth rates which resulted from successive nominal GDP vintages. The DBP factored in the third vintage nominal GDP growth rate of 8.6% for 2015. The latter was subsequently lifted to 10.0% at the time of the publication of the USP. Furthermore, the USP was based on the first vintage estimate of 6.7% nominal GDP growth for 2016. The growth rate for 2016 has remained rather stable across more recent vintages, with the latest available vintage placing it at 6.9%.

Chart B: Vintages of nominal GDP growth rates published by the NSO (%)



Note: Vintage '1' corresponds to the first release wherein this figure was available. Vintage '2' corresponds to the second release wherein the figure was available, and so on.

Source: NSO

Revisions to date have led to a rather volatile estimate for nominal GDP growth in 2015, but so far, the nominal growth rates for 2016 and 2017 have been rather stable. Albeit, in the case of 2016 and 2017 the number of vintages available is fewer.

Overall, it is worth noting that statistical revisions carried out in recent years tended to be biased upwards in terms of both levels and growth. This could lead to biases in the forecasts.

3. Developments in the Consolidated Fund

In 2017, the Consolidated Fund recorded a surplus of €182.7 million, as opposed to the deficit of €128.3 million indicated in the approved Financial Estimates which were published in October 2016 (see Table 1).[10] The better-than-expected fiscal turnout resulted from stronger revenues, which were €403.6 million above-target, and this more than compensated for the spending overrun of €92.6 million.

Table 1: Main developments in the Consolidated Fund in 2017 (EUR million)

	Approved Estimates	Actual	Difference
Total recurrent revenue	3,887.6	4,291.2	403.6
Total expenditure	4,015.9	4,108.5	92.6
Consolidated Fund balance	-128.3	182.7	311.0

Source: MFIN

Surplus revenues were recorded across all main components, but were mainly driven by direct taxes, which exceeded the target by €215.2 million (see Chart 4).[11] This was attributable to the stronger-than-expected nominal GDP growth, as was explained in the previous section, and the conservative forecast assumptions employed by the MFIN. Stronger-than-expected growth in corporate profits and the vibrant labour market conditions generated higher revenue from both income tax and social contributions, which in both cases exceeded the original estimates.

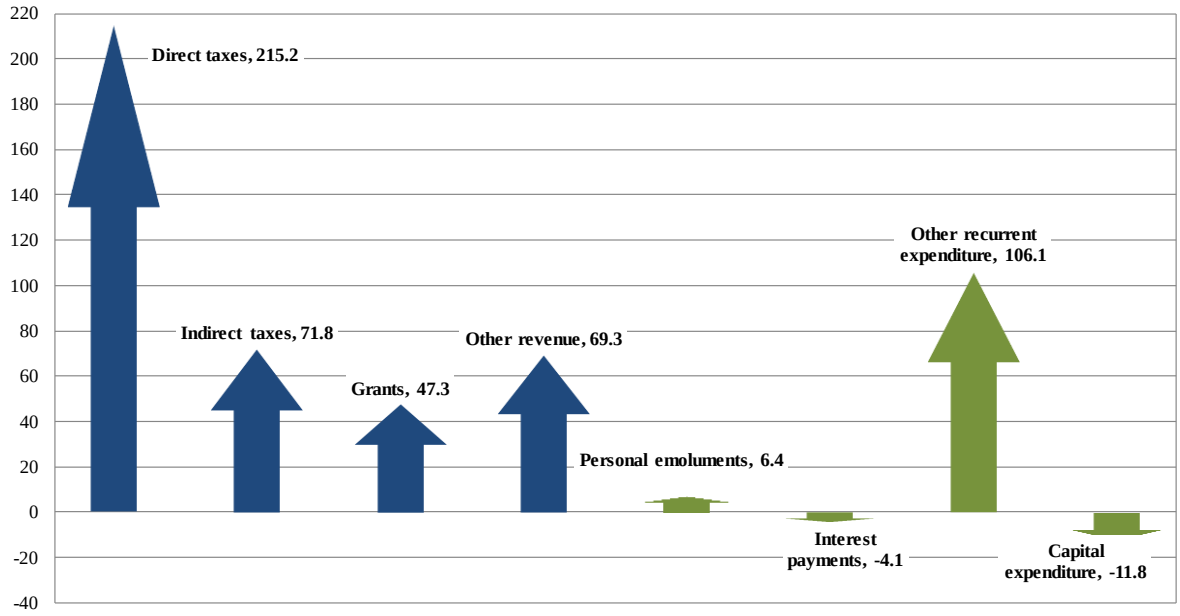
Indirect taxes were likewise €71.8 million above target. Within this category, VAT netted €46.3 million more than expected. Buoyant activity in the property market contributed to higher-than-expected duty on documents. In turn, part of the additional grants collected reflected the re-imbursement of foreign financed projects under the 2007-2013 programme which were originally budgeted in 2016 but which continued to be received in 2017. On the other hand, the additional non-tax revenue which amounted to €69.3 million, was mainly due the higher-than-expected fees of office, reflecting the 30% share of the net proceeds associated with the IIP.

