

17 October 2017

## PRESS RELEASE

### **Malta Fiscal Advisory Council publishes its assessment of the Government's macroeconomic forecasts which underpin the Draft Budgetary Plan for 2018**

On 16 October, the Malta Fiscal Advisory Council (MFAC) presented its assessment of the official macroeconomic forecasts which underpin the Draft Budgetary Plan for 2018. The Council considers the updated forecasts for real GDP growth of 5.9% for 2017 and 5.6% for 2018 to lie within its endorsable range. These growth rates are judged to be compatible with the assumptions employed as well as the economic relationships characterising the Maltese economy.

The Council's endorsement is mandated by European regulations, which are transposed into Maltese legislation through the Fiscal Responsibility Act. The endorsement of the macroeconomic forecasts ensures that the economic scenario against which the revenue and expenditure forecasts presented in the Budget have been prepared, is indeed realistic, when considering the information available to date.

The Government's latest outlook for real GDP growth for 2017 and 2018 puts forward a more positive scenario compared to the previous forecasts published in the Update of Stability Programme in May 2017, when real GDP had been projected to expand by 4.3% and 3.7% in 2017 and 2018, respectively. The Council understands that the overall more positive growth outlook is shaped by the actual economic developments recorded during the first half of 2017, when real GDP grew by 6.4%.

The latest official forecasts indicate that the main drivers of economic growth are expected to vary across 2017 and 2018. The external sector is likely to be the exclusive source of growth in 2017 as exports are expected to rise whereas imports decline. On the other hand, final domestic demand, on aggregate, is not forecast to contribute to growth in 2017 as the impact of the expected higher private consumption growth is expected to be neutralised by the anticipated contraction in investment. For 2018, the external sector is again expected to be a source of growth, but its contribution is expected to be smaller, with final domestic demand expected to play the larger role, particularly in view of the anticipated recovery in investment spending, which will be reinforced by strong growth in private and government consumption expenditure.

The Council's view is that the forecasted acceleration in private consumption growth, from 3.0% in 2016, to slightly above 4.0%, in both 2017 and 2018, is compatible with the ongoing supportive economic conditions. Indeed, the outlook for the labour market, in terms of employment and wage growth remains buoyant and in line with the developments observed in recent years.

On the other hand, the forecasts for gross fixed capital formation appear to give rise to an element of uncertainty, when considering the highly volatile patterns exhibited by this component in recent years. To some extent, this uncertainty transfers unto the import growth forecasts, owing to the high import content of investment spending in Malta. These considerations create some uncertainty on the relative contribution to growth stemming from final domestic demand and the net exports component in each of the forecast years. Additional elements of risk stem from possible unanticipated international developments which could impact specific export-oriented service sectors, given Malta's openness and small size.

Despite these elements of uncertainty, the Fiscal Council views the balance of risks to real GDP growth over both 2017 and 2018 as broadly neutral. Possible downside risks appear to be compensated for by the general level of prudence embodied in the official forecasts.

The full report, entitled "Assessment of the Macroeconomic Forecasts – Draft Budgetary Plan 2018", is available on the website of the MFAC <http://www.mfac.org.mt>.

17 ta' Ottubru 2017

### **STQARRIJA GHALL-ISTAMPA**

#### **Il-Kunsill Fiskali Konsultattiv Malti jippubblika l-evalwazzjoni tat-tbassir makroekonomiku tal-Gvern hekk kif ipprezentat fl-Abbozz tal-Pjan Bağıtarju ghall-2018.**

Fis-16 ta' Ottubru, il-Kunsill Fiskali Konsultattiv Malti (MFAC) ippreżenta l-evalwazzjoni tat-tbassir makroekonomiku uffiċċiali hekk kif ipprezentat fl-abbozz tal-Pjan Bağıtarju ghall-2018. Il-Kunsill jikkunsidra li l-aġġornament fit-tbassir tar-rata ta' tkabbir tal-PGD f'termini reali għal 5.9% fl-2017 u għal 5.6% fl-2018 bħala plawżibbli. Dawn ir-rati ta' tkabbir jidhru li huma kompatibbli mas-suppożizzjonijiet meħuda, kif ukoll mar-relazzjonijiet ekonomiċi li jikkaratterizzaw l-ekonomija Maltija.