In the case of expenditure, overruns were broad-based. Higher than planned outlays were recorded in the areas of health, education, tourism and pensions. However, these were concentrated in spending on 'Programmes and Initiatives' which exceeded the target by €82.6 million. Personal emoluments also amounted to €6.4 million more than expected. This extra spending was partly offset by lower-than-planned spending in interest payments and capital expenditure, amounting respectively to €4.1 million and €11.8 million.

[10] The Consolidated Fund reflects the Government's cash-based position although certain financial transactions are excluded. Allocations are authorised either by the House of Representatives under an Appropriation Act, or else are permanently appropriated by the House under specific legislation. The Consolidated Fund does not consider accruals, and the recording of revenues and expenditures also differs from the ESA guidelines.

[11] The positive turnout for income tax also included the effect of €41 million resulting from administrative provisions on the operation of the international companies' departmental account at the Central Bank of Malta, as recommended by Eurostat.

Chart 4: Consolidated Fund: actual compared to the Estimates for 2017 (EUR millions)



Note: Blue arrows represent revenues and green arrows represent expenditures.

Source: MFIN

4. Developments in the general government balance as per ESA

The assessment of fiscal policy based on fiscal data compiled according to the ESA methodology can be better linked to the macroeconomic developments as measured in the GDP statistics. The ESA methodology involves adjustments for accruals (rather than being cash-based) and has wider coverage for general government by including the activities of Extra-Budgetary Units (EBUs). Developments in the general government balance may thus not be fully in line with those recorded in the Consolidated Fund.[12]

In 2017, the fiscal surplus amounted to €436.6 million in contrast with the original target for a €50.0 million deficit stated in the DBP 2017 (see Table 2). It was also much higher than the €57.1 million surplus indicated in the USP 2017-2020. Revenue was significantly higher than anticipated, by 14.9% when compared to the DBP, and by 11.0% when compared to the USP. Expenditure was also higher than planned, but its variance was contained to 2.5% and 1.6%, when compared to the DBP and the USP respectively. It is to be expected that the fiscal forecasts presented in the USP are more accurate than those presented in the DBP, since the former embed the actual, rather than the estimated turnout for the previous year, and factor in information about the developments during the first months of the year. The variation compared to the USP targets was nonetheless quite significant. However, this is mainly

[12] NSO News Release 063/2018 provides the full reconciliations between the Consolidated Fund balance and the general government balance according to ESA for the period 2014 to 2017. Source: https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_A2/Public_Finance/Documents/2018/News2018_063.pdf.

ascribed to the much-higher than anticipated proceeds received through from IIP.[13] Indeed, market output (which includes the IIP), accounted for around two-thirds of the €444.9 additional revenue in 2017 (see Chart 5).

Table 2: Main fiscal developments on an ESA basis in 2017 (EUR million)

	DBP October 2016	USP April 2017	Actual April 2018	Difference with respect to the DBP		Difference with respect to the USP	
				Amount	%	Amount	%
Revenue	3,910.2	4,049.7	4,494.6	584.4	14.9	444.9	11.0
Expenditure	3,960.2	3,992.6	4,057.9	97.7	2.5	65.3	1.6
Balance	-50.0	57.1	436.6	486.6	-	379.6	-

Source: MFIN

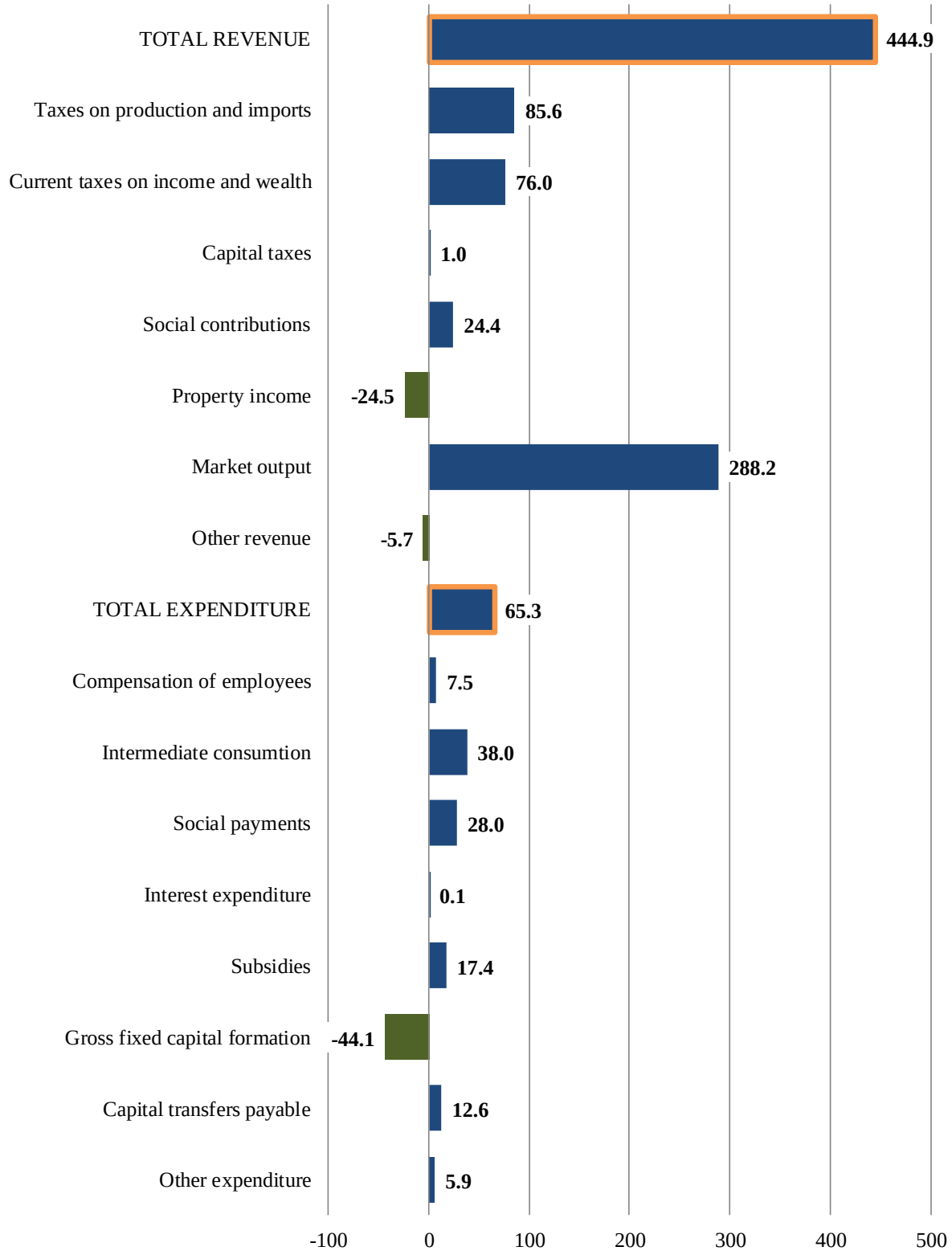
Revenue targets for taxes on production and imports, current taxes on income and wealth and social contributions were exceeded due to the stronger-than-expected expansion in GDP, characterised by robust corporate profits, vibrant labour market conditions and heightened activity in the property sector. On the other hand, property income was below target but this reflected mainly the delayed distribution of dividends, due to the change in the accounting period of a major bank, whose shares are partly owned by the government.