L-approvazzjoni tal-Kunsill hija meħtieġa mir-regoli Ewropej, li ġew riflessi fil-legislazzjoni Maltija permezz tal-Att dwar ir-Responsabbiltà Fiskali. L-approvazzjoni tat-tbassir makroekonomiku tiżgura li x-xenarju ekonomiku li fuqu jiġu ppreparati t-tbassir tad-dħul u n-nefqa hekk kif ipprezentati fil-Baġit, huwa plawżibbli meta titqies l-informazzjoni disponibbli s'issa.

L-ahħar tbassir tal-Gvern għat-tkabbir reali tal-PGD ghall-2017 u l-2018 juri aġġustament 'il fuq meta mqabbel mat-tbassir ippubblikat fl-Aġġornament tal-Programm ta' Stabbiltà f'Mejju tal-2017, fejn il-PGD f'termini reali kien ipproġettat li jikber b'4.3% u 3.7% fl-2017 u l-2018, rispettivament. Il-Kunsill jifhem li t-tkabbir aktar pozittiv li qed jiġi mbassar jirrifletti l-iżviluppi ekonomiċi attwali li ġew regiżstri matul l-ewwel nofs tal-2017, meta l-PGD f'termini reali kiber b'6.4%.

L-ahħar tbassir uffiċċiali jindika li s-sors ewljeni tat-tkabbir ekonomiku huwa mistenni li jvarja bejn l-2017 u l-2018. Is-settur barrani huwa mistenni li jkun is-sors kollu tat-tkabbir fl-2017, hekk kif l-esportazzjoni mistennija tiżdied filwaqt li l-importazzjoni tonqos. Apparti minn hekk, id-domanda lokali m'hijiex mistennija tikkontribwixxi għat-tkabbir fl-2017, hekk kif l-impatt ta' iktar tkabbir fil-konsum privat mistenni jiġi newtralizzat mit-tnaqqis antiċipat fl-investiment. Għall-2018, is-settur barrani huwa wkoll mistenni li jerġa' jkun sors ta' tkabbir, imma l-kontribuzzjoni tieghu mistennija tkun inqas, bid-domanda lokali mistennija jkollha rwol ikbar, partikolarmen minħabba ż-żieda antiċipata fl-investiment u žieda fil-konsum privat u dak tal-Gvern.

Il-Kunsill iqis li ž-żieda fir-rata tat-tkabbir fil-konsum privat, minn 3.0% fl-2016 għal ftit iktar minn 4.0% fl-2017 u fl-2018, hija kompatibbli mal-kundizzjonijiet ekonomiċi favorevoli. Is-suq tax-xogħol mistenni jibqa' b'saħħtu, kemm minn naħha ta' żieda fl-impjieg, kif ukoll żieda fil-pagi, bħal ma ġara fis-snin riċenti.

Mill-banda l-oħra, it-tbassir ghall-investiment fih certu element ta' incertezza, meta tqis il-volatilità li ntweriet minn dan il-komponent f'dawn l-aħħar snin. Sa certu punt, din l-incertezza hija riflessa wkoll fuq it-tbassir tal-importazzjoni, minħabba li l-ispiża tal-investiment f'Malta għandha kontenut sostanzjali li hu importat. Dawn il-kunsiderazzjonijiet joħolqu xi ftit ta' incertezza wkoll fuq il-kontribuzzjoni għat-tkabbir ekonomiku li ġej mit-tkabbir fid-domanda lokali u l-esportazzjoni netta għas-sentejn imbassra. Elementi ta' riskji oħrajn ġejjin mill-possibbiltà ta' žviluppi internazzjonali mhux mistennija u li jistgħu jhalla mpatt fuq setturi li l-aktar jesportaw servizzi, partikolarment minħabba c-ċokon ta' Malta u l-ekonomija miftuha tagħha.

Minkejja dawn l-elementi ta' incertezza, il-Kunsill Fiskali jqis il-bilanċ tar-riskji għat-tkabbir tal-PGD f'termini reali kemm ghall-2017 u anki ghall-2018 bħala generalment newtrali. Ir-riskji li t-tbassir ta' certi komponenti jkun inqas milli mistenni huma kkumpensati mill-assunzjonijiet addottati fil-preparazzjoni tat-tbassir ufficjali.

Ir-rapport shiħi bit-titlu ta' "Assessment of the Macroeconomic Forecasts – Draft Budgetary Plan 2018", huwa disponibbli fuq is-sit elettroniku tal-MFAC <http://www.mfac.org.mt>