Even total expenditure exceeded the target, by €65.3 million. The additional spending was however much less than the revenue surplus. There were overruns across all expenditure components except gross fixed capital formation. Indeed, spending on gross fixed capital formation was €44.1 million less than planned.

The broad-based overruns in current expenditure suggest that the targets presented in the USP were rather challenging to achieve. Furthermore, some of the surplus revenues generated in 2017 appear to have been channelled into fresh expenditure initiatives. This follows a similar pattern which was observed in previous years. Indeed, over consecutive years, situations of revenue above target appear to coincide with higher-than-planned expenditure (see Chart 6 and Chart 7). However, whereas for the period 2013 to 2016, the yearly additional revenue appears to have been fully offset by higher expenditure, in the case of 2017 and 2018, this does not appear to be the case. Indeed, the 2017 and 2018 targets for the fiscal balance have been made more ambitious following the upward revision in revenue (see Chart 8).

[13] Whereas in the case of the Consolidated Fund, only 30% of revenues from the IIP are included, according to the ESA guidelines, the full 100% of IIP revenues are considered as revenue, after the finalisation of the application process.

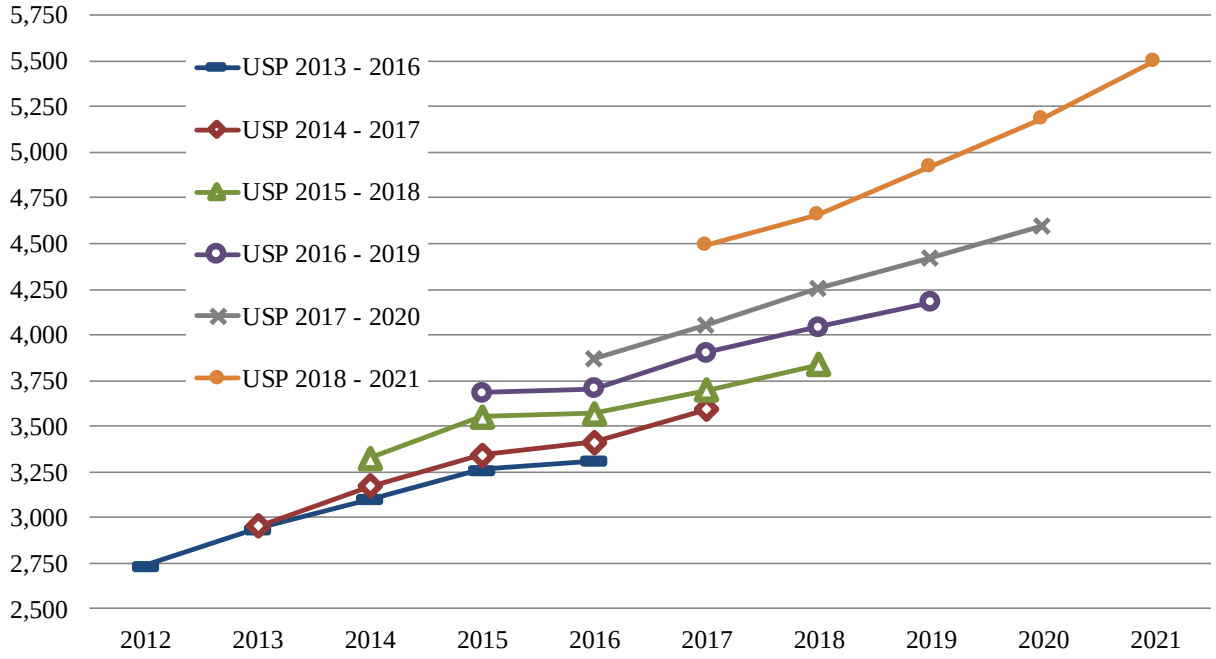
Chart 5: ESA fiscal data: actual compared to the USP 2017-2020 for the year 2017 (EUR millions)



Note: Blue bars indicate budget items where the outcome was higher than the forecast. Green bars indicate budget items where the outcome was lower than the forecast.

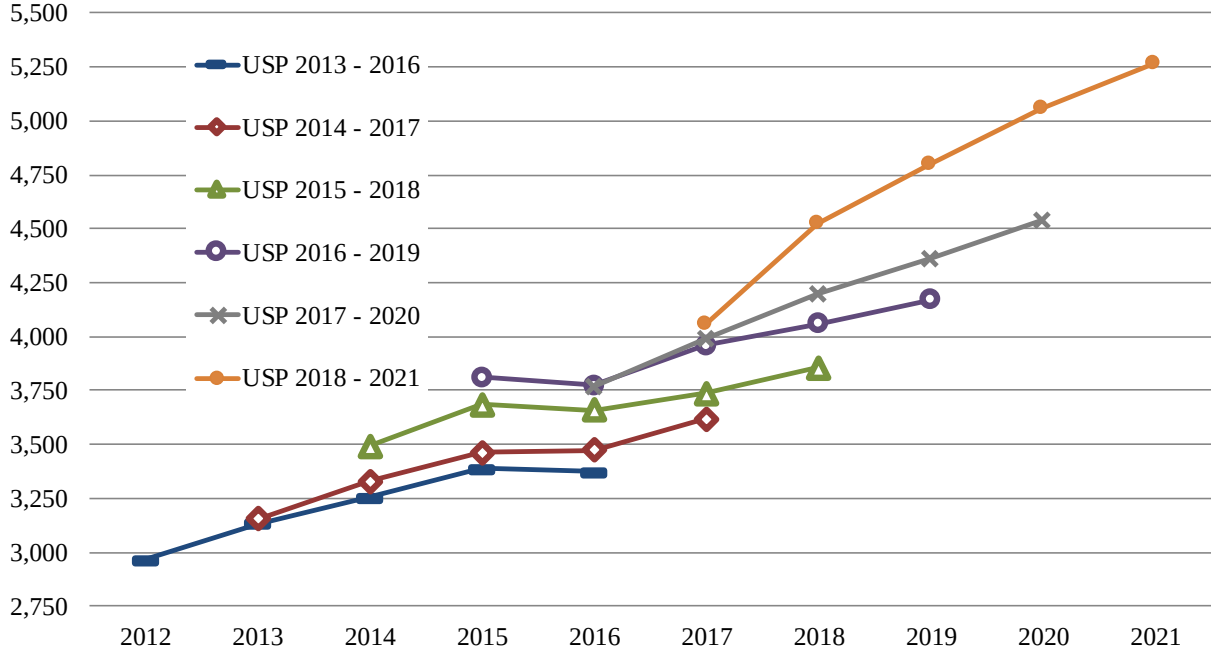
Source: MFIN

Chart 6: Revenue targets indicated in successive USPs (EUR millions)



Source: MFIN

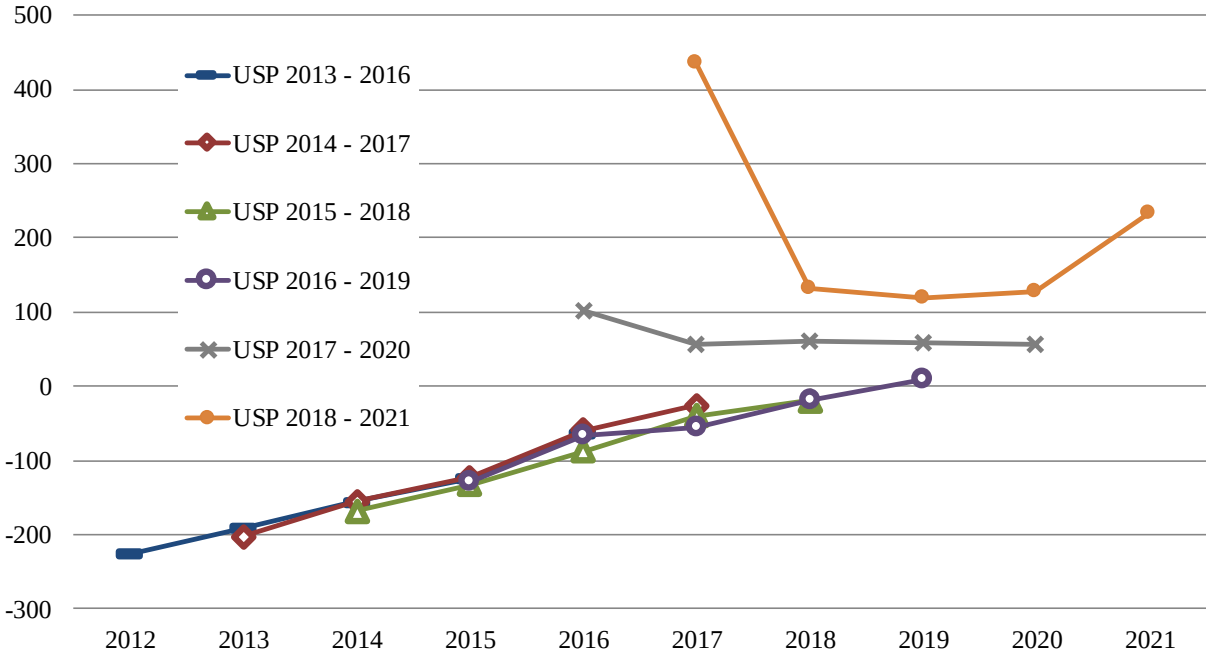
Chart 7: Expenditure targets indicated in successive USPs (EUR millions)



Source: MFIN

The MFAC takes note that the MFIN's conservative revenue projections may be useful to contain demands for higher spending. This practice also safeguards against over-optimistic revenue targets which could lead to missing the fiscal balance targets. At the same time, it is important that expenditure targets strike the right balance between being ambitious, in terms of containment of expenditure growth, but at the same time guaranteeing that the budgets allocated do not need to be subsequently revised upwards to accommodate necessary expenditure for the proper functioning of government and the delivery of public services.

Chart 8: Fiscal balance targets indicated in successive USPs (EUR millions)



Source: MFIN

5. Compliance with the budget balance rule and the debt rule

The USP 2017 – 2020 targeted a structural balance of 0.5% of potential output and a debt ratio of 55.9% of GDP (see Table 3). These targets were consistent with the requirements of maintaining the Medium-Term Objective (MTO). In Malta's case the MTO is structural balance. The debt ratio must also be within the ceiling 60% of GDP.

Table 3: Compliance with the fiscal rules in 2017

	Required	USP	Actual
Structural balance (% of potential GDP)	≥ 0	0.5	3.6
Government debt (% of GDP)	≤ 60	55.9	50.8

Source: MFIN

In 2017, these targets were over-achieved. As a result, there was full compliance with the fiscal rules indicated in the FRA.[14] Indeed, the structural surplus was higher, equivalent to 3.6% of potential output, and the debt ratio was lower, at 50.8% of GDP. The lower debt ratio resulted from the larger fiscal surplus and the larger expansion in nominal GDP. In absolute terms, public debt was €450.4 million less than was targeted in the DBP 2017. The outstanding amount of Malta Government Stocks (MGS) and Treasury bills were respectively €369.1

[14] For further analysis refer to "Overall Assessment Update of Stability Programme 2018 – 2021", available on www.mfac.org.mt. The ex-post assessment of the compliance with the fiscal rules in 2017 is undertaken on the basis of the USP of the following year, once the full data for the year is published.

million and €181.4 million less than planned. This more than compensated for the larger stock of currency issued (+€90.5 million) and loans taken by EBUs and local councils (+€9.6 million).

6. Conclusion

The MFIN's Annual Report is a useful exercise in promoting greater fiscal transparency and accountability. It provides useful explanations to assist in the ex-post assessment of the fiscal turnout for the previous year. At the same time, the MFAC encourages the MFIN to explore more fully the reasons why certain fiscal targets have been missed or exceeded. This would enable the MFIN to draw useful insights, thus improving the forecasting framework in future rounds. This is particularly important for those variables which are more under the Ministry's control and which exert the more material impact on the fiscal balance. The MFAC also underscores the importance that the USP provides a reliable medium-term anchor, with close adherence to the published revenue and expenditure plans.

Malta Fiscal Advisory Council
St. Calcedonius Square, Floriana FRN 1530
Tel: +356 22479200 Fax: +356 22479219
Email: info@mfac.org.mt www.mfac.org.mt

MFAC
MALTA FISCAL ADVISORY COUNCIL